Discovering Opportunities. Realising Opportunities.

Annual Report 2005

K+S

Experience growth.

Growth Lies at the Heart of Our Vision.

K+S is one of the world's leading suppliers of speciality and standard fertilizers, plant care and salt products. Achieving healthy and sustained growth is our goal as a company and a challenge at the same time.

We offer agriculture, industry and private consumers a range of goods that meet needs and serve as the basis for growth in almost all areas of day-to-day life in the form of tailor-made and branded products.

In doing so, we assume active responsibility for the sustained growth of our world. Our approximately 11,000 employees display their commitment towards this goal day in day out by applying their knowledge and experience.

K+S
Experience growth.

Revenues, earnings, cash flow

		2005 IFRSs	2004 IFRSs	2003 HGB*	2002 HGB*	2001 HGB*
Revenues	€ million	2,815.7	2,538.6	2,287.8	2,258.5	2,179.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	383.1	289.5	223.7	240.1	248.4
Operating earnings (EBIT I/EBIT)	€ million	250.9	162.9	115.7	132.8	120.6
Earnings after market value changes (EBIT II)	€ million	271.7	136.5	–	–	–
Earnings before taxes	€ million	259.6	123.4	111.6	113.9	121.1
Earnings before taxes, adjusted [1]	€ million	238.8	149.9	–	–	–
Group earnings	€ million	174.4	86.8	101.3	103.8	118.3
Group earnings, adjusted [1]	€ million	161.3	103.5	–	–	–
Gross cash flow	€ million	341,5	274.1	209.1	216.9	224.6
Capital expenditure [2]	€ million	107.1	131.9	126.6	129.0	157.9
Depreciation [2]	€ million	132.2	126.6	108.0	107.3	127.8

* German GAAP

Balance sheet

		2005	2004	2003	2002	2001
Equity [3]	€ million	942.1	880.6	584.9	558.8	516.8
Property, plant and equipment, intangible assets	€ million	874.1	883.3	659.8	598.6	592.4
Net liquid funds	€ million	172.6	205.1	212.8	167.9	194.6
Balance sheet total	€ million	2,259.1	2,147.7	1,754.5	1,666.7	1,601.0

Employees

		2005	2004	2003	2002	2001
Number of employees (average) [4]	number	11,017	11,068	10,541	10,439	10,178
Employees as of 31 Dec. [4]	number	11,012	10,988	10,554	10,536	10,278
- of which trainees	number	591	591	550	542	533
Personnel expenses [5]	€ million	671.1	613.3	562.7	531.2	522.6

Figures

		2005	2004	2003	2002	2001
Earnings per share, adjusted [1]	€	3.81	2.43	2.42	2.43	2.73
DVFA earnings per share	€	–	–	1.53	1.62	1.62
Dividend per share [6]	€	1.80	1.30	1.00	1.00	1.00
Dividend yield [6]	%	3.5	3.3	4.6	5.8	4.6
EBITDA margin	%	13.6	11.4	9.8	10.6	11.4
EBIT margin	%	8.9	6.4	5.1	5.9	5.5
Return on revenues	%	5.7	4.1	4.4	4.6	5.4
Return on capital employed (ROCE)	%	19.5	14.2	12.7	14.7	14.1
Return on total investment	%	12.7	9.1	7.2	7.7	8.5
Return on equity after taxes	%	17.8	12.1	17.3	18.6	22.9
Book value per share	€	22.43	20.78	13.76	12.42	11.48
Gross cash flow per share	€	8.07	6.45	5.00	5.07	5.18

The share

		2005	2004	2003	2002	2001
Closing price as of 31 Dec.	XETRA, €	51.05	39.10	21.76	17.35	21.90
Market capitalisation	€ million	2,105.8	1,661.8	924.8	780.8	985.5
Enterprise value as of 31 Dec.	€ million	2,429.8	1,994.9	884.9	788.1	970.4
Total number of shares as of 31 Dec.	million	42.5	42.5	42.5	45.0	45.0
Outstanding shares as of 31 Dec. [7]	million	41.3	42.5	42.5	41.5	43.3
Average number of shares [8]	million	42.3	42.5	41.8	42.8	43.4

[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 also include expenditures connected with semi-retirement and early retirement.

[6] The figure for 2005 corresponds to the proposed dividend.

[7] total number of shares less the own shares held by K+S on the reporting date

[8] total number of shares less average number of own shares held by K+S

Potash and Magnesium Products		2005	2004	%
Revenues	€ million	1,197.2	1.031,2	+ 16.1
EBIT I	€ million	151.8	71.2	+ 113.2
Capital expenditure	€ million	70.9	81.6	(13.1)
Employees	number	7,490	7,472	+ 0.2

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		2005	2004	%
Revenues	€ million	541.7	525.1	+ 3.2
EBIT I	€ million	25.0	23.9	+ 4.6
Capital expenditure	€ million	12.3	14.7	(16.3)
Employees	number	1,292	1,309	(1.3)

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		2005	2004	%
Revenues	€ million	568.3	513.8	+ 10.6
EBIT I	€ million	14.8	10.1	+ 46.5
Capital expenditure	€ million	0.3	1.0	(70.0)
Employees	number	58	57	+ 1.8

fertiva manages the K+S Group’s activities relating to nitrogenous agricultural fertilizers. We market agricultural fertilizers that are produced exclusively for us by BASF and trade in goods purchased from other leading European manufacturers.

Salt		2005	2004	%
Revenues	€ million	398.0	357.8	+ 11.2
EBIT I	€ million	62.7	56.7	+ 10.6
Capital expenditure	€ million	12.4	25.0	(50.4)
Employees	number	1,385	1,370	+ 1.1

Salt products of the highest purity and quality are used as table salt, industrial salt and salt for chemical transformation 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.

Waste Management and Recycling		2005	2004	%
Revenues	€ million	56.0	59.2	(5.4)
EBIT I	€ million	8.1	8.1	–
Capital expenditure	€ million	3.4	1.0	+ 240.0
Employees	number	33	35	(5.7)

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 long periods of time. In addition, we also offer special solutions that accommodate the recycling wishes of our customers.

Services and Trading		2005	2004	%
Revenues	€ million	54.5	51.5	+ 5.8
EBIT I	€ million	20.1	22.1	(9.0)
Capital expenditure	€ million	6.6	7.8	(15.4)
Employees	number	393	386	+ 1.8

This business segment includes logistics connected with product handling and the loading of ships, CATSAN® granulation as well as our IT, consulting and analytical 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.

Contents

Dr. Ralf Bethke
Chairman

Dear Shareholders,

This annual report will provide you with information about the most successful year in the history of your company. It shows that the K+S Group continued on its growth path in 2005. We achieved a progressively high increase in earnings derived from the overall favourable demand on our markets, the sharp rise year on year in world market prices for potash and nitrogen fertilizers, the very good business with salt products for winter road clearance services as well as the consistent implementation of further sustainable efficiency enhancements.

This success will benefit you: The Board of Executive Directors and the Supervisory Board will propose to the Annual General Meeting that compared with the previous year the dividend be increased by € 0.50 to €1.80 per share for financial year 2005.

High growth momentum
K+S Group revenues for the year 2005 rose to € 2.8 billion representing an increase of 11%. At € 251 million, operating earnings (EBIT I) reached a new record high. The Potash and Magnesium Products, fertiva and Salt business segments in particular achieved significant increases. Despite higher taxes, adjusted group earnings rose by 56% to € 161 million. This corresponds to € 3.81 per share (2004: € 2.43).

Continually improving the efficiency of structures and processes
Further improvements to performance and efficiency were at the centre of our internal efforts in 2005 too. We are continually working on our structures and processes, implementing first and foremost such measures which will strengthen our earnings capacity in the future as well. In the Potash and Magnesium Products business segment – after having successfully realized our 10-point efficiency programme, launched Sylvinite extraction on the Werra and made working hours more flexible – we initiated or realized further projects in 2005. They also include optimizing the energy supply at one of our potash sites by 2008 in conjunction with a competent partner as well as renewed improvements in raw material exploitation and conserving our operating resources.

In the COMPO business segment as well, we have launched numerous measures designed to achieve greater optimisation and to cut costs. This will boost consumer activities in Germany and France in particular. Examples are the standardising of packaging as well as the streamlining of the product portfolio and of distribution. In addition, we have also reached agreement within COMPO on more flexible working hours, with the result that employees at all German COMPO sites have been working a 40-hour week again since 2005.

In the logistics field, we further increased use of containers in 2005 to counteract increases in the cost of sea freight for bulk fertilizers; this mainly applies to the supplying of Asian markets. In addition, we have secured freight cost advantages for ourselves by concluding long-term contracts that provide for comparatively attractive prices.

Last but not least, we have hedged the US dollar at an attractive level for us until 2008.

Focus on new areas of cooperation and external growth
At the end of September 2005, COMPO agreed a strategic alliance with Syngenta, one of the world's leading manufacturers of plant protection products. The aim is to offer Europe's consumers a comprehensive, innovative range of plant protection products and pesticides for lawn and garden use. This new cooperation opens up numerous opportunities for us to become sustainably stronger in this segment.

Having taken over distribution companies as well as an additional granulation capacity from French SCPA in the Potash and Magnesium Products business segment, we have further expanded our position on the French market and thus established a basis for further growth of our potash business.

We want to strengthen the international competitive position and earnings capacity of the K+S Group also through external growth in the Salt, Potash and Magnesium Products as well as COMPO business segments. Very concrete consideration is given to the possibility of acquiring an interest in Chilean salt producer Sociedad Punta de Lobos. This would open up new market potential for our group outside Europe, potential that we would want to use selectively to enhance corporate value.

Identifying opportunities early on and exploiting them consistently
Your K+S Group wants to continue to grow also in the future. In doing so, we are concentrating on further cost management as well as optimising the value added – especially in the case of our specialities –, on conscious customer orientation and, last but not least, on growth through acquisitions and cooperation too.

We are one of the world's leading suppliers of speciality and standard fertilizers, industrial products as well as plant care and salt products. We will lastingly strengthen and develop these positions together with our highly motivated and committed employees. The interlinking of our business segments gives us the flexibility to respond very rapidly to changing market requirements.

We will also press ahead with innovations to offer our customers what they need: Simple, application-oriented and progressive solutions.

I would like to thank our customers, suppliers and partners for their fair and trusting cooperation in 2005. Also I would like to thank all the employees of the K+S Group, who have displayed a high degree of motivation and a good measure of confidence in working for our success in 2005.

On behalf of the entire Board of Executive Directors, I would like to thank you, dear shareholders, for the trust that you have placed in us. What has been achieved to date provides us with the motivation to become even better in the future.

On behalf of the Board of Executive Directors

Ralf Bethke

Dr. Ralf Bethke
Chairman

Dr. Ralf Bethke (63)
Business administration graduate
Chairman of the Board
of Executive Directors

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

Norbert Steiner (51)
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 (52)
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 (47)
Lawyer
Personnel Director

• Personnel
• Property Management
• Knowledge Management

Joachim Felker (53)*
Industrial business manager

• Potash and Magnesium Products Business Segment
• fertiva Business Segment

* since 1 October 2005

Joachim Vogt (53)*
Engineering graduate, MBA

• COMPO Business Segment
• Corporate Development

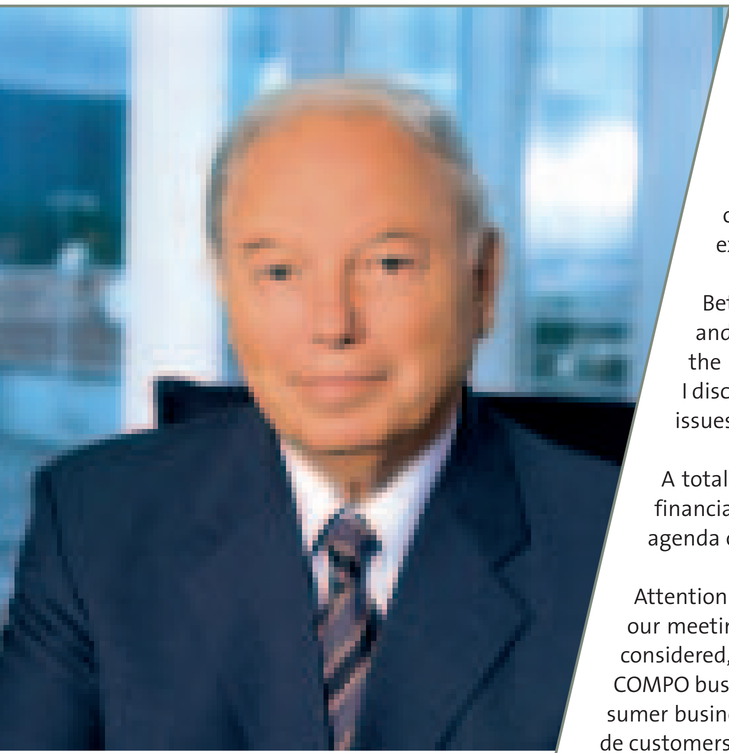
* until 31 December 2005

Dear Shareholders,

K+S Aktiengesellschaft also continued to develop successfully in financial year 2005, as is impressively borne out by the Annual Report and the figures. The Supervisory Board has therefore approved the recommendation made by the Board of Executive Directors that the dividend per share be increased significantly to € 1.80 from € 1.30 in the previous year.

Supervisory Board work

The Supervisory Board intensively followed the development of the company and its strategic direction in consultation with the Board of Executive Directors. It regularly advised the Board of Executive Directors on the management of the company and monitored the executive management of the company. It performed the tasks imposed on it by law and by the Articles of Association. We were involved in all decisions of fundamental importance. The Board of Executive Directors informed us at regular intervals in writing and orally 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 position of the group. We were also kept informed about the risk position as well as risk management and about opportunities and how they are managed, which is something to which we attach particular importance. Particular attention was also devoted to the exchange rate hedging policy and systems. Deviations in the course of business from the plans and targets of the group and the individual business segments were explained and examined in depth together with the Board of Executive Directors.



Gerhard R. Wolf
Chairman

Between meetings, the Supervisory Board regularly received written reports and I maintained close contact with the Board of Executive Directors about the current business position and important events. On many occasions, I discussed analyses and prospects for business segments as well as individual issues with the Board of Executive Directors.

A total of five Supervisory Board meetings were held during the course of the financial year. The report and comments on the course of business were on the agenda of all the meetings.

Attention should be drawn to certain individual issues of strategic relevance from our meeting work at this point: At the meeting held on 24 August, we intensively considered, as in the past, an analysis of as well as the risks and opportunities for the COMPO business segment. The focus was on the earnings pressure to which the consumer business is exposed as a result of fierce competition over price among our trade customers. To improve the returns for this part of the COMPO business, we concluded, together with the Board of Executive Directors, to establish projects for further cost-cutting and obtaining raw materials at more attractive prices, streamline the product range, and review the structure and efficiency of distribution activities in view of changing market conditions. Opportunities were also identified for enhancing our strong position in Europe in selected target markets and to bolster it through cooperation with a major producer of plant protection agents. In the meantime, the company has been able to conclude an agreement with Syngenta, Switzerland, for the marketing of a full range of plant protection products and pesticides for lawn and garden use in Europe.

A second important issue was the further expansion of the successful salt business outside Europe following the acquisition of the Solvay business in Europe. This issue was pursued further at an extraordinary meeting held on 4 October at which we conducted an in-depth examination of a possible investment in salt producer Sociedad Punta de Lobos, Chile.

The 2006 budget and the medium-term forecast were the focus of the last meeting of the year held on 16 November. On the basis of written documents and comprehensive explanatory comments provided by the Board of Executive Directors, we dealt with the operating annual plan, the 2006 investment plan and the investment framework for subsequent years. The plans were also reviewed from the angle of strategic goals.

Committee meetings

The personnel committee met twice in the past year. Acting on a proposal submitted by it, the Supervisory Board extended the term of office of Dr. Ralf Bethke, chairman of the Board of Executive Directors, by one year until 30 June 2007 and that of personnel director Dr. Thomas Nöcker by five years until 31 July 2011. In addition, the Supervisory Board appointed Mr. Norbert Steiner, member of the Board of Executive Directors, vice chairman of the Board of Executive Directors with effect from 1 January 2006. In consultation with the Supervisory Board, Mr. Joachim Vogt did not extend his agreement to serve as a member of the Board of Executive Directors and left the company with effect from 31 December 2005. His responsibilities were transferred to Dr. Bethke with effect from 1 January 2006. Furthermore, the Supervisory Board appointed Mr. Joachim Felker, member of the executive management of K+S KALI GmbH, to the Board of Executive Directors of K+S Aktiengesellschaft with effect from 1 October 2005. Mr. Felker assumed responsibility for the Potash and Magnesium Products and fertiva business segments from Dr. Bethke. In addition, the personnel committee considered the remuneration for the members of the Board of Executive Directors.

In the past financial year too, there was no need to form a mediation committee in accordance with Section 27, par. 3 of the German Co-Determination Act (MitbestG). The audit committee newly established in light of the introduction of IFRSs met for the first time in August and for a second time in November. Elected to serve on the committee were Dr. Sünner, committee chairman, and Messrs. Dr. Heidenreich, Krüger, Vassiliadis and myself. The changeover to IFRSs and the determination of key points for the 2005 audit were subject of extensive consultations.

Declaration on conformity approves good corporate governance

At regular intervals, the Supervisory Board considered the application and further development of the German Corporate Governance Code. During the past year, the Supervisory Board and the Board of Executive Directors intensively discussed the Code in the new version of 2 June 2005 and approved the joint declaration on conformity published on page 33 of the Annual Report, at the meeting held on 15 March 2006.

Audit of annual and consolidated financial statements

Deloitte & Touche GmbH, Hanover, audited the annual financial statements and the management report of K+S AG 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 net profit on time. On 2 March 2006, 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 chief financial officer and the auditors. The audit reports prepared by Deloitte & Touche GmbH were also made available to all members of the Supervisory Board and were considered in-depth at the Supervisory Board meeting held on 15 March 2006 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 a recommendation made by the audit committee, approved the financial statements for financial year 2005. The annual financial statements of K+S Aktiengesellschaft were thus approved.

The Supervisory Board extends its thanks to the Board of Executive Directors, the executive managements of associated companies, all employees and employee representatives for their successful work.

Kassel, 15 March 2006
On behalf of the Supervisory Board

Gerhard R. Wolf
Chairman

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 Main 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
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
Chairman of the Works Council of the Bernburg Plant of esco – european salt company GmbH & Co. KG

Heinz-Gerd Kunaschewski
Vice Chairman of the Group Works Council of the K+S Group

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 2005

The healthier the base, the better the opportunities for profitable growth.

Our company has a healthy and strong foundation. Special know-how, many years of experience, motivated employees and a high degree of creativity open up new possibilities each year for becoming even stronger in our markets. We can build on this base, as the demand for speciality and standard fertilizers is constantly growing. This is the result of numerous factors: For example, global population growth and increasing prosperity in many emerging market countries. We are addressing these opportunities and will continue to grow with them.

The more sustainable the management, the more stable the future.

Sustainability means more responsible management. For the future of our company, the focus of our interest is not on short-term success; long-term, profitable growth is of more importance. This goal can only be attained by being and remaining internationally competitive. The consistent orientation towards the wishes of our customers as well as the high quality of our products contributes to this. Fair cooperation between all involved is obligatory for our company. This benefits our customers, our employees and our shareholders as well as K+S itself.

The greater the openness for innovations, the greater the competence.

Innovations are the cornerstones of many successes. Our challenge consists in increasing our know-how through research and the development of new products and processes: Year in year out. Innovations enable us to secure and enhance our position on the global market: Like our EPSO family leaf fertilizers for instance, which are unique throughout the world and offer an optimal combination of macro- and micro nutrients for agriculture and horticulture. Selective use of these new leaf fertilizers makes it possible to respond quickly to individual crop deficiencies. A profitable innovation that benefits our customers!

The more varied the markets, the greater the opportunities.

Seeking and developing new markets is about securing the future of our company. Increasing global demand for fertilizers is constantly giving rise to new challenges for us. Thus, increasing prosperity in emerging market countries is creating higher demand for qualitatively better food and subsequently for fertilizers. For rising meat consumption for example, a much greater quantity of fodder crops is a precondition. Investing selectively in these markets secures our future chances.

The closer the internal interlinking, the greater the external success.

Close interlinking is our company's particular success model. That is how we create synergies. Externally, for example, with strong partners such as BASF or Syngenta, with which we have agreed long-term cooperation. Internally, our business segments are closely interlinked in terms of their strategic, technical and economic aspects. This facilitates the optimal use of know-how and production capacity. We thus offer our customer an extensive and broad range of services, resulting in significant cost savings. An advantage that makes both sides more successful.

The Particular Success of the K+S Business Model

- **The K+S business model leverages market- and production-related synergies**
- **Succeeding with fertilizer specialities**
- **esco makes K+S leading supplier of salt in Europe**
- **COMPO and Syngenta agree long-term partnership**

Our business segments are closely interlinked in terms of their strategic, technical and economic aspects. They have the backing of the support functions provided by group headquarters. 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, significant cost savings are achieved in many of our business processes. This business model enables us to create value for the shareholders of the K+S Group that amounts to more than simply the sum of the group's parts.

Technology and production

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 mined in K+S-own mines. 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 deploy employees and make capacity adjustments flexibly and efficiently. By centrally managing research and development activities, we attain the necessary groupwide transfer of knowledge.

The wealth of experience that has been gained by our employees in both the potash and salt sectors over decades helps in fulfilling conditions laid down by public agencies as well as in meeting environmental requirements. The Waste Management and Recycling business segment also benefits from this professional knowledge, because the caverns created underground as a result of the extraction of crude salts are in part used for the long-range safe disposal of waste and for waste recycling. A particular advantage in this regard is that waste management draws on the available infrastructure at active potash or salt mines.

The COMPO and fertiva business segments also work together closely: Both have a substantial part of their products manufactured at the same plants, which makes it possible to exercise optimal control over production depending on the requirements of the given business segment. Joint use of capacity results in a higher, more balanced level of plant utilisation, thus yielding a reduction in unit costs.

Marketing and sales

There are many similarities in the know-how that is necessary to achieve worldwide sales of the fertilizers offered by the Potash and Magnesium Products and fertiva business segments and the professional area of the COMPO business segment. They are frequently marketed through a similar distribution chain and common know-how with regard to markets and the needs of customers gives rise to numerous synergies. A common marketing forum for the three business segments is one of the key factors for attaining the market success being sought for various product groups. An integral part of this coordinated approach is application research and advice for agriculture and for wholesalers that is constantly based on the latest findings. In selected target markets overseas, distribution is organised through joint companies or distribution platforms in such a way that a competent approach to attending to customers is ensured there too.

Logistics, IT and analysis

The Services and Trading business segment pools service activities that are particularly important for the K+S Group such as logistics, IT and analysis: 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 cost-effective and meets market standards.

The Kali-Transport Gesellschaft mbH and its subsidiaries handle a large part of logistics for the K+S Group, which makes it possible to bundle shipping and other services for the different business segments and to optimise individual partial processes. Taken together, both these elements yield significant savings on logistics costs.

All K+S Group IT activities are pooled in the subsidiary data process GmbH. The standardization of IT systems on the basis of SAP yields lower operational cost in the form of lower service and maintenance expenses. In addition, it ensures a high level of quality and integrated information flows across the group.

The Consulting and Analysis business unit conducts specialised analyses that are of importance for the mining of crude salts as well as for the fields of environmental and food technology. 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.

The Focus is on Fertilizers, Plant Care and Salt

Potash and Magnesium Products

The Potash and Magnesium Products business segment extracts potash and magnesium salts at six mines in Germany. The vital minerals contained in these natural raw materials, 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 essential contribution to securing the world's supply of food. With its product range that is more varied than that offered by any other potash producer in the world, the business segment offers customers through K+S KALI GmbH a spectrum of products that meets their needs.

www.kali-gmbh.com

The K+S Group is the fourth-largest producer of potash products worldwide
With a potash market share of about 12%, the Potash and Magnesium Products business segment is the fourth-largest producer in the world and the leader in Europe. Our specialities clearly distinguish us from the competition and in terms of sulphate of potash fertilizers, we occupy a leading position in the world: Products containing magnesium and sulphur, such as ESTA® Kieserite and EPSO Top®, are enjoying great popularity, given demand for agricultural fertilizers that is increasingly characterized 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 broad range of products for industrial applications. This is another segment in which we are among the leading suppliers worldwide, and by far the number one in Europe.

Potassium chloride – a universal single-nutrient fertilizer
Potassium chloride is the top-selling product of the business segment. 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. As a single-nutrient fertilizer 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 complex 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 are in demand
Our fertilizer specialities differ from classic potassium chloride because of their additional nutrients and further processing. Tailor-made nutrient formulas with magnesium, sulphur and trace elements as well give us attractive sales opportunities for these speciality products worldwide. Fertilizer specialities, such as Korn-Kali and Kieserite, are mainly used for soil and crops respectively that have a greater need for magnesium and sulphur in addition to potash, such as rape or potatoes. Sulphur containing speciality fertilizers, such as sulphate of potash 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 organic farming.

Industrial products satisfy highest quality requirements
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 to make 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, our high-purity potassium and magnesium products make an important contribution to preserving our health in the pharmaceutical and foodstuff industries, by being used in dialysis and as a raw material in the production of pharmaceuticals, for example.

Unique product mix and new deposits create good opportunities
We offer our customers a unique product range derived from potash and magnesium crude salts that is more comprehensive than that offered by any other potash producer in the world. The consistent implementation of our processing strategy is one of our key strategic goals.

The opening up of a new, very rich sector of the Werra deposits ("Sylvinite Project") served to enhance productivity and expand the potash business. The use of this highly concentrated potash crude salt and the related additional capacity effect result in a tangible, long-term reduction in production costs from 2005 onwards.

COMPO

www.compo.de

In the consumer area, the COMPO business segment offers a broad range of high-quality speciality fertilizers and plant care products that can turn a garden into a paradise. Patented slow-release lawn fertilizers, quality potting soils with root activators or two-phase fertilizers for house plants are only a small selection of the great variety of top quality products that COMPO offers.

The World Cup is banking on top quality from COMPO
In the professional area too, COMPO® products stand for top quality and appropriate yields. This applies to the efficient supplying of fertilizers to special crops such as grapes, vegetables and fruits but also to public green areas and sports turf. In Germany, special COMPO® products are the fertilizers used to maintain well over one half of the 650 golf courses and the grass in two-thirds of the 36 Bundesliga soccer stadiums. The World Cup soccer tournament is also banking on first-class COMPO® products: 11 of the 12 World Cup stadiums will use selected COMPO® products as fertilizers.

COMPO premium products lead in Europe
Measured in terms of revenues, the COMPO business segment leads in continental Europe with a share of more than 20%. In the four segments of potting soil, plant care, lawn fertilizers and garden fertilizers, we are well ahead of the international competition. In the professional segment (agricultural and horticultural applications) too, the COMPO business segment is an innovative and driving force in Europe. In the nitrogen-based speciality fertilizer area of the professional segment, COMPO occupies an unchallenged position of leadership.

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. The most important product in the assortment is potting soil; in Europe, these high-quality soils are predominantly sold under the COMPO SANA® brand. It is not simply ordinary potting soil: Rather, high-quality substrata – blended with volcanic rock aeration particles and the root stimulant Agrosil® – offer a particularly plant-friendly base which, depending on the type of plant, is processed with quartz sand, humus, clay minerals as well as slow-release fertilizers and all the important main and trace nutrients for plants. Thus, the formula for a rhododendron potting soil and those for a rose or an orchid potting soil take account of plant-specific characteristics. The handy potting soil mini packages have found a particularly high degree of acceptance among customers.

Our COMPO® and ALGOFLASH® liquid and lawn fertilizers stand at the forefront of the fertilizer assortment. In addition, we offer the well-known COMPO® universal, speciality and guano fertilizers for house, balcony and garden plants in Europe. Apart from being produced at our own sites in Germany and France, some of the products are manufactured on an exclusive basis by BASF.

The positioning of COMPO SAAT in the premium segment for lawn seed could be successfully continued in Germany, Austria, Italy and Spain, encouraging us to further develop this segment.

Professional segment impresses with successful product innovations

Compared to the competition, the professional area possesses the broadest product portfolio for agricultural and horticultural applications. In addition to complex sulphur fertilizers for the cultivation of fruit, grapes and vegetables, the nitrogen-stabilized ENTEC® fertilizers that were introduced a few years ago have gained great importance. The latter are characterized by unique nitrogen efficiency and by their related advantages for the customer with respect to use. 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 customer segment.

Top quality and customer satisfaction ensure COMPO's success

The development of new products or their further advancement in line with needs is a constant challenge for the COMPO business segment. An important aim is to continue growing faster than the market. In this regard, customer satisfaction and excellent product quality are the key goals towards which our corporate actions are directed. The ongoing interchange of product innovations between the professional and the consumer segments (e. g. in the case of ENTEC®), a range of services that is tailored to regional needs as well as the targeted enhancement of plant protection activities constitute the cornerstones of sustained growth for the COMPO business segment. In this regard, we agreed to engage in a wide-ranging cooperation with Swiss Syngenta last year, one of the world's leading manufacturers of plant protection products. We are jointly seeking to develop and market internationally a full range of lawn and garden plant protection products and pesticides for consumers in Europe.

fertiva

K+S Group's worldwide marketing and distribution activities relating to nitrogenous agricultural fertilizers are managed in the fertiva business segment. 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." As a global supplier of straight nitrogen and complex fertilizers, fertiva makes an important contribution to an improved diet in important overseas regions too.

fertiva

www.fertiva.de

fertiva – an important supplier in the Western European market for nitrogen fertilizers

fertiva is one of Western Europe's major suppliers of nitrogenous fertilizers. The business segment markets the agricultural fertilizers produced exclusively by BASF. In addition, fertiva also trades products bought from other well-known manufacturers to a limited extent. With respect to the trade in nitrogenous fertilizers, fertiva holds a market share of about 7 % in Western Europe; the business segment is even one of the world's leading suppliers of the fertilizer ammonium sulphate. The primary goal is not, however, to gain market share, but to optimise earnings.

Complex fertilizers – a balanced nutrient mix

Nitrogenous complex fertilizers are fertilizers that apart from nitrogen include other nutrients, primarily potash and phosphate. In addition to these primary nutrients, many of our complex fertilizers are supplemented with magnesium, sulphur and, to some extent, 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 when spread on the 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 selective application of nitrogen

Straight nitrogen fertilizers are used to supply nitrogen nutrients to agricultural cultivated plants in a selective way. Calcium ammonium nitrate and ammonium nitrate are the main products in this segment. In addition, we also offer ammonium sulphate nitrate, which additionally contains the nutrient sulphur. To optimise the supply of the nutrients, the total quantity of fertilizer is divided up into several doses during the growth phase. Ammonium sulphate nitrate is generally used for crops requiring substantial quantities of sulphur such as winter rape. As a result of the continuing rise in the sulphur needs of agriculture, also other crops are increasingly receiving sulphur as a fertilizer. A speciality in this segment is our product ass® bor for crops requiring boron, such as rape.

Ammonium sulphate has varied uses

Ammonium sulphate is a fine-crystalline product. It contains nitrogen and 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. In this respect, ammonium sulphate serves as a source of nitrogen and sulphur. Overseas, ammonium sulphate is also used directly in agriculture as a fertilizer.

fertiva impresses with efficiency and proximity to the market

fertiva activities are focussed on Western Europe and on regions overseas that hold out promise of sustainable success. The product and market portfolio is constantly analysed and optimised with respect to earnings targets. fertiva intends to further consolidate its strong position in ammonium sulphate and its leading position in Europe with respect to sulphur-containing fertilizers. With the signing of a partnership declaration in 2004, K+S and BASF affirmed their intention of continuing their strategic partnership in the fertilizer business on a very long-term basis.

Salt

esco
european salt company

www.esco-salt.com

esco – european salt company makes K+S the largest supplier of salt in Europe. The business segment possesses three rock salt mines, three brine plants as well as several evaporated salt facilities. 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. This is because our deposits were formed in the Upper Permian Zechstein period, more than 230 million years ago. Salt is an omnipresent element of our lives. It aids our health, is used for seasoning, dyeing and disinfecting and, last but no least, for road safety purposes. However, salt is also present in glass, paper and synthetic materials. In a nutshell: Our lives are unimaginable without salt.

Table salts – an indispensable part of daily life

esco table salts cover table and pickling salts for private households and the food-processing industry. They are flavour carriers and relating to food technology are indispensable in the production of foodstuffs such as meat, sausage, bread and cheese. In addition to various salt mixtures containing herbs, we offer table salt containing iodine and fluoride to additionally supply the body with these vital minerals and prevent deficiencies from arising.

Our table salt and herbal salt brands are very well-known with customers. 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 one of the leading table salts 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 product for the broad range of our table salts is mainly high-purity evaporated salt, but rock salt in its natural form is also used as table salt to some extent. At all stages in the process, our extensive quality management system ensures that our salts possess the purity we guarantee.

Industrial salt – a raw material with innumerable applications

Industrial salts are used by dyeing works, 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 a many medicines as pharmaceutical salt.

Water softening salts in the form of salt tablets and dishwasher salts are used in water softening facilities. The leading European salt tablets axal® and axal® Pro as well as 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. For the disinfecting of swimming pools we offer branded products such as AQASALIT®, Marina® and SOLEA® speciality salt tablets. Our factories press about 60 million such salt tablets each day for these applications.

Lickstones used for breeding cattle and wild animals complete the assortment. Our SOLSEL® salt lickstones in various recipes were developed in cooperation with leading experts in the field of animal nutrition and meet the need for salt in modern livestock rearing.

esco – a reliable partner for customers requiring salt for chemical transformation

Salt for chemical transformation purposes is one of the most important raw materials used in the chemical industry. In electrolysis plants it is split into the joint products chlorine, caustic soda and hydrogen. Chlorine is an indispensable raw material for chemists, because it is one of the most reaction-friendly chemical elements. It reaches the end user in the form of polyvinylchloride (PVC), for example, a synthetic material with innumerable application possibilities as flooring and industrial packaging and for use in the construction and electrical sectors as well as in very many other technical fields.

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

Measured and used in a controlled manner, de-icing salt for winter road clearance services is a very efficient and environmentally friendly product for ensuring road traffic safety, especially on motorways. Studies prepared by the Ökoinstitut Freiburg (Freiburg Institute of Ecology) confirmed that there is also no ecological alternative to de-icing salt for winter road clearance services: De-icing salt is the most effective and efficient substance that can be employed to keep roads and motorways free of snow and ice. In particular, the use of de-icing salt on roads with heavy traffic and in particularly dangerous areas is superior to other de-icing agents, such as grit, in terms of economy and environmental friendliness.

esco de-icing agent customers are mainly public road authorities and commercial bulk customers. The "webshop" Internet-based order recording system for de-icing agents was installed last year. In addition for decades in winter we offer private households the tried and tested de-icing salt anti-rutsch®, offered in small packages.

Brine and other business round off the esco assortment

The brine and other business product segment comprise the supplying of sodium chloride brine and magnesium chloride solution as well as services provided by esco. 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 used as a component of prewetted de-icing agents employed by winter road clearance services. One of the services offered by esco is the storage of liquid gas in caverns at its Bernburg site.

Complementary Business Sectors

Waste Management and Recycling as well as Services and Trading are important complementary business segments for the K+S Group. Thus, Waste Management and Recycling uses the infrastructure of our active mines, which yields considerable cost benefits. 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

www.ks-entsorgung.com

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 standards in terms of environmental aspects and safe disposal. We are active on the market through K+S Entsorgung GmbH, which is responsible for marketing and distribution in selected European markets.

Strong market position in Germany and Europe
With regard to underground waste management, we are the largest service provider in Europe in terms of volume and revenues. On the German waste management market, we have a market share of almost 20% for all relevant forms of hazardous waste. However, the market is subject to fierce competition by many other suppliers of disposal services for hazardous waste both above ground and below ground level. In the case of recycling salt slag from the secondary aluminium industry, we are a leading provider in Germany and in the rest of Europe.

Underground disposal – the most secure long-term waste disposal solution
Waste disposal involves 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 waste disposal plants using the caverns that are created in our active mines as a result of the mining of crude salt. Suitable caverns in this respect are only those located in intact salt rock formations that are free of water as well as impermeable for gas. By a combination of geological and technical barriers, we ensure the highest possible degree of safety. The stored waste is isolated from the biosphere in permanent and secure manner – a service no landfill facility can offer.

If need be, the already stored materials can be brought back up to the surface without much effort. This is currently the case with, for example, contaminated transformers, now that the processing and recycling of their copper component has become commercially attractive because of the sharp rise in the price of copper.

Underground reutilisation uses the K+S infrastructure
In contrast to disposal, making use of waste is the aim of recycling. We operate four underground reutilisation facilities in active K+S mines. Approved nonmining 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 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 waste disposal sites, use can be made of the infrastructure available, e. g. shafts and conveyor systems.

Recycling makes sense
The Waste Management and Recycling business segment also supplies high-quality smelting salts that optimise yields for smelting aluminium scrap. After taking back the salt slag produced during the process in the form of a waste product, we reprocess it in our REKAL facility: The aluminium granulate extracted from the salt slag can be reintroduced into the substance cycle. We operate 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.

Services and Trading

Various activities of functional importance for the K+S Group are bundled in the Services and Trading business segment in addition to CATSAN® granulation. They primarily consist of services such as logistics, IT and analysis that are used by all business segments. These services are also offered to third parties to a limited extent. All the activities are exposed to competition with external alternatives, thus ensuring internal economic efficiency.

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

Over 30 million tons per year: Efficient logistics is of central importance

The focus of K+S logistics is on optimising logistics chains and the best possible exploitation of the potential for synergies within the K+S Group. Alongside the central logistics unit, which coordinates the interlinking of the supply chain units in all the business segments, we possess our own powerful logistics service provider in Kali-Transport Gesellschaft mbH (KTG), Hamburg, and its subsidiaries. The operation of the "Kalikai" in Hamburg, one of Europe's most important transhipment facilities for the export of bulk materials, is KTG's core business and of strategic importance for the Potash and Magnesium Products business segment in particular.

The K+S Group's container business, which has grown strongly in international terms, is directed from Hamburg, including shipment from our production sites to the loading terminals. Here we have developed cost-effective systems for the purpose of making greater use of environmentally friendly means of transport such as rail and inland waterways. This transport offering is being used by third parties to a larger extent too. The subsidiary GBC, which is also based in Hamburg, handles millions of tons in ship loading each year for third parties as well. In addition, KTG and its subsidiary UBT in Hamburg, Rostock, Wismar and elsewhere are active as seaport freight forwarders and shipping agents for more than 1,000 ships each year. Transportation by road in Germany and outside is organized by UBT's truck forwarding department.

Thus, the logistics functions and the related know-how necessary for all segments are available to us at an attractive price level.

Wide-ranging know-how bundled for new services

An exemplary means has been found of successfully reusing existing plants and a large part of the infrastructure of a disused potash plant in the case of the former Salzdetfurth potash plant. Here we granulate the animal hygiene product CATSAN® for Masterfoods GmbH.

Our subsidiary data process GmbH offers IT services based on SAP. 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 clients are almost exclusively companies belonging to the K+S Group.

Trading in chemicals and magnesium metals is another business segment unit. One such chemical is calcium chloride, an important component of prewetted de-icing agents for winter road clearance services.

Finally, we offer numerous consulting and analytical services for environmentally relevant investigations, such as analyses of soil and water, raw materials and products, as well as mobile air monitoring. For these purposes, experienced teams of analysts are available at biodata Analytik GmbH, the K+S-own research institute and in plant laboratories.

The more transparent the overall picture, the greater the prospects for investment decisions.

K+S is a particularly open company. Transparent communication, reliable forecasts and direct contact with our investors are important for us. This is why, among other things, we organise more than 20 roadshows and conferences each year and publish comprehensive quarterly reports and company presentations. This transparency makes apparent the quality of our company for all our partners. It is another reason why the value of the K+S share has been constantly rising.

The K+S Share

- **The K+S share gains 31 % in 2005**
- **€ 5,000 invested in K+S shares became € 17,439 in five years: +28.4 % p. a.**
- **Repurchase of 1.25 million shares completed as planned**
- **At 90 %, K+S share free float remains large**
- **Analyst recommendations for the K+S share generally positive**
- **€ 1.80 dividend results in attractive dividend yield of 3.5 %**

K+S Share Key Indicators
ISIN: DE0007162000 / WKN: 716200 / Bloomberg: SDF

		2005 IFRSs	2004 IFRSs	2003 HGB*	2002 HGB*	2001 HGB*
Earnings per share, adjusted [1]	€/share	3.81	2.43	2.42	2.43	2.73
DVFA earnings per share	€/share	–	–	1.53	1.62	1.62
Dividend per share [2]	€/share	1.80	1.30	1.00	1.00	1.00
Gross cash flow per share	€/share	8.07	6.45	5.00	5.07	5.18
Book value per share	€/share	22.43	20.78	13.76	12.42	11.48
Year-end closing price (XETRA)	€	51.05	39.10	21.76	17.35	21.90
Highest price (XETRA)	€	59.10	39.43	21.76	24.51	22.30
Lowest price (XETRA)	€	36.20	21.19	15.81	16.83	15.69
Year-end market capitalisation	€ million	2,105.8	1,661.8	924.8	780.8	985.5
Total stock exchange turnover	€ million	1,899.2	998.0	416.3	469.4	468.5
Average daily turnover	€ million	7.4	3.9	1.6	1.9	1.9
MDAX weighting	%	2.6	2.7	1.9	2.2	0.8
Total number of shares as of 31 Dec.	million	42.5	42.5	42.5	45.0	45.0
Shares outstanding as of 31 Dec [3]	million	41.3	42.5	42.5	41.5	43.3
Average number of shares [4]	million	42.3	42.5	41.8	42.8	43.4
Total dividend payment [2]	€ million	74.3	55.3	42.5	41.5	43.4
Dividend yield (closing price) [2]	%	3.5	3.3	4.6	5.8	4.6
Return on equity after taxes	%	17.8	12.1	17.3	18.6	22.9
Return on capital employed (ROCE)	%	19.5	14.2	12.7	14.7	14.1
Enterprise value (EV) on 31 Dec.	€ million	2,429.8	1,994.9	884.9	788.1	970.4
Enterprise value to revenues (EV/revenues)	x	0.9	0.8	0.4	0.3	0.4
Enterprise value to EBITDA (EV/EBITDA)	x	6.3	6.9	4.0	3.3	3.9
Enterprise value to EBIT (EV/EBIT)	x	9.7	12.2	7.6	5.9	8.0

* German GAAP

[1] adjusted for the effect of market value changes from 2004; a tax rate of 37.0 % has been assumed

[2] The figure for 2005 corresponds to the proposed dividend.

[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

2005: A brilliant year for shares

Following 2004, a stock exchange year that was rather marked by restraint, investors were able to achieve attractive returns in 2005 – despite the fact that expectations at the beginning of the year were modest. Analysts had only believed that share earnings potential in the middle single-digit range was attainable. The positive trend on the stock markets was all the more astonishing because disruptive factors such as extreme price increases for raw materials and energy as well as the hurricane catastrophes on the US coast had not been factored into forecasts.

In the past year too, small and mid caps outperformed blue chips, with European shares displaying much better gains than US stocks and with the turnaround forecast for Japan actually taking place. Despite good annual performance, 2005, however, was not an easy year for investors as “stock picker” qualities were called for in addition to good timing. Investors needed to be patient until the early summer as the stock markets only began to see movement in the second half of the year; in Germany, the announcement of early elections undoubtedly bolstered this trend. Anyone who failed to broadly diversify his investments came in for a few surprises.

Small and mid caps outperform the DAX once again

The German stock index DAX closed on 30 December 2005 at 5,408 points, just short of its high for the year and up 27.1% on the beginning of the year. The index, which is composed of the thirty largest German stocks, was able to post strong gains in the second half of the year in particular.

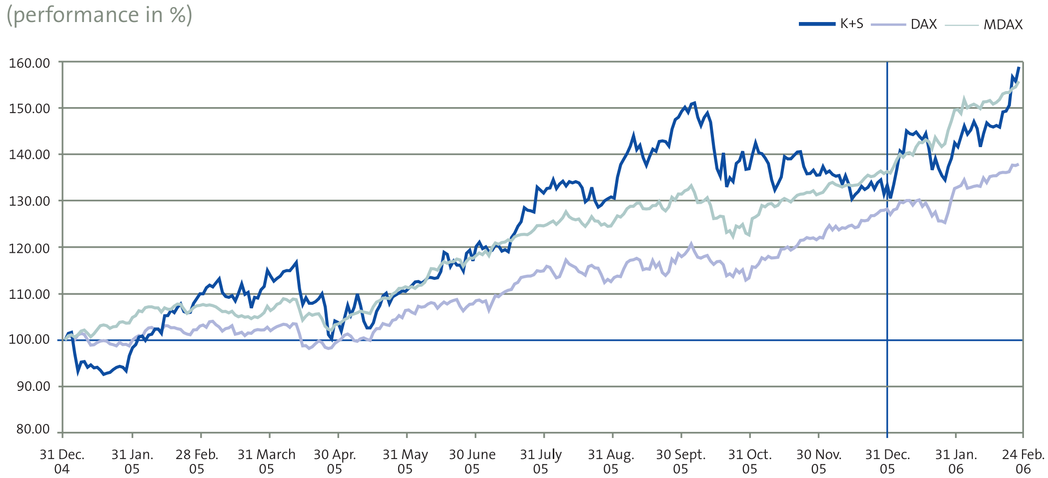
The MDAX, which consists of the biggest fifty stocks from more classic industries after those included in the DAX and which is of more importance for K+S, also displayed a clear upward trend over the course of the year. It consistently increased its lead over the DAX since the beginning of the year, closing it just short of its high for the year at 7,312 points; it thus rose exactly 36% on the end of 2004.

The DAX and MDAX have evolved very differently over the past five years: While the DAX has lost just under 16%, the MDAX gained a good 56% over the same period. The MDAX valuation discount compared with the DAX in the form of a lower price-earnings ratio seen in earlier years no longer exists.

Performance in %	1 year 2005	5 years 2001-2005
K+S share (excluding dividends)	+ 30.6	+ 183.6
K+S share (including dividends)	+ 33.9	+ 212.2
DAX (performance index)	+ 27.1	(15.9)
MDAX (performance index)	+ 36.0	+ 56.4

Source: Bloomberg, 30 Dec. 2005

Performance of the K+S share in relation to the DAX and MDAX in 2005 (indexed)
(performance in %)



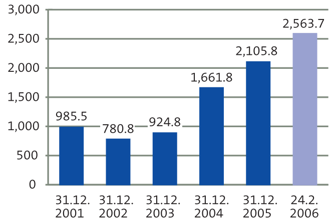
Source: Bloomberg; 24 Feb. 2006

K+S share gains 31% during the year under review

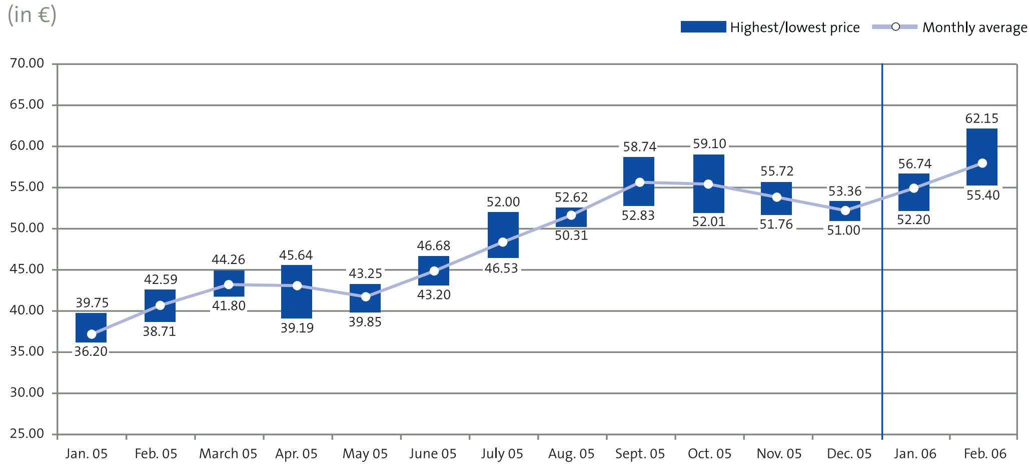
After having gained about 80% in 2004, the K+S share continued to display a positive trend over the past year. The ex-dividend markdown in May had an adverse effect on performance only temporarily and was made up again shortly afterwards. At the beginning of October, our share then rose to € 59.10, the highest level ever in its history. However, profit taking set in at this level – a frequent occurrence over the past two years – with the result that the share was "only" quoted at € 51.05 at the end of the year, which still represented an increase of 30.6% for the year. If the dividend paid is also taken into account, the gain even amounted to 33.9%. Thus, the performance of the K+S share over the course of the year was 7 percentage points better than that of the DAX and only 2 percentage points lower than that of the MDAX.

The renewed good performance is certainly attributable to clearly higher quarterly results that slightly exceeded the already ambitious consensus expectations of the capital market.

Market capitalisation of K+S Aktiengesellschaft
(€ million)

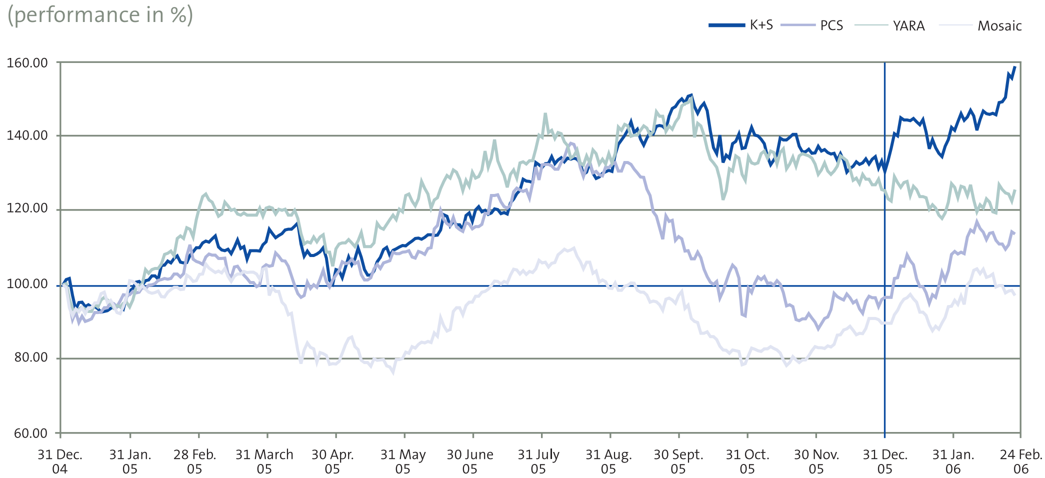


K+S share since 1 January 2005: Monthly highest, lowest and average price
(in €)



Source: Bloomberg, 24 Feb. 2006

Performance of the K+S share in relation to competitors in 2005 (indexed)
(performance in %)



Source: Bloomberg, 24 Feb. 2006

We consistently follow the performance of our share in comparison to our most similar competitors, the so-called Peer Group. Besides others, these are North American fertilizer producers Potash Corporation of Saskatchewan (PCS) and Mosaic as well as fertilizer supplier Yara of Norway. It is apparent from the graph showing how the respective share prices in local currency developed since year-end 2004, that K+S and Yara managed to clearly outpace competitors PCS and Mosaic. It is most likely that one argument explaining this difference in performance is that in the meantime energy prices in North America, especially for natural gas, are at times twice as high as in Europe.

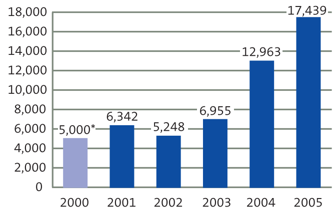
We highly welcome the general improvement in the image enjoyed by and assessment of the international fertilizer industry on the capital market. However, we have noted that individual developments of our competitors are frequently applied to K+S in an undifferentiated manner. As the K+S Group, compared 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 completely different factors from the global fertilizer market, a more differentiated approach needs to be followed in valuing the K+S share. Providing support to the capital market in this regard is a key task of our investor relations work.

On 24 February 2006, the K+S share was quoted at € 62.15. This means that the price of our share was up by 22 % against the end of 2005.

An investment in K+S shares has grown 28% per year over the past five years

Although the trend in share prices on global stock exchanges during the years 2000 to 2002 was a declining one, an investment in K+S shares over a five-year period has brought very good returns. A K+S shareholder who acquired K+S shares for € 5,000 on 29 December 2000 and reinvested dividend payments made over the following five years in K+S shares found his portfolio worth € 17,439 on 31 December 2005. The value of the portfolio rose on average by 28.4 % p. a. over these five years. Over the same period, the DAX and MDAX provided annual yields of (3.4) % and 9.4 %, respectively.

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



*investment

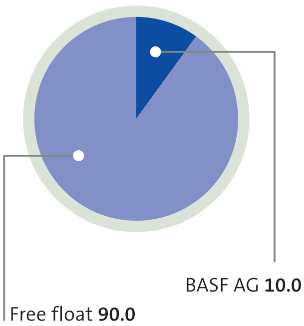
including reinvestment of dividends on the day after the Annual General Meeting and cash remaining

Repurchase of 1,250,000 shares or 3 % of the shares issued

Under a resolution adopted by the Annual General Meeting on 11 May 2005, we once again were authorized to acquire up to 10 % of our shares. After we had already made use of this instrument in the past and repurchased and cancelled 15 % of an original 50 million shares, on 7 October 2005 the Board of Executive Directors resolved a further share repurchase programme with a volume of 1.25 million shares or about 3 % of the shares issued. The implementation of the repurchase was entrusted to a financial institution, which made decisions concerning the timing and amount of individual repurchase transactions independently and uninfluenced by K+S AG. Shares were repurchased solely on the stock exchange, with the 1.25 million shares bought at an average price of € 53.32 and with an aggregate value of € 66.7 million. On 24 January 2006, the Board of Executive Directors, with the approval of the Supervisory Board, resolved the cancellation of the 1.25 million own shares that had been bought back without reducing the share capital. The number of K+S shares has therefore decreased to 41.25 million.

We will propose to the Annual General Meeting on 10 May 2006, that it should once again authorize us to acquire up to 10 % of our own shares for a further 18 months.

Shareholder structure
(in %, as of 31 Dec. 2005)



Shareholder structure characterized by high free float

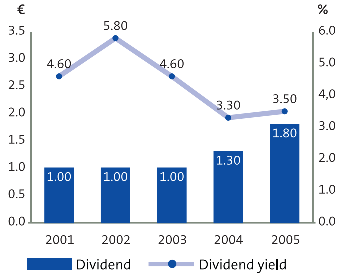
BASF AG holds about 10 % of our shares. The investment fund company Fidelity as well as the investment company Prudential and its subsidiary M&G Investment Management informed us on 18 November 2005, and on 23 November 2005, that their holdings had fallen below the 5 % threshold once again. On 3 February 2006, we were once again informed by the investment company Prudential and its subsidiary M&G Investment Management that their holdings of 5.2 % again exceeded the reportable threshold. Under the free float definition applied by Deutsche Börse AG, the free float remains unchanged at about 90 %. The shares are mainly held by German and foreign institutional investors and by a very large number of private investors as well as more than 8,000 K+S employees.

Proposed dividend increased by 38 %

We pursue an earnings-based dividend policy. As a result of the clear increase in earnings and the positive outlook, the Board of Executive Directors and the Supervisory Board will propose to the Annual General Meeting increasing the dividend again for financial year 2005. The proposed dividend will amount to € 1.80 and will therefore be 50 cents or 38 % higher than the previous dividend payment.

On the basis of the year-end closing price of € 51.05, the proposed dividend will result in a dividend yield of 3.5 %. Despite having risen significantly in price over the past few years, the K+S share remains an investment offering a high yield. This makes the share particularly attractive, because it offers an interesting investment alternative for both value and growth investors.

Dividends per share in € and dividend yields* in %



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

Listing in important stock market indices

According to the rankings for February 2005, we are currently placed 9th (previous year: 12th) in the MDAX in terms of market capitalisation and 17th (previous year: 19th) in terms of trading volume. This shows that there has been a further improvement in our relative importance within the MDAX. We will continue to work on further improving the trading volume criterion in particular, because higher turnover or higher liquidity for a share makes it more attractive for large-scale institutional investors and less susceptible to fluctuations.

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

Financial analysts positive on K+S share

In the last six months, 16 banks gave us a buy/accumulate recommendation and 3 a hold/neutral recommendation; no study gave us a reduce/sell investment recommendation. Those analysts who follow us regularly envisage an average target price for our share of just under € 63. 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.

Regular research coverage of K+S:

- Bankhaus Lampe
- Berenberg Bank
- B. Metzler seel. Sohn & Co. (new)
- Cazenove
- Cheuvreux (new)
- DZ Bank
- Deutsche Bank
- Dresdner Kleinwort Wasserstein
- HVB Equity Research
- Helaba Trust
- HSBC Trinkaus & Burkhardt
- Kepler Securities
- Landesbank Baden-Württemberg
- Landesbank Rheinland-Pfalz (new)
- M.M. Warburg & Co.
- Merck Finck & Co. (new)
- Sal. Oppenheim Research
- SEB
- Solventis Research
- Viscardi Securities (new)
- WestLB
- WGZ-Bank

Increasing demand for K+S 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 this way. This is also accomplished through our regular analyst conferences held in Frankfurt am Main in spring and in autumn as well as the 25 roadshows and conferences that alone last year were held in Germany, Great Britain, France, the Netherlands, Austria, Switzerland, Scandinavia and in the United States. In addition, we staged numerous conference calls, held face-to-face talks with investors and organised an analyst workshop on the advantages of potash fertilizers.

Our efforts are being rewarded by third parties: For example, the K+S annual report 2004 was placed 7th among 50 MDAX stocks in the highly regarded competition organised by manager-magazin and the magazine Capital, together with the DVFA, awarded our investor relations work 6th place in the MDAX on the basis of extensive assessments by banks and investment fund companies from all over Europe. "IR magazine" in an independent Europe-wide survey of more than 500 analysts and portfolio managers placed K+S' investor relations 18th among all the German companies included and, last but not least, anonymous surveys of our shareholders and analysts revealed a very high degree of satisfaction with our investor relations work. That there is keen interest in K+S is also evident from the fact that annual and quarterly reports were downloaded a total of 130,000 times, 46,000 times in English, from our homepage in 2005. We will communicate just as intensively with the capital market in the future too.

We publish all our annual and quarterly 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 – even podcasting subscriptions are possible since the autumn of last year. A special newsletter also ensures the automatic supply of current press releases and news concerning the company by e-mail.

K+S Aktiengesellschaft
Investor Relations
Bertha-von-Suttner-Strasse 7
34131 Kassel (Germany)

phone: 0561/9 301-14 60
fax: 0561/9 301-24 25
e-mail: investor-relations@k-plus-s.com
internet: www.k-plus-s.com/aktie/ir_en.cfm

Corporate Governance Report

- **Corporate Governance is lived at K+S**
- **Extensive compliance with Code recommendations**
- **Few exceptions to Code suggestions**

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 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, with a few exceptions, the German Corporate Governance Code, have formed the basis on which management and control within the Company has been shaped.

Declaration on conformity 2005/2006

On 16 March 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 2005 and will be complied with in 2006:

1. At its meeting on 16 March 2005, the Supervisory Board appointed an Audit Committee for the first time and thus took account of the recommendation contained in Code item 5.3.2. The other recommendations contained in the German Corporate Governance Code in the version of 21 May 2003 were complied with in 2005 with the following exceptions:
   a) According to Code item 5.4.5, remuneration should take account of chairmanship and membership of Supervisory Board committees. In addition to payment of an attendance allowance, this has been taken into account for the audit committee. No remuneration in addition to the separate attendance allowance is envisaged for membership and chairmanship in the remaining committees.
   b) The remuneration paid to members of the Board of Executive Directors and the Supervisory Board is not – contrary to the recommendations in items 4.2.4 and 5.4.5 – 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. Given the structure and appropriateness of the total amount of remuneration, its individualization would not yield any additional information.
2. In future, the recommendations contained in the German Corporate Governance Code in the new version of 2 June 2005, will be complied with except for the following:
   a) Chairmanship and membership of Supervisory Board committees will be taken into account in remuneration as has been the case hitherto (see above 1a; Code item 5.4.7).
   b) Details of the remuneration received by members of the Board of Executive Directors and the Supervisory Board will be published in 2006 as has been the case hitherto (see above 1b; Code items 4.2.4 and 5.4.7)."

This declaration on conformity is also carried on the Internet at www.k-plus-s.com.

With regard to the nonobligatory 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 (Code item 2.3.4). We have not recognised such interest thus 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 so far 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, because the 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 the Supervisory Board remuneration is linked to the level of the dividend.

Shareholders and the Annual General Meeting

Shareholders decide about fundamental matters affecting K+S AG by exercising their voting rights. Each share carries one vote. All documents of decision-making importance are also made available 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 present, our articles of association still stipulate that only those shareholders who have deposited their shares in advance are eligible to participate in the Annual General Meeting and exercise their voting rights. To encourage foreign shareholders in particular to exercise their voting rights, we want to amend this cumbersome and outdated procedure. In this regard, we will propose to the upcoming Annual General Meeting the introduction of an amendment into the articles of association which then will provide, in accordance with the German Act on the Integrity of Companies and Modernisation of the Contestation Right (UMAG), for the future application of the registration and identity procedure that employs the internationally customary "record date."

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 66 of this annual report).

The remuneration received by the Board of Executive Directors comprises fixed as well as variable, success- and performance-related components. 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. 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 performance of the K+S share in relation to 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 period of five years. The value of the stock options (hypothetical exercise on 31 December 2005) for the Board of Executive Directors is shown in the table on the left.

Stock option programme	Value in T €
2004	1.276
2005	1.228
Total	**2.504**

The Supervisory Board

The Supervisory Board has sixteen members and as required by the German Co-Determination Act (Mitbestimmungsgesetz), 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 (pages 6 f. 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 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 simultaneously 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 auditors. Its chairman is a member of the Supervisory Board.

In accordance with Article 12 of the articles of association, Supervisory Board members receive, in addition to the reimbursement of expenses and attendance allowance of € 200, fixed remuneration of € 10,000 and a variable component based on the level of 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 deputy chairman receives one and a half times the amount of such remuneration. The five members of the audit committee receive additional annual remuneration of € 5,000 each for serving on the committee, with the committee chairman receiving twice such amount. In addition, members of the Supervisory Board received remuneration totalling € 43,200 (2004: € 43,200) for 2005 as consideration for serving on the supervisory boards of group companies. No consultancy or other service and specific task agreements between members of the Supervisory Board and the Company were in force during the period under review.

T€	2005	2004
Total remuneration of the Supervisory Board	**964**	**721**
- fixed	286	240
- performance-related	678	481

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 company strategy, planning, the development of business and the financial and earnings position as well as about any particular business risks and opportunities. Important decisions – e. g. larger acquisitions, investment programmes and special financial measures – are subject to approval by the Supervisory Board. The company has taken out D&O insurance, which provides for an adequate deductible on the part of members of the Board of Executive Directors and of the Supervisory Board. 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

K+S is bound by the principle of equality of treatment. 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 important information such as press releases and ad hoc notifications is 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. All shareholders and interested readers 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 or disposals of K+S AG shares:

Date	Name	Transaction	Security	Number	Price in €
21.11.2005	Dr. Thomas Nöcker	Bought	K+S shares	300	54.96
17.11.2005	Dr. Ralf Bethke	Sold	K+S shares	10,971	54.71
09.09.2005	Klaus Krüger	Sold	K+S shares	100	54.91
08.09.2005	Dr. Helmut Zentgraf	Sold	K+S shares	220	54.42
25.07.2005	Gerd Grimmig	Sold	K+S shares	1,807	49.41
31.05.2005	Gerd Grimmig	Sold	K+S shares	1,850	43.05
18.05.2005	Dr. Ralf Bethke	Bought	K+S shares	3,818	42.62
18.05.2005	Norbert Steiner	Bought	K+S shares	1,765	43.15
18.05.2005	Gerd Grimmig	Bought	K+S shares	1,765	43.10
18.05.2005	Dr. Thomas Nöcker	Bought	K+S shares	1,684	42.96
18.05.2005	Joachim Vogt	Bought	K+S shares	1,758	42.85
18.05.2005	Dr. Helmut Zentgraf	Bought	K+S shares	555	41.83

Total K+S shares held by all the members of the Board of Executive Directors and the Supervisory Board as of 31 December 2005 amounted to less than 1% of the issued shares of the Company.

Accounting policies and audit

Until 2004, the accounting standards applied by K+S Aktiengesellschaft and the K+S Group conformed to the principles set forth in the German Commercial Code. International Financial Reporting Standards (IFRSs) were applied from the beginning of 2005. The financial statements are audited by Deloitte & Touche GmbH, Hanover, which has issued an independence declaration 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 fees and the main topics to be covered by the audit process have been determined in consultation with the auditors. It has been agreed with the auditors that the chairman of the Supervisory Board and the chairman of the audit committee are to be immediately advised 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 of conformity issued by the Board of Executive Directors and the Supervisory Board in accordance with Section 161 of the German Stock Corporation Act.

The healthier the company core, the more promising the future.

Our favourable starting position opens up many opportunities for growth. We operate in growing markets. One of our goals is to continue to develop dynamically in the future too. International competitiveness and innovations are the cornerstones of this process. Organic growth is just as much a part of this as successful acquisitions. We expect much of the future.

Business and General Environment

Group structure and business operations

Group legal structure

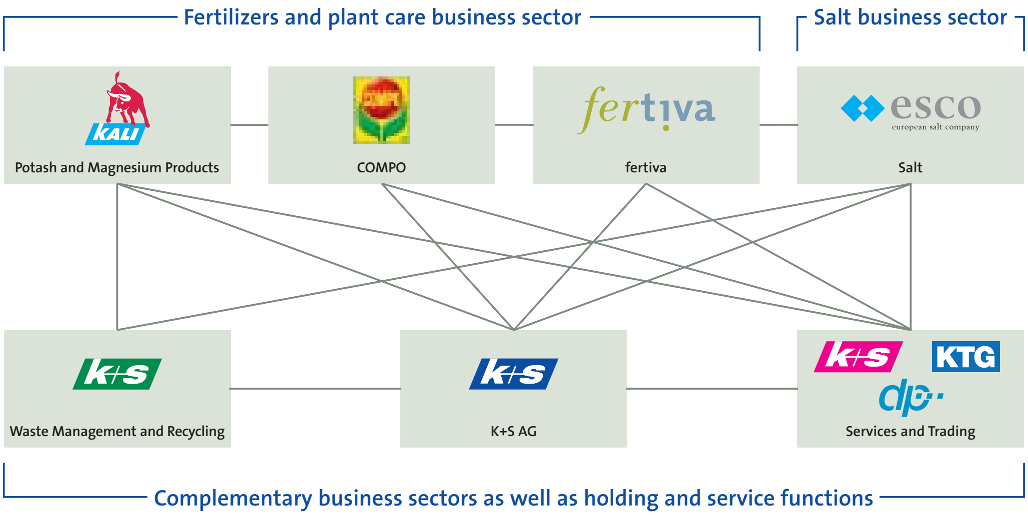
K+S AG acts as the holding company for the K+S Group. The economic development of the K+S Group is influenced to a substantial degree by the position of the direct and indirect subsidiaries located in Germany and abroad. In addition to the parent company, K+S AG, all significant subsidiaries in which 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 and fertiva GmbH are significant direct subsidiaries. esco GmbH & Co. KG as well as COMPO GmbH & Co. KG are held through intermediate holding companies. While in the case of K+S KALI GmbH and esco GmbH & Co. KG the business segments' foreign subsidiaries are grouped together in own subsidiaries, 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 represented through subsidiaries of K+S AG or are integrated with K+S AG.

The scope of consolidation changed as follows in 2005: park GmbH and COMPO Fertilizantes de México S.A. de C.V. were fully consolidated for the first time. In addition, the companies K+S KALI & SCPA France S.A.S., Compagnie de Compactage de Wittenheim S.A.S., SCPA du Roure S.A.S., SCPA Masdac S.A.S. as well as SCPA Rodez S.A.S. were consolidated for the first time as a result of the acquisition of the distribution activities of French SCPA. The companies acquired produce and distribute fertilizers and speciality products for agriculture in France.

Business sectors, organisational structure and key sites

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



Potash and Magnesium Products business segment

The Potash and Magnesium Products business segment is largely reflected in K+S KALI GmbH and its subsidiaries. In addition to its administrative headquarters in Kassel as well as production sites in Hesse, Lower Saxony, Saxony-Anhalt, Thuringia and 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 in Europe and overseas. COMPO GmbH & Co. KG has own sites in Münster and Krefeld and its domestic subsidiaries are located in Gnarrenburg, Uchte and Recklinghausen.

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 channels of the Potash and Magnesium Products as well as COMPO business segments.

Salt business segment
The Salt business segment mainly comprises esco GmbH & Co. KG and its subsidiaries in Germany and abroad. esco operates three rock salt mines in Germany, three brine plants and eight plants processing evaporated salt in Belgium, Germany, France, Portugal, Spain and the Netherlands as well as a sea salt finishing plant in Portugal.

Waste Management and Recycling business segment
The waste disposal and recycling activities of the K+S Group are largely based on the active production sites at potash and rock salt plants. While the marketing of waste disposal and recycling services in Germany is pooled in K+S Entsorgung GmbH, they are mainly marketed elsewhere in Europe through the local K+S Group companies, whose waste disposal activities are also directed by K+S Entsorgung GmbH.

Services and Trading business segment
Various activities of functional importance for the K+S Group are bundled in the Services and Trading business segment in addition to CATSAN® granulation. The group possesses an own powerful logistics service provider in Kali-Transport Gesellschaft mbH, Hamburg, and its subsidiaries. The range of services offered by data process GmbH 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 trades in chemicals and magnesium metals. Finally, K+S Consulting GmbH and biodata ANALYTIK GmbH offer services in the field of analytics and specialised project consulting.

At the end of 2005, the K+S Group employed about 11,000 people in Germany and abroad. The following table provides an overview of the most important K+S Group sites and their staff employed at the end of 2005:

Important K+S Group Sites	Business Segment	Employees
Headquarters, Kassel, Hesse	K+S Group	458
Werra Verbund plant, Hesse and Thuringia (Heringen/Merkers/Philippsthal/Unterbreizbach)	Potash and Magnesium Products	4,087
Zielitz plant, Saxony-Anhalt	Potash and Magnesium Products	1,580
Sigmundshall plant, Lower Saxony	Potash and Magnesium Products	758
Neuhof-Ellers plant, Hesse	Potash and Magnesium Products	680
Bernburg plant, Saxony-Anhalt	Salt	456
Borth plant, North Rhine-Westphalia	Salt	299
Münster, North Rhine-Westphalia	COMPO	340

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:

- the clear and consistent allocation of tasks and powers
- earnings optimisation
- best possible exploitation of opportunities along with limitation of risks in the best way possible
- optimal use of available knowledge (“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 and holding functions both in a professional and disciplinary way. The business allocation plan defines the divisional responsibilities of the members of the Board of Executive Directors. The responsible members of the Board of Executive Directors lay down the respective area and scope of responsibility for the heads of the business segments and holding functions in written function descriptions. The heads of the business segments and holding functions are responsible for their costs and manage their subunits in a professional and disciplinary manner.

Important products and services

Potash and Magnesium Products business segment

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

COMPO business segment

The COMPO business segment is Europe's leading provider of premium products in the field of speciality fertilizers and plant care for the private garden. COMPO also occupies an important position in Europe with regard to speciality crops as well as professional horticultural application areas. In addition to engaging in production at its own sites, COMPO has some of its products produced by our partner BASF. In addition, COMPO, together with fertiva, makes use of the recognized research and development competence of the BASF Group.

fertiva business segment

fertiva markets agricultural fertilizers produced exclusively for it by BASF on the basis of a long-term trading relationship. To a very limited extent, it also trades in goods purchased from other well-known European producers.

Salt business segment

The Salt business segment's product range covers table 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 production of oil and natural gas) as well as in the pharmaceutical industry; salt for chemical transformation 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 range of services offered by the Services and Trading business segment extends from the granulation of CATSAN® cat litter, through own logistics and IT service providers, trading activities involving chemicals, magnesium metals and calcium chloride for prewetted de-icing agents used by winter road clearance services to services in the field of analytics and professional project consulting, e. g. in connection with geological studies.

You can find a detailed description of the individual business segments and how they are linked to realise synergies within our corporate group on pages 18 f.

Important markets and competitive positions

The K+S Group generates approximately three quarters and thus the bulk of its revenues in Europe. This is because all our production sites have hitherto been located in Europe, especially in Germany, and transport costs account for a comparatively high share in relation to the selling prices of our products. We thus profit from the fact that our production sites are very attractively positioned in relation to our customers in terms of freight costs. We lead in Europe with our Potash and Magnesium Products, COMPO as well as Salt business segments. In Europe, fertiva is a major provider of nitrogenous fertilizers and occupies a leading position in Europe for nitrogen fertilizers containing sulphur in particular. The Waste Management and Recycling business segment is one of Germany's most important providers of underground disposal services.

Given the seasonal nature of the major part of our product sales, we are also exploiting the opportunities offered by selected overseas markets because of the differences in the times when fertilizers are applied. For reasons of freight cost and earnings optimisation, we thus ship most of our overseas fertilizer sales to Latin America, and in large part to Brazil in particular. The fertilizer business has developed into a global business, with the result that we are also present on other continents such as Africa, Asia and Australia, for example, although our market positions for standard fertilizers in these regions are of lesser significance.

Legal and economic influencing factors

The K+S Group must observe numerous laws and legal directives: As a mining company, German mining and environmental law (e. g. water law, emissions law, waste law, soil protection law etc.) as well as work and health safety law are of relevance to us alongside tax, collective wage agreement, labour and corporate law.

In terms of economic influencing factors, transport, energy and raw material costs as well as the development of the US dollar exchange rate are of particular importance. German collective wage agreements also impact on the success of the K+S Group, as about 90% 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 weaker earnings by means of variable salary components, linked to both individual performance as well as to business segment and company success, and flexible working hours models.

Corporate management, goals and strategy

Internal corporate management system

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

- Management information reporting entailing a meeting once a quarter
- Rolling monthly budgets/liquidity development
- Monthly reports of business segments and units
- Reports on exchange rate hedging transactions
- Commissions for capital expenditure, acquisitions and personnel as well as joint committees for safety, health and environmental protection

The management system envisages regular strategic consultations at the Board of Executive Directors' and head of business segments' levels in order to then systematically implement the appropriate result in the form of medium-term plans and agreed targets. The Board of Executive Directors and the business segment heads receive monthly information on the trends in key indicators for the Group and its business segments. Commentary is provided on the development and variances with respect to revenues, costs, sales, output, personnel, capital expenditure as well as other financial indicators. At joint meetings attended by 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 other significant entrepreneurial measures are discussed.

In addition, the Board of Executive Directors and business segment heads receive monthly information on projected earnings for the Group as well as the individual business segments and units. The focus is on changes of the revenue and cost elements of the income statement compared with the estimate made in the preceding month. A cash flow statement is used to present the anticipated level of cash and cash equivalents as of the end of the year.

At the beginning of the month, the members of the Board of Executive Directors are informed by the business segments and units about the previous month's performance. Customer and competition trends, market aspects, raw material prices and output data are presented and discussed.

K+S hedges its anticipated net US dollar position in the Potash and Magnesium business segment in advance on a revolving basis for a period of about three years. Activities and relevant events connected with hedging transactions are reported to the Board of Executive Directors in a timely manner. The focus in this respect is on volume, hedged rates, premiums paid as well as the anticipated volume of payments in foreign currency, the latter being reviewed at regular intervals. The emphasis is on the hedging to offset a marked weakening of the US dollar in relation to the euro, as a significant proportion of revenues is invoiced in US dollar.

The Board of Executive Directors has established special bodies to review, assess and approve capital expenditure projects and acquisitions. The key criteria used in assessing such projects from a financial angle are the discounted cash flow method and annuities.

The permanent integration of all corporate sectors into the risk management and the internal corporate management system ensures short response times to changes in the environment. 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 key focus of financial targets is on achieving a lasting increase in the enterprise value of the K+S Group. A high level of enterprise value ensures the necessary independence to take business decisions of relevance for the long-term success of the K+S Group. We are focussing on the creation of value added, i.e. we want to earn a premium on our cost of capital on a lasting basis. Against this backdrop, we use ratios such as return on capital employed, return on investment, return on equity and return on total capital to analyse such targets. Thus, acquisitions should achieve a return on investment of between 10 % and 15 % before taxes in the third year after acquisition.

Nonfinancial targets

There are three main nonfinancial targets that are necessary 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

The challenge consists in striking a balance between these three target groups. If that is attained, then it becomes possible to forge a relationship based on trust with our customers, to possibly be allowed to expect more of our suppliers than has been agreed in an order, and to tap employee potential that will enable the K+S Group to move forward overall. Thus, if the balance is right, then reputation will be enhanced, and that in turn is important for business, especially tomorrow's business.

The K+S Group is currently in the process of formulating a code of conduct that is intended to, among other things, clearly define and thus firmly establish basic principles governing dealings with customers, suppliers and employees.

Strategy

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

- The 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 above all. This specialisation strategy will give us the opportunity to achieve greater value added and become less dependent on standard products.
- Enhancing efficiency and exploiting synergies: To ensure our lasting presence on world markets, we will continue to work consistently on further enhancing our 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 fertilizer, plant care and salt 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.

Research and development

Direction of R&D activities

K+S Aktiengesellschaft operates a research institute of its own. A focus of our activities is research into and the development of new and improved products. In this regard, we direct our attention to providing nutrition to plants that meets needs over the entire vegetation cycle. A further focus is the use of up-to-date and environmentally friendly production processes; they are being developed further with a view to making efficient use of energy as well as human and material resources. In addition, we use innovative analysis methods and the latest process technologies to constantly improve timely production control. Finally, we provide support for the sale of our fertilizers in the form of targeted agricultural advice.

To ensure the effective transfer of knowledge within research and to optimise the leveraging of synergies, all research activities are managed and provided with budgets centrally. With regard to documentation and reporting, the principles of modern knowledge management are applied and research results are made available groupwide by means of a central database.

At the end of the year, 55 employees were working in research for the K+S Group.

Use of external R&D know-how

The procuring of research services from third parties is 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 specialised 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 to a very diverse range of crops growing in local soil conditions in various climatic zones.
- Research and development connected with nitrogen fertilizers is conducted by BASF at its Limburgerhof research institute on our behalf. This institute brings together decades of competence and expertise in this area. The work performed there is conducted exclusively for COMPO and fertiva. The institute also centrally controls international field tests for nitrogen fertilizers. In this regard, the Limburgerhof employees cooperate closely with COMPO and fertiva product management.
- In scientific/technical fields we work together with Universities, most of which are in Germany. This ensures that we have early access to up-to-date scientific know-how. We provide support to young scholars by financing studies at the undergraduate, diploma and doctoral levels. This allows us to identify talent early on and to recruit qualified candidates for our company.

In 2005, a total of € 4.1 million was spent on external research services, compared with € 4.2 million in the preceding year.

R&D expenses and R&D capital expenditure

During the period under review, research and development expenses totalled € 13.0 million and were thus up slightly on the preceding year (2004: € 12.1 million). The Potash and Magnesium Products business segment accounted for € 5.5 million of the research activities, the COMPO business segment for € 3.3 million, the fertiva business segment for € 1.1 million and the Salt business segment for € 0.9 million.

€ million	R&D expenses	Capital expenditure in development
2005	**13.0**	**1.9**
2004	12.1	1.2

We want to conduct our clearly defined research and development, which is closely coordinated with marketing specialists, on the same basis in the future too, so that moderately rising research expenses are expected over the coming two years.

The increase in development-related capital expenditure is primarily attributable to more intensive research in the COMPO business segment. As a result of the changeover of our accounting standards to IFRSs effected last year and the resulting need to capitalise certain development costs, we will not report depreciation on development-related capital expenditure until the coming years, although it will, however, be on a low level.

R&D results

Potash and Magnesium Products business segment

The use of spectroscopic processes has undergone further development. Research has been conducted into application areas that facilitate the analysis of solid materials such as crude salt or intermediate products as well as numerous process solutions. The measurement results, obtained in real time, are increasingly fed into process control technology and used to achieve more accurate and stable control over processes; this results in enhanced yield rates.

COMPO business segment

At the Krefeld site, a facility for the production of coated slow-release fertilizers was redesigned and technically executed. The new facility increases production capacity; in this regard, new process parameters will be employed. The modern facility will go into operation in the first quarter of 2006.

The marketing potential for ENTEC® fertilizers has been increased. Application and stabilisation tests involving the use of the patented and established nitrification inhibitor on products commonly available on the market resulted in the successful development of new COMPO products.

In addition, the market launch was successfully completed for an ISODUR® slow-release fertilizer made available as a spray solution for the first time.

Salt business segment

In the future, the Salt business segment will offer two grades of quality for pharmaceutical salt: API sodium chlorides and HD sodium chlorides. API stands for “active pharmaceutical ingredients”; this product will be made from April 2006 in accordance with the GMP (“Good Manufacturing Practice”) guidelines for the production of active ingredients. API sodium chloride is ideal for applications in parenteral, i.e. artificial nutrition and in dialysis solutions. HD stands for “hemodialysis”; this product is used in dialysis and hemofiltration.

Brand and patent portfolio

It was possible to further extend the brand portfolio significantly; there were 143 new additions and 34 deletions. As of the reporting date, the Group held 4,113 (2004: 4,004) proprietary protection rights for trademarks. No licence fees were generated. Our worldwide patent portfolio comprised 412 patent rights, which represents a decrease of 14% compared with the strong rise in 2004. In 2005, 32 new patent applications were recorded, compared with the removal of 100 expired or unused patents from the patent portfolio.

Overview of business

Percentage change in Gross Domestic Product:

(real in %)	Germany	EU 25	World
2005	**+ 0.9**	**+ 1.5**	**+ 4.3**
2004	+ 1.6	+ 2.4	+ 5.1
2003	(0.2)	+ 1.2	+ 4.0
2002	+ 0.1	+ 1.2	+ 3.0
2001	+ 1.2	+ 1.9	+ 2.4

Source: EUROSTAT, IMF

Macroeconomic environment

Following the record year 2004, global economic growth slowed down marginally to a good 4% despite the steep rise in oil prices. At the beginning of September 2005, Brent oil was traded at a historic high of US$ 70 per barrel in the wake of the production losses resulting from hurricane Katrina. The price has eased significantly since then: At the beginning of December, it was just under US$ 55 per barrel and thus almost on the same level as the average for 2005. However, even at this price, it was necessary to pay almost US$ 20 more per barrel than in 2004.

China, where growth remained high at just under 10%, once again acted as a key driving force behind global growth. The corresponding figures for the United States and Japan were 3.5% and 2.5% respectively. According to preliminary estimates, the European Union's economy grew by about 1.5%. While the economy grew at a moderate pace initially, there were increasing signs of a tangible upturn in the second half of the year. This was primarily driven by strong exports and higher demand related to capital expenditure. Consumption remained weak at first, but also picked up over the course of the year which should continue this year.

German GDP grew by just 0.9% in real terms. This represents a marked decrease on the previous year, which did, however, profit from a positive calendar-related effect, i.e. additional working days. Without this calendar effect, GDP would have remained largely stable, growing by just over 1.0%. Growth was once again mainly driven by exports while domestic demand was weak overall.

In 2005, developments on international foreign exchange markets were influenced by a strengthening of the US dollar. The considerable weakness of the US dollar at the end of 2004 and beginning of 2005 could be more than made up for in relation to most currencies during the course of the year. The US dollar rose by about 13% in relation to the euro over 2005. However, there was no change in the average exchange rate last year (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 strengthening of the US dollar during the course of 2005 made it necessary to adjust the currency options used to hedge exchange rates, with the result that our average hedged rate was somewhat less favourable, but at USD/EUR 1.15 (after premium costs) was still significantly better than the average spot rate of USD/EUR 1.24 for the year 2005.
- In addition to the absolute relation of the exchange rates a relative comparison between the European currency 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 dollar. While the US dollar became firmer against the euro last year, it weakened against the Canadian currency. This tended to encourage Canadian suppliers to pass on the less favourable exchange rate to customers in the form of higher US dollar prices – a trend that benefits K+S as long as the euro appreciates less strongly against the US dollar.

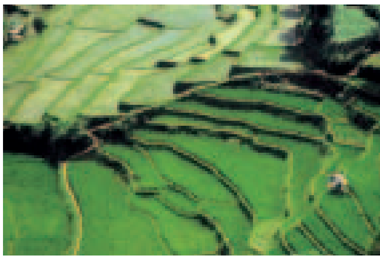
USD/EUR development compared with USD/CAN
(performance in %)

Source: Bloomberg

- The consumer restraint that has been evidenced in Europe for a number of years made it more difficult to sell the consumer products offered by our COMPO business segment. We have responded to this trend by streamlining our product portfolio as well as our distribution structure. With consumer demand having picked up once again in the meantime, we take a positive view of 2006.
- The sharp rise in oil and gas prices last year made itself felt in our energy bill as well. In addition, higher energy prices in Western Europe and particularly in North America caused ammonia output there to become more scarce, thus driving up world market price levels for ammonia and consequently, acquisition costs for the COMPO and fertiva business segments. However, we were in a position to pass on the rise in costs in the form of higher prices.

Industry-specific conditions

Fertilizer and plant care business sector



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 too: 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 and a rise in meat consumption in particular. 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 driving urbanisation which tends to decrease the amount of land available for agriculture. Population growth in emerging countries is thus 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, professional and modern agriculture that includes the efficient use of fertilizers.

Global fertilizer markets were in robust shape overall in 2005, although trends in individual regions differed. Growth is being driven by positive trends in Asia, with China and India showing substantial increase in demand in particular. Other regions, such as Western Europe, North America and, above all, Latin America, fell short of the in part very high sales volumes achieved in the preceding year. The Brazilian market in particular experienced a marked downward trend as a result of drought in the southern regions, of lower international prices for agricultural produce and of the appreciation of the Brazilian real in relation to the US dollar. By contrast, a moderate boost in demand – albeit on a low level – was evidenced in Eastern Europe and in the states of the former Soviet Union.

Fertilizer prices have attained a high, relatively stable level because of the good supply and demand situation worldwide in the case of potash and because of the sharp rise worldwide in energy costs in the case of nitrogen. Significantly higher average prices compared with 2004 enabled most suppliers – including the K+S Group – to offset higher costs, especially for energy and freight.

Salt business segment

The Western European salt market was in robust shape. With the exception of de-icing salt, fluctuations in consumption in individual segments were relatively slight. As was the case in the previous year, imports from Eastern Europe 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. Despite a difficult market environment, esco succeeded in defending its market leadership in Europe.

Key events affecting the course of business

- On 19 November 2005, the EU Commission found that the two Russian potash suppliers Uralkali and Silvinit were continuing to offer their products at dumping prices, although not on the same scale as a few years ago. This fact has been taken into account in that the EU will no longer levy protective tariffs on Russian potash fertilizers imported into the EU 15, but has concluded individual bilateral agreements with the two Russian suppliers. These agreements, also referred to as undertakings, include the assumption of voluntary obligations by the Russian competitors with respect to maximum quantities and minimum prices. The K+S Group was involved in the evaluation process and – based on its experience gained – had expected such a decision. The EU Commission has yet to issue a decision concerning the Belarus potash supplier Belaruskali: The decision is expected to be issued by the middle of the year at the latest.
- Both the first and fourth quarters were influenced by prolonged winter weather conditions in Northern and Central Europe with the result that sales of de-icing salt of the Salt business segment last year were well above the many years' average.
- The agreement on broad cooperation between COMPO and Syngenta, a leading producer of plant protection products, will enable us to develop and market internationally a full range of plant protection products and pesticides for the consumer lawn and garden area in Europe. The first positive contributions to revenues and earnings deriving from this cooperation are expected starting in 2007.

Trend in share price

The very good operating development was also reflected in the valuation of the K+S share. Over the course of the year, the price rose by 31% to close the year at € 51.05. You can find a detailed description of the K+S share price, price development, ratios and further important information about the K+S share on page 28.

Board of Executive Directors' general statement on the course of business in 2005

The past financial year was the best so far in the history of the K+S Group. All the business segments were able to close the year with positive results: This was possible thanks to rising fertilizer prices, progress on internal efficiency improvements as well as outstanding sales of de-icing salt above all. Overall, we were able to consolidate our market positions and profit from rising demand as a result of our improved and internationally competitive cost structures.

Comparison of actual and projected course of business

The course of business in 2005 was better than our original estimates. On 10 August 2005, in connection with the release of our interim report, we issued an earnings forecast in the range of € 215 million to € 230 million for 2005 as a whole for the first time. After it had become apparent that the price increase for potash fertilizers in the second half of the year had been successful, we raised the range of our earnings forecast to between € 225 million and € 235 million in connection with our third quarter interim report. At this point in time, we assumed, as is customary, that sales of de-icing salt in the fourth quarter would be average. However, when it was established in January that winter weather conditions in the fourth quarter had resulted in a very good de-icing salt business once again and that good results had also been obtained for potash and magnesium products towards the end of the year, we issued an ad hoc notification on 27 January 2006, after completing a preliminary earnings estimate, stating that the operating earnings (EBIT I) of the K+S Group were expected to amount to about € 250 million.

Earnings and Financial Position

Earnings position

At € 2.8 billion, revenues rise significantly year on year

We posted revenues of € 2,815.7 million for financial year 2005, up 10.9% year on year. A slight seasonality of revenues was 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 the fertilizer and plant care business sectors benefit from the start of the spring fertilizing season in Europe. Furthermore, a heavy winter – as was the case in 2005 – can have a further positive effect on de-icing 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.

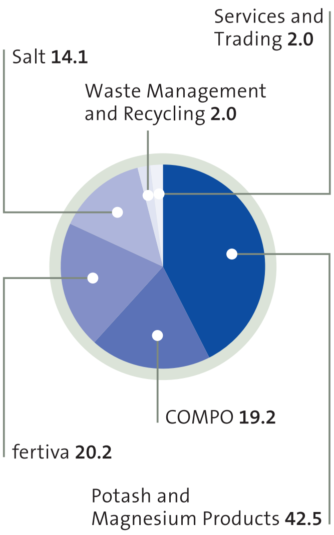
Revenues by business segment							
€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Potash and Magnesium Products	312.2	306.4	261.4	317.2	**1,197.2**	1,031.2	+ 16.1
COMPO	199.2	144.8	89.9	107.8	**541.7**	525.1	+ 3.2
fertiva	120.4	138.3	170.1	139.5	**568.3**	513.8	+ 10.6
Salt	136.1	65.2	75.1	121.6	**398.0**	357.8	+ 11.2
Waste Management and Recycling	12.5	14.8	13.7	15.0	**56.0**	59.2	(5.4)
Services and Trading	14.7	12.7	12.2	14.9	**54.5**	51.5	+ 5.8
K+S Group	**795.1**	**682.2**	**622.4**	**716.0**	**2,815.7**	**2,538.6**	**+ 10.9**
Share of total revenues in %	28.3	24.2	22.1	25.4	100.0	–	–

Variance € million	2005	%
Change in revenues	**277.1**	100.0
- volume/structure	9.7	3.5
- prices	236.5	85.3
- exchange rates	(0.7)	(0.2)
- consolidation	31.6	11.4

The strong rise in revenues was mainly attributable to price increases. As there was scarcely any change in the average spot rate compared with the previous year, currency factors did not have any significant impact on group revenues. The first-time inclusion of the SCPA activities in the Potash and Magnesium Products business segment and of two COMPO companies resulted in a consolidation-related increase in revenues of € 31.6 million.

While the Potash and Magnesium Products, fertiva and COMPO business segments were mainly able to grow their revenues by means of higher fertilizer prices, the Salt business segment was able to significantly boost sales of de-icing salt once again as a result of the weather conditions prevailing at the beginning and at the end of last year.

Revenues by segment
(in %)



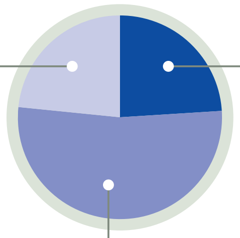
The Potash and Magnesium Products business segment has the highest revenues of all the K+S Group's business segments, accounting for about 43% of total revenues, and is followed by fertiva, COMPO and Salt. In Europe, we achieved revenues of € 2,155.1 million. The region thus accounted for more than three quarters of total revenues. Being a purely European producer thus far, Europe is particularly important for us, because we can leverage our advantages in terms of transport costs. Revenues generated on overseas markets rose by 20% to a total of € 660.6 million, which means that the share of revenues accounted for by them rose by just under two percentage points in relation to 2004.

Trend in orders

Most of the K+S group's business consists of spot transactions, i.e. there are no longer-term agreements for fixed delivery volume. The small percentage of the backlog 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 framework agreements with nonbinding 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.

Revenues by region
(in %)



Operating earnings (EBIT I) up 54 % year on year
The operating earnings (EBIT I) exclude the noncash 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 € 250.9 million, operating earnings (EBIT I) were up € 88.0 million, or about 54%, on last year's figure (2004: € 162.9 million). The greatest increase was once again posted by the Potash and Magnesium Products business segment, but also the fertiva and Salt business segments were once more able to exceed the very good results that they obtained the year before. The increase in earnings is mainly attributable to higher prices for standard and speciality fertilizers as well as higher sales of de-icing salt. It was possible to more than offset countervailing trends in costs.

Regarding the most important individual costs: With the headcount remaining almost the same, personnel expenses rose by 9 % to € 671.1 million also as a result of higher variable earnings-related bonuses. As the level of such bonuses for the year under review was only slightly below the agreed ceilings, a smaller percentage increase is expected for 2006 even if earnings rise. Energy costs rose significantly in 2005, increasing by 26 % to about € 157.7 million. This was mainly the result of the higher price of gas and of heavy heating oil, which is an important reference variable for us. In addition, we also had to accept an increase in freight costs, which rose by 11 % to € 377.9 million during the reporting period. The sourcing of raw materials, especially ammonia for the production of nitrogen fertilizers, also became more expensive, increasing by an amount in the upper single-digit percentage range.

The EBIT margin for 2005 reached 8.9 %, representing an improvement of 2.5 percentage points on the previous year.

EBIT I by business segment

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Potash and Magnesium Products	36.7	46.4	31.7	37.0	**151.8**	71.2	+ 113.2
COMPO	18.3	7.3	(1.4)	0.8	**25.0**	23.9	+ 4.6
fertiva	5.4	5.3	2.5	1.6	**14.8**	10.1	+ 46.5
Salt	38.9	2.0	4.4	17.4	**62.7**	56.7	+ 10.6
Waste Management and Recycling	1.5	3.2	1.8	1.6	**8.1**	8.1	–
Services and Trading	6.1	5.6	5.6	2.8	**20.1**	22.1	(9.0)
Reconciliation*	(7.5)	(5.7)	(6.0)	(12.4)	**(31.6)**	(29.2)	+ 8.2
K+S Group	**99.4**	**64.1**	**38.6**	**48.8**	**250.9**	**162.9**	**+ 54.0**
Share of total EBIT I in %	39.6	25.5	15.4	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 is even more pronounced in the case of 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 two thirds of the total earnings being generated in the first half of the year.

The reconciliation for the past year amounted to € (31.6) million, which represents a slight increase of € 2.4 million. This was primarily attributable to higher provisions for the earnings-related bonuses that are to be paid to employees in the spring of 2006 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.

Development in other key items of the income statement
At 35.7 %, gross margin improved by 1.7 percentage points
While revenues increased by 10.9% year on year, cost of sales only rose by 8.1%. Thus, the cost increases referred to in the preceding section relating to personnel, energy and raw materials – to mention just the most important ones – could not only be passed on in prices but the gross margin could be raised by 1.7 percentage points. This is mainly attributable to lower worldwide supply of potash fertilizers in relation to demand, which enabled us – with relatively high capacity utilisation viewed in the industry as a whole –

to improve profitability. Our efficiency-enhancing efforts made over the past few years have also contributed to this positive trend: Thus, the extension of working hours to 40 hours per week without direct pay compensation that has been applied in the largest business segment, Potash and Magnesium Products, since the autumn of 2004 had an overall positive impact on cost levels despite being linked to higher earnings-related bonuses.

Selling expenses mainly influenced by freight costs

K+S Group selling expenses rose by € 46.4 million or 7 % to € 673.0 million. In the case of K+S, freight costs account for just over one half of selling expenses and rose by € 38.7 million in relation to 2004. Thus, the increase in selling expenses is in large part due to higher freight costs.

General and administrative expenses rose

During the year under review, general and administrative expenses amounted to € 71.7 million, an increase of € 7.5 million or 12 % year on year. Above all, the first-time consolidation of French SCPA activities as well as the higher earnings-related bonuses resulting from the good course of business contributed to this increase. Measured against revenues, general and administrative expenses at only 2.5 % are relatively low.

Other operating income and expenses

The balance of other operating income and expenses amounted to € (5.0) million for the past year. The negative balance was € 4.5 million higher than a year ago and mainly the result of somewhat higher allocations to provisions and higher depreciation.

Investment income, net

At € 9.1 million (2004: € 2.4 million), net income from investment increased significantly last year. The increase was mainly attributable to special income resulting from 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 noncash changes in the market value of options that are still outstanding as 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 active currency management, including the acceptance of additional premium payments to adjust the barriers, we could ensure that a hedge was retained until the exercise date.

During the year under review, earnings after market value changes (EBIT II) rose by € 135.2 million to € 271.7 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 option terms.

Financial result showed slight improvement

As the interest rates obtainable on the capital markets continued to remain low, this – despite a slightly higher investment volume – generated interest income that was insufficient to compensate for noncash interest expenses of € 9.5 million relating to pension provisions (2004: € 9.6 million) and € 13.9 million (2004: € 12.8 million) relating to provisions for mining obligations. Overall, however, there was a slight improvement year on year in net interest income, which amounted to € (17.8) million compared with € (18.5) million a year ago. After taking into account the also slight improvement of € 5.7 million in the other components of the financial result, the negative financial result was reduced by € 1.0 million to € (12.1) million.

Adjusted earnings before taxes rose by 59 %

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 € 259.6 million in the reporting period. If these earnings are adjusted for the noncash market value changes of € 20.8 million, adjusted earnings before taxes amount to € 238.8 million. Thus, this more informative financial indicator for assessing economic success improved by € 88.9 million or 59 % year on year. Given that there was almost no change in the financial result, the effect of the significant rise in operating earnings was undiminished.

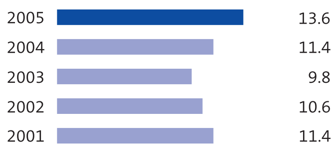
Adjusted Group earnings rose by 56%

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Group earnings	91.3	13.5	33.3	36.3	174.4	86.8	+ 100.9
Group earnings, adjusted	**60.7**	**41.1**	**23.8**	**35.7**	**161.3**	**103.5**	**+ 55.8**
Earnings per share in €	2.15	0.32	0.78	0.87	4.12	2.04	+ 102.0
Earnings per share in €, adjusted	**1.43**	**0.97**	**0.56**	**0.86**	**3.81**	**2.43**	**+ 56.8**
Average number of shares	42.5	42.5	42.5	41.7	42.3	42.5	(0.5)

Group earnings after taxes and minority interests for the year under review rose by € 87.6 million to € 174.4 million and thus almost doubled. In addition to the very good operating development, this also reflected the positive changes in the market value of the derivatives. 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 group earnings adjusted for this effect. This also eliminates the impact of market value changes on deferred taxes. Adjusted Group earnings are computed as follows:

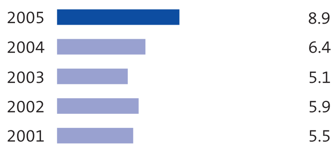
Computation of adjusted Group earnings in € million	2005	2004
Group earnings after taxes and minority interests	174.4	86.8
Elimination of market value changes from hedging transactions	(20.8)	+ 26.5
Elimination of resulting deferred taxes at flat rate 37.0%	+ 7.7	(9.8)
Group earnings after taxes and minority interests, adjusted	**161.3**	**103.5**

EBITDA margin
(in %)



There has been no significant change in the tax environment in Germany compared with the preceding year. It should, however, be noted that because of tax loss carryforwards, the bulk of the taxes reported are noncash and constitute so-called deferred taxes. An additional factor is that the market value changes in our currency options also given rise to deferred taxes on a not insignificant scale. Thus, last year's tax expense as a whole rose by € 48.5 million to € 85.1 million, but deferred taxes accounted for € 35.5 million of this figure. The effective tax expense was thus € 49.6 million, which – in relation to adjusted earnings before taxes – corresponds to an effective tax rate of 21%, compared with 15% in 2004. The increase in the effective tax rate is attributable to the expiry of the K+S AG trade tax loss carryforward last year; the corporate income tax loss carryforward should remain valid until 2007.

EBIT margin
(in %)



Based on Group earnings, adjusted earnings per share were thus € 3.81 per share, up € 1.38 or 57% year on year. The determination is based on an average 42.3 million no-par value shares (2004: 42.5 million shares), after we repurchased 1.25 million no-par value shares in the fourth quarter with the aim of cancelling them.

Earnings position ratios and multiple-period overview

The increased earnings capacity of the K+S Group is also clear from the returns achieved in 2005: The respective ratios are on an attractive level. The high level of earnings before interest, taxes, depreciation and amortisation (EBITDA 2005: € 383.1 million) was reflected in an EBITDA margin of 13.6%. The operating EBIT margin of 8.9% also attests to our continued earnings strength. With respect to computing the return on revenues of 5.7% and the earnings ratios already referred to, it should be noted that fertiva's trading revenues of € 568.3 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 17.8%, our return on equity after taxes clearly exceeded the figure for the preceding year (2004: 12.1%). At 12.7%, the return on total investment was also significantly up on last year's figure of 9.1%. Our ROCE, which at K+S is paid particular attention to, amounted to 19.5% for the year under review (2004: 14.2%) and was thus clearly above our cost of capital, i.e. the K+S Group once again created significant value added (Economic Value Added - EVA) in the past financial year.

Return on equity
(in %)

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. As we have practically no financial liabilities (< 2 % of the balance sheet total), financial management is mainly focussed on the optimal investment of our liquidity as well as the optimisation of payment inflows from foreign currency transactions. 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.

Return on total investment
(in %)

With regard to foreign currency hedging, the focus is on net US dollar receipts of the Potash and Magnesium Products business segment. 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. 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 forfeits. By means of active currency management, these knock-out thresholds can, however, be shifted at any time through the acceptance of additional premium payments.

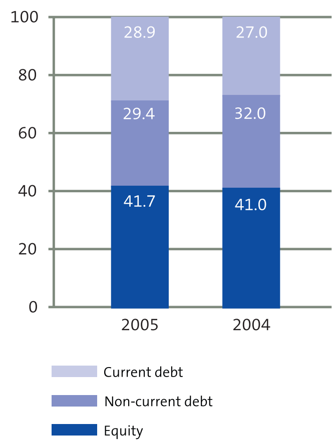
ROCE
(in %)

Last year, we were able to hedge US$ 480 million for the Potash and Magnesium Products business segment at an average rate of USD/EUR 1.15, including the necessary premium payments. Although the rate is less attractive than a year ago (2004: USD/EUR 1.10), but still significantly better than the average spot rate for 2005 of USD/EUR 1.24. We gained about € 30 million on the nine US$ cents difference.

Financing analysis

There was no significant change in the healthy financing structure of the K+S Group in relation to the previous year. At 41.7 % of the balance sheet total (2004: 41.0 %), there has been a slight increase in the equity ratio , among other things, as a result of the start of out-financing of pension provisions and despite the repurchase of 1.25 million no-par value shares at the end of last year. The proportion of non-current debt has fallen by 2.6 percentage points to 29.4 % while current debt increased slightly from 27.0 % to 28.9 %.

Equity and Liabilities
(in %)



Over 60 % of the K+S Group's debt consists of provisions and 27 % of accounts payable trade. The main provisions of the K+S Group are provisions for pensions and similar obligations (2005: € 171.7 million) as well as provisions for mining obligations (2005: € 324.9 million). As of 31 December 2005, bank loans and overdrafts only amounted to € 29.5 million (<2 % of the balance sheet total).

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 %

Last year, we started on the out-financing of pension provisions in an amount of just under € 45 million through a Contractual Trust Arrangement (CTA model). By making allocations to the 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. It is assumed that this first step will be followed by further steps in due course.

A change in the level of real 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 € 19 million in the case of pension provisions and by € 46 million in the case of provisions for mining obligations.

The average cost of debt, including provisions, for the K+S Group is 5.0 % before taxes and is thus on about the same level as a year ago. We assume that there will be no serious changes in the cost of debt in 2006 too.

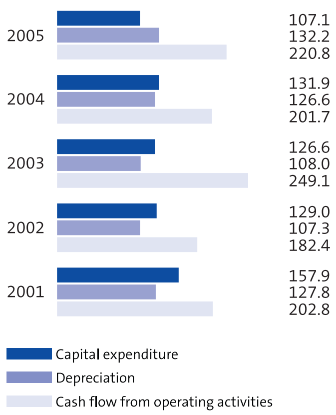
More than two thirds of the financing of the K+S Group consists of equity and non-current debt, which consists almost entirely of non-current provisions. Furthermore, there are sufficient financing possibilities available at banks, which, if need be, can lend to us at attractive rates. Foreign currency liabilities exist solely in the Brazilian real as well as the Chilean and Mexican peso and total € 29 million.

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 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	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Potash and Magnesium Products	8.9	15.9	18.8	27.3	**70.9**	81.6	(13.1)
COMPO	1.2	2.3	3.1	5.7	**12.3**	14.7	(16.3)
fertiva	0.2	0.0	0.1	0.0	**0.3**	1.0	(70.0)
Salt	1.5	2.8	2.9	5.2	**12.4**	25.0	(50.4)
Waste Management and Recycling	0.1	0.4	1.1	1.8	**3.4**	1.0	+ 240.0
Services and Trading	1.1	2.4	1.7	1.4	**6.6**	7.8	(15.4)
Other	0.3	0.4	0.5	0.0	**1.2**	0.8	+ 50.0
K+S Group	**13.3**	**24.2**	**28.2**	**41.4**	**107.1**	**131.9**	**(18.8)**
Share of total capital expenditure in %	12.4	22.6	26.3	38.7	100.0	–	–

Capital expenditure 2001 – 2005
(€ million)

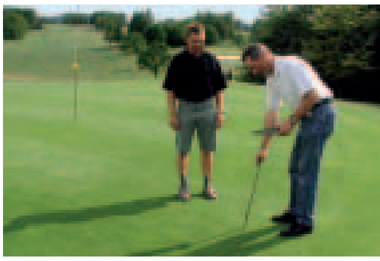


In 2005, we invested a total of € 107.1 million in property, plant and equipment and intangible assets, about 19 % less than in the previous year. Measures relating to replacing and ensuring production account for most of this amount. A certain degree of seasonality in capital expenditure is also evident during the course of the year, with a focus on the implementation 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 fourth quarters respectively to implement investment undertakings. At the end of the year, there were capital expenditure obligations relating to uncompleted investment undertakings totalling € 28 million with the Potash and Magnesium Products business segment accounting for about € 25 million of this figure.

The trend in our annual volume of capital expenditure is a downward one. We endeavour to keep expenditure on replacement and measures to safeguard production capacity at a level that does not exceed depreciation charges. Despite numerous investment undertakings relating to expansion and rationalisation, total capital expenditure has only marginally exceeded depreciation over the past few years and was even significantly below it for the first time in 2005 again. Available liquidity and our strong cash flow from operating activities provide us with a high degree of flexibility for investing in profitable expansion and rationalisation projects.

Potash and Magnesium Products business segment

At € 70.9 million, capital expenditure in the Potash and Magnesium Products business segment was down € 10.7 million or 13 % year on year (2004: € 81.6 million). This means that in this area of operations we are achieving our goal of constantly reducing outlays following the extensive modernisation and expansion of our facilities in preceding years. While the Sylvinite project at the Werra site still dominated 2004, the focus last year was on numerous smaller measures aimed at improving exploitation. In addition, new energy generation projects were commenced in the second half of the year which will extend into 2006. Larger-scale projects including the refitting of a press as well as the acquisition and installation of various gas and steam turbines.



COMPO business segment

COMPO business segment capital expenditure in 2005 amounted to € 12.3 million and was on about the same level as in the previous year (2004: € 14.7 million). Last year's largest project was the expansion of the fertilizer coating facility at the Krefeld site. Further significant projects included the completion of a facility for nutrient salt production as well as the northward expansion of the peat extraction site at Uchte.

fertiva business segment

In 2005, we invested € 0.3 million in our fertiva business segment, which concentrates on the marketing of nitrogenous agricultural fertilizers (2004: € 1.0 million). Various small process improvements were formulated along with suppliers that should yield savings in terms of production cost of those fertilizers that we buy in.

Salt business segment

Salt business capital expenditure in 2005 decreased by 50 % compared with the previous year to total € 12.4 million. The decrease is attributable to the completion of development work at the new brine field at Harlingen in the Netherlands in 2004. In 2005, the focus was on a large number of smaller measures aimed at improving efficiency.

Waste Management and Recycling business segment

Capital expenditure in the Waste Management and Recycling business segment during 2005 came to about € 3.4 million and was thus up € 2.4 million on 2004. In addition to replacement capital expenditure on the REKAL facility (recycling of salt slag), a focus was on projects connected with improving efficiency in underground reutilisation at the Hattorf site, the performance of which could be improved with the help of changes to technical equipment.

Services and Trading business segment

The bulk of the capital expenditure totalling € 6.6 million (down 15 %) in the Services and Trading business segment was related to our IT subsidiary data process GmbH. The remainder was spread rather equally across granulation activities for the cat litter product CATSAN® as well as new, smaller purchases in the logistics area.

Liquidity analysis

Cash flow review and development of liquidity

Cash flow review € million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Gross cash flow	108.2	68.9	60.4	104.0	**341.5**	274.1	+ 24.6
Cash flow from operating activities	(65.9)	176.6	150.1	(40.0)	**220.8**	201.7	+ 9.5
Cash flow from investing activities	(4.7)	(30.5)	(24.9)	(34.2)	**(94.3)**	(224.6)	+ 58.0
- of which acquisitions	–	–	–	–	**–**	(93.0)	(100.0)
Free cash flow	**(70.6)**	**146.1**	**125.2**	**(74.2)**	**126.5**	**(22.9)**	**–**
Cash flow from financing activities	(0.9)	(51.4)	3.0	(64.0)	**(113.3)**	(39.7)	(185.4)
Change in cash and cash equivalents	(72.9)	94.7	130.0	(143.8)	**8.0**	(62.4)	–
Share of total free cash flow in %	(56.3)	116.4	99.8	(59.9)	100.0	–	–

Gross cash flow developed satisfactorily, reflecting the good development in business operations, and rose by € 67.4 million or 25 %. Cash flow from operating activities could also be increased by € 19.1 million or 9 %; the increase was slightly weaker as a result of an increase in the capital tied up in working capital. This effect was particularly attributable to a more marked increase in receivables and inventories as of the balance sheet date. In this regard, it should be noted that the increase in receivables was largely due to higher premium payments related to our currency and interest rate option transactions. As of 31 December 2005, net derivative financial instruments amounted to € 93.2 million, compared with just € 20.2 million at the end of 2004.

Expenditure related to investing activities, which also includes disbursements for acquisitions, fell substantially in the past year by in total € 130.3 million to € 94.3 million: Key factors in this regard were the declining investment volume as well as the fact that 2004 was still influenced by the payment of the purchase price for the 38 % share in esco as well as the SCPA activities.

In 2005, we achieved free cash flow of € 126.5 million, which was up € 149.4 million on the corresponding figure for last year. Adjusted for acquisition-related disbursements, it increased from € 70.1 million to € 126.5 million. Free cash flow is subject to significant seasonality during the course of the year. In general, 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 and cash equivalents generally reaching their 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 € 55.3 million for 2004 as well as the repurchase of shares totalling € 66.7 million in the fourth quarter of 2005.

The start on the out-financing of pension provisions made in 2005 only had a minor cash effect (€ 3.4 million) in the cash flow statements: A further € 40.3 million had no influence on cash flow, but reduced liquidity. Thus, net liquid funds amounted to € 172.6 million at the end of the year compared with € 205.1 million for the previous year.

Multi-period overview of financial position

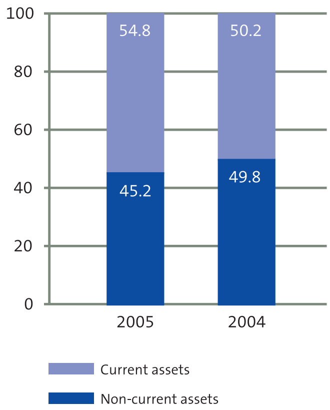
Figures* in € million	2005	2004	2003	2002	2001
Gross cash flow	341,5	274,1	209,1	216,9	224,6
Cash flow from operating activities	220,8	201,7	249,1	182,4	202,8
Cash flow from investing activities before acquisitions	(94,3)	(131,6)	(122,5)	(135,1)	(135,1)
Free cash flow before acquisitions	126,5	70,1	126,6	47,3	67,7
Cash flow from financing activities	(113,3)	(39,7)	(84,8)	(51,6)	(44,8)
Equity ratio in % **	41,7	41,0	33,3	33,5	32,3
Non-current provisions as share of balance sheet total in %	28,1	30,4	35,2	35,7	37,3
Level of indebtedness I in %	3,2	6,5	3,3	8,5	5,5
Level of indebtedness II in %	71,3	80,7	108,8	115,1	121,3

* 2001-03: German GAAP; from 2004: IFRSs

** 2001-03: 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 5.2 % to € 2,259.1 million as of 31 December 2005. The increase was mainly due to the higher earnings of the K+S Group as well as higher receivables. In the past year, the structure of assets shifted somewhat in favour of current assets for this reason too. However, the non-current component of the balance sheet total was still on a comparatively high level at 45.2 %. In the course of completing the share repurchase programme as well as the out-financing of pension obligations, cash and cash equivalents fell by € 21.2 million to € 176.5 million: It thus amounted to 7.8 % of the balance sheet total (2004: 9.2 %). If this figure is supplemented by the net cash and cash equivalents of unconsolidated associates, net liquid funds at the end of the year amounted to € 172.6 million.

Our high earnings capacity and healthy financial structure – especially the good liquidity position – place us in the favourable position of being able to approach also external growth targets from a strong financial basis.

Off-balance sheet assets

Last year, we started on the out-financing of pension provisions through a Contractual Trust Arrangement (CTA model). By making allocations to the CTA model, the corresponding financial resources are earmarked for the purpose of settling pension obligations and are thus disclosed as off-balance sheet items for the K+S Group.

Note on acquisitions

No acquisitions of relevance to the scope of consolidation were made last year. The companies K+S KALI & SCPA France S.A.S., Compagnie de Compactage de Wittenheim S.A.S., SCPA du Roure S.A.S., SCPA Masdac S.A.S. as well as SCPA Rodez S.A.S., which were taken over at the end of 2004 in connection with the acquisition of French SCPA distribution activities, were included in the consolidated financial statements for 2005 with effect from 1 January 2005. These companies produce and distribute fertilizers and speciality products for agriculture in France.

The main objectives underlying the transaction were and are the expansion of existing business in Europe's most important agricultural market and the sustained supply of potash and magnesium products and various fertilizer specialities to French farming. The French market is of central importance for the K+S Group.

Multi-period overview of asset position

Figures* in € million	2005	2004	2003	2002	2001
Property, plant and equipment	874,1	883,3	659,8	598,6	592,4
Financial assets and non-current securities	75,3	75,8	76,0	86,0	74,7
Cash and cash equivalents and current securities	150,0	206,0	234,8	215,7	214,5
Net liquid funds	172,6	205,1	212,8	167,9	194,6
Equity/fixed assets ratio I in %	104,8	97,7	87,0	90,9	84,9
Equity/fixed assets ratio II in %	179,7	173,9	178,9	187,8	184,6
Liquidity ratio I in %	23,0	35,6	56,5	53,8	59,2
Liquidity ratio II in %	146,4	142,6	185,7	184,5	190,6
Liquidity ratio III in %	190,0	186,1	244,4	244,3	256,8

* 2001-03: German GAAP; from 2004: IFRSs

Employees

Employees by business segment (in FTE)*	2005	2004	%
Potash and Magnesium Products	**7.490**	7.472	+ 0,2
COMPO	**1.292**	1.309	(1,3)
fertiva	**58**	57	+ 1,8
Salt	**1.385**	1.370	+ 1,1
Waste Management and Recycling	**33**	35	(5,7)
Services and Trading	**393**	386	+ 1,8
Central functions	**361**	359	+ 0,6
K+S Group	**11.012**	**10.988**	**+ 0,2**

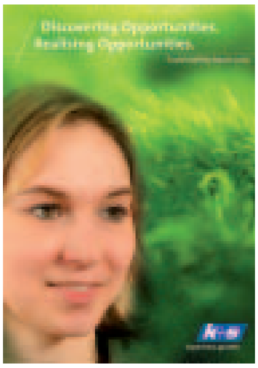
* FTE: Full-time equivalent; part-time positions are weighted in accordance with their respective share of working hours

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 2005, the K+S Group employed a total of 11,012 people. Compared with 31 December 2004 (10,988 employees), the number remained almost unchanged (+0.2%). The full inclusion of the SCPA companies as well as COMPO Fertilizantes de México resulted in a consolidation-related increase of 126 persons. Without this effect, there would have been 1% employees fewer in the workforce as of 31 December 2005.

The picture is similar in terms of averages: During the year under review, an average 11,017 people were employed by K+S – down 51 or 0.5% on 2004. After adjustment for the aforementioned structural effect, the average size of the workforce over the year would have been down by 181 employees or about 2%.

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.



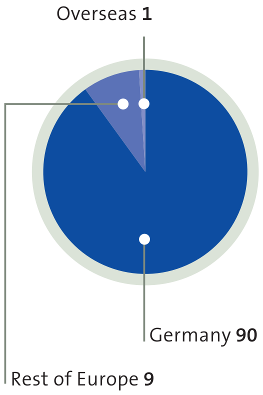
Sustainability Report

Personnel expenses rose

K+S Group personnel expenses for 2005 increased by € 57.8 million in relation to the previous year and amounted to € 671.1 million, an increase of 9.4 %. They included expenditures related to semi-retirement and early retirement. In addition to higher collective wage settlements and increased allocations to provisions for early retirement arrangements, the increase is mainly due to higher variable remuneration resulting from the good earnings development, which alone amounted to € 58.2 million or just under 9 % of personnel expenses last year (2004: € 40.6 million or 7 %). Greater flexibility in personnel expenses will also be sought in the future in order to be possible – depending on the earnings situation – to influence personnel expenses as the largest cost item for the K+S Group.

During the year under review, we paid a total of € 519.1 million in wages and salaries (+9 %) as well as € 138.1 million in social security contributions (+6 %). Expenses relating to company pensions and support almost doubled this year to € 13.9 million after it became necessary to make a nonscheduled contribution to the BASF pension fund, which manages the pension entitlements of some of our employees, in order to avoid insufficient coverage. In addition, the figure also 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.

Employees by region
(in %)



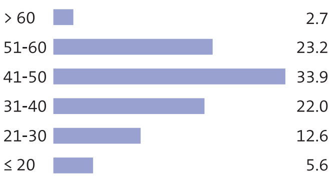
During the year under review, personnel expenses per employee amounted to € 60,915 (2004: € 55,412) and thus rose by 9.9 %.

Regional distribution, age structure and employee turnover

At 90 %, 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. As a result of the takeover of the shares of esco and the expansion of the European business of COMPO as well as Potash and Magnesium Products resulting from the acquisition of the French SCPA activities, the proportion of employees in other European countries has increased to 9 % over the past few years.

Employee length of service and 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 age group of 41 to 50; the average age of K+S employees is about 42. We will increasingly bring young people into the company in order to respond to the demographic change in a timely and successful manner.

Age structure
(in %)



Training

Many years of service and the related wealth of experience are one aspect of a successful personnel policy and the training of the next generation of employees is another. This is an area in which we are already systematically laying the groundwork for tomorrow's growth. In 2005, 165 young people began vocational training with us in 22 professions at 15 K+S Group sites. As of 31 December 2005, we employed a total of 591 trainees, of which 586 were at German sites. Thus, at 5.9 %, the trainee ratio for domestic companies was at a high level once again, as was the case in the previous year. Our training is geared towards needs and quality and ensures that in the future we will have the necessary availability of employees who will work in industrial, commercial, chemical and IT occupations. We spent about € 8.0 million in personnel expenses as well as € 2.4 million in materials costs on such training. More than 85 % of the successful trainees were hired for a limited period initially.

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, almost 2,760 employees participated in further training, in which we invested about € 3.4 million. Areas that were concentrated on during the year included preparing employees for future management tasks as well as taking over jobs abroad (e. g. language and intercultural training).

General statement on the current economic situation

Board of Executive Directors' assessment of the economic situation*

The K+S Group is well positioned to further increase enterprise value with committed employees in growing markets. Although the current economic environment is marked by a certain degree of uncertainty surrounding future energy costs and the future trend in the exchange for the US dollar against the euro, we have prepared for this in the best possible way and adopted measures to at least alleviate such effects. In addition, we are confident with regard to the growth in demand on our markets for fertilizers, plant care products and salt, and take a positive view overall of the economic situation.

* as of 24 February 2006

Business Segment Development

Potash and Magnesium Products Business Segment

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	312.2	306.4	261.4	317.2	**1,197.2**	1,031.2	+ 16.1
Operating result (EBIT I)	36.7	46.4	31.7	37.0	**151.8**	71.2	+ 113.2
Capital expenditure	8.9	15.9	18.8	27.3	**70.9**	81.6	(13,1)
Employees (31 Dec.; number)	7,538	7,463	7,523	7,490	**7,490**	7.472	+ 0.2
Share of total EBIT I in %	24.2	30.6	20.9	24.3	100.0	–	–

Variance € million	2005	%
Change in revenues	**166.0**	100.0
- volume/structure	(8.7)	(5.2)
- prices	153.3	92.3
- exchange rates	(0.4)	(0.2)
- consolidation	21.8	13.1

Market environment

The K+S Group is one of the largest suppliers of potash and magnesium products worldwide. As the fourth-largest producer of potash, we consolidated our position on the global market with a share of about 12%. In Europe, we are the leader by a wide margin. In contrast to our competitors, we have sulphate of potash and magnesium sulphate speciality fertilizers and occupy the leading position worldwide in this regard.

After three years of above-average growth rates – even 10% latterly – the growth in demand on the global potash market has developed closer to the long-term potential for growth again; sales rose by 0.8 million tons or 1.5% to 55.1 million tons. There were significant geographical differences in this regard: While demand for potash fertilizers in Asia rose significantly once again, especially in China and India, sales were down on last year's high levels in regions such as North America and Latin America above all, but also Western Europe. The Brazilian market in particular suffered from a number of factors that depressed demand: As a result of drought in the southern regions, lower international prices of agricultural products and the appreciation of the Brazilian currency against the US dollar, volume fell by about 20% to what was still a very high level of about 5 million tons. A moderate boost in demand – albeit on a low level – was in evidence in Eastern Europe and in the states of the former Soviet Union.

In the fourth quarter, North American inventories rose as a result of purchasing restraint in North America and in some Asian countries. Russian and Belarus suppliers also held higher inventories towards the end of the year. Producers in North America, Russia and Belarus responded by cutting back output significantly and interrupting production to conduct maintenance work. Further measures have been announced for the first quarter of 2006. We treat this as a clear signal that the price level for potash fertilizers has a high priority.

The restructuring of the European sugar market resolved at the EU level will have a tangible impact on the cultivation of sugar beet in Europe over the medium term. However, we expect that a major part of the related cultivated land will not be removed from agricultural use but will be employed for the cultivation of other crops. The attractive subsidies that continue to be available for the cultivation of renewable commodities are resulting in increased investment in biodiesel and biogas facilities in particular. This has caused an increase in the amount of land under cultivation for plants such as rape and silage corn.

Competitive situation

Russian potash producer Uralkali intends to increase production capacity by 1.7 million tons to 8.5 million tons in 2012 and to 9.5 million tons two years later. Belaruskali, Belarus, continued work on the construction of a shaft installation with two new shafts. From 2009 onwards, it is to be ready to supply existing factories, which means that there will be no additional capacity. The investment volume amounts to a total of USD 180 million. In addition, Belaruskali has established a new distribution company, Belarus Potash Company (BPC). Uralkali holds a 50%-stake in the company. From 1 January 2006, BPC has taken over the overseas marketing of potash fertilizers for both companies. Silvinit has begun shaft work at an existing site to secure crude salt extraction. At an auction for the rights to develop a potash deposit at Volgograd, Russia, Russian complex fertilizer producer Eurochem had its relatively high offer of US$ 106 million accepted. Eurochem intends to build a potash plant there with an annual capacity of 2 million tons.

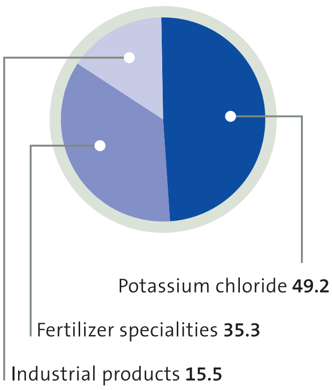
Rio Tinto plc., Great Britain, is currently working on a profitability study for a new potash project in Argentina with a capacity of 1.5 – 2.0 million tons. The study analyses the possibility of launching production in 2009/2010 and is expected to be completed by the end of this year.

Potash Corporation of Saskatchewan (PCS) has acquired a 20.0% share in Sinofert, the fertilizer subsidiary of Sinochem, People's Republic of China. In addition, PCS has increased its share in the Israeli ICL Group from 8.57% to 10.22% and has thus become the second largest shareholder after Israel Corp. Last year, North American producers PCS, Mosaic and Agrium announced that by 2007, they would expand their potash production capacity by about 4 million tons. However, all these announcements assume a positive market development and must be assessed in a suitably cautious manner against the background of the current reductions in output.

The modified antidumping tariffs applicable to the deliveries of potassium chloride originating in Russia were published in the Official Gazette of the European Union on 19 November 2005. The changed measures were the result of individual interim reviews requested by Russian producers Silvinit and Uralkali. It was established that both companies had engaged in dumping, but the dumping margins were found to be lower than determined by earlier investigations. The tariffs imposed on the net price at the EU borders were set at 23.0% for Silvinit and 12.3% for Uralkali. Both companies have offered voluntary undertakings to the EU Commission which have been accepted. By complying with the rules laid down in these undertakings, these producers are allowed to import potassium chloride into EU states without tariffs being imposed. We expect a decision on the consideration of the application submitted by Belarussian Belaruskali by the middle of the year at the latest. By then, a decision on the prolongation of the existing measures will also have been taken.

We assume that sufficient protection against unfair competition will also exist in the future.

Revenues by product group
(in %)



Revenues

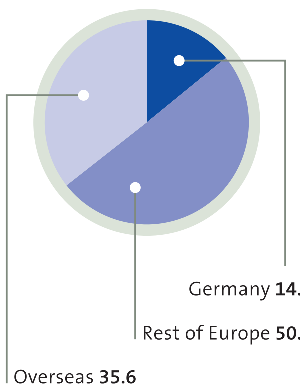
The Potash and Magnesium Products business segment posted revenues of € 1,197.2 million for financial year 2005, which represents an increase of about 16% on 2004. The key factors in this regard were the comparatively steep rise in potash and magnesium product prices, especially overseas (+21%), but also in Europe (+14%). At 7.86 million tons, sales fell just short of last year's high figure of 7.89 million tons. As part of our processing strategy, we were able to increase sales of highly profitable speciality products such as sulphate of potash, industrial potash and the EPSO product family: This strategy contributes to revenue and earnings growth as well as to reduced dependence on price fluctuations in the standard fertilizer area.

Just under two thirds of revenues are generated within the euro zone and are therefore largely unaffected by any direct foreign exchange risk. As far as revenues invoiced for in the US dollar zone are concerned, we hedge ourselves against currency risks to the maximum possible extent. The foreign exchange transactions that we concluded enabled us to obtain an average US dollar exchange rate of USD/EUR 1.15 for 2005 after hedge costs. Although this hedged exchange rate was slightly less favourable than the year before (2004: USD/EUR 1.10), it was significantly more advantageous than the average US dollar spot rate of USD/EUR 1.24 for 2005. We have secured our revenues for subsequent years at advantageous hedged rates too, including premium expenses (2006: USD/EUR 1.07). These hedging transactions are only effective within defined ranges (2006: between USD/EUR 1.12 and 1.35) but we can, if need be, adjust them by paying additional premiums.

Revenues, sales, Ø price	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues * in € million	**312.2**	**306.4**	**261.4**	**317.2**	**1,197.2**	**1,031,2**	**+ 16.1**
- Europe	219.4	204.1	166.3	181.4	771.2	670.1	+ 15.1
- Overseas	92.8	102.3	95.1	135.8	426.0	361.1	+ 18.0
Volume in effective million tons	**2.11**	**2.06**	**1.77**	**1.92**	**7.86**	**7.89**	**(0.4)**
- Europe	1.48	1.42	1.13	1.20	5.23	5,20	+ 0.6
- Overseas	0.63	0.64	0.64	0.72	2.63	2.69	(2.2)
Ø price per effective ton in €	**148.0**	**148.7**	**147.7**	**165.2**	**152.3**	**130.7**	**+ 16.5**
- Europe	148.2	143.7	147.2	151.2	147.5	128.9	+ 14.4
- Overseas	147.3	159.8	148.6	188.6	162.0	134.2	+ 20.7

* 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 significantly year on year due to price factors

During the year under review, potassium chloride revenues rose by € 78.5 million or about 15 % to reach € 588.5 million. Significant price increases in Europe and overseas more than made up for slight volume decreases. In Europe, revenues rose by 16%, while we increased overseas revenues by 15 %. Sales in Europe amounted to 2.30 million tons and were thus down somewhat year on year; 1.56 million tons were sold overseas, 7 % less than last year. The higher proportion of highly profitable granulates also impacted positively on revenues.

Further gains for fertilizer specialities

At € 422.3 million, revenues for our fertilizer specialities during the past financial year were about 19 % up on the previous year's level. Both price and volume increases as well as the first-time consolidation of French SCPA activities contributed to this pleasing increase. In particular, high demand for highly profitable sulphate of potash and speciality fertilizers, e.g. Kieserite too, were key factors in this regard. The 18 % increase in revenues in Europe was even exceeded by a more pronounced increase of 21 % overseas. It was possible to increase European sales by 5 % to 2.11 million tons, with sales overseas also rising by 1 % to 0.82 million tons.

Industrial products as an economic early indicator

Sales of industrial products were 13 % up year on year and totalled € 186.4 million. The rise is attributable to volume and price increases in both the industrial potash area as well as for magnesium compounds. At +26 %, we achieved our greatest revenues increase overseas, after we succeeded in gaining a new customer for industrial potash, but we were also able to post significant gains in Europe (+9 %). Sales amounted to 0.82 million tons in Europe and to 0.25 million tons overseas. Sales of industrial potash and technical sodium chloride solutions rose significantly year on year.

Development of earnings

Operating earnings (EBIT I) for the Potash and Magnesium Products business segment rose by € 80.6 million or 113 % to a record level of € 151.8 million. This increase was attributable to the positive development of demand, significantly higher prices and successes stemming from the measures we have taken to enhance efficiency. The implementation of the 10-point efficiency programme, greater working hours flexibility as well as the first earnings contributions from the Sylvinite project had a positive impact. In addition, it was possible to pass on the negative effects of higher personnel expenses, substantially higher energy costs and higher freight costs through prices. As a result of the hedging measures we took, we were able to attain a significantly better exchange rate than the average spot rate for 2005.

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

COMPO Business Segment

Variance € million	2005	%
Change in revenues	**16,6**	100,0
- volume/structure	(8,3)	(50,0)
- prices	11,8	71,1
- exchange rates	2,6	15,6
- consolidation	10,5	63,3

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	199.2	144.8	89.9	107.8	**541.7**	525.1	+ 3.2
Operating result (EBIT I)	18.3	7.3	(1.4)	0.8	**25.0**	23.9	+ 4.6
Capital expenditure	1.2	2.3	3.1	5.7	**12.3**	14.7	(16.3)
Employees (31 Dec.; number)	1,320	1,283	1,286	1,292	**1,292**	1,309	(1.3)
Share of total EBIT I in %	73.2	29.2	(5.6)	3.2	100.0	–	–

Market environment

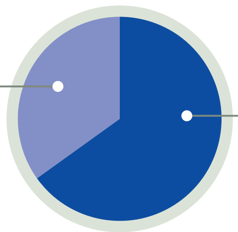
The COMPO business segment is Europe's leading provider of premium products in the field of speciality fertilizers and plant care products for the private garden. COMPO also occupies an important position in Europe with regard to speciality crops as well as professional horticultural application areas.

In the consumer area, the 2005 season for COMPO was still shaped by continued purchasing restraint in most European countries. The very changeable weather conditions at the beginning of the season as well as a largely wet summer in northern Europe had a depressing effect too. Trade efforts to change the terms applicable to relations with producers to their advantage have further increased.

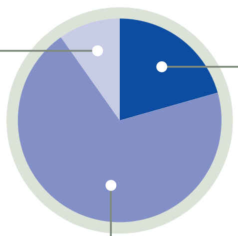
The professional business was adversely affected by the long dry spell in Southern Europe, rising costs experienced by farmers for supplies and fertilizers resulting from higher raw material costs as well as declining producer revenues not only for major agricultural crops such as cereals and corn but also for speciality crops such as citrus fruits, grapes and tomatoes. These factors depressed stronger demand for speciality fertilizers.

The price of ammonia, an important raw material for fertilizer production, rose increasingly over 2005: From a low of about US$ 170 per ton at the beginning of the year the price climbed to about US$ 310 per ton in autumn to then close the year at about US$ 250 per ton.

Revenues by segment
(in %)



Revenues by region
(in %)



Revenues

Financial year 2005 saw revenues rise by € 16.6 million or 3% to total € 541.7 million. The volume-related decrease could be more than made up for by price adjustments in the professional business in all markets. In addition, the first-time consolidation of two COMPO companies caused revenues to rise by € 10.5 million. COMPO generates about 90% of its revenues in Europe, so that changes to exchange rates only have a limited impact.

Consumer area down slightly year on year

In the consumer area, revenues for the year under review fell by 3% to amount to € 189.0 million. Despite moderate price increases, falling volume led to the decrease 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.

Professional area experienced further growth

In the professional area, we achieved revenues of € 352.7 million in 2005, an increase of 7%. Thus, it was once again possible to exceed the previous year's good figure: In addition to the consolidation effect already mentioned, price increases could more than make up for lower sales. Our innovative ENTEC® fertilizers were able to continue to establish an increasingly stronger market presence, because of their particularly advantageous properties for both users and plants. Revenue growth was achieved both in Europe and overseas, with European countries posting the strongest growth.

Development of earnings

At € 25.0 million, operating earnings for the COMPO business segment were about 5% up year on year. Higher market prices for our main raw materials ammonia, phosphate and potassium impacted on costs above all. Over and above that, additional contributions to the pension scheme weighed on personnel costs on top of collective wage bargaining increases. Freight costs also rose as a result of higher fuel prices and even more reduced shipping capacity. While the corporate law reorganisation in France resulted in a merger gain on the one hand, the efficiency enhancement measures introduced in the second half of the year entailed nonrecurrent expenses on the other.

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

fertiva Business Segment

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	120.4	138.3	170.1	139.5	**568.3**	513.8	+ 10.6
Operating result (EBIT I)	5.4	5.3	2.5	1.6	**14.8**	10.1	+ 46.5
Capital expenditure	0.2	–	0.1	–	**0.3**	1.0	(70.0)
Employees (31 Dec.; number)	55	56	56	58	**58**	57	+ 1.8
Share of total EBIT I in %	36.5	35.8	16.9	10.8	100.0	–	–

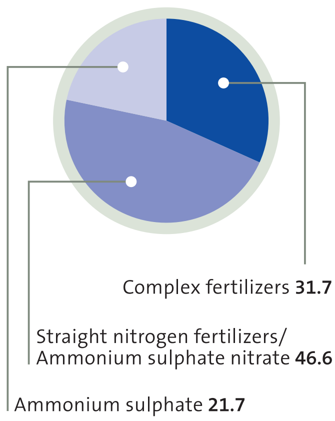
Variance € million	2005	%
Change in revenues	**54.5**	100.0
- volume/structure	4.3	7.9
- prices	53.8	98.7
- exchange rates	(2.9)	(5.3)
- consolidation	(0.7)	(1.3)

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 ammonium sulphate, fertiva is the global leader.

Financial year 2005 was influenced by further increases in the price of raw material ammonia compared with the previous year. Increases for other important raw materials such as potash and phosphate also resulted in much higher acquisition costs. This cost increase caused significant increases in the prices of downstream nitrogen fertilizer products, which, however, in the fourth quarter were not entirely sufficient to make up for increased costs. The high price level in Europe is being bolstered by rising gas costs affecting all nitrogen producers in Europe. On the other hand, it resulted in declining demand in Europe and in addition, especially in Southern Europe, an extreme dry spell caused massive crop losses. High prices are in part depressing demand for nitrogenous fertilizers overseas too.

Revenues by product group
(in %)



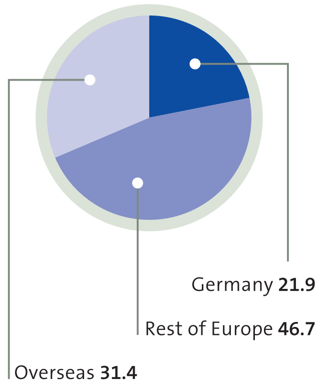
Revenues

fertiva business segment revenues for 2005 were up 11% to total € 568.3 million. Because of last year's market situation as described above, we were able to realise price increases that were in part significant. To a modest extent, higher availability, especially in the case of complex fertilizers as well as ammonium sulphate, contributed to the revenue increases. As a result of only marginal changes in relation to the previous year, the US dollar had little impact on the development of our revenues. Revenue increases were spread equally across Europe and overseas. Sales amounted to 4.27 million tons and were therefore up 1% year on year.

Complex fertilizer revenues up just under 20% year on year

Revenues for complex fertilizers amounted to € 180.2 million during the year under review and were thus up about 19% year on year. This was attributable to both higher availability as well as significant price increases. We profited from volume and price increases in Germany and overseas. In the other European markets, slightly lower sales could not be completely offset by revenue improvements. Sales amounted to 1.01 million tons compared with 0.92 million tons in the previous year.

Revenues by region
(in %)



Sales of straight nitrogen fertilizers rose

During the year under review, revenue increases attributable to price factors more than made up for slight decreases in volume. The segment achieved an increase of 5% to total € 264.6 million. The decrease in sales is attributable to reduced additional purchases by third-party suppliers and mainly affected European countries other than Germany. Price increases could be implemented in all regions, with the largest increases in Germany and overseas. Sales of straight nitrogen fertilizers amounted to 1.80 million tons compared with 1.94 million tons in the previous year.

Ammonium sulphate up year on year due to volume and price factors

Ammonium sulphate revenues in 2005 rose by 12% to € 123.5 million, with volume and price increases contributing to the rise. In the case of ammonium sulphate, we were able to make use of much greater availability. However, revenues did not rise as strongly as in the case of the remaining product groups, indicating a normalisation of the exceptionally good development in the previous year. While sales in Europe fell tangibly, we were able to boost overseas sales significantly. The decline in sales in Europe is mainly a consequence of the lower demand on the part of the complex fertilizer industry, which last year had to struggle with a difficult environment marked by rising raw material costs and by prices for end products that did not increase to the same extent. Sales amounted to 1.46 million tons and were therefore up 7 % year on year.

Development of earnings

The fertiva business segment posted an operating trading result of € 14.8 million – an increase of € 4.7 million. Higher raw material acquisition cost could be passed on through higher prices. More than 70 % of operating earnings were already earned in the first half of the year. In addition to seasonality, this is also connected with the earnings agreement between fertiva and BASF. 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. As the percentage share of fertiva's remaining earnings entitlement decreases after the first € 10 million earned jointly, the potential for additional contributions to earnings over the course of the year is limited.

Salt Business Segment

Variance € million	2005	%
Change in revenues	**40.2**	100.0
- volume/structure	23.5	58.5
- prices	16.7	41.5
- exchange rates	–	–
- consolidation	–	–

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	136.1	65.2	75.1	121.6	**398.0**	357.8	+ 11.2
Operating result (EBIT I)	38.9	2.0	4.4	17.4	**62.7**	56.7	+ 10.6
Capital expenditure	1.5	2.8	2.9	5.2	**12.4**	25.0	(50.4)
Employees (31 Dec.; number)	1,361	1,374	1,391	1,385	**1,385**	1,370	+ 1.1
Share of total EBIT I in %	62.0	3.2	7.0	27.8	100.0	–	–

Market environment

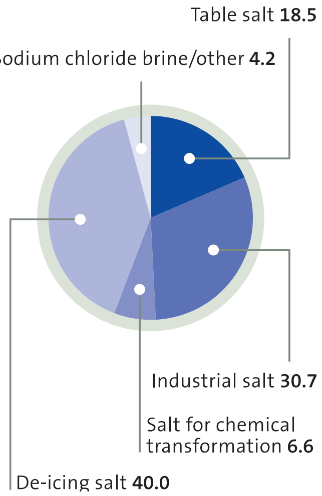
The Western European salt market was shaped by heavy winter conditions at both the beginning and the end of the past year, which boosted sales of de-icing salt for winter road clearance services. Especially our subsidiary esco – european salt company was able to make particular use of its strengths as a result of its undeniable ability to deliver high volume at short notice and thus enhanced its position as the European market leader. Despite a market environment characterised by intense competition, esco was able to defend its strong position in Europe in the remaining segments.

The competitive situation in 2005 was mainly shaped by further consolidation within the sector. The privatisation, i. e. the sale of the 51 % share held by the region of Sicily in Italkali, has been suspended for the time being and should be resumed in April 2006 following the elections in Italy.

On 8 November 2005, the British competition authority withdrew its objections to the sale of the New Cheshire Salt Works (NCSW) to British Salt and approved the takeover. NCSW is purely a speciality salt producer with a relatively low evaporated salt capacity.

The owners of English Salt Union, Compass Minerals, sold the Salt Union evaporated salt factory at Weston Point, Great Britain, to Ineos on 30 December 2005. Ineos and Salt Union are closely linked to each other: Ineos supplies the evaporated salt factory with brine on the one hand and is also the largest customer on the other. As a result of the transaction, Ineos now has a salt supply of its own.

Revenues by product group
(in %)



Revenues

In the Salt business segment, revenues for 2005 reached € 398.0 million and were thus 11 % up on the previous year's level. Most of the revenue growth is attributable to higher de-icing salt revenues. Because of increased sales of de-icing salt in Germany, average revenues rose in 2005. Sales of crystallised salt amounted to 6.07 million tons last year and were therefore up 7 % year on year.

Table salts on previous year's level

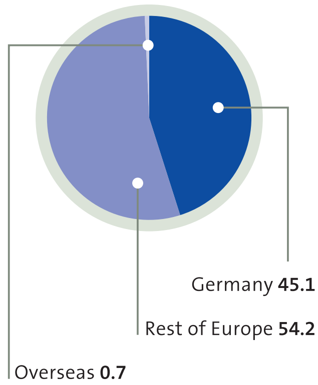
Table salt revenues for the year under review remained almost unchanged at € 73.5 million (2004: € 73.7 million). This is a very stable and largely noncyclical form of business. Volume decreases in Europe could not be completely offset by regional price increases. Sales amounted to 0.54 million tons and were therefore down 1 % year on year.

Revenues for industrial salts virtually unchanged
The picture was similar with respect to industrial salts, e. g. fishery, animal feed and high-purity pharmaceutical salts, with revenues amounting to € 122.2 million for the past financial year, a decrease of just under 1%. Regional price increases could not completely offset the volume decreases noted. Sales amounted to 1.34 million tons and were down 2% year on year.

Salt for chemical transformation down slightly year on year
Business involving salt for chemical transformation also declined slightly during the year under review. We achieved revenues of € 26.3 million, down 3% year on year. The lower volume sourced by individual key customers could not be completely made up for through price increases. Sales amounted to 0.94 million tons and were down 9% year on year.

De-icing salt up again on previous year's very good level
The winter weather conditions both at the beginning and the end of 2005 ensured that the de-icing salt business for winter road clearance services was exceptionally good. We achieved revenues of € 159.5 million for the year under review and could thus exceed the previous year's record by a further 33%. The key factors behind this increase were above all higher sales in Germany but also the successful implementation of price increases in Scandinavia. Sales amounted to 3.25 million tons and were therefore up 19% year on year.

Revenues by region
(in %)



Development of earnings
Posting operating earnings of € 62.7 million, the Salt business segment achieved its highest figure to date, up € 6.0 million or 11% on the previous year's figure. The increase is mainly due to the stronger de-icing salt business. Costs mainly rose as a result of price factors, which essentially applied to energy and personnel costs as well as freight costs, the latter being affected by the toll and, once again, cost increases related to energy prices. As a result of the strong rise in revenues as well as structural cost savings, deriving from the new extraction process used at the Borth plant, for example, the in part significant cost increases could be overcompensated for.

Waste Management and Recycling Business Segment

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	12.5	14.8	13.7	15.0	**56.0**	59.2	(5.4)
Operating result (EBIT I)	1.5	3.2	1.8	1.6	**8.1**	8.1	–
Capital expenditure	0.1	0.4	1.1	1.8	**3.4**	1.0	+ 240.0
Employees (31 Dec.; number)	34	35	35	33	**33**	35	(5.7)
Share of total EBIT I in %	18.5	39.5	22.2	19.8	100.0	–	–

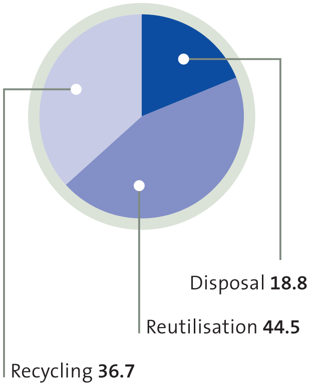
Variance € million	2005	%
Change in revenues	**(3,2)**	100,0
- volume/structure	(3,4)	106,3
- prices	0,2	(6,3)
- exchange rates	–	–
- consolidation	–	–

Market environment
Competition remains fierce with respect to the underground disposal of hazardous materials. However, the volume situation appears to be improving in the case of underground waste reutilisation, since the storage above ground of untreated residential and industrial waste in Germany was prohibited in June 2005. The resulting full utilisation of incineration plant capacity is producing a corresponding increase in the volume of flue gas cleaning residues. Because of the harmful substances they contain, they are mainly disposed of underground. All K+S reutilisation sites are profiting from this. We hold significant shares of this important market segment in Germany and in Europe.

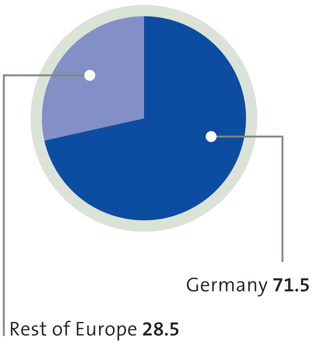
Prices for disposal services have remained on a relatively low level in German for quite some time. The trend towards lower volume for disposal is attributable to the increased effectiveness of closed-loop recycled materials management as well as production processes that generate less waste. The arranging of projects involving the clean-up of pre-existing environmental contamination – an important component of the German market for underground disposal – is further developing sluggishly. Such projects are usually publicly funded. Because of budgetary constraints, there are frequent delays in the arranging of such projects resulting in the lower utilisation of disposal facilities. 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.

In the salt slag recycling sector, the market is relatively calm. Our recycling facility at the Sigmundshall plant once again saw full utilisation last year and was operating at the limit of its capacity. In the case of the building materials recycling sector, continued weakness in the construction industry once again resulted in a difficult situation in this intensively competitive market. Utilisation of our recycling plant in Sehnde is good as a result of larger-scale individual projects.

Revenues by segment
(in %)



Revenues by region
(in %)



Revenues

Revenues for the Waste Management and Recycling business segment fell by 5% year on year to total € 56.0 million. This was mainly due to the lower volume of waste for underground disposal. Price levels remained relatively stable and could even be increased moderately in the case of the underground reutilisation sector. We have seen a tangible decline in revenues in Germany in the absence of projects involving the clean-up of pre-existing environmental contamination in the underground disposal field. By contrast, it was possible to win new customers outside Germany for the underground reutilisation sector as well as to implement price increases in the aluminium recycling field. Volume amounted to 1.19 million tons and was therefore up 2% year on year.

Declining volume for underground disposal

In the case of the underground disposal sector, we posted revenues of € 10.5 million for financial year 2005, down € 7.6 million year on year or 42%. While prices remained almost unchanged, the volume for special projects involving the clean-up of pre-existing environmental contamination fell significantly. At about 62,000 tons, the volume of waste for disposal was almost half of what it had been in the preceding year.

Underground reutilisation is profiting from higher flue gas cleaning residue volume

In the case of underground reutilisation, we posted revenues of € 24.9 million for financial year 2005 – 12% more than in the previous year. Since the transitional arrangements relating to the German Waste Disposal Directive (Abfallablagerungsverordnung) expired in the middle of last year, domestic waste incineration facilities have been operating at full capacity. K+S has been participating in the disposal of the related additional volume of flue gas cleaning residues and thus achieving a significant increase in revenues. It was also possible to gain additional customers outside Germany, especially in France, with the result that foreign business revenues rose appreciably. The volume of waste received by the sector could be increased by 17% to 399,000 tons in 2005.

Aluminium recycling remains fully utilised

In the case of recycling, we were able to raise revenues by about 10% to € 20.6 million in 2005. The full utilisation of our REKAL facility as well as higher prices for recycled aluminium granulate made contributions in this regard. Revenues for the building materials recycling sector largely remained unchanged on a low level. The recycling volume received in the past year increased by 3% to about 725,000 tons.

Development of earnings

The Waste Management and Recycling business segment generated operating results totalling € 8.1 million in 2005 and was thus on exactly the same level as a year ago. Despite the significant decline in volume for underground disposal, the level of earnings could be essentially maintained through tight cost management and in addition, extraordinary income of € 0.4 million was obtained in the second quarter. The distribution of business segment earnings across the year is not susceptible to seasonal factors to a large extent: More likely, acquisitions and the expiry of special projects can produce strong fluctuations in the earnings component.

Services and Trading Business Segment

€ million	Q1/05	Q2/05	Q3/05	Q4/05	2005	2004	%
Revenues	14.7	12.7	12.2	14.9	**54.5**	51.5	+ 5.8
Operating result (EBIT I)	6.1	5.6	5.6	2.8	**20.1**	22.1	(9.0)
Capital expenditure	1.1	2.4	1.7	1.4	**6.6**	7.8	(15.4)
Employees (31 Dec.; number)	386	383	394	393	**393**	386	+ 1.8
Share of total EBIT I in %	30.3	27.9	27.9	13.9	100.0	–	–

Variance € million	2005	%
Change in revenues	**3,0**	100,0
- volume/structure	2,3	76,7
- prices	0,7	23,3
- exchange rates	–	–
- consolidation	–	–

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 25.

Revenues

The Services and Trading business segment posted revenues of € 54.5 million for the year under review, up 6 % year on year. The revenues only reflect services rendered to third parties. Revenues deriving from services provided to K+S Group companies are not included. The reasons for the increase in revenues generated with third parties were the expansion of KTG logistics activities as well as slight increases in volume and remuneration for the granulation of CATSAN®.

Logistics services account for greater share of external revenues

During the year under review, consolidated revenues for logistics services rose by 12 % to € 16.7 million. The rise is mainly attributable to an increase in external transhipment services at the "Kalikai" facility and in the dispatch of goods by rail using the Baltic Train®. By contrast, the services rendered to the K+S Group and not included in the consolidated revenues decreased slightly.

CATSAN® granulation up year on year due to volume and price factors

In 2005, revenues from the granulation of the animal hygiene product CATSAN® amounted to € 24.8 million, which represents an increase of about 6 %. The key factors in this regard were the higher volume required by our partner Masterfoods as well as moderately higher prices.

Trading business on previous year's level

At € 9.3 million, revenues for our trading business in 2005 were about 1 % below the previous year's level. The decrease is related to volume factors and essentially concerns the trading product calcium chloride.

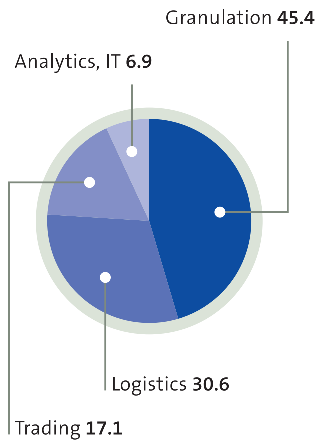
IT and other services account for slightly lower share of external revenues

Total revenues for this sector amounted to € 3.7 million, down € 0.2 million on the previous year. While the external customer revenues generated by our IT subsidiary data process GmbH fell year on year to € 0.5 million, the revenues obtained from consulting and analytical services were up somewhat year on year to € 2.4 million. biodata ANALYTIK was able to post another increase due to volume factors in the field of fodder and food analysis.

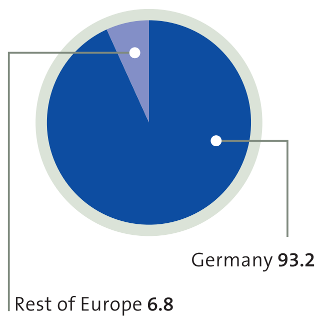
Development of earnings

Services and Trading business segment operating earnings for 2005 showed a decrease of € 2.0 million or 9 % on the previous year to total € 20.1 million. Lower contributions to earnings from the logistics area as well as from the granulation of CATSAN® could not be completely offset by the increase in EBIT posted by data process.

Revenues by segment
(in %)



Revenues by region
(in %)



Subsequent Events

Subsequent events of material significance
Following the close of the financial year, no significant changes have occurred in the economic environment or in the situation of our industry, nor have any other events of material importance for the K+S Group occurred that would require disclosure.

Risk Report

Risk policy
The business, opportunity and risk policy of the K+S Group is geared towards constantly increasing enterprise value. As entrepreneurial action is inseparable from the assumption of reasonable risks, the focus of risk management is on a particularly responsible approach to these risks. Risk management is a constant task for the Board of Executive Directors and for the management of each field of responsibility.

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 uniform planning, management and control systems. The methods used for risk inquiry extend from analyses of markets and competition to observing risk indicators in an economic and socio-political context. Risks are assessed on the basis of the potential likelihood of their occurrence and related potential losses. The possible risk effects on company objectives are processed in preparation for the adoption of decisions. A further building block of risk management is the development of countermeasures for alternative risk scenarios.

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 groupwide guidelines. Direct responsibility for early detection, analysis, control and communication rests with the operating managements of the business segments and the central holding company units respectively. By means of discussions on the agreeing of goals between the Board of Executive Directors and the managers responsible for the business segments and regular reporting, the business segments inform about changes in the individual risk situation of the business segment. Risks that arise in the short term are, if urgent, communicated directly to the Board of Executive Directors outside normal reporting. The Supervisory Board is also briefed on a regular basis by the Board of Executive Directors. In accordance with a groupwide 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 inspect the suitability of the risk management system for the early identification of developments that could jeopardise the continued existence of the company. Their findings are used to further improve risk early detection and control. The functionality and efficiency of our risk management system is regularly reviewed by the auditors and has hitherto always been considered suitable and effective.

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 strategy, responsibilities, processes and control mechanisms. Financial transactions are only concluded with banks that have a first-class credit rating. The details of currency management are described on pages 69 f. of the risk report under “Financial Risks.”

Risk transfer
By concluding group insurance policies, we transfer risk to insurers. 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 and stepped up to reduce the costs that arise if a loss occurs.

Opportunity management

Like risks, the operating business' opportunities for increasing efficiency, strengthening earnings capacity and cutting costs are examined in discussions on the agreeing on goals between the Board of Executive Directors and the managers responsible for the business segments. We see major opportunity potential in an active pricing policy, selective marketing, products in demand, implementing efficiency-enhancement programmes as well as acquisitions and strategic cooperation. The opportunity potentials for the K+S Group are discussed in the forecast report.

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 energy market volatility.

We continue to take an essentially positive view of developments in the fertilizer area, because we expect worldwide demand to keep rising over the next few years as well. The eastward expansion of the EU gives rise to some uncertainty: The changed competitive situation in Europe might entail additional costs for entering and supplying new markets. In addition, new 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 active customer orientation are helping us strengthen our market position. At the present time, we consider such risks to be significant but not jeopardising the continued existence of the company.

Agricultural reforms within the EU may have a sustained impact. These include, for example, further restrictions on compensatory payments, resulting in falling income for farmers, as well as decisions in German agricultural policy on the obligation to declare the content of additives in line with the German Fertilizer Ordinance. The disputed reform of European chemicals policy could also have an adverse effect on the earnings situation. We want to counter these developments by means of selectively targeted communication with public agencies and political institutions at the national and international levels. We estimate the resulting effects to be slight.

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.

The price of gas has been continually rising since the beginning of 2005 as a result of the increasing price of oil. We reduce the resulting risk by supply agreements already concluded in the past as well as further measures to lower the cost of energy (alternative fuels). In the transport field, surcharges for fuel costs and weather-related factors have to be accepted.

By means of entry into new markets as well as acquisitions and cooperation in existing business segments, we want to implement our strategy, which involves expanding of our market position and further developing into a provider of specialities. In this regard, the resultant synergies are to be applied to existing business. We continue to respond to changes in framework conditions with numerous technical, organisational as well as well as personnel and collective bargaining measures in order to cut costs further and create greater flexibility.

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 cooperation are not met. We limit such risks by means of intensive preliminary reviews conducted by K+S units, supported by qualified external specialists if need be, and the exercise of appropriate caution in implementing projects.

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 price and supply risks. The foregoing 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, defined quality standards as well as innovative purchasing methods. This ensures that goods are available in the required volume and quality in a timely fashion. We consider the remaining procurement risk to be low.

In the case of the overseas business, the reduced availability of freight capacity has resulted in higher sea freight costs. We expect no significant deterioration in this situation in the near future.

Sales and distribution

Changes in demand and the competitive situation 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 expiry of the antidumping regulation valid until 2005 and directed against unfair competition on the European potash market by potash fertilizers from Russia and Belarus. Potash suppliers located there have requested a review of the ruling antidumping regulation with the aim of bringing about the lifting of the protective regulation. The investigations conducted by the EU have determined that Russian potash suppliers Silvinit and Uralkali are continuing to practice dumping. Both companies have offered voluntary undertakings to the EU Commission and those have been accepted by it. By complying with the rules laid down in these undertakings, both producers can important potassium chloride into EU states without tariffs being levied. We expect a decision on the consideration of the application submitted by Belarussian Belaruskali by the middle of 2006.

In a parallel process, the association of European potash producers has applied for an extension of the regulation against unfair competition in force until 2005. As the EU Commission's investigations are currently underway, it is not possible to give evidence at this stage whether and if so, to what extent, antidumping protection will continue to exist or not. Without such antidumping protection, there could be a tangible deterioration in the market situation for all Western European potash producers, as the undertakings concerned will only remain valid as long as dumping is found to be practiced and is thus causing damage to Western Europe producers. Without the EU protective tariffs that had hitherto applied and the undertakings reached, Russian potash suppliers may offer their products in the EU at low prices.

A change in the sales situation in Europe would result in us having to market a larger part of our products overseas. However, as the review process is currently underway, it is not possible to make any statements about potential losses and the likelihood of this actually occurring. We nevertheless assume that sufficient protection against unfair competition will also exist in the future.

Weather conditions represent a notable sales risk for the Potash and Magnesium Products, fertiva, COMPO and Salt business segments. 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.

Production and environment

The K+S Group's production facilities display a very high degree of facility availability. By employing extensive monitoring, probing and control systems, we can identify production and environmental protection risks early on and respond accordingly. Possible dangers are reduced thanks to a number of quality assurance measures, preventative maintenance and facility inspections as well as comprehensive environmental management. This is also assisted by certification under international norms and the constant improvement and further 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.

The EU initiative on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO_2) and carbon monoxide (CO) could pose a special risk to our mining activities. It should be possible to achieve realistic limits meaningful over the long term through intensive cooperation between the EU Commission and national governments as well as the companies concerned and their pressure groups. 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 final limits have been set. We consider the adverse effects over the short- to medium-term to be slight.

Research and development

We do not see any particular potential risks in the research and development field as the relevant markets are only subject to limited change. Our own development activities are intensified through research cooperation with industrial partners as well as colleges and implemented if there are prospects for success. The potential sources and opportunities for cutting costs are therefore reviewed on an ongoing basis. The risk of developing products that are not accepted by the market can be deemed to be very slight. In addition, we provide our customers with intensive agricultural application advice, which enables us to identify potential needs early on.

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

Personnel risks

The competence and commitment of employees are key factors for the development of the K+S Group and the successful risk management. The K+S Group's vocational training – in view of the demographic change too – as an important investment for the future contributes to the securing and strengthening of these factors. By means of practice-based support for future generations of employees and targeted further training measures the K+S Group has positioned itself as an attractive employer offering target-group-oriented further development through early identification and support as well as attractive incentive systems. Key positions are regularly analysed with respect to forward-looking succession planning and suitable candidates – for short-term appointing too – are determined to secure against risk.

IT risks

The increasing networking of IT systems and ensuring permanent availability impose high demands on the information technology used. We respond to possible IT risks by using modern hardware and software that meet current security standards. The information technology used is constantly reviewed and modified to ensure the secure execution of business processes. We apply largely uniform IT infrastructures throughout the group. The compatibility and security of the IT systems and stored data is thus guaranteed. We do not see any 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 central tasks.

Liquidity

Liquidity is monitored on an ongoing basis and managed methodically 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 investment, there are certain defined creditworthiness requirements in relation to issuers that have to be met. A high equity ratio strengthens the financial position of the K+S Group. There are sufficient financing possibilities for financing undertakings connected with acquisitions. There is no dependency on any particular lenders. The permanent optimising 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.

Currency

In addition to the euro, we also conduct business in foreign currencies. Exchange rate fluctuations, especially in relation to the US dollar, play an important role for the Potash and Magnesium Products business segment. Transactions denominated in foreign currencies account for approx. 23 % of group revenues. We use derivative financial instruments (forward contracts and options) to counter exchange rate risks. In the Potash and Magnesium Products business segment, only net positions, i. e. the payments resulting from revenues generated in foreign currencies less the freight costs to be paid in foreign currencies, are hedged against exchange rate fluctuations, mainly with the help of double-barrier options. Hedge transactions currently extend into 2008 and have a volume of about US$ 1.5 billion. Not only anticipated foreign currency payments based on revenues generated are hedged but also anticipated payments based on projected revenues. 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 forfeit. We address this risk by means of permanent, active currency management, i. e. the timely adjustment of the barriers. This strategy reduces currency risks, but does not 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.

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

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). Unsecured receivables require specific authorisation and a careful examination of long-term customer relationships. At present, 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

There are no significant legal or tax law risks that could have a material influence on the company’s net assets, financial position and results of operations.

K+S Group risk situation

The main risks to future development are posed in particular by sales and foreign currency risks, especially a possible reduction in antidumping protection, the possible creation of new overcapacity by competitors, unfavourable weather conditions as well as the volatility of the US dollar exchange rate. The risks to which the K+S Group is exposed, both separately or in conjunction with other risks, are limited and do not, according to current estimates, jeopardise the continued existence of the company.

Forecast Report

Group direction for the next two financial years

Planned changes in business policy

We do not intend to introduce any fundamental change in our business policy over the coming years. We wish to enhance our market positions in our business sectors especially by means of intensifying the marketing of speciality products, increase our efficiency through the exploitation of further potential for synergies as well as grow our fertilizer, plant care and salt business sectors both organically and externally.

Future markets

The K+S Group generates the majority of its revenues in Europe. That will remain so in the coming years too. Given the seasonality of our product sales, we will also use the potential offered by overseas markets. The European market, in terms of the fertilizer and plant care as well as salt business sectors, is a mature market with constantly high levels of fertilizer and salt consumption. Compared with the more rapidly growing overseas markets, the European market, with developed structures and greatly differentiated demand, displays lesser susceptibility to fluctuations. Our fertilizer and plant care business sector also profits from the opportunities offered by overseas markets as a result of population growth, changing life style and dietary patterns as well as increasing professionalism in agriculture.

The possible acquisition of an interest in a Chilean salt producer would open up new market potential in the Salt business segment for our group 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, with a particular focus on raising energy efficiency as well as enhancing crude salt yield.

Future products and services

Through the partnership agreement signed between COMPO and Syngenta last year, we are seeking to develop and market a full range of lawn and garden plant protection products and pesticides for European consumers. A precondition for this is the procurement of appropriate permits, the approval of which can take up to two years. The aim is to generate between € 30 million and € 40 million from this new product portfolio, providing a contribution to earnings in the high single-digit million range.

Economic environment over the next two financial years

Future macroeconomic situation

We estimate that the macroeconomic situation in Europe will improve further this year and that European GDP should grow by about 2 %. In view of its highly competitive nature, German industry should also profit from robust global trade. Thus, assuming a stable oil price, the additional burden created by the previous sharp rise in energy prices should gradually ease and foreign demand as well as private consumption should rise. However, monetary indicators suggest that there is an increased risk of rising inflation too. We expect the key interest rate in Europe to be raised over the course of the year. In 2007, growth might slow down as a result of a gradual tightening of monetary policy as well as planned tax increases.

The change in the impetus deriving from monetary policy is strongest in the United States, where the economy will gradually weaken, especially because private households can be expected to save on a greater scale as a result of higher interest rates and a lower pace of growth in wealth. The continuing existence of enormous US trade and budget deficits might once again come to the fore in the current year and put pressure on the US dollar.

Overall, over the next two financial years, global economic growth should again amount to about 4 % per year and, as in preceding years, be characterised by progressively rising growth rates in emerging markets.

Impact on K+S

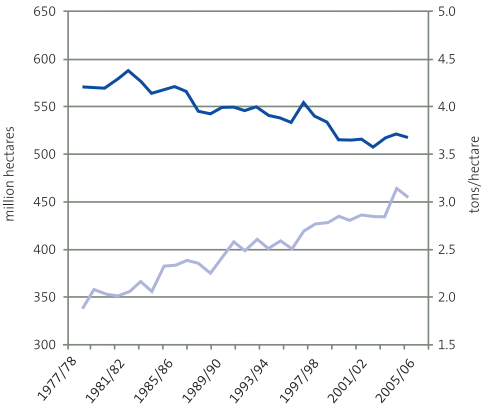
- The increase in global growth, buoyed by the emerging markets in particular, should benefit the standard of living of the population of such countries. This will increase per capita consumption of food, including meat, as well as the pressure on the existing agricultural systems to meet this challenge.
- 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 exceed USD/EUR 1.35 in 2006 and USD/EUR 1.40 in 2007. An appreciation of the US dollar beyond the lower barriers of USD/EUR 1.12 in 2006 and USD/EUR 1.13 in 2007 would also result in follow-up hedging, but a strong US dollar generally lies in the interest of the K+S Group.
- An increase in private consumption in Germany and Europe should have a positive impact on sales of the consumer products supplied by the COMPO business segment in the home and garden area.
- An economic upturn in Europe would also impact positively on sales of industrial potash by the Potash and Magnesium Products business segment as well as industrial salts and salts for chemical transformation by the Salt business segment.

Future industry situation

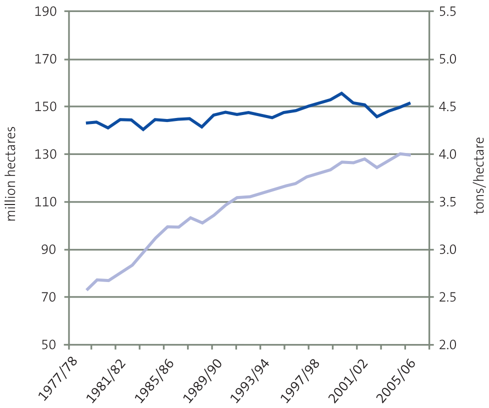
The situation on the agricultural markets is marked by increasing demand for foodstuffs, in both quantitative and qualitative terms. The limited amount of land available for farming will therefore have to be farmed more efficiently all over the world in order for sufficient food to be produced. The methodical 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. In Europe, the trend towards renewable commodities will have a favourable impact on demand for fertilizers too.

The following charts show that land used for the cultivation of rice worldwide has only increased by 6 % over the past thirty years and land used for cereal crops has even contracted by just under 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 fertilizer use will remain a key factor in the future for determining the extent to which the decline in the land available for cultivation as a result of urbanisation, erosion and flooding can be successfully countered by the intensification of agriculture.

Land under cultivation and yields per hectare for cereals



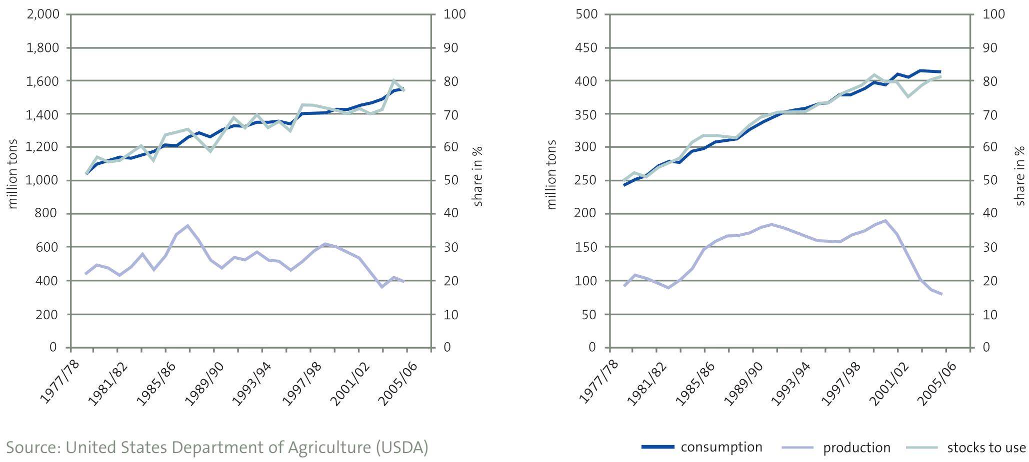
Land under cultivation and yields per hectare for rice



Source: United States Department of Agriculture (USDA)

If global consumption and global production for cereals and rice are compared, this may give rise to the impression that consumption and production have more or less developed in proportion to each other over the past thirty years. However, during that period, annual output has generally fallen short of demand, with the result that the stocks-to-use ratios for both cereals and rice have reached historical lows in the meantime. This is all the more astonishing given that, from a historical angle too, record harvests have been achieved worldwide over the past two years. Thus, an increase in the prices of so-called "soft commodities," i. e. the most important agricultural goods, is only a question of time in our opinion and should favour the use of fertilizers.

Production, consumption, stocks of cereals **Production, consumption, stocks of rice**



Source: United States Department of Agriculture (USDA)

Potash and Magnesium Products business segment

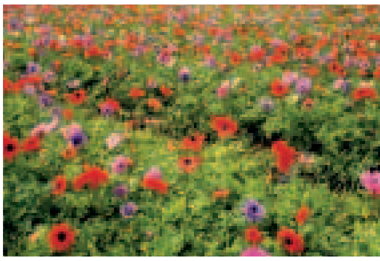
It is expected that global demand for potash in 2006 will stabilize at the high level already attained. Fertilizer demand eased somewhat in the autumn: Individual producers responded to a temporary increase in stocks as well as increased charges resulting from higher energy costs by suspending production until the beginning of this year. Currently, moderate producer prices and rising production costs are weighing on the market situation for agricultural products such as cereals and soybeans. It is expected that the Brazilian market will once again display rising demand for fertilizers in the second half of the year.

Global fertilizer consumption is expected to continue to grow at an average rate of about 2% per year over the medium term, with Asia and Latin America being the most important growth regions. 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 utilised well. We therefore assume that there will also be a balanced supply and demand situation for potash fertilizers in 2007.

The EU reorganisation of the sugar market was approved last year and will probably result in a significant reduction in the cultivation of sugar beet in Europe. We assume that most of the land that will then become available will be used for the cultivation of renewable commodities, especially rape. 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. Brazil in particular is the most important overseas market for K+S because of its attractive location in relation to Europe in terms of freight costs.

COMPO business segment

We expect the position of the industry and the competitive situation to be stable in 2006. With consumer sentiment in Europe slowly improving again, this should have a positive impact on the COMPO consumer area. However, the increase in value added tax in Germany planned for 2007 could weaken this trend. In the professional area, commodity prices that remain high are the basis for significant price increases in the market. There is a danger in this situation that cheaper, qualitatively poorer product alternatives may be resorted to. However, growth rates for innovative products such as ENTEC® are, by contrast, high in South America and Asia.



A product range tailored to regional needs is the cornerstone of the future, sustained growth of the COMPO business segment. In addition to internal growth, on which the medium-term planning is based, we are continually reviewing external opportunities offered by acquisitions and cooperation.

fertiva business segment

We expect a competitive situation that will become more difficult over the coming two years as a result of constantly high prices for ammonia, the important raw material for nitrogen fertilizers and – in relation to ammonia – lower prices for the competitive product urea. This is attributable to the fact that substantial new urea capacity is emerging, especially in the Middle East and other countries with low gas prices. In Europe, it will only be possible to pass on high raw material prices through higher prices for finished products to a limited extent and the fertilizer industry will become exposed to pressure to consolidate as a result, especially in the complex fertilizer area.

Salt business segment

Over the coming years, the industry and competitive situation will be mainly shaped by the continuation of the consolidation and divestiture process in the European salt industry. The intense competition characterising the market situation for European producers will also be exacerbated by reduced demand for salt because of the closing down of electrolysis production or lower use of salt as a result of technological improvements. On the other hand, it will be necessary to pass on rising costs – e. g. of energy – to customers through prices.

With a product range that meets market requirements and high standards of service, esco will retain its leading position among Europe's salt producers. New acquisition targets are also being reviewed on an ongoing basis. One of the advantages of the successful acquisition of an interest in Chilean salt activities that is under consideration would be that K+S portfolio would be less dependent on European economic cycles, the competitive situation and climate-related seasonal effects.

Waste Management and Recycling business segment

The competitive situation in the waste disposal business will not see any fundamental change over the coming two years. The appearance of a new underground waste disposal site will, however, intensify competition in the underground waste disposal segment of the market because the overcapacity that already exists will increase further. Because of its attractive cost situation, the Waste Management and Recycling business segment will, however, successfully defend its good market position in Germany.

As of June 2005, it is no longer possible in Germany for residential waste to be stored above ground without being treated beforehand. This means that the volume of residues from residential waste incineration increases and such residues will 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 profit accordingly from market growth.

Services and Trading business segment

Given the high proportion of intra-group services as well as the diverse character of the individual sectors within the 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 25.

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.

In 2006, K+S Group revenues should once again reach the high level of outstanding 2005. While we assume that the revenues generated by the largest business segment, Potash and Magnesium Products, will rise as a result of higher average prices, we estimate that the revenues of the fertiva and Salt business segments will decline. In the case of fertiva, this is connected with lower volume availability and decreasing revenues for ammonium sulphate while our projections for the Salt business segment are based on average de-icing salt sales over the past ten years and those are significantly lower than the high sales achieved in the past record year. Operating earnings should be able to develop positively. Higher contributions to earnings in the Potash and Magnesium Products and COMPO business segments should in particular more than make up for the decreases in earnings assumed for the fertiva and Salt business segments.

Revenues should increase again in 2007, with this estimate being based on higher revenues for the Potash and Magnesium Products and COMPO business segments. We also see opportunities for a further increase in operating earnings.

We expect adjusted group earnings after taxes to increase over the coming two years in keeping with the trend in operating earnings. As the IFRSs neutralise the effects of existing tax loss carryforwards through the stating of deferred taxes, it is helpful to consider the cash-affecting or effective tax rate, i. e. the tax expense less deferred taxes in relation to adjusted earnings before taxes. Thus, the effective tax rate this year should not be significantly above the level of last year (21 %). The effective tax rate should not rise appreciably until next year as a result of the anticipated expiry of the corporate income tax loss carryforward.

Potash and Magnesium Products business segment

For 2006, we expect the Potash and Magnesium Products business segment to achieve an increase in revenues compared with the preceding year as long as there is no significant deterioration in global economic conditions. In addition to a slight increase in sales to about 8 million tons of goods (2005: 7.86 million tons), 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. Under these framework conditions, operating earnings should rise this year as a result of probably higher average prices and despite rising energy and freight costs. As long as the US dollar exchange rate does not require any major follow-up hedging in the form of option premiums to maintain existing hedging levels, this should result in significant contributions to earnings compared with the previous year too. Additional support for earnings should come from Sylvinite capacity, which has not been fully utilised thus far, as well as the further implementation of our efficiency-enhancement programmes that were launched in previous years. This trend could continue in the year 2007.

COMPO business segment

We expect to see a slight rise in revenues for the years 2006 and 2007. Both the consumer and professional areas should contribute to revenue growth. In the case of the consumer segment, we expect a slight increase in the core markets of Europe following a slack 2005 in economic terms. Revenue growth in the professional area is mainly due to stabilised fertilizers and speciality mineral fertilizers outside Europe. In the case of stabilised fertilizers, our ENTEC® products merit particular mention, as they will make an essential contribution to the further development of the business given their innovative properties. From 2007 onwards, the first successes of our new cooperation with Syngenta in the plant protection field should also impact positively on revenues.

Assuming that the price of ammonia will remain the same in relation to 2005, operating earnings should once again show a tangible increase over the preceding year. The efficiency-enhancement measures introduced last year should make a key contribution in this regard. In 2007, the expected expansion of business combined with the full realisation of efficiency-enhancement measures should produce a further increase in operating earnings.

fertiva business segment

In 2006, we expect lower sales as a result of lower volume availability. We expect price increases for complex and straight nitrogen fertilizers but lower revenues for ammonium sulphate because of strong competition from urea. On the basis of current estimates, attainable revenues should decline slightly overall. Following last year's very good result, we therefore expect a limited reduction in operating earnings.

We project revenues to then develop in a constantly stable manner in 2007. We also assume a similar business and earnings trend in the case of operating earnings.

Salt business segment

With de-icing salt having made a very good start to the year as a result of weather conditions, the Salt business segment has already laid the groundwork for 2006 being another good year. However, the projected sales volume for de-icing salt is based on average de-icing salt sales over the past ten years. We therefore expect revenue levels to fall short of record year 2005, which was marked by heavy winter conditions at both the beginning and end of the year. Thus, from today's perspective, we do not expect to achieve last year's outstanding earnings figure once again.

Assuming an average winter, price- and volume-related revenue increases are projected for 2007. While we do expect further price-related cost increases, those should be lower than in 2005 and 2006.

Waste Management and Recycling business segment

We expect revenues for 2006 to be somewhat higher than last year. Higher processing capacity for our underground reutilisation facilities will enable us to participate to an even greater extent in the tangibly increasing disposal of flue gas cleaning residues. In the underground waste disposal area, we expect to see an increase in the removal of waste for the purpose of recovering reusable materials. This development is being encouraged by relatively high global raw material prices on the one hand and new technologies for recovering reusable materials on the other. With the relationship between supply and demand remaining balanced in the case of aluminium recycling, this should continue to impact positively on price levels and on the development of our revenues as a result. As with revenues, we expect operating earnings to increase slightly in 2006. This forecast does not take account of any special projects for underground waste disposal because there were none as of the editorial deadline for this annual report.

In the case of 2007 too, we expect slight organic growth in revenues overall, which should lead to a mainly volume-related increase in earnings.

Services and Trading business segment

We expect the course of business in the heterogeneous 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 dividends

Financial year	Dividend per share in €
2005	**1.80**
2004	1.30
2003	1.00
2002	1.00
2001	1.00

Dividend payment for financial year 2005

K+S AG as the holding company of the K+S Group generated net income of € 100.4 million in financial year 2005 (2004: € 97.5 million). The dividend payment of € 55.3 million for 2004 was paid out of the retained profit of € 55.4 million available at the beginning of 2005. After allocations to revenue reserves, the profit retained as of 31 December 2005 amounted to € 74.3 million.

Given the higher result as well as the positive outlook for the business of the K+S Group, we will propose to the Annual General Meeting that a dividend of € 1.80 be paid for each 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 € 74.3 million. Thus, the payout ratio in relation to the adjusted group earnings will be 46.1 %.

Future dividend policy

We pursue a performance-related dividend policy. The K+S share is intended to remain a high-yield investment. 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 its net liquid funds, the K+S Group possesses a strong financial base as well as relatively high operating and free cash flows. Both these factors mean that we are able to respond flexibly to investment and acquisition opportunities. Without taking into account possible acquisitions or share repurchase transactions, 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 in excess of 40 % over the next two years, use non-current provisions for the financing of our non-current assets and have practically no bank debt.

Planned capital expenditure

Our annual volume of capital expenditure is in line with our medium-term planning. We assume that capital expenditure related to replacement and safeguarding production capacity will not exceed depreciation given the modern state of our facilities. In addition, available liquidity and our strong cash flow from operating activities provide us with sufficient room for manoeuvre for investing in profitable expansion and rationalisation projects.

At the end of the year, there were capital expenditure obligations relating to uncompleted investment undertakings totalling € 28 million. Including an existing overhang of about € 20 million, we expect the volume of capital expenditure for 2006 as a whole to amount to about € 150 million, of which about three quarters are earmarked for replacement and safeguarding production capacity. We expect depreciation charges to amount to about € 130 million. Cash flow from operating activities will ensure the financing of the projected capital expenditure and, in addition, generate attractive free cash flow.

Potash and Magnesium Products business segment

At about € 90 million, capital expenditure will increase on the previous year. The year 2006 will be shaped by projects for the generation of electric power at two sites that were approved last year. The carrying over of these projects is the main factor behind the increase in capital expenditure. Further important measures include the replacing of a conveyor for ensuring shaft winding capacity, further work on the installation of two new gas turbines at two sites as well as production-related investment to improve efficiency. In 2007, the level of capital expenditure should normalise again at about € 70 million. Replacement and safeguarding production capacity will account for about three quarters of the volume of capital expenditure.

COMPO business segment

The volume of capital expenditure should amount to about € 15 million in each case for 2006 and 2007 and will thus remain on last year's level: Two thirds of this sum will be accounted for by the completion of a fertilizer coating facility in Krefeld and replacement-related capital expenditure accounting for the remainder.

fertiva business segment

As fertiva does not operate any production facilities of its own, capital expenditure will again be relatively low over the next two years. fertiva estimates that it will spend € 0.6 million on a logistics project in Antwerp.

Salt business segment

At about € 17 million, capital expenditure will increase somewhat on the previous year. The completion of the integration of the brine field at Frisia in Holland as well as the replacing of a winding tower at another site will account for most of this figure in particular. In this business segment too, about three quarters of the capital expenditure budget relate to replacement and safeguarding production capacity. We estimate that the level of capital expenditure will be somewhat lower next year.

Waste Management and Recycling business segment

The volume of capital expenditure for this year will amount to about € 5 million. In addition to ongoing replacement, reutilisation capacity for the receipt of residual materials is to be brought into line with the increase in volume. Next year, the capital expenditure budget should be somewhat lower than in 2006.

Services and Trading business segment

Capital expenditure over the next two years will essentially comprise the IT and granulation segment budgets. At about € 6 million to € 8 million, we do not expect any significant differences in relation to last year.

Expected development of liquidity

Liquidity should continue to develop positively over the next two years: We are confident of this because we expect the forecast increase in earnings to impact on cash flow from operating activities too. On the other hand, outlays connected with capital expenditure will be lower, so that we also expect to generate free cash flow that is strongly positive over the next two years. Insofar as we do not make any acquisitions, do not fund any more pension provisions externally or buy back further shares, our net liquidity position should increase further despite a markedly higher dividend payment.

Opportunities

Opportunities from the development of framework conditions

Exchange rates

If the US dollar remains within the current barriers of USD/EUR 1.12 to 1.35 this year, the hedged rate, including premiums, for the Potash and Magnesium Products business segment would amount to USD/EUR 1.07 (2005: USD/EUR 1.15). With a hedging volume of US$ 500 million, this would result in a further improvement in the hedging gain of about € 30 million.

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 72 f. should result in higher prices for agricultural products assuming no record harvests worldwide. Rising prices will in turn encourage farmers 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 % per year that we have hitherto forecast.

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 measurable indications that consumer sentiment is picking up, which should have a positive effect on the COMPO business segment.

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 decline in K+S energy costs of 10 % means about € 15 million more in operating earnings. In addition, it is highly 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.

Corporate strategy opportunities

The possible acquisition of an interest in a Chilean salt producer is currently at the forefront of corporate strategy opportunities. In both operating and financial terms, this potential acquisition would create an opportunity to significantly increase the enterprise value of the K+S Group. Attractive cost structure by global standards, regional expansion opportunities in existing markets and ones not supplied thus far as well as the prospect of lower capital costs for the K+S Group as a result of net indebtedness targets would enable us to discover numerous new opportunities, as long as, of course, the purchase price is reasonable.

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

Given the general conditions that are expected, we assume that the business will develop positively over the next two years. We expect revenues to amount to a good € 2.8 billion this year and to further increase next year. Operating earnings should thus also be able to develop positively. Our largest business segment, Potash and Magnesium Products, once again should post the comparatively clearest increase in earnings, provided that the development of the US dollar exchange rate will not require substantial follow-up hedging in particular. Our outlook is based in particular on there being continued stable demand for potash fertilizers worldwide, on the full implementation of the efficiency-enhancement measures already initiated in the Potash and Magnesium Products and COMPO business segments and on average de-icing salt business.

It is our acknowledged strategy to continue to grow in our traditional business sectors, and this includes acquisitions and cooperation arrangements.

Kassel, 24 February 2006
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.

The more impressive the performance, the greater the desire for more.

K+S stands on strong foundations. What we have accomplished to date requires us to adhere to our strategy in the future too. Rising global demand for high-quality food will ensure growing demand for our products. This is the basis of our company's success tomorrow too. These are the prerequisites for a positive future. Attractive results as well as acquisitions that add value make K+S a company with strong earnings that constantly desires more.

The more impressive the performance, the greater the desire for more.

K+S stands on strong foundations. What we have accomplished to date requires us to adhere to our strategy in the future too. Rising global demand for high-quality food will ensure growing demand for our products. This is the basis of our company’s success tomorrow too. These are the prerequisites for a positive future. Attractive results as well as acquisitions that add value make K+S a company with strong earnings that constantly desires more.

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 2005. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Report 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, 27 February 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann	Scharpenberg
Auditor	Auditor

Income Statement

T€	Notes	2005	2004
Revenues	(1)	**2,815,700**	**2,538,624**
Cost of sales		1,811,168	1,674,753
Gross profit		**1,004,532**	**863,871**
Selling expenses		673,035	626,562
- including: freight costs		377,855	339,201
General and administrative expenses		71,654	64,169
Research and development costs		12,998	12,111
Other operating income	(2)	110,159	81,282
Other operating expenses	(3)	115,191	81,762
Income from investments, net	(4)	9,080	2,392
Operating earnings (EBIT I)		**250,893**	**162,941**
Market value changes from exchange rate hedging transactions	(5)	20,792	(26,445)
Earnings after market value changes (EBIT II)		**271,685**	**136,496**
Interest income, net	(6)	(17,759)	(18,530)
Other financial result	(7)	5,671	5,461
Financial result		**(12,088)**	**(13,069)**
Earnings before income taxes		**259,597**	**123,427**
Taxes on income	(8)	85,146	36,626
- of which: deferred taxes		35,512	14,093
Net income		**174,451**	**86,801**
Minority interests in earnings		2	–
Group earnings after taxes and minority interests		**174,449**	**86,801**
Earnings per share in € (undiluted ≙ diluted)	(11)	4.12	2.04
Earnings before taxes, adjusted *		**238,805**	**149,872**
Group earnings, adjusted *	(11)	**161,350**	**103,461**
Earnings per share in €, adjusted *	(11)	**3.81**	**2.43**
Average number of shares in million		42.3	42.5

* 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 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 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 as of 1 January 2004	108,800	4,626	711,272	(1,248)	11,884	–	**835,334**
Dividend for previous year	–	–	(42,500)	–	–	–	**(42,500)**
Net income	–	–	86,801	–	–	–	**86,801**
Market value of securities	–	–	–	–	(221)	–	**(221)**
Consolidation effects	–	69	(2,675)	–	–	–	**(2,606)**
Other neutral changes	–	–	4,239	(380)	(65)	–	**3,794**
Balance as of 31 December 2004	**108,800**	**4,695**	**757,137**	**(1,628)**	**11,598**	**–**	**880,602**

Balance Sheet

T€	Notes	2005	2004
Intangible assets	(13)	82,209	77,998
- of which: goodwill from acquisitions		13,857	13,361
Property, plant and equipment		791,927	805,272
Investment properties	(14)	11,219	11,660
Financial assets	(15)	19,264	26,337
Receivables and other assets	(18)	2,039	6,301
Securities	(20)	56,018	49,472
Deferred taxes	(16)	58,141	93,207
Non-current assets		**1,020,817**	**1,070,247**
Inventories	(17)	281,325	248,744
Accounts receivable – trade	(18)	598,140	506,023
Other receivables and assets	(18, 19)	206,152	113,574
- of which: derivative financial instruments		120,895	21,497
Recoverable income taxes		2,589	3,095
Securities	(20)	76,031	114,463
Cash on hand and balances with banks		74,010	91,539
Current assets		**1,238,247**	**1,077,438**
ASSETS		**2,259,064**	**2,147,685**

T€	Notes	2005	2004
Subscribed capital	(22)	108,800	108,800
Additional paid-in capital		8,676	4,695
Other revenue reserves and profit retained	(23)	824,605	767,107
Minority interests		48	–
Equity		**942,129**	**880,602**
Bank loans and overdrafts	(28)	5,982	14,449
Other liabilities	(28)	10,761	9,213
Provisions for pensions and similar obligations	(25)	171,746	216,057
Provisions for mining obligations	(26)	324,867	322,140
Other provisions	(27)	138,033	115,669
Deferred taxes	(16)	13,704	10,627
Non-current debt		**665,093**	**688,155**
Bank loans and overdrafts	(28)	23,535	43,314
Accounts payable – trade	(28)	353,981	321,529
Other liabilities	(19, 28)	72,150	61,458
- of which: derivative financial instruments		27,675	1,298
Income tax liabilities		19,845	8,067
Provisions	(27)	182,331	144,560
Current debt		**651,842**	**578,928**
EQUITY AND LIABILITIES		**2,259,064**	**2,147,685**

Cash Flow Statement

T€	Notes	2005	2004
Operating result (EBIT I)		**250,893**	**162,941**
Depreciation on fixed assets*		132,168	126,629
Release of negative consolidation differences		(1,545)	–
Decrease (-) in non-current provisions (without interest rate effects)		(465)	(1,178)
Interest, dividends and similar income received		11,379	10,649
Gains/losses on the disposal of financial assets and securities		5,261	2,543
Interest paid		(4,945)	(5,797)
Income tax paid		(49,634)	(22,533)
Other noncash items		(1,557)	874
Gross cash flow		**341,555**	**274,128**
Gain on disposals of fixed assets		(7,574)	(1,363)
Increase (-)/decrease (+) in inventories		(25,608)	165
Increase (-)/decrease (+) in receivables and other assets from operating activities		(146,108)	(72,820)
Decrease(-)/increase (+) in liabilities from operating activities		34,084	(22,091)
Increase in current provisions		27,980	23,720
Out-financing of provisions		(3,473)	–
Cash flow from operating activities		**220,856**	**201,739**
Proceeds from disposals of fixed assets		10,525	4,815
Disbursements for intangible assets		(4,223)	(9,797)
Disbursements for property, plant and equipment		(101,773)	(122,431)
Disbursements for financial assets		(703)	(6,753)
Disbursements for acquisition of consolidated companies	(40)	–	(93,033)
Proceeds from sale/disbursements for acquisition of securities		1,834	2,604
Cash flow for investing activities		**(94,340)**	**(224,595)**
Free cash flow		**126,516**	**(22,856)**
Payment of dividend		(55,250)	(42,500)
Purchase of own shares		(66,650)	–
Taking out of loans		8,640	2,771
Cash flow for financing activities		**(113,260)**	**(39,729)**
Change in cash and cash equivalents affecting cash flow		**13,256**	**(62,585)**
Change in value of cash and cash equivalents		161	–
Changes from consolidation		(5,389)	174
Change in cash and cash equivalents	(41)	**8,028**	**(62,411)**

* depreciation/amortisation of property, plant and equipment as well as intangible assets

Development of Fixed Assets 2005/2004

	Gross carrying amounts						
T€	Balance as of 01.01.2005	Currency differences	Change from consolidation	Additions	Disposals	Reclassification	Balance as of 31.12.2005
Concessions, industrial property rights and similar rights and assets as well as licences for such rights and assets	90,653	(48)	218	2,094	1,615	818	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 (13)	**107,517**	**(48)**	**714**	**16,640**	**3,352**	**657**	**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	222	1,490	16,362	9,314	1,468	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	**2,067,313**	**222**	**20,020**	**102,886**	**29,565**	**4,477**	**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**	**174**	**16,335**	**120,460**	**37,911**	**5,297**	**2,330,779**

	Gross carrying amounts						
T€	Balance as of 01.01.2004	Currency differences	Change from consolidation	Additions	Disposals	Reclassification	Balance as of 31.12.2004
Concessions, industrial property rights and similar rights and assets as well as licences for such rights and assets	53,988	26	31,808	6,360	1,203	(326)	90,653
Goodwill from acquisitions	–	–	13,361	–	–	–	13,361
Internally generated intangible assets	–	–	–	2,549	–	–	2,549
Emission rights	–	–	–	–	–	–	–
Payments on account	567	–	–	889	476	(26)	954
Intangible assets (13)	**54,555**	**26**	**45,169**	**9,798**	**1,679**	**(352)**	**107,517**
Land, rights similar to land and buildings, including buildings on third-party land	343,759	–	38,819	9,227	2,816	2,155	391,144
Technical equipment and machinery	1,266,888	–	128,914	75,803	18,182	16,735	1,470,158
Other equipment, fixtures and fittings	158,898	(18)	9,509	12,876	4,324	595	177,536
Payments on account and construction in progress	20,078	–	1,651	24,188	133	(19,151)	26,633
Leasing and similar rights	1,842	–	–	–	–	–	1,842
Property, plant and equipment	**1,791,465**	**(18)**	**178,893**	**122,094**	**25,455**	**334**	**2,067,313**
Investment properties (14)	**24,642**	**–**	**390**	**63**	**1,641**	**2**	**23,456**
Investments in associated companies	7,630	2	1,770	6,188	259	303	15,634
Loans to associated companies	104	–	–	–	10	–	94
Investments	6,272	–	197	10	139	(303)	6,037
Loans to companies in which equity interests are held	396	–	–	–	36	–	360
Sundry loans and other financial assets	18,675	–	(11,467)	555	1,750	–	6,013
Financial assets (15)	**33,077**	**2**	**(9,500)**	**6,753**	**2,194**	**–**	**28,138**
Fixed assets	**1,903,739**	**10**	**214,952**	**138,708**	**30,969**	**(16)**	**2,226,424**

Depreciation, amortisation and write-downs								Net carrying amounts	
Balance as of 01.01.2005	Currency differences	Change from consolidation	Additions	Disposals	Reclassifi-cation	Write-ups	Balance as of 31.12.2005	Bal. as of 31.12.2005	Balance as of 31.12.2004
29,478	(13)	70	10,969	1,468	341	–	39,377	52,743	61,175
–	–	–	–	–	–	–	–	13,857	13,361
41	–	–	501	–	–	–	542	2,403	2,508
–	–	–	–	–	–	–	–	10,808	–
–	–	–	–	–	–	–	–	2,398	954
29,519	**(13)**	**70**	**11,470**	**1,468**	**341**	**–**	**39,919**	**82,209**	**77,998**
169,027	–	3,864	11,746	904	604	7	184,330	220,530	222,117
953,239	–	7,509	92,186	16,030	3,548	–	1,040,452	501,007	516,919
138,789	97	1,050	16,525	8,772	467	–	148,156	39,608	38,747
–	–	–	–	–	–	–	–	29,457	26,633
986	–	–	54	–	(29)	523	488	1,325	856
1,262,041	**97**	**12,423**	**120,511**	**25,706**	**4,590**	**530**	**1,373,426**	**791,927**	**805,272**
11,796	**–**	**–**	**187**	**218**	**1**	**–**	**11,766**	**11,219**	**11,660**
703	–	–	–	298	–	–	405	8,313	14,931
74	–	–	–	–	–	–	74	–	20
1,014	–	–	–	400	–	54	560	5,998	5,023
–	–	–	–	–	–	–	–	322	360
10	–	–	–	–	–	–	10	4,631	6,003
1,801	**–**	**–**	**–**	**698**	**–**	**54**	**1,049**	**19,264**	**26,337**
1,305,157	**84**	**12,493**	**132,168**	**28,090**	**4,932**	**584**	**1,426,160**	**904,619**	**921,267**

Depreciation, amortisation and write-downs								Net carrying amounts
Balance as of 01.01.2004	Currency differences	Change from consolidation	Additions	Disposals	Reclassifi-cation	Write-ups	Balance as of 31.12.2004	Bal. as of 31.12.2004
20,911	(534)	3,813	6,402	1,114	–	–	29,478	61,175
–	–	–	–	–	–	–	–	13,361
–	–	–	41	–	–	–	41	2,508
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	954
20,911	**(534)**	**3,813**	**6,443**	**1,114**	**–**	**–**	**29,519**	**77,998**
142,487	–	18,038	11,149	2,647	–	–	169,027	222,117
787,943	–	88,870	92,211	15,769	(16)	–	953,239	516,919
118,384	(14)	8,118	16,484	4,183	–	–	138,789	38,747
–	–	–	–	–	–	–	–	26,633
865	–	–	121	–	–	–	986	856
1,049,679	**(14)**	**115,026**	**119,965**	**22,599**	**(16)**	**–**	**1,262,041**	**805,272**
12,205	**–**	**75**	**221**	**705**	**–**	**–**	**11,796**	**11,660**
703	–	–	–	–	–	–	703	14,931
–	–	–	74	–	–	–	74	20
1,014	–	–	–	–	–	–	1,014	5,023
–	–	–	–	–	–	–	–	360
10	–	–	–	–	–	–	10	6,003
1,727	**–**	**–**	**74**	**–**	**–**	**–**	**1,801**	**26,337**
1,084,522	**(548)**	**118,914**	**126,703**	**24,418**	**(16)**	**–**	**1,305,157**	**921,267**

Development of Provisions

T€	Balance as of 01.01.2005	Additions from consolidation	Allocations
Provisions for pensions (25)	**216,057**	**268**	**2,357**
Backfilling of mines and shafts	174,916	–	2,713
Mining damage risks	32,756	–	358
Maintenance of stockpiles	78,473	–	1,613
Other mining obligations	35,995	–	614
Provisions for mining obligations (26)	**322,140**	**–**	**5,298**
Jubilee pay	21,177	–	1,609
Semi-retirement	50,384	–	38,311
Social plan expenses	7,013	–	156
Other personnel obligations	8,163	–	10,621
Personnel obligations	**86,737**	**–**	**50,697**
Other provisions (27)	**28,932**	**79**	**4,970**
Provisions (non-current debt)	**653,866**	**347**	**63,322**
Other taxes	**251**	**–**	**117**
Provisions for mining obligations	**7,308**	**–**	**110**
Personnel obligations	**57,396**	**–**	**75,255**
Provisions for obligations from sale transactions	**47,960**	**–**	**38,560**
Provisions for obligations from purchase contracts	**16,141**	**8**	**17,827**
Other provisions	**15,504**	**–**	**28,717**
Provisions (current debt)	**144,560**	**8**	**160,586**
Provisions	**798,426**	**355**	**223,908**

Segment Reporting

	Total revenues		of which intersegment revenues	
T€	2005	2004	2005	2004
Potash and Magnesium Products	1,257,636	1,089,822	60,486	58,601
COMPO	554,701	535,224	13,031	10,155
fertiva	571,222	515,437	2,951	1,673
Salt	400,541	359,992	2,499	2,172
Waste Management and Recycling	56,261	59,438	240	242
Services and Trading	122,990	126,742	68,450	75,197
Reconciliation [1] (36)	(147,651)	(148,031)	(147,657)	(148,040)
K+S Group	**2,815,700**	2,538,624	**0**	0

	Assets (38)		Liabilities	
T€	2005	2004	2005	2004
Potash and Magnesium Products	1,123,734	1,007,225	576,339	506,980
COMPO	432,819	410,582	205,421	209,265
fertiva	239,356	219,073	226,043	207,770
Salt	408,230	373,961	106,526	97,705
Waste Management and Recycling	34,761	35,094	3,545	5,140
Services and Trading	59,838	56,136	29,406	28,091
Reconciliation [1]	(39,674)	45,614	169,655	212,132
K+S Group	**2,259,064**	2,147,685	**1,316,935**	1,267,083

[1] Figures for business segments are shown before consolidation. Expenses and income as well as items disclosed on the balances 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 31.12.2005
9,456	**15,335**	**95**	**(656)**	**40,306**	**171,746**
7,105	9,353	2,128	–	–	173,253
1,417	1,611	912	–	–	32,008
3,627	1,404	7	–	–	82,302
1,717	1,022	–	–	–	37,304
13,866	**13,390**	**3,047**	**–**	**–**	**324,867**
871	1,960	71	–	–	21,626
–	17,408	–	–	3,473	67,814
–	3,421	1,115	16	–	2,649
–	6,757	14	2,917	–	14,930
871	**29,546**	**1,200**	**2,933**	**3,473**	**107,019**
–	**952**	**222**	**(1,793)**	**–**	**31,014**
24,193	**59,223**	**4,564**	**484**	**43,779**	**634,646**
–	**289**	**–**	**–**	**–**	**79**
–	**238**	**–**	**–**	**–**	**7,180**
–	**55,349**	**3,001**	**1,162**	**–**	**75,463**
–	**27,633**	**12,194**	**182**	**–**	**46,875**
–	**14,265**	**1,667**	**62**	**–**	**18,106**
–	**7,546**	**1,617**	**(430)**	**–**	**34,628**
–	**105,320**	**18,479**	**976**	**–**	**182,331**
24,193	**164,543**	**23,043**	**1,460**	**43,779**	**816,977**

of which with third parties (37)		EBIT I		Gross cash flow	
2005	2004	2005	2004	2005	2004
1,197,150	1,031,221	151,827	71,163	240,683	159,824
541,670	525,069	25,001	23,922	37,245	31,913
568,271	513,764	14,815	10,063	17,104	12,058
398,042	357,820	62,682	56,717	90,351	79,356
56,021	59,196	8,121	8,156	10,996	12,364
54,540	51,545	20,049	22,074	27,132	28,486
6	9	(31,602)	(29,155)	(81,956)	(49,874)
2,815,700	2,538,624	**250,893**	162,940	**341.555**	274,127

Invested capital [2]		Capital expenditure [3] (39)		Employees as of 31 Dec. [4]	
2005	2004	2005	2004	2005	2004
827,312	729,408	70,911	81,585	**7,490**	7,472
275,452	260,068	12,295	14,748	**1,292**	1,309
(101,940)	(83,435)	286	972	**58**	57
258,720	249,326	12,368	25,003	**1,385**	1,370
23,961	23,429	3,397	982	**33**	35
22,220	21,955	6,661	7,771	**393**	386
37,797	35,579	1,191	831	**361**	359
1,343,522	1,236,330	**107,109**	131,892	**11,012**	10,988

[2] operating assets and working capital

[3] relates to property, plant and equipment as well as intangible assets

[4] workforce 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, for the first time has prepared the consolidated financial statements of the K+S Group based on the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) in force on the balance sheet date and adopted by the EU. The same standards were applied for the IFRS opening balance sheet as of 1 January 2004, and the comparative figures for the financial year 2004. In the interests of clear 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 on 24 February 2006.

Information concerning the first-time application of IFRSs

Reconciliation of net income as of and for the period ended 31 December 2004 (in T€)

Net income as of and for the period ended 31 December 2004, under HGB	140,541
Measurement of revenues	(42,585)
Foreign currency result	38,258
Capitalisation of gallery and excavation work	4,520
Capitalisation of development costs	1,248
Depreciation and amortisation	(12,315)
Release of liability-side consolidation balance	(14,025)
Changes in provisions	23,573
Change in market value of derivatives	(26,445)
Interest expense of non-current provisions	(13,493)
Deferred taxes	(13,625)
Other	1,149
Net income as of and for the period ended 31 December 2004, under IFRSs	**86,801**

Compared with German commercial law rules (HGB), the application of IFRSs had the following material effects on net income for 2004:

- Revenues are lower as US dollar revenues are no longer measured at the more favourable hedged rate but at the spot rate,
- the foreign currency result contained in other operating income and expenses is higher because it contains the full amount of the gains on hedging transactions (no longer included under revenues),
- expanded capitalisation obligations, e. g. for gallery and excavation work, as well as for development costs, serve to increase earnings,
- the retroactive increase in the carrying amounts of fixed assets (longer depreciation periods, expanded capitalisation) results in higher depreciation and amortisation charges,
- the scheduled release of a liability-side consolidation balance made under HGB does not apply,
- as a result of different recognition and measurements rules, earnings under the IFRSs are higher; this is partly offset by the interest expense resulting from the valuation of provisions for mining obligations at present value,
- the recognition in profit or loss of market value changes for derivative financial instruments results in lower earnings for the period,
- as a result of the comprehensive reporting of deferred taxes, especially in connection with the use of tax loss carryforwards, earnings for the period are lower.

Reconciliation of equity as of 1 January 2004 (in T€)

Equity under HGB as of 1 January 2004	555,403
Property, plant and equipment	128,317
Intangible assets	(294)
Receivables/payables/cash and cash equivalents	(24,716)
Market value of derivatives	27,703
Securities	15,430
Deferred tax assets	106,116
Balances from capital consolidation	29,472
Provisions	(2,787)
- of which for mining obligations	1,604
- of which pension provisions	(42,835)
Deferred tax liabilities	4,397
Other adjustments	(3,707)
Equity under IFRSs as of 1 January 2004	**835,334**

Reconciliation of equity as of 31 December 2004 (in T€)

Equity under HGB as of 31 December 2004	601,397
Property, plant and equipment	130,016
Intangible assets	(217)
Receivables/payables/cash and cash equivalents	(29,045)
Market value of derivatives	1,257
Securities	17,203
Deferred tax assets	93,207
Balances from capital consolidation	62,300
Provisions	6,100
- of which for mining obligations	40,069
- of which pension provisions	(43,440)
Deferred tax liabilities	9,988
Other adjustments	(11,604)
Equity under IFRSs as of 31 December 2004	**880,602**

The equity disclosed in the IFRS balance sheet as of 1 January 2004, and 31 December 2004, is significantly higher than under HGB. The main reasons for these changes are:

- The carrying amounts of property, plant and equipment are higher because of the retroactive adjustment of useful lives and expanded capitalisation,
- receivables and liquid funds are lower because US dollar items are no longer translated at hedged rates but at the rates prevailing on the reporting date,
- securities and derivatives are carried at their market values,
- deferred taxes are capitalised in full, especially in the case of tax loss carryforwards,
- the liability-side balance from capital consolidation disclosed in the HGB balance sheet is reclassified in equity,
- pension provisions are computed using the projected unit credit method and with the application of a lower discount factor, resulting in a reduction in equity,
- non-current provisions are stated at present value.

Reconciliation of cash flows for the period ended 31 December 2004

Gross cash flow under HGB for the period ended 31 December 2004	268,944
Operating result (EBIT I)	(6,047)
Depreciation/write-ups	11,451
Release of liability-side consolidation balances	14,025
Increase/decrease in non-current provisions	(20,368)
Financial result (affecting cash)	3,397
Other	2,726
Gross cash flow under IFRSs for the period ended 31 December 2004	**274,128**

Cash flow from operating activities under HGB for the period ended 31 December 2004	196,661
Gross cash flow	5,184
Change in receivables and other assets	(7,678)
Change in current provisions and liabilities from operating activities	7,994
Other	(422)
Cash flow from operating activities under IFRSs for the period ended 31 December 2004	**201,739**

Cash flow from investing activities under HGB for the period ended 31 December 2004	(217,135)
Disbursements for intangible assets	(926)
Disbursements for property, plant and equipment	(6,747)
Other	213
Cash flow from investing activities under IFRSs for the period ended 31 December 2004	**(224,595)**

Cash flow from financing activities under HGB for the period ended 31 December 2004	(42,500)
Taking out/redemption of loans	2.771
Cash flow from financing activities under IFRSs for the period ended 31 December 2004	**(39,729)**

Gross cash flow and cash flow from operating activities deviate for the following reasons:

- Differences in the period allocation of components of operating earnings, especially those connected with hedging, impact on cash flows,
- the inclusion of special funds means that the contribution of the financial result to cash flows is higher.

Cash flow from investing activities is higher essentially because of the extended scope of capitalisation under IFRSs. In addition, cash flow from investing activities includes purchases and sales of securities, which were contained in financial resources under HGB.

Cash flow from financing activities differs from the HGB value because of a change in the allocation of borrowings to financial resources.

Scope of consolidation

In addition to the parent company, K+S AG, all significant subsidiaries in which K+S AG holds the majority of the voting rights have been fully consolidated in the consolidated financial statements. Subsidiaries of minor importance are not consolidated. In total, 34 subsidiaries have not been consolidated because they are of minor importance. Consolidated companies are included with effect from the economic acquisition date.

The scope of consolidation changed as follows in 2005: park GmbH and COMPO Fertilizantes de México S.A. de C.V. were fully consolidated for the first time; both companies began operating in the year under review. K+S KALI & SCPA France S.A.S. was also fully consolidated for the first time. The company acts as an interim holding company for the French unlisted companies Compagnie de Compactage de Wittenheim S.A.S., Wittenheim, SCPA du Roure S.A.S., Le Teil, SCPA Masdac S.A.S., Pré en Pail, and SCPA Rodez S.A.S., Onet le Château, which had been acquired in December 2004 but not been consolidated in 2004 because of their overall minor importance. The acquired companies produce and distribute fertilizers and speciality products for agriculture and pursue the bulk of their activities on the French market. The acquisition costs totalled T€ 3,800 and were settled in cash.

As of 1 January 2005, the following assets and liabilities were stated for the acquired SCPA companies:

T€	
Fixed assets	7,612
Inventories	3,122
Receivables and other assets	7,673
Non-current provisions	483
Current provisions	–
Liabilities	12,712

No adjustment of the carrying amounts as a result of the remeasurement was necessary. The surplus over acquisition cost of the net assets acquired, which totalled T€ 1,412, is disclosed in the income statement under other operating income.

Furthermore, the acquisition had the following impact on the income statement for the reporting period:

T€	
Revenues	21,805
Other income	184
Expenses	21,917
Earnings after taxes	72

The first-time inclusion of park GmbH, COMPO Fertilizantes de México S.A. de C.V. and K+S KALI & SCPA France S.A.S. in the consolidation had no material influence on the consolidated financial statements.

Twenty-three (2004: 22) domestic and 23 (2004: 17) foreign companies have been fully consolidated in the consolidated financial statements. Essentially, the K+S Group holds the entire capital of all the companies listed below in economic terms; in the case of SCPA Rodez S.A.S., the K+S Group's holding amounts to 97.45 %.

Germany
K+S Aktiengesellschaft, Kassel
biodata ANALYTIK GmbH, Gießen-Linden
Chemische Fabrik Kalk GmbH, Cologne
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, Kassel
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

Outside Germany
Compagnie de Compactage de Wittenheim S.A.S., Wittenheim, France
COMPO Agricoltura Spa, Cesano Maderno, Italy
COMPO Agricultura S.L., Barcelona, Spain
COMPO Agro Chile Ltda., Santiago de Chile, Chile
COMPO Austria GmbH, Vienna, Austria
COMPO Benelux N.V., Deinze, Belgium
COMPO do Brasil S.A., Guaratinguetá, Brazil
COMPO Fertilizantes de México S.A. de C.V., Mexico City, Mexico
COMPO France S.A.S., Roche-lez-Beaupré, France
COMPO Hellas S.A., Marousi, Greece
COMPO Horticulture et Jardin S.A.S, Roche-lez-Beaupré, France
COMPO Jardin AG, Allschwil, Switzerland
esco benelux N.V., Brussels, Belgium
esco France S.A., Levallois-Perret, France
esco Spain S.L., Barcelona, Spain
Frisia Zout B.V., Harlingen, The Netherlands
K+S KALI & SCPA France S.A.S., Reims, France
Potash Import & Chemical Corporation, New York, USA
Salines Cérébos et de Bayonne S.A., Levallois-Perret, France
SCPA du Roure S.A.S., Le Teil, France
SCPA Masdac S.A.S., Pré en Pail, France
SCPA Rodez S.A.S., Onet le Château, France
VATEL Companhia de Produtos Alimentares S.A., Alverca, Portugal

Interests in companies over which companies of 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 overall minor importance, all interests in associated companies were stated at acquisition cost in 2005.

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 intercompany 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 arose since 1 January 2004, and remain after allocation to the assets and liabilities are carried as goodwill. The setting off of asset-side balances against reserves before 1 January 2004 has been retained in accordance with IFRS 1.

Liability-side balances from consolidation that arose since 1 January 2004, are released directly affecting profit or loss. Allocations of liability-side balances to additional paid-in capital performed before 1 January 2004, as well as reclassifications to revenue reserves have been retained in accordance with IFRS 1.

Accounting and valuation principles

Recording of income

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.

Intangible assets

Intangible assets acquired are stated at acquisition cost. Significant intangible assets acquired are the rights of use to the salt deposits at sites in Germany and the Netherlands. Internally generated intangible assets are capitalised at development cost provided that they are likely to yield a future economic benefit and the costs of such assets can be measured reliably. Insofar as their useful lives can be determined, intangible assets are amortised on a regular straight-line basis. The foregoing does not apply to goodwill items in particular. Regular straight-line amortisation is based on the following useful lives:

	Years
Use rights to deposits	20 - 47
Brands	5 - 15
Other intangible assets	2 - 10

Special write-downs are recorded in the event of an 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.

Until 31 December 2003, use was made of the possibility of offsetting goodwill from reserves as permitted under HGB. In accordance with IFRS 1, these values were carried over into the IFRS opening balance sheet as of 1 January 2004.

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. Nonscheduled 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 nonscheduled depreciation charge cease to apply, appropriate write-ups are recognised.

Gallery and excavation work is capitalized 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 lives.

Scheduled straight-line depreciation is based on the following useful lives that apply across the group:

	Years
Gallery and excavation work	5 - 125
Buildings	14 - $33^1/_3$
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 around 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, the lower value is stated.

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 ordinary 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 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.

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-bearing or low-interest receivables due in more than three months are discounted.

Receivables are derecognised when settled or when they become uncollectable. 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 held for sale as well as securities that include embedded derivatives 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 obligations 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.

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 realisation 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 for 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 methods
Non-current intangible assets, property, plant and equipment and investment properties 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 methods
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 capitalised 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. The respective domestic currency serves as the basis, as all companies conduct their operations independently in financial, economic and organizational terms. Thus, 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 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€ 1,440.

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	2005 Rate on report. date	Average rate for the year	2004 Rate on report. date	Average rate for the year
US dollars (USD)	1.180	1.245	1.362	1.243
Swiss francs (CHF)	1.555	1.548	1.543	1.544
Brazilian reals (BRL)	2.745	3.040	3.623	3.636
Chileanpesos (CLP)	604.766	697.873	760.910	756.940
Mexican pesos (MXN)	12.589	13.576	15.250	14.035

Notes to the income statement

The income statement is presented on page 83.

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 values").

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 regularly are 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 takes 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€ 2,815,700 (2004: T€ 2,538,624), with T€ 2,725,616 (2004: T€ 2,456,999) resulting from the sale of goods and T€ 90,084 (2004: T€ 81,625) 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 pages 88 f. The regional breakdown of the revenues is disclosed in the notes to the segment reporting under Note (37).

(2) Other operating income

Other operating income includes the following material items:

T€	2005	2004
Foreign exchange rate gains	55,732	31,988
- of which realised market values less premiums paid	(4,463)	22,993
Release of provisions	21,207	23,554
Disposals of property, plant and equipment	3,213	298
Rentals and leasing	3,202	3,173
Release of specific write-downs	2,677	1,638
Compensation received	1,630	1,029
Release of negative goodwill	1,545	–
Sundry income	20,953	19,602
Other operating income	**110,159**	**81,282**

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

(3) Other operating expenses

Other operating income expenses include the following material items:

T€	2005	2004
Exchange rate hedging costs/foreign exchange rate losses	13,614	5,051
Ancillary capital expenditure costs	2,477	1,967
Expenses related to investment properties	1,805	1,892
Other taxes	1,705	1,514
Losses on disposals of fixed assets	1,618	1,478
Pension expenses	691	485
Expenses for disused plants	375	1,919
Sundry expenses	92,906	67,456
Other operating expenses	**115,191**	**81,762**

The exchange rate hedging costs/losses arising from exchange rate differences in the amount of T€ 13,614 are compared against foreign exchange gains of T€ 55,732, which are disclosed under other operating income. This yields a foreign currency result in operating earnings (EBIT I) of T€ 42,118 (2004: T€ 26,937).

(4) Income from investments, net

T€	2005	2004
Income from distributions from affiliates	3,362	2,179
Expenses for absorption of losses	(20)	(301)
Write-downs on investments	–	(27)
Income from the disposal of investments	5,738	541
Income from investments, net	**9,080**	**2,392**

The income from the disposal of investments amounting to T€ 5,530 resulted from the merger of SCAC Fisons S.A. with KEL Finance S.A. and the subsequent merger of KEL Finance S.A. with COMPO France S.A.S. As neither merged company had been consolidated, the difference between net assets acquired and the previous investment carrying amount was reported as a merger gain. In addition, the income from investments, net, includes disposal gains totalling T€ 208 (2004: T€ 541).

(5) Market value changes from exchange rate hedging transactions

T€	2005	2004
Realised market values less premiums paid	4,463	(22,993)
Market value changes for exchange rate hedging transactions that have yet to reach maturity	16,329	(3,452)
- of which positive market changes	52,037	13,211
- of which negative market changes	(35,708)	(16,663)
Market value changes from exchange rate hedging transactions	**20,792**	**(26,445)**

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

The market value changes for exchange rate hedge 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€	2005	2004
Interest and similar income	11,379	10,649
Interest expenses in allocations to provisions for pensions	(9,456)	(9,645)
Interest expenses in allocations to provisions for mining obligations	(13,866)	(12,801)
Interest expenses in allocations to provisions for jubilee benefits	(871)	(919)
Sundry interest and similar expenses	(4,945)	(5,814)
Interest income, net	**(17,759)**	**(18,530)**

Interest income from financial assets that is not recognised in profit or loss at fair value amounted to T€ 675 (2004: T€ 867).

(7) Other financial result

T€	2005	2004
Income from the disposal of securities	5,827	4,309
Losses from the disposal of securities	(1,229)	(2,243)
Income from the disposal of other financial investments	796	724
Losses from the disposal of other financial investments	(134)	(248)
Income from the disposal of financial assets	**5,260**	**2,542**
Income from the measuring of securities at market value	1,972	3,192
Expenses resulting from the measuring of securities at market value	(627)	(115)
Income from the measuring of other financial investments at market value	18	206
Expenses resulting from the measuring of other financial investments at market value	(952)	(364)
Income from the measuring of financial assets at market value	**411**	**2,919**
Other financial result	**5,671**	**5,461**

(8) Taxes on income

T€	2005	2004
Current taxes	49,634	22,533
- Germany	41,957	13,605
- other countries	7,677	8,928
Deferred taxes	35,512	14,093
- Germany	39,053	14,537
- other countries	(3,541)	(444)
- from loss carryforwards	17,116	7,594
Taxes on income	**85,146**	**36,626**

Domestic deferred taxes have been calculated assuming a tax rate of 37.0 % (2004: 37.0 %). In addition to corporate income tax of 25.0 % and the solidarity surcharge of 5.5 % levied on it, an average trade tax rate (14.5 %) was also taken into account. Deferred taxes for other countries are computed applying the respective national income tax rates.

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

T€	2005	2004
Earnings before income taxes	259,597	123,427
Anticipated income tax expense (37.0% group tax rate)	96,051	45,668
Changes in anticipated tax expense:		
Tax-exempt income from investments and profits on disposals	(6,190)	(5,606)
Reductions in tax resulting from tax-exempt income and other items		
Trade tax additions/reductions	(5,675)	(3,682)
Other tax-exempt income	(3,174)	(2,898)
Increases in tax resulting from nondeductible expenses and other items	3,511	2,953
Permanent deviations	(229)	2,316
Effects from tax rate differences	(789)	(574)
Taxes for preceding years	899	(866)
Other effects	742	(685)
Actual tax expense	**85,146**	**36,626**
Tax rate	**32.8%**	**29.7%**

(9) Cost of materials

T€	2005	2004
Raw materials, supplies and purchased merchandise	1,047,676	939,324
Purchased services	183,755	195,242
Energy costs	157,689	124,730
Cost of materials	**1,389,120**	**1,259,296**

(10) Personnel expenses/number of employees

T€	2005	2004
Wages and salaries	519,084	475,463
- of which other long-term employee benefits	17,638	11,372
- of which share-based remuneration	8,751	5,564
Social security	138,106	130,410
Pension expenses	13,720	7,100
Support	218	300
Personnel expenses	**671,128**	**613,273**

The other long-term employee benefits concern allocations to and the use of provisions for semi-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 period of five years.

In 2005, payments for stock options exercised totalling T€ 6,388 (2004: T€ 2,943) were recorded under personnel expenses. The expense was neutralised 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. In 2005, a total of 90,664 K+S shares were purchased on the stock exchange for T€ 3,916 and sold to employees of the K+S Group for T€ 2,193. The difference between the cost of acquiring the shares and the proceeds obtained from their sale to employees resulted in a wages and salaries expense of T€ 1,723 in 2005 (2004: T€ 2,621). A one-year lock-up period applies to employee shares: employees who hold their share for three years without interruption receive one-off free bonus shares at a ratio of 1 to 10. In 2005, 11,960 bonus shares were acquired on the stock exchange for T€ 640 and issued to employees without charge; this sum has also been included in personnel expenses.

Expenses totalling T€ 3,200 were incurred for a further employee share ownership programme that has been resolved.

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€ 3,903 that are unrelated to the period.

Employees, including those with temporary contracts (average number)	2005	2004
Germany	9,876	10,069
Outside Germany	1,141	999
Total	**11,017**	**11,068**
- of which trainees	510	514

The change in the scope of consolidation has resulted in an additional 130 employees (average number for the year).

(11) Earnings per share

T€	2005	2004
Group earnings after taxes and minority interests	174,449	86,801
Elimination of market value changes (gross)	(20,792)	26,445
Elimination of deferred taxes on market value changes	7,693	(9,785)
Group earnings, adjusted *	**161,350**	**103,461**
Average number of shares (million)	42.3	42.5
Earnings per share (in €)	4.12	2.04
Earnings per share, adjusted (in €) *	**3.81**	**2.43**

* adjusted for the effect of market value changes from exchange rate hedging transactions; 37.0 % tax rate assumed

In accordance with IAS 33, earnings per share are to be determined on the basis of group earnings. These also include the effects of the valuation of exchange rate 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 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.

If use is made of the authorised capital (see Note (22)), earnings per share could potentially become diluted.

Notes to the balance sheet

The balance sheet is presented on page 84.

(12) Fixed assets

The development of the gross carrying amounts and depreciation on the individual fixed assets items is shown separately on pages 86 f.

(13) Intangible assets
The amortisation charges for the financial year are recognised in the income statement in line with the use of the assets concerned under

- cost of sales,
- selling expenses,
- general and administrative expenses
- research and develop costs, as well as
- other operating expenses.

The goodwill disclosed in the consolidated balance sheet is allocated to the following two cash-generating units:

T€	2005	2004
Salt business segment	13,251	13,251
COMPO business segment	606	110
Total	**13,857**	**13,361**

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 segments was essentially considered to constitute such unit. The determination of value in use was based on the present value of the future cash flows of the business segments assuming continued use. The cash flow forecast is based on the current medium-term planning of the K+S Group and the respective business segments. The key premises underlying the medium-term planning are largely based on experience figures. The forecast period covers the years 2006 to 2008, with a growth rate of 1.0 % assumed for subsequent years. The discount factor applied to all cash-generating units is 6.0 %.

The impairment test conducted at the end of financial year 2005 confirmed that the goodwills had retained their 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 tests conducted at the end of financial year 2005 resulted in impairment charges of T€ 3,255 for two groups of brand rights and those were recorded under other operating expenses.

(14) Investment properties
The fair value of investment properties amounted to T€ 40,281 as of 31 December 2005 (2004: T€ 39,921). The fair values were estimated by internal specialist departments on the basis of local market conditions. Independent experts were not engaged.

(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€ 14,311 of the amount relates to interests in associated companies and participating interests and is not exposed to interest rate risks as a result. T€ 4,953 relates to loans (mainly to employees) and other financial assets that essentially carry a fixed rate of interest and are therefore exposed to an interest rate risk in respect of fair value. The effective annual rates of interest range between 2.0 % and 5.8 % 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.

(16) Deferred taxes

The following deferred tax assets and liabilities relate to reporting and measurement differences for individual balance sheet items and tax loss carryforwards:

	Deferred tax assets		Deferred tax liabilities	
T€	2005	2004	2005	2004
Intangible assets	6,651	6,624	10,867	5,567
Property, plant and equipment	24,801	23,004	71,575	66,283
Financial assets	–	4	54	–
Inventories	1,539	956	114	96
Receivables and other assets	1,420	14,868	32,879	11,610
- of which derivative financial instruments	–	8,942	21,340	5,101
Provisions	102,939	84,664	21,058	12,263
Liabilities	11,764	457	6,236	7,986
Gross amount	**149,114**	**130,577**	**142,783**	**103,805**
- of which long term	130,472	114,046	107,504	89,160
Tax loss carryfowards	34,900	52,016	–	–
Consolidation	3,179	3,427	(27)	(365)
Balances	(129,052)	(92,813)	(129,052)	(92,813)
Balance sheet carrying amount (net)	**58,141**	**93,207**	**13,704**	**10,627**

During the year under review, T€ -2,835 (2004: T€ 3,363) deferred taxes were offset directly against equity without recognition in profit or loss.

(17) Inventories

T€	2005	2004
Raw materials and supplies	110,435	103,987
Work in progress	10,963	10,999
Finished products and merchandise	159,927	131,275
Payments on account	–	2,483
Inventories	**281,325**	**248,744**

Inventories of T€ 32,713 (2004: T€ 29,434) were stated at net realisable value. The reporting of net realisable value resulted in the writing down of inventories by T€ 5,593 (2004: T€ 6,950) during the period under review.

(18) Receivables and other assets

		Of which residual term		Of which residual term
T€	2005	> 1 year	2004	> 1 year
Accounts receivable – trade	598,140	–	506,023	–
Receivables from associated companies	12,332	–	23,265	–
Receivables from companies in which participating interests are held	224	–	1,939	–
Other assets	195,635	57,334	94,671	9,461
- of which derivative financial instruments	120,895	55,295	21,497	3,160
Receivables and other assets	**806,331**	**57,334**	**625,898**	**9,461**

Receivables management is geared towards collecting all outstanding accounts punctually and in full as well as to avoid the loss of receivables. Invoices are issued on a daily basis and invoice data is transferred to debtor accounts online. Accounts outstanding are monitored on an ongoing basis with system support and in line with the payment terms agreed with the customers. Payment terms generally range from 10 to 180 days, with longer terms 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 hedging 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 2005, the maximum risk arising from a highly unlikely simultaneous default in respect of all unsecured receivables amounted to T€ 65,984 (2004: T€ 75,976). There were no significant concentrations of risk.

Allowances of T€ 23,027 were recognised for the receivables portfolio as of 31 December 2005 (2004: T€ 18,550). 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 2005, receivables bearing no or low interest were written down by T€ 1,239 (2004: T€ 1,046).

(19) Derivative financial instruments

Group currency and interest rate management 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.

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 business segment are concluded for a term of up to three years, which largely 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 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). If the spot rate is quoted at or beyond one of the knock-out thresholds during the term, the option forfeits and is of no value. By means of active currency management, these knock-out thresholds can be shifted by accepting additional premium payments. This mainly takes the form of selling an 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 interbank 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. 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. As a rule, hedging relationships by means of forward exchange transactions are established when a claim arises, because the requirements according to IAS 39 are regularly satisfied in the case of these transactions used.

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) 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. 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 sold currency options, 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. The 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 eclipse the commercial success in both a positive and a negative sense to a large extent.

The following positions existed as of 31 December 2005:

T€	Notional amounts [1]	Fair values
USD forward exchange transactions		
- of which maturing in 2006	47,318	(471)
USD foreign currency options bought		
- of which maturing in 2006	662,182	65,518
- of which maturing in 2007	615,944	37,345
- of which maturing in 2008	362,592	17,950
USD foreign currency options sold		
- of which maturing in 2006	180,046	(380)
- of which maturing in 2007	366,973	(4,346)
- of which economically neutralised obligations maturing between 2006 and 2007	227,409	(21,633)
USD foreign currency transactions in total	**2,462,464**	**93,983**

T€	Notional amounts [1]	Fair values
GBP forward exchange transactions maturing in 2006	5,123	68

[1] converted to euros applying weighted hedging rates

US dollar forward exchange transactions with a nominal value of T€ 16,874 and fair value of T€ (380) were included in the hedging relationships with US dollar receivables. In addition to derivatives for hedging operating 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.

As of 31 December 2005, a negative market value of T€ 741 was recognised as a liability; the nominal value of the derivatives was T€ 10,000.

(20) Securities

T€	2005	2004
Recognised in profit or loss at fair value (held for trading)	60,591	89,323
- of which fixed-income securities	9,996	43,248
- of which variable income securities	31,561	31,940
- of which shares	19,034	14,135
Available for sale	71,458	74,612
- of which fixed-income securities	1,355	2,539
- of which variable income securities	27,012	36,961
- of which shares	43,091	35,112
Securities	**132,049**	**163,935**

As of 31 December 2005, write-ups of T€ 8,296 (2004: T€ 143) and write-downs of T€ 341 (2004: T€ 364) for securities classified as available for sale were recorded directly in equity. Gains of T€ 69 (2004: T€ 0) and losses of T€ 0 (2004: T€ 65) 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.

The securities portfolio in part serves 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 as well as within investment classes. In addition, certain minimum creditworthiness criteria apply to the picking of individual securities. The shares disclosed under securities also cover holdings of a special fund that is consolidated as a special purpose entity within the meaning of SIC 12. The special fund is managed by an external fund manager on the basis of general investment guidelines that have been coordinated with K+S Aktiengesellschaft.

Essentially, derivative financial instruments are not used to hedge decreases in security prices, so that the securities are exposed to customary market default and price risks. In individual cases, however, derivatives are used to hedge certain risks, e.g. from exchange rates or 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 1 and 27 years and the effective rates of interest extend from 2.8% to 6.8%. Variable income securities are subject to a cash flow risk arising from interest rates. Interest rate adjustment periods range between 3 and 6 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 83.

(22) Subscribed capital
The subscribed capital of K+S Aktiengesellschaft amounts to € 108.8 million and was divided into 42.5 million no-par value bearer shares.

On the basis of the authorization granted by the Annual General Meeting on 11 May 2005, K+S Aktiengesellschaft repurchased a total of 1,250,000 own shares (= 2.94% of the share capital) on the stock exchange at an average price of € 53.32 per share in financial year 2005. These own shares held on 31 December 2005, were to be cancelled and have been cancelled without a reduction of capital by a resolution of the Board of Executive Directors adopted on 24 January 2006, and approved by the Supervisory Board.

Pursuant to a resolution of the Annual General Meeting dated 8 May 2002, the Board of Executive Directors was authorized, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 1 May 2007, against cash or in-kind contributions and by up to no more than € 57.6 million in the aggregate through the issuance of no more than 22.5 million new no-par value bearer shares (authorized 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 € 28.8 million of the share capital (the equivalent of 11.25 million no-par value shares):

- in respect of fractional amounts arising from such subscription right;
- in the case of capital increases against cash contributions, if the capital increase does not exceed 10 % of the share capital and the issue price of the newly created shares is not significantly lower than the relevant exchange price, which is the weighted average of the exchange prices of the shares in the XETRA computerized trading system for the five 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.

(23) Other revenue reserves and profit retained

Other revenue 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 on page 83.

T€	2005	2004
Balance as of 1 January	767,107	721,908
Consolidation-related effects	6	(2,675)
Dividend payment for previous year	(55,250)	(42,500)
Change from acquisition of own shares	(66,650)	–
Group earnings after taxes and minority interests	174,449	86,801
Other neutral changes	4,943	3,573
Balance as of 31 December	**824,605**	**767,107**

The other changes essentially comprise set-off 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 € 1.80 per share, i. e. T€ 74,250 in total, be distributed to the shareholders with the remainder carried forward. 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€	2005	2004
Balance as of 1 January	55,433	55,926
Dividend payment for previous year	55,250	(42,500)
Allocations to other revenue reserves from previous year's profit retained	–	(12,500)
Change in reserve for own shares	–	14
Net income of K+S Aktiengesellschaft	100,413	97,493
Allocations to other revenue reserves from net income	(26,346)	(43,000)
Balance as of 31 December	**74,250**	**55,433**

Other K+S Aktiengesellschaft revenue reserves

Other K+S Aktiengesellschaft revenue reserves developed as follows over financial year 2005:

T€	2005	2004
Balance as of 1 January	96,000	40,500
Allocation from previous year's profit retained	–	12,500
Withdrawal for cancellation of own shares	(66,650)	–
Allocation from net income	26,346	43,000
Balance as of 31 December	**55,696**	**96,000**

(24) Provisions

The development of provisions is shown separately on pages 88 f.

(25) Provisions for pensions and similar obligations

T€	2005	2004
Balance sheet carrying amount as of 1 January	216,057	217,234
Changes in scope of consolidation	268	3,087
Length-of-service expenses	2,357	1,914
Interest expenses	9,456	9,645
Plan adjustments	–	809
Release/transfer	(751)	(1,570)
Pension payments	(15,335)	(15,062)
As of 31 December (before offsetting with plan assets)	**212,052**	**216,057**
Present value of obligations covered by plan assets	(40,306)	–
Balance sheet carrying amount as of 31 December	**171,746**	**216,057**
Unrecorded actuarial gains/losses	3,811	1,547
As yet unrecorded length-of-service expenses still to be charged	–	–
Anticipated income from plan assets	–	–

The pension provisions concern various defined benefit pension plans operated by the K+S Group. They mainly relate to unfunded direct commitments on the part of domestic group companies under pension plans that have been discontinued in the meantime. Most of the obligations apply to pensioners.

Pension provisions are determined on the basis of the following key valuation parameters and methods:

- Valuation standard applied: projected unit credit method
- Mortality assumptions: Dr. K. Heubeck mortality tables 2005 G
- Discount factor: 4.60 %
- Expected annual increase in income: 1.50 %
- Expected annual increase in pensions: 1.50 %

During financial year 2005, plan assets were created via a contractual trust arrangement for some components of the pension provisions. The fair value of plan assets as of 31 December 2005 comprised the following:

T€	
Fixed-income securities	30,070
Variable income securities	11,600
Fair value	**41,670**

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€ 57,402 (2004: T€ 54,732) 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 pension is to be classified as 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, insufficient information is available for reporting the plan on the balance sheet. That is why the plan is treated as a defined contribution plan. The contributions made by the K+S Group to the pension fund and recorded under personnel expenses amounted to T€ 8,879 in 2005 (2004: T€ 2,827). The sum for 2005 includes a solvency payment of T€ 6,090 to avoid insufficient coverage.

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. In addition, employees can make contributions of their own to the K+S VorsorgePlus fund by way of converting part of their remuneration and thus build up a supplementary benefit plan. 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€ 234 in 2005 (2004: T€ 151).

In addition, certain employee-financed forms of retirement benefit, such as the Chemical Industry Pension Fund, are subsidized by the K+S Group. In 2005, expenses of T€ 152 (2004: T€ 152) were recorded in this connection.

(26) Provisions for mining obligations

T€	2005	Of which short term	2004	Of which short term
Mine and shaft backfilling	180,433	7,180	182,224	7,308
Maintenance of stockpiles	82,302	–	78,473	–
Mine damages	32,008	–	32,756	–
Restoration	29,489	–	28,083	–
Other	7,815	–	7,912	–
Provisions for mining obligations	**332,047**	**7,180**	**329,448**	**7,308**

Provisions for mining obligations are recognised as a result of statutory and contractual requirements as well as conditions imposed by public agencies and essentially cover obligations to backfill mines and shafts as well as the obligation to maintain stockpiles. In addition, provisions also exist for mining damage risks and restoration obligations.

Mining obligations are based on 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. Mining damage can result from underground extraction and the related lowering of the land at surface level or as a result of damage connected with the production process in the form of dust or the release of saline substances. The provisions take account of identifiable obligations connected with use restoration as well as obligations arising from mining damage 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. 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 lives of the sites. With respect to mining damage, the obligations in part extend well beyond 2050.

The allocation to mining provisions for the year under review in the amount of T€ 19,274 (2004: T€ 16,075) is largely attributable to the annual accumulation of the provisions in the amount of T€ 13,866 (2004: T€ 12,801) resulting from the reduction in the period of time until settlement. Further allocations were necessary as a result of the remeasurement of individual obligations.

Mining provisions in the amount of T€ 13,390 (2004: T€ 7,185) were used to discharge the obligation to maintain disused sites. Further sums were spent on expenditure connected with mining damage risks.

The reversal of provisions in the amount of T€ 3,047 (2004: T€ 186) largely resulted from a reduction in anticipated individual obligations.

(27) Other provisions

The obligations to employees primarily comprise provisions for jubilee bonuses, semi-retirement, social welfare plan expenses, year-end deferrals as well as the stock option programme. The respective obligation settlement dates in part extend over a period of up to 40 years.

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
116,530	May 2004	May 2007	670	670
1,323,500	May 2005	May 2008	5,671	4,726
1,020,910	May 2006	May 2009	6,164	2,056
2,460,940			**12,505**	**7, 452**

In 2005, eligible employees exercised 115,530 options that could be exercised for the first time in May 2004 and 1,315,025 options that could be exercised for the first time in May 2005. This resulted in provision utilisation of T€ 6,388 (see Note 10).

In addition, employees acquired 989,700 options that can be exercised for the first time in May 2007. This resulted in overall expenses of T€ 5,992 in 2005.

As of 31 December 2005, the composition of holdings of virtual stock options was as follows:

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**

The intrinsic value of the exercisable options was T€ 42 as of 31 December 2005.

The fair value of the options that become exercisable for the first time in May 2007 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. A risk-free interest rate of 3.0% is 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€	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**

T€	2004 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	57,763	43,314	14,449	–
Accounts payable – trade	321,529	321,410	119	–
Liabilities to affiliated companies	16,009	16,009	–	–
Other liabilities	54,662	44,151	10,511	–
- of which derivative financial instruments	1,298	–	1,298	–
Liabilities	**449,963**	**424,884**	**25,079**	**–**

The bank loans and overdrafts as of the balance sheet date mainly relate to subsidiaries in Brazil, Chile and Mexico. They are largely financed by bank loans drawn in local currency. Bank loans and overdrafts in the preceding year mainly related to K+S Aktiengesellschaft as well as subsidiaries in Brazil and Chile.

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 (Brazilian real, Chilean peso, Mexican peso) plus the customary market margins.

Term deposits with credit institutions totalling T€ 3,200 (2004: T€ 3,200) have been pledged as security for bank loans and overdrafts.

(29) Contingent liabilities

T€	2005	2004
Warranty agreements	767	767

(30) Other financial commitments

T€	2005	2004
Commitments under uncompleted capital expenditure projects	28,115	21,347
Commitments under long-term rental and leasing contracts		
- due in following year	10,685	10,461
- due in 2 to 5 years	28,114	26,569
- due after 5 years	4,338	4,098
Other financial commitments	**71,252**	**62,475**

The leasing obligations relate to operating leases for items of factory and office equipment such as printers, photocopiers and IT peripherals. In addition, cars are also leased. Given the relevant contractual arrangements, these items are not carried under fixed assets.

Notes to the segment reporting

The segment reporting is presented on pages 88 f.

(31) Definition of segments

The segments are primarily defined by product types. 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, plant 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 table salt, industrial salt and salt for chemical transformation, 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 special recycling services.

Business units providing services for the K+S Group which are also offered 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.

(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 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 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 expense 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 nonrelated 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 is chosen which is closest to that under which arm's length prices are determined in comparable markets.

(35) Impairment charges

The impairment tests conducted at the end of financial year 2005 resulted in the recognition of impairment charges of T€ 3,255 for two different groups of brand rights belonging to the COMPO business segment and were recorded under other operating expenses. In the case of both brand rights, the values in use were determined on the basis of the present value of future cash flows for the income that could be generated by the brand rights. The cash flow forecasts are based on the current medium-term plans of the COMPO business segment. Compared with the preceding year, the forecasts for business involving the aforementioned brands is much less favourable.

(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 as well as consolidation effects. The main items are:

T€	2005	2004
Reconciliation of segment results		
Consolidation-related effects	(2,086)	(1,873)
Result for the central functions	(29,516)	(27,281)
	(31,602)	**(29,154)**
Reconciliation of segment assets		
Fixed assetsc	47,613	50,130
Deferred tax assets	58,141	93,207
Market values of derivatives (less premiums)	31,064	(7,705)
Tax refund claims from income taxes	2,589	3,095
Other receivables	25,823	18,656
Cash and cash equivalents	165,523	177,503
Consolidation-related effects	(370,427)	(289,272)
	(39,674)	**45,614**
Reconciliation of segment liabilities		
Provisions for pensions and suchlike	121,760	167,492
Other provisions	40,486	36,443
Deferred tax liabilities	13,704	10,627
Market values of derivatives (less premiums)	13,719	(5,221)
Liabilities	51,684	59,391
Income tax liabilities	19,845	8,067
Consolidation-related effects	(91,543)	(64,667)
	169,655	**212,132**

(37) Geographical breakdown of revenues

The breakdown of revenues by geographical region is as follows:

T€	2005	2004
Germany	675,067	598,361
Rest of Europe	1,480,040	1,388,019
Overseas	660,593	552,244
Total revenues	**2,815,700**	**2,538,624**

(38) Geographical breakdown of assets

The breakdown of the assets of the K+S Group by geographical region is as follows:

T€	2005	2004
Germany	1,744,265	1,664,431
Rest of Europe	455,619	447,727
Overseas	59,180	35,527
Total assets	**2,259,064**	**2,147,685**

(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:

Angaben in T€	2005	2004
Germany	98,856	107,484
Rest of Europe	8,054	24,280
Overseas	199	128
Total capital expenditure	**107,109**	**131,892**

Notes to the cash flow statement

The cash flow statement is presented on page 85.

(40) Disbursements for acquisition of consolidated companies

The item 'disbursements for acquisition of consolidated companies' relates to the expenditure on companies acquired during the financial year.

T€	2005	2004
Purchase prices	–	(95,940)
Cash and cash equivalents acquired	–	3,762
Financial liabilities assumed	–	(1,455)
Subsequent purchase price reductions	–	600
Disbursements for acquisition of consolidated companies	**–**	**(93,033)**

(41) Cash and cash equivalents

T€	2005	2004
Cash on hand and balances with banks	74,010	91,539
Cash with affiliated companies	–	10,773
Cash received from associated companies	(3,908)	(3,260)
Current financial liabilities (maturity > 3 months)	(294)	(37,272)
Cash and cash equivalents	**69,808**	**61,780**

Other information

Auditors' fees

In 2005, fees totalling T€ 898 for the auditing of the consolidated financial statements and the annual financial statements of the consolidated companies were recorded as an expense. Other audit services attracted charges totalling a further T€ 65.

List of investment holdings

The list of investment holdings has been deposited with the Commercial Register in Kassel under No. HRB 2669. Interested persons may download a copy of the list from the K+S website or obtain a copy of it directly from K+S Aktiengesellschaft.

Government assistance

T€	2005	2004
Investment grants	1,883	3,168
Investment premiums	1,279	2,104
Performance-related assistance	2,865	1,815
Government assistance	**6,027**	**7,087**

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 the assets to which they relate.

The performance-related assistance concerns support that is provided by the Federal Labour Office (Bundesagentur für Arbeit) and is recognised as income. This income serves to offset the higher expenses associated with the refilling of employment positions in connection with semi-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€	2005	2004
Total remuneration of the Supervisory Board	**964**	**721**
- of which fixed	286	240
- of which performance-related	678	481
Total remuneration of the Board of Executive Directors	**4,492**	**3,153**
- of which fixed	1,159	1,111
- of which performance-related	2,450	1,299
- of which from exercise of rights under the stock option programme	883	743
Pension provisions for members of the Board of Executive Directors	**3,942**	**3,279**
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	**973**	**1,054**
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	**7,612**	**7,866**

Board of Executive Directors

The total remuneration of the Board of Executive Directors in 2004 was for five board members: In the year under review, 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 expense of T€ 450 (2004: T€ 149) that is unrelated to the period. The remuneration system for the Board of Executive Directors consists of the following elements:

- regular monthly payments (fixed salary) to which in-kind benefits are added;
- performance-related, nonrecurrent remuneration, with bonuses based on the return on total investment and individual performance-related components and paid in the following financial year;
- nonrecurrent 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€ 1,276 under the 2004 option programme and to T€ 1,228 under the 2005 option programme.

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 2004/2005 and is available to shareholders in the 2004 annual report and also on the K+S Group Internet homepage (www.k-plus-s.com). The conformity declaration in respect of 2005/2006 is also published on the K+S Internet homepage and on page 33 of the 2005 annual report.

Members of the Supervisory Board
(on 31 December 2005)

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, Deputy Chairman
Member of the Managing Main Board of the Mining, Chemicals and Energy Trade Union
further Supervisory Board appointments: BASF AG
Henkel KGaA
mg technologies ag – now GEA Group AG –, until the middle of September 2005
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
Executive Director of the Galileo Joint Undertaking
further Supervisory Board appointments: Ball Packaging Europe GmbH (chairman)
Norddeutsche Affinerie 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
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
Chairman of the Works Council of the Bernburg plant esco - european salt company GmbH & Co. KG

Heinz-Gerd Kunaschewski, Philippsthal
Vice Chairman of the Group Works Council of the K+S Group

Dr. Bernd Malmström, Berlin
Lawyer, advisor to the Board of Executive Directors of Deutsche Bahn AG
further Supervisory Board appointments: DB Dienstleistungen GmbH
Lehnkering GmbH
Railion Deutschland AG (chairman)
Schenker AG (chairman)
other appointments to supervisory bodies: BLG Logistics Group AG & Co. KG
DAL – Deutsche-Afrika-Linien GmbH & Co. KG
DEVK

HHLA Intermodal GmbH & Co. KG
Polzug GmbH
Stinnes Corporation, USA

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: GKN plc., Great Britain
LogicaCMG plc., Great Britain (deputy chairman)
SAPPI Limited, South Africa

Dr. Rudolf Müller, Ochsenfurt
Member of the Board of Executive Directors of Südzucker AG
Other appointments to supervisory bodies: AGRANA Zucker, Stärke und Frucht Holding AG, Austria (deputy 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)
Z&S Zucker und Stärke Holding AG (deputy 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

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 Vogt, Essen, until 31 December 2005
ORGANISATIONAL DIVISION 5
COMPO Business Segment
Corporate Development
Appointments to supervisory bodies: Wolff-Gruppe

Joachim Felker, Birkenheide, from 1 October 2005
ORGANISATIONAL DIVISION 6
Potash and Magnesium Products Business Segment
fertiva Business Segment

Kassel, 24 February 2006

K+S Aktiengesellschaft
The Board of Executive Directors

Definitions of Key Financial Indicators

Equity/assets ratio I	=	$\dfrac{\text{Adjusted equity}^{1}}{\text{Operating assets}}$
Equity/assets ratio II	=	$\dfrac{\text{Adjusted equity}^{1} + \text{non-current debt}}{\text{Operating assets}}$
Book value per share	=	$\dfrac{\text{Adjusted equity}^{1}}{\text{Total number of shares as of 31 Dec.}}$
Dividend yield	=	$\dfrac{\text{(Proposed) dividend per share}}{\text{Closing price (XETRA) as of 31 Dec.}}$
Return on equity	=	$\dfrac{\text{Adjusted group earnings}^{2}}{\text{Annual average for adjusted equity}^{1}}$
Enterprise Value	=	Market capitalisation + pension provisions + mining provisions - net liquid funds
Return on total investment	=	$\dfrac{\text{Adjusted earnings before taxes}^{2} + \text{interest expenses}}{\text{Annual average for adjusted total assets}^{1}}$
Liquidity ratio I	=	$\dfrac{\text{Cash and cash equivalents + current securities}}{\text{Current debt}}$
Liquidity ratio II	=	$\dfrac{\text{Cash and cash equivalents + current securities + current receivables}}{\text{Current debt}}$
Liquidity ratio III	=	$\dfrac{\text{Current assets}}{\text{Current debt}}$
Market capitalisation	=	Number of shares as of 31 Dec. x closing price (XETRA) as of 31 Dec.
Operating assets	=	Intangible assets + property, plant and equipment + investments
Return on Capital Employed (ROCE)	=	$\dfrac{\text{Operating earnings (EBIT I)}}{\text{Annual average for operating assets + Working Capital}}$
Indebtedness I	=	$\dfrac{\text{Bank loans and overdrafts}}{\text{Adjusted equity}^{1}}$
Indebtedness II	=	$\dfrac{\text{Bank loans and overdrafts + non-current provisions}}{\text{Adjusted equity}^{1}}$
Working Capital	=	Inventories + receivables and other assets [3] - current provisions - trade payables - other payables [4]

[1] The market values of derivatives have been eliminated insofar as they are not based on premiums paid.

[2] Changes in the market values of derivatives have been eliminated, taking account of an income tax rate of 37.0 % where necessary.

[3] without derivatives and receivables related to cash equivalents

[4] without derivatives and payables related to cash equivalents

Financial and Economic Terms

Gross domestic product	Value of the economic performance that comprises all the goods and services produced in a country within a reporting period.
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 change-over 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, 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 (→Definitions of key financial indicators). 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).
Liquidity ratios	Provide information about the extent to which current payment obligations are covered by cash and cash equivalents, current receivables and current assets.

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 (only available electronically (PDF))

Please include me in your mailing list for the regular delivery of:

- ☐ Annual Reports
- ☐ Interim Reports
- ☐ Sustainability Reports (only available electronically (PDF))

Information by:

- ☐ Mail
- ☐ E-mail (newsletter)

☐ Please delete me from your mailing list.

Please fax the completed questionnaire
to **+49 (0) 561/9 301-24 25**
or mail it to: **K+S Aktiengesellschaft, 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 mail, we have indicated fold lines for a window envelope.

Contact

K+S Aktiengesellschaft
Bertha-von-Suttner-Strasse 7
34131 Kassel (Germany)
phone: +49 (0) 5 61/9 301-0
fax: +49 (0) 5 61/9 301-17 53
Internet: www.k-plus-s.com

Investor Relations
phone: +49 (0) 5 61/9 301-14 60
fax: +49 (0) 5 61/9 301-24 25
e-mail: investor-relations@k-plus-s.com

Communications
phone: +49 (0) 5 61/9 301-17 22
fax: +49 (0) 5 61/9 301-16 66
e-mail: pr@k-plus-s.com

Imprint

Art direction:
Red Cell Advertising Agency
Düsseldorf

Typography/DTP:
BIT BY BIT Digitales Atelier
Düsseldorf

Lithography:
Laser-Litho 4 Digitale Medien
Düsseldorf

Printing:
Druckerei Heining & Müller
Mülheim an der Ruhr

This annual report is also available in German. In the event of any doubt, the German version of the text will prevail.
The editorial deadline for this report was 24 February 2006.

Dates

	2006/2007
Annual General Meeting, Kassel	10 May 2006
Interim report 31 March 2006	10 May 2006
Dividend payment	11 May 2006
Interim report 30 June 2006	10 August 2006
Interim report 30 September 2006	14 November 2006
Analyst conference, Frankfurt am Main	14 November 2006
Report on business in 2006	15 March 2007
Press and analyst conference, Frankfurt am Main	15 March 2007
Annual General Meeting, Kassel	9 May 2007
Interim report 31 March 2007	9 May 2007
Dividend payment	10 May 2007

K+S Aktiengesellschaft · P.O. Box 10 20 29 · 34111 Kassel · Germany · www.k-plus-s.com

Experience growth.