**Report of the Board of Executive Directors on item 8 of the Agenda pursuant to Sections 221 (4) (2) and 186 (4) (2) of the German Stock Corporation Act (AktG)**

In addition to the traditional options for raising outside and equity capital, issuing convertible bonds and/or warrant-linked bonds can also provide an opportunity to take advantage of attractive financing alternatives on the capital markets depending on the market situation. The Board of Executive Directors believes that it is in the Company's interests that this financing option is also available to the Company.

Issuing convertible bonds and/or warrant-linked bonds (together "bonds") makes it possible to raise capital under attractive conditions. The conversion and/or option premiums achieved benefit the Company's capital base thereby enabling it to take advantage of more favourable financing opportunities. The other possibility provided for, in addition to the granting of conversion rights and/or warrants, to create conversion obligations, widens the scope for structuring this financing instrument. The authorisation provides the Company with the necessary flexibility to place the bonds itself or through direct or indirect holding companies. In addition to euros, bonds may also be issued in the legal tender of any OECD country. In order to achieve a balanced relationship between the Company's interest in expanding the basis of its financing options using the aforementioned instruments and protecting the interests of the shareholders against any excessive dilution of their shareholdings, conditional capital only amounting to a maximum of 10 % of the share capital should be created.

The shareholders will generally also be granted a right to subscribe to convertible or warrant-linked bonds. The Board of Executive Directors shall be authorised, however, with the consent of the Supervisory Board, to exclude the shareholders' right to subscribe when bonds are issued in return for cash contributions in corresponding application of Section 186 (3) (4) of the German Stock Corporation Act (AktG), insofar as the issue of shares based on conversion rights, warrants or conversion obligations respectively is limited to up to 10 % of the Company's share capital.

The option to exclude the right to subscribe allows the Company to make rapid use of advantageous stock exchange situations and to place bonds on the market quickly and flexibly under attractive conditions. The stock markets have become significantly more volatile. Generating the most advantageous issue outcome therefore depends increasingly on the ability to react to market developments at short notice. Conditions that are advantageous and as close to the market as possible can generally only be obtained if the Company is not bound by these for an offer period that is too long. In the case of rights issues, a substantial safety margin is required in order to ensure the attractiveness of the terms and conditions and thus the chances of success throughout the entire offer period. Although Section 186 (2) of the German Stock Corporation Act (AktG) permits the publication of the subscription price (and, in the case of warrant-linked and convertible bonds, of the bond terms and conditions) until the third to last day of the subscription period, a market risk nevertheless exists for several days, considering the volatility of stock markets, which leads to safety margins when defining bond terms and conditions and thus to terms and conditions that are not close to the market. Also, where the right to subscribe is granted, alternative placement with a third party becomes more difficult or may involve additional effort on account of the uncertainty as to whether the right will be exercised (subscription behaviour). Finally, when the right to subscribe is granted, the Company is unable to react to any change in market conditions at short notice because of the duration of the subscription period, which may lead to unfavourable capital procurement for the Company.

The interests of the shareholders will be protected in the case of an exclusion of the right to subscribe in accordance with Section 186 (3) (4) of the German Stock Corporation Act (AktG), since bonds will not be issued significantly below market value. The market value must be determined in accordance with recognised actuarial principles. The expert opinion of an experienced investment bank or auditing firm will be obtained for this purpose. When determining the price, the Board of Executive Directors will take account of the respective situation on the capital markets and keep the discount from the market value as low as possible. The theoretical value of a right to subscribe will effectively head towards zero and consequently the shareholders cannot suffer a significant economic loss through the exclusion of the right to subscribe. The shareholders are also able to maintain their holding in the Company's share capital under virtually identical conditions through an acquisition via the stock exchange. Their financial interests are thus afforded appropriate protection. The authorisation to exclude the right to subscribe pursuant to Section 186 (3) (4) of the German Stock Corporation Act (AktG) only applies to bonds with rights to shares representing a proportionate amount of the share capital amounting to no more than 10 % of the share capital as of the resolution adopted on 12 May 2015 or, if the amount of the share capital is lower at that time, on the date when the authorisation is exercised. Shares issued in another manner where the right to subscribe was excluded pursuant to or in accordance with Section 186 (3) (4) of the German Stock Corporation Act (AktG) will be charged against this maximum limit. Such charging takes place in the interests of shareholders in the smallest possible dilution of their investment.

Furthermore, the Board of Executive Directors shall be given the option, with the consent of the Supervisory Board, to exclude the shareholders' right to subscribe in order to grant the bearers or creditors of convertible and/or warrant-linked bonds or of convertible bonds provided with conversion obligations, a right to subscribe to the extent to which they would be entitled following the exercising of these rights or the fulfilment of the conversion obligations. This makes it possible to prevent the option or conversion price for the bearers of existing conversion rights or warrants from having to be reduced according to the warrant and conversion conditions or the Company having to provide other dilution protection in the event that the authorisation is exercised.

The Board of Executive Directors shall also be authorised, with the consent of the Supervisory Board, to exempt fractional amounts from the right to subscribe. Such fractional amounts may result from the respective issue volume and the calculation of a workable subscription ratio. Excluding the right to subscribe makes it easier to implement the capital measure in such cases. The free fractions excluded from the shareholders' right to subscribe are either sold via the stock exchange or are realised in another manner that provides most benefit for the Company.

Finally, the Board of Executive Directors shall also be authorised, with the consent of the Supervisory Board, to exclude the shareholders' right to subscribe insofar as bonds are issued in return for non-cash considerations for the purpose of acquiring undertakings, interests in undertakings or parts of undertakings, provided the value of the non-cash consideration is adequate in relation to the value of the bonds. This makes it possible to use bonds as acquisition currency in appropriate cases, thereby acquiring interesting acquisition targets at short notice whilst preserving liquidity. This is particularly important for the Company, since it is exposed to international competition and it may be advantageous to resort to international partnerships and holdings for the development or marketing of products and services. The Board of Executive Directors will conduct a careful examination in each individual case as to whether it will make use of the authorisation to issue bonds with the exclusion of the right to subscribe. It will only do this, if such action is in the interest of the Company.

The authorisation to exclude the right to subscribe according to No. 1 c) aa) to dd) is limited overall. It only applies to bonds with conversion rights or obligations or warrants on shares representing a proportionate amount of the share capital of up to 10 % of the share capital at the time when the resolution is adopted on 12 May 2015 or, if the amount of the share capital is lower at that time, on the date when the authorisation is exercised. Limiting the authorisation to exclude the right to subscribe, protects the interest of the shareholders in the lowest possible dilution of their investment.

Kassel, Germany, March 2015

The Members of the Board of Executive Directors of K+S Aktiengesellschaft