FINANCIAL REPORT 2012

PROVIDING SOLUTIONS

K+S Experience growth.

TEN-YEAR SUMMARY K+S GROUP[1]

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	HGB
Revenues, Earnings, Cash Flow											
Revenues	€ million	3,935.3	3,996.8	4,632.7	3,573.8	4,794.4	3,344.1	2,957.7	2,815.7	2,538.6	2,287.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	1,037.7	1,146.0	953.0	411.8	1,484.4	413.9	401.1	383.1	289.5	223.7
Operating earnings (EBIT I)	€ million	808.5	906.2	714.5	238.0	1,342.7	285.7	278.0	250.9	162.9	115.7
Result after operating hedges (EBIT II)	€ million	846.5	882.8	719.1	241.9	1,192.3	(106.9)	361.6	271.7	136.5	—
Earnings before taxes	€ million	766.9	818.6	599.1	126.5	1,199.1	(142.6)	341.5	259.6	123.4	111.6
Earnings before taxes, adjusted[2]	€ million	728.9	842.0	594.5	122.6	1,349.5	250.0	257.9	238.8	149.9	—
Group earnings from continued operations	€ million	568.0	608.8	457.1	—	—	—	—	—	—	—
Group earnings from continued operations, adjusted[2]	€ million	540.8	625.6	453.8	—	—	—	—	—	—	—
Group earnings[3]	€ million	667.6	564.3	448.6	96.4	870.9	(93.3)	228.9[4]	174.4	86.8	101.3
Group earnings, adjusted[2,3]	€ million	639.7	581.8	445.3	93.6	979.3	175.3	176.2[4]	161.3	103.5	—
Gross cash flow	€ million	813.0	859.0	812.7	323.9	1,177.9	372.1	342.7	341.5	274.1	209.1
Capital expenditure[5]	€ million	465.5	293.1	188.6	177.6	197.5	171.6	130.5	107.1	131.9	126.6
Depreciation[5]	€ million	229.2	239.8	238.5	173.8	141.7	128.2	123.1	132.2	126.6	108.0
Working capital	€ million	1,025.7	840.9	959.4	970.5	962.3	570.6	603.1	456.4	333.1	250.9
Balance Sheet											
Equity[6]	€ million	3,477.3	3,084.6	2,651.6	2,094.6	1,718.3	931.8	1,124.3	942.1	880.6	584.9
Property, plant and equipment and intangible assets	€ million	3,528.2	3,247.9	2,803.3	2,658.0	1,423.5	1,297.3	1,271.7	874.1	883.3	659.8
Net indebtedness	€ million	756.0	610.8	732.5	1,351.3	570.0	1,085.1	718.3	321.4	340.5	220.5
Balance sheet total	€ million	6,639.0	6,056.9	5,573.7	5,217.1	3,473.8	2,964.8	2,830.9	2,259.1	2,147.7	1,754.5
Employees											
Employees as of 31 Dec.[7]	number	14,362	14,338	14,186	15,208	12,368	12,033	11,873	11,012	10,988	10,554
– of which trainees	number	607	631	620	642	615	614	620	591	591	550
Average number of employees[7]	number	14,336	14,155	14,091	13,044	12,214	11,959	11,392	11,017	11,068	10,541
Personnel expenses[8]	€ million	981.9	962.0	944.4	756.4	738.5	687.3	663.5	671.1	613.3	562.7
Ratios											
Earnings per share from continued operations, adjusted[2]	€	2.83	3.27	2.37	—	—	—	—	—	—	—
Earnings per share, adjusted[2,3]	€	3.34	3.04	2.33	0.56	5.94	1.06	1.07[4]	0.95	0.61	0.61
Dividend per share[9]	€	1.40	1.30	1.00	0.20	2.40	0.50	0.50	0.45	0.33	0.25
Dividend yield[9]	%	4.0	3.7	1.8	0.5	6.0	1.2	2.4	3.5	3.3	4.6
EBITDA margin	%	26.4	28.7	20.6	11.5	31.0	12.4	13.6	13.6	11.4	9.8
EBIT margin	%	20.5	22.7	15.4	6.7	28.0	8.5	9.4	8.9	6.4	5.1
Return on revenues[2]	%	13.7	15.7	9.8	2.6	20.4	5.2	6.0[4]	5.7	4.1	2.8
Return on Capital Employed (ROCE)	%	20.0	25.2	22.0	9.3	64.0	15.5	17.4	19.5	14.2	12.7
Return on total investment[2,10]	%	16.1	16.4	14.7	6.9	44.9	11.0	12.3	12.7	9.1	7.2
Return on equity after taxes[2,10]	%	19.4	20.2	18.7	8.4	68.6	16.1	17.7[4]	17.8	12.1	17.3
Book value per share	€	18.17	16.12	13.85	10.94	10.41	5.65	6.81	5.54	5.18	3.44
Gross cash flow per share	€	4.25	4.49	4.25	1.95	7.14	2.25	2.08	2.02	1.61	1.25
The Share											
Closing price as of 31 Dec.[11]	XETRA, €	35.00	34.92	56.36	39.99	39.97	40.69	20.55	12.76	9.78	5.44
Market capitalisation	€ billion	6.7	6.7	10.8	7.7	6.6	6.7	3.4	2.1	1.7	0.9
Enterprise value as of 31 Dec.	€ billion	7.5	7.3	11.5	9.0	7.2	7.8	4.1	2.4	2.0	0.9
Total number of shares as of 31 Dec.	million	191.40	191.40	191.40	191.40	165.00	165.00	165.00	170.00	170.00	170.00
Outstanding shares as of 31 Dec.[12]	million	191.40	191.40	191.40	191.40	165.00	165.00	165.00	165.00	170.00	170.00
Average number of shares[13]	million	191.40	191.33	191.34	166.15	164.95	164.94	164.96	169.24	170.00	167.08

UNITS AT A GLANCE[1]

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

in € million	2012	2011	2010	2009	2008
Revenues	2,290.6	2,133.6	1,867.0	1,421.7	2,397.4
EBITDA	870.2	833.8	567.1	317.2	1,286.3
EBIT I	773.9	739.5	475.9	231.7	1,203.2
Capital expenditure	332.9	162.1	96.9	107.4	111.1
Employees (number)	8,310	8,188	7,900	7,818	7,845

Potash and magnesium crude salts are extracted at six mines. We use them to produce a wide range of fertilizers and, in addition, we process our raw materials into products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as elements for feed. We are currently making investments to develop the Legacy Project – a greenfield project in Saskatchewan, Canada. The first volumes should be available at the end of 2015.

SALT BUSINESS UNIT

in € million	2012	2011	2010	2009	2008
Revenues	1,484.8	1,710.1	1,728.8	1,014.6	618.6
EBITDA	180.3	337.9	369.7	200.3	77.6
EBIT I	62.4	211.4	238.1	140.4	45.2
Capital expenditure	111.3	112.3	79.0	48.0	58.6
Employees (number)	5,092	5,230	5,235	5,279	2,394

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

COMPLEMENTARY ACTIVITIES

in € million	2012	2011	2010	2009	2008
Revenues	153.7	150.4	134.0	120.7	125.3
EBITDA	28.3	29.0	27.7	21.7	31.2
EBIT I	21.1	17.9	21.2	15.2	25.1
Capital expenditure	6.3	4.3	4.2	4.6	10.0
Employees (number)	293	290	280	278	285

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

[1] Information refers to the continued operations of the K+S Group.

← Footnotes Ten-Year Summary

[1] Unless stated otherwise, information refers to the continued operations of the K+S Group. The discontinued operations of the COMPO business are also included up to 2009, and also the discontinued operations of the nitrogen business up to 2010. The balance sheet and therefore the key figures working capital, net indebtedness and book value per share also include in 2010 the discontinued operations of the COMPO business and in 2011 also the discontinued operations of the nitrogen business.
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5 % (2011: 28.4 %).
[3] Earnings from continued and discontinued operations.
[4] Without non-recurrent deferred tax income of € 41.9 million or € 0.25 per share.
[5] Investments in or depreciation on property, plant and equipment, intangible assets and investment properties as well as depreciation on financial assets.
[6] Up to the end of 2003: incl. 50 % special reserve and difference from capital consolidation.
[7] FTE: Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours.
[8] Personnel expenses also include expenditures connected with partial retirement and early retirement.
[9] The figure for 2012 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.
[10] Information refers to the continued and discontinued operations of the K+S Group.
[11] The price of the K+S share since the capital increase in December 2009 has been traded ex subscription right. Historical values were not adjusted.
[12] Total number of shares less the number of own shares held by K+S as of the balance sheet date.
[13] Total number of shares less the average number of own shares held by K+S.

← COVER PICTURE

The cover pictures of our reports show a metropolis at night, in the early morning and in the full light of day. People with many different needs live behind the impressive façades. K+S offers a comprehensive range of goods and services for agriculture, industry and private consumers, which provides growth opportunities in virtually every sphere of daily life. With our potash and magnesium as well as salt products, we supply needs-based solutions and thus, night and day, make an important contribution to nutrition, health, quality of life and safety. Our raw materials are the basis of this: They are at the starting point of the value chain and, among other things, create the basis for our modern industrial society and make economic success possible.

KASSEL, 27 FEBRUARY 2013

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Dear Shareholders,

“Providing Solutions” is the theme of our Financial Report and its cover picture shows a big, glittering metropolis.

However, we rarely think about what is necessary to make a metropolis like this a home for people: Raw materials. They form the foundation for our modern society and their availability is one of the most important factors supporting a prosperous national economy. If there were no rocks, earth and salts, some of the basic requirements for our living conditions would be absent. Raw materials are thus indispensable. And yet we in our industry frequently find ourselves stigmatized for “plundering nature”. The impression one increasingly has is that broad parts of the population want to see environmental conservation always having the highest priority without really weighing all interests. However, future-oriented development is only attainable if – alongside ecological goals – social and, in particular, economic goals can also be pursued in an appropriate manner. There is no question that high environmental standards are important, but in pursuing environmental goals, it is just as essential to maintain a reasonable degree of rationality and to always keep an eye on the bigger picture. There is an urgent need for the (raw materials) industry to meet the great future challenges of our society!

As chairman of the Board of Executive Directors of K+S, a raw materials company, it concerns me to see that our society – or at least parts of it – is in danger of losing sight of what is essential, of what forms the basis of its prosperity. There is a prevailing view that the pinnacle of the development of our society has already been attained and therefore, there is a wish to maintain the current situation which is enjoyed and assumed to be certain in the future. Whatever might disrupt it is rejected or even fought against. Curiosity and drive about new developments typically give way to complacency and preference for the status quo. Even today, however, it is industrial value creation that remains the basis of our prosperity, even more so than services, despite all the benefits they offer. Nevertheless, industrial enterprises, utility companies and producers of raw materials face mounting pressure to justify themselves, especially in Germany. Citizens are increasingly opposing industrial and infrastructure projects. There is often a lack of awareness that the foundation of our wealth requires hard work and its existence is taken for granted. Central in this regard is industry, which, with its long value chain, has assured us a place among the leaders in terms of international competition and has made Germany one of the largest exporting nations in the world. More than one quarter of Germany's gross value added is generated by industry. If you compare competing business locations in the age of globalisation, you will find that those countries which have focussed on service industries in particular are faring far worse than those states that have retained their industrial core.

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Let me return to the cover picture once again. The connection with the K+S Group might not be apparent at first sight. Potash, as a fertilizer, is one of the three most important nutrients for plants and thus contributes to supplying food to the inhabitants of a city like the one shown. Salt is not only a flavour enhancer or preservative. For healthcare, to not have high-purity pharmaceutical salts for infusion solutions is unthinkable today. Sodium and potassium chloride are additionally needed for electrolysis, water softening, the production of plastics, aluminium and glass, and for many other industrial and commercial applications. De-icing salt, which makes our roads and pavements safe in winter, should also not be forgotten. So, you can see that the raw materials which our Company extracts and processes play an essential part in the prosperity of our society.

Dear Shareholders,
Potash and magnesium products and salt are our main areas of operation, and we have further enhanced this "two-pillar strategy" with the divestment of the nitrogen fertilizer segment. This places us in a position where we can fully concentrate our resources – that is, management capacities and financial means – on these two business units. Our Legacy Project, the construction of a new potash plant in the province of Saskatchewan in Canada, is making good progress. In few years' time, it will bring us exactly what our Company needs for its development and what has

frequently been criticised as a shortcoming by the capital market in the past:

+ Access to further raw materials to increase our potash capacity;
+ The further internationalisation of our markets;
+ A reduction in average production costs;
+ The extension of the average lifetime of our mines.

Let's take a brief look at the financial development of the K+S Group in 2012.

+ At about € 3.9 billion, revenues reached the previous year's level as expected.
+ At about € 809 million, operating earnings were very close to what we communicated in our latest forecast.
+ Adjusted earnings per share rose to € 3.34, including the proceeds from the divestment of the Nitrogen business.

A pleasing result was contributed by our potash and magnesium products business, the second best in our history after 2008, which had been an exceptional year in many respects. What helped in this regard were higher average prices compared with the previous year and the fact that we are less focussed than most of our competitors on the two large consumer countries China and India, which displayed great restraint with regard to imports of potash fertilizers in 2012: At 6.95 million tonnes, our sales volume was stable in relation to 2011, while other producers had to suffer heavy volume reductions. Nevertheless, we cannot and will not become complacent in our position and

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will work to further improve our efficiency in this business area. The disappointing result for the Salt business unit was attributable to the weak de-icing business as a consequence of the exceptionally mild winter at the beginning of 2012, which we were unable to make up for over the course of the year as a whole. Here too, we will work very intensively on improving economic efficiency in an effort to improve our position regardless of weather conditions.

Nevertheless, it is the effect of the divestment of the nitrogen fertilizer segment in particular, that places us in the position of being able to propose to the Annual General Meeting an increase of the dividend for 2012 by 10 cents to € 1.40 per share.

Our employees are of great importance to our Company. We conducted a worldwide employee survey for the first time last year and the participation rate of our colleagues was 76 %, a very good figure for a first survey. The results reflect well on K+S. In particular, the performance in the categories “employee commitment” and “employee loyalty” stood out positively. Of course, a survey of this kind should also reveal potential for improvement. What we learned is that in the view of our employees across the Group, we can do more in the areas of communication and human resources development, and we are committed to work on this.

You can see that your Company, K+S Aktiengesellschaft and its subsidiaries, is always continuing to develop. The fundamental trends that form the basis for our business success continue to apply. Population growth, the growing consumption of protein caused by increasing wealth, as well as urbanisation and arable land reduction will, over the long term, result in a decrease in the amount of farm land available per capita worldwide. Our products can and will be used to counteract this trend by greatly increasing crop yields per hectare. But even outside agriculture, the products of our Potash and Magnesium Products and Salt business units have become indispensable in many areas of life.

What does this mean in concrete terms for 2013? In the Salt business unit, we expect a tangible recovery for sales volumes, if only because of the wintry weather conditions at the start of this year. And in the Potash and Magnesium Products business unit, given the important agreements concluded with China and India which spurred demand significantly, we should be able to achieve a sales volume on the high level of the previous year once again, albeit at a lower average price level. All in all, we expect the K+S Group to achieve a slight increase in revenues and operating earnings.

Dear Shareholders,
On behalf of myself and my fellow members of the Board of Executive Directors, I would like to thank our employees wholeheartedly for the great extent to which they identify with the Company, for their loyalty, and for the great commitment that they display year after year.

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I would like to thank you, dear Shareholders, as well as our customers and other partners of the K+S Group, for your trust placed in us and for the constructive cooperation. We want to continue to display full commitment in being available to you and to make a contribution to the common good with our products. To maintain industry as a bedrock of our economy and, therefore, of our prosperity, we need a suitable and stable environment that will provide companies with the freedom they need. Let us not lose sight of something essential: Industry is not everything. However, it is my firm belief that without an industrial basis and industrial progress, there is nothing.

Norbert Steiner

NORBERT STEINER
CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

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PROVIDING SOLUTIONS

THE PROOF LIES IN THE EFFICIENCY

THE PROOF LIES IN THE NUTRITION

THE PROOF LIES IN THE CLARITY

THE PROOF LIES IN THE QUALITY

THE PROOF LIES IN THE RELIABILITY

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[1] The Management Report of K+S Aktiengesellschaft and the Group Management Report for the financial year 2012 are combined. The annual financial statements of K+S Aktiengesellschaft in accordance with the German Commercial Code (HGB) and the combined Management Report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

THE PROOF LIES IN THE EFFICIENCY

Heat insulation measures can bring about considerable energy savings, thus reducing the burden on the environment.

In poorly insulated residential buildings, or those with no insulation at all, a major part of the heat energy used is lost through walls, window surfaces, the roof and the cellar. To counter this, the energy requirements have gradually and repeatedly been strengthened since the first Energy Saving Ordinance (EnEV 2002). In the last revision of the Energy Saving Ordinance in 2009, the upper threshold for the permissible annual primary energy requirement of new buildings was, for example, again lowered by an average of 30 %. But that is not all. In EnEV 2014, adopted by the German Federal Cabinet in February 2013, the requirements were raised further. For new buildings, the upper threshold for the annual primary energy requirement will be reduced in two stages (2014 and 2016) by 12.5 % each, and thus by a total of 25 %. In any case, to be able to meet the increasing requirements, a new building needs a highly efficient heating system and good insulation. Heat insulation in winter is of the greatest importance in our climatic zone not only in light of the energy efficiency of buildings stipulated by the EnEV. Very well insulated walls, roofs and floors prevent almost any heat from escaping. Consequently, the surface temperature of walls and ceilings rises. Indoor comfort improves considerably, creating a cosy atmosphere. While in winter the goal is to keep the heat in the building, in summer the aim is to prevent the rooms from becoming too hot. The heat insulation, which keeps the building interior warm in winter, thus has to contribute to reducing the penetration of heat through the building envelope in summer.

The different insulating materials can be roughly divided into conventional and "renewable" ones. Conventional insulating materials include mineral materials

PRODUCTS FROM K+S KALI GMBH ARE USED IN DIFFERENT BUILDING MATERIALS

Cellulose flakes are manufactured from waste paper by means of mechanical crushing. Through milling, the flakes gain a three-dimensional structure. Depending on their intended use, the cellulose flakes are applied in an injection or a spray process (similarly to plaster). Cellulose is a recycling material with high-quality heat storage and heat insulation properties.

To increase the fire safety of insulating materials, Epsom salt (magnesium sulphate heptahydrate) from K+S KALI GMBH is used in the production of cellulose flakes or wood wool. Magnesium sulphate is a component of the crude salt in our German deposits, which our miners extract at depths of up to 1,500 metres. At our Werra plant it is processed to create Epsom salt.

For other building materials too, our products play an important role: Potassium sulphate from K+S KALI GMBH, for example, is one of the most effective and most often used stimulators for the bonding and hardening of calcium sulphate screeds, special plasters and plasterboards. If mixtures of magnesium chloride or magnesium sulphate and magnesium oxide are used as adhesives for screeds, these are characterised by good resistance to wear as well as tensile and flexural strength, so that the building material is particularly suitable for use as industrial flooring.

Through the use of magnesium sulphate, more environmentally friendly renewable insulating materials can also fulfil the requirements of fire protection.

such as glass wool, rock wool, slag wool, calcium silicate and glass foam as well as fossil materials like polystyrene, polyester and polyurethane. Renewable insulating materials include wood wool, wood chips or wood fibres, cork, cellulose fibres, flax, hemp, straw, cotton and sheep's wool. A number of regulations, especially regarding fire protection, have until now restricted the use of many renewable insulating materials in multi-storey construction. This is why mineral wool (glass wool and rock wool) have the largest market share (60 %). A further large segment are polystyrene and polyurethane, which make up about 36 % of materials used. Within the product life cycle, starting with production, use or recycling through to disposal, a comparatively greater impact on the environment is accepted for conventional insulating materials as compared to ecological renewable insulating materials.

But if renewable raw materials, such as cellulose flakes or wood wool boards, are treated with fire retardants, they become an environmentally friendly alternative, which also fulfils the requirements of fire protection. Research has demonstrated that rooms with cellulose insulation, which is particularly used in timber frame constructions, are 4 to 5 degrees cooler in summer than those with mineral fibre insulation. In winter too, a professional installation of cellulose insulation materials in walls, floors and roofs brings about tangible savings on energy and heating costs of up to 25 %.

TO OUR SHAREHOLDERS

1

1.1 VISION

SOURCE OF GROWTH AND LIFE THROUGH
NUTRIENTS AND MINERALS

1.2 THE BOARD OF EXECUTIVE DIRECTORS

NORBERT STEINER
LAWYER, CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

was born in Siegen in 1954. After studying law in Heidelberg and a traineeship within the district of the Higher Regional Court in Karlsruhe, in 1983, he began his career in the tax department of BASF AG, whose sub-department of customs and excise duties he headed from 1988 onwards. In 1993, he became head of the legal affairs, tax and insurance department of K+S AKTIENGESELLSCHAFT. In May 2000, Norbert Steiner became a member of the Board of Executive Directors, in January 2006, Deputy Chairman and in July 2007, Chairman of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. He has responsibility for the Potash and Magnesium Products business unit as well as Corporate Development, Legal Affairs / Compliance, Investor Relations, Corporate Communications and International HR Coordination.

JOACHIM FELKER[1]
INDUSTRIAL BUSINESS MANAGER

Born in Bad Godesberg in 1952. After matriculating in 1974, he did his training in industrial business management at BASF AG and worked there as a commercial assistant. Between 1980 and 1999, he held several management and marketing positions within the BASF Group, including in Asia. He lastly worked as senior director of the fertilizers sector. Since 2000, Joachim Felker has been working within the K+S GROUP, initially as managing director of FERTIVA GMBH and from 2003 onwards as a senior management member of K+S KALI GMBH. In October 2005, he became a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. Before his retirement on 30 September 2012, he was responsible for the Potash and Magnesium Products business segment.

[1] Member of the Board of Executive Directors until 30 September 2012.

GERD GRIMMIG
ENGINEERING GRADUATE

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

DR. THOMAS NÖCKER
LAWYER

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

DR. BURKHARD LOHR[2]
BUSINESS ADMINISTRATION GRADUATE

was born in Essen in 1963. After completing his Business Administration studies at the University of Cologne, he joined MANNESMANN AG in 1991. From 1993 onwards he held various functions at HOCHTIEF AG, Essen, including as member of the management of the Munich branch and as CFO of HOCHTIEF CONSTRUCTION AG Essen. In 2001 Burkhard Lohr was awarded his Dr. rer. pol. degree at the Technical University of Braunschweig. As of 2006, as CFO of HOCHTIEF AG, he was responsible for Finance, Investor Relations, Accounting, Controlling and Taxes. In 2008, he also became Personnel Director. Since 1 June 2012, he has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT with responsibility for the areas Finance and Accounting, Corporate Controlling, Tax, Internal Audit, Purchasing, Materials Management and Warehousing, Insurance as well as Data Protection.

[2] Member of the Board of Executive Directors since 1 June 2012.

MARK ROBERTS[3]
BACHELOR OF SCIENCE (MARKETING)

was born in 1963 in New Jersey, U. S., and started his professional career at VICTAULIC CORPORATION OF AMERICA, serving as a marketing manager. He later joined ASHLAND CHEMICAL COMPANY in 1988 as a sales representative and national account manager. In 1992 he joined POTASH IMPORT & CHEMICAL CORPORATION (PICC), the K+S KALI U. S. distribution company, as a sales manager, and subsequently became vice president. In 2004, he became PICC's President, and in April 2008, he was named CEO of INTERNATIONAL SALT COMPANY (ISCO) in Clarks Summit, Pennsylvania, USA. On 1 October 2009, Mark Roberts became CEO of MORTON SALT in Chicago, Illinois, USA. Since 1 October 2012, he has been CEO of K+S NORTH AMERICA SALT HOLDINGS in Chicago and a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT with responsibility for the Salt business unit.

[3] Member of the Board of Executive Directors since 1 October 2012.

1.3 SUPERVISORY BOARD REPORT

Dear Shareholders,

The following report of the Supervisory Board informs you about the activities of the Supervisory Board in financial year 2012 and the findings of the audit of the 2012 annual financial statements and consolidated financial statements.

The main focuses of our meetings and discussions included:

+ the business situation of the K+S GROUP,
+ the K+S GROUP strategy,
+ the development of the potash deposits acquired in Canada (Legacy Project),
+ the divestment of the NITROGEN business,
+ the selection of suitable candidates to replace those members of the Board of Executive Directors and the Supervisory Board whose terms of office are set to expire.

ADVICE TO THE BOARD OF EXECUTIVE DIRECTORS AND MONITORING OF MANAGEMENT

In financial year 2012, the Supervisory Board diligently performed the control and consultancy tasks imposed on it by law, the Articles of Association and its bylaws. A large number of matters were discussed in depth and resolutions were adopted regarding transactions requiring approval. We have advised the Board of Executive Directors on an ongoing basis on the management of the Company and monitored the latter's executive management. We were constantly involved in a timely and appropriate fashion in decisions of fundamental importance. The Board of Executive Directors informed us on a regular basis, promptly and comprehensively about the course of business, the earnings and financial position, the employment situation, the planning and, in particular, the further strategic development of the Company. Deviations from planning were explained to the Supervisory Board in detail. The risk situation and risk management were always carefully considered.

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

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

The attendance of the 16 Supervisory Board members at the four Supervisory Board meetings during the period under review was, on average, 97 %. Two Supervisory Board members were unable to participate in one meeting. Thus, in 2012 too, no Supervisory Board member participated in fewer than half of the meetings. Committee meetings were also fully attended with the exception of one meeting of the audit committee and one meeting of the nomination committee.

SUPERVISORY BOARD MEETINGS

A total of four ordinary Supervisory Board meetings were held during the course of financial year 2012.

At the meeting of 14 March 2012, the Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the management reports in the presence of the auditor, approved the financial statements on the recommendation of the audit committee and agreed to the proposal of the Board of Executive Directors for the appropriation of profits for financial year 2011. The business situation and the outlook for the current year were discussed in depth and the proposed resolutions for the 2012 Annual General Meeting approved. Upon a proposal of the personnel committee, the Supervisory Board unanimously appointed Dr. Burkhardt Lohr to the Board of Executive Directors for the period from 1 June 2012 to 31 May 2015. Finally, the Board of Executive Directors discussed the status of the planned divestment of the NITROGEN business.

On 8 and 9 May 2012, the Board of Executive Directors provided comprehensive information about the results for and the business situation in the first quarter. Furthermore, the Board of Executive Directors described the current status of reviewing the possibility of re-opening the German Siegfried-Giesen potash mine and explained in detail the ongoing process of divesting the NITROGEN business. Following an indepth discussion, the Supervisory Board approved its sale to the Russian fertilizer producer EUROCHEM. Furthermore, the Board of Executive Directors explained that it was considering a bond issue, which the Supervisory Board also approved after intensive discussion. In addition, upon the suggestion of the personnel committee, the Supervisory Board unanimously appointed Mr. Mark Roberts to the Board of Executive Directors for the period from 1 October 2012 to 30 September 2015. Following the Annual General Meeting held on 9 May 2012, the meeting was continued and Dr. Bethke was unanimously re-elected chairman of the Supervisory Board.

At the Supervisory Board meeting held on 22 and 23 August 2012, the Board of Executive Directors' report on the strategic orientation of the Potash and Magnesium Products and Salt business units was extensively discussed. Further focal points were a report on the current status of the Legacy Project, the current business situation and the outlook for 2012 as a whole. In addition, questions relating to recruitment, the controlling instruments used and the permits required to dispose of production residues were examined in detail.

At the last meeting of the year, held on 21 November 2012, the chairman of the nomination committee reported on the committee's succession planning with regard to those terms of office of shareholder representatives set to expire in 2013. Then, upon a suggestion of the personnel committee, it was decided to extend Mr. Grimmig's term of office as a member of the Board of Executive Directors, which was to end on 30 September 2013, by one year. At this meeting too, the Board of Executive Directors discussed the current business situation on the fertilizer and salt markets, reported extensively on the employee survey conducted in 2012, and provided a detailed forecast of the anticipated revenues and earnings of the K+S GROUP in 2012. The Supervisory Board also dealt with the status and further action concerning the Legacy Project. Planning for 2013 and the medium-term outlook, including the investment and financing framework conditions for the coming years, were examined in depth – also from the angle of their conformity with strategic goals – and then approved. Finally, approval was given to the 2012/2013 joint declaration on conformity of the Board of Executive Directors and the Supervisory Board concerning the German Corporate Governance Code as well as to an adjustment to the goals of the personnel composition of the Supervisory Board (see page 36 of the Financial Report 2012).

COMMITTEE MEETINGS

In addition to the mediation committee required by law, the Supervisory Board has established three further committees for the support of its responsibilities: the audit committee, the personnel committee and the nomination committee. An overview of the committees with their personnel composition can be found in the Corporate Governance section of the Financial Report 2012 on page 42 and on the website of K+S AKTIENGESELLSCHAFT under 'Corporate Governance'.

The audit committee met five times in 2012. On 2 March 2012, in the presence of the auditor and the chairman of the Board of Executive Directors, the committee examined the annual financial statements 2011 of K+S AKTIENGESELLSCHAFT, the consolidated financial statements 2011, the respective management reports and the proposal of the Board of Executive Directors for the appropriation of profits. In addition, an in-depth examination was conducted of the status of the IT integration at MORTON SALT, the exchange rate hedging strategy, provisions for pensions and mining obligations as well as the outlook for 2012. Furthermore, the recommendation to be made to the plenary session concerning the proposal for the nomination of the auditor for financial year 2012 to be submitted to the Annual General Meeting was resolved. Furthermore, as part of preparations for the nomination of the auditor for financial year 2013, it was decided to compare those auditing firms that merit consideration. At its meeting on 8 May 2012, the committee examined and resolved further action in this regard. On 22 August 2012, the committee discussed in detail with the chairman of the Board of Executive Directors and the chief financial officer the K+S GROUP's internal control system as well as ways in which the system could be optimised and further developed. Moreover, the committee acknowledged and approved the report delivered by the chairman of the Board of Executive Directors on the status of the compliance organisation and on the compliance programme of the K+S GROUP. Finally, the committee discussed the key areas of the 2012 audit and the offers submitted by auditing firms with respect to auditing the financial statements for financial year 2013. At an extraordinary meeting held from 10 to 12 October 2012, the offers were reviewed in detail at three submeetings and examined together with the auditing firm participating in the respective meeting. At the last meeting of the year, held on 20 November 2012, the committee finally dealt with the matter of proposing the appointment of the auditor to the 2013 Annual General Meeting, with the result to once again recommend DELOITTE & TOUCHE GMBH to the plenary session with respect to proposing the appointment of the auditor to the Annual General Meeting. In addition, the Board of Executive Directors reported on developments with respect to donations, consultancy fees and other non-recurring costs. The committee also acknowledged and approved reports prepared by the chief financial officer on internal audit work and the organisation of data protection within the K+S GROUP. Outside the meetings, via conference calls held on 30 April, 6 August and 5 November 2012, the respective quarterly reports awaiting publication were discussed between the members of the audit committee, the chairman of the Board of Executive Directors and the chief financial officer.

The personnel committee, which prepares the personnel decisions of the Supervisory Board and is responsible for other matters concerning the Board of Executive Directors, met a total of four times in 2012. During the meetings, it dealt in particular with the selection and recommendation of suitable persons for the positions of a chief financial officer and board member with responsibility for the Salt business unit and with the search for a candidate for the Potash and Magnesium Products business unit as well as the structure and long-term succession planning of the Board of Executive Directors. It also dealt with the agreeing of goals and their attainment with the members of the Board of Executive Directors. Detailed information about the level of remuneration of the Board of Executive Directors in 2012 as well as the structure of the remuneration system, which has not changed materially since its approval by the Annual General Meeting on 11 May 2010, can be found on pages 43 of the Financial Report.

The members of the nomination committee met on three occasions in 2012. The subjects of discussions held mainly related to the reappointment or replacement of the six shareholder representatives whose terms of office are set to expire in 2013. The findings resulting from these discussions and the selection process that was conducted in this regard were presented at the plenary session of the Supervisory Board held on 21 November 2012.

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

CONFLICTS OF INTEREST

Mr. Cardona did not participate in the plenary sessions held on 14 March and 8 May 2012 during which discussions were held about the sale of the NITROGEN business to EUROCHEM.

No further conflicts of interests involving members of the Board of Executive Directors or the Supervisory Board, about which the Annual General Meeting needed to be informed, were disclosed to the Supervisory Board in the reporting period.

AUDIT OF THE 2012 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

DELOITTE & TOUCHE GMBH, Hanover, audited the annual financial statements of K+S AKTIENGESELLSCHAFT, which were prepared by the Board of Executive Directors in accordance with the rules of the German Commercial Code (HGB), and the consolidated financial statements, which were prepared on the basis of the IFRS International Financial Reporting Standards, as well as the combined management and Group management report for financial year 2102 and issued unqualified audit certificates in each case. The aforementioned documents, the Board of Executive Directors' recommendation concerning the appropriation of the accumulated profit and the audit reports of DELOITTE & TOUCHE GMBH, each of which had been submitted to the members of the audit committee and the Supervisory Board on time, were, in the presence of the auditor on each occasion, dealt with comprehensively at the audit committee meeting held on 27 February 2013, as well as at the Supervisory Board meeting held on 13 March 2013. All questions raised at the meetings were answered exhaustively by the Board of Executive Directors and the auditor. After itself examining the annual financial statements, the consolidated financial statements, the combined management report and Group management report, the Supervisory Board did not raise any objections. It agreed with the Board of Executive Directors in its assessment of the position of K+S AKTIENGESELLSCHAFT and of the Group and, at the suggestion of the audit committee, approved the financial statements for financial year 2012. The 2012 annual financial statements of K+S AKTIENGESELLSCHAFT were thus ratified. The resolution on the appropriation of profits proposed by the Board of Executive Directors was also examined with regard to the present and future expected financial situation of the K+S GROUP. Following extensive discussion, the Supervisory Board approved the proposal made by the Board of Executive Directors.

The Supervisory Board expresses its thanks to the members of the Board of Executive Directors, all employees and employee representatives for their continued high level of commitment and the very successful work done in the past financial year. Furthermore, the Supervisory Board would like to thank the former member of the Board of Executive Directors Mr. Joachim Felker for his valuable contributions to the Company and for his many years of loyalty, and wish him all the best in his retirement.

ON BEHALF OF THE SUPERVISORY BOARD

Ralf Bethke

DR. RALF BETHKE
CHAIRMAN OF THE SUPERVISORY BOARD

KASSEL, 13 MARCH 2013

THE PROOF LIES IN THE NUTRITION

Rising prosperity in emerging market countries leads to an increased consumption of meat. The more of these products are on the menu, the greater is the need for animal feed.

Mankind is eating more meat. Between 1990 and 2008 alone, global consumption of pork, poultry and beef more than doubled: Today, 280 million tonnes of meat are being produced and eaten every year. It is estimated that this figure will again double by 2050. The reason for this hunger for meat lies, on the one hand, in the persistently high demand among inhabitants of the western industrialised nations: On average, every German eats about 90 kg of meat per year, while US-Americans consume the most – 120 kg per year. At the same time, meat is becoming ever more popular in the emerging market and developing countries and in emerging major powers such as China. While the daily consumption of meat was unaffordable for most Chinese just a few decades ago, many now eat it every day. It is above all the constantly growing middle class who can afford it. The McKinsey Global Institute assumes that in 2025, every Chinese will eat an average of 76 kg of meat per year. The figure today is already 53 kg.

Already today, 70 % of agricultural land and 30 % of the world's land area are being used as pasture or as land for feed production for animal husbandry. Rising meat production requires enough fodder crops to be cultivated. For sufficient cereals to remain as food for mankind, the harvests will have to be richer. At the same time, additional land will need to be available for cultivation. But the world's land under cultivation

LEGACY PROJECT: NEW POTASH PLANT BEING CONSTRUCTED IN CANADA

The potash demand of a globalised world with rising expectations regarding quantity and quality of food cannot be served solely with the capacities currently available. The economic viability of time-consuming and very capital-intensive new projects (greenfield projects) also depends on a reasonable potash price level. Our Legacy Project is among the few new capacities that can be realised in a manner that makes economic sense at the current price level.

That is why the acquisition of Canadian POTASH ONE with its licences for potash exploration in 2011 represented a significant milestone for the K+S GROUP. Under the Legacy Project, we want to develop a new potash production based on solution mining in the Canadian province of Saskatchewan by the end of 2015 and successively increase its capacity in subsequent years. This expansion shall open the way for us to participate in the growth on the global potash market.

In the future, the new site will be the starting point primarily for sales to the emerging growth markets of Asia and South America, as well as to North America. The average lifetime of our mines will increase and we will be able to make optimal use of our sales and logistics network as the only potash producer with large own production sites on two continents. Adding this to our existing potash mines in Germany, this will considerably strengthen our international competitiveness and consequently benefit the entire K+S GROUP.

The importance of soy beans as feed is growing.

can only be expanded by 10 % at the most. The challenge will be to achieve higher yields per hectare of land by means of an optimised and balanced application of fertilizers. Feed crops are varieties of cereal such as wheat, barley, rape and corn, and since the BSE crisis in the 1990s, also soy beans. The coarse meal obtained from them is increasingly being used as animal feed. In practice, it has proved to be a high-quality protein component in concentrated feeding stuffs and a valuable supplementary fodder to high-energy and low-protein roughage, and as a source of protein has by far the greatest importance in the feeding of cattle herds. To create 1 kg of beef, 8 kg of feed are necessary. Most feed comes from South America. Brazil, for example, is already today not only the largest exporter of beef in the world, but also one of the largest exporters of animal feed. The amount of cereal produced has risen since the 1970s from 20 million tonnes to 160 million tonnes per year. Brazilian soy beans make up 80 % of the feed used for meat production in Europe and the United States.

Colombia too is gaining in importance in meeting the rising demand for meat. It lies in a tropical strip of the Equator with sufficient sunshine for the continuous production of biomass. Already today, the cattle population of Colombia is the fourth largest throughout Latin America. Over the coming ten years, the potential exists to increase Colombian cattle production by 22 %.

The herds of the Colombian Brahman breed are at pasture throughout the year and are supplied additionally with feed, e.g. soy beans.

K+S ON THE CAPITAL MARKET

THE K+S SHARE PRICE ENDS THE YEAR IN LINE WITH PREVIOUS YEAR
(+0.2 %; incl. dividend: +4.0 %) / K+S shareholders benefit from the divestment of K+S NITROGEN: At 1.40 €/share, the dividend is therefore up on the previous year (1.30 €/share) / K+S successfully issues a second bond / Research coverage slightly expanded again

2

CAPITAL MARKET KEY INDICATORS [1] TAB: 2.0.1

		2012	2011	2010	2009	2008
Earnings per share from continued operations, adjusted [2]	€ / share	2.83	3.27	2.37	—	—
Earnings per share, adjusted [2,3]	€ / share	3.34	3.04	2.33	0.56	5.94
Gross cash flow per share	€ / share	4.25	4.49	4.25	1.95	7.14
Book value per share	€ / share	18.17	16.12	13.85	10.94	10.41
Year-end closing price (XETRA) [4]	€	35.00	34.92	56.36	39.99	39.97
Highest price (XETRA) [4]	€	40.86	58.60	56.65	53.04	95.90
Lowest price (XETRA) [4]	€	30.40	33.35	35.94	29.85	27.72
Year-end market capitalisation	€ billion	6.7	6.7	10.8	7.7	6.6
Total stock exchange turnover	€ billion	11.8	17.7	16.8	16.9	33.4
Average daily turnover	€ million	46.5	68.7	65.7	66.4	131.6
Index weighting as of 31 Dec.	%	0.9	1.2	1.3	1.1	1.2
Total number of shares as of 31 Dec.	million	191.40	191.40	191.40	191.40	165.00
Outstanding shares as of 31 Dec. [5]	million	191.40	191.40	191.40	191.40	165.00
Average number of shares [6]	million	191.40	191.33	191.34	166.15	164.95
Dividend per share [7]	€ / share	1.40	1.30	1.00	0.20	2.40
Total dividend payment [7]	€ million	268.0	248.8	191.4	38.3	396.0
Payout ratio [7,8]	%	41.9	42.8	43.0	40.9	40.4
Dividend yield (closing price) [7]	%	4.0	3.7	1.8	0.5	6.0
Return on equity after taxes [2,3]	%	19.4	20.2	18.7	8.4	68.6
Return on Capital Employed (ROCE)	%	20.0	25.2	22.0	9.3	64.0
Enterprise value (EV) as of 31 Dec.	€ billion	7.5	7.3	11.5	9.0	7.2
Enterprise value to revenues (EV/revenues)	x	1.9	1.8	2.5	2.5	1.5
Enterprise value to EBITDA (EV/EBITDA)	x	7.2	6.4	12.1	21.8	4.8
Enterprise value to EBIT (EV/EBIT)	x	9.2	8.0	16.1	37.8	5.3

[1] Unless stated otherwise, information refers to the continued operations of the K+S Group. The income statement and the cash flow statement of the previous year were adjusted after the divestment of the Nitrogen business and the COMPO business according to IFRS. The balance sheet and therefore the key figures working capital, net indebtedness and book value per share of the respective previous years were not adjusted and, in 2010, also include the discontinued operations of the COMPO business and, in 2011, the discontinued operations of the Nitrogen business.
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28,5 % (2011: 28,4 %).
[3] Information refers to continued and discontinued operations of the K+S Group.
[4] The price of the K+S share since the capital increase in December 2009 has been traded ex subscription right. Historical values were not adjusted.
[5] Total number of shares less the number of own shares held by K+S as of the balance sheet date.
[6] Total number of shares less the average number of own shares held by K+S.
[7] The figure for 2012 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.
[8] Applied to the adjusted earnings per share.

K+S SHARE

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

K+S BOND (SEPTEMBER 2014)

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

K+S BOND (JUNE 2022)

WKN / ISIN: A1P GZ8 / DE000A1PGZ82
Stock exchange listing:
Luxembourg Stock Exchange
Issue volume: € 500 million
Denomination: € 100,000
Issue price: 99.422 %
Interest coupon: 3.000 %
Due: 20 June 2022
Bond rating: S&P: BBB+; Moody's: Baa2

COMPANY RATING:

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

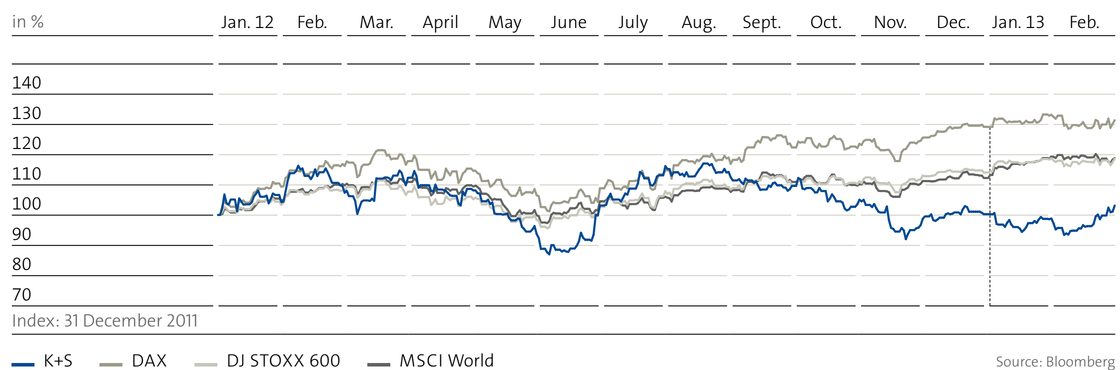
2.1 THE SHARE

INTERNATIONAL STOCK MARKETS DEVELOP POSITIVELY

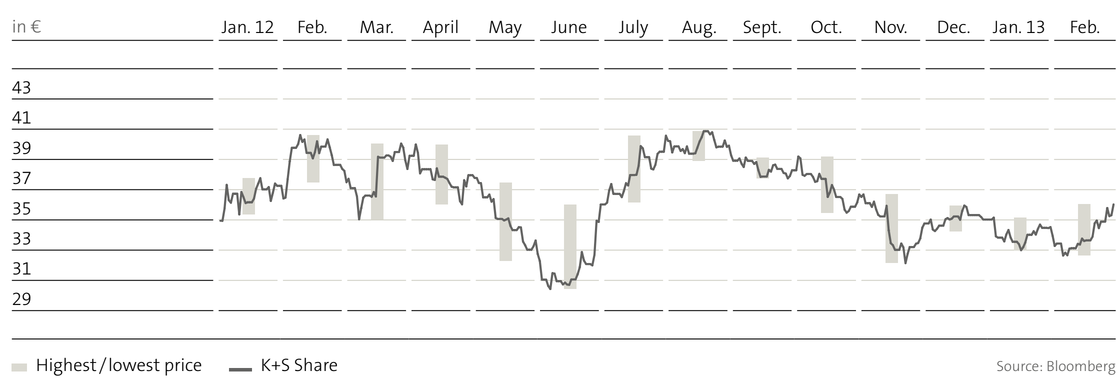
The international stock markets were able to develop positively in 2012 as a result of factors such as the strong supply of liquidity and high dividend yields in contrast to lower interest rates for bonds. The German DAX, an important benchmark for K+S, rose by 29.1 % despite the negative impact of the debt crisis in the eurozone. The European stock index DJ STOXX 600 rose by 14.4 % to 279 points and the global MSCI WORLD STANDARD by 13.2 % to 1,338 points. / FIG: 2.1.1

With a closing price at the end of the year that was almost unchanged in relation to the start of the year 2012, the performance of the K+S share was somewhat weaker than that of the benchmark indices. The K+S share was adversely affected by the delay in the European spring season of the potash business as a result of the very dry and cold weather at the start of the year, by the below-average de-icing salt business in the first quarter as well as by the fact that North American and Russian producers had still not concluded agreements with Chinese and Indian customers in the third and fourth quarters. The continued attractive level of agricultural prices in 2012 and the positive stock market environment that could be observed particularly in the second half of the year failed to make up for the pressure exerted on the K+S share price as a result of industry-specific framework conditions. / FIG: 2.1.2

PERFORMANCE OF THE K+S SHARE IN COMPARISON TO DAX, DJ STOXX 600 AND MSCI WORLD FIG: 2.1.1



MONTHLY HIGHEST AND LOWEST PRICES AND PERFORMANCE OF K+S SHARE FIG: 2.1.2



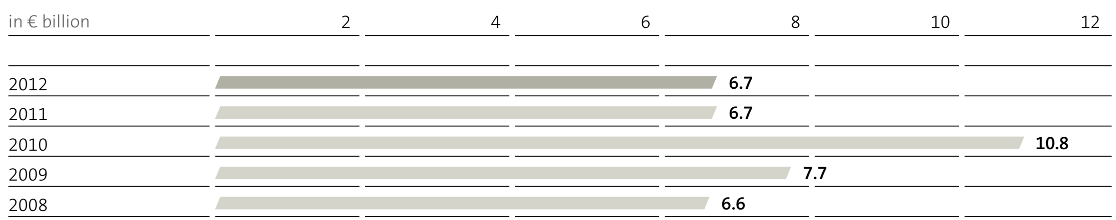
/ YOU CAN FIND THE CURRENT SHARE PRICE AND FURTHER INFORMATION ABOUT THE STOCK at
www.k-plus-s.com/en/ks-aktie

A different picture appears if we examine a longer period of time: Thus, the value of the share including the dividends rose by just under 5 % over the past five years,

PERFORMANCE TAB: 2.1.1

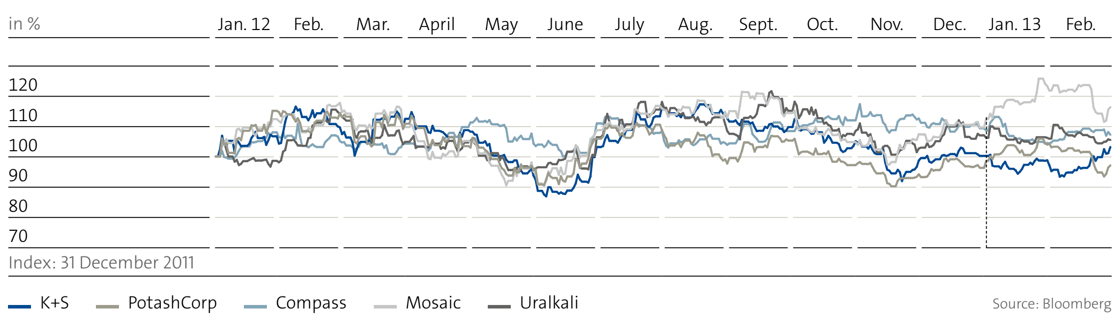
in %	1 year 2012	5 years 2008 – 2012	10 years 2003 – 2012
K+S share (excluding dividends)	+ 0.2	(9.2)	+ 751.6
K+S share (including dividends)	+ 4.0	+ 4.8	+ 926.3
DAX (performance index)	+ 29.1	(5.6)	+ 163.2
DJ STOXX 600	+ 14.4	(23.3)	+ 38.6
MSCI World Standard	+ 13.2	(15.8)	+ 69.0

MARKET CAPITALISATION OF K+S AKTIENGESELLSCHAFT FIG: 2.1.3



as of 31 December; Basis: XETRA

PERFORMANCE OF THE K+S SHARE IN RELATION TO PEERS FIG: 2.1.4



Source: Bloomberg

while the DAX, MSCI WORLD STANDARD and DJ STOXX 600 fell by 6 %, 16 % and 23 % respectively. The positive performance of the K+S share can be seen even more clearly in a 10-year comparison. **/ TAB: 2.1.1 / FIG: 2.1.3**

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

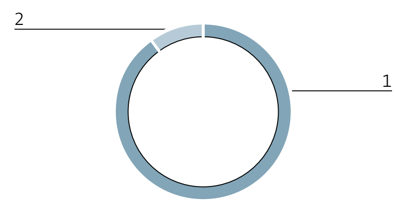
We are also following the performance of our share compared with our publicly traded competitors. They include, above all, the North American fertilizer producers POTASHCORP and MOSAIC, the Russian potash producer URALKALI and the salt manufacturer COMPASS from the United States. **/ FIG: 2.1.4**

Shares of international fertilizer producers performed positively in the first quarter as a result of expectations that demand for fertilizers would recover over the course of the year and of the continued attractive level of agricultural prices. However, production cuts announced in the second and third quarters as well as the downgrading of earnings forecasts of some competitors as result of agreements not having been concluded with India and, later, also China weighed on the shares of the companies in the remaining months of the year. Although K+S did not have to reduce output because of its low level of dependence on deliveries to China and India and despite being able to sell a quantity comparable to that sold in 2011, the K+S share price underperformed that of most competitors. Performance was only slightly weaker for POTASHCORP, which fell by about 1 % in 2012. At + 0.2 %, the K+S share closed the year on about the same level year on year, while the competitors MOSAIC, COMPASS and URALKALI gained between 6 and 12 %.

K+S SHARE PRICE SLIGHTLY RECOVERED ON A LOW LEVEL AT THE START OF 2013

At the beginning of 2013 the K+S share price was initially adversely affected by the adjustment of analysts' estimates, which had previously still assumed higher average prices despite the price pressure in the case of potassium chloride already observable in the fourth quarter. At the end of February, the K+S share price was then able to recover again somewhat and on 28 February 2013 at approximately € 36 it was almost 3 % above the closing price of 2012. The DAX performed positively at the beginning of the year; however, at the end of February, uncertainties over the further development of the sovereign debt crisis in the eurozone again had an adverse effect, so that on 28 February 2013 the DAX closed at just under 7,742 points (+2 % compared with 31 December 2012). The share prices of competitors showed a slightly negative performance compared to 31 December 2012, with the exception of MOSAIC (+3 %).

SHAREHOLDER STRUCTURE AS AT 28 FEBRUARY 2013 FIG: 2.1.5



	in %	2012	2011
1	Freefloat	90.1	90.1
2	Meritus Trust Company Limited	9.9[1]	9.9[1]

[1] Notification of 11 July 2011.

SHAREHOLDER STRUCTURE

There were no significant changes in the shareholder structure in 2012. Under the free float definition applied by DEUTSCHE BÖRSE AG, the free float is about 90 %.

Our shareholder structure is currently as follows:

+ MERITUS TRUST COMPANY LIMITED via EUROCHEM GROUP SE: 9.88 % (notification of 11 July 2011)
+ BLACKROCK INC.: 5.08 % (notifications of 11 May 2012)
+ PRUDENTIAL PLC. via M&G INVESTMENT MANAGEMENT LIMITED: 3.00 % (notification of 2 November 2011 and correction as of 8 February 2012)

/ FIG: 2.1.5

According to a shareholder identification survey carried out by an external provider in April 2012, around 60 % of the shares were held by institutional investors. About 23 % of the shares are predominantly held by domestic private investors. In terms of geographical distribution, about 37 % of our shares are held in Germany, followed by Great Britain (13 %), the United States and Canada (11 % in total) as well as Russia (10 %).

AMERICAN DEPOSITARY RECEIPTS FOR TRADING IN NORTH AMERICA

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

/ MORE INFORMATION is available on our website at www.k-plus-s.com in the area entitled Investor Relations / K+S Share / ADR Programme as well as on the website of the trading platform OTCQX www.otcqx.com

LISTING IN STOCK MARKET INDICES

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

+ DAX
+ DJ EURO STOXX
+ DJ STOXX 600

DIVIDEND PER K+S SHARE FIG: 2.1.6

in €	
2012[1]	1.40
2011	1.30
2010	1.00
2009	0.20
2008	2.40

[1] The figure for 2012 corresponds to the dividend proposal.

- MSCI EUROPE STANDARD
- MSCI GERMANY STANDARD
- MSCI WORLD STANDARD
- S&P EURO INDEX

AT € 1.40, DIVIDEND PROPOSAL AGAIN HIGHER THAN IN PREVIOUS YEAR

We pursue an essentially earnings-based dividend policy. With this measure, a payout ratio of between 40 % and 50 % of the adjusted Group earnings after taxes (including discontinued operations) forms the basis for the amount of the future dividend proposals to be determined by the Board of Executive Directors and the Supervisory Board. The Board of Executive Directors will thus propose to the Annual General Meeting to increase the dividend in line with the gain from the divestment of the NITROGEN business as well as the omission of the burdening effects of the divestment of the COMPO business and to pay out € 1.40 per share for the past financial year. / FIG: 2.1.6 This would correspond to a dividend payout ratio of about 42 %. With 191.4 million shares outstanding, this would therefore result in a total dividend payment of € 268.0 million. Based on the share price at the end of the year, the dividend proposal leads to a dividend yield of 4.0 %.

2.2 BONDS AND RATING

THE K+S BONDS

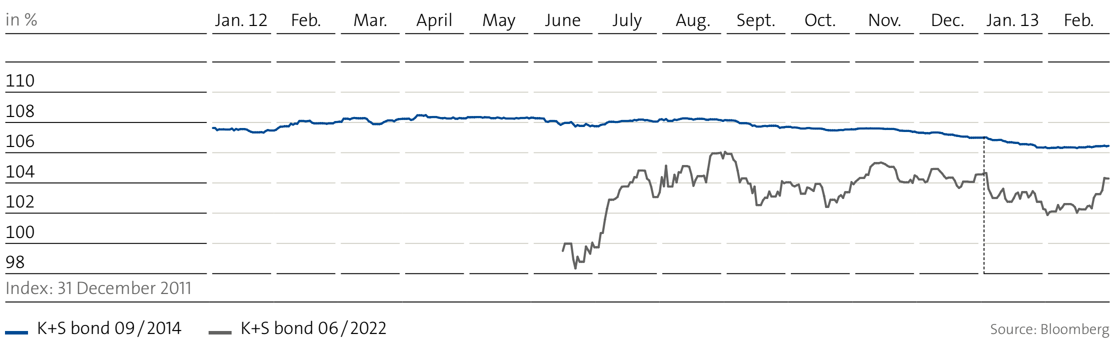
K+S AKTIENGESELLSCHAFT had placed its first bond on the capital market on 17 September 2009. The bond has a volume of € 750 million and a term of five years. With an interest coupon of 5.0 % p.a. and an issue price of 99.598 %, the yield on issue was 5.093 % p.a. The proceeds from the bond issue were used to finance part of the purchase price for MORTON SALT. Against the backdrop of low interest rates, K+S AKTIENGESELLSCHAFT successfully placed a second corporate bond in the amount of € 500 million on 12 June 2012. The bond has a ten-year term and an interest coupon of 3.0 % p.a. The proceeds are to be used to refinance the corporate bond that is set to mature in 2014. This measure, the other liquidity and future cash flows serve the financing of the Legacy Project in Canada as well as general corporate purposes.

As a result of the sovereign debt crisis in the eurozone and the high provision of liquidity by the ECB, the bond prices of debtors with good credit ratings have risen on the capital market while yields have fallen. Thus, the bond which will mature in June 2022 was quoted at 104.755 % on 31 December 2012; the yield was 2.430 % p.a. The bond which will mature in September 2014 was quoted at 107.107 % on 31 December 2012. In comparison to the previous year, the yield fell to 0.821 % p.a. against the backdrop of the shorter residual term of the bond (31.12.2011: 107.732 % or 2.046 % p.a.). On 28 February 2013, the bond which will mature in June 2022 was quoted at 104.382 % (Yield: 2,466 %) and the bond which will mature in June 2014 at 106.547 % (Yield: 0,750 %). / FIG: 2.2.1

RATING

Since the start of 2009, we have been submitting ourselves to an external rating process. On 8 September 2011, the rating agency STANDARD & POOR'S raised the rating to "BBB+" with a "stable" outlook. MOODY'S rating

PRICE DEVELOPMENT OF THE K+S BOND FIG: 2.2.1



Source: Bloomberg

has remained unchanged since 29 November 2010 at “Baa2” and with the outlook “stable”. K+S thus continues to be rated in the targeted investment grade segment.

2.3 INVESTOR RELATIONS

RESEARCH COVERAGE OF K+S SLIGHTLY EXPANDED ONCE AGAIN

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

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

+ B. METZLER SEEL. SOHN & CO.
+ BAADER BANK AG (new)
+ BANKHAUS LAMPE
+ BANK OF AMERICA | MERRILL LYNCH
+ BARCLAYS (new)
+ BERENBERG BANK
+ BMO BANK OF MONTREAL
+ CA CHEUVREUX
+ CITIGROUP
+ COMMERZBANK
+ DEUTSCHE BANK
+ DZ BANK
+ EQUINET
+ EQUITA
+ EURO PACIFIC CAPITAL
+ EXANE BNP PARIBAS
+ GOLDMAN SACHS
+ HAUCK & AUFHÄUSER INSTITUTIONAL RESEARCH AG (new)
+ HSBC TRINKAUS & BURKHARDT
+ INDEPENDENT RESEARCH
+ J.P. MORGAN CAZENOVE
+ KEPLER CAPITAL MARKETS (new)
+ LBBW
+ LIBERUM CAPITAL
+ MACQUARIE SECURITIES EUROPE
+ MAIN FIRST BANK
+ M.M. WARBURG & CO
+ MORGAN STANLEY
+ MORNINGSTAR (new)
+ NOMURA
+ REDBURN PARTNERS
+ SANFORD C. BERNSTEIN
+ SCOTIABANK
+ UBS INVESTMENT RESEARCH

In the last of the research surveys that we carry out regularly, 13 banks gave us a “buy/accumulate” recommendation, 8 a “hold/neutral” recommendation and 5 banks a “reduce/sell” recommendation. The average target share price was at about € 39. The Investor Relations section of our website carries a constantly updated overview of current research recommendations as well as consensus forecasts for revenues and earnings.

/ **MORE INFORMATION** on this is available on our website at www.k-plus-s.com under Investor Relations/K+S Share.

K+S INVESTOR RELATIONS OFFERS A COMPREHENSIVE RANGE OF INFORMATION

In the past year, we have responded to the ever greater need for information on the part of the capital market by offering 55 roadshows and conference days. We held investor meetings in Europe, North America, Asia and Australia. We also organised numerous one-on-one interviews and conference calls. We again intensified our contact with private shareholders through participation in five share forums in Germany. The aim of our Investor Relations work is transparent and fair financial communication with all market participants in order to maintain and strengthen confidence in the quality and integrity of our corporate management, and to provide comprehensive, fast and optimally objective information about our strategy as well as about all events relevant to the capital markets that concern the K+S GROUP.

EXTERNAL FEEDBACK

Our efforts were once again recognised last year by third parties:

+ The K+S Financial Report 2011 achieved 2nd place (previous year: 4th place) among the 30 stocks quoted on the DAX in the highly regarded competition held by the German MANAGER MAGAZINE and 5th place (previous year: 6th place) in the total ranking of about 160 companies examined from the DAX, MDAX, SDAX and TECDAX.
+ The K+S Financial Report and the Corporate and Sustainability Report 2010 were awarded the silver DDC Award 2011 by the DEUTSCHE DESIGNER CLUB. Emphasised was the good concept that allowed users to easily navigate the reports.
+ In the BIRD online readers vote organised by BÖRSE ONLINE, we came 3rd in 2012 among companies quoted on the DAX (previous year: 4th place) for the best investor relations work in Germany.

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

Finally, annual anonymous surveys of our shareholders and analysts show a high degree of satisfaction with our investor relations work and, furthermore, provide us with good ideas for further improving our financial market communication. The keen interest in K+S is also evident from the fact that, in 2012, a total of approximately 48,269 financial and quarterly reports, of which 20,751 were in English, were downloaded from our website.

IT PAYS TO VISIT OUR WEBSITE

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

/ **MORE INFORMATION** is available in the Investor Relations section of our website at www.k-plus-s.com

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THE PROOF LIES IN THE CLARITY

Clean and clear water is an important requirement for summer fun in a cool pool. Salt is helpful for water treatment in swimming pools as well as for their care and maintenance.

Crystal clear and blue. That's what usually comes to mind when most people think of relaxing by a pool while on vacation. But without proper care and equipment, including a filter unit and maintenance chemicals, the cool water in the pool can become less inviting as bacteria, algae and other organic substances can develop over time.

In the past, only liquid chlorine could be used to keep pool water hygienic and safe. While the use of this substance helped maintain a safe swimming environment, it also resulted in a number of negative side effects including: turning hair color green, damaging clothing, and leaving an irritating film on the skin. In response to the issues caused by liquid chlorine, more and more pools today are being equipped with a salt water chlorination unit. This technology facilitates a reaction with high purity salt in pools that converts the chloride components of the salt to free chlorine particles and keep the pool sanitized. However unlike with liquid chlorine, the process in a salt water pool does not yield the chloramines responsible for foul smell, skin irritation, and other negative effects experienced in a traditional swimming pool.

Salt cannot only be used to help improve the experience in a swimming pool, it can also help improve water flowing through the home by helping soften hard water. Hard water contains many minerals such as calcium, lime, and iron which are not harmful to one's health but can lead to some unwanted properties in the home. Hard water minerals can build up in pipes making appliances work less efficiently and increasing energy costs. Hard water can also leave an irritating film on the skin, make hair look less clean and cause laundry to look dingy even after washing. It's hard on the pocket too:

NEEDS-BASED PRODUCTS FOR PURE, CLEAR AND SOFT WATER

With MORTON SALT, we are one of the largest pool and water-softening salt manufacturers in the North American market. Morton's pool and water softening products are primarily produced with higher purity evaporated salt. Both public and private pools are increasingly equipped with salt water chlorination units that use pool salts to help sanitize pool water. We offer two pool salt products for professional users. MORTON® ADVANCED FORMULA POOL SALT is a blend of salt and pool balancing additives necessary for pool maintenance; it helps reduce the need for many pool chemicals by combining them into a fast-dissolving single product. MORTON® PROFESSIONAL'S CHOICE POOL SALT is a high-purity salt, characterized by a fine and uniform crystal grade designed to dissolve quickly in pool water. These products are typically sold to wholesale distributors who service smaller specialty pool stores. For private pool owners, we also offer MORTON® HIGH PURITY POOL SALT available in supermarkets, mass merchants and home improvement centres. This retail product contributes to most of Morton's pool salt volume.

When it comes to water softening to help alleviate the effects of hard water in the kitchen, bathroom and in household appliances too, MORTON SALT offers a portfolio of water softening products to address the full-range of consumer needs in the market. MORTON® SYSTEM SAVER® II pellets are the #1 brand of water softening pellets in America and contain a patented formula that helps keep the softener clean to extend its life while providing soft water to the home.

Salt also plays an important role in water softening.

hard water makes it more difficult for soaps, shampoos and detergents to lather which means you have to use more. Hard water minerals can also build up in water heaters, dishwashers and washing machines leading to frequent repairs and causing them to wear out up to 30 % faster.

Water softeners are therefore used in hard water areas throughout the world in restaurants, hotels, laundries, but also in private households. The principle behind most water-softening devices is simple: Once the device is connected to a water supply, hard water flows into a chamber column filled with millions of resins beads that host ion exchanges. Salt pellets or crystals are added to a softener to act as a catalyst for the ion exchange and filter out the hard water minerals. The result: soft water flows out of the device.

Car washes also work with soft water, so that the hardness minerals do not leave any white stains on the paint. Coffee shop chains and food manufacturers soften their water, so that hard minerals do not affect the flavour of their products. Furthermore, producers of cosmetics and medicines with especially high water quality requirements work exclusively with soft water.

In the United States, water softening plays a special role, since many states or nearly 85 % of households in the United States are affected by hard water. Roughly 10 % of households have installed an in-home water softening unit to deal with hard water effects. As hard water is not as wide-spread in Europe, usage of water softeners is more concentrated in certain regions and branches of industry.

CORPORATE GOVERNANCE

THE PRINCIPLES OF MODERN CORPORATE GOVERNANCE form the basis of our internal decision-making and control processes / Pro-active and transparent communication is our demand

3

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

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

3.1 DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

DECLARATION ON CONFORMITY 2012/2013

In December 2012, the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT submitted the following joint declaration on conformity in accordance with Sec. 161 of the German Stock Corporation Act (Aktiengesetz – AktG):

"We declare that the recommendations of the Government Commission German Corporate Governance Code (as amended on 26 May 2010), published by the German Ministry of Justice in the official part of the German Federal Gazette, were complied with in 2012 except for the recommendation in item 5.4.6 paragraph 2. The company believes that an exclusively fixed remuneration of the Supervisory Board members is better suited than a remuneration form that also contains a variable portion to take the general advisory and control duties of the Supervisory Board, which exist irrespective of the success of the business, into account.[1]

We furthermore declare that the recommendations of the Government Commission German Corporate Governance Code (as amended on 15 May 2012), published by the German Ministry of Justice in the official part of the German Federal Gazette on 15 June 2012, will be complied with in 2013 except for the recommendations in item 5.1.2 paragraph 2 sentence 3 (Determination of an age limit for the members of the Board of Executive Directors) and 5.4.1 paragraph 2 sentence 1 (to the extent that an age limit is to be determined for Supervisory Board members). We do not believe that it is necessary or practicable to determine strict age limits for the members of the Board of Executive Directors and Supervisory Board, since the ability to carry out the work of the respective corporate body does not necessary end when a certain age is reached, but depends solely on the respective individual. Also considering particularly the demographic developments, age limits therefore conflict with the general interest of the company to staff its corporate bodies in the best possible way."

[1] The previous recommendation in item 5.4.6 paragraph 2 of the German Corporate Governance Code, according to which the remuneration of the Supervisory Board members should contain a variable portion is no longer included in the version amended on 15 May 2012.

/ THIS AND ALL EARLIER DECLARATIONS ON CONFORMITY are carried on the Internet at www.k-plus-s.com in the 'Corporate Governance' section.

Only one of the numerous suggestions contained in the Code has not been fully implemented by K+S:

+ The Annual General Meeting has not as yet been carried live on the Internet in its full length (Code Item 2.3.4), but was only carried up to the end of the speech by the chairman of the Board of Executive Directors.

GOVERNING BODIES

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

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The shareholders assert their rights at the Annual General Meeting and decide on fundamental matters affecting K+S AKTIENGESELLSCHAFT by exercising their voting rights. Each share carries one vote (one share, one vote principle). All documents of decision-making importance are also made available to the shareholders on our website. The Annual General Meeting is also carried live on the Internet until the end of the speech by the chairman of the Board of Executive Directors.

Shareholders can exercise their voting rights by means of an authorised representative of their choice and can issue instructions to them or also vote by absentee ballot in future. The granting of a power of attorney and the issuance of instructions are also possible through an electronic power of attorney and voting instruction system on the K+S website. Shortly after the end of the Annual General Meeting, we publish details of attendance and the results of the voting on the Internet.

/ **FURTHER INFORMATION** about the Annual General Meeting can be found at www.k-plus-s.com/en/hv-2012

OPERATIONS OF THE BOARD OF EXECUTIVE DIRECTORS

The Board of Executive Directors manages the Company at its own responsibility in accordance with the law, the Articles of Association and its bylaws, taking into account the resolutions adopted by the Annual General Meeting. The Board of Executive Directors represents the Company in its dealings with third parties. Pursuant to Art. 5 Para. 1 of the Articles of Association of the Company, the Board of Executive Directors comprises at least two members. The number of members is determined by the Supervisory Board. At the end of 2012, the Board of Executive Directors consisted of five members. The bylaws govern their cooperation and the allocation of business responsibilities. The affected members of the Board of Executive Directors are required to be informed about matters concerning more than one business unit or department; measures which also concern other segments or departments or deviate from the usual day-to-day business are required to be agreed with the other members of the Board of Executive Directors. If possible, such matters are to be discussed at meetings of the Board of Executive Directors and measures are to be resolved there, if necessary. A resolution should always be passed concerning important business transactions and measures.

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

/ **FURTHER INFORMATION ABOUT THE COMPOSITION OF THE BOARD OF EXECUTIVE DIRECTORS AND THE DISTRIBUTION OF RESPONSIBILITIES** can be found on page 39 as well as on our website under 'Corporate Governance'.

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

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

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

/ **FURTHER INFORMATION ABOUT THE INTERNAL CONTROL SYSTEM AND ITS COMPONENTS** can be found in the 'Enterprise management and supervision' section on page 69 and about the risk management system on page 113 in the Risk Report.

OPERATIONS OF THE SUPERVISORY BOARD

Pursuant to Art. 8 Para. 1 of the Articles of Association of the Company, the Supervisory Board's composition is governed by mandatory statutory provisions. It currently consists of 16 members and is subject to co-determination in accordance with the German Co-Determination Act (Mitbestimmungsgesetz). The Supervisory Board members are thus elected as representatives of the shareholders by the Annual General Meeting and as employee representatives by the employees of the K+S GROUP in Germany on a 50-percent basis. An election is held every five years. The term of office of the chairman ends at the close of the Annual General Meeting 2017, that of Mr. Cardona at the close of the Annual General Meeting 2015 and those of the remaining members at the close of the Annual General Meeting 2013.

/ **FURTHER INFORMATION ABOUT THE COMPOSITION OF THE SUPERVISORY BOARD** can be found on page 40 as well as on our website under 'Corporate Governance'.

The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. It is involved in all decisions of fundamental importance in sufficient time and appropriately. The Board of Executive Directors informs it on a regular basis, promptly and comprehensively about the course of business, the earnings and financial position, the employment situation, as well as the planning and further development of the Company. The Supervisory Board regularly receives written reports from the Board of Executive Directors for the preparation of meetings. After thorough review and discussion, the Supervisory Board adopts resolutions on the reports and proposals, where necessary. In the case of particular business transactions of great importance to the Company, the Supervisory Board is also provided with immediate and extensive information by the Board of Executive Directors between regular meetings. The Supervisory Board regularly carries out an efficiency review in the form of a questionnaire in order to obtain pointers for the future work of the Supervisory Board and its committees.

/ **FURTHER DETAILS ON THE SUPERVISORY BOARD'S ACTIVITIES IN FINANCIAL YEAR 2012** can be found in the Supervisory Board Report on page 12 of this Financial Report.

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

+ The audit committee exercises the tasks arising from the German Stock Corporation Act (AktG) as well as from Item 5.3.2 of the German Corporate Governance Code. It is particularly involved in monitoring the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system, and the compliance system as well as in the audit of the financial statements. It also discusses the quarterly and half-yearly financial reports with the Board of Executive Directors prior to publication. On the basis of his professional experience as former head of the Central Legal Affairs, Tax and Insurance Department and as former Chief Compliance Officer of BASF SE, Dr. Sünner, chairman of the audit committee, possesses comprehensive knowledge and experience with respect to the application of accounting principles and internal control procedures. The audit committee consists of six members and includes an equal number of representatives of the shareholders and of the employees.
+ The personnel committee is responsible for preparing the appointment of members of the Board of Executive Directors, including long-term succession planning. With regard to determining the total remuneration of the individual members of the Board of Executive Directors, the committee submits proposals for resolutions to the plenary meeting of the Supervisory Board. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The personnel committee consists of four members and includes an equal number of representatives of the shareholders and of the employees.
+ The nomination committee recommends suitable Supervisory Board candidates to the Supervisory Board to be proposed to the Annual General Meeting. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The committee consists of four members, all of whom are representatives of the shareholders.
+ The mediation committee performs the tasks set forth in Sec. 31 Para. 3 Sent. 1 of the German Co-Determination Act. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The four members of the committee include an equal number of representatives of the shareholders and of the employees.

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

OBJECTIVE FOR THE COMPOSITION OF THE SUPERVISORY BOARD

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

Mindful of this, at its meeting of 21 November 2012, the Supervisory Board resolved the following[1]:

"The Supervisory Board shall ensure that its members are persons of integrity, associated with the social market economy and have competence and many years of experience in the management of and/or consulting services to commercial enterprises or business-oriented institutions. Experience and specific knowledge of the main fields of activity of the Company are desirable. At least one independent financial expert must belong to the Supervisory Board.

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

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

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

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

BOARD OF EXECUTIVE DIRECTORS AND SUPERVISORY BOARD COOPERATION

The Supervisory Board is kept informed by the Board of Executive Directors at regular intervals in a timely and comprehensive manner about all issues relevant to the Company as a whole concerning corporate strategy, planning, business development and the financial and earnings position as well as about any particular business risks and opportunities. Important business transactions and measures require the consent of the Supervisory Board; more information on this can be found in Sec. 12 of the bylaws of the Supervisory Board.

CONFLICTS OF INTERESTS

In order to prevent potential conflicts of interests, Mr. Cardona did not participate in two plenary sessions that concerned the interests of OJSC EUROCHEM OJSC. Further conflicts of interests involving members of the Board of Executive Directors or the Supervisory Board, about which the Annual General Meeting needed to be informed, were not disclosed to the Supervisory Board in the reporting period.

D&O INSURANCE

K+S has taken out D&O insurance, among other things, in case, on the basis of statutory third-party liability provisions, a claim for compensation is raised against members of the Board of Executive Directors or of the Supervisory Board because of a breach of duty committed in the exercise of their activity. The deductible is 10 % of the respective damage up to a maximum of 1.5 times the fixed annual remuneration. The D&O insurance also applies to managers.

[1] The age limit for members of the Supervisory Board previously contained in the objectives for the composition of the Supervisory Board has been removed for the reasons cited in the declaration on conformity concerning the German Corporate Governance Code.

DIRECTORS' DEALINGS OF MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS TAB: 3.1.1

	Date	Transaction	Number	Price in €	Volume in €
Dr. Thomas Nöcker	15.11.2012	Share purchase	3,000	33.57	100,695.45
	09.05.2012	Share purchase	4,000	36.66	146,646.40

DIRECTORS' DEALINGS OF MEMBERS OF THE SUPERVISORY BOARD TAB: 3.1.2

	Date	Transaction	Number	Price in €	Volume in €
Dr. Karl Heidenreich	13.11.2012	Share purchase	500	33.97	16,985.00
Dr. Eckart Sünner	21.05.2012	Share purchase	4,000	35.05	140,200.00

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

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

In 2012, K+S AKTIENGESELLSCHAFT has published notifications concerning directors' dealings shown in table 3.1.1 and 3.1.2. / TAB: 3.1.1, 3.1.2

/ A CONSTANTLY UPDATED TABLE can be found on our website at www.k-plus-s.com/en/meldungen/directors-dealings

On 31 December 2012, the members of the Board of Executive Directors and the Supervisory Board held less than 1% of the shares of K+S AKTIENGESELLSCHAFT and related financial instruments.

COMPLIANCE

Our compliance system creates the organisational prerequisites for applicable law, our internal regulations, and the regulatory standards recognised by the Company to be known throughout the Group and for compliance with them to be monitored. We thus want not only to avoid the risks of liability, penalties and fines as well as other financial disadvantages for the Company, but also to ensure a positive reputation of the Company and its employees in the public eye. We regard it as a matter of course that breaches of compliance are pursued and punished.

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

Over and above the legal obligations, we have defined for ourselves core values and principles of conduct (the Code of Conduct) derived from them which form a compulsory framework for our conduct and our decisions as well as provide orientation for our corporate actions. Our core values and principles of conduct are published on our website at www.k-plus-s.com in the 'About K+S' section. Every employee is made familiar with these core values and principles of conduct that apply throughout the Group, as well as with the Company guidelines derived from them. Obligatory training sessions for potentially affected employees are held in relation to specific issues (e.g. anti-trust law, anti-corruption measures, money laundering and terrorism

K+S COMPLIANCE SYSTEM FIG: 3.1.1

financing, environmental protection, work safety law). The employees have the possibility of seeking advice internally in compliance-related matters. Moreover, we have set up external hotlines (ombudspersons) for the notification of compliance breaches, anonymously if desired. / **FIG: 3.1.1**

ACCOUNTING AND AUDITS

International Financial Reporting Standards (IFRS) are applied in preparing the consolidated financial statements of K+S AKTIENGESELLSCHAFT. The audits for 2012 were conducted by DELOITTE & TOUCHE GMBH, Hanover, which has issued a declaration of independence pursuant to Item 7.2.1 of the German Corporate Governance Code. The auditor is appointed by the Supervisory Board, acting on a recommendation submitted by the audit committee, after the main topics to be covered by the audit and the fees have been agreed with the auditor elected by the Annual General Meeting. The chairman of the Supervisory Board and the chairman of the audit committee are advised by the auditor without delay of any reasons giving rise to exclusion or partiality that may arise during the audit if they cannot be eliminated immediately. Furthermore, the auditor should immediately advise of all findings and occurrences of relevance to the tasks of the Supervisory Board that may arise during the audit. In addition, the auditor is required to advise the Supervisory Board or make an appropriate note in the audit report if, during the course of the audit, he ascertains any facts suggesting incompatibility with the declaration on conformity issued by the Board of Executive Directors and the Supervisory Board in accordance with Sec. 161 of the German Stock Corporation Act.

TRANSPARENCY

It is our goal to provide information about the position of the Company and about all significant changes in business to shareholders, shareholder associations, financial analysts, the media and the interested general public by means of regular, open and current communications simultaneously and in an equal manner. We publish all important information such as information on the Annual General Meeting, press releases, ad hoc disclosures and notifications of voting rights, all financial reports, corporate / sustainability reports, but also analysts' recommendations and consensus forecasts as well as Company presentations from roadshows and investors' conferences on our website.

The financial calendar can be found in the financial report, in the half-yearly and quarterly financial reports and on the Company's website. The Company's Articles of Association and the bylaws of the Board of Executive Directors and the Supervisory Board can also be viewed on this website as well as detailed information on the implementation of the recommendations and suggestions contained in the German Corporate Governance Code. An e-mail newsletter provides constant information about new developments in the Group.

3.2 MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

As of 31 December 2012

Norbert Steiner (58), lawyer, Chairman

- Corporate Development and Controlling[1]
- Legal affairs / Compliance
- Investor Relations
- Corporate Communications
- Executive Staff Matters / International HR Coordination
- Potash and Magnesium Products[2]

In office until 11 May 2015
First appointed: 12 May 2000

Supervisory Board appointments:

- E.ON MITTE AG, Kassel
- K+S KALI GMBH, Kassel (chairman)[3]

Joachim Felker (60), industrial business manager

- Potash and Magnesium Products

Term of office ended on 30 September 2012
First appointed: 1 October 2005

Supervisory Board appointments:

- K+S KALI GMBH, Kassel (until 30 September 2012)[3]

Gerd Grimmig (59), engineering graduate

- Mining
- Geology
- Engineering / Energy
- Research and Development
- Environment, Occupational Safety, Quality Management
- Inactive Plants
- Waste Management and Recycling
- Animal Hygiene Products
- K+S CONSULTING GMBH
- MSW CHEMIE GMBH

In office until 30 September 2013
First appointed: 1 October 2000

Supervisory Board appointments:

- K+S KALI GMBH, Kassel[3]

Dr. Burkhard Lohr (49), business administration graduate

- Finance and Accounting
- Taxes
- Internal Audit
- Purchasing and Procurement
- Insurance
- Data Protection

In office until 31 May 2015
First appointed: 1 June 2012

Dr. Thomas Nöcker (54), lawyer, Personnel Director

- Human Resources (incl. Health Management)
- IT
- Organisation and Project Management
- Real Estate Management
- Knowledge Management
- Global Logistics Strategy
- Logistics Purchasing
- K+S TRANSPORT GMBH
- CFK GMBH (Trading)

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

Supervisory Board appointments:

- K+S KALI GMBH, Kassel[3]

Mark Roberts (49), Bachelor of Science (Marketing)

- Salt

In office until 30 September 2015
First appointed: 1 October 2012

Supervisory Board appointments:

- Salt Institute, Alexandria, Virginia, USA

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

[1] Dr. Lohr is responsible for Corporate Controlling as of 1 January 2013
[2] Since 1 October 2012
[3] Group appointment

HONORARY CHAIRMAN OF THE SUPERVISORY BOARD

Gerhard R. Wolf (77), business administration graduate

Former member of the Board of Executive Directors of BASF SE, Ludwigshafen
Former chairman of the Supervisory Board of K+S AKTIENGESELLSCHAFT

3.3 MEMBERS OF THE SUPERVISORY BOARD

As of 31 December 2012

Dr. Ralf Bethke (70), business administration graduate, Chairman, Shareholder representative

Entrepreneur (as member of the Supervisory Boards mentioned below)

Supervisory Board chairman since 14 May 2008
In office until the end of the 2017 AGM
First appointed: 1 July 2007

Further Supervisory Board appointments:
+ BENTELER INTERNATIONAL AG, Salzburg (vice-chairman)
+ DJE KAPITAL AG, Pullach (chairman)
+ SÜDDEUTSCHE ZUCKERRÜBENVERWERTUNGS-GENOSSENSCHAFT EG, Stuttgart-Ochsenfurt
+ SÜDZUCKER AG Mannheim/Ochsenfurt, Mannheim

Michael Vassiliadis (48), chemical laboratory assistant, Vice-Chairman, Employee representative

Chairman of the Mining, Chemicals and Energy Trade Union, Hanover

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

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

Ralf Becker (47), trade union secretary, Employee representative

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

In office until the end of the 2013 AGM
First appointed: 1 August 2009

Further Supervisory Board appointments:
+ CONTINENTAL REIFEN DEUTSCHLAND GMBH, Hanover (vice-chairman)

Jella S. Benner-Heinacher (52), lawyer, Shareholder representative

Deputy General Manager of the DEUTSCHE SCHUTZVEREINIGUNG FÜR WERTPAPIERBESITZ E.V., Düsseldorf

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

Further Supervisory Board appointments:
A.S. CRÉATION TAPETEN AG, Gummersbach

George Cardona (61), economist, Shareholder representative

Entrepreneur (as member of the supervisory bodies mentioned below)

In office until the end of the 2015 AGM
First appointed: 9 October 2009

Other supervisory bodies:
+ Board of DONALINK LTD., Cyprus
+ Board of ERGLIS LTD., Cyprus
+ Board of EUROCHEM GROUP SE, Cyprus
+ Board of HAMILTON ART LTD., Isle of Man
+ Board of HAMILTON JETS LTD., Bermuda
+ Board of HAREWOOD HOUSE LTD., Jersey, Channel Islands
+ Board of LINEA LTD., Bermuda
+ Board of LINETRUST PTC LTD., Bermuda
+ Board of MADAKE LTD., Cyprus
+ Board of Directors of OJSC EUROCHEM MINERAL AND CHEMICAL CO., Russia[1]
+ Board of Directors of OJSC SIBERIAN COAL ENERGY CO., Russia
+ Board of SIBENERGY PLC., Cyprus
+ Board of STRATEGIC MINERALS PLC., Great Britain
+ Board of SUSEK PLC., Cyprus
+ Board of VALISE LTD., Bermuda
+ Board of VALTON LTD., Bermuda
+ Board of WESTLINE PTC LTD., Bermuda
+ Board of WISHBORNE GOLD PLC., Gibraltar

[1] Until 25 February 2013.

Harald Döll (48), energy facility electrical expert, Employee representative

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

In office until the end of the 2013 AGM
First appointed: 1 August 2009

Dr. Rainer Gerling (54), engineering graduate, Employee representative

Head of K+S KALI GMBH's Werra plant

In office until the end of the 2013 AGM
First appointed: 14 May 2008

Rainer Grohe (72), engineering graduate, Shareholder representative

Entrepreneur (as member of the Supervisory Boards mentioned below)

In office until the end of the 2013 AGM
First appointed: 6 May 1998

Further Supervisory Board appointments:
+ AURUBIS AG, Hamburg
+ GRAPHIT KROPFMÜHL AG, Hauzenberg (vice-chairman)
+ PFW AEROSPACE AG, Speyer (vice-chairman)
+ SASAG AG, Elsteraue
+ WKV WASSERKRAFT VOLK AG, Gutach

Dr. Karl Heidenreich (71), business administration graduate, Shareholder representative

Pensioner (former member of the Board of Executive Directors of LANDESBANK BADEN-WÜRTTEMBERG)

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

Rüdiger Kienitz (52), mining technologist, Employee representative

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

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

Klaus Krüger (58), mining technologist, Employee representative

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

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

Dieter Kuhn (54), mining engineer, Employee representative

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

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

Dr. Bernd Malmström (71), lawyer, Shareholder representative

Solicitor

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

Further Supervisory Board appointments:
+ HHLA INTERMODAL GMBH, Hamburg
+ IFCO-SYSTEMS N.V., Amsterdam (chairman)
+ LEHNKERING GMBH, Duisburg
+ VTG AG, Hamburg

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

Dr. Rudolf Müller (69), agricultural engineering graduate, Shareholder representative

Pensioner (former member of the Board of Executive Directors of SÜDZUCKER AG Mannheim/Ochsenfurt)

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

Renato De Salvo (48), shop fitter, Employee representative

Shop fitter at the K+S KALI GMBH's Sigmundshall plant

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

Dr. Eckart Sünner (68), lawyer, Shareholder representative

Solicitor (Of Counsel, ALLEN & OVERY LLP, Mannheim office)

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

Further Supervisory Board appointments:
+ INFINEON TECHNOLOGIES AG, Neubiberg

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

SUPERVISORY BOARD COMMITTEES

AUDIT COMMITTEE
+ Dr. Eckart Sünner (chairman)
+ Ralf Becker
+ Dr. Ralf Bethke
+ Dr. Karl Heidenreich
+ Klaus Krüger
+ Michael Vassiliadis

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

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

MEDIATION COMMITTEE
+ Dr. Ralf Bethke (chairman)
+ Dr. Eckart Sünner
+ Klaus Krüger
+ Michael Vassiliadis

3.4 REMUNERATION REPORT

In the following, we explain the basic features of the remuneration systems for the Board of Executive Directors or the Supervisory Board of K+S AKTIENGESELLSCHAFT, together with the concrete design of the individual components.

REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS

REMUNERATION STRUCTURE

The criteria for the appropriateness of the remuneration include especially the responsibilities of each member of the Board of Executive Directors, his individual performance, the performance of the Board of Executive Directors as a whole, the comparison with other senior management, and the economic position as well as the success and future prospects of the Company, taking into consideration its comparative environment.

The remuneration for the members of the Board of Executive Directors consists of annual elements and those with a long-term incentive character. The annual remuneration elements include both components not related to performance and performance-related components. The components not related to performance consist of the fixed remuneration as well as in-kind and other benefits; the bonus is the performance-related part. There is also a variable remuneration component, based on key figures, with a long-term incentive (LTI) character. Furthermore, the members of the Board of Executive Directors have received pension commitments.

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

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

/ **FURTHER INFORMATION ABOUT THE CALCULATION OF THE COST OF CAPITAL AND THE RETURN ON TOTAL INVESTMENT** can be found on page 98.

The structure of the annual remuneration in a normal year provides for a fixed remuneration of 40 % and variable, short-term performance-related components of 60 %. Of the variable component, 80 % is linked to the performance of the Company, i. e. to the return on total investment achieved; the remaining 20 % is dependent on personal performance. Variable remuneration of 100 % is reached if, on the one hand, the return on total investment achieved reaches at least 115 % of the respective cost of capital rate and, on the other hand, personal performance was assessed as being 100 %. Remuneration on the basis of the return on total investment is capped at a value of 21 percentage points above the minimum return. The ranges for target accomplishment of the two variable remuneration components are between 0 and about 150 %. The chief financial officer receives 1.1 times the remuneration, the chairman of the Board of Executive Directors 1.5 times. The amount of the remuneration on the basis of a normal year is reviewed annually.

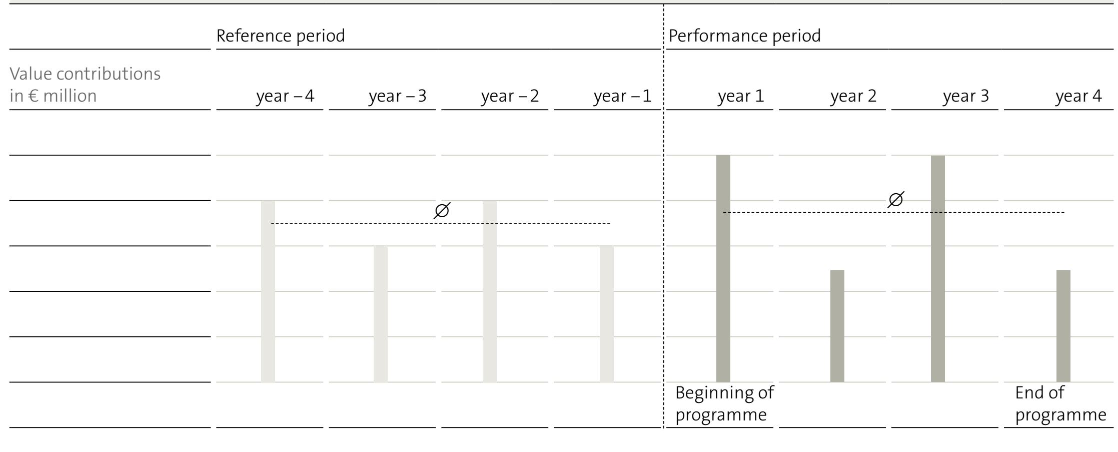
In addition, it is possible to obtain income from a long-term incentive programme based on key figures as a variable component of remuneration with a long-term incentive and risk character. It is based on a multi-annual assessment in accordance with the value contribution achieved. The Company's success is thus determined on the basis of two four-year periods. The value contribution is derived as follows:

Operating earnings (EBIT I)
+ Interest income of the financial year
– Cost of capital (before taxes) of the financial year
= Value contribution

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

To determine the result of an LTI tranche, two four-year periods are compared (a "reference period" and a "performance period"). The reference period covers the four years before the commencement of the particular LTI, while the performance period covers the four years of the particular LTI term. The following diagram shows the time periods of the LTI programme: / FIG: 3.4.1

LTI PROGRAMME FIG: 3.4.1



At the beginning of an LTI, the average of the four value contributions of the reference period is computed, and after the expiry of the programme, the average of the four value contributions of the performance period is determined. The difference between these average value contributions is reflected as a percentage on a scale from € (200) million to € +200 million. A stable development, i.e. a difference of € 0 million, corresponds to 100 % and is defined as a normal year. In such a normal year the variable component of remuneration with a long-term incentive character for an ordinary member of the Board of Executive Directors is € 350,000. In the case of underperformance, the payment decreases on a straight-line basis to 0 % in line with the percentage deviation. In the case of overperformance, the payment increases correspondingly up to an upper limit of 200 % (= € 700,000). For the chief financial officer, the component of remuneration is 1.1 times, and for the chairman of the Board of Executive Directors it is 1.5 times.

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

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

The system of remuneration of the Board of Executive Directors presented was approved by a large majority at the Annual General Meeting of 2010 and honoured by EUROSHAREHOLDERS, the organisation of European shareholder associations, as a particularly shareholder-friendly remuneration system.

The LTI programme replaces the system in place between 1999 and 2009 with the possibility for income to be obtained by exercising stock options as a variable component of remuneration with a long-term incentive and risk character. As part of a virtual stock option programme, whose structure is identical to that for the remaining stock option programme participants, members of the Board of Executive Directors were for

LTI PROGRAMMES 2008 TO 2012 FIG: 3.4.2

in € million	2004	2005	2006	2007	2008[1]	2009	2010	2011[1]	2012	2013	2014	2015	Result
LTI 2008				**Ø 84**				**Ø 325**					Difference = € 241 million ≙ 200 %
	60	96	114	68	500	(32)	334	500	—	—	—	—	Payment[2] = € 700,000
LTI 2009	—				**Ø 194**				**Ø 296**				Difference = € 102 million ≙ 151 %
	—	96	114	68	500	(32)	334	500	384	—	—	—	Payment[2] = € 528,500
LTI 2010	—	—				**Ø 162**			**not yet complete** (Ø to date 406)				
	—	—	114	68	500	(32)	334	500	384	—	—	—	—
LTI 2011	—	—	—				**Ø 217**			**not yet complete** (Ø to date 442)			
	—	—	—	68	500	(32)	334	500	384	—	—	—	—
LTI 2012	—	—	—	—				**Ø 326**			**not yet complete** (Ø to date 384)		
	—	—	—	—	500	(32)	334	500	384	—	—	—	—

Average reference period Average performance period

[1] In the years 2008 and 2011, the cap limit was reached due to very good value contributions.
[2] For an ordinary member of the Board of Executive Directors; payment is made in April of the year following the end of the programme.

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

The options granted up to 2009 expire after a total period of five years, after which the unexercised options expire without compensation. After a lock-up period of two years, it is possible to exercise the options within two time windows per year, in May and November, following the publication of the quarterly figures. In order to be able to exercise the options, the basic shares must be held in succession until the day the option is exercised. In the event of a change of control, a special window opens up for the exercise of all still outstanding options.

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

The following is a sample calculation of the annual remuneration of an ordinary member of the Board of Executive Directors: **/ TAB: 3.4.1**

ILLUSTRATIVE CALCULATION OF THE ANNUAL REMUNERATION OF AN ORDINARY MEMBER OF THE BOARD OF EXECUTIVE DIRECTORS TAB: 3.4.1

in €	Achievement of target 100 %	Achievement of target 0 %	Maximum achievement of target
Fixed remuneration: 40 %	400,000	400,000	400,000
Bonus: 60 %	600,000 [1]	0 [2]	905,000 [3]
– of which performance of the Company: 80 %	480,000	0	725,000
– of which personal achievement of target: 20 %	120,000	0	180,000
LTI programme	350,000 [4]	0 [5]	700,000 [6]
Total annual remuneration	**1,350,000**	**400,000**	**2,005,000**

[1] Return on total investment ≙ minimum return; personal achievement of targe ≙ 100 %.
[2] Return on total investment ≙ 0 %; personal achievement of target ≙ 0 %.
[3] Return on total investment ≥ minimum return + 21 percentage points; personal achievement of target ≙ 150 %.
[4] Difference of the average value contributions of reference and performance period = € 0 million ≙ 100 %.
[5] Difference of the average value contributions of reference and performance period ≤ € (200) million ≙ 0 %.
[6] Difference of the average value contributions of reference and performance period ≥ € + 200 million ≙ 200 %.

AMOUNT OF REMUNERATION

Details of the remuneration of the Board of Executive Directors for the financial year 2012 are provided in individualised form in table 3.4.2. **/ TAB: 3.4.2**

The total remuneration of the Board of Executive Directors related to six members, three of whom were in office for twelve months. The mandate of Mr. Felker ended on 30 September 2012 and the mandates of Dr. Lohr and Mr. Roberts began on 1 June 2012 and 1 October 2012 respectively. In the previous year, the Board of Executive Directors consisted of five board members, all of whom were in office for twelve months. All the components of the remuneration of the Board of Executive Directors are regularly reviewed every three years. As a result, the remuneration was raised by just under 4 % from 1 January 2012. As shown in figure 3.4.2 on page 47, the value contributions generated in the four-year performance period were higher than those of the reference period. Consequently, the 2009 LTI programme attained a value of 151 %.

The values of the stock options acquired but not yet exercised in the framework of the option programme offered for the last time in 2009 are shown in table 3.4.3 (value had they been exercised on 31 December 2012). **/ TAB: 3.4.3**

In 2011 and 2012, no member of the Board of Executive Directors exercised virtual options of the still ongoing 2009 option programme.

PENSION COMMITMENTS

The pensions of the active members of the Board of Executive Directors are based on a modular system, i. e. for each year of service as a member of the Board of Executive Directors, a pension module is created.

The pension modules are calculated on the basis of 40 % of the fixed annual remuneration of the respective member of the Board of Executive Directors. The annual total pension under this modular system is limited upwards, in order to avoid unreasonable pensions in the case of long-standing appointments (>15 years). The upper limit for an ordinary member of the Board of Executive Directors is € 225,000, and for the chairman of the Board of Executive Directors it is € 300,000. The figures will be reviewed in a three-year cycle – beginning with financial year 2014 – and adjusted if necessary.

The amount is computed in accordance with actuarial principles and put aside for retirement; the factors for the creation of the modules for 2012 for the members

REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS TAB: 3.4.2

in € thousand		Fixed remuneration	Benefits	Bonus	Claims / Payments from LTI programmes	Total
Norbert Steiner	2012	620.0	25.4	1,180.0	792.8	2,618.2
	2011	590.0	24.9	1,102.0	1,050.0	2,766.9
Joachim Felker[1]	2012	300.0	16.3	562.5	1,366.1	2,244.9
	2011	380.0	21.4	720.0	700.0	1,821.4
Gerd Grimmig	2012	400.0	31.1	750.0	528.5	1,709.6
	2011	380.0	30.7	720.0	700.0	1,830.7
Dr. Thomas Nöcker	2012	400.0	24.6	750.0	528.5	1,703.1
	2011	380.0	23.7	720.0	700.0	1,823.7
Dr. Burkhard Lohr[2]	2012	256.7	14.6	481.3	–	752.6
	2011	–	–	–	–	–
Mark Roberts[3]	2012	100.0	14.0	187.5	–	301.5
	2011	–	–	–	–	–
Jan Peter Nonnenkamp[4]	2012	–	–	–	–	–
	2011	538.0	22.4	1,045.0	1,928.0	3,533.4
Total	**2012**	**2,076.7**	**126.0**	**3,911.3**	**3,215.9**	**9,329.9**
	2011	**2,268.0**	**123.1**	**4,307.0**	**5,078.0**	**11,776.1**

[1] In office until 30 September 2012. All claims from LTI programmes are paid proportionately up to 30 September 2012 in April of the following year, i.e. in April 2013.
[2] In office since 1 June 2012.
[3] In office since 1 October 2012. A US dollar rate is stipulated for translation of the remuneration. Because disbursements are first translated at current rates, this might need to be compensated at the end of the year.
[4] Mr. Nonnenkamp retired from the Board of Executive Directors at 31 December 2011. Claims to fixed remuneration, bonuses and discounted payments from the current LTI programmes existed until the original agreed term of the contract on 31 May 2012 and have been paid within the framework of the termination of the contract on 31 December 2011.

VIRTUAL SHARE OPTION PROGRAMME 2009 TAB: 3.4.3

		Option programme 2009	
		Number of options	Value in € thousand on 31.12.
Norbert Steiner	2012	190,000	0.0
	2011	190,000	222.2
Joachim Felker	2012	152,900	0.0
	2011	152,900	178.8
Gerd Grimmig	2012	153,060	0.0
	2011	153,060	179.0
Dr. Thomas Nöcker	2012	152,900	0.0
	2011	152,900	178.8
Total	**2012**	**648,860**	**0.0**
	2011	**648,860**	**758.8**

of the Board of Executive Directors are between 9.0 and 14.0 %, depending on their age; these factors decrease with increasing age. The individual pension modules earned during the financial years are totalled and, when the insured event occurs, the respective member of the Board of Executive Directors or, if applicable, his survivors, receives the benefit he is entitled to. Only on payment are pension benefits adjusted in line with changes in the “consumer price index for Germany”. Claims on the modules acquired are vested.

If a Board of Executive Directors mandate ends, the retirement pension starts on completion of the 65th year of life, unless it is to be paid on the basis of an occupational or a general disability or as a survivor’s pension in the event of death. In the event of an occupational or general disability of a member of the Board of Executive Directors before pension age has been reached, that member receives a disability pension in the amount of the pension modules created by the time that such disability occurs. If the disability occurs before the 55th year of life has been reached, modules are fictitiously created on the basis of a minimum value for the years that are missing before the 55th year of life. In the event

PENSIONS [1] TAB: 3.4.4

in € thousand		Age	Fair value as of 1.1.	Pension expenses [2]	Fair value as of 31.12. [3]
Norbert Steiner	2012	58	3,225.2	536.7	4,684.2
	2011		2,721.6	514.5	3,225.2
Joachim Felker	2012	60	2,060.6	345.3	2,991.2
	2011		1,738.9	331.9	2,060.6
Gerd Grimmig	2012	59	2,918.5	401.8	3,837.2
	2011		2,544.8	386.6	2,918.5
Dr. Thomas Nöcker	2012	54	1,863.7	343.5	2,881.5
	2011		1,553.9	330.9	1,863.7
Dr. Burkhard Lohr	2012	49	–	255.4	255.4
	2011		–	–	–
Mark Roberts	2012	49	–	107.0	107.0
	2011		–	–	–
Jan Peter Nonnenkamp	2012	49	–	–	–
	2011		393.7	297.3	757.2
Total	**2012**		**10,068.0**	**1,989.7**	**14,756.5**
	2011		**8,952.9**	**1,861.2**	**10,825.2**

[1] According to IFRS.
[2] Including interest expenses.
[3] The significant increase in the fair value as of 31 December 2012 is attributable to the reduction in the applicable interest rate from 4.9 % to 3.5 %. Due to the application of the "corridor method", under which actuarial gains and losses are only recorded if they exceed the 10 % corridor in the income statement, the projected unit credits as of 1 January are not transferable as pension expenses to the corresponding values as of 31 December.

of death of an active or a former member of the Board of Executive Directors, the surviving spouse receives 60 %, each orphan 30 % and each half-orphan 15 % of the benefit. The maximum amount for the benefit for surviving dependants must not exceed 100 % of the benefit. If this amount is reached, the benefit is reduced proportionately. If a member of the Board of Executive Directors departs after completing his 60th year of life, this is regarded as an insured event within the meaning of the benefit commitment.

For members of the Board of Executive Directors, the amounts shown in table 3.4.4 were allocated to the pension provisions in 2012. / TAB: 3.4.4

The pension module earned by each of the members of the Board of Executive Directors in 2012 results in pension expenses, which are calculated in accordance with actuarial principles. The increase of the values in comparison to the previous year's figure is attributable to the fact that the period until the assumed start of the pension is one year less.

EARLY TERMINATION OF BOARD OF EXECUTIVE DIRECTORS' CONTRACTS

In the event of a recall of the appointment as board member, a member of the Board of Executive Directors receives, at the time of the termination, a severance payment of 1.5 times the fixed remuneration, however, up to a maximum amount of the total remuneration for the remaining period of the contract of service. For all Board of Executive Directors' contracts concluded since 2012, the upper limit for severance payments is 1.5 times the annual fixed remuneration for all remuneration components.

In the event of an early dissolution of a Board of Executive Directors' contract as the result of a takeover ("change of control"), the payment of the fixed remuneration and bonuses outstanding until the end of the original term of appointment is made plus a compensatory payment if there is no reason that justifies a termination without notice of the contract of the person concerned. The bonus is calculated in accordance with the average of the preceding two years. The compensatory payment is 1.5 times the annual fixed remuneration. In addition, there is an upper limit on severance payments, in keeping with which claims arising from the "change of control" clause may not exceed the value of the combined annual remuneration for three years. In the event of a change of control, the members of the Board of Executive Directors enjoy no extraordinary right of termination.

MISCELLANEOUS

In the year under review, with regard to their activity as members of the Board of Executive Directors, the members were not promised or granted benefits by third parties. Apart from the service contracts mentioned, there are no contractual relationships between the Company or its Group companies with members of the Board of Executive Directors or persons closely related to them.

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

REMUNERATION OF THE SUPERVISORY BOARD

REMUNERATION STRUCTURE

The remuneration of the Supervisory Board is regulated in Sec. 12 of the Articles of Association. On 9 May 2012, the Annual General Meeting resolved to alter the remuneration of the Supervisory Board as of 2012. It thus confirmed the view of the Board of Executive Directors and the Supervisory Board that an exclusively fixed remuneration of the members of the Supervisory Board better takes account of the consulting and supervising functions of the Supervisory Board, which generally exists independently of the success of the Company, than the previous form of remuneration, which also includes a variable component. Furthermore, it appeared reasonable to the Annual General Meeting to adjust the remuneration for the activity in the committees of the Supervisory Board to the greater workload and complexity.

REMUNERATION OF THE SUPERVISORY BOARD [1] TAB: 3.4.5

in €		Fixed remuneration	Variable remuneration	Audit committee	Personnel committee	Nomination committee	Attendance allowance	Total
Dr. Ralf Bethke (Chairman)	2012	200,000	–	15,000	15,000	15,000	12,000	257,000
	2011	110,000	48,000	7,500	–	–	7,000	172,500
Michael Vassiliadis (Vice-Chairman)	2012	150,000	–	15,000	7,500	–	8,250	180,750
	2011	82,500	36,000	7,500	–	–	3,500	129,500
Ralf Becker	2012	100,000	–	15,000	–	–	6,000	121,000
	2011	55,000	24,000	2,651	–	–	3,000	84,651
Jella S. Benner-Heinacher	2012	100,000	–	–	–	7,500	6,000	113,500
	2011	55,000	24,000	–	–	–	3,500	82,500
George Cardona	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,000	81,000
Harald Döll	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,500	81,500
Dr. Rainer Gerling	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,500	81,500
Rainer Grohe	2012	100,000	–	–	7,500	–	5,250	112,750
	2011	55,000	24,000	–	–	–	4,000	83,000
Dr. Karl Heidenreich	2012	100,000	–	15,000	–	–	6,000	121,000
	2011	55,000	24,000	7,500	–	–	4,000	90,500
Rüdiger Kienitz	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,500	81,500

continued on page 50

REMUNERATION OF THE SUPERVISORY BOARD[1] (CONTINUED) TAB: 3.4.5

in €		Fixed remuneration	Variable remuneration	Audit committee	Personnel committee	Nomination committee	Attendance allowance	Total
Klaus Krüger	2012	100,000	–	15,000	7,500	–	8,250	130,750
	2011	55,000	24,000	7,500	–	–	5,000	91,500
Dieter Kuhn	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,500	81,500
Dr. Bernd Malmström	2012	100,000	–	–	–	7,500	4,500	112,000
	2011	55,000	24,000	–	–	–	2,000	81,000
Dr. Rudolf Müller	2012	100,000	–	–	–	7,500	6,000	113,500
	2011	55,000	24,000	–	–	–	3,500	82,500
Renato De Salvo	2012	100,000	–	–	–	–	3,000	103,000
	2011	55,000	24,000	–	–	–	2,000	81,000
Dr. Eckart Sünner	2012	100,000	–	30,000	–	–	6,000	136,000
	2011	55,000	24,000	15,000	–	–	4,000	98,000
Total	**2012**	**1,750,000**	**–**	**105,000**	**37,500**	**37,500**	**86,250**	**2,016,250**
	2011	**962,500**	**420,000**	**47,651**	**–**	**–**	**53,500**	**1,483,651**

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

A member of the Supervisory Board receives from 2012 onwards fixed annual remuneration of € 100,000 (previously: € 55,000). The previous annual variable remuneration which was determined by the amount of the return on total investment achieved by the K+S GROUP in the respective financial year and could amount to a maximum of € 45,000, has ceased and will not be replaced. The chairman of the Supervisory Board receives twice this amount and the vice-chairman 1.5 times the amount of such remuneration.

The members of the audit committee receive annual remuneration of € 15,000 each (previously € 7,500), and the members of the personnel committee annual remuneration of € 7,500 each (previously not remunerated). For his or her activity on the nomination committee, each member receives annual remuneration of € 7,500 (previously not remunerated) if at least two meetings have taken place in the respective year. The chairmen of these committees shall receive twice this amount and the vice-chairman 1.5 times the amount of this remuneration. Finally, for participation in a meeting of the Supervisory Board or one of its committees to which he or she belongs, each member of the Supervisory Board receives an attendance fee of € 750 (previously: € 500), and in the case of more than one meeting on the same day, however, a maximum of € 1,500 per day (previously: € 1,000). The members of the Supervisory Board are entitled to the reimbursement from the Company of any expenses necessary and reasonable for the performance of their duties, as well as to the reimbursement of any value added tax (VAT) to be paid as a consequence of their activities in the capacity of Supervisory Board members.

/ FURTHER INFORMATION ABOUT THE CALCULATION OF THE COST OF CAPITAL AND THE RETURN ON TOTAL INVESTMENT can be found on page 98.

AMOUNT OF REMUNERATION

Details of the remuneration of the Supervisory Board for the financial year 2012 are provided in individualised form in table 3.4.5. / TAB: 3.4.5

Additionally, in 2012, members of the Supervisory Board were reimbursed expenses totalling € 16.8 thousand (previous year: € 57.0 thousand). The decrease can be attributed in particular to reduced travel activities by Supervisory Board members to sites of the K+S GROUP. In financial year 2012, no remuneration was paid for activities on the Supervisory Board of subsidiaries; neither were benefits for personally performed services, in particular consultancy or brokerage services, granted to the members of the Supervisory Board.

THE PROOF LIES IN THE QUALITY

Wheat makes a heavy demand on climate and soil. However, with the right fertilization and irrigation methods, many factors for growth can be influenced.

For wheat, low temperatures are important in winter for plant development, but heavy frost leads to irreparable damage and yield losses. In the main growth period, wheat needs sufficient moisture, and during the maturation time, summery and dry weather conditions are important. The soil has to be rich in humus and calcareous. Loess soil and black earth are best. However, over the centuries, farmers have learned to work with local conditions that are not optimal. Back in 1900, statistically, one farmer only fed three people. Today it is several hundred people. Where once one stalk grew, ten will now grow.

However, the food requirements of a growing world population, changed eating habits and climate change continue to confront agronomic research with major challenges. To supply mankind with enough agricultural products, professional agricultural technology is needed for seed, crop protection and products for needs-based plant nutrition tailored to the specific location. Balanced application of mineral fertilizers with the main nutrients nitrogen, phosphate, potassium and magnesium is essential for higher crop yields worldwide and improved quality. Within this context, scientists are also seeking to discover which fertilizers help the plants to better cope with long dry periods. It is becoming ever more important to be prepared for the uncertainties created by external influences, such as the weather. If the knowledge gained in agricultural research is to be passed on to farmers throughout the world, interfaces between science and business are needed.

INSTITUTE OF APPLIED PLANT NUTRITION AT THE UNIVERSITY OF GÖTTINGEN

In May 2012, K+S KALI GMBH opened the INSTITUTE OF APPLIED PLANT NUTRITION (IAPN), which is recognised by the Georg August University of Göttingen. The aim of the IAPN is to create an interface between science and business and to focus on practice-oriented research in the area of plant nutrition. The knowledge obtained can be rapidly transferred to agricultural practice by our application consultants. An important area of activity at the IAPN is research into the effect of optimal fertilization with the nutrients potash, magnesium, sulphur and sodium on the efficient use of water. Because water shortages and drought do not, as generally assumed, only affect dry zones in developing countries. In Europe and North America too, water management is the key issue for the future in agriculture. Because here too, farmers increasingly have to combat harvest shortfalls due to dry conditions or resulting from an unfavourable distribution of rain over the year. The drought in North America in the summer of 2012 has shown how serious the effects can be.

Against this backdrop, the application of fertilizers tailored to local conditions is a task of special importance. Together with universities in Gießen, Halle-Wittenberg, Kiel and Istanbul, we have been able to demonstrate that both the ability of soil to store water and the plant's use of water can be improved by the addition of potassium and magnesium within the framework of balanced plant nutrition. In this way, dry phases can better be overcome and high crop yields achieved even under difficult local conditions.

Wheat is the most frequently cultivated crop in Europe.

In Europe, wheat is the most frequently cultivated crop, with a share of 24 %. Here it is mostly common or seed wheat that is cultivated. This is used to produce bread, pastry products and malt. But common wheat is also used for feed or to obtain starch. Durum wheat, the second most important variety in Europe, is generally cultivated in the Mediterranean region as spring cereal and used primarily to produce pasta. What purpose the cereal is used for depends, however, also on the quality of the harvested germ. So-called E-wheat is of the highest quality, followed by A-wheat, which is characterised by its high protein content. These two varieties are generally mixed with other quality classes to improve their quality. B-wheat is used as bread wheat and primarily for pastry products, while C-wheat, the lowest quality grade, can primarily be found in feed production. Regardless of the quality class of the wheat, an optimal provision of mineral fertilizers is necessary to achieve a variety-specific, adequate quality level. Especially potash and magnesium assist in efficiently converting nitrogen into protein building blocks and storing it in the germ. Although the ancient crop can also be cultivated as spring cereal, winter wheat is more important. Winter hardiness is therefore an important feature in Northern and Eastern Europe, and it can be improved by a good supply of potash and magnesium.

COMBINED MANAGEMENT REPORT[1]

ROBUST BUSINESS WITH POTASH AND MAGNESIUM PRODUCTS

De-icing salt business unusually weak due to weather conditions / Group revenues at € 3.9 billion approximate previous year's level / Operating earnings EBIT I reach € 808.5 million (2011: € 906.2 million) / Divestment of the NITROGEN business successfully completed / K+S GROUP with attractive prospects for 2013 and 2014

[1] The Management Report of K+S Aktiengesellschaft and the Group Management Report for the financial year 2012 are combined. The annual financial statements of K+S Aktiengesellschaft in accordance with the German Commercial Code (HGB) and the combined Management Report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

4

4.1 GROUP STRUCTURE AND BUSINESS OPERATIONS

GROUP LEGAL STRUCTURE

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

/ **DETAILS REGARDING SUBSIDIARIES, EQUITY INTERESTS AND RELATED COMPANIES** can be found in the list of shareholdings in the Notes to the consolidated financial statements on page 212 as well as page 211.

ORGANISATIONAL STRUCTURE FIG: 4.1.1

Significant subsidiaries are the directly held K+S KALI GMBH, K+S SALZ GMBH and K+S FINANCE BELGIUM BVBA. K+S SALZ GMBH groups together ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG and K+S NETHERLANDS HOLDING B.V., which holds both the shares in the companies associated with the business activities of SOCIEDAD PUNTA DE LOBOS S.A. (SPL) in Chile and the companies associated with the Legacy Project in Canada. K+S FINANCE BELGIUM BVBA, together with K+S NETHERLANDS HOLDING B.V., holds the shares in MORTON SALT, INC. through subsidiaries. K+S KALI GMBH and K+S SALZ GMBH essentially hold their foreign subsidiaries through their own intermediate holding companies. The Complementary Activities too are largely related to K+S AKTIENGESELLSCHAFT through subsidiaries.

In comparison to 31 December 2011, the scope of consolidation has changed as follows: The ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG, a wholly owned subsidiary of K+S AKTIENGESELLSCHAFT, on 3 January 2012, took over 100 % of the voting rights in the Czech salt processing company SOLNÉ MLÝNY, A.S. (SMO) through its subsidiary ESCO INTERNATIONAL GMBH. As a result of the divestment of the nitrogen fertilizer business, since 2 July 2012, K+S NITROGEN GMBH as well as K+S AGRO MÉXICO S.A. DE C.V., K+S HELLAS S.A., FERTIVA GMBH, K+S AGRICOLTURA S.P.A. and K PLUS S IBERIA S.L. no longer belong to the consolidated companies.

ORGANISATIONAL STRUCTURE

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

/ **SUPPLEMENTARY INFORMATION ABOUT THE PRODUCTS AND SERVICES OF THE K+S GROUP** can be found in the Corporate/Sustainability Report and on our website www.k-plus-s.com

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

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

/ **FURTHER INFORMATION ABOUT THE LEGACY PROJECT** can be found on page 143.

IMPORTANT PRODUCTS AND SERVICES

The Potash and Magnesium Products business unit offers its customers fertilizers, products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as elements for the production of feed. Potassium chloride is the best-selling product group. This fertilizer with universal areas of application is used globally, in particular for important crops, such as cereals, corn, rice and soy beans. Potassium chloride is directly spread on fields as a granulate or mixed first with other straight fertilizers in bulk blenders. We also supply potassium chloride as a fine-grain “standard” product for the fertilizer industry, which processes it along with other nutrients to produce complex fertilizers. The fertilizer specialities of the business unit differ from classic potassium chloride because of their different nutrient formulas with magnesium, sulphur and trace elements. These fertilizers are used for crops which have a greater need for magnesium and sulphur, such as rape or potatoes, as well as for chloride-sensitive special crops, such as citrus fruits, wine and vegetables. The business unit also offers a wide range of high-quality potassium and magnesium products for industrial applications, available in different degrees of purity and in specific grain sizes. These are used, for example, in chlorine-alkaline electrolysis in the chemical industry, in the production of glass and synthetic materials, in the mineral oil industry, in metallurgical processes, in the textile industry, in biotechnology, in oil and gas exploration, as well as in the recycling of synthetic materials. Furthermore, the Potash and Magnesium Products business unit provides a product portfolio meeting the especially high demands of the pharmaceutical, cosmetics, food and animal feed industries. Consulting is a key element in the range of services offered by the business unit. A team of consultants, consisting of regional consultants as well as globally active agriculturalists, provides important information and suggestions for innovations in relation to the use of fertilizers in agriculture. Technical application advice for industrial products is available worldwide.

/ **SUPPLEMENTARY INFORMATION ABOUT THE PRODUCTS AND SERVICES OF THE K+S GROUP** can be found in the Corporate/Sustainability Report and on our website www.k-plus-s.com

IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

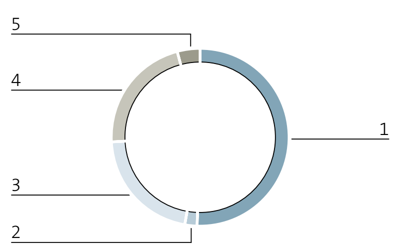
The business unit achieves almost half of its revenues in Europe. Here it benefits from the logistically favourable location of the production sites for European customers. In South America too, particularly in Brazil, as well as in Asia, the business unit holds a noteworthy market position; use is made of cost-effective container shipments, too. / FIG: 4.1.2

The Potash and Magnesium Products business unit is the world's fifth-largest and in Western Europe the largest producer of potash and magnesium products and, in 2012, had an approximately 10 % share in the global sales volume of potash. Important competitors are the North American companies POTASH CORP., MOSAIC and AGRIUM, which operate a joint export organisation with CANPOTEX, the Russian URALKALI and the Belarusian BELARUSKALI, which operate outside their domestic markets together through the export organisation BPC, Israel's ICL, Jordan's APC and Chile's SQM. Its fertilizer specialities containing potassium and magnesium clearly distinguish the business unit from competitors and with these fertilizers it occupies the leading position in the world. With its products for industrial, technical and pharmaceutical applications too, K+S is among the most competitive suppliers worldwide, and by far the largest supplier in Europe.

SALT BUSINESS UNIT

In the Salt business unit, the K+S GROUP extracts and markets food grade salt, industrial salt, salt for chemical use and de-icing salt. With an annual production capacity of about 30 million tonnes of salt, K+S is the world's largest supplier of salt products. The business unit comprises the sub-units ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG (ESCO), Hanover, whose activities are mainly focused on Europe, Chilean SOCIEDAD PUNTA DE LOBOS S.A. (SPL), Santiago de Chile, with activities in South America and the United States, as well as MORTON SALT, INC., Chicago, one of the largest salt producers in North America. ESCO operates three rock salt mines, two brine plants, as well as several plants processing evaporated salt in Germany, France, the Netherlands, Portugal and Spain, and has numerous distribution sites in Europe. To strengthen our market position in Eastern Europe, ESCO took over the Czech salt processing company SOLNÉ MLÝNY A.S. (SMO), an important supplier of salt products in the Czech Republic and on other European markets, at the start of 2012. The annual production capacity of ESCO in Europe is about 8.0 million tonnes of crystallised salt and 1.7 million tonnes of salt in brine. The Chilean SPL extracts rock salt in Salar Grande de Tarapacá by means of cost-effective open-cast mining. The production capacity there is about 6.5 million tonnes per year and is planned to be expanded by 1.5 million tonnes to an annual 8 million tonnes by mid-2013. Moreover, SALINA DIAMANTE BRANCO, which belongs to the SPL Group, operates a sea salt facility with an annual capacity of 0.5 million tonnes in the north-eastern part of Brazil. In the United States, SPL distributes its salt products via the INTERNATIONAL SALT COMPANY (ISCO). Furthermore, Chilean shipping company EMPREMAR S.A., with a fleet of three ships of its own as well as additional chartered ships providing maritime logistics for the SPL Group in South America, also forms part of the Salt business unit. MORTON SALT operates six rock salt mines, seven solar plants and ten plants processing evaporated salt in the United States, in Canada and in the Bahamas. The annual production capacity totals about 13 million tonnes of salt. The Salt business unit is represented in Europe as well as North America and South America with its own distribution units and via platform companies of the K+S GROUP. Furthermore, the business unit exports salt products to Asia and other regions of the world.

POTASH AND MAGNESIUM PRODUCTS — SALES VOLUMES BY REGION FIG: 4.1.2



	in %	2012	2011
1	Europe	50.6	54.0
	– of which Germany	14.9	16.4
2	North America	2.4	2.3
3	South America	21.3	17.4
4	Asia	21.6	21.9
5	Africa, Oceania	4.1	4.4

IMPORTANT PRODUCTS AND SERVICES

The Salt business unit offers its customers food grade salt, industrial salt, salt for chemical use and de-icing salt, which are all based on sodium chloride (common salt). Depending on the particular applications, the products differ primarily in terms of their grain size, the degree of purity, the form in which they are supplied and possible additives. In the food grade salt segment, the K+S GROUP produces both salt for the foodstuff industry as well as food grade salt for end users, to which also premium products such as kosher salt or low-sodium salt belong. Industrial salts are used by dyeing works, in the textile industry, in the production of foodstuffs for animals, for the preserving of fish, in drilling fluids used for the extraction of oil and natural gas, as well as in many other industrial areas. Pharmaceutical salts are a key element in infusion and dialysis solutions. In the industrial salts segment too, products for end users such as water-softening salts are manufactured. Salt for chemical use is one of the most important raw materials for the chemical industry. In electrolysis plants, it is split into chlorine, caustic soda and hydrogen. It reaches the end user in the form of, for example, an element of several plastic materials. Winter road maintenance services, public and private road authorities, road maintenance depots and commercial bulk customers procure de-icing agents from the K+S GROUP, and household packages for end users round off the product range. In addition, de-icing salts are on offer, which, through the addition of calcium chloride, create more heat in contact with ice and snow than conventional products and thus work more quickly, especially at very low temperatures.

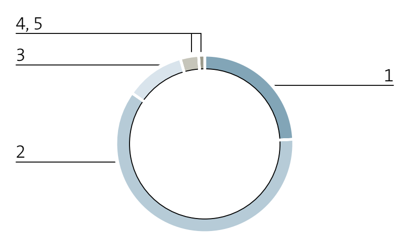
/ FURTHER INFORMATION ABOUT PRODUCTS, SERVICES AND AREAS OF APPLICATION OF THE SALT BUSINESS UNIT can be found in the Corporate / Sustainability Report.

IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

The key sales markets of the Salt business unit in Europe include Germany, the Benelux countries, France, Scandinavia, the Iberian Peninsula, the Czech Republic, Poland and the Baltic States, while the United States, Canada, Brazil, and Chile are markets of particular importance on the American continent. Regionally, the de-icing salt business is strongly dependent on weather conditions. Thanks to its unique network of production facilities in Europe, North America and South America, K+S can respond more flexibly to fluctuations in demand for de-icing salt than the local competitors. In the other segments, owing to the limited possibility for substitution in most applications, the demand situation is relatively stable. While the market for salt in Western Europe is comparatively mature and only exhibits slight growth rates, a trend towards a stronger increase in demand is being observed in the emerging market countries. **/ FIG: 4.1.3**

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

SALT – SALES VOLUMES BY REGION FIG: 4.1.3



	in %	2012	2011
1	Europe	24.4	24.9
	– of which Germany	9.1	9.9
2	North America	61.1	64.6
3	South America	11.0	9.6
4	Asia	3.4	0.4
5	Africa, Oceania	0.1	0.5

K+S GROUP, in terms of production capacity, became the world's largest salt producer with an annual capacity of about 30 million tonnes.

COMPLEMENTARY ACTIVITIES

In addition to disposal activities for underground disposal and reutilisation of waste in potash and rock salt mines, the salt slag and building material recycling (waste management and recycling) as well as the granulation of CATSAN® at the Salzdetfurth site, the term "Complementary Activities" bundles further activities of importance to the K+S GROUP. With K+S TRANSPORT GMBH, Hamburg, the K+S GROUP possesses its own logistics service provider. CHEMISCHE FABRIK KALK GMBH (CFK) trades in different basic chemicals.

IMPORTANT PRODUCTS AND SERVICES

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

With K+S TRANSPORT GMBH in Hamburg and its subsidiaries, the K+S GROUP has, in addition to the Chilean shipping company EMPREMAR, which is assigned to the Salt business unit, a further logistics service provider of its own. The operation of the "Kalikai" in Hamburg, with a storage capacity of about 400,000 tonnes one of Europe's largest transshipment facilities for bulk goods, is K+S TRANSPORT GMBH's core business and of strategic importance for the Potash and Magnesium Products business unit at the same time. The K+S GROUP's container business is also directed from Hamburg, including pre-shipment from the production sites to the loading terminals.

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

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

IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

The core markets of the Waste Management and Recycling business unit are located in Western and Central Europe. Moreover, the Eastern European countries, primarily Poland and the Baltic states, offer growth potential as the demand for EU-compliant underground waste management solutions for waste disposal is increasing there. The market for underground waste disposal is very competitive, but the K+S GROUP offers specific added value for the customer with its full-service solutions. In the case of recycling salt slag from the secondary aluminium industry too, the K+S GROUP is a leading provider in Germany and in the rest of Europe. CFK's customers include many well-known European chemical companies, glassworks, metal processing companies, detergent producers and breweries as well as cities and local authorities, which use calcium chloride or magnesium chloride for winter road clearance services.

KEY SITES

At the end of 2012, the K+S GROUP employed nearly 14,400 people in Germany and abroad. Figures 4.1.4 and 4.1.5 provide an overview of the most important K+S GROUP sites and the number of staff employed by them at the end of 2012. / FIG: 4.1.4, 4.1.5

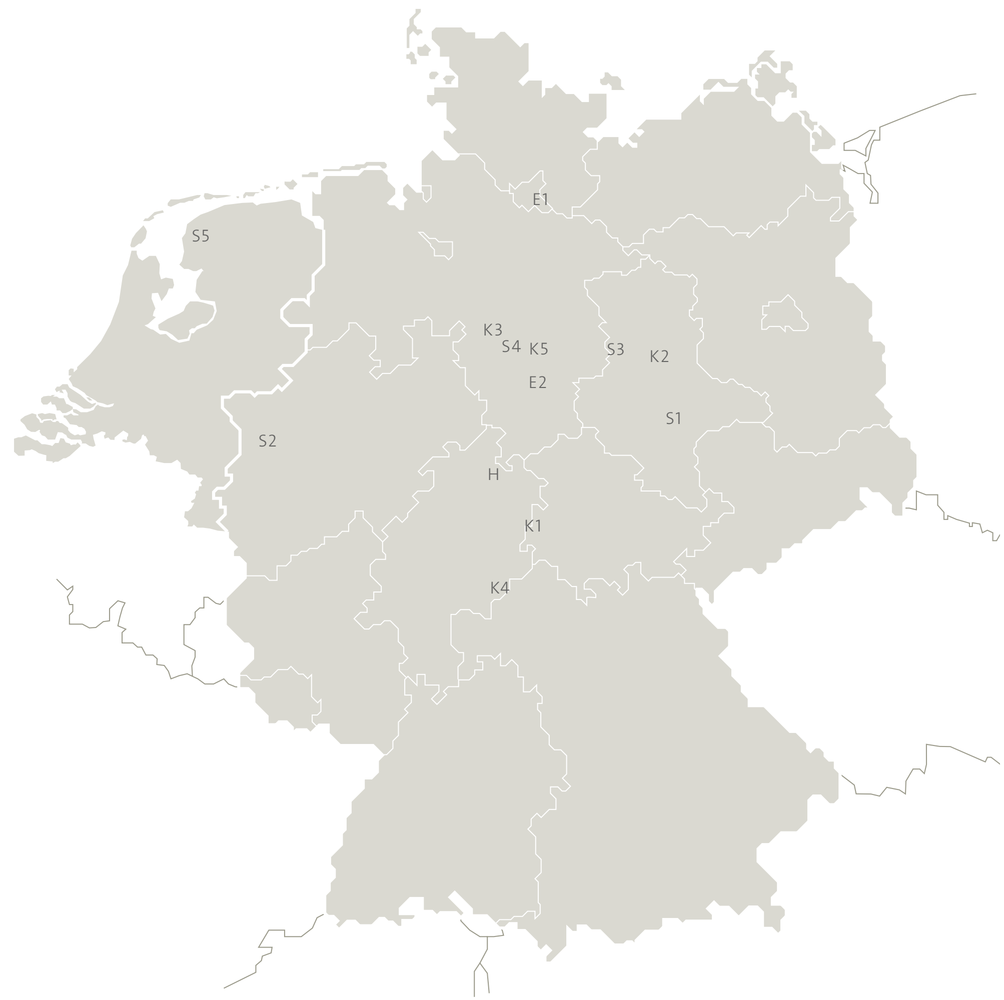
IMPORTANT SITES IN EUROPE

FIG: 4.1.4

	Site	Employees (FTE)[1]
K+S sites in Kassel, Germany (K+S AG / K+S KALI / K+S Entsorgung / K+S IT Services)	H	739
Kaliverbundwerk Werra, Germany (Heringen / Merkers / Philippsthal / Unterbreizbach)	K1[2] ⚒	4,369
Zielitz potash plant, Germany	K2[2] ⚒	1,840
Sigmundshall potash plant, Germany	K3[2] ⚒	773
Neuhof-Ellers potash plant, Germany	K4 ⚒	753
Bergmannssegen-Hugo potash plant, Germany	K5[2]	135
Bernburg salt mine, Germany	S1[2] ⚒	445
Borth salt mine, Germany	S2 ⚒	309
Braunschweig-Lüneburg salt mine, Germany	S3 ⚒	176
esco headquarters, Hanover, Germany	S4	83
Frisia Zout B.V. brine plant, Harlingen, The Netherlands	S5	82
K+S Transport GmbH, Hamburg, Germany	E1	121
Granulation of animal hygiene products, Bad Salzdetfurth, Germany	E2	119

[1] FTE = Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours; including trainees.
[2] Site with waste management activities.

H = Holding
K = Potash and Magnesium Products
S = Salt
E = Complementary Activities
⚒ Potash and rock salt mining



IMPORTANT SITES IN AMERICA FIG: 4.1.5

	Site	Employees (FTE)[1]
K+S Potash Canada GP (Legacy Project), Saskatchewan, Canada	K6 ⚒	118
Salina Diamante Branco sea salt facility, Natal, Brazil	S6	247
Rittman evaporated salt facility, USA	S7	246
Morton Salt headquarters, Chicago, USA	S8	246
Ojibway salt mine, Canada	S9 ⚒	209
Grand Saline salt mine, USA	S10 ⚒	202
Pugwash salt mine, Canada	S11 ⚒	186
SPL open-cast salt mining operations, Tarapacá Desert / Patillos, Chile	S12 ⚒	174
Hutchinson evaporated salt facility, USA	S13	156
Silver Springs evaporated salt facility, USA	S14	152
Empremar shipping company, Santiago de Chile, Chile	S15	150
Weeks Island salt mine, USA	S16 ⚒	147
Mines Seleine salt mine, Canada	S17 ⚒	144
Grantsville solar salt facility, USA	S18	138
SPL headquarters, Santiago de Chile, Chile	S19	130
Inagua sea salt facility, Bahamas	S20	122
Manistee evaporated salt facility, USA	S21	115
Fairport salt mine, USA	S22 ⚒	100
Windsor evaporated salt facility, Canada	S23	91
ISCO distribution company, Clarks Summit, USA	S24	79
Newark evaporated salt and sea salt facility, USA	S25	77
Port Canaveral processing site, USA	S26	55
Lindbergh brine plant, Canada	S27	51
Canadian Salt headquarters, Montreal, Canada	S28	40
Glendale evaporated salt facility, USA	S29	32

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

K = Potash and Magnesium Products
S = Salt
⚒ Potash and rock salt mining

INFORMATION ABOUT RAW MATERIAL DEPOSITS

An overview of our raw material deposits and reserves can be found in the 'Further Information' section on page 216.

MANAGEMENT AND CONTROL

DECLARATION ON CORPORATE GOVERNANCE

The Declaration on Corporate Governance in accordance with Sec. 289a of the German Commercial Code (Handelsgesetzbuch – HGB) is shown in the 'Corporate Governance' section on page 33. It forms an integral part of the combined Management Report of K+S AKTIENGESELLSCHAFT and the K+S GROUP. With this declaration, the Board of Executive Directors and the Supervisory Board also provide a report in accordance with Item 3.10 of the German Corporate Governance Code. It includes the declaration pursuant to Sec. 161 of the German Stock Corporation Act (AktG), the description of how the Board of Executive Directors and the Supervisory Board function, as well as the composition and procedures of the committees and further information regarding corporate governance.

BASIC FEATURES OF THE REMUNERATION SYSTEM

The information to be disclosed in accordance with Sec. 289 Para. 2 No. 5 and Sec. 315 Para. 2 No. 4 of the German Commercial Code (HGB) and Items 4.2.4, 4.2.5 and 5.4.6 Para. 3 of the German Corporate Governance Code is contained in the Remuneration Report on page 43 of the 'Corporate Governance' section; the Remuneration Report constitutes an integral part of the combined Management Report of K+S AKTIENGESELLSCHAFT and the K+S GROUP.

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

Between 1999 and 2009, K+S made it possible for the Board of Executive Directors and the senior management to participate in a virtual stock option programme. In 2009, a total of 308 people were entitled to this (see Financial Report 2009). You can find a more detailed description of the programme, whose structure was identical for the Board of Executive Directors and for the remaining participants in the option programme, in the Remuneration Report on page 45.

Against the background of the statutory provisions amended by the German Act on the Appropriateness of Management Board Remuneration and the recommendations of the German Corporate Governance Code on the form of management board remuneration, an adjustment to the variable component of remuneration with a long-term incentive character (the so-called "Long-term Incentive" (LTI)) became necessary. A variable remuneration component based on key figures was therefore introduced in 2010. It is based on a multi-annual assessment in accordance with the value added achieved. In 2012, a total of 418 people (2011: 362) working for K+S were eligible to participate. You can find a more detailed description of the programme, which is in its fundamental structure identical for the Board of Executive Directors and for the remaining participants, in the Remuneration Report on page 44.

LEGAL INFLUENCING FACTORS

Overall, the legal framework conditions affecting the K+S GROUP essentially remained constant, with the result that they did not impact significantly on the operating business. Information on risks arising from changes in legal framework conditions can be found in the Risk Report on page 120.

INFORMATION PURSUANT TO SEC. 289 PARA. 4 AND SEC. 315 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB) AS WELL AS EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS IN ACCORDANCE WITH SEC. 176 PARA. 1 SENT. 1 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

ITEM 1: COMPOSITION OF SUBSCRIBED CAPITAL

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

ITEM 2: RESTRICTIONS ON VOTING RIGHTS OR ON THE TRANSFER OF SHARES

Each share carries one vote; no restrictions apply to voting rights or to the transfer of shares. No corresponding shareholder agreements are known to the Board of Executive Directors.

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

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

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

There are no shares with special rights conferring control powers.

ITEM 5: VOTING RIGHT CONTROL IN THE EVENT OF EMPLOYEE OWNERSHIP OF CAPITAL

No voting right controls apply.

ITEM 6: STATUTORY REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of the Board of Executive Directors are governed by Sec. 84 AktG. Accordingly, the members of the Board of Executive Directors are appointed by the Supervisory Board for a maximum term of five years. In accordance with Art. 5 of the Articles of Association, the Board of Executive Directors of K+S AKTIENGESELLSCHAFT comprises at least two members. The number of members is determined by the Supervisory Board. The Supervisory Board can appoint a member of the Board of Executive Directors chairman of the Board of Executive Directors. The Supervisory Board can rescind the appointment of a member of the Board of Executive Directors or the appointment of the chairman of the Board of Executive Directors for important reasons.

Amendments to the Articles of Association can be resolved by the Annual General Meeting by a simple majority of the share capital represented (Sec. 179 Para. 2 AktG in conjunction with Art. 17 Para. 2 of the Articles of Association) unless statutory provisions impose larger majority requirements.

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

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

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

+ Disposal against consideration comprising payment of a cash sum that does not significantly undercut the relevant stock exchange price;
+ Issuance of shares as consideration for the purpose of acquiring companies, parts of companies or interests in companies;
+ Servicing of convertible bonds and bonds with warrants, which have been issued on the basis of authorisation granted by the Annual General Meeting.

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

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

The authorisations to purchase own shares as well as to dispose of and cancel them may be exercised in whole or in part each time and several times in the latter case.

The authorisation granted by the Annual General Meeting to the Board of Executive Directors to purchase own shares of the Company to a limited extent is a common instrument available in many companies. By being able to resell own shares, the Company is placed in a position to, for example, gain long-term investors in Germany and abroad or to finance acquisitions flexibly. The remaining possibility of cancelling own shares is also a common alternative to its use and lies in the interest of the Company and its shareholders.

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

In 2010, K+S concluded a syndicated credit line for € 800 million. All bank advances made within the framework of the credit line will become due and payable immediately and the entire credit line become redeemable in accordance with the conditions set out in this agreement if one person acting alone or more persons acting in concert acquire control over K+S AKTIENGESELLSCHAFT. Moreover, in 2009, K+S issued a bond in the amount of € 750 million and, in 2012, a bond in the amount of € 500 million. In the event of a change of control, the bond holders have the right to terminate debentures that have not yet been redeemed.

The provisions that credit agreements and bond conditions contain for the event of a change of control are customary and reasonable from the perspective of protecting the legitimate interests of the creditors.

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

Agreements of this type exist with the members of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT and are explained in detail in the Remuneration Report on page 48. The stock option programme for the Board of Executive Directors and for senior management, granted for the last time in 2009, provides for the opening of a special time window for the exercise of all still outstanding options in the event of a change of control. The exact form of this programme, which is identical for the Board of Executive Directors and for senior management, is also explained in the Remuneration Report (see page 45). The programme with a long-term incentive character (LTI), introduced in 2010 for the Board of Executive Directors and for senior management, includes no compensation agreements.

The existing compensation agreements with the members of the Board of Executive Directors and the special time window of exercise governed by the stock option programme for the Board of Executive Directors and for senior management in the event of a takeover bid, which was granted for the last time in 2009, take into appropriate consideration both the legitimate interests of those concerned and of the Company and its shareholders.

4.2 CORPORATE STRATEGY

VISION AND MISSION

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

/ **OUR VISION** can be found on page 9 of this Financial Report, while further information is also available in the Corporate / Sustainability Report.

GROWTH STRATEGY

COMPONENTS OF THE K+S GROWTH STRATEGY FIG: 4.2.1

DIFFERENTIATION AND SUSTAINABLE MARGIN GROWTH THROUGH SPECIALISATION

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

INCREASING EFFICIENCY AND EXPLOITING SYNERGIES

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

EXPANSION OF A BALANCED REGIONAL PORTFOLIO

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

In the Potash and Magnesium Products business unit, the balanced market presence in the important agricultural regions of Europe, South America and Asia makes it possible to even out seasonal differences between the northern and southern hemispheres as well as to reduce the regional demand effects triggered by economic trends. Expanding the market presence in important overseas regions and tapping into new attractive sales territories in future growth regions therefore continue to be pursued.

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

SETTING OF STANDARDS FOR QUALITY, RELIABILITY AND SERVICE

The goal of the K+S GROUP is to be its customers' preferred partner in the market. High product quality and reliability are decisive preconditions for this. In addition to the specialisation strategy, better and innovative services are promoted, where these create value. Individual advice to customers makes it possible to identify needs-based solutions and thus to strengthen customer loyalty. With our offers we endeavour to set new standards in the market.

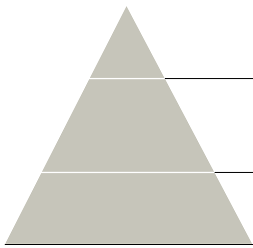
STRATEGIC DIRECTION OF THE BUSINESS UNITS

With the Potash and Magnesium Products and Salt business units, the K+S GROUP has two complementary fields of operation, linked by synergies in many parts of the value creation, with attractive growth prospects at its disposal.

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

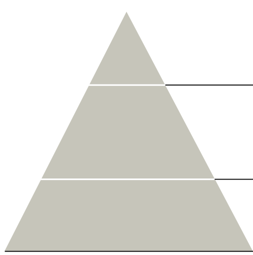
Thus, the acquisition of POTASH ONE, which will result in an expansion of the potash capacities and to an extension of the average useful life of our mines, was characteristic of our two-pillar strategy. This pursues the goal of focusing management and financial resources on the Potash

STRATEGY POTASH AND MAGNESIUM PRODUCTS FIG: 4.2.2



	Strategic focus
Growth	+ Global development of new low-cost production facilities + Expansion of existing high-margin product segments
Optimisation of Market Approaches	+ Concentration on selected high-margin markets and customers + Focus on high-margin niches through differentiated marketing concepts
Optimisation of Current Production Structures	+ Optimal resource utilisation by constantly optimising the existing production system

STRATEGY SALT FIG: 4.2.3



	Strategic focus
Growth	+ Entry into new regional markets + Expansion of existing high-margin product segments
Optimisation of Market Approaches	+ Strengthening of position in existing and adjacent markets
Optimisation of Current Structures	+ Optimal resource utilisation by constantly optimising the current structures as well as the existing international network

and Magnesium Products and Salt business units. Against this background, we divested the COMPO business in 2011 and the NITROGEN business in 2012. Detailed information regarding the divestments can be found on page 168 of the Notes to the consolidated financial statements.

/ FURTHER INFORMATION ABOUT THE ACQUISITION OF POTASH ONE can be found on page 171 in the Notes to the consolidated financial statements .

POTASH AND MAGNESIUM PRODUCTS

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

SALT

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

STRATEGIC GROUP STRUCTURE

As regards the shaping of the Group structure under company law, the optimisation of Group financing and tax optimisation are the main focuses.

/ INFORMATION ABOUT THE FUTURE DIRECTION OF THE GROUP can be found in the Forecast Report on page 132.

STRATEGIC FINANCING MEASURES

Essentially, we pursue the following goals with our financial measures:

+ Ensuring a balanced capital structure
+ Limiting refinancing risks through diversification of the financing sources and instruments as well as the maturity profile
+ Cost optimisation through capital procurement on sustainably favourable terms

/ INFORMATION ABOUT THE GOALS OF FINANCIAL MANAGEMENT can be found on page 99 of the 'Financial Position' section.

As part of these objectives, in financial year 2010, we initially optimised the maturity profile of the financing instruments of the K+S GROUP. To that end, two revolving credit lines were aggregated into one syndicated credit line with more favourable terms and their maturity was extended from April 2012 to July 2015. In addition, we placed a second corporate bond of € 500 million on 12 June 2012. The bond has a ten-year term and an interest coupon of 3.0 % p.a. The cash inflow is to be used to refinance the corporate bond already outstanding and due in 2014 (issue volume: € 750 million; interest coupon 5.0 % p.a.). This measure, the other liquidity and future cash flows serve the financing of the Legacy Project in Canada as well as general corporate purposes.

/ **AN OVERVIEW OF THE MATURITY PROFILE** can be found on page 130.

INTERNAL CONTROL SYSTEM OF THE K+S GROUP FIG: 4.3.1

Internal management system		
Vision, Mission	Strategy, Goals	Internal regulations
Controlling tools	Compliance	Risk management

↑↓

Internal monitoring system	
Process-integrated monitoring measures	Process-independent monitoring measures

Liquidity is managed by the central treasury department. We thus strive for a constant liquidity reserve for the K+S GROUP of at least € 500 million. With investments we pursue the goal of optimising the income earned from liquid funds at low risk.

/ **INFORMATION ABOUT FUTURE FINANCING MEASURES** can be found in the Forecast Report on page 141.

4.3 ENTERPRISE MANAGEMENT AND SUPERVISION

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

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

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

INTERNAL CONTROL SYSTEM OF THE K+S GROUP

Control of the K+S GROUP is exercised through regular discussions between the Board of Executive Directors and the Company’s departments. Meetings of the Board of Executive Directors take place on a regular basis every two or three weeks. The internal control system covers all areas of the Company. Thus, short response times to changes in all areas and on all decision-making levels of the K+S GROUP can be guaranteed. In the event of significant changes of relevance to earnings, this is immediately reported to the management and the Board of Executive Directors.

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

The starting point for the management of the Group as a whole or the Company’s departments are the targets determined by the Board of Executive Directors, which are derived from the vision, mission and overall strategy of the K+S GROUP. An essential instrument for the implementation of the goals and targets is the totality of internal regulations of the K+S GROUP.

CONTROLLING TOOLS

The following controlling tools are available to the management:

ROLLING FORECASTS

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

MONTHLY REPORTING

The corporate departments report on a monthly basis on current developments and variances with respect to output, sales, revenues, personnel, capital expenditure as well as other financial indicators. This information is also available via the above-mentioned portal. Furthermore, operational early indicators are continuously analysed. For instance, the price development of futures for agricultural raw materials permits a rough estimate of the earnings prospects of the agricultural sector and provides, among other things, indications of the demand for potash and magnesium products, the sales volume and the possible capacity utilisation. In the Salt business unit, the tendering process for de-icing salts provides an indication of the development of market shares and prices. Across the Group, the development of gas and oil prices is an important indicator of how energy costs could develop in future, and the development of freight costs on the transport routes relevant to us is an early indicator of freight costs in future and of our regional portfolio.

QUARTERLY MANAGEMENT DIALOGUE

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

BODIES/COMMITTEES

To support the management, cross-business-unit committees regularly discuss topics concerning, among others, personnel, compliance and information technology. Special committees have been established to review and assess capital expenditure projects and acquisitions/divestments. In addition, a sustainability committee systematically monitors issues of relevance to sustainability in order to identify social, ecological and also economic trends early on and to integrate them into management processes.

NON-FINANCIAL PERFORMANCE INDICATORS AND FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators described below, the non-financial performance indicators, which are relevant for our economic position, are described on page 72 in the 'Important Non-financial Matters' section.

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

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

/ DEFINITIONS OF THE INDICATORS USED HERE can be found on page 219.

The management of the activities of our operating departments is exercised on the basis of the aforementioned performance indicators, with particular importance attributed to EBITDA and EBIT I, as these are, in our opinion, the appropriate variables for assessing earnings capacity. EBITDA also forms the basis for determining the level of Group indebtedness, which, among other things, is a target variable of the capital structure. Further key figures for the management of the capital structure, its target figures and its actually achieved values can be found on page 99. The capital expenditure is also an important management variable both at the level of the operating departments and Group level to achieve a targeted allocation of our financial resources.

/ **THE COMPARISON OF THE ACTUAL AND FORECAST COURSE OF BUSINESS** on page 90 includes the key indicators EBIT I, EBITDA, adjusted earnings before income taxes and adjusted Group earnings after taxes.

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

/ **A PRESENTATION AND DESCRIPTION OF THE DEVELOPMENT OF EARNINGS FIGURES IN THE LAST FIVE YEARS** can be found on page 98 of the 'Earnings Position' section, and that of cash flow and capital expenditure on page 103 of the 'Financial Position' section.

COMPLIANCE AS AN ELEMENT OF THE INTERNAL CONTROL SYSTEM

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

/ **FURTHER INFORMATION ABOUT THE SUBJECT OF COMPLIANCE** can be found in the 'Corporate Governance' section on page 37.

RISK MANAGEMENT – A KEY ELEMENT OF THE INTERNAL MANAGEMENT SYSTEM

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

/ **FURTHER INFORMATION ON THE RISK MANAGEMENT SYSTEM** can be found in the Risk Report on page 113.

INTERNAL MONITORING SYSTEM OF THE K+S GROUP

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

PROCESS-INTEGRATED MONITORING MEASURES

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

PROCESS-INDEPENDENT MONITORING MEASURES

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

4.4 IMPORTANT NON-FINANCIAL MATTERS

K+S STRATEGY FOR DEALING WITH SUSTAINABILITY MATTERS

As a commodities company, we have to think and act long-term. For us, sustainable development means future viability. We will only be economically successful in the long term if we execute our activities directed towards sustainable economic success by also taking into consideration the related social and environmental aspects.

The early and systematic identification and evaluation of these issues and of social trends and their integration into our management processes help us to promote our existing business, seize new business opportunities and minimise risks.

We are currently further developing our sustainability management. Last year, the Board of Executive Directors deployed a sustainability committee, which carries out tasks relating to our understanding of sustainability and prepares corresponding recommendations and decision papers for the Board of Executive Directors. The interdisciplinary and international committee is dedicated to the early, systematic identification and prioritisation of sustainability matters and initiatives.

From spring 2013, an experienced sustainability manager will be added to the committee, whose task it will be to further professionalise sustainability management across the K+S GROUP.

Decisions of Group-wide significance are always made by the full Board of Executive Directors. Sustainability at K+S is understood as management task.

/ **FURTHER INFORMATION ABOUT THE VISION AND CORPORATE STRATEGY** can be found on page 9 as well as on page 66 of this Financial Report.

In our Corporate / Sustainability Report, we have presented our main fields of action for sustainable development, with their opportunities and risks, and with their importance for our stakeholders, together with our possibilities of exerting influence. These fields of action are derived from our mission and from our corporate strategy, from global megatrends and management themes.

/ **CRITERIA FOR KEY FIELDS OF ACTION FOR SUSTAINABLE DEVELOPMENT, RELATED OPPORTUNITIES, RISKS AND STAKEHOLDER EXPECTATIONS** can be found in our Corporate / Sustainability Report on page 13.

Three of the topics described comprehensively in our Corporate / Sustainability Report of particular relevance to our economic position, are discussed in detail below:

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

APPLICATION OF A FRAMEWORK CONCEPT FOR SUSTAINABILITY REPORTING

The guidelines of the Global Reporting Initiative (GRI) are internationally recognised guiding principles for sustainability reporting. They propose reporting principles and specific contents designed to increase the comparability of company reports and improve the quality and the accuracy of the reports. Although these guidelines are applicable to all companies, they cannot, however, take into account the specific requirements of individual industry sectors such as those of our branch of industry. Therefore, although we have aligned our reports with the guidelines as far as possible, we have in addition included aspects in our reporting that are of particular relevance for the K+S GROUP. We ourselves rate the level of compliance with the GRI guidelines as (B).

EMPLOYEES

FORWARD-LOOKING PERSONNEL POLICY

The preservation of the K+S GROUP's international competitiveness requires a forward-looking personnel policy. This is based on the future-orientated development of specialists and managers, which begins already with the early securing of young professionals.

We want to be an attractive employer for employees from all over the world. We offer jobs in a highly performing network, which spans from Chile through the United States, Canada and Europe to Singapore. In addition to exciting tasks, we offer our employees extensive opportunities for advanced education and international development opportunities, performance-related remuneration and participation in the Company's success.

CORNERSTONES OF PERSONNEL MANAGEMENT

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

NUMBER OF EMPLOYEES STABLE

The number of K+S GROUP employees reported includes the core workforce, trainees and temporary employees (without students and interns). The number of employees is computed on a full-time equivalent (FTE) basis, i.e. part-time positions are weighted in accordance with their respective share of working hours. **/ TAB: 4.4.1**

As of 31 December 2012, the K+S GROUP employed a total of 14,362 people. Compared with 31 December 2011 (14,338 employees), the number thus remained roughly the same. While the number of employees in the Salt business unit decreased slightly, there was a slight increase in the number of employees in the Potash and Magnesium Products business unit in order to maintain the volume of crude salt extracted, intensify activities in the area of environmental protection, as well as for the Legacy Project. Furthermore, the IT integration of MORTON SALT required an increase in personnel in K+S IT-SERVICES GMBH, which is presented in the departments of K+S AKTIENGESELLSCHAFT.

In terms of averages, a slight increase was to be seen in the number of employees, as expected. In the year under review, an average of 14,336 people were employed at K+S (2011: 14,155).

INTERNATIONALISATION OF THE K+S GROUP

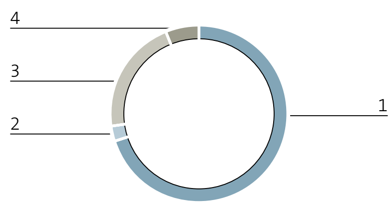
As a result of the increasing internationalisation of the K+S GROUP, meanwhile 30 % of employees are located outside Germany and more than a quarter outside Europe. **/ FIG: 4.4.1**

EMPLOYEES BY UNIT [1] TAB: 4.4.1

in Full-time equivalents (FTE) as of 31 December [2]	2012	2011	%
Potash and Magnesium Products business unit	8,310	8,188	+1.5
Salt business unit	5,092	5,230	(2.6)
Complementary Activities	293	290	+1.0
Departments of K+S Aktiengesellschaft	667	630	+5.9
K+S Group	**14,362**	**14,338**	**+0.2**

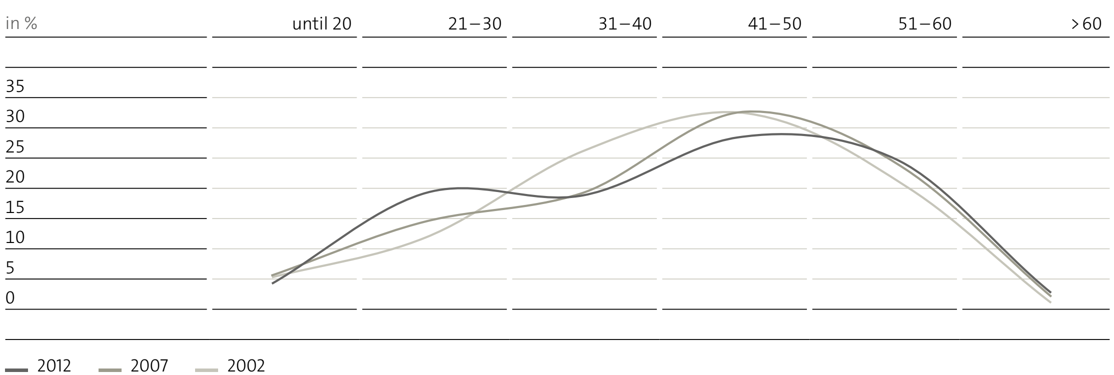
[1] Information refers to the continued operations of the K+S Group.
[2] FTE: Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours.

EMPLOYEES BY REGION FIG: 4.4.1



	in %	2012	2011
1	Germany	70	70
2	Rest of Europe	3	3
3	North America	21	21
4	South America	6	6

AGE STRUCTURE[1] FIG: 4.4.2



[1] 2012 without North America.

PERSONNEL EXPENSES

In 2012, the personal expenses of the K+S Group were € 981.9 million and thus, in line with expectations, slightly above the level of the previous year (2011: € 962.0 million). While expenses arising from pay settlements under collective bargaining agreements grew, costs rose due to exchange rate effects and personnel expenses increased due to a higher average number of employees, accruals for performance-related remuneration fell. Without provision effects, pure personnel costs rose in comparison with the previous year for the same reasons by € 21.2 million or 2 % to € 994.2 million. In the previous year, the share of variable remuneration in personnel expenses was € 71.4 million or about 7 % (2011: € 91.9 million or about 10 %).

/ A COMPREHENSIVE VALUE CREATION CALCULATION can be found in our Corporate / Sustainability Report on page 60.

In 2012, we paid a total of € 794.6 million in wages and salaries (+ 3 %) and € 158.1 million in social security contributions (+ 2 %). The expenditure on company pensions amounted to € 29.2 million in the year under review and was thus € 3.9 million below the level of the previous year.

During the year under review, personnel expenses per employee amounted to € 68,492 (previous year: € 67,962) and thus rose by almost 1 %. This is attributable in particular to pay settlements under collective bargaining agreements.

AGE STRUCTURE AND TURNOVER

A comparatively long length of service with the Company and a low turnover underscore the attractiveness of K+S as an employer. Thus, at 6 %, the turnover rate was again at a low level. In relation to total personnel, the turnover based on employees handing in their own notice of termination remained unchanged at only just under 2 %. Our age structure is becoming concentrated in the 41- to 50-year age group; the average age of a K+S employee remained unchanged at about 42 years.

/ FIG: 4.4.2

We want to set the direction early on, so that, in future too, the right employees will be in the right place. Thus, in 2012, we carried out a detailed analysis of the respective age structures of our workforces and the related demographic challenges at our German sites. Each site is assigned a specific demographic profile together with proposals, derived from it, for measures from the areas of advanced education, training / retraining, management development or the safeguarding of the ability to work. The heads of personnel will take this information into account in their future personnel planning.

With regard to the relatively high average age, Morton Salt, in addition to the work of the K+S personnel committees, conducts its own talent review every year, in which the current and future demographic composition of the workforce is analysed and the succession plans are correspondingly updated and adjusted. All management positions, engineering functions and other key positions are included in the review process.

PROPORTION OF FEMALE AND MALE EMPLOYEES

As a result of the mining operations of the Potash and Magnesium Products and Salt business units, K+S has a large proportion of industrial employees working underground. In Germany, these positions were largely reserved for male employees, pursuant to legal regulations (Sec. 64a of the German Federal Mining Act). Only as at 31 July 2009 did the legislator remove the regulation without replacing it. This is in line with the efforts of K+S to interest more women in careers in technology; already in summer 2010 we began to train our first female mining technologists.

At the end of 2012, the proportion of female employees across the Group was 11.7 %, (2011: 10.9 %), in Germany it stood at 8.9 % (2011: 8.5 %) and at administration sites it was, on average, 40.4 % (2011: 37.8 %). The proportion of female managers across the Group was 11.3 % (2011: 9.7 %) and in Germany 10.0 % (2011: 8.6 %).

In October 2011, we signed up to a voluntary commitment on the part of the 30 DAX-listed companies, to increase the proportion of women in management positions, to equality of opportunity and to making it easier to combine professional and family life as an important element of diversity management. As part of this self-obligation, the K+S GROUP is pursuing the goal of increasing the proportion of women in management positions by about 30 %, starting from the figures as at 31 December 2010 and to have a proportion of women in management positions which corresponds to that of the female workforce in the entire workforce of K+S in Germany by 2020.

TRAINING FIGURES [1] TAB: 4.4.2

	2012	2011	2010	2009	2008
Total trainees (number)	607	631	618	649	610
German training ratio (%)	6.0	6.3	6.3	6.3	6.0
Training expenditure (€ million)	15.3	14.6	14.2	13.5	12.6

[1] Information relates exclusively to Germany and refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

NEEDS-BASED VOCATIONAL TRAINING

Length of service extending over many years and the related wealth of experience are important cornerstones of a sustainably successful personnel policy. However, this also includes the transfer of knowledge to younger employees and thus the targeted training of young professionals. For years, this is an area in which we have been already laying the groundwork for tomorrow's growth. Because this form of dual training, combining theoretical instruction in vocational schools with practical experience in the workplace, exists only in Germany, Austria and Switzerland, our reporting on the subject of training relates only to Germany. In line with our target that at least 160 training positions will be provided every year, in 2012, a total of 177 young people began their vocational training with us. This is happening in 18 training professions at 12 German sites in the K+S GROUP. As at 31 December 2012, we employed a total of 607 trainees, a decrease of 24 trainees as against the previous year. This was primarily attributable to the fact that more trainees completed their training more quickly thanks to good performance than in the corresponding period. At 6.0 %, the training ratio at the domestic companies was on the high level of the previous year. The training that we provide, which is planned for the long term and geared to needs, ensures the necessary availability of future employees in industrial, mining, commercial, chemical, IT and logistics occupations. On such training, in 2012, we spent about € 11.5 million in personnel expenses as well as € 3.8 million in material costs (2011: personnel costs: € 11.4 million; material costs: € 3.2 million). We are pleased that in the year under review, we were again able to take on about 90 % of the successfully qualified trainees. / TAB: 4.4.2

ADVANCED EDUCATION FIGURES[1] TAB: 4.4.3

	2012	2011	2010	2009	2008
Participants in advanced education measures	8,646	11,000	8,168	6,977	5,550
Advanced education expenditure in € million	9.7	8.4	8.4	6.3	4.4
Expenditure per participant in €	965	839	864	616	430

[1] Information relates exclusively to Germany and refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

PERSONNEL DEVELOPMENT

The aim of our systematic and needs-based personnel development is to fill specialist and managerial positions primarily from our own ranks. The personnel committees meet at regular intervals in order to ensure Group-wide succession planning in Germany and abroad across all business units, and to initiate the personnel development measures necessary to achieve this in good time. For 2013, our goal is the further development of our talent management.

Expenditure on personnel development in Germany totalled about € 13.4 million and thus rose by 11 % (2011: € 12.1 million). Of this, € 9.7 million was attributable to advanced education measures (2011: € 8.4 million), € 3.5 million to further training measures (2011: € 3.6 million) as well as € 0.2 million to activities in the area of personnel marketing (2011: € 0.1 million). Already in 2011, we formulated the goal of increasing the expenditure on personnel development by 2016 by at least a third in comparison to 2010 (€ 12.1 million). We continue to keep to this goal.

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

ADVANCED EDUCATION

The provision of advanced education to our employees is becoming increasingly important due to rising and increasingly international requirements as well as technical innovations. In addition to advanced education measures that are required by law, the K+S GROUP also offers specialised, interdisciplinary, IT and language training, as well as special seminars for managers. Employees receive direct support for new and complex tasks by means of process-accompanying training measures. In annual or employee interviews, employees and their superiors jointly determine the advanced education requirements.

While the employees in Germany and South America generally received on-site advanced education, in the United States and in Canada, due to the large number of sites and geographical circumstances, the majority of training takes place online. The virtual “MORTON University” offers employees the possibility to complete an advanced education measure online at a time that suits them.

In 2012, our employees completed a total of 8,646 advanced education measures (2011: 11,000). Thus, the average number of training hours per year and employee was 11.6 hours. / TAB: 4.4.3

FURTHER TRAINING

We provide selected employees from technical, mining and production areas with further training to become a technician or a more advanced qualification bringing with it the prospect of a management career. Our main partner in Germany is the Technical College for Economy and Technology (Fachschule für Wirtschaft und Technik – FWT) in Clausthal-Zellerfeld. At present, 80 employees are completing their technical training. A further nine employees are qualifying as engineers. Furthermore, 15 employees are currently participating in “K+S StudiumPlus”. This is a grant offered by K+S for full-time bachelor’s or master’s degree courses. These students can complete the necessary internships or working student activities at our sites. They continue to belong to the Company throughout their studies.

MORTON SALT reimburses the tuition fees of employees, who are being further trained relevantly to their profession at a university recognised by the Company.

PERSONNEL MARKETING

Personnel marketing comprises measures for promoting the image of K+S as an attractive employer, trainee marketing and university marketing. In 2012, we presented ourselves at 16 university fairs in Germany and intensified contacts to university-level institutions with a focus on mining and technology.

We want to further expand our personnel marketing and recruitment activities at schools and universities in order to gain for ourselves more female graduates from mathematics, engineering, natural sciences and technical sciences courses.

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

WORK SAFETY

Protecting our employees against work-related dangers is our goal. We wish to even further reduce the normally very low number of accidents in comparison to other industrial companies. We are working on this, in part together with the relevant authorities and professional associations. When doing his work, each individual employee has to assume responsibility for safety – his own and that of his colleagues. Our managers have an exemplary function.

In 2012, at our sites 956 injuries (2011: 987) occurred, as did 212 accidents at work (2011: 194) with working hours lost. The average number of working hours lost per accident at work was 18 calendar days (2011: 25.1). Since 2011, we have a uniform work safety reporting (Integrated Safety Report) across the Group, which defines injuries resulting in an inability to work of more than one day as an accident at work. In 2012, the "accidents at work with working hours lost per one million working hours" key ratio was 8.5 (2011: 7.7). Despite the stricter definition of accidents at work starting from an inability to work of more than one day instead of more than three days in the K+S GROUP, there were fewer accidents at work per one million working hours than on average for companies organised in the professional association.

Unfortunately, in 2012, we had to record five fatal accidents at our German sites (2011: 1). In two cases, the respective subsequent detailed analyses of the occurrences revealed that the accident was caused by an unusual geological or geomechanical/geological situation. In the other cases, human errors by the accident victims could not be ruled out. In neither case could an error attributable to the Company be identified. In addition to internal specialists and representatives of authorities and accident insurers, external experts also contributed to elucidating the causes of the accidents. New preventive measures were then adopted to, as far as possible, prevent accidents also of this kind in the future.

/ **ADDITIONAL INFORMATION ABOUT WORK SAFETY, PREVENTION AND OTHER EMPLOYEE ISSUES** can be found in our Corporate/Sustainability Report on page 87.

WATER PROTECTION

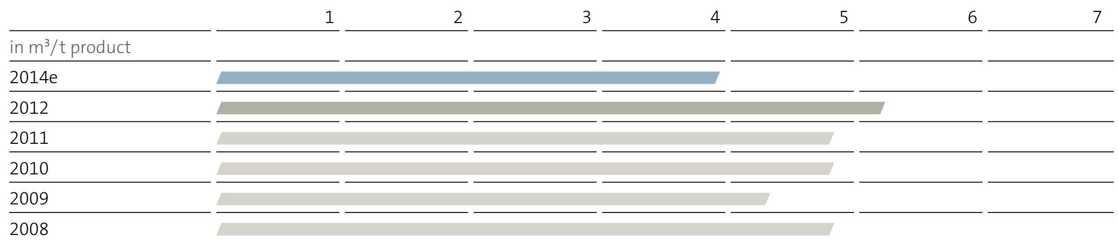
It is our goal to continue and ensure potash production for decades to come at today's production level on the basis of sustainable economic activity, while caring for and protecting the natural environment. We pay particular attention to water protection, especially – but not only – in the Hesse-Thuringia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

USE OF WATER

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

In the Salt business unit, water is used primarily in solution mining, an extraction process in which the rock salt deposit is obtained through the controlled drill hole solution mining procedure from above ground by means of one or more brine drillings (cavern drilling operations). Thus, freshwater is fed into the deposit. The water loosens the solid rock salt and is then pumped above ground as a concentrated brine. From there, the brine either goes directly to the chemical industry as a raw material or is further processed into solid evaporated salt. This is done by feeding the brine into closed evaporation vessels, where the sodium chloride crystallises.

SPECIFIC WATER CONSUMPTION[1] FIG: 4.4.3



[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

In 2012, we used 147 million m³ of water across the Group (previous year: 159 million m³ of water). The specific use of water was 5.2 m³/tonne of goods (previous year: 4.8 m³/tonne). By 2014, we want to lower this to less than 4 m³/tonnes of goods, i.e. a decrease of more than 20 %. / FIG: 4.4.3

WASTE WATER

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

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

We use state-of-the-art techniques to extract and process our natural crude salts, setting standards for our competitors. For example, in recent decades, we have very significantly reduced the saline waste water in the Hesse-Thuringia potash district:

+ from over 40 million m³ in 1970
+ to 20 million m³ in 1997
+ to 14 million m³ in 2006

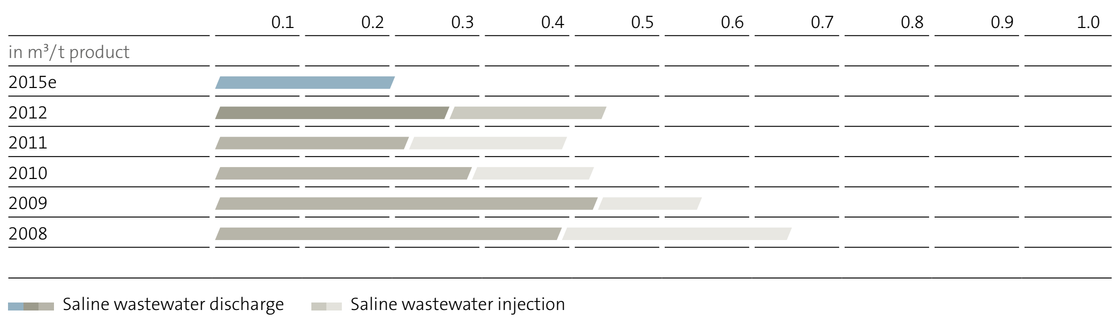
After the submission of our package of measures on water protection in October 2008, in February 2009, we concluded an agreement with the federal state of Hesse and the Free State of Thuringia with the aim of securing potash production in the Hesse-Thuringia potash district over the long term and further reducing its impact on the environment. In May 2009, in accordance with this agreement, we submitted our overall strategy for reducing the impact on the environment. The capital expenditure for the planned measures to improve water quality will come to a total of € 360 million by the end of 2015. The first construction work began at the sites of the Werra plant in Hesse and Thuringia in October 2011. In total, we are working on a number of subprojects which, by the end of 2015, will reduce the occurrence of saline waste water by about 50 % in comparison to 2006 to 7 million m³ through changes in the production process, and in part also through new process technology. Thus, a target volume of 0.2 m³/tonne of product in 2015 should be possible for discharge into waters. This will make possible a lowering of the salt concentration in the Werra river by about 30 % in comparison to 2006 and bring with it further significant ecological improvements. To attain these objectives, a balance between discharges into and the usage of the underground must be retained also beyond 2015.

With the planned measures we are approaching the limits of what is technically achievable and commercially viable. This should or will improve the prospects for not only our sites and their employees, but also for very many people in the region. A description of possible risks arising from the change of or refusal to grant permits by public agencies in relation to the disposal of saline waste water and solid production residues, which would result in a persistent and material adverse effect on the asset, financial and earnings position of the K+S GROUP, can be found in the Risk Report on page 120.

In 2012, the volume of saline waste water totalled 12.1 million m³ or 0.43 m³/t of product (previous year: 12.7 million m³ or 0.38 m³/t of product). Of this, we discharged 7.2 million m³ or 0.26 m³/t of product into waters (previous year: 6.9 million m³ or 0.21 m³/t of product) and injected 4.9 million m³ or 0.17 m³/t of product (previous year: 5.7 million m³ or 0.17 m³/t of product).

In 2012, a total of € 80.4 million was invested in water protection (2011: € 12.2 million). The operating costs for water protection amounted to € 103.5 million (2011: € 108.4 million). / FIG: 4.4.4

SALINE WASTEWATER INJECTION AND DISCHARGE[1] FIG: 4.4.4



[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

EFFICIENT USE OF ENERGY AND CLIMATE PROTECTION

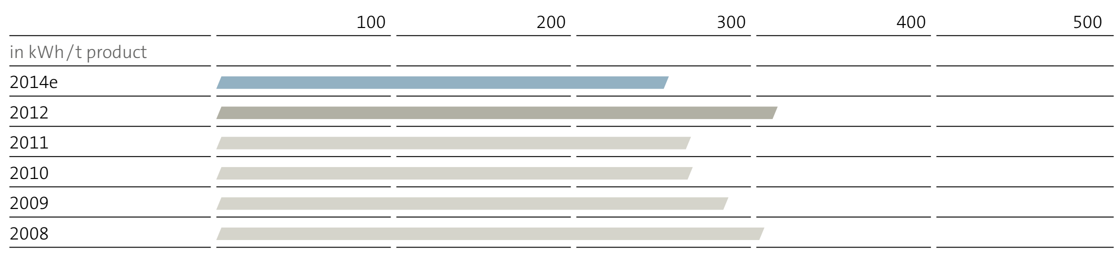
K+S takes climate protection as an ecological and economic challenge seriously. Protecting the climate is one of the main challenges of the coming decades. We want to make our contribution towards using the existing resources even more efficiently.

IMPROVING ENERGY EFFICIENCY AND REDUCING CO_2 EMISSIONS

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

+ Use of the most efficient power plant technology (cogeneration): Our six potash plants have their own power stations, which are equipped with state-of-the-art cogeneration technology. Thanks to successful optimisation measures, utilisation levels for our power stations have been exceeding 90 % for some time. The sites thus work close to the highest level of theoretically achievable energy efficiency. Nevertheless, we are working on further improvements: Thus, at the Hattorf site, we are currently modernising the plant's own energy supply in order to increase the extent to which the power station is utilised and render it less dependent on the supply of power from outside. Simultaneously, the emission of a further 90,000 tonnes of CO_2 can be prevented each year.

SPECIFIC ENERGY CONSUMPTION[1] FIG: 4.4.5



[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

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

The energy required for the operation of our power plants, drying facilities and evaporated salt facilities (electricity and steam) is in Europe generated almost exclusively on the basis of natural gas, which has the specifically lowest CO_2 emissions compared to all other fossil fuels, and from the thermal recycling of waste.

ENERGY CONSUMPTION

In 2012, total energy consumption amounted to 8,747 GWh (previous year: 8,865 GWh). Of this, 5,559 GWh were accounted for by natural gas, liquid gas and biogas, 1,474 GWh by externally obtained steam, 1,065 GWh by coal, 567 GWh by outside electricity and 81 GWh by light and heavy heating oil. We fed 47 GWh of electricity into the public network. Specific energy consumption per tonne of manufactured product was 309 kWh/tonne of product (previous year: 267 kWh/tonne of product). It was possible to slightly reduce energy consumption yet again, in absolute terms. However, energy consumption per tonne of product increased due to lesser capacity utilisation in the Salt business unit. The K+S GROUP's energy costs increased significantly due to price factors.

We see a realistic opportunity to reduce specific energy consumption to below 270 kWh/tonne in 2014.

/ FIG: 4.4.5

CO_2 EMISSIONS

As a partner of the self-obligation to protect the climate, agreed between the Federal Government of Germany and German industry, for the Potash and Magnesium Products business unit we had set ourselves the goal of cutting specific CO_2 emissions to 28 kg/tonne of crude salt and reducing our absolute CO_2 emissions to 1.1 million tonnes per year by 2012. We have achieved this: the specific CO_2 emissions of the business unit totalled 24 kg/tonne of crude salt in 2012, the absolute CO_2 emissions 1.0 million tonnes.

After the scheduled expiry of the agreement with the Federal Government at the end of 2012, a final report is being prepared for 2011 and 2012. Starting from 2013, the self-obligation will be replaced by the introduction of externally certified energy management systems in accordance with DIN ISO 50001.

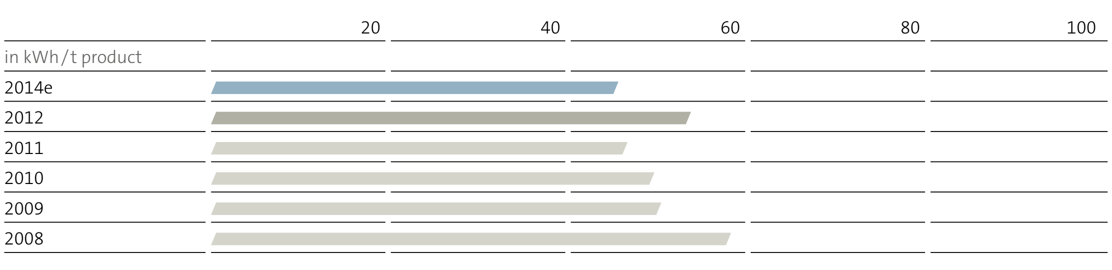
/ **FURTHER INFORMATION** can be found in our Corporate/Sustainability Report on page 72.

Across the Group, CO_2 emissions in 2012 were 1.5 million tonnes (previous year: 1.5 million tonnes). Carbon dioxide emissions per tonne of manufactured product were, due to a smaller production volume, 53 kg/tonne of product (previous year: 46 kg/tonne of product). We see a realistic possibility of further reducing CO_2 emissions to about 45 kg/tonne as of 2014. / FIG: 4.4.6

EMISSIONS TRADING

Emissions trading is one of the instruments envisaged by the 1997 Kyoto Protocol for reducing greenhouse gases. The European system for trading in emission certificates entered into force in 2005. Companies emitting more CO_2 than allowed under the emission rights allocated to them can choose whether to invest in projects to reduce emissions or to buy emission certificates on the market. The second trading period for emissions trading started in January 2008. In the K+S GROUP, 16 facilities continue to be obliged to engage in emissions trading. However, by granting emission rights in accordance with the benchmark system, the energy efficiency of the individual plants is not fully taken into consideration in Germany. Instead, plants in the energy sector are assigned a "flat-rate" percentage reduction obligation. These are difficult to achieve, particularly for efficient industrial energy production facilities such as our power plants, which already have an efficiency level of over 90 % thanks to cogeneration. Thus applied, emissions trading fails to have the desired steering effect. Nonetheless, K+S emits less CO_2 than the allocated emission rights allow. While we sold these at a profit in the first trading period, we have been building up our stock since the beginning of the second trading period. We are thus preparing ourselves in this way for the third trading period (2013 to 2020), because in that period the free allocation of certificates is to be gradually reduced and thus the procurement of certificates will increasingly have to take place on the free market. To counter resultant future price risks, we have already acquired additionally needed certificates and disclosed them under non-current assets. In 2013 to 2020, they will be recognised effecting net income in a low single-digit million range per year.

SPECIFIC CARBON DIOXIDE EMISSIONS[1] FIG: 4.4.6



[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

4.5 RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT ACTIVITIES

GOALS AND MAIN FOCUSES OF OUR R&D ACTIVITIES

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

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

Against this backdrop, we focus our research and development activities on process optimisation as well as the development of new and improved products. The continuous review and further development of the production methods and processes used by us is intended to ensure a sustainable and efficient use of raw materials, capital, energy and personnel. To this end, we evaluate new technologies and materials and operate research institutes of our own focusing on product development, product treatment, process technology and analytics.

Within the framework of developing new fertilizers and improving those we already offer, we are committed to practice-oriented research in the sphere of plant nutrition. We work out solutions in order to meet the increased demand for food and feed due to a growing global population as well as changing eating habits. Our agricultural application consulting supports customers in the use of our products on site and creates a transfer of knowledge to less developed regions. In application-orientated agricultural research, we further develop the project portfolio of our research institute, which is operated jointly with the University of Göttingen.

In 2012, the research and development activities for the Legacy Project were the main focus. As part of this project, we have undertaken extensive activities in solution mining and in the treatment of brine that will be extracted in the future. Furthermore, we are driving forward the improvement of production processes for the reduction of solid and liquid residues so that the resources from our deposits can be extracted as completely as possible. A further key focus of the research on process technology is, both in the Potash and Magnesium and Salt business units, the further improvement of the production processes as well as the flexibilisation of the processes for adapting to changed raw material, production or market conditions.

USE OF EXTERNAL R&D KNOW-HOW

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

In 2012, € 2.2 million was spent on cooperation with external research institutions (2011: € 2.3 million); this is about 6.5 % of the total research and development costs of € 33.6 million spent in this financial year. The funds used focused on the following subjects, selected examples of which are:

SOLUTION MINING

Together with Canadian and German specialists, we have examined the available methods of solution mining in view of their applicability for the specific deposit circumstances of the Legacy Project.

FORWARD-LOOKING EXTRACTION TECHNOLOGIES

Within the seventh Framework Research Programme of the EU Commission, since 2012, K+S has been participating in a consortium of 26 companies and research institutes called I²Mine. The initiative focuses on the challenges confronting mining today: the development of ever deeper deposits, and, nevertheless, the endeavours to operate mines safely, with as little visible impact as possible and with minimal effects on the environment. Within the framework of this cooperation, we hope to be able to develop new extraction technologies, which subject to safety requirements lead to a better exploitation of our deposits and to an increase in the lifetime of our mines.

EVALUATION OF SALT PRODUCTS

The MORTON SALT research laboratory recently conducted a lifecycle study for water softening units, which are operated with the patented MORTON® SYSTEM SAVER® II pellets salt tablets. The performance of MORTON SALT de-icing products was tested in cooperation with a university research centre. Other external laboratories were commissioned to conduct de-icing agent corrosion tests in accordance with the test certification requirements set by the Pacific Northwestern Snowfighters Association. The results obtained from these studies provide a basis for new product features and appropriate advertising campaigns.

INTERNATIONAL FIELD TESTS

We assign global field tests to specialised and experienced agricultural testing institutes, which are accompanied on a scientific basis by our employees. This approach enables us to obtain valuable findings in various climatic zones, on local soils as well as in relation to a diverse range of crops and to optimise our products accordingly.

COOPERATION WITH THE INTERNATIONAL PLANT NUTRITION INSTITUTE

K+S KALI GMBH supports the INTERNATIONAL PLANT NUTRITION INSTITUTE (IPNI) in Norcross, United States, financially in a project for optimising the strategies for applying fertilizers in plantations (see also "Selected R&D projects – Plant cultivation").

INSTITUTE OF APPLIED PLANT NUTRITION (IAPN)

In May 2012, the INSTITUTE OF APPLIED PLANT NUTRITION, recognised by the Georg-August-University of Göttingen, was opened by K+S KALI GMBH. The aim of the IAPN is, within the framework of a public-private partnership, to create an interface between the academic world and business. The focus is on practice-oriented research in the area of plant nutrition. A rapid integration by the K+S application advisers in practice of the knowledge gained is thus guaranteed.

DEVELOPMENT-ORIENTATED AGRICULTURAL RESEARCH

Together with the International Potato Research Centre CIP and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), K+S KALI GMBH is researching into the balanced fertilization of potatoes as the world's third most important staple food (see also "Selected R&D projects – Plant cultivation").

COOPERATION WITH UNIVERSITIES

In the economic, natural science and technical areas we cooperate with universities and support their graduates financially at undergraduate, master's degree and doctoral level in those areas that are the focus of our R&D activities. This allows us to identify talent early on and to recruit a new generation of qualified employees for our Company.

RESEARCH FIGURES

RESEARCH COSTS AND DEVELOPMENT-RELATED CAPITAL EXPENDITURE

In the period under review, research costs of the continued operations totalled € 19.4 million and were thus tangibly above the level of the previous year (2011: € 17.0 million). The majority of research costs were accounted for by research projects in solution mining as part of the planned drilling and brining out of the first cavern of the Legacy Project in Saskatchewan. The improvement of production processes for minimising solid and liquid production residues in potash production was a further focus. As measured by revenues, the research intensity of the K+S GROUP is 0.5 % (2011: 0.4 %). This percentage is more or less the normal level in our sector. / TAB: 4.5.1

Under IFRS, certain development costs have to be capitalised in the balance sheet. In the year under review, development-related capital expenditure for continued operations was, at € 14.2 million (2011: € 1.6 million), far above the level of the previous year and incurred in the Potash and Magnesium Products business unit mainly for the development of the first cavern of the Legacy Project. Capitalisation will result in corresponding depreciation charges for development-related capital expenditure over the coming years. / TAB: 4.5.2

RESEARCH COSTS [1] TAB: 4.5.1

in € million	2012	2011
Potash and Magnesium Products business unit	12.4	9.0
Salt business unit	3.3	3.0
Other research costs	3.7	5.0
Total	19.4	17.0

[1] Information refers to the continued operations of the K+S Group.

RESEARCH PERSONNEL

As planned, the number of people employed in research rose to 87 (2011: 77) due to hiring at the central research unit in Germany and at the MORTON SALT research institute in the United States.

SELECTED RESEARCH AND DEVELOPMENT PROJECTS AND RESULTS

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

MINING AND GEOLOGY

GEOLOGICAL MODELLING OF OUR DEPOSITS

Comprehensive geological 3D models are developed for selected potash and rock salt deposits of K+S KALI GMBH

RESEARCH FIGURES [1] TAB: 4.5.2

in € million	2012	2011	2010	2009	2008
Research costs	19.4	17.0	13.8	18.7	18.1
Research intensity (Research costs / revenues)	0.5 %	0.4 %	0.3 %	0.5 %	0.4 %
Capitalised development-related capital expenditure	14.2	1.6	0.7	1.8	2.8
Employees as of 31 Dec. (number)	87	77	73	78	65

[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

and ESCO. The aim of such models is to further optimise the planning of mining with even more efficient exploration of the deposit, in order to increase output and better exploit the deposit.

TRAINING IN PROCESS-OPTIMISED DRILLING WORKS

Building on the successful development of the virtual drilling jumbo control panels, which were used in recent years for training drillers, we are now trying to develop practical procedures for using image-generating methods to efficiently generate a 3D virtualisation of any real drilling sites for these training simulators.

PROCESS TECHNOLOGY

SOLUTION MINING

We have created a laboratory environment to examine the dissolution behaviour of the salt rock at different locations of the deposit area in Canada using drill core samples, and on the basis of these findings to better predict the result of solution mining.

EVAPORATION PROCESSES

In our central research institute in Heringen, site-specific evaporation processes were developed for K+S KALI GMBH with the objective of further reducing the different liquid production residues. This should enable us to regain additional reusable substances, which can be used as an intermediate product in the production of potassium sulphate.

SENSOR-AIDED SORTING

K+S KALI GMBH has been increasingly conducting research in the area of dry treatment technologies. With the development of new real-time sensors for distinguishing between different minerals, it is intended to exploit the application of new sorting technology.

PLANT CULTIVATION

OPTIMISING THE FERTILISATION STRATEGIES FOR OIL PALMS

The INTERNATIONAL PLANT NUTRITION INSTITUTE (IPNI) is carrying out a project for optimising the fertilisation strategies for oil palms. The focus here is specifically on sandy soils. The introduction of the “best practice” concept at plantation companies is intended to contribute to increasing oil yields within the context of sustainable and economical farming.

DEVELOPMENT-ORIENTATED AGRICULTURAL RESEARCH

Together with the International Potato Research Centre CIP and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), we are working on combating poverty through the promotion of potato cultivation in the partner countries of German development cooperation in Asia and Africa, as well as Central and Latin America.

PRODUCT DEVELOPMENT

FURTHER DEVELOPMENT OF WATER-SOFTENING SALTS

In 2012, MORTON SALT developed water-softening salts with additional product properties for maintaining exchange resins and improving the overall performance of water softeners. The goal is to strengthen the market leadership with innovative products.

SPECIALITIES FOR THE AMERICAN MARKET FOR FOOD GRADE SALT

In order to enable food manufacturers in the United States to fulfil local guidelines on nutrition, MORTON SALT is continuing to develop low-sodium products.

BRAND PORTFOLIO AND PATENTS

In 2012, the K+S brand portfolio in the continued operations increased by 37 industrial property rights. As umbrella brands, the K+S GROUP uses, for example, ACTION MELT®, CÉRÉBOS®, KALI-STIER®, MORTON®, SPL®, UMBRELLA GIRL®, VATEL® and WINDSOR®. As product brands, for example, AXAL®, REGENIT®, KORN-KALI®, PATENTKALI® and KALISEL® are used. Further brands for food grade salt in Chile are SAL LOBOS® and the low-sodium product range BIOSAL LIGHT® and BLIZZARD WIZARD® for de-icing salt in the United States. On the reporting date, the K+S GROUP holds 2,322 national proprietary rights (2011: 2,285) deriving from 555 basic trademarks. The K+S GROUP's global patent portfolio currently numbers 56 patent families, which are protected by 264 national rights (2011: 263). The patents are used, for example, in the areas of electrostatic preparation processes, granulate production and flotation. A small amount of licence revenues were generated.

4.6 OVERVIEW OF THE COURSE OF BUSINESS

MACROECONOMIC ENVIRONMENT

After the slight improvement in overall economic development at the start of 2012, growth in the global economy was again more restrained in the further course of the year. Nonetheless, it proved possible to increase the global gross domestic product by a total of 3.0 %. While the increase in the gross domestic product in the advanced economies was very small overall, there was even a recession in the eurozone. In the developing and emerging market countries too, economic development declined strongly in particular in the second half of the year due to a shortfall in demand from the industrialised nations. A major reason for this remained the sovereign debt crisis in the eurozone states, whose measures to reduce indebtedness weighed on demand. The increase in consumer prices decelerated significantly worldwide in 2012. / TAB: 4.6.1

In the European Union, the gross domestic product fell by 0.2 %. While the gross domestic product in the core countries Germany and France rose slightly, it declined tangibly in Italy, Spain, Portugal and the Netherlands. In Germany, the gross domestic product in 2012 grew by 0.7 % after an increase of 3.0 % in the previous year. Monetary policy was strongly expansive, and against this backdrop the European Central Bank (ECB) lowered the key interest rate to 0.75 % in July.

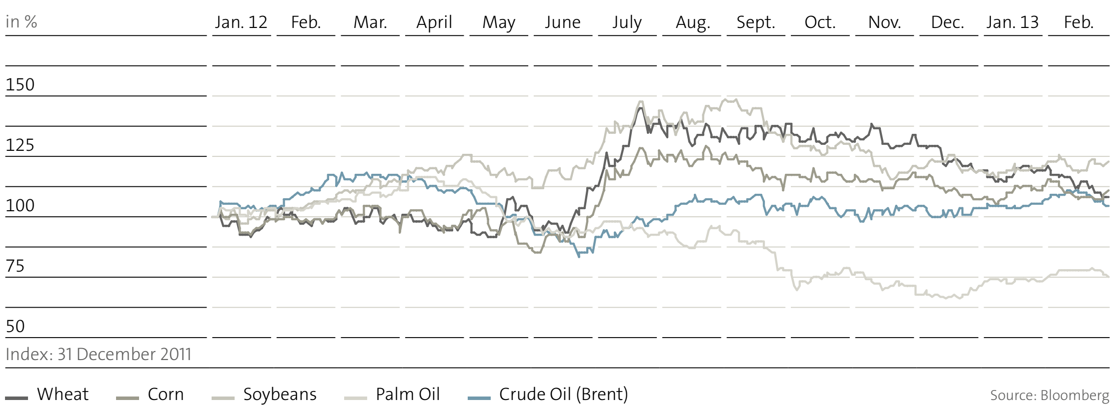
In the United States, the economy developed slightly positively in the course of 2012. The property sector and the banking system stabilised. Private consumption also grew as a result of positive signals from the employment market. New employees were predominantly hired in the service sector, which recovered most strongly from the recession. The gross domestic product rose by 2.3 %. The FEDERAL RESERVE BANK (FED) also stuck to its low interest rate policy in 2012 with the aim of reviving the economy.

PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT TAB: 4.6.1

	2012	2011	2010	2009	2008
in %; real					
Germany	+ 0.7	+ 3.0	+ 3.7	(4.7)	+ 1.3
EU-27	(0.2)	+ 1.7	+ 1.9	(4.2)	+ 1.2
World	+ 3.0	+ 3.7	+ 5.1	(0.8)	+ 3.1

Source: Deka Bank

DEVELOPMENT OF PRICES FOR AGRICULTURAL PRODUCTS AND CRUDE OIL FIG: 4.6.1



In the emerging market countries, the economy cooled down noticeably during 2012. In particular, the falloff in demand from the industrialised nations, primarily the eurozone, led to a deterioration of economic data.

The commodities markets developed positively overall in the course of 2012. In the first half of the year, the oil price (Brent) initially declined in the wake of general uncertainty on the financial markets and indications of a weaker global economy, but recovered in the second half of the year as a result of the supply risks due to the conflict between Syria and Turkey. At the end of the year, the oil price stood at US$ 111 per barrel. The average annual price for a barrel of oil was US$ 112 and was thus at the level of 2011. There were considerable price fluctuations for agricultural raw materials. Towards the end of the second and at the start of the third quarter, and with the exception of palm oil, prices rose significantly, after persistent dry weather in the Midwest of the United States and in Russia had resulted in tangibly lower harvest estimates. The increase slowed down slightly at the end of the year. Nonetheless, prices for corn, wheat and soy beans rose by up to 19 %. / FIG: 4.6.1

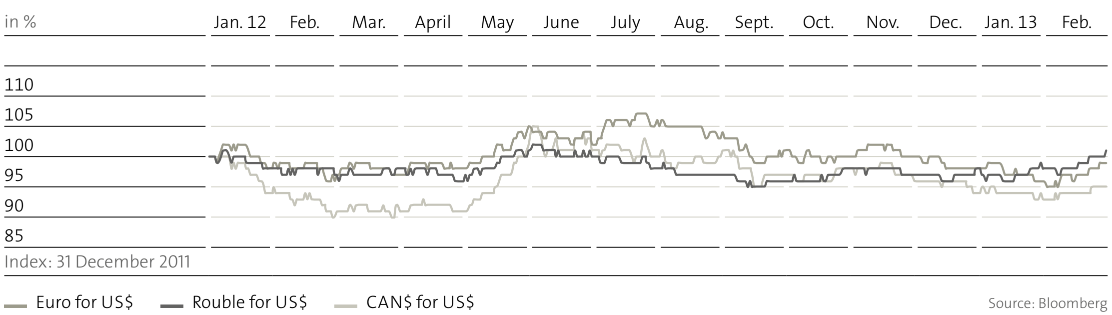
In 2012, developments on the international foreign exchange markets were again influenced by the volatile development of the US dollar exchange rate against the euro. After the US dollar had weakened to about 1.35 USD/EUR at the start of the year, it rose in the middle of the year to 1.21 USD/EUR, and at the end of December stood at 1.32 USD/EUR or about 2 % lower against a year before (31 December 2011: 1.30 USD/EUR). In terms of the average for the year, the US dollar stood at 1.29 USD/EUR and was thus just under 8 % stronger than the average of the previous year (2011: 1.39 USD/EUR). / FIG: 4.6.2

IMPACT ON K+S

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

+ The energy costs of the K+S GROUP are particularly affected by the costs of obtaining gas. As a result of the energy supply clauses agreed with our suppliers, changes in oil prices, for example, in the Potash and Magnesium Products business unit were normally only reflected in our cost accounting with a delay of six to nine months. Against this background, the further increased energy price level experienced in the second half of 2011 resulted in a significant price-related increase in the K+S GROUP's energy costs in 2012. A description of the energy contracts in effect from the fourth quarter of 2012 can be found on page 144.
+ As a result of the hedging instruments used for the Potash and Magnesium Products business unit, the exchange rate was on average 1.32 USD/EUR incl. costs and thus more favourable than in the previous year (2011 exchange rate incl. hedging costs: 1.35 USD/EUR).
+ In addition to the USD/EUR currency relationship, a relative comparison of the euro and the currencies of our competitors each in relation to the US dollar

DEVELOPMENT OF EUR/USD VERSUS CAD/USD AND RUB/USD FIG: 4.6.2



Source: Bloomberg

is also of importance for us. A strong US dollar has a positive impact on the earnings capacity of most of the world's potash producers in their respective local currency; this is due to the fact that the bulk of the global potash output lies outside the US dollar zone, while almost all sales (exception: business in the eurozone) are invoiced in US dollars. Figure 4.6.2 shows that the strength of the US dollar against the euro in the summer months had a positive impact on the K+S GROUP. However, the advantage in comparison to competitors diminished again at the end of the year.

/ **AN EXPLANATION OF THE MEASURES FOR MITIGATING ENERGY PRICE RISKS** can be found in the Risk Report on page 124.

INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

While caution still marked the early stocking-up of potash and magnesium products at the start of the year, demand developed positively during the second quarter of 2012. The relatively high price level for agricultural raw materials offered attractive income prospects for farmers. The incentive to also increase yields per hectare through the optimal use of fertilizers therefore increased. After the potash supply agreements with validity until the end of June 2012 were concluded with China in mid-March 2012 at US$ 470/tonne for potassium chloride standard, and thus on unchanged terms, the international spot prices for potassium chloride also tended to firm up and were between US$ 500 and 520/tonne. In the third quarter too, demand in the markets of relevance for K+S was on a good level. However, the absence of contracts by North American and Russian producers to be concluded with Chinese and Indian customers in the second half of the year led to the capacities not being fully utilised, particularly in North America and Russia, and to the estimates for global potash sales volumes in 2012 overall diminishing to about 54 million tonnes (incl. potassium sulphate and potash varieties with lower K_2O of around 3 million tonnes). Against this backdrop, the international prices for potassium chloride came under pressure towards the end of the third quarter. In Brazil, the price quotations declined in the course of the fourth quarter, for example, to about US$ 470/tonne. On 31 December 2012, CANPOTEX then published the terms of the potash supply agreement concluded with China for the first half of 2013. The price for potassium chloride standard including freight was reduced from US$ 470/tonne by US$ 70/tonne. Correspondingly, shortly afterwards CANPOTEX announced prices for the potash spot markets of US$ 465/tonne for granulated and US$ 450/tonne for potassium chloride standard.

/ **THE MARKET POSITIONS OF THE K+S GROUP** can be found in the 'Group Structure and Business Operations' section on page 58.

/ **THE DEVELOPMENT OF PRICES OF AGRICULTURAL PRODUCTS** can be found in figure 4.6.1 on page 86.

SALT BUSINESS UNIT

DE-ICING SALT – WESTERN EUROPE

Due to the mild and dry weather conditions at the beginning of 2012, the very high level of the previous year's early stocking-up business could not be achieved. Nevertheless, the creation of additional storage capacities on the customer side and cautious repeat orders at the end of the first quarter ensured an average early stocking-up sales volume in the second and third quarters. Prices decreased slightly in the early stocking-up season and in the tenders for the 2012/13 winter season, due to the high supply. In the fourth quarter, the cold weather conditions with snowfall seen at the end of November led to an overall average start to the winter season 2012/13.

DE-ICING SALT – NORTH AMERICA

The de-icing salt regions on the East Coast of the United States and in Canada were also characterised by high stocks due to the exceptionally mild winter at the start of 2012. Most producers reacted to this situation with cuts in production. In the de-icing salt regions of the United States, both in the early stocking-up business and in the tenders for the winter season 2012/13, there were declines in prices and volumes, especially in the Midwest. Both in the United States and in Canada, the winter that began late in December was not sufficient for the multi-year average sales volumes to be overall achieved in the fourth quarter.

INDUSTRIAL SALT

Demand for industrial salt was relatively stable both in Europe and South America. In North America, a certain reluctance to purchase could still be observed for water-softening products.

FOOD GRADE SALT

The demand for food grade salt in Europe as well as South and North America was at a good level in 2012. However, increased competition continued to be observed in Europe.

SALT FOR CHEMICAL USE

The European market for salt for chemical use in 2012 continued to be characterised by oversupply. Also in North and South America, competitive pressure increased.

KEY EVENTS AFFECTING THE COURSE OF BUSINESS

+ During the first half of the year, the business with potash and magnesium products was, as described under the rubric 'Industry-specific framework conditions', positively influenced by the conclusion of potash supply agreements with Chinese customers and by an attractive agricultural price level. However, the failure of North American and Russian producers to conclude contracts with Chinese and Indian customers for the second half of the year led to the capacities not being fully utilised, particularly in North America and Russia. Against this backdrop, the international prices for potassium chloride came under pressure towards the end of the third quarter. Although K+S did not have to reduce output due to its low dependence on deliveries to China and India and was able to sell a quantity comparable to that sold in 2011, the price pressure to be observed in the fourth quarter also in the markets of relevance to K+S had corresponding effects.
+ Sales volumes of de-icing salt largely depend on wintry weather conditions during the first and fourth quarters. Against this backdrop, the exceptionally mild weather conditions in Europe and North America described in 'Industry-specific framework conditions' and therefore a de-icing salt business which was, in the year as a whole, significantly below the multi-year average in terms of sales volumes, resulted in an unusually small contribution to revenues and earnings in the Salt business unit.
+ In line with the strategy of the K+S GROUP, which provides for growth in the Potash and Magnesium Products and Salt business units in particular and for focusing management resources and financial means on this, the divestment of the NITROGEN business to the Russian agrochemicals company EUROCHEM took place on 2 July 2012. The gain from the divestment (after income taxes) was € 66.9 million.

TREND IN SHARE PRICE

A detailed description of the K+S share price, including price trends, ratios and further important information about the K+S share can be found in the section 'K+S on the Capital Market' on page 22.

COMPARISON OF ACTUAL AND PROJECTED COURSE OF BUSINESS

REVENUE FORECAST

The forecast for 2012 as at 2 March 2012 (still including the discontinued operations of the NITROGEN business) submitted as part of the Financial Report 2011 by the Board of Executive Directors assumed that revenues would remain stable in relation to the level of the previous year. This statement was also valid in the quarterly financial report Q1/12. The outlook of the Half-yearly Financial Report H1/12 published in August then for the first time included a concrete range for revenue expectations for the continued operations of € 3.9 billion to € 4.2 billion. Due to a changed assumption for the annual average US dollar exchange rate and against the backdrop of the more difficult conditions for the markets relevant for the Potash and Magnesium Products business unit, we then assumed in the outlook of the Quarterly Financial Report Q3/12 that revenues should reach a value at the lower end of the range, i.e. a good € 3.9 billion. The revenues of the K+S GROUP in 2012, at € 3.9 billion, reached this forecast figure.

EXPENSES FORECAST

In the Financial Report 2011, we forecast that the total costs (still including the discontinued operations of the NITROGEN business) could rise moderately in comparison with the previous year. This statement was also valid both in the Quarterly Financial Report Q1/12 and in the Half-yearly Financial Report H1/12. In the Quarterly Financial Report Q3/12 we then expected total costs to be roughly stable in comparison with the previous year. We anticipated a slight increase in personnel expenses. Concerning energy costs, from the start, we assumed a significant increase. Regarding freight costs, we initially expected a moderate decrease. However, since the publication of the Quarterly Financial Report Q3/12, we are anticipating a tangibly lower figure. We initially forecast depreciation and amortisation of about € 240 million. Since the divestment of the NITROGEN business and publication of the Quarterly Financial Report Q1/12, we anticipated about € 230 million.

In the result for 2012, personnel expenses stood at € 981.9 million, and were, as expected, slightly above the previous year. As far as energy costs are concerned, our forecast was confirmed in view of an increase of 13 % to € 314.1 million. At € 660.7 million, freight costs fell by about 11 % and were thus also in line with our expectations. Depreciation and amortisation in 2012 amounted to € 229.2 million.

EARNINGS FORECAST

As part of the Financial Report 2011, the earnings outlook formulated by the Board of Executive Directors on 2 March 2012 assumed that operating earnings EBIT I (still including the discontinued operations of the NITROGEN business) could decrease moderately in the 2012 financial year in comparison to 2011 as a consequence of the below-average de-icing salt business at the start of the year. This statement was also valid in the Quarterly Financial Report Q1/12. In the Half-yearly Financial Report H1/12, we specified the forecast for the continued operations to a range of € 820 million to € 900 million (2011: € 906.2 million). The reasons listed with regard to the revenue expectation here too led us to assume a figure at the lower end of the range in the Quarterly Financial Report Q3/12, i.e. of about € 820 million. Ultimately, operating earnings in 2012 as a whole reached € 808.5 million and were thus, due to the non-recurrent expense arising from the sale of two further ships of the Chilean shipping company EMPREMAR (Q4/12: € (7.9) million) as well as a weaker de-icing salt business in the fourth quarter than had been assumed, slightly below the figure forecast by us in the Quarterly Financial Report Q3/12.

CAPITAL EXPENDITURE FORECAST

In the Financial Report 2011, we had still reckoned with capital expenditure of a good € 600 million for 2012 (thereof Legacy Project: € 170 million). This statement was still valid both in the Quarterly Financial Report

ACTUAL VS. FORECAST COMPARISON 2012 TAB: 4.6.2

		Forecast Financial Report 2011[1]	Forecast Q1/12[1]	Forecast H1/12	Forecast Q3/12	Actual 2012	Actual 2011	%
K+S Group								
Revenues	€ billion	stable	stable	3.9 to 4.2	good 3.9	3.9	4.0	(1.5)
EBITDA	€ million	moderate decrease	moderate decrease	1,050 to 1,130	about 1,050	1,037.7	1,146.0	(9.5)
Operating earnings (EBIT I)	€ million	moderate decrease	moderate decrease	820 to 900	about 820	808.5	906.2	(10.8)
Financial result	€ million	stable	stable	tangible decrease	significant decrease	(79.6)	(64.2)	(24.0)
Group tax rate, adjusted[2]	%	27 to 28	27 to 28	27 to 28	27 to 28	25.8	25.7	—
Group earnings from continued operations, adjusted[2]	€ million	moderate decrease	moderate decrease	540 to 600	about 530	540.8	625.6	(13.6)
Earnings per share from continued operations, adjusted[2]	€	moderate decrease	moderate decrease	2.85 to 3.15	about 2.75	2.83	3.27	(13.6)
Group earnings after taxes, adjusted[2,3]	€ million	moderate decrease	moderate decrease	630 to 690	about 630	639.7	581.8	+10.0
Earnings per share, adjusted[2,3]	€	moderate decrease	moderate decrease	3.30 to 3.60	about 3.30	3.34	3.04	+9.9
Dividend	€	at least stable	at least stable	chance to increase	chance to increase	1.40	1.30	+7.7
Capital expenditure[4]	€ million	a good 600	a good 600	a good 600	about 520	465.5	293.1	+58.8
Depreciation and amortisation[4]	€ million	240	230	230	230	229.2	239.8	(4.5)
Energy costs	€ million	significant increase	significant increase	significant increase	significant increase	314.1	277.0	+13.4
Personnel expenses	€ million	slight increase	stable	slight increase	slight increase	981.9	962.0	+2.1
Freight costs	€ million	moderate decrease	moderate decrease	moderate decrease	tangible decrease	660.7	742.1	(11.0)
Potash and Magnesium business unit								
Sales volume	t million	at the level of 2011	at the level of 2011	at the level of 2011	6.9	6.95	6.94	+0.1
Salt business unit								
Sales volume crystallised salt	t million	a good 19	less than 19	18 to 19	18 to 19	17.56	22.73	(22.7)
– of which de-icing salt	t million	about 10	less than 10	a good 9	a good 9	8.33	13.31	(37.4)

[1] Forecast still includes the discontinued operations of the Nitrogen business.
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges. Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5 % (2011: 28.4 %).
[3] Earnings from continued and discontinued operations.
[4] Capital expenditure in or depreciation on property, plant and equipment, intangible and investment properties as well as depreciation on financial assets.

Q1/12 and in the Half-yearly Financial Report H1/12. In the Quarterly Financial Report Q3/12, we reduced this forecast to about € 520 million (thereof Legacy Project: € 160 million) due to delays in the implementation of the package of measures for water protection as well as the construction of the saltwater pipeline from the Neuhof site to the Werra plant. Ultimately, the volume of capital expenditure in 2012 as a whole was € 465.5 million (thereof Legacy Project: € 142.8 million) and was therefore, in particular due to further delays, below the most recently forecast figure. / TAB: 4.6.2

4.7 EARNINGS POSITION

Unless stated otherwise, the earnings position refers to the continued operations of the K+S GROUP. Since the reporting on the second quarter of 2011, the COMPO business is stated as a "discontinued operation" in accordance with IFRS 5 as a result of its divestment on 20 June 2011. The divestment of the NITROGEN business occurred on 2 July 2012. Consequently, since the reporting on the second quarter of 2012, the NITROGEN business is also stated as a "discontinued operation" in accordance with IFRS. The income statements for the respective previous year have been adjusted accordingly.

AT € 3.9 BILLION, REVENUES APPROXIMATE PREVIOUS YEAR'S LEVEL

At € 3,935.3 million, revenues for financial year 2012 were almost on the same level as a year ago (€ 3,996.8 million). A certain seasonality can generally be recognised from the quarterly revenue figures posted during the course of the year; thus, the first and fourth quarters tend to be stronger, and the second and third somewhat weaker. In terms of volumes, the first quarter for the Potash and Magnesium business unit usually profits from the start of spring fertilization in Europe. The de-icing salt business is normally focused on the first and fourth quarters of a year, while during the second and third quarters, customers stock up early at prices that are usually more favourable. In 2012, the Potash and Magnesium Products business unit saw shifts into the second quarter as the early stocking-up of fertilizers at the start of the year was still marked by caution. In addition, less de-icing salt was sold in the first and fourth quarters of 2012 given mild and dry weather conditions. / TAB: 4.7.2

/ A DETAILED EXPLANATION OF THE REVENUES OF THE INDIVIDUAL SEGMENTS can be found on page 107.

In 2012, negative volume effects could almost be offset by positive currency and price effects. The Potash and Magnesium Products business unit achieved revenue growth mainly due to higher average prices as well as

VARIANCE ANALYSIS TAB: 4.7.1

in %	2012
Change in revenues	**(1.5)**
– volume/structure	(0.8)
– prices/price-related	+ 2.5
– exchange rates	+ 3.8
– consolidation	+ 0.2

REVENUES BY BUSINESS UNIT TAB: 4.7.2

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Potash and Magnesium Products business unit	581.9	669.5	560.5	478.7	2,290.6	2,133.6	+ 7.4
Salt business unit	458.5	287.7	318.5	420.1	1,484.8	1,710.1	(13.2)
Complementary Activities	39.1	38.1	36.4	40.1	153.7	150.4	+ 2.2
Reconciliation	1.1	1.2	1.2	2.7	6.2	2.7	+ 129.6
K+S Group	**1,080.6**	**996.5**	**916.6**	**941.6**	**3,935.3**	**3,996.8**	**(1.5)**
Share of total revenues (%)	27.5	25.3	23.3	23.9	100.0	—	—

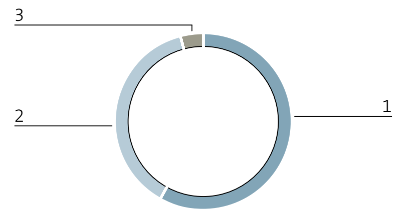
the positive development of exchange rates. Salt business unit revenues fell tangibly, especially as a result of mild and dry weather conditions, after having benefited from an above-average winter in the previous year.

/ TAB: 4.7.1
/ **DETAILED LISTS OF THE AVERAGE PRICES AND SALES VOLUMES** can be found in tables 4.10.3 and 4.10.6.

The Potash and Magnesium Products business unit posted the highest revenues of all the K+S GROUP's business units, accounting for 58 % of the total, and was followed by the Salt business unit and Complementary Activities. / FIG: 4.7.1

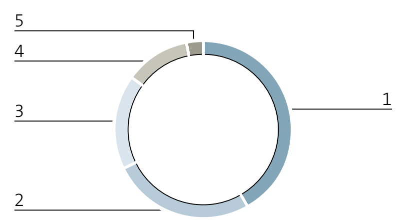
In Europe, we achieved revenues of € 1.6 billion ((6)%). Thus, this region accounted for 42 % of total revenues. North America achieved a revenue share of 26 % and South America of 17 %. Of total revenues, 12 % was accounted for by Asia. / FIG: 4.7.2

REVENUES BY UNIT FIG: 4.7.1



	in %	2012	2011
1	Potash and Magnesium Products business unit	58.3	53.4
2	Salt business unit	37.8	42.8
3	Complementary Activities	3.9	3.8

REVENUES BY REGION FIG: 4.7.2



	in %	2012	2011
1	Europe	41.9	43.7
	– of which Germany	14.8	15.8
2	North America	25.9	29.0
3	South America	17.2	13.7
4	Asia	12.0	10.6
5	Africa, Oceania	3.0	3.0

CURRENT AND FUTURE DEVELOPMENT OF ORDERS

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

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

In the Salt business unit, de-icing salt contracts for the public sector in Europe, Canada and the United States are normally issued in the form of public tenders. We take part in these in the second and third quarter for the upcoming winter season, but also, to a certain extent, for following winter seasons too. The contracts include both price and maximum volume agreements. However, as the actual volumes depend on the winter weather conditions and are therefore uncertain in advance, they cannot be classified as backlog of orders as such. This also applies to agreements with minimum purchasing obligations on the part of our customers, since they can normally be shifted to the following winter in the event of weak demand in a season.

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

DEVELOPMENT OF SELECTED COST TYPES

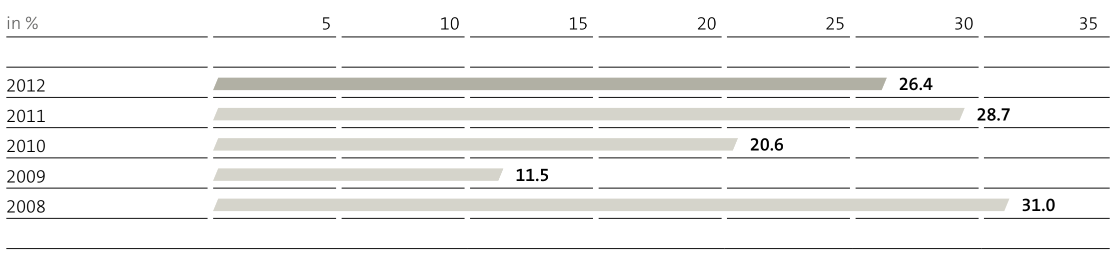
The most important cost types in detail: The personnel expenses of the K+S GROUP amounted to about 25 % of revenues and at € 981.9 million increased by 2 % on the previous year. Without provision effects, the personnel costs rose by 2 % to € 994.2 million against 2011. While expenses arising from pay settlements under collective bargaining agreements grew, costs rose due to exchange rate effects and personnel expenses increased due to a higher average number of employees, accruals for performance-related remuneration fell. Freight costs amounted to about 15 % of revenues and fell, in particular due to volume effects, by about 11 % to € 660.7 million. Expenditure on raw materials and supplies and on purchased merchandise (material costs), about 10 % measured in terms of revenues, fell by about 4 % to € 373.9 million. Energy costs, about 10 % of revenues, increased as expected by 13 % to € 314.1 million mainly for price reasons.

EBITDA BY UNIT TAB: 4.7.3

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Potash and Magnesium Products business unit	231.4	263.7	182.4	192.7	870.2	833.8	+4.4
Salt business unit	74.4	18.0	35.1	52.8	180.3	337.9	(46.6)
Complementary Activities	8.5	8.3	7.7	3.8	28.3	29.0	(2.4)
Reconciliation[1]	(10.1)	(14.2)	(11.4)	(5.4)	(41.1)	(54.7)	+24.9
K+S Group	304.2	275.8	213.8	243.9	1,037.7	1,146.0	(9.5)
Share of total EBITDA (%)	29.3	26.6	20.6	23.5	100.0	—	—

[1] Expenses and income that cannot be allocated to business units and complementary activities are recorded separately and shown under 'Reconciliation'.

EBITDA MARGIN FIG: 4.7.3



EARNINGS DEVELOPMENT IN THE PAST FINANCIAL YEAR

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA) FELL

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell in the year under review by just under 10 % to € 1,037.7 million (2011: € 1,146.0 million). The marked decline in the earnings of the Salt business unit could not be offset by the slight increase in earnings for the Potash and Magnesium Products business unit. At 26.4 %, however, the EBITDA margin reached a high level (2011: 28.7 %). As the EBITDA is not affected by depreciation on valuations made within the framework of purchase price allocations and as these have increased significantly after the acquisition of MORTON SALT, the EBITDA will now be more important in assessing the operating earnings capacity. / TAB: 4.7.3 / FIG: 4.7.3

OPERATING EARNINGS EBIT I REACH € 808.5 MILLION

The key performance indicator of the K+S GROUP, operating earnings EBIT I, fell in 2012 by € 97.7 million or 11 % to € 808.5 million (2011: € 906.2 million). These include depreciation of € 229.2 million, which decreased by € 10.6 million in comparison to the previous year. At 20.5 %, the EBIT margin reached a very good level.

/ **A DEFINITION OF EBIT I AND AN EXPLANATION OF THE TERM 'PURCHASE PRICE ALLOCATION'** can be found in the Glossary on page 220.

Operating earnings were especially influenced by the following effects: The Potash and Magnesium Products business unit was able to increase its earnings mainly as a result of higher average prices. The earnings of the Salt business unit fell strongly compared to the previous year, as the de-icing salt business was below average due to dry and mild weather conditions, having benefited from an above-average winter in the previous year. Complementary Activities were able to increase earnings by € 3.2 million. The balance of expenses and income, which cannot be allocated to the business units and to Complementary Activities (reconciliation), improved in the year under review especially as a result of lower performance-related remuneration for the Board of Executive Directors and employees to € (48.9) million (2011: € (62.6) million). The seasonality described for revenues is also reflected in earnings.

/ TAB: 4.7.4 / FIG: 4.7.4

/ **A DETAILED EXPLANATION OF THE EARNINGS OF THE INDIVIDUAL SEGMENTS** can be found on pages 107.

EARNINGS AFTER OPERATING HEDGES EBIT II REACH € 846.5 MILLION

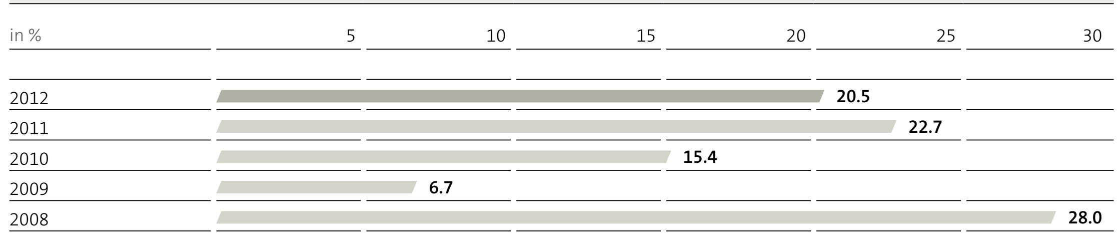
Earnings after operating hedges EBIT II achieved € 846.5 million during the year under review, having been € 882.8 million in the previous year. Compared with EBIT I, EBIT II was positively affected by earnings effects

EBIT I BY UNIT TAB: 4.7.4

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Potash and Magnesium Products business unit	208.5	240.7	158.8	165.9	773.9	739.5	+4.7
Salt business unit	45.5	(11.4)	5.1	23.2	62.4	211.4	(70.5)
Complementary Activities	6.9	6.7	6.0	1.5	21.1	17.9	+17.9
Reconciliation[1]	(12.1)	(16.2)	(13.2)	(7.4)	(48.9)	(62.6)	+21.9
K+S Group	**248.8**	**219.8**	**156.7**	**183.2**	**808.5**	**906.2**	**(10.8)**
Share of total EBIT I (%)	30.8	27.2	19.4	22.7	100.0	—	—

[1] Expenses and income that cannot be allocated to business units and complementary activities are recorded separately and shown under 'Reconciliation'.

EBIT MARGIN FIG: 4.7.4



resulting from operating forecast hedges of € 38.0 million (2011: € (23.4) million) due to a weaker US dollar compared with the "worst case" scenario. Of this amount, € +9.5 million (2011: € (25.2) million) was accounted for by the valuation of the still outstanding operating forecast hedges and € +28.5 million (2011: € +1.8 million) by the neutralisation of the market fluctuations recorded in the preceding periods.

/ **A DEFINITION OF EBIT II** can be found in the Glossary on page 221.

DEVELOPMENT OF OTHER KEY ITEMS OF THE INCOME STATEMENT

AT 45 %, GROSS MARGIN AT HIGH LEVEL OF PREVIOUS YEAR

In the case of revenues, positive price and currency effects could almost make up for negative volume effect in 2012. In reference to cost of sales, volume-related savings in the Salt business unit were faced with price-related cost increases. Overall, the gross margin was stable at 45 %.

SELLING EXPENSES FELL SLIGHTLY

In the year under review, the selling expenses of the K+S GROUP amounted to € 734.2 million (2011: € 742.4 million); of these, more than half were accounted for by freights. The other costs for sales personnel, marketing and supply chain management decreased moderately. A low double-digit million euro amount spent on advertising in the form of press advertisements, brochures, TV and radio commercials, trade fairs, product launches etc. is included in this. The majority of these costs are incurred in the Salt business unit.

GENERAL AND ADMINISTRATIVE EXPENSES ROSE

In 2012, general and administrative costs rose by € 18.5 million or 10 % to € 196.8 million. A large part of this increase was accounted for by the development of activities at K+S POTASH CANADA GP and by expenditure within the framework of IT changes at MORTON SALT. At 5.0 %, administrative costs as a proportion of revenues were slightly above the level of the previous year (4.5 %).

OTHER OPERATING INCOME EXCEEDS EXPENSES

In 2012, the balance for other operating income and expenses came to € +10.2 million after having been € +5.0 million in the previous year. The improvement chiefly results from a new assessment of the risks arising from the valuation of receivables.

NET INCOME FROM INVESTMENTS AT € 5.2 MILLION

At € 5.2 million, net income from investments in 2012 was below the level of the previous year (2011: € 9.6 million). This is due to lower income from the disposal of investments, with the previous year having benefited from non-recurrent income deriving from the divestment of a MORTON SALT investment.

FINANCIAL RESULT WEAKER THAN IN PREVIOUS YEAR

The financial result consists of net interest income and other financial result. At € (85.5) million (2011: € (65.2) million), net interest income fell in 2012. This was principally due to a non-cash, unplanned interest expense (€ 18.0 million), mainly for provisions for mining obligations. The reason for this was the necessary lowering of the average weighted discount rate for provisions for mining obligations of the K+S GROUP from 4.7 % to 4.3 % due to the significant decrease in the long-term interest level in 2012. Alongside interest expenses for pension provisions (2012: € (7.5) million; 2011: € (5.2) million), interest expenses for other non-current provisions, essentially provisions for mining obligations (2012:€ (38.9) million; 2011: € (21.9) million) are disclosed in the financial result; both are non-cash. Overall, the financial result was € (79.6) million against € (64.2) million in the previous year.

(ADJUSTED) EARNINGS BEFORE INCOME TAXES FELL

In the year under review, earnings before income taxes totalled € 766.9 million (2011: € 818.6 million). Adjusted for the effects of market value fluctuations of the operating forecast hedges (€ +38.0 million), adjusted earnings before income taxes amount to € 728.9 million. This financial indicator declined by € 113.1 million or 13 % year on year.

(ADJUSTED) GROUP EARNINGS FROM CONTINUED OPERATIONS DROPPED

In the year under review, Group earnings after taxes from continued operations amounted to € 568.0 million (2011: € 608.8 million). The anticipated income tax expense was calculated based on a domestic Group tax rate of 28.5 % (previous year: 28.4 %). In 2012, a tax expense totalling € 198.4 million was incurred (2011: € 209.3 million); this amount comprised a deferred and thus non-cash tax income of € 32.6 million (2011: deferred tax income of € 5.3 million).

For reasons of better comparison, we additionally report adjusted Group earnings from continued operations, which eliminates the effects from operating forecast hedges. Furthermore, the effects on deferred and cash taxes resulting from the adjustment are also eliminated. We compute adjusted Group earnings as shown in table 4.7.5. / **TAB: 4.7.5**

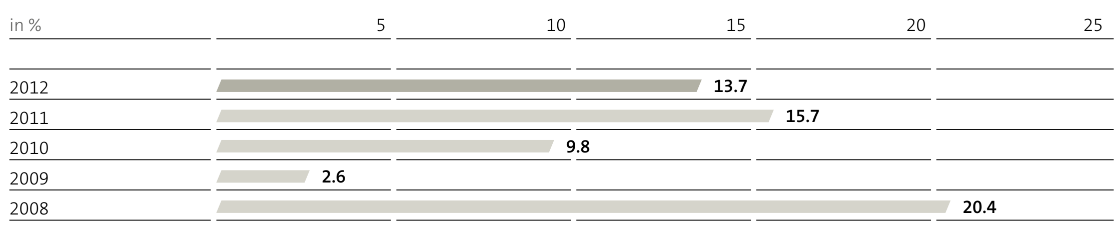
Adjusted Group earnings from continued operations fell by € 84.8 million or 14 % to € 540.8 million (2011: € 625.6 million). The main reason for this was the declining operating earnings. The adjusted Group tax ratio was thus 25.8 % in the year under review, after 25.7 % in the previous year; higher income tax payments could be more than offset by higher deferred tax income in comparison to the previous year.

The return on revenues at 13.7 % was at an attractive level also compared to previous years. / **FIG: 4.7.5**

COMPUTATION OF THE ADJUSTED GROUP EARNINGS FROM CONTINUED OPERATIONS TAB: 4.7.5

in € million	2012	2011
Group earnings from continued operations	568.0	608.8
Income (–) / expenses (+) from market value changes of operating forecast hedges still outstanding	(9.5)	+ 25.2
Neutralising of market value changes of realised operating forecast hedges recognised in previous period	(28.5)	(1.8)
Elimination of resulting deferred and cash taxes	10.8	(6.6)
Adjusted Group earnings from continued operations	**540.8**	**625.6**

RETURN ON REVENUES FIG: 4.7.5



(ADJUSTED) EARNINGS PER SHARE FROM CONTINUED OPERATIONS REACH € 2.83 (2011: € 3.27)

For the year under review, adjusted earnings per share from continued operations amounted to € 2.97. They were down 7 % on the previous year's figure of € 3.18. Adjusted for the effects of market value fluctuations of the operating forecast hedges, adjusted earnings per share from continued operations for the year under review were € 2.83, which represents a decrease of 13 % (2011: € 3.27). The current computation was performed on the basis of 191.40 million no-par value shares, being the average number of shares outstanding (previous year: 191.33 million no-par value shares).

As of 31 December 2012, we held no shares of our own. At the year's end, the total number of shares outstanding of the K+S GROUP was 191.40 million no-par value shares.

Undiluted, adjusted earnings per share are computed by dividing adjusted Group earnings after taxes and minority interests by the weighted average number of shares outstanding. As none of the conditions resulting in the dilution of earnings per share exist in the case of K+S at the present time, undiluted earnings per share correspond to diluted earnings per share. / TAB: 4.7.6

ADJUSTED GROUP EARNINGS AND ADJUSTED EARNINGS PER SHARE

Group earnings (including discontinued operations) reached € 667.6 million (2011: € 564.3 million). Adjusted Group earnings were € 639.7 million (2011: € 581.8 million). Included in this, € 98.9 million was attributable to the discontinued operations of the NITROGEN business.

Earnings per share (including discontinued operations) reached € 3.49 (2011: € 2.95); adjusted earnings per share were € 3.34 (2011: € 3.04). Of this, € 0.51 was attributable to the discontinued operations of the NITROGEN business.

/ DETAILED INFORMATION ABOUT THE DIVESTMENT OF THE NITROGEN BUSINESS can be found in the Notes to the consolidated financial statements on page 168.

GROUP EARNINGS AND EARNINGS PER SHARE TAB: 4.7.6

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Group earnings from continued operations	187.1	128.6	114.2	138.1	568.0	608.8	(6.7)
Group earnings after taxes [1]	212.2	138.1	180.2	137.1	667.6	564.3	+18.3
Earnings per share from continued operations (€)	0.98	0.67	0.60	0.72	2.97	3.18	(6.6)
Earnings per share (€) [1]	1.11	0.72	0.94	0.72	3.49	2.95	+18.3
Average number of shares (million)	191.40	191.40	191.40	191.40	191.40	191.33	—
Group earnings from continued operations, adjusted [2]	169.1	141.2	98.9	131.6	540.8	625.6	(13.6)
Group earnings after taxes, adjusted [1,2]	193.4	150.8	164.9	130.6	639.7	581.8	+10.0
Earnings per share from continued operations, adjusted (€) [2]	0.88	0.74	0.52	0.69	2.83	3.27	(13.5)
Earnings per share, adjusted (€) [1,2]	1.01	0.79	0.86	0.68	3.34	3.04	+9.9

[1] Earnings from continued and discontinued operations.
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' in the notes to the consolidated financial statements on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5 % (2011: 28.4 %).

KEY FIGURES ON EARNINGS POSITION

MARGIN KEY FIGURES

The margin key figures slightly deteriorated year on year as a result of the decline in earnings already described above. The earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 1,037.7 million resulted in an EBITDA margin of 26.4 % (2011: 28.7 %), and the EBIT margin reached 20.5 % after having been 22.7 % in 2011. The return on revenues was 13.7 % (2011: 15.7 %).

/ DEFINITIONS OF THE KEY FIGURES USED can be found on page 219.

YIELD KEY FIGURES

The yield key figures also declined slightly as a result of the weaker earnings contribution: In the reporting year, our return on equity after taxes amounted to 19.4 % (2011: 20.2 %) with the return on total investment amounting to 16.1 % (2011: 16.4 %). Against the backdrop of higher property, plant and equipment, especially as a result of higher expenditure in the Potash and Magnesium Products business unit, the return on capital employed (ROCE) fell rather more sharply and was 20.0 % for the year under review, compared with 25.2 % for the previous year. It is thus significantly above our cost of capital of 8.7 % before taxes, i.e. the K+S GROUP

MULTIPERIOD OVERVIEW OF MARGIN AND YIELD KEY FIGURES [1] TAB: 4.7.7

Figures in %	2012	2011	2010	2009	2008
Gross margin	45.1	45.4	38.1	34.4	46.8
EBITDA margin	26.4	28.7	20.6	11.5	31.0
EBIT margin	20.5	22.7	15.4	6.7	28.0
Return on revenues [2]	13.7	15.7	9.8	2.6	20.4
Return on equity after taxes [2,3]	19.4	20.2	18.7	8.4	68.6
Return on total investment [2,3]	16.1	16.4	14.7	6.9	44.9
Return on Capital Employed (ROCE)	20.0	25.2	22.0	9.3	64.0
Weighted average cost of capital before taxes	8.7	8.6	9.5	9.9	10.4
Value added (€ million)	456.8	597.3	406.1	(16.2)	1,124.5

[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' in the notes to the consolidated financial statements on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5% (2011: 28.4%).
[3] Information refers to the continued and discontinued operations of the K+S Group.

once again created considerable added value of € 456.6 million during the past financial year. / TAB: 4.7.7

/ A DETAILED EXPLANATION OF THE KEY FIGURES FOR THE MANAGEMENT OF THE CAPITAL STRUCTURE can be found on page 99.

COMPUTATION OF THE COST OF CAPITAL

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

The interest claim to which a contributor of equity would be entitled is derived from a risk-free interest rate plus a risk premium. The average of the yields of government bonds denominated in euros with a maturity of 1 to 30 years was assumed as the risk-free interest rate; at the end of 2012, this was 2.2 % (previous year: 2.4 %). The risk premium has been computed from a market risk premium of 5.5 % (in accordance with the recommendation of the Institut der deutschen Wirtschaftsprüfer (IDW – Institute of German Auditors), previous year: 4.5 %) and the beta factor of 1.04 (previous year: 1.04) applicable to K+S in relation to the MSCI EUROPE benchmark index. This means that a contributor of equity would be entitled to a notional yield of 7.9 % (previous year: 7.1 %). The market value of the equity, as of 31 December 2012, the time of the impairment tests, amounted to around € 6.7 billion (previous year: € 6.7 billion) and is derived from the price of the K+S share on that reporting date (€ 35.00) multiplied by the number of shares issued (191.40 million shares).

The average interest on debt before taxes amounts to 2.7 % (previous year: 4.0 %) and is derived from the weighted average for the interest on the financial liabilities of K+S as well as the interest on pension and mining provisions. After taking into account the adjusted Group tax ratio of 25.8 %, this results in an average cost of debt after taxes of 2.0 % (previous year: 3.0 %).

As of 31 December 2012, interest-bearing debt amounted to approximately € 2.2 billion, which was the aggregate of the market value of the financial liabilities as well as the present values of the pension provisions and the provisions for mining obligations. Total capital was accordingly about € 8.9 billion, of which about 75 % was attributable to equity valuated at market prices.

In total, this results in a weighted average cost of capital rate for the K+S GROUP of about 6.4 % (previous year: 6.3 %) after taxes and a corresponding cost of capital rate before taxes of 8.7 % (previous year: 8.6 %). This gives, on the basis of an average capital tied up of € 5,121.3 million (of which operationally tied up: € 4,042.9 million) a cost of capital of € 327.8 million for 2012.

4.8 FINANCIAL POSITION

Unless stated otherwise, the description of the financial position refers to the continued operations of the K+S GROUP. Since the reporting on the second quarter of 2011, the COMPO business is stated as a "discontinued operation" in accordance with IFRS 5 as a result of its divestment on 20 June 2011. The divestment of the NITROGEN business occurred on 2 July 2012. Consequently, since the reporting on the second quarter of 2012, the NITROGEN business is stated as a "discontinued operation" in accordance with IFRS. The income statement and the cash flow statement of the previous year were adjusted correspondingly. The balance sheet was not adjusted.

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT OF THE K+S GROUP

FINANCIAL MANAGEMENT IS CENTRALLY CONTROLLED

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

+ securing liquidity and controlling it efficiently across the Group,
+ maintaining and optimising the financing capability of the Group as well as
+ reducing financial risks also by means of financial instruments.

In cash management, we focus on the management of our liquidity as well as the optimisation of payment streams within the Group. In order to maintain and optimise the financing capability of the Group and to optimise the cost of capital for borrowed capital and for equity, we aim to achieve a situation where the K+S GROUP has a capital structure in the long term, which is orientated to the usual criteria and key figures for an "investment grade" rating. The management of the capital structure is undertaken on the basis of the key figures presented in table 4.8.1. / TAB: 4.8.1

KEY FIGURES FOR THE MANAGEMENT OF THE CAPITAL STRUCTURE TAB: 4.8.1

	Target corridor	2012	2011	2010	2009	2008
Net indebtedness/EBITDA	1.0 to 1.5	0.7	0.5	0.8	2.4	0.4
Net indebtedness/Equity (%)	50 to 100	21.7	19.8	27.6	64.5	33.2
Equity ratio (%)	40 to 50	52.4	50.9	47.6	40.1	49.5

Against the backdrop of the high level of earnings as well as a continued low level of net indebtedness, it proved possible to exceed, once again, the targets set as of 31 December 2012. In view of the upcoming investments in the expansion of our potash capacities in Canada (Legacy Project) as well as the Werra package of measures, the solid capital structure provides a good starting point for the further development of the K+S GROUP.

Group currency and interest rate management is performed centrally for all Group companies. Derivative financial instruments are only entered into with top-rated banks and are spread across several banks so as to reduce the risk of default.

FOREIGN CURRENCY HEDGING SYSTEM

Exchange rate fluctuations can lead to the value of the service performed not matching the value of the consideration, because income and expenditure arise at different times in different currencies (transaction risks). Exchange rate fluctuations, especially in relation to the US dollar, play a particular role for the Potash and Magnesium Products business unit, in relation to the levels of its proceeds and receivables. Within the framework of transaction hedging, key net positions per currency are hedged through derivatives, normally options and futures. Furthermore, currency effects arise at subsidiaries whose functional currency is not the euro (translation risks): On the one hand, the earnings of these companies determined in a foreign currency are translated into euros at average rates and recognised in profit or loss, and on the other hand, their net assets are translated into euros at spot rates. This can result in currency-related fluctuations in the equity of the K+S GROUP. Translation effects from the conversion of US dollars mainly appear in the Salt business unit.

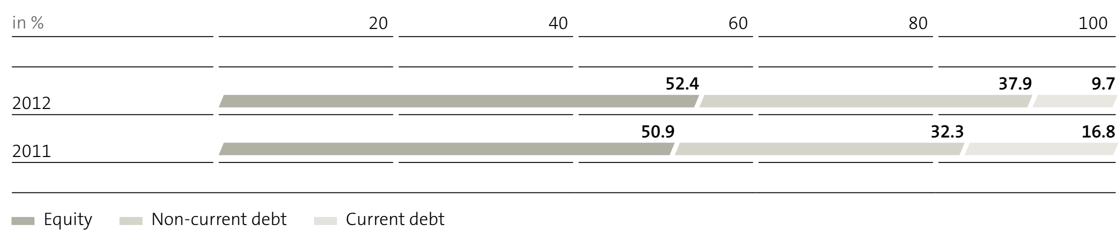
Within the framework of transaction hedging, options and futures are utilised to hedge the worst case, but at the same time the opportunity is created for part of the hedging transactions to participate in a more favourable exchange rate development.

For 2012, the price realised by the Potash and Magnesium Products business unit was 1.32 USD/EUR including costs (previous year: 1.35 USD/EUR). The hedging measures therefore led to a slightly poorer exchange rate after premiums in comparison to the average USD/EUR spot rate. / TAB: 4.8.2

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT TAB: 4.8.2

	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012
USD/EUR exchange rate after premiums	1.35	1.34	1.31	1.30	1.35	1.32
Average USD/EUR spot rate	1.39	1.31	1.28	1.25	1.30	1.28

EQUITY AND LIABILITIES FIG: 4.8.1



For the construction of the new potash plant in Canada (Legacy Project), during the primary investment phase until 2016, payments will be made in the Canadian dollar (CAD) and the US dollar (USD). The Canadian dollar investment is partly aided by a natural hedge arising from surpluses in the salt business in Canada. Futures or options should also be used to hedge the remaining CAD net position, which define a worst-case scenario, but also provide an opportunity to participate in a Canadian dollar that may become weaker again. The US dollar investments are included in the USD net position of the Potash and Magnesium Products business unit; during the investment phase, this leads to a reduction of the total US dollar volume requiring hedging. In the subsequent operating phase, the hedge volume will increase given the anticipated additional USD revenues.

/ A DESCRIPTION OF THE LEGACY PROJECT AND ITS PHASES can be found in the Opportunity Report on page 143.

FINANCING ANALYSIS

The financing analysis for 2012 refers to the continued operations of the K+S GROUP. In accordance with IFRS 5, the previous year's balance sheet was not adjusted and contains the assets and liabilities of the divested NITROGEN business.

The K+S GROUP has a strong financial basis as well as a high potential for operating earnings and cash flow. This means that we are able to respond flexibly to investment and acquisition opportunities if they make sense strategically and satisfy our profitability criteria.

Compared with the end of 2011, the financing structure of the K+S GROUP has displayed further improvement. As of 31 December 2012, a good 90 % of the financing of the K+S GROUP resulted from equity and non-current debt, which itself consists of bond payables and provisions. Furthermore, there are also financing possibilities available at banks, which, if need be, can offer us additional borrowing. / FIG: 4.8.1 / TAB: 4.8.3

EQUITY INCREASED TANGIBLY

Equity increased from € 3,084.6 million to € 3,477.8 million, mainly due to earnings-related factors, and the equity ratio rose from 50.9 % to 52.4 % of the balance sheet total.

/ A COMPUTATION OF THE COST OF EQUITY can be found on page 98.

PROPORTION OF DEBT INCREASES WITH SECOND BOND ISSUE

In 2012, the debt of the K+S GROUP increased from € 2,972.3 million to € 3,161.7 million. As of 31 December 2012, it consisted of about 37 % provisions, approximately 40 % financial liabilities, around 9 % accounts payable trade, and 11 % tax liabilities from income taxes and deferred taxes.

As of 31 December 2012, non-current debt, including non-current provisions, totalled € 2,514.3 million; the increase compared to the previous year's figure (€ 1,953.6 million) is largely attributable to the issuing of a second bond with a volume of € 500 million in June 2012. The proportion of non-current debt has declined to 37.9 % of the balance sheet total (31 December 2011: 32.3 %).

Current debt fell from € 1,018.7 million at the end of 2011 to € 647.4 million as of 31 December 2012, mainly as a result of a decline in accounts payable trade in connection with the divestment of the NITROGEN business. The proportion of current debt in relation to the balance sheet total thus fell from 16.8 % in the previous year to 9.7 % as of 31 December 2012.

/ FURTHER DETAILS OF THE CHANGE IN INDIVIDUAL BALANCE SHEET ITEMS can be found in the Notes to the consolidated financial statements on page 188.

FINANCIAL LIABILITIES

As of 31 December 2012, financial liabilities amounted to € 1,265.8 million; of this, only € 0.9 million were to be classified as current. The majority of non-current debt is attributable to the corporate bonds issued by us in September 2009 (maturity: September 2014; interest coupon: 5.0 % p.a.) as well as in June 2012 (maturity: June 2022; interest coupon 3.0 % p.a.).

/ A COMPUTATION OF THE COST OF DEBT can be found on page 98; an overview of the maturity profile is on page 130.

Financial liabilities in foreign currencies are predominantly denominated in US dollar. As of 31 December 2012, they amounted to just € 18.9 million after conversion.

PROVISIONS

The main non-current provisions of the K+S GROUP are for mining obligations as well as for pensions and similar obligations.

The provisions for non-current mining obligations amounted to € 706.6 million after having been € 580.6 million in the previous year. The increase is largely attributable to the annual interest accumulation of provisions, the recognition of additional provisions for mining risks and the revaluation of existing provisions. About € 50 million of the increase is attributable to the necessary lowering of the average weighted discount factor from 4.7 % to 4.3 % due to the significant decrease in the long-term interest level in 2012. This was reflected in a non-cash, unplanned interest expense (€ 14.2 million). An increase in the discount factor of half a percentage point would result in a reduction of the carrying amount by about € 71 million. Conversely, a reduction in the discount factor of half a percentage point would cause provisions for mining obligations to rise by about € 95 million. It is important to note in this regard that the described changes in provisions resulting from a change in the discount rate do not result in a corresponding impact on earnings. For a material part of the provisions for mining obligations, the adjustments on the basis of the change in valuation parameters must be carried out under the provisions of IFRIC 1. A balance sheet reduction or extension would therefore generally result for the corresponding provision items. Furthermore, effects arising from the adjustment of other valuation parameters (e.g. the rate of inflation) can counteract the effect of a change in the discount rate.

The non-current provisions for pensions and similar obligations amounted to € 88.8 million after having been

MULTIPERIOD OVERVIEW OF FINANCIAL POSITION [1] TAB: 4.8.3

in € million	2012	2011	2010	2009	2008
Equity	3,477.3	3,084.6	2,651.6	2,094.6	1,718.3
Equity ratio (%)	52.4	50.9	47.6	40.1	49.5
Non-current debt	2,514.3	1,953.6	1,919.1	2,235.7	756.4
– thereof provisions for pensions and similar obligations	88.8	95.3	184.8	194.3	93.1
– thereof provisions for mining obligations	706.6	580.6	528.4	419.2	378.3
Non-current provisions as share of balance sheet (%)	14.0	13.6	15.5	16.0	16.4
Current debt	647.4	1,018.7	1,003.0	886.8	999.1
– thereof accounts payable – trade	289.2	613.8	511.2	346.9	465.4
Financial liabilities	1,265.8	770.6	786.6	1,266.9	266.4
Net financial liabilities	(39.4)	(65.1)	19.3	737.8	98.6
Net indebtedness	756.0	610.8	732.5	1,351.3	570.0
Level of indebtedness I (%)	36.4	25.0	29.7	60.5	15.5
Level of indebtedness II (%)	21.7	19.8	27.6	64.5	33.2
Working Capital	1,025.7	840.9	959.4	970.5	962.3
Cash flow from operating activities [2,3]	650.6	743.4	829.1	537.1	810.1
Free cash flow before acquisitions / divestments [2,3,4]	246.7	491.5	651.4	368.1	639.9
Cash flow for / from financing activities [2]	243.0	(261.7)	(439.7)	1,168.1	(318.0)

[1] Information refers to the continued operations of the K+S Group; the years 2008 until 2010 as well as the years 2008 until 2011 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.
[2] Information for the years 2010 until 2012 refers to the continued operations of the K+S Group.
[3] Without out-financing of pension obligations in the amount of: 2012: € (43.4) million, 2011: € (110.0) million, 2010: € (2.7) million, 2009: € (2.3) million, 2008: € (7.4) million.
[4] Without investments in / sales of securities and other financial investments in the amount of: 2012: € (558.5) million, 2011: € (372.4) million, 2008: € 0.0 million.

€ 95.3 million in the previous year; the decline is mainly attributable to a further out-financing of pension obligations. The actuarial measurement of pension provisions is performed applying the projected unit credit method in accordance with IAS 19. Due to a lower level of market interest rates, the average weighted discount factor for pensions and similar obligations fell to 3.8 % as of 31 December 2012 after having been 4.8 % in the previous year. The change in the level of market interest rates does indeed impact on the amount of pension obligations, but because of the use of the corridor method (IAS 19) up to and including 2012, it does not directly impact on their balance sheet value.

/ **AN EXPLANATION OF THE EFFECTS OF NEW ACCOUNTING STANDARDS** can be found in the Notes to the consolidated financial statements on page 180.

IMPORTANCE OF OFF-BALANCE SHEET FINANCING INSTRUMENTS FOR THE FINANCIAL AND THE ASSET POSITION

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

CAPITAL EXPENDITURE ANALYSIS

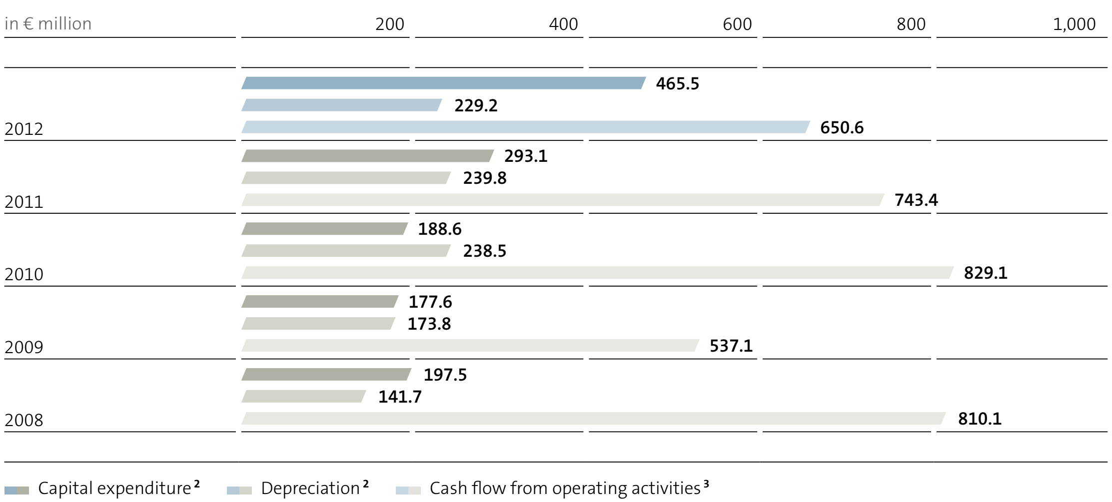
In 2012, the K+S GROUP invested € 465.5 million; this represents an increase of € 172.4 million or 59 %. Of this, some € 142.8 million was accounted for by infrastructure investments and drilling operations for the Legacy Pro-

CAPITAL EXPENDITURE BY UNIT [1] TAB: 4.8.4

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Potash and Magnesium Products business unit	23.9	54.1	80.8	174.1	332.9	162.1	+105.4
Salt business unit	13.8	19.6	17.8	60.1	111.3	112.3	(0.9)
Complementary Activities	0.6	1.4	1.1	3.2	6.3	4.3	+46.5
Other capital expenditure	2.9	2.6	2.8	6.7	15.0	14.4	+4.2
K+S Group	**41.2**	**77.7**	**102.5**	**244.1**	**465.5**	**293.1**	**+58.8**
Share of capital expenditure (%)	8.9	16.7	22.0	52.4	100.0	—	—

[1] Capital expenditure of continued operations in property, plant and equipment, intangible assets and investment properties.

CAPITAL EXPENDITURE COMPARED WITH DEPRECIATION AND CASH FLOW FROM OPERATING ACTIVITIES [1] FIG: 4.8.2



[1] Information refers to the continued operations of the K+S Group; the years 2008 and 2009 as well as the years 2008 until 2010 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.
[2] Investments in or depreciation on property, plant and equipment, intangible assets and investment properties as well as depreciation on financial assets.
[3] Without out-financing of pension obligations in the amount of: 2012: € (43.4) million, 2011: € (110.0) million, 2010: € (2.7) million, 2009: € (2.3) million, 2008: € (7.4) million.

ject in Canada. The increase is also attributable to the execution of the package of measures on water protection in the Hesse-Thuringia potash district as well as the construction of the saline wastewater pipeline from the Neuhof site to the Werra plant. A certain degree of seasonality is evident for capital expenditure; generally, investment undertakings are implemented predominantly in the third and fourth quarters, since we use the pauses in production at that time to implement larger-scale investment projects. / TAB: 4.8.4

At the end of the year, there were capital expenditure obligations totalling € 223.1 million, which relate to as yet uncompleted investment undertakings from 2012.

Measures relating to replacing and ensuring production accounted for € 266.6 million or just under 60 % of the investments made. Depreciation totalled € 229.2 million. / FIG: 4.8.2

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

Our capital expenditure in the Potash and Magnesium Products business unit totalled € 332.9 million, i.e. € 170.8 million or 105 % more than in the previous year, of which € 142.8 million was invested in infrastructure and drilling operations for the Legacy Project in Canada, just under € 50 million for the package of measures for water protection in the Hesse-Thuringia potash district as well as about € 25 million for the construction of the saline wastewater pipeline from the Neuhof site to the Werra plant. There was also a focus on projects for improving the exploitation of raw materials. Measures relating to replacing and ensuring production accounted for just under half of the capital expenditure.

SALT BUSINESS UNIT

At € 111.3 million, capital expenditure made in the Salt business unit in 2012 was more or less stable in relation to the previous year. Key projects included the modernisation of a MORTON SALT evaporated salt plant in Hutchinson, USA, the expansion of the sifting capacities at SPL, the replacement of a ship at our Chilean shipping company EMPREMAR, and measures to optimally use shaft capacities at the Borth salt site in Germany. Measures relating to replacing and ensuring production accounted for about two thirds of the volume of capital expenditure.

COMPLEMENTARY ACTIVITIES

During the year under review, capital expenditure on Complementary Activities amounted to € 6.3 million, an increase of 2.0 million in relation to the previous year's figure (2011: € 4.3 million). In the Waste Management and Recycling business, further progress was made on the development of a further field for underground reutilisation at the German Bernburg site. In total, measures relating to replacing and ensuring production accounted for most of the capital expenditure.

CASH FLOW REVIEW[1] TAB: 4.8.5

in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Gross cash flow	264.5	212.2	148.4	187.9	813.0	859.0	(5.4)
Cash flow from operating activities[2]	187.1	148.6	139.3	175.6	650.6	743.4	(12.5)
Cash flow for investing activities[3]	(54.4)	(74.9)	(93.8)	(185.0)	(408.1)	(494.7)	+17.5
– of which acquisitions/divestments	(4.2)	—	—	—	(4.2)	(242.8)	+98.3
Free cash flow[2,3]	132.7	73.7	45.5	(9.4)	242.5	248.7	(2.5)
Free cash flow before acquisitions/divestments[2,3]	**136.9**	**73.7**	**45.5**	**(9.4)**	**246.7**	**491.5**	**(49.8)**
Share of total free cash flow (%)	55.5	29.9	18.4	(3.8)	100.0	—	—
Cash flow for/from financing activities	2.9	244.4	(3.5)	(0.8)	243.0	(261.7)	—
Operational change in cash and cash equivalents[2,3]	+131.1	+327.3	+40.1	(13.9)	+484.6	(8.6)	—

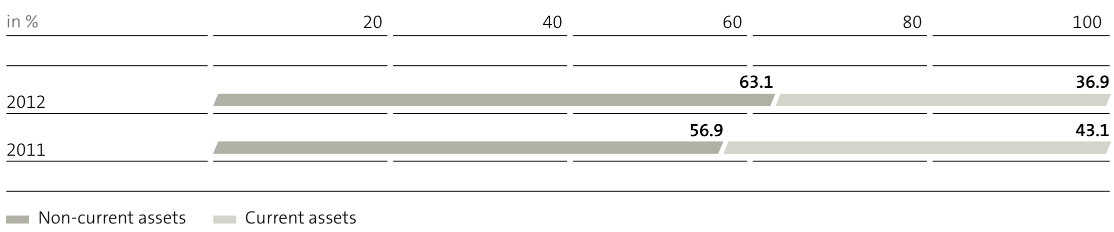
[1] Information refers to the continued operations of the K+S Group.
[2] Without out-financing of pension obligations in the amount of: Q1/12: € (3.7) million, Q2/12: € (3.2) million, Q3/12: € (3.2) million, Q4/12: € (33.3) million, 2012: € (43.4) million, 2011: € (110.0) million.
[3] Without investments in/sales of securities and other financial investments in the amount of: Q1/12: € (59.0) million, Q2/12: € (145.0) million, Q3/12: € (360.3) million, Q4/12: € +5.8 million, 2012: € (558.5) million, 2011: € (372.4) million.

LIQUIDITY ANALYSIS

Gross cash flow reached € 813.0 million in the year under review and was therefore € 46.0 million or 5 % below the previous year's figure (2011: € 859.0 million). The decrease followed the earnings development. Lower operating earnings were offset by lower income tax payments. / TAB: 4.8.5

Cash flow provided by operating activities (excluding out-financing of pension obligations) declined by 13 % to € 650.6 million compared to the year before (2011: € 743.4 million). During the year under review, the development of working capital was as follows: In the Potash and Magnesium Products business unit, inventories rose slightly, mainly as a result of price factors, while in the previous year, the more cautious attitude of the trade sector had resulted in a sharper volume-related increase in the fourth quarter. In the Salt business unit, stocks largely remained on the high level, to which they had increased in the previous year as a result of the mild winter in the fourth quarter of 2011. While receivables in the Potash and Magnesium Products business unit had risen more sharply in 2011 as a result of price factors, the increase in the year under review was lower. Receivables for the Salt business unit rose, while the previous year had seen a decrease as a result of the weak de-icing salt business in the fourth quarter of 2011. While the increase in the liabilities of the K+S GROUP was approximately on the previous year's level, the overall lower increase in inventories could more or less make up for the increase in receivables, so that the change in working capital largely remained stable in comparison to the previous year.

ASSETS FIG: 4.9.1



During the year under review, cash flow for investing activities (excluding investments in securities) amounted to € (408.1) million and was thus below the level of the previous year (2011: € (494.7) million). The absence of disbursements for the acquisition of POTASH ONE (2011: € (242.8) million) was offset by higher disbursements related to property, plant and equipment, especially as a result of higher capital expenditure in the Potash and Magnesium Products business unit. Free cash flow (excluding out-financing of pension obligations and investments in securities) totalled € 242.5 million (2011: € 248.7 million). Adjusted for acquisitions/divestments, the free cash flow fell by € 244.8 million to € 246.7 million in comparison to the same period in the previous year.

Cash flow from financing activities for the year under review was € 243.0 million (2011: € (261.7) million). The change is mainly attributable to the issuance of the second bond (€ 497.1 million). As of 31 December 2012, net cash and cash equivalents amounted to € 345.0 million (31 December 2011: € 437.3 million). It should be noted that € 870.8 million was invested in securities and other financial investments, while inflows of € 312.3 million came from the sale of matured securities and financial investments. These relate to investments mainly in time deposits and money market instruments, which continue to remain available as cash reserves.

Net indebtedness (including non-current provisions for pensions and mining obligations totalling € 795.4 million) amounted to € 756.0 million as of 31 December 2012 (31 December 2011: € 610.8 million).

4.9 ASSET POSITION

The description of the asset position refers to the continued operations of the K+S GROUP. The previous year's balance sheet was not adjusted and contains the assets and liabilities of the NITROGEN business divested in 2012.

ANALYSIS OF ASSET STRUCTURE

As of 31 December 2012, the balance sheet total of the K+S GROUP amounted to € 6,639.0 million. At 63:37, the ratio of non-current assets to current assets once again shifted somewhat towards non-current assets compared to the previous year. / FIG: 4.9.1 / TAB: 4.9.1

Property, plant and equipment increased to € 2,527.4 million (31 December 2011: € 2,227.0 million). This is mainly attributable to capital expenditure in the Potash and Magnesium business unit; the divestment of the

MULTIPERIOD OVERVIEW OF NET ASSET POSITION[1] TAB: 4.9.1

in € million	2012	2011	2010	2009	2008
Property, plant and equipment, intangible assets	3,528.2	3,247.9	2,803.3	2,658.0	1,423.5
Financial assets, non-current securities and other financial investments	515.4	74.4	24.1	22.4	22.3
Inventories	687.9	730.0	740.2	680.4	684.6
Accounts receivable – trade	770.3	928.8	949.8	849.6	901.5
Cash and cash equivalents, current securities and other financial investments	786.8	757.8	748.4	529.1	167.8
Net financial liabilities	(39.4)	(65.1)	19.3	737.8	98.6
Net indebtedness	756.0	610.8	732.5	1,351.3	570.0
Equity / fixed assets ratio I (%)	98.1	94.5	93.8	78.2	119.9
Equity / fixed assets ratio II (%)	169.1	154.4	161.8	161.7	171.9
Liquidity ratio I (%)	121.5	74.4	74.6	59.7	16.7
Liquidity ratio II (%)	266.2	180.3	186.7	172.6	121.7
Liquidity ratio III (%)	378.1	256.1	262.9	252.7	192.8

[1] Information refers to the continued operations of the K+S Group; the years 2008 until 2010 as well as the years 2008 until 2011 also include the discontinued operations of the COMPO business and the Nitrogen business, respectively.

NITROGEN business did not have a significant impact because of its low property, plant and equipment. Financial assets as well as non-current securities and other financial investments increased to € 515.4 million (31 December 2011: € 74.4 million), as the proceeds from the second bond issue were temporarily invested in securities and other financial investments. As a consequence of the divestment of the NITROGEN business, inventories fell slightly to € 687.9 million (31 December 2011: € 730.0 million). Trade receivables fell to € 770.3 million at the end of the year (31 December 2011: € 928.8 million) for the same reason. Current securities and other financial investments increased to € 435.0 million (31 December 2011: € 315.0 million); these relate to investments mainly in time deposits and money market instruments with terms of between three and twelve months, which continue to remain available as cash reserves. Including the cash inflow from the divestment of the NITROGEN business, cash and cash equivalents totalled € 351.8 million (31 December 2011: € 442.8 million) at the end of the year. Adding to this the investments in current securities totalling € 435.0 million as described above, the cash and cash equivalents have increased slightly in comparison to the previous year.

Including cash and cash equivalents (€ 351.8 million), the non-current and current securities and other financial investments (€ 934.5 million), non-current provisions for mining obligations and pensions (€ 706.6 million and € 88.8 million, respectively) and the financial liabilities (€ 1,265.8 million), and after taking into account claims for reimbursement in connection with a bond at MORTON SALT (€ 18.9 million), this results in net indebtedness for the K+S GROUP of € 756.0 million as of 31 December 2012 (31 December 2011: € 610.8 million).

/ DEFINITIONS OF THE KEY FIGURES USED can be found in the 'Further Information' section on page 219.

EARMARKED PLAN ASSETS

In 2005, we started on the out-financing of obligations for pensions and partial retirement of the domestic companies through a Contractual Trust Arrangement (CTA) model. By making allocations to the CTA model, the corresponding financial resources are earmarked for the purpose of settling pension obligations and early retirement arrangements. The same applies to plan assets, which are earmarked for financing the pension obligations of the MORTON GROUP. Furthermore, there are pledged reinsurance arrangements which are also to be classed as plan assets according to IFRS. In accordance with IFRS, the obligations for pensions and partial retirement and the associated plan assets are recorded on a net basis. The funds earmarked in connection with personnel obligations increased by € 58.1 million to a total of € 415.5 million in 2012 mainly as a result of further allocations as well as positive performance. Details on the composition of these plan assets as well as the out-financing arrangements performed in 2012 can be found in the Consolidated Notes under note (21) 'Provisions for pensions and similar obligations' as well as under note (23) 'Non-current obligations to employees'.

OFF-BALANCE SHEET ASSETS

Other financial obligations totalled € 299.2 million as of 31 December 2012 (31 December 2011: € 197.4 million) concern both obligations arising from as yet uncompleted capital expenditures as well as from operating leases for items of factory and office equipment (e. g. printers, photocopiers and IT peripherals). In addition, vehicles and storage capacities are leased. Due to the chosen contractual structures, these items are not to be carried under fixed assets on the balance sheet. Information about other intangible, unrecognised assets in the sense of customer and supplier relationships as well as organisational and procedural advantages can be found in our Corporate / Sustainability Report on pages 43, 69 and 101; investors and capital market relationships are explained in the 'K+S on the Capital Market' section on page 26.

COMMENTS ON ACQUISITIONS AND DIVESTMENTS OF COMPANIES

On 8 May 2012, K+S announced that it wanted to sell the NITROGEN business to the Russian agrochemicals company EUROCHEM. Closing took place on 2 July 2012. The gain (after income taxes) was € 66.9 million. Since the second quarter of 2012, the NITROGEN business is stated as a "discontinued operation" in accordance with IFRS.

ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG, an indirect 100 % subsidiary of K+S AKTIENGESELLSCHAFT, acquired the Czech salt processing company, SOLNÉ MLÝNY, A.S. (SMO) on 3 January 2012. SMO is a major supplier of salt products in the Czech Republic and is also active in other neighbouring European regions. The purchase price was € 4.4 million.

The aforementioned transactions were performed within the two-pillar strategy of the K+S GROUP. This provides for growth in the Potash and Magnesium Products and Salt business units in particular and for focusing management resources and financial means on this.

/ **FURTHER INFORMATION** can be found in the Notes to the consolidated financial statements on page 168 and 173.

4.10 SEGMENT DEVELOPMENT

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

AT € 2.3 BILLION, REVENUES ROSE 7 % YEAR ON YEAR

In financial year 2012, revenues of the business unit increased by € 157.0 million or 7 % to € 2,290.6 million; this is attributable to a significant increase in the average price of the product range as well as to a positive development of the exchange rate. Sales volumes in 2012 totalled 6.95 million tonnes and were on a par with the high level of the previous year (6.94 million tonnes).

/ **TAB: 4.10.1, 4.10.2, 4.10.3**

/ **A DESCRIPTION OF THE MARKET ENVIRONMENT IN THE POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT** can be found on page 87 in the 'Industry-specific conditions' section.

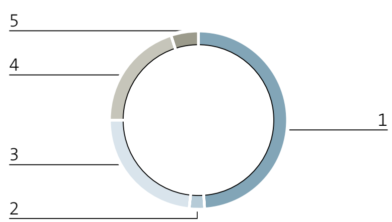
VARIANCE ANALYSIS TAB: 4.10.1

in %	2012
Change in revenues	**+7.4**
– volume / structure	+0.7
– prices / price-related	+3.3
– exchange rates	+3.4
– consolidation	–
Potassium chloride	+13.2
Fertilizer specialities	+3.5
Industrial products	(2.8)

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT TAB: 4.10.2

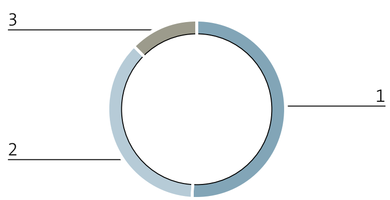
in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Revenues	581.9	669.5	560.5	478.7	2,290.6	2,133.6	+ 7.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	231.4	263.7	182.4	192.7	870.2	833.8	+ 4.4
Operating earnings (EBIT I)	208.5	240.7	158.8	165.9	773.9	739.5	+ 4.7
Capital expenditure	23.9	54.1	80.8	174.1	332.9	162.1	+ 105.4
Employees as of reporting date (number)	8,208	8,209	8,374	—	8,310	8,188	+ 1.5

REVENUES BY REGION FIG: 4.10.1



	in %	2012	2011
1	Europe	48.9	53.4
	– of which Germany	12.9	14.5
2	North America	2.8	2.7
3	South America	23.5	18.9
4	Asia	19.8	19.6
5	Africa, Oceania	5.0	5.4

REVENUES BY PRODUCT GROUP FIG: 4.10.2



	in %	2012	2011
1	Potassium chloride	51.1	48.5
2	Fertilizer specialities	36.5	37.8
3	Industrial products	12.4	13.7

The proportion of revenues generated in Europe in the year under review amounted to 49 %; this revenue share is largely free of any direct foreign exchange risk. A large part of the remaining revenues was generated in South America and Asia. / FIG: 4.10.1

During the year under review, revenues for potassium chloride – our most significant product in terms of volume – rose by € 136.7 million or 13 % to € 1,171.8 million; increased sales volumes, positive exchange rate effects as well as higher average prices compared with the previous year resulted in this rise. In Europe, we sold 1.03 million tonnes of potassium chloride; this figure was down about 8 % on the previous year (2011: 1.12 million tonnes). Overseas sales amounted to 2.22 million tonnes and were thus 14 % up on the previous year (2011: 1.95 million tonnes).

With fertilizer specialities, we achieved revenues of € 835.6 million during the past financial year, an increase of almost 4 % (2011: € 807.1 million). In this product group too, the decisive factor were higher prices on average, which, in conjunction with positive currency effects, were able to more than make up for decreases in sales volumes in Europe. While the European sales volume reached 1.97 million tonnes ((5)%), at 0.99 million tonnes, the sales volume overseas was 1 % higher than in the previous year.

In the industrial products area, revenues decreased by 3 % to € 283.2 million (2011: € 291.4 million); positive price and currency effects were not able to make up for negative volume effects. Sales volumes amounted

DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES BY REGION [1] TAB: 4.10.3

		Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Revenues	**€ million**	**581.9**	**669.5**	**560.5**	**478.7**	**2,290.6**	**2,133.6**	**+7.4**
Europe	€ million	318.7	273.0	268.4	258.6	1,118.7	1,139.9	(1.9)
Overseas	US$ million	345.0	508.1	365.2	275.2	1,493.5	1,380.8	+8.2
Sales volumes	**t eff. million**	**1.78**	**1.96**	**1.69**	**1.52**	**6.95**	**6.94**	**+0.2**
Europe	t eff. million	0.98	0.85	0.85	0.84	3.52	3.75	(6.2)
Overseas	t eff. million	0.80	1.11	0.84	0.68	3.43	3.19	+7.6
Average Prices	**€/t eff.**	**327.4**	**340.8**	**332.3**	**314.2**	**329.4**	**307.6**	**+7.1**
Europe	€/t eff.	326.1	319.5	315.7	308.4	317.8	304.2	+4.5
Overseas	US$/t eff.	431.1	457.7	436.5	400.6	434.9	432.8	+0.5

[1] Revenues include prices both inclusive and exclusive of freight costs and, in the case of overseas revenues, are based on the respective USD/EUR spot rates. For most of these revenues, hedging transactions have been concluded. The price information is also affected by the respective product mix and is therefore to be understood as providing a rough indication only.

to 0.51 million tonnes ((7)%) in Europe and to 0.23 million tonnes ((12)%) overseas. / FIG: 4.10.2

EBITDA AND OPERATING EARNINGS EBIT I ROSE

For the year under review, earnings before interest, taxes, depreciation and amortisation (EBITDA) of the business unit amounted to € 870.2 million and were up € 36.4 million, or 4 %, year on year (2011: € 833.8 million).

It proved possible to increase operating earnings EBIT I by € 34.4 million or 5 % to € 773.9 million. This includes depreciation of € 96.3 million, which increased by € 2.0 million in comparison to those for the previous year. The improvement in earnings is particularly attributable to higher average prices across the overall product range; these were able to more than make up for increased costs, especially in the case of personnel, energy, costs for the Legacy Project as well as the effect of the reduction in stocks. Earnings for 2012 benefited by about € 8 million from the stronger US dollar.

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT can be found on page 140.

SALT BUSINESS UNIT

AT € 1.5 BILLION, REVENUES DOWN 13 % ON PREVIOUS YEAR'S HIGH LEVEL

In the year under review, revenues generated by the Salt business unit amounted to € 1,484.8 million and were thus down € 225.3 million or 13 % on the previous year's figure. Negative volume effects contrasted with positive currency and structural effects. Sales of crystallised salt during the year under review totalled 17.56 million tonnes and were thus down just under 23 % on the high level of the previous year (22.73 million tonnes) as a result of the mild and dry weather conditions during the year under review. / TAB: 4.10.4, 4.10.5, 4.10.6

/ A DESCRIPTION OF THE MARKET ENVIRONMENT IN THE SALT BUSINESS UNIT can be found on page 88 in the 'Industry-specific conditions' section.

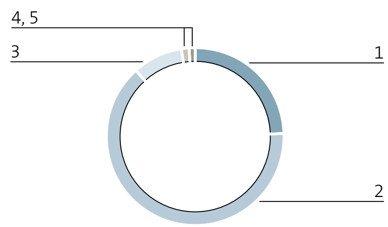
VARIANCE ANALYSIS TAB: 4.10.4

in %	2012
Change in revenues	**(13.2)**
– volume/structure	(19.7)
– prices/price-related	+1.7
– exchange rates	+4.5
– consolidation	+0.3
Food grade salt	+7.9
Industrial salt	+2.7
Salt for chemical use	+17.9
De-icing salt	(38.4)
Other	+4.2

SALT BUSINESS UNIT TAB: 4.10.5

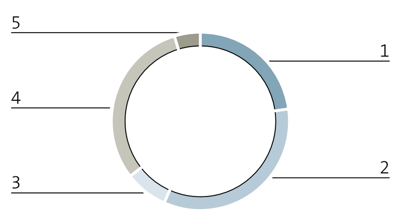
in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Revenues	458.5	287.7	318.5	420.1	1,484.8	1,710.1	(13.2)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	74.4	18.0	35.1	52.8	180.3	337.9	(46.6)
Operating earnings (EBIT I)	45.5	(11.4)	5.1	23.2	62.4	211.4	(70.5)
Capital expenditure	13.8	19.6	17.8	60.1	111.3	112.3	(0.9)
Employees as of reporting date (number)	5,179	5,172	5,033	—	5,092	5,230	(2.6)

REVENUES BY REGION FIG: 4.10.3



	in %	2012	2011
1	Europe	24.9	26.6
	– of which Germany	10.3	11.6
2	North America	64.3	64.3
3	South America	9.4	8.6
4	Asia	1.3	0.2
5	Africa, Oceania	0.1	0.3

REVENUES BY PRODUCT GROUP FIG: 4.10.4



	in %	2012	2011
1	Food grade salt	22.9	18.4
2	Salt for chemical use	33.8	28.6
3	Industrial salt	7.9	5.8
4	De-icing salt	30.7	43.3
5	Other	4.7	3.9

Last year, just under 25 % of the revenues of the Salt business unit were generated in Europe and are therefore largely free of any direct foreign exchange risk. The largest share of revenues was achieved in North America at 64 %; in South America the share was around 9 %. / FIG: 4.10.3

At € 339.4 million, food grade salt revenues were up € 24.7 million or just under 8 % for the year under review. Higher prices in North and South America as well as positive currency effects could more than make up for negative volume and structural effects. The sales volume amounted to 1.42 million tonnes and was down about 7 % year on year.

Revenues for industrial salts, e. g. fishery, feed and high-purity pharmaceutical salts, rose slightly to € 502.4 million for the past financial year, having amounted to € 489.4 million in the previous year. Positive currency and price effects could make up for lower sales volumes in Europe as well as in North and South America. Sales volumes amounted to 4.94 million tonnes and were thus down 6 % on the previous year's figure (5.26 million tonnes) as a result of buying restraint with respect to water softening products in North America.

At € 117.4 million, revenues in the salt for chemical use business were up € 17.8 million or 18 % on the previous year's figure. The increase in revenues is attributable to positive volume and currency effects. The sales volume amounted to 2.87 million tonnes and was up 9 % year on year (2.63 million tonnes).

DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES[1] TAB: 4.10.6

		Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
De-icing salt								
Revenues	€ million	207.3	29.6	57.4	161.7	456.0	739.7	(38.4)
Sales volumes	t million	4.02	0.60	1.11	2.60	8.33	13.31	(37.4)
Average prices	€/t	51.5	49.6	51.7	62.2	54.7	55.6	(1.6)
Industrial salt, salt for chemical use and food grade salt								
Revenues	€ million	228.1	245.7	245.8	239.6	959.2	903.7	+6.1
Sales volumes	t million	2.16	2.38	2.23	2.46	9.23	9.42	(2.0)
Average prices	€/t	105.8	103.2	110.0	97.5	104.0	95.9	+8.4
Other								
Revenues	€ million	23.1	12.4	15.3	18.8	69.6	66.7	+4.3
Salt business unit								
Revenues	€ million	458.5	287.7	318.5	420.1	1,484.8	1,710.1	(13.2)

[1] Revenues include prices both inclusive and exclusive of freight costs. The price information is also affected by changes of the exchange rates and the respective product mix and is therefore to be understood as providing a rough indication only.

De-icing salt revenues for the year under review amounted to € 456.0 million; as a result of the exceptionally mild and dry weather conditions in both Europe and North America, this corresponds to a decrease of € 283.7 million or 38 % compared with the high figure of € 739.7 million for the previous year. Positive currency effects could only slightly offset the effects of sharp volume decreases and slight price declines. Sales volumes fell strongly year on year and amounted to 8.33 million tonnes (2011: 13.31 million tonnes).

In addition to the business with other de-icing agents, such as magnesium chloride solution, "Other" also includes the third-party logistics business of the shipping company EMPREMAR belonging to the Chilean SPL Group. The revenues recorded under "Other" rose by € 2.9 million to € 69.6 million; positive price and currency effects could more than make up for volume decreases as a result of lower transport volume at EMPREMAR. / FIG: 4.10.4

EBITDA AND OPERATING EARNINGS EBIT I DOWN STRONGLY ON PREVIOUS YEAR'S ABOVE-AVERAGE RESULTS

During the year under review, earnings before interest, taxes, depreciation and amortisation (EBITDA) fell by around 47 % to € 180.3 million (2011: € 337.9 million).

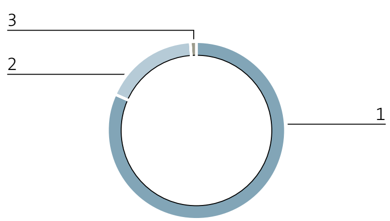
At € 62.4 million, operating earnings EBIT I of the Salt business unit were down € 149.0 million or about 70 % on the figure for the preceding year (€ 211.4 million). Operating earnings EBIT I include depreciation of € 117.9 million (2011: € 126.5 million). The exceptionally strong decline in earnings compared with the above-average earnings for the previous year is due, in particular, to declining volumes in the de-icing salt business in Europe and North America, mainly prompted by the exceptionally mild and dry weather conditions. The non-recurrent expense arising from the disposal of three ships belonging to the Chilean shipping company EMPREMAR had an impact of € (10.7) million. The cost savings introduced as a result of the weaker demand for de-icing salt could only slightly offset the decrease in earnings. The profitability of our global salt business varies depending on the respective regional mix, the utilisation of capacity, the local margin as well as the exchange rates. Thus, for example, earnings for 2012 were adversely affected by between € 90 million and € 110 million as a result of the below-average de-icing salt business in comparison to the long-term average figure, while the earnings in 2011 had still benefited from a positive winter effect by between € 20 million and € 30 million.

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE SALT BUSINESS UNIT can be found on page 141.

COMPLEMENTARY ACTIVITIES TAB: 4.10.7

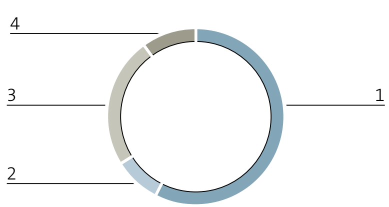
in € million	Q1/12	Q2/12	Q3/12	Q4/12	2012	2011	%
Revenues	39.1	38.1	36.4	40.1	153.7	150.4	+2.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	8.5	8.3	7.7	3.8	28.3	29.0	(2.4)
Operating earnings (EBIT I)	6.9	6.7	6.0	1.5	21.1	17.9	+17.9
Capital expenditure	0.6	1.4	1.1	3.2	6.3	4.3	+46.5
Employees as of reporting date (number)	289	288	290	—	293	290	+1.0

REVENUES BY REGION FIG: 4.10.5



	in %	2012	2011
1	Germany	82.4	82.0
2	Rest of Europe	17.3	17.5
3	Asia	0.3	0.5

REVENUES BY SEGMENT FIG: 4.10.6



	in %	2012	2011
1	Waste Management and Recycling	57.7	58.3
2	K+S Transport GmbH	8.5	9.7
3	Animal hygiene products	24.0	23.5
4	CFK Trading	9.8	8.5

COMPLEMENTARY ACTIVITIES

REVENUES REACH € 153.7 MILLION (+ 2.2 %)

At € 153.7 million, revenues for Complementary Activities were a good 2 % above the level of the previous year. According to IFRS, internal revenues deriving from services rendered to K+S GROUP companies are not included in these figures. Including these internal revenues, total revenues for the year under review amounted to € 187.1 million (2011: € 188.1 million). / TAB: 4.10.7, 4.10.8 / FIG: 4.10.5

/ YOU WILL FIND AN OVERVIEW OF THE INDIVIDUAL AREAS OF ACTIVITY on page 61.

In the Waste Management and Recycling business unit, revenues rose slightly to € 88.7 million (2011: € 87.7 million), and in CFK (Trading), they rose to € 15.0 million (2011: € 12.8 million). Revenues in the Animal Hygiene Products area rose to € 36.9 million (2011: € 35.3 million) mainly as a result of volume factors while revenues for K+S TRANSPORT GMBH fell by just about 10 % to € 13.1 million as a result of a change in the classification of third-party and internal revenues. / FIG: 4.10.6

EBITDA AND OPERATING EARNINGS EBIT I

The earnings before interest, taxes, depreciation and amortisation (EBITDA) of Complementary Activities in the year under review amounted to € 28.3 million and were thus down € 0.7 million or 2 % year on year. Operating earnings EBIT I rose to € 21.1 million (2011: € 17.9 million). Depreciation normalised at a level of € 7.2 million in 2012, after 2011 had been burdened by

VARIANCE ANALYSIS TAB: 4.10.8

in %	2012
Change in revenues	**+2.2**
– volume/structure	+2.4
– prices/price-related	(0.2)
– exchange rates	–
– consolidation	–
Waste Management and Recycling	+1.1
Logistics	(10.3)
Animal hygiene products	+4.5
Trading	+17.2

€ 4.6 million as a result of unscheduled depreciation on ship investments in the Logistics business unit. Higher contributions to earnings in K+S TRANSPORT GMBH, CFK (Trading) and Animal Hygiene Products could more than make up for the decrease in earnings in the Waste Management and Recycling business.

/ **STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF COMPLEMENTARY ACTIVITIES** can be found on page 141.

4.11 RISK REPORT

The following Risk Report describes the risk policy, opportunity and risk management, internal control and risk management system with regard to the Group accounting process and the corporate risks of the K+S GROUP. The main risks of K+S AKTIENGESELLSCHAFT do not result from its own operating activities, but rather may arise from those of its affiliated companies. A loss event there could have direct or indirect effects on the assets, financial and earnings position of K+S AKTIENGESELLSCHAFT.

RISK POLICY

The business policy of the K+S GROUP is geared towards securing the existence of the Company, sustainably generating risk-adequate returns as well as systematically and continuously increasing enterprise value. To achieve this objective, our global business activities require a permanent, responsible acknowledgement and consideration of opportunities and risks. Effective risk and opportunity management is an integral part of corporate management.

OPPORTUNITY MANAGEMENT

Opportunity and risk management are closely interlinked within the K+S GROUP. Opportunities are internal and external developments, which may have a positive impact on the Group. We essentially derive our opportunity management from the strategies and goals of our corporate departments and ensure a balanced relationship between opportunities and risks. Direct responsibility for the early and regular identification, analysis and utilisation of opportunities rests with the management of the corporate departments. Opportunity management is an integral part of the groupwide planning and control systems. We occupy ourselves intensively with market and competition analyses, relevant cost elements and other key success factors, including those in the political environment in which the Company operates. This serves as the basis for identifying concrete specific opportunity potentials and for defining corresponding targets. Selected opportunity potentials for the K+S GROUP are discussed in the 'Opportunities' section of the Forecast Report.

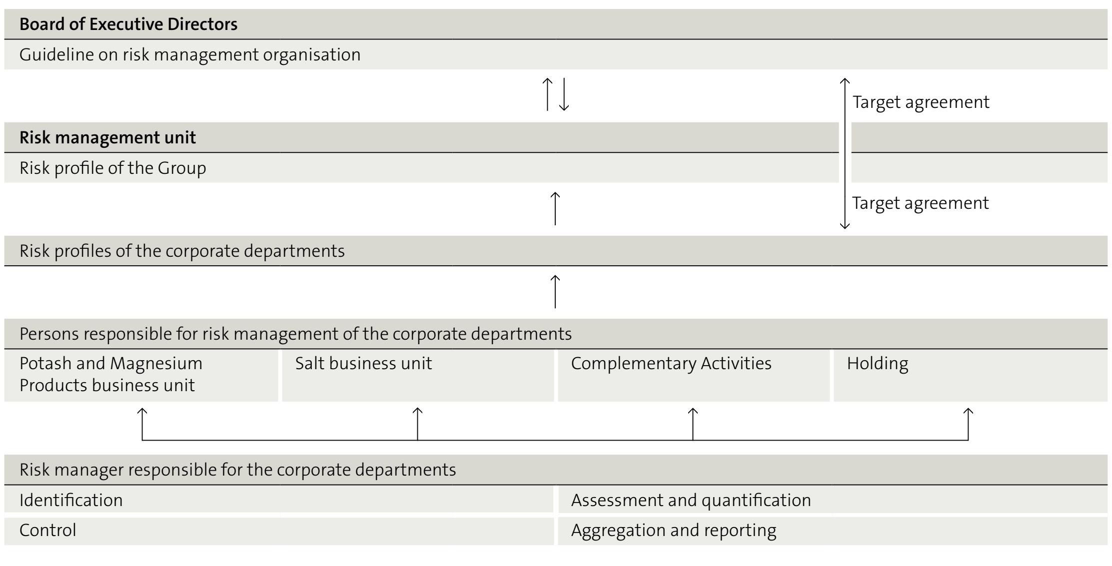
RISK MANAGEMENT

We define risks as the possible occurrence of internal and external events, which may adversely affect the achievement of our short- and medium-term as well as strategic goals. The goal of the K+S GROUP's risk management is to identify and assess risks and to limit potential business losses by means of appropriate measures as early as possible. This is intended to prevent the Company's continued existence from being jeopardised and, through corporate decision-making on this basis, to create long-term value. For this purpose, we use planning, management and control systems that are standardised across the Group.

ORGANISATION AND TOOLS OF THE RISK MANAGEMENT SYSTEM

The Board of Executive Directors has defined groupwide rules for systematic and effective risk management

RISK MANAGEMENT SYSTEM OF THE K+S GROUP FIG: 4.11.1



EXAMPLE FOR GROSS-/NET RISK ASSESSMENT TAB: 4.11.1

Risk	Effect	Likelihood of materialisation
Gross loss potential	€ 50 million	10 %
Effect from countermeasures	(€ 20) million	
Net loss potential	**€ 30 million**	**× 10 %**
Expected value	**€ 3 million**	

of the K+S GROUP. The groupwide risk management system draws on existing organisational and reporting structures and consists of the following elements:

+ The guideline on risk management organisation in the K+S GROUP,
+ the risk management department,
+ the persons responsible for risk management in the corporate departments,
+ standardised risk profiles specific to business areas,
+ a comprehensive presentation of the quantified risks in goal-setting talks held between the Board of Executive Directors and the managers responsible for the corporate departments,
+ regular, uniform risk reporting as well as
+ immediate reporting in urgent cases.

The guideline on risk management organisation in the K+S GROUP includes principles for dealing with risks. It governs the tasks and authorisations of those involved in the risk management process. The requirements for risk reporting, which include the reportable thresholds for risks, are defined as mandatory. The risk management department coordinates the risk management process and is supported by persons responsible for risk management in the corporate departments. The groupwide established risk management system is unchanged from the previous year.

The proper functioning of the risk management system of the K+S GROUP is regularly reviewed by our internal audit department. The functionality and effectiveness of the early risk detection system of K+S AKTIENGESELLSCHAFT is a subject of the annual financial statements audit. / FIG: 4.11.1

The risk management process comprises the elements risk identification, risk assessment and quantification, risk control as well as risk aggregation and reporting:

RISK IDENTIFICATION

The regular identification of risks is decentralised and is carried out in the corporate departments through the use of various tools. The methods used for risk determination range from analyses of markets and competition through the analysis of information from customers, suppliers and institutions to observing risk indicators from the economic and political environment.

RISK ASSESSMENT AND QUANTIFICATION

Identified risks are assessed according to a uniform methodology. For each risk, we quantify its likelihood of materialisation as well as, in addition to the gross loss potential, the net loss potential. The latter includes effects from countermeasures. If the gross loss potential can be reliably reduced by effective and appropriate measures, the focus of consideration will be on the net loss potential recognised in profit or loss. This approach makes it possible to understand which influence individual risk-reducing measures have. Additionally, a so-called expected value of the effect on earnings is determined by multiplying the net loss potential by the likelihood of materialisation. With regard to time, risks are assessed both for the current year and for a time horizon of three and ten years. Expected risks with a likelihood of materialisation of over 50 % are taken into consideration in the annual forecast and medium-term planning with a corresponding deduction from earnings.
/ TAB: 4.11.1

RISK CONTROL

One building block of risk management is the development of suitable countermeasures for risk avoidance or risk reduction taking account of alternative risk scenarios with the aim of lowering the loss potential and the likelihood of materialisation. Risks can also be transferred to a third party (e.g. by taking out insurance). The decision regarding the implementation of corresponding measures also takes into consideration the costs related to the effectiveness of possible measures.

RISK AGGREGATION AND REPORTING

Our risk management system is intended to ensure a transparent presentation of the risk situation. The net loss potential from the corporate departments is therefore grouped at the Group level. The risk reporting is based on a threshold concept. This involves the corporate departments reporting risks independently of their likelihood of materialisation if defined thresholds for the gross or net loss potential are reached. At Group level, we observe risks starting from a likelihood of materialisation of at least 5 % and a net loss potential of simultaneously at least € 10 million.

Every quarter, the Board of Executive Directors receives an overview of the current risk situation via a standardised reporting system. Significant risks that arise in the short term are, if urgent, immediately communicated directly to the Board of Executive Directors. The Supervisory Board is briefed by the Board of Executive Directors in just as regular and timely a manner and, if urgent, immediately.

RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS (IFRS 7)

One objective of the K+S GROUP is to limit financial risks (e.g. price change risk, interest rate risk, risk of default and liquidity risk) through systematic management. To this end, a centralised financial management has been established in K+S AKTIENGESELLSCHAFT. Furthermore, the K+S GROUP manages its capital structure and, if necessary, makes adjustments, taking into consideration the expected economic framework conditions, in order to secure the financing of the operating business and the investing activities of the Company over the long term at any point.

/ A MORE DETAILED EXPLANATION OF THE MANAGEMENT OF THE CAPITAL STRUCTURE can be found in the 'Financial Position' section on page 99.

Our international business activities can give rise to currency-related market price risks, which we counteract under our currency management system by hedging transactions. Internal rules regulate the permitted hedging strategies as well as hedging instruments, responsibilities, processes and control mechanisms. Other market price risks may result from changes in interest rates. To the extent that derivative financial instruments are used in a targeted way for this, comparable rules apply. Financial transactions are only concluded with appropriate banks. Through regular monitoring, the suitability of partners and compliance with position limits are constantly reviewed. To further limit the risk of default, a balanced distribution of derivative financial instruments across various banking institutions is prescribed. The selected instruments are used exclusively to secure the underlying transactions, but not for trading or speculation. Hedging transactions are entered into, firstly, in the case of already existing underlying transactions; in this way, we want to largely avoid exchange rate risks arising from recognised underlying transactions (normally receivables). Secondly, we enter into hedging transactions for future transactions, which can be anticipated with a high level of probability on the basis of empirically reliable findings (forecast hedges). Forecast hedges are intended to reduce the exchange rate risks of future financial years.

/ **A MORE DETAILED EXPLANATION OF HEDGING TRANSACTIONS** can be found in the presentation of risks arising from exchange rate fluctuations on page 128 and in the Notes to the consolidated financial statements on page 179.

DESCRIPTION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS (SEC. 289 PARA. 5 AND SEC. 315 PARA. 2 NO. 5 OF THE GERMAN COMMERCIAL CODE – HGB)

The internal control system in the K+S GROUP encompasses the principles, procedures and measures designed to ensure the effectiveness, economic efficiency and adequacy of accounting procedures.

The guidelines for the accounting and reporting of the K+S GROUP in accordance with IFRS stipulate the uniform accounting and valuation principles for the German and foreign companies included in the consolidated financial statements. In addition, there are rules for the consolidated financial statements as well as detailed and formalised requirements for the reporting of the companies included. New external rules for the accounting are analysed on a timely basis for their effects and are, if these are relevant to us, implemented by internal regulations in the accounting processes. The accounting and valuation rules for the financial statements of K+S AKTIENGESELLSCHAFT and its domestic subsidiaries are documented in guidelines and accounting instructions, in accordance with commercial law and supplementary rules.

We have a groupwide IT platform for all significant companies, a uniform Group chart of accounts and automatically standardised accounting processes. As a result of this harmonisation, proper and timely reporting of key business transactions is ensured. Binding regulations are in place for additional manual recording of business transactions. Valuations on the balance sheet, such as the review of the impairment of goodwill or the calculation of mining obligations, are carried out by internal Group experts. In individual cases, such as the evaluation of pension obligations, the evaluation is carried out by external experts.

To prepare the consolidated financial statements of the K+S GROUP, the financial statements of those companies whose accounting is done on the IT platform of the K+S GROUP are imported directly into an IT consolidation system. In the case of the remaining companies included, the data of the financial statements are transferred through an Internet-based interface. Through system-technical controls, the validity of the transferred data of the financial statements is reviewed. In addition, the financial statements submitted by the companies included are reviewed centrally with due consideration being given to the reports prepared by the auditors. Information relevant to the consolidation process is automatically derived and obtained in a formalised manner by the system, thus ensuring that intragroup transactions are properly and completely eliminated. All consolidation processes for the preparation of the consolidated financial statements are carried out and documented in the IT consolidation system. The components of the consolidated financial statements, including key information for the Notes, are developed from this.

Process-integrated and process-independent monitoring measures are building blocks of the internal control system. Automatic IT process controls are a key element of the process-integrated measures. Alongside manual process controls such as, for example, the "four-eye principle", there is an organisational separation of administrative, executive, settlement and approval functions. Further monitoring tasks are carried out by central departments. The internal audit department is integrated into the internal control system with process-independent audit activities.

The annual financial statements of companies subject to mandatory audit and the consolidated financial statements are audited by independent auditors. This is the key process-independent monitoring measure with regard to the Group accounting process. The annual financial statements of those German companies not subject to mandatory audits are audited by the internal audit department.

OVERVIEW OF CORPORATE RISKS

Significant risks for the K+S GROUP are described in the following sections, but no conclusions should be drawn from their order regarding their likelihood of materialisation or the potential extent of losses. In doing so, the possible materialisation and the effect of risks following countermeasures under the current framework conditions are appraised; this is based on a Group perspective and relates to the period of medium-term planning (3 years).

The assessment of the likelihood of a risk materialising is based on the criteria
+ unlikely (likelihood of materialisation: < 5 %)
+ possible (likelihood of materialisation: 5 – 50 %)
+ likely (likelihood of materialisation: > 50 %)

The assessment of the possible financial impact is based on the qualitative criteria
+ moderate
+ significant
+ jeopardising the continued existence of the Company

A change in the framework conditions in comparison to the assumptions made in our medium-term planning may result in a reassessment of our estimates in the course of time, which is then communicated correspondingly in our interim reporting. / TAB: 4.11.2

OVERVIEW OF CORPORATE RISKS TAB: 4.11.2

	Likelihood of materialisation	Possible financial effects
External and sector-specific risks		
Effects of macroeconomic trends	possible	significant
Fluctuations in supply and demand	possible	significant
Seasonal fluctuations in demand	possible	moderate
Fluctuations in demand due to changed inventory management by customers	possible	moderate
Changes in the legal environment		
Risks arising from the change or refusal of official approvals for the disposal of saline wastewater	possible	significant
Risks arising from the change or refusal of official approvals for the disposal of solid production residues	possible	significant
Risks arising from collateral security	possible	moderate
Risks arising from the change in workplace limits	possible	moderate
Risks due to the reduction in anti-dumping protection	possible	moderate

continued on page 118

OVERVIEW OF CORPORATE RISKS (CONTINUED) TAB: 4.11.2

	Likelihood of materialisation	Possible financial effects
Operational and strategic risks		
Risks arising from acquisitions and investments	unlikely	significant
Risks arising from the Legacy Investment Project	possible	significant
Risks arising from a loss of suppliers and supply bottlenecks	unlikely	moderate
Risks arising from energy costs and energy supply	possible	moderate
Risks arising from freight costs and availability of transport capacity	possible	moderate
Production-related risks	possible	moderate
Risks arising from damage due to rock bursts	unlikely	significant
Risks arising from carbon dioxide pockets in deposits	possible	moderate
Risks arising from water ingress	unlikely	significant
Personnel risks	unlikely	moderate
Compliance risks	unlikely	significant
IT security risks	unlikely	moderate
Financial risks		
Risks due to exchange rate fluctuations	possible	moderate
Risks arising from a change in the general interest rate level	unlikely	moderate
Risks arising from the default of payment by customers	unlikely	moderate
Risk of default in financial transactions	unlikely	moderate
Liquidity risks	unlikely	significant
Risks arising from a change in the company rating	unlikely	moderate

CHANGES AGAINST COMPARISON PERIOD

The table 'Overview of corporate risks' on page 117 gives an overview of significant risks for the K+S GROUP, their likelihood of materialisation and possible financial effects on the assets, financial and earnings position of the K+S GROUP.

Due to the sale of the NITROGEN business, all risks which were exclusively connected with the Nitrogen Fertilizers business unit ceased to exist in 2012. These include the risks described in the Financial Report 2011 on page 128 arising from changes in strategic partnerships as well as risks from the price increase of ammonia and phosphate.

The tax-law risks described in the Financial Report 2011 on page 126 in the area of energy taxes and associated risks of an additional energy tax burden no longer exist, since the legislative procedure for a follow-on regulation for energy and power tax relief has been completed.

The effects of political and social changes described in the Financial Report 2011 on page 124 were reassessed. At present, we see no risks of far-reaching changes in political, social and economic framework conditions in our production countries and sales markets.

For the remaining corporate risks, there are no deviations in the likelihood of materialisation of existing risks and / or in the possible financial effects in comparison to the previous year.

EXTERNAL AND SECTOR-SPECIFIC RISKS

EFFECTS OF MACROECONOMIC TRENDS

CAUSE OF RISK

The demand for potash and magnesium products is influenced by economic growth and the associated improving living standards in the regions relevant to us. Rising prosperity, mainly in emerging market countries, leads to changed eating habits, which are particularly reflected in an increased consumption of meat. As the production of meat requires many times more cereals, soy beans and other products used as animal feed, this results in a greater need for agricultural raw materials, which in turn creates a higher demand for fertilizers.

In spite of uncertainties regarding the development of the sovereign debt crisis and the condition of the financial sector, the international prices for agricultural products should due to a persistent shortfall remain at a level that is lucrative for the agricultural sector. Against this backdrop, the incentives for farmers to increase the yield per hectare through the optimal use of fertilizers should increase. However, the risk exists that the sovereign debt crisis in the eurozone will deepen and that the crisis of confidence in the financial system will persist. If this should, despite the persistent shortfall of agricultural products, lead to agricultural prices falling to a level that triggers uncertainty among farmers about their future income situation, it could negatively impact their demand behaviour in relation to fertilizers.

MEASURES

We would respond to such a situation, where appropriate, with a needs-based steering of production. Moreover, the expansion of our sales areas reduces our dependence on regional developments. Past experience has shown that the whole sector is taking measures to restore market equilibrium.

IMPACT

This possible scenario could, depending on its duration and intensity, have a significant impact on the assets, financial and earnings position of the K+S GROUP. By contrast, the impact of the general economic situation on the demand for de-icing, food grade and industrial salts is of minor importance, since the business is largely independent of economic conditions.

FLUCTUATIONS IN SUPPLY AND DEMAND

CAUSE OF RISK

Primarily products of our Potash and Magnesium Products business unit may, due to external influences, be subject to considerable fluctuations in demand. These include, regardless of our actions, for example, natural disasters or regional swings in the economic cycle, decreasing global prices of important agricultural products, a concentration on the demand side as well as deliberate buying restraint on the part of our customers. On the supply side too, changes may arise. Due to high levels of utilisation and the estimate of growth in demand, existing producers have begun to expand production capacities on the global potash market. Should the market not be ready to absorb all of these additional volumes, this could increase competitive pressure. Both fluctuations in demand and significant changes in capacities may therefore affect the formation of prices.

MEASURES

We would react to volatile market conditions with needs-based production steering. It is to be assumed that the whole sector, which has so far consistently harmonised supply and demand, will take medium- to long-term measures to restore market equilibrium. As the construction of new potash capacities is very capital-intensive, there would be an incentive for the producers to obtain a premium on the high cost of capital.

IMPACT

These possible events may, depending on their duration and intensity, have a significant impact on the assets, financial and earnings position of the K+S GROUP. As the demand for agricultural products and thus for fertilizers depends on megatrends such as the growing world population, a rising standard of living in the emerging market countries and the development of the bioenergy sector, and as fertilizers, which increase yields and enhance quality, thus play a key role in agricultural production, we, however, see potential for a positive development in the long-term.

SEASONAL FLUCTUATIONS IN DEMAND

CAUSE OF RISK

A significant sales volume risk for the Potash and Magnesium Products and Salt business units results in particular from the seasonality of demand, especially due to the dependence on weather conditions. Prolonged cold and wet weather conditions during the spring season, which is particularly important for Europe, can, for example, result in shifts or even declines in sales volumes of fertilizers. Likewise, mild winters in the main sales regions of de-icing salt (Europe, North America) may considerably reduce the sales volumes for this product group.

MEASURES

We are responding to this susceptibility to fluctuations with regional diversification, needs-based production steering and flexible working hour models. We are not yet using special derivatives to hedge this risk so far because of what we still consider to be unattractive market terms for these instruments.

IMPACT

Such possible adverse effects due to the influence of the weather may have a moderate impact on the expected earnings and make it more difficult to compare the quarterly financial statements.

FLUCTUATIONS IN DEMAND DUE TO CHANGED INVENTORY MANAGEMENT BY CUSTOMERS

CAUSE OF RISK

The building-up and de-stocking of inventories of fertilizers by our customers, due to their expectations regarding future demand and market price developments, the weather or their liquidity management, may result in fluctuations in demand. In the case of too low stocking-up, during the main fertilizer season this might bring with it such high volume requirements that the inventories in our depots might not be sufficient or demand might not be able to be fully covered due to logistical bottlenecks. An under-utilisation of production capacity during the early stocking-up season and against this backdrop rising unit costs would be the consequence. Also, a too great building-up of stocks by customers can have a negative impact on the continuous utilisation of production capacity. The same applies to the salt sector: The inventories at towns, local government authorities and road maintenance depots may influence the demand for de-icing salt during the winter season. While stocks that are too high may lead to an under-utilisation of production capacity, a too low readiness to stock-up, also in view of the public budgets, results in the need for producers to create additional storage space. In the event of persistent wintry weather conditions, there would also be a major challenge for the entire supply chain and even supply bottlenecks.

MEASURES

With regard to the stockpiling of potash and magnesium products, we employ a staggered price system to create financial incentives to promote the readiness of the trade sectors to stock-up. Furthermore, we continuously monitor the stock situation on the customer side.

IMPACT

We consider effects resulting from our customers' stockpiling to be possible; however, we assess the impact in relation to the expected results as moderate.

CHANGES IN THE LEGAL ENVIRONMENT

For all activities requiring approval, the risk always exists that third parties will appeal against granted approvals. Furthermore, extensions of existing approvals or new approvals may be temporary, may be changed or withheld permanently. The importance of "legislative approval frameworks" will further increase in future.

RISKS ARISING FROM THE CHANGE OR REFUSAL OF OFFICIAL APPROVALS FOR THE DISPOSAL OF SALINE WASTEWATER

CAUSE OF RISK

Public and political debate about the existing or in future even higher requirements for environmental friendliness of the production processes for the production of potash and magnesium products may impact on the issuing and retaining of operating licences, planning decisions approving public works as well as on water permits. In the Potash and Magnesium Products business unit, among others, liquid residues (saline wastewater) arise both from current production and through rainfall on the tailing piles. On the basis of existing permits, some of the saline wastewater is discharged into rivers and some is injected into underground layers of rock (plate dolomite).

Werra potash plant: For the Hattorf, Unterbreizbach and Wintershall sites located on the Werra, whose share of the total potash production capacity of the K+S GROUP amounts to about 45 %, a new injection permit was granted and is limited to 30 November 2015. Discharge of saline wastewater into the Werra is approved until the end of December 2020. There can be no assurance that the permits will be extended unchanged or newly granted. The possibility cannot therefore be ruled out that further investments in these sites might become necessary, that production costs might continue to rise, and that under certain circumstances even the closure of these production sites due to a sustainable inefficiency might be required.

Neuhof-Ellers potash plant: In 2007, the Neuhof-Ellers potash plant stopped the injection of saline wastewater into the plate dolomite layer after the injection area was fully utilised.

MEASURES

Werra potash plant: In October 2008, we presented a comprehensive package of measures which will, with investments of € 360 million to be implemented by the end of 2015, considerably further reduce the injection and discharge of saline wastewater. In addition, an agreement was concluded with the states of Hesse and Thuringia, in which the parties to the agreement jointly committed themselves to sustainable economic action, to secure jobs and to treat nature with the utmost respect for the next 30 years. The reduction of solid and liquid production residues from potash production will continue to be among the focal points of our research and development activities. As permanent local disposal is being called into question by some parties, a long-term approval of the present local concept cannot be regarded as certain. This is why K+S, parallel to the implementation of the local measures, has decided to also prepare applications for the approval of remote means of disposal, i.e. pipelines to the Upper Weser and to the North Sea. This is being done regardless of the fact that the test criteria for pipelines are not currently being fulfilled in the view of the Company: There must be a shared political will at the state and federal level, the construction and operation of the pipeline and the discharge of saline solutions must be capable of being approved over the long term, the measure must be ecologically meaningful and the construction and operation of the pipeline must be economically viable and proportionate before a decision on the construction of a pipeline can be made. Such a decision is therefore not related to the preparation of the applications.

Neuhof-Ellers potash plant: In order to continue to ensure the proper disposal of the tailing pile water arising there, in accordance with the valid approvals, saline wastewater is transported by rail and truck to the nearest site, the Werra plant, since the cessation of injection. In this connection, the construction and operation of a saltwater pipeline from Neuhof to Philippsthal applied for in mid-2010 was approved by way of a planning decision of the regional council of Kassel in summer 2012. The commissioning of the saline wastewater pipeline is planned for summer 2013. An appeal has been launched against the planning decision.

IMPACT

Werra potash plant: If, against expectations, circumstances arise that give cause to fear an adverse effect on drinking or usable groundwater resources, or appeals against existing permits were to be successful, this could lead to existing permits being restricted or withdrawn. The resultant consequences may lead to significant additional costs and/or considerable production cuts at the affected sites of the Werra potash plant. We consider it possible that expiring permits will not be extended or granted only to a limited extent; in the worst case, this could result in the cessation of production and possibly in the closure of the sites concerned, with considerable negative staffing consequences. This would result in a long-term significant adverse effect on the assets, financial and earnings position of the K+S GROUP.

Neuhof-Ellers potash plant: It is possible that the appeals will be upheld, with the consequence that the completed saline wastewater pipeline cannot be used. In this case, the more cost-intensive transport of saline wastewater by rail and truck would have to be continued and the capital expenditures in the saline wastewater pipeline written off. This would result in a moderate negative effect on the assets, financial and earnings position of the K+S GROUP.

RISKS ARISING FROM THE CHANGE OR REFUSAL OF OFFICIAL APPROVALS FOR THE DISPOSAL OF SOLID PRODUCTION RESIDUES

CAUSE OF RISK

At the exploitation sites of the Potash and Magnesium business unit, solid residue is heaped up within the framework of existing approvals. If approvals for the heaping-up of residues are revoked or necessary projects for the expansion of tailing piles are not approved, or only approved subject to unreasonably high requirements, there is no possibility for this residue to be disposed of.

MEASURES

We are transporting a part of the residues to appropriate mine caverns as prewetted backfill or as hydraulic backfilling. However, this is only possible to a limited extent, since a far lower density is achieved than that of crude salt in the deposit.

IMPACT

We assess possible effects on the assets, financial and earnings position of the K+S GROUP as significant.

RISKS ARISING FROM COLLATERAL SECURITY

CAUSE OF RISK

The requirement for insolvency-proof collateral securities for possible "infinity costs" of maintaining tailing piles and for the Company's own landfill sites cannot be ruled out for the future. Currently, the necessary expenditure for the systematic maintenance of tailing piles is being provided for in the balance sheet via provisions.

MEASURES

Upon materialisation, we would aim to completely or partially replace possible monetary collateral security with other types of security (e.g. Group guarantee).

IMPACT

If, in addition to the creation of provisions, collateral securities would have to be deposited, funds would be tied up, and this could limit the financial leeway of the Company. For the medium term, we assess possible effects on the assets, financial and earnings position of the K+S GROUP as moderate.

RISKS ARISING FROM THE CHANGE IN WORKPLACE LIMITS

CAUSE OF RISK

The implementation of considerations of the EU Commission on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO_2) and carbon monoxide (CO) could pose risks to our mining activities in Germany, if these do not sufficiently account for the underground production situation.

MEASURES

The effort of the affected companies and their pressure groups is to achieve realistic limits meaningful over the long term, through intensive cooperation with the EU Commission and national governments.

IMPACT

If limits were lowered significantly, substantial capital expenditure to comply with the limits could become necessary. Should the workplace limits become so stringent that production at the sites concerned in compliance with these limits were no longer possible at justifiable expense or overall technically, this would even compel us to close these sites. In the medium term, adverse effects are possible, but we currently consider them to be moderate.

RISKS DUE TO REDUCTION IN ANTI-DUMPING PROTECTION

CAUSE OF RISK

In the fertilizer business, the K+S GROUP also competes with producers from Russia and Belarus, which, directly or indirectly, enjoy the benefits of state financial support. These competitors can therefore offer their products on better terms than those manufacturers that do not receive comparable state support.

MEASURES

In April 2011, the EUROPEAN POTASH PRODUCERS ASSOCIATION (APEP), of which K+S is also a member, submitted a timely application to the European Commission for the extension of the existing trade policy measures regarding the import of potassium chloride (including minimum prices and volume limits). The outcome of the subsequent extensive consultations was that the structurally competition-distorting practices were superimposed by the market conditions at that time in such a way that the chances of an extension of the trade policy measures had to be regarded as being small. The APEP has therefore withdrawn its application for the time being, but remains in dialogue with the European Commission. The APEP, however, reserves the right to once again submit an application for the reintroduction of trade policy measures for protection against competition-distorting practices if the market situation changes.

IMPACT

In the medium term, an increase in Russian and Belarusian delivery quantities above the level of previous deliveries into the EU is possible. Under the current market conditions, we assess the effects as moderate.

OPERATIONAL AND STRATEGIC RISKS

Corporate strategy risks may result chiefly from a misjudgement of future market developments and, derived from this, lead to a misalignment of corporate goals and of the associated M&A activities, equity interests, as well as investments and divestitures. Our vision and mission provide the framework for our business activities and for the strategic orientation of the K+S GROUP. To that end, the Board of Executive Directors, together with the heads of the corporate departments, regularly discusses the strategic orientation. No fundamental changes in strategy are to be expected.

RISKS ARISING FROM ACQUISITIONS AND INVESTMENTS

CAUSE OF RISK

When it appears advantageous from a strategic and economic perspective, we acquire or dispose of companies or parts of companies. Across the Group, the demand exists in relation to returns for every acquisition and expansion investment to earn a reasonable premium on our cost of capital. Further information can be found in the 'Enterprise Management and Supervision' section on page 71 under financial performance indicators. Risks may arise from the integration of employees, processes, technologies and products and from changes in legal obligations and political restrictions.

MEASURES

Careful company valuations carried out in advance and incorporating the findings of the due diligence and further analyses, e.g. of geological, technical, legal and financial framework conditions, are of central importance. Moreover, in the auditing, decision-making and implementation phases, external specialists support our economic feasibility calculations, which also include risk assessments with different scenarios. Once made, acquisitions are intensively accompanied by integration teams.

IMPACT

Unexpectedly high integration costs may jeopardise the achievement of planned goals and synergies. Moreover, acquisitions may negatively impact the level of indebtedness and the financing structure. Amortisation of goodwill that has arisen in connection with acquisitions may result in negative effects due to unforeseen business developments. Here, we regard significant adverse effects as unlikely.

RISKS ARISING FROM THE LEGACY INVESTMENT PROJECT

CAUSE OF RISK

In March 2011, the K+S GROUP took over complete control of the Canadian company POTASH ONE and merged it into K+S POTASH CANADA. The company holds several potash exploration licences in the Canadian province of Saskatchewan, including a greenfield project, already advanced at the acquisition of POTASH ONE, for the construction of a brine plant (Legacy Project). The first two expansion phases of the project shall result in a production capacity of 2.86 million tonnes of potassium chloride. Current planning assumes a volume of capital expenditure of about CAD 3.25 billion.

A construction phase of several years, which involves many different risks, will lie between the acquisition decision and the start of production. All assumptions and estimates made at the start of the project are subject to potential business, economic, political and social uncertainties over time. Factors which could have a serious effect in the construction phase would lead, among others, to increases in costs and delays in project implementation.

MEASURES

Ahead of the acquisition of POTASH ONE, K+S conducted an intensive due diligence. Then, in 2011, the existing feasibility study was revised. In the course of this, the geological, technical, legal and financial framework conditions were examined carefully. At present, and with support from external specialists, comprehensive basic – and in part also detailed – engineering is being carried out. In doing so, the execution of the project is being optimised continuously and remaining risks examined. Project transparency and control are guaranteed and supported by a comprehensive monitoring system.

IMPACT

Should, in the course of basic or detailed engineering, significant deviations from the current assumptions arise, which are mainly based on the revised feasibility study, this could result in a need for impairment of the acquired assets and of the investments made in the start-up phase and/or significantly increase the capital requirement. A higher capital requirement would initially lead to higher outgoing payments and bring about higher depreciation and amortisation in the future. A deterioration in economic efficiency would be the consequence if the increase in the capital requirement is not compensated for by savings in the operating costs or by an improved operating business. Furthermore, in the construction phase, a delay or legally required influences may lead to the expected production volume only being available at a later point in time. Depending on the length of the delay and/or the amount of the additionally needed capital, this could have a significant impact on the assets, financial and earnings position and cannot be ruled out on the basis of the project size, and is therefore possible.

/ **FURTHER INFORMATION ABOUT THE LEGACY PROJECT** can be found in the Forecast Report under 'Opportunities' on page 143.

RISKS ARISING FROM A LOSS OF SUPPLIERS AND SUPPLY BOTTLENECKS

CAUSE OF RISK

The number of suppliers for raw materials, consumables and supplies such as explosives, low-sulphur diesel fuel as well as the necessary technical equipment, including spare parts, is limited. Supply bottlenecks, non-delivery or delivery boycotts, on which we only have very little or no influence at all, could result in the limited availability of raw materials, consumables and supplies, as well as of technical equipment and spare parts specific to mining, and thus to a considerable increase in costs or to adverse effects in production.

MEASURES

We reduce such procurement risks with market analyses, the careful selection and appraisal of suppliers, long-term delivery agreements, clearly defined quality standards, as well as up-to-date purchasing methods.

IMPACT

A remaining procurement risk could have moderate effects on the assets, financial and earnings position. However, we regard the occurrence of damage as unlikely.

RISKS ARISING FROM ENERGY COSTS AND ENERGY SUPPLY

CAUSE OF RISK

The energy costs of the K+S GROUP (2012: € 314.1 million) are determined in particular by the consumption of natural gas. This applies in varying degrees to all corporate departments. Energy prices are frequently subject to sharp fluctuations. Significant energy price rises in comparison to the current price level cannot be ruled out in the future.

MEASURES

To limit this risk, the need for natural gas for our potash and salt production in Europe is constantly being reduced through the use of steam from substitute fuel heating plants. Until now, the energy supply clauses in our contracts concluded for the German sites were predominantly tied to the oil price. A change in the oil price was normally reflected in our cost accounting with a delay of six to nine months. These agreements were restructured in the second quarter of 2012 in such a way as to more greatly diversify the price basis for obtaining natural gas in the future and significantly reduce dependency on the oil price.

IMPACT

There is no assurance that we will be able to completely hedge ourselves against price fluctuations for energy sources or to pass energy cost increases on to our customers. Furthermore, we depend on the reliability of the energy supplies, so that, if the supply of gas is interrupted briefly, there are risks for the security of supply. We regard risks arising from energy costs and energy supply, which could have a moderate impact on the assets, financial and earnings position, as possible.

RISKS ARISING FROM FREIGHT COSTS AND AVAILABILITY OF TRANSPORT CAPACITY

CAUSE OF RISK

Our total costs are also influenced by freight costs to a considerable degree (2012: € 660.7 million). While the products of our Potash and Magnesium Products business unit are extracted from our mines in Germany, last year, we achieved about 40 % of the corresponding revenues in Europe outside Germany and about 50 % overseas. In the Salt business unit, on the other hand, we have production sites in Europe and North and South America. Part of our products have to be transported to the customer in high volumes, in some cases over long distances. A reduced availability of freight capacity could result in higher costs. Furthermore, considerable additional costs arise in the event of increases in mineral oil prices. There can be no assurance that higher transport costs can always be passed on to customers. Moreover, the high level of transport intensity of our business operations makes us considerably dependent on the respective infrastructure facilities such as ports, roads, railway lines and loading stations. A failure or a bottleneck could restrict the production or sales opportunities.

MEASURES

By means of the long-term securing of freight capacity with a high fixed-price component as well as the use of low-cost container transport, we counteract such developments.

IMPACT

We consider corresponding adverse effects from rising freight costs or the limited availability of transport capacity to be possible, but we regard the effect in relation to the expected results as moderate.

PRODUCTION-RELATED RISKS

CAUSE OF RISK

The production facilities of the K+S GROUP are characterised by a high level of performance. As a result of operational and accident risks to which facilities, production plants, storage and loading facilities are exposed, business interruptions may occur and personal injury, damage to property and impacts on the environment may arise.

MEASURES

By employing wide-ranging monitoring, probing and control systems, we intend to identify these risks early on. These risks are reduced thanks to quality assurance measures, preventive maintenance and constant facility inspections. This is also assisted by the constant further development of our facilities and products. We have taken out corresponding insurance against fire damage and the resultant production stoppages, as well as for other interruptions of operations.

IMPACT

Given our preventive measures, we consider the remaining possible production-related risks individually to be moderate.

RISKS ARISING FROM DAMAGE DUE TO ROCK BURSTS

CAUSE OF RISK

At active and inactive mining sites, there is the specific risk of a suddenly occurring subsidence of the earth's surface over a large area that is, in certain circumstances, powerful (rock burst).

MEASURES

Our professional dimensioning of the safety pillars in the mine works based on comprehensive research contributes to securing the earth's surface, to a stability that is secure in the long term, and therefore to the prevention of such rock bursts at active sites. After the closure of a site, preservation measures are carried out, for which corresponding provisions have been created. A constant monitoring of the mine works supplies, if necessary, timely indications of whether additional measures for the protection of the mine works and the prevention of damage resulting from mining are necessary.

IMPACT

If a rock burst occurs, it could result, in addition to the partial or complete loss of the mine and damage to equipment, also in considerable damage to the property of third parties and in personal injury or death. Such negative factors would have a significant impact on the assets, financial and earnings position of the K+S GROUP, but they are nevertheless unlikely.

RISKS ARISING FROM CARBON DIOXIDE POCKETS IN DEPOSITS

CAUSE OF RISK

Carbon dioxide pockets in certain mines constitute a latent potential danger.

MEASURES

To keep any impact on people, machinery and deposits as low as possible, extraction operations underground are always conducted in compliance with the special safety guidelines applicable to potential CO_2 leaks.

IMPACT

If carbon dioxide from these pockets were to escape in an uncontrolled manner, the K+S GROUP could be held liable for damage or injuries associated with this, suffer damage to its own equipment and be exposed to cuts in or losses of production. We regard the possible financial damage potential as moderate.

RISKS ARISING FROM WATER INGRESS

CAUSE OF RISK

Hydrogeological risks generally exist in underground mines.

MEASURES

To secure mines, extensive exploration occurs by means of seismology, drilling and ground-penetrating radar. The preservation of protective layers and the adequate dimensioning of the safety pillars ensure the best possible safety in a mine. Constant scheduled maintenance activities on the shafts ensure that the risk of groundwater flowing over a shaft extension can virtually be ruled out. Because the top of a shaft is in a high position, surface water is not expected to gain access to the mine complex even if flooding occurs.

IMPACT

The hydrogeological risks could, if uncontrollable, cause significant damage. However, on the basis of our extensive precautionary measures, we consider the materialisation of that risk to be unlikely.

PERSONNEL RISKS

CAUSE OF RISK

The competence and commitment of our employees are important factors in our successful development. Competition for qualified managers and specialists is intensive in all regions in which we operate. This currently also applies to the expansion of our business activities in Canada for the development of new production capacities. The loss of important employees in strategic positions could constitute a risk. Our future success partly depends on the extent to which we succeed in the long term in engaging and integrating engineers and other specialist personnel and permanently binding them to the Company, and in adequately filling management positions. In future, moreover, we will be facing demographic challenges, especially in Europe and North America. This increases the risk that suitable applicants for vacancies will not be found or that it will take time to find them.

MEASURES

In 2012, we carried out a detailed survey of the respective age structures of our workforces at our German sites. With this, we are analysing how the need for personnel will change as a result of demographic change; this should counteract the risk of a loss of know-how due to retirements for reasons of age and unintended fluctuation.

Moreover, we are counteracting these risks with a number of personnel policy measures. These include the securing of a new generation of employees early on, forward-looking development of specialists and managers, and the promotion of intercultural competence. Further offers include performance-related remuneration systems and participation in the success of the Company, comprehensive social benefits, attractive working hour regulations and models, as well as offers relating to the harmonisation of career and family. Our managers have the opportunity to participate in a remuneration programme oriented towards the long-term development of the Company. It is our objective to be perceived as an attractive employer in all regions relevant to us. With this strategy and increased cooperation with selected universities, we offer qualified employees promising career prospects with extensive advanced education and international development opportunities. Key positions are regularly analysed with respect to forward-looking succession planning and suitable candidates are prepared for such tasks. Furthermore, the K+S GROUP aims to maintain a good and constructive relationship with its employees and their unions, in which they, particularly in Germany and North America, are largely organised.

IMPACT

Overall, we consider even moderate effects on the assets, financial and earnings position from the personnel risks described as unlikely.

COMPLIANCE RISKS

CAUSE OF RISK

The risk exists that governing bodies or employees of the K+S GROUP companies may violate laws, internal regulations or regulatory standards recognised by the Company, with the consequence that the Company suffers asset and/or image losses.

MEASURES

We have established a groupwide compliance organisation and a compliance programme, which counters breaches of compliance, including by training with respect to significant risk fields (e.g. anti-trust law and competition law, corruption and money laundering).

IMPACT

We consider compliance breaches with significant effects on the assets, financial and earnings position to be unlikely.

/ A DETAILED PRESENTATION OF OUR COMPLIANCE SYSTEM can be found in the 'Corporate Governance' section on page 37.

IT SECURITY RISKS

CAUSE OF RISK

To a high degree, our IT systems support almost all Company functions. The risk of information security lies in the loss of the availability, integrity, confidentiality and authenticity of data due to external attacks (e.g. hackers, viruses) and internal risks (e.g. technical failure, sabotage) and could lead to serious interruptions of business.

MEASURES

Our management of IT security risks is based on the DIN ISO 31000 standard "Risk Management – Principles and Guidelines". With the establishment of an IT security management system based on the DIN ISO 27001 standard, a key prerequisite for dealing with IT risks was created. In order to protect our business processes against such risks, we inform ourselves of the latest developments and adopt technical and organisational measures, to eliminate the occurrence of risks as much as possible. The redundant design of the IT systems and their infrastructure are of particular importance in this. Our computer centre is thus operated as a two-location system, and the components of the infrastructure (power supply, data cables etc.) are also duplicated. We meet the increased security requirements faced by the IT organisation through the functions of IT compliance, the IT security officers and the data protection officers. Our operational concepts and organisational guidelines are process-oriented. The processes are based on the ITIL standard, e.g. in the areas of monitoring, data backup, access control, fault management and business continuity management. Independent experts permanently review the effectiveness of our measures on IT security.

IMPACT

A short-term failure of the IT systems of a few hours is conceivable. However, we regard a longer-term failure of up to three days to be unlikely due to the described preventive measures; we regard the effects as moderate.

FINANCIAL RISKS

Due to the global nature of its business operations, the K+S GROUP is exposed to different financial risks. If derivative financial instruments are used to hedge the respective risks, these are explained in more detail in the description of risk management in relation to financial instruments on page 115.

RISKS DUE TO EXCHANGE RATE FLUCTUATIONS

CAUSE OF RISK

A currency risk results from transactions which are not concluded in the currency of our Group reporting (the euro). With this risk, we draw a further distinction between transaction and translation risks.

In 2012, the relation between revenues invoiced in Euro and US-Dollar was fairly balanced. In addition to this, revenues of a secondary magnitude were also generated in other national currencies (e.g. Canadian dollar, Chilean peso and pound sterling). Our earnings are therefore exposed to exchange rate fluctuations. This can lead to the value of the service performed not matching the value of the consideration received in transactions, because income and expenditure arise at different times in different currencies (transaction risks). Exchange rate fluctuations, especially in relation to the US dollar, so far affect the Potash and Magnesium Products business unit, in particular in relation to the level of proceeds and receivables. As a result of capital expenditure of our subsidiary K+S POTASH CANADA in the Legacy Project, the US dollar net position is temporarily reduced. At the same time, however, this gives rise to significant exchange rate risks from the Canadian dollar.

Furthermore, currency effects arise in relation to subsidiaries whose functional currency is not the euro (translation risks), since the earnings of these companies determined in a foreign currency are translated into euros at average rates and recognised in profit or loss. However, the net assets of these companies are translated into euros at spot rates. This can result in currency-related fluctuations in the equity of the K+S GROUP. Currently, these translation effects mainly appear in the Salt business unit. As the capital expenditure at K+S POTASH CANADA progresses, this will also more strongly affect the Potash and Magnesium Products business unit.

MEASURES

In order to counter exchange rate risks arising from transactions, we use derivative financial instruments. Within the framework of transaction hedging, key net positions per currency are hedged through derivatives, normally options and futures. These ensure an absolute worst-case exchange rate. The net positions are determined on the basis of revenue and cost planning and expected capital expenditure using safety margins and updated on an ongoing basis in order to avoid excess hedging or hedging shortfalls.

/ MORE INFORMATION AND EXPLANATIONS ABOUT THE FOREIGN CURRENCY HEDGING SYSTEM can be found in the 'Financial Position' section on page 99, as well as within the framework of risk management in relation to financial instruments in the Risk Report on page 115 and the note (18) 'Derivative Financial Instruments' in the Notes to the consolidated financial statements on page 192.

IMPACT

Exchange rate fluctuations may have an adverse effect on the assets, financial and earnings position of the K+S GROUP. We evaluate the possible risk arising from exchange rate fluctuations as moderate.

RISKS ARISING FROM A CHANGE IN THE GENERAL INTEREST RATE LEVEL

CAUSE OF RISK

An interest rate change risk results from fluctuations in the general interest rate level. On the one hand, changes in market interest rates have an effect on future interest payments for liabilities with variable interest, as well as on interest income for investments with variable interest; on the other hand, the market values of financial instruments are affected.

MEASURES

As of 31 December 2012, fixed-rate agreements exist for our financial liabilities. Liabilities with variable interest do not exist at present. The investments predominantly have a short- to medium-term fixed interest rate, since they are reserved for upcoming investments and a bond maturing in 2014. Interest rates are analysed regularly to manage this risk.

IMPACT

The risk of significant interest rate increases appears possible, but no negative effects are to be expected due to the current financing structure. We regard further interest rate cuts as unlikely, and any effects should be assessed as moderate.

/ **INFORMATION REGARDING THE CHANGE IN GROUP EARNINGS** depending on the change in interest rates can be found in the Notes to the consolidated financial statements on page 206.

RISKS ARISING FROM THE DEFAULT OF PAYMENT BY CUSTOMERS

CAUSE OF RISK

We maintain extensive business relationships with many customers. If one or more major customers is / are not in a position to fulfil their contractual payment obligations towards us, this could result in corresponding losses for us.

MEASURES

The majority of risks arising from defaults of payment are covered across the Group by credit insurance. The waiving of insurance cover for receivables is only possible after the customer relationship has been reviewed critically and specific approval has been obtained, which, depending on the magnitude, has to be issued by the management of the corporate department or the competent member of the Board of Executive Directors. The MORTON Group uses its own instruments to limit such risks effectively. Across the Group, 86 % of all insurable receivables are secured against a default.

IMPACT

A potential default on receivables could have a moderate adverse effect on the financial position of the K+S GROUP. However, due to the measures adopted for securing receivables, we consider this to be unlikely.

/ **FURTHER INFORMATION ABOUT IMPAIRMENTS AND OVERDUE RECEIVABLES** can be found in the Notes under note (17) ‘Receivables and other assets’ on page 191.

RISK OF DEFAULT IN FINANCIAL TRANSACTIONS

CAUSE OF RISK

Default risks also exist with regard to partners with which we have concluded hedging transactions, with respect to which credit lines exist or money was invested.

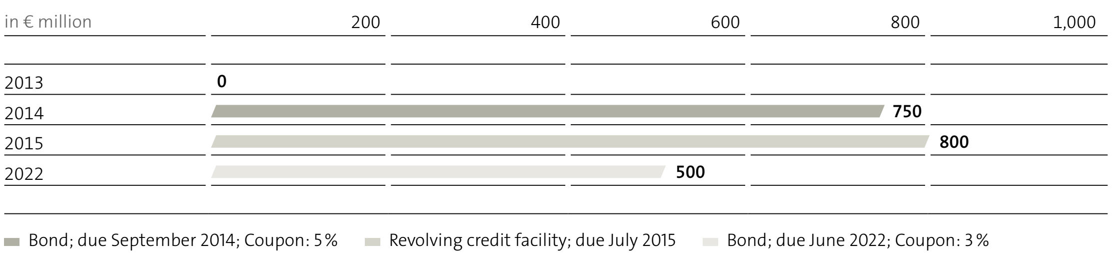
MEASURES

This risk has increased recently due to the financial crisis. It is limited by the fact that financial transactions are only concluded with partners having suitable credit ratings according to our internal monitoring process. In addition to the rating, at banks, the rates for credit default swaps, for example, are decisive.

IMPACT

A potential failure of a bank or another partner could have a moderate adverse effect on the financial position of the K+S GROUP. However, due to the described selection of partners for financial transactions as well as the diversification, we consider this to be unlikely.

MATURITY PROFILE OF FINANCIAL LIABILITIES FIG: 4.11.2



LIQUIDITY RISKS

CAUSE OF RISK

A liquidity risk exists in a way, that the funds needed to meet payment obligations cannot be obtained timely or at all. For this reason, the main goal of our liquidity management consists in ensuring the ability to pay at any time. The liquidity requirement is basically determined by our liquidity planning and is covered by cash and committed credit lines.

Within the framework of the existing credit lines, the K+S GROUP has entered into obligations (financial covenants) to maintain certain financial figures. If these obligations were violated, a premature termination of this financing by lenders would be possible.

MEASURES

Liquidity is managed via a largely groupwide cash pool system by the central treasury department. As of 31 December 2012, the available liquidity reserve amounted to € 2,086 million, and consisted of short-term investments with maturities of up to one year and cash of € 787 million, investments with maturities greater than one year of € 499 million and the syndicated credit line of € 800 million running until 2015. Our goal of a permanent liquidity reserve of at least € 500 million was thus significantly exceeded. With investments, we pursue the goal of optimising the income earned from liquid funds at low risk. To this end, the suitability of partners is monitored. There is no particular dependency on any individual lenders.

IMPACT

A violation of the currently valid financial covenants appears unlikely due to the significantly positive financial figures. Neither the bond issued in June 2012 (maturity until 2022) nor the one issued in September 2009 (maturity until 2014), with a volume of € 500 million and € 750 million respectively, are subject to the obligation to maintain certain financial figures. With regard to the maturity profile of our liabilities, we regard a significant liquidity or financing risk for the K+S GROUP as unlikely. / FIG: 4.11.2

/ MORE ABOUT THE MATURITY PROFILE OF OUR FINANCIAL LIABILITIES can be found in the Notes on the consolidated financial statements under note (25) 'Financial liabilities' on page 202.

RISKS ARISING FROM A CHANGE IN THE COMPANY RATING

CAUSE OF RISK

Ratings are used to assess the creditworthiness of companies and are normally issued by external rating agencies. Particularly for credit institutions and institutional

DEVELOPMENT OF CREDIT RATINGS TAB: 4.11.3

Date	Rating	Outlook
Standard & Poor's		
8 September 2011	BBB+	stable
17 January 2011	BBB	positive
29 October 2010	BBB	stable
30 November 2009	BBB	stable
27 August 2009	BBB	negative
18 June 2009	BBB+	negative
23 April 2009	BBB+	stable
Moody's		
29 November 2010	Baa2	stable
31 March 2010	Baa2	stable
4 September 2009	Baa2	negative
23 April 2009	Baa2	stable

investors, the rating provides indications of the ability of companies to pay. At present, the K+S GROUP is rated "investment grade" by the rating agencies STANDARD & POOR'S and MOODY'S INVESTOR SERVICE. The outlook given by both rating agencies in light of our strong financial figures is classified as "stable" (STANDARD & POOR'S issuer rating: BBB+ stable outlook, MOODY'S issuer rating: Baa2 stable outlook).

MEASURES

We limit this risk by means of a forward-looking financing strategy.

/ **FURTHER INFORMATION ABOUT STRATEGIC FINANCING MEASURES** can be found on page 68, and the goals of the financial management on page 99.

IMPACT

Rating downgrades, in particular the loss of the rating into the "investment grade" category, could have a negative impact on the possibilities and terms of financing. Downgrades can, for example, require that creditors be furnished with collateral or affect the readiness of business partners to do business with the K+S GROUP. In the case of existing credit lines, higher interest margins would have to be paid under certain circumstances. At the same time, new credit lines could become more expensive. We regard the risk of a downgrade of the credit rating into the "non-investment grade" segment as unlikely. We classify the effect as moderate.

/ TAB: 4.11.3

ASSESSMENT OF THE OVERALL RISK SITUATION BY THE BOARD OF EXECUTIVE DIRECTORS

Overall risk is assessed on the basis of the risk management system in combination with the planning, management and control systems in place. The overall risk situation of the K+S GROUP is unchanged from last year. The development of the corporate risks can be found in the presentation on page 117. The main potential risks to the future development of the K+S GROUP particularly include risks arising from fluctuations in supply and demand, risks stemming from a change, refusal or withdrawal of approvals granted by public agencies for the disposal of saline wastewater and solid production residues, and risks arising from the Legacy Project.

With regard to the respective likelihood of materialisation and the potential financial effects of the risks discussed, and on the basis of the findings of our medium-term planning, the Board of Executive Directors expects no serious risks to the future development at the present time which could, whether individually or in conjunction with other risks, have a lasting and adverse influence on the assets, financial and earnings position of the K+S GROUP that could jeopardise its existence. This assessment is confirmed by the assessment of the rating agencies. Future opportunities have not been considered in assessing the overall risk. In terms of organisation, we have fulfilled all the conditions for being able to recognise possible opportunities and risks early on and to act correspondingly.

4.12 SUBSEQUENT EVENTS

After CANPOTEX announced on 31 December 2012, that it had concluded an extensive supply agreement with China for the first half of 2013 at a price for potassium chloride standard, including freight, which had been reduced by US$ 70/tonne to US$ 400/tonne, other potash producers and distribution organisations agreed deliveries on the same terms in the weeks that followed. On 6 February 2013, BPC announced that it had concluded a supply agreement with the Indian import organisation IPL that will run until January 2014 at a price of US$ 427/tonne including freight for potassium chloride standard, which represents a reduction of US$ 63/tonne on the previous price. Following the conclusion of this agreement too, further agreements were concluded on the same terms between Indian import organisations and potash producers or distribution organisations. After the buying restraint of 2012, the demand from China and India should have an important signalling effect for markets relevant for K+S too.

No further significant changes have occurred in the economic environment or in the position of the industry since the end of the financial year. No other events of material importance for the K+S GROUP or K+S AKTIENGESELLSCHAFT requiring disclosure have occurred.

4.13 ASSESSMENT OF THE CURRENT ECONOMIC SITUATION BY THE BOARD OF EXECUTIVE DIRECTORS[1]

The year 2012 was a successful one for the K+S GROUP: Our potash and magnesium products business contributed a pleasing result, the second best in our history after 2008, which had been exceptional in many respects. What helped in this regard when compared with the previous year were higher average prices and the fact that a different regional portfolio meant we were less affected by the buying restraint in India and China than most of our competitors: At 6.95 million tonnes of goods, our sales volume remained stable in relation to 2011 while other producers had to suffer heavy volume reductions. The disappointing result for the Salt business unit was negatively impacted by the consequences of the exceptionally mild winter at the beginning of 2012 which we were unable to make up for over the year as a whole. At € 3.9 billion, the total revenues generated by the K+S GROUP in 2012 were approximately on the same level as in the previous year. Following € 906.2 million in the previous year, operating earnings of € 808.5 million were very close to the last forecast that we published. Adjusted earnings per share, which serve as the basis for the dividend payment, reached € 3.34 after having been € 3.04 in the previous year; € 0.51 of this was attributable to the discontinued operations of the NITROGEN business.

[1] As of 27 February 2013.

Against the background of the supply agreements concluded with China and India and prices for agricultural raw materials remaining attractive in terms of the income prospects for the agricultural sector, we assume a tangible recovery of the global potash sales volume to about 59 million tonnes (2012e: 54 million tonnes, including potassium sulphate and potash varieties with lower K_2O content of around 3 million tonnes). In our Potash and Magnesium business unit, we anticipate a sales volume of about 7 million tonnes (2012: 6.95 million tonnes). After international prices for potassium chloride came under pressure during the fourth quarter of 2012 due to the absence of the conclusion of agreements with Chinese and Indian customers at that time, the average price level for the product portfolio of the Potash and Magnesium Products business unit in 2013 should be below that of 2012. It should also be taken into consideration that the average price of 1.33 USD/EUR underlying this forecast, in 2013 overall compares, particularly in months with high overseas volumes, to the stronger US dollar in 2012.

In the Salt business unit, the start of the de-icing salt business in Europe was stronger than normal due to weather conditions. In North America, the winter weather that set in at the beginning of February resulted in higher sales volumes, especially when compared with the exceptionally weak first quarter of 2012. This as well as the long-term average underlying anticipated de-icing salt sales volumes for the rest of the year lead us to assume a significantly higher volume of business in 2013 compared with the below average business of the previous year.

The described start to 2013 and the assumptions underlying the Forecast Report on page 140 lead us to assume that both the revenues and the operating earnings of the K+S GROUP will rise slightly for the year as a whole.

4.14 FORECAST REPORT

FUTURE GROUP DIRECTION

NO CHANGES IN BUSINESS POLICY INTENDED

We do not intend to introduce any fundamental change in our business policy over the coming years. We want to expand our market positions in our Potash and Magnesium Products as well as Salt business units, especially by increasing sales of speciality products, enhance our efficiency through the exploitation of further synergies, press ahead with the expansion of new potash capacities with the Legacy Project and grow both organically and externally.

COUNTRY PORTFOLIO CONTINUES TO BE BALANCED INTERNATIONALLY

Last year saw no significant shifts with respect to market shares in the regions of importance for the Potash and Magnesium business unit. In the Salt business unit too, the regional distribution of revenues was largely stable, so that the revenue split between Europe and overseas for the K+S GROUP continued to be almost balanced. This should also remain so in 2013: An increase in global potash demand is expected in 2013 following the buying restraint of 2012, especially as a result of significant growth in demand in China and India as well as the normalisation in demand in North America. However, contractual volumes with these countries, which only account for a relatively small share of our total sales volumes in the Potash and Magnesium business unit, should be on about the same level as in 2011 and 2012. In view of the anticipated normalisation of the de-icing salt business following the mild winter on both sides of the Atlantic last year, de-icing salt sales volumes in 2013 in both Europe and North America should rise accordingly once again. Against this backdrop, we expect that at the Group level, revenues will again be split almost equally between Europe and overseas in 2013.

During the coming years, the growing global population as well as the tendency for the emerging market countries to consume more meat and the associated increase in the need for feed should further boost demand for large parts of our fertilizer product range particularly on the overseas markets. In the medium to long term, the growth rates in South America and South East Asia should thereby increase disproportionately. We assume that we will in future sell a good third of our fertilizer products in these regions. In the medium term, potash capacities built up within the framework of the Legacy Project in Canada will improve access to these growth regions.

Salt consumption in Europe is largely stable on a relatively high level. In comparison to the more rapidly growing overseas markets, Europe displays – with the exception of the weather-related effects on de-icing salt – relatively low levels of susceptibility to fluctuations, thanks to established structures and differentiated product requirements. With our Chilean salt producer SPL, we are also exploiting the potential offered by overseas markets that are more dynamic as a result of a growing and increasingly more prosperous population. The change in the lifestyle habits of South Americans is leading to a tangible increase in demand for food grade salt, industrial salt and salt for chemical use. With MORTON SALT, we have access to the de-icing salt regions of North America, which are characterised by a tendency to be less susceptible to fluctuations, and to the food grade salt and industrial salt segments in North America.

In order to be able to respond even more flexibly to weather-related regional fluctuations in demand for de-icing salt in the Salt business unit, the use of the network of production plants in Europe, North America and South America will be further intensified.

/ **FURTHER INFORMATION ABOUT THE FUTURE DEVELOPMENT OF SALES MARKETS** can be found in the description of the future industry situation on page 137.

USE OF NEW PROCESSES PERMITS GREATER PROCESS EFFICIENCY IN FUTURE

We are continuing to work on process improvements to further increase raw material exploitation from our deposits and in our factories, raise energy efficiency at our plants and to further reduce solid and liquid production residues. In the Potash and Magnesium Products business unit in particular, very promising processes enhancing economic efficiency and raw material exploitation are being developed for both underground and aboveground applications. ESCO, SPL and MORTON SALT are working together to identify best practice processes and transfer suitable processes within the Salt business unit.

In 2012, further capital expenditure was made for the Legacy Project in Saskatchewan, Canada. We are constructing a new production site there for potash products on the basis of solution mining technology; the first volumes should be available at the end of 2015. The solution mining technology permits a faster commencement of production than do conventional mining techniques, a more flexible ramp-up curve of production and the mining of lower-lying deposit horizons. Moreover, the ratio of crude salt to solid and liquid production residues is more favourable.

RESEARCH AND DEVELOPMENT IS BEING FURTHER EXPANDED

In the future too, we want to pursue our research and development goals defined in close consultation with marketing and production. These can be found on page 81 of this report. The total of research expenses and capitalised development-related capital expenditure should, after the conclusion of works on the first cavern of the Legacy Project, again decrease in 2013. Research and development costs should decline once again in 2014 and then be somewhat above the level of 2011.

The number of people employed in research should increase in 2013 in order to particularly meet the coming challenges in the area of the environmental and process analysis as well as to further drive research in the field of solution mining. For 2014, we then expect a stable number of employees working in research in comparison to 2013.

Selected research activities in 2013 and 2014 are enumerated below. Some of the projects described were already begun in previous years. Detailed information can be found under 'Research and Development' on page 81 of this report.

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

+ In the Potash and Magnesium Products business unit, we are pressing ahead with the improvement of extraction and production processes to increase efficiency and reduce solid and liquid production residues. Within this framework, the further development of processing technologies and improvements in preliminary deposit exploration in particular form important focal points. Furthermore, process control is to be still further improved through the increased use of online analytics.
+ Projects at the INSTITUTE OF APPLIED PLANT NUTRITION (IAPN): In future, the IAPN, recognised by the University of Göttingen, will particularly conduct research into optimising fertilisation with the nutrients potassium, magnesium, sulphur and sodium to increase the efficient use of water in the soil/plant system. A further important area of work for the IAPN will be the importance of magnesium as an important nutrient in plant cultivation; an "International Symposium on Magnesium in Crop Production, Food Quality and Human Health" has already been held as one of the opening events. In addition, a project group is investigating the effect of magnesium fertilisation on plant stress resistance in cooperation with Sabanci University in Istanbul.

SALT BUSINESS UNIT

+ Research into processes to improve the quality of rock salt for industrial applications is being promoted.
+ The main focuses of MORTON SALT continue to be research into innovative de-icing agents, the reduction of sodium in food, the further development of water-softening salts as well as salt products for daily use.

FUTURE PRODUCTS AND SERVICES

+ In the Potash and Magnesium Products business unit, we are not assuming that there will be a material change in the product portfolio. However, we will also further intensify application consulting in 2013 through research activities and lectures at the INSTITUTE FOR APPLIED PLANT NUTRITION in Göttingen by means of an effective transfer of knowledge from research to practical agriculture.
+ In 2013, the activities of ESCO will be focused on product optimisation in Europe for the brands BALANCE® SALZ, CÉRÉBOS® SEL ÉQUILIBRE and VATEL® SAL EQUILÍBRIO; the aim is to be even better able to serve the rising demand for low-sodium mineral salts in the food industry and among consumers.
+ At SPL, the supplementation of the product portfolio of the BIOSAL® brand as well as the sale and treatment of brine for the fishing industry is being further promoted.
+ In 2013, MORTON SALT will focus on expanding the offer of food grade salt specialities.

Apart from this, we assume no substantial changes in our range of products and services.

FUTURE NUMBER OF EMPLOYEES, FUTURE PERSONNEL EXPENSES

K+S increasingly has to compete for qualified employees. We want to continue to bring younger people in particular into the Company in order to respond to the demographic change. However, we would also like to win older and experienced employees for our Company.

K+S regards vocational training as an important investment into the future and continues to strive for a training ratio of about 6 % for the German companies. Advanced education will also continue to be given special emphasis. Also in the years to come, we want to recruit many of our future specialist and managerial personnel from our own ranks.

As for the end of 2013, we are expecting the number of employees to be slightly higher than as of the previous year (31 December 2012: 14,362). The average number of employees should also increase slightly this year to reach about 14,500 (2012: 14,336). The reasons for the increase are in particular an increase in the number of personnel for the implementation of the Legacy Project, for increased activities in the area of environmental protection and for maintaining the volumes of crude salt mined in the Potash and Magnesium Products business unit. Personnel expenses should be on about the same level as in 2012 (€ 981.9 million) as the additional costs arising from pay settlements under collective bargaining agreements as well as from a slightly higher number of employees should be offset by lower performance-related remuneration. In 2014, the number of employees should again increase slightly and personnel expenses should rise moderately due to this and as a result of anticipated additional costs arising from pay settlement increases under collective bargaining agreements and higher performance-related remuneration.

PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT TAB: 4.14.1

in %; real	2014e	2013e	2012	2011	2010
Germany	+ 2.0	+ 0.7	+ 0.7	+ 3.0	+ 3.7
European Union (EU-27)	+ 1.5	+ 0.3	(0.2)	+ 1.7	+ 1.9
World	+ 3.7	+ 3.2	+ 3.0	+ 3.7	+ 5.1

Source: Deka Bank

FUTURE MACROECONOMIC SITUATION

The following discussion about the future macroeconomic situation is essentially based on the assessments of the KIEL INSTITUTE FOR THE WORLD ECONOMY (Kiel Discussion Papers: Weltkonjunktur und deutsche Konjunktur im Winter 2012, December 2012) and of DEKA BANK (Makro Research, Volkswirtschaft Prognosen of January / February 2013).

According to these estimates, the global economy will grow slightly in 2013; uncertainties over the further development of the sovereign debt crisis in the eurozone, the further consolidation of national budgets as well as the fiscal policy debate in the United States against the backdrop of reaching the statutory debt ceiling will continue to have negative effects. The emerging market countries should gain in momentum over the course of the year. The forecasts of DEKA BANK for the global economy assume, against this background, growth in the gross domestic product of 3.2 % for 2013 and 3.7 % for 2014. / TAB: 4.14.1

The KIEL INSTITUTE FOR THE WORLD ECONOMY forecast assumes that the sovereign debt crisis in the eurozone will gradually ease. However, the crisis remains a central forecast risk for the development of the global economy, as there continues to be a high degree of uncertainty about the political strategy for the further development of the eurozone. It therefore cannot be expected that the mood among companies and consumers will improve fundamentally over the short term. There continues to be a risk that further eurozone countries will find themselves in payment difficulties. In that case, there would probably not only be a grave recession in the eurozone, but the whole global economy could be affected. For 2013, DEKA BANK assumes that gross domestic product in the eurozone will rise slightly by +0.3 % following the overcoming of the 2012 recession in Europe, and in 2014 it is expected to increase by 1.5 %.

In the view of the KIEL INSTITUTE FOR THE WORLD ECONOMY, the pace of economic expansion in the United States in 2013 can be expected to be modest. The scaling back of the indebtedness of private households can be expected to continue and the structural problems on the property market should be successively reduced. However, tax increases as well as cuts in spending, which are intended to start the process of reducing the very high budget deficit, will burden growth. Against this backdrop, DEKA BANK is assuming a growth rate for the gross domestic product of 2.0 % for 2013 and 2.5 % for 2014.

The KIEL INSTITUTE FOR THE WORLD ECONOMY expects economic activity in the emerging market countries to recover as a result of a gradual increase in demand from the developed economies. The expansionary economic policy as well as stimulus programmes launched over the past months should provide support in this regard. If the economic framework conditions do not significantly deteriorate due to a considerable slowing down of the economy in the developed economies or global financial market turmoil, the emerging market countries should again be able to achieve an increase in gross domestic product of 5.2 % in 2013 and 5.6 % in 2014.

According to the expectations of the KIEL INSTITUTE FOR THE WORLD ECONOMY, the central banks will continue to pursue their expansionary monetary policy course and central bank interest rates will continue to remain low in 2013 and 2014. The USD/EUR exchange rate underlying our corporate planning is on average about 1.33 USD/EUR for 2013 and 2014; an exchange rate of 1.33 CAD/EUR is also assumed for the years 2013 and 2014. As for the oil price, a level of US$ 110 per barrel is assumed for 2013 and of US$ 100 per barrel for 2014.

IMPACT ON K+S

+ The economic upturn in the emerging market countries will continue to persist and improve the prosperity level of the population of such countries. This will increase worldwide per capita consumption of food, including meat, as well as the pressure on the agricultural sector to meet this challenge.
+ The futures traded at exchanges for agricultural products indicate that in financial year 2013 too, the prices for agricultural products will remain at a level that is attractive for the agricultural sector. In our Potash and Magnesium business unit, we therefore assume a sales volume of about 7 million tonnes (2012: 6.95 million tonnes). In 2014, after completing partial projects related to the package of measures on water protection, we should be in a position to slightly increase sales volumes.
+ The US dollar investments incurred in connection with the construction of the new potash plant in Canada (Legacy Project) during the primary investment phase until 2016 are included in the USD net position of the Potash and Magnesium Products business unit; during the investment phase this leads to a reduction of the total US dollar volume requiring hedging. Options and futures are used to hedge the net position. For 2013, the worst-case scenario of the instruments chosen amounts to about 1.29 USD/EUR including costs. However, they also provide the K+S GROUP with the opportunity to participate in part in a stronger US dollar.
+ For the construction of the Legacy Project, during the primary investment phase until 2016, payments will also be made in the Canadian dollar (CAD). The Canadian dollar investment is partly aided by a natural cash flow hedge arising from surpluses in the salt business in Canada. Futures or options are also used to hedge the remaining CAD net position, which prescribe a worst-case scenario of 1.26 CAD/EUR including costs for 2013, but also provide an opportunity to participate in part in a Canadian dollar that may become weaker again.

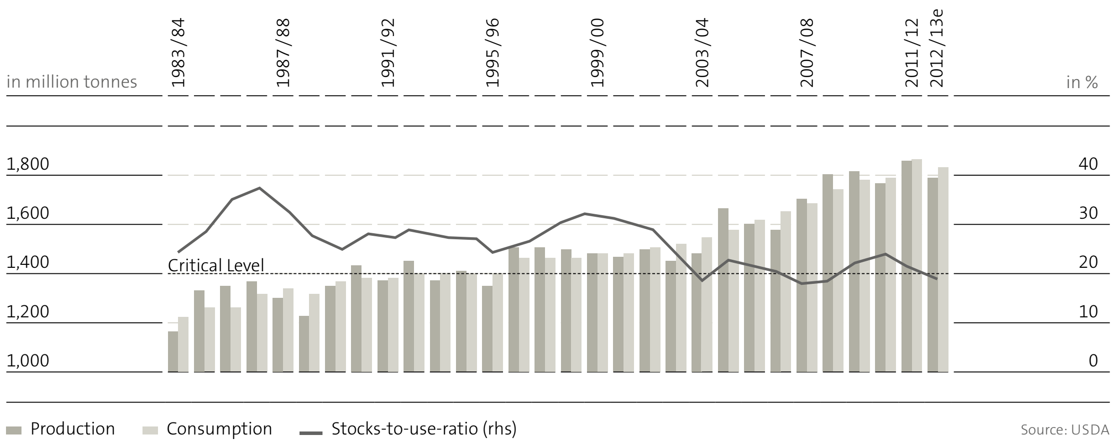
+ As a result of continued moderate growth rates in the global economy in 2013 and 2014, there should be no significant change in the level of sea freight rates (bulk). Consequently, the price-related effects on the freight costs of the K+S GROUP should remain small.
+ In the Potash and Magnesium Products business unit, production costs are affected to a not inconsiderable extent by energy costs, in particular for the supply of natural gas. In the case of energy costs, oil price fluctuations will have less of an impact on our cost accounting, as the price base for the procurement of energy will be more diversified in future and we will be able to take advantage of opportunities arising on the energy markets. Thus, we expect a moderate decline in energy costs for the K+S GROUP in 2013 to a level that should remain rather stable in 2014.

/ **FURTHER INFORMATION ON THE NEWLY CONCLUDED ENERGY AGREEMENTS** can be found on page 144 of the description of opportunities.

FUTURE INDUSTRY SITUATION

The competitive positions of the individual business units described in the 'Group Structure and Business Operations' section on page 58 should essentially remain valid in 2013 and 2014.

PRODUCTION SURPLUS/DEFICIT AND STOCKS-TO-USE-RATIO FOR CEREALS FIG: 4.14.1



Source: USDA

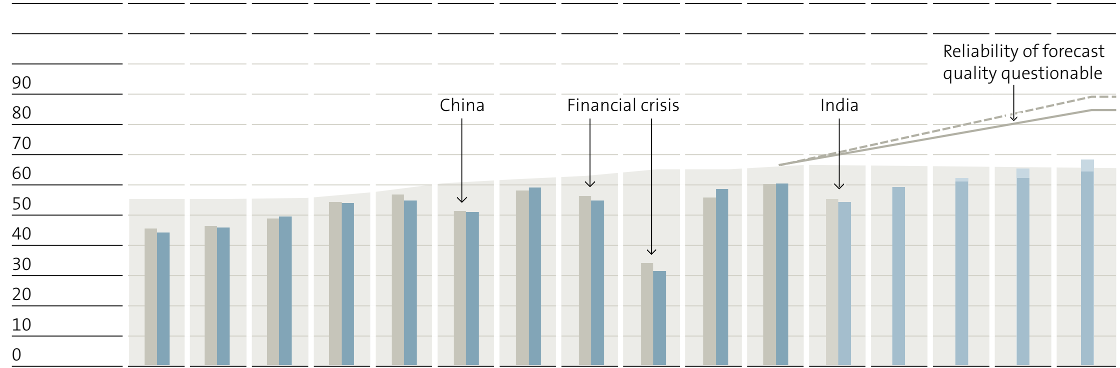
POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

A global population that – according to the FOOD AND AGRICULTURAL ORGANIZATION OF THE UNITED NATIONS (FAO) – is growing by about 80 million people every year as well as changes in eating habits that are moving towards greater consumption of meat and, not least, the growing importance of renewable raw materials for the generation of bioenergy are all increasing the global demand for agricultural raw materials. Especially against the backdrop of an at best unchanged availability of agricultural land per capita, this poses a great challenge for the agricultural sector. In the last 30 years, the amount of available agricultural land in the world has remained roughly constant. However, as the global population has increased from about 4.5 to over 7.0 billion people over the same period, this means a decrease per capita of about 35 %.

The fact that cereal production was nonetheless able to keep up with the increased demand over that period is in part attributable to the higher and more balanced use of mineral fertilizers. This will also remain a decisive factor in the future in countering the decline in the land available for cultivation, prompted by urbanisation, erosion and flooding, by means of intensifying farming on the land that remains. / **FIG: 4.14.1**

Despite great efforts made on the production side, over the past few decades, more cereals have frequently been consumed than produced. For the current business year 2012/13, the US DEPARTMENT OF AGRICULTURE (USDA) estimates that cereal production, which has been adversely affected by the drought in the Midwest of the United States and in Russia, will not suffice to meet demand. At 17.8 %, the ratio of cereal stocks to consumption ("stocks-to-use-ratio") is therefore below the level of 20 %, or in other words: The global population could only cover its cereal needs from stocks for about 65 days. Further decreases in the stocks-to-use-ratios in the coming years cannot be ruled out. Against this backdrop, prices for agricultural products increased significantly in 2012. The resultant income prospects for the agricultural sector should provide a sufficient incentive to raise yields per hectare through the greater use of fertilizers.

WORLD POTASH CAPACITY, PRODUCTION AND SALES VOLUMES FIG: 4.14.2



in million tonnes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
Production	45.1	46.0	48.5	53.9	56.5	50.9	57.8	56.0	33.7	55.5	59.9	~55				
Sales volumes	43.9	45.5	49.1	54.2	54.4	50.7	58.7	54.5	31.0	58.3	60.2	~54	~59	+3 to 5 %	+3 to 5 %	64 to 68

Production; Sales volumes; Available capacity; Production estimated; Sales volumes estimated and after 2013 Ø +3 % growth assumed respectively; Sales volumes estimated and after 2013 Ø +5 % growth assumed respectively; Brownfield projects; Greenfield projects

Source: IFA, K+S

Incl. potassium sulphate and potash grades with lower K_2O content of around 3 million tonnes eff; Capacity development 2011–2016 based on IFA supply capability data.

For 2013, we expect a tangible increase in global potash sales volumes to about 59 million tonnes (2012e: about 54 million tonnes), including about 3 million tonnes of potassium sulphate and potash grades with lower mineral content. The estimate is based primarily on a price level for agricultural raw materials which remains attractive for the income prospects of the agricultural sector, and on the expectation of a significant increase in demand in China and India after the buying restraint in 2012. In our Potash and Magnesium business unit, for 2013, we assume a sales volume of about 7 million tonnes (2012: 6.95 million tonnes), which would make us the fifth largest single producer in the world with a market share of about 10 %.

The economic viability of time-consuming and very capital-intensive new projects (greenfield mine) depends on a reasonable potash price level. The potash demand of a globalised world with constantly rising dietary expectations will, however, not be able to be served simply by the currently installed capacities. / **FIG: 4.14.2**

SALT BUSINESS UNIT

Over the coming years too, the situation of the industry and competition in Europe will be shaped by pressure to consolidate in the salt industry. A low level of freight costs could exacerbate the highly competitive market situation for European producers due to rising imports from non-EU countries. As Europe's largest salt producer, we are well prepared to meet the challenges arising in this market environment. In the case of Europe, we assume long-term average sales volume figures for de-icing salt in 2013. After the below-average demand in 2012 as a result of the exceptionally mild weather conditions at the start of the year, the de-icing salt sales volume should again increase accordingly. Demand in the food grade and industrial salt segments should remain largely stable in 2013, while the sales volume of salt for chemical use in Europe should normalise.

With the Chilean salt producer SPL, the largest salt producer in South America, we have a very good starting point for participating in the growth of the South and Central America markets. The South American market for food grade salt should constantly grow in line with the regional population development, but following the normalisation of the salt harvesting situation in Brazil, more competition can be expected there. Demand on the part of the chemical industry for salt for chemical use and demand for industrial salt should remain stable. Asia too is displaying attractive growth rates for salt consumption. After the first deliveries to the chemical industry in China took place in 2011, this region can be expected to increasingly gain in importance in the future.

With MORTON SALT, the largest salt producer in North America in terms of production capacity, in the de-icing salt sector, we have access to markets in North America with winter business that is normally less susceptible to fluctuations. In the industrial salt and food grade salt segments too, North America is among the most important sales regions. With the brands UMBRELLA GIRL® and WINDSOR CASTLE®, MORTON SALT has brands in the United States and in Canada that are very well positioned in the consumer business, which enable us to achieve stronger sales volumes of higher-margin speciality products. Compared to the mild weather in North America in the first and fourth quarters of 2012 and assuming average long-term sales volume figures, demand for de-icing salt in North America should once again increase accordingly in 2013. The consumption of food grade and industrial salts should continue to be stable. The demand of the chemical industry for salt for chemical use will probably rise slightly.

EXPECTED DEVELOPMENT OF REVENUES AND EARNINGS

The following forecasts relate to the expected organic revenue and earnings development of continued operations. Increases resulting from possible acquisitions or cooperations are not taken into consideration.

K+S comments on the future revenue and earnings development in accordance with the forecast policy described below:

+ In the Financial Report, an outlook for two years is given. The outlook normally uses the qualitative expressions "slight", "moderate", "tangible", "significant" and "strong". The respective terms are based on the internally expected change in percentage terms in comparison to the corresponding figures for the previous year.
+ In the Quarterly Financial Report for the first quarter, the outlook for the current year is taken up and, if necessary, adjusted. The outlook uses the same qualitative classification as the Financial Report.
+ In the Half-yearly Financial Report, the outlook is quantified for the first time and ranges are specified for the expectations regarding revenues, EBITDA, operating earnings EBIT I, Group earnings and earnings per share.
+ In the Quarterly Financial Report for the third quarter, the ranges are, if necessary, adjusted and narrowed for the current year. Furthermore, the qualitative outlook of the Financial Report for the following year is taken up again and changed, if necessary.

K+S GROUP WITH ATTRACTIVE PROSPECTS FOR 2013 AND 2014

REVENUES SHOULD INCREASE SLIGHTLY IN 2013

In the financial year 2013, the revenues of the K+S GROUP should increase slightly in relation to the previous year. While we assume a price-related revenue decrease in the Potash and Magnesium Products business unit, we expect higher revenues in the Salt business unit as a result of volume factors. The revenue forecast assumes an average US dollar exchange rate of 1.33 USD/EUR (2012: 1.29 USD/EUR).

COSTS WILL PROBABLY RISE SLIGHTLY

The following forecast of the development of costs is structured by cost type: The total costs of the K+S GROUP should rise slightly year on year. The personnel expenses should be largely on the level of the year 2012, as the additional costs arising from pay settlements under collective bargaining agreements as well as from a slightly higher number of employees should be offset by lower performance-related remuneration. Material costs should also rise moderately as a result of volume factors, while we expect moderate savings on energy costs as a result of newly negotiated agreements. On the other hand, we expect moderately higher freight costs as a result of volume factors. Depreciation and amortisation should increase moderately.

OPERATING EARNINGS SHOULD RISE SLIGHTLY

As far as EBITDA and operating earnings EBIT I of the K+S GROUP are concerned, from today's perspective, we see opportunities for the year 2013 to increase the figures slightly in comparison with 2012. In this context, the decrease in earnings in the Potash and Magnesium Products business unit should be more than made up for by the improvement in earnings resulting from the normalisation of the de-icing salt business in the Salt business unit.

GROUP EARNINGS EXPECTED TO RISE SLIGHTLY

As regards adjusted Group earnings after taxes from continued operations of the K+S GROUP as well, assuming a largely stable financial result, a slight increase would be possible. Our estimate is based not only on the effects described for revenues and operating earnings, but also on:

+ The expectation of consistently attractive agricultural prices;
+ A sales volume for potash and magnesium products of about 7 million tonnes (2012: 6.95 million tonnes) and, compared with 2012, lower average prices in the Potash and Magnesium Products business unit. It should be taken into consideration that the average exchange rate of 1.33 USD/EUR underlying this forecast, in 2013 overall compares, particularly in months with high overseas volumes, with a stronger US dollar in 2012;
+ Average and – compared to the below-average sales volume of the previous year (2012: 17.56 million tonnes) – significantly higher sales volume of crystallised salt of a good 22 million tonnes (of which de-icing salt: 12 to 13 million tonnes, 2012: 8.33 million tonnes);
+ A stable financial result, as the absence of the non-cash, unplanned interest expenses for provisions for mining obligations resulting from the lowering of the average weighted discount factor should be offset by higher interest expense related to the first-time inclusion of the bond issued in June 2012 for the year as a whole;
+ At 26 % to 27 %, a slightly higher adjusted Group tax ratio (2012: 25.8 %).

ATTRACTIVE PROSPECTS FOR 2014

In 2014, revenues of the K+S GROUP should increase slightly once again in comparison to 2013. In both the Potash and Magnesium Products and the Salt business units, we assume an increase in revenues. As regards operating earnings too, we see chances of a slight increase in comparison to 2013. This should also have a correspondingly positive effect on the adjusted Group earnings after taxes.

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

The prospects for the development of demand for fertilizers containing potash and magnesium continue to be attractive particularly in the markets relevant to us, so that, from today's perspective, we are anticipating a sales volume of approximately 7 million tonnes for 2013 (2012: 6.95 million tonnes). After international prices for potassium chloride came under pressure during the fourth quarter of 2012 due to the absence of the conclusion of agreements of North American and Russian producers with Chinese and Indian customers at that time, the average price level for the product portfolio of the Potash and Magnesium Products business unit in 2013 should be below that of 2012. On this basis, revenues of the Potash and Magnesium Products business unit should decrease due to price factors year on year. All in all, in the Potash and Magnesium Products business unit, on a stable cost level, we expect operating earnings that should be below the level achieved in 2012.

In 2014, from today's perspective, we expect a slightly increasing sales volume as well as a revenue increase, which should also lead to an improvement in earnings.

SALT BUSINESS UNIT

As a result of the normalisation of the de-icing salt business, we expect higher revenues due to volume factors in 2013 for the Salt business unit in comparison to the previous year. This forecast assumes long-term averages for the early stocking-up business and the de-icing salt business in the fourth quarter, as well as a largely stable overall development in revenues in the food grade and industrial salt segments as well as the salt for chemical use segment. At a good 22 million tonnes, our assessment is based on average and – compared with the below-average sales volume of the previous year (2012: 17.56 million tonnes) – significantly higher sales of crystallised salt (of which de-icing salt: 12 to 13 million tonnes; 2012: 8.33 million tonnes). Against the background of the higher proportion of fixed costs customary in the mining industry, the significantly higher capacity utilisation should lead to an improvement in operating earnings.

After prices for de-icing salt came under pressure in the tenders for the 2012/13 winter season due to higher stocks on the part of customers both in Europe and North America, a normalisation of the de-icing business and stocks on the part of customers should have a correspondingly positive effect on tenders for the 2013/14 winter season. For 2014, on the basis of a normal winter business that follows the long-term average of historical de-icing salt volumes, we are anticipating a price-related increase in revenues and a further improvement of operating earnings compared to 2013.

COMPLEMENTARY ACTIVITIES

For 2013 and 2014, from today's perspective, we assume stable revenues and stable operating earnings.

ANTICIPATED FINANCIAL POSITION

EXPECTED FINANCING STRUCTURE

With net indebtedness of € 756.0 million (including pension provisions and provisions for mining obligations of € 795.4 million in total) and a level of indebtedness of only 21.7 %, the K+S GROUP has a strong financial base. In view of the upcoming capital expenditure for the expansion of our potash capacities in Canada (Legacy Project), the solid capital structure and a high operating cash flow provide a good starting point for the further development of the K+S GROUP. Our currently very low level of net indebtedness should rise significantly in comparison to the previous year. This assumption takes into consideration the expected capital expenditure budget, including the Legacy Project, and the total dividend payment resulting from the dividend proposal by the Board of Executive Directors. For 2014, we expect, against the backdrop of persistently high capital expenditure on the Legacy Project, a further increase in net indebtedness. Nonetheless, in 2013 and 2014, we should report an equity ratio of at least 50 % and a level of indebtedness of under 50 %.

DEVELOPMENT OF LIQUIDITY CHARACTERISED BY CAPITAL EXPENDITURE IN THE LEGACY PROJECT

The earnings development forecast for 2013 and 2014 should also have a positive impact on the cash flow from operating activities, while the free cash flow will, however, probably be negative due to the capital expenditure on the Legacy Project.

PLANNED CAPITAL EXPENDITURE

K+S GROUP

In 2013, we anticipate a volume of capital expenditure of just under € 1.1 billion for the K+S GROUP; of this, approximately CAD 830 million (about € 625 million) can be attributed to the Legacy Project. With the allocation of the budgeted total expenditure to the investment years, however, there may still be considerable shifts in this. Measures relating to replacement and ensuring production will account for just under 40 %. Depreciation and amortisation is expected to total between € 240 million and € 250 million in 2013. / TAB: 4.14.2

In 2014, the volume of capital expenditure of the K+S GROUP should be at about the level of 2013.

CAPITAL EXPENDITURE BY BUSINESS SEGMENT[1] TAB: 4.14.2

in € million	2013e	2012
Potash and Magnesium Products business unit	905	332.9
Salt business unit	130	111.3
Complementary Activities	5	6.3
Reconciliation	35	15.0
K+S Group	~1,075	465.5

[1] Capital expenditure of continued operations in property, plant and equipment, intangible assets, investment properties and financial assets.

DEVELOPMENT OF DIVIDENDS TAB: 4.14.3

in €	2012[1]	2011	2010	2009	2008
Dividend per share	1.40	1.30	1.00	0.20	2.40

[1] The figure for 2012 corresponds to the dividend proposal.

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

At about € 905 million, the level of capital expenditure in 2013 should significantly exceed the figure for 2012 (€ 332.9 million). Of this, CAD 830 million (about € 625 million) should be accounted for by the Legacy Project. With the allocation of the expenditure to the investment periods, however, there may still be considerable shifts in this. Over the coming months, further investments will be made in Canada in infrastructure and drilling. For this year, we expect a volume of capital expenditure of about € 140 million on the package of measures on water protection in the Hesse-Thuringia potash district. About € 30 million is planned to be invested in the completion of the construction of the saline water pipeline from the Neuhof site to the Werra plant. In total, investments in replacement and ensuring production should account for just under 30 % of the volume of capital expenditure.

SALT BUSINESS UNIT

At about € 130 million, the volume of capital expenditure in 2013 should significantly exceed the figure for the previous year (€ 111.3 million). The increase is primarily due to measures taken to develop a deeper extraction level at the rock salt site of Weeks Island, United States, the optimisation of the mining process at the rock salt site in Fairport, United States, as well as the expansion of the brine field at FRISIA in Harlingen, Netherlands. In addition, the modernisation of a MORTON SALT evaporated salt plant in Hutchinson, United States, the further expansion of the sifting capacity at SPL, and the optimisation of warehouse logistics at the Borth salt site in Germany will be among the most important projects. About three quarters will be invested in measures relating to replacement and ensuring production.

COMPLEMENTARY ACTIVITIES

Capital expenditure in 2013 will be approximately € 5 million and therefore somewhat below the level for the year under review (€ 6.3 million) and will primarily concern investments relating to replacement and ensuring production. A good € 3 million of this will be accounted for by Waste Management and Recycling and € 1 million will be invested each in K+S TRANSPORT GMBH and in the Animal Hygiene Products business.

EXPECTED DEVELOPMENT OF DIVIDENDS

DIVIDEND PROPOSAL FOR FINANCIAL YEAR 2012 AT € 1.40 PER SHARE

On 10 May 2012, the dividend of € 248.8 million for 2011 was paid out of the accumulated profit of K+S AKTIENGESELLSCHAFT of € 260.1 million available at the end of 2011. In financial year 2012, K+S AKTIENGESELLSCHAFT achieved net income of € 563.9 million (2011: € 392.5 million). Including a profit carried forward of € 11.3 million and a transfer to the revenue reserves of € 281.0 million, € 294.2 million is disclosed as accumulated profit.

Adjusted earnings per share of the K+S GROUP, which serve as the basis for the dividend payment, reached € 3.34 after having been € 3.04 in the previous year; € 0.51 of this was attributable to the discontinued operations of the NITROGEN business. In line with our payout corridor of 40 % to 50 %, which we are basically seeking to achieve, the Board of Executive Directors intends to propose to the Annual General Meeting the payment of a dividend of € 1.40 per share (previous year: € 1.30 per share); this corresponds to a payout ratio of 42 %. Of this, € 1.19 per share is accounted for by continued operations and € 0.21 per share by discontinued operations. / TAB: 4.14.3

Assuming that we will not hold any own shares on the date of the Annual General Meeting, this would result in a total dividend payment of € 268.0 million.

FUTURE DIVIDEND POLICY

We are pursuing an essentially earnings-based dividend policy. According to this, a dividend payout ratio of between 40 % and 50 % of adjusted Group earnings after taxes (including discontinued operations) forms the basis for the amount of future dividend recommendations to be determined by the Board of Executive Directors and the Supervisory Board. Since the adjusted earnings per share will no longer be favoured by the effects from the divestment of the NITROGEN business in 2013, the dividend payment based on the earnings forecast described will probably be below that of the previous year (proposal 2012: € 1.40 per share). For 2014, a dividend increase is possible due to the expected earnings development.

OPPORTUNITIES

OPPORTUNITIES FROM THE DEVELOPMENT OF FRAMEWORK CONDITIONS

/ INFORMATION ON OUR OPPORTUNITY MANAGEMENT can be found in the Risk Report on page 113.

LEGACY PROJECT BOOSTS INTERNATIONAL COMPETITIVENESS

Legacy is a greenfield project for the construction of potash production on the basis of solution mining. K+S acquired the Canadian exploration and development company POTASH ONE, the owner of the Legacy Project, at the start of 2011, and thoroughly revised the existing feasibility study over the following months. A concept was developed, which is optimally consistent with the capacity and market forecasts of K+S and demonstrates attractive economic viability.

In the first two expansion phases of the new potash site, K+S will invest a total of CAD 3.25 billion. The first sales volumes should be available at the end of 2015 and the two-million-tonnes mark be achieved in 2017. This will be followed by the gradual expansion of production capacity to 2.86 million tonnes a year in 2023. In the third expansion phase, a total output of a maximum 4 million tonnes of potassium chloride a year would then be possible about ten years later. The product portfolio will comprise potassium chloride standard, granulated potassium chloride and high-quality industrial products.

In 2012, further infrastructure works and drilling were undertaken. By the end of 2012, there were 118 K+S employees from different countries working at K+S POTASH CANADA in Saskatoon on the construction of the new site. By 2023, more than 300 jobs will be created for highly qualified employees. With this project, we are drawing on experience in solution mining gained by ESCO in Germany and the Netherlands, as well as the know-how of MORTON SALT, which operates ten plants on the basis of solution mining in the United States and in Canada. The Legacy Project will supplement the existing German production network of K+S with an important North American location.

The historically relatively low ratio of stocks of important agricultural products to annual consumption, already described on page 137 under the heading 'Future industry situation', could be reflected in a relatively high price level for agricultural products over the long term. This in turn encourages farmers worldwide to both utilise any additional available uncultivated land and to increase the intensity of existing cultivation. Both these elements require greater use of fertilizers and could in future result in global demand for potash fertilizers rising at a faster pace than hitherto forecast.

CORPORATE STRATEGY OPPORTUNITIES

EXPANSION OF POTASH CAPACITY

In view of the high level of utilisation of the technical capacity available to us in Germany as well as the probably significant rise in future demand for potash fertilizers, the Potash and Magnesium Products business unit has been pursuing a strategy to expand its production capacities for potash. The Legacy Project gives us the opportunity to participate in global market growth, further improve revenues and earnings of the business unit, strengthen international competitiveness and extend the average useful lives of our mines.

Moreover, we carried out a feasibility study for our Siegfried-Giesen reserve mine near Hildesheim, Lower Saxony. After the technical, economic and market aspects of a possible re-opening had been examined comprehensively, the project was basically assessed as being promising. In the next step, approvability will be examined. This involves obtaining the permits necessary for the project. To that end, a regional planning procedure followed by an official plan approval process will be prepared by a project group specially set up for that purpose. After the invastigations necessary for this have been carried out, the relevant applications will be made. Both administrative procedures will take several years in all. Assuming economic viability and the granting of the necessary mining and environmental permits, the reactivation of Siegfried-Giesen would offer us the opportunity to make up to a certain extent for the loss of production capacity resulting from the closure of the Sigmundshall site that will become necessary after 2018, due to crude salt reserves being exhausted.

USE OF SYNERGIES OF AN INTERNATIONAL PRODUCTION NETWORK

There is a particular focus on the optimisation of the international production network and the associated volume flows and logistics costs. Comparable mining processes make synergies possible between the Potash and Magnesium Products and Salt business units in the exchange of technical, geological and logistics know-how as well as economies of scale in the procurement of machinery and auxiliary materials.

ECONOMIC PERFORMANCE OPPORTUNITIES

A decrease in the energy price level would have a favourable impact on the cost structure and thus the business success of the energy-sensitive Potash and Magnesium Products and Salt business units.

/ **ONGOING MEASURES TO BOOST ENERGY EFFICIENCY AND THEIR EFFECTS** are presented in the 'Important Non-Financial Matters' section on page 79.

With the purpose of creating greater flexibility and lowering input costs, the gas supply contracts, which were previously largely linked to the oil price, were renegotiated, so that future price opportunities on the gas spot markets can be exploited for part of the volumes obtained. Buying gas will therefore approximately equally be split between the following:

+ longer-term agreements for which fixed gas prices were agreed;
+ agreements tied to the oil price, which are reflected in our cost accounting with a delay of now only three to four months;
+ buying on the gas spot market.

The procurement of energy will therefore be more strongly diversified in the future, and we will be able to take advantage of opportunities arising on the energy markets.

OTHER OPPORTUNITIES

For the K+S GROUP, the USD/EUR currency relationship is fundamentally of high importance, since particularly potash sales, with the exception of the European market and a few overseas regions, are invoiced in US dollars.

Our planning for the years 2013 and 2014 is based on a US dollar exchange rate of 1.33 USD/EUR.

During the primary investment phase of the Legacy Project, until 2016, greater importance will also be given to the CAD/EUR exchange rate. Our planning for the years 2013 and 2014 is based on an exchange rate of 1.33 CAD/EUR.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE K+S GROUP

The year 2013 should again be a good year for the K+S GROUP: Revenues of the K+S GROUP should increase slightly in financial year 2013 in relation to the previous year. While we assume a price-related revenue decrease in the Potash and Magnesium Products business unit, we expect higher revenues in the Salt business unit as a result of volume factors. As far as the operating earnings EBIT I of the K+S GROUP are concerned, from today's perspective, we also see chances for the year 2013 to increase the figures slightly in comparison with 2012. Here, the decrease in earnings in the Potash and Magnesium Products business unit should be more than made up for by the improvement in earnings resulting from the normalisation of the de-icing salt business in the Salt business unit.

In 2014, revenues should again increase slightly in comparison to the previous year. As regards operating earnings too, we see chances of a slight increase. / TAB: 4.14.4

Our estimates are based, among other things, on:
+ the expectation of consistently attractive agricultural prices;
+ a sales volume for potash and magnesium products of about 7 million tonnes (2012: 6.95 million tonnes) in 2013 and a slight increase in 2014;
+ significantly higher and average sales volumes of crystallised salt of about 22 million tonnes in 2013 (of which de-icing salt: 12 to 13 million tonnes, 2012: 8.33 million tonnes), in comparison to the lower than average sales volume of the previous year (2012: 17.56 million tonnes);
+ a US dollar exchange rate of 1.33 USD/EUR for 2013 and 2014 and an oil price level of US$ 110 per barrel in 2013 and US$ 100 per barrel in 2014;
+ a largely unchanged financial result;
+ at 26 % to 27 %, a slightly higher adjusted Group tax ratio (2012: 25.8 %).

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

OVERVIEW IN TABLE FORM OF REVENUE AND EARNINGS TRENDS DESCRIBED TAB: 4.14.4

in € million	K+S Group
Revenues 2012	3,935.3
Revenues 2013	slight increase
Revenues 2014	slight increase
EBIT I 2012	808.5
EBIT I 2013	slight increase
EBIT I 2014	slight increase

4.15 K+S AKTIENGESELLSCHAFT (DISCUSSION BASED ON THE GERMAN COMMERCIAL CODE – HGB)

The Management Report of K+S AKTIENGESELLSCHAFT and the Group Management Report for financial year 2012 are combined. The annual financial statements of K+S AKTIENGESELLSCHAFT in accordance with the German Commercial Code (HGB) and the combined Management Report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

DECLARATION ON CORPORATE GOVERNANCE

The Declaration on Corporate Governance in accordance with Sec. 289a of the German Commercial Code (HGB) is shown in the 'Corporate Governance' section on page 33. It forms an integral part of the combined Management Report of K+S AKTIENGESELLSCHAFT and the K+S GROUP.

REMUNERATION REPORT

The information to be disclosed in accordance with Sec. 289 Para. 2 No. 5 of the German Commercial Code (HGB) is contained in the Remuneration Report on page 43 of the 'Corporate Governance' section; the Remuneration Report constitutes an integral part of the combined Management Report of K+S AKTIENGESELLSCHAFT and the K+S GROUP.

INFORMATION IN ACCORDANCE WITH SEC. 289 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB) AND EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS

Information in accordance with Sec. 289 Para. 4 of the German Commercial Code (HGB) and the explanatory report of the Board of Executive Directors can be found on page 64.

INCOME STATEMENT OF K+S AKTIENGESELLSCHAFT[1] TAB: 4.15.1

in € million	2012	2011
Revenues	**75.5**	**67.1**
Cost of sales	81.5	74.2
Gross profit	(6.0)	(7.1)
Selling, general and administrative expenses and research costs	37.0	43.9
Other operating income and expenses	59.2	(16.6)
Income from investments, net	789.7	702.3
Interest income, net	(35.1)	(56.5)
Depreciation on financial assets and securities held in current assets	(1.1)	—
Earnings before income taxes	**769.6**	**578.2**
Taxes on income	205.7	185.7
Net income	**563.9**	**392.5**
Profit carried forward	**11.3**	**34.3**
Transfer from net income to revenue reserves	**281.0**	**166.8**
Accumulated profit	294.2	260.1

[1] A detailed income statement can be found in the financial statements 2012 of K+S Aktiengesellschaft.

BUSINESS OPERATIONS, CORPORATE STRATEGY, ENTERPRISE MANAGEMENT AND SUPERVISION, OVERVIEW OF THE COURSE OF BUSINESS

Information on business operations, corporate strategy, enterprise management and supervision as well as an overview of the course of business can be found on pages 66 to 91.

EARNINGS POSITION

At € 75.5 million, revenues of K+S AKTIENGESELLSCHAFT in 2012 were tangibly above the level of the previous year (€ 67.1 million). Apart from an increase, due to volume factors, in the internal Group billing of services to Group companies, there were positive volume effects with the granulation of CATSAN®. / TAB: 4.15.1

Earnings before income taxes rose by € 191.4 million to € 769.6 million (previous year: € 578.2 million). The increase is essentially due to the tangibly higher net income from investments of € 789.7 million (previous

BALANCE SHEET OF K+S AKTIENGESELLSCHAFT — ASSETS TAB: 4.15.2

in € million	31.12.2012	31.12.2011
Intangible assets	0.1	0.1
Property, plant and equipment	18.3	17.2
Financial assets	3,074.2	2,647.6
Non-current assets	**3,092.6**	**2,664.9**
Inventories	1.4	1.2
Receivables and other assets	1,015.6	1,009.5
Securities	175.6	219.3
Cash on hand and balances with banks	136.3	141.7
Current assets	**1,328.9**	**1,371.7**
Prepaid expenses	**3.9**	**1.9**
Surplus from offsetting	**15.4**	**—**
ASSETS	4,440.8	4,038.5

BALANCE SHEET OF K+S AKTIENGESELLSCHAFT — EQUITY AND LIABILITIES TAB: 4.15.3

in € million	31.12.2012	31.12.2011
Subscribed capital	191.4	191.4
Additional paid-in capital	701.6	701.6
Revenue reserves	733.0	452.0
Accumulated profit	294.2	260.1
Equity	**1,920.2**	**1,605.1**
Provisions for pensions and similar obligations	—	5.9
Tax provisions	21.9	—
Other provisions	164.8	160.3
Provisions	**186.7**	**166.2**
Liabilities	**2,333.9**	**2,267.2**
EQUITY AND LIABILITIES	4,440.8	4,038.5

year: € 702.3 million), which was particularly favoured by the increase in the profit transfer of K+S KALI GMBH to € 763.6 million (previous year: € 718.4 million). Also, the previous year was adversely affected by expenditures from transferring the loss of K+S BETEILIGUNGS GMBH of € 83.0 million (2012: € (0.7) million). At € 6.7 million, due to the divestment of the NITROGEN business during the year, the profit transfer of K+S NITROGEN GMBH was below the level of the previous year (€ 56.6 million). Further investment income arises from the profit transfers of K+S ENTSORGUNG GMBH with € 9.6 million (previous year: € 8.6 million) and of K+S TRANSPORT GMBH with € 9.1 million (previous year: € 4.1 million).

Other operating income mainly increased due to the income from the divestment of the NITROGEN business by € 73.6 million to € 127.4 million (previous year: € 53.8 million).

The improvement in net interest income from € (56.5) million to € (35.1) million is essentially due to the balance from the accumulation for pension and partial retirement provisions and the income / expenditures of fund assets, as well as from higher income from securities. Interest expenses from a corporate bond issued in June 2012 are having opposite effects.

Earnings after taxes of K+S AKTIENGESELLSCHAFT increased significantly to € 563.9 million and were therefore € 171.4 million above the previous year's figure (€ 392.5 million).

ASSETS AND FINANCIAL POSITION

Fixed assets increased by € 427.7 million to € 3,092.6 million (previous year: € 2,664.9 million) and have a share of 70 % (previous year: 66 %) in the balance sheet total which was up by € 402.3 million. The increase is particularly due to purchases of long-term securities. As at 31 December 2012, bank deposits have a balance of € 136.3 million (previous year: € 141.7 million). / TAB: 4.15.2

As at the balance sheet date, K+S AKTIENGESELLSCHAFT reports a difference on the asset side in the amount of € 15.4 million from offsetting, which results from an overfunding of cover funds over obligations from pension commitments. In the previous year, commitment overhangs arose, which were shown as liabilities.

The equity ratio as at 31 December 2012 was 43 % (previous year: 40 %). Due to the improved earnings situation, we disclose tax provisions of € 21.9 million at the reporting date. In the previous year, no tax provisions were disclosed due to higher prepayments on income taxes. / TAB: 4.15.3

Other provisions have a predominantly long-term character. Our Company's financing comes largely from funds available in the long term.

There are no liabilities to banks. Liabilities to affiliated companies essentially consist of the cash pool and borrowings.

APPROPRIATION OF PROFITS [1] TAB: 4.15.4

in € million	2012	2011
Dividend per share (€)	1.40	1.30
Total dividend payment taking into account 191,400,000 no-par value bearer shares eligible for dividend	268.0	248.8
Profit carried forward	26.2	11.3
Accumulated profit	294.2	260.1

[1] Amounts are rounded.

In June 2012, K+S AKTIENGESELLSCHAFT issued a bond with a volume of € 500 million. The bond has a ten-year term. With an interest coupon of 3.0 % p.a. and an issue price of 99.422 %, the yield on issue was 3.068 %. The proceeds from the bond issue will be used to refinance the corporate bond outstanding and set to mature in 2014.

DIVIDEND

K+S AKTIENGESELLSCHAFT discloses an accumulated profit of € 294.2 million for financial year 2012.

The Board of Executive Directors intends to propose to the Annual General Meeting on 14 May 2013, that the accumulated profit of K+S AKTIENGESELLSCHAFT from financial year 2012 be used as shown in table 4.15.4. / TAB: 4.15.4

RESEARCH AND DEVELOPMENT

Detailed information concerning the research and development activities of the K+S GROUP, which above all pertains to affiliated companies with operating activities, can be found on page 81.

EMPLOYEES

As at 31 December 2012, there were 604 employees (previous year: 591 employees) employed at K+S AKTIENGESELLSCHAFT. This included 17 trainees (previous year: 17 trainees).

RISKS AND OPPORTUNITIES

The business development of K+S AKTIENGESELLSCHAFT is basically subject to the same risks and opportunities as the K+S GROUP. K+S AKTIENGESELLSCHAFT participates in the risks of its shareholdings and subsidiaries according to its respective participation ratio. More information can be found in the 'Risk Report' section on page 113 and the 'Opportunities' section on page 143.

K+S AKTIENGESELLSCHAFT is integrated into the group-wide risk management system.

The required description of the internal control system with regard to the accounting process of K+S AKTIENGESELLSCHAFT (Sec. 289 Para. 5 of the German Commercial Code – HGB) can be found in the Risk Report on page 116.

SUBSEQUENT EVENTS

Subsequent events concerning the K+S GROUP and K+S AKTIENGESELLSCHAFT can be found on page 131.

FORECAST REPORT

The earnings development of K+S AKTIENGESELLSCHAFT depends to a substantial degree on the development of its subsidiaries. The business development forecast for the K+S GROUP can be found in the Forecast Report on page 139.

4.16 GUARANTEE OF THE LEGAL REPRESENTATIVES OF K+S AKTIENGESELLSCHAFT

To the best of our knowledge, and in accordance with the applicable principles for financial reporting, the consolidated financial statements and the annual financial statements of K+S AKTIENGESELLSCHAFT give a true and fair view of the assets, financial and earnings position of the Group and K+S AKTIENGESELLSCHAFT, and the combined Management Report includes a fair review of the development and performance of the business and the position of the Group and K+S AKTIENGESELLSCHAFT, together with a description of the principal opportunities and risks associated with the expected development of the Group and K+S AKTIENGESELLSCHAFT.

Kassel, 27 February 2013

K+S AKTIENGESELLSCHAFT
THE BOARD OF EXECUTIVE DIRECTORS

FORWARD-LOOKING STATEMENTS

This financial report contains facts and forecasts that relate to the future development of the K+S GROUP and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. Should the assumptions underlying these forecasts prove not to be correct or risks arise – examples of which are mentioned in the Risk Report – actual developments and events may deviate from current expectations. Outside statutory disclosure provisions, the Company does not assume any obligation to update the statements contained in this Management Report.


ROGERS CENTRE

THE PROOF LIES IN THE RELIABILITY

Icy road surfaces can be hazardous. On snow and ice, a car's braking distance can be five times greater than normal.

Salt is a major factor in winter road safety as it contributes to a dramatic reduction in roadway accidents. As salt lowers the freezing point of water, snow and ice become liquid again as they come into contact with it, helping to clear the way for safer driving conditions. Many industries rely on timely delivery of goods. Two days of extremely icy road conditions can impact supply chains substantially. Applying salt to winter roads helps get people, products and equipment to where they are needed most, so life keeps moving despite the winter freeze.

Applied sensibly, de-icing salt is not only the most cost effective approach but also the most environmentally friendly way of combating snow and ice on the roads. This was concluded already in 2003 by the renowned ÖKOINSTITUT FREIBURG, following a study commissioned by Germany's Federal Ministry of Transport, which took into account all environmental effects, from the extraction of the de-icing salt to its disposal.

This was not always the case. De-icing salt has been used since the 1930s. It was simply shovelled from a lorry onto the road. That was heavy work with unsatisfactory results because the salt was not distributed evenly on the road surface. The methods became more sophisticated from 1938 onwards with the use of a rotating dispenser

HIGH PRODUCTION CAPACITY FOR RELIABLE DELIVERY

We are the world's largest supplier of salt products. This includes food grade salt, industrial salt, salt for chemical use and de-icing salt. The annual production capacity totals about 30 million tonnes of salt. The business unit comprises ESCO in Europe, Chilean SPL with its activities in South America and the United States, as well as MORTON SALT, one of the largest salt producers in North America.

Depending on the deposit, there are three methods used to produce salt: solar, evaporation and rock mining. The raw material can be extracted particularly economically if it is relatively close to the surface, as in the Chilean salt desert. Our extraction area in the Tarapacá desert, one of the driest regions on earth, covers an area equivalent to more than 70,000 football pitches. Up to 70 m thick, the utilisable salt layer is blasted in open-cast mining. Departing from the deepwater port close to the open-cast mine, SPL's own shipping company can transport the valuable freight directly to the de-icing salt regions of the North American East Coast, or as industrial salt or salt for chemical use to growth regions in South America and Asia. In all de-icing salt regions, we can use our production capacities flexibly to respond to suddenly occurring demand peaks. Since the acquisitions of SPL and MORTON SALT, we have an even more balanced regional portfolio to allow us to balance out fluctuations in sales volumes across the Group, which occur due to changing weather conditions. If local supply bottlenecks ever occur, we make use of the synergies of our global production sites, which do their very best to support each other so that we can deliver largely uninterrupted salt supplies for winter road clearance services. As the world's largest producer of salt, we owe this to our customers!

Timely delivery despite wintry weather thanks to de-icing salt

attached to the winter road clearance vehicle, which distributed the salt in small or large circular patterns. As the rotational speed was linked to the vehicle's speedometer in the 1960s, the salt was spread more efficiently and a more appropriate amount was used.

But effective winter road clearance services are not just a question of technology. It's the right salt mixture that matters. A combination of fine and coarse salt crystals has demonstrated its value. While the finer grains affect the surface almost immediately, the coarser grains are targeted on a longer-term effect on thicker layers of snow and ice. Since the mid-1970s, the pre-wetting of salt before spreading has grown in popularity. If the salt is enriched with saline solution, it is easier to spread and works faster. The de-icing effect also lasts longer. Moreover, this method is significantly more cost effective and environmentally friendly.

Even when snow has not yet fallen, implementing winter maintenance programs that consist of salt spreading can be effective. Pre-wetting roads with a salt brine before a winter snow and ice event as a preventative measure, followed by regular applications of salt, helps to avoid slippery roads. No other method is more economical, more effective and, above all, safer!

CONSOLIDATED FINANCIAL STATEMENTS

5

5.1 AUDITOR'S REPORT

We have audited the consolidated financial statements, consisting of the balance sheet, income statement as well as statement of comprehensive income, statement of changes in equity, cash flow statement and notes as well as the Management Report combined with the Group Management Report for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the Group Management Report in accordance with INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) as applied within the EU and the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 1 of the German Commercial Code (HGB) is the responsibility of the company's Board of Executive Directors. Our responsibility is to express an opinion of the consolidated financial statements and of the Group Management Report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit in such manner that material misstatements affecting the presentation of the assets, financial and earnings position in the consolidated financial statements in accordance with the applicable accounting rules and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group as well as evaluations of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the system of internal accounting control relating to the accounting system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Executive Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on our audit findings, the consolidated financial statements of K+S AKTIENGESELLSCHAFT, Kassel, comply with the IFRS as applied in the EU as well as the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 1 of the German Commercial Code (HGB) and give a true and fair view of the assets, financial and earnings position of the Group in accordance with such provisions. The Group Management Report is consistent with the consolidated financial statements, provides a suitable understanding of the position of the Group and suitably presents the risks of future development.

Hanover, 27 February 2013

DELOITTE & TOUCHE GMBH	(Prof. Dr. Beine)	(Römgens)
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

INCOME STATEMENT

TAB: 5.2.1

in € million	Notes	2012	2011
Revenues	[1]	**3,935.3**	**3,996.8**
Cost of sales		2,158.7	2,183.7
Gross profit		**1,776.6**	**1,813.1**
Selling expenses		734.2	742.4
General and administrative expenses		196.8	178.3
Research and development costs		19.4	17.0
Other operating income	[2]	157.9	164.0
Other operating expenses	[3]	147.7	159.0
Income from investments, net		5.2	9.6
Result from operating forecast hedges	[4]	4.9	(7.2)
Result after operating hedges (EBIT II)[1]		**846.5**	**882.8**
Interest income	[5]	21.2	13.5
Interest expenses	[5]	(106.7)	(78.7)
Other financial result	[6]	5.9	1.0
Financial result		**(79.6)**	**(64.2)**
Earnings before income taxes		**766.9**	**818.6**
Taxes on income	[7]	198.4	209.3
– of which deferred taxes		(32.6)	(5.3)
Earnings after taxes from continued operations		**568.5**	**609.3**
Earnings after taxes from discontinued operations		99.6	(44.5)
Net income		**668.1**	**564.8**
Minority interests in earnings		0.5	0.5
Group earnings after taxes and minority interests		**667.6**	**564.3**
– thereof continued operations		568.0	608.8
– thereof discontinued operations		99.6	(44.5)
Earnings per share in € (undiluted = diluted)	[10]	**3.49**	**2.95**
– thereof continued operations		2.97	3.18
– thereof discontinued operations		0.52	(0.23)
Average number of shares in million		191.40	191.33

INCOME STATEMENT (CONTINUED)

TAB: 5.2.1

in € million	Notes	2012	2011
Operating earnings (EBIT I)[1]		**808.5**	**906.2**
Earnings before income taxes from continued operations, adjusted[2]		**728.9**	**842.0**
Group earnings from continued operations, adjusted[2]	[10]	**540.8**	**625.6**
Earnings per share from continued operations in €, adjusted[3]	[10]	**2.83**	**3.27**
Group earnings after taxes, adjusted[2,3]		**639.7**	**581.8**
Earnings per share in €, adjusted[2,3]		**3.34**	**3.04**

STATEMENT OF COMPREHENSIVE INCOME

TAB: 5.2.2

in € million	Notes	2012	2011
Net income		**668.1**	**564.8**
Financial assets available for sale		3.0	–
Difference resulting from foreign currency translation		(28.8)	62.7
– thereof change in unrealised gains / losses		(29.0)	61.0
– thereof realised gains / losses		0.2	1.7
Other earnings after taxes		**(25.8)**	**62.7**
Comprehensive income of the period		**642.3**	**627.5**
Minority interests in comprehensive income		0.5	0.5
Group comprehensive income after taxes and minority interests		**641.8**	**627.0**

OPERATING EARNINGS (EBIT I)[4]

TAB: 5.2.3

in € million	Notes	2012	2011
Result after operating hedges (EBIT II)[1]		**846.5**	**882.8**
Income(–)/expenses(+) from market value changes of operating forecast hedges still outstanding		(9.5)	25.2
Neutralising of market value changes of realised operating forecast hedges, recognised in earlier periods		(28.5)	(1.8)
Operating earnings (EBIT I)[1]		**808.5**	**906.2**

[1] Management of the K+S Group is handled, amongst others, on the basis of operating earnings (EBIT I). Reconciliation of EBIT II to operating earnings (EBIT I) is recorded below the income statement (see also the 'Notes to the income statement and the statement of comprehensive income' on page 182).
[2] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5 % (2011: 28.4 %).
[3] Earnings from continued and discontinued operations.
[4] Information on operating earnings refers to continued operations.

CASH FLOW STATEMENT TAB: 5.3.1

in € million	Notes	2012	2011
Result after operating hedges (EBIT II)		**846.5**	**882.8**
Income (–)/expenses (+) from market value changes of operating forecast hedges still outstanding		(9.5)	25.2
Neutralisation of market value changes of realised operating forecast hedges, recognised in earlier periods		(28.5)	(1.8)
Operating earnings (EBIT I)		**808.5**	**906.2**
Depreciation (+)/write-ups (–) on intangible assets, property, plant and equipment and financial assets		229.0	239.8
Increase (+)/decrease (–) in non-current provisions (without interest rate effects)		(1.0)	27.6
Interests and dividends received and similar income		21.6	11.4
Gains (+)/losses (–) from the realisation of financial assets and liabilities		(0.7)	0.4
Interest paid (–)		(43.0)	(43.2)
Income taxes paid (–)		(202.1)	(282.4)
Other non-cash expenses (+)/income (–)		0.7	(0.8)
Gross cash flow from continued operations		**813.0**	**859.0**
Gross cash flow from discontinued operations		29.9	69.1
Gross cash flow		**842.9**	**928.1**
Gain (–)/loss (+) on the disposal of fixed assets and securities		(2.0)	(3.8)
Increase (–)/decrease (+) in inventories		(42.8)	(108.8)
Increase (–)/decrease (+) in receivables and other assets from operating activities		(86.7)	(83.2)
– of which premium volume for derivatives		25.8	2.2
Increase (+)/decrease (–) in liabilities from operating activities		(83.1)	118.5
– of which premium volume for derivatives		(13.8)	4.8
Increase (+)/decrease (–) in current provisions		(28.3)	(1.3)
Out-financing of plan assets		(43.4)	(110.0)
Cash flow from operating activities		**556.6**	**739.5**
– thereof continued operations		**607.2**	**633.4**
– thereof discontinued operations		(50.6)	106.1
Proceeds from the disposal of fixed assets		21.3	16.5
Disbursements for intangible assets		(24.4)	(16.1)
Disbursements for property, plant and equipment		(399.0)	(255.4)
Disbursements for financial assets		(1.2)	(3.2)

CASH FLOW STATEMENT (CONTINUED) TAB: 5.3.1

in € million	Notes	2012	2011
Proceeds from the divestment of consolidated companies	[38]	75.0	90.6
Disbursements for the acquisition of consolidated companies	[39]	(4.2)	(242.8)
Proceeds from the disposal of securities and other financial investments		312.3	—
Disbursements for the purchase of securities and other financial investments		(870.8)	(372.4)
Cash flow for investing activities		**(891.0)**	**(782.8)**
– thereof continued operations		**(966.6)**	**(867.1)**
– thereof discontinued operations		75.6	84.3
Free cash flow		**(334.4)**	**(43.3)**
– thereof continued operations		**(359.4)**	**(233.7)**
– thereof discontinued operations		25.0	190.4
Dividends paid		(248.8)	(191.4)
Disbursements for the acquisition of non-controlling interests		—	(59.3)
Payments from other allocations to equity		5.2	4.8
Purchase of own shares		(6.5)	(13.8)
Sale of own shares		0.2	7.9
Increase (+)/decrease (–) in liabilities from finance lease		(2.1)	(0.9)
Taking out (+)/repayment of (–) loans		(2.1)	(11.7)
Incoming payments (+)/repayments (–) from the issuing of bonds		497.1	—
Cash flow from/for financing activities		**243.0**	**(264.4)**
– thereof continued operations		**243.0**	**(261.7)**
– thereof discontinued operations		—	(2.7)
Change in cash and cash equivalents affecting cash flow		**(91.4)**	**(307.7)**
– thereof continued operations		**(116.4)**	**(495.4)**
– thereof discontinued operations		25.0	187.7
Change in cash and cash equivalents resulting from exchange rates		(0.9)	4.4
Change in cash and cash equivalents		**(92.3)**	**(303.3)**
Net cash and cash equivalents as of 1 January		**437.3**	**740.6**
Net cash and cash equivalents as of 31 December	[40]	**345.0**	**437.3**
– thereof cash on hand and balances with banks		351.8	442.8
– thereof cash invested with affiliated companies		0.3	1.0
– thereof cash received from affiliated companies		(7.1)	(6.5)

BALANCE SHEET TAB: 5.4.1

in € million	Notes	2012	2011
Intangible assets	[11]	1,000.8	1,020.9
– of which goodwill from acquisitions	[11]	642.3	651.4
Property, plant and equipment		2,527.4	2,227.0
Investment properties	[12]	7.6	7.8
Financial assets	[13]	15.9	15.9
Receivables and other assets	[17, 18]	91.3	62.7
– of which derivative financial instruments		2.5	3.0
Securities and other financial investments	[14]	499.5	58.5
Deferred taxes	[15]	48.3	55.3
Reimbursement claims of income taxes		0.1	0.4
Non-current assets		**4,190.9**	**3,448.5**
Inventories	[16]	687.9	730.0
Accounts receivable – trade	[17]	770.3	928.8
Other receivables and assets	[17, 18]	166.3	150.6
– of which derivative financial instruments		26.2	12.1
Reimbursement claims of income taxes		36.8	41.2
Securities and other financial investments	[14]	435.0	315.0
Cash on hand and balances with banks	[40]	351.8	442.8
Current assets		**2,448.1**	**2,608.4**
ASSETS		6,639.0	6,056.9

BALANCE SHEET TAB: 5.4.1

in € million	Notes	2012	2011
Subscribed capital	[19]	191.4	191.4
Additional paid-in capital		647.2	648.1
Other reserves and accumulated profit	[19]	2,635.1	2,242.0
Minority interests		3.6	3.1
Equity		**3,477.3**	**3,084.6**
Bank loans and overdrafts	[25]	1,264.9	769.8
Other liabilities	[18, 25]	17.8	20.1
– of which derivative financial instruments		—	3.5
Provisions for pensions and similar obligations	[21]	88.8	95.3
Provisions for mining obligations	[22]	706.6	580.6
Other provisions	[23]	131.5	145.5
Deferred taxes	[15]	304.7	342.3
Non-current debt		**2,514.3**	**1,953.6**
Bank loans and overdrafts	[25]	0.9	0.8
Accounts payable – trade	[25]	289.2	613.8
Other liabilities	[18, 25]	70.6	96.2
– of which derivative financial instruments		4.3	32.6
Income tax liabilities		50.1	23.2
Provisions	[22, 24]	236.6	284.7
Current debt		**647.4**	**1,018.7**
EQUITY AND LIABILITIES		6,639.0	6,056.9

STATEMENT OF CHANGES IN EQUITY

TAB: 5.5.1

in € million	Subscribed capital [19]	Additional paid-in capital	Other reserves and accumulated profit: Accumulated profit / revenue reserves [19]	Other reserves and accumulated profit: Differences from foreign currency translation [19]	Other reserves and accumulated profit: Financial assets available for sale	Total K+S AG shareholders' equity	Minority interests	Equity
Balances as of 1 January 2012	191.4	648.1	2,041.0	201.1	(0.1)	3,081.5	3.1	3,084.6
Net income	—	—	667.6	—	—	667.6	0.5	668.1
Other comprehensive income (after taxes)	—	—	—	(28.8)	3.0	(25.8)	—	(25.8)
Comprehensive income of the period	—	—	667.6	(28.8)	3.0	641.8	0.5	642.3
Dividend for the previous year	—	—	(248.8)	—	—	(248.8)	—	(248.8)
Issuance of shares to employees	—	(0.9)	—	—	—	(0.9)	—	(0.9)
Other changes in equity	—	—	0.1	—	—	0.1	—	0.1
Balances as of 31 December 2012	**191.4**	**647.2**	**2,459.9**	**172.3**	**2.9**	**3,473.7**	**3.6**	**3,477.3**
Balances as of 1 January 2011	191.4	647.5	1,671.8	138.4	(0.1)	2,649.0	2.6	2,651.6
Net income	—	—	564.3	—	—	564.3	0.5	564.8
Other comprehensive income (after taxes)	—	—	—	62.7	—	62.7	—	62.7
Comprehensive income of the period	—	—	564.3	62.7	—	627.0	0.5	627.5
Dividend for the previous year	—	—	(191.4)	—	—	(191.4)	—	(191.4)
Issuance of shares to employees	—	0.6	—	—	—	0.6	—	0.6
Addition of minority interests (Potash One)	—	—	—	—	—	—	55.7	55.7
Acquisition of minority interests (Potash One)	—	—	(3.6)	—	—	(3.6)	(55.7)	(59.3)
Other changes in equity	—	—	(0.1)	—	—	(0.1)	—	(0.1)
Balances as of 31 December 2011	**191.4**	**648.1**	**2,041.0**	**201.1**	**(0.1)**	**3,081.5**	**3.1**	**3,084.6**

DEVELOPMENT OF FIXED ASSETS 2012

	Gross carrying amounts						
in € million	Balances as of 1.1.2012	Change in scope of consolidation	Additions	Disposals	Reclassifications	Currency differences	Balances as of 31.12.2012
Other acquired concessions, industrial property rights, similar rights and assets as well as licenses for such rights and assets	69.2	(17.4)	9.0	4.0	7.3	(2.2)	61.9
Customer relations	224.1	—	—	—	—	(3.2)	220.9
Brands	117.7	—	—	3.4	—	(1.6)	112.7
Port concessions	31.6	—	—	—	—	(0.6)	31.0
Goodwill from acquisitions	651.4	(0.5)	—	—	—	(8.6)	642.3
Internally generated intangible assets	3.8	—	0.4	—	0.4	—	4.6
Emission rights	15.0	—	—	—	—	—	15.0
Intangible assets in completion	8.2	—	14.7	—	(7.1)	—	15.8
Intangible assets [11]	**1,121.0**	**(17.9)**	**24.1**	**7.4**	**0.6**	**(16.2)**	**1,104.2**
Land, rights similar to land and buildings, including buildings on third-party land	741.7	3.7	125.2	15.2	12.7	(3.0)	865.1
Raw material deposits	730.3	—	—	—	—	(3.2)	727.1
Technical equipment and machinery	2,289.9	(3.0)	98.6	22.0	44.3	(4.9)	2,402.9
Ships	91.7	—	22.0	35.2	—	(1.8)	76.7
Other equipment, fixtures and fittings	280.2	(1.8)	31.0	7.7	3.0	(0.4)	304.3
Payments on account and construction in progress	143.5	—	268.7	2.6	(82.2)	(0.3)	327.1
Leasing and similar rights	7.9	—	0.7	0.7	21.6	(0.1)	29.4
Property, plant and equipment	**4,285.2**	**(1.1)**	**546.2**	**83.4**	**(0.6)**	**(13.7)**	**4,732.6**
Investment properties [12]	**16.5**	**—**	**—**	**0.9**	**—**	**—**	**15.6**
Investments in affiliated companies	16.4	(0.4)	0.8	—	(1.4)	—	15.4
Loans to affiliated companies	—	—	—	—	—	—	—
Investments	4.6	—	—	—	1.4	0.2	6.2
Loans to companies in which equity investments are held	0.3	—	—	0.1	—	—	0.2
Sundry loans and other financial assets	0.9	—	0.1	0.2	—	—	0.8
Financial assets [13]	**22.2**	**(0.4)**	**0.9**	**0.3**	**—**	**0.2**	**22.6**
Fixed assets	5,444.9	(19.4)	571.2	92.0	—	(29.7)	5,875.0

TAB: 5.6.1

Depreciation, amortisation and write-downs								Net carrying amounts
Balances as of 1.1.2012	Change in scope of consolidation	Additions scheduled	Additions non-scheduled	Disposals	Reclassifications	Currency differences	Balances as of 31.12.2012	Balances as of 31.12.2012
44.5	(12.8)	5.2	—	4.0	—	(0.6)	32.3	29.6
41.5	—	17.9	—	—	—	(0.9)	58.5	162.4
11.9	—	1.2	—	3.4	—	—	9.7	103.0
0.5	—	0.1	—	—	—	—	0.6	30.4
—	—	—	—	—	—	—	—	642.3
1.7	—	0.6	—	—	—	—	2.3	2.3
—	—	—	—	—	—	—	—	15.0
—	—	—	—	—	—	—	—	15.8
100.1	**(12.8)**	**25.0**	**—**	**7.4**	**—**	**(1.5)**	**103.4**	**1,000.8**
282.7	(1.1)	29.4	0.1	1.1	0.1	(0.6)	309.5	555.6
15.6	—	4.6	—	—	—	(0.2)	20.0	707.1
1,514.4	(1.5)	131.8	1.0	20.2	(0.1)	(3.3)	1,622.1	780.8
27.6	—	8.5	—	18.6	—	(0.8)	16.7	60.0
214.9	(1.1)	26.5	—	7.1	(0.1)	(0.3)	232.8	71.5
—	—	—	—	—	—	—	—	327.1
3.0	—	1.8	—	0.7	0.1	(0.1)	4.1	25.3
2,058.2	**(3.7)**	**202.6**	**1.1**	**47.7**	**—**	**(5.3)**	**2,205.2**	**2,527.4**
8.7	**—**	**0.1**	**—**	**0.8**	**—**	**—**	**8.0**	**7.6**
2.5	—	—	0.3	—	(1.4)	—	1.4	14.0
—	—	—	—	—	—	—	—	—
3.8	—	—	0.1	—	1.4	—	5.3	0.9
—	—	—	—	—	—	—	—	0.2
—	—	—	—	—	—	—	—	0.8
6.3	**—**	**—**	**0.4**	**—**	**—**	**—**	**6.7**	**15.9**
2,173.3	(16.5)	227.7	1.5	55.9	—	(6.8)	2,323.3	3,551.7

DEVELOPMENT OF FIXED ASSETS 2011

							Gross carrying amounts
in € million	Balances as of 1.1.2011	Change in scope of consolidation	Additions	Disposals	Reclassifications	Currency differences	Balances as of 31.12.2011
Other acquired concessions, industrial property rights, similar rights and assets as well as licenses for such rights and assets	72.6	(5.4)	3.2	3.7	0.2	2.3	69.2
Customer relations	218.2	(0.1)	—	—	—	6.0	224.1
Brands	138.9	(24.2)	—	—	—	3.0	117.7
Port concessions	30.6	—	—	—	—	1.0	31.6
Goodwill from acquisitions	615.3	18.1	1.1	—	—	16.9	651.4
Internally generated intangible assets	9.6	(6.7)	0.9	—	—	—	3.8
Emission rights	9.6	—	5.4	—	—	—	15.0
Intangible assets in completion	5.2	(3.1)	6.4	0.1	(0.2)	—	8.2
Intangible assets [11]	**1,100.0**	**(21.4)**	**17.0**	**3.8**	**—**	**29.2**	**1,121.0**
Land, rights similar to land and buildings, including buildings on third-party land	764.2	(55.3)	31.0	11.9	9.2	4.5	741.7
Raw material deposits	345.5	367.1	0.8	—	—	16.9	730.3
Technical equipment and machinery	2,244.9	(70.4)	104.1	29.3	33.1	7.5	2,289.9
Ships	71.8	—	24.1	6.5	—	2.3	91.7
Other equipment, fixtures and fittings	269.5	(12.3)	26.9	8.7	4.2	0.6	280.2
Payments on account and construction in progress	57.3	18.3	114.7	1.6	(46.4)	1.2	143.5
Leasing and similar rights	10.1	(1.9)	0.6	1.1	—	0.2	7.9
Property, plant and equipment	**3,763.3**	**245.5**	**302.2**	**59.1**	**0.1**	**33.2**	**4,285.2**
Investment properties [12]	**16.8**	**(0.2)**	**—**	**0.1**	**—**	**—**	**16.5**
Investments in affiliated companies	13.6	(0.2)	3.0	—	—	—	16.4
Loans to affiliated companies	0.3	(0.1)	—	0.2	—	—	—
Investments	10.4	—	—	5.8	—	—	4.6
Loans to companies in which equity investments are held	0.4	—	—	0.1	—	—	0.3
Sundry loans and other financial assets	1.2	(0.1)	0.2	0.4	—	—	0.9
Financial assets [13]	**25.9**	**(0.4)**	**3.2**	**6.5**	**—**	**—**	**22.2**
Fixed assets	4,906.0	223.5	322.4	69.5	0.1	62.4	5,444.9

TAB: 5.6.2

Depreciation, amortisation and write-downs								Net carrying amounts
Balances as of 1.1.2011	**Change in scope of consolidation**	**Additions scheduled**	**Additions non-scheduled**	**Disposals**	**Reclassifications**	**Currency differences**	**Balances as of 31.12.2011**	**Balances as of 31.12.2011**
43.9	(4.4)	7.3	1.2	3.7	—	0.2	44.5	24.7
23.3	(0.1)	17.7	—	—	—	0.6	41.5	182.6
29.5	(18.8)	1.2	—	—	—	—	11.9	105.8
0.3	—	0.2	—	—	—	—	0.5	31.1
—	—	—	—	—	—	—	—	651.4
3.2	(2.1)	0.6	—	—	—	—	1.7	2.1
—	—	—	—	—	—	—	—	15.0
0.1	(0.1)	—	—	—	—	—	—	8.2
100.3	**(25.5)**	**27.0**	**1.2**	**3.7**	**—**	**0.8**	**100.1**	**1,020.9**
277.4	(19.6)	26.9	—	2.4	0.1	0.3	282.7	459.0
10.9	—	4.5	—	—	—	0.2	15.6	714.7
1,440.2	(42.3)	136.5	4.5	26.1	—	1.6	1,514.4	775.5
21.1	—	10.0	—	4.1	—	0.6	27.6	64.1
206.8	(9.1)	25.3	—	8.3	—	0.2	214.9	65.3
0.1	(0.1)	—	—	—	—	—	—	143.5
3.2	(0.8)	1.4	—	0.9	—	0.1	3.0	4.9
1,959.7	**(71.9)**	**204.6**	**4.5**	**41.8**	**0.1**	**3.0**	**2,058.2**	**2,227.0**
9.0	**(0.2)**	**—**	**—**	**0.1**	**—**	**—**	**8.7**	**7.8**
1.5	(0.1)	—	1.1	—	—	—	2.5	13.9
0.1	(0.1)	—	—	—	—	—	—	—
0.2	—	—	3.6	—	—	—	3.8	0.8
—	—	—	—	—	—	—	—	0.3
—	—	—	—	—	—	—	—	0.9
1.8	**(0.2)**	**—**	**4.7**	**—**	**—**	**—**	**6.3**	**15.9**
2,070.8	**(97.8)**	**231.6**	**10.4**	**45.6**	**0.1**	**3.8**	**2,173.3**	**3,271.6**

DEVELOPMENT OF PROVISIONS

in € million	Balances as of 1.1.2012	Currency differences	Change in scope of consolidation
Backfilling of mines and shafts	276.9	–	–
Mining damage risks	50.1	–	–
Maintenance of tailing piles	190.1	–	–
Other mining obligations	63.5	(0.1)	–
Provisions for mining obligations [22]	**580.6**	**(0.1)**	**–**
Jubilee pay	22.6	–	(0.2)
Partial retirement	21.1	–	(0.2)
Long-term incentives / stock option	53.2	(0.2)	(2.4)
Other personnel obligations	3.1	(0.1)	(0.3)
Personnel obligations [23]	**100.0**	**(0.3)**	**(3.1)**
Other environmental obligations	**0.0**	**–**	**–**
Other provisions	**45.5**	**(0.2)**	**(2.2)**
Provisions (non-current debt)	**726.1**	**(0.6)**	**(5.3)**
Provisions for mining obligations [22]	6.8	–	–
Personnel obligations [24]	148.8	(0.7)	(3.4)
Provisions for obligations from sale transactions [24]	52.5	(0.2)	(19.8)
Provisions for obligations from purchase contracts [24]	34.2	(0.4)	(4.3)
Other provisions	42.4	(0.1)	(0.7)
Provisions (current debt)	**284.7**	**(1.4)**	**(28.2)**
Provisions	1,010.8	(2.0)	(33.5)

TAB: 5.7.1

	Additions	Interest component	Provisions used	Provisions reversed	Reclassifications	Balances as of 31.12.2012
	18.2	12.5	5.7	5.1	—	296.8
	1.1	7.1	2.0	1.7	—	54.6
	71.0	16.7	1.7	10.1	—	266.0
	25.8	2.6	1.7	0.9	—	89.2
	116.1	**38.9**	**11.1**	**17.8**	**—**	**706.6**
	1.5	3.8	1.9	—	—	25.8
	5.4	1.9	14.2	—	—	14.0
	17.1	1.4	18.3	3.6	0.1	47.3
	1.2	—	0.7	0.1	—	3.1
	25.2	**7.1**	**35.1**	**3.7**	**0.1**	**90.2**
	0.5	**—**	**—**	**—**	**—**	**0.5**
	4.7	**1.4**	**0.8**	**0.5**	**(7.1)**	**40.8**
	146.5	**47.4**	**47.0**	**22.0**	**(7.0)**	**838.1**
	0.1	—	—	—	—	6.9
	119.6	—	141.6	2.7	(0.1)	119.9
	44.0	—	19.7	10.1	0.4	47.1
	28.2	—	25.2	3.0	—	29.5
	18.9	—	20.8	13.7	7.2	33.2
	210.8	**—**	**207.3**	**29.5**	**7.5**	**236.6**
	357.3	**47.4**	**254.3**	**51.5**	**0.5**	**1,074.7**

SEGMENT REPORTING

in € million	Total revenues 2012	Total revenues 2011[1]	of which with third parties [35] 2012	of which with third parties [35] 2011[1]
Potash and Magnesium Products business unit	2,359.0	2,193.7	2,290.6	2,133.6
Salt business unit	1,490.6	1,715.7	1,484.8	1,710.1
Complementary Activities	187.1	188.1	153.7	150.4
Reconciliation[2] [34]	(101.4)	(100.7)	6.2	2.7
K+S Group (continued operations)	**3,935.3**	**3,996.8**	**3,935.3**	**3,996.8**
Discontinued operations	654.4	1,526.2	654.4	1,526.2
K+S total	**4,589.7**	**5,523.0**	**4,589.7**	**5,523.0**

in € million	Assets 2012	Assets 2011[1]	Liabilities 2012	Liabilities 2011[1]
Potash and Magnesium Products business unit	2,901.1	2,639.2	931.2	836.4
Salt business unit	3,013.4	2,964.4	445.3	438.4
Complementary Activities	138.9	154.5	84.4	83.9
Reconciliation[2] [34]	585.5	(252.2)	1,700.8	1,174.1
K+S Group (continued operations)	**6,638.9**	**5,505.9**	**3,161.7**	**2,532.8**
Discontinued operations	—	551.0	—	439.6
K+S total	**6,638.9**	**6,056.9**	**3,161.7**	**2,972.4**

[1] The previous year's figures were adjusted on account of the divestment of the COMPO and the Nitrogen businesses. More explanations can be found in the Notes [29].
[2] Figures for business units are shown before intersegment consolidation. Expenses and income as well as items disclosed on the balance sheet that cannot be allocated to business units are recorded separately. Both effects are shown under 'Reconciliation' and result in the Group figures.

TAB: 5.8.1

of which intersegment revenues		EBIT I		EBITDA		Gross cash flow	
2012	2011[1]	2012	2011[1]	2012	2011[1]	2012	2011[1]
68.4	60.1	773.9	739.5	870.2	833.8	862.7	852.6
5.8	5.6	62.4	211.4	180.3	337.9	184.6	340.2
33.4	37.7	21.1	17.9	28.3	29.0	28.5	29.4
(107.6)	(103.4)	(48.9)	(62.6)	(41.1)	(54.7)	(262.8)	(363.2)
—	**—**	**808.5**	**906.2**	**1,037.7**	**1,146.0**	**813.0**	**859.0**
—	—	46.3	86.5	47.1	93.3	29.9	69.1
—	**—**	**854.8**	**992.7**	**1,084.8**	**1,239.3**	**842.9**	**928.1**

Capital employed[3]		Capital expenditure[4] [37]		Depreciation[5]		Employees as of 31 Dec.[6]	
2012	2011[1]	2012	2011[1]	2012	2011[1]	2012	2011[1]
1,886.7	1,497.1	332.9	162.1	96.3	88.7	8,310	8,188
2,218.4	2,225.4	111.3	112.3	116.8	126.5	5,092	5,230
96.9	110.8	6.3	4.3	6.7	6.4	293	290
35.9	14.6	15.0	14.4	7.8	7.8	667	630
4,237.9	**3,847.9**	**465.5**	**293.1**	**227.6**	**229.4**	**14,362**	**14,338**
—	(72.5)	0.2	6.6	0.8	6.8	—	158
4,237.9	**3,775.4**	**465.7**	**299.7**	**228.4**	**236.2**	**14,362**	**14,496**

[3] Operating fixed assets and Working Capital.
[4] Relates to investments in property, plant and equipment and intangible assets.
[5] Concerns scheduled depreciation. Non-scheduled impairment charges are presented in the Notes [33].
[6] Workforce as of 31 December including temporary employees (without students and interns) measured on full-time equivalent basis.

5.9 NOTES

GENERAL PRINCIPLES

The Group's parent company, K+S AKTIENGESELLSCHAFT with its registered office in Kassel, Germany, has prepared the consolidated financial statements of the K+S GROUP as of and for the period ended 31 December 2012 based on the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) as well as the interpretations of the INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE in effect on the reporting date insofar as those have been recognised by the European Union. In the interests of clearer presentation, the individual captions in the consolidated financial statements are presented in millions of euro (€ million).

The consolidated financial statements were prepared by the Board of Executive Directors on 27 February 2013 and will be presented to the Supervisory Board for approval for its meeting on 13 March 2013.

SCOPE OF CONSOLIDATION

The scope of consolidation changed as follows in 2012:

The Czech salt processing company SOLNÉ MLÝNY, A.S. (SMO), which was acquired by ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG through its wholly owned subsidiary ESCO INTERNATIONAL GMBH on 3 January 2012, has been consolidated since the first quarter of 2012.

Following the divestment of the NITROGEN business, the following previously consolidated companies no longer belong to the K+S GROUP with effect from 2 July 2012:
+ FERTIVA GMBH
+ K+S NITROGEN GMBH
+ K PLUS S IBERIA S.L.
+ K+S AGRICOLTURA S.P.A.
+ K+S AGRO MÉXICO S.A. DE C.V.
+ K+S HELLAS S.A.

15 (previous year: 17) domestic and 48 (previous year: 51) foreign companies were fully included in the consolidated financial statements. 35 (previous year: 40) subsidiaries were not included in the consolidated financial statements and were stated at acquisition cost, as they are of minor importance for the consolidated financial statements with regard to balance sheet total, revenues and earnings.

Joint ventures and companies over which companies of the K+S GROUP exercise significant influence (associated companies) are essentially measured using the equity method. The potential impact on earnings of accounting for such equity interests using the equity method is, however, immaterial from a Group perspective. As a result of their overall immateriality, all interests in joint ventures and associated companies were therefore stated at acquisition cost in financial year 2012. On the balance sheet date, the carrying amount of these interests is € 0.9 million (previous year: € 0.8 million).

A complete overview of the interests of K+S AKTIENGESELLSCHAFT can be taken from the list of shareholdings on page 212.

DISCONTINUED OPERATIONS

The strategy of the K+S GROUP provides for growth in the Potash and Magnesium Products and the Salt business units and for focusing management resources and financial means on this correspondingly.

Against this background, in 2011, K+S divested the business activities of COMPO to TRITON, an investment company, and announced, on 8 May 2012, the sale of the NITROGEN business to EUROCHEM.

After the EU cartel authority had approved the transaction on 25 June 2012, the divestment of the NITROGEN business was successfully completed on 2 July 2012. The companies hitherto consolidated are shown in the 'Scope of consolidation' section.

With the concluded sales agreement, the criteria under IFRS 5 "Non-current assets held for sale and discontinued operations" were met and the NITROGEN business was therefore disclosed in the balance sheet as a disposal group held for sale and as a "discontinued operation". Following the divestment of the COMPO business, the nitrogen fertilizer segment consisted solely of the NITROGEN business. With the conclusion of the sales agreement, the nitrogen fertilizer segment was no longer an integral part of the operating segments of the K+S GROUP and the segment reporting was adjusted accordingly.

All assets and liabilities of the NITROGEN business were therefore reclassified and, until it had been disposed of, respectively disclosed in the consolidated balance sheet as a separate item "Assets held for sale" and "Liabilities in connection with assets held for sale". The balance sheet of the preceding periods was not adjusted in accordance with IFRS 5.

All income and expenses of the NITROGEN business, classified as a discontinued operation, were reclassified and disclosed in a separate item "Earnings after taxes from discontinued operations". Comparative periods were adjusted in accordance with IFRS 5.

The cash flows of the discontinued operations are stated separately in the cash flow statement pursuant to IFRS 5. The comparative figures of the preceding periods for the cash flow statement were adjusted accordingly.

The composition of the earnings after taxes from discontinued operations is as presented in the following table:

DISCONTINUED OPERATIONS – TOTAL TAB: 5.9.1

in € million	2012	2011
Revenues	**654.4**	**1,526.2**
Other income and expenses	(607.2)	(1,440.7)
EBIT II	**47.2**	**85.5**
Financial result	0.1	(1.2)
Earnings before taxes	**47.3**	**84.3**
Taxes on income	14.6	26.5
Earnings after income taxes for the period	**32.7**	**57.8**
Earnings from the divestment (before taxes)	76.8	(112.3)
Taxes on income	9.9	(10.0)
Earnings from the divestment (after taxes)	**66.9**	**(102.3)**
Earnings after taxes from discontinued operations	**99.6**	**(44.5)**

The earnings after taxes from discontinued operations amounting to € 99.6 million include € 0.2 million from the reclassification of currency translation differences for the NITROGEN business hitherto recorded in the income statement under "Other operating income / expenses".

DISCONTINUED OPERATIONS – THEREOF NITROGEN BUSINESS TAB: 5.9.2

in € million	2012	2011
Revenues	**654.4**	**1,164.1**
Other income and expenses	(606.6)	(1,095.7)
EBIT II	**47.8**	**68.4**
Financial result	0.1	0.3
Earnings before taxes	**47.9**	**68.7**
Taxes on income	13.3	21.4
Earnings after income taxes for the period	**34.6**	**47.3**
Earnings from the divestment (before taxes)	76.8	–
Taxes on income	9.9	–
Earnings from the divestment (after taxes)	**66.9**	**–**
Earnings after taxes from discontinued operations	**101.5**	**47.3**

DISCONTINUED OPERATIONS – THEREOF COMPO BUSINESS TAB: 5.9.3

in € million	2012	2011
Revenues	**–**	**362.1**
Other income and expenses	(0.6)	(345.0)
EBIT II	**(0.6)**	**17.1**
Financial result	–	(1.5)
Earnings before taxes	**(0.6)**	**15.6**
Taxes on income	1.3	5.1
Earnings after income taxes for the period	**(1.9)** [1]	**10.5**
Earnings from the divestment (before taxes)	–	(112.3)
Taxes on income	–	(10.0)
Earnings from the divestment (after taxes)	**–**	**(102.3)**
Earnings after taxes from discontinued operations	**(1.9)**	**(91.8)**

[1] Earnings for the period relating to the discontinued operations of the COMPO business mainly include expenses for possible tax liabilities before the date of divestment.

The following table shows the assets and liabilities of the NITROGEN business disposed of due to the deconsolidation carried out on 2 July 2012:

DECONSOLIDATION OF DISPOSED ASSETS AND LIABILITIES – NITROGEN BUSINESS TAB: 5.9.4

in € million	2012
Financial assets and other non-current assets	12.9
Inventories	81.3
Accounts receivable – trade	235.3
Other current assets	148.7
Cash on hand and balances with banks	11.0
Assets held for sale	**489.2**
Provisions for pensions and similar obligations	3.5
Other non-current provisions	3.2
Accounts payable – trade	295.2
Other liabilities	50.0
Current provisions	19.3
Liabilities in connection with assets held for sale	**371.2**

The assets and liabilities of the COMPO business held for sale in 2011 comprised the following:

DECONSOLIDATION OF DISPOSED ASSETS AND LIABILITIES – COMPO BUSINESS TAB: 5.9.5

in € million	2011
Financial assets and other non-current assets	4.1
Inventories	100.9
Accounts receivable – trade	83.9
Other current assets	24.5
Cash on hand and balances with banks	4.3
Assets held for sale	**217.7**
Provisions for pensions and similar obligations	17.5
Other non-current provisions	6.0
Bank loans and overdrafts	7.9
Accounts payable – trade	27.6
Other liabilities	82.9
Current provisions	42.2
Liabilities in connection with assets held for sale	**184.1**

ACQUISITION OF POTASH ONE

K+S CANADA HOLDINGS INC., an indirect wholly owned subsidiary of K+S AKTIENGESELLSCHAFT, took over control of POTASH ONE INC. (Vancouver, Canada) by acquiring 81.6 % of its shares with effect from 21 January 2011 under a public takeover bid. The purchase price paid in cash was € 263.2 million (CAD 4.50 per share). Acquisition-related incidental costs of € 3.7 million were incurred up to the date of acquisition (21 January 2011), which were recognised as expenses (reported chiefly as other operating expenses), € 3.3 million of which were attributable to the fourth quarter of 2010 and € 0.4 million to the first quarter of 2011.

POTASH ONE holds several potash exploration licences in the Canadian province of Saskatchewan including the Legacy Project – an advanced greenfield project for the construction of a solution mine. The acquisition of POTASH ONE makes it possible to invest in low-cost deposits that are rich in raw materials, to increase own potash capacities and to participate in market growth over the medium to long term.

Ahead of the acquisition, on 24 November 2010, POTASH ONE had issued a convertible bond at a nominal value of CAD 30 million, which was fully subscribed for by K+S CANADA HOLDINGS INC. The proceeds from this convertible bond were used to finance water supply facilities for the Legacy Project. This financing measure enabled POTASH ONE to avoid delaying the development of its Legacy Project. The conversion right was disclosed as a derivative in the financial statements of the K+S GROUP as at 31 December 2010 and valued at € 2.8 million. The derivative existed with the same amount until the date of acquisition. POTASH ONE had disclosed this derivative on a mirror-image basis in equity.

The operating business of POTASH ONE is fully reflected in K+S POTASH CANADA GP.

The final fair values of the acquired assets and assumed liabilities stated at the date of acquisition (21 January 2011) and the goodwill of POTASH ONE derived from them are presented in the following table.

POTASH ONE TAB: 5.9.6

in € million	Fair values as of the date of acquisition
Property, plant and equipment	386.1
Deferred taxes	0.1
Non-current assets	**386.2**
Other receivables and assets	0.9
Securities	0.7
Cash on hand and balances with banks	20.4
Current assets	**22.0**
Assets	408.2
Deferred taxes	84.2
Non-current debt	**84.2**
Bank loans and overdrafts	19.5
Accounts payable – trade	0.8
Other liabilities	0.3
Current debt	**20.6**
Equity and liabilities	104.8
Net assets	**303.4**
Net assets of non-controlling interest of 18.4 %	**55.7**
Net assets of controlling interest of 81.6 %	**247.7**
Purchase price of 81.6 % of shares	263.2
Conversion right arising from the convertible bond	2.8
Purchase price of 81.6 % of shares including conversion right arising from the convertible bond	**266.0**
Goodwill	18.3

The main asset of POTASH ONE is the raw material deposit related to the Legacy Project; the existing resource basis for potassium chloride is a physical asset, which is disclosed under the item raw material deposits within property, plant and equipment. The fair value of the other receivables acquired corresponds to their nominal value.

A comparison of the acquisition costs and the revalued proportional net assets resulted in a goodwill of € 18.3 million. The goodwill represents those assets that were not individually identifiable when allocating the purchase price and for which a future economic benefit is expected. The amount of goodwill is largely shaped by the recognition of deferred taxes in connection with the re-measurement of assets and liabilities. The goodwill is assigned to the cash-generating unit Potash and Magnesium Products. A tax-deductible goodwill did not arise. No use was made of the accounting option to identify goodwill in relation to the shares of other shareholders (full goodwill method).

At the start of February 2011, a further 9.3 % of the shares were acquired for cash at a price of € 30.1 million (CAD 4.50 per share). The remaining 9.1 % of POTASH ONE shares outstanding were acquired for cash in March 2011 by means of a compulsory acquisition within the framework of the CANADA BUSINESS CORPORATIONS ACT at a price of € 29.2 million (CAD 4.50 per share). The purchases made in February 2011 and March 2011 were to be stated as equity transactions in accordance with the regulations of IAS 27.

The payments shown in the cash flow statement for the previous year within the framework of the takeover of POTASH ONE are structured as follows. In the cash flow for investing activities the payment of € 242.8 million for taking over control of POTASH ONE is shown in the item “Disbursements for the acquisition of consolidated companies” (purchase price for 81.6 % of the shares in the amount of € 263.2 million less cash and cash equivalents acquired of € 20.4 million). The disbursements for the subsequent acquisition of the remaining, not yet controlling interest (18.4 %) in the amount of € 59.3 million are stated in the cash flow for financing activities in accordance with IFRS. The total purchase price for POTASH ONE thus amounted to € 322.5 million.

As a result of the inclusion in the financial statements of the K+S GROUP (21 January 2011), earnings before income taxes for the previous year were affected by € (7.9) million and earnings after income taxes for the previous year by € (6.3) million. Revenues were not achieved in the previous year due to a lack of marketing activities. Earnings based on the assumption that the acquisition of POTASH ONE would already have occurred at the beginning of 2011 only differ insignificantly from the aforementioned values.

ACQUISITION OF SMO

ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG, a wholly owned subsidiary of K+S AKTIENGESELLSCHAFT, acquired the Czech salt processing company, SOLNÉ MLÝNY, A.S. (SMO) on 3 January 2012 through its subsidiary ESCO INTERNATIONAL GMBH. ESCO acquired SMO from the Czech trading group EQUUS, which has been undergoing insolvency proceedings since mid-2010. The sale was conducted by the insolvency administrator by means of a bidding process.

SMO is a significant supplier of salt products in the Czech Republic and also operates in other European markets. The purchase price paid was € 4.4 million.

SMO has been operating the salt processing business in the eastern Czech city of Olomouc since 1921 and employs about 70 people. The company is established in the market with a wide product range of food grade, industrial and de-icing salts. In a normal year, SMO sells around 100,000 tonnes of its various salt products and has until now been one of ESCO's customers.

The fair values of the assets and liabilities of SMO stated at the date of acquisition (3 January 2012) are presented in the following table:

FAIR VALUES AS OF THE DATE OF ACQUISITION OF SMO TAB: 5.9.7

in € million	Fair values as of the date of acquisition
Non-current assets	6.1
Inventories	1.9
Other current assets	1.7
Cash on hand and balances with banks	0.2
Assets	**9.9**
Non-current debt	0.8
Bank loans and overdrafts	1.2
Other current debt	1.2
Equity and liabilities	**3.2**
Net assets	6.7
Liabilities in connection with assets held for sale	2.3
Purchase price	4.4

Since its inclusion into consolidation as of 3 January 2012, SMO has contributed as follows to the income statement of K+S GROUP:

EARNINGS AFTER TAXES SMO TAB: 5.9.8

in € million	2012
Revenues	5.2
EBIT II	2.5
Earnings after taxes[1]	2.4

[1] Thereof € 2.3 million from first-time consolidation.

A comparison of the acquisition costs and the revalued proportional net assets resulted in a negative difference amount (bargain purchase) of € 2.3 million, which was released and recognised in profit or loss under other operating income.

CONSOLIDATION METHODS

The financial statements of the consolidated companies are prepared as of the balance sheet date for the consolidated financial statements. The assets and liabilities of the consolidated companies are recognised and measured uniformly in accordance with the policies described here and in the following notes.

Revenues, expenses and income between consolidated companies that arise while the companies affected are members of the K+S GROUP are fully eliminated. Similarly, receivables and liabilities between consolidated companies and inter-company profits resulting from deliveries and services between consolidated companies are eliminated, unless they are immaterial.

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

ACCOUNTING AND VALUATION PRINCIPLES

RECORDING OF INCOME AND EXPENSES

Revenues comprise sales of products and services net of sales deductions. Revenues deriving from the sale of products are reported as of the time when the associated risks of ownership have passed. Services are reported as revenues after having been performed. In addition, payment must be sufficiently probable.

Revenues from customer-specific construction contracts are recognised using the percentage of completion method insofar as the outcome can be estimated reliably. The stage of completion is determined on the basis of the costs incurred in relation to anticipated total costs. Insofar as the outcome of a construction contract cannot be estimated reliably, revenues should only be recognised to the extent of the costs incurred. While a project is in progress, contractual amendments introduced by customers with respect to the range of services to be rendered can increase or reduce contract revenues. An expected loss on a construction contract is immediately recognised as an expense.

Other income, such as interest or dividends, is recorded for the relevant period as of the time when a respective contractual or legal claim arises.

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

INCOME FROM INVESTMENTS, NET

This item contains earnings from non-consolidated subsidiaries stated at acquisition cost, joint ventures, associated companies and other interests. Distributions, profit transfers, impairments and profits and losses from the disposal of these companies are included in the income from investments. In the financial year, income of € 5.7 million (previous year: € 14.2 million) was offset against expenses from impairments of € 0.5 million (previous year: € 4.6 million).

INTANGIBLE ASSETS

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

Insofar as their useful lives can be determined, intangible assets are amortised on a regular straight-line basis; in the event that an indefinite useful life is anticipated, no regular amortisation is applied. An indefinite useful life is also assumed in the case of goodwill. The following useful lives are applied in the case of straight-line amortisation:

USEFUL LIVES FOR INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE TAB: 5.9.9

Years	
Port concessions	250
Brands	5–15
Customer relations	5–20
Other intangible assets	2–10

Non-scheduled amortisation is recorded in the event of impairment. If the reasons giving rise to the non-scheduled amortisation no longer exist, a corresponding write-up is recognised that may not exceed the amortised carrying amount. Impairment charges to goodwill are not reversed.

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

CO_2 emission rights are measured for the first time at acquisition cost. Thus, rights granted free of charge are capitalised with a value of zero and those acquired for a consideration are capitalised at acquisition cost. If the value on the reporting date falls below the acquisition cost, the carrying amount of the cash-generating unit holding the emission rights is compared with the value in use of that unit within the framework of an impairment test.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or production cost less regular, use-related depreciation. The acquisition or production costs also include future restoration expenses. Non-scheduled depreciation charges are recognised for any impairment losses that exceed the use-related depreciation already recorded; they are reported under other operating expenses. Such impairment losses are determined in accordance with IAS 36 by making a comparison with the discounted future cash flows that are expected for the assets affected. If no independent cash flows can be allocated to the assets affected, the cash flows for the corresponding cash-generating unit are used instead for comparative reasons. Should the reasons of the non-scheduled depreciation charges cease to apply, appropriate write-ups are recognised.

The raw material deposits acquired are recognised as property, plant and equipment. The scheduled depreciation starts from the time of the first-time extraction of raw materials. Gallery and excavation work are also shown as property, plant and equipment.

If property, plant and equipment are sold or shut down, the gain or loss represented by the difference between sales proceeds and the residual carrying amount is recorded under other operating income or expenses.

Property, plant and equipment are depreciated using the straight-line method and the depreciation charges are based on customary useful lives. Scheduled depreciation is based on the following useful lives that apply across the Group:

USEFUL LIVES FOR PROPERTY, PLANT AND EQUIPMENT TAB: 5.9.10

Years	
Raw material deposits	19–250
Gallery and excavation work	5–125
Buildings	14–33⅓
Technical equipment and machinery	4–25
Other equipment, factory and office equipment	3–10

CAPITALISATION OF BORROWING COSTS

Borrowing costs, which may be allocated directly to the acquisition, construction or manufacture of a qualifying asset, are to be capitalised as part of the acquisition or manufacturing costs of that asset. A qualifying asset exists if a period of at least one year is necessary to make it ready for its intended use or sale. If the qualifying asset is demonstrably not financed from outside funds, there are no borrowing costs to be capitalised.

FINANCE LEASES

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

GOVERNMENT ASSISTANCE

Government assistance (e.g., investment premiums and grants) for the purchase or production of property, plant and equipment reduce the acquisition or production costs of the assets to which they relate.

INVESTMENT PROPERTIES

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

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AS WELL AS DISCONTINUED OPERATIONS

A non-current asset (or a disposal group) is classified as held for sale if the related carrying amount is principally recovered through a sale transaction rather than through continuing use. This is the case if the asset (or the disposal group) is available for sale in its present condition and if such sale is highly probable. Non-current assets (or disposal groups) which are classified as held for sale are stated at the lower of the carrying amount and the fair value less costs to sell. A scheduled depreciation of these assets no longer takes place.

An operation is disclosed as a discontinued operation if it was sold or is classified as held for sale and which

+ represents a separate major line of business or a geographical area of operations,
+ is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
+ represents a subsidiary exclusively acquired with a view to resale.

FINANCIAL INSTRUMENTS

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

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

LOANS AND RECEIVABLES

This category comprises non-derivative financial assets with fixed or determinable payments, which are not listed on an active market. These include trade receivables, loans, fixed- or variable-rate securities (without an active market) as well as bank deposits.

After being recognised for the first time, the financial assets belonging to this category are measured at amortised cost applying the effective interest method less impairments. Non-interest-bearing or low-interest receivables due in more than three months are discounted. If there are objective indications, impairments are recognised in profit or loss through separate adjustment accounts. Objective indications pointing to an impairment are, for example, known payment difficulties or the insolvency of the debtor. Receivables are derecognised when settled or when they become uncollectible. Other assets are derecognised on disposal or in the absence of value.

FINANCIAL ASSETS STATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

FINANCIAL ASSETS AVAILABLE FOR SALE

This category comprises non-derivative financial assets which have been determined to be available for sale or are not classified into any of the categories mentioned above. They are initially measured at fair value. This category includes, for example, equity instruments such as investments in (non-consolidated) affiliated companies.

Basically, financial instruments belonging to this category are subsequently measured at fair value. Changes in fair value arising on subsequent measurement are recorded in the revaluation reserve and not recognised in profit or loss. Only at the time of disposal are the realised gains or losses recorded in profit or loss. If there are objective indications of an impairment on the balance sheet date, a non-scheduled depreciation to the fair value is to be recognised. The amount recorded in the revaluation reserve is derecognised and recognised in profit or loss. Subsequent impairment reversals with equity instruments measured at fair value are not recognised in profit or loss.

In the case of financial instruments for which there are no active markets which provide fair values to be determined reliably, such financial instruments are stated at acquisition cost. This applies to investments in (non-consolidated) affiliated companies and equity investments. Impairments are accounted for by non-scheduled depreciation to lower values with recognition in profit or loss. Such a depreciation may not be reversed. Shares and investments are derecognised upon disposal to a party outside the Group. Securities are derecognised after disposal on the settlement date.

FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

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

FINANCIAL LIABILITIES STATED AT FAIR VALUE THROUGH PROFIT OR LOSS

This category comprises derivative financial instruments with negative market values which are essentially classified as "held for trading". This rule does not apply to derivatives which are part of a hedging relationship in accordance with IAS 39.

DERIVATIVES

Derivatives are stated at their market value. Changes in market value are recognised in profit or loss. Derivatives are derecognised on the settlement date.

CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS

Customer-specific construction contracts are recognised according to the percentage of completion method. Services rendered, including the pro rata result, are disclosed in revenues in accordance with the stage of completion. Contracts are disclosed under receivables or liabilities from percentage of completion. If, in the individual case, cumulative work (contract costs and contract result) exceeds the advance payments received, the construction contracts are capitalised under receivables from customer-specific construction contracts. If the balance after deduction of advance payments received is negative, this obligation from construction contracts is recognised as a liability from customer-specific construction contracts.

INVENTORIES

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

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

CASH ON HAND AND BALANCES WITH BANKS

This item includes cheques, cash on hand and balances with banks. It also includes financial investments with a maturity of generally not more than three months counting from the time of acquisition.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions and similar obligations are computed in accordance with actuarial principles applying the projected unit credit method. The discount factor is computed on the basis of the yields available on the reporting date for first-rank corporate bonds. First-rank corporate bonds are those bonds that have an AA rating. Essentially, the corporate bonds to be applied are those which correspond to the anticipated maturity and currency of the pension obligations. As the availability of correspondingly long-term corporate bonds at the balance sheet date was insufficient, the term-congruent interest rate in such cases was determined by means of extrapolation. Also, future expected salary and pension increases as well as cost increases regarding health care benefit commitments are taken into account. Insofar as plan assets exist, such assets are offset against the related provisions.

In accordance with IAS 19, actuarial gains and losses are either booked immediately without recognition in profit or loss or recognised according to the corridor method. In the K+S GROUP, actuarial gains and losses are treated according to the corridor method. In accordance with this method, they are only recorded in the income statement insofar as they exceed the 10 % corridor (the maximum of 10 % of obligations and 10 % of plan assets). In the following years, the excess amount is spread over the average remaining working lives of active employees and recognised in profit or loss.

MINING AND OTHER PROVISIONS

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

DEFERRED TAXES

In accordance with IAS 12, deferred taxes are determined using the balance sheet liability method that is commonly accepted internationally. This results in the recognition of deferred tax items for all temporary differences between the tax values and the values in the consolidated balance sheet as well as for tax loss carryforwards. However, deferred tax assets are only recognised to the extent that it is probable that they will be realised. Deferred taxes are measured applying the tax rates that, under current laws, would apply in the future when the temporary differences will probably be reversed. The effects of changes in tax legislation on deferred tax assets and liabilities are recognised in profit or loss in such period in which the material conditions causing such amendment to enter into force arise. Deferred tax assets and liabilities are not discounted applying the rules contained in IAS 12. Deferred tax assets and liabilities are offset within individual companies according to timing.

ACQUISITIONS

Business combinations are accounted for using the purchase method. In connection with the revaluation of a company that has been acquired, all the hidden reserves and hidden liabilities of the company that has been acquired are identified and assets, liabilities and contingent liabilities are stated at their fair value (taking into account the exceptions regulated in IFRS 3). Any resulting positive difference in relation to the costs of acquiring the company is then capitalised as goodwill.

DISCRETIONARY ASSUMPTIONS AND ESTIMATES

DISCRETIONARY ASSUMPTIONS CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS

Non-current intangible assets, property, plant and equipment and investment properties are stated in the balance sheet at amortised cost. The under certain circumstances also allowed alternative treatment of reporting them at fair value is not utilised.

ESTIMATES AND PREMISES CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS

In terms of reason and amount, the values stated in the IFRS financial statements are in part based on estimates as well as on the determination of certain premises. This is particularly necessary in the case of

+ determining the useful lives of depreciable non-current fixed assets,
+ determining measurement premises and future earnings in connection with impairment tests, especially for capitalised goodwill,
+ determining the net realisable value of inventories,
+ determining the premises necessary for the valuation of pension provisions (discount factor, future development of wages / salaries and pensions, anticipated yield of plan assets),
+ determining amounts, performance due dates and discount factors for the valuation of provisions for mining obligations,
+ selecting parameters in connection with the model-based valuation of derivatives (e.g. assumptions regarding volatility and interest rate),
+ determining the result of customer-specific construction contracts according to the percentage of completion method (estimate of contract progress, total contract costs, cost to be incurred until completion, total contract revenues and contract risks),
+ determining the usability of tax loss carryforwards as well as
+ determining the fair value of intangible assets, property, plant and equipment as well as liabilities acquired in connection with a business combination, and determining the useful lives of the intangible assets and property, plant and equipment acquired.

Despite taking great care in producing such estimates, actual developments may differ from the assumptions made.

FOREIGN CURRENCY TRANSLATION

In the single-entity financial statements of Group companies, all receivables and liabilities denominated in foreign currencies are measured at the exchange rate applicable on the balance sheet date.

The annual financial statements of foreign Group companies are converted to euros in accordance with the functional currency concept set forth in IAS 21. All companies conduct their operations independently in financial, economic and organisational terms. The functional currency generally corresponds to the local currency. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Income and expenses are translated at quarterly average exchange rates. The resulting currency translation differences are recorded in equity without recognition in profit or loss. If Group companies are no longer consolidated, the currency translation difference concerned is released and recognised in profit or loss.

In the case of 13 companies, the US dollar, in deviation from the local currency, is used as the functional currency, as these companies generate the majority of their cash inflows and cash outflows in this currency. The US dollar is used in the case of the following companies: COMPANIA MINERA PUNTA DE LOBOS LTDA., EMPRESA DE SERVICIOS S.A., EMPRESA MARITIMA S.A., INAGUA GENERAL STORE LTD., INAGUA TRANSPORTS INC., INVERSIONES COLUMBUS LTDA., INVERSIONES EMPREMAR LTDA., K+S FINANCE BELGIUM BVBA, MORTON BAHAMAS LTD., SERVICIOS MARITIMOS PATILLOS S.A., SERVICIOS PORTUARIOS PATILLOS S.A., SOCIEDAD PUNTA DE LOBOS S.A. and TRANSPORTE POR CONTAINERS S.A.

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

EXCHANGE RATES TAB: 5.9.11

Exchange rate in relation to € 1	2012 Rate on reporting date 31.12.	2012 Average rate for Q1	2012 Average rate for Q2	2012 Average rate for Q3	2012 Average rate for Q4	2012 Average rate for the year	2011 Rate on reporting date 31.12.	2011 Average rate for the year
US dollar (USD)	1.319	1.311	1.281	1.250	1.297	1.285	1.294	1.392
Canadian dollar (CAD)	1.314	1.313	1.295	1.245	1.285	1.284	1.322	1.376
Czech koruna (CZK)	25.151	25.084	25.296	25.082	25.167	25.149	25.787	24.590
Brazilian real (BRL)	2.704	2.317	2.517	2.536	2.667	2.508	2.416	2.327
Chilean peso (CLP)	632.256	640.882	635.733	602.868	619.954	624.840	672.246	672.515
Great Britain pound (GBP)	0.816	0.834	0.810	0.792	0.807	0.811	0.835	0.868

In the year under review, translation differences of € (12.9) million on balance (previous year: € (2.0) million) were recorded in the income statement (e.g. measurement/realisation of receivables and liabilities in a foreign currency), which were mainly shown in other operating income or expenses.

EFFECTS OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS TAB: 5.9.12

Standard/Interpretation			To be applied[1]	Endorsement[2] (until 31.12.2012)
Amendment	IAS 12	Recovery of underlying assets	1.1.2012	yes
Amendment	IFRS 1	First-time adoption of International Financial Reporting Standards	1.7.2011	yes
Amendment	IFRS 1	Severe hyperinflation	1.7.2011	yes
Amendment	IFRS 7	Information on the transfer of financial assets	1.7.2011	yes

[1] To be first applied according to IASB in the first reporting period of a financial year beginning on or after this date.
[2] Adoption of the IFRS standards and interpretations by the EU Commission.

The new accounting standards are of no relevance to the 2012 consolidated financial statements of the K+S GROUP.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED TAB: 5.9.13

Standard / Interpretation			To be applied[1]	Endorsement[2] (until 31.12.2012)
Amendment	IAS 1	Presentation of financial statements	1.7.2012	yes
Amendment	IAS 19	Employee benefits	1.1.2013	yes
Amendment	IAS 27	Separate financial statements	1.1.2013	yes
Amendment	IAS 28	Investments in associates	1.1.2013	yes
Amendment	IAS 32	Offsetting financial instruments	1.1.2014	yes
Amendment	IFRS 1	Government loans	1.1.2013	no
Amendment	IFRS 7	Disclosures – offsetting financial instruments	1.1.2013	yes
Amendment	IFRS 7	Subsequent amendment to IFRS 9	1.1.2015	no
New	IFRS 9	Financial instruments	1.1.2015	no
Amendment	IFRS 9	Financial instruments	1.1.2015	no
New	IFRS 10	Consolidated financial statements	1.1.2013	yes
New	IFRS 11	Joint arrangements	1.1.2013	yes
New	IFRS 12	Disclosures of interests in other entities	1.1.2013	yes
Amendment	IFRS 10, 12 and IAS 27	Investment entities	1.1.2014	no
Amendment	IFRS 10, 11, 12	Transition guidance	1.1.2013	no
New	IFRS 13	Fair value measurement	1.1.2013	yes
New	IFRIC 20	Stripping costs in the production phase of a surface mine	1.1.2013	yes
New	Improvements 2011	Collective standard for the amendment of several IFRSs	1.1.2013	no

[1] To be first applied according to IASB in the first reporting period of a financial year beginning on or after this date.
[2] Adoption of the IFRS standards and interpretations by the EU Commission.

IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS"

The amendment basically involves a formal restructuring of the statement of comprehensive income as well as a separation of other earnings not recognised in profit or loss into elements which will be or will not be in future reclassified into the income statement. The effects of the amendments to IAS 1 have no significant influence on the consolidated financial statements of the K+S GROUP.

IAS 19 "EMPLOYEE BENEFITS"

The amendment basically involves the abolition of the corridor method and the immediate recognition of actuarial gains and losses in other earnings, a planned interest calculation on plan assets at the discount rate of the provision obligation, as well as expanded notes. These amendments will impact the amount of provisions for pensions and similar obligations, equity, deferred taxes and net interest expenses from pension commitments. The definition of termination benefits due to the cessation of work contracts was also adjusted, making an adjustment to the provision for obligations for partial retirement necessary.

K+S will apply amended IAS 19 from financial year 2013. The changes are to be applied retroactively from the beginning of the comparative period, i.e. from 1 January 2012. In detail, the following adjustments are expected:

EXPECTED EFFECTS OF AMENDED IAS 19 AS OF 1 JANUARY 2012 TAB: 5.9.14

	1.1.2012		
in € million	old	new	Change
Balance asset (+) / provision for pensions (–)	(66.1)	(136.1)	(70.0)
Provisions for partial retirement	(21.1)	(16.4)	4.7

Taking into account the effects of deferred taxes, equity will be reduced accordingly as of 1 January 2012.

The figures as of 31 December 2012 can be expected to change as follows:

EXPECTED EFFECTS OF AMENDED IAS 19 AS OF 31 DECEMBER 2012 TAB: 5.9.15

	31.12.2012		
	old	new	Change
in € million			
Balance asset (+)/provision for pensions (–)	(38.2)	(152.7)	(114.5)
Provisions for partial retirement	(14.0)	(13.7)	0.3

The increase in provisions for pensions and/or the reduction in any asset will – taking into account the effects of deferred taxes – result in a corresponding decrease in other comprehensive income and, therefore, in equity. As a result of the renewed proportionate allocation, with recognition in profit or loss, of the previous reduction in the provisions for partial retirement, EBIT I for 2012 will decline by € 4.4 million. Furthermore, the changes will impact – to a lesser extent – net taxes and net interest income as well as earnings from discontinued operations.

IAS 27, IAS 28, IFRS 10, IFRS 11, IFRS 12 – "CONSOLIDATION"

As part of the revision of the relevant provisions on consolidation, three new standards were published: IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities". At the same time, follow-up amendments to IAS 27 "Separate financial statements" and IAS 28 "Investments in associates" were made.

IFRS 10 contains a new definition of the concept of "control", which is to be taken into account in determining the companies to be included in the consolidated financial statements. In IFRS 11, the accounting of arrangements under joint control is regulated. In IFRS 12, the disclosure obligations for investments in subsidiaries, joint arrangements, associated companies and non-consolidated structured companies are summarised in a single standard. The impact of the amendments on the consolidated financial statements of the K+S GROUP is currently being examined.

IFRS 9 "FINANCIAL INSTRUMENTS"

IFRS 9 has the objective of completely replacing the current standard for the accounting of financial instruments, IAS 39 "Financial instruments: Recognition and Measurement". The project is split into three phases. Phase 1 deals with the classification and measurement of financial assets and liabilities. Phase 2 is concerned with the impairment of financial assets and liabilities as well as amortised cost. In Phase 3, the accounting treatment of hedging relationships is being revised. A standard amendment published in December 2011 is aimed at postponing the initial adoption until 1 January 2015. The impact of IFRS 9 on the consolidated financial statements of the K+S GROUP is currently being examined.

IFRIC 20 "STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE"

IFRIC 20 presents the conditions under which stripping costs of a surface mine are an asset and how the asset is to be measured for the first time and subsequently. From today's perspective, the interpretation has no significant influence on the consolidated financial statements of the K+S GROUP.

The other accounting standards and interpretations do not, from today's perspective, have any impact on the consolidated financial statements of the K+S GROUP.

NOTES TO THE INCOME STATEMENT AND THE STATEMENT OF COMPREHENSIVE INCOME

The income statement and the statement of comprehensive income are presented on page 156.

Unless stated otherwise, the notes to the income statement refer to the continued operations of the K+S GROUP. In accordance with IFRS 5, due to its divestment, the NITROGEN business is stated as a "discontinued operation". The income statement's comparative figures have been adjusted accordingly.

The K+S GROUP uses derivatives to hedge risks arising from changes in market prices. The hedging strategy is described in greater detail in Note (18). No hedging relationship in accordance with IAS 39 is established between the derivatives and the underlying transactions described with the result that market value fluctuations of outstanding derivatives have to be recognised in profit or loss on each balance sheet date. Effects on earnings also derive from the exercise / settlement, sale or expiry of derivatives used for hedging purposes.

In the income statement, the effects from hedging transactions are shown, depending on the purpose of the hedge, in the following items:

A) EARNINGS FROM OPERATING FORECAST HEDGES

All effects on earnings arising from the forecast hedging of transactions which will be recognised in profit or loss in future periods or arising from the hedging of future translation risks are combined in this earnings line item. “Forecast” relates to underlying transactions which are expected with high probability, but have not yet been recognised in the balance sheet or income statement. The word “operating” relates to underlying transactions which will have effects on EBIT. Significant cases of application are

+ the hedging of expected USD revenues
+ the hedging of anticipated capital expenditure in the Canadian dollar for the Legacy Project
+ the hedging of the earnings effects from the translation of earnings in a functional foreign currency into euros (translation risks)

B) OTHER OPERATING INCOME / EXPENSES

In these items the effects on earnings arising from the hedging of already existing foreign currency receivables are reported (e.g. the hedging of USD receivables against foreign currency fluctuations by means of a USD / EUR forward transaction).

C) FINANCIAL RESULT

Effects on earnings from the hedging of underlying transactions relating to financing, whose effects do not influence EBIT either in the current financial year or in future financial years, are shown in the financial result.

The internal management of the K+S GROUP is based, among other things, on operating earnings EBIT I. This differs from EBIT II shown in the income statement in that no account is taken of market value fluctuations from operating forecast hedges which arise during the life of the hedging instrument on the basis of the market valuation prescribed in accordance with IAS 39. Consequently, the following effects are to be eliminated from the “Earnings from operating forecast hedges” shown in the income statement:

INCOME / EXPENSE FROM MARKET VALUE CHANGES OF OPERATING FORECAST HEDGES STILL OUTSTANDING

Until maturity, hedges are valued at market value as of every balance sheet date. A deviation from the carrying amount is recognised as income or expense.

NEUTRALISING OF MARKET VALUE FLUCTUATIONS OF REALISED OPERATING FORECAST HEDGES, RECOGNISED IN EARLIER PERIODS

At the time of realisation, the carrying amount of the hedge is to be derecognised. Realisation occurs through the exercise / settlement, expiry or sale of the hedging instrument. The difference between the realised amount and the carrying amount results in the income or expense of the current period. Since EBIT I is to show earnings free of influences from market valuation in accordance with IAS 39, market value fluctuations from earlier periods included in the carrying amount are to be eliminated.

In the case of hedging the exchange rate for anticipated capital expenditure in the Canadian dollar, not only are the aforementioned positions to be eliminated but so are all the earnings effects from determining EBIT I. As the hedged underlying transactions (investments in the Canadian dollar) are only recognised in EBIT I with a delay by means of depreciation, the disclosure – as a result of the absence of the earnings effects from the underlying transaction – of the earnings effects of these hedging transactions upon maturity on EBIT I would not result in the determination of earnings for the relevant period of time.

RECONCILIATION RESULT FROM OPERATING FORECAST HEDGES IN EBIT I TAB: 5.9.16

in € million	Notes	2012	2011
Result from operating forecast hedges	[4]	**4.9**	**(7.2)**
Income (–)/expenses (+) from market value changes of operating forecast hedges still outstanding		(9.5)	25.2
Neutralising of market value changes of realised operating forecast hedges recognised in earlier periods		(28.5)	(1.8)
Result from operating forecast hedges included in EBIT I		**(33.1)**	**16.2**

The result from operating forecast hedges included in EBIT I corresponds – due to the elimination of all market value fluctuations during the term – to the value of the hedge at the time of realisation (the difference between the spot rate and hedging rate), and, in the case of option transactions, less the premiums paid or plus the premiums received. Essentially, the effects of the exchange rate hedging of anticipated capital expenditure in the Canadian dollar are not recognised in EBIT I (see above).

The reconciliation of EBIT II to operating earnings EBIT I by eliminating the aforementioned effects is presented in a separate calculation below the statement of comprehensive income.

(1) REVENUES

The revenues generated by the K+S GROUP amounted to € 3,935.3 million (previous year: € 3,996.8 million), with € 3,776.5 million (previous year: € 3,839.3 million) resulting from the sale of goods, € 151.9 million (previous year: € 157.5 million) resulting from the rendering of services and € 6.9 million (previous year: € 0 million) from accruals for customer-specific construction contracts. The breakdown of the revenues by business unit as well as intersegment revenues are presented in the segment information on page 166. The regional breakdown of the revenues is disclosed in the Notes to the segment reporting under Note (35).

(2) OTHER OPERATING INCOME

Other operating income includes the following material items:

OTHER OPERATING INCOME TAB: 5.9.17

in € million	2012	2011
Gains from exchange rate differences/hedging transactions	63.1	80.2
Reversals of provisions	37.6	40.5
Compensation and refunds received	11.2	18.1
Reversals of allowances for receivables	10.3	1.4
Income from disposal of property, plant and equipment and intangible assets	9.4	2.7
Income from rental and leasing	3.1	2.4
– of which investment properties	0.2	0.1
Sundry income	23.2	18.7
Other operating income	**157.9**	**164.0**

(3) OTHER OPERATING EXPENSES

Other operating expenses include the following material items:

OTHER OPERATING EXPENSES TAB: 5.9.18

in € million	2012	2011
Losses from exchange rate differences/hedging transactions	65.1	78.4
Ancillary capital expenditure costs	16.8	5.5
Losses from disposal of fixed assets	12.5	4.1
Expenses/refunds for disused plants and maintenance of Merkers	11.9	13.5
Expenses unrelated to the period	9.0	6.2
Partial retirement expenses	4.9	9.7
Write-downs on trade receivables	4.7	9.7
Depreciation	4.1	8.4
Damages	2.4	1.8
Expenses related to leased investment properties	2.1	1.8
Consultancy, expert opinion and lawyers' fees	0.6	3.5
Allocations/utilisation of other provisions	(6.1)	(7.7)
Sundry expenses	19.7	24.1
Other operating expenses	**147.7**	**159.0**

(4) RESULT FROM OPERATING FORECAST HEDGES

RESULT FROM OPERATING FORECAST HEDGES TAB: 5.9.19

in € million	2012	2011
Result from the realisation of currency hedging transactions	(4.1)	18.4
– of which positive earnings contributions	21.4	47.7
– of which negative earnings contributions	(25.5)	(29.3)
Result from the realisation of freight rate hedging transactions	(0.5)	(0.4)
Result from realised hedging transactions	**(4.6)**	**18.0**
Market value changes from hedging transactions yet to reach maturity (related to anticipated revenues in USD)	12.9	(24.2)
– of which positive market value changes	17.2	4.5
– of which negative market value changes	(4.3)	(28.7)
Market value changes from hedging transactions yet to reach maturity (related to anticipated capex in CAD)	(2.7)	—
– of which positive market value changes	1.8	—
– of which negative market value changes	(4.5)	—
Market value changes for freight rate hedging transactions yet to reach maturity	(0.7)	(1.0)
Result from market value changes for hedging transactions yet to reach maturity	**9.5**	**(25.2)**
Result from operating forecast hedges	4.9	(7.2)

/ **MORE INFORMATION ON “RESULT FROM OPERATING FORECAST HEDGES”** can be found in the ‘Notes to the income statement and the statement of comprehensive income’ on page 182.

(5) NET INTEREST INCOME

NET INTEREST INCOME TAB: 5.9.20

in € million	2012	2011
Interest and similar income from securities	12.7	1.0
Interest from credit institutions	4.7	7.1
Interest income pension provisions	0.8	1.3
Interest and similiar income	3.0	4.1
Interest income	**21.2**	**13.5**
Interest expenses bond	(47.1)	(38.7)
Interest component from measurement of provisions for mining obligations	(38.9)	(21.9)
Interest expenses pension provisions	(7.5)	(5.2)
Interest expenses partial retirement / provisions for jubilee bonuses	(5.7)	(4.5)
Sundry interest and similar expenses	(7.5)	(8.4)
Interest expenses	**(106.7)**	**(78.7)**
Interest income, net	(85.5)	(65.2)

The “Interest expenses / income pension provisions” comprises interest expenses (“accumulation”), plan income as well as the amortisation of actuarial gains or losses.

The “Interest component from measurement of provisions for mining obligations” consists of the balance of the following items:

INTEREST COMPONENT FROM MEASUREMENT OF PROVISIONS FOR MINING OBLIGATIONS TAB: 5.9.21

in € million	2012	2011
Interest effect from the change in the discount factor for mining provisions	(14.2)	—
Increase in mining provisions due to expiry (“accumulation”)	(27.1)	(25.0)
Interest effect from the reversal of mining provisions	2.4	3.1
Interest component from measurement of provisions for mining obligations	(38.9)	(21.9)

(6) OTHER FINANCIAL RESULT

OTHER FINANCIAL RESULT TAB: 5.9.22

in € million	2012	2011
Result from realisation of financial assets / liabilities	(0.7)	0.3
Result from valuation of financial assets / liabilities	6.6	0.7
Other financial result	**5.9**	**1.0**

(7) TAXES ON INCOME

TAXES ON INCOME TAB: 5.9.23

in € million	2012	2011
Current taxes	231.0	214.6
– Germany	202.9	181.9
– outside Germany	28.1	32.7
Deferred taxes	(32.6)	(5.3)
– Germany	0.8	10.9
– outside Germany	(33.4)	(16.2)
– of which from loss carryforwards	(7.8)	(2.2)
Taxes on income	**198.4**	**209.3**

Deferred taxes in Germany were calculated using a tax rate of 28.5 % (previous year: 28.4 %). In addition to the corporate income tax rate of 15.0 % and the solidarity surcharge of 5.5 %, an average trade tax rate of 12.7 % (previous year: 12.6 %) was taken into account. Deferred taxes in other countries are computed applying the respective national profit retention income tax rates.

The following table reconciles the anticipated to the actual tax expense. The anticipated income tax expense was calculated based on a domestic Group income tax rate of 28.5 % (previous year: 28.4 %).

RECONCILIATION OF TAXES ON INCOME TAB: 5.9.24

in € million	2012	2011
Earnings before income taxes	766.9	818.6
Anticipated income tax expense (Group tax rate: 28.5 %; previous year: 28.4 %)	**218.6**	**232.5**
Changes in anticipated tax expense:		
Reduction in tax resulting from tax-exempt income and other items		
– Tax-exempt income from investments and profits on disposals	(3.8)	(1.9)
– Other tax-exempt income	(23.4)	(23.6)
Trade tax additions / reductions	2.0	1.5
Increase in tax resulting from non-tax-deductible expenses and other items	4.7	7.9
Allowances on / non-recognition of deferred tax assets	1.1	3.2
Effects from tax rate differences	(10.5)	(8.3)
Effects from tax rate changes	5.4	1.3
Taxes for preceding years	3.7	(1.3)
Other effects	0.6	(2.0)
Actual tax expense	**198.4**	**209.3**
Tax rate	**25.9 %**	**25.6 %**

(8) COST OF MATERIALS

COST OF MATERIALS TAB: 5.9.25

in € million	2012	2011
Raw materials, supplies and purchased merchandise	373.9	388.4
Purchased services	453.3	531.4
Energy costs	314.1	277.1
Cost of materials	**1,141.3**	**1,196.9**

(9) PERSONNEL EXPENSES/EMPLOYEES

PERSONNEL EXPENSES TAB: 5.9.26

in € million	2012	2011
Wages and salaries	794.6	774.4
Social securities	158.1	154.5
Pension expenses	29.2	33.1
Personnel expenses	**981.9**	**962.0**

/ **MORE INFORMATION ON PERSONNEL EXPENSES** can be found in the 'Employees' section in the Management Report. Information on the "Long-term Incentive Programme" can be found in the Remuneration Report on page 44.

In 2010, the K+S GROUP introduced a "Long-term Incentive (LTI) Programme" based on key figures. It is based on a multi-annual assessment base in accordance with the value contributions achieved. In 2012, personnel expenses totalling € 17.1 million were recorded for the LTI Programme as an allocation to provisions (previous year: € 23.4 million).

Under the expired stock option programme, the Board of Executive Directors and certain managerial personnel could use part of their performance-related remuneration for a basic investment in K+S shares. By acquiring such basic shares, the participants received virtual options that trigger a cash payment when exercised. The amount of the cash payment is determined according to the excess performance of the K+S share in relation to the reference index. No provisions exist for stock options that had not yet been exercised as of the balance sheet date (previous year: € 2.6 million (see Note (23)).

Under the employee share ownership programme, K+S GROUP employees have the possibility of acquiring K+S shares at a discount. A one-year vesting period applies to employee shares. They are stated at fair value. Expenses totalling € 1.2 million (previous year: € 2.1 million) were incurred in connection with the employee share ownership programme enacted in 2012.

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

Personnel expenses include amounts totalling € 0.4 million that are unrelated to the reporting period.

EMPLOYEES INCLUDING TEMPORARY EMPLOYEES TAB: 5.9.27

Average number (FTE)	2012	2011
Germany	10,024	9,854
Outside Germany	4,312	4,301
Total	**14,336**	**14,155**
– of which trainees	538	547

(10) EARNINGS PER SHARE

EARNINGS PER SHARE TAB: 5.9.28

in € million	2012	2011
Group earnings after taxes and minority interests	**667.6**	**564.3**
– thereof continued operations	**568.0**	**608.8**
– thereof discontinued operations	99.6	(44.5)
Average number of shares (million)	191.40	191.33
Earnings per share in € (undiluted = diluted)	**3.49**	**2.95**
– thereof continued operations (€)	**2.97**	**3.18**
– thereof discontinued operations (€)	0.52	(0.23)
Group earnings after taxes, adjusted [1]	**639.7**	**581.8**
Earnings per share in €, adjusted [1]	**3.34**	**3.04**
Group earnings from continued operations, adjusted [1]	**540.8**	**625.6**
Earnings per share from continued operations, adjusted (€) [1]	**2.83**	**3.27**

[1] The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 182). Related effects on deferred and cash taxes are also eliminated; tax rate for 2012: 28.5 % (2011: 28.4 %).

In accordance with IAS 33, earnings per share are to be determined on the basis of Group earnings. Given the limited economic meaningfulness of unadjusted Group earnings, we additionally report adjusted Group earnings, which only contain the result from operating forecast hedges of the respective reporting period included in EBIT I.

Undiluted, adjusted earnings per share are computed by dividing adjusted Group earnings after taxes and minority interests by the weighted average number of shares outstanding. As none of the conditions resulting in the dilution of earnings per share exist in the case of K+S at the present time, undiluted earnings per share correspond to diluted earnings per share. All income and expenses of the NITROGEN business, which is classified as a discontinued operation, were reclassified and taken into account in earnings per share from discontinued operations. Comparative periods were adjusted in accordance with IFRS 5.

NOTES TO THE BALANCE SHEET

The balance sheet is presented on page 158. The development of the gross carrying amounts and the depreciation/amortisation of the individual fixed asset items is shown separately on page 160.

(11) INTANGIBLE ASSETS

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

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

The goodwill from acquisitions disclosed in the consolidated balance sheet is allocated to the following cash-generating units (CGUs):

BREAKDOWN OF GOODWILL BY CASH-GENERATING UNIT TAB: 5.9.29

in € million	2012	2011
CGU Salt America	610.3	619.0
CGU Potash and Magnesium Products	18.7	18.6
CGU Salt Europe	13.3	13.3
CGU Nitrogen Fertilizers	—	0.5
Total goodwill	**642.3**	**651.4**

The Salt business unit is divided into the cash-generating units Salt America and Salt Europe. The decrease in the goodwill allocated to the Salt America CGU is based predominantly on effects of the foreign currency translation on the balance sheet date.

In connection with the testing of goodwill for impairment, the residual carrying amounts for the respective cash-generating units were compared with their value in use. The determination of the values in use was based on the present value of the future cash flows of the business units assuming continued use. The cash flow forecast is based on the current medium-term planning of the K+S GROUP or the respective business units. The key premises underlying the medium-term planning are largely based on own experience figures. The forecast period covers the years 2013 to 2015. Moreover, a growth rate of 2.0 % (previous year: 2.0 %) for nominal cash flows from the year 2016 was assumed to compensate for inflation with respect to costs and revenues after the end of the detailed planning period.

The following discount factors were applied as at the end of the financial year:

DISCOUNT FACTORS IMPAIRMENT TEST TAB: 5.9.30

	2012		2011	
	before taxes	after taxes	before taxes	after taxes
Interest rates in %				
CGU Salt America	8.7	6.4	8.6	6.3
CGU Potash and Magnesium Products	8.7	6.4	8.6	6.3
CGU Salt Europe	8.7	6.4	8.6	6.3

The interest rates for the cash-generating units correspond to the weighted cost of capital for the K+S GROUP before and after taxes.

/ **A COMPUTATION OF THE COST OF CAPITAL** can be found in the Management Report on page 98.

The impairment tests conducted at the end of financial year 2012 confirmed that the goodwills were not impaired. According to our estimate, realistic changes in the fundamental assumptions on which determining the values in use is based would not result in the carrying amount of the particular cash-generating unit exceeding its value in use.

In connection with the event-related testing for impairment of the intangible assets with a finite useful life in the previous year, the residual carrying amounts for the respective assets were compared with their value in use as of the balance sheet date. The impairment tests conducted at the end of financial year 2011 had required recognition of a write-down totalling € 1.2 million which was recorded under other operating expenses.

Brand rights totalling € 99.7 million (previous year: € 101.3 million) are, in view of their level of awareness in the relevant sales markets as well as their strategic relevance, classified as assets with indefinite useful lives. These brand rights are fully allocated to the Salt America CGU.

The impairment test of the brand rights with indefinite useful lives, which must be conducted on an annual basis, was carried out by comparing the values in use of the brands with the carrying amounts. The value in use was determined using the relief-from-royalty method, which derives the brand value from the licence costs saved. The brand-specific revenues for the years 2013 – 2016 were determined on the basis of the corporate planning, and an annual growth rate of 2.0 % (previous year: 2.0 %) was assumed for the period from 2017. The applicable licence prices for the brands were derived from third-party comparisons. The value in use was then determined by discounting the licence costs saved with a risk-adjusted after-tax interest rate of 9.4 % (previous year: 9.3 %). The impairment test on the brands carried out on this basis at the end of the financial year 2012 did not result in any impairment charges.

(12) INVESTMENT PROPERTIES

As of 31 December 2012, the fair values of investment properties amounted to € 22.0 million (previous year: € 25.4 million). The fair values were estimated by internal specialist departments on the basis of local market conditions. In determining the values, particular account was taken of local property valuation records and, in part, of external valuation reports.

(13) FINANCIAL ASSETS

An amount of € 14.9 million (previous year: € 14.7 million) included in financial assets is accounted for by investments in affiliated companies, loans to affiliated companies as well as other equity investments. Of this, € 1.0 million (previous year: € 1.2 million) relates to other loans (mainly to employees) and other financial assets. The effective annual rates of interest range between 0 and 6.25 % and the remaining fixed interest period ranges between 1 year and 20 years.

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

(14) SECURITIES AND OTHER FINANCIAL INVESTMENTS

SECURITIES AND OTHER FINANCIAL INVESTMENTS TAB: 5.9.31

in € million	2012	2011
Securities and other financial investments (non-current)	499.5	58.5
Securities and other financial investments (current)	435.0	315.0
Securities and other financial investments	**934.5**	**373.5**

This item comprises various investments (e.g. commercial papers, bonds, term deposits with credit institutions, promissory notes, investment funds, credit-linked notes), which, in accordance with IAS 39, are classified as "Loans and receivables" or "Available-for-sale financial assets".

(15) DEFERRED TAXES

The following capitalised deferred tax assets and liabilities relate to recognition and measurement differences for individual balance sheet line items and tax loss carry-forwards:

DEFERRED TAXES TAB: 5.9.32

	Deferred tax assets		Deferred tax liabilities	
in € million	2012	2011	2012	2011
Intangible assets	6.0	6.4	111.0	116.3
Property, plant and equipment	23.2	18.5	369.7	341.0
Financial assets	—	—	—	0.4
Inventories	4.5	2.2	6.4	12.8
Receivables and other assets	3.3	3.7	15.7	28.1
– of which derivative financial instruments	—	—	5.5	1.3
Provisions	138.9	108.4	0.9	0.9
Liabilities	12.2	16.7	5.8	2.6
Gross amount	**188.1**	**155.9**	**509.5**	**502.1**
– of which non-current	157.5	132.8	492.7	480.2
Tax loss carryforwards	47.1	38.7	—	—
Impairments	—	(0.1)	—	—
Consolidation	13.6	12.6	(4.3)	(8.0)
Balances	(200.5)	(151.8)	(200.5)	(151.8)
Balance sheet carrying amount (net)	**48.3**	**55.3**	**304.7**	**342.3**

Deferred taxes totalling € 14.6 million (previous year: € 13.7 million) were not capitalised because the utilisation of the underlying loss carryforwards or the realisation of taxable income appears unlikely. The underlying loss carryforwards amount to € 141.8 million (previous year: € 103.6 million). The utilisation of tax credits totalling € 6.4 million is considered unlikely and therefore not capitalised.

In the year under review, deferred taxes of € 0.5 million (previous year: € (0.3) million) allocable to foreign currency translation were recorded in other earnings.

The deferred taxes reported in the balance sheet as of 31 December 2012 declined by a net € 30.6 million (previous year: € 83.2 million) and comprise a decrease of € 7.0 million in deferred tax assets (previous year: € 2.5 million) and a decrease of € 37.6 million in deferred tax liabilities (previous year: increase of € 80.7 million).

Taking into account the deferred taxes € (0.5) million (previous year: € (0.3) million) offset directly against equity without recognition in profit or loss in the year under review, currency-related effects of € 2.8 million (previous year: € (8.4) million) and the derecognition of deferred taxes of € (4.3) million (previous year: incl. COMPO € 4.3 million) recognised in profit or loss and reported in the discontinued operations due to the divestment of the NITROGEN business, this gives rise to deferred tax income of € (32.6) million disclosed in the income statement. Moreover, in the previous year, the recognition, without effect on profit or loss, of deferred taxes of € (84.1) million deriving from the first-time consolidation of POTASH ONE gave rise to deferred tax income of € (5.3) million.

Temporary differences of € 249.5 million (previous year: € 282.6 million) are related to shares in subsidiaries for which no deferred tax liabilities are accrued in accordance with IAS 12.39.

(16) INVENTORIES

INVENTORIES TAB: 5.9.33

in € million	2012	2011
Raw materials and supplies	176.1	157.1
Work in progress	17.0	18.2
Finished products and merchandise	494.8	554.7
Inventories	**687.9**	**730.0**

Inventories of € 43.2 million (previous year: € 28.2 million) were stated at net realisable value. The reporting of net realisable value resulted in write-downs of € 2.2 million (previous year: € 1.6 million) during the period under review.

(17) RECEIVABLES AND OTHER ASSETS

RECEIVABLES AND OTHER ASSETS TAB: 5.9.34

in € million	2012	of which residual term > 1 year	2011	of which residual term > 1 year
Accounts receivable – trade	770.3	—	928.8	—
Receivables from affiliated companies	11.9	—	14.5	—
Other assets	245.7	91.3	198.8	62.7
– of which derivative financial instruments	28.7	2.5	15.1	3.0
– of which claim for reimbursement bond Morton Salt	19.0	18.9	19.6	19.4
Receivables and other assets	**1,027.9**	**91.3**	**1,142.1**	**62.7**

The allowances for trade receivables, other receivables and other assets have developed as follows:

ALLOWANCES TAB: 5.9.35

in € million	2012	2011
Balance as of 1 January	28.2	36.0
Change in scope of consolidation	(4.3)	(6.0)
Addition	4.7	12.4
Reversal	10.3	1.8
Utilisation	1.7	12.4
Balance as of 31 December	**16.6**	**28.2**

Allowances of € 14.8 million (previous year: € 27.1 million) were disclosed for the trade receivables portfolio as at 31 December 2012. Of this, € 1.8 million (previous year: € 1.1 million) result from allowances for other receivables and other assets. The allowances are based on the anticipated risk of default. If receivables have a residual term of more than three months, they are discounted applying money market rates as of the balance sheet date.

As at 31 December 2012, non-interest-bearing and low-interest receivables were written down by € 0.2 million (previous year: € 0.6 million).

The following table provides information about the extent of the risks of default contained in the items "Accounts receivable – trade" as well as "Other receivables and non-derivative financial instruments".

DEFAULT RISKS TAB: 5.9.36

in € million	Carrying amount	of which neither overdue nor adjusted as of the reporting date	of which unadjusted but overdue as of the reporting date since < 30 days	> 31 and < 90 days	> 91 and < 180 days	> 180 days
2012						
Accounts receivable – trade	770.3	700.9	28.6	10.3	1.7	0.1
Other receivables and non-derivative financial instruments	145.2	113.3	1.7	3.3	3.4	8.3
2011						
Accounts receivable – trade	928.8	631.6	45.1	7.3	4.1	4.2
Other receivables and non-derivative financial instruments	123.9	107.4	0.7	0.2	0.1	0.1

The risk of default is the risk of a contractual partner failing to discharge its contractual payment obligations. Customer receivables are to the largest extent secured against a default risk by means of appropriate insurance coverage and other hedging instruments. Across the Group, 86 % of all insurable receivables are hedged against a default. This ensures that only a low partial loss is incurred in the event of default. An internal credit check is conducted in the case of customers for whom such cover cannot be obtained. There is no significant concentration of risk with respect to receivables.

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

The maximum risk of default with respect to receivables and other assets is reflected in the carrying amount disclosed in the balance sheet. As at 31 December 2012, the maximum default amount in the very unlikely event of a simultaneous default on all unsecured receivables was € 102.9 million (previous year: € 183.1 million).

The receivables arising from the accounting treatment of customer-specific construction contracts comprise the following:

CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS TAB: 5.9.37

in € million	2012	2011
Contract costs incurred and contract gains recognised	6.9	–
less advance payments received	4.7	–
Receivables from customer-specific construction contracts	2.2	–

(18) DERIVATIVE FINANCIAL INSTRUMENTS

Currency and interest rate management is performed centrally for all Group companies. This also applies to the use of derivative financial instruments, e.g. those aimed at limiting certain costs. The use of derivative financial instruments is regulated by guidelines and procedure instructions. A strict segregation of functions is ensured between trading, settlement and control. Derivative financial instruments are only traded with banks that have a good credit standing, which is monitored continually by means of appropriate instruments. In principle, the entire portfolio of derivative financial instruments is spread across several banks to reduce the risk of default. The level of risk of default is limited to the amount of the derivatives capitalised on the balance sheet.

The goal of interest rate management is to curb the risks arising from an increasing interest burden as a result of changes in the general level of interest rates. No counter-measures are currently necessary in this regard, as the financial liabilities existing on the balance sheet date carry a fixed interest rate.

Derivatives are used to hedge exchange rate risks in order to limit the risks to which operating business activities can be exposed as a result of changes in exchange rates. Exchange rate risks exist mainly with respect to the US dollar and, to a lesser extent, the Canadian dollar, the British pound sterling and the Chilean peso. Hedging transactions are executed in relation to billed receivables and anticipated net positions on the basis of projected revenues and capital expenditure. In this regard, the net positions are determined on the basis of revenue and cost planning using safety margins and updated on an ongoing basis to avoid excess hedging or hedging shortfalls.

The hedging transactions used can have terms of up to three years for the hedging of anticipated positions. The aim is to hedge a "worst-case" scenario while simultaneously allowing possible opportunities arising from market developments to be taken. Here, mainly plain vanilla options are used, which generally limits participation in a favourable market development by the sale of simple options. Like the selective use of forward transactions, this also serves to reduce premium expenses. Basically, it is also possible to use compound options consisting of an option on a simple option, which can be acquired at a later date for a fixed amount.

The terms of hedging transactions in respect of billed receivables are, in keeping with the agreed payment terms, less than one year.

The hedging transactions in respect of anticipated net positions as described above are used in the Potash and Magnesium Products business unit for US dollar positions. Hedging transactions for translation risks arising from planned earnings will no longer be concluded as of 2013. Hedging transactions in respect of billed receivables are concluded in the Potash and Magnesium Products business unit.

To hedge freight rates for the years 2010 to 2013, swaps have been selectively concluded that provide for the settlement of any difference between agreed fixed prices and market prices on their respective maturity. They are based on the "Baltic Panamax Index".

Trading in all the aforementioned derivatives is solely OTC. Because of market transparency, forward exchange transactions are concluded directly with a bank after a comparison with interbank terms has been made by means of a reference system. There is no such transparent market for trading in options. That is why quotations are obtained from several banks for all substantial option transactions, so that a transaction can then be executed with the bank providing the best quotation.

In the case of forward exchange transactions, there is a market value risk on the respective reporting date. However, there are countervailing effects stemming from the currency-based measurement of receivables when derivatives are used in order to hedge foreign currency receivables.

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

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

IAS 39 permits hedging relationships to be established between underlying business transactions and derivative financial instruments. However, this is principally not applied (see 'Notes to the income statement and the statement of comprehensive income' on page 182).

The following derivative foreign exchange transactions existed as at 31 December 2012:

DERIVATIVE FOREIGN EXCHANGE FINANCIAL TRANSACTIONS TAB: 5.9.38

	2012		2011	
	Notional amounts[1]	Fair values	Notional amounts[1]	Fair values
in € million				
USD forward exchange transactions				
– of which maturing in 2012	–	–	622.6	(16.3)
– of which maturing in 2013	599.1	17.5	–	–
CAD forward exchange transactions				
– of which maturing in 2012	–	–	60.8	0.8
– of which maturing in 2013	62.6	0.1	–	–
GBP forward exchange transactions				
– of which maturing in 2012	–	–	24.7	(0.4)
– of which maturing in 2013	7.5	0.1	–	–
USD/CLP forward exchange transactions				
– of which maturing in 2012	–	–	31.8	(0.4)
– of which maturing in 2013	21.7	1.7	–	–
Purchased simple currency options				
– of which maturing in 2012	–	–	794.1	11.4
– of which maturing in 2013	302.2	5.7	46.2	3.0
Sold simple currency options				
– of which maturing in 2012	–	–	869.1	(13.1)
– of which maturing in 2013	305.9	(0.3)	52.2	(1.4)
Foreign currency transactions in total	**1,299.0**	**24.8**	**2,501.5**	**(16.4)**

[1] Translated into euros using weighted hedging rates.

Assuming a change in spot rates on the balance sheet date of ± 10 %, the aforementioned market values would have changed as follows:

SENSITIVITY OF DERIVATIVE FOREIGN EXCHANGE FINANCIAL TRANSACTIONS IN THE YEAR 2012 TAB: 5.9.39

	Base value	Base value +10 %	Base value (10) %	Market value change at +10 % in € million	Market value change at (10) % in € million
USD/EUR	1.319	1.451	1.187	59.0	(63.0)
CAD/EUR	1.314	1.445	1.182	(4.7)	12.6
GBP/EUR	0.816	0.898	0.734	(0.1)	0.1
CLP/USD	479.200	527.120	431.280	(2.1)	2.5
Total				**52.1**	**(47.8)**

The following values arose on the balance sheet date of the previous year:

SENSITIVITY DERIVATIVE OF FOREIGN EXCHANGE FINANCIAL TRANSACTIONS IN THE YEAR 2011 TAB: 5.9.40

	Base value	Base value +10 %	Base value (10) %	Market value change at +10 % in € million	Market value change at (10) % in € million
USD/EUR	1.294	1.423	1.165	77.4	(92.3)
CAD/EUR	1.322	1.454	1.189	(5.6)	6.8
GBP/EUR	0.835	0.919	0.752	2.3	(2.8)
CLP/USD	519.6	571.5	467.6	(2.8)	3.4
Total				**71.3**	**(84.9)**

As of the balance sheet date, the swaps used to hedge freight costs had a notional amount of 360 (previous year: 360) charter days on the “Baltic Panamax Index” and a fair value of € (2.8) million (previous year: € (4.5) million). A change in price on the freight hedging benchmark index of ± 10 % would have increased or reduced the market value by € 0.1 million (previous year: € ± 0.3 million).

The aforementioned market value changes would have resulted in a corresponding increase or reduction in unadjusted Group earnings before taxes and in equity.

(19) EQUITY

The development of individual equity items is shown separately on page 159.

SUBSCRIBED CAPITAL

The subscribed capital of K+S AKTIENGESELLSCHAFT amounts to € 191.4 million and is divided into 191.4 million no-par value bearer shares. In financial year 2012, there was an average of 191.4 million (previous year: 191.33 million) no-par value shares in circulation.

On the basis of the resolution passed by the Annual General Meeting on 11 May 2010, the Board of Executive Directors was authorised to acquire own shares up to 10 % of the share capital by 10 May 2015. Purchases may be made on a stock exchange or by means of a public purchase offer directed to all shareholders. In the case of a purchase effected on a stock exchange or a public purchase offer addressed to all shareholders, the purchase price per share (exclusive of ancillary purchase costs) paid by the Company may not exceed or undercut the relevant exchange price by more than 10 %. In financial year 2012, K+S AKTIENGESELLSCHAFT did not make use of the authorisation.

SUBSCRIBED CAPITAL TAB: 5.9.41

in € million	Shares outstanding	Subscribed capital
31.12.2010	191.4	191.4
31.12.2011	191.4	191.4
31.12.2012	**191.4**	**191.4**

CAPITAL RESERVE

The capital reserve mainly consists of the share premium received as part of share issues of K+S AKTIENGESELLSCHAFT.

OTHER RESERVES AND ACCUMULATED PROFIT

This item summarises the revenue reserves, the accumulated profit, the differences from currency translation and the revaluation reserve in the consolidated balance sheet.

The revenue reserves mainly consist of the earnings the consolidated companies achieved in the past, less dividends paid to shareholders. The item "Differences from foreign currency translation" comprises mainly differences from the translation of the functional currency of foreign business operations into the reporting currency of the Group (the euro).

ACCUMULATED PROFIT OF THE INDIVIDUAL FINANCIAL STATEMENTS OF K+S AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE – HGB)

For dividend distribution the annual financial statements of K+S AKTIENGESELLSCHAFT as prepared in accordance with the German Commercial Code (HGB) are decisive. It is intended to propose to the Annual General Meeting that a dividend of € 1.40 per share (previous year: € 1.30), i.e. € 268.0 million in total (previous year: € 248.8 million), be distributed to the shareholders. As of the balance sheet date, the accumulated profit of K+S AKTIENGESELLSCHAFT was as follows:

ACCUMULATED PROFIT OF K+S AKTIENGESELLSCHAFT (HGB) TAB: 5.9.42

in € million	2012	2011
Accumulated profit of K+S Aktiengesellschaft as of 1 January	260.1	225.7
Dividend payment for previous year	(248.8)	(191.4)
Net income of K+S Aktiengesellschaft	563.9	392.5
Transfer from net income to other revenue reserves	(281.0)	(166.7)
Accumulated profit of K+S Aktiengesellschaft as of 31 December	**294.2**	**260.1**

(20) INFORMATION ABOUT CAPITAL MANAGEMENT

CAPITAL MANAGEMENT TAB: 5.9.43

in € million	2012	2011
Equity	3,477.3	3,084.6
Non-current debt	2,514.3	1,953.6
Current debt	647.4	1,018.7
Balance sheet total	**6,639.0**	**6,056.9**
Equity ratio	52.4 %	50.9 %
Borrowed capital ratio	47.6 %	49.1 %

Equity rose by € 392.7 million compared with the previous year. The increase in equity is based mainly on the positive Group earnings of financial year 2012 (after taxes and minority interests) amounting to € 667.6 million; in contrast to this is the dividend distribution of € 248.8 million effected in May 2012. Moreover, changes in equity without recognition in profit or loss had to be accounted for, resulting from foreign currency translation of subsidiaries in the functional foreign currency (mainly the US dollar and the Canadian dollar).

Non-current debt has increased by € 560.7 million. This is principally attributable to the issue of a second bond and the related increase in non-current financial liabilities. In addition, provisions for mining obligations rose in relation to the previous year. Current debt fell by € 371.3 million, mainly as a result of a decline in trade payables in connection with the divestment of the NITROGEN business.

(21) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations are composed of the following items:

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS TAB: 5.9.44

in € million	2012	2011
Provisions for pension commitments	9.1	20.5
Provisions for other benefit commitments similar to pensions	79.7	74.8
Provisions for pensions and similar obligations	**88.8**	**95.3**

As of the balance sheet date, there were no provisions for pension commitments under retirement pension plans in Germany (previous year: € 3.5 million), as these were disclosed as assets on account of accounting surplus coverage. The pension commitments in Germany mainly relate to direct commitments under pension plans that have been discontinued in the meantime. Most of the obligations in Germany apply to pensioners. In Europe outside Germany, further provisions for pension commitments amounted to € 2.7 million (previous year: € 2.4 million) as of the balance sheet date.

Moreover, there are pension commitments or benefit commitments similar to pensions in the United States, in Canada and on the Bahamas. The amount of the pension commitments depends, among other things, on remuneration and length of employment. As of 31 December 2012, provisions amounting to € 6.4 million (previous year: € 14.6 million) were established for this purpose. Benefit commitments similar to pensions mainly encompass benefits for medical costs and life insurances. As at 31 December 2012, the provisions for these commitments amounted to € 79.7 million (previous year: € 74.8 million).

The amount of the provisions for pensions and similar obligations is calculated as the actuarial present value of pension claims earned (defined benefit obligation). The majority of the pension claims in Germany is financed through external plan assets under a contractual trust arrangement (CTA). Pension commitments in Canada are also partially out-financed by plan assets. The following assumptions have been made in calculating provisions for pensions and similar obligations on the balance sheet date:

ACTUARIAL ASSUMPTIONS MEASUREMENT PENSION COMMITMENTS TAB: 5.9.45

	2012		2011	
	Germany	Outside Germany	Germany	Outside Germany
in %, weighted average				
Pension commitments				
Actuarial interest rate	3.5	4.0	4.9	4.7
Anticipated annual increase in salaries and wages	1.8	3.5	1.8	3.5
Anticipated annual pension increase	1.6	1.1	1.5	1.3
Other benefit commitments similar to pensions				
Actuarial interest rate	—	4.0	—	4.7

To determine the pension expenses for 2012, the following actuarial assumptions were used – stipulated at the end of financial year 2011:

ACTUARIAL ASSUMPTIONS EXPENSES PENSION COMMITMENTS TAB: 5.9.46

	2012		2011	
	Germany	Outside Germany	Germany	Outside Germany
in %, weighted average				
Pension commitments				
Actuarial interest rate	4.9	4.7	4.9	5.2
Anticipated annual increase in salaries and wages	1.8	3.5	1.8	3.6
Anticipated annual pension increase	1.5	1.3	1.5	1.2
Anticipated yield from plan assets	5.5	6.0	5.5	6.5
Other benefit commitments similar to pensions				
Actuarial interest rate	—	4.7	—	5.3

In the case of commitments similar to pensions for health care benefits, the following annual cost increases – declining over time – were assumed:

+ Canada: 7.5 % / 5.0 % as of 2019 (previous year: 7.7 % / 5.0 % as of 2015)
+ USA: 7.75 % / 5.0 % as of 2023 (previous year: 8.0 % / 5.0 % as of 2023)
+ Bahamas: 4.5 % (previous year: 4.5 %)

The anticipated yield of plan assets is based on the anticipated long-term income from the securities held as plan assets at the beginning of the financial year and with any new additions or reimbursements taken into account. The allocation of plan assets to individual asset classes, the anticipated interests and dividends as well as the current economic framework conditions are also taken into account. At the end of financial year 2012, plan assets comprised the following:

BREAKDOWN OF PLAN ASSETS BY ASSET CATEGORY TAB: 5.9.47

	2012			2011		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
in € million						
Bonds	143.0	93.9	49.1	127.7	68.4	59.3
Shares	179.6	81.4	98.2	163.1	81.1	82.0
Cash on hand and balances with banks and other	65.6	49.3	16.3	34.7	34.7	—
Plan assets as of 31 December	**388.2**	**224.6**	**163.6**	**325.5**	**184.2**	**141.3**

The item “Cash on hand and balances with banks and other” also comprises pledged reinsurance.

Actuarial gains and losses are only recorded in the income statement insofar as they exceed the 10 % corridor (the maximum of 10 % of obligations and 10 % of plan assets). In the following years, the excess amount is spread over the average remaining working lives of active employees and recognised in profit or loss.

The following tables 5.9.48 and 5.9.49 show the development of the defined benefit obligation and the plan assets.

DEVELOPMENT DEFINED BENEFIT OBLIGATION TAB: 5.9.48

in € million	2012 Total	2012 Germany	2012 Outside Germany	2011 Total	2011 Germany	2011 Outside Germany
Defined benefit obligation as of 1 January	461.6	187.1	274.5	452.7	195.4	257.3
Changes in scope of consolidation	(4.0)	(3.9)	(0.1)	(17.4)	(16.5)	(0.9)
Service costs	12.6	4.1	8.5	10.7	3.7	7.0
Past service costs	1.8	1.8	—	8.6	8.6	—
Interest expenses	21.6	8.7	12.9	21.1	8.7	12.4
Actuarial gains (–)/losses (+)	71.3	34.8	36.5	19.7	1.7	18.0
Pension payments	(24.8)	(14.4)	(10.4)	(23.5)	(14.5)	(9.0)
Plan adjustments/plan settlements	—	—	—	(12.3)	—	(12.3)
Exchange rate fluctuations	0.8	—	0.8	2.0	—	2.0
Defined benefit obligation as of 31 December	**540.9**	**218.2**	**322.7**	**461.6**	**187.1**	**274.5**

The actuarial losses of the period under review, amounting to € 71.3 million, result mainly from the decrease in the discount rate.

DEVELOPMENT PLAN ASSETS TAB: 5.9.49

in € million	2012 Total	2012 Germany	2012 Outside Germany	2011 Total	2011 Germany	2011 Outside Germany
Plan assets as of 1 January	325.5	184.2	141.3	240.2	106.3	133.9
Anticipated income from plan assets	18.7	9.7	9.0	17.8	9.0	8.8
Employer contributions	43.5	28.2	15.3	108.4	89.4	19.0
Differences between anticipated and actual income	22.6	16.7	5.9	(16.8)	(9.9)	(6.9)
Pension payments	(22.7)	(14.2)	(8.5)	(18.7)	(12.0)	(6.7)
Reclassifications	—	—	—	1.4	1.4	—
Plan adjustments/plan settlements	—	—	—	(7.4)	—	(7.4)
Exchange rate fluctuations	0.6	—	0.6	0.6	—	0.6
Plan assets as of 31 December	**388.2**	**224.6**	**163.6**	**325.5**	**184.2**	**141.3**

The actual income from plan assets amounts to € 41.3 million (previous year: € 1.0 million).

For reconciliation to the balance sheet carrying amounts, the defined benefit obligation has to be offset against the plan assets and to be adjusted for actuarial gains or losses not yet recorded.

RECONCILIATION BALANCE SHEET VALUES PENSIONS TAB: 5.9.50

in € million	2012 Total	2012 Germany	2012 Outside Germany	2011 Total	2011 Germany	2011 Outside Germany
Defined benefit obligation as of 31 December	540.9	218.2	322.7	461.6	187.1	274.5
– of which fully covered by plan assets	96.8	96.8	—	72.4	72.4	—
– of which partly covered by plan assets	337.9	121.4	216.5	297.9	110.8	187.1
Plan assets as of 31 December	388.2	224.6	163.6	325.5	184.2	141.3
Funded status	**152.7**	**(6.4)**	**159.1**	**136.1**	**2.9**	**133.2**
Unrecognised actuarial gains (+)/losses (–)	(114.5)	(44.2)	(70.3)	(70.0)	(28.6)	(41.4)
Balance sheet values as of 31 December	**38.2**	**(50.6)**	**88.8**	**66.1**	**(25.7)**	**91.8**
– of which pension provisions (+)	88.8	—	88.8	95.3	3.5	91.8
– of which assets (–)	(50.6)	(50.6)	—	(29.2)	(29.2)	—

Pension expenses for defined benefit pension obligations comprise the following:

PENSION EXPENSES FOR DEFINED BENEFIT OBLIGATIONS TAB: 5.9.51

in € million	2012 Total	2012 Germany	2012 Outside Germany	2011 Total	2011 Germany	2011 Outside Germany
Service costs	12.6	4.1	8.5	10.6	3.6	7.0
Past service costs	1.8	1.8	—	8.6	8.6	—
Interest expenses	21.6	8.7	12.9	21.0	8.6	12.4
Plan adjustments/plan settlements	—	—	—	(4.9)	—	(4.9)
Redemption of actuarial gains (+)/losses (–)	3.8	1.9	1.9	0.7	0.6	0.1
Anticipated income from plan assets	(18.7)	(9.7)	(9.0)	(17.8)	(9.0)	(8.8)
Pension expenses	**21.1**	**6.8**	**14.3**	**18.2**	**12.4**	**5.8**

The service costs (including past service costs) are reported in the income statement under the following items in accordance with the allocation of employees:

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

Interest expenses, anticipated income arising from plan assets as well as the amortisation of actuarial gains and losses are recorded under net interest income. Reversals of provisions from plan adjustments/plan settlements are disclosed under other operating income.

The pension expenses of the previous year were, due to the deconsolidation of the NITROGEN business, in accordance with the requirements of IFRS 5, corrected by the amount attributable to these companies.

The development of pension obligations and plan assets over time is as follows:

DEVELOPMENT DEFINED BENEFIT OBLIGATION AND PLAN ASSETS TAB: 5.9.52

in € million	2012	2011	2010	2009	2008
Defined benefit obligation as of 31 December	540.9	461.6	452.7	406.7	196.2
Plan assets as of 31 December	388.2	325.5	240.2	209.6	81.1
Short (+)/surplus coverage (–)	**152.7**	**136.1**	**212.5**	**197.1**	**115.1**
Experience-based gains (+)/losses (–) from obligations	(4.4)	1.1	0.3	0.9	(6.7)
Other gains (+)/losses (–) from obligations	(66.9)	(20.8)	(24.9)	—	13.8
Experience-based gains (+)/losses (–) from plan assets	22.6	(16.8)	(1.2)	15.7	(27.7)

A change of the assumed cost trend of commitments similar to pensions for health care benefits would result in the following effects:

SENSITIVITY HEALTH CARE BENEFIT COMMITMENTS TAB: 5.9.53

in € million	Change by 1% point Increase	Change by 1% point Decrease
Effect on service costs and interest expenses	1.3	(1.2)
Effect on the defined benefit obligation	16.1	(12.8)

In financial year 2013, an outflow of funds of € 21.4 million from pension commitments and commitments similar to pensions is to be expected. It encompasses additions to plan assets and pension payments which are not covered by corresponding reimbursements from plan assets.

In addition, there are further retirement pension plans for which no provisions have to be recognised, as there are no further obligations apart from the payment of the contributions (defined contribution plans). These comprise both solely employer-financed benefits and premiums for converting employees' remuneration into pensions.

Employers and employees made contributions under the supplementary pension plan that has been closed in the meantime and is operated through the BASF pension fund. In 2011, the BASF pension fund terminated the regular memberships for K+S employees, so that as of 31 December 2012, only extraordinary memberships applied in the case of the employees concerned and those memberships are continued as vested pension rights. In addition, the BASF pension fund makes regular pension scheme payments to (former) K+S employees.

The provision of such pensions through the BASF pension fund is to be classified as a multi-employer plan within the meaning of IAS 19.29. The plan is essentially a defined benefit plan. As reliable information regarding plan assets and obligations are only available for the pension fund as a whole and not for those shares in it attributable to the K+S GROUP, no sufficient information is available for reporting the plan on the balance sheet. That is why the plan is treated as a defined contribution plan in accordance with IAS 19.30.

Overall, for the period under review, expenses for pension provisions are as follows (the previous year's figures are corrected by the amounts attributable to the NITROGEN business):

PENSION EXPENSES TAB: 5.9.54

			2012			2011
in € million	Total	Germany	Outside Germany	Total	Germany	Outside Germany
Expenses defined contribution plans	14.8	2.2	12.6	13.9	2.6	11.3
Service costs defined benefit commitments (incl. past service costs)	14.4	5.9	8.5	19.2	12.2	7.0
Pension expenses	**29.2**	**8.1**	**21.1**	**33.1**	**14.8**	**18.3**

In addition, contributions of € 85.0 million (previous year: € 81.7 million) were paid to state pension insurance funds.

(22) PROVISIONS FOR MINING OBLIGATIONS

PROVISIONS FOR MINING OBLIGATIONS TAB: 5.9.55

		2012		2011
in € million	Total	of which current	Total	of which current
Mine and shaft backfilling	303.7	6.9	283.7	6.8
Maintenance of tailing piles	266.0	–	190.1	–
Mine damages	54.6	–	50.1	–
Restoration	77.1	–	52.3	–
Other	12.1	–	11.2	–
Provisions for mining obligations	**713.5**	**6.9**	**587.4**	**6.8**

Provisions for mining obligations are recognised as a result of statutory and contractual requirements as well as conditions imposed by public agencies and are given concrete form in plant plans and water law permit decisions above all. These obligations, which are mainly of a public law type, require surface securing and recultivation measures. Mining damage can result from underground extraction and the related possible lowering of the land at surface level or as a result of damage in the production process in the form of dust or salinisation. The obligations that might arise are covered by provisions.

/ **YOU CAN FIND A SENSITIVITY ANALYSIS FOR THE DISCOUNT RATE APPLIED TO MINING PROVISIONS** in the Management Report on page 101.

The amount of the provisions to be recognised is based on expected expenditures or estimated compensation. Provisions for mining obligations mainly have a long-term character, and, on the basis of future anticipated expenditure, are carried at the discounted amount required to settle the obligation as of the balance sheet date. In this connection, a future price increase of 1.5 % is assumed. The discount factor for mining obligations in the EU states amounts to 4.3 % (previous year: 4.7 %). As a discount factor for mining obligations in North America, an interest rate of 4.9 % (USA, previous year: 5.1 %) and 4.5 % (Canada, previous year: 5.3 %) is used. An adjustment of discount factors in financial year 2012 resulted in an increase in mining provisions of € 50.2 million. The anticipated timing of the settlement of such obligations largely depends on the remaining economic useful life of the sites. The obligations in part extend well beyond 2050.

The addition to provisions for mining obligations for the year under review of € 155.1 million (previous year: € 67.9 million) mainly consists, alongside the interest adjustment, in the annual accumulation of provisions, the recognition of additional provisions for mining risks and the revaluation of existing provisions.

Mining provisions in the amount of € 11.1 million (previous year: € 6.7 million) were used to discharge the obligation to maintain disused sites. Further sums were spent on expenditure connected with mining damage risks.

Reversals of provisions amounting to € 17.8 million (previous year: € 9.4 million) mainly result from a reduction in individual obligations.

(23) NON-CURRENT OBLIGATIONS TO EMPLOYEES

NON-CURRENT OBLIGATIONS TO EMPLOYEES TAB: 5.9.56

in € million	2012	2011
Provisions for long-term incentives	47.3	50.6
Provisions for jubilee bonuses	25.8	22.6
Provisions for partial retirement	14.0	21.1
Provisions for stock options	–	2.6
Other non-current obligations to employees	3.1	3.1
Total non-current obligations to employees	**90.2**	**100.0**

The accounting treatment of the provision for the indicator-based “Long-term Incentive Programme” is performed applying the defined benefit obligation method. Actuarial gains and losses are recorded in profit or loss. In determining them, an actuarial interest rate of 0.7 % (previous year: 2.7 %) is applied.

/ **MORE INFORMATION ON THE “LONG-TERM INCENTIVE PROGRAMME”** can be found in the Remuneration Report on page 44.

The provisions for partial retirement take into account obligations arising from partial retirement agreements that have been concluded. Measurement encompasses both fulfilment shortfalls (difference between the value of full-time employment and partial retirement remuneration plus related employer contributions to social insurance) as well as step-up contributions to partial retirement remuneration and contributions to statutory pension insurance. They are stated at present value applying an actuarial interest rate of 0.7 % (previous year: 2.7 %) with an anticipated annual increase in salaries and wages of 1.8 % (previous year: 1.8 %). The partial retirement obligations of € 41.3 million (previous year: € 53.0 million) as of the balance sheet date were offset against plan assets of € 27.3 million (previous year: € 31.9 million). The plan assets take the form of a contractual trust arrangement (CTA) and serve to secure the benefits due to employees under partial retirement agreements.

Provisions for jubilee bonuses are recognised for future payments in connection with 25-, 40- and 50-year length of service anniversaries. They are valued applying the defined benefit obligation method. They are stated applying an actuarial interest rate of 3.5 % (previous year: 4.9 %) with an anticipated annual increase in salaries and wages of 1.8 % (previous year: 1.8 %).

The provisions for the stock option programme relate to virtual stock options to be settled in cash. As of 31 December 2012, the composition of virtual stock options was as follows:

COMPOSITION OF VIRTUAL STOCK OPTIONS 31 DECEMBER 2012 TAB: 5.9.57

Number of options	Exercisable for the first time	Expiry	Fair value in € million	Provision in € million
2,150,280	May 2011	May 2014	0.0	0.0

The fair value of the exercisable options was € 0.0 million as of 31 December 2012, as the relevant performance of the K+S share as of 31 December 2012 was significantly negative. It can therefore no longer be expected that the stock options will attain a positive value by the end of the last exercise period.

(24) CURRENT PROVISIONS

The obligations under sales transactions relate in particular to rebates and price concessions; the provisions for outstanding invoices result from purchase contracts. Current obligations for personnel mainly include provisions for the performance-related remuneration as well as provisions for outstanding vacation leave and free shifts.

(25) FINANCIAL LIABILITIES

The following table shows the liquidity analysis of the financial liabilities in the form of contractually agreed undiscounted cash flows:

LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES 2012 TAB: 5.9.58

		Cash flows			
in € million	2012 Carrying amount	2012 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	1,265.8	1,491.2	55.2	864.4	571.6
– of which bonds	1,261.7	1,486.7	54.2	860.9	571.6
– of which liabilities towards banks	4.1	4.5	1.0	3.5	—
Accounts payable – trade	289.2	289.2	289.2	—	—
Liabilities to affiliated companies	12.6	12.6	12.6	—	—
Other financial liabilities	45.9	45.9	—	40.8	5.1
Non-derivative financial liabilities	**1,613.5**	**1,838.9**	**357.0**	**905.2**	**576.7**

LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES 2011 TAB: 5.9.59

		Cash flows			
in € million	2011 Carrying amount	2011 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	770.6	890.0	40.2	828.0	21.8
– of which bonds	765.8	884.5	39.2	823.5	21.8
– of which liabilities towards banks	4.8	5.5	1.0	4.5	—
Accounts payable – trade	613.8	613.8	613.3	0.5	—
Liabilities to affiliated companies	14.0	14.0	14.0	—	—
Other financial liabilities	34.7	34.7	23.7	10.0	1.0
Non-derivative financial liabilities	**1,433.1**	**1,552.5**	**691.2**	**838.5**	**22.8**

The financial liabilities as of the reporting date mainly concern K+S AKTIENGESELLSCHAFT. They result from the bond issued in September 2009 with a volume of € 750.0 million, which carries a fixed interest rate of 5.0 % and has a maturity of five years, and the bond issued in June 2012 with a volume of € 500.0 million, which carries a fixed interest rate of 3.0 % and has a maturity of ten years.

/ **MORE INFORMATION ON THE BONDS** can be found in the section 'K+S on the capital market' in the Management Report.

In addition, there is a USD bond taken over in 2009 as part of the acquisition of MORTON SALT with an outstanding sum of US$ 22.6 million and maturing in 2020. Interest and repayment amounts resulting from this are to be paid by ROHM & HAAS and are contractually covered by a bank guarantee. The reimbursement claims for interest and repayment amounts resulting from this contractual construction are shown under the item "Receivables and other assets" in the non-current and current areas.

/ **MORE INFORMATION ON LIQUIDITY RISKS** can be found in the Risk Report on page 130.

Liquidity is managed by means of a groupwide cash pool system by the central treasury department. The liquidity requirement is basically determined by liquidity planning and is covered by cash on hand and balances with banks and committed credit facilities. Apart from a € 800 million syndicated loan running until July 2015, there are also bilateral credit lines not yet drawn.

The following table shows the Group's liquidity analysis for derivative financial instruments. The table is based on undiscounted net cash flows for derivative financial instruments which are offset net, and undiscounted gross cash flows for derivative financial instruments which are offset gross.

LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS 2012 TAB: 5.9.60

in € million	2012 Carrying amount	2012 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Net fulfilment					
Freight derivatives	(2.8)	(2.8)	(2.8)	–	–
Gross fulfilment					
Foreign currency derivatives[1]	19.3	19.3	19.3	–	–
Payment obligation		(673.4)	(673.4)	–	–
Payment claim		692.7	692.7	–	–

[1] On the reporting date, the simple currency options sold have no intrinsic value and cause no cash flow on this basis.

LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS 2011 TAB: 5.9.61

in € million	2011 Carrying amount	2011 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Net fulfilment					
Freight derivatives	(4.5)	(4.5)	(2.4)	(2.1)	–
Gross fulfilment					
Foreign currency derivatives[1]	(16.2)	(17.1)	(17.1)	–	–
Payment obligation		(757.8)	(757.8)	–	–
Payment claim		740.7	740.7	–	–

[1] On the reporting date, the simple currency options sold have no intrinsic value and cause no cash flow on this basis.

(26) FURTHER INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of Group financial instruments:

FURTHER INFORMATION ON FINANCIAL INSTRUMENTS TAB: 5.9.62

	Measurement category under IAS 39	2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
in € million					
Investments in affiliated companies and equity interests	Available for sale	14.9	14.9	14.7	14.7
Loans	Loans and receivables	1.0	1.0	1.2	1.2
Financial assets		**15.9**	**15.9**	**15.9**	**15.9**
Accounts receivable – trade	**Loans and receivables**	**770.3**	**770.3**	**928.8**	**928.8**
Remaining receivables and non-derivative financial assets	Loans and receivables	145.2	145.2	123.9	123.9
Derivatives	Held for trade	28.7	28.7	15.1	15.1
Other assets	not IFRS 7	83.7	83.7	74.3	74.3
Other receivables and assets		**257.6**	**257.6**	**213.3**	**213.3**
Securities and other financial investments	**Loans and receivables**	**715.1**	**716.2**	**373.5**	**372.9**
Securities and other financial investments	**Available for sale**	**219.4**	**219.4**	**—**	**—**
Cash on hand and balances with banks	**Loans and receivables**	**351.8**	**351.8**	**442.8**	**442.8**
Financial liabilities	**Financial liabilities at amortised cost**	**1,265.8**	**1,348.1**	**770.6**	**826.7**
Accounts payable – trade	**Financial liabilities at amortised cost**	**289.2**	**289.2**	**613.8**	**613.8**
Other non-derivative financial liabilities	Financial liabilities at amortised cost	58.5	58.5	48.7	48.7
Derivatives	Held for trade	4.3	4.3	36.1	36.1
Liabilities from finance leases	IFRS 7	4.5	4.5	5.8	5.8
Other liabilities	not IFRS 7	21.1	21.1	25.7	25.7
Remaining and other liabilities		**88.4**	**88.4**	**116.3**	**116.3**

The carrying amounts of the financial instruments, aggregated according to the evaluation categories of IAS 39, are as follows:

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AGGREGATED ACCORDING TO MEASUREMENT CATEGORIES TAB: 5.9.63

in € million	2012	2011
Financial assets available for sale	234.3	14.7
Loans and receivables	1,983.4	1,870.2
Financial assets held for trade	28.7	15.1
Financial liabilities at amortised cost	1,613.5	1,433.1
Financial liabilities held for trade	4.3	36.1

The fair values of the financial instruments were mainly determined on the basis of the market information available on the balance sheet date and are to be allocated to one of the three levels of the fair value hierarchy in accordance with IFRS 7.

Level 1 financial instruments are calculated on the basis of prices quoted on active markets for identical assets and liabilities. In Level 2, financial instruments are calculated on the basis of input factors which are derivable from observable market data or on the basis of market prices for similar instruments. Level 3 financial instruments are calculated on the basis of input factors which are not derivable from observable market data. As of 31 December 2012, financial assets held for trading amounting to € 28.7 million (previous year: € 15.1 million) and financial liabilities held for trading amounting to € 4.3 million (previous year: € 36.1 million) are to be allocated to Level 2 of the fair value hierarchy. There are no financial instruments at Levels 1 and 3 of the fair value hierarchy.

In the case of equity instruments measured at acquisition cost, it is not possible to determine fair values reliably due to the absence of active markets. This applies to shares in (non-consolidated) subsidiaries, joint ventures, associated companies and to equity interests. It is assumed that the carrying amounts correspond to the fair values as at the balance sheet date.

In the case of trade accounts receivable, other receivables and non-derivative assets as well as liquid assets, the carrying amounts correspond to the fair values for these instruments because their maturities are largely short term.

In the case of financial liabilities, trade accounts payable as well as other non-derivative and other liabilities it is assumed that the carrying amounts correspond to the fair values for these instruments because their maturities are largely short term. For non-current financial liabilities, the fair value has been determined as the present value of the future cash flows or from market prices. Market interest rates, based on the corresponding maturity, are used for discounting purposes.

For loans and liabilities from finance leases, it is assumed that the carrying amounts correspond to the fair values because of insignificant deviations in market and computational interest rates.

The net results from financial instruments are shown in the following table:

NET RESULT FROM FINANCIAL INSTRUMENTS TAB: 5.9.64

in € million	2012	2011
Financial assets available for sale	5.3	9.7
Loans and receivables	3.5	(1.9)
Financial assets and liabilities held for trade	12.6	(5.5)
Financial liabilities at amortised cost	(7.8)	(6.5)

The net result from financial assets available for sale mainly comprises gains or losses on equity investments.

The net result from loans and receivables mainly includes the effects of currency translation and changes in allowances.

The net result from financial assets and liabilities held for trading predominantly comprises changes in the market value of derivative financial instruments as well as interest income from and interest expenses for these financial instruments.

The net result from liabilities measured at amortised cost mainly comprises the effects of foreign currency translation.

For securities and other financial investments allocated to the available-for-sale financial instruments category, an amount of € 3.0 million (previous year: € 0.0 million) was recorded under other comprehensive income without recognition in profit or loss as of 31 December 2012.

Total interest income and expenses for financial assets and liabilities that are measured at fair value without recognition in profit or loss were as follows:

NET INTEREST INCOME FROM FINANCIAL INSTRUMENTS TAB: 5.9.65

in € million	2012	2011
Interest income	20.2	12.4
Interest expenses	(51.7)	(45.0)

Interest risks arise from a change of market interest rates, which may have an impact on interest to be received or paid and the market value of the financial instrument. This can cause corresponding effects on earnings or equity. In accordance with IFRS 7, risks of change in interest rates must be described in a sensitivity analysis. It is based on the following assumptions:

The effect on earnings or equity established by means of the sensitivity analysis refers to the total on the balance sheet date and shows the hypothetical effect for one year.

Changes in market interest rates of primary financial instruments with variable interest rates have an impact on net interest income and are taken into account in the earnings-orientated sensitivity analysis.

Changes in market interest rates of primary financial instruments with fixed interest rates, stated at amortised cost, do not have an impact on earnings or equity and are therefore not taken into account in the sensitivity analysis. In the event of reinvestment, they are subject to interest risk, which, however, is not to be taken into account in the sensitivity analysis as of the balance sheet date.

Furthermore, on the balance sheet date, there were no interest rate derivatives which possibly might have to be included in a sensitivity analysis.

Consequently, the increase of the interest rate level by one percentage point on the balance sheet date would lead to an improvement in net interest income of € 4.4 million (previous year: € 2.4 million). A decrease in the interest rate level by one percentage point on the balance sheet date would lead to the deterioration of net interest income by € 3.4 million (previous year: € 2.4 million).

For cash investment purposes, there are securities and other financial investments with a fair value of € 219.4 million as of 31 December 2012 and which are classified as available for sale. An increase (decrease) in the interest rate level by one percentage point on the balance sheet date would lead to a decrease (increase) in market value of € 1.7 million.

In addition to receivables and liabilities in the Group currency, the euro, there are also items in foreign currencies. Had the euro appreciated or depreciated against foreign currencies (mainly the US dollar) by 10 %, the change in the fair value recognised in profit or loss of the net balance of foreign currency receivables and liabilities would have amounted to ± € 29.7 million (previous year: ± € 28.6 million).

There are also investments for which the contracting parties – usually banks – provide collateral. These are so-called triparty repo transactions which are secured investments in nature and are cleared in a clearing house. This clearing house is responsible for the deposit / delivery of the collaterals to / from the K+S depot there and the daily market evaluation of the particular agreed collateral. The collaterals which cannot be used otherwise are agreed with the contracting party through a so-called basket, which is defined mainly according to investment classes, ratings, countries and currencies. The aforementioned criteria determine up to what mortgage lending value the respective collateral is taken into account. In other words, when the rating decreases or the transferability of the respective collateral is reduced, the mortgage lending value is also reduced and additional collateral must be provided. The given framework of the potential collateral depends on our internal monitoring, which essentially takes the rating and the amount of the particular credit default swaps into account.

Additionally, there are also fixed-term deposits on repurchase agreements, for which we hold CO_2 certificates (EUA certificates) as collateral. These CO_2 certificates are principally transferable without any restrictions. As of 31 December 2012, the fair value of these certificates amounted to € 55.7 million.

(27) CONTINGENT LIABILITIES

In the K+S GROUP, general business is bound up with various risks for which provisions have been recognised, provided that the conditions are fulfilled. Furthermore, there are no further risks which would lead to the disclosure of contingent liabilities.

(28) OTHER FINANCIAL OBLIGATIONS

OTHER FINANCIAL OBLIGATIONS TAB: 5.9.66

in € million	2012	2011
Commitments from uncompleted capital expenditure projects	223.1	94.7
Obligations from operating leases (nominal value)		
– due in following year	20.9	23.8
– due in 2nd to 5th year	42.0	53.7
– due after 5 years	13.2	25.2
Other financial obligations	**299.2**	**197.4**

Operating lease contracts exist which relate, for example, to factory and office equipment and vehicles. Given the relevant contractual arrangements, these assets are not to be carried under fixed assets. Expenditure arising from operating leasing in 2012 came to € 38.4 million (previous year: € 44.6 million). Liabilities and other financial liabilities from finance leases existing as of 31 December 2012 are considered immaterial from a Group perspective.

NOTES TO THE SEGMENT REPORTING

The segment reporting is presented on page 166.

(29) DEFINITION OF SEGMENTS

Segments are defined according to products. This corresponds to the internal organisation and reporting structure of the K+S GROUP.

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

The nitrogen fertilizer segment comprised the activities of K+S NITROGEN. On 8 May 2012, the sale of the NITROGEN business to EUROCHEM was announced and it was completed successfully on 2 July 2012. Detailed information on the divestment can be found on page 168. In accordance with IFRS, the NITROGEN activities have been stated as a “discontinued operation” since then. The segment reporting figures for the previous year have been adjusted accordingly.

The Salt segment encompasses the production and marketing of food grade salt, industrial salt and salt for chemical use, de-icing salt and sodium chloride brine.

The Complementary Activities segment bundles together not only recycling activities and waste disposal or reutilisation in potash and rock salt mines as well as CATSAN® granulation, but also other activities important for the K+S GROUP. With K+S TRANSPORT GMBH and its subsidiaries, the K+S GROUP possesses its own logistics service provider. CHEMISCHE FABRIK KALK GMBH trades in different basic chemicals.

The accounting and valuation procedures applied in determining segment information are essentially in compliance with the accounting and valuation principles of the K+S GROUP.

(30) PRINCIPLES OF SEGMENT ASSET AND DEBT ALLOCATION

Assets, provisions and liabilities are allocated to the segments in accordance with their utilisation or origin. If they are utilised by or originate in more than one segment, they are allocated on the basis of appropriate keys.

Financial assets (except for equity interests) and non-current financial liabilities are not allocated to the segments.

(31) PRINCIPLES OF SEGMENT EARNINGS ALLOCATION

The data for the determination of segment earnings is produced by internal accounting on the basis of income statements in accordance with the nature of costs method (internal reporting structure of the K+S GROUP). The income statements of the companies included are allocated to the segments under profit centre accounting.

Operating earnings (EBIT I) is treated by the K+S GROUP as the most important internal earnings figure and as an indicator of earnings capacity. In addition to disregarding net interest income and the tax expense, other income and expenses affecting the financial result are not taken into account. Additionally, the effects of market value fluctuations of operating forecast hedges are eliminated (see ‘Notes to the income statement and the statement of comprehensive income’ on page 182).

The earnings of the business units are presented on a consolidated basis. Intra-segment deliveries and services are consolidated.

(32) PRINCIPLES FOR TRANSFER PRICES BETWEEN SEGMENTS

Transfer prices are defined for deliveries and services between segments, which would have to be paid in the respective specific situation and under the same circumstances by a non-related third party. The methods of determining the transfer prices are documented on a timely basis and retained without interruption. The price comparison method, the resale price method, the cost plus method or a combination of these methods can be applied in determining the transfer prices for deliveries. Thereby, the method is chosen that is closest to that under which arm’s length prices are determined in comparable markets.

(33) ADDITIONAL SEGMENT INFORMATION

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

Provisions amounting to € 26.7 million (previous year: € 24.1 million) were released for obligations from 2011 not claimed.

SALT BUSINESS UNIT

During the period under review, provisions amounting to € 5.2 million (previous year: € 11.7 million) were released for obligations not claimed. During the year under review, the disposal of fixed assets resulted in a loss of € 11.5 million (previous year: € 2.5 million).

COMPLEMENTARY ACTIVITIES

In the year under review, non-scheduled depreciation on investments in ships was expensed in the amount of € 0.4 million (previous year: € 4.7 million) and disclosed in net income from investments.

(34) NOTES TO THE RECONCILIATION ITEMS

The reconciliation from the segment figures to the corresponding items in the consolidated financial statements of the K+S GROUP comprises items allocated to central functions as well as consolidation-related effects. The main items are:

RECONCILIATION SEGMENT FIGURES TAB: 5.9.67

in € million	2012	2011
Reconciliation of segment results		
Consolidation-related effects	0.1	0.2
Result for the central functions	(49.0)	(62.8)
	(48.9)	**(62.6)**
Reconciliation of segment assets		
Fixed assets	62.6	55.7
Deferred tax assets	48.3	55.3
Market values of derivatives	7.8	(23.9)
Tax refund claims from income taxes	36.9	41.6
Other receivables	125.7	81.9
Cash and cash equivalents	1,101.5	675.6
Consolidation-related effects	(797.3)	(1,138.4)
	585.5	**(252.2)**
Reconciliation of segment liabilities		
Provisions for pensions and similar obligations	0.1	0.1
Other provisions	58.8	60.7
Deferred tax liabilities	304.7	342.3
Market values of derivatives	0.8	8.8
Financial liabilities	1,265.8	770.6
Other liabilities	27.6	22.6
Income tax liabilities	50.1	23.2
Consolidation-related effects	(7.1)	(54.2)
	1,700.8	**1,174.1**

(35) REVENUES BY REGION

The breakdown of revenues of the K+S GROUP by geographical region is as follows:

REVENUES BY REGION TAB: 5.9.68

in € million	2012	2011
Europe	1,647.9	1,747.8
– of which Germany	580.6	633.1
North America	1,017.9	1,156.6
– of which USA	758.9	910.5
South America	678.1	548.7
– of which Brazil	562.4	414.8
Asia	474.4	424.1
Africa, Oceania	117.0	119.6
Total revenues	**3,935.3**	**3,996.8**

The allocation is performed according to the registered seats of the customers. In financial years 2011 and 2012, no single customer accounted for more than 10 % of total revenues.

(36) NON-CURRENT ASSETS BY REGION

The non-current assets of the K+S GROUP comprise intangible assets, property, plant and equipment as well as investment properties and break down into geographical regions as follows:

ASSETS BY REGION TAB: 5.9.69

in € million	2012	2011
Europe	1,193.2	988.4
– of which Germany	1,140.9	941.1
North America	1,863.9	1,772.0
– of which USA	1,067.9	1,089.0
– of which Canada	776.8	661.5
South America	478.7	487.3
– of which Chile	472.1	480.1
Total assets	**3,535.8**	**3,247.7**

The allocation is performed according to the location of the assets concerned.

(37) CAPITAL EXPENDITURE BY REGION

The breakdown of the K+S GROUP's capital expenditure on intangible assets and property, plant and equipment by geographical region is as follows:

CAPITAL EXPENDITURE BY REGION TAB: 5.9.70

in € million	2012	2011
Europe	246.2	177.0
– of which Germany	240.0	172.0
North America	187.3	81.8
– of which USA	49.0	36.2
– of which Canada	137.3	44.0
South America	32.0	34.3
– of which Chile	31.3	31.0
Total capital expenditure	**465.5**	**293.1**

The allocation is performed according to the location of the assets concerned.

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement is presented on page 157.

/ **FURTHER INFORMATION ON THE CASH FLOW STATEMENT** can be found in the Management Report on page 104.

(38) PROCEEDS FROM THE SALE OF CONSOLIDATED COMPANIES

PROCEEDS FROM THE SALE OF CONSOLIDATED COMPANIES TAB: 5.9.71

in € million	2012	2011
Sale price	195.7	50.6
of which to non-consolidated companies of the K+S Group	(0.7)	(2.0)
Disposed cash on hand and balances with banks	(11.0)	(4.3)
Repayment of cash pool credit balance	(109.0)	46.3
Proceeds from the sale of consolidated companies	**75.0**	**90.6**

The cash flow generated from investing activities from discontinued operations amounting to € 84.3 million and stated in the cash flow statement for the previous year is the sum total of the proceeds from the divestment of the COMPO Group of € 90.6 million and the capital expenditure of the COMPO and NITROGEN businesses in financial year 2011 in the amount of € (6.3) million.

(39) DISBURSEMENTS FOR THE ACQUISITION OF CONSOLIDATED COMPANIES

DISBURSEMENTS FOR THE ACQUISITION OF CONSOLIDATED COMPANIES TAB: 5.9.72

in € million	2012	2011
Acquisition price	4.4	263.2
Acquired cash on hand and balances with banks	(0.2)	(20.4)
Disbursements for the acquisition of consolidated companies	**4.2**	**242.8**

(40) NET CASH AND CASH EQUIVALENTS

NET CASH AND CASH EQUIVALENTS TAB: 5.9.73

in € million	2012	2011
Cash on hand and balances with banks (according to balance sheet)	351.8	442.8
Cash invested with affiliated companies	0.3	1.0
Cash received from affiliated companies	(7.1)	(6.5)
Net cash and cash equivalents	**345.0**	**437.3**

Cash and cash equivalents include checks, cash on hand and balances with banks, as well as financial investments with a term normally not exceeding three months from the time of acquisition. The financial investments mainly include fixed-term deposits at credit institutions and other cash-equivalent investments.

Cash invested with affiliated companies are stated in the item "Other receivables and assets", and cash received from affiliated companies in the item "Other liabilities".

OTHER INFORMATION

AUDITOR'S FEES

AUDITOR'S FEES TAB: 5.9.74

in € million	2012	2011
Audit fees	0.7	0.9
Other performances	0.2	0.1
Auditor's fees	**0.7**	**1.0**

Auditing performances encompass the auditing of the consolidated financial statements and the annual financial statements of the included German companies.

GOVERNMENT ASSISTANCE

GOVERNMENT ASSISTANCE TAB: 5.9.75

in € million	2012	2011
Investment grants / premiums	0.3	–
Performance-related assistance	4.7	2.8
Government assistance	**5.0**	**2.8**

The investment grants / premiums recorded relate to sums for the Development Area of the Federal Republic of Germany, the United States and Canada. Investment grants and premiums are deducted from the carrying amounts of the assets to which they relate.

Performance-related assistance concerns support that is provided by the Federal Labour Office (Bundesagentur für Arbeit) in accordance with the German Law on Semi-retirement (Altersteilzeitgesetz).

RELATED PARTIES

In addition to the subsidiaries included in the consolidated financial statements, the K+S GROUP has relationships to further related party companies; these include non-consolidated subsidiaries, joint ventures as well as companies on which the K+S GROUP can exercise decisive influence (associated companies). A complete overview of all related companies can be taken from the list of all shareholdings on page 212.

The following table shows the transactions of the K+S GROUP with non-consolidated subsidiaries that occurred in the period under review. The business was transacted on customary market terms.

TRANSACTION WITH NON-CONSOLIDATED SUBSIDIARIES TAB: 5.9.76

in € million	2012	2011
Trade revenues	36.5	70.0
Deliveries and services received	25.4	31.6
Income from dividend payments and profit transfers	5.7	9.2
Other income	0.6	1.0
Other expenses	1.5	2.5

The trade revenues mainly result from the sale of goods by consolidated companies to foreign distribution companies. Deliveries and services received mainly concern deliveries of explosives from a German subsidiary as well as commissions, which were billed by foreign distribution companies.

On 31 December 2012, the following outstanding balances with non-consolidated subsidiaries were disclosed:

BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES TAB: 5.9.77

in € million	2012	2011
Receivables from affiliated companies	11.9	14.5
– of which from bank transactions	0.3	1.0
Liabilities to affiliated companies	12.6	14.0
– of which from bank transactions	7.1	6.5

On the balance sheet date, there were no allowances on receivables from affiliated companies as was the case in the previous year. Failure insurances for receivables from subsidiaries do not exist. The receivables and liabilities from bank transactions result from the centralised taking-out and investment of cash at K+S AKTIENGESELLSCHAFT (cash pooling). On the balance sheet date, there were no loans to non-consolidated subsidiaries.

Transactions of the K+S GROUP with joint ventures and associated companies are immaterial from a Group perspective.

Related party persons are defined as persons, who are responsible for the planning, management and monitoring of a company. They include the Board of Executive Directors and the Supervisory Board. The remuneration of related party persons is presented in the following section as well as in the Remuneration Report. Further material transactions with related party persons did not occur.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS

TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS TAB: 5.9.78

in € million	2012	2011
Total remuneration of the Supervisory Board	**2.0**	**1.5**
– of which fixed	2.0	1.1
– of which performance-related	—	0.4
Total remuneration of the Board of Executive Directors	**9.3**	**11.8**
– of which fixed	2.2	2.4
– of which performance-related	3.9	4.3
– of which LTI programme	3.2	5.1
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	**1.1**	**1.1**
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	**14.8**	**12.4**

The total remuneration of the Board of Executive Directors in the year under review related to six board members, three of whom were in office for twelve months. The remaining members of the Board of Executive Directors were in office for nine, seven and three months. In the previous year, the Board of Executive Directors consisted of five board members, all of whom were in office for twelve months.

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

+ regular monthly payments (fixed salary) to which in-kind benefits are added;
+ performance-related non-recurrent remuneration, with bonuses based on the return on total investment and on an individual performance-related component and paid in the following financial year
+ the long-term incentive (LTI) programme

The emoluments received by the individual members of the Board of Executive Directors for financial year 2012 are set forth in the Remuneration Report included in the Corporate Governance Report on page 47; the Remuneration Report also constitutes an integral part of the Management Report.

SHAREHOLDINGS IN K+S AKTIENGESELLSCHAFT

MERITUS TRUST COMPANY LIMITED, Bermuda, owns just under 10 % of the shares via EUROCHEM GROUP SE and its attributable subsidiaries. MERITUS manages the industrial shareholdings of Andrey Melnichenko on a fiduciary basis. On 11 May 2012, BLACKROCK INC., New York (USA), notified us that its share of voting rights had exceeded the 5 % threshold and that it held 5.08 % of the Company. The shareholding of PRUDENTIAL PLC. is 3 % and is held through M&G INVESTMENT MANAGEMENT LIMITED, London (UK). PRUDENTIAL PLC. made the announcement on 8 February 2012.

DECLARATION OF CONFORMITY CONCERNING THE GERMAN CORPORATE GOVERNANCE CODE

The declaration of conformity pursuant to Sec. 161 of the German Stock Corporation Act concerning the recommendations made by the “Government Commission on the German Corporate Governance Code” has been made by the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT for 2012/2013 and is available to shareholders on the K+S GROUP website (www.k-plus-s.com) as well as published on page 33 of the 2012 Financial Report.

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB)

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB) TAB: 5.9.79

in %; per 31.12.2012	Company’s registered office		Interests in capital	Share of voting rights
Fully consolidated German subsidiaries (15 companies)				
K+S Aktiengesellschaft	Kassel	Germany	–	–
Chemische Fabrik Kalk GmbH	Cologne	Germany	100.00	100.00
Deutscher Straßen-Dienst GmbH	Hanover	Germany	100.00	100.00
esco – european salt company GmbH & Co. KG [1]	Hanover	Germany	100.00	100.00
esco international GmbH	Hanover	Germany	100.00	100.00
German Bulk Chartering GmbH [2]	Hamburg	Germany	100.00	100.00
K+S Baustoffrecycling GmbH [2]	Sehnde	Germany	100.00	100.00
K+S Beteiligungs GmbH [2]	Kassel	Germany	100.00	100.00
K+S Entsorgung GmbH [2]	Kassel	Germany	100.00	100.00
K+S IT-Services GmbH [2]	Kassel	Germany	100.00	100.00
K+S KALI GmbH [2]	Kassel	Germany	100.00	100.00
K+S Salz GmbH [2]	Hanover	Germany	100.00	100.00
K+S Transport GmbH [2]	Hamburg	Germany	100.00	100.00
Kali-Union Verwaltungsgesellschaft mbH [2]	Kassel	Germany	100.00	100.00
UBT See- und Hafen-Spedition GmbH Rostock [2]	Rostock	Germany	100.00	100.00
Fully consolidated foreign subsidiaries (48 companies)				
Canadian Brine Ltd.	Pointe Claire, Québec	Canada	100.00	100.00
Canadian Salt Finance Company	Halifax, Nova Scotia	Canada	100.00	100.00
Canadian Salt Holding Company	Halifax, Nova Scotia	Canada	100.00	100.00
Compania Minera Punta de Lobos Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa de Servicios Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa Maritima S.A.	Santiago de Chile	Chile	48.67	99.59
esco benelux N.V.	Diegem	Belgium	100.00	100.00

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB) — CONTINUED TAB: 5.9.79

in %; per 31.12.2012	Company's registered office		Interests in capital	Share of voting rights
esco france S.A.S.	Levallois-Perret	France	100.00	100.00
esco Holding France S.A.S.	Dombasle sur Meurthe	France	100.00	100.00
esco Spain S.L.	Barcelona	Spain	100.00	100.00
Frisia Zout B.V.	Harlingen	Netherlands	100.00	100.00
Glendale Salt Development, LLC	Chicago	USA	100.00	100.00
Inagua General Store Ltd.	Matthew Town	Bahamas	100.00	100.00
Inagua Transports Inc.	Monrovia	Liberia	100.00	100.00
International Salt Company, LLC	Clarks Summit	USA	100.00	100.00
Inversiones Columbus Ltda.	Santiago de Chile	Chile	2.00	100.00
Inversiones Empremar Ltda.	Santiago de Chile	Chile	48.87	100.00
Inversiones K+S Sal de Chile Ltda.	Santiago de Chile	Chile	100.00	100.00
K+S Canada Holdings Inc.	Vancouver	Canada	100.00	100.00
K+S Finance Belgium BVBA	Diegem	Belgium	100.00	100.00
K+S Finance Ltd.	St. Julians	Malta	100.00	100.00
K+S Holding France S.A.S.	Reims	France	100.00	100.00
K+S Investments Ltd.	St. Julians	Malta	100.00	100.00
K+S KALI Atlantique S.A.S.	Pré en Pail	France	100.00	100.00
K+S KALI du Roure S.A.S.	Le Teil	France	100.00	100.00
K+S KALI France S.A.S.	Reims	France	100.00	100.00
K+S KALI Rodez S.A.S.	Sainte Radegonde	France	97.45	97.45
K+S KALI Wittenheim S.A.S.	Wittenheim	France	100.00	100.00
K+S Mining Argentina S.A.	Buenos Aires	Argentina	100.00	100.00
K+S Montana Holdings, LLC	Chicago	USA	100.00	100.00
K+S Netherlands Holding B.V.	Harlingen	Netherlands	100.00	100.00
K+S North America Corporation	New York	USA	100.00	100.00

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB) — CONTINUED TAB: 5.9.79

in %; per 31.12.2012	Company's registered office		Interests in capital	Share of voting rights
K+S North America Salt Holdings LLC	Chicago	USA	100.00	100.00
K+S Potash Canada General Partnership	Vancouver	Canada	100.00	100.00
Montana US Parent Inc.	Chicago	USA	100.00	100.00
Morton Bahamas Ltd.	Nassau	Bahamas	100.00	100.00
Morton Salt, Inc.	Chicago	USA	100.00	100.00
SPL-USA, LLC	Clarks Summit	USA	100.00	100.00
Salina Diamante Branco Ltda.	Rio de Janeiro	Brazil	100.00	100.00
Saline Cérébos S.A.S.	Levallois-Perret	France	100.00	100.00
Servicios Maritimos Patillos S.A.[3]	Santiago de Chile	Chile	49.82	50.00
Servicios Portuarios Patillos S.A.	Santiago de Chile	Chile	99.53	99.89
Sociedad Punta de Lobos S.A.	Santiago de Chile	Chile	99.64	99.64
Solné Mlýny a.s.	Olomouc	Czech Republic	100.00	100.00
The Canadian Salt Company Limited	Pointe Claire, Québec	Canada	100.00	100.00
Transporte por Containers S.A.	Santiago de Chile	Chile	48.04	98.71
VATEL Companhia de Produtos Alimentares S.A.	Alverca	Portugal	100.00	100.00
Weeks Island Landowner, LLC	Chicago	USA	100.00	100.00
Non-consolidated German subsidiaries (13 companies)[4]				
1. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
1. K+S Verwaltungs GmbH & Co. Erwerbs KG	Kassel	Germany	100.00	100.00
3. K+S Verwaltungs GmbH & Co. Erwerbs KG	Kassel	Germany	100.00	100.00
4. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
Beienrode Bergwerks-GmbH	Kassel	Germany	89.80	89.80
esco Verwaltungs GmbH	Hanover	Germany	100.00	100.00
Ickenroth GmbH	Staudt	Germany	100.00	100.00

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB) — CONTINUED

TAB: 5.9.79

in %; per 31.12.2012	Company's registered office		Interests in capital	Share of voting rights
K+S AN-Instituts Verwaltungsgesellschaft mbH	Kassel	Germany	100.00	100.00
K+S Consulting GmbH	Kassel	Germany	100.00	100.00
K+S Versicherungsvermittlungs GmbH	Kassel	Germany	100.00	100.00
MSW-Chemie GmbH	Langelsheim	Germany	68.50	68.50
Verlagsgesellschaft für Ackerbau mbH	Kassel	Germany	100.00	100.00
Wohnbau Salzdetfurth GmbH	Bad Salzdetfurth	Germany	100.00	100.00
Non-consolidated foreign subsidiaries (22 companies)[4]				
esco Nordic AB	Gothenburg	Sweden	100.00	100.00
Imperial Thermal Products Inc.	Chicago	USA	100.00	100.00
ISX Oil & Gas Inc.	Calgary	Canada	100.00	100.00
K+S Asia Pacific Pte. Ltd.	Singapore	Singapore	100.00	100.00
K+S Benelux B.V.	Breda	Netherlands	100.00	100.00
K+S Brasileira Fertilizantes e Produtos Industriais Ltda.	São Paulo	Brazil	100.00	100.00
K+S CZ a.s.	Praha	Czech Republic	100.00	100.00
K+S Denmark Holding ApS	Hellerup	Denmark	100.00	100.00
K+S Entsorgung (Schweiz) AG	Delémont	Switzerland	100.00	100.00
K+S Fertilizers (India) Private Limited	New Delhi	India	100.00	100.00
K+S Italia S.r.L.	Verona	Italy	100.00	100.00
K+S Legacy GP Inc.	Vancouver	Canada	100.00	100.00
K+S Nitrogen France S.A.S.	Levallois-Perret	France	100.00	100.00
K+S Polska Sp. z o.o.	Poznan	Poland	100.00	100.00
K+S UK & Eire Ltd.	Hertford	Great Britain	100.00	100.00
Kali (U.K.) Ltd.	Hertford	Great Britain	100.00	100.00
Kali AG	Frauenkappeln	Switzerland	100.00	100.00
Kali-Importen A/S	Copenhagen	Denmark	100.00	100.00
OOO K+S Rus	Moscow	Russian Federation	100.00	100.00
Potash S.A. (Pty) Ltd.	Johannesburg	South Africa	100.00	100.00
Shenzhen K+S Trading Co. Ltd.	Shenzhen	China	100.00	100.00
SPL Perù S.A.C.	Lima	Peru	100.00	100.00

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB) — CONTINUED

TAB: 5.9.79

in %; per 31.12.2012	Company's registered office		Interests in capital	Share of voting rights
Associated companies and joint ventures (6 companies)[5]				
Börde Container Feeder GmbH	Haldensleben	Germany	33.30	33.30
Morton China National Salt (Shanghai) Salt Co. Ltd.	Shanghai	China	45.00	45.00
MS "Butes" Schiffahrts GmbH & Co. KG	Haren	Germany	47.86	47.86
MS "Echion" Schiffahrts GmbH & Co. KG	Haren	Germany	47.86	47.86
MS "Melas" Schiffahrts GmbH & Co. KG	Haren	Germany	38.89	38.89
MS "Peleus" Schiffahrts GmbH & Co. KG	Haren	Germany	30.15	30.15
Société des Engrais de Berry au Bac S.A.	Reims	France	34.00	34.00
Werra Kombi Terminal Betriebsgesellschaft mbH	Philippsthal	Germany	50.00	50.00
Other interests (15 companies)[6]				
Fachschule f. Wirtschaft und Technik Gem. GmbH	Clausthal	Germany	9.40	9.40
Hubwoo.com S.A.	Paris	France	0.04	0.04
Lehrter Wohnungsbau GmbH	Lehrte	Germany	6.70	6.70
MS "Argos" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Herakles" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Kastor" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Pollux" Schiffahrts GmbH & Co. KG	Haren	Germany	11.98	11.98
MS "Jason" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Nestor" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Paganini" Schiffahrts GmbH & Co. KG	Haren	Germany	12.10	12.10
MS "Telamon" Schiffahrts GmbH & Co. KG	Haren	Germany	10.12	10.12
MS "Theseus" Schiffahrts GmbH & Co. KG	Haren	Germany	10.12	10.12
Nieders. Gesellschaft zur Endablagerung von Sonderabfall mbH	Hanover	Germany	0.10	0.10
Poldergemeinschaft Hohe Schaar	Hamburg	Germany	8.66	8.66
Zoll Pool Hamburg AG	Hamburg	Germany	1.96	1.96

[1] Exemption rule according to Sec. 264b of the German Commercial Code (HGB) employed.
[2] Exemption rule according to Sec. 264 Para. 3 of the German Commercial Code (HGB) employed.
[3] Fully consolidated due to dominant influence (e.g. majority of the members of the management body).
[4] No consolidation due to minor importance.
[5] Equity method dispensed due to minor importance.
[6] Stating of amount of equity and earnings of the last financial year dispensed due to minor importance.

/ **FURTHER INFORMATION ON SHAREHOLDINGS** can be found in the Notes to the Annual Financial Statements of K+S Aktiengesellschaft.

MEMBERS OF THE SUPERVISORY BOARD

A list of members of the Supervisory Board and its committees can be found in the Corporate Governance section on page 40; this list is also an integral part of the Notes to the Consolidated Financial Statements.

MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

A list of members of the Board of Executive Directors and their responsibilities can be found in the Corporate Governance section on page 39; this list is also an integral part of the Notes to the Consolidated Financial Statements.

Kassel, 27 February 2013

K+S AKTIENGESELLSCHAFT
THE BOARD OF EXECUTIVE DIRECTORS

FURTHER INFORMATION

INFORMATION ABOUT RAW MATERIAL DEPOSITS

This section contains an overview of the raw material deposits, reserves and resources of the K+S GROUP, divided into the Potash and Magnesium Products business unit and the Salt business unit. The deposits used are owned by us or we possess corresponding exploration and extraction rights or permissions, which legally secure the mining or solution mining of the specified reserves of raw materials.

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

RESERVES

The specified extractable reserves were last determined on 31 December 2012 and are comparable with the international terms "proven" and "probable reserves". The following table shows the reserves of potassium chloride (KCl) and magnesium sulphate/kieserite ($MgSO_4 \times H_2O$), the volume extracted in 2012 and the theoretical lifetime of the individual mines in Germany. Rounded figures are reported. On the basis of this data, a theoretical lifetime of the mines of about 36 years on average is calculated for the Potash and Magnesium Products business unit. Volumes actually mined in future that differ from these volumes would result in a change of the theoretical lifetime.

RESERVES POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT TAB: 6.0.1

	Reserves				Extraction 2012		
	Crude salt in t eff. million	t million K_2O[1]	t million KCl[1]	t million Kieserite[2]	t eff. million	t million K_2O[1]	Theoretical lifetime in years[3]; Basis K_2O 2012
Rock salt mine							
Neuhof-Ellers	81.6	8.5	13.5	19.3	3.69	0.38	22
Sigmundshall	26.3	2.9	4.6	4.0	2.38	0.27	7[4]
Verbundwerk Hattorf-Wintershall	572.6	48.6	76.6	78.3	14.9[5]	1.12[5]	43
Unterbreizbach	82.2	17.6	27.9	7.1	4.3[6]	0.68[6]	26
Zielitz	441.6	54.8	86.8	—	11.30	1.32	41

[1] Potassium oxide (K_2O) is a customary, chemical unit of conversion for potassium compounds, 100 % potassium chloride (KCl) corresponds to 63.17 % K_2O.
[2] Kieserit ($MgSO4 \times H_2O$) is a usable magnesium mineral in potash deposits. Other minerals containing magnesium sulphate are only utilised secondarily for process-related factors.
[3] The calculation assumes the granting of approvals, the economic exploitability of reserves and an annual extraction remaining constant over the lifetime.
[4] The theoretical lifetime of the Sigmundshall mine is determined by the volume of reserves of sylvinite and the current method of residue disposal.
[5] Without supplies from Unterbreizbach to Wintershall.
[6] Including supplies from Unterbreizbach to Wintershall.

RESOURCES

Additional resources exist for the Potash and Magnesium Products business unit. These include possible reserves (category C2) and reserves for which it has not yet been proven that they can be exploited economically (off-balance sheet reserves). Both are roughly comparable with what is termed "mineral resources" in the international standard. These are not yet used potash seams or fields to which rights are held in which resources can be shown to exist on the basis of geophysical investigations and surface drilling as well as by means of geological analogical inference. These potential extraction fields are predominantly adjacent to existing ones and belong to the K+S GROUP or the K+S GROUP has a pre-emptive right.

In Germany, the Potash and Magnesium Products business unit has around 1,350 million tonnes of crude salt as exploitable resources. This figure too already takes into consideration losses in extraction and impoverishment. This could result in a prolongation of the lifetime of individual plants.

K+S POTASH CANADA

K+S holds several potash exploration licences in the Canadian province of Saskatchewan and, with its Legacy Project in the mining lease area KLSA 009, has an advanced greenfield project in which potassium chloride can be extracted by means of solution mining on the basis of an existing feasibility study. The reserves and resources are specified in million tonnes of potassium chloride as a saleable end product, and the corresponding deductions for losses during mining and processing have already been taken into consideration. On the basis of the available reserves and at an annual production capacity of 2.86 million tonnes, a theoretical lifetime of about 56 years can be assumed.

RESERVES AND RESOURCES K+S POTASH CANADA[1] TAB: 6.0.2

		t million KCl	% KCl	% K_2O
Mineral Reserves (Proven and Probable Reserves)	Legacy Project area and KLSA 009	160.3	29.1	18.4
Resources				
Indicated Resources	Legacy Project area and KLSA 009	88.1	27.3	17.3
Inferred Resources	Legacy Project area and KLSA 009	893.7	26.9	17.0

[1] The reserves figures were determined in accordance with the requirements of the Canadian standard NI 43-101 of the "Canadian Securities Regulators".

Apart from the mine lease area KLSA 009, K+S POTASH CANADA holds six more potash exploration permits in Southern Saskatchewan. Due to the limitation of geological data available on these deposits they cannot yet be classified as resources or reserves. However, as they are located close to known and economically valuated potash deposits, they should offer significant potentials for the future.

SALT BUSINESS UNIT

RESERVES

The specified extractable reserves were last determined on 31 December 2012 and are comparable with the international terms "proven" and "probable reserves". The following table shows the salt reserves, the average extraction of the mines, open-cast mining operations and brine fields in the period from 2003 to 2012 as well as the theoretical lifetime of the individual sites. Rounded figures are reported. On the basis of this data, a theoretical lifetime of the sites of about 50 years on average is calculated (without extraction of solar evaporation salt). Volumes actually mined in future that differ from these volumes would result in a change of the theoretical lifetime.

RESERVES SALT BUSINESS UNIT TAB: 6.0.3

Site	Company	Production method	Reserves in t million	Ø-Extraction 2003–2012 in t million	Theoretical lifetime in years[1]
Bernburg, Germany	esco	Rock salt mine	34.2	1.86	19
Borth, Germany	esco	Rock salt mine	38.9	1.54	25
Braunschweig-Lüneburg, Germany	esco	Rock salt mine	20.8	0.67	31
Bernburg-Gnetsch, Germany	esco	Solution mine	21.0	0.24	83
Harlingen, The Netherlands	esco	Solution mine	6.2	1.00	6
Fairport, USA	Morton Salt	Rock salt mine	55.4	1.12	49
Grand Saline, USA	Morton Salt	Rock salt mine	59.7	0.30	198
Mines Seleine, Canada	Morton Salt	Rock salt mine	37.1	1.53	24
Ojibway, Canada	Morton Salt	Rock salt mine	83.1	2.63	32
Pugwash, Canada	Morton Salt	Rock salt mine	31.4	1.12	28
Weeks Island, USA	Morton Salt	Rock salt mine	66.8	1.41	47
Glendale, USA	Morton Salt	Solution mine	9.2	0.12	77
Grand Saline, USA	Morton Salt	Solution mine	4.3	0.06	74
Hutchinson, USA	Morton Salt	Solution mine	18.4	0.32	57
Lindbergh, Canada	Morton Salt	Solution mine	17.2	0.13	132
Manistee, USA	Morton Salt	Solution mine	22.7	0.28	81
Rittman, USA	Morton Salt	Solution mine	8.2	0.50	16
Silver Springs, USA	Morton Salt	Solution mine	16.6	0.34	48
Windsor, Canada	Morton Salt	Solution mine	4.8	0.23	21
Grantsville, USA	Morton Salt	Solar evaporation salt (Great Salt Lakes)	∞	0.57	∞
Inagua, Bahamas	Morton Salt	Solar evaporation salt (Ocean)	∞	0.88	∞
Tarapacá, Chile	SPL	Open cast mining	556.0	6.80	82
Rio Grande do Norte, Brazil	SPL	Solar evaporation salt (Ocean)	∞	0.50	∞

[1] The calculation assumes the granting of approvals, the economic exploitability of reserves and an annual extraction remaining constant over the lifetime.

RESOURCES

Additional resources exist for the Salt business unit. These include possible reserves (category C2) and reserves for which it has not yet been proven that they can be exploited economically (off-balance sheet reserves). Both are roughly comparable with what is termed "mineral resources" in the international standard. These are fields to which rights are held in which resources can be shown to exist on the basis of geophysical investigations and surface drilling as well as by means of geological analogical inference. These potential extraction fields are in part adjacent to existing ones and belong to the K+S GROUP or we possess a permission for extraction.

For the Salt business unit, about 1,300 million tonnes of rock salt in Europe and in North and South America can be disclosed as exploitable resources, taking into consideration losses in extraction and impoverishment. This could result in a prolongation of the lifetime of individual plants.

DEFINITIONS OF KEY FINANCIAL INDICATORS

BOOK VALUE PER SHARE	$= \dfrac{\text{Equity}}{\text{Total number of shares as of 31 Dec.}}$
ENTERPRISE VALUE	= Market capitalisation + net indebtedness
EQUITY/ASSETS RATIO I	$= \dfrac{\text{Equity}}{\text{Operating assets}}$
EQUITY/ASSETS RATIO II	$= \dfrac{\text{Equity + non-current debt}}{\text{Operating assets}}$
INDEBTEDNESS I	$= \dfrac{\text{Bank loans and overdrafts}}{\text{Equity}}$
INDEBTEDNESS II	$= \dfrac{\text{Net indebtedness}}{\text{Equity}}$
LIQUIDITY RATIO I	$= \dfrac{\text{Cash on hand and balances with banks + current securities and other financial investments}}{\text{Current debt}}$
LIQUIDITY RATIO II	$= \dfrac{\text{Cash on hand and balances with banks + current securities and other financial investments + current receivables}}{\text{Current debt}}$
LIQUIDITY RATIO III	$= \dfrac{\text{Current assets}}{\text{Current debt}}$
NET FINANCIAL LIABILITIES	= Financial liabilities – cash on hand and balances with banks – securities and other financial investments
NET INDEBTEDNESS	= Financial liabilities + provisions for pensions and similar obligations + non-current provisions for mining obligations – cash on hand and balances with banks – securities and other financial investments
OPERATING ASSETS	= Intangible assets + property, plant and equipment + shares in affiliated companies + participating interests
RETURN ON CAPITAL EMPLOYED (ROCE)	$= \dfrac{\text{Operating earnings (EBIT I)}}{\text{Operating assets}^{1} + \text{working capital}^{1,2}}$
RETURN ON EQUITY	$= \dfrac{\text{Adjusted Group earnings after taxes}^{3}}{\text{Adjusted equity}^{1,3}}$
RETURN ON REVENUES	$= \dfrac{\text{Adjusted Group earnings}^{3}}{\text{Revenues}}$
RETURN ON TOTAL INVESTMENT	$= \dfrac{\text{Adjusted earnings before taxes}^{3,4} + \text{interest expenses}}{\text{Adjusted balance sheet total}^{1,2,3}}$
VALUE ADDED	= (ROCE – weighted average cost of capital before taxes) x (operating assets[1]) + working capital[1])
WORKING CAPITAL	= Inventories + receivables and other assets[5] – current provisions – accounts payable trade – other payables[5]

[1] Annual average.
[2] Adjusted for reimbursement claims and corresponding obligations.
[3] Adjusted for the effects of market value changes of operating forecast hedges still outstanding; for adjusted Group earnings, the resulting tax effects were also eliminated.
[4] Including earnings before taxes of discontinued operations.
[5] Without the market values of operating forecast hedges still outstanding as well as derivatives no longer in operation, but including premiums paid for derivatives used for operating purposes; without receivables and liabilities from financial investments; adjusted for reimbursement claims as well as the surplus of the CTA plan assets.

GLOSSARY

BRINE Aqueous rock salt solution. Natural brine is obtained through drilling underground deposits of brine or through the controlled drill-hole solution mining procedure and also produced through the dissolution of mined rock salt.

BULK BLENDERS Operators of bulk fertilizer equipment, in which various nutrients are combined.

CASH FLOW Net balance of incoming and outgoing payments during a reporting period.

CHLORINE-ALKALINE ELECTROLYSIS In chlorine-alkaline electrolysis, chlorine, caustic soda solution and hydrogen are produced as a result of the decomposition of the basic substance sodium chloride with the aid of electricity. Alternatively, potassium hydroxide solution is produced by the application of potassium chloride. The important basic chemicals of chlorine, caustic soda solution, hydrogen and potassium hydroxide solution form the basis of numerous chemical products.

COMPLEX FERTILIZERS contain more than one nutrient, as a rule nitrogen, phosphorus and potassium as well as – depending on need and application – magnesium, sulphur or trace elements. As a result of the combination of raw materials in the production process and subsequent granulation, every single grain of the fertilizer contains precisely the same combination of nutrients; this allows for even spreading of the nutrients on the field.

COMPLIANCE (conforming with regulations) denotes adherence to laws, internal corporate regulations and guidelines as well as regulatory standards recognised by the Company. A compliance system is intended to avoid risks of liability, penalties and fines as well as other financial disadvantages for the Company and to ensure a positive reputation in the public.

CONTINUED/DISCONTINUED OPERATIONS On 20 June 2011, K+S sold the COMPO business to the European private equity investor TRITON. Thus, since the reporting on the second quarter of 2011, the COMPO business met the criteria of IFRS 5 “Non-current assets held for sale and discontinued operations” and was stated as a discontinued operation. The divestment of the NITROGEN business to EUROCHEM occurred on 2 July 2012. Consequently, since the second quarter of 2012, the NITROGEN business is reported as a discontinued operation in accordance with IFRS. Following the divestment of the NITROGEN business and the COMPO business, the income statement as well as the cash flow statement of the respective preceding years were therefore adjusted in accordance with IFRS. The balance sheet and therefore the key figures working capital, net indebtedness and book value per share of the respective previous years were not adjusted and also include the discontinued operations.

COST OF CAPITAL also WACC (weighted average cost of capital); denotes the opportunity costs arising for equity providers and/or lenders through capital made available to the Company. The weighted average cost of capital rate is derived from the aggregate of the interest claim to which a contributor of equity would be entitled in respect of his equity share as well as the interest on debt in respect of the share of interest-bearing debt in total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the corporate tax rate.

DOLOMITE LAYER Porous, receptive limestone layer a good 500 metres deep, formed in the Zechstein.

DUE DILIGENCE denotes the “necessary care” engaged in ahead of an acquisition and encompasses the performance of a detailed analysis of an acquisition target, particularly its geological, technical, (environmentally) legal, fiscal and financial framework conditions. In the process, analysis results from the corporate data made available by the target company are employed. The aim is to expose or limit risks related to the acquisition.

EBIT I The internal control of the K+S GROUP is carried out partly on the basis of the operating earnings EBIT I. The result from operating forecast hedges included in EBIT I corresponds, due to the elimination of all fluctuations in market value during the term, to the value of the hedge at the time of realisation (difference between spot rate and hedged rate), less the premiums paid or plus the premiums received in the case of option transactions.

EBIT II Under IFRSs, fluctuations in market value from hedging transactions are reported in the income statement. EBIT II includes all earnings arising from operating hedging transactions, i.e. both valuation effects as at the reporting date and earnings from realised operating hedging derivatives. Earnings effects arising from the hedging of basic transactions with a financing character, whose earnings effects impact on EBIT I neither in the current financial year nor in future financial years, are stated in the financial result.

ELECTROSTATIC PREPARATION PROCESS (ESTA®) is a dry preparation process in which the individual elements of crude salt are charged diversely and then separated with the aid of an electric field into sodium chloride on the one hand and potassium chloride and kieserite on the other. Compared with the classical wet preparation processes, it is clearly more advantageous in terms of energy consumption and there is far less liquid production residue.

ENTERPRISE VALUE is an indicator of the value of a company frequently used by financial analysts. Enterprise value is often related to other key figures (e.g. revenues, EBITDA, EBIT), so that so-called enterprise value multiples are produced.

EVAPORATED SALT is produced by evaporating saturated brine, whereby sodium chloride crystallises.

FINANCIAL COVENANTS are figures and agreements contractually agreed between a lender and a borrower for the duration of a credit facility. Non-compliance can result in sanctions and the right of extraordinary termination.

FIX COST DEGRESSION denotes the reduction of unit costs in the case of an increasing production volume, because the fixed costs are distributed across a higher production volume.

FLOTATION is a production process separating rock salt and potash or kieserite from crude salt without heat supply. The process is based on the fundamental principle that air is blown into a crude salt mixture in a saturated saline solution, enabling the usable substances to float up and be skimmed off.

FREE FLOAT The number of shares not held by major shareholders owning more than 5 % of the shares of a company (with the exception of shares held by investment companies and asset managers).

GREENFIELD PROJECT denotes the creation of new production capacities, including infrastructure investments, on “greenfield sites”. In contrast to this, there are also brownfield projects in mining, where the capacity of an existing mine is expanded.

K_2O (potassium oxide) is a chemical unit of calculation used to quickly compare the potassium content of fertilizers in which potassium is present in various bonding forms, for example as potassium chloride, potassium sulphate or potassium nitrate.

LIQUIDITY RATIOS provide information about the extent to which current payment obligations are covered by cash and cash equivalents, current receivables and current assets.

OPERATING FORECAST HEDGES To hedge future currency positions (mainly in US dollars), we use operating derivatives in the form of options and futures (see also transaction risks).

PACKAGE OF MEASURES ON WATER PROTECTION also “€ 360 million package of measures” or “Werra package of measures”; was presented in October 2008 by K+S in order to further reduce environmental effects and secure K+S’s production sites in the Hesse and Thuringia potash district over the long term. It forms the essential technical basis for the Integrated Package of Measures presented in 2009, which emerged from the public law agreement of K+S GROUP with the states of Hesse and Thuringia. The planned implementation of individual measures for the protection of groundwater and water by 2015 will result in the volume of saline waste water being halved. The capital expenditure bound up with the package of measures totals up to € 360 million.

POTASSIUM CHLORIDE is natural potassium salt found in seawater, salt lakes and salt deposits.

PRODUCTION OF GRANULATES denotes the production of dispersible fertilizer grains which can be spread with an agricultural fertilizer spreader.

PURCHASE PRICE ALLOCATION Allocation of the costs incurred in connection with a corporate acquisition to the assets, liabilities and contingent liabilities acquired.

RAMP-UP CURVE describes the volumes available over time until the maximum planned production capacity is achieved during the construction of a mine as well as the production facility above ground.

RATING describes the assessment of a company’s ability to meet its interest and repayment obligations in a timely manner in the future. It is given by a rating agency, e.g. MOODY’S or STANDARD & POOR’S, in the form of standardised categories.

SODIUM CHLORIDE Rock salt, common salt (NaCl).

SOLUTION MINING denotes the extraction of soluble (salt) rocks (e.g. sylvinite or rock salt) by discharging water or (salt) solutions in drillings, as a result of which caverns arise. The solution mining technology permits, to the extent that the deposit conditions allow for such a process, a faster commencement of production than do conventional mining techniques, a more flexible starting curve of production and the mining of deeper-lying deposits. Moreover, the ratio of crude salt to solid and liquid production residues is more favourable.

STRAIGHT NITROGEN FERTILIZER is a fertilizer which contains only nitrogen as the main element. K+S NITROGEN offers the straight nitrogen fertilizers calcium ammonium nitrate (CAN), ammonium sulphate nitrate and ammonium sulphate nitrate with boron.

SUPPLY CHAIN MANAGEMENT denotes groupwide planning, management and coordination of the entire value chain (procurement, production and logistics).

TRANSACTION RISK arises from a transaction in a foreign currency which is to be converted into the Group currency and is therefore a cash risk.

TRANSLATION RISK arises from converting income, cash flow or balance sheet items at different periods or reporting dates, which occur in a different currency than the Group currency. This is thus a non-cash risk.

VALUE ADDED This key figure is based on the assumption that a company creates added value for the investor when the return on the average capital employed exceeds the underlying cost of capital. This excess return is multiplied by the average capital employed (annual average for operating assets and working capital) to give the company's added value for the year under review.

WATER-SOFTENING SALTS remove hardeners such as calcium and magnesium from the water through an ion exchange process. Soft water is necessary or advantageous for numerous industrial processes, but also in private households.

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Quarterly Financial Report, 31 March 2013	14 May 2013
Dividend payment	15 May 2013
Half-yearly Financial Report, 30 June 2013	13 August 2013
Quarterly Financial Report, 30 September 2013	14 November 2013
Report on business in 2013	13 March 2014

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