What can a grain of salt achieve?

Annual Report 2006

Experience growth.

Salt comes in many varieties. Both potash salt and sodium salt are essential for life and provide the basis for healthy growth. For many years, K+S has been one of the world's leading suppliers of speciality and standard fertilizers as well as plant care and salt products.

With our products for agriculture, industry and private consumers we make a decisive contribution to growth and therefore to the sustainable development of our world. And thus, we fulfil our corporate goal and mission.

With our 12,000 employees, innovative products, fresh ideas and our comprehensive service, we ensure that even one little grain of salt achieves something important every day.

K+S
Experience growth.

		2006	2005	2004	2003	2002
Revenues, earnings, cash flow		IFRSs	IFRSs	IFRSs	HGB	HGB
Revenues	€ million	2,957.7	2,815.7	2,538.6	2,287.8	2,258.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	401.1	383.1	289.5	223.7	240.1
Operating earnings (EBIT I / EBIT)	€ million	278.0	250.9	162.9	115.7	132.8
Earnings after market value changes (EBIT II)	€ million	361.6	271.7	136.5	–	–
Earnings before taxes	€ million	341.5	259.6	123.4	111.6	113.9
Earnings before taxes, adjusted [1]	€ million	257.9	238.8	149.9	–	–
Group earnings	€ million	270.8[9]	174.4	86.8	101.3	103.8
Group earnings, adjusted [1]	€ million	218.1[9]	161.3	103.5	–	–
Gross cash flow	€ million	342.7	341.5	274.1	209.1	216.9
Capital expenditure [2]	€ million	130.5	107.1	131.9	126.6	129.0
Depreciation [2]	€ million	123.1	132.2	126.6	108.0	107.3
Working capital	€ million	599.1	453.0	333.1	250.9	300.5
Balance sheet						
Equity [1][3]	€ million	1,060.5	931.5	882.2	584.9	558.8
Property, plant and equipment and intangible assets	€ million	1,271.6	874.1	883.3	659.8	598.6
Net indebtedness	€ million	718.2	324.0	289.2	227.1	262.7
Balance sheet total	€ million	2,830.9	2,259.1	2,147.7	1,754.5	1,666.7
Employees						
Employees as of 31 Dec. [4]	number of	11,873	11,012	10,988	10,554	10,536
- of which trainees	number of	620	591	591	550	542
Average number of employees [4]	number of	11,392	11,017	11,068	10,541	10,439
Personnel expenses [5]	€ million	663.5	671.1	613.3	562.7	531.2
Ratios						
Earnings per share, adjusted [1]	€	5.29[9]	3.81	2.43	2.42	2.43
DVFA earnings per share	€	–	–	–	1.53	1.62
Dividend per share [6]	€	2.00	1.80	1.30	1.00	1.00
Dividend yield [6]	%	2.4	3.5	3.3	4.6	5.8
EBITDA margin	%	13.6	13.6	11.4	9.8	10.6
EBIT margin	%	9.4	8.9	6.4	5.1	5.9
Return on revenues	%	7.4	5.7	4.1	4.4	4.6
Return on capital employed (ROCE)	%	17.4	19.5	14.2	12.8	15.1
Return on total investment	%	12.3	12.7	9.1	7.4	7.6
Return on equity after taxes	%	21.9	17.8	12.1	11.2	12.9
Book value per share	€	25.71	22.58	20.76	13.76	12.42
Gross cash flow per share	€	8.31	8.07	6.45	5.00	5.07
The Share						
Closing price as of 31 Dec.	XETRA, €	82.20	51.05	39.10	21.76	17.35
Market capitalisation	€ million	3,390.8	2,105,8	1,661.8	924.8	780.8
Enterprise value as of 31 Dec.	€ million	4,109.0	2,429.8	1,994.9	884,9	788.1
Total number of shares as of 31 Dec.	million	41.25	42.50	42.50	42.50	45.00
Outstanding shares as of 31 Dec. [7]	million	41.25	41.25	42.50	42.50	41.52
Average number of shares [8]	million	41.24	42.31	42.50	41.77	42.82

[1] from 2004 onwards, adjusted for the effect of market value changes for exchange rate hedging transactions; a tax rate of 37.0% is assumed for adjusted group earnings and for adjusted earnings per share
[2] for or in connection with property, plant and equipment and intangible assets
[3] up to the end of 2003 incl. 50% special reserves and balance from capital consolidation
[4] workforce including temporary employees (without students and interns) measured on full-time equivalent basis
[5] Personnel expenses now also include expenditures connected with partial retirement and early retirement.
[6] The figure for 2006 corresponds to the proposed dividend; the dividend yield is based on the year-end closing price
[7] total number of shares less the own shares held by K+S on the reporting date
[8] total number of shares less the average number of own shares held by K+S
[9] including non-recurrent deferred tax income of € 41.9 million or € 1.02 per share

Potash and Magnesium Products		2006	2005	%
Revenues	€ million	1,238.9	1,197.2	+ 3.5
EBIT I	€ million	158.6	151.8	+ 4.5
Capital expenditure	€ million	83.8	70.9	+ 18.2
Employees	number of	7,550	7,490	+ 0.8

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

COMPO		2006	2005	%
Revenues	€ million	552.4	541.7	+ 2.0
EBIT I	€ million	29.2	25.0	+ 16.8
Capital expenditure	€ million	11.4	12.3	- 7.3
Employees	number of	1,260	1,292	- 2.5

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

fertiva		2006	2005	%
Revenues	€ million	556.2	568.3	- 2.1
EBIT I	€ million	16.7	14.8	+ 12.8
Capital expenditure	€ million	0.7	0.3	+ 133.3
Employees	number of	61	58	+ 5.2

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

Salt		2006	2005	%
Revenues	€ million	485.8	398.0	+ 22.1
EBIT I	€ million	67.6	62.7	+ 7.8
Capital expenditure	€ million	21.2	12.4	+ 71.0
Employees	number of	2,194	1,385	+ 58.4

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

Waste Management and Recycling		2006	2005	%
Revenues	€ million	69.4	56.0	+ 23.9
EBIT I	€ million	13.8	8.1	+ 70.4
Capital expenditure	€ million	4.3	3.4	+ 26.5
Employees	number of	34	33	+ 3.0

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

Services and Trading		2006	2005	%
Revenues	€ million	55.0	54.5	+ 0.9
EBIT I	€ million	25.4	20.1	+ 26.4
Capital expenditure	€ million	8.2	6.6	+ 24.2
Employees	number of	407	393	+ 3.6

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

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Preface

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

Dear Shareholders,

Financial year 2006 has been the best so far in the history of the K+S Group. We have succeeded in generating significantly higher earnings in all business segments. The key factors behind this success were the overall good demand on our markets, attractive fertilizer prices, the acquisition of Sociedad Punta de Lobos (SPL), growing waste management markets, the implementation of further efficiency enhancements as well as positive effects deriving from our currency hedging; this enabled us to more than make up for the sharp rise in energy and freight costs.

As in previous years, you will profit from the positive course of business: The Board of Executive Directors and the Supervisory Board will propose to the Annual General Meeting that, once again, the dividend should be increased compared with the preceding year and that € 2.00 per share should be distributed for the preceding financial year.

A new dimension in the global salt business

We continued to implement our growth strategy in a consistent manner in financial year 2006. With the acquisition of Chilean SPL, the largest salt producer in South America, we have strengthened our portfolio of products and services significantly. Now, we are also active as a producer outside Europe and are growing into a new dimension in the global salt business. The dynamic development of the South American economic area as well as the advances in the industrialisation of Asia are opening up many promising opportunities for us and we will make use of them.

Highs for revenues and earnings

In 2006, K+S Group revenues rose by € 142.0 million to € 2.96 billion. The main contributions to revenue growth came from the Potash and Magnesium Products, Salt as well as Waste Management and Recycling business segments. EBIT I attained a level of € 278.0 million, representing a year-on-year increase of € 27.1 million. At € 218.1 million, adjusted group earnings after taxes were up € 56.8 million on last year's figure. This corresponds to € 5.29 per share (+ 39 %). However, this figure also includes € 1.02 per share deriving from non-recurrent deferred tax income related to the reorganisation of the corporate structure of SPL.

Further improvements in performance and efficiency

Strengthening our international competitiveness remains the primary and lasting goal of the K+S Group. In a globalised market, not only is profitable growth necessary but so is – especially in Germany as a business location – the constant management of costs by means of optimising structures and processes. We have continued to work on identifying efficiency enhancements providing the most lasting effect possible in all sections of our value chain and on implementing them rapidly. An example of this is the consistent expansion of the use of containers as an attractively priced means of shipping goods overseas. It enables us to participate in the standard and speciality fertilizer growth in Asia to an even greater extent than hitherto. In the COMPO business segment, we have attained considerable savings in the consumer business. The success of these efforts, extending over several years, became apparent for the first time in 2006.

Profitable growth remains our goal

In the future too, we will work on developing your K+S Group with prudence and determination and will continue to pursue our successful growth course. In this regard, we attach the greatest possible importance to customer orientation, cost discipline and to optimising our value chains. In addition, we are reviewing, on an ongoing basis, further opportunities for cooperation and acquisitions that could bolster our market position and our sustainable earnings capacity.

The challenges remain ambitious: Labour, energy and freight costs are high and, furthermore, international competition in almost all our business sectors, especially in Europe, is increasing. Nevertheless, the signs are favourable for the ability of the K+S Group to achieve healthy and profitable growth. Global population growth, changes in dietary habits and the related increase in the consumption of meat, as well as the marked rise in the importance of renewable raw materials will cause demand for large sections of our product range to continue to increase.

On behalf of the Board of Executive Directors I would like to thank all the employees of the K+S Group very warmly for making a key contribution to this success through their great commitment, flexibility and customary professionalism.

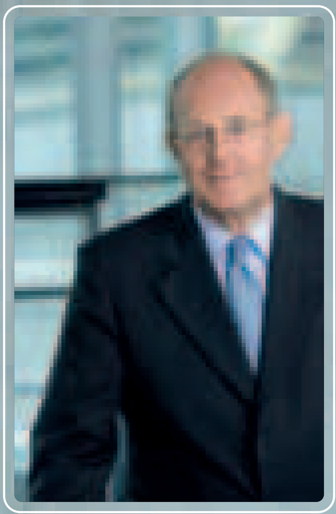
I would like to thank you, our shareholders, customers and partners, for the confidence that you placed in us once again in 2006. Please also transfer your confidence to my successor Mr Norbert Steiner to the same extent. We are working vigorously on ensuring that our performance will continue to impress you in the future too.

On behalf of the Board of Executive Directors

Dr. Ralf Bethke
Chairman

Board of Executive Directors

of K+S Aktiengesellschaft

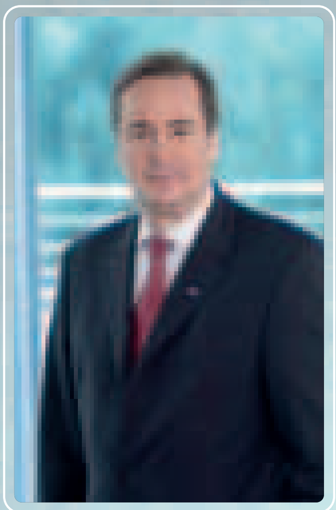


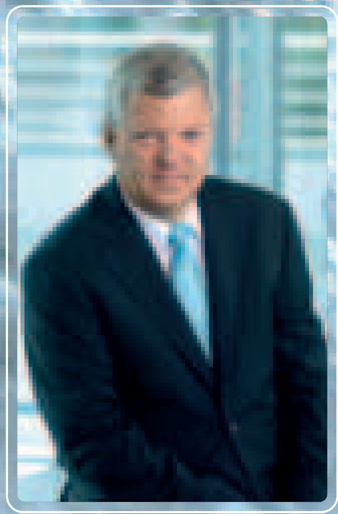
Dr. Ralf Bethke (64)
Business administration graduate
Chairman of the Board of Executive Directors

- COMPO Business Segment
- Controlling and Capital Expenditure
- Investor Relations
- Communications
- Corporate Development

Norbert Steiner (52)
Lawyer
Vice Chairman of the Board of Executive Directors

- Salt Business Segment
- Services and Trading Business Segment
- Finance
- Purchasing, Logistics
- Legal Affairs / Insurance / Compliance
- Taxes, Audit





Gerd Grimmig (53)
Engineering graduate

- Waste Management and Recycling Business Segment
- Mining and Geology
- Research and Development
- Environmental Protection / Industrial Safety / Quality Management
- Engineering Technology / Energy

Dr. Thomas Nöcker (48)
Lawyer / Personnel Director

- Personnel
- Property Management
- Knowledge Management

Joachim Felker (54)
Industrial business manager

- Potash and Magnesium Products Business Segment
- fertiva Business Segment

Supervisory Board Report

Gerhard R. Wolf
Chairman

Dear Shareholders,

I am delighted to be able to report to you that K+S AG made further progress along its path of success and has achieved an all-time high in 2006. This success has been contributed to by all the business segments, with employment levels remaining stable overall at the same time.

The capital market has paid tribute to the Company's performance in the form of a further increase in the share price. The stock market capitalisation of K+S AG at the end of 2006 amounted to € 3.4 billion. For the third time in a row, the Board of Executive Directors and the Supervisory Board will propose to the Annual General Meeting that at € 2.00, the dividend distributed should be raised (2005: € 1.80). The market development that is anticipated and the momentum prevailing in the Company open up promising prospects for the future.

Supervisory Board work

The Supervisory Board diligently performed the duties imposed on it by law and by the Articles of Association. In doing so, it followed the Company's development and strategic direction intensively. It regularly advised the Board of Executive Directors on the management of the Company and monitored the latter's executive management. We were involved in all decisions of fundamental importance. The Board of Executive Directors informed us at regular intervals in a timely and comprehensive manner about all relevant issues for corporate planning and further development as well as about the course of business and the Group's prospects. Briefings were also provided about the risk/opportunity situation as well as about risk management and the foreign currency hedging systems employed. Budget deviations arising in the course of business of the Group or the individual business segments were explained in-depth by the Board of Executive Directors and examined by the Supervisory Board.

The Supervisory Board regularly received written reports between its meetings. I maintained close contact with the Board of Executive Directors and discussed the current business conditions as well as important events with it. A total of five Supervisory Board meetings, of which one was extraordinary, were held during the course of the financial year. The following individual topics were some of the focal points of the meetings: At the extraordinary meeting held on 27 January 2006 and following intensive discussion at previous Supervisory Board meetings, we authorised the Board of Executive Directors, after a detailed final analysis, to acquire Chilean salt producer SPL. Thus, K+S AG invested in overseas production once again after a long time. At that meeting, we also approved the cancellation of the 1.25 million shares that had been bought back a year before.

A further important issue was the management of the major cost item energy. On 10 May 2006, we dealt with switching from natural gas to substitute fuels for a large part of the energy used at the Werra site. On 23 August 2006, we again conducted an in-depth examination of this important cost issue and the future energy strategy of the K+S Group together with the Board of Executive Directors.

The COMPO consumer business as well as an interim assessment of the measures implemented to enhance efficiency in this segment were also on the agenda on 23 August. The projects launched to further cut costs and source raw materials at more attractive prices, the streamlining of the product assortment as well as distribution activities have already impacted positively on earnings for the year under review. Our attention also focussed on the development of the cooperation with plant protection agents producer Syngenta, the commencement of which we reported last year.

The 2007 budget and the medium-term outlook were the focus of the last meeting of the year held on 22 November 2006. On the basis of written documents and explanatory comments provided by the Board of Executive Directors, we conducted a detailed examination of the annual business operations plan, the 2007 investment plan and the investment framework for subsequent years. The plans were also reviewed from the angle of conformity with strategic goals. In addition, the Board of Executive Directors reported on the status of the integration of the SPL Group and on its planned reorganisation.

Committee meetings

The audit committee met three times in the past year. In March, it considered the annual financial statements of K+S AG as well as the consolidated financial statements in the presence of the auditors. At the subsequent meetings, the appointment of the auditors, risk identification and monitoring within the Company, the impact of the German Transparency Directive Implementation Act on future reporting, auditing and disclosure obligations as well as the determination of key issues for the 2006 audit of the annual accounts were the subject of extensive consultations.

The personnel committee met once in the past year. The focus of its work was on preparing the important decision on appointing the chairman of the Board of Executive Directors. After serving almost 17 years on the Board of Executive Directors and acting as its chairman since 1991, Dr. Bethke will step down from the Board of Executive Directors on

30 June 2007. His succession was the subject of intensive discussions and preparations within the personnel committee and the Supervisory Board itself.

For the mediation committee in accordance with Section 27, par. 3 of the German Co-Determination Act, there was no need to meet in the past financial year.

Corporate Governance
At regular intervals, the Supervisory Board considers the application and further development within the Company of the provisions contained in the German Corporate Governance Code. During the past year, the Supervisory Board, together with the Board of Executive Directors, analysed the German Corporate Governance Code in the version of 12 June 2006 and approved the joint declaration on conformity 2006/2007, which can be found on page 43 of the Annual Report, at the meeting held on 22 November 2006.

Explanatory comments relating to information provided pursuant to Section 289, par. 4 and Section 315, par. 4 of the German Commercial Code (HGB)
As most of the information provided in the Management Reports of K+S Aktiengesellschaft and the Group pursuant to Section 289, par. 4 and Section 315, par. 4 of the German Commercial Code speaks for itself, I will confine myself to the following explanatory comments pursuant to Section 171, par. 2 of the German Stock Corporation Act:
The Annual General Meeting has granted the Board of Executive Directors the possibility, subject to the approval of the Supervisory Board, of implementing a capital increase with the limited exclusion of subscription rights (authorised capital). This provides the Company with a widely used instrument with the aid of which it can act rapidly and flexibly when opportunities arise for the effecting of acquisitions. The Board of Executive Directors will only make use of this possibility if the value of the new shares is proportionate to the value of the corresponding consideration.

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

A loan agreement was concluded with a syndicate of banks to finance the acquisition of the SPL Group. The provisions that the agreement contains for the event of an acquisition requiring regulatory approval are customary for comparable transactions and reasonable from the perspective of protecting the legitimate interests of the creditors.

The existing arrangements with the members of the Board of Executive Directors that would apply in the event of a takeover bid take appropriate consideration of both the legitimate interests of those concerned as well as of the Company and its shareholders.

Supervisory Board

Gerhard R. Wolf
Chairman
Former member of the Board of Executive Directors of BASF AG

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

Jella S. Benner-Heinacher
Federal Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Karl-Heinz Georgi
Principal of the Haltern am See Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe
until 31 December 2006: Executive Director of the Galileo Joint Undertaking

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

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

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

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

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

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

Helmut Mamsch
Former member of the Board of Executive Directors of VEBA AG

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

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

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

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

As of 31 December 2006

Audit of annual and consolidated financial statements

Deloitte & Touche GmbH, Hanover, audited the annual financial statements and the Management Report of K+S Aktiengesellschaft as well as the Group Management Report and issued an unqualified opinion. The consolidated annual financial statements have been prepared in accordance with internationally recognized accounting principles (IFRSs), audited and also issued with an unqualified opinion. The Supervisory Board received the aforementioned documents and the Board of Executive Directors' recommendation concerning the appropriation of the retained profit on time. On 2 March 2007, the audit committee conducted an in-depth examination of the financial statements and management reports as well as the audit reports in the presence of the CFO as well as the auditors. The audit reports prepared by Deloitte & Touche GmbH were also made available to all the members of the Supervisory Board and were considered in-depth at the Supervisory Board meeting held on 14 March 2007 to which auditors Deloitte & Touche GmbH were invited. All questions asked at the meeting were answered exhaustively by the Board of Executive Directors and the auditors. In addition to the unqualified opinion, Deloitte & Touche confirmed that the risk management system is suitable for the specific requirements of the K+S Group. On the basis of its findings, the Supervisory Board did not raise any objections and, acting on the recommendation of the audit committee, approved the financial statements for financial year 2006. The annual financial statements of K+S Aktiengesellschaft were thus ratified.

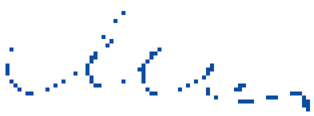
Composition of the Supervisory Board and the Board of Executive Directors

Mr Helmut Mamsch has resigned from the Supervisory Board with effect from 30 June 2007. I would like to thank Mr Mamsch personally and on behalf of the other members of the Supervisory Board for his dedicated work. The Supervisory Board will propose to the upcoming Annual General Meeting that Dr. Bethke be elected to serve on the Supervisory Board for a period of five years with effect from 1 July 2007.

At its meeting held on 14 March 2007, the Supervisory Board appointed vice chairman of the Board of Executive Directors Mr Norbert Steiner chairman of the Board of Executive Directors. The Supervisory Board is convinced that by appointing Mr Steiner, it has created the appropriate personnel conditions for the further consistent and successful development of the K+S Group.

The Supervisory Board expresses its great thanks to the Board of Executive Directors, the executive managements of associated companies, all employees and employee representatives for their committed and excellent work during the year under review. Particular thanks and recognition is due to Dr. Bethke for many years of very successful work for the Company.

Kassel, 14 March 2007
On behalf of the Supervisory Board



Gerhard R. Wolf
Chairman

How does our potash provide a new impetus?

Our products achieve more than growth. With its innovative product development, the Potash business segment has again set standards, this time for the fertilization of oil palms in South-East Asia. The mineral fertilizer Korn-Kali®, one of our best-sellers, has undergone a decisive further development since 2006: K+S enriches Korn-Kali® additionally with important trace elements like boron. With this unique product combination, in particular oil palms in South-East Asia can be suitably fertilized in just one cycle. Not only valuable edible oil is gained from these oil palms, but also biodiesel, of increasing significance for the environment and economy. Thus, K+S once again provides a new impetus through sustainable innovation. In society and in the Company itself.

Potash deposit

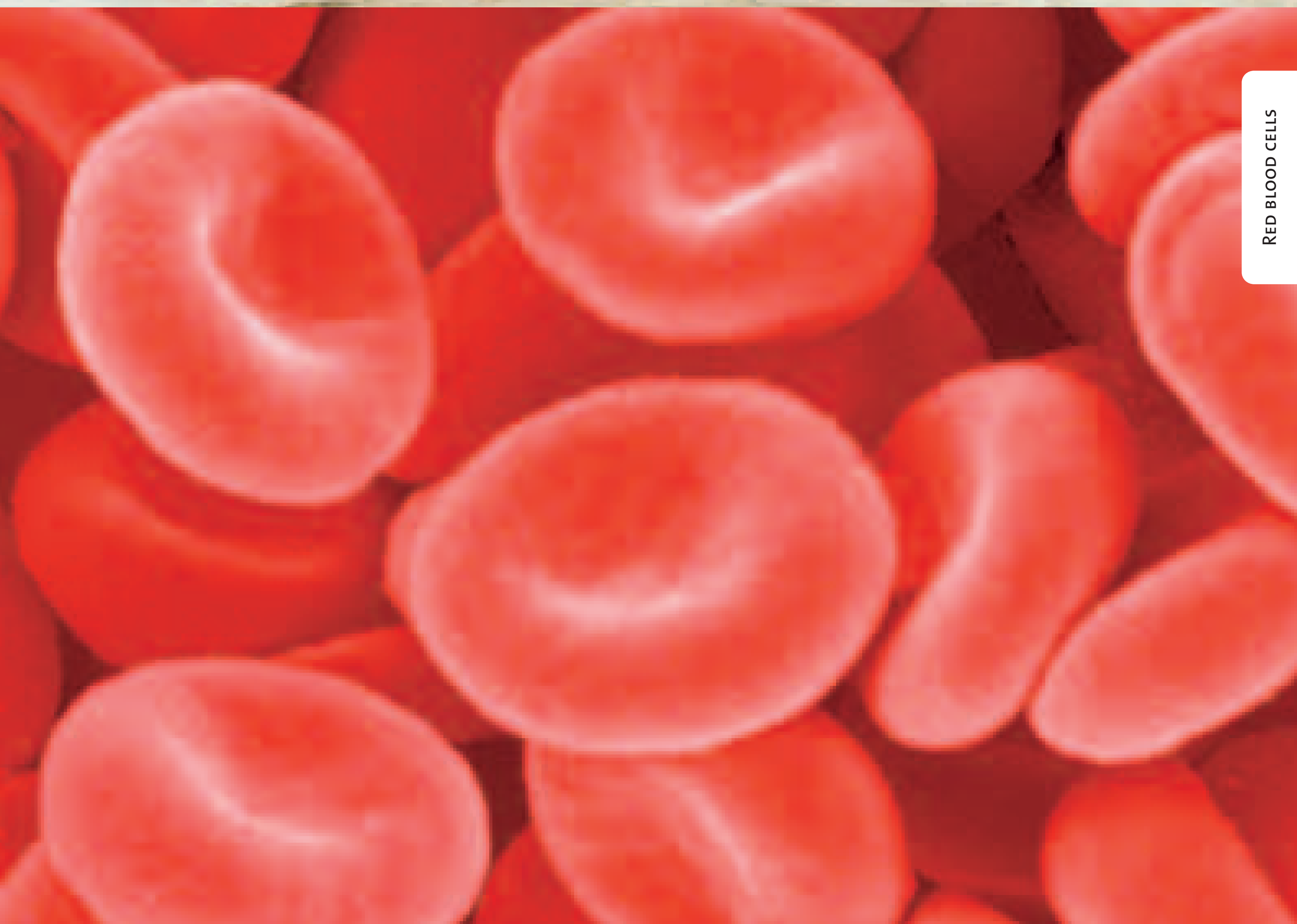
Palm fruit

Why is our **salt** so close to many **people's** hearts?

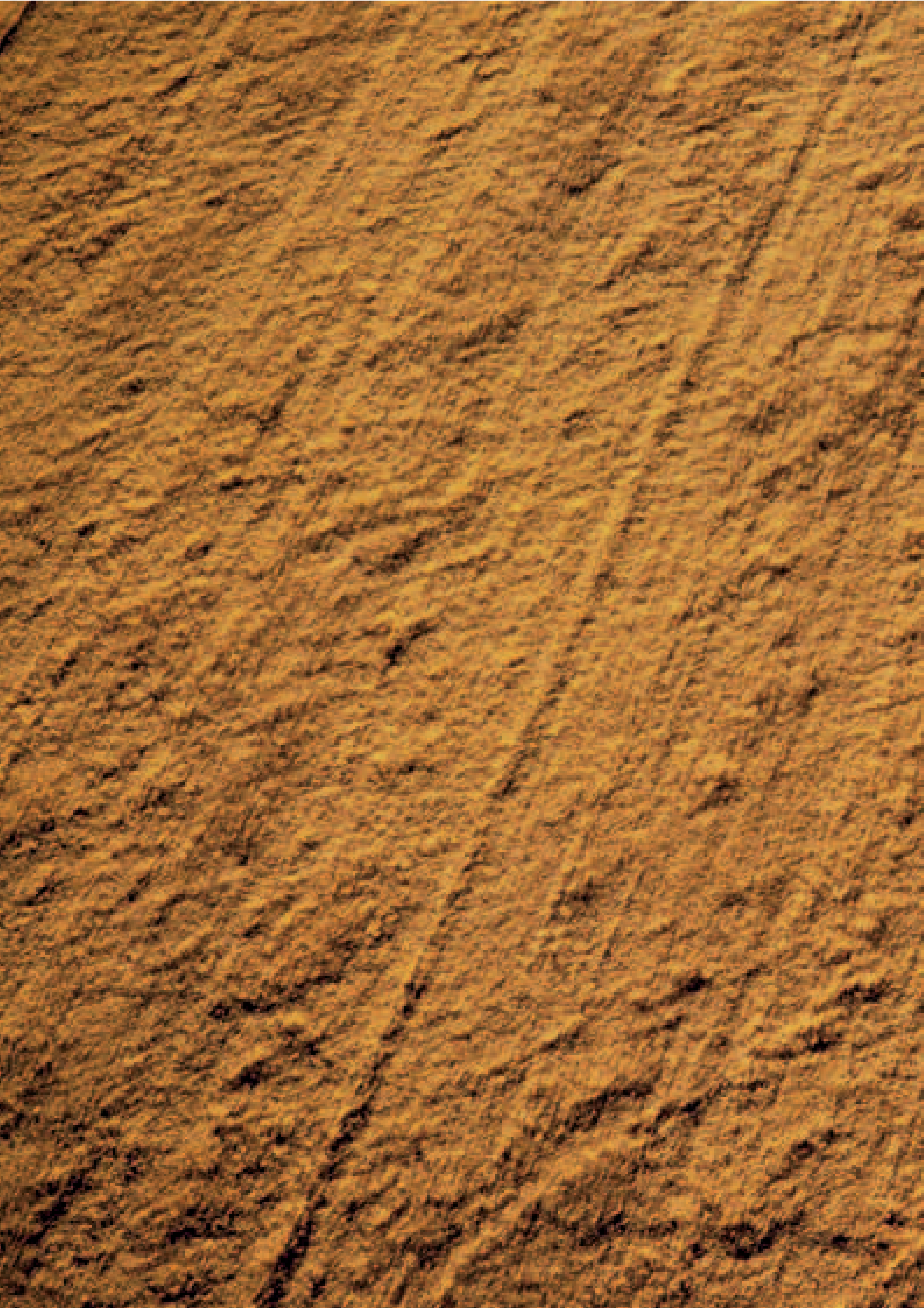
Salar Grande, Chile

Salt is not only there for winter road clearance services, the manufacture of plastics, the food preservation or for pretzels. Salt is essential to human life. In medicine, K+S salt is used for many different purposes including dialysis solutions. Starting this year, our subsidiary esco is offering a product that not only fulfils the official purity requirements – it even exceeds them: API-NaCl, the new high-purity pharmaceutical salt, consists of the purest salt. We are thus offering the pharmaceutical industry a product that guarantees the necessary 100 % safety. Because when it comes to human health, we do not make any compromises.

Salar Grande, Chile



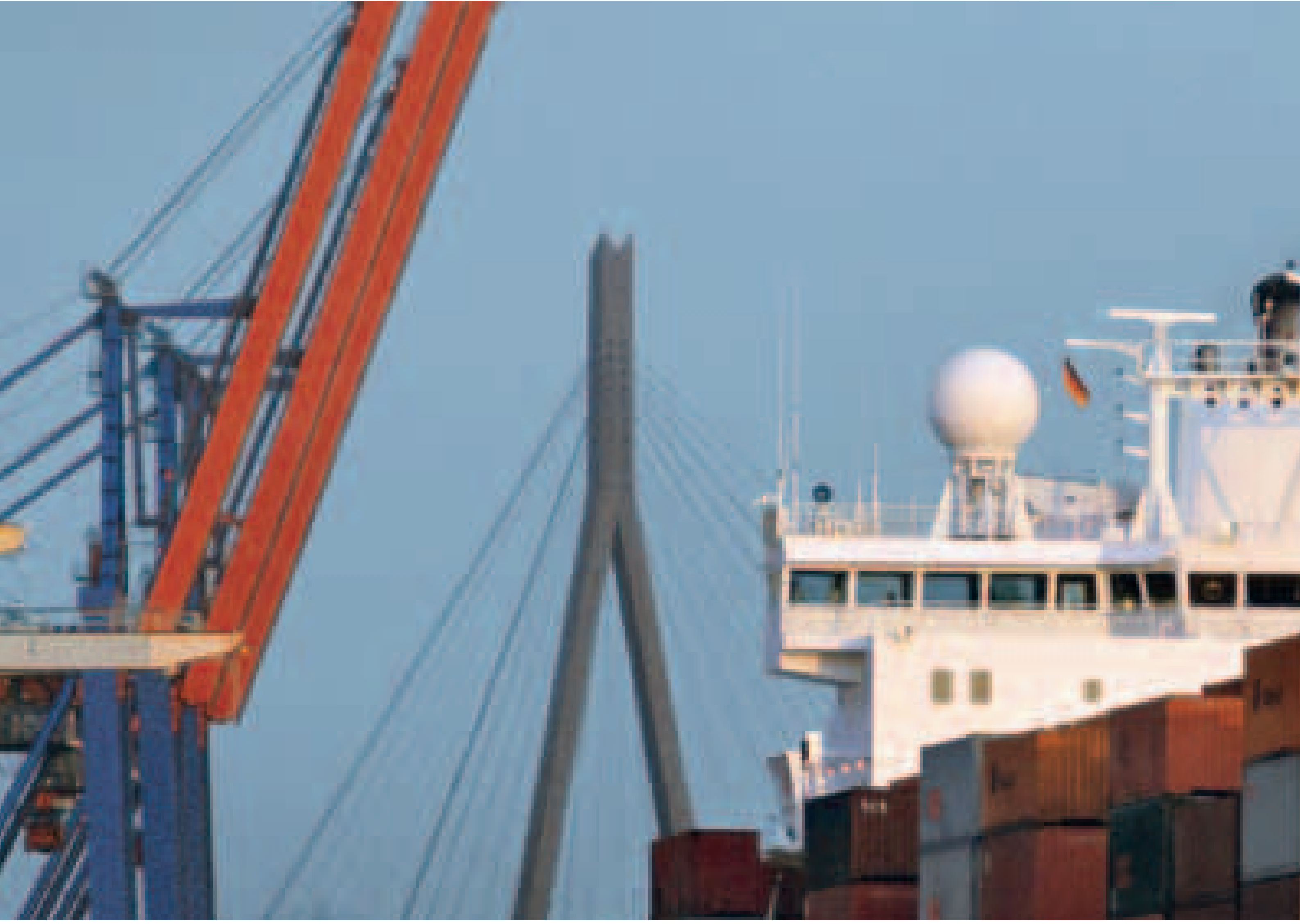
Red blood cells



Why are our fertilizers setting the ball rolling?

About 90 % of all the pitches in German football league stadiums are fertilized with our COMPO products. We thus contribute not only to the success and high quality of football matches in Germany, but also ensure more pleasure in the game – and praise from the groundkeeper is a certainty for us. Our fertilizers also work wonders on fields that will be harvested, not played on. In agriculture, fertilizers have to perform many very important functions like maintaining the fertility of the soil and providing plants with the nutrients that are necessary for life. With our COMPO and fertiva products, we are an important player on the world market and ensure growth for all those who use them. From the roof-terrace in Hamburg through the football pitch in Munich, the rape fields in Europe to the cereal fields in Asia.

How do we enthuse the world with our "Kalikai" quay?



When it comes to the handling of bulk goods, the “Kalikai” quay is the leader in the port of Hamburg. Ships that, for example, have transported soy from Brasil, are loaded there with K+S fertilizers as their return cargo. We thus optimally exhaust the available shipping capacity. We achieve similar results with freight in the Near and Far East. Many goods from Asia, like electronic products, toys etc. mostly arrive in containers. However, they do not normally carry very much return freight. K+S’s unusual idea: We load these containers with loose fertilizer on the “Kalikai” quay and they can be unloaded in Asia directly at the customer without additional expense. In 2006, more than 1 million tonnes of fertilizer were exported to Asia in containers. A growing trend.


Container ship

Fertilizer granulate

The creation of value added

- Salt is more than just salt
- Potash – an irreplaceable raw material
- K+S offers its customers more than just standard products
- COMPO and Syngenta – a strong team with good prospects
- K+S reaches a new dimension in the international salt business

Our business segments are closely interlinked in terms of their strategic, technical and economic aspects. This form of interlinking opens up various opportunities: We are able to offer our customers specialised services and a product range that is oriented towards needs; in addition, it allows significant savings to be achieved in many of our business processes. Our business model creates value for the shareholders of the K+S Group amounting to more than simply the sum of the parts.

Salt is more than just salt

Mineral crude salt components such as potassium chloride, sodium chloride and magnesium sulphate have a common geological history extending over millions of years. The minerals are extracted by K+S in underground mines, open-cast mines as well as evaporated salt and sea salt facilities. The necessary know-how and the machines, equipment and processes used in underground production are to a large extent identical in the case of both potash and salt mines. Given that professional requirements are the same, we can thus deploy employees and make capacity adjustments flexibly and efficiently across business areas. The various components of our own crude salts form the essential basis for fertilizers and plant care products as well as salt.

Fertilizers and plant care

Potash and Magnesium Products

The Potash and Magnesium Products business segment extracts potash and magnesium crude salts at six mines in Germany, with annual production output of about 8 million tonnes. The vital minerals contained in our natural crude salts – minerals such as potassium, magnesium and sulphur – are then processed to produce high-grade mineral fertilizers as well as intermediate products for the manufacture of various industrial products. Our potash and magnesium fertilizers are used by farmers throughout the world to produce food more efficiently. In this way, we make an indispensable contribution to securing the world's supply of food and improving its quality. With a product range that is more varied than that offered by any other fertilizer producer in the world, the business segment offers, through K+S KALI GmbH, an extremely attractive spectrum of products.

The K+S Group is the fourth-largest potash producer worldwide

With a potash segment share of about 13 %, the Potash and Magnesium Products business segment is the fourth-largest producer in the world and the leading provider in Europe. Our specialities clearly distinguish us from the competition and in terms of potassium sulphate fertilizers, we occupy the leading position in the world: Products containing magnesium and sulphur, such as ESTA® Kieserite and EPSO Top®, are the answer to demand for agricultural fertilizers that is increasingly characterised by diversity.

In addition to speciality and standard fertilizers with a wide range of uses in agriculture, the Potash and Magnesium Products business segment also offers a specific range of products for industrial, technical and pharmaceutical applications. This is another segment in which we are among the most efficient suppliers worldwide, and by far the number one in Europe.

Potassium chloride – universal application

Potassium chloride is the business segment's product generating the greatest revenues: It is a single-nutrient fertilizer with universal applications and is used for major crops, such as cereals, corn, rice and soya beans, in almost all types of soil used worldwide for agricultural purposes. In granulated form, potassium chloride possesses excellent spreading properties and can be distributed evenly over fields using fertilizer sprinkling systems. Increasingly, operators of bulk blenders use granulate in order to mix it with other single-nutrient fertilizers in accordance with various formulas: This finished product is then also used as a composite fertilizer in agriculture. We also supply potassium chloride as a fine-grain standard product for the complex fertilizer industry, which processes it along with other nutrients to produce granulated complex fertilizers.

Fertilizer specialities for high-grade food

Our fertilizer specialities, in which we lead, differ from classic potassium chloride because of their additional nutrients and further processing. Tailor-made nutrient formulas with magnesium, sulphur and also trace elements give us attractive sales opportunities worldwide. Fertilizer specialities, such as Korn-Kali® and Kieserite, are mainly used for soil and crops that have a greater need for magnesium and sulphur in addition to potash, such as rape or potatoes. Sulphur speciality fertilizers such as potassium sulphate and Patentkali® as well as Kieserite and EPSO Top® are preferably used for special crops like citrus fruits, wine and vegetables that are sensitive to chloride. We also offer a broad range of speciality fertilizers for liquid fertilizing as well as for ecological farming.

Industrial products with varied possible applications

Our industrial products stand out in terms of particular qualitative properties, such as their high degree of purity or special grain size. They have various possible applications: Potassium Chloride 99 % is, for example, a product that is particularly suitable for chlorine-alkaline electrolysis in the chemical industry as well as use in metallurgical processes.

Potassium chloride is also used in the mineral oil industry as a component of drilling fluids, for example. Our Epsom salt product possesses the broadest range of applications: It is employed in the pulp and paper industry to aid environmentally friendly oxygen bleaching, added to detergents to protect fibres and used in the production of synthetic materials for the purpose of separating into the desired end products. In addition, in the pharmaceutical and foodstuff industries, our high-purity potassium and magnesium products make an important contribution to preserving our health by being used in dialysis and as a raw material in the production of pharmaceuticals, for example.

Unique product mix compared with the competition

We offer our customers a unique product range derived from our potash and magnesium crude salts that is more comprehensive than that offered by any other potash producer in the world. The consistent exploitation of these opportunities with our processing strategy is one of our key market goals.

feed line – potash and magnesium as a component of animal feed

Since 2006, the Potash and Magnesium Products business segment has been marketing a new range of "feed line" products. We offer animal feed producers high-quality potash feed supplements going by the name of KaSa K97™ and KaSa K99™. The KaSa Mag49™ and KaSa Mag98™ products cover the magnesium sulphate component. Our products have been certified in accordance with the internationally recognised German QS standard and the Good Manufacturing Practice 13 (GMP13) quality mark. Compliance with the requirements for these certifications and various further food law guidelines enables us to guarantee the quality of our products, which meet the high requirements for animal feed. Moreover, by obtaining this certification we have been able to clearly differentiate our products from our competitors' products. Our "feed line" is a further element in our specialisation strategy within the Potash and Magnesium Products segment.

www.kali-gmbh.com

COMPO

In the consumer area, the COMPO business segment offers a broad range of high-quality potting soils, speciality fertilizers and plant care products that create the optimal conditions for turning a garden into a paradise. In laying claim to being continental Europe's market leader in the home and garden area, COMPO is consistently developing its market position in Western Europe. Having very significant market positions in the categories of potting soil, plant care as well as lawn and garden fertilizers for a good many years, COMPO has advancing its further growth in the plant care segment in particular in order to offer the trade sector as well as hobby gardeners in Europe a high- performance, innovative and comprehensive range of garden products.

As part of its exclusive cooperation with Swiss Syngenta, one of the world's leading manufacturers of plant protection products, COMPO will already complement its range of plant protection products and pesticides in the lawn and garden area for consumers in Europe with further innovative products as of 2007 already.

COMPO premium products lead in Europe

Measured in terms of revenues, the COMPO business segment is the leading provider in continental Europe with its consumer products, holding a share of 20%. In the professional segment too – i. e. agricultural and horticultural applications – the COMPO business segment is an innovative and driving force in Europe and occupies by far the leading position in the area of nitrogenous speciality fertilizers.

Recipe for success in the consumer area: strong brands

In the consumer area, the brand portfolio includes the major brands COMPO® and ALGOFLASH®, which are complemented by the brands SEM®, GESAL® and GARDIFLOR® in various countries. Potting soil is the most important product in the range. In Europe, these high-quality soils are predominantly sold under the COMPO SANA® brand.

Our COMPO® und ALGOFLASH® liquid fertilizers as well as lawn and garden speciality fertilizers stand at the forefront of the fertilizer assortment. In addition, in Europe, we offer the well-known COMPO® universal, speciality and special guano fertilizers for house, balcony and garden plants. In addition to being produced at our own sites in Germany and France, a part of our assortment is made for us on an exclusive basis by BASF.

The launch of COMPO-Axoris® Insect-free Quick-sticks on the German market as well as the promotion of a comprehensive range of new plant protection agents under the brand ALGOFLASH® for the French specialist trade at the beginning of 2007 are the first fruits of our cooperation with Syngenta.

Professional segment impresses with particularly effective solutions

For the large number of agricultural and horticultural application areas, the COMPO professional segment offers customers the broadest product range compared with the competition. In addition to complex fertilizers containing sulphur marketed under the NITROPHOSKA® brand for the cultivation of fruit, grapes and vegetables, the nitrogen-stabilised ENTEC® fertilizers that were introduced just a few years ago have gained very great importance. The latter are characterized by unique nitrogen efficiency that is based on plant requirements and thus yields economic advantages for the customer. Other important products include FLORANID® slow-release fertilizers for the professional lawn sector and BASACOTE®, which is used in the cultivation of ornamental plants. In the rapidly growing watering fertilizer segment, especially in Southern Europe, we are well positioned with the products HAKAPHOS® and ENTEC® SOLUB. High-quality foliar and micronutrient fertilizers complete the assortment for this important application area.

Top quality and customer satisfaction ensure COMPO's success

The development of new products and the successful further development of the entire assortment in line with needs is a constant challenge for the COMPO business segment. In this regard, customer satisfaction and excellent product quality are the key success criteria towards which our corporate actions are directed. The continuous exchange of product innovations between our professional and consumer areas, a range of services specially tailored to market regions, the expansion of the plant protection assortment together with Syngenta as well the further internationalisation of the business are the cornerstones of the sustainable growth of the COMPO business segment.

Presence in China

The Chinese fertilizer market is one of the world's most important growth regions. An increasing awareness of quality on the part of Chinese agriculture is leading to a rise in demand for specialty fertilizers and premium products. With more than 17 million hectares under vegetable cultivation, China has in the meantime gained the leading position in this significant specialty fertilizer segment. For some years now, further important market segments for COMPO like fertigation and leaf fertilization have been exhibiting double-digit growth rates there. COMPO will expand its market presence in China through the further development of the K+S branch in Shenzhen over the next few years. Chinese COMPO sales, distribution and marketing employees will concentrate on the sale of leaf fertilizers and trace fertilizers as well as on the ENTEC® portfolio.

www.compo.com

fertiva

The K+S Group's worldwide marketing and distribution activities relating to nitrogenous agricultural fertilizers are bundled in the fertiva business segment in the form of a trading business. In addition to light, water, air and other nutrients such as potash, phosphate and magnesium, nitrogen is indispensable for healthy plant growth; nitrogen is also referred to as the "motor of plant growth". fertiva is one of Western Europe's major suppliers of nitrogenous fertilizers. Agricultural fertilizers are produced for fertiva on an exclusive basis by BASF. The joint use of BASF production capacities by fertiva as well as COMPO facilitates high and even plant utilisation and thus, a reduction in unit costs for the straight and complex fertilizers that are produced. To a limited extent, fertiva also trades in the products of other well-known fertilizer manufacturers. Ammonium sulphate, a nitrogen fertilizer containing sulphur, makes the business segment one of the world's leading providers.

Complex fertilizers – a balanced nutrient mix

Nitrogenous complex fertilizers are fertilizers that, in addition to nitrogen, include additional nutrients, especially potash and phosphate. In addition to these primary nutrients, we supplement many of our complex fertilizers with magnesium, sulphur as well as, in part, important trace elements. In the case of the complex fertilizers sold by fertiva under the NITROPHOSKA® brand, the raw materials are combined in the production process in a liquid or semi-liquid state and subsequently granulated. As a result, each fertilizer grain contains precisely the same combination of nutrients to allow for controlled, even spreading on fields. The complex fertilizers offered are mainly used for major crops, such as cereals, corn, rape, sugar beet as well as grassland.

Straight nitrogen fertilizers facilitate the application of nitrogen as needed

To optimise the supply of nutrients, the total quantity of fertilizer is divided up into several doses during the growth phase. Straight nitrogen fertilizers make it possible for a plant to be supplied with nitrogen in keeping with needs during the course of its growth. Calcium ammonium nitrate and ammonium sulphate nitrate, which additionally contains the nutrient sulphur, are the main products in this segment. Ammonium sulphate nitrate is generally used for crops requiring sulphur such as winter rape. Another straight fertilizer speciality in this segment is our product ass® bor for crops that require boron, such as rape.

Ammonium sulphate has varied applications

Ammonium sulphate is a fine-crystalline product. It contains nitrogen as well as sulphur and is a by-product formed during the process of producing caprolactam in the chemical industry. Ammonium sulphate has two main applications. In Europe, it is mainly used by our customers as a raw material in the production of fertilizers with ammonium sulphate serving as a source of nitrogen and sulphur. In many overseas countries, farmers apply ammonium sulphate as a fertilizer directly.

fertiva

www.fertiva.de

fertiva impresses through customer proximity and efficiency

fertiva activities are focussed on Western Europe and on regions overseas that hold out promise of sustainable success. The market and product portfolio is continually analysed and constantly optimised in response to strategic goals. In July 2006, fertiva and the chemical company Lanxess agreed on a long-term ammonium sulphate delivery contract, thus continuing the long-standing and successful cooperation already initiated with Bayer. fertiva will invest in the Lanxess site at Antwerp in order to be able to offer its customers two different grades of the ammonium sulphate fertilizer in the future, enabling fertiva to bolster its strong position worldwide in sulphur fertilizers.

Salt Business Segment

Salt is an omnipresent element of our lives. It aids our health, is used for seasoning, dyeing and disinfecting and, on top of that, has numerous other applications. It is indispensable for ensuring road safety and is an important component in the production of glass, paper and synthetic materials. In a nutshell: Our lives are unimaginable without salt.

esco – european salt company makes K+S the largest supplier of salt in Europe. esco possesses three rock salt mines, three brine plants as well as several evaporated salt facilities. Our rock salt deposits were formed in the Upper Permian Zechstein period more than 230 million years ago. At about 99 %, the purity of the salt that we extract underground is very high and occupies a leading position among the competition in Europe. esco's annual production capacity amounts to about 8.6 million tonnes of crystallised salt.

With the acquisition of Chilean Sociedad Punta de Lobos in the middle of 2006, the Salt business segment now also possesses an open-cast production site locate in Chile and a sea salt facility in Brazil. In Chile, rock salt is extracted in the Salar Grande region of the Atacama desert. This desert is considered one of the driest regions of the world: The conditions there make it possible salt to be extracted in a cost-effective open-cast mine. The excellent quality of the crude salt allows it to be processed into speciality products for numerous application areas. The enormous salt reserves in this deposit are sufficient to supply the population of the world with salt for the next 5,000 years. Annual production capacity amounts to 6 million tonnes at present. Once the expansion of the port is completed, it will be possible to raise output and loading significantly over the short-term. The company Salina Diamante Branco operates a sea salt facility with annual capacity of 450,000 tonnes in the northeastern part of Brazil.

Food grade salts – an indispensable part of daily life
Food grade and pickling salts are indispensable for private households and the food processing industry. They convey taste and are particularly essential as a preservative in the production of foodstuffs such as meat, sausages, bread and cheese. In addition to various herbal salt mixtures, we offer food grade salt containing iodine and fluoride. Thus, the body is additionally supplied with these vital minerals and deficiencies are prevented from arising.

Our food grade salt and herbal salt brands are very well established with customers. In Chile, the brand Sal Lobos® is the market leader. In Germany, the brand Sonnensalz®, which has been established for decades, enjoys a high degree of recognition. In France, the brand Cérébos® is the number two and VATEL® is the leading food grade salt brand in Portugal. For the production of snacks, e. g. pretzels and pretzel sticks, our customers in Germany rely on the well-known pretzel salt brand Bäckerstolz®.

The base products for the broad range of our food grade salts are high-purity evaporated salts, but rock salts in their natural form are also used.

Industrial salt – a raw material with innumerable applications

Industrial salts are used by dyeing works, the textile industry, in the production of foodstuff for animals, to preserve fish, in the glazing of ceramic products, in drilling fluids used in the extraction of oil and natural gas and in many other industrial areas. As a key element of infusion solutions, it can save lives and also appears in many life-preserving medicines as pharmaceutical salt.

Water softening salts, mainly in the form of tablets, are used in water softening equipment. The leading European brands axal® and axal® Pro salt tablets as well as the Regenit® salt tablets and compact salts meet the strict quality requirements set by Euronorm EN 973 Type A and guarantee the user optimal application characteristics and soft water.

Lickstones used for breeding cattle and wild animals complete the assortment. The SOLSEL® salt lickstone range could be diversified last year. The product range was extended to include lickstones with vitamins, for example.

Salts for chemical use – essential for the chemical industry

Salt for chemical use is one of the most important raw materials for the chemical industry. In electrolysis plants it is split into the joint products chlorine, caustic soda and hydrogen. Chlorine is a popular and frequently used raw material for chemists, because it is one of the most reactive chemical elements. It reaches the end user in the form of polyvinylchloride (PVC), for example, a synthetic material with numerous application possibilities as flooring, window frames, piping systems and industrial packaging.

De-icing salt – the safety product for winter road clearance services

Applied using today's state-of-the-art spreading and measuring technology, de-icing salt for winter road clearance services is a very efficient and environmentally friendly product for ensuring road traffic safety. Recently, independent studies have confirmed several times that there is no alternative to de-icing salt for winter road clearance services even from an ecological angle: De-icing salt is the most effective and efficient way to keep roads and motorways free of snow and ice. In particular, the use of de-icing salt on roads with heavy traffic and especially dangerous areas is markedly superior to other gritting materials, such as grit, in terms of economy and environmental friendliness.

Brine and other businesses round off the assortment

Brine and other businesses cover sodium chloride brine, magnesium chloride solutions as well as services supplied by esco and SPL. In addition to captive use connected with the production of evaporated salt, sodium chloride brine is used by the chemical industry as a raw material; magnesium chloride solution is mainly used as a component of prewetted de-icing agents employed by winter road clearance services. One of the services offered by esco is also the storage of liquid gas in caverns at its Bernburg site. Since the acquisition of SPL, the brine and other businesses sector also takes account of the subsidiary Empremar, which handles all maritime logistics for the SPL Group. The company owns four ships for its own "local" South American service as well as for third-party business; further ships are leased.

Expansion of the loading capacity in Puerto Patillos

Key topic

www.esco-salt.com

www.spl.cl

The salt deposit in the Salar Grande region of the Atacama desert, from which SPL obtains rock salt in an open-cast mine, is especially attractive in economic terms due to its proximity to the company's own port facility in Puerto Patillos. In this port facility, ships have until now been filled with salt using only one loading terminal. In the past, the restricted loading capacity frequently led to delays in loading and thus resulted in the payment of demurrage charges. Therefore, after the takeover of SPL by K+S in the second half of 2006, work was immediately begun on the expansion of the port facility with the construction of a further terminal. This should result in a doubling of the loading capacity of the Chilean port to around 10 million tonnes annually. In addition to saving demurrage charges, this will significantly increase flexibility with regard to loading performance. The investment costs will amount to approximately € 11 million.

Complementary Business Activities

Waste Management and Recycling as well as Services and Trading are important complementary business segments for the K+S Group. Waste Management and Recycling 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 salt mines at the same time. The Services and Trading business segment provides the Group with important services at an attractive price. This is an area in which we have developed unique know-how over decades. The outsourcing of such service activities essential for the Group would ultimately be more expensive, as regular comparisons with market terms show.

Waste Management and Recycling

We offer long-lasting safe solutions that meet market needs using the latest in waste management and recycling systems. The Waste Management and Recycling business segment is the technological leader in Europe for the provision of underground waste management ensuring the safe disposal of contaminated waste over long periods of time. Our particular know-how in dealing with such waste is also in demand well outside Germany's borders and we set benchmarks in terms of environmental standards and safe disposal. We ensure competent marketing and efficient, customer-oriented distribution in selected European markets through K+S Entsorgung GmbH.

Strong market positions in Germany and Europe

With regard to underground waste management, we are the largest service provider in Europe in terms of volume and revenues. However, the market is being fought over by numerous suppliers of disposal services for special waste both above ground and below ground level; we are able to defend our position successfully with particularly customer-oriented disposal solutions. In the case of recycling salt slag from the secondary aluminium industry too, we are a leading provider in Germany and in the rest of Europe.

Underground disposal is the securest over the long term

Waste disposal involves the removing of waste that cannot be prevented or recycled. Such waste needs to be disposed of in a manner that is safe over the long term. The Waste Management and Recycling business segment operates two underground storage sites. Suitable caverns in this respect are only those located in intact salt rock formations that are absolutely free of water as well as impermeable for gas. By means of a combination of geological and technical barriers, we ensure the highest possible degree of safety; the stored waste is isolated from the biosphere in a permanent and secure manner – a service no landfill facility can offer.

Underground reutilisation uses the K+S infrastructure

In contrast to disposal, making commercial use of waste is the aim of recycling. We operate three underground reutilisation facilities in active K+S mines. Approved non-mining waste is exploited for the purpose of filling suitable caverns. For example, the increase in the incineration of residential waste at waste incineration plants has led to a rise in flue gas cleaning residues, which are reutilised by K+S underground. By employing special techniques and using the physical properties of the construction waste, a supporting effect is achieved that ensures the caverns' stability over extremely long periods of time, i.e. thousands of years. As in the case of underground storage sites, use can be made of the infrastructure available, e.g. shafts and conveyor systems, as well as competent employees.

Recycling makes ecological sense and is lucrative

The Waste Management and Recycling business segment markets high-quality smelting salts from potash production that optimise yields for smelting aluminium waste. We take back the salt slag produced during the process in the form of a waste product and reprocess it in our REKAL facility: The aluminium granulate extracted from the salt slag is then reintroduced into the substance cycle.

We use a recycling plant for building materials in connection with the re-cultivation of a potash tailings pile. Uncontaminated and slightly contaminated soil and rubble are recycled and also serve as a secondary building material in road construction and civil engineering projects in addition to being employed in recultivation.

Key topic

Waste Management: Waste as tomorrow's raw materials

www.ks-entsorgung.com

Our underground storage facilities in rock salt formations are not only the safest means of disposing of hazardous waste, but also offer the opportunity to recover waste. The reusable materials they contain can be fed back into the raw materials cycle. Depending on the content of reusable materials, on the costs involved in their recovery and the costs of raw material recycling, subsequent recovery can become financially attractive in a time of raw material shortages and high raw material prices. For transformers containing copper in particular, this effort is currently worthwhile. Our underground storage facilities provide the only method of disposal in which subsequent recovery is undertaken.

Services and Trading

The Services and Trading business segment pools important service activities for the K+S Group such as logistics, IT and analytics: They are needed across all business segments and are also offered to third parties to a limited extent. We deliberately expose these activities to competition to ensure quality of service for the K+S Group and its partners that is always cost-effective and meets market standards.

Efficient logistics is of central importance for the business success of the K+S Group

The focus of K+S logistics is on constantly optimising logistics chains from production to customers and the best possible exploitation of the potential for synergies within the K+S Group; taken together, both these elements yield significant savings on logistics costs. Alongside the central logistics unit, which coordinates the interlinking of the supply chain units in all the business segments, we also possess our own competent logistics service provider in Kali-Transport Gesellschaft mbH (KTG), Hamburg, and its subsidiaries. The operation of the "Kalikai" in Hamburg, one of Europe's largest transhipment facilities for exports of bulk goods, is KTG's core business and of strategic importance for the Potash and Magnesium Products business segment at the same time.

The K+S Group's container business, which is growing strongly in international terms, is also directed from Hamburg, including preshipment from our production sites to the loading terminals. Here we have developed very cost-effective systems for the purpose of making greater use too of environmentally friendly means of transport such as rail and inland waterways. The subsidiary German Bulk Chartering (GBC), which is also based in Hamburg, handles millions of tonnes in ship loading each year for group companies and third parties as well. In addition, KTG and its subsidiary United Bulk Transport See- und Hafen-Spedition GmbH (UBT) are active in Hamburg, Rostock and Wismar as seaport freight forwarders and shipping agents for more than 1,000 ships each year.

Thus, the K+S Group, including the shipping company Empremar acquired along with the SPL Group, possesses the necessary know-how in all areas to bring the almost 40 million tonnes each year to our customers in a competent and cost-effective manner.

Original know-how bundled for new services
In the case of the former Salzdefurth potash plant, an exemplary way has been found of successfully continuing to use existing plants and extensive sections of the infrastructure of a disused potash plant and of creating jobs. We use the site to granulate the animal hygiene product CATSAN® for Masterfoods GmbH.

All K+S Group IT activities are pooled in our subsidiary data process GmbH. This unit is not only responsible for the development and operation of the entire IT landscape of the K+S Group but also for the further evolution of IT strategy, participating in the development of relevant business processes and the efficient interlinking of the business segments. The range of services offered covers almost all areas of information technology: from a full-range IT service to the development of individual applications. The extensive standardisation of identical processes on the basis of SAP enables a high level of efficiency to be attained in all K+S companies.

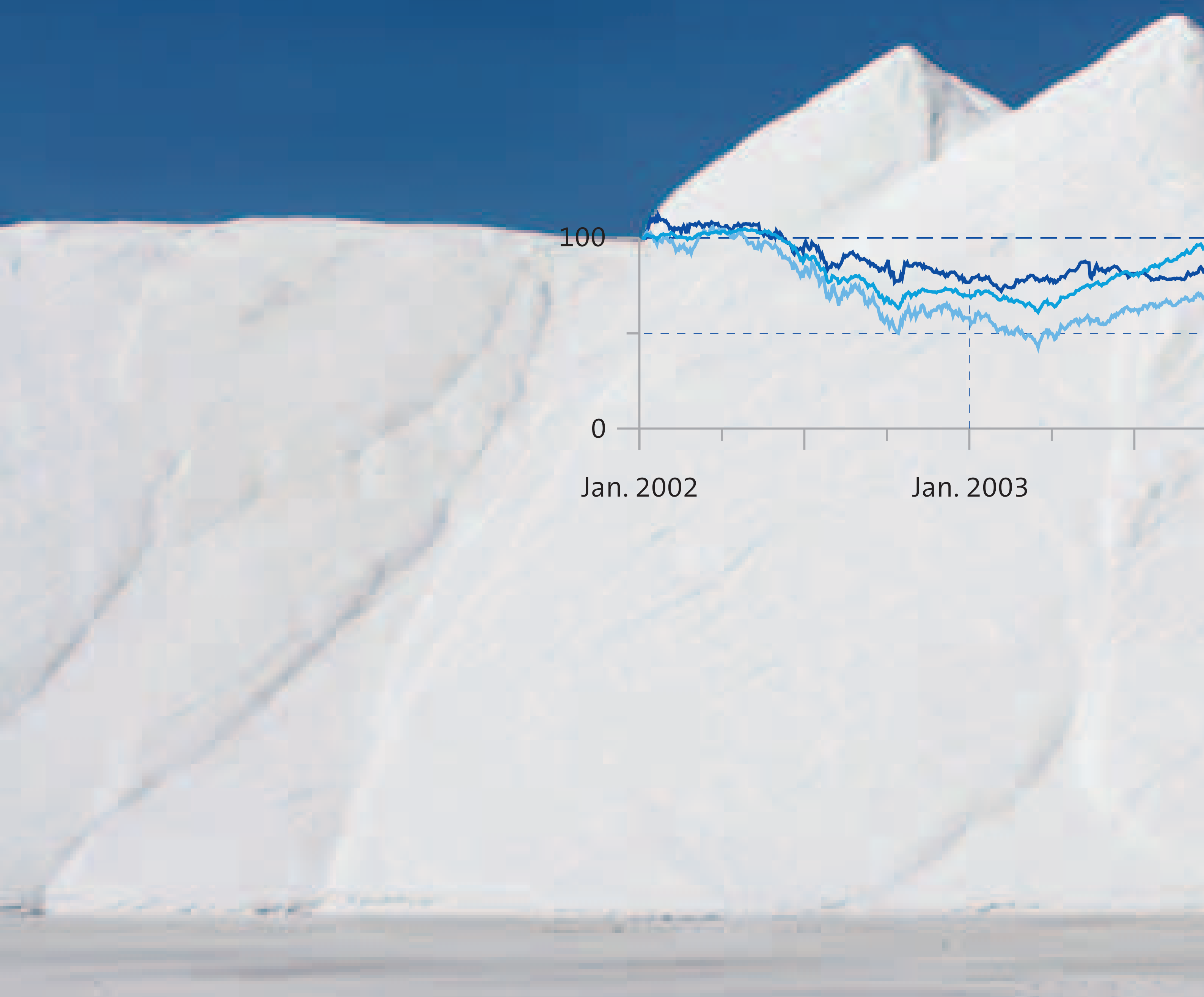
Our subsidiary CFK trades in various basic chemicals. They included calcium chloride, sodium carbonate (soda), caustic soda and sodium sulphate. CFK's customers include well-know European chemical companies, glass manufacturers, metal processing businesses as well as local authorities, which use calcium chloride solution for prewetted salt application by winter road clearance services.

In the case of the consulting and analytical services business unit, K+S Consulting GmbH, offers advisory services basing on experience gained in numerous international projects and the particular mining engineering competence of the K+S Group. Expert opinions are offered worldwide on exploration, extraction and processing relating to potash and rock salts as well as salt solutions, cavern construction and operation, the building of underground waste storage and recycling facilities as well as the backfilling and maintenance of mines and shafts. Furthermore, experienced teams of analysts are available at biodata Analytik GmbH, in the K+S Research Institute and in plant laboratories to conduct specific analyses relating to crude salt mining as well as in the areas of environmental and food processing technology. This enables us to offer a wide range of services connected with investigations of relevance for the environment, such as analyses of soil and water, raw materials and products, as well as mobile air monitoring. Ongoing analyses and inspections in the Waste Management and Recycling business segment and in relation to all fertilizer products too are indispensable for customers and public agencies.

www.biodata-analytik.com
www.cfk-gmbh.de
www.dataprocess.de
www.kali-transport.com
www.ks-consult.com
www.ubtnet.com

How much salt goes into a good deal?

The value of the K+S share has risen by an annual average of 35 % over the last five years. This development reflects the high level of trust shown by investors. In 2006, K+S purchased the largest South American salt producer, Sociedad Punta de Lobos (SPL). This acquisition has brought us, in addition to efficient production and processing facilities, a 500 square kilometres salt deposit, which can supply the world's population with salt for the next 5,000 years. Thanks to this deal, we have obtained an important position in the pan-American salt market and created an excellent starting point for additional sustainable growth of the Group and the dynamic further development of the K+S share.




K+S
MDAX
DAX
Jan. 2004
Jan. 2005
Jan. 2006
Jan. 2007
Index: 31 December 2001 = 100
Source: Bloomberg; as of 28 February 2007

The K+S Share

- The K+S share gains 61 % in 2006
- € 5,000 invested in K+S shares become € 22,699 in five years: +35.3 % p. a.
- 1.25 million K+S shares cancelled at the beginning of 2006
- At just under 90%, K+S share free float remains high
- Analyst coverage extended further
- Dividend raised by 11.1% to € 2.00

ISIN: DE0007162000
WKN: 716200
Bloomberg: SDF

K+S Share Key Indicators		2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB	2002 HGB
Earnings per share, adjusted [1]	€/share	5.29[5]	3.81	2.43	2.42	2.43
DVFA earnings per share	€/share	–	–	–	1.53	1.62
Dividend per share [2]	€/share	2.00	1.80	1.30	1.00	1.00
Gross cash flow per share	€/share	8.31	8.07	6.45	5.00	5.07
Book value per share	€/share	25.71	22.58	20.76	13.76	12.42
Year-end closing price (XETRA)	€	82.20	51.05	39.10	21.76	17.35
Highest price (XETRA)	€	82.20	59.10	39.43	21.76	24.51
Lowest price (XETRA)	€	52.20	36.20	21.19	15.81	16.83
Year-end market capitalisation	€ million	3,390.8	2,105.8	1,661.8	924.8	780.8
Total stock exchange turnover	€ million	4,322.1	1,899.2	998.0	416.3	469.4
Average daily turnover	€ million	16.9	7.4	3.9	1.6	1.9
MDAX weighting	%	3.2	2.6	2.7	1.9	2.2
Total number of shares as of 31 Dec.	million	41.25	42.50	42.50	42.50	45.00
Outstanding shares as of 31 Dec. [3]	million	41.25	41.25	42.50	42.50	41.52
Average number of shares [4]	million	41.24	42.31	42.50	41.77	42.82
Total dividend payment [2]	€ million	82.5	74.3	55.3	42.5	41.5
Dividend yield (closing price) [2]	%	2.4	3.5	3.3	4.6	5.8
Return on equity after taxes [1]	%	21.9	17.8	12.1	11.2	12.9
Return on capital employed (ROCE)	%	17.4	19.5	14.2	12.8	15.1
Enterprise value (EV) as of 31 Dec.	€ million	4,109.0	2,429.8	1,994.9	884.9	788.1
Enterprise value to revenues (EV/revenues)	x	1.4	0.9	0.8	0.4	0.3
Enterprise value to EBITDA (EV/EBITDA)	x	10.2	6.3	6.9	4.0	3.3
Enterprise value to EBIT (EV/EBIT)	x	14.8	9.7	12.2	7.6	5.9

[1] from 2004 onwards, adjusted for the effect of market value changes; a tax rate of 37.0 % has been assumed
[2] the figure for 2006 corresponds to the dividend proposal
[3] total number of shares less the own shares held by K+S on the reporting date
[4] total number of shares less the average number of own shares held by K+S
[5] including non-recurrent deferred tax income of € 1.02 per share

Stocks continue to rally in 2006

Following the brilliant stock exchange year 2005, most of the world's stock markets continued to rally in 2006, doing so for the fourth year in a row. In 2006, a similar pattern of behaviour over the course of the year was in evidence worldwide: Initially, the stock markets posted significant gains as a result of the relatively high level of liquidity, very brisk M&A activity as well as solid corporate earnings. Then, as of May, however, rising raw materials prices as well as fears over inflation and interest rates caused most of the world's bourses to experience greater consolidation. The markets then noticeably rebounded in the second half of the year, closing the year close to their highs for the year. This was particularly attributable to the lower price of oil and expectations of interest rate cuts in the United States.

Second-line stocks outperform the DAX once again

German DAX stock index closed at 6,596 points on 29 December 2006, just short of its high for the year, representing a year-on-year increase of 22.0%. After a good start to 2006, the index, which is composed of the thirty largest German stocks, was affected by temporary unease by market participants in May and June, but then resumed its upward trend in the second half of the year.

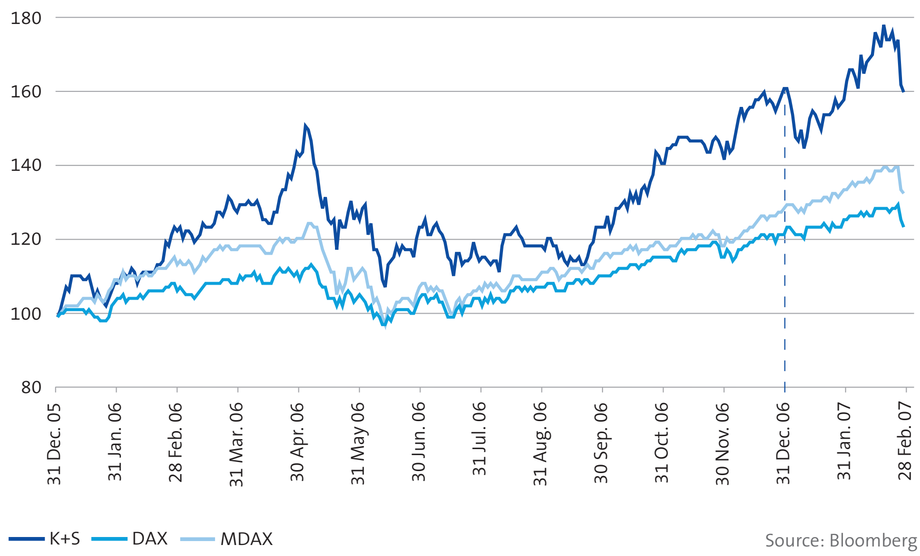
The MDAX, which consists of the largest fifty stocks from more classic industries after those included in the DAX and which is of more importance for K+S, also developed positively. It extended its lead over the DAX once again, closing the year at 9,404 points. It thus gained 28.6% on the end of the previous year.

The MDAX has also significantly outperformed the DAX over the past five years: While the DAX rose by just under 28%, the MDAX gained a good 117% over the same period.

Performance in %	1 year 2006	5 years 2002-2006	10 years 1997-2006
K+S share (excluding dividends)	+ 61.0	+ 275.3	+ 1,186.4
K+S share (including dividends)	+ 64.5	+ 303.2	+ 1,309.7
DAX (performance index)	+ 22.0	+ 27.8	+ 128.4
MDAX (performance index)	+ 28.6	+ 117.4	+ 218.0

Source: Bloomberg

Performance of the K+S share in relation to the DAX and MDAX in 2006 (indexed) (Performance in %)



Source: Bloomberg

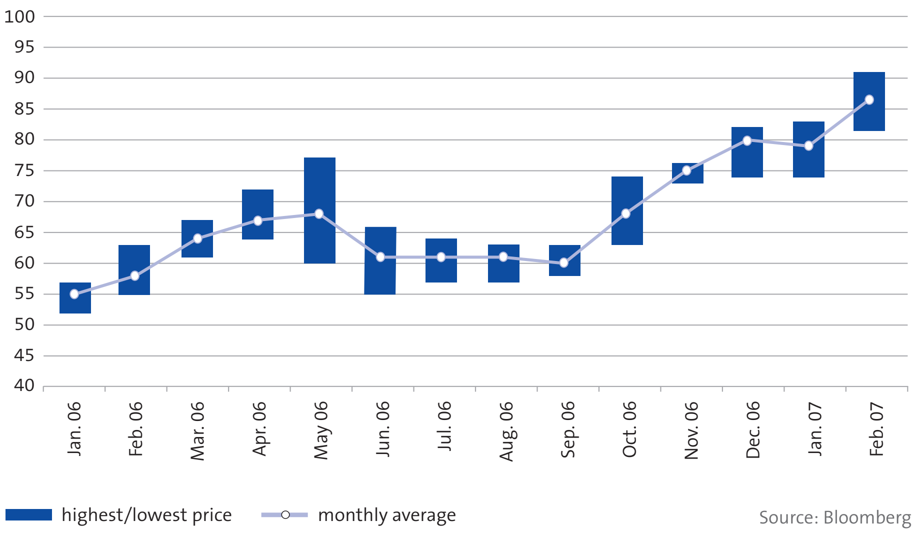
The K+S Group

K+S share gains 61 % in the year under review

After having already gained about 30 % in 2005, the K+S share continued to display a positive trend from the beginning of 2006 too. As of the middle of April, its price even began to rise at a faster pace. Following the publication of figures for the first quarter in connection with the Annual General Meeting held on 10 May 2006 that were in line with capital market expectations, profit taking set in. This was exacerbated by worldwide rising fears over inflation and interest rates. However, the K+S share received a further boost in the third quarter. Following protracted negotiations, Belarusian and Canadian potash producers reached agreement with their Chinese customers on price increases of USD 25 per tonne of potash fertilizer (MOP) in the second half of 2006. This news had a signalling effect for developments on the global potash market and was positively received by the capital market. This development also drew additional encouragement from the expectation of interest rate cuts in the United States and the decline in the price of oil. Finally, at the end of October, Russian potash producer Uralkali had to close its Berezniki I potash mine as a result of a sudden leach inflow. Against the backdrop of the resulting supply shortage as well as the anticipated marked increase in demand for potash fertilizers, the capital market expects potash prices to rise further in 2007.

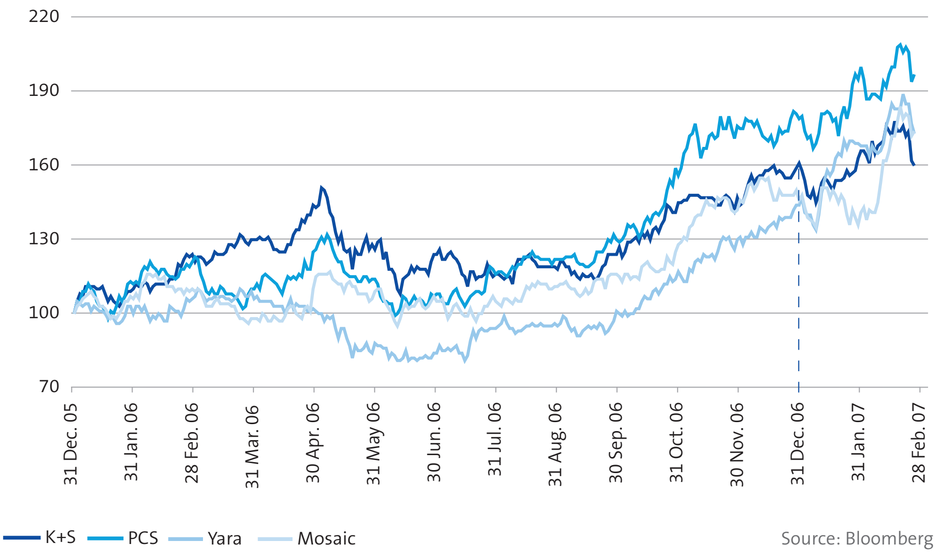
Our share was quoted at € 82.20 at the end of 2006, the highest level in its history. This represents an increase of 61.0 % in terms of performance over the course of the year. If the dividend paid in 2006 is also taken into account, the gain even amounted to 64.5 %. Thus, the performance of the K+S share over the course of the year was 32 percentage points better than that of the MDAX and even 39 percentage points better than that of the MDAX.

Monthly highest, lowest and average price of K+S share since 1 January 2006 (Share price in €)



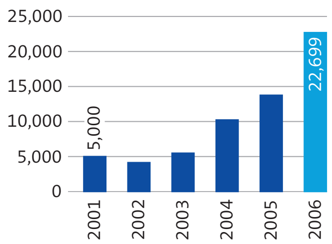
Source: Bloomberg

Performance of the K+S share in relation to competitors in 2006 (indexed) (Performance in %)



Source: Bloomberg

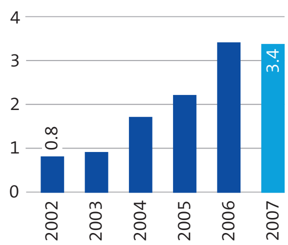
Performance of portfolio of K+S shares* (in €, as of 31 Dec.)



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

We consistently follow the relative performance of our share compared to our competitors, i. e. our peer group. It includes among others North American fertilizer producers PotashCorp and Mosaic as well as Norwegian fertilizer supplier Yara. The positive environment for the international fertilizer industry has resulted in significant stock price gains for most listed suppliers. We warmly welcome the general improvement in the perception and assessment of the industry by the capital market. However, we have noted that specific developments affecting our competitors are at times applied to K+S in an undifferentiated manner. As the K+S Group, compared with its competitors, is influenced by market trends for nitrogen fertilizers only to a limited extent, places greater emphasis on speciality fertilizers and, last but not least, is, through its salt business, active on a market that is influenced by factors completely different from those of the global fertilizer market, a more differentiated approach needs to be applied to adequately value the K+S share. Providing support to the capital market in this regard is a key task of our investor relations efforts.

Market capitalisation of K+S Aktiengesellschaft (Basis: XETRA, € billion as of 31 Dec.)



On 28 February 2007, the K+S share was quoted at € 81.52. This means that the price of our share was down by 0.8 % on the end of 2006.

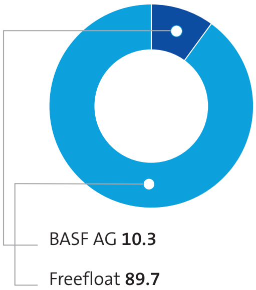
A financial investment in K+S shares has grown 35.3 % per year over the past five years

An investment in K+S shares has provided exceptionally good returns over the past five years. A K+S shareholder, who acquired K+S shares for € 5,000 on 31 December 2001 and reinvested dividend payments made over the following five years in K+S shares, found his portfolio worth about € 22,699 on 31 December 2006. The value of the portfolio rose by an average 35.3 % over the five years. By way of comparison, over the same period, the DAX and MDAX provided annual returns of +5.0 % and +16.8 %, respectively.

1,250,000 repurchased shares cancelled

After the share repurchase instrument was used for the third time in October 2005, the 1.25 million own shares bought back were cancelled without a capital decrease in January 2006. The number of K+S shares has therefore decreased to 41.25 million.

Shareholder structure as of 31 Dec. 2006 (in %)



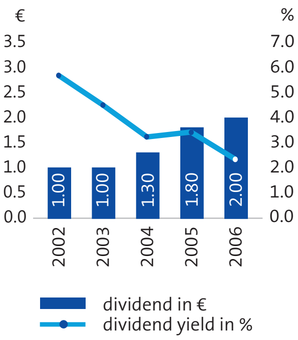
Shareholder structure characterized by high free float

BASF AG holds about 10 % of our shares. Furthermore, on 3 February 2006, we were informed by the investment company Prudential plc. and its subsidiary M&G Investment Management Limited that their holdings amounted to 5.2%, thus exceeding the 5% threshold. On 17 November 2006, Capital Group Companies, Inc. also informed us that it holds about 5.2% of K+S through its subsidiary Capital Research & Management Company. Furthermore, on 7 February 2007, the company Franklin Mutual Advisers, LLC informed us that at 5.04%, it had exceeded the 5% threshold on 6 December 2006. Finally, Deutsche Bank AG informed us on 13 February 2007 that at 5.07%, its subsidiary DWS Investment GmbH has also exceeded the 5% threshold.

Under the free float definition applied by Deutsche Börse AG, the free float amounts to just under 90%. A study identifying shareholders conducted by an external service provider in the run-up to the 2006 Annual General Meeting produced the following results: 23% of the outstanding shares were held by domestic institutional investors and 34% by foreign institutional investors. We further assume that about 33% are held by private investors and that the more than 8,000 K+S employees account for 2% to 3% of the shares.

In terms of geographical distribution, just under two thirds of our shares are held in Germany if it is assumed that the private shareholders are exclusively German residents. 13% of the outstanding shares are held in Great Britain and Ireland, a further 13% are held in the United States and in Canada, 4% in France and just under 3% in Switzerland. The rest of Europe accounts for just under 2%.

Dividends per K+S share and dividend yield*



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

Proposed dividend raises by 11% to € 2.00

We pursue an earnings-based dividend policy. As a result of the increase in earnings, the Board of Executive Directors and the Supervisory Board will propose increasing the dividend again for financial year 2006 to the Annual General Meeting: The proposed dividend will amount to € 2.00 and will therefore be 20 cents or 11% higher than the previous dividend payment.

On the basis of the year-end closing price of € 82.20, our proposed dividend will result in a dividend yield of 2.4%. This means that despite the strong rise in its share price over the past few years, the K+S share will remain an interesting investment alternative for both value and growth investors.

Listing in stock market indices

According to the rankings for February 2007, we are currently placed 11th (previous year: 9th) in the MDAX in terms of market capitalisation and 10th (previous year: 17th) in terms of trading volume. This means that we have made a great step forward towards achieving our goal of a balance between market capitalisation and trading volume. Alongside high market capitalisation, the level of trading volume is almost of equal importance for us because higher trading volume and greater liquidity makes the share more attractive for major institutional investors and less susceptible to fluctuations. The K+S share is currently quoted in the following stock market indices:

Indices including the K+S share:

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

Analyst coverage

In the most recent of the polls that we conduct regularly, nine banks gave us a buy/accumulate recommendation and six a hold/neutral recommendation; one study arrived at reduce/sell investment decision. Those analysts who follow us envisage an average target price for our share of approximately € 84. The “Investors Relations” section of our homepage carries a constantly updated overview of current research recommendations as well as consensus forecasts for revenues and earnings. We have refined our collection techniques over the past year, so that it is now possible to produce even more accurate estimates of capital market expectations.

Regular research coverage of K+S:

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

Capital markets require professional investor relations

For us, investor relations means transparent financial communications, i. e. to provide information that is comprehensive, timely and as objective as possible concerning our strategy and all events connected with the K+S Group of relevance to the capital market. The aim is to foster confidence in the quality and professionalism of our management. This is accomplished through our annual analyst conferences held in Frankfurt/Main in spring as well as the 33 roadshow and conference days that were spent last year alone in Germany, Great Britain, North America, the Benelux states, Switzerland, Austria, France and Scandinavia. In addition, we staged numerous conference calls and held one-to-one meetings with investors as well as organised an analyst workshop at one of our production sites both above and below ground level.

Our efforts in the past year too were rewarded by third parties: Thus, the 2005 K+S Annual Report was place 4th overall among the 50 MDAX stocks in the highly respected competition organised by manager-magazin and came first in the “content” category. On the basis of the extensive assessments of banks and investment funds from all over Europe, the magazine Capital along with the DVFA ranked our IR work 5th in the MDAX and in the case of the renowned “Thomson Extel Survey Beste IR Deutschland 2006,” which was conducted for the first time in Germany, we ranked 7th in the MDAX. Last but not least, anonymous polls of our shareholders and analysts revealed a very high degree of satisfaction with our IR work. That there is keen interest in K+S is also evident from the fact that annual and quarterly reports were electronically downloaded a total of 105,000 times from our homepage in 2006, of which about 28,000 times in English. There will be no reduction in our quality and intensity of capital market communication in the future.

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

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Internet: www.k-plus-s.com/en/ir

Corporate Governance

- As of 2007, only one deviation from Code recommendations
- Extensive compliance with Code suggestions
- Detailed Remuneration Report published for the first time

Corporate Governance Report

The term "Corporate Governance" denotes responsible and transparent management and control oriented towards the creation of long-term value. These principles have formed the basis of all our decision making and control processes for a long time. For K+S, the relevant legal provisions, especially the legislation that governs stock corporations, co-determination and the capital markets, our Articles of Association, the bylaws of the Supervisory Board and of the Board of Executive Directors and the German Corporate Governance Code, have formed the basis on which management and control within the Company has been shaped.

Declaration on conformity 2006/2007

In December 2006, the Board of Executive Directors and the Supervisory Board issued the following joint declaration on conformity:

"We declare pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations which were made by the Government Commission on the German Corporate Governance Code and published by the Federal Minister of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) were complied with in 2006 and will be complied with in 2007:

2006

The recommendations contained in the German Corporate Governance Code in the version of 2 June 2005 were complied with in 2006 with the following exceptions:

a) According to Code item 5.4.7, remuneration should take account of chairmanship and membership of Supervisory Board committees. In addition to payment of an attendance allowance, this was taken into account for the audit committee. No remuneration in addition to the separate attendance allowance is envisaged for the remaining committees.

b) The remuneration paid to the members of the Board of Executive Directors and the Supervisory Board was not – contrary to the recommendations in items 4.2.4 and 5.4.7 – disclosed on an individualized basis. The total remuneration received by the Board of Executive Directors and the Supervisory Board has been broken down into fixed and variable components, with additional details provided of option rights for the Board of Executive Directors.

2007

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

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

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

- The Annual General Meeting will not be carried on the Internet for the time being (Code item 2.3.4). We have not established the existence of such interest so far, but will review this decision at regular intervals.
- There are no committees other than the mediation, personnel and audit committee (Code item 5.3.3, sentence 1). We have not formed any other committees as it has hitherto been possible to deal with all issues at plenary sessions without any loss of quality.
- The suggestion of electing or re-electing Supervisory Board members at different times and for different terms of office (Code item 5.4.6) could not be implemented yet, because the last election of the shareholder and employee representatives serving on our Supervisory Board took place shortly before the appearance of the revised version of the German Corporate Governance Code of 21 May 2003.
- The remuneration received by the Supervisory Board does not include any components that are based on the long-term success of the Company (Code item 5.4.7, paragraph 2, sentence 2). Pursuant to a resolution of the 2001 Annual General Meeting, the variable component of Supervisory Board remuneration is linked to the level of the dividend as is also the practice among a large number of listed companies. We will weigh up the advantages and disadvantages that every system has and submit a recommendation to the Annual General Meeting if necessary.

Shareholders and the Annual General Meeting

Shareholders decide about 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 in a timely fashion to the shareholders on the Company's website. In addition, shareholders have the possibility of having their voting rights exercised by an authorized representative of their choice or by a proxy made available by the Company and to whom instructions can be issued.

At the Annual General Meeting held on 10 May 2006, the registration and identity procedure was replaced by the internationally customary "record date" procedure in accordance with the German Act on the Integrity of Companies and Modernisation of the Contestation Right. Thus, the 21st day before the Annual General Meeting will be deemed the cut-off date for the identification of shareholders. The bureaucratic deposit procedure that applied before has thus been abolished with a view to encouraging, especially among our foreign shareholders, participation in the Annual General Meeting and the exercising of voting rights.

The Board of Executive Directors

Cooperation among the members of the Board of Executive Directors and the distribution of business responsibilities are regulated by bylaws. The Board of Executive Directors is particularly responsible for the strategic direction of the Company as well as for the internal control and risk management system of the K+S Group. This system is being continually developed and adjusted to take account of changed conditions. Please see the “Risk Management” section of the Management Report (page 107 of this Annual Report).

The Supervisory Board

The Supervisory Board has sixteen members and, as required by the German Co-Determination Act, its members include an equal number of representatives of the shareholders and of the employees. The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. Details concerning the activities of the Supervisory Board during the year under review are set out in the Supervisory Board Report (page VI of this Annual Report).

The Supervisory Board has adopted bylaws and formed three committees from among its members: The personnel committee is responsible for preparing the appointment and removal of members of the Board of Executive Directors as well as the determination of the terms and conditions of their contracts of employment. The mediation committee performs the tasks set forth in Section 31, paragraph 3, sentence 1 of the Co-Determination Act. The chairman of the Supervisory Board is the chairman of both committees.

The audit committee deals in particular with issues relating to accounting policies and risk management as well as with such consultations as need to be held with the auditors. The German Corporate Governance Code recommends that the chairman of the audit committee should possess particular knowledge and experience with respect to the application of accounting principles and internal control procedures. Dr. Sünner, chairman of the K+S audit committee und head of the Central Legal Affairs, Tax and Insurance Department of BASF AG, possesses extensive knowledge and experience as a result of his professional background.

Board of Executive Directors and Supervisory Board cooperation

The Supervisory Board is kept informed by the Board of Executive Directors at regular intervals in a timely and comprehensive manner about all issues that are of relevance to the Company as a whole and concern corporate strategy, planning, business development and the financial and earnings position as well as about any particular business risks and opportunities. Important decisions are subject to Supervisory Board approval in accordance with the bylaws. D&O insurance exists for members of the Board of Executive Directors and of the Supervisory Board, with a deductible amounting to € 10,000 for each insured damaging event. During the year under review, there were no conflicts of interest involving members of the Board of Executive Directors and the Supervisory Board that required immediate disclosure to the Supervisory Board.

Transparency

Information about the position of the Company and about all significant changes in business affecting it is provided 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. All relevant persons working for the Company who have access to insider information within the framework of their professional duties are entered in a insider directory and are informed about their obligations under the law regarding insider information.

All important information such as press releases and ad hoc notifications are also published on the Internet. A financial calendar, providing details of important dates, is published in the Annual Report, in the quarterly reports as well as on our website. The Company's Articles of Association as well as the bylaws of the Board of Executive Directors and the Supervisory Board are also carried on the Internet along with detailed information on the implementation of the recommendations and suggestions contained in the German Corporate Governance Code and the current Remuneration Report. All shareholders and other interested parties can subscribe to an electronic newsletter that provides constant news updates on the Group.

In accordance with Section 15a of the German Securities Trading Act (WpHG), members of the Board of Executive Directors and the Supervisory Board must disclose purchases and disposals of K+S AG shares. K+S has issued internal guidelines and instructions that regulate trading in securities of the Company as well as the publication of notified transactions involving members of its governing bodies and ensure the requisite transparency. In 2006, the following directors' dealings were notified to K+S AG*:

Members of the Board of Executive Directors	Transaction	Date	Number	ø-Price in €
Dr. Ralf Bethke	Sold	15.05.2006	4,174	70.00
	Bought	17.05.2006	3,541	67.39
Norbert Steiner	Bought	17.05.2006	1,628	67.39
	Sold	20.11.2006	1,800	75.12
Gerd Grimmig	Sold	15.05.2006	1,963	70.00
	Bought	17.05.2006	1,628	67.39
Dr. Thomas Nöcker	Bought	17.05.2006	1,570	67.39
	Bought	23.05.2006	120	61.00
	Bought	14.06.2006	230	57.78
Joachim Felker	Sold	15.05.2006	1,609	70.22
	Bought	17.05.2006	1,569	67.39

Members of the Supervisory Board	Transaction	Date	Number	ø-Price in €
Dr. Helmut Zentgraf	Sold	21.03.2006	606	63.51
	Bought	16.05.2006	526	68.50
	Sold	21.11.2006	1,332	75.14

* same-day reports are combined; you will find a detailed table on our homepage at http://www.k-plus-s.com/en/ir/kodex/dealings.html

As of 31 December 2006, the members of the Board of Executive Directors and the Supervisory Board held fewer than 1% of the total number of K+S Aktiengesellschaft shares outstanding.

Accounting policies and audit

International Financial Reporting Standards (IFRSs) have been applied since the beginning of 2005 in preparing the consolidated financial statements of K+S Aktiengesellschaft. Audits of the financial statements have been 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 auditors are appointed by the Supervisory Board, acting on a recommendation submitted by the audit committee, after the audit fees and the main topics to be covered by the audit have been agreed with the auditors. The chairman of the Supervisory Board and the chairman of the audit committee are to be immediately advised by the auditors of any grounds giving rise to exclusions or objections that may arise during the audit if they cannot be eliminated immediately. Furthermore, the auditors should immediately advise of all findings and developments of relevance to the tasks of the Supervisory Board that may arise during the audit. In addition, the auditors are required to advise the Supervisory Board or make an appropriate note in the audit report if, during the course of the audit, the auditors ascertain any facts suggesting any incorrectness in the declaration on conformity issued by the Board of Executive Directors and Supervisory Board in accordance with Section 161 of the German Stock Corporation Act.

Remuneration Report

The Remuneration Report explains the remuneration system for the Board of Executive Directors and discloses the remuneration of the members of the Board of Executive Directors and the Supervisory Board on an individualised basis and broken down into components for the year under review. It further contains the information to be provided in accordance with Sections 285 no. 9a, 289 par. 2 no. 5, par. 4 no. 9 and 314 par. 1 no. 6a, 315 par. 2 no. 4, and par. 4 no. 9 of the German Commercial Code that otherwise would have been reported in the Management Report / Notes of K+S Aktiengesellschaft and in the Group Management Report / Group Notes.

Remuneration of the Board of Executive Directors

Remuneration structure

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

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

The fixed remuneration as remuneration not related to performance is paid monthly as a salary and reviewed on an annual basis. In addition to this, the board members receive other benefits, in particular contributions to pension, health and long-term care insurance as well as in-kind benefits, which consist mainly of the use of company cars. The bonus is based on the Group's return on total investment and on individual performance and is paid in the following financial year.

In addition, it is possible for income to be obtained by exercising stock options as a variable component of remuneration with a long-term incentive and risk character. Within the framework of a virtual stock option programme, members of the Board of Executive Directors can use 30 % of their performance-related remuneration for own investments in K+S shares. By acquiring such basic shares, the participants receive virtual options that trigger a cash payment when exercised. The amount of the cash payment depends on the performance of the K+S share in relation to the MDAX as the benchmark index and is capped at 25 % of excess performance. The basic price of the K+S share decisive for the calculation of performance corresponds to the average share price during the 100 trading days until the respective base reference date (the third from last Friday before the Annual General Meeting). A subsequent change of the success targets or comparison parameters is impossible. A lock-up period of two years applies to the exercise of the options and the options expire after a total period of five years, after which the unexercised options expire without compensation. In order to be able to exercise the options, the basic shares must be held in succession until the day the option is exercised.

Amount of remuneration

Payments for 2006

For 2006, the short-term remuneration of the Board of Executive Directors is (T€):

Remuneration of the Board of Executive Directors	Fixed remuneration	In-kind and other benefits	Bonus	Total
Dr. Ralf Bethke	420	22.3	856.6	1,298.9
Norbert Steiner	325	21.5	433.5	780.0
Gerd Grimmig	295	25.0	398.5	718.5
Dr. Thomas Nöcker	295	20.1	397.5	712.6
Joachim Felker	295	18.2	397.5	710.7
Total 2006	**1,630**	**107.1**	**2,483.6**	**4,220.7**

The number of and payments for the virtual stock options exercised in 2006 by members of the Board of Executive Directors are shown in the following table:

Share-based remuneration with long-term incentive character	Number of exercised virtual stock options	Payment (€) per virtual stock option	Total (T€)
Dr. Ralf Bethke	83,480	6.04	504
Norbert Steiner	33,000	6.04	199
Gerd Grimmig	39,260	6.04	237
Dr. Thomas Nöcker	14,180	6.04	86
Joachim Felker*	32,180	6.04	194
Total 2006	**202,100**	**6.04**	**1,221**

* The basic investment was made as general manager of K+S KALI GmbH.

Reporting date values of future option opportunities

The values of the virtual stock options acquired but not yet exercised in the framework of the options programme in 2005 and 2006 are shown in the following table (value had they been exercised on 31 Dec. 2006):

Share-based remuneration with long-term incentive character	Option programme 2005		Option programme 2006		Total
	Number of options	Value (T€) on 31.12.2006	Number of options	Value (T€) on 31.12.2006	Value (T€) on 31.12.2006
Dr. Ralf Bethke	76,360	711	70,820	859	1,570
Norbert Steiner	35,300	329	32,560	395	724
Gerd Grimmig	35,300	329	32,560	395	724
Dr. Thomas Nöcker	33,680	314	31,400	381	695
Joachim Felker*	41,220	384	31,420	381	765
Total	**221,860**	**2,067**	**198,760**	**2,411**	**4,478**

* The programme for 2005 in part contains options from acting as general manager of K+S KALI GmbH.

Virtual options from earlier programmes were already fully exercised in previous years.

Pension commitments

In 2000, the Company pension system, which mainly provided for defined benefit commitments, was replaced by a modular defined contribution system. The pensions of the four active members of the Board of Executive Directors appointed as of 2000 are based on this modular system, while a member of the Board of Executive Directors is entitled to a defined benefit commitment in accordance with the regulations applying until 2000.

In the modular system, for each year of the appointment, a pension module is created on the basis of the "pensionable income", which consists of the short-term benefits, and therefore the fixed remuneration and the bonus for each financial year. The resulting pension module is calculated using an actuarial pension table.

If a Board of Executive Directors mandate ends, the retirement pension starts no sooner than on completion of the 65th year of life, unless it is to be paid on the basis of an occupational or general disability or as a survivor's pension in the case of death.

For members of the Board of Executive Directors, the following amounts (T€) were allocated to pension provisions in 2006:

Pensions	Age	Allocations
Dr. Ralf Bethke	64	538*
Norbert Steiner	52	81
Gerd Grimmig	53	114
Dr. Thomas Nöcker	48	61
Joachim Felker	54	72
Total 2006		**866**

* Includes an adjustment resulting from the defined benefit commitment resolved by the personnel committee on 25 August 2004 and carried out as planned in 2006.

Early termination of Board of Executive Directors' contracts

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

- 50 % of the fixed remuneration during the 1st appointment,
- 100 % of the fixed remuneration during the 2nd appointment,
- 150 % of the fixed remuneration during the 3rd appointment,
- 200 % of the fixed remuneration during the 4th appointment.

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

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

Other

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

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in Article 12 of the Articles of Association. Accordingly, the members of the Supervisory Board are, in addition to the reimbursement of expenses and an attendance allowance of € 200 each, which is also paid for attendance at committee meetings, paid fixed remuneration of € 10,000 per year together with variable remuneration, which is based on the level of the dividend payment. A member of the Supervisory Board receives € 250 for each cent by which the dividend exceeds the amount of € 0.20. The chairman of the Supervisory Board receives twice this amount and the vice chairman receives one and a half times the amount. The five members of the audit committee each receive additional annual remuneration of € 5,000 with the committee chairman again receiving twice that amount.
No benefits for personally performed services, in particular consultancy or brokerage services, were granted to the members of the Supervisory Board.

Remuneration of the Supervisory Board (€)*	Fixed remuneration	Variable remuneration	Audit committee	Attendance allowances	Total
Gerhard R. Wolf	20,000	90.000	5,000	1,800	116,800
Michael Vassiliadis	15,000	67,500	5,000	1,800	89,300
Jella S. Benner-Heinacher	10,000	45,000		800	55,800
Karl-Heinz Georgi	10,000	45,000		1,200	56,200
Rainer Grohe	10,000	45,000		1,200	56,200
Dr. Karl Heidenreich	10,000	45,000	5,000	1,600	61,600
Rüdiger Kienitz	10,000	45,000		800	55,800
Klaus Krüger	10,000	45,000	5,000	1,600	61,600
Dieter Kuhn	10,000	45,000		1,000	56,000
Heinz-Gerd Kunaschewski	10,000	45,000		1,000	56,000
Dr. Bernd Malmström	10,000	45,000		800	55,800
Helmut Mamsch	10,000	45,000		800	55,800
Dr. Rudolf Müller	10,000	45,000		1,000	56,000
Renato de Salvo	10,000	45,000		1,000	56,000
Dr. Eckart Sünner	10,000	45,000	10,000	1,400	66,400
Dr. Helmut Zentgraf	10,000	45,000		1,000	56,000
Total 2006	**175,000**	**787,500**	**30,000**	**18,800**	**1,011,300**

* The variable remuneration is subject to the reservation that the Annual General Meeting on 9 May 2007 resolves the proposed dividend of € 2.00 per share. All members of the Supervisory Board were active as members of the Supervisory Board for the whole period under review.

For their activity on the Supervisory Board of the subsidiary K+S Kali GmbH, Mr Wolf and Mr Vassiliadis received remuneration in the aggregate amount of € 54,100 (including attendance allowances) for financial year 2006. In the previous year, the corresponding amounts had totalled € 43,200.

In addition to this, members of the Supervisory Board were reimbursed expenses totalling € 58,111* in 2006 (previous year: € 27,052).

* The increase in the reimbursement of expenses in the year under review resulted mainly from a trip made by members of the Supervisory Board for the preparation of the decision whether to acquire the SPL Group.

Why isn't interna-tionalisation the limit to growth yet?

Our business sectors are growing and flourishing magnificently all over the world. It's not only our innovative products that we have to thank for that, but the people who are behind them above all. Outstanding service, fresh ideas like distribution by container at the "Kalikai" quay and the committed approach of our employees are our most important capital. A firm local basis in the individual markets provides an important impetus for our development. That's why we can quickly commence research into customer needs and thus place successful innovative products on the market faster than our competitors: e.g. innovations in Korn-Kali® for South-East Asia or in COMPO for farmers all over the world. We pursue not just economic, but also ecological and social goals, which are deeply rooted in our culture.

Business and General Environment

Group structure and business operations

Group legal structure

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

K+S KALI GmbH, K+S Salz GmbH and fertiva GmbH are significant direct subsidiaries. K+S Salz GmbH groups together esco – european salt company GmbH & Co. KG as well as the companies taken over as a result of the acquisition of Sociedad Punta de Lobos S.A. (SPL). COMPO GmbH & Co. KG is held through an interim holding company. While foreign subsidiaries are grouped together in own subsidiaries in the case of K+S KALI GmbH and K+S Salz GmbH, the foreign companies of the COMPO and fertiva business segments are managed through direct subsidiaries of K+S AG. The Waste Management and Recycling as well as the Services and Trading business segments, too, are linked with K+S AG through subsidiaries.

The scope of consolidation was extended by 19 companies in 2006. This was due to the acquisition of Chilean salt producer SPL. As a result of the acquisition, companies in Chile, Brazil and the United States, in particular, with a focus on the production and distribution of salt products as well as related logistical processing were included for the first time.

Business segments and organisational structure

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

K+S Group		
Fertilizers and plant care	KALI	Potash and Magnesium Products
		COMPO
	fertiva	fertiva
Salt	esco european salt company; SPL	Salt
Complementary business segments	K+S	Waste Management and Recycling
	K+S dp	Services and Trading

Potash and Magnesium Products business segment

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

COMPO business segment

The COMPO business segment is represented by COMPO GmbH & Co. KG and its domestic subsidiaries as well as through K+S Beteiligungs GmbH with its numerous foreign companies. Inter alia, the business segment has sites of its own in Germany at Münster, where the registered office of COMPO GmbH & Co. KG is located, and at Krefeld.

fertiva business segment

The fertiva business segment comprises fertiva GmbH in Mannheim as well as two distribution companies in France and in Argentina. In addition, fertiva uses the foreign distribution companies of the Potash and Magnesium Products as well as COMPO business segments.

Salt business segment

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

Waste Management and Recycling business segment

The Waste Management and Recycling business segment of the K+S Group largely uses the active production sites at the potash and rock salt plants. While the marketing of waste disposal and recycling services in Germany is pooled in Kassel-based K+S Entsorgung GmbH, they are mainly marketed in the European countries through the local K+S Group companies, whose waste disposal activities are managed centrally from Germany by K+S Entsorgung GmbH.

Services and Trading business segment

Further service activities of importance for the K+S Group are bundled in the Services and Trading business segment in addition to CATSAN® granulation. The Group possesses a powerful logistics service provider of its own in Europe in the form of Kali-Transport Gesellschaft mbH (KTG), Hamburg, and its subsidiaries. The range of services offered by data process GmbH (dp) covers almost all areas of information technology, extending from a full-range IT service to the development of individual software applications. Chemische Fabrik Kalk GmbH (CFK) trades in various basic chemicals. K+S Consulting GmbH and biodata ANALYTIK GmbH offer services in the field of specialised project consulting and analytics.

Key Sites

At the end of 2006, the K+S Group employed a total of just under 11,900 people in Germany and abroad. The following table provides an overview of the most important K+S Group sites and the number of staff employed by them at the end of 2006:

Important K+S Group Sites	Business Segment	Employees*
K+S sites in Kassel, Hesse (K+S AG/K+S KALI/K+S Entsorgung/data process/UBT)		526
Kaliverbundwerk Werra, Hesse and Thuringia (Heringen/Merkers/Philippsthal/Unterbreizbach)	Potash and Magnesium Products	4,109
Zielitz Potash Plant, Saxony-Anhalt	Potash and Magnesium Products	1,597
Sigmundshall Potash Plant, Lower Saxony	Potash and Magnesium Products	758
Neuhof-Ellers Potash Plant, Hesse	Potash and Magnesium Products	690
Bergmannssegen-Hugo Potash Plant, Lower Saxony	Potash and Magnesium Products	141
esco headquarters, Hanover, Lower Saxony	Salt	77
Bernburg Salt Plant, Saxony-Anhalt	Salt	470
Borth Salt Plant, North Rhine-Westphalia	Salt	314
SPL headquarters, Santiago de Chile, Chile	Salt	122
Empremar, shipping company, Santiago de Chile, Chile	Salt	199
SPL open-cast mining operations, Atacama Desert/Patillos, Chile	Salt	147
Salina Diamante Branco, sea salt facility, Brazil	Salt	123
ISCO, distribution company, Clarks Summit, U.S.A.	Salt	69
COMPO headquarters, Münster, North Rhine-Westphalia	COMPO	332
COMPO plant, Münster, North Rhine-Westphalia	COMPO	169
fertiva headquarters, Mannheim, Baden-Württemberg	fertiva	61

* in FTE (full-time equivalent): part-time positions are weighted in accordance with their respective share of working hours; including trainees

Management and control

The business segments and holding functions of the K+S Group work together in a matrix organisation pari passu and in pursuit of the Group interest. In this regard, the matrix organisation provides support for the following goals of the K+S Group:

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

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

Basic features of the remuneration system

The information to be disclosed in accordance with Section 315, par. 2, no. 4 HGB is contained in the Remuneration Report included in the Corporate Governance Report; the Remuneration Report also constitutes an integral part of the Management Report.

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

K+S enables the Board of Executive Directors as well as key employees to participate in a virtual stock option programme. In 2006, a total of 239 people working for K+S were eligible to participate in it. You can find a more detailed description of the programme, which is identical for the board members and for key employees, in the Remuneration Report on page 47 et seq.

Information pursuant to Section 315 par. 4 HGB

Item 1: Composition of subscribed capital

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

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

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

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

With a holding of 10.3 %, BASF AG is the only shareholder of K+S AG to exceed the 10 % threshold; the remaining shares float freely.

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

There are no special rights conferring control powers.

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

No voting right controls apply.

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

The appointment and removal of the Board of Executive Directors are governed by Section 84 of the German Stock Corporation Act (AktG). Accordingly, the board members are appointed for a maximum term of five years. In accordance with Article 5 of the Articles of Association, the Board of Executive Directors of K+S AG comprises at least two members. The number of members is determined by the Supervisory Board. A board member may be appointed chairman of the Board of Executive Directors. The Supervisory Board can rescind the appointment of a board member or the appointment of chairman of the Board of Executive Directors for good cause.
In accordance with Section 179 par. 2 AktG, the AGM may resolve amendments to the Articles of Association with a three-quarters majority of the capital represented.

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

The Board of Executive Directors is authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft until 9 May 2011 against cash or in-kind contributions by up to no more than € 54.4 million through the issuance of no more than 20,625,000 million new no-par value bearer shares (authorised capital). Existing shareholders essentially hold subscription rights in respect of such increase. The Board of Executive Directors may, with the approval of the Supervisory Board, exclude statutory subscription rights in respect of an amount corresponding to up to € 27.2 million (the equivalent of 10,312,500 no-par value shares).
Until 31 October 2007, the Board of Executive Directors is authorised to acquire own shares representing no more than ten percent of the total number of no-par value shares comprising the share capital of K+S AG. At no time may the Company hold more than ten percent. Purchases may be made on a stock exchange or by means of a public purchase offer addressed to all shareholders. In the event of a purchase effected on a stock exchange, the purchase price per share may not exceed or undercut by more than five percent the relevant exchange price, being the weighted average exchange price of the K+S share in XETRA computerized trading system immediately on the last ten trading days preceding the purchase of the shares. In the event of a purchase effected by means of a public purchase offer directed to all the shareholders, the offer price per share may not exceed or undercut the relevant exchange price by more than ten percent.

Until 9 May 2011, the Board of Executive Directors is authorised, with the approval of the Supervisory Board, to dispose of such shares purchased in accordance with Section 71, par. 1, no. 8 AktG on a stock exchange or by means of a public offer addressed to all the shareholders. In both the following cases, the shares may be disposed of by other means and with the subscription rights of the shareholders excluded:

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

Finally, the Board of Executive Directors is authorised until 9 May 2011, with the approval of the Supervisory Board, to cancel such shares purchased in accordance with Section 71, par. 1, no. 8 of the German Stock Corporation Act (AktG) and with no additional resolution of the Annual General Meeting being required to effect such cancellation. The cancellation is be carried out in accordance with Section 237, par. 3, no. 3 AktG without any capital decrease so that the cancellation of the shares will cause such part of the share capital as is represented by the remaining shares to increase according to Section 8, par. 3 AktG. The authorisations to purchase own shares as well as to dispose of and cancel them may be exercised in whole or in part each time and several times in the latter case.

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

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

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

Only for members of the Board of Executive Directors of K+S AG such agreements exist; the agreements are explained in detail in the Remuneration Report released as part of the Corporate Government Report (see page 47 et seq.).

Important products and services

A detailed description of our business segments, their products and services that goes beyond the scope of the following section can be found on pages 20 et seqq. as well as in our Sustainability Report as well as on our homepage.

Potash and Magnesium Products business segment

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

COMPO business segment

The COMPO business segment is a leading provider of premium products in the field of potting soils, speciality fertilizers and plant care products in Europe. In addition to engaging in production at its own sites, COMPO has some of its products produced by our partner BASF. COMPO, together with fertiva, makes use of Bayer's competence through research and development agreements. In addition, through its cooperation with Syngenta, the Swiss producer of plant protection agents, COMPO will greatly expand its assortment with innovative plant protection products and pesticides for the private user.

fertiva business segment

fertiva markets nitrogenous fertilizers that are produced exclusively for it by BASF under a long-term trading arrangement and also distributes goods purchased from other renowned European manufacturers.

Salt business segment

The Salt business segment's product range covers food grade salts for private households and the food industry as well as industrial salts for use in many areas of industry (from dyeing works through the production of foodstuffs for animals to use in the oil and natural gas exploration) as well as in the pharmaceutical industry; salt for chemical use is one of the most important raw materials in the chemical industry, and for road safety, de-icing salt is an indispensable product for winter road clearance services.

Waste Management and Recycling business segment

The range of services offered by the Waste Management and Recycling business segment extends from the underground reutilisation and disposal of waste to the distribution of smelting salts to companies in the secondary aluminium industry, including the collection and processing of aluminium salt slag.

Services and Trading business segment

The Services and Trading business segment range extends from the granulation of CATSAN® cat litter, through own logistics and IT service providers, trading activities involving basic chemicals such as calcium chloride for prewetted de-icing agents used by winter road clearance services to services in the field of analytics and professional project consulting for geological studies.

Important markets and competitive positions

The K+S Group has become even more international with the acquisition of Chilean salt producer SPL. However, it continues to generate the bulk of its revenues in Europe. We profit from the fact that our production sites are very attractively positioned in relation to our customers in terms of freight costs. Through the acquisition of SPL, we have now also added the United States and South America as important markets on which to sell our salt products.

In addition to our largest market Europe, we occupy significant market positions in southern overseas markets. We thus ship a significant quantity of our fertilizers sales to Latin America, in large part to Brazil. We are increasingly making use of attractively priced container shipments to successfully expand our positions in Asia.

In the case of fertilizers and plant care products, we are the leaders in Europe through the Potash and Magnesium Products as well as COMPO business segments. In Europe, fertiva is an important provider of nitrogenous fertilizers and occupies a leading position for sulphur-containing nitrogen fertilizers in particular. In the case of salt, esco makes us the No. 1 in Europe, and, with the acquisition of SPL, we are among the largest suppliers worldwide, too.

The Waste Management and Recycling business segment is the most important provider of underground waste disposal in Germany and beyond.

Legal and economic influencing factors

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

In the case of economic influencing factors, German collective wage bargaining agreements are particularly important, as about 84 % of our workforce works in Germany and personnel expenses constitute the largest single cost item for the K+S Group. Over the past few years, we have significantly enhanced our capacity to react to earnings developments by means of variable salary components, linked to both individual performance as well as to business segment and company success, and flexible working-time models. Transport, energy and raw material costs as well as the trends in the US dollar exchange rate also have a great impact on the success of the K+S Group.

Internal enterprise management, goals and strategy

Internal corporate management system

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

- Regular meetings of the Board of Executive Directors held at 2-week intervals
- Management information reporting entailing a meeting once a quarter
- Rolling monthly budgets/liquidity development
- Monthly reports of the business segments and units
- Commissions for capital expenditure, acquisitions and personnel as well as group-wide committees for safety, health and environmental protection
- Risk and opportunity management

The K+S Group is managed by means of regular strategic consultations held at the Board of Executive Directors and head of business segments levels in order to then implement the relevant results in a systematic and timely fashion in the form of annual and medium-term plans as well as agreed targets. The Board of Executive Directors and business segment heads receive monthly information on the trends in key indicators for the Group and their business segments. Commentary is provided on the development and variances with respect to output, sales, revenues, costs, earnings, personnel, capital expenditure as well as other financial indicators. At joint meetings of the Board of Executive Directors and the business segment heads, trends with respect to sales and procurement markets, upcoming capital expenditure and acquisition projects as well as all significant entrepreneurial measures are discussed. In addition, the Board of Executive Directors and business segment senior management receive monthly information on projected earnings, computed on a “rolling” basis, for the year. The focus is on changes in the revenue and cost elements of the income statement compared with the estimate made in the preceding month and with the plan. A cash flow statement is used to present the anticipated status of cash and cash equivalents as of the end of the year. Special bodies have been established to review, assess and approve capital expenditure projects and acquisitions. The key criteria used in assessing such projects are discounted cash flow methods.

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

Financial targets

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

Assuming that the average cost of capital before taxes is 10%, K+S Group’s ROCE should not fall below a value of 12%. During the year under review, a ROCE of 17.4% was attained and thus, this management ratio is significantly above the target figure. During the financial year 2006, the K+S Group generated value added of € 118.5 million; this corresponds to a premium on our cost of capital before taxes of 7.4% in relation to the average amount of capital employed. Acquisitions should achieve a ROI of between 10% and 15% before taxes in the third year after acquisition. In considering financial ratios, we also attach importance to the return on equity and the return on total capital.

	2006	2005	2004	2003	2002
in %	IFRSs	IFRSs	IFRSs	HGB	HGB
ROCE	17.4	19.5	14.2	12.8	15.1
Value Added in € million € [1]	118.5	119.9	46.0	23.8	43.7
Return on equity [2]	21.9	17.8	12.1	11.2	12.9
Return on total investment	12.3	12.7	9.1	7.4	7.6

[1] Value Added = (ROCE – average cost of capital rate before taxes) x (annual average of operating assets + Working Capital); Assumption: average cost of capital rate before taxes = 10%

[2] In the case of 2002 and 2003, the calculations are based on DVFA earnings for the purpose of comparability.

Non-financial targets and performance indicators

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

- Fairness in relation to our customers → customer satisfaction
- Fairness in relation to our suppliers → quality
- Fairness in relation to our employees → motivated employees.

To this end, the K+S Group laid down a written code of conduct that clearly defines, among other things, basic principles governing dealings with customers, suppliers and employees.

The "mine effect" is a measurable key performance indicator used by K+S for effective and efficient underground production management in the European mines of the Potash and Magnesium Products as well as Salt business segments. This indicator defines the quantity of crude salt extracted in tonnes per manshift. It therefore shows the number of tonnes of crude salt extracted per employee engaged in the crude salt extraction process.

The mine effect in the Potash and Magnesium Products business segment displayed a slightly downward trend for the first time in several years. This is linked to more difficult mining conditions in our potash deposits. The distances between mining locations and shafts naturally increase and thus also the time required for underground transport. In the future, we will therefore deploy more employees underground in order to be able to maintain the volume of crude salts mined. However, the resulting additional expense will certainly pay off in view of the earnings potential.

By contrast, the high capacity utilisation resulting from large sales of de-icing salt at the beginning of the year 2006, efficiency enhancements as well as an improvement in the mining process at one of our sites produced an increase in the mine effect for the Salt business segment.

Strategy

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

- Consolidation and selective expansion of our leading market positions: We want to enhance our market position in our established business sectors by intensifying the marketing of speciality products. This specialisation strategy will give us the opportunity to achieve greater value added.
- Enhancing efficiency and exploiting synergies: To ensure our lasting presence on world markets, we will continue to work consistently on further enhancing efficiency by exploiting our potential for synergies in production, on markets, in distribution as well as in logistics.

- Acquisitions and cooperation: We also want to achieve external growth in our core business sectors. However, in doing so, we will not jeopardise the strong financial base of the K+S Group and will continue to proceed prudently.

Employees

Employees by business segment*	2006	2005	%
Potash and Magnesium Products	7,550	7,490	+ 0.8
COMPO	1,260	1,292	- 2.5
fertiva	61	58	+ 5.2
Salt	2,194	1,385	+ 58.4
Waste Management and Recycling	34	33	+ 3.0
Services and Trading	407	393	+ 3.6
Central functions	367	361	+ 1.7
K+S Group	11,873	11,012	+ 7.8

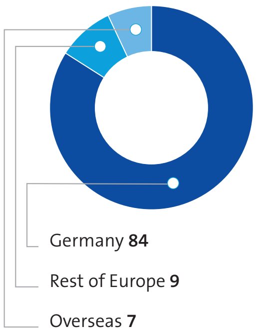
* in FTE (full-time equivalent): part-time positions are weighted with their respective share of working hours

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

As of 31 December 2006, the K+S Group employed a total of 11,873 people. Compared with 31 December 2005 (11,012 employees), the number increased by 7.8 %. The acquisition of Chilean SPL produced a consolidation-related increase of 771 persons. Without this effect, the number of employees as of 31 December 2006 would have increased by just under 1 %.

The picture is similar in terms of averages: During the year under review, an average 11,392 people were employed by K+S – up 375, or 3.4 %, on 2005. After adjustment for the consolidation-related effect, the average number of employees would have scarcely changed compared with the previous year.

Employees by region (in %)



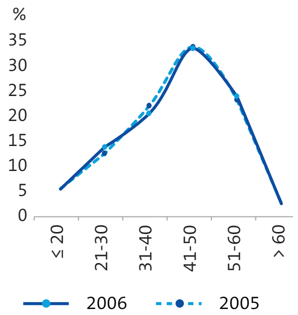
Slight decline in personnel expenses

K+S Group personnel expenses for 2006 amounted to € 663.5 million and were thus down € 7.6 million or 1 % on the previous year. The decrease is mainly due to lower allocations to provisions for early retirement arrangements. Without the provision effects, pure personnel costs rose by 2 % compared with the previous year; the increase is attributable to higher pay settlements under collective bargaining agreements as well as the first-time inclusion of SPL. Of personnel expenses, variable remuneration accounted for € 58.2 million or just under 9 % last year (2005: € 59.7 million or 9 %). Greater flexibility in personnel expenses will also be sought in the future so that – depending on the earning situation – personnel expenses, as the largest cost item for the K+S Group, can be influenced.

During the year under review, we paid a total of € 522.3 million in wages and salaries (+1%) as well as € 134.9 million in social security contributions (-2%). Expenses relating to company pensions and support amounted to € 6.2 million after it had been necessary to make a non-scheduled contribution to the BASF pension fund in 2005. The expenditures related to company pensions and support includes employer contributions to the K+S Vorsorge Plus e.V. provident fund as well as the employer supplement in the amount of 13% of converted employee remuneration subject to social security and paid to the Chemical Industry Pension Fund, the Salary Conversion Direct Insurance (Gehaltsumwandlungsdirektversicherung – GUD) as well as the K+S Vorsorge Plus e.V. provident fund.

During the year under review, personnel expenses per employee amounted to € 58,246 (2005: € 60,915) and thus declined by 4.4%.

Age structure compared with previous year (in %)



Regional distribution, age structure and employee turnover

At 84%, the overwhelming majority of our employees is employed in Germany, and this is primarily linked to the geographical location of the crude salt deposits for the Potash and Magnesium Products and Salt business segments. The number of overseas employees increased to 7% last year as a result of the acquisition of SPL.

Long employee length of service and low employee turnover indicate that K+S is an attractive employer. Thus, the rate of employee turnover, i.e. voluntary departures of employees in relation to the entire workforce, was once again below 3% as in previous years. Our age structure is currently becoming concentrated in the 41 to 50 years' age group; the average age of a K+S employee is about 42 and thus remained unchanged compared with the previous year. We will continue to bring young people into the Company in order to respond to demographic change in a timely and successful manner. However, we also want to recruit older, experienced and competent candidates as employees for our Company.

Training

Length of services extending over many years and the related wealth experience are important cornerstones of a successful personnel policy. It also includes the methodical provision of training to the next generation of employees. This is an area in which we are already systematically laying the groundwork for tomorrow's growth. In 2006, 182 young people began vocational training with us, in 20 professions at 16 K+S Group sites. As of 31 December 2006, we employed a total of 620 trainees, of which 615 were employed at German sites. At 6.2%, the trainee ratio at German companies is even up on what was already a high level a year ago. The training that we provide, which is carefully planned and geared towards quality, ensures that in the future, we will have the necessary availability of employees who will work in industrial, commercial, chemical and IT occupations. In 2006, in this regard, we spent about € 8.5 million on personnel costs as well as € 2.5 million on materials costs in this regard (2005: personnel costs € 8.0 million; materials costs € 2.4 million). More than 90% of the successful trainees were hired.

The provision of further training to our employees is becoming increasingly important because of rising and increasingly international requirements as well as technical innovations. We regard our activities in the field of providing initial and further training as an investment in our employees and thus in the future of the K+S Group. During the year under review, 3,762 employees participated in further training (+39 %), in which we invested about € 4.0 million (2005: € 3.4 million) or € 400 per employee in Germany. Areas that were concentrated on included preparing employees for future management tasks as well as for taking over jobs abroad (e. g. language and intercultural training).

Further details can be found in the K+S Sustainability Report, which is published separately and examines the area of personnel and social affairs in depth.

Research and development

Direction of R&D activity

An important focus of our activities is research into and the development of new and improved products. Providing nutrition to plants that meets needs over the entire vegetation cycle is a priority. A further focus is the constant reviewing of our production processes with respect to the sustained use of the resources available to us as well as the reviewing of the deployment of capital, energy and personnel in terms of efficiency. We continually develop our processes and constantly review new technologies and materials for their potential to bring about improvements in the processes used within our Group. We operate a research institute of our own focussing on treatment, process technology and analytics. Finally, our agricultural advisory service provides worldwide support to customers on using our products and thus promotes sales of our fertilizers by means of specific application recommendations.

To ensure the effective transfer within the K+S Group of knowledge gained from research and to optimise the leveraging of synergies, all research activities are managed centrally. In addition, we carefully follow international research of relevance to us as well as the activities of competitors; we have bolstered our research services to this end. With regard to documentation and reporting, the principles of modern knowledge management are applied and, among other things, research results are made available groupwide by means of a central database.

At the end of the year, 56 employees were working in research for the K+S Group.

Use of external R&D know-how
In addition to our own research activities, the procuring of research services from third parties is also an important part of our research strategy:

- Plant cultivation tests being conducted worldwide in the field of potash and magnesium fertilizers are coordinated and controlled centrally by our department for agricultural application technology. All field tests are assigned to specialized and experienced agricultural farms and are either looked after directly by our employees or locally monitored on a scientific basis by agricultural institutes all over the world. This enables us to obtain findings relating for a very diverse range of crops growing in local soil conditions in various climatic zones.
- Research and development connected with nitrogenous fertilizers is conducted by BASF at its research institutes on our instructions, where decades of competence and expertise in this area is pooled. The work is performed exclusively for COMPO and fertiva. International field tests for nitrogenous fertilizers are also managed centrally; employees engage in close consultation with the product management of COMPO and fertiva.
- In economic, scientific as well as technical areas, we work together with colleges, most of which are in Germany. Last year, we expanded our cooperation with Kassel University into a strategic partnership and make use of their expertise in the areas of flow simulation, materials technology, new building materials, microbiology, waste water technology, landscape ecology, high frequency technology as well as innovation and technology management. In addition, we provide support to young scholars nationwide by financing studies at the undergraduate, diploma and doctoral levels. This allows us to identify talent early on and to recruit qualified new generation employees for our Company.

In 2006, a total of € 5.0 million was spent on external research services, compared with € 4.3 million in the preceding year.

Research costs, development-related capital expenditure and multi-period overview
During the period under review, research expenses totalled € 13.8 million and were thus up on the preceding year (2005: € 13.0 million). The Potash and Magnesium Products business segment accounted for € 5.1 million of the research activities (-7%), the COMPO business segment for € 3.1 million (-6%), the fertiva business segment for € 1.9 million (+73%) and the Salt business segment for € 0.9 million (±0%).

At € 2.0 million, development-related capital expenditure was about 5% up on the previous year and was mainly attributable to the COMPO business segment.

In the future too, we want to consistently pursue research and development goals defined in close consultation with marketing and further intensify research in a selective way. We therefore expect research expenditure to rise over the next two years.

€ million	2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB	2002 HGB
Research costs	13.8	13.0	12.1	13.3	13.2
Capital expenditure in development*	2.0	1.9	1.2		
Employees (number)	56	55	54	50	48

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

The increase in research costs in 2006 is primarily attributable to increased research expenditure on mining, the expansion of college projects and the intensification of research activity in the fertiva business segment. As it has become necessary to capitalise certain development costs as a result of the changeover to IFRSs, we will report depreciation charges for development-related capital expenditure for the first time over the coming years but they will still remain on a relatively low level.

R&D results

Potash and Magnesium Products business segment

- In the area of the electrostatic separation of our crude salts, we have succeeded in introducing new conditioning materials that enable us to tangibly increase efficiency levels for the extraction of Kieserite.
- Extensive marketing measures were used last year to launch a new product line "feed line" (feed). Under the names KaSa K99™, KaSa K97™, KaSa Mag98™ and KaSa Mag49™, we offer feed producers new, high-grade feed supplements containing potash and magnesium components.
- To ensure that palm trees cultivated for oil receive an optimal supply of boron, e. g. in Malaysia, we have developed and successfully launched Korn-Kali®+B. As a trace nutrient, boron plays an important role in ensuring that oil yields are consistently high. Applying the relatively small quantities of boron per palm tree exactly is difficult. With Korn-Kali®+B, it is possible to apply a balanced combination of potassium, magnesium and boron in one process; as a result, plants are also supplied with this trace nutrient in line with needs.
- Zinc is an essential trace element in food consumed by humans; substantial quantities of zinc are required by children and older people in particular. As a shortage of zinc is becoming increasingly evident in many soil strata, we have developed sulphate speciality fertilizers containing zinc, which are still undergoing cultivation tests at present.

COMPO business segment

- With Basatec® plantación, we have developed a combination product that contains the active substance ENTEC® and is also coated. This speciality product is particularly well suited for carefully supplying shoots.

- Vitanica® MC is an algae-based liquid NPK fertilizer with micronutrients that has been successfully introduced for use in public green areas.
- To enable farmers to spread micronutrients and plant protection agents by means of a sprayer in one operation, we have improved the compatibility of Nutrimix® fluid with BASF fungicides.

fertiva business segment

- The Nitrophoska® product line has been expanded to include five new formulas so that special market requirements can be responded to even better.
- fertiva is distributing new NPK products under the Flexammon® brand in selected regions. These products are being produced for the first time at the Bergmanssegen-Hugo potash production site. In this new segment, fertiva is making use of production capacity within the Group for the first time and in doing so, is making a contribution to even better utilisation of the Potash and Magnesium Products business segment’s granulation capacity.

Salt business segment

- The nano filtration process is currently being tested and optimised in a pilot plant at Frisia Zout. It is an innovative technology for brine cleansing.
- We have launched new pharmaceutical salts with API (active pharmaceutical ingredient) quality for use in infusion solutions and medicines as well as HD quality for hemodialysis as well as other pharmaceutical applications. API certification with the Good Manufacturing Practice (GMP) seal was awarded in October 2006. esco is thus the first producer in Europe to have had the application of the international guideline for the manufacture of pharmaceutical salts proven and confirmed.
- After esco launched a new generation of animal lickstones under the name SOLSEL in 2004, the range was further expanded last year. The production programme now also includes lickstones containing vitamin supplements and minerals adapted to the trace element needs of various types of animals and which protect grazing animals from the effects of nutritional deficiencies in particular.

Brand and patent portfolio

With 182 new additions, it was again possible to expand the brand portfolio in 2006. As we seek to keep our portfolio up to date at all times, 138 brand rights that are no longer used were cancelled. As of the reporting date, the Group thus held 4,157 (2005: 4,113) national proprietary protection rights for trademarks deriving from 744 basic trademarks. No licence fees were generated.

Our worldwide patent portfolio currently extends to 78 patent families that are represented by 389 (2005: 412) national rights. In 2006, patent applications were filed for five new inventions.

Overview of business

Macroeconomic environment

Percentage change in Gross Domestic Product

(real in %)	Germany	EU-25/ EU-27	World
2006	+ 2.7	+ 3.1	+ 5.2
2005	+ 0.9	+ 1.7	+ 4.8
2004	+ 1.6	+ 2.5	+ 5.0
2003	- 0.1	+ 1.1	+ 3.6
2002	+ 0.1	+ 1.2	+ 3.0

Source: DekaBank, Federal Statistical Office, EUROSTAT, IMF

At 5.2 %, the pace of global economic growth accelerated again in 2006 but lost some momentum over the course of the year.

China, where growth further increased to 10.7 %, once again acted as a key driving force behind global growth. The corresponding figures for the United States and Japan were 3.3 % and 2.0 % respectively. Growth has slowed down in both these economies as a result of declining demand. According to preliminary estimates, the economy of the European Union grew by a good 3 % in 2006 and is now experiencing a strong upturn again for the first time since 2000. After the robust expansion in the first half of 2006, the rate of growth decreased appreciably in the third quarter. However, output surged again in the fourth quarter. This positive development is being primarily driven by higher domestic demand, an increase in investment as a result of better corporate profits and financing terms that remain attractive.

In 2006, German GDP grew by 2.7 % in real terms. Thus, the pace of growth in Germany increased significantly on the previous year, as the German economy was able to fare in relation to the international competition. This was in part also due to the relatively modest increase in labour costs covered by collective agreements, which buoyed the competitiveness of German manufacturers and checked the appreciation of the euro. In addition, the decline in unemployment, the increase in domestic demand as well as higher investment in residential housing construction contributed to robust growth in Germany.

No clear trend has emerged on commodity markets. The price of oil rose markedly in the first half of the year and reached a historic high of USD 78 per barrel at the beginning of August 2006 under the pressure exercised by the full utilisation of production capacity worldwide. The price has once again eased significantly since then, amounting to USD 60 per barrel at the end of December. On average, however, about USD 10 more per barrel had to be paid in 2006 than in 2005.

Developments on the international foreign exchange markets were influenced by the depreciation of the US dollar. At the beginning of 2006, the US dollar, which had strengthened in 2005, initially maintained the level it had attained, but then declined significantly in the second and fourth quarters. Over the course of 2006, the US dollar lost about 11 % in relation to the euro. However, in terms of the average for the year, there was no virtual change in the exchange rate last year (2006: USD/EUR 1.26; 2005: USD/EUR 1.24).

Impact on K+S

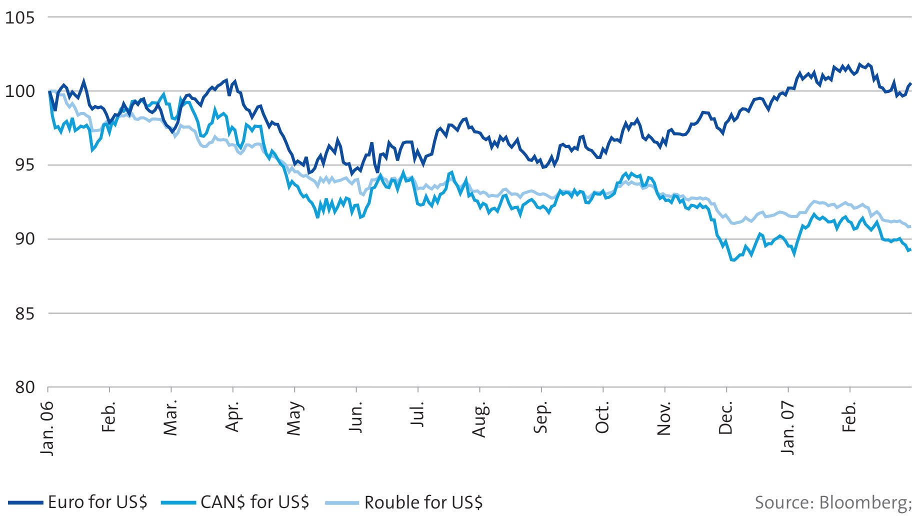
The changes in the macroeconomic environment also impacted on the course of business for K+S.

- The high oil and gas prices left their mark on our energy bill. In 2006, our energy costs rose by just under 32 % to € 207.5 million.

Accounting for more than 70 % of costs, gas is the most important primary source of energy for the K+S Group. In terms of the average for the year, global market prices for ammonia, an important raw material for the COMPO and fertiva business segments, were also higher than the already high level of a year ago. However, prices for nitrogen fertilizers were also higher than a year ago, which meant that the higher ammonia prices were largely offset.

- The US dollar, which became weaker at the end of 2006 in particular, made it necessary to adjust the currency options that we use for hedging. This resulted in our average hedged rate being slightly worse, but at USD/EUR 1.09 (including premium expenses), it was still significantly better than the average spot rate of USD/EUR 1.26 for 2006.
- In addition to the absolute relationship between the exchange rates, a relative comparison of the euro and the currencies of our competitors each in relation to the US dollar is also of particular importance. A weak US dollar has a negative impact on the revenues of most potash producers; this is related to the fact, that the bulk of worldwide potash output is produced outside the US dollar zone while all sales, with the exception of the European market, are invoiced in US dollars. While the US dollar became weaker against the euro and the rouble last year, it appreciated against the Canadian currency.

Development of EUR/USD vs. CAN/USD and RUB/USD (in %)



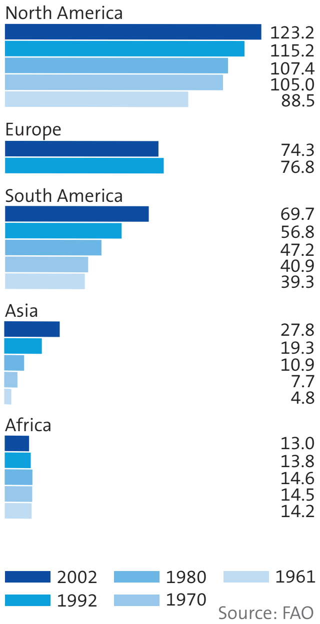
Source: Bloomberg;
Basis: beginning of the year 2006=100

Industry-specific conditions

Fertilizers and plant care

Strong global economic growth, once again driven in large measure by the upturn being experienced by Asian emerging markets, impacts indirectly on the success of the K+S Group: Increasing prosperity in these regions is causing the population to become more demanding with respect to food and resulting in a change in traditional eating habits, with a further rise in meat consumption in particular.

Meat consumption per year
(in kg/per capita)

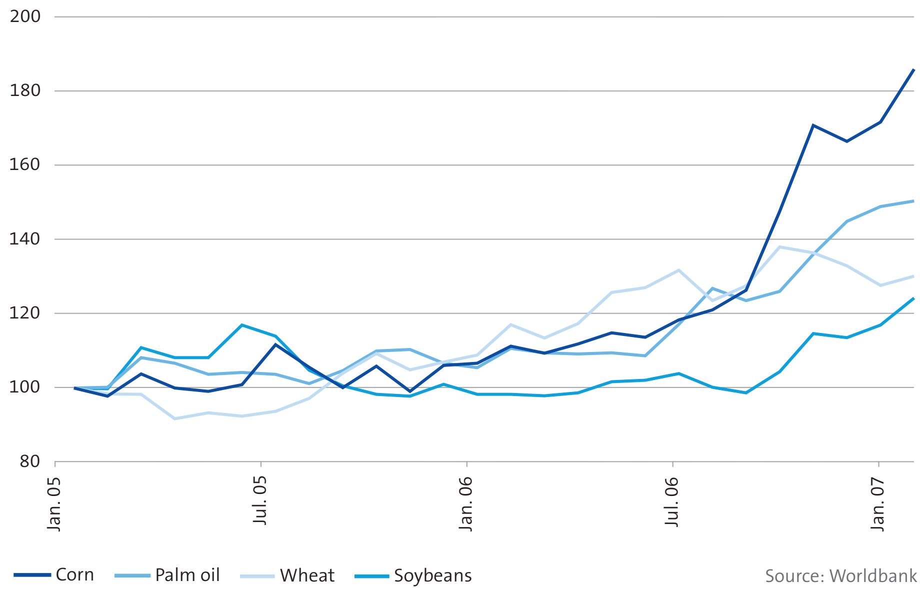


The production of one kilogram of meat requires several times as much fodder, e. g. corn and soybeans: Thus, demand for agricultural produce and, as a result, for fertilizers is growing at an above-average rate in these regions of the planet. In addition, economic success in these countries is encouraging urbanisation which tends to decrease the amount of land available for agriculture. Thus, population growth in emerging countries is creating greater demand for food in both quantitative and qualitative terms while the land available for cultivation is declining at the same time. This can only be offset by more intensive as well as professional agriculture that includes the efficient use of fertilizers.

The rise in prices that has been seen in the case of many raw materials and precious metals thus far now appears to be encompassing agricultural commodities too. Prices for wheat, corn and palm oil have risen by up to 86 % on international commodity exchanges since the beginning of 2005. One factor driving up prices has been the poor harvest resulting from weather conditions combined with a worldwide constant rise in demand for agricultural commodities as food for people and animals as well as for the production of bioenergy. This rising demand could only be serviced with the help of stocks. Stocks of some agricultural products have declined sharply as a result of these developments: Thus, global grain reserves measured in terms of consumption have, for example, decreased to their lowest level for 25 years, and stocks of corn too are currently at their lowest level in 20 years.

The rise in prices for agricultural products impacted positively on global fertilizer demand in the second half of 2006 in particular. Rising prices encouraged farmers worldwide to increase both their available land and their land intensity. Both these elements require greater use of fertilizers, causing global demand for fertilizers to rise.

Development of prices for
agricultural products
(in %)



By contrast, demand on the global potash market in 2006 was lower than in the previous year. The main reasons for this were the exceptionally lengthy price negotiations conducted by Canadian and Russian producers with Chinese and Indian potash customers which were only concluded in July and August 2006. Until then, quite a number of market participants delayed making purchases because of the uncertainty surrounding the further development of prices. In addition, the development of global demand in the first half of the year was adversely affected by the relatively high cost burden borne by North American farmers as well as the cold and wet weather in large areas of Europe. Following the conclusion of the price negotiations in China and India, potash deliveries resumed with a high degree of intensity, with the result that it was still possible to significantly reduce the delivery shortfall compared with the previous year.

Despite restrained demand in the first half of 2006, international potash price levels largely remained stable. This was mainly attributable to production cutbacks on the part of Russian and Canadian potash producers. Thus, maintaining the price level attained took precedence over maintaining volume.

Salt

The Western European salt market was in good shape. With the exception of the robust de-icing salt business as a result of the very severe winter at the beginning of the year, fluctuations in consumption in individual segments were relatively slight. As was the case in the previous year, imports from Eastern Europe and the Maghreb states reduced sales opportunities in some subsegments. The prospects for increased consumption in Western Europe are somewhat limited, given the extent to which market saturation has been reached. Success in the attractive de-icing salt business mainly depends on weather conditions in winter as well as on the ability to deliver high volume, especially at short notice. esco succeeded in further consolidating its leading market position in Europe.

The American salt market also displayed stability overall. In this case, there were only greater declines in consumption in the de-icing salt business due to the mild winter. In the tenders for de-icing salt for winter season 2006/2007 in the United States, there were no significant shifts in market share. The prospects for rising consumption in the South and Central American market for industrial salt and salt for chemicals use are promising as result of population growth and economic recovery there. Through SPL, which it acquired last year, K+S is the leader in South America and through North America distribution company ISCO, it occupies a strong market position in the northeastern states of the United States.

Key events affecting the course of business

- On 22 April 2006, K+S signed an agreement to purchase Chilean salt producer SPL. SPL is South America's largest salt producer and achieved operating earnings of about USD 48 million on revenues of about USD 350 million in 2005. SPL extracts rock salt, on a very favourable cost basis, at an extensive open-cast mine in the

Atacama desert and produces sea salt in Brazil at a facility of its own. The takeover of SPL by K+S was concluded on 29 June 2006. K+S acquired 99.3 percent of the company for just under € 385 million, which, after deducting the debts assumed, gives a purchase price of about € 365 million. The SPL Group was fully consolidated for the first time as of 30 June 2006. With this acquisition, K+S attained a new dimension in the international salt business.

- The first quarter in Northern and Central Europe was characterized by a long winter. This hindered springs sales of fertilizers and plant care products. On the other hand, sales of de-icing salt were exceptionally high in the first quarter and early procurement in the autumn was also high. The unusually mild climate observed in both Europe and North America in the fourth quarter resulted in lower than anticipated sales of de-icing salt.
- After completing its investigation, the European Commission once again determined that dumping practices were being engaged in by potash producers in Russia and Belarus. Consequently, trade policy measures concerning imports of potassium chloride from Russia and Belarus were published in the EU official gazette of 12 July 2006 and will apply for a period of five years. To provide protection against unfair competitive practices, various tariffs, ranging from 12.3 % to 27.5 % according to producer, were set for imports of potassium chloride. In a parallel move, the Commission accepted voluntary undertakings from Russian producers and reached a supplementary agreement with the Belarusian producer. In terms of their content, both the undertakings and the agreement with the Belarusian potash producer allow potassium chloride to be supplied to the EU-27 provided that fixed volume quotas and minimum prices are observed. As long as these arrangements are complied with, the application of the tariffs will be suspended.

Trend in share price

The good operating trend was also reflected in the valuation of the K+S share. Over the course of the year, the price rose by 61 % to close the year at € 82.20. You can find a detailed description of the K+S share price, price trends, ratios and further important information about the K+S share in the section “The K+S Share” on page 36 et seq.

General statement on the course of business in 2006

Financial year 2006 has been the best so far in the history of the K+S Group. We have succeeded in generating significantly higher earnings in all business segments. The key factors behind this success were good demand on our markets overall, attractive fertilizer prices, the successful acquisition of SPL, growing waste management markets, the implementation of further efficiency enhancements as well as positive effects deriving from our currency hedging; this enabled us to more than make up for the sharp rise in energy and freight costs.

Comparison of actual and projected course of business

The course of business in 2006 was largely in line with our estimates.

Revenue forecast

The revenue forecast prepared by the Board of Executive Directors in connection with the 2005 Annual Report on 24 February 2006 and before the acquisition of SPL assumed that it would be possible to attain the level of a year ago (€ 2.8 billion) once again. On 10 August 2006, we published a concrete estimate of anticipated revenues, including SPL, of about € 3 billion for all of 2006 in connection with interim reporting. After agreement was reached with China and India in the negotiations over potash fertilizer prices and the consolidation of price levels that was expected in this connection, we raised our revenue estimate to between € 3.0 billion and € 3.1 billion in the Q3/2006 outlook in November. At this point in time, we still assumed average sales of de-icing salt in the fourth quarter as well as a stable trend in the US dollar until the end of the year. A mild winter, a suddenly weaker US dollar and unexpectedly lower trading business for fertiva in the fourth quarter resulted in revenues that, at € 2.96 billion, were slightly below our forecast.

Expenses forecast

In our conference call presentation in connection with the publication of the half-year figures in August, we forecast energy costs of about € 200 million. In November, as part of our quarterly reporting, we provided a more precise estimate of just under € 210 million. Ultimately, energy costs totalled € 207.5 million, which was in line with our expectations.

In addition, we estimated freight costs of € 420 million for all of 2006 in August, providing a precise estimate of € 415 million in November. As a result of the first-time inclusion of SPL, the final total for freight costs was € 431.5 million, which was above what we had expected in November.

With regard to personnel costs for the K+S Group, including SPL, we predicted no more than a moderate increase on 2005 thanks to the implementation of efficiency enhancements. Actually, personnel expenses even fell slightly, by 1 % to € 663.5 million.

Earnings forecast

The earnings forecast prepared by the Board of Executive Directors in connection with the 2005 Annual Report and before the acquisition of SPL assumed that operating earnings should continue to develop positively. In the outlook of 10 August 2006, a range of € 265 million to € 280 million was indicated for anticipated operating earnings. In connection with the increase in the revenue forecast, we increased the earnings range to between € 275 million and € 285 million (2005: € 251.1 million) in November. In doing so, we still assumed a USD hedged rate for 2006 of USD/EUR 1.07, de-icing salt sales on a normal level as well as a contribution to earnings from Chilean SPL of € 12 million to

€ 15 million. However, follow-up hedging was required at the end of November after the US dollar threatened to exceed the upper barrier at USD/EUR 1.35. Follow-up hedging costs as well as the impact of the mild winter in Europe and North America on the de-icing salt business resulted in operating earnings that, at € 278.0 million, were at the lower end of our forecast.

For adjusted Group earnings, we predicted a range of between € 160 million and € 170 million in our forecast of 10 August, raising it to between € 165 million and € 175 million in November. At € 218.1 million, adjusted Group earnings were significantly higher than these values. Our estimate did not, however, include the non-recurrent deferred tax income recognized in profit deriving from the reorganisation of the corporate structure of the SPL Group and which we estimated at between € 35 million and € 40 million in the ad-hoc disclosure of 30 November 2006. Without this effect, which ultimately amounted to € 41.9 million, adjusted Group earnings would have been in line with the forecast. However, the reduction in the tax expense resulting from the appropriate accounting treatment will be non-cash to a very great extent in 2006, with the cash advantage tending to have much more of an impact successively over the coming years.

Actual vs. forecast comparison	Forecast 04.08.2006	Forecast 07.11.2006	Actual 31.12.2006
Revenues	about € 3.0 bln	€ 3.0 to 3.1 bln	€ 2.96 bln
Operating earnings (EBIT I)	€ 265 mln to € 280 mln	€ 275 mln to € 285 mln	€ 278.0 mln
Group earnings, adjusted	€ 160 mln to € 170 mln	€ 165 mln to € 175 mln	€ 218.1 mln*
Earnings per share, adjusted	€ 3.90 to € 4.90	€ 4.00 to € 4.25	€ 5.29*
Capital expenditure	€ 150 mln	€ 150 mln	€ 130.5 mln
Depreciation and amortisation	€ 130 mln	just under € 130 mln	€ 123.1 mln
Energy costs	about € 200 mln	just under € 210 mln	€ 207.5 mln
Freight costs	€ 420 mln	€ 415 mln	€ 431.5 mln
Personnel expenses	moderate increase	moderate increase	- 1%

* including non-recurrent deferred tax income of € 41.9 million or € 1.02 per share

Earnings and financial position

Earnings position

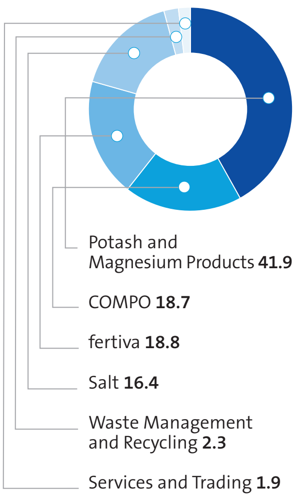
At € 2.96 billion, revenues rise 5 % year on year
We posted revenues of € 2,957.7 million for financial year 2006, up 5.0 % year on year. A slight seasonality was again evident from the quarterly revenues figures posted during the course of the year: Thus, the first quarter was the strongest and third quarter the weakest. This is connected with the fact that in the first quarter, fertilizers and plant care benefit from the start of the spring fertilizing season in Europe. Furthermore, a heavy winter can have an additional positive effect on de-icing salt sales. Although the autumn fertilizing season occurs in the third quarter, it is less important than the spring fertilizing season in terms of sales. In the case of COMPO too, the main season for the consumer business is also over in the third quarter while sales of de-icing salt in the second and third quarters are limited to stocking up at generally more attractive prices.

Variance analysis in %	2006
Change in revenues	**+ 5.0**
- volume/structural factors	- 0.9
- prices	+ 3.0
- exchange rates	± 0.0
- consolidation	+ 2.9

Revenues by business segment

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Potash and Magnesium Products	336.0	319.0	288.3	295.6	1,238.9	1,197.2	+ 3.5
COMPO	197.7	145.6	92.2	116.9	552.4	541.7	+ 2.0
fertiva	132.2	137.6	143.8	142.6	556.2	568.3	- 2.1
Salt	157.7	67.7	115.5	144.9	485.8	398.0	+ 22.1
Waste Management and Recycling	17.0	17.7	16.6	18.1	69.4	56.0	+ 23.9
Services and Trading	14.9	12.5	13.7	13.9	55.0	54.5	+ 0.9
K+S Group	**855.5**	**700.1**	**670.1**	**732.0**	**2,957.7**	**2,815.7**	**+ 5.0**
Share of total revenues in %	28.9	23.7	22.7	24.7	100.0	–	–

Revenues by segment
(in %)

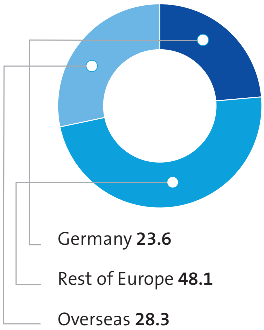


The rise in revenues primarily resulted from the first-time inclusion of the SPL Group in the Salt business segment as of 30 June 2006; this produced a consolidation-related increase in revenues of € 81.9 million. In addition, price increases impacted positively on revenues, so that volume-related factors could be more than made up for.

While the Potash and Magnesium Products and COMPO business segments were mainly able to grow their revenues by means of higher fertilizer prices, the Salt business segment, in addition to the consolidation effect mentioned above, was able to post gains for industrial salt and salt for chemical use in particular.

The Potash and Magnesium Products business segment posted the highest revenues of all the K+S Group's business segments, accounting for just under 42 % of the total, and was followed by fertiva, COMPO and Salt. In Europe, we achieved revenues of € 2,121.5 million. The region thus accounted for more than two thirds of total revenues. The European market is very important for us because we can leverage shipment costs advantages. Revenues generated on overseas markets rose by 27 % to a total of € 836.2 million, which means that the share of revenues accounted for by them rose by just under five percentage points year on year.

Revenues by region (in %)



Trend in orders

Most of the business of the K+S Group is not covered by long-term agreements concerning fixed delivery volume and prices. The small percentage of orders to revenues – for example, less than 10% at the end of the year in the Potash and Magnesium Products business segment – is customary in the industry and characterized by long-term customer relationships as well as revolving outline agreements with non-binding volume and price indications.Thus, the disclosure of the Group's and its business segments' backlog of orders is of no relevance for assessments of short- and medium-term earnings capacity.

Operating earnings (EBIT I) increase by 11 % to € 278.0 million

The operating earnings (EBIT I) exclude the non-cash market value changes for the currency options that we use to hedge the US dollar exchange rate and only include the currency gains actually realised from hedging for the reporting period ended. We are of the opinion that the operating earnings (EBIT I) provide a better indication of the operating earnings strength of the K+S Group than the earnings after market value changes (EBIT II).

At € 278.0 million, operating earnings (EBIT I) were up € 27.1 million or 11 % to exceed last year's figure (2005: € 250.9 million). All the business segments managed to achieve an improvement year on year. The increase in earnings is mainly attributable to higher prices for standard and speciality fertilizers as well as the first-time inclusion of the SPL Group in the Salt business segment. It was possible to more than offset countervailing trends in costs.

Regarding the most important costs in detail, K+S Group personnel expenses amounted to € 663.5 million and were thus down € 7.6 million or 1 % on the previous year. The decrease is mainly due to lower allocations to provisions for early retirement arrangements. Without the provision effects, pure personnel costs rose by 2 % compared with the previous year; the increase is attributable to higher pay settlements under collective bargaining agreements as well as the first-time inclusion of SPL. Up 32 % to about € 207.5 million, energy costs rose significantly once again in 2006. This is mainly attributable to higher gas prices. This development – and because of the first-time inclusion of SPL – did not check freight costs, which rose by just under 10 % to € 431.5 million during the period under review. The procurement of raw materials, e. g. of ammonia for the production of nitrogen fertilizers, also resulted in further moderate price increases.

The EBIT margin for 2006 reached 9.4 %, representing an improvement of 0.5 percentage points on the previous year.

EBIT I by business segment

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Potash and Magnesium Products	42.1	41.7	39.2	35.6	158.6	151.8	+ 4.5
COMPO	16.3	9.7	-0.4	3.6	29.2	25.0	+ 16.8
fertiva	3.8	5.0	5.8	2.1	16.7	14.8	+ 12.8
Salt	47.5	0.4	7.7	12.0	67.6	62.7	+ 7.8
Waste Management and Recycling	3.6	3.7	2.9	3.6	13.8	8.1	+ 70.4
Services and Trading	7.3	6.3	6.8	5.0	25.4	20.1	+ 26.4
Reconciliation*	- 7.5	- 7.4	- 10.3	- 8.1	- 33.3	- 31.6	- 5.4
K+S Group	**113.1**	**59.4**	**51.7**	**53.9**	**278.0**	**250.9**	**+ 10.8**
Share of total EBIT I in %	40.7	21.4	18.6	19.5	100.0	–	–

* Figures for business segments are shown before consolidation. Expenses and income that cannot be allocated to business segments are recorded separately. Both effects are shown under 'Reconciliation' and result in the Group figures.

The seasonality already referred to in the context of revenues was also reflected in operating earnings. The spring season for fertilizers and plant care products as well as the de-icing salt business at the beginning of the year resulted in over 60% of the total earnings being generated in the first half of the year.

The reconciliation for the reporting year amounted to € -33.3 million, which represents a slight increase of € 1.7 million. This was primarily attributable to higher provisions for the earnings-related bonuses that are to be paid to employees in the spring of 2007 and which cannot be allocated to a particular business segment, as well as for the possible exercise of stock options under the virtual stock option programme for the Board of Executive Directors and executive management.

Trend in other key items of the income statement

At over 35%, gross margin on approximately the same level as a year ago

While revenues increased by 5.0% year on year, cost of sales rose by 5.7%. Thus, the cost increases referred to in the preceding section could be largely passed on in prices. This is mainly attributable to the lower worldwide supply of potash fertilizers in relation to demand. This enabled us – with relatively high capacity utilisation viewed in terms of the industry as a whole – to keep profitability at the same level despite cost increases. The gross margin amounted to 35.3% compared with 35.7% a year ago.

Selling expenses mainly influenced by freight costs

K+S Group selling expenses rose by € 55.1 million or 8% to € 728.1 million. This also includes a low double-digit amount for marketing costs and advertising in the form of advertisements, brochures, TV and radio spots, fairs and product launches etc. Most of these costs arise in the COMPO, Potash and Magnesium Products as well as Salt business segments.

Freight costs account for more than one half of selling expenses at K+S and those alone rose by € 37.3 million in relation to 2005, especially as a result of the first-time inclusion of the SPL Group. Thus, the increase in selling expenses is mainly attributable to higher freight costs.

General and administrative expenses rise

During the year under review, general and administrative expenses amounted to € 82.1 million, an increase of € 10.4 million or 15 % year on year. Costs incidental to the acquisition of the SPL Group as well as the higher earnings-related bonuses resulting from the good course of business contributed to this increase. In proportion to revenues, general and administrative expenses amounted to 2.8 % (2005: 2.5 %).

Other operating income and expenses

The positive balance of other operating income and expenses amounted to € 56.4 million last year, representing a clear improvement of € 61.5 million on the previous year, and was mainly due to significantly lower allocations to provisions as well as slightly higher foreign currency result.

Income from investments, net

At € 1.8 million (2005: € 9.1 million), investment income decreased significantly in 2006. The decrease was mainly attributable to the absence of the extraordinary income that arose the year before as a result of the merger of three COMPO subsidiaries in France.

Earnings after market value changes (EBIT II) of only limited informative value

Under IFRSs, changes in the market value of our double-barrier options used to hedge the US dollar exchange rate have to be reported in the income statement. While the cash currency gains from options already exercised are included in operating earnings EBIT I, we report non-cash changes in the market value of options that are still outstanding by reconciliation to EBIT II. Changes occurring in the market value of these options until they reach their maturity date are irrelevant for the operating success of K+S. By means of currency management, including the acceptance of additional premium payments to adjust the barriers, we could ensure that our hedging remained effective throughout 2006.

During the year under review, earnings after market value changes (EBIT II) rose by € 89.9 million to € 361.6 million; the improvement in EBIT I was further enhanced by this positive trend in the market values of our double-barrier options. The market values on the reporting date depend on such factors as the USD/EUR spot rate, the agreed barriers, exchange rate volatility and the terms of options still outstanding.

Financial result down on previous year

The financial result consists of net interest income and other financial result. At € -27.5 million, net interest income in 2006 was tangibly lower (2005: € -17.8 million): This was mainly due to interest expenses related to the syndicated loan taken out in connection with the acquisition of the SPL Group in Chile as well as lower interest income resulting from a lower level of investment volume. However, non-cash interest expenses of € 7.4 million relating to pension provisions (2005: € 9.5 million) and € 13.6 million (2005: € 13.9 million) relating to provisions for mining obligations also had an impact. Other financial result during the year under review amounted to € 7.4 million and thus showed an improvement on the previous year. In addition to the higher valuation of financial investments, this was also attributable to extraordinary income deriving from the sale of a property (€ 10.8 million) not required for operational purposes; these amounts were, however, reduced by non-recurrent ancillary costs that cannot be capitalised relating to the acquisition of SPL. Overall, the financial result deteriorated by € 8.0 million to € -20.1 million.

Adjusted earnings before taxes rise by 8%

Unadjusted earnings before taxes, which include the less informative market value changes at the reporting date of our currency options used to hedge exchange rates, amounted to € 341.5 million during the year under review. If these earnings are adjusted for the non-cash market value changes of € 83.6 million, adjusted earnings before taxes amount to € 257.9 million. Thus, this more informative financial indicator for assessing economic success improved by € 19.1 million or 8% year on year. The impact of the weaker financial result was lessened by the significant increase in operating earnings.

Adjusted group earnings rise by 35%

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Group earnings	103.8	44.1	60.1	62.8*	270.8*	174.4	+ 55.3
Earnings per share (€)	2.52	1.07	1.46	1.52*	6.57*	4.12	+ 59.5
Average number of shares	41.20	41.25	41.25	41.25	41.24	42.31	- 2.5
Group earnings, adjusted	**71.2**	**39.0**	**31.5**	**76.4***	**218.1***	**161.3**	**+ 35.2**
Earnings per share, adjusted (€)	**1.73**	**0.95**	**0.76**	**1.85***	**5.29***	**3.81**	**+ 38.8**

* including non-recurrent deferred tax income of € 41.9 million or € 1.02 per share

Group earnings after taxes and minority interests for the year under review rose by € 96.4 million to € 270.8 million. In addition to operating earnings having developed well, mainly positive market value changes for derivatives as well as the non-recurrent deferred tax income from the reorganisation of the corporate structure of SPL impacted on the result above all.

There has been no significant change in the tax environment in Germany compared with the preceding year. Because of tax loss carryforwards as well as market value changes for our foreign currency options, some of the taxes reported are deferred,

EBITDA Margin
(in %)

i.e. non-cash. At € 70.3 million, the tax expense for last year declined appreciably in relation to the year before as a result of the non-recurrent deferred tax income that arose in Chile and despite a rise in earnings before taxes. At € 49.9 million, the cash component of the tax expense could be maintained close to the same level as a year ago; deferred taxes accounted for the remaining amount of € 20.4 million. It is expected that the corporate income tax loss carryforward will be completely used up in the first few months of 2007, with the result that the cash component of the tax expense will increase this year.

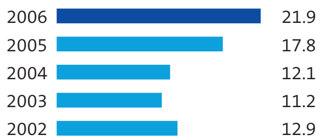
EBIT Margin
(in %)

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

Computation of adjusted group earnings

in € million	2006	2005
Group earnings after taxes and minority interests	270.8	174.4
Elimination of market value changes from hedging transactions	- 83.6	- 20.8
Elimination of resulting deferred taxes at flat rate 37.0%	+ 30.9	+ 7.7
Adjusted Group earnings after taxes and minority interests	**218.1**	**161.3**

Return on equity
(in %)

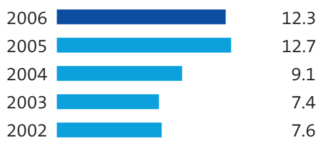


Adjusted Group earnings improved by € 56.8 million or 35.2 % to € 218.1 million; they include the non-recurrent deferred tax income of € 41.9 million described above.

Adjusted earnings per share rise by 39 %

Undiluted adjusted earnings per share are arrived at by dividing adjusted Group earnings by the weighted average number of shares outstanding during the reporting period. 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. In addition, earnings per share are based entirely on continuing activities; no discontinued activities or changes in accounting treatment needed to be taken into account.

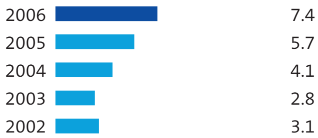
Return on total investment
(in %)



Adjusted earnings per share (including the non-recurrent deferred tax income of € 1.02 per share) amounted to € 5.29 during the year under review and were thus significantly higher than a year ago (€ 3.81). They were computed on the basis of 41.24 million (2005: 42.3 million) no-par values shares, being the average number of shares outstanding during the reporting period. In the fourth quarter of 2005, we had bought back a total of 1.25 million no-par value shares and cancelled them at the beginning of 2006.

ROCE
(in %)

Return on revenues
(in %)



As of 31 December 2006, we held no shares of our own; the total number of K+S Group shares outstanding at the end of December thus amounted to 41.25 million no-par value shares.

Earnings position ratios and multi-period overview

The increased earnings capacity of the K+S Group is also clear from the returns achieved in 2006: The respective ratios are on an attractive level once again. The high level of earnings before interest, taxes, depreciation and amortisation (EBITDA 2006: € 401.1 million) was reflected in an unchanged EBITDA margin of 13.6 %. The operating EBIT margin of 9.4 % also attests to our continued earnings strength. With respect to computing the return on revenues of 7.4 % (about 6 % without the non-recurrent tax income) and the earnings ratios already referred to, it should be noted that fertiva's trading revenues of € 556.2 million have been included, which give rise to limited trading earnings for us because of the contractual arrangements with BASF; if they were not included, the ratios would be significantly better. At 21.9 %, our return on equity after taxes clearly exceeded the figure for the preceding year (2005: 17.8 %). At 12.3 %, the return on total investment was slightly down on last year's figure of 12.7% Our ROCE, which at K+S is paid particular attention to, amounted to 17.4 % for the year under review (2005: 19.5 %) and was thus well above our cost of capital of about 10% before taxes, i. e. the K+S Group once again created significant value added (EVA) in the past financial year.

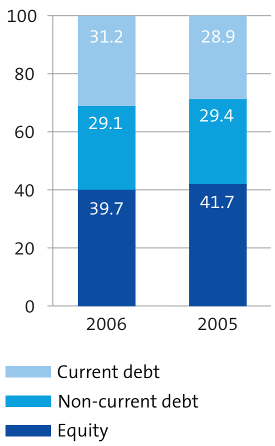
Financial position

Principles and goals of financial management

The K+S Group possesses a strong financial base as well as a relatively high operating and free cash flow. Both these factors mean that we are able to respond flexibly to investment and acquisition opportunities if they satisfy our own profitability criteria. Financial liabilities account for a modest 13 % of the balance sheet total. In cash management, we mainly focus on the long-term management of our liquidity as well as the optimisation of payment streams within the Group. Group currency and interest rate management is performed centrally for all Group companies. Derivative financial instruments are used, but such transactions are only entered into with top-rated banks and are spread across several banks so as to reduce the risk of default.

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

Equity and Liabilities (in %)



The derivatives used are generally options with lower and upper knock-out thresholds (double-barrier options). If the spot rate exceeds or falls below the knock-out thresholds during the term, the option expires. By means of active currency management, these knock-out thresholds can, however, be shifted through the acceptance of additional premium payments.

Last year, we were able to hedge USD 500 million in US dollar receipts for the Potash and Magnesium Products business segment at an average hedged rate of USD/EUR 1.09, including the necessary premium payments. This rate was much more attractive than a year ago (2005: USD/EUR 1.15) as well as much better than the average spot rate for 2006 of USD/EUR 1.26.

Financing analysis

There was no significant change in the healthy financing structure of the K+S Group in relation to the previous year. At 39.7 % of the balance sheet total, the equity ratio remains on a good level despite the increase in external financing resulting from the acquisition of the SPL Group and declined only slightly in relation to the previous year (2005: 41.7 %). At 29.0 %, the proportion of non-current debt, including non-current provisions, remained on about the same level as a year ago while current debt increased somewhat, from 28.9 % to 31.2 %.

Almost 50 % of the K+S Group's debt consist of provisions, 22% of financial liabilities and 21 % of trade accounts payable. The main provisions of the K+S Group are provisions for pension obligations (2006: € 128.2 million) as well as provisions for mining obligations (2006: € 338.2 million). As of 31 December 2006, bank loans and overdrafts amounted to € 370.7 million, of which € 234.0 million can be classified as current.

Last year, we continued the out-financing of pension and partial retirement provisions with a further allocation of € 47.9 million under a Contractual Trust Arrangement (CTA model). The corresponding financial resources are earmarked and used for the purpose of settling pension obligations, resulting in a reduction of the obligations on the balance sheet. We want to continue along the path of out-financing at the appropriate time.

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

- Trend in salary increases: 1.5 %
- Trend in pension increases: 1.5 %
- Discount factor: 4.6 %

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

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

A change in the level of market interest rates would impact on the measurement of provisions for pensions and mining obligations first of all. Thus, an increase in the discount factor of one percentage point would reduce the carrying amount by about € 19 million in the case of pension provisions and by about € 50 million in the case of provisions for mining obligations in 2007. Conversely, a reduction in the discount factor of one percentage point would cause pension provisions to rise by about € 19 million and mining provisions to rise by about € 76 million in 2007. It is important to note in this regard that the aforementioned changes in provisions resulting from a change in the discount factor should not be treated as having a corresponding impact on earnings. Because of the correlation between interest rate levels and the inflation rate, an increase or reduction in the interest rate is generally linked to a rise or cut in inflation rates. In contrast to viewing a change in interest rates in isolation, this has a much lesser impact on earnings.

The average cost of debt, including provisions, for the K+S Group is 4.7 % before taxes and is thus slightly lower than a year ago (5.0 %). The decrease is mainly attributable to the taking out of a syndicated loan to service the financing of expenditure connected with the acquisition of SPL in particular. We do not expect any significant change in the cost of debt levels in 2007.

More than two thirds of the financing of the K+S Group comprises equity and non-current debt, which itself consists almost entirely of non-current provisions. Furthermore, there are sufficient financing possibilities available at banks, which, if need be, offer us financing at attractive rates. There are foreign currency financial liabilities totalling € 117 million in US dollar, Brazilian real as well as Chilean and Mexican peso.

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

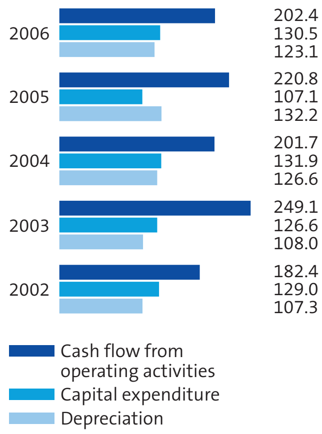
Off-balance sheet financing instruments in the sense of the sale of receivables, asset-backed securities, sale and lease back transactions or contingent liabilities to special purpose entities not consolidated only exist to a negligible extent. We only have operating leases in respect of, for example,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

Capital expenditure analysis

Capital expenditure by business segment

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Potash and Magnesium Products	11.1	18.5	24.4	29.8	83.8	70.9	+ 18.2
COMPO	1.9	1.6	3.0	4.9	11.4	12.3	- 7.3
fertiva	0.0	0.0	0.0	0.7	0.7	0.3	+ 133.3
Salt	1.5	6.7	3.5	9.5	21.2	12.4	+ 71.0
Waste Management and Recycling	0.3	1.3	0.6	2.1	4.3	3.4	+ 26.5
Services and Trading	1.0	1.4	1.7	4.1	8.2	6.6	+ 24.2
Other	0.0	0.5	0.0	0.4	0.9	1.2	- 25.0
K+S Group	**15.8**	**30.0**	**33.2**	**51.5**	**130.5**	**107.1**	**+ 21.8**
Share of capital expenditure in %	12.1	23.0	25.4	39.5	100.0	–	–

Capital expenditure compared with depreciation and cash flow from operating activities (in € million)



In 2006, we invested a total of € 130.5 million in property, plant and equipment and intangible assets, about 22 % more than in the previous year. Nevertheless, there were capital expenditure overhangs of € 20 million in relation to our budget at the end of the year; they were primarily attributable to the limited availability of raw materials as well as extended delivery times. Measures relating to replacing and safeguarding production account for most of the capital expenditure. A certain degree of seasonality in capital expenditure is also evident during the course of the year, with a focus on the implement of investment undertakings in the fourth quarter in particular. This is related to the fact that we use breaks in production at the end of the third and the fourth quarter to implement larger-scale investment undertakings. At the end of the year, there were capital expenditure obligations relating to uncompleted investment undertakings totalling € 9 million.

We endeavour to keep expenditure on replacement and measures to safeguard production at a level that does not exceed depreciation charges. Despite various expansion and rationalisation projects, total capital expenditure has only slightly exceeded depreciation over the last years. The strong cash flow from operating activities provides us with a high degree of flexibility for investing in profitable expansion and rationalisation projects.

Potash and Magnesium Products business segment

At € 83.8 million, capital expenditure in the Potash and Magnesium Products business segment was down € 12.9 million or 18 % year on year (2005: € 70.9 million). The focus in the past year was on various measures to improve exploitation. In addition, new energy generation projects were commenced in the second half of the year, such as the acquisition and installation of various gas turbines, for example. In addition, a winding machine was replaced at the Hattorf site, residue processing was modernised and a drainage station installed at the Werra plant.

COMPO business segment

COMPO business segment capital expenditure in 2006 amounted to € 11.4 million and was on about the same level as in the previous year (2005: € 12.3 million). The largest projects including the increasing of filling capacity at the Krefeld site as well as a new box filling plant at Münster, the commencement of work on the optimisation of Torf- und Humuswerke Gnarrenburg was also significant.

fertiva business segment

In 2006, we invested € 0.7 million in our fertiva business segment, which concentrates on the marketing and distribution of nitrogenous agricultural fertilizers (2005: € 0.3 million). Work was started on the construction of a new filter plant for large-grain ammonium sulphate at the Lanxess plant in Antwerp and should be completed in 2007.

Salt business segment

At € 21.2 million, investment in the salt business in 2006 almost doubled year on year. On the one hand, the increase was due to the takeover of SPL and, on the other hand, to larger-scale individual measures such as the replacement of a winding tower at the Borth site and the completion of work on expanding the brine field at the Frisia site.

Waste Management and Recycling business segment

Capital expenditure in the Waste Management and Recycling business segment during 2006 came to about € 4.3 million and was thus up € 0.9 million on 2005. In addition to replacement capital expenditure on the REKAL facility for the recycling of salt slag, the focus was on a project connected with improving efficiency in underground re-utilisation at the Unterbreizbach site, where it should be possible to increase performance significantly with the help of a new thick matter facility.

Services and Trading business segment

The bulk of the capital expenditure totalling € 8.2 million (+24%) in the Services and Trading business segment was related to our IT subsidiary data process GmbH. The remainder was primarily concentrated on new purchases in the logistics field, especially the replacement of a bulk loader as well as on projects that have already been commenced with a view to increasing warehouse storage capacity.

Liquidity analysis

Cash flow overview

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Gross cash flow	114.0	74.7	63.2	90.8	342.7	341.5	+ 0.4
Cash flow from operating activities	31.7	66.0	102.4	2.3	202.4	220.8	- 8.3
Cash flow from investing activities	7.8	- 359.3	- 27.3	- 51.0	- 429.8	- 94.3	> 100
- of which acquisitions	–	- 358.9	1.2	–	- 357.7	–	–
Free cash flow	39.5	- 293.3	75.1	- 48.7	- 227.4	126.5	–
Free cash flow before acquisitions	**39.5**	**65.6**	**73.9**	**- 48.6**	**130.4**	**126.5**	**+ 3.1**
Share of total free cash flow in %	29.4	49.3	55.1	- 33.8	100.0	–	–
Cash flow from financing activities	- 6.0	160.4	- 33.6	50.1	170.9	- 113.3	–
Change in cash and cash equivalents	33.7	- 129.9	41.5	1.3	- 53.4	8.0	–

Attaining € 342.7 million in 2006, gross cash flow was somewhat above the high level of a year ago. Operating earnings were higher while allocations to provisions as well as depreciation and amortisation charges were lower; in addition, higher interest payments as well as other, one-off financing expenses could be offset by higher gains realised on disposals. As a result of an increase in working capital, cash flow from operating activities declined by € 18.5 million or 8 %.

In addition, it should be noted that working capital is also influenced by the level of premium payments for the currency options we employ for hedging. During the year under review, this reduced working capital requirements by € 9.8 million compared with the previous year.

Expenditure related to investing activities, which also includes disbursements for acquisitions, rose substantially in the past year by a total of € 335.5 million to € 429.8 million; payments totalling € 357.7 million for the acquisition of the SPL Group were the key factor in this regard.

In 2006, we posted negative free cash flow of € 227.4 million, which was down € 353.9 million on the corresponding figure for last year. Adjusted for acquisition-related disbursements, it increased by € 3.9 million or 3 % to € 130.4 million. Free cash flow is subject to significant seasonality during the course of the year. In general, both the first and last quarters are influenced by an increase in receivables as well as an inventory build up while high cash receipts are recorded in the second and third quarters. These factors result in cash generally reaching its highest point for the year at the end of the third quarter.

Cash flow from financing activities for the year under review essentially covered the dividend payment of € 74.3 million for 2005 as well as the loan of € 249.4 million taken out in connection with the acquisition of the SPL Group.

The continuation of the out-financing of pension provisions made in the past year only had a minor cash effect (€ 6.5 million) in the cash flow statements: A further € 41.4 million had no influence on cash and cash equivalents as securities not included in cash and cash equivalents are removed. Thus, cash and cash equivalents amounted to € 16.4 million at the end of the year compared with € 69.8 million for the previous year.

Cost of capital
The weighted average cost of capital for the K+S Group comprises the aggregate of the interest to which a contributor of equity would be entitled in respect of his equity share as well as the interest on debt in respect of the interest-bearing debt component of total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the standardised corporate income tax rate of 35 %.

The interest to which a contributor of equity would be entitled is based on the risk-free interest rate plus an adequate risk premium. The average of the Euro-Composite Index, AAA rating, with a maturity of 1 year to 30 years is applied as the risk-free interest rate, giving a figure of about 4.1 %. The risk premium has been computed using the empirical mean for the market risk premium of 4.5 % and the longer-term adjusted beta factor of 0.75 applicable to K+S in relation to the MSCI Europe benchmark. This means that a contributor of equity would be entitled to interest of 7.4 %.

The market value of equity as of 31 December 2006 amounted to about € 3,390.8 million and is a figure derived from the price of € 82.20 for the K+S share on that reporting date multiplied by the 41.25 million shares outstanding.

The average interest on debt before taxes amounts to about 4.6 % and is derived from the weighted average for the risk-free interest rate plus the individual credit risk supplement for K+S assuming an A rating for the debt as well as the interest on pension and mining provisions. After taking into account the standardised tax ratio of 35 %, this yields an average after-tax rate for debt of about 3.0 %.

As of 31 December 2006, interest-bearing debt amounted to € 837.1 million, being the aggregate of the market value of the financial liabilities (€ 370.7 million), the pension provisions (€ 128.2 million) and the mining provisions (€ 338.2 million). Thus, total capital amounted to € 4,227.9 million, with equity accounting for about 80 % of this figure.

This ultimately results in a weighted average cost of capital rate for the K+S Group of about 6.5 % after taxes.

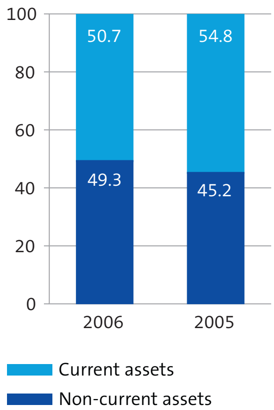
Multi-period overview of financial position

Figures* in € million	2006	2005	2004	2003	2002
Gross cash flow	342.7	341.5	274.1	209.1	216.9
Working capital	599.1	453.0	333.1	250.9	300.5
Cash flow from operating activities	202.4	220.8	201.7	249.1	182.4
Cash flow for investing activities before acquisitions	- 72.1	- 94.3	- 131.6	- 122.5	- 135.1
Free cash flow	- 227.4	126.5	- 22.9	124.8	46.5
Free cash flow before acquisitions	130.4	126.5	70.1	126.6	47.3
Cash flow for financing activities	170.9	- 113.3	- 39.7	- 84.8	- 51.6
Equity ratio in % **	39.7	41.7	41.0	33.3	33.5
Non-current provisions as share of balance sheet total in %	20.8	28.1	30.4	35.2	35.7
Level of indebtedness I in %	37.2	3.2	6.5	3.3	8.5
Level of indebtedness II in %	96.6	71.3	80.7	108.8	115.1

* 2002-03: HGB; as of 2004: IFRS; an explanation of the figures shown can be found in the glossary.
** 2002-03: included balance from capital consolidation and 50 % special reserves

Asset position

Assets
(in %)



Analysis of asset structure

K+S Group balance sheet total rose by 25.3% to € 2,830.9 million as of 31 December 2006. The increase was mainly attributable to the acquisition of the SPL Group. In the past year, the structure of assets shifted somewhat in favour of non-current assets for this reason. At 49.3%, their share of the balance sheet total was about 4% up on the already high level of a year ago. At the end of 2006, cash and cash equivalents and short-term securities amounted to a total of € 79.6 million (2005: € 150.0 million); the decline is attributable to the use of available liquidity for the acquisition of the SPL Group as well as the further out-financing of pensions obligations. After the inclusion of cash and cash equivalents (€ 64.4 million), securities (€ 57.3 million), financial liabilities (€ 370.7 million), the provisions for pension and mining obligations (€ 128.2 million and € 338.2 million respectively) as well as the net cash and cash equivalent positions of non-consolidated associates (€ 2.8 million), K+S indebtedness at the end of the year amounted to € 718.2 million (2005: € 324.0 million).

Off-balance sheet assets

In 2005, we started on the out-financing of provisions for pensions and partial retirement arrangements through a Contractual Trust Arrangement (CTA model) for the first time. By making allocations to the CTA model, the corresponding financial resources are earmarked for the purpose of settling pension obligations and are thus disclosed as off-balance sheet items for the K+S Group. After a further allocation of € 47.9 million in the past year, a total of € 89.9 million was tied up for this end as an off-balance sheet item.

Other financial obligations as at 31 December 2006 amounted to about € 55 million and concerned operating leases relating to plant and office equipment such as printers, photocopiers and IT peripherals. In addition, company cars are leased. Given the relevant contractual arrangements, these items are not carried under fixed assets.

Note on acquisitions

The scope of consolidation was extended by 19 companies in 2006. This was due to the acquisition of Chilean salt producer SPL. As a result of the acquisition, companies in Chile, Brazil and the United States with a focus on the production and distribution of salt products as well as related logistical processing were included for the first time.

With SPL, K+S now has a very cost-effective rock and sea salt producer with a high earnings capacity, sites with favourable locations in terms of logistics and a strong market position on the American salt market. K+S is pursuing the goal of exploiting further growth potential and thus expanding the salt business worldwide.

Multi-period overview of asset position

Figures* in € million	2006	2005	2004	2003	2002
Property, plant and equipment, intangible assets	1,271.7	874.1	883.3	659.8	598.6
Financial assets and non-current securities	61.5	75.3	75.8	76.0	86.0
Cash and cash equivalents and current securities	79.6	150.0	206.0	234.8	215.7
Net indebtedness	718.2	324.0	289.2	227.1	262.7
Equity/fixed assets ratio I in %	82.4	104.8	97.7	87.0	90.9
Equity/fixed assets ratio II in %	146.2	179.7	173.9	178.9	187.8
Liquidity ratio I in %	9.0	23.0	35.6	56.5	53.8
Liquidity ratio II in %	105.4	146.4	142.6	185.7	184.5
LLiquidity ratio III in %	162.2	190.0	186.1	244.4	244.3

* 2002-03: HGB; as of 2004: IFRS; an explanation of the figures shown can be found in the glossary.

General statement on the current economic situation*

The K+S Group is well positioned to further increase enterprise value with committed employees in growing markets for fertilizers and plant care as well as salt products. With our hedging system, we have implemented the best possible measures for at least diminishing the possible negative effects of future USD/EUR exchange rates. Assuming that current energy price levels remain stable, currently low energy costs will already partially open up additional earnings opportunities for K+S in 2007 and with full effect in the following year. Overall, we are optimistic about the economic situation.

* on 23 February 2007

Management Report

Business Segment Development

Potash and Magnesium Products Business Segment

Variance analysis in %	2006
Change in revenues	**+ 3.5**
- volume/structural factors	+0.1
- prices	+ 3.7
- exchange rates	- 0.3
- consolidation	–

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	336.0	319.0	288.3	295.6	1,238.9	1,197.2	+ 3.5
Operating earnings (EBIT I)	42.1	41.7	39.2	35.6	158.6	151.8	+ 4.5
Capital expenditure	11.1	18.5	24.4	29.8	83.8	70.9	+ 18.2
Employees (31 Dec.; number)	7,461	7,446	7,566	7,550	7,550	7,490	+ 0.8
Share of total EBIT I in %	26.5	26.3	24.7	22.5	100.0	–	–

Market environment

The K+S Group is one of the most important suppliers of potash and magnesium products worldwide. As the fourth-largest producer of potash, we were able to slightly consolidate our position on the global market with a share of about 13 %. In Europe, we are the leader by a wide margin: However, Russian and Belarusian suppliers have been able to marginally improve their market positions as a result of the new, toned-down antidumping conditions. In contrast to most of our competitors, we also offer potassium sulphate and magnesium sulphate speciality fertilizers and occupy the leading position worldwide in this regard.

With sales of goods at 50.7 million tonnes, demand on the global potash market in 2006 was down about 7% on the previous year. This was a consequence of the exceptionally protracted price negotiations conducted by Canadian and Russian producers with Chinese and Indian potash customers which were only concluded in July and August 2006. Until then, quite a number of market participants suspended purchases because of the uncertainty surrounding the further development of prices. In addition, the development of global demand in the first half of the year was adversely affected by the high energy cost burden borne by North American farmers as well as by the cold and wet weather in large areas of Europe. Following the conclusion of the price negotiations in China and India, potash deliveries resumed with a high degree of intensity, with the result that it was possible to reduce the delivery shortfall compared with the previous year.

The main suppliers of the Chinese and Indian customers responded to the rise in inventories due to reduced demand by cutting back output significantly. As a result, global potash output fell by 10% to 51.0 million tonnes of goods. Consequently, equilibrium was restored between supply and demand, causing inventories to reach a normal level again by the end of the year. The reductions in output referred to above meant that it was possible to ensure the stability of international price levels for potash to a large extent. Maintaining the price level attained took precedence over maintaining volume. The robust resumption of potash deliveries and the reports on the closure of Berezniki I bolstered the trend towards higher prices in the fourth quarter of 2006.

Competitive situation

Belarusian Potash Company (BPC) started marketing the potash export volume of producers Belaruskali and Uralkali on 1 January 2006.

The severe leach inflow at the Berezniki I mine belonging to the Russian company Uralkali at the end of October 2006 meant that the mine, with its production capacity of 1.4 million tonnes of goods, had to be abandoned forever. This will reduce global potash capacity in 2007. The consequences of this occurrence may also affect the Russia's other potash producer, Silvinit, whose goods are transported via a railway line that is at risk because of possible soil subsidence resulting from the inflow. A temporary alternative route was erected quickly to ensure that goods can continue to be transported.

Russian complex fertilizer producer Eurochem began exploration work at its potash deposit near Volgograd, Russia, in July 2006 and plans to set up a potash plant there with an annual output of 2 million tonnes by 2010.

North American fertilizer producer Agrium took over 98.6 % of the largest US fertilizer trading company Royster Clark for USD 515 million. In addition, Agrium increased the capacity of its potash plant by 310,000 tonnes and plans a second phase of expansion involving an increase of 350,000 tonnes by 2009 if the market develops appropriately.

Rio Tinto plc., Great Britain, is currently working on a profitability study for a new potash project in Argentina with a capacity of 1.5 – 2.0 million tonnes. The study analyses the possibility of launching production as of 2009/2010 and is expected to be completed in the first half of 2007.

In western China, a first upstepping phase has been launched for the production of potassium sulphate (SOP) by Luobupo Potash Co., which is expected to attain an annual production volume of 1.2 million tonnes of SOP goods by 2009. In a second phase, a capacity of 3 million tonnes per annum is to be attained by 2015.

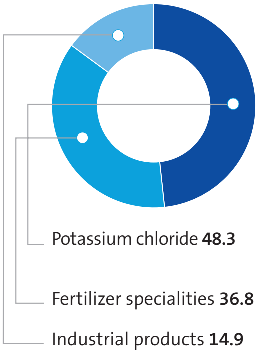
MagIndustries announced that its subsidiary MagMinerals is preparing to commence mining operations at the Kouilou Potash Project in Congo. A preliminary agreement has been concluded with Ameropa on the distribution of the potash that is to be extracted there. Ameropa has also expressed its interest in participating in the project.

Anglo Minerals has entered into a joint venture with BHP Billiton Diamonds to conduct more detailed studies on the potash deposit at Lake Jansen in Saskatchewan as a site for new potash production.

The Italian Thai Development Plc., the largest construction company in Thailand, has taken over Asia Pacific Resources (APR) and wants to press ahead with the Udon Thani potash project as a result.

After having completed its investigation, the European Commission once again determined that dumping was being engaged in by potash producers in Russia and Belarus. Consequently, trade policy measures concerning imports of potassium chloride from Russia and Belarus were published in the EU official gazette of 12 July 2006 and will apply for a period of five years. To provide protection against unfair competitive practices, various tariffs, ranging from 12.3 % to 27.5 % according to producer, were imposed on imports of potassium chloride. In a parallel move, the Commission accepted voluntary undertakings from Russian producers and reached a supplementary agreement with the Belarusian potash producer. In terms of their content, both the undertakings and the agreement with the Belarusian producer allow potassium chloride to be supplied to the EU-27 provided that fixed volume quotas and minimum prices are observed. As long as these arrangements are complied with, the application of the tariffs will be suspended.

Revenues by product group (in %)



Revenues

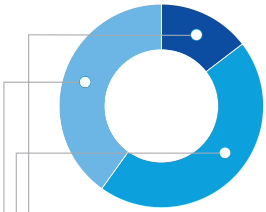
The Potash and Magnesium Products business segment posted revenues of € 1,238.9 million for financial year 2006, which represents an increase of about 4 % on the previous year: The key factors in this regard were higher prices for potash and magnesium products in Europe. In addition, higher sales overseas (+20 %) made up for a decline in Europe (-8 %), with the result that total sales in 2006 amounted to 7.99 million tonnes and were up just under 2 % on the previous year (2005: 7.86 million tonnes). As part of our processing strategy, we were able to increase sales of more profitable speciality products such as potassium sulphate, industrial potash and the EPSO product family; this resulted in higher revenue and earnings growth as well as a reduction in the dependency on price fluctuations in the standard fertilizer sector.

About 60% of revenues were generated within the eurozone last year and are therefore free of any direct foreign exchange risk. As far as revenues invoiced for in the US dollar zone are concerned, we hedge ourselves against currency risks. The foreign exchange transactions that we concluded enabled us to obtain an average US dollar exchange rate of USD/EUR 1.09 for 2006 after hedge costs. This hedged exchange rate was somewhat more favourable than the year before (2005: USD/EUR 1.15) and was significantly more advantageous than the average US dollar spot rate of USD/EUR 1.26 for 2006. We have hedged our revenues for subsequent years at advantageous hedged rates too, including premium expenses (2007: USD/EUR 1.04 and 2008: USD/EUR 1,07). However, these hedging transactions are only effective within defined ranges (2007: 1.13 ≤ USD/EUR ≤ 1.40 and 2008: 1.10 ≤ USD/EUR ≤ 1.40) but we can, if need be, adjust them by paying additional premiums.

Revenues, Sales, Ø-Price	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues* in € million	**336.0**	**319.0**	**288.3**	**295.6**	**1,238.9**	**1,197.2**	**+ 3.5**
- Europe	226.2	189.2	160.5	166.0	741.9	771.2	- 3.8
- Overseas	109.8	129.8	127.8	129.6	497.0	426.0	+ 16.7
Volume in effective million tonnes	**2.11**	**2.08**	**1.87**	**1.93**	**7.99**	**7.86**	**+ 1.7**
- Europe	1.45	1.25	1.05	1.08	4.83	5.23	- 7.6
- Overseas	0.66	0.83	0.82	0.85	3.16	2.63	+ 20.2
Ø-Price per effective tonne in €	**159.4**	**153.2**	**153.8**	**153.4**	**155.0**	**152.3**	**+ 1.8**
- Europe	156.0	151.1	152.7	154.0	153.6	147.5	+ 4.1
- Overseas	166.9	156.4	155.5	152.5	157.3	162.0	- 2.9

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

Revenues by region (in %)



Potassium chloride up year on year due to price factors

During the year under review, potassium chloride revenues rose by € 10.4 million or about 2 % to reach € 598.0 million. In Europe, revenues rose by just under 17 %, while we gained about 24 % overseas. Sales in Europe amounted to 1.76 million tonnes, down 21 % on the previous year. Overseas sales amounted to 2.05 million tonnes and thus rose by 32 %. The higher proportion of more profitable granulates also impacted positively on revenues.

Further gains for fertilizer specialities

At € 455.9 million, revenues for our fertilizer specialities during the past financial year were about 5 % up on the previous year's level. Primarily price factors, but also positive effects arising from the structure of sales contributed to the increase. High demand for potassium sulphates was a major driver in particular. Revenues rose by 15 % overseas and attained the previous year's level in Europe. European sales fell by just under 4 % to 2.09 million tonnes, with sales overseas rising by 10 % to 0.92 million tonnes.

Industrial products mirror a favourable economic environment

Revenues for industrial products were up 6 % year on year and totalled € 185.0 million. The rise is attributable to price increases in both the industrial potash area as well as for magnesium compounds. In Europe, we achieved revenue growth of 14 %, which more than made up for the decline in revenues overseas (-17 %). Sales amounted to 0.98 million tonnes (+17 %) in Europe and to 0.19 million tonnes (-20 %) overseas. Sales of industrial potash and technical sodium chloride were up year on year once again.

Development of earnings

Operating earnings (EBIT I) for the Potash and Magnesium Products business segment rose by € 6.8 million or 5 % to a new record level of € 158.6 million. The price-driven increase in revenues could not fully make up for the rise in costs resulting from higher energy and freight costs, but our hedging measures enabled us to achieve a better foreign currency result. This meant that it was possible to more than make up for those cost increases that could not be fully passed by means of higher prices and for the negative effects of the valuation of US dollar receivables as of the balance sheet date.

The operating earnings of the Potash and Magnesium Products business segment display a slight degree of intra-year seasonality that favours the first half of the year and is mainly connected with the European spring fertilizing season.

COMPO Business Segment

Variance analysis in %	2006
Change in revenues	**+ 2.0**
- volume/structural factors	-0.2
- prices	+ 1.9
- exchange rates	+ 0.3
- consolidation	–

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	197.7	145.6	92.2	116.9	552.4	541.7	+ 2.0
Operating earnings (EBIT I)	16.3	9.7	- 0.4	3.6	29.2	25.0	+ 16.8
Capital expenditure	1.9	1.6	3.0	4.9	11.4	12.3	- 7.3
Employees (31 Dec.; number)	1,295	1,275	1,253	1,260	1,260	1,292	- 2.5
Share of total EBIT I in %	55.8	33.2	- 1.3	12.3	100.0	–	–

Market environment

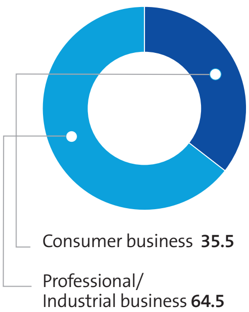
COMPO is one of Europe's leading providers of premium products in the field of potting soils, speciality fertilizers and plant care products for the private garden. In the case of speciality fertilizers for professional horticultural and agricultural application areas, COMPO occupies an important position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

In the consumer area, the 2006 spring season for COMPO was adversely affected by a delayed start in most European countries. Cold and wet weather in northern Europe at the beginning of the season but also a hot July had a negative impact. Trade efforts to changes the terms applicable to relations with producers to their advantage have further increased.

The professional business was also adversely affected by the long dry spell in Southern Europe and by the rising costs experienced by farmers for supplies and fertilizers resulting from higher raw material costs. These factors depressed demand for speciality fertilizers.

In terms of the average for the year, the costs of ammonia, an important raw material for the production of nitrogen fertilizers, were slightly above the already high level of a year ago. However, prices for nitrogen fertilizers were also higher than a year ago, which meant that it was possible to offset higher ammonia costs.

REVENUES BY SEGMENT (IN %)



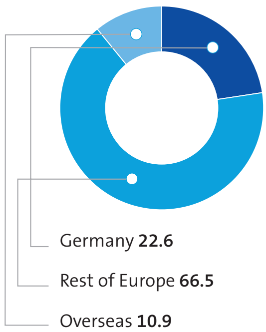
Revenues

Financial year 2006 saw revenues rise by € 11.0 million or 2 % to total € 552.4 million. The volume-related revenue decrease could be more than made up for by price adjustments in the professional area. COMPO generates about 90 % of its revenues in Europe and is thus affected by currency fluctuations only to a limited extent.

CONSUMER AREA REVENUES RISE

In the case of the consumer area, revenues rose by 4 % to € 195.9 million; after adjustment for the minor change in the definition of the professional/industrial as well as consumer business since the beginning of 2006, revenues were down 3 % on the previous year. Despite moderate price increases, declining sales produced this limited decline in revenues. The cold, wet weather conditions during the main season as well as the consumer restraint that particularly prevailed in France and Germany last year exacted a price.

Revenues by region (in %)



Professional area on last year's level

Professional business revenues rose by 1% to € 356.5 million; without the effect of the redefinition, this would have represented an increase in revenues of about 5%. Prices increases were able to make up for reduced demand as a result of the long dry spell in Southern Europe as well as the rising operating costs borne by farmers. Revenue increases were achieved in Europe and overseas with our innovative ENTEC® fertilizers.

Development of earnings

At € 29.2 million, operating earnings for the COMPO business segment were up about 17% year on year. In addition to a slight increase in revenues, this is also attributable to the efficiency enhancement measures that we already began implementing in 2005. They were very effective in checking the increase in cost levels prompted by higher procurement prices for ammonia, phosphate and potash.

The operating earnings of the COMPO business segment are influenced by seasonal factors to a large extent, with the major contributions to earnings being generated in the first half of the year as a rule. The third and fourth quarters are characterized by lower revenues as well as high outlays for the coming spring season.

fertiva Business Segment

Variance analysis in %	2006
Change in revenues	**- 2.1**
- volume/structural factors	- 5.5
- prices	+ 3.1
- exchange rates	+ 0.3
- consolidation	–

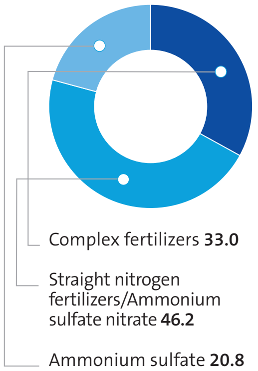
€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	132.2	137.6	143.8	142.6	556.2	568.3	- 2.1
Operating earnings (EBIT I)	3.8	5.0	5.8	2.1	16.7	14.8	+ 12.8
Capital expenditure	–	–	–	0.7	0.7	0.3	+ 133.3
Employees (31 Dec.; number)	61	59	61	61	61	58	+ 5.2
Share of total EBIT I in %	22.8	29.9	34.7	12.6	100.0	–	–

Market environment

The fertiva business segment places K+S among Europe's leading suppliers of nitrogen fertilizers. Norway's Yara, the global market leader, is the number one in Europe. fertiva's positions are strongest in Germany, the Benelux states and France. In the case of the speciality fertilizer ammonium sulphate, fertiva is one of the leading suppliers worldwide.

Financial year 2006 was shaped by a further increase year on year in the price of the raw material ammonia, causing acquisition costs to grow again. However, in the case of downstream nitrogen fertilizer products, it was possible to implement price increases too, which allowed higher costs to be at least partially offset. The relatively high price level in Europe was prompted by continued high gas costs for all nitrogen producers in Western Europe. However, in the second half of the year, this led to a limited readiness to stock up on the part of our Western European customers in comparison with the previous year, especially as they started the new season with significant stocks because of slack spring business caused by weather conditions. There was a further increase in nitrogen fertilizer imports from Russia, the Middle East and other countries with lower gas prices.

Revenues by product group (in %)



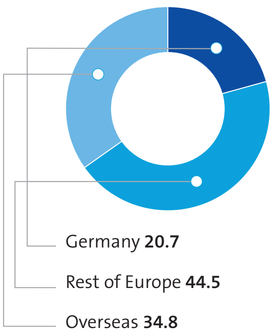
Revenues

At € 556.2 million, earnings for the fertiva business segment were down 2 % on the figure for the previous year. Positive price effects could not fully make up for volume decreases in Germany and in other European countries. A revenue increase of 8 % was achieved overseas, while revenues on the European market declined by 7 %. As a result of only marginal changes in relation to the previous year, the US dollar had little impact on the development of revenues. Sales reached 4.07 million tonnes and were thus down just under 5% on the figure for the previous year.

Revenues for complex fertilizers exceed previous year's level

At € 183.6 million, complex fertilizer revenues were up about 2 % on the previous year's level. In Germany above all, a limited readiness to stock up on the part of the trade sector produced a volume decline. In the case of the overseas business, by contrast, it was possible to increase revenues by 20 % as a result of both price and volume factors. Total sales of complex fertilizers amounted to 0.97 million tonnes compared with 1.01 million tonnes in the previous year.

Revenues by region (in %)



Straight nitrogen fertilizer revenues fall slightly

In the case of straight nitrogen fertilizers, price-driven revenue increases could not fully compensate for volume decreases in Europe during the year under review. Revenues for this segment amounted to € 257.2 million and were thus 3 % down on the figure for the previous year. European sales outside Germany declined, while, by contrast, a significant increase in sales of 23 % could be attained overseas. Sales of straight nitrogen fertilizers amounted to 1.62 million tonnes compared with 1.80 million tonnes in the previous year.

Ammonium sulphate down on previous year as a result of price factors

Ammonium sulphate revenues in 2006 fell by just under 7 % to € 115.5 million; this was caused by lower average prices, especially overseas. While sales declined appreciably in Germany and remained on a stable level overseas, we were able to increase sales in the rest of Europe. Sales of ammonium sulphate totalled 1.48 million tonnes and were thus down 1 % on the previous year's level.

Development of earnings

With its trading business, the fertiva business segment posted operating earnings of € 16.7 million, representing an increase of 13 %. Higher raw material acquisition cost could be more than offset by higher prices. De facto, earnings are divided equally between BASF and K+S within a corridor of plus/minus € 10.0 million. In addition, we receive a share of at least 25 % of fertiva profits in excess of € 10 million.

Salt Business Segment

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

Variance analysis in %	2006
Change in revenues	**+ 22.1**
- volume/structural factors	- 0.7
- prices	+ 2.2
- exchange rates	–
- consolidation	+ 20.6

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	157.7	67.7	115.5	144.9	485.8	398.0	+ 22.1
Operating earnings (EBIT I)	47.5	0.4	7.7	12.0	67.6	62.7	+ 7.8
Capital expenditure	1.5	6.7	3.5	9.5	21.2	12.4	+ 71.0
Employees (31 Dec.; number)	1,373	1,390	2,158	2,194	2,194	1,385	+ 58.4
Share of total EBIT I in %	70.3	0.6	11.4	17.7	100.0	–	–

Market environment

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

Sociedad Punta de Lobos (SPL) leads in South America with a regional focus on Chile as well as on neighbouring markets and, through International Salt Company ISCO, it occupies a strong position in the north eastern states of the United States.

At the beginning of the year, the Western European de-icing salt market was influenced by exceptionally severe and prolonged winter weather conditions while at the end of the year, the weather was mild, which had an adverse effect on de-icing salt sales. Our subsidiary esco was able to exploit its strengths deriving from its ability to deliver high volume at short notice during peak times in particular and thus enhance its position as the European market leader.

Temperatures on America's East Coast were exceptionally mild at both the beginning and the end of 2006, prompting significant decreases for de-icing salt across the industry. For winter season 2006/2007, there were no significant shifts in market share in the case of the customary tenders. Price levels could be increased slightly on average, but not to an extent allowing higher freight and energy costs to be fully passed on.

In the case of food grade salt, the trend towards convenience food is continuing in Europe; this tends to diminish demand for table salt and to increase demand for the types of food grade salt used by the foodstuff industry. In addition, the market share held by private label products in relation to branded products is continuing to increase. esco is profiting from this trend as we are the market leaders in Germany in commercial food grade salt for the foodstuff industry and mainly focus on private label products in the case of table salts.

By contrast, branded products dominate the Chilean food grade salt market; the SPL brands have achieved an excellent degree of market penetration in this regard. In addition, the Brazilian market offers promising potential for growth.

In the case of salt for chemical use, supply in Europe has declined slightly with the result that local suppliers have been able to implement higher prices. However, for most producers, they have probably not been high enough to fully pass on higher energy costs. The European industrial salt market appeared stable overall: While sectors such as salt for the textile and leather industry decreased slightly, pharmaceutical and water softening salts increased somewhat.

The South and Central American market for salt for chemical use and industrial salt is tending to grow at the same pace as the above-average rise in the population there and favourable economic growth.

Competitive situation

Europe

The European salt industry was characterised by further efforts directed towards concentration, a process enhanced by the continued significant rise in energy costs:

Akzo Nobel sought to sell its Salt Specialities segment last year without achieving any tangible result. Subsequently, it became known that personnel reductions as well as further price increases were being considered.

Salinen Austria resolved a package of restructuring measures after earnings were substantially depressed as a result of penalty payments for failing to meet delivery obligations as well as high energy costs. In addition, the goal of creating an international salt group through acquisitions in Italy and Romania, followed so far, was not attained. However, Salinen Austria’s plans to spend about € 100 million on investment continue to apply and should result in output increasing from 860,000 tonnes at present to 1,200,000 tonnes.

After already being the subject of discussion for five years, the process of privatising Romanian state-owned salt producer Salrom is now to start in the spring of 2007 under the auspices of the Ministry of Economy and Trade.

In Switzerland, an initiative has been launched to dismantle the salt monopoly, after the monopoly levy of CHF 50 per tonne had already been cut to a symbolic CHF 1. Over the longer term, this initiative may result in the full privatisation of Schweizerische Rheinsalinen. However, a decision cannot be expected soon.

In the case of Italian Italkali, it is still unclear whether a further privatisation attempt will be made.

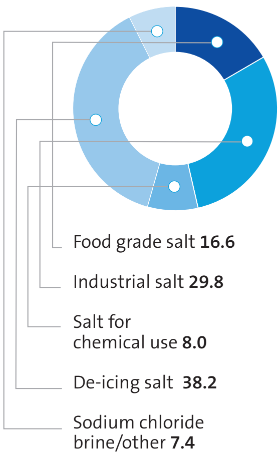
Polish salt producer Janikosoda, which belongs to the Ciech Group, intends to buy the salt processing and packaging unit of IKS Solino with an annual output of about 100,000 tonnes and would thus advance the consolidation of the Polish salt industry.

Overseas

Straits Resources wants to erect the world's largest salt evaporation pond in Australia. Currently, about 10 million tonnes of sea salt a year are produced at various facilities on the northwestern coast of Australia and mainly exported to Asia. The Australian producers' largest competitor is Mexican ESSA (Exportadora de Sal), which operates a salt evaporation pond with a volume of 7.3 million tonnes. According to estimates prepared by Straits Resources, China alone will require an additional 14 million or so tonnes of salt per year by 2008/2009 and will no longer be in a position to cover these needs itself, as space for constructing salt evaporation ponds in Chinese coastal regions is limited. In the first construction phase, the Straits Resources' facility is to produce 3 million tonnes of sea salt and is to be increased to a final capacity of 10 million tonnes per year in three further phases. Assuming the granting of a permit, the first sea salt obtained there could be offered in 2010.

American salt producer Compass Minerals wants to use the proceeds from the sale of the evaporated salt facility of its British subsidiary Salt Union to Ineos in order to increase capacity at its rock salt mine in Goderich, Canada, from 6.5 million to 7.25 million tonnes per year. Goderich is already the largest rock salt mine in the world.

Revenues by product group (in %)



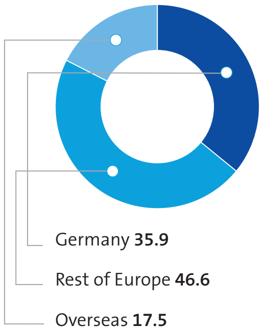
Revenues

The revenues generated by the Salt business segment amounted to € 485.8 million in 2006 and were therefore up € 87.8 million or 22% on the previous year's level. Revenue growth was almost completely attributable to the integration of the SPL Group (€ 81.9 million). Without this consolidation effect, revenues would have risen by just under 2%. The price per tonne of crystallised salt averaged € 60.57 in 2006 (2005: € 65.58 per tonne) and was down as a result of the inclusion of the SPL Group and of the related high share of de-icing salt, for which prices are lower. Sales of crystallised salt totalled 8.02 million tonnes last year and were therefore up 32% on the previous year's level.

Sales of food grade salts increase by 10%

At € 80.9 million, food grade salt revenues were up 10% (2005: € 73.5 million). Without SPL, revenues would have risen by 2%; business is largely independent of developments in the economy. In the case of the European business, volume increases for the foodstuff industry in the main had a positive impact. Sales amounted to 0.59 million tonnes and were up about 9% year-on-year.

REVENUES BY REGION
(IN %)



INDUSTRIAL SALT SHARE OF REVENUES INCREASES AFTER SPL ACQUISITION

Revenues for industrial salts, e.g. fishery, feed and high-purity pharmaceutical salts, amounted to € 144.8 million for the past financial year and thus increased by 18%. Without SPL, revenues would have risen by 3%. This is attributable to price increases in Europe that could more than offset a slight volume decrease. Sales amounted to 1.91 million tonnes and were up 43% on the previous year's level of 1.34 million tonnes.

SALT FOR CHEMICAL USE DISPLAY ROBUST ORGANIC AND EXTERNAL GROWTH

The picture for the global business of salt for chemical use is similar in terms of structure. We achieved revenues of € 38.7 million, a total increase of 47% on the previous year's figure. Without the SPL effect, the increase would have still amounted to 11%, which is attributable to both price increases as well as a slight increase in volume. Sales amounted to 1.40 million tonnes and were up 49% on the previous year's level.

DE-ICING SALT REVENUES ON THE HIGH LEVEL OF A YEAR AGO

Winter weather conditions in Europe ensured that the de-icing salt business was exceptionally good at the beginning of 2006. However, the fourth quarter fell short of our expectations because of the unusually mild temperatures both in Europe and in North America. We achieved revenues of € 185.3 million for the year under review and exceeded the record result for the previous year by 16% purely because of the consolidation effect. Without the effect of the inclusion of the SPL Group, de-icing salt revenues would have remained stable at € 158.7 million (2005: € 159.5 million). Sales amounted to 4.12 million tonnes and were therefore up 27% year on year.

BRINE/OTHER SHARE RISES

In addition to the business with other de-icing agents, such as magnesium chloride solution, this segment also includes, for the first time following the takeover of the SPL Group, the latter's third-party logistics business conducted through its own shipping company, Empremar. The strong rise in revenues from € 16.6 million to € 36.1 million is solely due to consolidation factors.

Development of earnings

Posting operating earnings of € 67.6 million, the Salt business segment achieved its highest figure to date, up € 4.9 million or 8% on the previous year. This increase is attributable to the consolidation effect of SPL in the amount of € 5.5 million, which was, however, significantly lower than we had originally anticipated because of the mild climate in North America during the fourth quarter. Irrespective of this effect, costs mainly rose as a result of price factors. This essentially applied to energy and, in part, to personnel costs too as well as to freight costs, the latter being affected by higher oil prices once again. As a result of constant cost savings and moderate price increases as well as very high de-icing salt sales once again, European business earnings could be maintained on the previous year's high level.

Waste Management and Recycling Business Segment

Variance analysis in %	2006
Change in revenues	**+ 23.9**
- volume/structural factors	+ 15.9
- prices	+ 8.0
- exchange rates	–
- consolidation	–

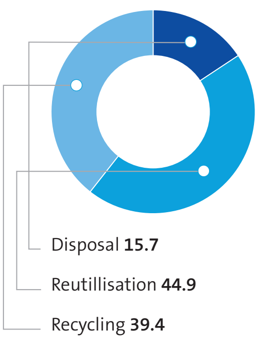
€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	17.0	17.7	16.6	18.1	69.4	56.0	+ 23.9
Operating earnings (EBIT I)	3.6	3.7	2.9	3.6	13.8	8.1	+ 70.4
Capital expenditure	0.3	1.3	0.6	2.1	4.3	3.4	+ 26.5
Employees (31 Dec.; number)	36	34	34	34	34	33	+ 3.0
Share of total EBIT I in %	26.1	26.8	21.0	26.1	100.0	–	–

Market environment

Competition over the underground disposal of hazardous materials further intensified last year as a result of a fourth underground waste disposal site going into operation in Germany. The trend towards lower volume for disposal is attributable to the increased effectiveness of circular-flow recycled materials management as well as production processes that generate less waste. We mainly see opportunities for new business elsewhere in Europe, e. g. as a result of moves towards closing sites located above ground for the disposal of heavily contaminated waste. The Waste Management and Recycling business segment is Europe's market leader in underground disposal.

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

Revenues by segment (in %)

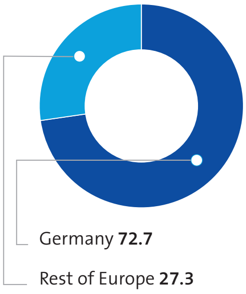


Sales of aluminium granulate, which is obtained from aluminium slag in a recycling process, is benefiting from the significant rise in global market prices for aluminium on the one hand and from good recycling capacity utilisation on the part of all our competitors in Europe on the other. Our plant utilisation in the construction materials recycling sector was also good as a result of larger-scale individual projects.

Revenues

Revenues for the Waste Management and Recycling business segment rose by 24 % year on year to total € 69.4 million. This was mainly due to higher waste volume for underground reutilisation as well as higher prices in the aluminium recycling sector. Volume amounted to 1.50 million tonnes and was thus up 26 % on the previous year's level, while the structure shifted slightly towards volume attracting lower prices.

Revenues by region (in %)



Underground disposal up slightly on previous year's level

In the case of the underground disposal sector, we posted revenues of € 10.9 million for financial year 2006, up € 0.4 million or 4% year on year. With prices moderately higher, a slight decrease in volume for waste from special projects involving the clean-up of pre-existing environmental contamination could be more than made up for. At about 60,000 tonnes, the volume of waste for disposal fell by about 3% last year.

Underground reutilisation is profiting from higher flue gas cleaning residue volume

In the case of underground reutilisation, significantly higher revenues of € 31.2 million were posted for financial year 2006 (2005: € 24.9 million) – 25% more than in the previous year. Since the transitional arrangements relating to the German Waste Disposal Directive (Abfallablagerungsverordnung) expired in the middle of 2005, domestic waste incineration plants have been operating at full capacity. K+S has been participating considerably in the disposal of the related additional volume of flue gas cleaning residues. The volume of waste received by the segment could be increased by 19% to just under 474,000 tonnes in 2006. With capacity utilisation generally good, this has caused price levels, which have been low for some years, to recover somewhat.

Recycling business profits from raw materials boom

In the case of recycling, we were able to raise revenues by 33% in financial year 2006 to € 27.3 million. The full utilisation of our REKAL facility as well as significantly higher prices for recycled aluminium granulate made contributions in this regard. In the construction materials recycling sector too, revenues rose tangibly as a result of volume factors. The recycling volume received in the past year increased by 31% to 954,000 tonnes.

Development of earnings

The Waste Management and Recycling business segment generated operating earnings of € 13.8 million in 2006 and has thus posted a significant gain on the level of a year ago (2005: € 8.1 million). Increased volume as well as higher prices for aluminium granulate were key factors in this regard. In addition, capacity utilisation improved while the rise in costs was disproportionately lower. The distribution of business segment earnings across the year is not susceptible to seasonal factors to a large extent: Acquisitions and the expiry of special projects are more likely to produce strong fluctuations in earnings.

Services and Trading Business Segment

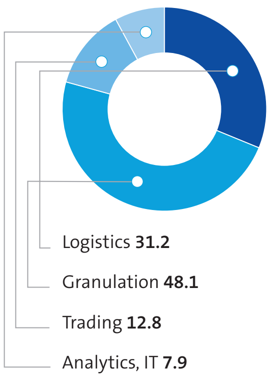
Variance analysis in %	2006
Change in revenues	**+ 0.9**
- volume/structural factors	+ 1.4
- prices	- 0,5
- exchange rates	–
- consolidation	–

€ million	Q1/06	Q2/06	Q3/06	Q4/06	2006	2005	%
Revenues	14.9	12.5	13.7	13.9	55.0	54.5	+ 0.9
Operating earnings (EBIT I)	7.3	6.3	6.8	5.0	25.4	20.1	+ 26.4
Capital expenditure	1.0	1.4	1.7	4.1	8.2	6.6	+ 24.2
Employees (31 Dec.; number)	396	401	405	407	407	393	+ 3.6
Share of total EBIT I in %	28.7	24.8	26.8	19.7	100.0	–	–

Market environment

Given the high proportion of intra-group services as well as the diverse character of the individual sectors within this business segment, it has been decided not to present the business segment in a combined fashion. You will find an overview of the individual areas of activity on page 30 et seq.

Revenues by segment (in %)



Revenues

The Services and Trading business segment posted revenues of € 55.0 million for the year under review and was thus up slightly on the previous year's level. The revenues reported only reflect services rendered to third parties while revenues deriving from services provided to K+S Group companies were consolidated. The main reasons behind the rise in third-party revenues are increased logistics activities on the part of KTG, higher CATSAN® granulation volume as well as greater demand for analytical and consulting services.

Increased demand for logistics services

During the year under review, consolidated revenues for logistics services rose by 3 % to € 17.2 million. The increase was mainly attributable to the recovery of third-party handling. Those services rendered for the K+S Group and not included in the consolidated revenues mainly increased as a result of a further rise in the clearing of containers for overseas.

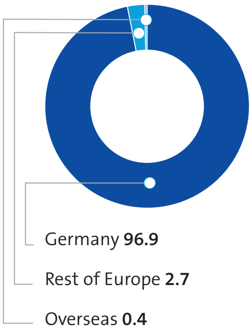
CATSAN® granulation up on previous year due to volume factors above all

In 2006, revenues from the granulation of the animal hygiene product CATSAN® amounted to € 26.5 million, which represents an increase of about 7 %. Increased volume requirements on the part of our partner Masterfoods were the key factor in this regard.

Trading business revenues down significantly

At € 7.0 million, revenues for our CFK trading business in 2006 were by € 2.3 million significantly below the previous year's level. On the one hand, this decrease was due to changes in billing arrangements that largely do not, however, affect net profit or loss and, on the other hand, to lower sales of the trading product calcium chloride, which is important for winter road clearance services.

Revenues by region
(in %)



Consulting and analytical services increase appreciably

Total revenues for this sector amounted to € 4.3 million, up € 0.6 million on the previous year. While the external customer revenues generated by our IT subsidiary data process GmbH remained unchanged on the previous year at € 0.5 million, the revenues obtained from consulting and analytical services were up significantly on the previous year at € 3.1 million (2005: € 2.4 million). biodata ANALYTIK was able to post an increase due to volume factors in the field of food and feed analysis in particular. In the case of specialised project consulting too, K+S Consulting GmbH succeeded in improving on the previous year's high revenues once again as a result of numerous orders.

Development of earnings

Services and Trading business segment's operating earnings for 2006 rose € 5.3 million or 26 % on the previous year to total € 25.4 million. The rise was mainly attributable to the logistics business: A higher export business component for fertilizers, an increase in the freight forwarding business of KTG as well as lower allocations to provisions for partial retirement are the reasons that can cited in this regard.

Subsequent events

Subsequent events of material significance

Following the close of the financial year, our competitor Mosaic Company reported on 24 January 2007 that a new severe inflow of saturated saline solutions had occurred at its Esterhazy mine in Saskatchewan (Canada). Measures have been implemented to stop the inflow. Whether these measures have been successful will emerge over the coming weeks and months. On the market front, there have been no significant reactions to the report thus far.

At the beginning of February, Canadian and Belarusian/Russian producers concluded price agreements with Chinese customers for calendar year 2007 providing for an increase of USD five per tonne of standard goods on the price for the previous year probably pointing the way for further price increases in other countries.

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

Risk Report

Risk policy

The business policy of the K+S Group is geared towards generating reasonable returns that are as sustainable as possible and towards continually increasing enterprise value. As entrepreneurial action is inseparable from the assumption of reasonable risks, the focus of risk management is on a responsible approach to these risks. Systematic risk management aimed at identifying and controlling risks early on is an ongoing task for the Board of Executive Directors and the management of each field of responsibility. A readiness to assume reasonable risks is also a precondition for being able to exploit opportunities.

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

Opportunity management

Risk and opportunity management are closely interlinked within the K+S Group. We essentially derive our opportunity management from the goals and strategies of our business segments and ensure an appropriate relationship between opportunities and risks. Direct responsibility for the early and regular identification, analysis and management of opportunities rests with the operational management of the business segments and/or the central holding units, forming an integral part of the group-wide planning and management systems. Consideration is given to opportunities that could increase efficiency and boost earnings capacity arising both in context of tapping strategic growth potential and in the operating business as well as through cost management. The K+S Group occupies itself intensively with detailed analyses of the market and the competition, market scenarios, relevant cost drivers and critical success factors, including those in the political environment in which it operates. This serves as the basis for identifying concrete potential opportunities that are specific to business segments and which are then discussed and agreed on within the framework of the goal-setting talks held between the Board of Executive Directors and the managers responsible for the business segments in a procedure that is analogous to that applied in the case of risks.

Potential opportunities arise for the K+S Group through the following processes in particular: An active pricing policy, selective marketing, products tailored to the market, the implementation of efficiency enhancement programmes as well as acquisitions and strategic cooperations. Selected potential opportunities for the K+S Group are discussed in the forecast report.

Risk management

Our business segments have different opportunity and risk profiles and to identify them in good time as well as to assess and limit them, we use our uniform planning, management and control systems. The methods used for identifying risks extend from analyses of markets and competition, through close contacts with customers, suppliers and institutions to observing risk indicators in an economic and socio-political context. Risks are assessed on the basis of a potential likelihood of materialisation of 5% or more and on loss levels differentiated according to business segment. The possible non-recurring or recurring impact on company objectives is processed in preparation for the adoption of decisions. A further building block of risk management is the development of countermeasures for alternative risk scenarios. We are thus able to counteract risks in a systematic and methodical manner and to exploit opportunities consistently.

Given its overall responsibility for the K+S Group, the Board of Executive Directors has established a systematic and efficient risk management system by means of group-wide guidelines. Direct responsibility for early detection, analysis, control and communication of risks rests with the operating management of the business segments and the central holding units respectively. By means of goal-setting talks between the Board of Executive Directors and the managers responsible for the business segments as well as through regular reporting, the business segments provide information about changes in their individual risk situation. Risks are aggregated at the group level on a quarterly basis. These instruments enable the Board of Executive Directors to review, on a regular and timely basis, whether estimates and framework conditions have changed and which measures may have to be implemented under certain circumstances. Risks that arise in the short term are, if urgent, communicated directly to the Board of Executive Directors outside normal reporting channels. The Supervisory Board is also briefed by the Board of Executive Directors on a timely basis and at regular intervals. In accordance with a group-wide rule, transactions and measures of particular importance and scope require the approval of the Board of Executive Directors and, in special cases, of the Supervisory Board too.

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

Financial instruments
The K+S Group uses derivative financial instruments to counter risks resulting from foreign currency transactions in particular. An internal guideline on exchange rate management regulates the type of derivatives to be used, hedging strategies, responsibilities, processes and control mechanisms. Financial transactions are only concluded with banks that have a first-class rating.

Business environment and industry risks
The economic development of the K+S Group is significantly influenced by the volatility of the US dollar exchange rate, the behaviour of competitors, EU and national legislation, development of demand shaped by economic and weather conditions, country risks as well as the development of prices on the energy markets.

We continue to take an essentially positive view of the general environment for fertilizers and plant care products, because we expect worldwide demand to keep rising over the next few years as well. The entry of new competitors or the creation of additional capacity by competitors in our business sectors could result in temporary overcapacity, which could impact on volume and price trends accordingly. We would address such risks with an active volume and pricing policy. Additionally, we are evolving strategies to improve our positions in individual market segments and regions. Strict cost control, quality assurance and customer orientation are helping us strengthen our market position. At the present time, we consider the aforementioned risks to be immaterial for the medium term.

The EU's agricultural political reforms have been largely implemented and are reflected in the current market behaviour of all participants. Cost increases could arise from the reform of the European chemical policy (REACH) and the company is making preparations for its implementation. However, we currently consider further important adverse effects arising from the "REACH Regulation," which regulates the registration, evaluation, restriction and approval of materials, to be manageable because of the systematic exchange of information between authorities and political institutions at the national and international levels.

Far-reaching sales-side changes resulting from the disappearance of major customers (country risks) cannot be ruled out but are not discernible at the present time.

As a result of the rising oil price since the beginning of 2005, the price of gas has increased. The resulting earnings risk is reduced by longer-term supply agreements already concluded in the past, by hedging transactions as well as by further measures to lower the cost of energy (planned cooperation with energy companies on thermal energy generation). In some transport segments, supplements for rising fuel costs but also discounts in the event of a downward trend have been agreed. In the case of inland waterway transport, there is a special risk of long periods of low water levels that we cannot prevent but which we can alleviate by means of anticipatory measures.

By means of entry into new markets as well as acquisitions and cooperation in existing business segments, we want to implement our strategy, which is directed towards expanding our market positions and further developing as a provider of specialities. Synergies with existing business should be used to the maximum possible extent in this regard. We continue to respond to changes in framework conditions with numerous technical, organisational as well as personnel and collective bargaining measures in order to cut costs further and create greater flexibility. Thus, our remuneration system contains a relatively high element comprising variable salary components. It is already being applied in Germany from production to management. The variable component rises with managerial responsibility. We are in the process of also introducing this approach within the international companies of the K+S Group to a greater extent.

Corporate strategy risks

Corporate strategy risks may arise from the fact that expectations placed in internal projects (such as investments, for example) as well as in acquisitions and strategic cooperations are not met. The integration of companies that have been acquired may, for example, give rise to difficult tax law and other legal questions as well place strains on relationships with customers and employees.

By means of the early analysis of opportunities and risks by experienced specialist departments, with the support of external advisors where necessary, and a suitably prudent approach to the realisation of projects and/or the integration of acquisition targets, we limit the risks in this regard.

Economic performance risks

Procurement

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

In the case of the overseas business, the reduced availability of freight capacity (high global cargo volume) has resulted in higher costs for transportation by large vessels. By means of the long-term securing of freight capacity with a high fixed-price component as well as switching over to the use of containers, we were able to largely cushion the effects of this development and thus create competitive advantages for us. We expect no significant deterioration in this situation for us in the near future.

The costs of the nitrogenous fertilizers that we buy from BASF are based on the global market prices for ammonia free Western Europe. Those have increased substantially over the past few years, but it has hitherto also always been possible to pass on the price increases via prices. If the competitive environment becomes more difficult, fertiva might not always be able to do so. However, because of the contractual arrangements with BASF, the resulting risk is manageable for K+S.

Sales and distribution

Changes in demand and the competitive situation as well as in the political and administrative environment can give rise to particular sales risks in all business segments. In order to identify risks and opportunities in good time, we conduct regular analyses of customer, product, market and competition data. There is no exclusive dependence on individual products, customers and regions in any business segment.

There are potential risks for our future European business from the new antidumping regulation directed against unfair competition with potash fertilizers from Russia and Belarus. In the past, potash suppliers located there have repeatedly requested a review of the ruling antidumping regulation with the aim of bringing about the lifting of the protective regulation to the greatest possible extent. The investigations conducted by the EU have determined that Russian potash suppliers Silvinit and Uralkali are continuing to practice dumping. In July 2006, the final antidumping measures concerning imports of potassium chloride from Russia and Belarus were published in the EU official gazette. The rules essentially apply for five years and envisage tariffs of between 12.3 % and 27.5 % on the price with delivery free border of the European Community. In a parallel move, the Commission accepted voluntary undertakings from Russian producers and reached a supplementary agreement with the Belarusian potash producer. In terms of their content, both the undertakings and the agreement with the Belarusian producer allow potassium chloride to be supplied to the EU-27 provided that fixed volume quotas and minimum prices are observed. As long as these arrangements are complied with, the application of the tariffs will be suspended. In their totality, the measures that have been implemented provide a lower degree of protection than the rules that applied hitherto. Developments on EU markets will show whether the level of protection is adequate. Declining sales in Europe would result in us having to market a larger part of our products overseas. The loss potential arising from the toned-down antidumping measures depends on the growth in sales overseas and the respective cost and price situation and can, against the backdrop of the price levels prevailing on overseas markets at the present time, be classified as manageable and controllable for K+S.

General weather conditions represent a notable sales risk for the Potash and Magnesium Products, fertiva, COMPO and Salt business segments. In addition, prolonged cold and wet weather during the spring season, which is particularly important for Europe, can result in sales shifts and possible lower sales of fertilizers and plant care products. Fluctuations in sales in the main sales areas for de-icing salt prompted by a mild winter can result in lost revenues and earnings. We are responding to this risk in the form of needs-based production management and flexibility on working hours. We have not used special derivatives to hedge this risk thus far because of what we consider to be unattractive market terms.

Production and the environment

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

Carbon dioxide pockets in certain deposits constitute a latent potential danger. To keep any potential impact on people, machinery and deposits as low as possible, extraction operations underground are always conducted in compliance with the special safety guidelines applicable to CO_2 leaks. We consider the possible damage that might arise for machinery and deposits to be manageable.

The EU initiative on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO_2) and carbon monoxide (CO) could pose risks to our mining activities. It should be possible to achieve realistic limits meaningful over the long term through intensive cooperation between the EU Commission and national governments as well as the companies concerned and their pressure groups. No concrete statements can be made about the measures necessary to reduce the concentration of NO in the underground workplace and the resulting additional costs until possible final limits have been set. We consider the adverse effects for us over the short- to medium-term to be slight.

Research and development

We do not see any serious risks in the research and development field as the relevant markets for K+S are only subject to limited technological change. We have intensified our own development activities through research cooperation with industrial partners as well as colleges. Thus, technical opportunities for cutting costs are reviewed on an ongoing basis. The risk of developing products that are not accepted by our clients can be deemed to be slight because of our good contacts with customers. In addition, we provide our agricultural customers with intensive application advice, which enables us to identify future needs early on.

Furthermore, our internal quality management is a key factor for avoiding inefficiency and thus achieving our business success. In addition, the company attaches great importance to knowledge management. Employees are thereby actively engaged in a structured, continuous process of improvement.

Personnel risks

The competence and commitment of employees are key factors for the successful development of the K+S Group and the successful management of opportunities and risk. Our vocational training as an important investment for the future – in the context of demographic change too – contributes to the securing and strengthening of these factors. By means of practice-based support for future generations of employees, targeted further training measures and encouragement for those display potential, the K+S Group has demonstrated that it is an attractive employer able to retain managerial personnel in particular over the long term. With this strategy and our increased involvement in cooperation with selected colleges, we offer qualified graduates very promising career prospects. We are thus well prepared for the increased competition on the labour market for specialist and managerial personnel. Key positions are regularly analysed with respect to forward-looking succession planning and suitable candidates are prepared for such tasks. Further elements are assistance and advice geared towards target groups as well as attractive incentive systems. Against this backdrop, we do not see there being any major risks in the personnel field.

IT risks

The increasing networking of IT systems and their permanent availability impose high demands on the information technology used. We respond to possible risks by using modern hardware and software that meet current security standards. Our IT systems are constantly reviewed and modified to ensure the secure execution of business processes. We apply a largely uniform IT infrastructure throughout the group. The compatibility and security of the IT systems and of stored data is guaranteed along with the requisite efficiency. We do not see any serious dangers in connection with information security or risks from the information technology used.

Financial risks

The optimising of group financing and the limiting of financial risks are managed centrally.

Liquidity

Liquidity is monitored on an ongoing basis and invested optimally by means of central cash pooling. Derivative financial instruments are also employed for investing cash. The aim is to optimise the income earned from liquid funds at low risk. In the case of all forms of investments, there are certain set creditworthiness requirements in relation to issuers that have to be met. A reasonable equity ratio strengthens the financial position of the K+S Group. A syndicated loan was taken out on attractive terms for the acquisition of Chilean SPL concluded in 2006. There are sufficient additional financing possibilities for further financing undertakings such as acquisitions. There is no particular dependency on any individual lenders. The permanent improving of the cost structure also contributes to the minimising of liquidity risks. The K+S Group is not exposed to any liquidity or financing risk at the present time.

Company rating

There is no rating issued by an external rating agency. The solid structure of our balance sheet and the high and competitive potential credit available to us has not prompted us thus far to undergo a cost-intensive rating process at a rating agency. The information available to us from various renowned credit institutions shows that their creditworthiness classification for us is favourable.

Currency

The K+S Group faces particular challenges in the field of foreign currency management because of the international orientation of its business operations. Transactions denominated in foreign currencies account for just under one third of group revenues. Exchange rate fluctuations, especially in relation to the US dollar, can play an important role for the Potash and Magnesium Products business segment and the North American business of the Salt business segment. We use derivative financial instruments (options) to counter these exchange rate risks. In the aforementioned business segments, only net positions, i. e. the payments resulting from revenues generated in foreign currencies less the costs (essentially freight costs) to be paid in foreign currencies, are hedged against exchange rate fluctuations, mainly with the help of double-barrier options. Not only anticipated foreign currency payments based on revenues generated are hedged but also anticipated payments based on projected revenues. Hedge transactions currently extend until the end of 2009 and have a volume of about USD 1.8 billion (with the Potash and Magnesium Products business segment accounting for USD 1.6 billion of this figure). The volatility of the US dollar exchange rate gives rise to a risk that the agreed barriers will be reached and the options will therefore expire. We address this risk by means of active currency management, i. e. the timely adjustment of the barriers. This strategy substantially reduces currency risks, but does not, albeit, eliminate them entirely. There remains a risk of additional costs in the form of option premiums in the event that the barriers have to be adjusted.

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

Interest rates

The interest rate risk is managed centrally alongside the currency risk. To hedge the risk of changes in interest rates affecting key financing processes, interest rate derivatives (interest rate caps) are used to some extent. Interest rates are analysed at regular intervals to manage this risk. We consider the effects of interest rate fluctuations to be slight, because of the moderate degree of indebtedness in particular.

Receivables

Default risks relating to payments are largely covered by flat-rate export guarantees (foreign non-OECD area) or by Euler-Hermes credit insurance (domestic and foreign OECD area). The waiving of security for receivables is only possible after specific authorisation has been obtained and the long-term customer relationship has been reviewed critically. We do not anticipate any risk of default on receivables that could have a material adverse effect on the K+S Group's financial position.

Other risks

Public debate about future, higher requirements in respect of environmental friendliness and thus, about more stringent environmental law may – irrespective of recognised environmental friendliness audits – impact on the issuing and retaining of operating licences and planning decisions approving public works as well as water permits; this may affect tailings pile management as well as the disposal of saline water in particular.

During the course of 2006, the EU energy taxation directive was transposed into national law (by the German Energy Taxation Act [Energiesteuergesetz] and by the German Biofuel Quota Act [Biokraftstoffquotengesetz]). The reduced rates of taxation and tax capping for energy-intensive companies will be largely retained in their present form. However, the EU Commission is yet to approve tax capping with reference to the legal provisions relating to government aid. It is planned to link the continued use of tax capping to compliance with interim goals, which provide for sanctions, under the climate protection agreement. If approval is declined, there is a danger that an additional energy tax burden of about € 10 million per year would be incurred which would place a sustained strain on the international competitiveness of our production which is linked to particular sites.

There are no other significant legal or tax law risks that could have a material influence on the company's net assets, financial position and results of operations. We do not foresee any risks arising from management and control systems as well as organisational and leadership-related risks.

Risk transfer

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

Assessment of the overall risk situation

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

Forecast Report

Group direction for the next two financial years

Changes in business policy

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

Future markets

The K+S Group generates the bulk of its revenues in Europe. As the largest European producer of potash and magnesium products as well as Europe's largest salt producer, this will also remain so over the coming years. For fertilizers and plant care products as well as for salt, the European market is a mature market with constantly high levels of fertilizer and salt consumption. Compared with overseas markets that are growing more rapidly, the European market displays less susceptibility to fluctuations as a result of developed structures and demand that is very differentiated but constant.

In the case of fertilizers and plant care products, we also make use of the potential arising for us on attractive overseas markets as a result of population growth, changing lifestyle and dietary patterns as well as increasing professionalism in agriculture.

In addition, the acquisition of Chilean salt producer SPL opens up new opportunities for us in South America, North America and, over the medium term, in Asia too.

Future use of new processes

We are constantly working on process improvements to increase productivity by means of numerous individual measures; raising energy efficiency plays an important role in this regard. In the potash field in particular, promising processes that increase efficiency are being developed for both underground and above-ground applications.

Future products and services

Under the exclusive partnership agreed between COMPO and Syngenta in 2005, we are developing and marketing a full range of plant protection products and pesticides for home and garden use by private consumers in Europe. A precondition for this is the procurement of appropriate permits, the approval of which can take up to three years. After a promising start to the cooperation, the COMPO revenue and earnings targets that are expected to yield have assumed concrete form in the meantime. We expect a contribution to revenues of between € 10 million and € 15 million by 2009 at the latest, which should create attractive earnings potential for both partners in keeping with the cooperation agreement.

Economic environment over the next two financial years

Future macroeconomic situation

Following last year's strong upturn, we estimate that the pace of growth in the eurozone will lose some momentum in 2007. However, the growth in European GDP should not fall below 2 %, especially as the impetus coming from robust economic expansion in developing and emerging-market countries will only decline slightly. The anticipated slackening of growth in the first few months of this year is mainly due to the effects of the VAT increase in Germany and those could also extend to the rest of the eurozone. A tightening of monetary policy, a further appreciation of the euro and a slackening of growth outside Germany may be noticeable in the subsequent period. Exports, above all, may drop as a result. By contrast, investment by companies will remain high for the time being. Price growth should remain moderate if there is no further rise in energy prices. With employment picking up and unemployment having fallen to a lower level in a series of countries in the meantime, there is, however, a risk of wages and of inflation therefore increasing at an above rate if this trend continues. We assume that the European Central Bank will once again raise the key interest rate in the first half of 2007 and then maintain it on a constant level for the time being. In 2008, output should gradually rise at a higher pace once more, because the downward pressure resulting from monetary policy will gradually dissipate and economic growth outside Germany should gain momentum once again.

It can be assumed that in the United States – all things considered – capacity utilisation will decline, as the tightening of monetary policy was particularly pronounced there.

Housing construction will continue to fall sharply; with positive real estate effects ending, private consumption too should rise at a lower rate. Against this backdrop, corporate investment will probably also grow less quickly.

Overall, global economic growth in 2007 should lose some momentum temporarily to pick up again in 2008. Over the next two years, global growth should be on a high level of over 4% per annum and, as in previous years, should be characterized by disproportionately high increases in emerging-market countries.

Impact on K+S

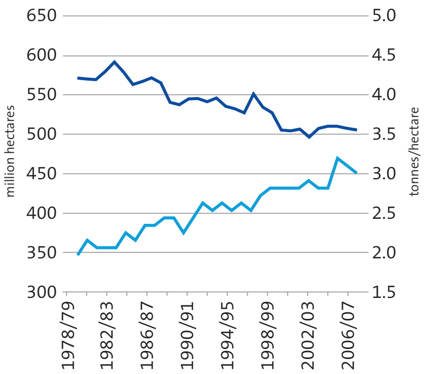
- The increase in global growth, buoyed in particular by the emerging-market countries, should first of all improve the standard of living for the populations of those countries. This will increase per capita consumption of food, including meat, as well as the pressure on existing agricultural systems to meet this challenge.
- A weakening of the US dollar exchange rate would only have a limited impact on K+S as a result of existing hedging instruments; tangible follow-up hedging costs would only be expected if the US dollar exchange rate fell below USD/EUR 1.40 in 2007 and 2008. A rise in the US dollar in excess of the lower barriers of USD/EUR 1.13 in 2007 and USD/EUR 1.10 in 2008 would not necessarily result in follow-up hedging and generally lies in the interest of the K+S Group.
- An increase in private consumption in Europe should have a positive impact on sales of the consumer products supplied by the COMPO business segment in the home and garden area.
- A continuation of the economic upturn in Europe would also have a positive impact on sales of industrial salt and salt for chemical use.

Future industry situation

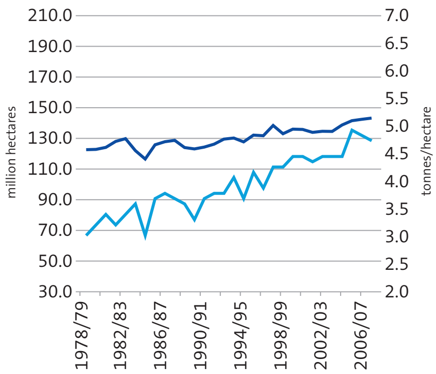
The situation on the agricultural markets is marked by increasing demand for foodstuffs, in both quantitative and qualitative terms. As the amount of land available for farming is limited and declining, it will therefore have to be farmed more efficiently all over the world in order for sufficient food to be produced. The methodical use of mineral fertilizers, which guarantee better plant nutrition and thus a higher yield per hectare of cultivated land, is therefore of central importance in this regard. In important overseas markets, especially in Asia and Latin America, we expect fertilizer consumption to continue growing on account of the greater nourishment requirements of the population, which is increasing at a particularly fast pace there, as well as the growing intensification of farming. The trend towards higher-quality food and meat above all will result in a further increase in fertilizer consumption. The trend towards renewable raw materials used to produce ethanol, biodiesel, biogas etc. will have a positive impact on worldwide demand for fertilizers, especially for potash too.

The following charts show that land used for the cultivation of corn worldwide has only increased by 16% over the past thirty years and land used for cereal crops has even contracted by about 10 %. That output has nevertheless increased significantly over this period of time is due to the selective use of mineral fertilizers among other factors. Thus, it has been possible to significantly increase crop yields per hectare of land under cultivation. Balanced, sustainable fertilizer use will remain a key factor in the future for countering the decline in the land available for cultivation, prompted by urbanisation, drought and flooding, by means of intensifying farming on the land that remains.

Land under cultivation and yields per hectare for cereals



Land under cultivation and yields per hectare for corn

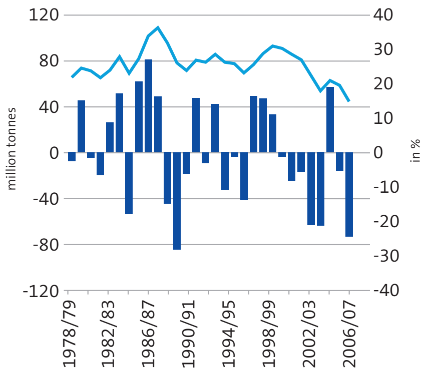


land under cultivation — yield

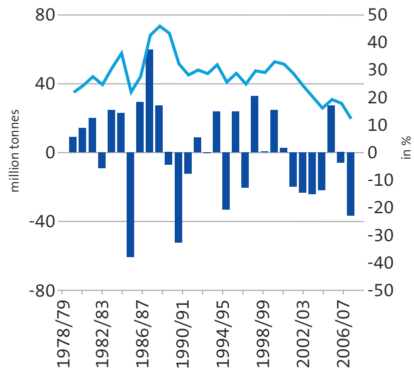
Source: United States Department of Agriculture (USDA)

Furthermore, over the past few decades, more cereals and corn have tended to be consumed than produced, with the result that the stocks-to-use ratios for both cereals and corn have reached historical lows in the meantime. Thus, an increase that could be seen last year in the prices of the most important agricultural goods was overdue in our opinion and will continue to encourage the use of fertilizers.

Output, consumption, stocks of cereals



Output, consumption, stocks of corn



production/consumption surplus or deficit — stocks to use

Source: USDA

Renewable raw materials

Key topic

Alongside classic food and feed production, the cultivation of renewable raw materials is developing into a third mainstay of agriculture.

However, the commercial viability of the bioenergy industry largely depends on the trend in crude oil prices and the extent of government incentives. Rising agricultural prices could also adversely affect the competitiveness of bioenergy producers. The most important production sites for bioenergy generation (especially bioethanol) are located overseas. In Europe, the technological development connected with the production of bioenergy has not been completed yet. Biodiesel and bioethanol are being exposed to competition from second-generation forms of bioenergy, such as BTL (Biomasss to Liquid).

Essentially, plants cultivated for energy, require the same nutrients as traditional crops. Nevertheless, the production of bioenergy represents a new challenge for fertilizer advice. This is because significantly higher yields and more intensive crop rotation periods are sought in the case of plants cultivated for energy (such as corn or rape), which means that there is also a corresponding increase in the nutrient requirements of these crops. In addition, the cultivation of these plants does not by any means result in closed nutrient cycles, but requires specially modified nutrient and fertilizer management.

Potash and Magnesium Products business segment

Global potash demand in 2007 is expected to come within the range of the high level for 2005 once again. After a period of reduced demand while price negotiations were underway with Chinese and Indian customers, potash deliveries increased significantly again in the second half of 2006. In 2007, Russian, Belarusian and Canadian producers already reached agreement with China at the beginning of February on a price increase of a further USD 5 per tonne of standard goods. Thus, weak demand resulting from pending price negotiations cannot be expected again in 2007. Fertilizer demand will receive a further boost from higher producer prices for agricultural products and the growing importance of bioenergy generation. As fertilizers could not be fully applied in the spring season of last year because of wet and cold weather in large parts of Europe, recapture effects can be expected in 2007 with a view to replenishing nutrient deficiencies in the soil. In addition, customer stocks fell significantly during the period of lower demand last year and should increase again. Global consumption of potash fertilizers is expected to grow at an average rate of 2 % to 3 % per annum over the medium term. The most important growth regions are Asia and Latin America.

Global potash output and demand (in million tonns)

In terms of supply, the abandoning of the Berezniki I mine (production capacity of about 1.4 million tonnes) by Russian potash producer Uralkali at the end of October 2006 can be expected to cause potash prices to rise further. All international suppliers of potash fertilizers are currently operating close to available technical capacity. This also applies to the Potash and Magnesium Products business segment, where capacity is being fully utilised. For 2008 too, we assume that there will be a balanced supply and demand situation and that capacity utilisation for all potash fertilizers will remain very high.

In view of the lengthy lead time preceding the erection of a new potash mine (at least four to five years) and the high costs associated (about USD 1 billion for a mine with an annual output of 2 million tonnes), we are convinced that potash will continue to be scarce over the coming years.

The reorganisation of the EU sugar market was approved in 2005 and is resulting in the consolidation of sugar beet cultivation in Europe. We assume that some of the land that will become available will be used for the cultivation of renewable raw materials, especially rape, corn and beet for the production of ethanol. The sugar output that will disappear from Europe will probably move to markets where production is cheaper, such as Brazil: The sugar cane needed in this regard has relatively high potash requirements, which will for the most part have to be satisfied by means of imports. Because of its attractive location in relation to Europe in terms of freight costs, Brazil is already the most important overseas market for K+S.

COMPO business segment

We expect the position of the industry and the competitive situation to be stable in 2007. With consumer sentiment in Europe slowly improving, this should have a positive impact on the COMPO consumer area. The increase in VAT in Germany could, however, weaken this trend. The market situation in Europe is being shaped by an environment characterised by very intensive competition. The favourable conditions on fertilizer markets described above should have a positive impact on the professional area. In addition, it can be expected that this year production costs will not rise as much as in the past two years, because of more attractive ammonia acquisition prices.

An assortment tailored to regional market conditions is the cornerstone of the future, sustained growth of the COMPO business segment. The cooperation with Syngenta, the Swiss producer of plant protection agents, opens up new, attractive market potential for COMPO in Europe in the area of plant protection agents for private users. In addition to internal growth, we are also continually reviewing external opportunities offered by acquisitions and cooperation.

fertiva business segment
In view of the positive conditions on fertilizer markets described above, global consumption of nitrogen fertilizers should also increase slightly. Nevertheless, we assume that the competitive environment will be difficult over the next two years. Nitrogen fertilizer imports from Russia, the Middle East and other countries with lower gas prices are increasing. This weakens the position of European producers, who are at a cost disadvantage due to high energy and raw material prices. In the first half of this year, the European Commission will decide whether to prolong antidumping measures for some straight nitrogen fertilizers directed against supplier countries that distort competition in Western Europe as a result of subsidised gas prices.

Salt business segment
Over the coming years too, the industry and competitive situation will be mainly shaped by the continuation of the consolidation process in the European salt industry. The intense competition characterising the market situation for European producers will be further exacerbated by rising imports from non-EU countries. In addition, there is a need to pass on rising costs – especially in the case of energy – to customers.

By contrast, the signs for the South and Central American salt industry point to growth. The producers active there are all interested in orienting their starting positions to the strong market growth that is expected in Asia and in South and Central America.

With a product range that meets market requirements and high standards of service as well as a Europe-wide presence, esco will retain its leading position among Europe's salt producers. With the acquisition of Chilean salt producer SPL, the K+S salt portfolio will be less dependent on European economic cycles, the competitive situation and climate-related seasonal effects. In addition, the acquisition provides an opportunity to participate in the dynamic growth of the Asian as well as the South and Central American markets. New acquisition targets continue to be reviewed on an ongoing basis.

Waste Management and Recycling business segment
The competitive situation in the underground waste disposal business will not see any fundamental change over the coming two years.

In the middle of 2007, a German competitor will start operating a new facility for the recycling of aluminium salt slag. However, given the favourable market environment at the present time, we do not expect this to have any significant adverse effect and assume that business will continue successfully in this area.

Because of declining volume and the opening of a new underground waste disposal site, the competitive situation in the underground disposal segment will remain very tense. With our more than 35 years of experience in the underground depository business, our positive market image and longer-term disposal agreements, the Waste Management and Recycling business segment will, however, be able to defend its good position in Germany.

As of June 2005, it is no longer permissible in Germany for residential waste to be stored in landfill facilities located above ground without being treated beforehand. This means that the volume of residues from residential waste incineration is increasing and such residues have to be disposed of as hazardous waste by means of underground waste reutilisation. We are the leaders in this market segment and want to participate in market growth accordingly by expanding our reutilisation capacity.

Services and Trading business segment
Given the high proportion of intra-group services as well as the diverse character of the individual sectors within this business segment, it has been decided not to present the business segment in a combined fashion. You will find an overview of the individual areas of activity on page 30 et seq.

Anticipated earnings position

Expected development of revenues and earnings
The forecasts relate exclusively to the expected organic growth of revenues and earnings; increases resulting from possible acquisitions are not included.

With the US dollar exchange rate expected to be USD/EUR 1.30, K+S Group revenues in 2007 should slightly exceed the high level of present record year 2006. The increase will be mainly attributable to the first-time inclusion of SPL for the entire year. In the case of the largest business segment, Potash and Magnesium Products, we also expect revenues to rise as a result of higher average prices and despite a weakening of the US dollar in relation to the preceding year. COMPO business segment revenues should also increase thanks to positive prospects for both the consumer as well as the professional sector. In the case of the fertiva business segment, we expect slightly higher trading revenues. However, the high price level for nitrogenous fertilizers should exacerbate competition in Europe appreciably. The Salt business segment is expected to experience a consolidation effect of € 120 million to € 150 million. After a modest start for the de-icing salt business prompted by weather conditions and a related projection that is below the normal sales plan, the increase will, however, diminish. The two complementary business segments, Waste Management and Recycling as well as Services and Trading, should achieve revenues approximating those posted for the reporting year.

Operating earnings (EBIT I) should be able to improve on the previous year in line with the development of revenues. In particular, this should be aided by higher contributions to earnings in the Potash and Magnesium Products business segment. This estimate is based on the assumption that no significant follow-up hedging will be required for the derivatives used to hedge the US dollar exchange rate. The anticipated earnings effect for COMPO resulting from revenue growth and further efficiency enhancements should at least be able to offset the slight decrease that is expected in fertiva earnings. Operating earnings for the Salt business segment should, however, fall short of the figure for the preceding year as it is unlikely that the consolidation-related increase will be able to make up for the weaker de-icing salt business. The two complementary business segments, Waste Management and Recycling as well as Services and Trading, should make contributions to earnings similar to those for the preceding year.

Revenues should increase again in 2008, with this estimate being based, above all, on higher revenues for the Potash and Magnesium Products, COMPO, fertiva and Salt business segments. We also see opportunities for a further increase in operating earnings.

Potash and Magnesium Products business segment

For 2007, we expect the Potash and Magnesium Products business segment to achieve slightly higher revenues compared with the preceding year despite an anticipated weakening of the US dollar exchange rate in relation to the previous year. In addition to a stable sales forecast of just under 8 million tonnes of goods (2006: 7.99 million tonnes), our forecast is based on moderate price increases. We want to continue our processing strategy, because it enables us to exploit our raw materials potential in a manner that is particularly positive for income. In view of the higher average prices that are expected as well as declining energy costs, earnings should increase as long as the US dollar exchange rate does not require any major follow-up hedging in the form of option premiums to maintain attractive hedge levels. This also applies against a backdrop of the increased implementation of measures related to exploratory and pre-processing work and to safeguarding production performance.
From the perspective of today, we assume that the revenue and earnings outlook for 2008 will range from stable to slightly better.

COMPO business segment

We expect to see a noticeable rise in revenues for the years 2007 and 2008. Both the consumer and the professional area should contribute to revenue growth. The consumer area should profit from towards greater consumption in Europe and the professional area from high demand for stabilised fertilizers and speciality mineral fertilizers in Latin America and the Far East. During current 2007, the first successes of our new cooperation with Syngenta in the plant protection field should also have an impact.

Assuming that the price of ammonia will remain unchanged on the preceding year, operating earnings should display a somewhat higher increase than revenues. The full implementation of the efficiency enhancement measures that have been launched should also make a contribution.
The expected expansion of business should then produce a further tangible increase in operating earnings in 2008.

fertiva business segment

Despite the intensification of competition in Europe, we expect sales in 2007 to attain the level for the preceding year. With fertilizer imports from Russia and Ukraine but also Egypt expected to increase, there is a greater risk that fertilizer prices, which are attractive at present, will come under some pressure. Nevertheless, we assume, based on current assessments, that it will be possible to achieve a slight increase in trading revenues as a result of optimising the product and country mix. Following the top result for the preceding year, we expect a limited decrease in operating earnings as a result of a reduction in margins that cannot be ruled out.
With regard to 2008, we assume, from the perspective of today, that revenues will remain stable or increase slightly. As a result of marketing large-grain ammonium sulphate throughout the year for the first time, earnings should come within the range of the very good level for the preceding year.

Salt business segment

Despite a modest start for de-icing salt because of weather conditions in Europe as well as in North America, we expect Salt business segment revenues to rise this year as a result of the consolidation effect stemming from the acquisition of SPL. However, the estimated sales volume for de-icing salt in 2007 is based on a value that is below average de-icing salt sales over the past few years. By contrast, we expect volume and price increases in the remaining sectors. As a result of the anticipated decrease in sales for the de-icing salt business, operating earnings will probably not be able to mirror the consolidation-related increase in revenues but will fall short of the figure for the preceding year. The completion of a second port terminal in Chile, making demurrage charges largely superfluous, as well as the possibilities for developing additional business will permanently increase earnings quality and have a tangible effect in 2008 for the first time.
For 2008, we therefore expect – again assuming average sales of de-icing salt – a slight increase in revenues that should be accompanied by a strong rise in earnings.

Waste Management and Recycling business segment

For 2007, we expect revenues on a similar level to last year. Higher processing capacity for our underground reutilisation facilities will enable us to participate to an even greater extent in the disposal of flue gas cleaning residues. In the underground waste disposal area, we also expect to see an increase in the removal of waste for the purpose of recovering reusable materials. In the case of aluminium recycling, we expect contin-

ued full utilisation of our capacity. However, as a result of expected lower aluminium prices, revenues for this sector can be expected to decline slightly. The decrease in revenues will also impact on operating earnings for 2007, so that we assume that it will not be possible to fully match the top result for the preceding year. However, this forecast does not take account of possible special projects for underground waste disposal.
For 2008, we expect a slight increase in revenues overall, which should also lead to an increase in earnings.

Services and Trading business segment

We expect the course of business in the Services and Trading business segment to remain stable. Revenues and earnings should once again attain the levels of last year's good figures in this and in the coming year.

Expected development of adjusted group earnings

Group earnings after taxes in 2006 received a boost from non-recurrent deferred tax income related to the reorganisation of the corporate structure of the SPL companies. Without taking account of this extraordinary effect, we expect adjusted group earnings after taxes in the coming year to increase further in line with the development of operating earnings. Our estimate is based on the following facts, which can be expected to occur from today's perspective: The refinancing costs of the SPL acquisition, which will impact on an entire year for the first time in 2007, will result in an additional burden of about € 4 million compared with the preceding year. Assuming little change in the investment performance, the financial result should deteriorate to a limited extent. The taxation ratio – based on the predicted adjusted group earnings before taxes – should, without extraordinary effects, come close to the level for the preceding year.

Assuming a financial result similar to that for 2007, adjusted group earnings for the K+S Group in 2008 should display a disproportionately high increase as a result of the planned reform of corporate taxation and the net reduction in the tax expense that has been announced in this connection.

Overview in table form of revenue and earnings trends described

€ million	Potash and Magnesium Products	COMPO	fertiva	Salt	Waste Management and Recycling	Services and Trading	K+S
Revenues 2006	1,238.9	552.4	556.2	485.8	69.4	55.0	2,957.7
Revenues 2007	+	++	+	++	o	o	+
Revenues 2008	+	++	o	+	+	o	+
EBIT I 2006	158.6	29.2	16.7	67.6	13.8	25.4	278.0
EBIT I 2007	+	++	–	–	–	o	+
EBIT I 2008	+	++	+	++	+	o	+

Expected development of dividends

Financial year	Dividend per share in €
2006	2.00
2005	1.80
2004	1.30
2003	1.00
2002	1.00

Dividend payment for financial year 2006

K+S AG generated net income of € 136.0 million in financial year 2006 (2005: € 100.4 million). The dividend payment of € 74.3 million for 2005 was paid out of the retained profit of € 74.3 million available at the beginning of 2006. After allocations to revenue reserves, the retained profit as of 31 December 2006 amounted to € 82.5 million.

Given the higher earnings as well as the positive outlook for the business of the K+S Group, we will propose to the Annual General Meeting payment of a dividend of € 2.00 per share. Assuming that we will not hold any own shares on the date of the Annual General Meeting, this will result in a dividend payment of € 82.5 million. Thus, 37.8 % of the earnings of the K+S Group, after adjustment for the market values of the currency options for hedging, will be distributed. Without the non-recurrent, deferred, i.e. non-cash for the time being, tax income of € 41.9 million in connection with the SPL acquisition, this means that 46.8 % of adjusted group earnings will be distributed; this falls within the distribution corridor of 40% to 50% that we are seeking to achieve over the medium term.

Future dividend policy

We pursue an earnings-based dividend policy. The K+S should remain an investment offering high growth and high yields in the future too. A distribution level of between 40 % and 50 %, taking into account the high free cash flow, as well as an attractive dividend yield are points of reference for future dividend recommendations to be determined jointly with the Supervisory Board.

Anticipated financial position

Planned financing measures

With net indebtedness (including long-term provisions) of € 718.2 million, the K+S Group has a strong financial base as a result of high operating and free cash flow. Both these factors mean that we are able to respond flexibly to investment and acquisition opportunities. Without taking into account possible acquisitions, share repurchase transactions or CTA allocations, there should be no fundamental change in our financing structure compared with the previous year: Subject to these conditions, we will, in all likelihood, also display an equity ratio of just under 40 % over the next two years, use non-current provisions for the financing of our non-current assets and only have manageable bank debt.

Planned capital expenditure

We assume that over the coming years capital expenditure related to replacement and safeguarding production capacity will not exceed depreciation given the modern state of our facilities. In addition, our strong cash flow from operating activities provides us with sufficient room for manoeuvre for investing in profitable expansion and rationalisation projects.

At the end of the year, there were obligations relating to uncompleted investment undertakings totalling € 9 million. Including the existing overhangs of about € 20 million, we expect the volume of capital expenditure for 2007 as a whole to amount to about € 210 million. Measures related to replacement and safeguarding production capacity account for about two thirds of this figure and should be fully financed through the anticipated depreciation charges of about € 135 million. In addition, cash flow from operating activities will also ensure adequate finance for the planned capital expenditure relating to expansion.

Potash and Magnesium Products business segment

The investment level will amount to approximately € 90 million. The year 2007 will be particularly shaped by projects connected with the own generation of electric power. Further important measures include the expansion of sulphate capacity at the Werra site and measures to increase capacity at Neuhof. The investment level should increase again in 2008 as a result of the planned construction of the saline water pipeline from Neuhof to the Werra river. Replacement and safeguarding production capacity will account for just under three quarters of the volume of capital expenditure.

COMPO business segment

The volume of capital expenditure in the years 2007 and 2008 should reach a level of about € 10 million each and thus come close to the level for the preceding year; projects in the plant protection consumer area that we are carrying out together with Syngenta will account for a part of these sums. In 2007, capital expenditure related to replacement will somewhat exceed the level for 2006 as a result of projects extending across more than one year.

fertiva business segment

fertiva launched two significant projects in 2006, so that what has been a comparatively low volume of capital expenditure until now will increase to about € 5 million in 2007. fertiva is investing a total of € 5.4 million in the construction of a new filter plant for large-grain ammonium sulphate at the Lanxess plant in Antwerp and related logistics. In addition, fertiva estimates that it will spend € 0.6 million on a logistics project in Antwerp. As fertiva has no production facilities of its own, the volume of capital expenditure will return to its customary low level in 2008 following the completion of these projects.

Salt business segment

At about € 23 million, esco's capital expenditure will increase somewhat on the previous year. At about € 17 million, capital expenditure relating to replacement and safeguarding production capacity should be on the same level as in the preceding year, with the modernisation and expansion of the salt mill at Borth accounting for just under € 2 million of this figure. It is estimated that the level of capital expenditure for esco will be about the same in 2008.

The volume of capital expenditure for SPL is expected to amount to about € 30 million. Capital expenditure related to replacement and safeguarding production capacity will account for about one half of this figure. In 2007, the main outlay will relate to the replacement of a ship belonging to SPL's own shipping company, Empremar. In addition, opportunities for acquiring additional shipping capacity are being reviewed. This would, under certain circumstances, entail a significant increase in the volume of capital expenditure. About € 7 million will be used for the completion of the Patillos II port expansion project launched in 2006. After this major port expansion project is completed, the level of capital expenditure is expected to decline significantly in 2008.

Waste Management and Recycling business segment

The volume of capital expenditure for this year will amount to about € 8 million. In addition to ongoing replacement, reutilisation capacity for the receipt of waste in dust form at the Zielitz and Unterbreizbach sites is to be brought into line with the increase in accepted volume. In 2008, the capital expenditure budget should fall markedly below the level for 2007.

Services and Trading business segment

Capital expenditure over the next two years essentially will comprise the IT and logistics sector budgets. At about € 18 million, we expect a significant increase in the volume of capital expenditure in relation to the preceding year as a result of the expansion of warehouse storage capacity commenced in 2006 and the replacement of a bulk loader for KTG. In 2008, the customary level of about € 5 million should be attained again.

Expected development of liquidity

Liquidity should continue to develop positively over the next two years; the increases in earnings that have been forecast should also impact on cash flow from operating activities. The latter should exceed outlays connected with capital expenditure, so that we can expect a substantial free cash flow over the next two years too.

Opportunities

Opportunities from the development of framework conditions

Increase in prices of agricultural products

The historically very low ratio of stocks of important agricultural products to annual consumption already described under the heading "Future industry situation" on pages 118 et seqq. should result in further price increases for agricultural products. Rising prices will in turn encourage farmers worldwide to both increase their available land and their land intensity. Both these elements require greater use of fertilizers and could result in global demand for fertilizers rising at a faster pace than the 2 % to 3 % per year hitherto forecast.

Energy costs

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

Current forecasts for financial year 2007 assume a moderate increase in energy prices on the preceding year. Energy costs for the first half of 2007 are already fixed as a result of contractual arrangements, and with respect to the second half of 2007, we have additionally hedged the current, attractive energy cost level by using derivative financial instruments for the first time. Moreover, these instruments provide an opportunity for profiting from further energy price decreases.

Corporate tax reform 2008

We welcome the announcement made by the Federal Government stating that it intends to cut the level of corporate income tax from 25 % at the present time to 15 % in connection with the corporate tax reform planned for 2008. However, the positive impact of the reform will in part be diluted by the counterfinancing measures that have been announced, especially the inability to deduct trade tax as a business expense, limitations on the deductibility of interest as well as more restrictive depreciation/amortisation rules. As about three quarters of our earnings are generated by our domestic companies, our income tax burden should be reduced.

Improvement in consumer sentiment in Europe

Macroeconomic development in the European Union has hitherto been largely driven by exports and only to a lesser degree by domestic economic conditions. In the case of the COMPO business segment, this has impacted negatively on sales of home and garden products in the consumer area. In the meantime, there are tangible indications that consumer sentiment is picking up in Europe, which should have a positive effect on the COMPO business segment.

Corporate strategy opportunities

At the present time, a key corporate opportunity is the recent acquisition and the expansion of Chilean salt producer SPL, the latter of which has to be rapidly driven forward. In both operating and financial terms, this acquisition creates an opportunity to significantly increase the enterprise value of the K+S Group. Attractive cost structure by global standards, regional expansion opportunities in both existing markets and markets not supplied thus far as well as lower capital costs for the K+S Group as a result of the now higher indebtedness create numerous new opportunities for us.

Other opportunities

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

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

Given the general conditions that are expected, we assume that business will develop positively over the next two years. With respect to revenues, we expect a slight increase this year and next year. Although production-related expenditure in the Potash and Magnesium Products business segment is expected to rise, operating earnings for the business segment and for the K+S Group should develop positively as well. Our outlook is based on the following premises in particular: continued rising demand for potash fertilizers worldwide, a US dollar exchange rate that will not deviate significantly from the current exchange rate of USD/EUR 1.30, oil and gas prices that will remain on their current levels as well as an average level of de-icing salt business in Europe and North America.

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

Kassel, 23 February 2007
K+S Aktiengesellschaft
The Board of Executive Directors

Forward-looking statements

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


What is the measure
of good earnings?
Vineyard

After a financial year full of commitment, success and joy, it's a particular pleasure to look back. At top performances in all segments and the well-earned income that is the foundation of tomorrow's growth. With our broad-based business sectors of equal status, we are more independent of the economic cycle without having to say no to opportunities. The investment in salt is a clear sign in this regard. This year too, we were able once again to improve the earnings position of our group in a pleasing way: through acquisitions, which are already making themselves noticed in a positive sense, and through growth oriented towards sustainability above all.

Auditors’ Report

We have audited the consolidated financial statements, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and notes, prepared by K+S Aktiengesellschaft, Kassel, as well as the group management report for the financial year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs) as applied within the EU and the supplementary commercial law provisions as applied in accordance with Section 315a, par. 1 of the German Commercial Code (HGB) is the responsibility of the company's Board of Executive Directors. Our responsibility is to express an opinion of the consolidated financial statements and the group management report prepared by the company on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit in such manner that material misstatements affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting rules and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group as well as evaluations of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the system of internal accounting control relating to the accounting system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Executive Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on our audit findings, the consolidated financial statements of K+S Aktiengesellschaft, Kassel, comply with the IFRSs as applied in the EU as well as the supplementary commercial law provisions as applied in accordance with Section 315a, par. 1 of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with such provisions. The group management report is consistent with the consolidated financial statements, provides a suitable understanding of the position of the group and suitably presents the risks of future development.

Hanover, 14 March 2007

Deloitte & Touche GmbH	(Dr. Künnemann)	(Scharpenberg)
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

Income Statement

T€	Notes	2006	2005
Revenues	[1]	2,957,687	2,815,700
Cost of sales		1,913,854	1,811,168
Gross profit		**1,043,833**	**1,004,532**
Selling expenses		728,120	673,035
- including freight costs		431,458	394,166
General and administrative expenses		82,082	71,654
Research and development costs		13,804	12,998
Other operating income	[2]	119,944	110,159
Other operating expenses	[3]	63,502	115,191
Income from investments, net	[4]	1,769	9,080
Operating earnings (EBIT I)		**278,038**	**250,893**
Market value changes from hedging transactions	[5]	83,561	20,792
Earnings after market value changes (EBIT II)		**361,599**	**271,685**
Interest income, net	[6]	(27,521)	(17,759)
Other financial result	[7]	7,377	5,671
Financial result		**(20,144)**	**(12,088)**
Earnings before income taxes		**341,455**	**259,597**
Taxes on income	[8]	70,295	85,146
- of which deferred taxes		20,392	35,512
Net income		**271,160**	**174,451**
Minority interests in earnings		366	2
Group earnings after taxes and minority interests		**270,794**	**174,449**
Earnings per share in € (undiluted ≙ diluted)	[11]	6.57	4.12
Earnings before taxes, adjusted *		**257,894**	**238,805**
Group earnings, adjusted *	[11]	**218,151**	**161,350**
Earnings per share in €, adjusted *	[11]	**5.29**	**3.81**
Average number of shares in million		41.24	42.31

* adjusted for the effect of market value changes for hedging transactions; a tax rate of 37.0% is assumed for adjusted group earnings and for adjusted earnings per share

Statement of Changes in Equity

T€	Subscribed capital [22]	Additional paid-in capital	Profit retained/ other revenue reserves [23]	Differences from foreign currency translation	Fair value reserve	Minority interests	Equity
Balance as of 1 January 2006	108,800	8,676	804,622	(188)	20,171	48	942,129
Dividend for previous year	–	–	(74,250)	–	–	–	(74,250)
Net income	–	–	270,794	–	–	366	271,160
Subscription of employee shares	–	(859)	–	–	–	–	(859)
Market value of securities	–	–	–	–	8,075	–	8,075
Consolidation effects	–	92	(1,704)	(15,389)	(75)	205	(16,871)
Other neutral changes	–	–	(1,970)	(157)	(2,914)	–	(5,041)
Balance as of 31 December 2006	**108,800**	**7,909**	**997,492**	**(15,734)**	**25,257**	**619**	**1,124,343**
Balance as of 1 January 2005	108,800	4,695	757,137	(1,628)	11,598	–	880,602
Dividend for previous year	–	–	(55,250)	–	–	–	(55,250)
Net income	–	–	174,449	–	–	2	174,451
Cancellation of own shares	–	–	(66,650)	–	–	–	(66,650)
Subscription of employee shares	–	3,973	–	–	–	–	3,973
Market value of securities	–	–	–	–	7,955	–	7,955
Consolidation effects	–	8	(84)	90	–	46	60
Other neutral changes	–	–	(4,980)	1,350	618	–	(3,012)
Balance as of 31 December 2005	**108,800**	**8,676**	**804,622**	**(188)**	**20,171**	**48**	**942,129**

Balance Sheet

T€	Notes	2006	2005
Intangible assets	[12]	189,034	82,209
- of which goodwill from acquisitions	[12]	102,866	13,857
Property, plant and equipment	[13]	1,082,642	791,927
Investment properties	[14]	8,292	11,219
Financial assets	[15]	19,439	19,264
Receivables and other assets	[18]	2,471	2,039
Securities	[20]	42,092	56,018
Deferred taxes	[16]	52,018	58,141
Recoverable income taxes		623	–
Non-current assets		**1,396,611**	**1,020,817**
Inventories	[17]	370,155	281,325
Accounts receivable – trade	[18]	629,494	598,140
Other receivables and assets	[18, 19]	344,441	206,152
- of which derivative financial instruments		242,666	120,895
Recoverable income taxes		10,582	2,589
Securities	[20]	15,219	76,031
Cash on hand and balances with banks		64,424	74,010
Current assets		**1,434,315**	**1,238,247**
ASSETS		**2,830,926**	**2,259,064**

T€	Notes	2006	2005
Subscribed capital	[22]	108,800	108,800
Additional paid-in capital		7,909	8,676
Other revenue reserves and profit retained	[23]	1,007,015	824,605
Minority interests		619	48
Equity		**1,124,343**	**942,129**
Bank loans and overdrafts	[28]	136,773	5,982
Other liabilities	[28]	13,985	10,761
Provisons for pensions and similar obligations	[25]	128,223	171,746
Provisions for mining obligations	[26]	338,158	324,867
Other provisions	[27]	125,416	138,033
Deferred taxes	[16]	79,534	13,704
Non-current debt		**822,089**	**665,093**
Bank loans and overdrafts	[28]	233,964	23,535
Accounts payable – trade	[28]	360,776	353,981
Other liabilities	[19, 28]	77,790	72,150
- of which derivative financial instruments		39,328	27,675
Income tax liabilities		16,646	19,845
Provisions	[26, 27]	195,318	182,331
Current debt		**884,494**	**651,842**
EQUITY AND LIABILITIES		**2,830,926**	**2,259,064**

Cash Flow Statement

T€	Notes	2006	2005
Operating result (EBIT I)		**278,038**	**250,893**
Depreciation on fixed assets*		123,313	132,168
Release of negative consolidation differences		–	(1,545)
Decrease (-) in non-current provisions (without interest rate effects)		(15,294)	(465)
Interest, dividends and similar income received		9,898	11,379
Realised gains/losses on the disposal of financial assets and securities		12,493	5,261
Interest paid		(15,274)	(4,945)
Other financing expenses		(3,157)	–
Income tax paid		(49,903)	(49,634)
Other noncash items		2,634	(1,557)
Gross cash flow		**342,748**	**341,555**
Gain on disposals of fixed assets		(12,219)	(7,574)
Increase (-)/decrease (+) in inventories		(33,697)	(25,608)
Increase (-)/decrease (+) in receivables and other assets from operating activities		(75,265)	(146,108)
- of which derivative financial instruments		(41,623)	(60,686)
Decrease (-)/increase (+) in liabilities from operating activities		(4,048)	34,084
- of which derivative financial instruments		16,355	7,084
Decrease (-)/increase (+) in current provisions		(8,658)	27,980
Out-financing of provisions		(6,498)	(3,473)
Cash flow from operating activities		**202,363**	**220,856**
Proceeds from disposals of fixed assets		15,361	10,525
Disbursements for intangible assets		(6,331)	(4,223)
Disbursements for property, plant and equipment		(124,211)	(101,773)
Disbursements for financial assets		(1,892)	(703)
Disbursements for acquisition of consolidated companies	[40]	(357,669)	–
Proceeds from sale/disbursements for acquisition of securities		44,974	1,834
Cash flow for investing activities		**(429,768)**	**(94,340)**
Free cash flow		**(227,405)**	**126,516**
Payment of dividend		(74,250)	(55,250)
Payments from allocations to equity		4,146	–
Purchase of own shares		(8,463)	(66,650)
Taking out (+)/repayment (-) of loans		249,447	8,640
Cash flow for financing activities		**170,880**	**(113,260)**
Change in cash and cash equivalents affecting cash flow		**(56,525)**	**13,256**
Change in value of cash and cash equivalents		–	161
Changes from consolidation		3,115	(5,389)
Change in cash and cash equivalents	[41]	**(53,410)**	**8,028**

* depreciation/amortisation of intangible assets as well as property, plant and equipment (including participating interests)

Development of Fixed Assets 2006/2005

T€	Gross carrying amounts Balance as of 01.01.2006	Change from con-solidation	Additions	Disposals	Reclassi-fication	Currency differences	Balance as of 31.12.2006
Concessions, industrial property rights, similar rights & assets as well as licences for such rights & assets	92,120	38,679	2,153	3,143	(19,202)	(1,594)	109,013
Goodwill from acquisitions	13,857	92,265	–	–	–	(3,256)	102,866
Internally generated intangible assets	2,945	–	709	–	394	–	4,048
Emission rights	10,808	–	12,239	12,582	–	–	10,465
Payments on account	2,398	1,038	3,469	722	(432)	–	5,751
Intangible assets [12]	**122,128**	**131,982**	**18,570**	**16,447**	**(19,240)**	**(4,850)**	**232,143**
Land, rights similar to land and buildings, including buildings on third-party land	404,860	10,554	8,433	517	7	–	423,337
Salt deposits	–	243,117	–	–	19,240	(8,581)	253,776
Technical equipment and machinery	1,541,459	8,410	81,275	20,192	26,063	(3)	1,637,012
Ships	–	9,589	–	–	–	(467)	9,122
Other equipment, fixtures and fittings	187,764	1,398	13,827	8,557	549	(80)	194,901
Payments on account and construction in progress	29,457	1,441	22,838	1,314	(26,393)	–	26,029
Leasing and similar rights	1,813	196	–	–	–	–	2,009
Property, plant and equipment [13]	**2,165,353**	**274,705**	**126,373**	**30,580**	**19,466**	**(9,131)**	**2,546,186**
Investment properties [14]	**22,985**	**–**	**1**	**4,792**	**(226)**	**–**	**17,968**
Investments in associated companies	8,718	–	1,096	132	–	–	9,682
Loans to associated companies	74	–	–	–	–	–	74
Investments	6,558	159	529	19	–	–	7,227
Loans to companies in which equity interests are held	322	–	–	43	–	–	279
Sundry loans and other financial assets	4,641	–	267	1,545	–	(1)	3,362
Financial assets [15]	**20,313**	**159**	**1,892**	**1,739**	**–**	**(1)**	**20,624**
Fixed assets	**2,330,779**	**406,846**	**146,836**	**53,558**	**–**	**(13,982)**	**2,816,921**

T€	Gross carrying amounts Balance as of 01.01.2005	Change from con-solidation	Additions	Disposals	Reclassi-fication	Currency differences	Balance as of 31.12.2005
Concessions, industrial property rights, similar rights &. assets as well as licences for such rights & assets	90,653	218	2,094	1,615	818	(48)	92,120
Goodwill from acquisitions	13,361	496	–	–	–	–	13,857
Internally generated intangible assets	2,549	–	105	54	345	–	2,945
Emission rights	–	–	12,417	1,609	–	–	10,808
Payments on account	954	–	2,024	74	(506)	–	2,398
Intangible assets [12]	**107,517**	**714**	**16,640**	**3,352**	**657**	**(48)**	**122,128**
Land, rights similar to land and buildings, including buildings on third-party land	391,144	8,135	7,420	1,758	(81)	–	404,860
Technical equipment and machinery	1,470,158	10,356	63,039	18,413	16,319	–	1,541,459
Other equipment, fixtures and fittings	177,536	1,490	16,362	9,314	1,468	222	187,764
Payments on account and construction in progress	26,633	39	16,065	80	(13,200)	–	29,457
Leasing and similar rights	1,842	–	–	–	(29)	–	1,813
Property, plant and equipment [13]	**2,067,313**	**20,020**	**102,886**	**29,565**	**4,477**	**222**	**2,165,353**
Investment properties [14]	**23,456**	**–**	**231**	**865**	**163**	**–**	**22,985**
Investments in associated companies	15,634	(5,523)	26	1,419	–	–	8,718
Loans to associated companies	94	–	–	20	–	–	74
Investments	6,037	1,000	63	542	–	–	6,558
Loans to companies in which equity interests are held	360	–	–	38	–	–	322
Sundry loans and other financial assets	6,013	124	614	2,110	–	–	4,641
Financial assets [15]	**28,138**	**(4,399)**	**703**	**4,129**	**–**	**–**	**20,313**
Fixed assets	**2,226,424**	**16,335**	**120,460**	**37,911**	**5,297**	**174**	**2,330,779**

Depreciation, amortisation and write-downs								Net carrying amounts
Balance as of 01.01.2006	Change from consolidation	Additions	Disposals	Re-classification	Write-ups	Currency differences	Balance as of 31.12.2006	**Balance as of 31.12.2006**
39,377	–	7,079	3,132	(1,260)	26	(65)	41,973	67,040
–	–	–	–	–	–	–	–	102,866
542	–	594	–	–	–	–	1,136	2,912
–	–	–	–	–	–	–	–	10,465
–	–	–	–	–	–	–	–	5,751
39,919	**–**	**7,673**	**3,132**	**(1,260)**	**26**	**(65)**	**43,109**	**189,034**
184,330	–	13,144	213	(683)	–	–	196,578	226,759
–	–	1,099	–	1,260	–	–	2,359	251,417
1,040,452	–	84,682	17,722	668	–	–	1,108,080	528,932
–	–	141	–	–	–	–	141	8,981
148,156	–	15,950	8,262	(1)	–	(39)	155,804	39,097
–	–	–	–	–	–	–	–	26,029
488	–	94	–	–	–	–	582	1,427
1,373,426	**–**	**115,110**	**26,197**	**1,244**	**–**	**(39)**	**1,463,544**	**1,082,642**
11,766	**–**	**388**	**2,494**	**16**	**–**	**–**	**9,676**	**8,292**
405	–	–	33	–	–	–	372	9,310
74	–	–	–	–	–	–	74	–
560	–	218	–	–	50	–	728	6,499
–	–	–	–	–	–	–	–	279
10	–	1	–	–	–	–	11	3,351
1,049	**–**	**219**	**33**	**–**	**50**	**–**	**1,185**	**19,439**
1,426,160	**–**	**123,390**	**31,856**	**–**	**76**	**(104)**	**1,517,514**	**1,299,407**

Depreciation, amortisation and write-downs								Net carrying amounts
Balance as of 01.01.2005	Change from consolidation	Additions	Disposals	Re-classification	Write-ups	Currency differences	Balance as of 31.12.2005	**Balance as of 31.12.2005**
29,478	70	10,969	1,468	341	–	(13)	39,377	52,743
–	–	–	–	–	–	–	–	13,857
41	–	501	–	–	–	–	542	2,403
–	–	–	–	–	–	–	–	10,808
–	–	–	–	–	–	–	–	2,398
29,519	**70**	**11,470**	**1,468**	**341**	**–**	**(13)**	**39,919**	**82,209**
169,027	3,864	11,746	904	604	7	–	184,330	220,530
953,239	7,509	92,186	16,030	3,548	–	–	1,040,452	501,007
138,789	1,050	16,525	8,772	467	–	97	148,156	39,608
–	–	–	–	–	–	–	–	29,457
986	–	54	–	(29)	523	–	488	1,325
1,262,041	**12,423**	**120,511**	**25,706**	**4,590**	**530**	**97**	**1,373,426**	**791,927**
11,796	**–**	**187**	**218**	**1**	**–**	**–**	**11,766**	**11,219**
703	–	–	298	–	–	–	405	8,313
74	–	–	–	–	–	–	74	–
1,014	–	–	400	–	54	–	560	5,998
–	–	–	–	–	–	–	–	322
10	–	–	–	–	–	–	10	4,631
1,801	**–**	**–**	**698**	**–**	**54**	**–**	**1,049**	**19,264**
1,305,157	**12,493**	**132,168**	**28,090**	**4,932**	**584**	**84**	**1,426,160**	**904,619**

Development of Provisions

T€	Balance as of 01.01.2006	Currency differences	Additions from consolidation	Allocations
Backfilling of mines and shafts	173,253	–	–	2,329
Mining damage risks	32,008	–	–	3,471
Maintenance of stockpiles	82,302	–	–	4,295
Other mining obligations	37,304	–	–	1,976
Provisions for mining obligations [26]	**324,867**	**–**	**–**	**12,071**
Jubilee pay	21,626	–	–	1,019
Partial retirement	67,814	–	–	17,837
Social plan expenses	2,649	–	–	71
Other personnel obligations	14,930	–	43	11,532
Personnel obligations [27]	**107,019**	**–**	**43**	**30,459**
Other provisions	**31,014**	**–**	**3**	**1,631**
Provisions (non-current debt)	**462,900**	**–**	**46**	**44,161**
Other taxes	79	–	1,022	127
Provisions for mining obligations	7,180	–	–	108
Personnel obligations	75,463	(44)	670	76,999
Provisions for obligations from sale transactions [27]	46,875	(7)	–	47,466
Provisions for obligations from purchase contracts [27]	18,106	–	2,682	17,889
Other provisions	34,628	(35)	7,832	28,230
Provisions (current debt)	**182,331**	**(86)**	**12,206**	**170,819**
Provisions	**645,231**	**(86)**	**12,252**	**214,980**

Segment Reporting

	Total revenues		of which intersegment revenues	
T€	**2006**	2005	**2006**	2005
Potash and Magnesium Products	1,304,617	1,257,636	65,700	60,486
COMPO	562,865	554,701	10,445	13,031
fertiva	558,951	571,222	2,753	2,951
Salt	488,749	400,541	2,961	2,499
Waste Management and Recycling	69,492	56,261	120	240
Services and Trading	131,151	122,990	76,178	68,450
Reconciliation[1] [36]	(158,138)	(147,651)	(158,157)	(147,657)
K+S Group	**2,957,687**	2,815,700	**0**	0

	Assets [38]		Liabilities	
T€	**2006**	2005	**2006**	2005
Potash and Magnesium Products	1,229,449	1,123,734	591,848	576,339
COMPO	431,174	432,819	164,727	205,421
fertiva	252,575	239,356	233,997	226,043
Salt	956,382	408,230	167,392	106,526
Waste Management and Recycling	40,946	34,761	4,599	3,545
Services and Trading	71,635	59,838	28,540	29,406
Reconciliation[1] [36]	(151,235)	(39,674)	515,480	169,655
K+S Group	**2,830,926**	2,259,064	**1,706,583**	1,316,935

[1] Figures for business segments are shown before consolidation. Expenses and income as well as items disclosed on the balance sheet that cannot be allocated to business segments are recorded separately. Both effects are shown under 'Reconciliation' and result in the Group figures.

Accrued interest	Provisions used	Provisions reversed	Reclassification	CTA reclassification	Balance as of 31.12.2006
6,644	7,271	78	–	–	174,877
1,567	405	176	–	–	36,465
3,761	314	7	–	–	90,037
1,673	828	–	(3,346)	–	36,779
13,645	**8,818**	**261**	**(3,346)**	**–**	**338,158**
888	2,092	250	499	–	21,690
–	20,152	21	–	6,498	58,980
–	1,764	343	–	–	613
–	10,612	479	(499)	–	14,915
888	**34,620**	**1,093**	**–**	**6,498**	**96,198**
167	**3,025**	**1,578**	**1,006**	**–**	**29,218**
14,700	**46,463**	**2,932**	**(2,340)**	**6,498**	**463,574**
–	577	–	(12)	–	639
–	807	–	–	–	6,481
–	71,645	2,100	53	–	79,396
–	28,859	15,419	513	–	50,569
–	15,678	2,989	47	–	20,057
–	29,668	2,358	(453)	–	38,176
–	**147,234**	**22,866**	**148**	**–**	**195,318**
14,700	**193,697**	**25,798**	**(2,192)**	**6,498**	**658,892**

of which with third parties [37]		EBIT I		Gross cash flow	
2006	2005	**2006**	2005	**2006**	2005
1,238,917	1,197,150	158,627	151,827	233,958	240,683
552,420	541,670	29,254	25,001	34,364	37,245
556,198	568,271	16,758	14,815	15,143	17,104
485,788	398,042	67,591	62,682	95,985	90,351
69,372	56,021	13,794	8,121	16,938	10,996
54,973	54,540	25,364	20,049	30,927	27,132
19	6	(33,350)	(31,602)	(84,567)	(81,956)
2,957,687	2,815,700	**278,038**	250,893	**342,748**	341,555

Invested capital[2)]		Capital expenditure[3)] [39]		Employees as of 31 Dec.[4)]	
2006	2005	**2006**	2005	**2006**	2005
874,416	827,312	83,778	70,911	7,550	7,490
292,474	275,452	11,366	12,295	1,260	1,292
(98,733)	(101,940)	735	286	61	58
702,531	258,720	21,167	12,368	2,194	1,385
26,052	23,961	4,337	3,397	34	33
26,981	22,220	8,143	6,661	407	393
22,738	37,797	1,012	1,191	367	361
1,846,459	1,343,522	**130,538**	107,109	**11,873**	11,012

2) operating assets and working capital
3) relates to property, plant and equipment as well as intangible assets
4) workforce as of 31 Dec. including temporary employees (without students and interns) measured on full-time equivalent basis.

Notes

General principles

The Group parent company, K+S Aktiengesellschaft (K+S AG), which is registered in Germany, has prepared the consolidated financial statements of the K+S Group as of and for the period ended 31 December 2006 based on the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in force on the reporting date insofar as those have been recognised by the European Union. In the interests of clearer presentation, the individual captions in the consolidated financial statements are presented in € thousands (T€).

The consolidated financial statements were approved for release by the Board of Executive Directors of K+S Aktiengesellschaft on 23 February 2007.

Scope of consolidation

The scope of consolidation changed as follows in 2006: The financing companies K+S Finance Ltd. and K+S Investments Ltd., newly formed in the year under review,were fully consolidated for the first time. As these companies engage exclusively in internal group financing, their inclusion has no material influence on the net assets, financial position and results of operations of the K+S Group.

On 29 June 2006, the K+S Group acquired 99.3% of the shares of Sociedad Punta de Lobos S.A.; a further 0.4% of the shares were subsequently taken over from minority shareholders. As a result of the acquisition, the following SPL Group companies were taken over during the course of the year under review and fully consolidated for the first time as of 30 June 2006:

Compania Minera Punta de Lobos S.A. (which became Compania Minera Punta de Lobos Ltda. following a change in its legal form),
Empresa de Servicios Ltda.,
Empresa Maritima S.A.,
International Salt Company LLC.,
Salina Diamante Branco Ltda.,
Servicios Maritimos Patillos S.A.,
Sociedad Punta de Lobos S.A. (which was later renamed Servicios Portuarios Patillos S.A.),
SPL Brasil Empreendimentos e Participacoes Ltda.,
SPL Overseas Corp.,
SPL USA Inc.,
Transporte por Containers S.A.

Companies that were newly formed in connection with the implementation of the acquisition and with the reorganisation under corporate law of the SPL Group were also fully consolidated:

Inversiones Columbus Ltda.,
Inversiones Empremar Ltda.,
Inversiones K+S Sal de Chile Ltda.,
K+S Participaciones Chile S.A. (which was later renamed Sociedad Punta de Lobos S.A.),
K+S Sal do Brasil Participacoes e Investimentos Ltda.,
K+S Salt of the Americas Holding B.V.

The SPL Group extracts rock salt in the Atacama desert in open-cast mines and produces sea salt in Brazil at a facility of its own. The salt is mainly sold on the East coast of North America as well as in South America. It is in part transported using the group's own ships, which also render freight services for third parties. The extraction of rock salt and its shipment are secured by means of long-term concessions.

The acquisition costs totalled T€ 361,660 and were settled in cash. Of that figure, T€ 359,783 was attributable to the shares taken over and T€ 1,877 to ancillary acquisition costs.

Immediately before the purchase, the following assets and liabilities were stated for the companies acquired:

T€	
Intangible assets	23,402
- of which goodwill from acquisitions	18,738
Property, plant and equipment	37,862
Deferred tax assets	1,284
Other non-current assets	569
Inventories	54,568
Accounts receivable - trade	16,188
Securities	16,957
Cash on hand and balances with banks	6,426
Other current assets	11,700
Non-current financial liabilities	13,238
Non-current provisions	2,352
Deferred tax liabilities	5,861
Other non-current debt	1,045
Current financial liabilities	33,659
Current provisions	13,782
Accounts payable - trade	5,588
Other current debt	13,196

After re-measurement in accordance with IFRSs, the following assets and liabilities were stated as of 30 June 2006.

T€	
Intangible assets	132,081
- of which goodwill from acquisitions	92,265
Property, plant and equipment	276,037
Deferred tax assets	6,195
Other non-current assets	350
Inventories	55,133
Accounts receivable - trade	16,215
Securities	16,957
Cash on hand and balances with banks	6,426
Other current assets	11,177
Non-current financial liabilities	13,238
Non-current provisions	347
Deferred tax liabilities	52,016
Other non-current debt	771
Current financial liabilities	33,659
Current provisions	17,458
Accounts payable - trade	5,762
Other current debt	13,238

Of the remeasurement, T€ 243,117 related to the salt deposit in Chile that is disclosed under property, plant and equipment. It was treated as a material asset of the SPL Group under the multi-period excess earnings method. A useful life of 250 years was established on the basis of the existing extraction possibilities.

In the case of intangible assets, adjustments totalling T€ 30,250 related to port concessions, which allow salt extracted from the deposit in Chile to be shipped at an attractive price. In addition, the remeasurement resulted in the stating of brands amounting to T€ 3,272 as well as advantageous contracts and customer relationships totalling T€ 5,011.

A total of T€ 46,155 in deferred tax liabilities and T€ 4,911 in deferred tax assets were stated as a result of the remeasurement.

A comparison of the acquisition costs related to the purchase and the remeasured net assets produced goodwill totalling T€ 92,265. The goodwill does not represent intangible assets that can be capitalised separately, such as the core workforce or the protection of flag rights for the ships used, which, as a right protected by statute that is not separable from the company, cannot be reliably measured. In addition, the goodwill also encompasses future synergies resulting from the integration of SPL with the K+S Group as well as the anticipated expansion of the SPL business. The level of the goodwill is substantially influenced by the recognition of deferred tax liabilities in connection with the remeasurement of assets and liabilities.

The inclusion of the SPL affected the income statement as follows (1 July to 31 December 2006):

T€	
Revenues	81,940
Other income	364
Expenses	(87,122)
Earnings before taxes on income	(4,818)
Taxes on income	40,892
Earnings after taxes	**36,074**

Deferred tax assets yielding income totalling T€ 41,855 were stated as a result of the reorganisation.

It is practically impossible to determine revenues and earnings based on the assumption that the SPL Group had been acquired at the beginning of the reporting period, as no reliable IFRS figures exist for the period before 30 June 2006.

The following 23 (2005: 23) domestic and 42 (2005: 23) foreign companies have been fully consolidated in the consolidated financial statements.

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

Outside Germany (in %)	Share of capital	Share of voting rights
Compagnie de Compactage de Wittenheim S.A.S., Wittenheim, France	100.00	100.00
Compania Minera Punta de Lobos Ltda., Santiago de Chile, Chile	99.05	100.00
COMPO Agricoltura S.p.A., Cesano Maderno, Italy	100.00	100.00
COMPO Agricultura S.L., Barcelona, Spain	100.00	100.00
COMPO Agro Chile Ltda., Santiago de Chile, Chile	100.00	100.00
COMPO Austria GmbH, Vienna, Austria	100.00	100.00
COMPO Benelux N.V., Deinze, Belgium	100.00	100.00
COMPO do Brasil S.A., Guaratinguetá, Brazil	100.00	100.00
COMPO Fertilizantes de México S.A. de C.V., Mexico-City, Mexico	100.00	100.00
COMPO France S.A.S., Roche-lez-Beaupré, France	100.00	100.00
COMPO Hellas S.A., Marousi, Greece	100.00	100.00
COMPO Horticulture et Jardin S.A.S., Roche-lez-Beaupré, France	100.00	100.00
COMPO Jardin AG, Allschwil, Switzerland	100.00	100.00
Empresa de Servicios Ltda., Santiago de Chile, Chile	99.06	100.00
Empresa Maritima S.A., Santiago de Chile, Chile	48.30	99.41
esco benelux N.V., Brussels, Belgium	100.00	100.00
esco France S.A.S., Levallois-Perret, France	100.00	100.00
esco Spain S.L., Barcelona, Spain	100.00	100.00
Frisia Zout B.V., Harlingen, The Netherlands	100.00	100.00
International Salt Company LLC., Clarks Summit, USA	100.00	100.00
Inversiones Columbus Ltda., Santiago de Chile, Chile	2.00	100.00
Inversiones Empremar Ltda., Santiago de Chile, Chile	48.58	100.00
Inversiones K+S Sal de Chile Ltda., Santiago de Chile, Chile	100.00	100.00
K+S Finance Ltd., St. Julians, Malta	100.00	100.00
K+S Investments Ltd., St. Julians, Malta	100.00	100.00
K+S KALI & SCPA France S.A.S., Reims, France	100.00	100.00
K+S Sal do Brasil Participacoes e Investimentos Ltda., São Paulo, Brazil	100.00	100.00
K+S Salt of the Americas Holding B.V., Harlingen, The Netherlands	100.00	100.00
Potash Import & Chemical Corporation, New York, USA	100.00	100.00
Salina Diamante Branco Ltda., Natal, Brazil	100.00	100.00
Salines Cérébos et de Bayonne S.A.S., Levallois-Perret, France	100.00	100.00
SCPA du Roure S.A.S., Le Teil, France	100.00	100.00
SCPA Masdac S.A.S., Pré en Pail, France	100.00	100.00
SCPA Rodez S.A.S., Onet le Château, France	97.45	97.45
Servicios Maritimos Patillos S.A., Santiago de Chile, Chile	49.52	50.00
Servicios Portuarios Patillos S.A., Santiago de Chile, Chile	99.05	100.00
Sociedad Punta de Lobos S.A., Santiago de Chile, Chile	99.05	99.05
SPL Brasil Empreendimentos e Participacoes Ltda., São Paulo, Brazil	100.00	100.00
SPL Overseas Corp., Cuidad de Panama, Panama	99.05	100.00
SPL USA Inc., Clarks Summit, USA	100.00	100.00
Transporte por Containers S.A., Valparaiso, Chile	47.67	98.71
VATEL Companhia de Produtos Alimentares S.A., Alverca, Portugal	100.00	100.00

Interests in companies over which the K+S Group can exercise a significant influence (associated companies) are measured using the equity method unless they are of minor importance. As a result of their minor importance, all interests in associated companies were stated at acquisition cost in 2006.

Consolidation methods
The financial statements of the consolidated companies are prepared as of the balance sheet date for the consolidated financial statements. The assets and liabilities of the consolidated

companies are recognised and measured uniformly in accordance with the policies described here and in the following notes.

Revenues, expenses and income between consolidated companies that arise while the companies affected are members of the K+S Group are eliminated in full. Similarly, receivables and liabilities between consolidated companies and inter-company profits resulting from deliveries and services between consolidated companies are eliminated, unless they are of minor importance.

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

Accounting and valuation principles

Recording of income and expenses

Revenues comprise sales of products and services less any related deductions. Revenues deriving from the sale of products are reported as of the time when the associated risks of ownership have passed. Services are reported as revenues after having been performed. In addition, payment must be sufficiently probable in both cases.

Other incomes, such as interest or dividends, are recorded for the relevant period as of the time when a respective contractual or legal claim arises. Income is only recorded when its realisation is sufficiently probable.

Operating expenses are charged to profit or loss on the date the performance is utilized or at the time they are incurred.

Intangible assets

Intangible assets acquired are stated at acquisition cost. Internally generated intangible assets are capitalized at development cost provided that they are likely to yield a future economic benefit and the costs of such assets can be measured reliably. Insofar as their useful lives can be determined, intangible assets are amortised on a regular straight-line basis. Goodwill is not subject to scheduled amortisation. The following useful lives are applied:

	Years
Port concessions	250
Brands	5 - 15
Other intangible assets	2 - 10

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

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

Property, plant and equipment

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

The newly acquired salt deposit in Chile is recorded under property, plant and equipment. The disclosure under property, plant and equipment is consistent with the relevant US GAAP rules, which are applied in the absence of specific IFRS rules in accordance with IAS 8. To ensure a uniform approach, the salt deposits in Germany and the Netherlands were also relassified as property, plant and equipment.

Furthermore, gallery and excavation work is capitalised under property, plant and equipment.

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

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

Scheduled amortisation is based on the following useful lives that apply across the group:

	Years
Salt deposits	19 - 250
Gallery and excavation work	5 - 125
Buildings	14 - 33⅓
Technical equipment and machinery	4 - 25
Other equipment, factory and office equipment	3 - 10

Finance leases for property, plant and equipment are only used to a very limited extent. They are stated at the present value of future lease instalments.

Investment properties

Investment properties are mainly leased objects. They are stated at cost less straight-line, scheduled, use-related depreciation. The underlying useful lives are 50 years.

Financial assets

Shares in associated companies and participating interests are measured at acquisition cost as their fair value cannot be reliably determined. In the event of an impairment loss, the lower value is stated. Shares and participating interests are derecognised on disposal to parties outside the group.

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

Inventories

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

Receivables and other assets

Receivables and other assets are carried at amortised cost. Any allowances that may be required are based on the expected risk of default. Non-interest- and low-interest-bearing receivables due in more than three months are discounted.

Receivables are derecognised when settled or when they become uncollectible. Other assets are derecognised on disposal or in the absence of value.

Securities

Securities are generally classified as available for sale. These securities are stated at fair value. They are measured for the first time on the transaction settlement date for the purchase. Unrealised gains and losses are taken to the revaluation reserve without being recognised in profit or loss. Gains and losses are only recognised in profit or loss on disposal.

Securities that are acquired with the intention of selling them are classified as held for trading. These securities are also stated at fair value. Changes in value are recognised in profit or loss.

Securities are derecognised after disposal on the settlement date.

Derivatives

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

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

Provisions for pensions and similar obligations

Pension provisions for employees and pensioners in Germany are computed in accordance with actuarial principles applying the projected unit credit method and a discount factor of 4.6 %.

Pension obligations of foreign companies are computed applying similar principles and with due consideration given to country-specific features. Insofar as plan assets exist, such assets are offset against pension provisions.

Mining and other provisions
Provisions are recognised in an amount corresponding to the extent to which they are expected to be needed for discharging obligations in relation to third parties arising from a past event. Such need must be more probable than improbable and it must be possible to reliably estimate the amount of the obligations.

Non-current provisions with a residual maturity of more than one year are discounted applying a capital market rate of interest of suitable duration to take account of future cost increases insofar as the interest rate effect is material.

Financial liabilities, trade and other payables
Liabilities are carried at fair value or amortised cost applying the effective interest method.

Liabilities arising from finance leases are reported at the present value of the lease instalments.

Liabilities are derecognised on settlement or if the reasons for recognizing a liability no longer apply.

Deferred taxes
In accordance with IAS 12, deferred taxes are determined using the balance sheet liability method that is in common use internationally. This results in the recognition of deferred tax items for all temporary differences between the carrying amounts disclosed in the tax accounts and the consolidated balance sheet as well as for tax loss carryforwards and for appropriate consolidation procedures. However, we have only recognised deferred tax assets to the extent that their realization has an adequately concrete form. Deferred taxes are measured applying the tax rates that, under current provisions of the law, would apply in the future when the temporary differences will probably be reversed. The effects of changes in tax legislation on deferred tax assets and liabilities are recognised in profit or loss in such period when the changes enter into force.

Deferred tax assets and liabilities are not discounted applying the rules contained in IAS 12. Deferred tax assets and liabilities are offset within individual companies or tax groups according to timing.

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

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

Estimates concerning the application of accounting and valuation principles
The values stated in IFRS financial statements are in part based on estimates concerning their basis and size. Estimates are particularly necessary in the case of

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

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

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

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

Balances arising on the exchange rates prevailing on the balance sheet date for the preceding year are reported as a separate component in equity as differences from currency translation without recognition in profit or loss. The balance of these translation differences compared with the preceding year was T€ (15,546).

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

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

Exchange rate in relation to € 1	2006 Rate on report. date	Average rate for the year	2005 Rate on report. date	Average rate for the year
US-dollar (USD)	1.317	1.256	1.180	1.245
Swiss franc (CHF)	1.607	1.573	1.555	1.548
Brazilian real (BRL)	2.813	2.730	2.745	3.040
Chilean peso (CLP)	700.592	666.252	604.766	697.873
Mexican peso (MXN)	14.293	13.683	12.589	13.576

Standards (IFRS) and interpretations (IFRIC) not applied so far
In addition to those standards and interpretations whose application is mandatory for the financial year, there are other, new and modified standards and interpretations whose application will only become mandatory at a later date. The effects of these changes are being reviewed at the present time.

Notes to the income statement

The income statement is presented on page 135.

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

K+S hedges anticipated US dollar receipts for up to three years in advance to alleviate the possible effects of changes in exchange rates on earnings. The derivatives that are used in this regard (see Note (19)) do not satisfy the restrictive requirement of high effectiveness contained in IAS 39, so that a hedge relationship cannot be recognised. The result of this is that changes in market value of all derivatives have to be disclosed in the income statement affecting profit or loss as of each reporting date, which can cause substantial fluctuations in earnings over time. To isolate these valuation effects related to reporting dates, they are disclosed separately from operating earnings and are incorporated in EBIT II. The use of this approach results in operating earnings (EBIT I) including the full contribution to earnings deriving from the hedging transactions realized over the course of the financial year. However, as a result of the restrictive rules contained in IAS 39, some of the contributions to earnings are regularly already recorded as market value changes and recognised in profit or loss in preceding years. To avoid the double reporting of earnings, the earnings reported in the reconciliation to EBIT I are eliminated in EBIT II. Thus, EBIT II corresponds to earnings under IFRSs, which take account of the reporting-date-based market valuation of hedging transactions in accordance with IAS 39.

(1) Revenues

The revenues generated by the K+S Group amounted to T€ 2,957,687 (2005: T€ 2,815,700), with T€ 2,840,926 (2005: T€ 2,725,616) resulting from the sale of goods and T€ 116,761 (2005: T€ 90,084) resulting from the rendering of services. The breakdown of the revenues by business segment as well as intersegment revenues are presented in the segment information on page 140 et seq. The geographical breakdown of the revenues is provided in the comments on segment reporting under Note (37).

(2) Other operating income

Other operating income includes the following material items:

T€	2006	2005
Foreign exchange rate gains	54,914	55,732
- of which realised market values less premiums paid	12,360	(4,463)
Release of provisions	26,090	21,207
Compensation and refunds received	11,291	8,064
Release of specific write-downs	4,757	2,677
Income from the sale of emission rights	2,990	1,830
Rentals and leasing	2,644	3,202
- of which investment property	2,096	2,584
Disposals of fixed assets	511	2,101
Release of negative goodwill	–	1,545
Sundry income	16,747	13,801
Other operating income	**119,944**	**110,159**

Compensation and refunds received mainly comprised refunds related to partial retirement totalling T€ 3,503 (2005: T€ 2,865) and refunds of contributions to professional associations totalling T€ 3,669 (2005: T€ 3,578). It also covers income from compensation for damages.

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

(3) Other operating expenses

Other operating expenses include the following material items:

T€	2006	2005
Partial retirement expenses	12,401	33,010
Exchange rate hedging costs/foreign exchange rate losses	7,042	13,614
Expenses/refunds for disused plants and maintenance of Merkers	4,643	(356)
Allowances for trade receivables	4,586	8,133
Allocations/utlisation, stock option programme	4,462	(397)
Losses on disposals of fixed assets	3,775	1,618
Depreciation	3,360	9,545
Ancillary capital expenditure costs	3,084	2,477
Expenses related to investment properties	2,080	1,805
Allocations/reversals, other provisions	(5,801)	11,680
Sundry expenses	23,870	34,062
Other operating expenses	**63,502**	**115,191**

The exchange rate hedging costs/losses arising from exchange rate differences in the amount of T€ 7,042 are compared against foreign exchange gains of T€ 54,914, which are disclosed under other operating income. This yields a foreign currency result in operating earnings (EBIT I) of T€ 47,872 (2005: T€ 42,118).

(4) Income from investments, net

T€	2006	2005
Result from distributions from affiliates	2,038	3,362
Expenses for absorption of losses	(2)	(20)
Write-ups/write-downs on investments	(168)	–
Income from the disposal of investments	(99)	5,738
Income from investments, net	**1,769**	**9,080**

(5) Market value changes from hedging transactions

T€	2006	2005
Realised market values less premiums paid	(12,360)	4,463
Market value changes for hedging transactions that have yet to reach maturity	95,921	16,329
- of which positive market changes	112,363	52,037
- of which negative market changes	(16,442)	(35,708)
Market value changes from hedging transactions	**83,561**	**20,792**

For information regarding "Realised market values less premiums paid" see Note (2).

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

(6) Interest income, net

T€	2006	2005
Interest and similar income	9,898	11,379
Interest expenses in allocations to provisions for pensions	(7,445)	(9,456)
Interest expenses in allocations to provisions for mining obligations	(13,645)	(13,866)
Interest expenses in allocations to provisions for jubilee benefits	(888)	(871)
Sundry interest and similar expenses	(15,441)	(4,945)
Interest income, net	(27,521)	(17,759)

(7) Other financial result

T€	2006	2005
Income from the disposal of securities	9,372	5,827
Losses from the disposal of securities	(3,537)	(1,229)
Income from the disposal of other financial investments	12,077	796
Losses from the disposal of other financial investments	(938)	(134)
Income from the disposal of financial assets	**16,974**	**5,260**
Income from the measuring of securities at market value	637	1,972
Expenses resulting from the measuring of sucurities at market value	(1,747)	(627)
Income from the measuring of other financial investments at market value	208	18
Expenses resulting from the measuring of other financial investments at market value	(1,057)	(952)
Income from the measuring of financial assets at market value	**(1,959)**	**411**
Other financing costs	**(7,638)**	**–**
Other financial result	7,377	5,671

The disposal of property not required for business operations produced income of T€ 12,062 (2005: T€ 716) and losses of T€ 900 (2005: T€ 133). During the year under review, non-recurrent expenses totalling T€ 7,275 were incurred in connection with the acquisition of SPL and disclosed under other financial expenses.

(8) Taxes on income

T€	2006	2005
Current taxes	49,903	49,634
- Germany	43,947	41,957
- other countries	5,956	7,677
Deferred taxes	20,392	35,512
- Germany	60,585	39,053
- other countries	(40,193)	(3,541)
- of which from loss carryforwards	11,841	17,116
Taxes on income	70,295	85,146

The income from deferred taxes arising abroad largely resulted from the non-recurrent effect of the step-up in carrying amounts for tax purposes connected with the reorganisation of SPL.

Domestic deferred taxes have been calculated assuming a tax rate of 37.0% (2005: 37.0%). In addition to corporate income tax of 25.0% and the solidarity surcharge of 5.5%, an average trade tax rate (14.47%) was also taken into account. Deferred taxes for other countries are computed applying the respective national income tax rates for profit retention.

The following table reconciles the anticipated to the reported tax expense.

T€	2006	2005
Earnings before income taxes	341,455	259,597
Anticipated income tax expense (37.0% group tax rate)	126,338	96,051
Changes in anticipated tax expense:		
Tax-exempt income from investments and profits on disposals	(5,620)	(6,190)
Reductions in tax resulting from tax-exempt income and other items		
Trade tax additions/reductions	(4,559)	(5,675)
Step-up of carrying amounts for tax purposes from merger	(41,855)	–
Other tax-exempt income	(935)	(3,174)
Increases in tax resulting from nondeductible expenses and other items	627	3,511
Permanent deviations	4,310	(229)
Effects from tax rate differences	(1,480)	(789)
Taxes for preceding years	(6,686)	899
Other effects	155	742
Actual tax expense	**70,295**	**85,146**
Tax rate	**20.6%**	**32.8%**

(9) Cost of materials

T€	2006	2005
Raw materials, supplies and purchased merchandise	1,033,884	1,047,676
Purchased services	179,309	183,755
Energy costs	207,497	157,689
Cost of materials	**1,420,690**	**1,389,120**

(10) Personnel expenses/number of employees

T€	2006	2005
Wages and salaries	522,277	519,084
- of which other long-term employee benefits	(4,007)	17,638
- of which share-based remuneration	9,814	8,751
Social security	134,874	138,106
Pension expenses	6,208	13,720
Support	185	218
Personnel expenses	**663,544**	**671,128**

The other long-term employee benefits concern allocations to and the use of provisions for partial retirement as well as social welfare plans and similar benefits.

The share-based remuneration results from the K+S Group stock option programme as well as the employee share ownership programme.

Under the stock option programme, the Board of Executive Directors and key executives can use part of their performance-related remuneration for a basic investment in K+S shares. By acquiring and holding such basic shares, the participants receive virtual stock options that trigger a cash payment when exercised. The amount of the cash payment depends on the extent to which the K+S share outperforms the MDAX as the benchmark index and is capped at 25% of excess performance. A lock-up period of two years applies to the exercise of the options and the options expire after a maximum period of five years.

In 2006, payments for stock options exercised totalling T€ 6,080 (2005: T€ 6,388) were recorded under personnel expenses. The expense was neutralized through the utilisation of provisions. A provision has been recognised for stock options that had not been exercised as of the balance sheet date (see Note (27)).

Under the employee share ownership programme, K+S Group employees have the possibility of acquiring K+S shares at a discount. A one-year lock-up period applies to employee shares. Expenses totalling T€ 2,377 were incurred in connection with the employee share ownership programme resolved in 2006.

Employees who hold their shares for three years without interruption receive free bonus shares at a ratio of 1 to 10 on a non-recurrent basis. This resulted in personnel expenses of T€ 1,357 in 2006.

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

Personnel expenses include sums totalling T€ 1,030 that are unrelated to the reporting period.

Employees, including those with temporary contracts (average number)	2006	2005
Germany	9,894	9,876
Outside Germany	1,498	1,141
Total	**11,392**	**11,017**
- of which trainees	526	510

The change in the scope of consolidation has resulted in an additional 378 employees (average number for the year).

(11) Earnings per share

T€	2006	2005
Group earnings after taxes and minority interests	270,794	174,449
Elimination of market value changes (gross)	(83,561)	(20,792)
Elimination of deferred taxes on market value changes	30,918	7,693
Group earnings, adjusted *	**218,151**	**161,350**
Average number of shares (million)	41.24	42.31
Earnings per share (in €)	6.57	4.12
Earnings per share, adjusted (in €) *	**5.29**	**3.81**

* adjusted for the effect of market value changes from hedging transactions; 37.0% tax rate imputed

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

In order to determine earnings per share, the earnings are divided by the weighted average number of shares outstanding. During the reporting period, there were no potentially dilutive shares to take account of, so that the diluted and undiluted earnings per share are the same. As all business segments are to continue operating, there is no need to provide earnings per share for business segments that are to be discontinued.

The reduction in the average number of shares outstanding mainly results from the repurchase in 2005 of 1.25 million own shares that were cancelled at the beginning of financial year 2006.

If use is made of the authorized capital (see Note (22)), future earnings per share could potentially become diluted.

Notes to the balance sheet

The balance sheet is presented on page 136. The development of the gross carrying amounts and depreciation on the individual fixed assets items is shown separately on pages 138 et seq.

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

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

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

T€	2006	2005
Salt business segment America	89,009	–
Salt business segment Europe	13,251	13,251
COMPO business segment	606	606
Total	**102,866**	**13,857**

In connection with the testing of goodwill for impairment, the residual carrying amounts for the respective cash-generating units were compared with the value in use of the goodwill. In keeping with the definition of a cash-generating unit, each of the K+S Group business was essentially considered to constitute such unit. The Salt business segment is dividend into the cash-generating units Salt America and Salt Europe. The determination of the values in use was based on the present values of the future cash flows of the business segments assuming continued use. The cash flow forecast is based on the current medium-term plans of the K+S Group and the respective business segments. The key premises underlying the medium-term plans are largely based on own past experience. The forecast period covers the years 2007 to 2009, with a growth rate of 2.0% assumed for subsequent years. The following discount factors were applied as of 31 December 2006:

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

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

The impairment test conducted at the end of financial year 2006 confirmed that the goodwill had retained its value.

In connection with the testing for impairment of the other intangible assets, the residual carrying amounts of the respective assets were compared with their value in use as of the balance sheet date. The impairment test conducted at the end of financial year 2006 required recognition of a write-down totalling T€ 68 (2005: T€ 3,255) disclosed under other operating expenses.

(13) Property, plant and equipment

The depreciation of property, plant and equipment includes special write-downs totalling T€ 523 (2005: T€ 0) disclosed under other operating expenses.

(14) Investment properties

The fair value of investment properties amounted to T€ 28,054 as of 31 December 2006 (2005: T€ 40,281). The lower values compared with the preceding year mainly resulted from the disposal of property holdings. The income realised on disposal was recorded under other financial income (see Note (7)). The fair values were estimated by internal specialist departments on the basis of local market conditions. In determining the values, particular account was taken of local property valuation records and, in part, on external valuation reports. In financial year 2006, impairment charges were recognised for investment property totalling T€ 265 (2005: T€ 0).

(15) Financial assets

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

T€ 15,809 of the amount relates to associated companies and participating interests and is not exposed to interest rate risks as a result. T€ 3,630 relates to loans (mainly to employees) and other financial assets that essentially carry a fixed rate of interest and are therefore not exposed to an interest rate risk in respect of fair value. The effective annual rates of interest range between 2.0% and 5.0% and the remaining fixed interest periods range between 1 and 17 years. It is not possible to determine a reliable fair value for this item.

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

(16) Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities	
T€	2006	2005	2006	2005
Intangible assets	10,326	6,651	13,668	10,867
Property, plant and equipment	1,893	24,801	81,797	71,575
Financial assets	–	–	9,334	54
Inventories	9,733	1,539	11	114
Receivables and other assets	13,383	1,420	48,227	32,879
- of which derivative financial instruments	–	–	43,170	21,340
Provisions	74,540	102,939	5,214	21,058
Liabilities	4,948	11,764	8,556	6,236
Gross amount	**114,823**	**149,114**	**166,807**	**142,783**
- of which long term	82,989	130,472	113,853	107,504
Tax loss carryfowards	22,690	34,900	–	–
Consolidation	1,257	3,179	(521)	(27)
Balances	(86,752)	(129,052)	(86,752)	(129,052)
Balance sheet carrying amount (net)	52,018	58,141	79,534	13,704

The capitalisation of deferred taxes totalling T€ 2,557 (2005: T€ 314) was dispensed with as use of the underlying loss carryfowards appears unlikely. The underlying loss carryforwards amount to T€ 13,462 (2005: T€ 907).

During the year under review, T€ -4,665 (2005: T€ -2,835) in deferred taxes were offset directly against equity without recognition in profit or loss.

(17) Inventories

T€	2006	2005
Raw materials and supplies	114,175	110,435
Work in progress	21,046	10,963
Finished products and merchandise	234,451	159,927
Payments on account	483	–
Inventories	370,155	281,325

Inventories of T€ 37,487 (2005: T€ 32,713) were stated at net realisable value. The reporting of net realisable value resulted in the writing down of inventories by T€ 5,019 (2005: T€ 5,593) during the period under review.

(18) Receivables and other assets

T€	2006	Of which residual term > 1 Jahr	2005	Of which residual term > 1 Jahr
Accounts receivable - trade	629,494	848	598,140	–
Receivables from associated companies	12,144	–	12,332	–
Receivables from companies in which participating interests are held	62	–	224	–
Other assets	334,706	136,924	195,635	57,334
- of which derivative financial instruments	242,666	134,453	120,895	55,295
Receivables and other assets	976,406	137,772	806,331	57,334

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 customers. Payment terms generally range from 10 to 180 days, with longer terms customary on some markets. In the case of arrears, reminders are issued at regular, two-week intervals.

Customer receivables are to a large extent secured against the risk of default by means of appropriate insurance cover and other instruments. This ensures that only low, partial losses are incurred in the event of default. An internal credit check is conducted in the case of customers for whom such cover cannot be obtained. As of 31 December 2006, the maximum risk arising from a highly unlikely simultaneous default in respect of all unsecured receivables, without the SPL Group, amounted to T€ 36,861 (2005: T€ 65,984). As a result of the payment options used (cash in advance, letter of credit), there is no significant default risk for the SPL Group. There were no significant concentrations of risk for receivables.

Allowances of T€ 24,342 (2005: T€ 23,027) were recognised for the receivables portfolio as of 31 December 2006. The allowances are based on the anticipated risk of default. If receivables have a residual term of more than three months, they are discounted as of the balance sheet date applying money market rates. To this extent, the receivables are exposed to an interest rate risk and thus, to a change in fair value. As of 31 December 2006, receivables bearing no or low interest were written down by T€ 2,678 (2005: T€ 1,239).

(19) Derivative financial instruments
Group currency and interest rate management of the group is performed centrally for all group companies. The use of derivative financial instruments is regulated by an internal guideline. A strict segregation of functions is ensured between trading, settlement and control. Derivative financial instruments are only traded with banks that have a first-class credit standing. The entire portfolio of derivative financial instruments is spread across several banks to reduce the risk of default.

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

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

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

The derivatives used to hedge future anticipated US dollar items are generally options with lower and upper knock-out thresholds (double-barrier options) and supplement selectively by means of forward volatility agreements. If the spot rate is quoted at or beyond one of the knock-out thresholds during the term, the option is forefeited and is of no value any more. By means of active currency management, these knock-out thresholds can be shifted through the acceptance of additional premium payments. This mainly takes the form of selling the option with the existing knock-out thresholds and buying an option with new knock-out thresholds.

The trade in derivatives is solely OTC. Because of market transparency, forward exchange transactions are concluded directly with a bank after a comparison has been made of representative inter-bank terms. There is no such transparent market for trading in double-barrier options, which is why quotations are obtained from several banks for option transactions of this kind. Transactions are concluded with the bank providing the best quotation.

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

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

The main risk associated with the use of currency derivatives stems from exchange rate fluctuations, because they, alongside other factors, have a direct impact on the market values of the respective derivatives. In the case of the currency options with knock-out thresholds (on the attainment of which, the options expire and have no value any more) acquired by K+S, the risk is limited to the entire loss of the corresponding market value and any premiums paid for the currency options. Most of the currency options sold are positions that have arisen as a result of the adjusting of knock-out thresholds (“closed out”). This means that those positions do not pose any risk. For a small part of the overall hedging position, currency options were sold in the past to achieve premium-neutral and premium-minimizing structures. In the case of these currency options sold, a loss can arise insofar as the exchange rate is lower than the exchange rates agreed in the option on the exercise date. In the case of the forward exchange transactions concluded, there is also a market value risk on the respective reporting dates: However, there are countervailing effects stemming from the currency-based measurement of receivables.

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

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

The effects of exercise or the reporting date valuation of the derivatives are reported in two items in the income statement. In the case of derivatives that are to be exercised, they are reported under other operating income and expenses and thus in operating earnings (EBIT I). Changes recognised in profit or loss resulting from the change on the balance sheet in the market value of derivatives that have yet to be exercised are reported in EBIT II. The disclosure on two earnings levels makes it possible to present the commercial success of the hedged transactions in isolation from the market value changes. Otherwise, the effects of changes in market value especially as a result of the use of currency options with knock-out thresholds could completely eclipse the commercial success in both a positive and a negative sense to a large extent.

The following positions existed as of 31 December 2006:

T€	Notional amounts [1]	Fair values
USD forward exchange transactions		
- of which maturing in 2007	20,722	455
USD foreign currency options bought		
- of which maturing in 2007	659,144	107,310
- of which maturing in 2008	627,942	62,172
- of which maturing in 2009	899,217	72,303
USD foreign currency options sold		
- of which maturing in 2007	366,972	(66)
- of which economically neutralised obligations maturing between 2007 and 2009	390,947	(37,709)
USD foreign currency transactions in total	**2,964,944**	**204,465**

[1] translated into euros using weighted hedging rates

US dollar forward exchange transactions with a nominal value of T€ 20,722 and a fair value of T€ 455 were included in the hedging relationships with US dollar receivables.

In addition to derivatives for hedging operating business foreign currency positions, derivative financial instruments are acquired in individual cases in order to hedge price, interest rate or exchange rate risks for particular securities. The market values of these derivatives are reported under other assets or other liabilities and changes in market value are recorded in the financial result. To hedge interest rate risks, there is an interest rate cap with a value of T€ 115,000 as of the reporting date. The residual term of the instrument is about 2.5 years, with the nominal value declining in line with the relevant financial liabilities. The market value of this instrument as of 31 December 2006 amounted to T€ 426. In addition, there is an interest rate derivative instrument complementing a security with a nominal value of T€ 10,000 and a residual term of seven years. As of 31 December 2006, a negative market value of T€ 1,553 was recognised as a liability.

(20) Securities

T€	2006	2005
Recognised in profit or loss at fair value (held for trading)	12,356	60,591
- of which fixed-income securities	2,906	9,996
- of which variable income securities	9,450	31,561
- of which shares	–	19,034
Available for sale	44,955	71,458
- of which fixed-income securities	2,863	1,355
- of which variable income securities	–	27,012
- of which share	42,092	43,091
Securities	**57,311**	**132,049**

As of 31 December 2006, write-ups of T€ 8,075 (2005: T€ 8,296) and write-downs of T€ 0 (2005: T€ 341) for securities classified as available for sale were recorded directly in equity. Gains of T€ 3,041 (2005: T€ 69) and losses of T€ 16 (2005: T€ 0) realised on the disposal of securities belonging to this category were recognised in profit or loss.

The fair values stated in the balance sheet are mainly based on the stock exchange prices quoted as of the balance sheet date. In the case of securities for which no stock exchange prices are available, the balance sheet values are based on representative values provided by credit institutions.

During the year under review, some securities were allocated to the off-balance sheet financing of pension obligations under a contractual trust arrangement (CTA) (see Note (25)).

The remaining securities serve in part to cover longer-term obligations and in part to cover current operations. To ensure that these purposes are fulfilled, investment policy is geared towards achieving reasonable returns at a manageable level of risk. In particular, the risk of loss of capital is reduced by distributing the sums to be invested across various investment classes. In addition, certain minimum issuer creditworthiness criteria apply to the picking of individual securities.

Essentially, derivative financial instruments are not used to hedge decreases in security prices, so that the securities – especially equities – are exposed to customary market default and price risks. In individual cases, however, derivatives are used to hedge risks from changes in interest rates.

Fixed-income securities are subject to the risk of a change in market value resulting from interest rates. The period of time over which fixed rates of interest apply range between 2 and 25 years and the effective rates of interest extend from 5.2% to 6.7%. Variable income securities are subject to a cash flow risk arising from interest rates. Interest rate adjustment periods range between three and six months and effective rates of interest are based on underlying money market rates plus an appropriate margin. The shares held in the securities portfolio are not exposed to a direct risk of changes in interest rates.

(21) Equity

The development of individual equity items is shown separately on page 135.

(22) Subscribed capital

The subscribed capital of K+S Aktiengesellschaft amounts to € 108.8 million and is divided into 41.25 million no-par value bearer shares. In financial year 2006, an average 41.24 million no-par value shares were outstanding.

By a resolution of the Annual General Meeting of 10 May 2006, the Board of Executive Directors was authorised to acquire own share totalling up to 10% of the share capital until 31 October 2007. Purchases may be made on the stock exchange or by means of a public purchase offer addressed to all shareholders. In the event of a purchase effected on the stock exchange, the purchase price (exclusive of ancillary purchase costs) paid by the company per share may not exceed or undercut the relevant exchange price by more than five percent. In the event of a public purchase offer addressed to all shareholders, the purchase price (exclusive of ancillary purchase costs) offered per share may not exceed or undercut the relevant exchange price by more than 10%. Shares purchased pursuant to the aforemetioned authorisation or an authorisation previously granted by the Annual General Meeting in accordance with Section 71, paragraph 1, no. 8 of the German Stock Corporation Act may be used for the purposes specified in the resolution granting such authorisation. This authorisation cancels the authorisation to acquire own shares granted by the Annual General Meeting on 11 May 2005. K+S Aktiengesellschaft did not make any use of the new authorisation in financial year 2006.

Pursuant to a further resolution of the Annual General Meeting on 10 May 2006, the Board of Executive Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 9 May 2011, against cash or in-kind contributions and by up to no more than € 54.4 million in the aggregate through the issuance of no more than 20.625 million new no-par value bearer shares (authorised capital). Existing shareholders essentially hold subscription rights in respect of such increases. The Board of Executive Directors may, with the approval of the Supervisory Board, exclude the statutory subscription rights of shareholders in the following cases and in respect of an amount corresponding to € 27.2 million of the share capital (the equivalent of 10.3125 million no-par value shares):

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

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

In December 2006, the Kassel Regional Court ruled in favour of the plaintiff in an action brought by Schutzvereinigung aktienrechtlicher Minderheitsbeteiligungen e.V. to have the resolution adopted under item 7 of the agenda for the Annual General Meeting on 10 May 2006 (authorisation to issue convertible bonds or bonds with warrants and issue conditional capital along with amendments to the articles of associations and authorisation to amend the articles of association). The decision has been appealed.

(23) Other reserves and profit retained

Other reserves and profit retained are reported in the consolidated financial statements as a single caption in order to reflect the peculiarities of the consolidation. The development of individual reserves and profit retained is shown separately.

T€	2006	2005
Balance as of 1 January	824,605	767,107
Consolidation-related effects	(17,168)	6
Dividend payment for previous year	(74,250)	(55,250)
Change from acquisition of own shares	–	(66,650)
Group earnings after taxes and minority interests	270,794	174,449
Other neutral changes	3,034	4,943
Balance as of 31 December	**1,007,015**	**824,605**

The other changes essentially comprise deferred taxes not recognised in profit or loss, currency-related effects as well as the market valuation of securities.

Profit retained of K+S Aktiengesellschaft

The dividend distribution is based on the annual financial statements of K+S Aktiengesellschaft as prepared in accordance with German commercial law. The intention is to propose to the Annual General Meeting that a dividend of € 2.00 per share (2005: € 1.80), i.e. T€ 82,500 in total (2005: T€ 74,250), be distributed to the shareholders. On the basis of this assumption, the profit retained of K+S Aktiengesellschaft as of the balance sheet date is made up as follows:

T€	2006	2005
Balance as of 1 January	74,250	55,433
Dividend payment for previous year	(74,250)	(55,250)
Net income of K+S Aktiengesellschaft	135,984	100,413
Allocations to other revenue reserves from net income	(53,484)	(26,346)
Balance as of 31 December	**82,500**	**74,250**

Other K+S Aktiengesellschaft revenue reserves

Other K+S Aktiengesellschaft revenue reserves developed as follows over the financial year 2006:

T€	2006	2005
Balance as of 1 January	55,696	96,000
Withdrawal for cancellation of own shares	–	(66,650)
Allocation from net income	53,484	26,346
Balance as of 31 December	**109,180**	**55,696**

(24) Provisions

The development of provisions is shown separately on page 140 et seq.

(25) Provisions for pensions and similar obligations

The pension provisions concern various defined benefit pension plans operated by the K+S Group. They mainly relate to unfunded direct undertakings on the part of domestic group companies under pension plans that have been discontinued in the meantime. Most of the obligations apply to pensioners.

The level of the pensions is calculated as the actuarial present value of pension claims acquired (projected unit credit method). The K+S Group has financed a part of these claims through external plan assets under a contractual trust arrangement (CTA). The following valuation assumptions have been made in performing the calculations:

in %	2006	2005
Discount factor	4.6	4.6
Annual anticipated increase in salaries and wages	1.5	1.5
Annual anticipated increase in pensions	1.5	1.5
Anticipated yield on plan assets	5.4	–

The anticipated yield on plan assets is based on the anticipated income from the fixed- and variable income securities held as plan assets at the beginning of the financial year.

Plan assets were formed by means of a CTA for the first time during the course of financial year 2005 and that is why no plan assets are reported as of 1 January 2005.

As of the end of financial year 2006, further plan assets were formed within the CTA, so that plan assets as of 31 December 2006 can be broken down as follows:

T€	2006	2005
Fixed-income securities	40,545	30,070
Variable income securities	20,562	11,600
Shares	19,158	–
Cash on hand and balances with banks, Others	2,000	–
As of 31 December	82,265	41,670

Further contributions to plan assets for 2007 are being reviewed. Actuarial gains and losses are only recorded insofar as they exceed the 10% corridor (maximum from 10% of obligations and 10% of plan assets). The excess amount is spread over the average remaining working lives of active employees and recognised in profit or loss.

The following tables show the development of the projected unit credit and the plan assets:

T€	2006	2005
Projected unit credit as of 1 January	208,241	214,510
Changes in scope of consolidation	504	268
Service costs	2,562	2,347
Interest expenses	9,173	9,456
Plan adjustments/discharges	(125)	–
Reversal/Reclassification	(205)	(751)
Pension payments	(15,896)	(15,335)
Actuarial gains (-)/losses (+)	(1,677)	(2,264)
Exchange rate fluctuation	(8)	10
Projected unit credit as of 31 December	202,569	208,241

T€	2006	2005
Plan assets as of 1 January	41,670	–
Anticipated income from plan assets	2,265	–
Differences between anticipated and actual income	(482)	–
Employer contributions	42,369	41,670
Pension payments	(3,557)	–
Plan assets as of 31 Dezember	82,265	41,670

The balance sheet carrying amounts correspond to the balance of the plan assets and the projected unit credit adjusted for actuarial gains or losses that have not yet been recorded.

T€	2006	2005
Projected unit credit on 31 December	202,569	208,241
- of which fully covered by plan assets	37,601	39,408
- of which partially covered by plan assets	112,222	–
Plan assets as of 31 Dezember	82,265	41,670
Funded status	**120,304**	**166,571**
Unrecognized actuarial gains (-) / losses (+)	5,013	3,811
Carrying amounts as of 31 December	125,317	170,382
- of which pension provisions (+)	128,223	171,746
- of which assets (-)	(2,906)	(1,364)

Pension expenses for defined benefit pension obligations comprise the following:

T€	2006	2005
Service costs	2,562	2,347
Interest expenses	9,173	9,456
Plan adjustments/discharges	(125)	–
Reversal	(154)	(95)
Repayment of actuarial losses	7	–
Anticipated income from plan assets	(2,265)	–
Pension expenses	**9,198**	**11,708**

The service costs and costs related to the redemption of actuarial losses are reported under the following items of the income statement in accordance with the allocation of employees:

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

Interest expenses and income arising from plan assets are recorded under interest income, net. Plan adjustments/discharges as well as other reversals of provisions are disclosed under other operating income.

The development of pension obligations and plan assets over time is as follows:

T€	2006	2005
Projected unit credit as of 31 December	202,569	208,241
Plan assets as of 31 Dezember	82,265	41,670
Short (+)/surplus coverage (-)	**120,304**	**166,571**
Experience-based gains (+)/losses (-) from obligations	1,677	2,264
Experience-based gains (+)/losses (-) from planned assets	(482)	–

In addition, the K+S Group operates further retirement pension plans for which no pension provisions are recognised.

Statutory pension insurance is an important component of retirement pension planning for most employees, especially in Germany. For the K+S Group, the employer contributions made to such insurance and recorded under personnel expenses amounted to T€ 59,650 (2005: T€ 57,402) during the period under review. The future level of such expenses largely depends on how the underlying pension insurance systems develop.

Employers and employees make contributions under the supplementary pension plan that has been concluded in the meantime and is operated through the BASF pension fund. The provision of such pensions is to be classified as a multi-employer plan within the meaning of IAS 19.29. The plan is essentially a defined benefit plan. As reliable information regarding plan assets and obligations are only available for the pension fund as a whole and not for those shares in it attributable to the K+S Group, no sufficient information is available for reporting the plan on the balance sheet. That is why the plan is treated as a defined contribution plan in accordance with IAS 19.30. The contributions made by the K+S Group to the pension fund and recorded under personnel expenses amounted to T€ 2,714 in 2006 (2005: T€ 8,879). The figure for the previous year includes a solvency payment of T€ 6,090 to avoid insufficient coverage.

A further defined benefit plan, which is to be treated as a defined contribution plan in accordance with IAS 19.30, exists at a Swiss subsidiary, the employee benefits unit of which is being linked to the Sammelstiftung der Rentenanstalt in Zurich. The expenses amounted to T€ 189 in 2006 (2005: T€ 200).

Under the K+S VorsorgePlus provident fund, which has been in operation since 2004, the basic benefit provision financed by the employer is used to build up retirement pension benefits by means of reinsured life insurance policies. As the claims acquired are fully covered by matching reinsurance with a fair value that equals the obligations, no provision needs to be recognised. The employer-financed contributions to the provident fund resulted in expenses of T€ 330 (2005: T€ 234) in 2006.

With effect from 1 August 2006, capital accumulation benefits were replaced by a new retirement benefit plan. This employer-financed benefit offers employees the possibility of using certain forms of retirement planning, such as the Chemical Industry Pension Plan, to acquire a company pension. The related expenses amounted to T€ 159 in 2006. In addition, the K+S Group provides further premiums if employees convert part of their remuneration into contributions to the company pension system. In 2006, expenses of T€ 160 (2005: T€ 152) were recorded in this connection.

(26) Provisions for mining obligations

T€	2006	Of which short term	2005	Of which short term
Mine and shaft backfilling	181,358	6,481	180,433	7,180
Maintenance of stockpiles	90,037	–	82,302	–
Mine subsidence damages	36,465	–	32,008	–
Restoration	31,535	–	29,489	–
Other	5,244	–	7,815	–
Provisions for mining obligations	**344,639**	**6,481**	**332,047**	**7,180**

Provisions for mining obligations are recognised as a result of statutory and contractual requirements as well as conditions imposed by public agencies and essentially cover obligations to backfill mines and shafts as well as the obligation to maintain stockpiles. In addition, provisions also exist for mine subsidence damage risks and restoration obligations.

Mining obligations are based on statutory provisions such as the Federal Mining Law (Bundesberggesetz) and are given concrete form primarily in plant plans and permit decisions issued under water law. These obligations, which are mainly of a public law type, require surface securing and recultivation measures. Mine subsidence damage can result from underground extraction and the related lowering of the land at surface level or as a result of damage connected with the production process in the form of dust or salinisation. The provisions take account of identifiable obligations connected with use restoration as well as obligations arising from mine subsidence damages that has already been caused or has already arisen.

The amount of the provisions to be recognised is based on expected expenditures or estimated compensation. Provisions for mining obligations mainly have a long-term character, and, on the basis of future anticipated expenditure, are carried at the discounted sum required to settle the obligation as of the balance sheet date. A future rate of price increases of 1.5% and an interest rate of 5.0% as a discount factor are applied. The anticipated timing of the settlement of such obligations largely depends on the remaining economic useful life of the sites. With respect to mine subsidence damage, the obligations in part extend well beyond 2050.

The allocation to mining provisions for the year under review in the amount of T€ 25,824 (2005: T€ 19,274) is largely attributable to the annual accumulation of the provisions in the amount of T€ 13,645 (2005: T€ 13,866) resulting from the reduction in the period of time until settlement. Further allocations were necessary for the recognition of supplementary provisions for mining risks.

Mining provisions in the amount of T€ 9,625 (2005: T€ 13,390) were used to discharge the obligation to maintain disused sites. Further sums were spent on expenditure connected with mine subsidence damage risks.

The reversal of provisions in the amount of T€ 261 (2005: T€ 3,047) largely result from a reduction in anticipated individual obligations.

(27) Other provisions

The non-current obligations to employees primarily comprise provisions for partial retirement (T€ 58,980), jubilee bonuses (T€ 21,690) and the stock option programme (T€ 11,517).

The provisions for partial retirement are recognised for obligations arising from concluded or potential partial retirement agreements. In the case of potential partial retirement agreements, the employee has a legal title to the entering into a partial retirement agreement. The valuation takes account of fulfilment shortfalls (difference between the value of fulltime 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 (discount factor: 4.6%) with an anticipated annual increase in salaries and wages of 1.5%.

Provisions for jubilee bonuses are recognised for future payments in connection with 25-, 40- and 50-year length of service anniversaries. They are measured using the projected unit credit method. They are computed applying a discount factor of 4.6% as well as an anticipated annual increase in salaries and wages of 1.5%.

The composition of holdings of virtual stock options, which are to be settled in cash on exercise, was as follows at the beginning of the reporting period:

Number of options	Exercisable for the first time	Expiry	Fair value	Provision
1,000	May 2004	May 2007	6	6
8,475	May 2005	May 2008	36	36
1,020,910	May 2006	May 2009	6,164	5,136
989,700	May 2007	May 2010	5,631	1,877
2,020,085			**11,837**	**7,055**

In 2006, eligible employees exercised 1,000 options that could be exercised for the first time in May 2004, 1,440 options that could be exercised for the first time in May 2005, and 1,014,160 options that could be exercised for the first time in May 2006. This resulted in provision utilisation of T€ 6,080 (see Note (10)).

In addition, employees acquired 930,815 options that can be exercised for the first time in May 2008. This resulted in total expenditure of T€ 10,542 for allocation to provisions in 2006.

As of 31 December 2006, the composition of holdings of virtual stock options was as follows:

Number of options	Exercisable for the first time	Expiry	Fair value	Provision
7,035	May 2005	May 2008	30	30
6,750	May 2006	May 2009	41	41
989,700	May 2007	May 2010	9,214	7,681
930,815	May 2008	May 2011	11,292	3,765
1,934,300			**20,577**	**11,517**

The intrinsic value of the exercisable options was T€ 71 as of 31 December 2006. The fair value of the options that become exercisable for the first time in May 2007 as well as in May 2008 was determined on the basis of a multi-period binominal model. It relies on the price of the K+S share and the level of the MDAX on the valuation date as well as the historical volatility of the performance of the K+S share compared with the MDAX. The historic volatility of overperformance was determined using price data for the last 250 trading days, as this period corresponds to the average option term expected on the balance sheet date. The overperformance volatility computed in this way amounted to 21.24% (2005: 20.62%) for the option programme expiring in May 2010 and 21.74% for the option programme expiring in May 2011. These calculations were performed using a base price for the K+S share of € 40.62 (expiry May 2010) and € 58.52 (expiry May 2011). A risk-free interest rate of 3.6% was assumed. Anticipated fluctuation was not taken into account as it does not have any material impact on the value of the option. Anticipated dividends are also disregarded, as they are taken into account in the determination of the relevant performance of the K+S share in terms of the advantage to be gained from exercising the option. Intrinsic value was used as the fair value for the remaining options as the performance attained by these options is already well above the maximum settlement ceiling of 25%. The provisions are distributed proportionately over the two-year lock-up period.

The obligations under sales transactions relate in particular to rebates and prices concessions; the provisions resulting from purchase contracts are for outstanding invoices.

(28) Liabilities

T€	2006 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	370,737	233,964	136,773	–
Accounts payable - trade	360,776	360,703	73	–
Liabilities to affiliated companies	6,492	6,492	–	–
Other liabilities	85,283	45,123	40,160	–
- of which derivative financial instruments	39,328	13,153	26,175	–
Liabilities	**823,288**	**646,282**	**177,006**	**–**

T€	2005 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	29,517	23,535	5,982	–
Accounts payable - trade	353,981	353,790	7	184
Liabilities to affiliated companies	5,895	5,895	–	–
Other liabilities	77,016	56,285	20,731	–
- of which derivative financial instruments	27,675	17,705	9,970	–
Liabilities	**466,409**	**439,505**	**26,720**	**184**

The bank loans and overdrafts as of the balance sheet date mainly relate to K+S AG and subsidiaries in Brazil, Chile, Mexico and the United States.

While the financial liabilities of K+S AG are denominated in euros, foreign subsidiaries are mainly financed by means of bank loans denominated in US dollar and other local currencies.

Generally, fixed rates of interest apply for a limited period time and amount to 12 months at most. To this extent, interest-related cash flow risks resulting from interest rate adjustments exist. The effective rates of interest are based on the interest rates for the currencies concerned (euro, US dollar, Brazilian real, Chilean peso, Mexican peso) plus the customary market margins.

(29) Contingent liabilities

T€	2006	2005
Liabilities from warranty agreements	767	767

(30) Other financial commitments

T€	2006	2005
Commitments under uncompleted capital expenditure projects	13,373	28,115
Commitments under long-term rental and leasing contracts		
- due in following year	13,019	10,685
- due in 2 to 5 years	26,913	28,114
- due after 5 years	2,010	4,338
Other financial commitments	**55,315**	**71,252**

The leasing obligations relate to operating leases for items of factory and office equipment such as printers, photocopiers and IT peripherals. In addition, company cars are leased. Given the relevant contractual arrangements, these items are not to be carried under fixed assets.

Notes to the segment reporting

The segment reporting is presented on page 140 et seq.

(31) Definition of segments

The segments are primarily defined by product type. This corresponds to the internal organisation and reporting structure of the K+S Group. The secondary reporting format is based on regions.

The Potash and Magnesium Products business segment combines the production and marketing of potash fertilizers and fertilizer specialities as well as potash and magnesium compounds for technical, industrial and pharmaceutical applications.

The COMPO business segment markets branded products for the consumer sector (garden and lawn fertilizers, flower care products, plant protection agents and potting soils) and speciality fertilizers for the professional sector (horticulture, special crops and agriculture).

The fertiva business segment bundles the marketing and sales activities for nitrogenous fertilizers, which are purchased from various manufacturers for resale.

The Salt business segment comprises the production and marketing of food grade salt, industrial salt and salt for chemical use, de-icing salt and sodium chloride brine.

The Waste Management and Recycling business segment combines underground waste reutilisation and disposal in the caverns created by the extraction of potash and salt, as well as speciality recycling services.

Business units providing services for the K+S Group and which also offer services to third parties when capacity is available are assigned to the Services and Trading business segment. This segment comprises: logistics, IT as well as analytical and consulting services. In addition, the segment also includes the production of the Catsan® animal hygiene product on a contractual basis as well as trading businesses.

(32) Principles of allocation of assets and liabilities
Assets, provisions and liabilities are allocated to the segments in accordance with their utilisation or origin. If they are utilised by or originate in more than one segment, they are allocated on the basis of appropriate keys.

Financial assets (except for participating interests) and non-current financial debt are not allocated to the segments.

(33) Principles of allocation of segment earnings
The data for the determination of segment earnings is produced by internal accounting on the basis of income statements in accordance with the nature of costs method (internal reporting structure of the K+S Group). The income statements of the companies included are allocated to the segments under profit centre accounting.

EBIT I (operating earnings) is applied as the most important internal earnings value and as an indicator of earnings capacity. In addition to disregarding net interest income and the tax expense, changes in the market value of derivatives as well as other income and expenses affecting the financial result are also excluded.

The earnings of the business segments are presented on a consolidated basis. Intra-segment deliveries and services are consolidated.

(34) Principles of transfer prices between segments
The transfer prices defined for deliveries and services between segments are such as would have to be paid in the respective specific situation and under the same circumstances by a non-related third party. The nature and amount of the billing is determined in accordance with the value and extent of the delivery or service, taking into account the underlying legal relationship. The method of determining the transfer prices is documented on a timely basis and retained without interruption. The price comparison method, the resale price method, the cost plus method or a combination of these methods can be applied in determining the transfer prices for deliveries. Thereby, the method chosen is that which is closest to that under which arm's length prices are determined in comparable markets.

(35) Impairment charges
The impairment test conducted at the end of financial year 2006 required recognition of a write-down totalling T€ 474 (2005: T€ 3,255) for the COMPO business segment which was disclosed under other operating expenses. A special write-down of T€ 218 (2005: T€ 0) was recognised for an investment in the Potash and Magnesium Products business segment.

(36) Notes to the reconciliation

The reconciliation between the segment figures and the corresponding items in the consolidated financial statements of the K+S Group comprise items allocated to central functions and consolidation effects. The main items are:

T€	2006	2005
Reconciliation of segment results		
Consolidation-related effects	(783)	(2,086)
Result for the central functions	(32,567)	(29,516)
	(33,350)	**(31,602)**
Reconciliation of segment assets		
Fixed assets	42,102	47,613
Deferred tax assets	52,018	58,141
Market values of derivatives (less premiums)	110,700	31,064
Tax refund claims from income taxes	11,205	2,589
Other receivables	12,635	25,823
Cash and cas equivalents	63,807	165,523
Consolidation-related effects	(443,702)	(370,427)
	(151,235)	**(39,674)**
Reconciliation of segment liabilities		
Provisions for pensions and suchlike	76,236	121,760
Other provisions	41,223	40,486
Deferred tax liabilities	79,534	13,704
Market values of derivatives (less premiums)	9,370	13,719
Financial liabilities	358,623	28,990
Liabilities	17,087	22,694
Income tax liabilities	16,646	19,845
Consolidation-related effects	(83,239)	(91,543)
	515,480	**169,655**

(37) Geographical breakdown of revenues

The breakdown of revenues by geographical region is as follows:

T€	2006	2005
Germany	699,710	675,067
Rest of Europe	1,421,765	1,480,040
Overseas	836,212	660,593
Total revenues	**2,957,687**	**2,815,700**

(38) Geographical breakdown of assets

The breakdown of the assets of the K+S Group by geographical region is as follows:

T€	2006	2005
Germany	1,795,858	1,744,265
Rest of Europe	421,098	455,619
Overseas	613,970	59,180
Total assets	**2,830,926**	**2,259,064**

(39) Geographical breakdown of capital expenditure

The breakdown of capital expenditure on intangible assets and property, plant and equipment by geographical region is as follows:

T€	2006	2005
Germany	116,997	98,856
Rest of Europe	9,711	8,054
Overseas	3,830	199
Total capital expenditure	130,538	107,109

Notes to the cash flow statement

The cash flow statement is presented on page 137.

(40) Disbursements for the acquisition of consolidated companies

The item disbursements for the acquisition of consolidated companies relates to the expenditure on companies acquired during the financial year.

T€	2006	2005
Total acquisition price	361,660	–
Advance payments	(3,991)	–
Disbursements for acquisition of consolidated companies	357,669	–

(41) Cash and cash equivalents

T€	2006	2005
Cash on hand and balances with banks	64,424	74,010
Cash with affiliated companies	683	–
Cash received from associated companies	(3,539)	(3,908)
Current financial liabilities (maturity < 3 months)	(45,170)	(294)
Cash and cash equivalents	16,398	69,808

Other information

Auditors' fees

In 2006, fees totalling T€ 850 (T€ 898) for the auditing of the consolidated financial statements and the annual financial statements of the consolidated domestic companies were recorded as an expense. Other audit services attracted charges totalling a further T€ 39 (2005: T€ 65).

List of investment holdings

A list of all equity holdings (list of investment holdings) has been filed with the electronic Federal Gazette for publication. Interested persons can download it at www.k-plus-s.com or request it from K+S Aktiengesellschaft.

Government assistance

T€	2006	2005
Investment grants	1,964	1,883
Investment premiums	69	1,279
Performance-related assistance	3,503	2,865
Government assistance	5,536	6,027

The investment grants recorded relate to sums extended under the German Investment Grant Law for Development Area Investments (Investitionszulagengesetz für Investitionen im Fördergebiet). Investment premiums were granted for certain business location projects. Investment grants and premiums are deducted from the carrying amounts of these assets.

The performance-related assistance concerns support that is provided by the Federal Labour Office and is recognised as income. This income serves to offset the higher expenses associated with the refilling of employment positions in connection with partial retirement.

Related parties

Within the K+S Group, deliveries and services are supplied on customary market terms. Transactions and open items between K+S Group companies are eliminated from the consolidated financial statements insofar as the companies are consolidated. Insofar as associated companies are not included in the scope of consolidation, open items are presented separately in the information for the balance sheet line items concerned. There are no other related parties.

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

T€	2006	2005
Total remuneration of the Supervisory Board	**1,123**	**964**
- of which fixed	336	286
- of which performance-related	787	678
Total remuneration of the Board of Executive Directors	**4,996**	**4,492**
- of which fixed	1,737	1,159
- of which performance-related	2,038	2,450
- of which from exercise of rights under the option programme	1,221	883
Pension provisions for members of the Board of Executive Directors	**4,826**	**3,942**
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	**893**	**973**
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	**7,518**	**7,612**

Board of Executive Directors

The total remuneration of the Board of Executive Directors during the year under review was for five board members: In the preceding year, five members of the Board of Executive Directors were in office for twelve months and one member for three months. The performance-related remuneration of the Board of Executive Directors includes an income of T€ 102 (2005: expense of T€ 450, unrelated to the period) that is unrelated to the period.

The remuneration system for the board members 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 individual performance-related components and paid in the following financial year;
- non-recurrent remuneration deriving from the exercise of stock options

On the balance sheet date, the fair value of the stock options held by the Board of Executive Directors amounted to T€ 2,067 under the 2005 option programme and to T€ 2,411 under the 2006 option programme. The individualised remuneration received by the members of the Board of Executive Directors in financial year 2006 are set forth in the Remuneration Report included in the Corporate Governance Report; the Remuneration Report also constitutes an integral part of the Management Report.

Shareholdings in K+S Aktiengesellschaft
BASF AG holds about 10% of our shares. On 3 February 2006, we were informed by the investment company Prudential plc. and its subsidiary M&G Investment Management Limited that their holdings amounted to 5.2%, thus exceeding the 5% threshold. On 17 November 2006, Capital Group Companies, Inc. informed us that it holds about 5.2% of K+S through its subsidiary Capital Research & Management Company. Furthermore, on 7 February 2007, the company Franklin Mutual Advisers, LLC informed us that at 5.04%, it had exceeded the 5% threshold on 6 December 2006. Finally, Deutsche Bank AG informed us on 13 February 2007 that at 5.07%, its subsidiary DWS Investment GmbH has also exceeded the 5% threshold.

Exemptions pursuant to § 264, par. 3 and § 264b of the German Commercial Code (HGB)
The following domestic companies, organised in the legal form of a corporation or partnership, have made use of the exemption rules contained in Section 264, par. 3, and Section 264b of the German Commercial Code and dispensed with the publication of annual financial statements for 2006 as well as, to a large extent, the publication of a management report. The annual financial statements have, however, been audited.

biodata ANALYTIK GmbH, Linden
COMPO Gesellschaft mbH & Co. KG, Münster
data process GmbH, Kassel
Deutscher Straßen-Dienst GmbH, Hanover
esco – european salt company GmbH & Co. KG, Hanover
esco international GmbH, Hanover
fertiva GmbH, Mannheim
German Bulk Chartering GmbH, Hamburg
K+S Baustoffrecycling GmbH, Sehnde
K+S Beteiligungs GmbH, Kassel
K+S Consulting GmbH, Kassel
K+S Entsorgung GmbH, Kassel
K+S KALI GmbH, Kassel
K+S Projekt GmbH, Kassel
K+S Salz GmbH, Hanover
Kali-Transport Gesellschaft mbH, Hamburg
Kali-Union Verwaltungsgesellschaft mbH, Kassel
park GmbH, Recklinghausen
Torf- und Humuswerk Gnarrenburg GmbH, Gnarrenburg
Torf- und Humuswerk Uchte GmbH, Uchte
UBT See- und Hafen-Spedition GmbH Rostock, Rostock

Declaration on conformity concerning the German Corporate Governance Code
The declaration on conformity pursuant to Section 161 of the German Stock Corporation Act concerning the recommendations made by the "Government Commission on the German Corporate Governance Code" has been made by the Board of Executive Directors and the Supervisory Board for 2005/2006 and is available to shareholders in the 2005 annual report and can also be accessed on the K+S Group Internet homepage (www.k-plus-s.com). The conformity declaration in respect of 2006/2007 is also published on the K+S Internet homepage and on page 43 of the 2006 annual report.

Members of the Supervisory Board
(ON 31 DECEMBER 2006)

Gerhard R. Wolf, Worms, Chairman
Former member of the Board of Executive Directors of BASF AG
Further Supervisory Board appointments: Hornbach Holding AG (chairman)
Hornbach Baumarkt AG (chairman)

Michael Vassiliadis, Hemmingen, Vice Chairman
Member of the Managing Board of the Mining, Chemicals and Energy Trade Union
Further Supervisory Board appointments: BASF AG
Henkel KGaA
STEAG AG

Jella S. Benner-Heinacher, Meerbusch
Federal Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Further Supervisory Board appointments: A.S. Création AG
TUI AG

Karl-Heinz Georgi, Haltern
Principal of the Haltern am See Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe, Otterstadt
until 31 December 2006: Executive Director of the Galileo Joint Undertaking
Further Supervisory Board appointments: Ball Packaging Europe GmbH (chairman)
Norddeutsche Affinerie AG
PFW Aerospace AG

Dr. Karl Heidenreich, Mannheim
Former member of the Board of Executive Directors of Landesbank Baden-Württemberg
Further Supervisory Board appointments: Internationales Bankhaus Bodensee AG, until February 2006
MVV Energie AG

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

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

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

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

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

Further Supervisory Board appointments:	HHLA Intermodal GmbH & Co. KG
	iFCO-Systems B.V. (chairman)
	Lehnkering GmbH
	Petrotec AG (chairman)
	VTG AG (chairman)
Other appointments to supervisory bodies:	BLG Logistics Group AG & Co. KG
	DAL – Deutsche-Afrika-Linien GmbH & Co. KG
	DEVK
	Fraport AG
	Stinnes Corporation, USA, (chairman)
	Sulo GmbH (chairman)

Helmut Mamsch, London, Great Britain,
Former member of the Board of Executive Directors of VEBA AG

Further Supervisory Board appointments:	CEMEX Deutschland AG
Other appointments to supervisory bodies:	Electrocomponents plc, Great Britain (chairman)
	GKN plc., Great Britain
	LogicaCMG plc., Great Britain (vice chairman)
	SAPPI Limited, South Africa

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

Further Supervisory Board appointments:	CropEnergies AG, Mannheim, until October 2006
Other appointments to supervisory bodies:	AGRANA Zucker, Stärke und Frucht Holding AG, Austria (chairman)
	Bayerische Landesanstalt für Landwirtschaft
	BGD Bodengesundheitsdienst GmbH (chairman)
	Raffinerie Tirlemontoise S.A., Belgium
	REKO Erdenvertrieb GmbH (chairman)
	Saint Louis Sucre S. A., France
	Slaska Spolka Cukrowa S.A., Poland (chairman)
	Südzucker International GmbH (chairman)
	University Council of Hohenheim University
	Z&S Zucker und Stärke Holding AG (vice chairman)

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

Dr. Eckart Sünner, Neustadt a. d. W.
Head of the Central Legal Affairs, Tax and Insurance Department of BASF AG

Further Supervisory Board appointments:	BASF Schwarzheide GmbH
	Lucura Rückversicherungs AG (chairman)
Other appointments to supervisory bodies:	BASF Corporation, USA

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

Members of the Board of Executive Directors

Dr. Ralf Bethke, Kassel, Chairman
ORGANISATIONAL DIVISION 1
COMPO Business Segment, from 1 January 2006
Corporate Development, from 1 January 2006
Controlling and Capital Expenditure
Investor Relations
Communications
Supervisory Board appointments: Benteler AG

Norbert Steiner, Baunatal, Vice Chairman
ORGANISATIONAL DIVISION 2
Salt Business Segment
Services and Trading Business Segment
Finance
Purchasing, Logistics
Legal Affairs, Insurance, Compliance
Taxes, Audit

Gerd Grimmig, Söhrewald
ORGANISATIONAL DIVISION 3
Waste Management and Recycling Business Segment
Mining and Geology
Research and Development
Environmental Protection, Industrial Safety, Quality Management
Engineering Technology, Energy
Supervisory Board appointments: Thyssen Schachtbau GmbH

Dr. Thomas Nöcker, Kassel, Personnel Director
ORGANISATIONAL DIVISION 4
Personnel
Property Management
Knowledge Management
Appointments to supervisory bodies: RAG Bildung GmbH

Joachim Felker, Birkenheide
ORGANISATIONAL DIVISION 5
Potash and Magnesium Products Business Segment
fertiva Business Segment

Kassel, 23 February 2007

K+S Aktiengesellschaft
The Board of Executive Directors

Definitions of key financial indicators

Book value per share

$$= \frac{\text{Adjusted equity}^{1}}{\text{Total number of shares as of 31 Dec.}}$$

Enterprise value

= Market capitalisation + net indebtedness

Equity/assets ratio I

$$= \frac{\text{Adjusted equity}^{1}}{\text{Operating assets}}$$

Equity/assets ratio II

$$= \frac{\text{Adjusted equity}^{1} + \text{non-current debt}}{\text{Operating assets}}$$

Indebtedness I

$$= \frac{\text{Bank loans and overdrafts}}{\text{Adjusted equity}^{1}}$$

Indebtedness II

$$= \frac{\text{Bank loans and overdrafts + non-current provisions}}{\text{Adjusted equity}^{1}}$$

Liquidity ratio I

$$= \frac{\text{Cash and cash equivalents + current securities}}{\text{Current debt}}$$

Liquidity ratio II

$$= \frac{\text{Cash and cash equivalents + current securities + current receivables}}{\text{Current debt}}$$

Liquidity ratio III

$$= \frac{\text{Current assets}}{\text{Current debt}}$$

Net indebtedness

= Financial liabilities + provisions for pensions and similar obligations + provision for mining obligations + cash received from affiliated companies - cash and cash equivalents - securities - cash with affiliated companies

Operating assets

= Intangible assets + property, plant and equipment + shares in associated companies + participating interests

Return on capital employed (ROCE)

$$= \frac{\text{Operating earnings (EBIT I)}}{\text{Annual average for operating assets + working capital}}$$

Return on equity

$$= \frac{\text{Adjusted group earnings}^{1}}{\text{Annual average for adjusted equity}^{1}}$$

Return on total investment

$$= \frac{\text{Adjusted earnings before taxes}^{1} + \text{interest expenses}}{\text{Annual average for adjusted total assets}^{1}}$$

Value added

= (ROCE - average costs of capital rate before taxes) x (annual average for operating assets + working capital)

Working capital

= Inventories + receivables and other assets[2] - current provisions - trade payables - other payables[2]

[1] Market values and market value changes for derivatives were eliminated after deducting premiums paid and after taking into account an income tax rate of 37.0%.

[2] Without the market values of derivatives but including premiums paid; without receivables and liabilities relating to cash equivalents invested.

Financial and economic terms

Cash flow Net balance of incoming and outgoing payments during a reporting period.

Dividend Part of retained profit distributed to shareholders.

DVFA Short for German Association for Financial Analysis and Asset Management e.V. The DVFA earnings developed by this association are intended to represent a comparative yardstick that is as objective as possible for evaluating the earnings strength of business enterprises. With the changeover to the internationally recognised IFRS accounting standards, such additional information has become superfluous.

EBIT I Refers to the operating earnings of the K+S Group. In addition, only the cash gains actually realised from the currency options used to hedge the US dollar are taken into account.

EBIT II In addition to EBIT I, also the noncash market value changes in the derivatives used to hedge the US dollar are reported in EBIT II, which is not, however, relevant for assessing the operating success of the K+S Group.

Enterprise value Is an indicator of the value of a company frequently used by financial analysts. Enterprise value is frequently compared with other figures (e. g. revenues, EBITDA, EBIT), which produces enterprise value multiples, for example.

Free float The number of shares not held by investors owning more than 5% of the shares of a company (with the exception of shares held by investment companies and asset managers).

Gross domestic product Value of the economic performance that comprises all the goods and services produced in a country within a reporting period.

Liquidity ratios Provide information about the extent to which current payment obligations are covered by cash and cash equivalents, current receivables and current assets.

Value Added This figure is based on the assumption that a company creates added value for the investor when the return on the average capital employed exceeds the underlying cost of capital. This excess return is multiplied by the average capital employed (annual average for operating assets + working capital) to give the company's added value for the year under review.

Notes

Information order form

Here you have an opportunity to obtain further information and place yourself on our mailing list. In this way, you can be certain not to miss any important events in the future relating to the world of the K+S Group.

Name/Company ____________________

Street, P.O. Box ____________________

Postcode, Town ____________________

Country ____________________

e-mail ____________________

Please send me the latest:

- ☐ Annual Report
- ☐ Interim Report
- ☐ Sustainability Report

Please include me in your mailing list for the regular delivery of:

- ☐ Annual Report
- ☐ Interim Report
- ☐ Sustainability Report

Information by:

- ☐ Mail
- ☐ e-mail (newsletter)

☐ Please delete me from your mailing list.

Please fax the completed form to +49 (0) 561 9301-2425 or mail it to:
K+S Aktiengesellschaft, Investor Relations, P.O. Box 10 20 29, 34111 Kassel, Germany.

Thank you very much.
Your Investor Relations Team

K+S Aktiengesellschaft

P.O. Box 10 20 29
34111 Kassel (Germany)

If you would prefer to send it by post, we have indicated fold lines for a window envelope.

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This Annual Report is also available in German. In the event of any doubt, the German version of the text will prevail.

Dates

	2007/2008
Annual General Meeting, Kassel	9 May 2007
Interim report 31 March 2007	9 May 2007
Dividend payment	10 May 2007
Interim report 30 June 2007	14 August 2007
Interim report 30 September 2007	13 November 2007
Report on business in 2007	13 March 2008
Press and analyst conference, Frankfurt am Main	13 March 2008
Annual General Meeting, Kassel	14 May 2008
Interim report 31 March 2008	14 May 2008
Dividend payment	15 May 2008

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