



SHAPING THE FUTURE

ANNUAL REPORT 2017



Experience growth.

DEVELOPMENT OF FORECASTS FOR THE FULL YEAR 2017

		Forecast Annual Report 2016	Forecast Q1/17	Forecast H1/17	Forecast Q3/17	Actual 2017	Outlook 2018
K+S Group							
Revenues	€ billion	tangible increase	tangible increase	3.60–3.80	3.60–3.80	3.63	tangible increase
EBITDA ¹	€ million	tangible increase	tangible increase	560–660	560–660	576.7	significant increase

¹ Adjusted for the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

REVIEW 2017

March 2017	May 2017	June 2017	August 2017	October 2017	November 2017	December 2017
Commissioning of two additional storage basins – Production at the Werra plant stabilised further	Ceremonial opening of the new potash mine in Canada New Board of Executive Directors team, led by Dr Burkhard Lohr, intends to promote dialog	Bethune mine produced first tonnes of potash	K+S opens new potash port facility in Vancouver	Ambitious growth strategy to 2030 introduced	Bethune Potash Plant – First ship delivered potash from Canada to customers K+S and BUND agree on a settlement Sigmundshall Potash mine – Termination of production operations at the end of 2018	K+S and Gerstungen municipality agree on a settlement

About this report:

Published on: 15 March 2018

Reporting period: 1 January to 31 December 2017

This Annual Report combines the Financial Report with the Sustainability Report. In this way, we present various dimensions of economic sustainability, which takes appropriate account of ecological and social interests. Statements regarding substantial sustainability issues are included in the combined management report. In accordance with the German implementation act to the European Corporate Social Responsibility Directive (CSR RUG), statements on material sustainability issues are contained in the non-financial statement part of the combined management report, or refer to other non-financial issues described in the management report. Statements have been reviewed externally (please also note the Auditor's Report).

We follow the recommendations of the International Integrated Reporting Council (IIRC) and use the work process to exchange infor-

mation with internal and external stakeholders. Content with respect to sustainability was prepared in accordance with version G4 of the Global Reporting Initiative (GRI) 'core option' and considers sector GRI G4 Sector Disclosures: Mining and Metals. Simultaneously, the Annual Report 2017 serves as the so-called Communication on Progress for the UN Global Compact, which the board expressly committed.

In the event of any doubt, the German version of the annual report will prevail.

Key

The following icons in this report refer to additional information:

🔍 = Cross-references within the Annual Report

🌐 = References to internet sites

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¹ The management report of K+S Aktiengesellschaft and the Group management report have been combined for fiscal year 2017.

TEN-YEAR SUMMARY K+S GROUP

TEN-YEAR SUMMARY K+S GROUP ¹

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Profit and Loss											
Revenues	€ million	4,794.4	3,573.8	4,632.7	3,996.8	3,935.3	3,950.4	3,821.7	4,175.5	3,456.6	3,627.0
– thereof Potash and Magnesium Products business unit	€ million	2,397.4	1,421.7	1,867.0	2,133.6	2,290.6	2,037.6	1,884.0	2,091.3	1,531.6	1,703.5
– thereof Salt business unit	€ million	618.6	1,014.6	1,728.8	1,710.1	1,484.8	1,751.4	1,778.5	1,925.2	1,762.2	1,762.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA) ²	€ million	1,484.4	411.8	953.0	1,146.0	1,033.3	907.2	895.5	1,057.5	519.1	576.7
– thereof Potash and Magnesium Products business unit ²	€ million	1,286.3	317.2	567.1	833.8	867.2	667.5	618.5	689.2	184.8	268.8
– thereof Salt business unit	€ million	77.6	200.3	369.7	337.9	179.5	235.9	276.0	381.0	322.3	325.2
EBITDA margin	%	31.0	11.5	20.6	28.7	26.3	23.0	23.4	25.3	15.0	15.9
Depreciation ³	€ million	141.7	173.8	238.5	239.8	229.2	251.3	254.3	275.9	289.8	305.9
Operating earnings (EBIT I)	€ million	1,342.7	238.0	714.5	906.2	804.1	655.9	641.3	781.6	229.3	270.8
– thereof Potash and Magnesium Products business unit	€ million	1,203.2	231.7	475.9	739.5	770.9	552.5	488.8	546.1	33.6	81.4
– thereof Salt business unit	€ million	45.2	140.4	238.1	211.4	61.6	117.8	172.9	266.3	203.7	223.0
EBIT I margin	%	28.0	6.7	15.4	22.7	20.4	16.6	16.8	18.7	6.6	7.5
– Potash and Magnesium Products business unit	%	50.2	16.3	25.5	34.7	33.7	27.1	25.9	26.1	2.2	4.8
– Salt business unit	%	7.3	13.8	13.8	12.4	4.1	6.7	9.7	13.8	11.6	12.7
Group earnings from continued operations, adjusted ⁴	€ million	979.3	93.6	453.8	625.6	538.1	437.1	366.6	542.3	130.5	145.0
Earnings per share from continued operations, adjusted ⁴	€	5.94	0.56	2.37	3.27	2.81	2.28	1.92	2.83	0.68	0.76
Cash flow											
Operating Cash flow	€ million	802.7	534.8	826.4	633.4	607.2	755.7	719.1	669.4	445.4	306.8
Capital expenditure ³	€ million	197.5	177.6	188.6	293.1	465.5	742.5	1,153.2	1,278.8	1,170.8	810.8
Adjusted Free Cash flow	€ million	605.5	-81.1	667.3	216.6	199.1	48.7	-306.3	-635.9	-776.8	-389.8
Balance Sheet											
Balance sheet total	€ million	3,473.8	5,217.1	5,573.7	6,056.9	6,596.6	7,498.2	7,855.2	8,273.6	9,645.5	9,754.4
Equity	€ million	1,718.3	2,094.6	2,651.6	3,084.6	3,393.9	3,396.6	3,974.5	4,295.6	4,552.2	4,160.7
Equity ratio	%	49.5	40.1	47.6	50.9	51.4	45.3	50.6	51.9	47.2	42.7
Net debt as of 31 Dec.	€ million	570.0	1,351.3	732.5	610.8	827.3	1,037.0	1,626.2	2,399.8	3,583.8	4,140.5
Net debt/EBITDA	x	0.4	3.3	0.8	0.5	0.8	1.1	1.8	2.3	6.9	7.2
Working capital	€ million	962.3	970.5	959.4	840.9	1,025.7	844.9	768.1	945.9	894.6	968.1
Return on Capital Employed (ROCE)	%	64.0	9.3	22.0	25.2	19.9	15.2	12.7	12.5	3.0	3.2
Employees											
Employees as of 31 Dec. ⁵	number	12,368	15,208	14,186	14,338	14,362	14,421	14,295	14,383	14,530	14,793
Average number of employees ⁵	number	12,214	13,044	14,091	14,155	14,336	14,348	14,295	14,276	14,446	14,654
The Share											
Book value per share	€	10.41	10.94	13.85	15.86	17.73	17.75	20.77	22.44	23.78	21.74
Dividend per share ⁶	€	2.40	0.20	1.00	1.30	1.40	0.25	0.90	1.15	0.30	0.35
Dividend yield ⁶	%	6.0	0.5	1.8	3.7	4.0	1.1	3.9	4.9	1.3	1.7
Closing price as of 31 Dec. ⁷	XETRA, €	39.97	39.99	56.36	34.92	35.00	22.38	22.92	23.62	22.69	20.76
Market capitalisation	€ billion	6.6	7.7	10.8	6.7	6.7	4.3	4.4	4.5	4.3	4.0
Enterprise value as of 31 Dec.	€ billion	7.2	9.0	11.5	7.3	7.5	5.3	6.1	6.9	7.9	8.1
Average number of shares ⁸	million	164.95	166.15	191.34	191.33	191.40	191.40	191.40	191.40	191.40	191.40

¹ Unless stated otherwise, information refers to the continued operations of the K+S Group. The discontinued operations of the COMPO business are also included up to 2009, and also the discontinued operations of the nitrogen business up to 2010. The balance sheet and therefore the key figures working capital, net indebtedness, net indebtedness/EBITDA and book value per share also include in 2010 the discontinued operations of the COMPO business and in 2011 also the discontinued operations of the nitrogen business.

² Adjusted for the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

³ Concerns cash investments as well as depreciation of property, plant and equipment and amortisation of intangible assets, taking claims for reimbursement from claim management into account.

⁴ The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I (see also 'Notes to the income statement and the statement of comprehensive income' on page 133). In addition, related effects on deferred and cash taxes are eliminated; tax rate for 2017: 29.9% (2016: 29.3%).

⁵ FTE: Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours.

⁶ The figure for 2017 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.

⁷ The price of the K+S share since the capital increase in December 2009 has been traded ex subscription right. Historical values were not adjusted.

⁸ Total number of shares less the average number of own shares held by K+S.

In this Annual Report rounding differences may arise in percentages and numbers.

UNITS AT A GLANCE

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

	Q1/17	Q2/17	H1/17	Q3/17	9M/17	Q4/17	FY/17
€ million							
Revenues	473.7	387.1	860.8	357.7	1,218.5	485.0	1,703.5
EBITDA ¹	81.2	71.4	152.6	42.4	195.0	73.8	268.8
EBIT I	41.9	31.4	73.3	1.7	75.0	6.4	81.4
Capital expenditure	257.9	105.3	363.2	128.1	491.3	189.1	680.4

¹ Adjusted for the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

SALT BUSINESS UNIT

	Q1/17	Q2/17	H1/17	Q3/17	9M/17	Q4/17	FY/17
€ million							
Revenues	610.9	315.7	926.6	328.8	1,255.4	506.5	1,762.0
EBITDA	135.3	29.0	164.4	37.3	201.7	123.5	325.2
EBIT I	105.9	0.4	106.2	16.8	123.1	99.9	223.0
Capital expenditure	18.2	26.1	44.2	27.2	71.4	47.4	118.8

COMPLEMENTARY ACTIVITIES

	Q1/17	Q2/17	H1/17	Q3/17	9M/17	Q4/17	FY/17
€ million							
Revenues	41.5	38.8	80.3	39.5	119.8	40.1	159.9
EBITDA	9.3	6.1	15.4	7.1	22.5	7.9	30.3
EBIT I	7.0	3.9	10.9	5.9	16.9	6.6	23.5
Capital expenditure	0.8	0.2	1.0	0.9	1.9	2.5	4.4

RECONCILIATION

	Q1/17	Q2/17	H1/17	Q3/17	9M/17	Q4/17	FY/17
€ million							
Revenues	0.3	0.4	0.7	0.5	1.2	0.4	1.6
EBITDA	-14.9	-4.6	-19.6	-10.1	-29.6	-18.0	-47.6
EBIT I	-17.4	-7.1	-24.6	-12.1	-36.7	-20.3	-57.0
Capital expenditure	0.6	1.3	1.9	1.3	3.2	4.0	7.2

K+S GROUP

	Q1/17	Q2/17	H1/17	Q3/17	9M/17	Q4/17	FY/17
€ million							
Revenues	1,126.4	742.0	1,868.4	726.5	2,594.9	1,032.0	3,627.0
EBITDA	210.9	101.9	312.8	76.7	389.5	187.2	576.7
EBIT I	137.4	28.5	165.9	12.3	178.1	92.7	270.8
Capital expenditure	277.4	133.0	410.4	157.5	567.8	243.0	810.8

1.1 PREAMBLE

Dear Shareholders, Ladies and Gentlemen,

An eventful year lies behind us. It was a transition year for us. We made a start on tackling the future and removed obstacles from our path.

Particularly, the development of our new Group strategy SHAPING 2030 laid the foundations for the way we will steer our Company towards the future, with sustainability playing a key role. At the core of the strategy is a change in the way we view our activities. Whereas in the past we prioritized extraction of potash and magnesium products as well as salt, now we are sharpening our focus on the market and our customers. Agriculture, Industry, Consumers and Communities are our four strong customer segments. We as a company are aligning ourselves with these segments; we call this 'One κ+s'. In realigning our activities we have drawn up the roadmap for the way in which we intend to lift our operating earnings before depreciation and amortisation (EBITDA) to € 3 billion by 2030 and will also grow profitably and independently beyond this. We implemented the first of these organisational changes this year.

To steer the entire company towards this successful future, we also had to make some tough decisions. The decision to end potash production at the Sigmundshall mine was not easy for us.

We have come a long way in our quest to achieve 'environmental peace'. The agreement reached with BUND and the municipality of Gerstungen on the future disposal of mining wastewater gives us certainty in our planning. The permit for early commencement of construction for the expansion of tailings piles in Hattorf and the related positive overall forecast for the project are important further milestones, as is the new wastewater treatment plant on the Werra site. The certainty thus gained creates a good starting point for our business as well as for jobs and our production sites in Germany and around the world. Resolution of environmental issues is essential for the successful future of κ+s, which is why we have expressed a public commitment to the principles of the United Nations Global Compact.

Another important milestone was the commissioning of our new potash mine in Bethune, Canada. The investment has borne fruits and our customers have already taken receipt of the initial shiploads.

Reaching these milestones will enable us to continue growing in 2018 and beyond, increase our earnings again and thus reduce our indebtedness.

On behalf of the entire Board of Executive Directors, I would like to express our thanks and appreciation to all our employees. I would also like to thank our customers, partners and you, the shareholders, for your trust and constructive criticism with which you accompanied us again in the past financial year.

We look forward to continuing our excellent cooperation with you. All the best!



DR BURKHARD LOHR
CHAIRMAN OF THE BOARD OF
EXECUTIVE DIRECTORS

KASSEL, 15 MARCH 2018



SHAPING THE FUTURE AS A TEAM

In the purpose of 'One K+S' we think and act as one company. We are developing a new way of working across areas, locations and countries.





LIFT POTENTIAL OF THE EXISTING BUSINESS

Our existing business with the two raw materials potash and salt offers a good basis for the future. We will proceed developing it consistently and want to use organic as well as growth options by acquisitions.

POTASH FROM TWO CONTINENTS

With the commissioning of the new Bethune mine in Canada we are entering a new dimension. Now we supply our customers with potash from two continents: North America and Europe.





REDUCE DEPENDENCE ON EXTERNAL FACTORS

With the implementation of SHAPING 2030 we become more independent of external influences such as the weather and the price development of potassium chloride. In order to achieve that, we want to expand our specialty business and develop adjacent growth areas.

1.2 HIGHLIGHTS 2017

POTASH FROM TWO CONTINENTS

The excitement in the huge warehouse is increasing immeasurably. Several dozen employees are standing together in smaller groups and staring expectantly at the ceiling. Bright spotlights illuminate the area of more than 11,000 square meters, outside it is still dark. Then suddenly the first trickles of 'white gold', as the miners call potash, are falling down from a 30 metres high conveyor belt like sudden fog. On the ground it quickly builds-up to a small pyramid. With frenetic cheers and loud clapping the employees are appreciating the things that are happening right now. It's done: The first product appears at the brand new potash plant Bethune in the south of the Canadian province of Saskatchewan. There, in the treasury of the Canadian potash industry, κ+s has managed to build the most modern plant of its kind worldwide in less than five years. Therefore 11th of June 2017 marks one of the most important milestones in the recent history of κ+s GROUP. 'This is a great day for our company,' commented Dr Burkhard Lohr, CEO of κ+s AKTIENGESELLSCHAFT, the event a little later. 'With Bethune, we are entering a new dimension. Now we produce potash on two continents.' With the new location, κ+s is expanding the global presence and will reduce the average cost of production, just to name a few of many advantages.

And the success story of the German resources company in Canada continues: On 28 August 2017 the company and the partner PACIFIC COAST TERMINALS (PCT) opened the new handling and storage facility for Bethune potash in the Port of Vancouver. Just one month later, the first train with 122 loaded rail cars arrives there. Only four more weeks later, the first cargo ship with 30,000 tons of potash fertilizers leaves the port to be received by customers in the Chinese port of Yantai on November 14th. About 500,000 tons were produced in Bethune last year.

ENSURE PRODUCTION, REDUCE WASTEWATER

Bethune was not the only step in 2017 to secure potash production in the long term. Thanks to the optimized wastewater management at the Werra plant from mid-February 2017 onwards, it has been possible to stabilize operations of the largest German κ+s potash site. The commissioning of the new KAINITE CRYSTALLISATION AND FLOTATION (KCF) facility was another important milestone. This facility reduces the total amount of saline wastewater from the Werra plant by further 20 percent. The receipt of the permit for the early commencement of the tailings pile extension in Hattorf and in accordance to that the positive forecast for this project is rounding-off the successes in this business environment last year.

GET OUT OF THE ENVIRONMENTAL MESS

At the top of the priority list of the newly formed Board of Executive Directors was the dialogue with critics on environmental issues last year. After a few months, there were first successful steps to be announced: There were two ongoing and lengthy legal disputes with the environmental association BUND and the municipality of Gerstungen in Thuringia resolved by settlement agreements. On the way to environmental peace this kind of dialogue with stakeholders shall continue in the future. 'It's about maintaining our license-to-operate,' Dr Burkhard Lohr aptly described this development.

PROMISED IS PROMISED

In spring κ+s promised its shareholders a 'tangible increase in earnings' for the 2017 financial year compared to the previous year. This forecast was achieved with an operating result (EBIT I) of € 271 million eventually. Although the result lies at the lower end of the forecasted range between € 260 and € 360 million. However, this was mainly due to the fact that the planned closure of the Sigmundshall mine near Hanover was announced and thus a high one-time financial effect arose. Without this effect the operating result would have increased by more than 30 percent compared to the previous year. The decision to abandon the location at the end of 2018 was not easy for the Board of Executive Directors. However, it was inevitable as the productivity of the mine has steadily declined in recent years. The target is to give a clear perspective to the more than 700 dedicated employees beyond 2018.

PAVING THE WAY TO A SUCCESSFUL FUTURE

No one can come up with a new corporate strategy just like that and it cannot be explained completely in a few sentences. It is rather the result of several months of profound analysis and development work. This mammoth task was the core approach of the newly formed Board of Executive Directors directly after the inauguration. And the Board has delivered: The outcome was a clear vision of a successful κ+s GROUP in 2030 and the associated new strategy SHAPING 2030. It takes the interests of all stakeholders into account. The newly developed guiding principle keeps it to the point: 'We will be the most customer-focused, independent minerals company.' In other words: κ+s should become more efficient and have a long-term growth perspective again. That's why in the future, customers will be more in the focus of action. To achieve this, κ+s reorganises the production-driven business units Potash and Magnesium Products as well as Salt to the customer segments Agriculture, Industry, Consumers and Communities.

1.3 SHAPING 2030¹

The new strategy SHAPING 2030 is a clear commitment to the future K+S GROUP. It is based on our strengths and abilities. It expresses that our company will be successful in the long term. We are tapping the full potential of our existing business and explore new adjacent growth areas. Therefore we have set ambitious targets to define our standard and make K+S robust and profitable.

Targets 2020:

Net debt / EBITDA halved
vs. H1 / 2017

> € 150 m

Synergies from the end of 2020

Ambitions 2030:

€ 3 bn

EBITDA in 2030

> 15%

ROCE

Target 2023:

Requirements achieved for
investment grade-rating

> 4% p. a.

Revenue growth
beyond 2030

¹ Detailed information on the new corporate strategy SHAPING 2030 can be found in chapter 2.4 Corporate Strategy from page 75.

OUR VISION FOR 2030:

We will be the most customer-focused, independent minerals company.



One Company



Tapping the full potential of our existing assets

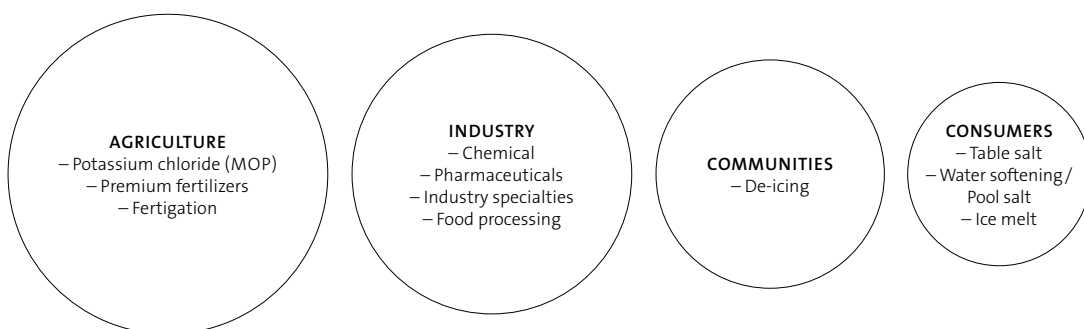


Exploring new adjacent growth areas



Increasing the share of our specialties business

2017 revenue share of the four customer segments:



1.4 THE BOARD OF EXECUTIVE DIRECTORS¹



The Board of Executive Directors of the K+S Aktiengesellschaft (from left to right): Dr Thomas Nöcker, Thorsten Boeckers, Dr Burkhard Lohr and Mark Roberts.

¹ In light of the new corporate structure as part of SHAPING 2030, Dr Otto Lose stepped down from the Board of Executive Directors on the best possible terms with effect from 28 November 2017.

DR BURKHARD LOHR
CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS, BUSINESS ADMINISTRATION GRADUATE

Dr Burkhard Lohr was born in Essen in 1963. After studying business administration at the University of Cologne he joined MANNESMANN AG in 1991. From 1993 onwards, he held a number of positions at HOCHTIEF AG, Essen, including as member of the Management of the Munich branch and as CFO of HOCHTIEF CONSTRUCTION AG, Essen. He obtained his Dr rer. pol. degree from Technische Universität Braunschweig in 2001. As of 2006, as CFO of HOCHTIEF AG, he was responsible for Finance, Investor Relations, Accounting, Controlling and Taxes. In 2008, he also became Personnel Director. Since 2012, he has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT and on 12 May 2017 he became Chairman of the Board of Executive Directors of

K+S AKTIENGESELLSCHAFT. He has responsibility for Corporate Board Office, Corporate Communications, Corporate Development, Internal Auditing, Investor Relations, Legal, GRC, Corporate Secretary, Environmental & Regulatory Affairs as well as Corporate HR together with Dr Nöcker.

THORSTEN BOECKERS
BANKER

Thorsten Boeckers was born in 1975 in Würselen (North Rhine-Westphalia). After training as a banker, Boeckers began his professional career in 1996 at DEUTSCHE BANK in Aachen. He joined DEUTSCHE BANK'S Equity Research department in Frankfurt in 1999. In 2002, he was appointed Head of Institutional Investor Relations at DEUTSCHE POST DHL. In 2009, he was transferred and served for around two years as Head of Investor Relations North America for DEUTSCHE POST DHL in New York, USA. In 2011, he returned to his previous function in Bonn. In 2012, Boeckers joined K+S AKTIENGESELLSCHAFT in Kassel as Head of Investor Relations. Since 12 May 2017, he has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT, responsible for Corporate Con-

trolling, Corporate Finance and Accounting, Corporate Procurement, Corporate Tax and all direct shareholdings of K+S AKTIENGESELLSCHAFT, as far as they are not assigned to another area of responsibility.

MARK ROBERTS
BACHELOR OF SCIENCE (MARKETING)

Mark Roberts was born in New Jersey, USA, in 1963. He began his professional career as a marketing manager at the VICTAULIC CORPORATION OF AMERICA. He then joined the ASHLAND CHEMICAL COMPANY as a sales representative and national account manager in 1988. Roberts joined POTASH IMPORT & CHEMICAL CORPORATION (PICC), the US distribution company of K+S KALI, as a sales manager in 1992 and he subsequently became the company's Vice President. He was appointed President of PICC in 2004 and named CEO of the INTERNATIONAL SALT COMPANY (ISCO) in Clarks Summit, Pennsylvania, USA, in April 2008. On 1 October 2009, Mark Roberts became CEO of MORTON SALT in Chicago, USA. Since 1 October 2012, he has been a member of the Board

of Executive Directors of K+S AKTIENGESELLSCHAFT with responsibility for the Business Units Potash and Magnesium Products, Salt as well as Waste Management and Recycling, the Technical Center (Digital Transformation, Geology, Mining, Research and Development, Technics/Energy) and Animal Hygiene Products.

DR THOMAS NÖCKER
PERSONNEL DIRECTOR, LAWYER

Dr Thomas Nöcker was born in Neukirchen-Vluyn in 1958. After studying law and subsequently obtaining a doctorate from the University of Münster, Nöcker completed his legal traineeship in Düsseldorf and Montreal, Canada, among other places. He began his professional career in 1991 at RAG AG, where he held a range of different positions. He was appointed as a member of the Board of Executive Directors of RAG SAARBERG AG in 1998 and was responsible for human resources, legal affairs and IT management/organisation. Dr Thomas Nöcker has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT since August 2003. He is the Personnel Director and is responsible for Corporate IT, Corporate Health, Safety & Environment, Corporate HR

together with Dr Lohr, the Business Center (Communication Services, Financial Accounting, Insurance, IT Services, Logistics Europe, Procurement/Materials Management Europe, Project Management, Real Estate and Facility Management) and K+S TRANSPORT GMBH, K+S VERSICHERUNGSVERMITTLUNGS GMBH and WOHNBAU SALZDETFURTH GMBH.

1.5 SUPERVISORY BOARD REPORT

Dear Shareholders,

In my new role as Chairman of the Supervisory Board of K+S AKTIENGESELLSCHAFT, I am happy to report for the first time on our work during the 2017 financial year and on the findings of the audit of the 2017 annual and consolidated financial statements.

In the Supervisory Board and in the recently created Strategy Committee, we especially discussed the new Group strategy, SHAPING 2030, in great detail during 2017 as well as the forward-looking organisation based thereon. The reorientation is based on an even stronger focus on the relevant markets and customer segments. We believe that K+S is well positioned to achieve the ambitious medium- and long-term objectives of SHAPING 2030.

One key element of the Group strategy is the change in the way the Board of Executive Directors approaches environmental issues for safeguarding our production in Germany in the long term.

Besides the detailed explanation of the business situation, other focal points of the Supervisory Board's activities in 2017 were the opening of the new Bethune potash mine, the future of the Sigmundshall potash mine, the implementation of financing measures and the selection of suitable candidates for appointments to the Board of Executive Directors and the Supervisory Board.

ADVISING OF THE BOARD OF EXECUTIVE DIRECTORS AND MONITORING OF MANAGEMENT

During the 2017 financial year, the Supervisory Board diligently performed the supervisory and advisory functions incumbent on it by law and in accordance with the Articles of Association and its bylaws. Numerous matters were discussed in depth and resolutions were adopted on transactions requiring approval. We continuously monitored the Board of Executive Directors' management of the Company and advised the Board on the governance of the Group. We were always involved in decisions of fundamental importance in a timely and appropriate manner. The Board of

Executive Directors regularly briefed us promptly and comprehensively on the course of business, the results of operations, financial position and net assets, the employment situation, the progress of important investment projects, planning and the further strategic development of the Company. Deviations from planning were explained to the Supervisory Board in detail. The risk situation and risk management were carefully considered. The Supervisory Board received written reports from the Board of Executive Directors in order to get prepared for meetings. Particularly, the Chairman of the Supervisory Board also remained in close personal contact with the Board of Executive Directors outside of meetings and discussed significant events and upcoming decisions with it. The shareholder and employee representatives regularly discussed important agenda items at separate meetings prior to meetings of the Supervisory Board.

The average attendance of the 16 Supervisory Board members at the five Supervisory Board meetings was 98 % in the reporting period. Three meetings were attended by all Supervisory Board members; two meetings were unable to be attended by one member in each case. Thus, in 2017, no Supervisory Board member attended fewer than half of the meetings. Of the four Audit Committee meetings, two were attended by all Committee members; one member was excused at each of the other two meetings. The Nomination Committee met on six occasions. Four of these meetings were attended by all Committee members and on two occasions one member was excused. Three of the five meetings of the Personnel Committee were attended by all Committee members; one member was excused at each of the other meetings. The newly created Strategy Committee met on three occasions. Two meetings were attended by all members and at one meeting one member was excused.

COMPOSITION OF THE BOARD OF EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD

The composition of the Board of Executive Directors changed as follows:

On 1 January 2017, Dr Otto Lose joined the Board of Executive Directors of K+S AKTIENGESELLSCHAFT with responsibility for the Potash and Magnesium Products business unit as well as Waste Management and Recycling business unit.

Norbert Steiner's term of office ended on 11 May 2017 after 17 years in the Board of Executive Directors, including ten years as its Chairman. Mr Steiner decisively shaped κ+s's growth and success in recent years, for which we would like to formally express our gratitude once again.

Dr Burkhard Lohr, the Company's former Chief Financial Officer, took over as Chief Executive Officer from 12 May 2017. Thorsten Boeckers has held the post of CFO since this date.

At its meeting on 28 November 2017, the Supervisory Board resolved to advance the implementation of the new Group strategy in the future with a reduced, restructured Board of Executive Directors, which will be supported by an Executive Committee. The reduced management team will be composed of Dr Burkhard Lohr, the Company's Chief Executive Officer, along with Chief Financial Officer Thorsten Boeckers and Mark Roberts, who holds the new position of Chief Operating Officer.

Dr Thomas Nöcker (59) will enter retirement on 1 September 2018 and hand over the areas of responsibility to his colleagues in the Board of Executive Directors before his appointment expires on 31 August 2018.

In light of the new corporate structure as part of SHAPING 2030, Dr Otto Lose stepped down from the Board of Executive Directors on the best possible terms with effect from 28 November 2017.

The composition of the Supervisory Board changed as follows:

Dr Ralf Bethke, who had acted as Chairman of the Supervisory Board of κ+S AKTIENGESELLSCHAFT since May 2008, retired from the Supervisory Board when his appointment ended at the close of the Company's Annual General Meeting on 10 May 2017. The members of the Supervisory Board would like to thank Dr Bethke for his excellent, invariably forward-looking management of the Board, influenced by his extensive knowledge and international experience as long-standing Chairman of the Company's Board of Executive Directors (1991 to 2007).

Following the Annual General Meeting of K+S AKTIENGESELLSCHAFT, the members of the Supervisory Board elected Dr Andreas Kreimeyer (63), former member of the Board of Executive Directors and Research Executive Director of BASF SE, as the new Chairman of the Supervisory Board. The Annual General Meeting also appointed Thomas Kölbl (55), Chief Financial Officer of SÜDZUCKER AG, to the Company's Supervisory Board. The composition of the Supervisory Board remained otherwise unchanged.

SUPERVISORY BOARD MEETINGS

Five ordinary Supervisory Board meetings were held during the 2017 financial year.

At the ordinary meeting held on 14 March 2017, the Supervisory Board examined the annual financial statements, the consolidated financial statements and the management reports in the presence of the auditor, approved the financial statements on the recommendation of the Audit Committee and, following extensive discussions, agreed to the proposal of the Board of Executive Directors concerning the appropriation of profits for the 2016 financial year. The business situation and the outlook for the current year were discussed in depth and the proposed resolutions for the 2017 Annual General Meeting approved. We also resolved on the target quota for the percentage of women in the Board of Executive Directors. In addition, approval was given for the raising of further outside funds in the capital markets. We were briefed at length on progress at our new Bethune production site in Canada and on the plans to put the plant into operation on 2 May 2017.

At the ordinary meeting on 9 May 2017, the Board of Executive Directors briefed the Supervisory Board in detail on the development of business and earnings in the first quarter of 2017, among other things.

The constituent meeting of the new Supervisory Board was held after the Annual General Meeting on 10 May 2017. Following the election of the Chairman, the elections

for the Personnel, Audit and Nomination Committees took place (see the section on the composition of the Supervisory Board). We also set up a Strategy Committee and elected its members.

Dr Ralf Bethke, who had chaired the Supervisory Board for ten years, was appointed by the Supervisory Board as its Honorary Chairman based on his extraordinary merits and his outstanding personal commitment to the development of the K+S GROUP.

One of the topics we discussed in detail at the ordinary meeting on 22 August 2017 was the K+S GROUP's new strategy, SHAPING 2030 and the reorganisation of the work of the Board of Executive Directors. In addition, we were briefed on the current situation as regards environmental issues, and the business situation of the K+S GROUP was explained to us. We also addressed the future of the Sigmundshall mine. Moreover, we were informed about the ramp-up phase of our new Bethune plant in Canada.

At the last ordinary meeting of the year, held on 28 November 2017, the Board of Executive Directors explained the current business situation in the individual business units and provided a forecast of the anticipated revenues and earnings of the K+S GROUP in 2017. The planning of the K+S GROUP for 2018, including the investment and financing framework, was examined in depth (also in terms of consistency with strategic objectives) and subsequently approved. We were then briefed on the implementation status of the new strategy, SHAPING 2030. Furthermore, the Chairman of the Board of Executive Directors gave us an explanation of the current environmental issues such as expansion of tailings piles or considerations for the supplementary long-distance pipeline. Following a detailed, intensive discussion, we along with the Board of Executive Directors finally approved the closure of operations at the Sigmundshall mine by 31 December 2018 at the latest. The Chairman of the Audit Committee reported on the last meeting. The Supervisory Board resolved to engage DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT to audit the non-financial statement. We have also nominated the candidates we will propose to the 2018 Annual General Meeting.

The joint 2017/2018 declaration of conformity by the Board of Executive Directors and Supervisory Board was likewise approved.

🔗,Declaration on Corporate Governance', page 64

COMMITTEE MEETINGS

In addition to the Mediation Committee required by law, the Supervisory Board has established four more committees to support its tasks and responsibilities: the Audit Committee, the Personnel Committee, the Nomination Committee and the Strategy Committee formed at the Supervisory Board meeting following the 2017 Annual General Meeting. An overview of these committees and their composition can be found in the Management Report on page 60 and on the K+S AKTIENGESELLSCHAFT website under 'Corporate Governance'. There you can also find the bylaws for the Supervisory Board and its committees.

The Audit Committee met four times in 2017. On 3 March 2017, in the presence of the auditor as well as the Chairman of the Board of Executive Directors and the Chief Financial Officer, the committee examined the 2016 annual financial statements of K+S AKTIENGESELLSCHAFT, the 2016 consolidated financial statements, the combined management report as well as the proposal of the Board of Executive Directors for the appropriation of profits, and recommended the re-election of DELOITTE GMBH WIRTSCHAFTSPRÜFUNGS-GESELLSCHAFT to the Annual General Meeting. On 22 August 2017, the committee discussed the K+S GROUP's internal control system (ICS) in detail with the Chairman of the Board of Executive Directors and the Chief Financial Officer. Moreover, the committee acknowledged and approved the report delivered by the Chief Compliance Officer on the status of the compliance organisation of the K+S GROUP. Finally, the committee discussed focal points of the 2017 audit. On 14 November 2017, the Audit Committee held an extraordinary meeting to deliberate on the future of the Sigmundshall mine. At the meeting on 28 November 2017, the head of Internal Audit reported on his work in the K+S GROUP. The Board of Executive Directors reported on developments with regard to consultancy fees and donations as well as on the engagement of the auditor with non-audit services

permitted under the German Audit Reform Act. Finally, the Audit Committee was briefed on the new legal obligation of the Supervisory Board to examine the non-financial statement and, following an in-depth discussion, recommended that the Supervisory Board engage the statutory auditor to audit the non-financial statement.

The respective Quarterly Report or Half-Yearly Financial Report awaiting publication was discussed by the members of the Audit Committee, the Chairman of the Board of Executive Directors and the Chief Financial Officer in conference calls held on 3 May, 9 August and 10 November 2017.

The Personnel Committee, which prepares personnel decisions made by the Supervisory Board and is responsible for other matters concerning the Board of Executive Directors, met a total of five times in 2017. During the meetings, it dealt in particular with the structure and long-term succession planning of the Board of Executive Directors. It also focused on agreeing targets with and their attainment by the members of the Board of Executive Directors, the appropriateness of the remuneration of the Board of Executive Directors in relation to the management teams and the total workforce, the gender quota and the advancement of the remuneration system for the members of the Board of Executive Directors which is explained in detail in the remuneration report. The regulations governing Dr Lose's resignation and the expiry of Dr Nöcker's term of office were also completed. Detailed information about the level of remuneration of the members of the Board of Executive Directors in 2017 as well as the structure of the previous and new remuneration system can be found on pages 122–131. It is envisaged that the 2018 Annual General Meeting will resolve on the approval of the new system for remunerating the members of the Board of Executive Directors.

The members of the Nomination Committee met six times in 2017. The subject of discussions held was an in-depth analysis of the structure of the Supervisory Board as well as its competence profile and, building on this, the selection of candidates for the Supervisory Board.

The newly formed Strategy Committee met a total of three times in 2017. It mainly discussed the new Group strategy SHAPING 2030 and the future organisation of K+S based thereon.

The Mediation Committee did not need to be convened in the past financial year.

CONFLICTS OF INTEREST

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

AUDIT OF THE 2017 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Hanover, audited the annual financial statements of K+S AKTIENGESELLSCHAFT, which were prepared by the Board of Executive Directors in accordance with the rules set out in the GERMAN COMMERCIAL CODE (HGB), and the consolidated financial statements, which were prepared on the basis of the IFRS INTERNATIONAL FINANCIAL REPORTING STANDARDS, as well as the combined management report and Group management report for the 2017 financial year, and issued unqualified audit opinions for both sets of financial statements. The aforementioned documents, the Board of Executive Directors' proposal concerning the appropriation of profits and the audit reports of DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, each of which had been submitted to the members of the Audit Committee and the Supervisory Board on time, were each addressed extensively at the Audit Committee meeting held on 2 March 2018, as well as at the Supervisory Board meeting held on 14 March 2018, in the presence of the auditor. All questions raised at both meetings were answered satisfactorily by the Board of Executive Directors and the auditor. Following its own examination of the reports presented, the Supervisory Board did not raise any objections. It agreed with the Board of Executive Directors in its assessment of the position of K+S AKTIENGESELLSCHAFT and of the Group and, at the suggestion of the Audit Committee, approved the financial statements for the 2017 financial year, thereby ratifying the 2017 annual financial statements of K+S

AKTIENGESELLSCHAFT. The Supervisory Board endorsed the proposal of the Board of Executive Directors for the Declaration on Corporate Governance (page 55). The resolution on the appropriation of profits proposed by the Board of Executive Directors was also examined, particularly with regard to the present and expected future financial situation of the K+S GROUP. Following extensive discussions, the Supervisory Board also approved this proposal made by the Board of Executive Directors.

The Supervisory Board expresses its thanks to the members of the Board of Executive Directors, all employees and the employee representatives for their continued high level of commitment and successful work during the past financial year.

ON BEHALF OF THE SUPERVISORY BOARD

gaur
Andreas Kreimeyer

DR ANDREAS KREIMEYER
CHAIRMAN OF THE SUPERVISORY
BOARD

KASSEL, 14 MARCH 2018



1.6 K+S ON THE CAPITAL MARKET

The K+S share has regained its stability at the end of the year following successfully concluded settlement negotiations with the BUND and the Gerstungen municipality. It has reached its low for the year in November at € 19.11 and was back at € 20.76 at the end of the financial year.

CAPITAL MARKET DATA

TAB: 1.6.1

		2013	2014	2015	2016	2017
Closing price on 31 December	XETRA, €	22.38	22.92	23.62	22.69	20.76
Highest price	XETRA, €	37.53	26.60	38.81	23.62	24.83
Lowest price	XETRA, €	15.92	19.44	22.40	16.06	19.11
Average number of shares	million	191.40	191.40	191.40	191.40	191.40
Market capitalisation on 31 December	€ billion	4.3	4.4	4.5	4.3	4.0
Average daily trading volume	million units	2.75	1.92	2.21	1.74	1.26
Enterprise value (EV) on 31 December	€ billion	5.3	6.1	6.9	7.9	8.1
Enterprise value to revenues (EV/revenues)	x	1.4	1.6	1.7	2.3	2.2
Enterprise value to EBITDA (EV/EBITDA)	x	5.9	6.8	6.5	15.3	14.1
Enterprise value to EBIT I (EV/EBIT I)	x	8.1	9.5	8.8	34.6	30.1
Book value per share	€/share	17.75	20.77	22.44	23.78	21.74
Earnings per share, adjusted ¹	€/share	2.28	1.92	2.83	0.68	0.76
Dividend per share ²	€/share	0.25	0.90	1.15	0.30	0.35
Total dividend payment ²	€ million	47.9	172.3	220.1	57.4	67.0
Payout ratio ^{2,3}	%	10.9	47.0	40.6	44.0	46.2
Dividend yield (closing price) ²	%	1.1	3.9	4.9	1.3	1.7

¹ The adjusted key indicators include the profit/(loss) from operating anticipatory hedges in the relevant reporting period, which eliminates effects from changes in the fair value of the hedges as well as effects from the exchange rate hedging of capital expenditure in Canadian dollars (Legacy Project) (see also the 'Explanation of the income statement and the statement of comprehensive income' on page 157). Related effects on deferred and cash taxes are also eliminated; tax rate in 2017: 29.9% (2016: 29.3%).

² The figure for 2017 corresponds to the dividend proposal.

³ Based on adjusted earnings after tax.

THE SHARE

INTERNATIONAL STOCK MARKETS MOVING UPWARDS

The global economy experienced a powerful upswing in 2017, with many international stock indices recording fresh highs. The reinvigorated euro exchange rate, concerns about a possible isolationist policy in the United States and other major political and geopolitical events like the North Korea crisis put the stock markets only temporarily under pressure. Par-

ticularly, the continued high liquidity supply from the leading central banks, the pick-up in the European economy and the us tax reform implemented shortly before the end of the year gave a boost to the listings of multinational corporations.

The German DAX index exhibited an increase of 13.1% in 2017 and reached 12,918 points at the end of the year; the MDAX closed at 26,201 points and was up 18.2% over the course of the year. While the European DJ STOXX EUROPE

600 index climbed 7.8 % to 389 points, the global MSCI WORLD index also showed a positive trend, rising by 20.1% to 2,103 points. / FIG: 1.6.1

ACHIEVING ‘ENVIRONMENTAL PEACE’ GIVES THE K+S SHARE STABILITY

In the first half of the year, the K+S share, which is listed on the MDAX, mostly followed a sideways trend in line with the DAX, the MDAX, the DJ STOXX EUROPE 600 and the MSCI WORLD. The share came under pressure in the second half of the year. The share therefore recorded its lowest price during the year of € 19.11 on 17 November. However, the capital market especially rewarded the conclusion of the settlement negotiations with BUND and the municipality of Gerstungen as well as the stabilization of potash prices. Consequently, the share showed an upward trend again at the end of the year under review and ended at € 20.76 (2016 year-end closing price: € 22.69). In the course of the year, the short-selling ratio also fell, from 17.4 % at the beginning of the year to 12.8 % at the end of December 2017 (Source: Bloomberg).

www.k-plus-s.com/share

SHARE PRICES OF NORTH AMERICAN COMPETITORS – POTASHCORP RECEIVES IMPETUS FROM MERGER

We also track the performance of our share compared with our publicly traded competitors. These include, in particular, the fertilizer producers POTASH CORP and MOSAIC as well as the primarily salt producing company COMPASS MINERALS from the USA. / FIG: 1.6.2

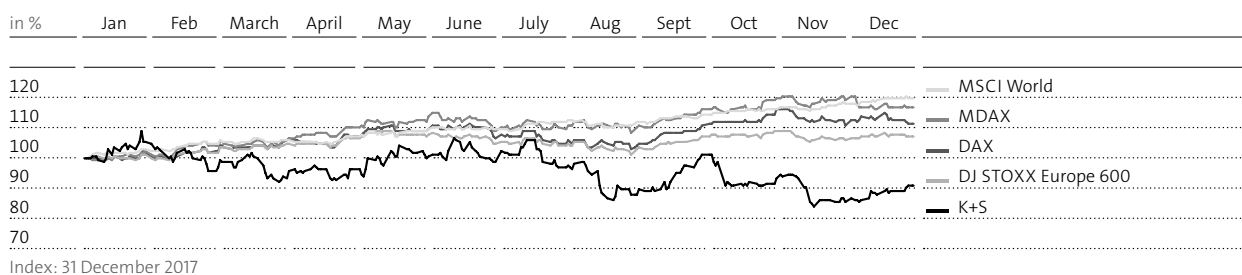
The shares of MOSAIC (-12.5%) and COMPASS MINERALS (-7.8%) turned in a similar performance to the K+S share. The share price of POTASH CORP performed encouragingly, mainly due to the merger of the two Canadian competitors POTASH CORP and AGRIMUM to form a new company, NUTRIEN, completed in early 2018.

SHAREHOLDER STRUCTURE

Under the free float definition applied by DEUTSCHE BÖRSE AG, the free float is 100%. Until the end of February, the following shareholder notified us of holdings above the legal thresholds:

K+S SHARE PERFORMANCE IN COMPARISON WITH THE DAX, MDAX, DJ STOXX EUROPE 600 AND MSCI WORLD

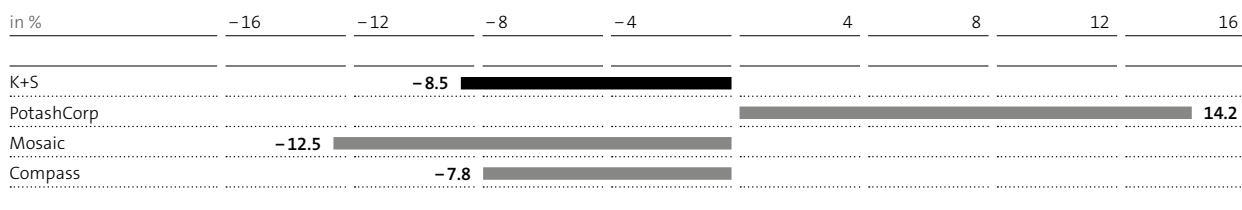
FIG: 1.6.1



Source: Bloomberg

K+S SHARE PRICE PERFORMANCE IN COMPARISON WITH COMPETITORS IN 2017

FIG: 1.6.2



Source: Bloomberg

PLATINUM INVESTMENT MANAGEMENT LIMITED: 3.05 % (notification dated 10 January 2018) / FIG: 1.6.3

AMERICAN DEPOSITARY RECEIPTS FOR TRADING IN NORTH AMERICA

In North America, we offer an AMERICAN DEPOSITARY RECEIPTS (ADR) programme to assist investors there in trading in K+S securities and thus expand the international shareholder base. As ADRs are quoted in US dollars and the dividends are also paid in US dollars, they are essentially similar to US stocks. Two ADRs correspond to a single K+S share. ADRs are traded on the OTC (over-the-counter) market in the form of a 'level-1' ADR programme. The K+S ADRs are listed on the OTCQX trading platform.

□ www.k-plus-s.com/adr; □ www.otcmarkets.com

BONDS AND RATING

K+S BONDS

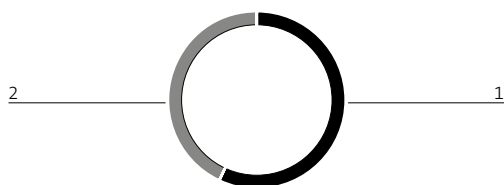
As a result of the continued high liquidity supply from the leading central banks, bond prices for borrowers with good credit ratings remained high on the capital market, while yields were comparatively low. / TAB: 1.6.2

RATING

Following a review of K+S's credit rating by rating agency STANDARD & POOR'S, our rating was downgraded from BB+ to BB with a 'stable' outlook (previously 'negative') in August 2017. This was mainly due to the high debt/equity ratio (ratio of net debt to EBITDA for H1/2017: 8.1) and the longer-than-expected recovery of the free cash flow. The new rating had no significant negative impact on the Company's eligibility for financing.

SHAREHOLDER STRUCTURE

FIG: 1.6.3



in %		2017
1	Institutional investors	57
	– thereof North America	31
	– thereof Germany	26
	– thereof UK & Ireland	13
	– thereof Rest of Europe	19
	– thereof Others	11
2	Private investors	43
	Free float	100

BOND PRICES AND YIELDS

TAB: 1.6.2

in %	31.12.2017	
	Price	Yield
K+S bond (December 2018); coupon: 3.125%	102.8	0.1
K+S bond (December 2021); coupon: 4.125%	111.0	1.3
K+S bond (June 2022); coupon: 3.000%	106.7	1.4
K+S bond (December 2023); coupon: 2.625%	104.6	1.7

Source: Bloomberg

INVESTOR RELATIONS

RESEARCH COVERAGE ON K+S

The very extensive research coverage of the K+S GROUP remained virtually unchanged compared with the previous year. The banks analysing us on a regular basis range from an investment boutique with regional expertise to major banks with an international scope. In total, 29 banks analysed us on a regular basis during the 2017 financial year (2016: 33).

In late February 2018, according to Bloomberg, 11 banks gave us a 'buy/accumulate' recommendation, 11 a 'hold/neutral' recommendation and 6 a 'reduce/sell' recommendation. The average upside target was about € 21.30.

☐ www.k-plus-s.com/analysts

K+S INVESTOR RELATIONS OFFERS A COMPREHENSIVE RANGE OF INFORMATION

In the past year, we responded to the need for information on the part of the capital market by offering 52 road shows and conference days (2016: 55). We held investor meetings in Europe, North America and Asia and also organised numerous one-on-one meetings and conference calls. By taking part in share forums across Germany, we intensified our contact with private shareholders. We complement the broad information offering on our website by publishing YOUTUBE videos showing interviews with members of the Board of Executive Directors as part of our ongoing financial reporting.

☐ www.youtube.com/user/kplussag

The aim of our investor relations work is transparent and fair financial communication with all market participants in order to maintain and strengthen confidence in the quality and integrity of our corporate governance and provide comprehensive, prompt and objective information about our strategy as well as about all events at the K+S GROUP that are relevant to the capital markets.

COMBINED MANAGEMENT REPORT

2

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2.1 COMPANY PROFILE

K+S prides itself on being a customer-centric, independent provider of mineral products for the areas of Agriculture, Industry, Consumers and Communities. We serve the constantly growing demand for mineral products from production sites primarily in Europe, North America and South America as well as through a global distribution network.

GROUP LEGAL STRUCTURE

K+S AKTIENGESELLSCHAFT acts as the holding company for the K+S GROUP and holds shares, directly and indirectly, in its subsidiaries, both in Germany and abroad, which make a significant contribution to its financial performance. Along with K+S AKTIENGESELLSCHAFT, the consolidated financial statements also include all material equity investments. Subsidiaries that are not material are not consolidated.

🔗 'Appendix', List of shareholdings, page 194

Material subsidiaries are the directly held K+S KALI GMBH, K+S SALZ GMBH and K+S FINANCE BELGIUM BVBA. K+S SALZ GMBH encompasses ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG (ESCO) and K+S NETHERLANDS HOLDING B.V., which holds, among other things, shares in Group companies in Canada, Brazil and Chile. K+S FINANCE BELGIUM BVBA, together with K+S NETHERLANDS HOLDING B.V., holds shares in MORTON SALT, INC. (MORTON SALT) via subsidiaries. K+S KALI GMBH and K+S SALZ GMBH primarily hold their foreign subsidiaries through dedicated intermediate holding companies. K+S ENTSORGUNG GMBH, K+S TRANSPORT GMBH and CHEMISCHE FABRIK KALK GMBH (CFK) are held directly by K+S AKTIENGESELLSCHAFT.

The scope of consolidation has changed as follows compared with 31 December 2016: Following the acquisition of K+S (HULUDAO) MAGNESIUM PRODUCTS CO., LTD. HULUDAO, China, by K+S ASIA PACIFIC PTE. LTD., Singapore, both companies are now consolidated. As a result of the intragroup reorganisation of the French company, ESCO HOLDING FRANCE S.A.S. was renamed K+S FRANCE S.A.S. and K+S KALI REIMS S.A.S. was renamed K+S KALI FRANCE S.A.S. Moreover, the

French companies K+S KALI DU ROURE S.A.S. and K+S KALI RODEZ S.A.S. were sold as of 15 November 2017.

HOLDING COMPANY

Corporate management and monitoring are exercised at Group level by K+S AKTIENGESELLSCHAFT. The Board of Executive Directors is supported in its work by corporate functions. Group-wide service functions are concentrated largely in the K+S AKTIENGESELLSCHAFT Business and Technical Centers.

BUSINESS UNITS

The K+S GROUP comprises the Potash and Magnesium Products and Salt business unit as well as Complementary Activities.

🔗 www.k-plus-s.com/business

KEY SITES

The following overview indicates the most important sites of the K+S GROUP in Germany and abroad: / FIG: 2.1.1

🔗 'Value Creation', page 32; 🔗 'Application', page 37

KEY SITES



K+S sites in Kassel, Hesse	H
Werra integrated potash plant, Hesse and Thuringia (Heringen/Merkers/Philippsthal/Unterbreizbach)	K1 ⚙️
Zielitz potash mine, Saxony-Anhalt	K2 ⚙️
Sigmundshall potash mine, Lower Saxony	K3 ⚙️
Neuhof-Ellers potash mine, Hesse	K4 ⚙️
Bergmannsseggen-Hugo potash mine, Lower Saxony	K5 ⚙️
K+S KALI France Head Office, Reims, France	K6
K+S KALI Wittenheim, production plant, Wittenheim, France	K7
K+S Polska, distribution company, Poznan, Poland	K8
K+S Potash Canada, Saskatoon, Saskatchewan, Canada	K9
Bethune potash mine, Saskatchewan, Canada	K10 ⚙️
K+S Brasileira Fertilizantes e Produtos Industriais, distribution company, São Paulo, Brazil	K11
Shenzhen K+S Trading, distribution company, Shenzhen, China	K12

K+S (Huludao) Magnesium Products, production plant and distribution company, Huludao City, China	K13
K+S Asia Pacific, distribution company, Singapore, Singapore	K14
K+S Fertilizers, distribution company, New Delhi, India	K15
esco Head Office in Hanover, Lower Saxony	S1
Borth salt mine, North Rhine-Westphalia	S2 ⚙️
Braunschweig-Lüneburg salt mine, Lower Saxony	S3 ⚙️
Bernburg salt mine, Saxony-Anhalt	S4 ⚙️
Frisia Zout BV. brine plant, Harlingen, Netherlands	S5
esco Benelux, distribution company, Diegem, Belgium	S6
K+S Czech Republic, distribution and production company, Prague, Czech Republic	S7
esco Holding France, Dombasle-sur-Meurthe, France	S8
Levallois-Perret, Saline Cérébos, Salt production and packaging, France	S9
esco Spain Head Office, Barcelona, Spain	S10

FIG: 2.1.1



Vatel – Companhia de Produtos Alimentares

Head Office, Alverca, Portugal

S11

Morton Salt Head Office, Chicago, Illinois, USA

S12

Rittman evaporated salt plant, Ohio, USA

S13

Fairport salt mine, Ohio, USA

S14 [△]

Grand Saline salt mine, Texas, USA

S15 [△]

Weeks Island salt mine, Louisiana, USA

S16 [△]

Hutchinson evaporated salt plant, Kansas, USA

S17

Silver Springs evaporated salt plant, New York, USA

S18

Grantsville solar evaporation salt facility, Utah, USA

S19

Manistee evaporated salt plant, Michigan, USA

S20

Port Canaveral processing site, Florida, USA

S21

Glendale solar evaporated salt facility, Arizona, USA

S22

Inagua sea salt facility, Bahamas

S23

K+S Windsor Salt Head Office, Pointe-Claire, Québec, Canada

S24

Mines Seleine salt mine, Québec, Canada

S25 [△]

Ojibway salt mine, Ontario, Canada

S26 [△]

Windsor evaporated salt plant, Ontario, Canada

S27

Pugwash salt mine, Nova Scotia, Canada

S28 [△]

Lindbergh brine plant, Alberta, Canada

S29

Salina Diamante Branco sea salt facility, Galinhos, Brazil

S30

Servicios Portuarios Patillos S.A., Port of Patillos, Iquique, Chile

S31

Salztagebaubetrieb K+S Chile, Tarapaca, Atacama desert, Chile

S32

K+S Chile Head Office, Santiago de Chile, Chile

S33

K+S Peru, Lima, Peru

S34

K+S Entsorgung GmbH, Kassel, Hesse

E1

Granulation of Animal Hygiene Products,
Bad Salzdetfurth, Lower Saxony

E2

K+S Transport GmbH, Hamburg

E3

Chemische Fabrik Kalk GmbH, Cologne, North Rhine-Westphalia

E4

MSW-Chemie GmbH, Langelsheim, Lower Saxony

E5

VALUE CREATION

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

FIG: 2.1.2

Revenues 2017 € 1,703.5 million	EBITDA 2017 € 268.8 million	Employees 8,708	Production capacity up to 9 million tonnes by the end of the year 2017
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Fifth largest potash producer in the world

Product categories

Potassium chloride, Fertilizer specialties, Industrial products

Areas of application

Agriculture, Chemical industry, Oil and gas drilling, Pharmaceutical industry, Cosmetic industry, Food industry, Animal feed industry

Production in Europe

The Potash and Magnesium Products business unit extracts potash and magnesium crude salts at six mines in Germany, which are further processed there and at a former mining site to create end products or intermediate products. Furthermore one processing sites in France belong to the business unit.

Production in North America

Commissioning of potash plant in Bethune, Canada in June 2017. Long-term additional production capacity of 2.86 million tonnes.

SALT BUSINESS UNIT

FIG: 2.1.3

Revenues 2017 € 1,762.0 million	EBITDA 2017 € 325.2 million	Employees 5,008	Production capacity a good 31 million tonnes
---	---------------------------------------	---------------------------	--

World's largest supplier of salt products

Product categories

Consumer products, Salt for food processing, Industry, Industry salt, Salt for chemical use, De-icing salt

Areas of application

Food industry, fish industry, textile and leather industry, oil and gas industry, plastics industry, glass industry, pharmaceutical industry, water softening and disinfection, drinking water treatment, animal feed industry, electrolysis, winter road clearance services

Regional portfolio

Balanced regional portfolio allows for a balance of weather-related fluctuations in the de-icing salt business in Europe and North America among other things.

Production in Europe

Three rock salt mines, two brine plants, as well as several plants processing evaporated salt in Germany, France, the Netherlands, Portugal and Spain, one salt processing company in the Czech Republic.

Production in North America

Six rock salt mines, nine plants processing evaporated salt, three solar salt plants and four salt processing sites in the United States, in Canada and in the Bahamas.

Production in South America

One rock salt open-cast mine in the Salar Grande in the Chilean Atacama desert, one sea salt facility in the north-eastern part of Brazil.

COMPLEMENTARY ACTIVITIES

FIG: 2.1.4

Revenues 2017 € 159.9 million	EBITDA 2017 € 30.3 million	Employees 280
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Waste Management and Recycling

Underground disposal of waste in potash and rock salt mines and recycling activities.

K+S Transport GmbH

Own logistics service provider.

Animal hygiene products

Granulation of CATSAN® and THOMAS®.

CFK (Trading)

Chemische Fabrik Kalk GmbH (CFK) trades several basic chemicals.

As part of our new corporate strategy SHAPING 2030, we aim to utilise synergy potentials much more in the future and to create a new structure for our business model. Below we present our business model using the value chain in the Potash and Magnesium Products business unit and in the Salt business unit, which extends over the following six sections: Exploration, Mining, Production, Logistics, Sales/Marketing and Application. / FIG: 2.1.5

www.k-plus-s.com/valuechain

EXPLORATION

Exploration provides insights into the dimensions and structure of deposits, as well as their depth and mineral content. The data obtained is used to estimate reserves in accordance with international standards. Worldwide, underground exploration is predominantly conducted by drilling and seismic measurements that enable a spatial representation of underground geological structures.

RESERVES AND RESOURCES

Our potash and rock salt mineral deposits are either under the ownership of the K+S GROUP or located in places where we possess the appropriate licences and/or similar rights that permit the mining or solution mining of raw material reserves and secure these rights over the long term.

'Glossary', page 210

Our potash deposits in Germany contain reserves of around 1.1 billion tonnes of crude salt as well as resources of around 1.3 billion tonnes of crude salt. Reserves include stocks that have been identified as certain or probable and can be extracted cost-efficiently using known technology. Resources are deposits, which are anticipated on account of geological indicators, but are not yet recoverable in a cost-efficient man-

ner or have not yet been reliably identified. These potential extraction areas are predominantly connected to existing ones and belong to the K+S GROUP, or the K+S GROUP has the option to purchase them.

For our site in Bethune, Canada, we are quoting reserves and resources in millions of tonnes of potassium chloride ready for sale as an end product. Reserves total 214 million tonnes and resources around 885 million tonnes. The information on the dimensions and structure of the deposit as well as on the depth and mineral content are based on geological conclusions by analogy and isolated test drilling and has not yet been verified by concrete exploration results.

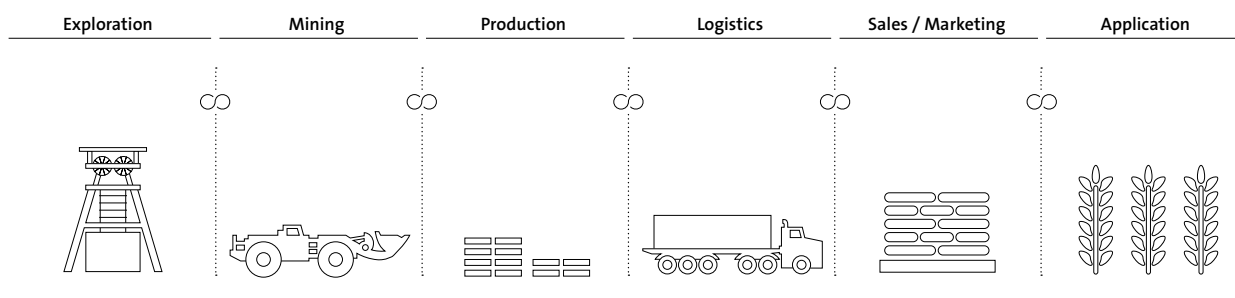
In the Salt business unit, the K+S GROUP has reserves of 1.1 billion tonnes of crude salt plus virtually infinite reserves of solar salt. Furthermore, resources amounting to around 1.5 billion tonnes of rock salt can be disclosed in Europe and North and South America, taking into account extraction and impoverishment losses.

MINING

We extract raw materials in conventional mining above and below ground as well as through solution mining. We also extract salt by evaporating saline water, mostly sea water. The broadly comparable mining methods make it possible to realise synergies between the Potash and Magnesium Products and Salt business units. These involve the exchange of technical, geological and logistical know-how as well as coordinated procurement of machines and auxiliary materials.

THE K+S VALUE CHAIN

FIG: 2.1.5



In the case of underground extraction, crude salt is generally mined by means of drilling and blasting. Huge shovel loaders then transport the crude salt to crushing plants. From there, the crushed salt is brought to the extraction shaft via conveyor belts. In this manner, the Potash and Magnesium Products business unit obtains potassium chloride (KCl) and magnesium sulphate (MgSO₄)/Kieserite (MgSO₄·H₂O) in Germany and the Salt business unit obtains rock salt (NaCl) in Germany, the United States and Canada. In Chile, the Salt business unit extracts rock salt using open-cast mining in the Atacama Desert in the Salar Grande de Tarapacá, a large former salt lake. It also extracts sea salt and solar salt in Brazil, the Bahamas, at the Great Salt Lake in Utah, in California and in Arizona, USA.

Moreover, the Salt business unit operates brine fields in the USA and Canada as well as one in the Netherlands and one in Germany for the extraction of evaporated salt. Since the summer of 2017, the Potash and Magnesium Products business unit has been extracting potassium chloride by means of solution mining in the new Bethune potash plant in Saskatchewan, Canada.

In 2017, 36.0 million tonnes of crude salt were mined by the Potash and Magnesium Products business unit; 20.5 million tonnes were extracted by the Salt business unit. We mined a total of 56.5 million tonnes of raw material in 2017 (2016: 52.0 million tonnes).

LONG-TERM PLANNING OF MINES

Once the raw material in a mining operation has been exhausted, measures are initiated for the partial or complete closure of the mine. In Germany, decommissioning and after-care are regulated inter alia in the German Federal Mining Act.

At the Sigmundshall mine in Lower Saxony, the stocks are coming to an end, with the result that κ+s decided in November 2017 to stop potash production at the end of 2018. The technical measures required to shut down production and secure the mine are being developed as part of a comprehensive project and will be presented to the relevant authorities as a closure plan for approval. The objective is to be able to offer clear prospects to the around 730 employees of the plant beyond 2018.

The application documents for the plan approval procedure under mining law concerning the recommissioning of the

Siegfried-Giesen plant, which was closed in 1987, were submitted to the competent mining authorities at the beginning of 2015. An official decision on this application is currently expected during the course of 2018.

www.kali-gmbh.com/siegfriedgiesen

Detailed plans describing the procedure for shutting down a site and after-care are also available for sites in the United States, Canada and Chile.

If no reasonable re-use of decommissioned mines is possible, we are generally under obligation to flood remaining caverns that have steep storage seams. 24 caverns have already been flooded in Lower Saxony, three are currently being flooded and one has been kept 'dry'. At present, six sites in Lower Saxony are in the process of being secured, and at 21 sites this process has already been completed.

PRODUCTION

The processing and refining of raw materials is one of our core competencies. The mineral crude salt mined by us passes through multi-stage mechanical or physical processes without changing its natural properties.

At the end of 2017, the annual production capacity in the Potash and Magnesium Products business unit was up to 9 million tonnes.

In addition to potassium (between 11% and 25% potassium chloride content), the potash deposits of κ+s KALI GMBH in Germany also contain magnesium and sulphur (between 9% and 24% magnesium sulphate content). Depending on the quality of the crude salt, we use processes such as thermal dissolution, flotation and, in combination with one of the mentioned processes, electrostatic separation (ESTA process).

© 'Glossary', page 210

κ+s successfully completed the share purchase of 30% of the fertilizer producer AL BIARIQ FOR FERTILIZER PLANT CO., LTD (AL BIARIQ) in Saudi Arabia on 1 June 2017. Through this purchase, κ+s aims to participate in the growth in the Middle East, Africa and South Asia, particularly in the fertigation segment (use of fertilizers in irrigation systems), and also to offer a broader product portfolio in the future. κ+s produces fertilizers containing potassium sulphate (e.g. KALISOP®) from natural sources in the Werra plant. The potassium sulphate synthetically manufactured in AL BIARIQ, Saudi Arabia, (SOP water-soluble) complements the κ+s product palette

with a fully water-soluble potassium sulphate, which is used primarily in the area of fertigation, including for growing fruit and vegetables. The production plants of AL BIARIQ on the Red Sea have an annual capacity of 20,000 tonnes (SOP water-soluble), which is to be doubled in the future. With the takeover of the fertilizer activities of the Chinese manufacturer of synthetic magnesium sulphate (SMS), HULUDAO MAGPOWER FERTILIZERS CO., LTD. (MAGPOWER), the Potash and Magnesium products business unit complements its product portfolio in the specialties business. The plant currently has a capacity of 90,000 tonnes, which should respectively be doubled in the future. The transaction was completed in January 2017.

🔗 'Glossary', page 210

K+S has an annual production capacity of just over 31 million tonnes of salt in its Salt business unit. Rock salt from underground and open-cast mining is ground into the desired grain size above ground. Evaporated salt is produced by evaporating the water from the brine and extracting the dissolved salt. When extracting sea salt or solar salt, salt water is channelled into evaporation ponds laid out sequentially on a gradient. The brine becomes more and more concentrated as it flows through the basins until finally a layer of salt several centimetres thick can be harvested.

K+S has acquired mining licences from a group of local investors to set up a solar salt plant in Western Australia (Ashburton Salt Project). The project is still in the very early stages of development. Following the start of an environmental permit procedure in October 2016, K+S is currently preparing the required documents and completing a feasibility study for the project. Only when the necessary permits have been granted – in 2020 at the earliest – will K+S make a final investment decision on whether to build the solar salt production facility. Annual production capacity of the location could be approximately 3.5 million tonnes of solar salt.

PROCUREMENT

In 2017, K+S purchased technical goods and services, raw materials, consumables and supplies for around € 2.0 billion (2016: € 2.3 billion) from around 19,800 suppliers. The lion's share of our purchasing volume relates to production, as well as maintenance and expansion measures. Materials going into our production or our products only represent a small part of the purchasing volume.

🔗 'Non-financial Statement', Business ethics, page 53

Open and fair partnership characterises the cooperation with our suppliers and service providers, which we select in a systematic, transparent and IT-supported process that is not solely based on economic criteria. In addition to law-abiding conduct, we also expect them to respect human rights as well as the core labour standards of the INTERNATIONAL LABOUR ORGANISATION (ILO).

LOGISTICS

Our supply chain management governs and monitors the entire supply chain in order to ensure reliable supply to our customers worldwide under competitive terms and conditions. We make use of the various transport carriers, taking into account their individual advantages, and incorporate more environmentally friendly and cost-effective railway lines and waterways as much as possible. With the help of key performance indicators applicable across the Group, we monitor actual costs, measure the efficiency of logistics systems and improve these in a continuous process in order to maintain and increase customer satisfaction.

K+S conveys more than 50 million tonnes of goods on average, including double counts when using various transport carriers. A global network of warehouse, port and distribution locations is available to this end.

OUR OWN LOGISTICS ACTIVITIES

With K+S TRANSPORT GMBH in Hamburg and the Chilean EMPRESA MARÍTIMA S.A., we have two logistics service providers of our own. K+S TRANSPORT GMBH operates the 'Kalikai' (potash quay) in Hamburg, one of the largest transshipment facilities for exports of bulk goods in Europe, with a storage capacity of around 400,000 tonnes. On average, 3.5 million tonnes of potash and magnesium products are handled here each year. Furthermore, K+S TRANSPORT GMBH organises container transports in Germany using inland water vessels and the railways.

K+S CHILE S.A. (K+S CHILE) handles our maritime logistics through the shipping company EMPRESA MARÍTIMA S.A., using two of its own ships as well as additional chartered vessels. Our largest port is Patillos in Chile, where 4.5 million tonnes of salt were loaded onto maritime vessels in 2017.

In August 2017, K+S together with its partners opened the new transshipment and warehouse facility for potash products in the port of Vancouver (Port Moody). The

new state-of-the-art facility includes an unloading station for freight cars, 1,260 metres of conveyor belts and a 263 metre long storage shed for a total of 160,000 tonnes of potash products. Freight trains hauling 18,000 tonnes of product can be unloaded here and ships with a capacity of 70,000 tonnes can be loaded at the facility's quay. KSPC has 900 rail cars at its disposal to transport goods from the Bethune plant to the harbour. These have been designed especially for KSPC's requirements. The fleet of goods wagons is set to be expanded at a later time as production volume increases.

LOGISTICS SERVICE PROVIDERS

Securing long-term freight capacity is very important to us. Most of our international transport volume is forwarded by service providers with which we maintain long-standing partnerships.

SALES/MARKETING

We aim to be the most strongly customer-focussed, independent provider of mineral products in the market. High product quality and reliability are crucial prerequisites for this. We strive for the greatest possible proximity to our customers and offer them tailor-made products that we sell through our efficient and customer-oriented distribution network.

CUSTOMER INTERESTS

As part of our continuous dialogue with customers and other stakeholders, we obtain feedback on our performance from a customer perspective both from direct customers (dealers, manufacturers) and also users of our products (e.g. farmers). As part of our communications measures, we seek dialogue with our customers and utilise the various exchange opportunities at trade fairs, in dialogue marketing or via communicative response elements. Furthermore, in the last year we carried out a comprehensive customer satisfaction survey, which attests to our excellent perception amongst customers with respect to product quality, but also provides us with valuable insights into how we can improve our service even more.

Assured quality, on-time delivery and professional advice contribute significantly to customer loyalty. In terms of the quality management of the individual companies, we want to improve the quality of our products in all phases of the value chain. Our quality management system is based on DIN EN ISO 9001 and is audited by accredited external cer-

tification companies. We constantly assess our products for possible risks to health and safety and for their environmental compatibility, and ensure that they are safe for people and not harmful to nature when they are used responsibly and properly. We provide our customers with comprehensive information about our products and services in product and safety specification sheets. Since most of our products are chemically non-modified natural substances, they are exempt from mandatory registration in the context of the EUROPEAN CHEMICALS REGULATION REACH. All other substances are registered in accordance with the regulations.

IMPORTANT SALES REGIONS AND COMPETITIVE POSITIONS – POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

More than half of the revenues of the Potash and Magnesium Products business unit are generated in Europe. In this region we benefit from the logistically favourable proximity of the production sites to European customers. Other key sales regions are located in South America, particularly in Brazil, as well as in Asia. / FIG: 2.1.6

In addition to the standard product, potassium chloride, and unlike its main competitors, K+S offers fertilizer specialties containing potassium, sulphur and magnesium and occupies leading positions worldwide in this product segment. With its products for industrial, technical and pharmaceutical applications, K+S is also one of the most competitive manufacturers in the world and is by far the largest supplier in Europe. K+S is the world's fifth largest and Western Europe's largest producer of potash products. In 2016, we had a share of approximately 8% of global potash sales volumes.

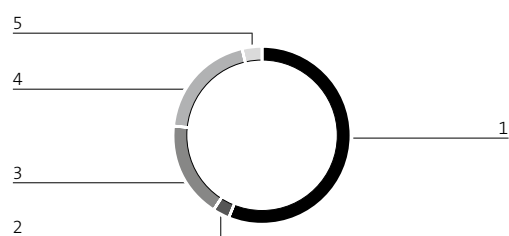
Important competitors are the North American companies POTASHCORP and AGRIUM, which merged in early 2018 to form NUTRIEN, as well as MOSAIC. They operate the joint export organisation with CANPOTEX. Other important competitors are the Russian URALKALI and the Belarusian BELARUSKALI, the Israeli ICL, Jordanian APC and Chilean SQM.

IMPORTANT SALES REGIONS AND COMPETITIVE POSITIONS – SALT BUSINESS UNIT

The revenues of the business unit are generated primarily on the American continent. Here, the USA, Canada, Brazil and Chile are particularly important markets. Germany, France, Benelux, Scandinavia and Eastern Europe are the key sales regions in Europe. / FIG: 2.1.7

POTASH AND MAGNESIUM PRODUCTS – SALES VOLUMES BY REGION

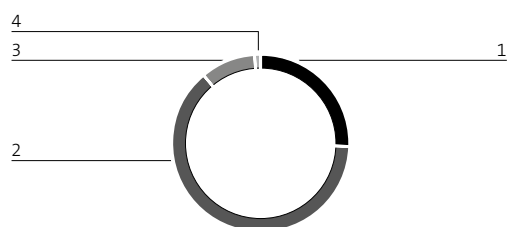
FIG: 2.1.6



	2016	2017
in %		
1 Europe	56.5	56.2
– of which Germany	15.9	16.7
2 North America	1.9	3.0
3 South America	21.4	17.6
4 Asia	15.7	19.7
5 Africa, Oceania	4.5	3.5

SALT – SALES VOLUMES BY REGION

FIG: 2.1.7



	2016	2017
in %		
1 Europe	23.5	25.7
– of which Germany	8.2	9.5
2 North America	66.7	63.7
3 South America	9.6	10.1
4 Other regions	0.2	0.5

In terms of production capacity, K+S is the largest supplier of salt products in the world. In terms of products for the food processing industry, salts for industrial and commercial applications and de-icing salt, ESCO along with the competitors SÜDWESTDEUTSCHE SALZWERKE, GROUPE SALINS and AKZONOBEL are the leaders in Europe. Through K+S CHILE, South America's largest salt producer, K+S has access to the growing sales regions in South and Central America. MORTON SALT is, along with CARGILL and COMPASS MINERALS, one of the largest salt producers in North America.

Thanks to our unique network of production facilities in Europe, North America and South America, we can respond more flexibly than local competitors to fluctuations in the weather-dependant demand for de-icing salt and ensure reliable supplies to our customers. In the other segments, the demand situation is relatively stable. While the market for salt in Western Europe and North America tends to exhibit only low growth rates, a trend towards a stronger increase in demand is being observed in the emerging market countries.

BRAND PORTFOLIO

The number of K+S brand rights increased slightly in 2017. The K+S GROUP uses the following, among others, as umbrella brands: CÉRÉBOS®, ESCO®, K+S-LOGO®, MORTON®, STIER®, UMBRELLA GIRL®, VATEL® and WINDSOR®. As product brands, e.g. AXAL®, REGENIT®, SALDORO®, ACTION MELT®, SEASON-ALL®, SYSTEM SAVER®, BIOSAL®, LOBOS®, KADD®, KORNKALI®, PATENTKALI® and KALISEL® are used. As of the end of 2017, the K+S GROUP holds in total 2,582 (2016: 2,550) national and regional proprietary rights, derived from 534 basic trademarks (2016: 558).

APPLICATION

As part of our new corporate strategy SHAPING 2030, we will be placing our future focus on the customer segments of Agriculture, Industry, Consumers and Communities. The core of this strategy is a market- and customer-driven positioning of a company which has until now been driven by production.

PRODUCTS AND SERVICES FROM THE POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

Most of the products from the Potash and Magnesium Products business unit are used as plant nutrients in agriculture. As natural products, these are largely permitted for organic farming under EU law as well. Furthermore, we offer our customers products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as feed production components.

☐ www.k-plus-s.com/potash

Potassium chloride

The universally applicable mineral fertilizer, potassium chloride, is used in particular for important crops, such as cereals, corn, rice and soybeans. Potassium chloride is spread directly on fields as a granulate, mixed with other straight fertilizers in bulk blenders to produce what are known as ‘Bulk blends’ or supplied as a fine-grain ‘standard’ product to the fertilizer industry, which processes it along with other nutrients to produce complex fertilizers.

Fertilizer Specialties

The fertilizer specialties differ from traditional potassium chloride, either because they are chloride-free or because of different nutrient formulas with magnesium, sulphur, sodium and trace elements. These products are used for crops which have a greater need for magnesium and sulphur, such as rapeseed or potatoes, as well as for chloride-sensitive special crops, such as citrus fruits, vines or vegetables.

Industrial Products

Furthermore, we offer a wide range of high-quality potassium and magnesium products for industrial applications, which are available in different degrees of purity and in specific grain sizes. These are used, for example, in chlorine-alkali electrolysis in the chemical industry, in the production of glass and plastics, in the mineral oil industry, in metallurgical processes, in the textile industry, in biotechnology, in oil and gas exploration, as well as in the recycling of plastics.

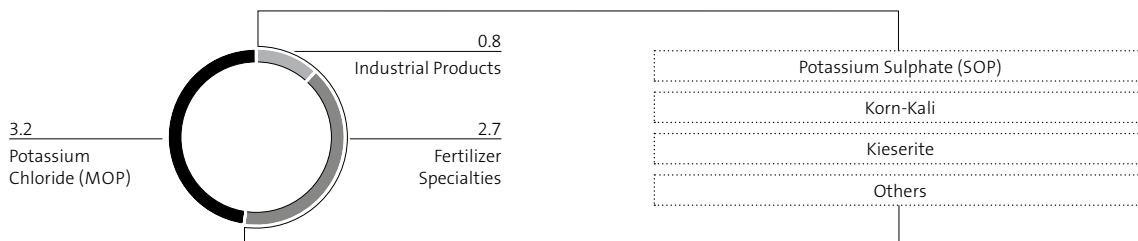
Health Care & Nutrition

In addition, the business unit provides a range of products meeting the particularly high requirements of the pharmaceutical, cosmetics, food processing and animal feed industries.

As a service, the Potash and Magnesium Products business unit offers professional advice to customers in the agricultural sector. We anticipate trends and we research changes in general conditions with a view to water and resource efficiency and in relation to soil fertility. Our aim is to optimise the supply of plant nutrients to crops even when general conditions change. We offer technical application advice for our industrial products worldwide.

We advise our customers in the agricultural industry through agricultural engineers working worldwide and develop tailored solutions. We also conduct our own research and field tests in order to optimise the supply of nutrients by adapting our product portfolio. The crops we focus on are potatoes, corn, oil palms, rapeseed and soybeans. For our customers, we offer individual fertilization recommendations, which are the prerequisites for ‘good

POTASH AND MAGNESIUM PRODUCTS – PRODUCT PORTFOLIO (2017 SALES VOLUMES IN MILLION TONNES) FIG: 2.1.8



professional practice’ in terms of agricultural land use. These recommendations help safeguard fertility and the productivity of the soil as a natural resource in the long term. / FIG: 2.1.8

The ‘Growth for Uganda’ project launched by K+S KALI GMBH in cooperation with the SASAKAWA AFRICA ASSOCIATION in 2013 has trained almost 100,000 farmers so far to use better agricultural techniques and to reduce post-harvest losses. The supply of self-grown food products has become more reliable and yields have increased considerably. The second phase of the project will, in addition to the basic work, now focus on the commercial aspect, ‘Farming as a Business’. In an environment which is characterised by small farms, the goal is to build an infrastructure for fertilizer sales, to offer fertilizers in small volumes and to provide training for distributors.

□ www.kali-gmbh.com/uganda

PRODUCTS AND SERVICES FROM THE SALT BUSINESS UNIT

The Salt business unit offers its customers various salt products for a number of applications. Depending on the particular application, the products differ primarily in terms of their grain size and shape, degree of purity, the form in which they are supplied and possible additives.

□ www.k-plus-s.com/salt

Consumer products

In the consumer products segment K+S manufactures products such as table salt, water softening salt for home use and dishwasher salt for end users. The portfolio also includes premium products such as kosher and low-sodium salt.

Salt for the food processing industry

The salt for the food processing industry product segment includes, amongst others, pretzel and pickling salt.

Industrial salt

Industrial salts are used in the textile industry, in the production of animal feed, for preserving fish, in drilling fluids used for the extraction of oil and natural gas as well as in many other industrial areas. Pharmaceutical salts are a key element in infusion and dialysis solutions.

Salt for chemical use

Salt for chemical use is one of the most important raw materials for the chemical industry. In electrolysis plants, it is split into chlorine, caustic soda and hydrogen. It reaches the end user as a component of various plastics (for example, PVC).

De-icing salt

Winter road maintenance services, public and private road authorities, road maintenance depots and commercial bulk customers procure de-icing salts from K+S. Premium de-icing salt blends are also offered which, through the addition of calcium or magnesium chloride, create more heat on contact with ice and snow than conventional products and therefore work more quickly, especially at very low temperatures. Household packages for end users round off the product range in this segment. / FIG: 2.1.9

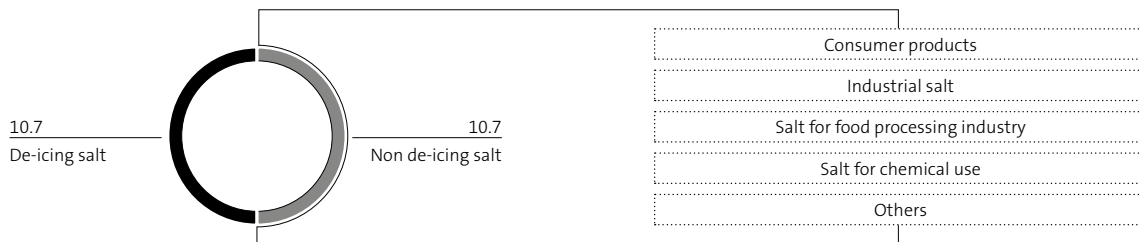
COMPLEMENTARY ACTIVITIES

WASTE MANAGEMENT AND RECYCLING

The Waste Management and Recycling business unit uses parts of underground chambers that have been created by the extraction of crude salt, for the elimination and

SALT – PRODUCT PORTFOLIO (2017 SALES VOLUMES IN MILLION TONNES)

FIG: 2.1.9



reutilisation of waste products in a manner that is safe over a longer period of time. The salt mineral sites used for this purpose are separated from the ongoing extraction operation, are impervious to both gas and liquids and are securely separated from the layers carrying groundwater. A combination of geological and technical barriers guarantees the highest possible safety.

The business unit operates two underground depositories and five underground reutilisation facilities. The waste stored in the underground depositories is dealt with in a manner that is safe in the long-term and maintenance-free, and permanently removed from the biosphere. For the underground reutilisation, permitted waste such as residue from the flue gas cleaning procedure is used as backfill material to fill the chambers.

K+S ENTSORGUNG GMBH offers a complete service covering the recycling of salt slag for the secondary aluminium industry. An additional business sector is the recycling above ground of low-contaminated materials by a subsidiary, K+S BAUSTOFFRECYCLING GMBH.

K+S ENTSORGUNG GMBH operates primarily in Europe and is the market leader there for underground reutilisation. A key factor for the customers of the business unit is the range of disposal options on offer thanks to the most varied of locations, techniques and procedures. Excellent business relationships, some of them decades-long, confirm the strategic focus on quality in both the services and the consultancy provided.

ANIMAL HYGIENE PRODUCTS

At the Salzdetfurth site, extensive sections of the above ground infrastructure of an inactive potash plant are used to granulate, among others, the well-known branded animal hygiene product CATSAN® for our customer MARS GMBH.

K+S TRANSPORT GMBH

K+S TRANSPORT GMBH in Hamburg acts as K+S's own logistics service provider, offering a number of different logistics services.

CHEMISCHE FABRIK KALK GMBH (CFK)

CFK trades in a selection of basic chemicals such as caustic soda, nitric acid, sodium carbonate (soda) as well as calcium chloride and magnesium chloride.

VALUE ADDED STATEMENT

The following value added statement describes our contribution to private and public income. Value added is calculated using sales revenues and other income after deducting material costs, depreciation and amortisation and other expenses. The allocation statement reveals what share of value added went to employees, shareholders, government and lenders and what share remains with the Company (reserves).

In 2017, our value added amounted to € 1,436.2 million (2016: € 1,253.5 million). The majority (77%) of that, € 1,106.2 million, was allocated to our employees (2016: € 1,011.0 million (81%)). This share is composed of wages and salaries, social insurance contributions and pension contributions. Local authorities received taxes and fees of € 99.5 million (7%) (2016: € 46.6 million (4%)). € 85.5 million (6%) went as interest to lenders (2016: € 65.4 million (5%)). It is assumed that the shareholders will receive the suggested dividend amounting to € 67.0 million (5%) (2016: € 57.4 million (4%)) and that the Company has retained € 78.0 million (6%) (2016: € 73.1 million (6%)) in the form of reserves and other assets. / TAB: 2.1.1, 2.1.2

GENERATION OF VALUE ADDED TAB: 2.1.1

	2016	2017
in € million		
Revenues	3,456.6	3,627.0
Other income	157.9	272.3
Cost of materials	-1,304.6	-1,434.8
Depreciation and amortisation	-328.5	-331.3
Other expenses	-784.7	-697.0
Value added	1,253.5	1,436.2

ALLOCATION OF VALUE ADDED TAB: 2.1.2

	2016	2017
in € million		
To employees (wages, salaries, social benefits)	1,011.0	1,106.2
To governments (taxes, fees)	46.6	99.5
To lenders (interest expenses)	65.4	85.5
To shareholders (dividends) ¹	57.4	67.0
To the Company (reserves and other)	73.1	78.0
Value added	1,253.5	1,436.2

¹ Dividends relate to the year under review and are paid in the subsequent year. The figure for 2017 corresponds to the dividend proposal.

EMPLOYEES

We want to be an attractive employer and ensure the loyalty of our employees. With this in mind, we are developing an integrative and comprehensive global human resources strategy to contribute towards the long-term growth of the K+S GROUP. As of 31 December 2017, the K+S GROUP employed a total of 14,925 employees, or 14,793 FTEs (full-time equivalents) (2016:

14,653 employees or 14,530 FTEs) including 991 employees or 944.5 FTEs at K+S AKTIENGESELLSCHAFT. / TAB: 2.1.3

👁 'Non-financial Statement', People, page 46

Our workforce consists of 7.7% employees not covered by a collective wage agreement (2016: 7.7%), 88.5% employees covered by a wage agreement (2016: 88.5%) and 3.8% trainees (2016: 3.8%). / FIG: 2.1.10, 2.1.11

EMPLOYEES BY UNIT

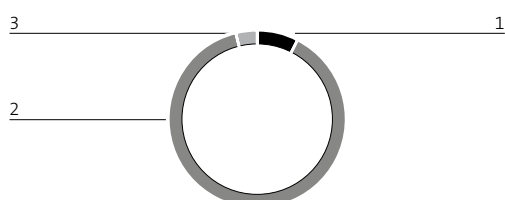
TAB: 2.1.3

	2016	%	2017	%
in full-time equivalents as of 31 Dec. (FTEs) ¹				
Potash and Magnesium Products business unit	8,502	58.5	8,708	58.9
Salt business unit	5,001	34.4	5,008	33.9
Complementary activities	276	1.9	280	1.9
Other areas	751	5.2	797	5.3
K+S Group	14,530	100.0	14,793	100.0

¹ FTE: Full-time equivalents; part-time positions are weighted according to their share of working hours.

PERSONNEL STRUCTURE AS OF 31 DECEMBER 2017

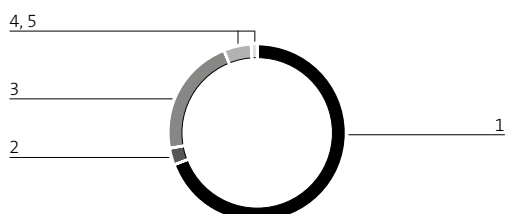
FIG: 2.1.10



	2016	2017
in %		
1 Non-tariff paid employees	7.7	7.7
2 Pay-scale	88.5	88.5
3 Trainees	3.8	3.8

EMPLOYEES BY REGION AS OF 31 DECEMBER 2017

FIG: 2.1.11



	2016	2017
in %		
1 Germany	69	70
2 Rest of Europe	3	3
3 North America	23	22
4 South America	5	5
5 Asia	0	1

On average, our employees are 42 years old and have been working for us for 15 years. The turnover rate, i.e. the ratio of persons who leave the company to average workforce size, is 7.4 % (2016: 5.9 %).

DEVELOPING AND PROMOTING EMPLOYEES

K+S wants to develop and utilise its employees' full potential in the best possible way. The measures we use to do this are described below.

TRAINING

Vocational training is an important investment in the K+S GROUP's future viability. Consequently, in Germany we recruit highly motivated school leavers, especially for those jobs that require formal training in commercial and technical fields, which are increasingly more difficult to fill. As of 31 December 2017, a total of 567 young people were undergoing training at K+S GROUP companies in Germany (2016: 561). In 2017, 179 (2016: 172) new trainees were hired. At the end of the year, the training ratio, based on employees in Germany, was 5.5 %, about the same level of previous year (2016: 5.6 %). Last year, we offered permanent jobs to approximately 89 % of our trainees.

COMPETENCY MODEL AND TALENT MANAGEMENT

The K+S competency model introduced globally in 2016 defines which skills employees require in different roles. This model serves as a basis for all personnel processes from the initial job advertisement to interviews through to annual reviews and development decisions. Performance and potential are identified worldwide every year as part of the talent management process for all employees not covered by a collective wage agreement. This provides information for suitable courses of action with regard to vacancies that need to be filled. The global development programme TRACK+S, which can be applied for by all employees anywhere in the world, aims to promote employees and to prepare participants for leadership or expert roles in the K+S GROUP.

CONTINUING EDUCATION AND FURTHER TRAINING

K+S offers its skilled employees and managers numerous further training opportunities in order to impart general and company-specific knowledge. Moreover, depending on company requirements, we award grants to our employees for full-time bachelor's or master's studies. In the United States, Canada and Chile, we support employees who continue their education in line with their career at a university recognised by the company, by reimbursing all or part of their tuition fees. Investment in continuing education and further train-

ing amounted to around € 12.8 million (2016: € 14.7 million). The reduction in cost is attributable to the training days in Germany (13,212 days, 2016: 16,630 days) and a reduction in the valuation rate for absences.

KNOWLEDGE MANAGEMENT/CONTINUOUS IMPROVEMENT PROCESS

The knowledge management/continuous improvement process (CIP) gives all employees the opportunity to take an active role in operating processes and structures and to be involved in shaping these. A total of 13,804 ideas were submitted in 2017 (2016: 12,430). The benefit over a period of two and a half years, i.e. the efficiency gains generated, less the actual cost of knowledge management was € 13.8 million (2016: € 11.4 million).

RETAINING EMPLOYEES

The measures we use to recruit and retain employees are described below.

REMUNERATION SYSTEM

In the K+S GROUP, we pursue the aim of rewarding our employees worldwide comparably and in line with the market and performance. The equal pay of our German tariff system was confirmed by the Federal Anti-Discrimination Agency. The performance appraisal component included in the collective wage agreement was applied uniformly to all locations for the first time from May 2017, concluding the implementation of the tariff system. As part of our regular review of our non-tariff remuneration system, roles not covered by collective wage agreements were assessed based on standard criteria across the Group. In the next stage, the required need for adjustment was determined as part of a market comparison of remuneration for employees not covered by a collective wage agreement in terms of commensurability with performance and market compliance. The results were implemented in January 2018.

In 2017, personnel expenses amounted to € 1,106.2 million and were therefore a good 9 % above the level of the previous year (2016: € 1,011.0 million). During the year under review, personnel expenses per employee (FTEs) amounted to € 75,485 (2016: € 69,987) and therefore increased by a good 8 %. The proportion of variable remuneration included in personal expenses, which allows our employees to participate in the success of the Company in the context of a performance-related remuneration system, was € 45.0 million in 2017 or approximately 4 % (2016: € 23.5 million or approx. 2 %).

Framework wage agreement on demographics

In light of demographic change, sustainable and forward-looking human resources policies should be encouraged and incentives for longer employment should be put in place for the locations in Germany. To this end, the framework wage agreement concerning demographics was resolved in 2017. Measures tailored to specific needs are expected to be agreed and implemented in 2018 based on a qualified demographic analysis.

Pension scheme

K+S helps its employees secure their standard of living in old age. Every employee in the participating German companies receives an employer subsidy corresponding to 13 % of the sum they pay from their remuneration subject to social security deductions into one of the three company pension schemes. The majority of our pension schemes for the employees of our companies abroad are defined contribution plans, which are predominantly financed by the employees themselves and subsidised by the employer. In 2017, we spent a total of € 26.2 million (2016: € 21.7 million) on defined contribution pension plans.

RESEARCH & DEVELOPMENT

We constantly review our extraction and production processes with regard to the use of the resources available to us and enhance our procedures and products. Global change is giving rise to additional fields of activity in the search for innovative solutions, even beyond our traditional salt and potash products. Sustainability and environmental protection continue to be our central concerns. Our current research projects focus on new alternative uses, tailings pile and disposal concepts as well as the reduction of saline wastewater.

☐ www.k-plus-s.com/research

RESEARCH AND DEVELOPMENT COSTS

TAB: 2.1.4

	2016	2017
in € million		
Potash and Magnesium Products business unit	8.1	8.4
Salt business unit	3.9	4.5
Other research costs	1.7	3.6
Total	13.7	16.5

RESEARCH FIGURES

Research and development costs totalled € 16.5 million in the reporting period and were thus significantly above the figure for the previous year (2016: € 13.7 million). At € 0.5 million, capitalised development-related capital expenditure was below the level of the previous year as planned (2016: € 1.4 million). / TAB: 2.1.4, 2.1.5

The occupational exposure limits (OELs) project is one factor resulting in the increase in research and development costs. The project was launched in 2017 as the statutory workplace limits for nitrogen oxide, carbon monoxide and diesel engine emissions underground had been tightened significantly. Yet another factor is the intensification of the research cooperation projects, for instance with K-UTEC AG SALT TECHNOLOGIES.

📄 'Non-financial Statement', People, page 46

RESEARCH INSTITUTIONS AND COOPERATION

For our research and development, we use our own research facilities, we cooperate in public/private partnerships, initiate research projects at higher education institutions and other research institutes, and cooperate with industrial partners.

RESEARCH KEY FIGURES

TAB: 2.1.5

	2013	2014	2015	2016	2017
in € million					
Research costs	13.9	12.2	14.7	13.7	16.5
Research intensity (research costs/revenues)	0.4 %	0.3 %	0.4 %	0.4 %	0.5 %
Capitalised development-related capital expenditure	5.0	3.5	2.0	1.4	0.5

K+S ANALYSIS AND RESEARCH CENTRE

The K+S ANALYSIS AND RESEARCH CENTRE (AFZ) in Unterbreizbach, which employs around 100 scientists, engineers and specialist staff, is K+S's central research institute. The tasks of the AFZ include carrying out analyses, application-oriented fundamental research and process and product development for all business units of the K+S GROUP. All relevant analysis methods are covered from standard analysis to more complex special analysis.

MORTON SALT RESEARCH LABORATORY

MORTON SALT operates a modern research and development laboratory in Elgin, Illinois, USA. Work is largely focussed on new product development in the area of salt, the improvement of existing products by modifying the product characteristics and the search for new application options.

INNOVATION HUB

The INNOVATION HUB creates the best general conditions for pursuing the innovation goals in the context of optimising internal business processes, engaging in product development and establishing innovative business models. Innovation is firmly enshrined in the corporate culture as an important foundation and its orientation is further refined in accordance with customer needs. Collaborations with internal and external idea providers, entrepreneurs and start-ups are facilitated, allowing both early access to innovative ideas and accelerated implementation.

INNOLABS OF K+S KALI GMBH

The INNOLABS, which were set up in 2017, supplement the established research and development facilities. The 'AGTECH/NUTRITION' INNOLAB, for example, is working on overarching questions relating to the fields of safeguarding resources, water efficiency and soil health. The 'INDUSTRIAL SCIENCE' INNOLAB is looking for new business models in the areas of health care and biochemistry.

EXTERNAL RESEARCH PARTNERSHIPS

The INSTITUTE OF APPLIED PLANT NUTRITION (IAPN) is run as a PUBLIC/PRIVATE PARTNERSHIP by K+S together with the GEORG AUGUST UNIVERSITY OF GÖTTINGEN. The initial research years concentrated on fundamental research into the changes in the efficiency of water use where magnesium and potassium are lacking. In further research projects, physiological and genetic mechanisms are studied in

detail and the influence of magnesium on photosynthetic efficiency and capacity is examined.

www.iapn-goettingen.de

The INTERNATIONAL MAGNESIUM INSTITUTE (IMI) located in Fu Zhou in China, a cooperation between K+S KALI GMBH and the FUJIAN AGRICULTURE AND FORESTRY UNIVERSITY, is expanding our scientific knowledge for the use of the plant nutrient magnesium in agriculture in Asia.

K+S also cooperates with external companies and industrial partners, for example, with

- + K-UTEC AG SALT TECHNOLOGIES, on solutions for increasing the recovery of recyclable materials and the avoidance of saline wastewater
- + HAGER+ELSÄSSER GMBH, on the possibilities for using membrane filtration to separate salts.

SELECTED RESEARCH AND DEVELOPMENT PROJECTS AND RESULTS

- + For our Canadian location, Bethune, various process analysis technologies were developed and are currently in operation.
- + A review is ongoing into whether processing wastewater can be disposed of in suitable pit areas as a salt solution or with the addition of suitable binding agents.
- + For the coverage of tailings piles and to reduce tailings pile water, we are performing research in the laboratory, in greenhouses and directly on the tailings piles themselves.
- + The new KAINITE CRYSTALLISATION AND FLOTATION PLANT (KCF) was developed by K+S, and its large-scale commissioning has taken place. An automatic analysis system for process control was developed for this plant in the AFZ and has already been implemented.
- + Work on the further mechanical development of the ESTA (= electrostatic separation process) separation technology was performed.

© 'Non-financial Statement', Environment, page 48

PATENT PORTFOLIO

Worldwide, the K+S GROUP has 70 patent families (2016: 62), which are protected by 304 national rights (2016: 258). The patents are used, for example, in the areas of electrostatic separation processes, granulate production and flotation.

2.2 NON-FINANCIAL STATEMENT¹

The corporate strategy SHAPING 2030 aims to increase K+S's value contribution for employees, customers, shareholders and society. To succeed, K+S needs to reconcile its economic, environmental and social objectives. We are committed to our responsibility towards people, the environment, communities and the economies in the regions in which we operate.

All information and key figures presented in this section relate to the K+S GROUP, including K+S AKTIENGESELLSCHAFT. Aspects according to CSR-RUG, which apply only to K+S AKTIENGESELLSCHAFT, have not been identified. As K+S AKTIENGESELLSCHAFT essentially exercises a holding function within the K+S GROUP, the disclosure of separate non-financial information for K+S AKTIENGESELLSCHAFT is waived.

BUSINESS MODEL

K+S prides itself on being a customer-centric, independent provider of mineral products. Our products support farmers in ensuring the world has an adequate supply of food. And we offer solutions for industrial companies, enrich the daily lives of consumers and provide a safe environment in the winter. We serve the constantly growing demand for mineral products from production sites in Europe, North America and South America as well as through a global distribution network. Our value chain covers exploration, mining, production, logistics, sales and distribution/marketing and application.

🔗 'Company profile', page 29

SUSTAINABILITY MANAGEMENT

Sustainability is an integral part of our corporate strategy and is being continuously enhanced. Our sustainability management considers relevant internationally recognised guidelines. These include the principles of the

United Nations' GLOBAL COMPACT, the OECD GUIDELINES for multinational enterprises and the guidelines of the GLOBAL REPORTING INITIATIVE. This report was created in accordance with Version G4 of the GLOBAL REPORTING INITIATIVE (GRI), Core option.

🔗 www.k-plus-s.com/sustainability; 🔗 'GRI index', page 206

The Group-wide Sustainability Programme 2016–2018, which covers the action areas of Diversity & Anti-Discrimination, Health & Safety, Environment, Human Rights and Sustainable Supply Chains, was extended in 2017 to include the Compliance & Anti-Corruption action area. Within the scope of SHAPING 2030, target statements for these were defined and assigned to three areas: people, environment and business ethics. The target statements will be supplemented by measurable key performance indicators in 2018. In so doing, we intend to safeguard intra-Group management and make progress visible.

🔗 'Corporate governance and monitoring', page 55; 🔗 'Corporate Strategy', page 75; 🔗 'Risk and opportunity report', page 100

The Group-wide sustainability targets are in the areas:

PEOPLE

DIVERSITY & ANTI-DISCRIMINATION

- + Increasing diversity and assuring zero incidents related to discrimination to ensure equal opportunities and to drive business innovation through different perspectives

¹ The section 'Non-Financial Statement', which contains the disclosures pursuant to sections 289b–289e and sections 315b and 315c HGB, is not subject to auditing in accordance with section 317(2) sentence 4 HGB.

HEALTH & SAFETY

- + Providing a healthy and safe work environment to protect our employees who constitute our most valuable capital

HUMAN RIGHTS

- + Establishing the respect towards internationally recognized human rights at all sites to ensure this core value is applied globally

👁 Section on 'People', page 46

ENVIRONMENT

WATER

- + Ending deep well injection of saline wastewater from potash production in Germany by end of 2021, no application for continuation of injection
- + Reducing saline process water
- + Promoting research and development as well as innovation activities

WASTE (SOLID RESIDUES)

- + Reducing the environmental impact and conserving natural resources by re-examining the potential of residues stored on tailings piles

ENERGY & CLIMATE

- + Reducing the carbon footprint and improving energy efficiency to enhance competitiveness

👁 Section on 'Environment', page 48

BUSINESS ETHICS

COMPLIANCE & ANTI-CORRUPTION

- + Establishing a zero tolerance policy for corruption and bribery as well as anti-competitive practices to avoid the risks of liability, culpability, loss of reputation as well as financial disadvantages

SUSTAINABLE VALUE CHAINS

- + Demanding sustainable practices from our suppliers along the entire supply chain to align all business activities to our values

👁 Section on 'Business Ethics', page 53

The new team of executive directors will encourage dialogue. We therefore regularly engage with our stakeholders. In its quest to achieve 'environmental peace' at its German sites, K+S held successful talks in 2017 with the municipality of

Gerstungen in Thuringia and with BUND (Bund für Umwelt- und Naturschutz Deutschland e.V.) relating to the disposal of saline wastewater and, on the basis of settlement agreements, settled long-standing disputes. This form of dialogue will be continued in the future.

For the purposes of illustrating which topics are material for the K+S GROUP from an internal and external perspective, we presented topics in a materiality analysis in 2014 for the first time and updated this in 2016 following analyses and deliberations in different Group-wide committees. To record local needs more specifically and also get a more comprehensive picture for the K+S GROUP at global level, in 2017 internal and external stakeholders were directly invited to take part in an online survey on the relevance of aspects of sustainability from the reporting standard of the GLOBAL REPORTING INITIATIVE. The representative participation rate amounted to 56% of the 690 people surveyed. The result shows a clear focus in the aspect of the environment on the topics of 'wastewater', 'health and safety', 'compliance', 'energy', 'emissions' and 'use of water' and coincides with our sustainability goals.

To advance our existing business, seize new business opportunities and minimise risk, the specialist units are developing concepts and management systems and deriving measures and due diligence processes for the sustainability targets. Through our governance and monitoring processes, we monitor significant or serious non-financial effects on aspects such as environmental issues, treatment of employees and social matters, respect for human rights as well as anti-corruption and bribery matters.

PEOPLE

We combine aspects such as employee-related matters, our understanding of diversity and respect for human rights under the collective heading of 'people'. As of 31 December 2017, the K+S GROUP employed a total of 14,925 employees, including 991 FTEs at K+S AKTIENGESELLSCHAFT. Against the backdrop of the K+S Sustainability Programme 2016–2018 and with regard to our materiality analysis, we focus conceptually on the action areas Diversity & Anti-Discrimination, Health & Safety and Human Rights and derive appropriate measures.

📄 www.k-plus-s.com/people; 👁 'Sustainability management', page 45;

👁 'Employees', page 41

DIVERSITY & ANTI-DISCRIMINATION

A diversity and anti-discrimination concept will be firmed up in the future. In line with our understanding of diversity, we have set ourselves the Group-wide target of increasing diversity. Moreover, we have a clear target of zero incidents related to discrimination to ensure equal opportunities and to drive business innovation through different perspectives.

This has been laid down by us in our CORE VALUES AND PRINCIPLES (CODE OF CONDUCT). We have confirmed this approach by signing the GLOBAL COMPACT and the DIVERSITY CHARTER, a German initiative designed to encourage diversity in companies and institutions. In addition, K+S respects the freedom to join or not to join trade unions and the right to collective bargaining. Around 81 % of employees covered by a collective wage agreement in Group companies in Germany are members of trade unions. The relationship with the works councils as well as with INDUSTRIEGEWERKSCHAFT BERGBAU, CHEMIE, ENERGIE (IG BCE) is characterised by a long-standing partnership built on trust. In Chile, approximately half the employees and at MORTON SALT around two-thirds are organised in trade unions.

Traditionally, more men work in mining than women. As of 31 December 2017, 87 % of our workforce was male and 13 % female for the companies of the K+S GROUP (based on the number of employees), while at K+S AKTIENGESELLSCHAFT 35 % were female and 65 % male. The target figures for the percentage of women at managerial levels below the Board of Executive Directors of K+S AKTIENGESELLSCHAFT can be found in the section entitled 'Declaration on Corporate Governance' on page 63.

HEALTH & SAFETY

Health and safety are main drivers for our success. We are committed throughout the Group to providing a healthy and safe work environment to have all employees returned from work without accident or injury. This allows us to create a stable basis for efficiency, productivity and corporate success. We are focusing increasingly on introducing management systems in order to achieve these goals. This is coordinated by the recently established Management Systems center of competence.

🔗 'Environment', page 48; 🔗 'Employees', page 41

To integrate the concepts of health and safety throughout the Group, the global foKuS ('Focus on integrating HSE sys-

tems together') project, which was completed at the end of 2017, constitutes important preparatory work for our strategy in this regard. Minimum global standards, among other things, were defined as part of the project, and in particular employee awareness of health and safety was strengthened. A platform for best practice and international sharing was furthermore established in relation to topics such as health, safety and the environment. This platform will remain in place even after the project, and other working topics will be added.

HEALTH

Our workplace health promotion and prevention programmes supplement the management systems with measures to improve health competencies. Programmes and measures for health promotion are planned and implemented site-specifically. Health care and advice for employees of Group companies in Germany is provided by company doctors. We are committed to implementing operational integration management, which is mandatory in Germany, and encourage the incorporation of disabled employees into operations. At 6.6 % (2016: 7.1 %), the proportion of disabled employees of the K+S workforce in Germany is once again above the national average of just under 5 %. 4.7 % of severely disabled people were employed by K+S AKTIENGESELLSCHAFT in 2017.

An important aspect of health care is reliable compliance with occupational exposure limits. In case of the occupational exposure limits disclosed by the Federal Ministry of Labor and Social Affairs in Germany for nitrogen oxides and particulate diesel emissions underground, our broad-based implementation project for the German sites has been launched successfully. For example, the initiatives we got off the ground include projects on the use of the latest diesel engine technology, the development of alternative drive technologies, the development of low-emission explosive substances as well as the optimisation of ventilation underground.

🔗 'Report on Risks and Opportunities', page 100

SAFETY

Advanced systems and processes constitute factors for the success of safety. We record key indicators on safety throughout the Group. In 2017, 794 work accidents occurred at our locations worldwide (2016: 773), 16 of them at K+S AKTIENGESELLSCHAFT (2016: 15). The accident rate (workplace accidents divided by number of hours worked multiplied by one million) fell to 31.45 (2016: 31.9) and at K+S AKTIEN-

GESELLSCHAFT to 12.8 (2016: 12.9). While the number of lost working hours per million working hours for the K+S GROUP increased to 8.5 (2016: 8.1), this number fell to 0.8 at K+S AKTIENGESELLSCHAFT (2016: 3,4). Our safety programmes take account of location-specific challenges and local legislation. Comprehensive certification of all K+S KALI GMBH locations in accordance with the BG RCI 'Sicher mit System' ('Systematically Safe') quality seal is already successfully under way. The same applies to a uniform system for recording near-accidents for the German potash and salt locations. By stepping up training measures, another cornerstone was laid in raising awareness among management for the role of safety as an important factor for sustainable corporate governance. Finally, a project for using modern IT-based methods for training and instructing employees is about to come to a close.

HUMAN RIGHTS

Our Group-wide objective is to respect internationally recognised human rights at all of our sites. The international Human Rights Charter and INTERNATIONAL LABOUR ORGANISATION (ILO) core labour standards are firmly embedded in our CORE VALUES AND PRINCIPLES (CODE OF CONDUCT) and our Group-wide SUPPLIER CODE OF CONDUCT, among others.

🔗 'Corporate governance', page 55

As part of our due diligence in the area of human rights, we develop procedures for identifying, avoiding or mitigating the potentially negative impact of our corporate activities on human rights. We have already commenced this ongoing process-based task for ensuring a systematic approach. A pilot project for practical implementation is in preparation and is expected to be implemented in 2018.

📄 www.k-plus-s.com/compliance

ENVIRONMENT

In relation to the environment, our conceptual focus in the K+S Sustainability Programme 2016–2018 and on the basis of our materiality analysis is on water, in particular measures for water withdraw and wastewater, as well as waste (solid residues), energy and climate.

📄 www.k-plus-s.com/environment; 🔗 'Sustainability Management', page 45

We systematically record and evaluate risks and opportunities for our environmental interests in order to derive specific measures and objectives. Environmental management generally takes account of country-specific issues, but is coordinated on an issue-specific basis across locations and companies as well as the Group. Our environmental experts meet at regular intervals in committees, competence centres and working groups to exchange experiences and best practices and to develop standards. The Management Systems centre of competence was established in 2017 in order to develop standards in the area of management systems. The overall management systems strategy provides for the Group-wide introduction of environment, energy, safety and health management systems for production sites based on a phased plan. The management systems are in conformity with international ISO standards (e. g. ISO 14001 for environmental management and ISO 50001 for energy management).

Environmental performance indicators at plant and company level are collected and evaluated using an environmental data software package that has been implemented at all production sites. The environmental indicators reported are collected for all key consolidated production sites and are based on figures (92–100 %) that are collected directly by means of a measuring system.

CAPITAL EXPENDITURE AND OPERATING COSTS FOR ENVIRONMENTAL PROTECTION

In 2017, environment-related capital expenditure increased by € 33.2 million to € 125.9 million (2016: € 92.7 million). The significantly higher level on the whole is attributable to increased investment in water conservation. The main focus was on completion of the newly developed KAINITE CRYSTALLISATION AND FLOTATION (KCF) facility at the Hattorf site, which was advanced further in 2017. Other increases in capital expenditure on water conservation resulted in particular from additions to property, plant and equipment in the area of technology and energy supply in anticipation of the applied-for or planned extension of the tailings piles at the three potash sites in Germany, Hattorf, Wintershall and Zielitz.

Conversely, capital expenditure on the prevention of air pollution and climate protection as well as waste management decreased after larger projects had virtually been completed in 2016. These included the installation of new

CAPITAL EXPENDITURE ON ENVIRONMENTAL PROTECTION ¹

TAB: 2.2.1

in € million	2016	2017	absolute deviation	%
Water protection	80.3	118.8	38.5	47.9
Prevention of air pollution and climate protection	3.4	0.9	-2.5	-73.5
Waste management	5.3	2.7	-2.6	-49.1
Nature conservation ² and soil decontamination	3.5	3.4	-0.1	-2.9
Other	0.2	0.1	-0.1	-50.0
Total	92.7	125.9	33.2	35.8

¹ The reporting of environmental investments is based on the German Environmental Statistics Act (Umweltstatistikgesetz, UStatG), but also includes the items relating to our global operations.

² Including landscape conservation.

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION ¹

TAB: 2.2.2

in € million	2016	2017	absolute deviation	%
Water protection	117.1	145.7	28.6	24.4
Prevention of air pollution and climate protection	31.1	31.7	0.6	1.9
Waste management	9.1	14.3	5.2	57.1
Nature conservation ² and soil decontamination	2.0	2.0	0.0	—
Other	4.2	4.7	0.5	11.9
Total	163.5	198.4	34.9	21.3

¹ The reporting of environmental investments is based on the German Environmental Statistics Act (Umweltstatistikgesetz, UStatG), but also includes the items relating to our global operations.

² Including landscape conservation.

dedusting units at the Neuhof-Ellers potash site, environmentally friendly conversion of steam into gas at a North American salt site and projects implemented in the underground reutilisation of waste at the Werra plant and in the recycling of salt slag at the Sigmundshall potash mine.

/ TAB: 2.2.1

The operating costs for environmental protection in 2017 amounted to € 198.4 million, up a significant € 34.9 million compared with the prior-year figure (€ 163.5 million). This increase was due in particular to a sharp rise in transport costs for the additional measures implemented for remote disposal of saline wastewater by the Werra plant in Lower Saxony and Saxony-Anhalt. As a result, production was considerably more stable than in 2016. Other significant cost increases were attributable to higher expenses for post-closure obligations in connection with the potash tailings piles in Germany and operation of the tailings pile at the Hattorf site.

The higher costs incurred for waste management stem primarily from the covering and sealing of mining waste in the inoperative tailings piles at the Hattorf site. In connection with the start of production in 2017, waste costs at the site in Bethune, Canada, were also higher than in the previous year. The slight cost increase recorded with regard to the prevention of air pollution and climate protection can be attributed to the higher production-related demand for conditioning materials for avoiding dust build-up in the transshipment and spreading of the finished products.

Operating costs primarily include additional environmental protection measures. These measures relate in particular to water protection, prevention of air pollution and climate protection, waste management, nature conservation and soil decontamination, and refer to facilities separate from other production processes. Operating costs and depreciation and amortisation on production facilities for water protection,

which are integrated into production processes at the Werra plant, are not included. Overall, both the costs of the additional environmental protection measures and the integrated costs not reported here are production cost components and thus increase the specific costs per tonne of product produced. / TAB: 2.2.2

WATER

A Group-wide water risk analysis was carried out for all relevant production sites in 2017 in order to identify water risks that could impact on our business activity. The results provide the concept for environmental management at the locations.

We have set ourselves the following specific targets:

- + Ending deep well injection of saline wastewater from potash production in Germany by end of 2021, no application for continuation of injection
- + Reducing saline wastewater and
- + Promoting research and development as well as innovation activities

We have broken down the water categories further in order to improve our indicator system.

WATER WITHDRAWAL

We use water of varying origins, including seawater and other saline water, river water, groundwater and drinking water, and differentiate in this context between different salinity levels. / TAB: 2.2.3

Seawater and water from other saline waters is used in the production of solar salt. Locations close to the ocean also use seawater for cooling purposes. We extracted a total of 397.9 million m³ of water in 2017.

WASTEWATER

Wastewater accumulates during the production process and also in the areas of tailings piles. This water has a high salinity level. The volume and chemical composition of process wastewater and tailings pile runoff is dependent on many factors such as raw salt quality, the treatment method used, the products manufactured and the product quality required. We use figures for total dissolved solids (TDS) to establish the quality of the accumulated wastewater. In 2017, saline wastewater accumulated in potash production amounted to 6.2 million m³ (2016¹: 5.5 million m³) and in salt

WATER EXTRACTION

TAB: 2.2.3

	2016 ¹	2017
millions of m ³		
Seawater and other saline water	264.6	256.1
River water	118.6	132.5
Groundwater	7.6	8.2
Drinking water and water from municipal water utilities	1.1	1.1
Total volume of water extracted	391.9	397.9

¹ The previous year's figures have been adjusted based on improved measuring methods and subsequent data received.

WASTEWATER

TAB: 2.2.4

	2016	2017
millions of m ³		
Wastewater		
Wastewater discharged into municipal sewage treatment plants	0.6	0.6
Process water in river water	106.0	110.6
Salt water¹		
Injection	0.9	3.9
Saline wastewater discharged into seawater and other saline waters	51.6	52.1
Saline wastewater discharged into surface water ²	12.1	13.6
– Saline wastewater in potash production ³	5.5	6.2
– Saline wastewater in salt production	6.6	7.4

¹ Total dissolved solids (TDS) > 1 g/l

² The previous year's figures have been adjusted based on improved measuring methods and subsequent data received so they can be compared.

³ Total dissolved solids (TDS) > 250 g/l

production to 7.4 million m³ (2016¹: 6.6 million m³). A total of 3.9 million m³ (2016: 0.9 million m³) was injected deep underground. / TAB: 2.2.4

Higher volumes of wastewater and injection are attributable to increased production at K+S KALI GMBH as well as to the start of production at the plant in Bethune, Canada.

¹ The previous year's figures have been adjusted based on improved measuring methods and subsequent data received so they can be compared.

Water protection measures

In Germany, K+S is working hard on implementing additional measures aimed at reducing saline pollution in the Werra and Weser, in order to safeguard potash production in Germany. As set out in the management plan and the Salt programme of measures of the Flussgebietsgemeinschaft (FGG Weser), these measures will focus, for example, on stacking brine underground as well as on preparations for covering tailings piles in order to reduce the amount of saline tailings pile runoff dramatically over the medium to long term.

The commissioning of the KAINITE CRYSTALLISATION AND FLOTATION (KCF) plant at the Hattorf site of the Werra plant in January 2018 will lead to a further reduction in saline wastewater by around 20%. The remaining amount of saline wastewater can continue to be disposed of through discharge into the Werra together with injection into deep rock layers.

If the two means of disposal are insufficient due to prolonged low water levels in the Werra river, some of the accumulated wastewater can be transported by truck and/or rail for disposal in suitable vacant mines and gas caverns or used for mine stabilisation work.

Production at the Werra plant was secured for most of 2017 compared with 2016. Only the unusually low water levels of the Werra river at the start of 2017 and the resulting reduction in its use for discharge led to a 25-day interruption in production at the Hattorf site.

🔗 'Risk and opportunity report', page 100

WASTE (SOLID RESIDUES)

Most of our solid waste can be categorised as mining waste, which occurs during the extraction and processing of crude potash salts. Our Group-wide target is to reduce the impact on the environment and preserve natural resources by renewed examination of the potential of residues previously stored on tailings piles.

Measures for managing tailings piles

In 2017, K+S KALI GMBH piled up 27.5 million tonnes of solid residues in Germany (2016: 23.7 million tonnes). Disposal on tailings piles depends on the conditions at the individual locations and aims to minimise the impact on the environment. Comprehensive monitoring programmes measure and monitor the potential impact of tailings piles. The resulting

data generated is available to the licensing authorities at all times. Regular inspections are also carried out to monitor tailings pile operation. The authorities are given detailed information about the planning and implementation of measures. The extension of existing tailings piles is necessary in order to secure potash production in the long term.

- + Our objective for the Hattorf site is to have completed the official licensing procedure for the expansion of the Hattorf tailings pile by the end of the third quarter of 2018.
- + The application documents for extending the tailings piles at the Zielitz site were submitted to the relevant authorities in October 2017.
- + The application documents for extending the tailings piles at the Wintershall site are expected to be submitted in April 2018. In the run-up to the approval process, the general public was provided with comprehensive information about the project through a variety of information events and communication channels including flyers and online information.

Comprehensive compensatory and replacement measures are provided for in connection with the tailings pile expansions. The compensatory measures include long-term projects that aim to create new biotopes for fauna and flora or upgrade existing ones. Reforestation will also be carried out where possible in areas deemed to be of poor quality from a nature conservation perspective to conserve usable agricultural areas. Furthermore, comprehensive species conservation measures will be carried out and new habitats created in neighbouring areas.

Medium-sized inoperative tailings piles have been successfully covered as part of our strategy for legacy tailings piles in an effort to avoid and minimise the long-term impact on nature and the environment.

🔗 'Risk and opportunity report', page 100

ENERGY/CLIMATE

Our Group-wide target is to reduce our carbon footprint and improve energy efficiency to enhance competitiveness. Effective energy management will reduce the energy-related impact on the environment, such as greenhouse gas emissions.

ENERGY EFFICIENCY

Due to the increase in production at K+S KALI GMBH in Germany and the start of production at the plant in Bethune,

Canada, total energy consumption rose to 10,836.5 GWh in 2017 (2016: 9,030.8 GWh). / TAB: 2.2.5

A Group-wide concept for energy management is being developed. The K+S ENERGY EFFICIENCY NETWORK (KEEN) was established in 2017. K+S thus voluntarily contributes to the tensions of the German Federal Government and German industry to establish 500 energy efficiency networks by 2020. Through its sense of individual responsibility to increase energy efficiency, K+S is helping to achieve national climate and energy targets at the same time. German K+S plants and external companies are members of KEEN.

In 2017, we operated a DIN EN ISO 50001 certified energy management system in all German companies with production locations. We regularly conduct energy audits in accordance with DIN EN 16247 in all other German companies. The energy management system contributes to more efficient use of all utilised sources of energy and to continuous optimisation of K+S energy costs.

The energy sources used differ according to the location of the mines and production facilities. Approximately 85% of the energy and steam required for operating our power stations, drying facilities and evaporated salt plants in Germany is generated using natural gas. Six of our seven German potash plants have their own power stations, which operate solely in accordance with the cogeneration system (CHP). Their efficiency level is 90%. Investigations into the use of further cogeneration units to increase energy efficiency and save CO₂ continued at the K+S AKTIENGESELLSCHAFT, ESCO and K+S KALI GMBH sites and the plans were substantiated at one location.

MORTON SALT is committed to reducing energy consumption by 20% by 2020 based on 2013 data. Consequently, two coal-powered operating sites in the U.S. were converted to gas as a reduced-emissions energy source in recent years. This conversion has led to a reduction in coal consumption across the Group. In addition, MORTON SALT is examining the possibility of using renewable energy sources – sun and/or wind – at three production sites in North America and one in the Bahamas.

Due to our new plant in Bethune in Canada and the continuing expansion of our underground raw material min-

ENERGY USE TO ENERGY SOURCES

TAB: 2.2.5

		2016	2017
Direct energy sources (Scope 1)	GWh	6,887.5	8,716.9
	CO ₂ e	1.5	1.8
Natural gas	GWh	5,962.2	8,063.6
Coal	GWh	558.2	281.3
Diesel	GWh	342.6	343.8
Heating oil	GWh	14.3	13.8
Liquefied Petroleum Gas (LPG)	GWh	7.8	9.2
Petrol	GWh	2.4	5.2
Indirect energy sources (Scope 2)	GWh	2,143.3	2,119.6
	CO ₂ e	0.2	0.2
Externally sourced electricity	GWh	501.4	591.6
Externally sourced steam	GWh	1,638.9	1,525.3
Externally sourced heat	GWh	3.0	2.7
Total energy consumption	GWh	9,030.8	10,836.5
	CO ₂ e	1.7	2.1
Sold electricity	GWh	25.5	37.3

ing areas, we anticipate increasing specific demand for primary energy. Under otherwise identical conditions, this will require a continually increasing use both of natural gas to produce the energy necessary to ventilate the mines and operate the conveyors underground and of diesel to transport personnel. Furthermore, the average valuable material content of German deposits is tending to decline, which in turn increases specific energy consumption.

CLIMATE (EMISSIONS)

THE UNITED NATIONS INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC) summarises the state of worldwide climate research by declaring that the global average temperature on the Earth's surface has increased since the start of industrialisation. The IPCC attributes this development to the increasing emission of greenhouse gases by human activities. Climate change will continue and will be associated with more frequent extreme weather events.

On a political level, the consequences and adjustment mechanisms are being discussed in different regional, national and global contexts. In order to limit global warming to 1.5°C compared with pre-industrial levels as far as possible, 195 participating countries reached a global climate agree-


ment by signing the Paris Climate Accord. The aims defined in the Paris Climate Accord are set to be implemented in the Federal Republic of Germany on the basis of the 2050 Climate Protection Plan.

In 2005, the EUROPEAN EMISSIONS TRADING SYSTEM (EU ETS) for regulating greenhouse gas emissions in energy-intensive industries entered into force. Emissions will be reduced in those places where the reduction is the most efficient. By capping emissions allowances in the marketplace, carbon dioxide emissions can be reduced. This system is currently in the third trading period and has been revised several times. At present, EU policy-makers are working on an amendment for the period after 2020. We currently operate 13 power stations and drying facilities in Germany that are subject to emissions trading. Their emissions are recorded in accordance with applicable EU monitoring guidelines and verified by external audit organisations.

We fully report Scope 1 and Scope 2 greenhouse gases expressed as CO₂ equivalents (CO₂e), which are composed of CO₂ and other greenhouse gases converted into CO₂ equivalents. In 2017, CO₂e emissions from the consumption of all direct and indirect fuels (Scope 1 and 2) amounted to 2.1 million tonnes and, based on the calculation method using emission factors from the GREENHOUSE GAS PROTOCOL, were therefore higher than in the previous year (1.7 million tonnes) in line with energy consumption. / TAB: 2.2.6

BUSINESS ETHICS

In relation to business ethics, we focus on aspects such as anti-corruption and bribery with the Compliance & Anti-Corruption action area and on social matters with the Sustainable Supply Chains action area. Against the backdrop of the K+S Sustainability Programme 2016–2018 and based on our materiality analysis, concepts are developed and measures initiated for the action areas.

www.k-plus-s.com/businessethics;  'Sustainability Management', page 45

COMPLIANCE & ANTI-CORRUPTION

We have imposed a zero tolerance policy for corruption and bribery as a Group-wide target so as to avoid the risks of liability, culpability, loss of reputation as well as financial disadvantages. In addition to our CORE VALUES AND PRIN-

CIPLES (CODE OF CONDUCT) as well as our commitment to the UN GLOBAL COMPACT, the Group-wide internal regulations form the basis for our compliance management system. Our compliance management system is described in detail on page 65.

 'Compliance management', page 65

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

We are involved in the international EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE, which aims to combat corruption. K+S is a member of the so-called multi-stakeholder group of D-EITI and is committed to the management and implementation in Germany. Through its voluntary participation, K+S, like other participating companies, ensures the transparency of its tax expenditure and thus documents the responsible handling of financial flows. The D-EITI implementation process on which this report is based sets a clear signal in this context that extends far beyond the domestic raw material sector. The process also shows that the companies meet the high standards of accountability. This brings an important measure of objectivity to the debate surrounding the issue of raw material extraction in Germany.

 www.d-eiti.de/en;

 www.rohstofftransparenz.de/en/rohstoffgewinnung

DONATIONS, SPONSORING, COMMUNITY ACTIVITIES

In order to increase the attractiveness of the regions in which we are located, we support selected projects in the areas of education, social affairs and culture. The terms and conditions for donations and sponsorship are governed by an internal guideline. K+S does not make any contributions to political parties, including their related organisations or persons. Donations totalling nearly € 2.4 million were made to benefit scientific and charitable causes in 2017. In addition to donations, we also contribute material goods and support our employees in getting involved in charity work.

SUSTAINABLE SUPPLY CHAINS

As part of our K+S Sustainability Programme 2016–2018, we are working on the field of action sustainable supply chains. Our Group-wide goal is to demand a sustainable approach from our suppliers along the entire supply chain in order to align all business activities with our values.

 'Company profile', page 29

To firm up our concept, our focus in 2017 was on a comprehensive review of supplier management including a risk assessment. A SUPPLIER CODE OF CONDUCT has been developed, processes have been set up and implementation will begin in 2018. It covers human rights, employee rights, health and safety, environmental aspects and corporate citizenship.

In our activities, the entire procurement process is assessed, from the initial request through to delivery and performance to settlement. The evaluation of suppliers is then also incorporated in the total cost of ownership calculation. This evaluation is supplemented by self-disclosure, which new suppliers are required to submit. Should it become evident that a supplier does not meet our criteria, the Company's internal members of the supply chain will be informed immediately. A total of 99% of our contractual partners are based in OECD countries.

2.3 DECLARATION ON CORPORATE GOVERNANCE¹

In accordance with Sections 289f and 315d of the HGB, the Board of Executive Directors issues the following declaration on corporate governance; a report by the Board of Executive Directors and the Supervisory Board is also provided with this statement in accordance with Item 3.10 of the German Corporate Governance Code.

Our goal is responsible management and monitoring of the Company that is geared towards sustainable value creation. This principle forms the basis of our internal decision-making and control processes.

GOVERNING BODIES

The governing bodies of the Company are the Annual General Meeting, the Supervisory Board and the Board of Executive Directors. The powers vested in these bodies and their duties and responsibilities are governed by the Aktiengesetz (AktG – German Stock Corporation Act), the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act), the Articles of Association and the bylaws of the Board of Executive Directors and the Supervisory Board.

ANNUAL GENERAL MEETING

The shareholders assert their rights at the Annual General Meeting and decide on fundamental matters affecting the Company by exercising their voting rights. Each share carries one vote (one share, one vote principle). All documents that are important in terms of decision-making are also made available to shareholders on our website. The Annual General Meeting is also streamed live online until the end of the speech by the Chairman of the Board of Executive Directors. Shareholders may exercise their voting rights through a proxy whom they have appointed and issued voting instructions, or may cast a postal vote. Voting is also possible via an electronic system on our website. Shortly after the end of the

Annual General Meeting, we also publish details of attendance and the results of the voting online.

www.k-plus-s.com/agm

SUPERVISORY BOARD

In accordance with Article 8(1) sentence 1 of the Articles of Association, the composition of the Supervisory Board is governed by mandatory statutory regulations. It currently has 16 members and is subject to codetermination in accordance with the German Co-Determination Act. This therefore means that half of the Supervisory Board members are elected as representatives of the shareholders by the Annual General Meeting and half as employee representatives by the employees of the K+S GROUP in Germany. An election is held around every five years.

www.k-plus-s.com/corporategovernance

The Supervisory Board oversees and advises the Board of Executive Directors in connection with the conduct of business activities. It is promptly and appropriately involved in any decisions of fundamental importance. The Board of Executive Directors informs the Supervisory Board regularly, promptly and comprehensively about corporate strategy, planning, the course of business, earnings, the financial and asset position, the employment situation and about specific corporate opportunities and risks. The Supervisory Board regularly receives written reports from the Board of Executive Directors in order to prepare for meetings. After thorough review and discussion, the Supervisory Board adopts resolutions on proposals made by the Board of Executive Directors and on other matters where required. In the case of particular business transactions that are of great importance to the Company, the Supervisory Board is also provided with immediate and comprehensive information by the Board of Executive Directors between routine meetings.

¹ In accordance with Section 317(2) sentence 6 of the Handelsgesetzbuch (HGB – German Commercial Code), the information contained in the sections 'Governing Bodies', 'Corporate Governance/Declaration of Conformity' and 'Compliance Management' pursuant to Section 289f and 315d of the HGB is not within the scope of the audit.

The Supervisory Board regularly carries out an efficiency review in the form of a questionnaire in order to obtain pointers for the future work of the Supervisory Board and its committees.

🔗 'Supervisory Board Report', page 15

The Supervisory Board has adopted bylaws and formed five committees from among its members:

- + The Mediation Committee performs the tasks set out in Section 31(3) sentence 1 of the MitbestG. The Chairman of the Supervisory Board is also the chairman of this committee. Two members of this committee are representatives of the shareholders and two represent the employees.
- + The Strategy Committee is responsible for advising the Board of Executive Directors on the strategic direction of the Company including strategic reviews and reporting thereof to the Supervisory Board. In addition, the Strategy Committee prepares resolutions of the Supervisory Board that require approval concerning acquisitions, divestments, investments, organisational changes or restructuring. Further, it advises the Board of Executive Directors on corporate strategy matters and on projects of a strategic nature. The Strategy Committee consists of three members: the Chairman of the Supervisory Board serving as Chairman of the Committee, one shareholder representative and one employee representative.
- + The Audit Committee performs the tasks set out in the AktG and the German Corporate Governance Code. In particular, it is involved in monitoring the accounting process, the effectiveness of the internal control system, the risk and opportunity management system, the internal audit system and compliance, the issuing of mandates to the company auditors as well as the audit of the financial statements. It also discusses the half-yearly financial report and quarterly reports with the Board of Executive Directors prior to publication. The Chairman of the Audit Committee, Dr Sünner (independent financial expert), has comprehensive knowledge and experience with regard to the application of accounting principles and internal control procedures. He has garnered this knowledge from his experience as former head of the Central Legal Affairs, Tax and Insurance Department and as former Chief Compliance Officer of BASF SE. The Audit Committee has six members and includes an equal number of shareholder and employee representatives.
- + The Personnel Committee is responsible for preparing the appointment of members of the Board of Executive Directors, including long-term succession planning. The committee submits proposals for resolutions to the plenary meeting of the Supervisory Board concerning the determi-

nation of total remuneration for the individual members of the Board of Executive Directors and on resolving contractual matters. The Chairman of the Supervisory Board is also the chairman of this committee. The Personnel Committee has four members and includes an equal number of shareholder and employee representatives.

- + The Nomination Committee nominates suitable Supervisory Board candidates to the Supervisory Board for proposal to the Annual General Meeting. The Chairman of the Supervisory Board is also the chairman of this committee. The committee has four members, all of whom represent the shareholders.

🔗 www.k-plus-s.com/corporategovernance

In accordance with the new German Act on Equal Participation of Women and Men in Leadership Positions, the minimum percentage of women and men on the Supervisory Board is each 30 %. Two female shareholder representatives and one female employee representative currently have a seat on the Supervisory Board. The next Supervisory Board election for the shareholder representative and for the employee representative to fall under this new statutory regulation will take place in 2018.

COMPETENCE PROFILE AND DIVERSITY

The target of filling the Supervisory Board is to ensure a competence profile and a member diversity in the Supervisory Board that is necessary for the proper performance of the Supervisory Board tasks.

The Company complies with the recommendation under Item 5.4.1 of the German Corporate Governance Code for the Supervisory Board to set concrete targets for its composition. It should be noted in this regard that the Supervisory Board does not itself decide on its own composition and can therefore only work to achieve the targets it pursues by suggesting appropriate candidates for proposal to the Annual General Meeting. As a corporate body, it is not entitled to influence proposals for the nomination of employee representatives.

In 2017, the Nomination Committee conducted a competence analysis of the Supervisory Board under the professional guidance of a remuneration expert. As part of this analysis, all shareholder representatives were consulted about the target and actual profile. In its November meeting, the Supervisory Board discussed in detail the competence profile of the shareholder representatives and is convinced that the performance of the body as a whole depends essentially on diversity in the mix of experts, qualifications, integrity and independence.

The culture should be characterized by professionalism and appreciation. Against this background, the requirements profile includes in particular the following aspects:

- + Members should have sectoral skills, such as industry knowledge, product segments, production and relevant technologies.
- + Knowledge of international and κ+s relevant markets should be available.
- + The experience in the strategic management of a company is an essential requirement.
- + A reasonable number of members should have financial literacy, in particular accounting and auditing.
- + The Supervisory Board must include at least one independent financial expert.
- + The knowledge in the areas of law, compliance, HR including codetermination as well as restructuring and crisis management should be available in the appropriate extent.

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

To round off its profile, the Supervisory Board has selected three candidates to be proposed for election to the 2018 Annual General Meeting. These three profiles complement the Supervisory Board in the areas of technology, sector competence in agriculture, knowledge of international markets relevant for κ+s, as well as HR, restructuring and change management.

The Supervisory Board believes that the aforementioned objectives are fulfilled.

MEMBERS OF THE SUPERVISORY BOARD IN THE 2017 FINANCIAL YEAR

(Information on other supervisory board appointments and supervisory bodies as of 31 December 2017)

Dr rer. nat. Andreas Kreimeyer (born 1955), degree in biology, chairman of the supervisory board
Shareholder representative

Retired (former member of the Board of Executive Directors and Research Spokesperson at BASF SE, Ludwigshafen)

In office until the end of the 2020 Annual General Meeting
First appointed: 12 May 2015

Other supervisory board appointments:

- + Karlsruher Institut für Technologie (KIT), Karlsruhe (Vice Chairman of the Supervisory Board)

Other supervisory bodies:

- + C.H. BOEHRINGER SOHN AG & CO. KG, Ingelheim
(Member of the Advisory Council)

Michael Vassiliadis (born 1964), chemical laboratory technician, vice chairman
Employee representative

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

In office until the end of the 2018 Annual General Meeting
First appointed: 7 May 2003

Other supervisory board appointments:

- + BASF SE, Ludwigshafen
- + STEAG GMBH, Essen
- + RAG AKTIENGESELLSCHAFT (Vice Chairman)
- + RAG DSK AG (Vice Chairman)
- + RAG STIFTUNG, Essen

Ralf Becker (born 1965), trade union secretary
Employee representative

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

In office until the end of the 2018 Annual General Meeting
First appointed: 1 August 2009

Other supervisory board appointments:

- + CONTINENTAL REIFEN DEUTSCHLAND GMBH, Hanover
(Vice Chairman)
- + DEUTSCHE SHELL HOLDING GMBH, Hamburg
- + DEUTSCHE SHELL GMBH, Hamburg
- + SHELL DEUTSCHLAND OIL GMBH, Hamburg

Jella S. Benner-Heinacher (born 1960), lawyer
Shareholder representative

Deputy General Manager of the DEUTSCHE SCHUTZ-VEREINIGUNG FÜR WERTPAPIERBESITZ E.V., Düsseldorf

In office until the end of the 2018 Annual General Meeting
First appointed: 7 May 2003

Other supervisory board appointments:

+ A.S. CRÉATION TAPETEN AG, Gummersbach

**Philip Freiherr von dem Bussche (born 1950), degree in
business administration**

Shareholder representative

Entrepreneur/Farmer

In office until the end of the 2020 Annual General Meeting
First appointed: 12 May 2015

Other supervisory bodies:

+ BERNARD KRONE HOLDING SE & CO. KG, Spelle (Chairman
of the Supervisory Board)

+ DF WORLD OF SPICES GMBH, Dissen (Member of the
Advisory Board)

+ GRIMME GMBH & CO. KG, Damme (Chairman of the
Advisory Board)

+ PFEIFER UND LANGEN IHKG, Cologne (Member of the
Shareholders' Committee)

+ DLG E.V. Frankfurt am Main (Chairman of the
Supervisory Board)

George Cardona (born 1951), economist

Shareholder representative

Economist

In office until the end of the 2020 Annual General Meeting
First appointed: 9 October 2009

Other supervisory bodies:

+ Board of WISHBONE GOLD PLC., Gibraltar
(until 3 October 2017)

**Wesley Clark (born 1952), master of business
administration**

Shareholder representative

Operating Partner of ADVENT INTERNATIONAL PRIVATE
EQUITY GROUP, Boston, Massachusetts, USA

In office until the end of the 2018 Annual General Meeting
First appointed: 14 May 2013

Other supervisory bodies:

+ Board of Directors of PATRIOT SUPPLY HOLDINGS, INC.,
Fort Worth, Texas, USA (Non-Executive Chairman)

+ Board of Directors of ABC SUPPLY CORPORATION, Beloit,
Wisconsin, USA

+ Board of Directors of CLARCOR INC., Franklin, Tennessee,
USA (until 28 February 2017)

+ Board of Directors of DISTRIBUTION INTERNATIONAL,
INC., Fort Worth, Texas, USA (Non-Executive Chairman)

Harald Döll (born 1964), power plant electronics technician
Employee representative

Chairman of the General Works Council of the K+S GROUP

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

In office until the end of the 2018 Annual General Meeting
First appointed: 1 August 2009

Axel Hartmann (born 1958), training in retail sales

Employee representative

Vice Chairman of the General Works Council of the K+S
GROUP

Chairman of the Works Council of the Neuhof-Ellers plant
of K+S KALI GMBH

In office until the end of the 2018 Annual General Meeting
First appointed: 14 May 2013

Michael Knackmuß (born 1975), car mechanic

Employee representative

Chairman of the Works Council of Zielitz plant of K+S KALI
GMBH

In office until the end of the 2018 Annual General Meeting
First appointed: 11 July 2014

**Thomas Kölbl (born 1962), degree in business
administration**

Shareholder representative

Chief Financial Officer of SÜDZUCKER AG, Mannheim

In office until the end of the 2022 Annual General Meeting
First appointed: 10 May 2017

Other supervisory board appointments:

Group companies of SÜDZUCKER GROUP

+ CROPENERGIES AG, Mannheim (Vice Chairman)

Other companies

+ EUWAX AKTIENGESELLSCHAFT, Stuttgart (until 5 December 2017)

Other supervisory bodies:

Group companies of Südzucker Group

+ AGRANA STÄRKE GMBH, Vienna/Austria (Member of the Supervisory Board)

+ AGRANA ZUCKER GMBH, Vienna/Austria (Member of the Supervisory Board)

+ ED&F MAN HOLDINGS LIMITED, London/United Kingdom (Member of the Board of Directors (non-executive))

+ FREIBERGER HOLDING GMBH, Berlin (Member of the Supervisory Board)

+ PORTIONPACK EUROPE HOLDING B.V., Oud-Beijerland/Netherlands (Chairman of the Supervisory Board)

+ RAFFINERIE TIRLEMONTOISE S.A., Brussels/Belgium (Member of the Conseil d'Administration)

+ SAINT LOUIS SUCRE S.A.S., Paris/France (Member of the Comité de Supervision)

+ SÜDZUCKER POLSKA S.A., Wroclaw/Poland (Member of the Supervisory Board)

+ SÜDZUCKER VERSICHERUNGS-VERMITTLUNGS-GMBH, Mannheim (Chairman of the Advisory Board)

Gerd Kübler (born 1967), degree in engineering

Employee representative

Head of Mining, K+S AKTIENGESELLSCHAFT, Kassel

In office until the end of the 2018 Annual General Meeting
First appointed: 1 January 2016

Dieter Kuhn (born 1958), mining mechanic

Employee representative

First Vice-Chairman of the General Works Council of the K+S GROUP

Chairman of the Works Council of the Bernburg plant of ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG

In office until the end of the 2018 Annual General Meeting
First appointed: 7 May 2003

Dr Annette Messemer (born 1964), political scientist

Shareholder representative

Divisional director of COMMERZBANK AG

Other supervisory bodies:

+ Board of Directors of ESSILOR INTERNATIONAL S.A., Charenton-le-Pont, France

In office until the end of the 2018 Annual General Meeting
First appointed: 14 May 2013

Anke Roehr (born 1964), industrial clerk

Employee representative

Chairman of the Works Council of ESCO – EUROPEAN SALT COMPANY GMBH & CO., Hanover

Employee in sales and distribution of ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG, Hanover

In office until the end of the 2018 Annual General Meeting
First appointed: 1 April 2016

Dr Eckart Sünner (born 1944), lawyer

Shareholder representative

Independent solicitor at Neustadt an der Weinstraße

In office until the end of the 2018 Annual General Meeting
First appointed: 28 April 1992

Other supervisory board appointments:

+ INFINEON TECHNOLOGIES AG, Neubiberg

□ www.k-plus-s.com/supervisoryboard

MEMBERS WHO RETIRED IN 2017:

Dr Ralf Bethke (born 1942), degree in business

administration, former chairman of the supervisory board

Shareholder representative

Entrepreneur (as member of the supervisory boards mentioned below)

Appointment ended at the end of the 2017 Annual General Meeting

Chairman of the Supervisory Board since 14 May 2008

First appointed: 1 July 2007

Other supervisory board appointments:

- + DJE KAPITAL AG, Pullach (Chairman)

Other supervisory bodies:

- + BENTELER INTERNATIONAL AG, Salzburg (Chairman of the Supervisory Board)
-

SUPERVISORY BOARD COMMITTEES

MEDIATION COMMITTEE

- + Dr Andreas Kreimeyer (Chairman) (since 10 May 2017)
- + Dr Ralf Bethke (Chairman) (until 10 May 2017)
- + Harald Döll
- + Dr Eckart Sünner
- + Michael Vassiliadis

STRATEGY COMMITTEE (SINCE 10 MAY 2017)

- + Dr Andreas Kreimeyer (Chairman)
- + Philip Freiherr von dem Bussche
- + Michael Vassiliadis

AUDIT COMMITTEE

- + Dr Eckart Sünner (Chairman)
- + Ralf Becker
- + Dr Ralf Bethke (until 10 May 2017)
- + Axel Hartmann
- + Thomas Kölbl (since 10 May 2017)
- + Dr Annette Messemer
- + Michael Vassiliadis

PERSONNEL COMMITTEE

- + Dr Andreas Kreimeyer (Chairman) (since 10 May 2017)
- + Dr Ralf Bethke (Chairman) (until 10 May 2017)
- + Jella S. Benner-Heinacher
- + Harald Döll
- + Michael Vassiliadis

NOMINATION COMMITTEE

- + Dr Andreas Kreimeyer (Chairman since 10 May 2017)
- + Dr Ralf Bethke (Chairman) (until 10 May 2017)
- + Jella S. Benner-Heinacher (since 10 May 2017)
- + Philip Freiherr von dem Bussche
- + George Cardona

THE BOARD OF EXECUTIVE DIRECTORS

The Board of Executive Directors manages the Company under its own responsibility in accordance with the law, the Articles of Association and its bylaws, taking into account

the resolutions adopted by the Annual General Meeting. The Board of Executive Directors represents the Company in its dealings with third parties.

The bylaws of the Board of Executive Directors govern the cooperation between its members and the allocation of business responsibilities as well as mutual representation. Matters that concern other areas of responsibility or deviate from usual day-to-day business have to be agreed with the other members of the Board of Executive Directors. Where possible, such matters should be discussed at the regular meetings of the Board of Executive Directors that are held at two or three weekly intervals and measures decided there, where necessary; a resolution must always be brought about on important business matters and measures.

www.k-plus-s.com/corporategovernance

COMPOSITION OF THE BOARD OF EXECUTIVE DIRECTORS, REQUIREMENTS PROFILE AND DIVERSITY

In accordance with Article 5(1) of the Articles of Association, the Board of Executive Directors has at least two members. The exact number of members is determined by the Supervisory Board. Since the appointment of Dr Lose to the Board of Executive Directors as of 1 January 2017 until his departure on 28 November 2017, the Board of Executive Directors had five male members. From 29 November until 31 December, the Board of Executive Directors was made up of four male members.

At its meeting on 28 November 2017, the Supervisory Board resolved to advance the implementation of the new Group strategy in the future with a reduced, restructured Board of Executive Directors, which will be supported by an extended management team. The reduced management team will be composed of Dr Burkhard Lohr, the Company's Chief Executive Officer, along with Chief Financial Officer Thorsten Boeckers and Mark Roberts, who holds the new position of Chief Operating Officer.

Eligibility criteria for the appointment of Executive Board members are the professional suitability for the management of the respective division, proven achievements on the previous career path as well as a pronounced leadership competence. In addition, the Supervisory Board is of the opinion that diversity is also important for the Board of Executive Directors. Thus, the Board should consist of people who complement each other in terms of professional and life experience and are of different ages. In addition, at least one board member should have strong international experience.

With regard to the German Act on Equal Participation of Women and Men in Leadership Positions, the defined target quota of 0% defined by the Supervisory Board of K+S AKTIENGESELLSCHAFT until 31 December 2020 has been met during the reporting period.

MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

(Information on responsibilities and appointments as of 31 December 2017, unless otherwise stated)

Dr Burkhard Lohr (born 1963), degree in business administration, chairman (since 12 May 2017)

- + Corporate Board Office
- + Corporate Communications
- + Corporate Development
- + Corporate HR
- + Environmental & Regulatory Affairs
- + Internal Auditing
- + Investor Relations
- + Legal, GRC, Corporate Secretary

In office until 31 May 2020
First appointed: 1 June 2012

Supervisory board appointment:
+ K+S KALI GMBH (Chairman), Kassel¹

Thorsten Boeckers (born 1975), banker, chief financial officer

- + Corporate Controlling
- + Corporate Finance and Accounting
- + Corporate Procurement
- + Corporate Tax
- + all direct shareholdings of the Company to the extent that they are not assigned to another area of responsibility

In office until 11 May 2020
First appointed: 12 May 2017

Supervisory Board appointment:
+ K+S KALI GMBH, Kassel¹

¹ Group appointment.

Dr Thomas Nöcker (born 1958), lawyer, personnel director

- + Corporate HR
- + Corporate IT
- + Corporate Health, Safety & Environment
- + Business Centre and sub-units:
 - Communication Services
 - Financial Accounting
 - Insurance
 - IT Services
 - Logistics Europe
 - Procurement/Material Management Europe
 - Project Management
 - Real Estate & Facility Management
- + K+S TRANSPORT GMBH
- + K+S VERSICHERUNGSVERMITTLUNGS GMBH
- + WOHNBAU SALZDETFURTH GMBH

In office until 31 August 2018
First appointed: 1 August 2003

Supervisory Board appointment:
+ K+S KALI GMBH, Kassel¹

Mark Roberts (born 1963), bachelor of science (marketing)

- + Potash and Magnesium Products business unit
- + Salt business unit
- + Waste Management and Recycling business unit
- + Technical Centre and sub-units:
 - Digital Transformation
 - Geology
 - Mining
 - Research and Development
 - Technics/Energy
- + Animal hygiene products

In office until 30 September 2020
First appointed: 1 October 2012

www.k-plus-s.com/executivedirectors;
 www.k-plus-s.com/corporategovernance

MEMBERS WHO RETIRED IN 2017:

Norbert Steiner (born 1954), lawyer, chairman

- + Corporate Communications
- + Corporate Development

- + Corporate Executive HR
- + Internal Auditing
- + Investor Relations
- + Legal, GRC, Corporate Secretary

Appointment ended 11 May 2017
First appointed: 12 May 2000

Supervisory Board appointment:

- + TALANX AG, Hanover
- + HDI V.A.G., Hanover
- + K+S KALI GMBH (Chairman), Kassel¹ (until 11 May 2017)

Dr Otto Lose (born 1971), lawyer

- + Potash and Magnesium Products business unit
- + Waste Management and Recycling business unit

Appointment ended 28 November 2017
First appointed: 1 January 2017

Supervisory Board appointment:

- + K+S KALI GMBH, Kassel¹ (until 28 November 2017)

COOPERATION BETWEEN THE BOARD OF EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD

The Supervisory Board is kept informed by the Board of Executive Directors, at regular intervals in a timely and comprehensive manner, regarding any issues that are relevant to the Company as a whole and that concern corporate strategy, planning, the course of business and the earnings, financial and asset position as well as about any particular business risks and opportunities. Moreover, the Chairman of the Supervisory Board is in close contact with the Chairman of the Board of Executive Directors with regard to all relevant topics.

Important business transactions and measures require the consent of the Supervisory Board; more information on this can be found in Section 12 of the Supervisory Board bylaws.

CONFLICTS OF INTEREST

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

DIRECTORS AND OFFICERS (D&O) INSURANCE

We have taken out D&O insurance in case a claim for compensation based on statutory third-party liability provisions is made against members of the Board of Executive Directors or the Supervisory Board on account of a breach of duty committed in the performance of their duties. The excess is 10 % of the respective claim up to a maximum of 1.5 times the fixed annual remuneration. The D&O insurance also applies to managers.

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

In accordance with Article 19 of the Market Abuse Regulation, members of the Company's Board of Executive Directors and the Supervisory Board must disclose the purchase and disposals of Company shares.

During 2017, we did not disclose any directors' dealings for the Supervisory Board. The directors' dealings for the Board of Executive Directors in 2017 were disclosed as follows: / TAB: 2.3.1

www.k-plus-s.com/directorsdealings

On 31 December 2017, the members of the Board of Executive Directors and the Supervisory Board held less than 1% of the shares of K+S AKTIENGESELLSCHAFT and related financial instruments.

DIRECTORS' DEALINGS MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

TAB: 2.3.1

	Date	Transaction	ISIN	Price	Volume
Dr Susanne Nöcker / Dr Thomas Nöcker	24/04/2017	Bond sale	XS0997941199	1,042.23 €	20,844.60 €
Dr Thomas Nöcker	07/04/2017	Bond purchase	XS1591416679	1,000.00 €	50,000.00 €
Dr Burkhard Lohr	07/04/2017	Bond purchase	XS1591416679	1,000.00 €	200,000.00 €
Norbert Steiner	07/04/2017	Bond purchase	XS1591416679	1,000.00 €	200,000.00 €
Dr Burkhard Lohr	07/04/2017	Bond sale	XS0997941199	1,040.675 €	208,135.00 €

TARGET FIGURES FOR THE FIRST AND SECOND LEVEL BELOW THE BOARD OF EXECUTIVE DIRECTORS

In accordance with legislation, we have set target quotas for the percentage of women at management levels below the Board of Executive of K+S AKTIENGESELLSCHAFT until 31 December 2021. As of 31 December 2017, the target quota of 13 % for the management team I was unfortunately not met. Due to fluctuation and a slight increase in the total number of management positions at this management level, the proportion of women as of the reporting date was 6 %. K+S remains fully committed to an equal participation of women and men at this management level. A favourable result was achieved by exceeding the target quota of 11 % for the management team II with 19 % as of 31 December 2017.

CORPORATE GOVERNANCE AND MONITORING

In addition to the relevant statutory requirements, the target status of an effective and legally compliant corporate governance and monitoring system (internal control system in a broader sense in the K+S GROUP has been defined by the 'Governance and Monitoring in the K+S GROUP' guideline adopted by the Board of Executive Directors. These guidelines also stipulate the regulatory and organisational measures required to ensure that this status is achieved and maintained. This system should ensure:

- + The sustainable economic efficiency of business operations (these also include protecting assets and preventing and identifying damage to assets),
- + Responsible corporate governance,
- + The adequacy and reliability of internal and external accounting procedures as well as
- + Compliance with legislation relevant to the Company.

The structure of the governance and monitoring system is defined in detail by additional internal regulations; consistent standards are agreed for the formulation and communication of such regulations.

The 'Legal, GRC, Corporate Secretary' unit, whose head reports directly to the Chairman of the Board of Executive Directors, is responsible for coordinating Group-level development and maintenance of an effective and legally-compliant governance and monitoring system.

The task of the central Governance, Risk, Compliance (GRC) Committee is to analyse the general suitability of the governance and monitoring system on a regular basis and to issue recommendations for actions to the respective responsible management if weaknesses are identified.

Firstly, the sub-systems of governance, compliance management, risk and opportunity management and sustainability management, which are relevant for both the governance and monitoring components, are presented below. These complement one another and overlap in part. Finally, governance and internal monitoring are explained.

CORPORATE GOVERNANCE/DECLARATION OF CONFORMITY

Over and above the legal obligations, we have defined our own core values and principles in our Code of Conduct, which forms a compulsory framework for our conduct and decisions and provides orientation for our corporate actions.

CORE VALUES AND PRINCIPLES (CODE OF CONDUCT)

The high degree of entrepreneurial expertise the K+S GROUP shows in its business units is recognised by business partners and other stakeholders alike. It is vital that we continuously develop this reputation. In order to do this we rely on the integrity and responsibility of each individual employee.

Sustainability

We aim for sustainability in all we do, as we are committed to our responsibility towards people, the environment, communities and the economies in the regions in which we operate.

We act upon opportunities which arise while handling risks with care.

Integrity

We observe and support compliance with internationally recognised human rights and act in accordance with the laws of the countries in which we operate. We reject any form of forced and child labour.

We respect free competition. We do not tolerate any form of corruption. We avoid conflicts of interest, and protect company property against any misuse. We respect trade union

freedom of association and the right to engage in collective wage bargaining.

Respect, Fairness, and Trust

We treat our business partners, employees, and other stakeholders with respect and fairness. Providing an environment of equal opportunities and rejecting of any kind of discrimination is a matter of course for us. We create a workplace atmosphere that facilitates the open exchange of ideas and an approach to dealing with one another characterised by confidence.

Competence and Creativity

We take actions to maintain and increase specialist competencies, commitment and motivation of our employees. We encourage our employees to contribute their creativity to the success of the company. We reward our employees in line with the market and in relation to performance on the basis of salary structures which are oriented towards economic success.

As a global company, we recognise that intercultural competence is an important factor of our continued success. We develop intercultural competences in a targeted way.

Transparency

We provide our employees, shareholders, the capital market, the media and other stakeholders with comprehensive, truthful and intelligible information.

Other important regulations applicable across the Group are our 'Management within the K+S GROUP', 'Organisation within the K+S GROUP' and 'Corporate Governance and Monitoring in the K+S GROUP' guidelines.

Each organisational unit of the K+S GROUP is obliged, in compliance with the regulations of higher-level units, to issue the required illustrative regulations for its area of responsibility to ensure proper governance and monitoring.

The content of (overall) works agreements and regulatory standards (i.e. rules and standards of third parties, which the K+S GROUP or parts of it have undertaken to comply with and implement) have the same importance as internal regulations; this applies inter alia to the German Corporate Governance Code unless the Board of Executive Directors and the Supervisory Board have jointly agreed on deviations from its recommendations.

In December 2017, the Company's Board of Executive Directors and the Supervisory Board made the following joint declaration in accordance with Section 161 of the AktG:

'We declare that the recommendations of the Government Commission of the German Corporate Governance Code, published by the German Ministry of Justice in the official section of the German Federal Gazette, were complied with in 2017 as follows:

- + in the period from 1 January 2017 to 24 April 2017, in the version dated 05 May 2015, with the exception of the recommendations in Items 5.1.2(2) sentence 3 (stipulation of an age limit for the members of the Board of Executive Directors) and 5.4.1(2) sentence 1 (stipulation of an age limit for Supervisory Board members)

and

- + in the period from 24 April 2017 to 31 December 2017, in the version dated 7 February 2017, with the exception of the recommendations in Items 4.2.3(2) sentence 3 (variable remuneration components determined on the basis of a multi-year assessment with essentially forward-looking characteristics), 5.1.2(2) sentence 3 (stipulation of an age limit for the members of the Board of Executive Directors) and 5.4.1(2) sentence 2 (stipulation of an age limit for Supervisory Board members as well as a control limit for the length of service on the Supervisory Board).

In 2018, the recommendations of the Government Commission of the German Corporate Governance Code, published by the German Ministry of Justice in the official section of the German Federal Gazette on 07 February 2017, will be complied with, except for the recommendations in Item 5.1.2(2) sentence 3 (stipulation of an age limit for the members of the Board of Executive Directors) and Item 5.4.1(2) sentence 2 (stipulation of an age limit for Supervisory Board members as well as a control limit for the length of service on the Supervisory Board).

We do not believe that it is necessary or appropriate to stipulate strict age limits for the members of the Board of Executive Directors and the Supervisory Board or control limits for the length of service on the Supervisory Board, as the ability to carry out the work of the respective corporate body does not necessarily end upon reaching a certain age or a certain length of service, but depends solely on the respective individual capabilities. Also considering demographic trends, age limits in particular conflict with meeting the general

interest of the Company to staff its corporate bodies in the best possible way.

There were no changes to the remuneration system of the Board of Executive Directors in 2017; thus, it no longer complied with the new recommendations in Item 4.2.3(2) sentence 3 as of 24 April 2017. The recommendation will, however, be complied with in 2018 by an adjustment taking effect 1 January 2018.

Kassel, December 2017'

COMPLIANCE MANAGEMENT

Our Group-wide compliance management system creates the prerequisites for ensuring awareness across the Group of respectively applicable legislation as well as our internal regulations and other regulations of equal importance, and that compliance with these can be monitored. We want not only to avoid the risks of liability, culpability and fines as well as other financial disadvantages for the Company, but also to ensure a positive reputation for the Company, its corporate bodies and employees in the public eye. We regard it as a matter of course that breaches of compliance are pursued and penalties inflicted.

□ www.k-plus-s.com/corporategovernance

The Board of Executive Directors has entrusted the head of the 'Legal, GRC, Corporate Secretary' unit with the role of Chief Compliance Officer and the task of ensuring the existence of an effective and legally compliant compliance management system in the K+S GROUP. The Chief Compliance Officer reports directly to the Chairman of the Board of Executive Directors and heads up the central Compliance Committee on which the compliance officers of each business unit and the heads of central Company functions that are relevant in terms of compliance have a seat (for example, Internal Audit, Legal, Human Resources). The committee has the task of advising on general compliance management topics and coordinating this across the Group. In addition, it is tasked with analysing the general suitability of the compliance management system on a regular basis and issuing recommendations for actions to the respective responsible management if a need for action is identified.

Every employee is acquainted with the core values and principles that are applicable across the Group as well as the internal regulations derived from them (for example, 'Compliance

Management in the K+S GROUP', 'Donations and Sponsoring in the K+S GROUP' and 'Extending and Accepting Gifts, Invitations and other Donations'). Obligatory training sessions for potentially affected employees are held in relation to specific issues (for example, anti-trust law, anti-corruption measures, money laundering and the financing of terrorism, environmental protection, safety).

Employees have the option to seek advice internally in compliance-related matters (for example, from the legal departments or compliance officers). Moreover, we have set up external hotlines (ombudspersons) for reporting compliance breaches, anonymously if desired.

MANAGEMENT OF RISK AND OPPORTUNITIES

The aim of the risk and opportunity management system is to promptly identify risks and opportunities across the whole of the K+S GROUP and evaluate the financial impact on the asset, financial or earnings position as well as the nonfinancial impact of the risk and opportunities. Steps are then taken to prevent/reduce the risks or use the opportunities; by doing so, the system is able to support the safeguarding of the Company's success on a sustainable basis. Moreover, structured internal and external reporting of the risks and opportunities should be ensured. The following principles apply in this respect:

- + Corporate actions are inevitably associated with risk. The aim is to use the opportunities available and only take risks that are unavoidable in order to secure income potential.
- + No action or decision may constitute a risk in itself, which can foreseeably lead to a risk in terms of the Company's continued existence.

A directive that is applicable across the Group governs the tasks and powers of the parties involved in the risk management process, the risk and opportunities management process itself and defines the requirements for risk and opportunity reporting.

The central risk and opportunities management committee has the task of providing general advice on general issues relating to risk and opportunities management and coordinating these across the Group. It also has the task of analysing the general suitability of the risk and opportunities management system on a regular basis and issuing recommendations for actions to the respective responsible management if a need for adjustment is identified.

A detailed description of the process for identifying, assessing, controlling and reporting risks and opportunities, a presentation of risk management in relation to financial instruments (IFRS 7), as well as the significant risks and opportunities, can be found in the Risk and Opportunity Report from page 100.

SUSTAINABILITY MANAGEMENT

Corporate action on the part of κ+s GROUP is geared towards the achievement of sustainable economic success. In order to enjoy economic success in the long-term, appropriate account also needs to be taken of ecological and social aspects; they are therefore an integral part of our strategy. For this reason, ecological and social issues as well as societal trends are identified early and systematically, and assessed in the context of sustainability management. The inclusion of the aspects considered relevant in the management processes are intended to help promote existing business, seize new business opportunities and minimise risks.

🔗 'Sustainability Management', page 45

Following a holistic approach, sustainability management has been incorporated into the 'Legal, GRC, Corporate Secretary' unit. The task of the unit in this respect is to create effective structures to engage in and deal with sustainability issues within the κ+s GROUP and further determine, analyse and prioritise the general sustainability requirements of the κ+s GROUP and those imposed on it as well as draw up proposals to the Board of Executive Directors for determining sustainability targets across the Group.

The Central Sustainability Committee has the task of advising on sustainability issues and coordinating these across the Group. It also analyses the general suitability of the sustainability management system for achieving the defined objectives on a regular basis and issues recommendations for action to the respective responsible management if a need for adjustment is identified. The committee met on two occasions in 2017 in order to deepen the κ+s Sustainability Programme 2016–2018, to define the sustainability targets and to advise on the materiality analysis, among other things.

🔗 'Sustainability Strategy', page 77

GOVERNANCE

The framework and general objectives of the κ+s GROUP governance system are derived from its mission and vision, which are described in the 'Corporate Strategy' section on page 75.

The basis for fulfilment of this mission is the Group strategy defined by the Board of Executive Directors. Sub-targets and sub-strategies, processes and measures are defined for its implementation based on regular talks between the Board of Executive Directors and the heads of the κ+s AKTIENGESELLSCHAFT units reporting directly to it and the management of key Group companies, which in turn are broken down in a cascading process to the respective subordinated organisational levels. The relevant content of each of these is communicated to the respective employees by the line manager.

The quality of target definition is crucial in terms of achieving these targets and being able to assess them. Therefore, they must be specific, measurable, achievable, realistic and time-based and should not contradict other targets.

Key business transactions and measures require the approval of the whole Board of Executive Directors or of the member of the Board responsible for the respective unit/Group company.

Essential control instruments are mid-term planning and rolling monthly planning. Mid-term planning of the κ+s GROUP comprises a planning period of three years and includes the annual plan for the coming financial year and planning for the following two years. Key figures are planned by the business units and departments in numerous sub-processes and with central specification of the most important planning assumptions. Central controlling consolidates mid-term planning by the business units and departments to the operational planning as well as human resources, capital expenditure and financial planning of the κ+s GROUP and provides an explanation to the Board of Executive Directors. Once this has been approved, the Board of Executive Directors presents the annual plan to the Supervisory Board for approval and explains planning for the following two years. Once the consolidated financial statements have been prepared, the Board of Executive Directors and the Supervisory Board receive a detailed overview as part of a budget/actual comparison of the main differences from the annual plan for the previous κ+s GROUP financial year.

Rolling monthly planning is based on the endorsed annual plan. Here, all key figures, such as revenues, earnings, financial position and capital expenditure for the current financial year are projected by the units to be included in the consolidated financial statements and consolidated by central Controlling. The actual values available and new information

about business development are continually included in the projections. Significant assumptions are checked on a regular basis and updated where necessary. Deviations are analysed and assessed as part of rolling monthly planning and are used to manage business operations. The Board of Executive Directors receives a written and verbal explanation of the consolidated rolling monthly planning of the κ+S GROUP.

KEY FINANCIAL PERFORMANCE INDICATORS

The Company is managed based on the following key financial performance indicators:

- + EBITDA¹ (κ+S GROUP, Business units)
- + Adjusted free cash flow² (κ+S GROUP)
- + Return on capital employed (ROCE)³ (κ+S GROUP, Business units)
- + Group earnings after taxes, adjusted (κ+S GROUP)

🔗 'Definition of the financial indicators used', page 205; 🔗 'Glossary', page 210

The activities of our operating units are managed on the basis of the aforementioned performance indicators. Within this context, the key financial performance indicators have changed slightly compared with previous years. Going forward, we will primarily utilise EBITDA as the earnings figure to direct the Company, whereby EBIT I is no longer a key financial performance indicator effective financial year 2018. Due to our capital expenditure in Canada last year and the impact on depreciation and amortisation as a result, EBIT I is no longer directly comparable over time. We also emphasised the relevance of EBITDA as a key performance indicator during communication of our Group strategy SHAPING 2030. We have thus not only set an EBITDA target for 2030, but the short term incentive (STI) as a variable component of the remuneration of the Board of Executive Directors and the non-tariff paid employees has been based on EBITDA since the beginning of the current financial year. Furthermore, we no longer consider capital expenditure as a key performance indicator. The phase of higher capital expenditure (primarily in the new Bethune plant) has been completed, and we are not focusing primarily on reducing the net debt/EBITDA ratio. For this reason, we are focusing on adjusted free cash flow.

🔗 'Remuneration Report', page 122

¹ Adjusted for depreciation and amortisation recognized directly in equity in the context of own work capitalised can be found in the 'Economic Report' on page 83.

² The calculation of the 'Adjusted free cash flow' performance indicator can be found in the Economic Report on page 90.

³ The calculation of the 'ROCE' performance indicator can be found in the Economic Report on page 87.

We use the performance indicator return on capital employed (ROCE) to monitor our financial objective; its relevance was also emphasised again when communicating our SHAPING 2030 strategy. We derive economic value added on the basis of ROCE using the weighted average cost of capital before taxes. Economic value added is also included in the calculation of variable remuneration for the Board of Executive Directors and non-tariff paid employees. A principal key performance indicator for managing the company is adjusted Group earnings after tax, which serves as the basis for dividend proposals.

The comparison of the actual and projected course of business on page 80 includes, amongst others, the performance indicators referred to above.

A presentation and description of the development of earnings figures in the last five years can be found in the 'Earnings Position' section on page 87 and that of cash flow in the 'Financial Position' section on page 90.

In addition to revenues and return on total investment, other key financial figures and non-financial figures that are also relevant to the κ+S GROUP are sales volumes, average selling prices and the number of employees. The operating earnings EBIT I as well as the investments, which no longer function as key financial performance indicators, are nevertheless receiving further attention. However, these figures are not considered as key performance indicators within the meaning of German Accounting Standard (GAS) 20.

NON-FINANCIAL PERFORMANCE INDICATORS

In the context of sustainability management, the requirements of the κ+S GROUP and those imposed on it are determined, analysed and prioritised in order to define specific sustainability targets for sub-areas (sites, companies, product segments etc.). In this manner, targets were set in 2017 in sustainability management for the κ+S GROUP.

🔗 'Non-financial Statement', page 45

MONITORING

The monitoring system is intended to ensure fulfilment of the management requirements developed in the context of the governance system as well as compliance with the relevant legal requirements. It consists of process-integrated monitoring measures (internal control system in a narrower sense) as well as process-independent monitoring measures.

Process-integrated monitoring measures entail that management responsible for an internal process must identify and analyse risks to achieving objectives in order to be compliant with internal regulations and the law. Depending on the significance of the respective risk, upstream, process-integrated controls are to be defined that are designed to prevent the occurrence of this risk. Downstream, process-integrated controls are also to be defined which identify errors that have occurred /risks that have materialised as quickly as possible so that the relevant action to counter these can be taken. Depending on the materiality of the respective process and its risks, the risk analysis conducted, the controls defined and the action taken are to be recorded.

Non-process dependent monitoring measures are implemented by the internal audit department. Reports containing summary audit results are produced for these audits and presented to the respective responsible management to support managers with assessing the general suitability and actual effectiveness of the governance and monitoring system. The reliability of the risk and opportunity management system and the compliance management system are reviewed on a regular basis.

Non-process dependent monitoring measures are taken externally in connection with the annual audits as well as in the form of IT penetration tests.

GROUP ACCOUNTING PROCESS (SECTION 289(4) AND SECTION 315 NUMBER 4 OF THE HGB)/AUDIT

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) are applied when preparing the Company's consolidated financial statements. The regulations for K+S GROUP accounting and reporting are in accordance with IFRS stipulate standard accounting and valuation principles for the German and foreign companies included in the consolidated financial statements. In addition, we impose detailed and formalised requirements for the reporting of the consolidated companies. New external accounting regulations are analysed promptly in terms of their effects and, if these are relevant to us, are implemented in the accounting processes through internal regulations. The accounting and valuation regulations for the separate financial statements of K+S AKTIENGESELLSCHAFT and its domestic subsidiaries are documented in accounting instructions, in accordance with German commercial law and supplementary provisions. All employees

undergo training according to their tasks and receive regular training particularly in relation to changes in regulations or processes.

We have a Group-wide IT platform for all major companies, a standard Group accounts structure and automatically standardised accounting processes. This standardisation ensures the proper and timely reporting of key business transactions. Binding regulations as well as control mechanisms are in place for additional manual recording of accounting transactions. Valuations on the balance sheet, such as the review of the impairment of goodwill or the calculation of mining obligations, are calculated by internal Group experts. In individual cases, such as the valuation of pension obligations, the valuation is calculated by external experts.

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

The annual financial statements of companies subject to mandatory audits and the consolidated financial statements are audited by independent auditors in addition to the existing internal monitoring. This is the key process-independent monitoring measure with regard to the Group accounting process. The annual financial statements of those German companies not subject to mandatory audits are audited by the internal audit department. Moreover, the independent auditor audits the reliability of the risk management system in the narrow sense.

The 2017 audit was conducted by DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, HANOVER (formerly

DELOITTE & TOUCHE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, HANOVER). This company or its predecessor companies have conducted our audits since 1972. The auditor, who was directly responsible, was auditor/tax adviser Dr Christian H. Meyer. The overall mandate was overseen by auditor/tax adviser Heiner Kompenhans as responsible partner. DELOITTE GMBH issued a declaration of independence pursuant to Item 7.2.1 of the German Corporate Governance Code. The elected auditor is appointed by the Supervisory Board, acting on a recommendation submitted by the Audit Committee. The Chairman of the Supervisory Board and the Chairman of the Audit Committee are advised by the auditor without delay of any reasons giving rise to exclusion or partiality that may arise during the audit if these cannot be eliminated immediately. Furthermore, the auditor should immediately advise of any findings and occurrences of relevance to the tasks of the Supervisory Board that may arise during the audit. In addition, the auditor is required to advise the Supervisory Board or make an appropriate note in the audit report if, during the course of the audit, he identifies any facts suggesting incompatibility with the declaration on conformity issued by the Board of Executive Directors and the Supervisory Board in accordance with Section 161 of the AktG.

INFORMATION IN ACCORDANCE WITH SECTION 289A(1) AND SECTION 315A(1) OF THE HGB AS WELL AS THE EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS IN ACCORDANCE WITH SECTION 176(1) SENTENCE 1 OF THE AKTG

ITEM 1: COMPOSITION OF SUBSCRIBED CAPITAL

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

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

Each share carries one vote; no restrictions apply to voting rights or to the transfer of shares. The Board of Executive Directors is not aware of any relevant shareholder agreements.

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

No direct or indirect interests in the share capital of more than 10 % were reported to us.

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

There are no shares with special rights conferring control powers.

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

No voting right controls apply.

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

The appointment and dismissal of member of the Board of Executive Directors are governed by Section 84 of the AktG. Accordingly, the members of the Board of Executive Directors are appointed by the Supervisory Board for a maximum term of five years. In accordance with Article 5 of the Articles of Association, the Board of Executive Directors of K+S AKTIENGESELLSCHAFT has at least two members. The number of members is determined by the Supervisory Board. The Supervisory Board may appoint a member of the Board of Executive Directors as chairman of the Board of Executive Directors. The Supervisory Board may rescind the appointment of a member of the Board of Executive Directors or the appointment of the Chairman of the Board of Executive Directors for good cause.

The Annual General Meeting may pass amendments to the Articles of Association with a simple majority of the share capital represented (Section 179 (2) of the AktG in conjunction with Article 17(2) of the Articles of Association), unless mandatory statutory provisions require a larger majority.

ITEM 7: BOARD OF EXECUTIVE DIRECTORS' POWERS REGARDING THE OPTION TO ISSUE OR BUY BACK SHARES

AUTHORISATION TO CREATE NEW AUTHORISED CAPITAL OR AUTHORISED CAPITAL II WITH THE OPTION TO EXCLUDE SHAREHOLDERS' SUBSCRIPTION RIGHTS

The Board of Executive Directors was authorised by the Annual General Meeting on 12 May 2015 to increase the Company's share capital, with the consent of the Supervisory Board, by a total of € 19,140,000.00, in one lump sum or several partial amounts at different times, by issuing a maximum of 19,140,000 new registered shares (authorised capital) in return for cash and/or non-cash contributions

during the period to 11 May 2020. The Board of Executive Directors was further authorised on 11 May 2016 to increase the Company's share capital, with the consent of the Supervisory Board, by a total of € 19,140,000.00, in one lump sum or several partial amounts at different times, by issuing a maximum of 19,140,000 new registered shares (authorised capital II) in return for cash and/or non-cash contributions during the period to 10 May 2021. Shareholders are generally offered the right to subscribe when increasing capital from the authorised capital or authorised capital II respectively. The new shares can be acquired by a financial institution determined by the Board of Executive Directors with the obligation that they must be offered to the shareholders for subscription (indirect subscription right).

www.k-plus-s.com/agm2015invitation;

www.k-plus-s.com/agm2016invitation

The Board of Executive Directors is authorised, both for the authorised capital and for the authorised capital II, with the consent of the Supervisory Board, to exclude the shareholders' statutory right to subscribe up to a proportionate amount of the share capital of € 19,140,000.00 (corresponding to 19,140,000 no-par value shares) in the following cases:

- + For fractional amounts that arise as a consequence of the right to subscribe.
- + In the case of capital increases in return for cash contributions up to a proportionate amount of the share capital of € 19,140,000.00 (corresponding to 19,140,000 no-par value shares) if the issue price of the new shares is not significantly less than the stock exchange price of already listed shares of the same type and structure on the date when the issue price is finally agreed.
- + In the case of capital increases in return for non-cash contributions up to a proportionate amount of the share capital of € 19,140,000.00 (corresponding to 19,140,000 shares) if the new shares are to be used as consideration in the acquisition of an undertaking or an interest in an undertaking by the Company.
- + In order to implement a scrip dividend where the shareholders are asked to offer their dividend claim, in full or in part, as a non-cash contribution in return for new shares in the Company.

The Board of Executive Directors may only make use of the authorisations described above to exclude the right to subscribe insofar as the proportionate amount of the total shares issued with exclusion of the right to subscribe does

not exceed 10 % of the share capital (10 % ceiling), neither on the date of the resolution regarding these authorisations nor on the date they are respectively exercised. If other authorisations to issue or sell Company shares or to issue rights are exercised, which enable or obligate the acquisition of Company shares, during the term of the authorised capital or authorised capital II until their respective utilisation thus excluding the right to subscribe, this must be credited against the 10 % ceiling referred to above.

The Board of Executive Directors is authorised to determine the further details of capital increases from the authorised capital or the authorised capital II with the consent of the Supervisory Board.

As a result of the option granted by the Board of Executive Directors to implement a capital increase with limited exclusion of the right to subscribe with the approval of the Supervisory Board until 11 May 2020 (authorised capital) or 10 May 2021 (authorised capital II), the Company will be given a widespread instrument with the help of which, for example, fast and flexible use can be made of the opportunities that present themselves to make acquisitions. The Board of Executive Directors will only make use of this option if there is an appropriate ratio between the value of the new shares and the value of the consideration.

AUTHORISATION TO ISSUE CONVERTIBLE BONDS AND BONDS WITH WARRANTS WITH THE OPTION TO EXCLUDE SHAREHOLDERS' SUBSCRIPTION RIGHTS WHILE SIMULTANEOUSLY CREATING CONDITIONAL CAPITAL

Authorisation to issue convertible bonds and bonds with warrants

The Board of Executive Directors is authorised until 11 May 2020, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or warrant linked bonds ('bonds') on one or more occasions, with an aggregate nominal value of up to € 750,000,000.00 with or without a limited term, and to issue or impose conversion rights or obligations on the holders or creditors of bonds, or warrants on shares in the Company with a proportionate amount of the share capital of up to a total of € 19,140,000.00, as set out in greater detail in the terms and conditions of the convertible or warrant-linked bonds. The proportionate amount of the share capital represented by the shares to be issued upon conversion may not exceed the nominal amount of the bonds.

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In addition to euros, bonds may also be issued in the legal tender of any OECD country, limited to the corresponding euro counter-value at the time of issuing the bond. Bonds may also be issued by group companies of the Company; in this case, the Board of Executive Directors is authorised to act as guarantor for the bonds on behalf of the Company and to grant or impose conversion rights or obligations or warrants on shares in the Company to/upon the holders or creditors of such bonds. The bond issues may be subdivided into equivalent debentures in each case.

The Company's shareholders are generally entitled to subscription rights to bonds. The bonds can also be acquired by one or more financial institutions with the obligation that they must be offered to the Company's shareholders for subscription.

The Board of Executive Directors is however authorised with the approval of the Supervisory Board to exclude subscription rights, in full or in part, in the following cases:

- + If bonds are issued against cash and if the issue price is not substantially lower than the theoretical market value of the bonds calculated in accordance with recognised actuarial methods. However, exclusion of subscription rights 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 as of the date of the resolution or, if the amount of the share capital is lower at that time, on the date when the authorisation is exercised. The maximum limit of 10 % of the share capital is reduced by the proportionate amount of the share capital amount attributable to shares issued during this authorisation period in connection with another increase in capital where subscription rights are excluded in direct or indirect application of Section 186(3) sentence 4 of the AktG. The maximum limit of 10 % of the share capital is also reduced by the proportionate amount of the share capital attributable to own shares, which are sold by the Company during this authorisation period, where subscription rights are excluded in direct or indirect application of Section 186(3) sentence 4 of the AktG.
- + If and insofar as this is necessary in order to grant the bearers of convertible bonds or warrants in respect of shares in the Company or the creditors 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.

- + In order to exempt fractional amounts from the shareholders' right to subscribe, which are a consequence of the subscription ratio.
- + Insofar as the bonds are issued in connection with the acquisition of undertakings, interests in undertakings, or parts of undertakings in exchange for non-cash considerations, provided the value of the consideration is adequate in relation to the value of the bonds.

The authorisations described above to exclude the right to subscribe only apply 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 as of the date of the resolution or, if the amount of the share capital is lower at that time, on the date when the authorisation is exercised.

If bonds with conversion rights are issued, creditors may exchange their bonds against shares in the Company in accordance with the bond terms and conditions. The exchange ratio is calculated by dividing the nominal amount of a bond by the conversion price determined for a new share in the company. The exchange ratio can also be calculated by dividing the issue price of a bond that is below the nominal amount by the conversion price determined for a new share in the company. The exchange ratio can be rounded up or down to the next whole number in each case; a premium to be paid in cash can also be determined. Moreover, provision can be made for fractional amounts to be combined and/or settled in cash. The proportionate amount of the share capital represented by the shares to be issued per bond may not exceed the nominal amount of the bond.

If warrant-linked bonds are issued, one or more warrants will be attached to each bond, which authorise the holder to subscribe to shares in the Company, as set out in greater detail in the warrant terms and conditions to be defined by the Board of Executive Directors. The proportionate amount of the share capital represented by the shares to be issued per bond may not exceed the nominal amount of the warrant-linked bond.

The respective conversion or option price for a share in the Company (subscription price) must correspond to either (a) at least 80 % of the weighted average stock exchange price of K+S shares in the XETRA computer trading system (or

any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange during the last ten trading days prior to the day on which the Board of Executive Directors adopts the resolution to issue the convertible or warrant-linked bonds, or (b) at least 80% of the weighted average stock exchange price of K+S shares in the XETRA computer trading system (or any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange during the days on which subscription rights are traded on the Frankfurt Stock Exchange, with the exception of the last two days of subscription rights trading.

For warrant-linked bonds or bonds with conversion rights, or obligations, the warrants or conversion rights, or obligations, can be adjusted to preserve value in the event of a dilution in the value of the warrants or conversion rights, or obligations, in accordance with the bond terms and conditions, notwithstanding Section 9(1) of the AktG, insofar as the adjustment is not already stipulated by law. Moreover, the bond terms and conditions may make provision for a value-preserving adjustment of the warrants or conversion rights/obligations in the event of a capital reduction or other extraordinary measures or events (such as a third party obtaining control, unusually large dividends).

The bond terms and conditions may also make provision for a conversion obligation at the end of the term (or an earlier date) or for the Company's right to grant shares in the Company, in full or in part, in lieu of payment of the amount due to the creditors of the bonds at the time of final maturity of bonds with conversion rights or warrants (this also includes maturity on account of termination). The bond terms and conditions may also stipulate in each case at the Company's discretion that instead of being converted into new shares from conditional capital, warrant-linked or convertible bonds may be converted into existing shares in the Company or that the warrant can be fulfilled by providing such shares.

Finally, the bond terms and conditions may make the provision that in the event of a conversion, the Company will not grant shares in the Company to the party entitled to the conversion, but will make a payment, which for the number of shares to be supplied alternatively, corresponds to the weighted average stock exchange price of K+S shares in the XETRA computer trading system (or any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange during the ten trading days

following the declaration of the conversion or exercise of the warrant.

The Board of Executive Directors is authorised, in the context of the requirements described above, with the approval of the Supervisory Board, to define the further details of the issue and structure of the convertible and/or warrant-linked bonds, particularly interest rate, issue price, term, denomination, dilution protection, and the conversion or warrant period or to define these in consultation with the corporate bodies of the holding companies issuing the convertible and/or warrant-linked bonds.

Conditional capital increase

The share capital is increased by up to € 19,140,000.00 by issuing up to 19,140,000 bearer shares with no par value (conditional capital). The purpose of the conditional capital increase is to grant no-par value shares to the holders or creditors of bonds, which are issued by the Company or group companies of the Company in accordance with the above authorisation before 11 May 2020. New no-par value shares will be issued at the conversion or option price to be determined in each case as described above.

The conditional capital increase will be implemented only insofar as the holders or creditors of conversion rights or warrants from bonds, which were issued by the Company or a group company before 11 May 2020 based on the authorising resolution of the Annual General Meeting held on 12 May 2015, exercise their conversion rights or warrants; or as the holders or creditors of the convertible bonds with conversion obligation, which were issued by the Company or a group company before 11 May 2020 based on the authorising resolution of the Annual General Meeting held on 12 May 2015, who are required to convert, fulfil their conversion obligation; or if the Company elects before 11 May 2020, based on the authorising resolution of 12 May 2015, to grant shares in the Company, in full or in part, in lieu of payment of the amount due; and if no cash settlement is made or own shares are used to settle such claims. New no-par value shares are eligible to participate in the profits from the beginning of the financial year during which they are created through the exercise of conversion rights or warrants or through the fulfilment of conversion obligations; in deviation from this, the Board of Executive Directors may determine, with the consent of the Supervisory Board, that new no-par value shares are eligible to participate in the profits from the beginning of the financial year, in respect of which the Annual Gen-

eral Meeting has not yet adopted a resolution regarding the appropriation of the balance sheet profit at the time when the conversion rights or warrants are exercised or the conversion obligations are fulfilled. The Board of Executive Directors is authorised with the consent of the Supervisory Board to determine the additional content of share rights and further details of the implementation of a conditional capital increase.

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 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. 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.

AUTHORISATION TO ACQUIRE AND USE OWN SHARES WITH THE OPTION TO EXCLUDE SHAREHOLDERS' RIGHT TO SUBSCRIBE

The Board of Executive Directors is authorised to acquire own shares representing no more than 10 % of the total no-par value shares comprising the share capital of K+S AKTIENGESELLSCHAFT until 11 May 2020. At no time may the Company hold more than 10 % of the total number of no-par value shares comprising its share capital. Acquisition will be made via the stock exchange by means of a public offer to buy addressed to all shareholders or by way of a public call to shareholders to submit offers for sale. In the event of a purchase effected on a stock exchange, the purchase price per share (excluding acquisition costs) must not exceed or undercut the relevant stock exchange price by more than 10 %; the relevant stock exchange price will

be the price of the K+S share in the XETRA computerised trading system (or any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange, determined by the opening auction on the day of purchase. In the event of a purchase by means of an offer to buy addressed to all shareholders, the purchase price offered per share (excluding acquisition costs) must not exceed or undercut the relevant stock exchange price by more than 10 %; the relevant stock exchange price will be the weighted average stock exchange price of K+S shares in the XETRA computer trading system (or any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange during the last ten trading days prior to the publication of the offer to buy. In the event of a call to shareholders to submit offers for sale, the purchase price offered per share (excluding acquisition costs) must not exceed or undercut the relevant stock exchange price by more than 10 %; the relevant stock exchange price will be the weighted average stock exchange price of K+S shares in the XETRA computer trading system (or any functionally comparable successor system replacing it) at the Frankfurt Stock Exchange during the last ten trading days prior to the publication of the call to shareholders to submit offers for sale. In the event of acquisition by means of a public offer to buy addressed to all shareholders or by way of a public call to shareholders to submit offers for sale, the volume of the offer or call can be limited. If the overall subscription to this offer or the offers for sale exceed this volume, shares must be acquired on allocation basis. Provision may be made for preferential acceptance of small quantities of up to 100 shares offered for sale per shareholder.

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Furthermore, the Board of Executive Directors is authorised, with the consent of the Supervisory Board, to sell shares in the Company, which are or were acquired based on the authorisation above or authorisation previously granted by the Annual General Meeting pursuant to Section 71(1) sentence 8 of the AktG, on the stock exchange or via a public offer addressed to all shareholders. In the following cases, shares may be disposed of by other means and thus with the exclusion of the shareholders' right to subscribe:

- + Disposal against payment of a cash sum that is not significantly below the relevant stock exchange price;
- + Issue of shares as consideration for the purpose of acquiring undertakings, parts of undertakings or interests in undertakings;

- + Servicing of convertible bonds and bonds with warrants, which have been issued on the basis of authorisation given by the Annual General Meeting.

The authorisation to exclude the right to subscribe applies in respect of all shares representing a proportionate amount of the share capital of up to 10 % of the share capital when the resolution is adopted or if the amount of the share capital is lower at that time, on the date when the authorisation is exercised. If use is made of other authorisations to issue or sell Company shares or to issue rights, which enable or obligate the acquisition of Company shares, during the term of this authorisation to acquire own shares, thus excluding the right to subscribe, the total number of shares issued or sold where the right to subscribe is excluded must not exceed 10% of the share capital.

Finally, the Board of Executive Directors is authorised, with the consent of the Supervisory Board, to withdraw shares in the Company from circulation, which are or were acquired based on the authorisation above or authorisation previously granted by the Annual General Meeting pursuant to Section 71(1) sentence 8 of the AktG, without the Annual General Meeting having to pass a further resolution on such withdrawal. Shares must be withdrawn from circulation in accordance with Section 237(3) sentence 3 of the AktG without a capital reduction in such a way that withdrawal results in an increase in the proportion of remaining no-par value shares in the share capital pursuant to Section 8(3) of the AktG. The Board of Executive Directors is authorised pursuant to Section 237(3) sentence 3 clause 2 of the AktG to adjust the number of shares indicated in the Articles of Association.

The authorisations to purchase own shares as well as to dispose of them and withdraw them from circulation may be exercised in full or in part each time and on several occasions in the latter case. The authorisation granted by the Annual General Meeting to the Board of Executive Directors to purchase a limited number of own shares in the Company is a common instrument available in many companies. The ability to resell own shares, puts the Company in a position to, for example, gain long-term investors in Germany and abroad or to finance acquisitions flexibly. Moreover, it will also enable the Company to use shares for servicing convertible and warrant-linked bonds. It may be advisable to use own shares in full or in part instead of new shares from a capital increase to fulfil conversion rights or warrants. Using own shares rules

out any dilution of shareholder interests that would occur if conditional capital were used. The continued option to withdraw own shares from circulation is also a common alternative, the use of which is in the interest of the Company and its shareholders.

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

In 2013, K+S concluded a syndicated credit line for € 1 billion. All loans drawn against this line of credit will become due and payable immediately and the entire credit line will become redeemable in accordance with the loan terms and conditions if one person acting alone or more persons acting jointly acquire control over K+S AKTIENGESELLSCHAFT. Also in the case of the bonds issued by K+S AKTIENGESELLSCHAFT, as well as the promissory notes issued, the respective creditors have the right, in the event of a change of control, to terminate the bonds or promissory notes that have not yet been redeemed.

The provisions in credit agreements and bond conditions agreed in the event of a change of control are routine and reasonable from the perspective of protecting the legitimate interests of the creditors.

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

Agreements of this type exist with the members of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT and are explained in detail in the Remuneration Report on page 122. The existing compensation agreements with the members of the Board of Executive Directors take into appropriate consideration both the legitimate interests of those concerned and of the Company and its shareholders.

2.4 CORPORATE STRATEGY

In October 2017, we published our vision for a successful K+S GROUP in 2030 and the associated new corporate strategy SHAPING 2030.

The commissioning of the new potash mine in Bethune, Canada, and improved wastewater management including construction of the innovative KCF facility at the Werra plant represented major advances in safeguarding our potash production in the long term. The Salt business unit also systematically implemented its measures for increasing efficiency and profitability. The new team of executive directors and the new Supervisory Board chairman started work in May. This was exactly the right time to tackle the future strategic focus of the Group in depth – especially considering that the market and competition are changing and the megatrends are having an increasing impact on K+S's business operations. The Supervisory Board and the Board of Executive Directors considered it important to take a long-term perspective in order to chart the course for change and growth at an early stage. There was a no-holds-barred mindset; all topics were examined in detail. The interests of all stakeholders – customers, employees, shareholders and society – had to be considered.

Following an intensive six-month analytical and development process, we presented our vision of a successful K+S GROUP in 2030 and the related new corporate strategy entitled SHAPING 2030 to our stakeholders in October 2017.

We also renewed our mission. This reveals what drives us every day at K+S and which contribution we intend to make through our work. In addition, it underlines that sustainability plays a major role in our operations.

Our mission: We enrich life by sustainably mining and transforming minerals into essential ingredients for Agriculture, Industry, Consumers and Communities.

Our vision shows where we are going and who we want to be in 2030. It is our guiding principle.

Our vision: We will be the most customer-focused, independent minerals company and grow our EBITDA to € 3 billion in 2030 by

- + thinking and acting as 'One Company',
- + tapping the full potential of our existing assets,
- + exploring new adjacent growth areas,
- + increasing the share of our specialties business.

www.k-plus-s.com/vision

Our organisation: We will be a customer-centric One K+S that focuses on its four customer segments, systematically refines its raw material and production base and makes use of opportunities to grow organically as well as through acquisitions – supported by megatrends. This portfolio gives all of our stakeholders the greatest potential to create value in the long term, considering a balanced profile of opportunities and risks.

Our ambitions: It is important to us to make the success of our strategy measurable: EBITDA of € 3 billion with a return on capital employed (ROCE) of at least 15% and a portfolio that can achieve revenue growth of at least 4% p.a. after 2030. These key indicators show the potential that we see in the K+S GROUP but also set a standard for us. We want to achieve over two-thirds of the growth just by driving the development of our existing business and optimising our organisation and processes.

The path to get from the status quo to making our vision a reality is described in our SHAPING 2030 strategy.

OUR STRATEGY

SHAPING 2030 is a corporate strategy based on our skills and strengths. We have globally acknowledged expertise

in the exploration and processing of minerals, but also considerable experience in the development of new markets. We will harness these strengths to systematically drive the development of our existing business and develop new areas of business. Here we will particularly make use of the opportunities presented by the megatrends that are of relevance to us, such as the scarcity of resources, urbanisation, climate change and digitalisation. Our strategy also takes our existing financial, business and structural challenges into consideration. With SHAPING 2030 we have laid the foundations for steering our Company towards a successful future. New development and employment opportunities will arise for our employees.

□ www.k-plus-s.com/strategy

Our strategy will be implemented in two stages: / FIG: 2.4.1

1. TRANSFORMATION THROUGH 2020

Through 2020 we will align our business to our four customer segments – Agriculture, Industry, Consumers and Communities. For this we will integrate the Potash and Magnesium Products and Salt business units more closely to form ‘One Company’. This is a key prerequisite for strengthening our customer focus and will allow us to develop our product portfolio more systematically and tap synergies in our existing business. This will mostly be achieved in the areas of production, digitalisation, administration, procurement and logistics. As a result, κ+s will generate a positive effect on earnings of at least € 150 million per year from the end of 2020.

Implementation of our synergy measures, lower capital expenditure and the ramp-up of our Canadian potash pro-

duction will enable κ+s to return to a positive free cash flow by 2019. The leverage (net debt/EBITDA) is to be halved by 2020 compared with the figure reported in the 2017 Half-Yearly Financial Report. We are seeking to fulfil the requirements for regaining our investment grade rating in 2023. Strengthening the financial base will set the scene for future growth.

The persistent focus on our customers and our Company’s development towards ‘One Company’ is a challenge for κ+s. This also entails a change in culture, for the way we see our business and the way we work together will be transformed. We will actively shape this transformation and empower our employees accordingly.

The target we set in 2015 of achieving consolidated EBITDA of around € 1.6 billion in 2020 is not realistic anymore in our view since mid 2017. The basis for our calculations was the price of around USD 330/tonne (MOP Brazil gran cfr pink) that we assumed for potassium chloride at the time. Although the current price trend is pointing in the right direction, it is quite unlikely that we will reach the figure we envisaged back then.

2. GROWTH PHASE 2020 TO 2030

We have drafted a clear roadmap setting out development goals and strong growth options for the growth phase up to 2030. It aims to increase operating earnings and reduce the business’s dependence on external factors such as weather and the global market price for potassium chloride (MOP) and hence the volatility of the operating earnings. To realise these growth options, the Company will expand the specialty business and new areas of business such as fertigation. We

K+S GROUP: WE WILL IMPLEMENT OUR STRATEGY IN TWO PHASES

FIG: 2.4.1

	Phase 1: Transformation 2017–2020	Phase 2: Growth 2020–2030
Measures	<ul style="list-style-type: none"> – Reduce indebtedness – Realize synergies – Advance corporate culture – Shaping the organization and focusing towards our clients 	<ul style="list-style-type: none"> – Tapping the full potential of our existing assets – Exploring new adjacent growth areas – Increased share of specialties
Goals	<ul style="list-style-type: none"> – Net debt/EBITDA: halved vs. H1/2017 – Synergies: > € 150 m 	<ul style="list-style-type: none"> – Requirements for Investment Grade-Rating achieved in 2023 – EBITDA ambition: € 3 bn – ROCE: > 15% – Revenue growth beyond 2030: > 4%

also intend to step up our business in high-growth regions such as Asia and Africa. For this we will, for example, build a new trading platform in Africa with regional partners from agriculture. In the industrial sector we intend to strengthen our product portfolio and expand our offering for the pharmaceutical industry.

OUTLOOK

Comprehensive programme management was set up in October 2017 for the structured implementation of our strategy. We started with the validation of the synergy potential identified. In November 2017, as an important first step in the new approach, a decision was made to restructure and reduce the size of the Board of Executive Directors from five to initially four and, in the future, three members as well as to form an extended management team.

SUSTAINABILITY STRATEGY

Sustainability is an integral component of our new strategy. In all our strategic decisions we strive to integrate environ-

mental, social and economic aspects for long-term sustainable success. We have set ourselves ambitious objectives for different fields of action in three areas: people, environment and business ethics. Sustainability is an opportunity to guide our Company through innovative changes. This helps us to advance our existing business, seize new business opportunities and minimise risk. For us, sustainability means future viability.

www.k-plus-s.com/sustainability

For more information on sustainability management at k+s, the different fields of action and the objectives defined in this framework, please refer to the consolidated Non-Financial Statement on page 45.

📖 'Non-financial statement', page 45

CUSTOMER SEGMENTS

/ FIG: 2.4.2

CUSTOMER SEGMENTS

FIG: 2.4.2

Agriculture

We enable farmers to provide nutrition for the world.

- Potassium chloride (MOP)
- Premium fertilizers
- Fertigation (spreading of fertilizers using irrigation systems)

Consumers

We enrich the lives of consumers in terms of food, the quality of water used in their households and the safety on streets and pavements in winter.

- Table salt, water softening salt (e.g. for dishwashers), packaged de-icing salt for personal use

Industry

We provide solutions for industrial companies.

- Chemical industry
- Pharmaceutical industry
- Food processing
- Specialties for industrial products (e.g. for oil/gas exploration, textiles, plastics industry)

Communities

We keep streets and pavements in communities safe in winter.

- De-icing salt business

2.5 REPORT ON ECONOMIC POSITION

We increased our revenues and our earnings in financial year 2017. During the reporting period, revenues of the K+S GROUP rose from € 3,456.6 million to € 3,627.0 million. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to € 576.7 million, tangibly higher than the previous year's figure (2016: € 519.1 million).

OVERVIEW OF THE COURSE OF BUSINESS

MACROECONOMIC ENVIRONMENT

Global gross domestic product rose by 3.7% in 2017; the economy continued to pick up steam in nearly every major country. Particularly in the United States and in the Euro area, growth rates picked up strongly after the first six months of the year. Investments increased and private consumption remained at a high level. Although the economic sentiment in emerging market countries remains weak, the economy continued to gain footing over the course of the year. This was mainly attributable to rebounding production in the raw material exporting countries as a result of the increase in commodity prices.

Prices for important soft commodities showed mixed results over the course of 2017. While the price of wheat showed a tendency toward improvement, for instance, soy beans and palm oil reported tangible price drops. The DOW JONES-UBS AGRICULTURE SUBINDEX, which tracks developments in the prices of corn, soybeans, sugar, wheat, soy oil, cotton and coffee, decreased by around 12%. / FIG: 2.5.1

Following a significant fall lasting through the first six months of the year, the price of oil recovered strongly in 2017. At the end of December, the price of Brent Crude was around USD 67 per barrel (31 December 2016: USD 57). The decision by the Organisation of Petroleum Exporting Countries (OPEC) to limit the output and political tensions in Saudi Arabia drove oil prices up mainly in the second half of the year. The average price for the year of around USD 55

returned to a level significantly above that of the previous year (2016: USD 45).

The NCG Natural Gas Year Future, which focuses primarily on western and southern Germany, also rebounded to € 18/MWh by the end of the year after dropping from around € 18/MWh to approximately € 16/MWh during the first half of the year. The average figure increased slightly to around € 17/MWh compared to the previous year (2016: € 16/MWh).

Developments in the currency markets in 2017 were characterised by a strengthening of the euro against the US dollar. As a result, the value of the US dollar stood at EUR/USD 1.13 and thus slightly below the previous year's level (2016: EUR/USD 1.11). / FIG: 2.5.2

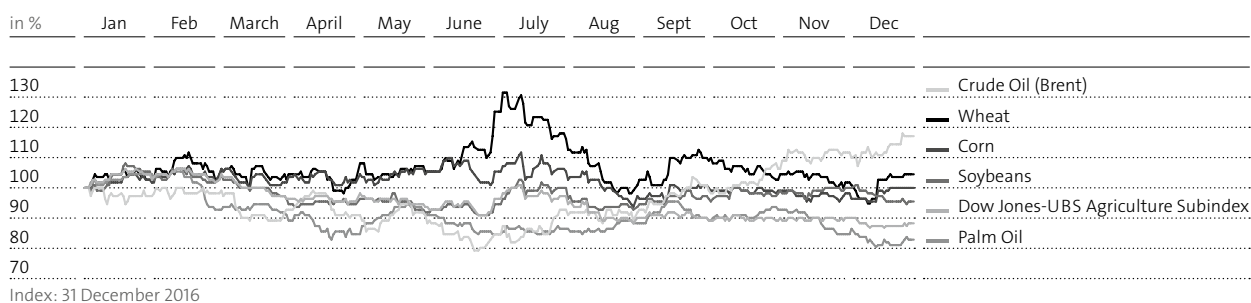
IMPACT ON K+S

The changes in the macroeconomic environment had an impact on the business development of K+S as follows:

- + The K+S GROUP's energy costs are affected in particular by the cost of purchasing gas. Despite the latest price increases, the cost of purchasing gas in Europe remained relatively low.
- + Foreign currency hedging system: The use of hedging instruments for the Potash and Magnesium Products business unit resulted in an average exchange rate of EUR/USD 1.12 in 2017 including hedging costs (2016: EUR/USD 1.20). We also hedged the euro exchange rate for the capital expenditure related to construction of the Bethune mine payable in Canadian dollars for the last time in the

DEVELOPMENT OF PRICES FOR AGRICULTURAL PRODUCTS AND CRUDE OIL IN 2017

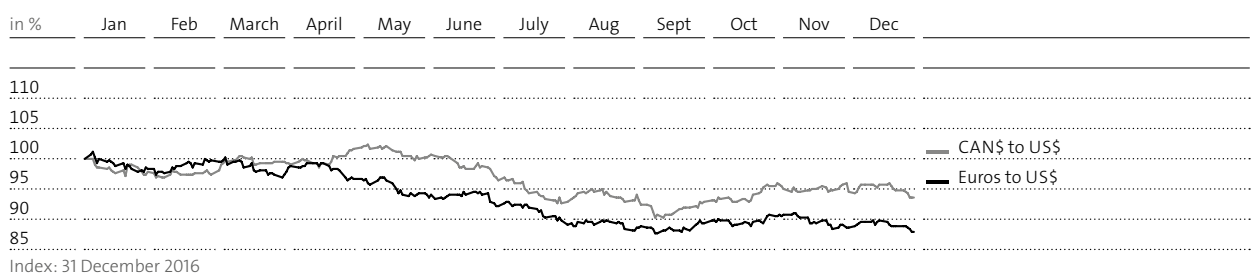
FIG: 2.5.1



Source: Bloomberg

DEVELOPMENT OF EXCHANGE RATES IN 2017

FIG: 2.5.2



Source: Bloomberg

2017 financial year. The average hedging rate in the year under review was EUR/CAD 1.45 (2016: EUR/CAD 1.49).

© 'Financial position', page 87

- + Prices of important soft commodities continued to trade at a comparatively low level at the end of the reporting year. At the same time, the input costs, for example for fertilizers, were relatively low despite the most recent price increases. The resulting earnings prospects should continue to give farmers sufficient incentive to increase yield per hectare by making use of plant nutrients.
- + The us tax reform took effect on 1 January 2018. Although a non-recurring tax expense negatively impacted net earnings in the fourth quarter of 2017, K+S expects this tax reform to have an overall positive effect due to the reduction of the corporate tax rate from 35% to 21%. Based on our current forecasts for 2018 through 2020, the cumulative positive impact on liquidity should be up to USD 30 million.

INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

In the 2017 financial year, the industry-specific situation for the Potash and Magnesium Products business unit was characterised by strong demand. Because contracts between the major potash producers and the Chinese and Indian customers were signed at a relatively late date in 2016, remaining contractual quantities were still delivered in the first six months of 2017. It was not until the beginning of the second half of the year that the contractual parties were able to reach an agreement on a new price for potassium chloride including freight of USD 230 per tonne in China and USD 240 per tonne in India (2016: USD 219 and 227 per tonne, respectively). As a result of ongoing strong demand throughout the year, the price for potassium chloride has improved in many regions around the world.

Prices for fertilizer specialties showed first indications of recovery at the end of the year after higher product availability on the market had initially caused prices to fall slightly. Farmers cultivating chloride-sensitive crops, such as vegetables or wine, tend to be less sensitive to the cost of using fertilizer on account of the attractive earnings that can be generated with these crops.

SALT BUSINESS UNIT

Mild winter weather at the beginning of 2017 led to relatively high de-icing salt inventories at us customers in the Midwest and on the East Coast. Regional prices in this segment have thus declined for the early fill business for the 2017/2018 winter season. In contrast, the wintry weather conditions in Europe resulted in a reduction of inventory levels and therefore in a slight recovery of de-icing salt prices. The start of the 2017/2018 de-icing salt season was better overall compared to the weak previous year due to favourable winter conditions in North America.

General conditions for sales of consumer products and salts for the food industry remained largely unchanged compared to the previous year. Demand for premium products (sea salt and kosher salt) was once again robust.

Primarily industrial salt and salt for chemical use showed a positive trend. In South America, in particular, demand for salt for the extraction of copper from the mined raw ore (copper leaching) was once again strong. Prices for salt for chemical use increased in Europe due to reduced product availability and strong demand. Slightly higher global demand for pharmaceutical salts was seen due primarily to an ageing population.

KEY EVENTS AFFECTING THE COURSE OF BUSINESS

- + Product availability at the Werra plant was significantly higher compared to the previous year. The main reasons were the approval of the deep-well injection permit in December 2016 and efficient wastewater management. This made it possible to realise tangible increases in volumes in the Potash and Magnesium Products business unit.
- + The new Bethune potash plant was officially opened in May 2017. As last expected, around 500,000 tonnes were produced there in the financial year and the targeted annual technical capacity of two million tonnes was achieved as scheduled at the end of 2017.

COMPARISON OF ACTUAL AND PROJECTED COURSE OF BUSINESS

REVENUES FORECAST

The revenues forecast as part of the 2016 Annual Report assumed a tangible increase in revenues for 2017 compared to the previous period. Over the course of the year, that forecast was narrowed to a range from € 3.60 to € 3.80 billion. At €3.63 billion, revenues were within the forecasted range. / TAB: 2.5.1

EARNINGS FORECAST

At € 576.7 million and € 270.8 million respectively, operating earnings EBITDA and EBIT I of the K+S GROUP in the 2017 financial year fulfilled the qualitative forecast of a significant increase compared to the previous year and were within the range of € 560 to € 660 million and € 260 to € 360 million, respectively, set over the course of the year (2016: € 519.1 million and € 229.3 million, respectively). Operating earnings were also forecast to increase tangibly in both business units. The Potash and Magnesium Products business unit achieved EBITDA of € 268.8 million and EBIT I of € 81.4 million (2016: € 184.8 million and € 33.6 million, respectively), thus meeting the forecast. The Salt business unit generated EBITDA of € 325.2 million and EBIT I of € 223.0 million (2016: € 322.3 million and € 203.7 million, respectively). At the EBITDA level, operating earnings remained stable, while the forecasted tangible increase was achieved at the EBIT I level.

A tangible increase in adjusted Group earnings after taxes of € 145.0 million (2016: € 130.5 million) was also anticipated and achieved. The ROCE reached 3.2% and was thus moderately higher than the previous year (2016: 3.0%). At the levels of the Potash and Magnesium Products business unit and the Salt business unit, the forecast of a tangibly higher ROCE compared to the previous year was exceeded in the Potash and Magnesium Products business unit with 1.4% and reached in the Salt business unit 8.9% (2016: 0.7% and 8.1%, respectively).

CASH FLOW FORECAST

The forecast formulated in the 2016 Annual Report of a continued negative, but tangibly improved adjusted free cash flow was fulfilled for the 2017 financial year. It amounted to € -389.8 million (2016: € -776.8 million) in the reporting period.

TARGET/ACTUAL COMPARISON 2017

TAB: 2.5.1

		ACTUAL 2016	Forecast 2016 Annual Report	Forecast Q1/17	Forecast H1/17	Forecast Q3/17	ACTUAL 2017
K+S Group							
Revenues	€ billion	3.46	tangible increase	tangible increase	3.60–3.80	3.60–3.80	3.63
EBITDA	€ million	519.1	tangible increase	tangible increase	560–660	560–660	576.7
Operating earnings (EBIT I)	€ million	229.3	tangible increase	tangible increase	260–360	260–360	270.8
Group earnings after taxes, adjusted ¹	€ million	130.5	tangible increase	tangible increase	140–210	140–210	145.0
Capital expenditure ²	€ million	1,170.8	significantly below previous year's level	significantly below previous year's level	significantly below previous year's level	significantly below previous year's level	810.8
Adjusted free cash flow	€ million	–776.8	tangible improvement, remains negative	tangible improvement, remains negative	tangible improvement, remains negative	significant improvement, remains negative	–389.8
ROCE	%	3.0	tangible increase	tangible increase	tangible increase	tangible increase	3.2
EUR/USD exchange rate	EUR/USD	1.11	1.10	1.09	1.12	1.13	1.13
Potash and Magnesium Products business unit							
Sales volumes	million tonnes	6.1	significant increase	significant increase	6.8–7.2	6.8–7.0	6.7
Salt business unit							
Sales volumes solid salt	million tonnes	19.4	moderate increase	moderate increase	moderate increase	moderate increase	20.3
– of which de-icing salt	million tonnes	10.1	moderate increase	moderate increase	moderate increase	moderate increase	10.7

¹ The adjusted key indicators include the result from operating forecast hedges in the respective reporting period, which eliminates effects from fluctuations in the market value of the hedges as well as effects from the exchange rate hedging of capital expenditure in Canadian dollars. Related effects on deferred and cash taxes are also adjusted; tax rate for 2017: 29.9% (2016: 29.3%).

² Concerns cash investments as well as depreciation, amortisation and write-downs of tangible and intangible fixed assets, taking reimbursement claims from claim management into account.

CAPITAL EXPENDITURE FORECAST

In the 2016 Annual Report, we estimated capital expenditure volume for the 2017 financial year significantly below the previous year (2016: € 1.17 billion). The actual amount was € 810.8 million and was thus in line with our forecast. With € 680.4 million and € 118.8 million, respectively, capital expenditure in both the Potash and Magnesium Products business unit as well as in the Salt business unit was significantly lower than in the previous year (2016: € 1,009.8 million and € 148.8 million, respectively).

☞ 'Declaration on Corporate Governance', page 55

RESULTS OF OPERATIONS

REVENUES

In the 2017 financial year, revenues amounted to € 3,627.0 million compared to € 3,456.6 million in the previous year. In the

VARIANCE COMPARED TO PREVIOUS YEAR

TAB: 2.5.2

	2017
in %	
Change in revenues	+4.9
– volume/structure-related	+5.5
– price/pricing-related	–0.4
– currency-related	–0.7
– consolidation-related	+0.5

Potash and Magnesium Products business unit, greater product availability, especially of fertilizer specialties, at the integrated Werra plant along with the first sales volumes from our new plant in Canada had a positive effect on revenue growth. The Salt business unit also benefited from higher sales volumes during the reporting period. In contrast, the unfavourable development of exchange rates in both business units and

lower prices in the North American de-icing salt business had an offsetting effect. A certain seasonality can generally be recognised from the quarterly revenues; in terms of volume, the first six months for the Potash and Magnesium Products business unit usually benefit from the start of spring fertilizing in Europe. The de-icing salt business is normally focused on the first and fourth quarter of a year. / TAB: 2.5.2, 2.5.3

🔗 'Presentation of segments', page 93;

🔗 'Segment Reporting' page 138

Within the K+S GROUP, the Salt business unit once again achieved the highest revenues in this financial year, accounting for around 49% of total revenues, and was followed by the Potash and Magnesium Products business unit and Complementary Activities. / FIG: 2.5.3

In terms of the regional distribution, the percentage of revenues in North America sank as a result of the lower price of de-icing salt in this region. Accordingly, the percentage in Europe increased. We therefore continued to generate the largest share of revenues here, now accounting for around 44% of revenues. Asia accounted for approximately 8% of total revenues. / FIG: 2.5.4

DEVELOPMENT OF ORDERS

Most of our business is not covered by longer-term agreements on fixed volumes and prices.

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

In the Salt business unit, de-icing salt contracts for the public sector in Europe, Canada and the United States are awarded through public tenders. We generally participate in these tenders from the second quarter for the coming winter season, but also, in some cases, for subsequent winter seasons. The contracts include agreements on both prices and maximum volumes. If the contractually agreed volumes are subject to fluctuations permitted by law – depending on weather conditions – these volumes cannot be classified as orders on hand. This also applies if volumes can be transferred to the following winter if demand is weak in a particular season.

For the reasons stated above, the reporting of orders on hand is not relevant for the assessment of short-term and medium-term profitability.

DEVELOPMENT OF SIGNIFICANT COSTS

During the reporting period, the cost of sales rose from € 2,202.3 million to € 2,414.6 million. In addition to the volume-driven increase as a result of fewer working days lost at the integrated Werra plant, cost of sales also increased as a result of the start of production at our Bethune mine. The selling expenses amounted to € 704.5 million in the reporting year compared to € 645.5 million in the previous year; the increase was also the result of higher sales volumes.

🔗 'Notes', page 138

In addition to the impacts presented, the cost of materials, personnel expenses, energy and freight costs had a particularly strong effect on the cost trend. At € 1,434.8 million, the cost of materials increased tangibly as a result of higher production volumes (2016: € 1,304.6 million). In 2017, personnel expenses amounted to € 1,106.2 million and were therefore moderately higher than the amount of the previous year (2016: € 1,011.0 million). This is primarily due to higher

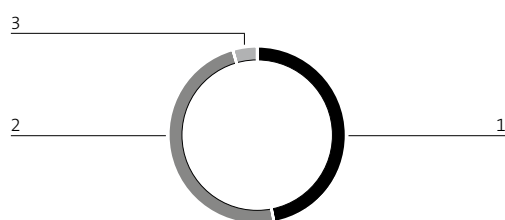
REVENUES BY UNIT

TAB: 2.5.3

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
in € million							
Potash and Magnesium Products business unit	1,531.6	473.7	387.1	357.7	485.0	1,703.5	+11.2
Salt business unit	1,762.2	610.9	315.7	328.8	506.6	1,762.0	—
Complementary activities	161.1	41.5	38.8	39.5	40.1	159.9	-0.7
Reconciliation	1.7	0.3	0.4	0.5	0.4	1.6	-5.9
K+S Group	3,456.6	1,126.4	742.0	726.5	1,032.1	3,627.0	+4.9
Share of total revenues (%)	—	31.1	20.5	20.0	28.5	100.0	—

REVENUES BY UNIT

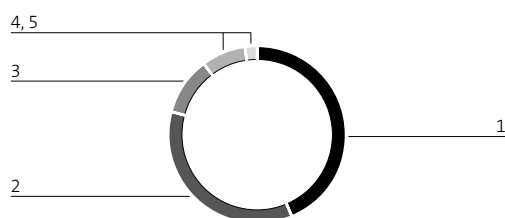
FIG: 2.5.3



	2016	2017
in %		
Potash and Magnesium		
1 Products business unit	44.3	47.0
2 Salt business unit	51.0	48.6
3 Complementary Activities	4.7	4.4

REVENUES BY REGION

FIG: 2.5.4



	2016	2017
in %		
1 Europe	42.9	43.7
– of which Germany	15.6	16.3
2 North America	38.1	35.5
3 South America	10.5	10.7
4 Asia	6.1	8.1
5 Africa, Oceania	2.3	2.0

EBITDA BY UNIT¹

TAB: 2.5.4

in € million	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
Potash and Magnesium Products business unit	184.8	81.2	71.4	42.4	73.8	268.8	+45.5
Salt business unit	322.3	135.3	29.0	37.3	123.5	325.2	+0.9
Complementary activities	30.8	9.3	6.1	7.1	7.9	30.3	-1.6
Reconciliation ²	-18.8	-14.9	-4.6	-10.1	-18.0	-47.6	—
K+S Group	519.1	210.9	101.9	76.7	187.2	576.7	+11.1
Share of total EBITDA (%)	—	36.6	17.7	13.3	32.5	100.0	—

¹ Adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

² Expenses and income that cannot be allocated to business units and Complementary Activities are recorded separately and shown under 'Reconciliation'.

accruals for performance-related remuneration, a one-time payment to our employees following the 2017 salary review and to the increase in personnel in Canada. Freight costs of € 714.8 million (2016: € 637.5 million) continued to benefit from a relatively low crude oil price level, yet remained tangibly above the figure in the previous year, mainly due to volume. Energy costs were € 253.3 million compared to € 212.4 million, with the increase due mainly to pricing and volume.

EARNINGS DEVELOPMENT IN THE PAST FINANCIAL YEAR

OPERATING EARNINGS EBITDA AND EBIT I

Earnings before interest, taxes, depreciation and amortisation (EBITDA), which were adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised (€ 24.1 million), amounted to € 576.7 million in the year under review and were tangibly higher than the previous year's amount (2016:

EBIT I BY UNIT

TAB: 2.5.5

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
in € million							
Potash and Magnesium Products business unit	33.6	41.9	31.4	1.7	6.4	81.4	> 100
Salt business unit	203.7	105.9	0.4	16.8	99.9	223.0	+9.5
Complementary activities	21.9	7.0	3.9	5.9	6.6	23.5	+7.3
Reconciliation ¹	-29.8	-17.4	-7.2	-12.1	-20.3	-57.0	—
K+S Group	229.3	137.4	28.5	12.3	92.7	270.8	+18.1
Share of total EBIT I (%)	—	50.7	10.5	4.5	34.2	100.0	—

¹ Expenses and income that cannot be allocated to business units and Complementary Activities are recorded separately and shown under 'Reconciliation'.

RECONCILIATION OF OPERATING EARNINGS (EBIT I) AND EBITDA

TAB: 2.5.6

	2016	2017
in € million		
Earnings after operating hedges (EBIT II)	291.0	327.3
Income (-)/expenses (+) arising from changes in the fair market value of outstanding operating anticipatory hedges	-4.4	-37.2
Neutralisation of changes in the fair value of operating anticipatory hedges recognised in prior periods	-43.6	-10.3
Recognised income (-)/expenses (+) of currency hedging for capital expenditure in Canada	-13.7	-9.0
Operating earnings (EBIT I)	229.3	270.8
Depreciation and amortisation (+)/impairment losses (+)/reversals of impairment losses (-) on fixed assets	328.4	330.0
Depreciation and amortisation recognised directly in equity ¹ (-)	-38.6	-24.1
EBITDA	519.1	576.7

¹ Depreciation and amortisation of assets which are used to produce other tangible fixed assets. This depreciation and amortisation is capitalised as part of production costs and not recognised in profit or loss.

€ 519.1 million). The main driver of this trend was in particular the higher sales volume of the Potash and Magnesium Products business unit. / TAB: 2.5.4

Operating profit (EBIT I) amounted to € 270.8 million in the reporting year due to the effects mentioned compared to € 229.3 million in the previous year; this represents an increase of around 18%. An expense of € 43 million mainly for forming provisions and adjusting existing provisions for the closure of the Sigmundshall potash mine planned for 2018 was also reflected in EBIT I in 2017. EBIT I contains depreciation and amortisation including reductions of value and reversals (adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised) of € 305.9 million. These increased by around 6% compared to the previous year (2016: € 289.8 million), mainly due to additional capital expenditure in water protection and the depreciation applied on the new Bethune site in Canada beginning in September 2017. In contrast, the adjustment of the plants' useful lives performed on 1 July

2017 reduced depreciation and amortisation by over € 54 million in the quarter under review. / TAB: 2.5.5

EARNINGS AFTER OPERATING HEDGES (EBIT II)

Operating earnings EBIT II of € 327.3 million after operating hedges were generated in 2017 (2016: € 291.0 million). This difference between EBIT I and EBIT II of € +56.5 million (2016: € +61.7 million) was largely the result of the positive change in the fair market prices of outstanding hedging transactions and the elimination of maturing transactions with negative market values. / TAB: 2.5.6

🔗 'Consolidated financial statements', page 132; 🔗 'Glossary', page 210

In accordance with IFRSs, the changes in fair value arising from hedging transactions are reported in profit or loss. EBIT II includes all earnings from operating hedges, i.e. both reporting date-related measurement effects and earnings from realised operating hedging derivatives. Any effects on earnings arising from the hedging of underlying transac-

tions relating to financing that are not reflected in EBIT are reported in the financial result.

FINANCIAL RESULT

The financial result increased from € –51.9 million to € –26.4 million. One important reason for the significant improvement was, apart from the lower interest share of mining provisions, in particular the positive development of the other financial result from € –3.7 million to € +16.4 million. The increase is mainly due to exchange rate effects, as the weaker us dollar resulted in higher income from the measurement of financial assets and financial liabilities.

GROUP EARNINGS AND EARNINGS PER SHARE

In the year under review, Group earnings after taxes amounted to € 184.6 million (2016: € 174.1 million). Tax expenses were € 116.3 million (2016: € 64.7 million) and included a non-recurring tax expense of € 28.3 million in relation to the us tax reform. The anticipated income tax expense was calculated based on a domestic Group income tax rate of 29.9% (2016: 29.3%). The increase over the previous year is due to higher trade tax assessment rates.

📄 'Notes', page 138

In the year under review, earnings per share reached € 0.96 (2016: € 0.91). As in the previous year, an average number of 191.4 million outstanding no-par value shares remained unchanged as the basis for calculation.

ADJUSTED GROUP EARNINGS AND ADJUSTED EARNINGS PER SHARE

To enhance comparability, we also report adjusted Group earnings, which eliminate the effects from operating forecast hedges. Furthermore, the effects on deferred and cash taxes resulting from this adjustment are calculated separately, however not the impacts of the us tax reform. The adjusted

Group earnings serve as a basis for calculating dividends in accordance with our distribution policy and are determined as follows: / TAB: 2.5.7

Adjusted Group earnings after taxes amounted to € 145.0 million (2016: € 130.5 million). Considering an adjusted pre-tax result of € 244.4 million, the adjusted Group tax rate was extraordinarily high at 40.7% in the year under review, primarily due to the effects of the us tax reform, compared to 26.5% in the previous year. Adjusted earnings per share amounted to € 0.76 in the year under review compared to € 0.68 in the previous year. Here, too, 191.4 million no-par value shares were used as the basis for the calculation.

As of 31 December 2017, we held no shares of our own. At the end of the year, the total number of shares of the K+S GROUP outstanding therefore remained unchanged at 191.4 million no-par value shares. / TAB: 2.5.8

COMPUTATION OF THE ADJUSTED GROUP EARNINGS

TAB: 2.5.7

	2016	2017
in € million		
Group earnings	174.1	184.6
Income (-)/expenses (+) arising from changes in the fair value of outstanding operating anticipatory hedges	-4.4	-37.2
Neutralisation of market fluctuations in operating anticipatory hedges recognised in prior periods	-43.6	-10.3
Elimination of resulting deferred and cash taxes	18.1	16.9
Recognised income (-)/expenses (+) of currency hedging for capital expenditure in Canada	-13.7	-9.0
Group earnings, adjusted	130.5	145.0

EARNINGS PER SHARE

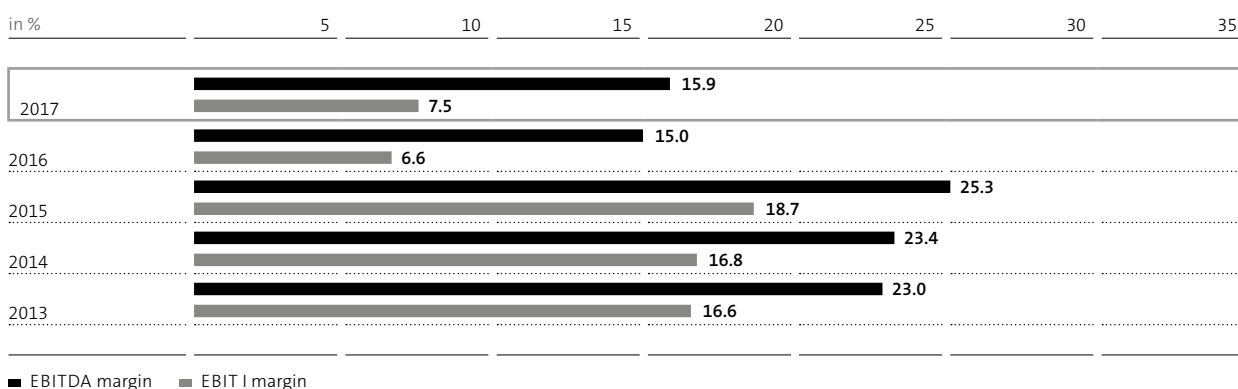
TAB: 2.5.8

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
Earnings per share (€)	0.91	0.53	0.20	0.06	0.17	0.96	+6.0
Earnings per share, adjusted (€) ¹	0.68	0.49	0.10	0.01	0.16	0.76	+11.4
Average number of shares (millions)	191.40	191.40	191.40	191.40	191.40	191.40	—

¹ The adjusted key indicators include the result from operating forecast hedges in the respective reporting period, which eliminates effects from fluctuations in the market value of the hedges as well as effects from the exchange rate hedging of capital expenditure in Canadian dollars. Related effects on deferred and cash taxes are also adjusted; tax rate for 2017: 29.9% (2016: 29.3%).

MARGIN KEY INDICATORS

FIG: 2.5.5



KEY INDICATORS ON RESULTS OF OPERATIONS

MARGIN KEY INDICATORS

The margin key indicators also improved in the year under review: Earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 576.7 million in 2017 resulted in an EBITDA margin of around 16% compared to 15% in the previous year; the EBIT I margin reached almost 8% (2016: 7%). The return on revenues was once again around 4% (2016: 4%). / FIG: 2.5.5

🕒 'Definitions of Key Financial Indicators', page 205

COMPUTATION OF THE COST OF CAPITAL

The weighted average cost of capital rate for the K+S GROUP is calculated from the aggregate of the expected returns of equity providers in terms of their equity share as well as the interest on debt in respect of the share of interest-bearing debt in total capital according to the peer group method as per IAS 36. As this is considered from an after-tax perspective, the average interest on debt is reduced by the corporate tax rate.

The expected returns of equity providers is derived from a risk-free interest rate plus a risk premium. The cash value equivalent average of the yields of government bonds denominated in euros with a maturity of 1 to 30 years was assumed as the risk-free interest rate according to the Svensson method; at the end of 2017, this was 1.25% (2016: 1.04%). The risk premium has been calculated using a market risk premium of 6.25% (2016: 6.25%) as well as the applicable beta factor of 1.03 derived from the peer group (2016: 0.97) in relation to the MSCI WORLD benchmark index. This means

that an equity provider would be entitled to notional returns of 7.7% (2016: 7.1%).

The average interest on debt before taxes was 2.8% (2016: 3.4%) and is based on the peer group company rating and a corresponding spread applicable to the risk-free interest rate. After taxes, this results in an average cost of debt of 2.0% (2016: 2.5%). The debt-equity ratio calculated according to the peer group method is 40.7% (2016: 31.5%).

In total, this results in a weighted average cost of capital for the K+S GROUP of 6.0% (2016: 6.0%) after taxes. Based on an average figure for capital tied up of € 8,498.8 million (of which operationally tied up: € 8,345.7 million) for 2017, this gives a cost of capital of € 509.9 million (2016: € 462.2 million). This corresponds to a cost of capital before taxes of 8.5% (2016: 8.2%).

PROFITABILITY RATIOS

Profitability ratios improved slightly, due in particular to favourable performance in both business units. In the year under review, the return on equity after taxes was 3.3% (2016: 2.9%) with the return on total investments amounting to 3.1% (2016: 2.7%). The return on capital employed (ROCE) of the K+S GROUP climbed to 3.2% in the year under review compared to 3.0% in the previous year. This was due to the significant increase in EBIT I, while a higher working capital commitment mainly because of Bethune had an offsetting effect. In 2017 as well, the ROCE was therefore below our cost of capital of 8.5% before taxes. As a result, the K+S GROUP was forced to record a negative value added of € -438.1 million for the past financial year (2016: € -391.7 million). For

COMPUTATION OF THE ROCE		TAB: 2.5.9	
	2016	2017	
in € million			
EBIT I	229.3	270.8	
Intangible assets ¹	843.3	789.1	
Tangible fixed assets	6,456.0	6,692.6	
Investments in affiliated companies and other equity interests	27.0	20.6	
Operating fixed assets	7,326.3	7,502.3	
Inventories	710.4	690.9	
Trade receivables	656.5	714.9	
Other assets	357.5	338.8	
Trade payables	-343.8	-288.4	
Other liabilities	-193.7	-312.5	
Current provisions	-322.5	-292.3	
Working capital adjustments ²	30.3	116.7	
Working capital	894.6	968.1	
Capital employed	8,220.9	8,470.4	
ROCE = Operating earnings (EBIT I) / Capital employed (average for the year)	3.0%	3.2%	
– Potash and Magnesium Products business unit	0.7%	1.4%	
– Salt business unit	8.1%	8.9%	
– Complementary activities	28.2%	33.8%	

¹ Adjusted by the deferred tax included in goodwill from initial consolidation.

² Adjusted by CTA asset surpluses, receivables and liabilities from investments, market values of operating forecast hedging transactions, reimbursement claims and corresponding obligations as well as liabilities from finance lease.

these reasons, the Potash and Magnesium Products business unit achieved a ROCE of 1.4 %, and the Salt business unit reached 8.9 %. / TAB: 2.5.9, 2.5.10

🔗 'Definitions of Key Financial Indicators', page 205

FINANCIAL POSITION

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

FINANCIAL MANAGEMENT IS CONTROLLED CENTRALLY

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

- + securing liquidity and controlling it efficiently across the Group,
- + maintaining and optimising the financial capability of the Group, and
- + reducing financial risks, including through the use of financial instruments.

Centralised cash management allows us to control liquidity and optimise the payment flows within the K+S GROUP. In order to maintain our eligibility for financing and to achieve a low cost of capital for borrowed capital and equity, we aim to achieve a capital structure in the long term which, notwithstanding the current 'non-investment grade' rating, is

MULTIPLE PERIOD OVERVIEW OF MARGIN AND PROFITABILITY RATIOS¹

TAB: 2.5.10

	2013	2014	2015	2016	2017
Key indicators in %					
Gross margin	43.2	42.1	45.9	36.3	33.4
EBITDA-margin	23.0	23.4	25.3	15.0	15.9
EBIT I margin	16.6	16.8	18.7	6.6	7.5
Return on revenues ²	11.1	9.6	13.0	3.8	4.0
Return on equity after taxes ^{2,3}	12.8	9.9	13.1	2.9	3.3
Return on total investment ^{2,3}	10.9	9.0	10.4	2.7	3.1
Return on capital employed (ROCE)	15.2	12.7	12.5	3.0	3.2
Weighted average cost of capital before taxes	8.2	8.4	8.3	8.2	8.5
Value added (€ million)	302.3	216.4	262.8	-391.7	-438.1

¹ Information refers to the continuing operations of the K+S Group.

² The adjusted key indicators only include the profit/(loss) from operating anticipatory hedges in the relevant reporting period reported in EBIT I, which eliminates effects from changes in the fair value of the hedges as well as effects from the exchange rate hedging of capital expenditure in Canadian dollars. Related effects on deferred and cash taxes are also eliminated; tax rate for 2017: 29.9 % (2016: 29.3 %).

³ This information refers to continued and discontinued operations of the K+S Group.

orientated towards the standard criteria and indicators for an ‘investment grade’ rating. The capital structure is managed on the basis of the following key figures: / TAB: 2.5.11

🔗 ‘K+S on the Capital Market’, page 24

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

FOREIGN CURRENCY HEDGING SYSTEM

Exchange rate fluctuations can lead to the value of the service performed not matching the value of the consideration received because income and expenditure arise at different times in different currencies (transaction risks). Exchange rate fluctuations, especially in relation to the us dollar, play a particular role for the Potash and Magnesium Products business unit regarding the level of earnings and receivables. Key net positions (net revenues in USD minus freight and capital expenditure for other costs in USD) are hedged using derivatives, normally options and futures, in the context of transaction hedging.

Furthermore, currency effects occur for subsidiaries whose functional currency is not the euro (translation risks): On the one hand, the earnings of these companies determined in a foreign currency are translated into euros at average rates and recognised in profit or loss, and on the other hand, their net assets are translated into euros at the rates prevail-

ing on the reporting date. The latter can result in currency-related fluctuations in the equity of the K+S GROUP. Translation effects from the conversion of us dollars mainly occur in the Salt business unit at present and will continue to play an increasingly important role for Canadian dollar conversion in the Potash and Magnesium Products business unit in future.

Options and futures are used as part of transaction hedging to secure the worst case, but at the same time, the opportunity is retained for some of the foreign currency positions to participate in exchange rate developments that are more favourable for us.

In 2017, the price of the us dollar realised in the Potash and Magnesium Products business unit averaged EUR/USD 1.12 including costs (2016: EUR/USD 1.20). / TAB: 2.5.12

Due to the commissioning of the Bethune site in Canada, noteworthy effects will occur due to fluctuations in the exchange rate between the Canadian dollar and the us dollar (transaction) or the euro (translation).

🔗 www.k-plus-s.com/bethune

Until the construction phase in Bethune was completed, hedging transactions were entered into against the euro for these investments in Canadian dollar. Since the mine transitioned to regular operations, the required CAD is procured through a direct hedge against the USD from the sale of the products manufactured in Canada.

KEY INDICATORS OF THE CAPITAL STRUCTURE

TAB: 2.5.11

	2013	2014	2015	2016	2017
Net debt/EBITDA	1.2	1.8	2.3	6.9	7.2
Net debt/equity (%)	30.5	40.9	55.9	78.7	99.5
Equity ratio (%)	45.3	50.6	51.9	47.2	42.7

FOREIGN CURRENCY HEDGING – POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

TAB: 2.5.12

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017
EUR/USD exchange rate after premiums	1.20	1.08	1.12	1.16	1.17	1.12
Average EUR/USD spot rate	1.11	1.06	1.10	1.17	1.18	1.13

CAPITAL EXPENDITURE BY UNIT ¹

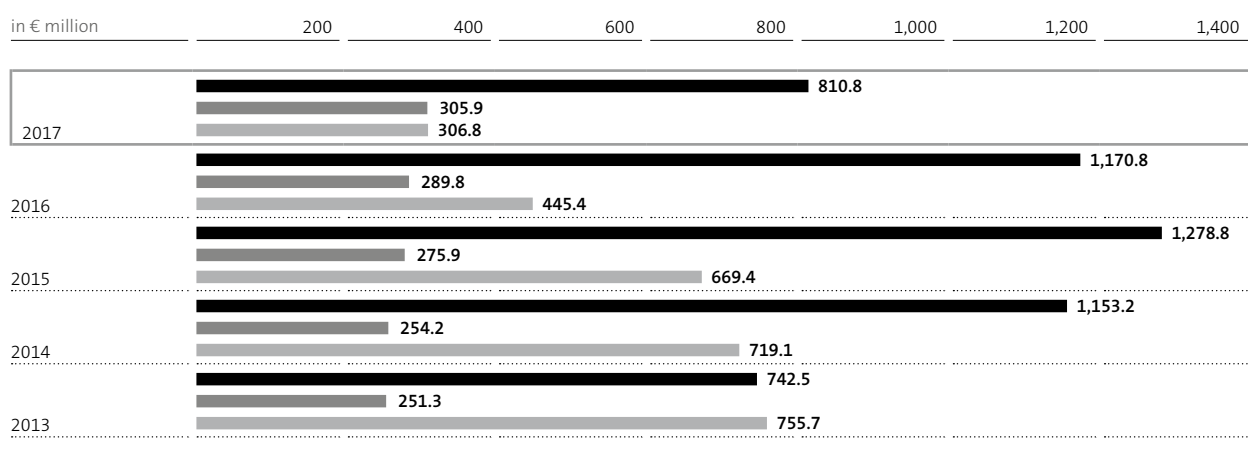
TAB: 2.5.13

in € million	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
Potash and Magnesium Products business unit	1,009.8	257.9	105.3	128.1	189.1	680.4	-32.6
Salt business unit	148.8	18.2	26.1	27.2	47.4	118.8	-20.2
Complementary activities	5.8	0.8	0.2	0.9	2.5	4.4	-24.4
Other capital expenditure	6.4	0.5	1.3	1.3	4.0	7.2	+12.2
K+S Group	1,170.8	277.4	133.0	157.5	243.0	810.8	-30.7
Share of capital expenditure (%)	—	34.2	16.4	19.4	30.0	100.0	—

¹ Relates to cash investments in tangible and intangible fixed assets taking account of reimbursement claims from additional claims management.

CAPITAL EXPENDITURE COMPARED TO DEPRECIATION, AMORTISATION, WRITE-DOWNS AND CASH FLOW FROM OPERATING ACTIVITIES

FIG: 2.5.6



■ Capital expenditure¹ ■ Depreciation/Amortisation² ■ Cash flow from operating activities

¹ Relates to cash investments in tangible and intangible fixed assets taking account of reimbursement claims from additional claims management.

² Depreciation, amortisation and write-downs affecting profit or loss on tangible and intangible fixed assets and investment properties, as well as amortisation of financial assets.

CAPITAL EXPENDITURE ANALYSIS

The K+S GROUP invested a total of € 810.8 million in 2017 (2016: € 1,170.8 million). As expected, the decrease compared to the previous year was mainly due to the lower capital expenditure for our Bethune mine, which was successfully commissioned in 2017. / TAB: 2.5.13

At the end of the year, there were capital expenditure obligations totalling € 388.3 million related to ongoing investment projects and obligations from operating leasing. / FIG: 2.5.6

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

We invested € 680.4 million in the Potash and Magnesium Products business unit and therefore € 329.4 million less than

in the previous year (2016: € 1,009.8 million). The Bethune mine, the warehouse and loading facilities at the Vancouver site and the rail connection were successfully put into operation. The repair work necessitated by the damage in July 2016 has been completed. Additional rail cars have been produced and delivered. In addition, considerable investments have been made in measures for water protection in the Hesse-Thuringia potash district, especially in the construction of the new KAINITE CRYSTALLIZATION AND FLOTATION PLANT (KCF) which began operations on schedule at the beginning of 2018.

🔍 'Presentation of segments', page 93; 🔍 'Non-financial-Statement', Environment, page 48

OVERVIEW OF CASH FLOWS

TAB: 2.5.14

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
in € million							
Net cash flows from operating activities	445.4	267.0	117.4	-1.9	-76.5	306.8	-31.1
Net cash flows from/(used in) investing activities	-1,201.4	-206.4	-213.4	-188.1	-54.8	-663.5	+44.8
Free cash flow	-756.0	60.6	-96.0	-190.0	-131.3	-356.7	+52.8
Adjustment for purchases/sales of securities and other financial investments	-20.8	-5.4	15.2	-25.2	-18.5	-33.1	-59.1
Adjusted free cash flow	-776.8	55.2	-80.8	-215.2	-149.8	-389.8	+49.8

MULTIPLE PERIOD OVERVIEW OF THE FINANCIAL POSITION

TAB: 2.5.15

	2013	2014	2015	2016	2017
in € million					
Equity	3,396.6	3,974.5	4,295.6	4,552.2	4,160.7
Equity ratio (%)	45.3	50.6	51.9	47.2	42.7
Non-current debt	2,686.8	2,999.8	3,036.8	3,930.4	4,240.2
– of which provisions for pensions and similar obligations	102.6	162.8	166.1	186.7	166.4
– of which provisions for mining obligations	743.9	872.5	870.1	996.0	1,000.0
Long-term provisions as share of total equity and liabilities (%)	12.9	15.2	12.5	12.3	12.0
Current debt	1,414.8	880.9	941.2	1,162.9	1,353.5
– of which trade accounts payable	271.5	284.6	306.0	343.8	288.4
Financial liabilities	2,255.2	1,551.3	1,543.7	2,534.5	3,021.7
Net financial liabilities	190.5	590.9	1,363.6	2,401.1	2,974.1
Net debt	1,037.0	1,626.2	2,399.8	3,583.8	4,140.5
Debt/equity ratio I (%)	66.4	39.0	35.9	55.7	72.6
Debt/equity ratio II (%)	30.5	40.9	55.9	78.7	99.5
Working capital	844.9	768.1	945.9	894.6	968.1
Net cash flows from operating activities	755.7	719.1	669.4	445.4	306.8
Free cash flow	-53.6	134.2	-106.4	-756.0	-356.7
Net cash flows from/(used in) financing activities	721.3	-787.8	-151.5	769.1	411.5

SALT BUSINESS UNIT

Capital expenditure in the Salt business unit decreased to € 118.8 million in 2017 (2016: € 148.8 million). The development of the next mining horizon at the Ojibway site in Canada as well as measures to eliminate the storm damage at the site in Inagua, Bahamas, were among the most significant projects in the year under review.

COMPLEMENTARY ACTIVITIES

The capital expenditure for Complementary Activities decreased to € 4.4 million (2016: € 5.8 million). The majority of this spending went toward retention investments in the Waste management and Recycling segment.

LIQUIDITY ANALYSIS

Net cash flows from operating activities in the year under review were € 306.8 million (2016: € 445.4 million). The decrease was primarily the result of an increase in receivables, due in particular to the revenues from the mine in Canada. / TAB: 2.5.14

In 2017, net cash flows used in investing activities (adjusted for purchases/sales of securities and other financial investments) amounted to € -696.6 million (2016: € -1,222.2 million). At € -389.8 million, the adjusted free cash flow (excluding purchases/sales of securities and other financial investments)

showed a significant improvement compared to the previous year (2016: € –776.8 million).

Net cash flows from financing activities in the year under review fell to € 411.5 million (2016: € 769.1 million). This was due to less outside financing and higher repayment of principal.

As of 31 December 2017, net cash and cash equivalents amounted to € 175.7 million (31 December 2016: € 134.7 million). These consist of term deposit investments, money market instruments and comparable securities with a residual term of less than three months. / TAB: 2.5.15

FINANCING ANALYSIS

As of 31 December 2017, 86 % of financing resulted from equity and non-current debt, which in turn preferentially consists of bond payables and provisions (31 December 2016: 88 %). / FIG: 2.5.7

EQUITY RATIO BELOW PREVIOUS YEAR

Equity fell to € 4,160.7 million in the year under review compared to € 4,552.2 million in the previous year. Due to a proportionately higher increase in debt to a total of € 5,593.7 million (2016: € 5,093.3 million), the equity ratio declined to 42.7 % (2016: 47.2 %).

DEBT SHARE INCREASED

Non-current debt including long-term provisions amounted to € 4,240.2 million as of 31 December 2017 (2016: € 3,930.4 million). As a result, the proportion of non-current debt increased to 43.4 % of total equity and liabilities (31 December 2016: 40.7 %), which was mainly due to higher long-term financial liabilities.

Current debt was € 1,353.5 million on the reporting date (31 December 2016: € 1,162.9 million). Its share of total equity

and liabilities therefore increased to 13.9 % as of 31 December 2017 (2016: 12.1 %).

📄 'Notes', page 138

FINANCIAL LIABILITIES

As of 31 December 2017, financial liabilities amounted to € 3,021.7 million (2016: € 2,534.5 million). The increase is mainly due to continued high levels of capital expenditure in the new Bethune potash plant in Canada. For this reason, bonds and promissory notes with a total volume of € 690 million were issued in 2017. Further large parts of non-current debt relate to the corporate bonds issued in June 2012 and December 2013 as well as the promissory notes issued in the summer of 2016.

PROVISIONS

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

The provisions for long-term mining obligations remained virtually unchanged at € 1,000.0 million (2016: € 996.0 million). The average discount rate also remained at 3.3 % (2016: 3.3 %).

The non-current provisions for pensions and similar obligations also decreased slightly to € 166.4 million (2016: € 186.7 million). The average weighted interest rate for pensions and similar obligations was 2.9 % as of 31 December 2017 (2016: 3.0 %). The actuarial valuation of pension provisions uses the projected unit credit method in accordance with IAS 19.

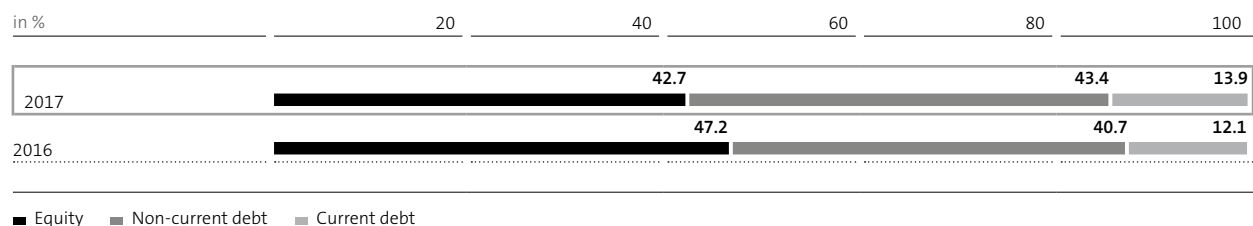
📄 'Notes', page 138

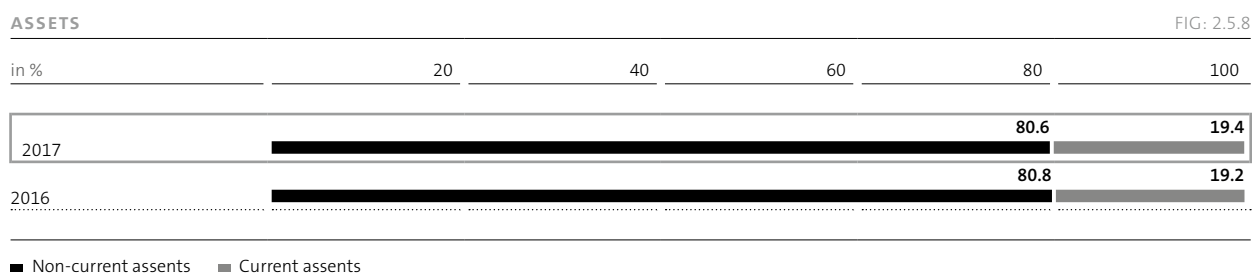
SIGNIFICANCE OF OFF-BALANCE SHEET FINANCING INSTRUMENTS FOR THE FINANCIAL POSITION

We use operating leases for company vehicles, storage capacities and IT equipment, for example; their scope has no material bearing on the economic position of the K+S GROUP.

EQUITY AND LIABILITIES

FIG: 2.5.7





NET DEBT TAB: 2.5.16

in € million	31.12.2016	31.12.2017
Cash on hand and bank balances	140.2	182.6
Non-current securities and other financial investments	7.0	7.0
Current securities and other financial investments	14.3	11.4
Financial liabilities	-2,534.5	-3,021.7
Liabilities from finance leases	-50.7	-173.0
Reimbursement claim Morton Salt bond	22.6	19.6
Net financial liabilities	-2,401.1	-2,974.1
Non-current provisions for pensions and similar obligations	-186.7	-166.4
Non-current provisions for mining obligations	-996.0	-1,000.0
Net debt	-3,583.8	-4,140.5

MULTIPLE PERIOD OVERVIEW OF ASSETS TAB: 2.5.17

in € million	2013	2014	2015	2016	2017
Tangible and intangible fixed assets	3,868.9	5,128.3	6,123.1	7,540.4	7,655.4
Financial assets, non-current securities and other financial investments	193.2	47.0	14.1	34.4	28.0
Inventories	552.6	578.8	705.3	710.4	690.9
Trade receivables	737.9	732.9	708.6	656.5	714.9
Cash and cash equivalents, current securities and other financial investments	1,867.5	910.0	163.1	154.5	194.0

NET ASSETS

ANALYSIS OF ASSET STRUCTURE

Total assets of the K+S GROUP amounted to € 9,754.4 million as of 31 December 2017 (31 December 2016: € 9,645.5 million). Tangible fixed assets increased mainly as a result of the commissioning of the new Bethune potash plant in Canada to € 6,692.6 million (31 December 2016: € 6,456.0 million). In

particular due to the first product sales from Bethune, trade receivables also increased to € 714.9 million (2016: € 656.5 million). Cash and cash equivalents, current and non-current securities and other financial investments rose to € 201.0 million (31 December 2016: € 161.5 million) mainly as a result of the issue of a corporate bond. Compared to the previous year, the ratio of non-current to current assets remained at 81:19 (2016: 81:19). / FIG: 2.5.8

The net debt of the K+S GROUP was € 4,140.5 million as of 31 December 2017 (31 December 2016: € 3,583.8 million). Net financial liabilities, excluding non-current provisions, amounted to € 2,974.1 million as of the reporting date (2016: € 2,401.1 million). / TAB: 2.5.16, 2.5.17

🔗 'Definitions of Key Financial Indicators', page 205

EARMARKED ASSETS

In 2005, we began funding the pension obligations of the domestic companies through a contractual trust arrangement (CTA model). Such allocation of funds requires that financial resources are earmarked. The same applies to plan assets which serve to fund pension obligations in Canada. Moreover, reinsurance arrangements are in place which are also to be classified as plan assets in accordance with IFRS. Obligations treated in this way are presented on the balance sheet on a net basis in accordance with IFRS. In 2017, assets earmarked in connection with personnel obligations amounted to € 441.3 million compared to € 434.7 million in the previous year.

🔗 'Notes', note (21), page 172

ASSETS NOT SHOWN ON THE BALANCE SHEET

As of 31 December 2017, other financial obligations totalled € 388.3 million (31 December 2016: € 550.3 million) and concern both obligations arising from as yet incomplete capital expenditure projects as well as from operating leases for factory and office equipment (e.g. printers, photocopiers and IT peripherals). In addition, vehicles and storage capacities are leased. Due to the chosen contractual structures, these items are not carried under fixed assets.

PRESENTATION OF SEGMENTS

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

INCREASE IN REVENUES COMPARED WITH PREVIOUS YEAR

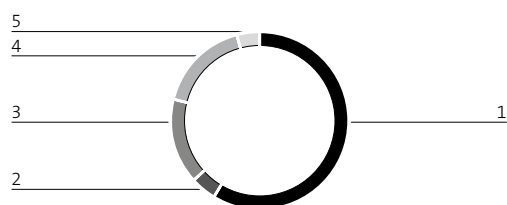
In the year under review, revenues in the Potash and Magnesium Products business unit increased to € 1,703.5 million as a result of higher volumes and tangibly exceeded those of the previous year (2016: € 1,531.6 million). One significant reason for this was greater product availability at the integrated Werra plant. After approval of the deep-well injection permit was granted in December 2016 and due to efficient wastewater management, only 25 days of interruptions in production could not be avoided in the first quarter of 2017 – after some 200 disposal-related stoppage days in the previous year. Furthermore, the new Bethune mine was commissioned in the summer of 2017. In total, the sales volumes in the Potash and Magnesium Products business unit increased to over 6.7 million tonnes (2016: 6.1 million tonnes). / FIG: 2.5.9 / TAB: 2.5.18, 2.5.19

🔗 'Industry-specific framework conditions,' page 79

VARIANCE COMPARED TO PREVIOUS YEAR		TAB: 2.5.18
		2017
in %		
Change in revenues		+11.2
– volume/structure-related		+11.0
– price/pricing-related		–0.1
– currency-related		–0.8
– consolidation-related		+1.1

REVENUES BY REGION

FIG: 2.5.9



		2016	2017
in %			
1	Europe	61.7	58.9
	– of which Germany	16.7	17.2
2	North America	3.3	4.6
3	South America	16.5	15.6
4	Asia	13.5	16.8
5	Africa, Oceania	5.0	4.1

KEY INDICATORS

TAB: 2.5.19

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
in € million							
Revenues	1,531.6	473.7	387.1	357.7	485.0	1,703.5	+11.2
– of which potassium chloride	646.8	189.9	163.3	152.1	228.2	733.4	+13.4
– of which fertilizer specialties	636.3	211.4	160.1	143.6	195.4	710.5	+11.7
– of which industrial products	248.5	72.4	63.8	62.0	61.4	259.5	+4.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA) ¹	184.8	81.2	71.4	42.4	73.8	268.8	+45.5
Operating earnings (EBIT I)	33.6	41.9	31.4	1.7	6.4	81.4	>100

¹ Adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES BY REGION¹

TAB: 2.5.20

		2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
Revenues	€ million	1,531.6	473.7	387.1	357.7	485.0	1,703.5	+11.2
Europe	€ million	945.1	304.0	227.9	213.4	257.5	1,002.8	+6.1
Overseas	US\$ million	649.2	180.7	175.5	170.9	264.4	791.5	+21.9
Sales volumes	t million (product)	6.06	1.82	1.54	1.41	1.94	6.71	+10.8
Europe	t million (product)	3.42	1.14	0.86	0.80	0.97	3.77	+10.1
Overseas	t million (product)	2.63	0.68	0.68	0.62	0.97	2.94	+11.7
Average price	€/t (product)	252.9	259.8	252.0	253.0	250.1	253.8	+0.3
Europe	€/t (product)	276.0	265.6	265.3	268.9	264.6	266.0	-3.6
Overseas	US\$/t (product)	246.7	266.2	259.0	273.4	276.5	269.0	+9.0

¹ Revenues include prices both inclusive and exclusive of freight costs and, in the case of overseas revenues, are based on the respective EUR/USD spot rates. Hedging transactions were concluded for most of these sales revenues. Prices are also affected by the relevant product mix and should therefore be taken as a rough indication only.

In the reporting year, around 59% of revenues were generated in Europe. Of the remaining revenues, the majority was generated in Asia and South America. / TAB: 2.5.20

In the 2017 financial year, revenues for potassium chloride increased tangibly to € 733.4 million in particular due to higher volume (2016: € 646.8 million). Over the course of the year, the price of potassium chloride also increased in many major sales regions. An unfavourable currency trend had an offsetting effect for κ+s. The commissioning of the new Bethune potash plant in Canada made it possible to realise additional sales volumes overseas, and sales volume in Europe increased as well. In Europe, around 1.2 million tonnes of potassium chloride were sold in the year under review (2016: 1.1 million tonnes), and around 2.0 million tonnes were sold in overseas (2016: 1.9 million tonnes).

Greater product availability at the integrated Werra plant and the resulting growth in sales volume and demand triggered a tangible recovery of revenues particularly in the area of fertilizer specialties to € 710.5 million (2016: € 636.3 million). Sales volumes in Europe rose from 1.8 million tonnes to almost 2.0 million tonnes, and overseas sales of over 0.7 million tonnes were also above the previous year's value (2016: 0.6 million tonnes).

In the industrial products unit, revenues increased slightly to € 259.5 million driven by higher volumes from € 248.5 million in the previous year. Sales volumes in Europe climbed to 0.6 million tonnes (2016: 0.5 million tonnes) and remained almost stable overseas at 0.2 million tonnes.

RECOVERY OF OPERATING EARNINGS

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the business unit amounted to € 268.8 million in the

year under review and were therefore significantly higher than the previous year's figure (2016: € 184.8 million). This is mainly attributable to the increases in volumes described above. A one-time payment to our employees and higher energy costs had an offsetting effect, reducing earnings. In addition, a corresponding provision was recognised in the 2017 financial year for the closure of the Sigmundshall potash mine at the end of 2018.

NEW BETHUNE POTASH PLANT IN OPERATION

The new Bethune mine was inaugurated on 2 May 2017 and handed over to the operations team. This marked the successful completion of the almost five-year construction period. Furthermore, the new transshipment and warehouse facility in the port of Vancouver (Port Moody) was opened on 28 August 2017; K+S mainly delivers to customers in South America and Asia from that facility. As last expected, around 500,000 tonnes were produced at the Bethune site in the 2017 financial year and the targeted annual capacity of two million tonnes was achieved as scheduled at the end of 2017.

By opening the Bethune facility, K+S is now a potash supplier with production sites on two continents. In the long term, the plant will have access to annual production capacity of 2.86 million tonnes, and it represents a key addition to the German production network, reduces production costs and extends the average useful life of the K+S potash mines. Consequently, the new potash plant also bolsters the Company's competitiveness at an international level, which will benefit the results of operations of the entire K+S GROUP.

DISCONTINUATION OF PRODUCTION AT SIGMUNDSHALL MINE AT THE END OF 2018

At the end of November 2017, the Supervisory Board and Board of Executive Directors of K+S AKTIENGESELLSCHAFT resolved to discontinue potash production at the Sigmundshall mine (near Hanover) at the end of 2018. The stocks are dwindling, and the conditions for mining the commodity at a depth of over 1,400 metres pushes people and technology to the limit. As a result of the greater effort required to mine, productivity at this site has fallen steadily over the past three years despite the strong commitment of the employees.

ADDITIONAL MEASURES TO REDUCE SALINE WASTEWATER – NEW FACILITY AT WERRA PLANT COMMISSIONED ON SCHEDULE

Disposal of saline production wastewater is crucial to maintaining potash production. For our integrated Werra plant, the permit obtained in December 2016 to continue deep-well

injection of saline wastewater until the end of 2021 was an important step in further securing higher production levels. However, the permit is only for an annual injection volume of 1.5 million m³ – an amount lower than was applied for – and it also limits the daily injection volume to 5,000 m³ per day. In light of this, we implemented additional measures for wastewater disposal in 2017. In addition to the temporary storage of brine in the Springen mining field (Thuringia), wastewater has been transported for discharging into the inactive K+S Bergmannssegen-Hugo mine (Hanover region) and to the Bernburg mine (Saxony-Anhalt) for shutting down and permanently securing a gas cavern. Furthermore, production was further stabilised by continuously expanding the basin capacities on site. After an interruption of 25 days was necessary at the Hattorf site in the first quarter of 2017 on account of the low water levels in the Werra, production at the integrated Werra plant could operate without limitations after these measures were implemented.

🔗 'Non-financial-Statement', Environment, page 48

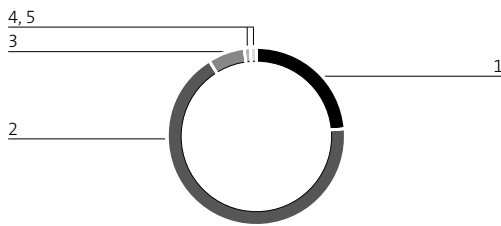
K+S commissioned the KAINITE CRYSTALLIZATION AND FLOTATION PLANT (KCF) at the Hattorf site on schedule on 17 January 2018 as yet another milestone for water protection in the Werra. The facility extracts around 260,000 tonnes of saleable product from previously unusable brine, thus reducing the wastewater produced by the Werra plant each year by around 20%. At a capital expenditure volume of € 180 million, this new facility represents our largest individual project to date for water protection. For 2018, no disposal-related production interruptions are anticipated at the integrated Werra plant.

The approval process started in 2011 for the expansion of tailings pile capacity at the Hattorf site for the disposal of solid production residues is progressing well. The approval process for the expansion of tailings pile capacity at the Wintershall and Zielitz sites are also on schedule.

🔗 'Risk and opportunity report', page 100

K+S CONCLUDES SETTLEMENT WITH BUND AND THE MUNICIPALITY OF GERSTUNGEN

Following intensive talks, K+S reached an agreement on a settlement with BUND (Bund für Umwelt- und Naturschutz Deutschland e.V.). Assuming a normal water flow of the Werra, K+S will renounce up to one million cubic meters of the deep-well injection volume approved for the next four years, and will also not submit any new application for injection after the current approval expires at the end of 2021. In return, BUND withdrew its complaint and the emergency



	2016	2017
in %		
1 Europe	21.4	24.0
– of which Germany	8.5	9.5
2 North America	71.9	68.5
3 South America	6.3	6.9
4 Asia	0.2	0.3
5 Africa, Oceania	0.2	0.2

petition based on this against the existing deep-well injection permit.

In December 2017, κ+s also settled the long-standing disputes with the municipality of Gerstungen and successfully concluded the negotiations. Accordingly, κ+s undertakes to support the municipality in implementing an action plan for optimising the drinking water supply. In return, the municipality of Gerstungen withdraws the action and summary proceedings against permits issued under water laws which it had initiated and agrees to advocate for amicable settlement of the proceedings against the discharge of saline wastewater into the Werra river.

By reaching these settlements, κ+s achieves legal certainty for the existing deep-well injection permit and also, together with the involved parties, lays the groundwork for further cooperation. In future, any such disputes shall be cleared up amicably taking into account the parties' mutual interests, thus intensifying the dialogue.

SALT BUSINESS UNIT

REVENUES AT PREVIOUS YEAR'S LEVEL

In the Salt business unit, revenues in 2017 were € 1,762.0 million (2016: € 1,762.2 million) and thus at the level of the previous year.

The de-icing salt business in North America was subdued due to a mild winter in 2016 / 2017 and generally higher inventory levels of our customers. An improved European demand was able to more than offset this development. At 10.7 million tonnes, approximately 6% more de-icing salt was sold over the course of the year (2016: 10.1 million tonnes). The average price in this segment was around 5% lower than the previous year's figure. The us Midwest in particular saw the most sig-

nificant reduction in prices. As a result, revenues for de-icing salt remained stable at € 613.2 million in 2017 over the previous year's figure (2016: € 609.9 million).

In the consumer products segment, including for example table salts and water softening salts, revenues in the year under review amounted to € 407.4 million, moderately down on the previous year's level (2016: € 426.9 million). This development was largely attributable to volume effects, which were only partially compensated by positive price effects. Sales decreased from 1.6 million tonnes to 1.5 million tonnes. / FIG: 2.5.10 / TAB: 2.5.21, 2.5.22

Revenues for industrial salts, such as for the animal feed, crude oil/natural gas and pharmaceutical industry, remained stable in the past financial year; revenues amounted to € 318.4 million compared to € 314.8 million in the previous year. Negative currency effects were compensated by significantly higher sales volumes in South America due to the use of salt for copper extraction. Overall, the business unit reported sales of 3.6 million tonnes in this segment, an increase of around 6% on the previous year's value (2016: 3.4 million tonnes).

Revenues for salt in food processing of € 242.5 million were also in line with the previous year's value (2016: € 246.3 million). Sales volumes in 2017 amounted to just under 1.3 million tonnes (2016: 1.3 million tonnes).

Revenues of € 144.6 million in the salt for chemical use business were significantly higher than €124.9 million in 2016. The increase was primarily due to higher sales volumes in North America, coupled with improved prices in Europe. Sales volumes of 3.3 million tonnes in total were therefore

moderately higher than in the previous year (2016: 3.0 million tonnes).

At 20.3 million tonnes, sales volumes for solid salt were around 5% above the figure for the previous year (2016: 19.4 million tonnes). / TAB: 2.5.23

VARIANCE COMPARED TO PREVIOUS YEAR

TAB: 2.5.21

in %		2017
Change in revenues		—
– volume/structure-related		+1.4
– price/pricing-related		–0.8
– currency-related		–0.6
– consolidation-related		—

EBITDA IMPROVED COMPARED TO PREVIOUS YEAR

Earnings before interest, taxes, depreciation and amortisation (EBITDA) were up slightly on the previous year at € 325.2 million (2016: € 322.3 million). Despite the negative effects of Hurricane Irma which resulted at times in production stoppages, limited transport capacities and increased costs at the Inagua (Bahamas) site, EBITDA was slightly higher compared to the previous year.

COMPLEMENTARY ACTIVITIES

STABLE REVENUES

Revenues of € 159.9 million for Complementary Activities in the year under review were at the level of the previous year (2016: € 161.1 million). In accordance with IFRS, intra-group revenues deriving from services provided to K+S-Group companies are not included in these figures. If these intra-group revenues are included, total revenues for the

KEY INDICATORS

TAB: 2.5.22

in € million	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
Revenues	1,762.2	610.9	315.7	328.8	506.6	1,762.0	—
– of which de-icing salt	609.9	310.9	30.5	51.2	220.6	613.2	+0.5
– of which consumer products	426.9	103.2	106.1	97.8	100.2	407.4	–4.6
– of which industrial salt	314.8	85.5	76.6	74.8	81.5	318.4	+1.1
– of which food processing	246.3	64.0	60.9	60.2	57.4	242.5	–1.6
– of which salt for chemical use	124.9	37.5	32.3	38.0	36.8	144.6	+15.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	322.3	135.3	29.0	37.3	123.5	325.2	+0.9
Operating earnings (EBIT I)	203.7	105.9	0.4	16.8	99.9	223.0	+9.5

DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES ¹

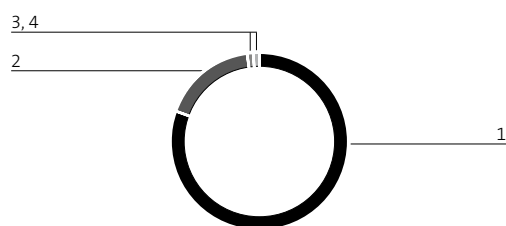
TAB: 2.5.23

		2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
De-icing salt								
Revenues	€ million	609.9	310.9	30.5	51.2	220.6	613.2	+0.5
Sales volumes	million t	10.10	5.07	0.57	1.02	4.00	10.66	+5.6
Average price	€/t	60.4	61.3	53.6	50.4	55.1	57.5	–4.8
Consumer products, food processing, industrial salt and salt for chemical use								
Revenues	€ million	1,112.9	290.1	275.9	270.9	275.9	1,112.9	—
Sales volumes	million t	9.26	2.43	2.26	2.49	2.48	9.66	+4.3
Average price	€/t	120.2	119.6	122.0	108.8	109.6	114.8	–4.5

¹ Revenues include prices both inclusive and exclusive of freight costs. Prices are also affected by exchange rate movements and the relevant product mix and should therefore be taken as a rough indication only.

REVENUES BY REGION

FIG: 2.5.11



	2016	2017
in %		
1 Germany	83.5	81.9
2 Rest of Europe	16.2	17.6
3 Asia	0.2	0.4
4 Africa/Oceania	0.1	0.1

KEY INDICATORS

TAB: 2.5.24

	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	%
in € million							
Revenues	161.1	41.5	38.8	39.5	40.1	159.9	-0.7
– Waste Management and Recycling	89.4	21.8	21.2	21.3	21.5	85.8	-4.0
– K+S Transport GmbH	10.1	2.7	2.4	2.1	2.5	9.7	-4.0
– Animal Hygiene Products	40.1	11.0	9.2	10.0	9.9	40.1	–
– CFK (Trading)	21.5	6.0	6.0	6.1	6.2	24.3	+13.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	30.8	9.3	6.1	7.1	7.9	30.3	-1.6
Operating earnings (EBIT I)	21.9	7.0	3.9	5.9	6.6	23.5	+7.3

year under review amounted to € 188.6 million (2016: € 187.6 million). / FIG: 2.5.11 / TAB: 2.5.24, 2.5.25

Revenues fell from € 89.4 million to € 85.8 million in the Waste Management and Recycling segment in the year under review mainly as a result of lower volumes. At € 9.7 million, third party revenues for K+S TRANSPORT GMBH declined compared to the previous year (2016: € 10.1 million). Revenues of € 40.1 million for the Animal Hygiene Products segment in the year under review remained at the level of the previous year (2016: € 40.1 million). The CFK trading business recorded a volume-driven increase in revenues to € 24.3 million (2016: € 21.5 million).

EBITDA AT PREVIOUS YEAR'S LEVEL

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for Complementary Activities amounted to € 30.3 million in the year under review, almost on a par with the previous year (2016: € 30.8 million). While EBITDA of K+S TRANSPORT GMBH increased mainly as a result of higher volumes, the other segments reported a slight decline, primarily related to costs.

VARIANCE COMPARED TO PREVIOUS YEAR

TAB: 2.5.25

	2017
in %	
Change in revenues	-0.7
– volume/structure-related	-2.4
– price/pricing-related	+1.7
– currency-related	–
– consolidation-related	–

ASSESSMENT OF THE CURRENT ECONOMIC SITUATION BY THE BOARD OF EXECUTIVE DIRECTORS ¹

The 2017 financial year was characterised by strong demand for plant nutrients containing potash along with a higher price level for potassium chloride. Prices for fertilizer specialties also showed the first signs of recovery at the end of

¹ as of 7 March 2018

the year after higher product availability on the market had initially caused prices to fall slightly. The deep-well injection permit granted in December 2016 and our efficient wastewater management had a positive effect on product availability at the integrated Werra plant. By commissioning our new Bethune potash plant, we were also able to increase our sales volume compared to the previous year. In contrast, the unfavourable development of exchange rates in both business units and lower prices in the North American de-icing salt business negatively impacted revenues. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to € 576.7 million and were thus tangibly better than the previous year (2016: € 519.1 million). A non-recurring expense for recognising provisions and adjusting existing provisions for the closure of the Sigmundshall potash mine planned for 2018 was also reflected in earnings. At € –389.8 million, the adjusted free cash flow remained negative although it improved compared to the previous year (2016: € –776.8 million). As a result, the ratio of net debt to EBITDA amounted to 7.2 times after the key figure had peaked at 8.1 times during the year (2016: 6.9 times).

2.6 REPORT ON RISKS AND OPPORTUNITIES

As an international company, κ+s regularly encounters a series of developments and events that may affect the achievement of financial and non-financial targets. Planning and strategy constitute the starting point for the management of risks and opportunities at κ+s.

We define risks as negative deviations and opportunities as positive deviations from possible future developments of a forecast or target value.

MANAGEMENT PROCESS

IDENTIFICATION

Risks and opportunities are generally identified in the respective corporate departments using various tools. There are a number of tools available for this purpose. In ongoing operations and project management, we take a close look at analyses of the market and the competition, for instance, evaluate a wide range of external information, the relevant revenue/cost elements and mining circumstances, and observe risk indicators and success factors from the macroeconomic, industry-specific, legal and political environment.

© 'Declaration on Corporate Governance', page 55

ASSESSMENT OF THE FINANCIAL IMPACT AND MANAGEMENT

We have set up and documented specific processes for managing opportunities and risks. For each risk a gross assessment is carried out initially in which the likelihood of occurrence and the loss potential are quantitatively assessed in terms of the financial impact. The next step involves developing suitable counter-measures, considering alternative risk scenarios. Our aim is to reduce the loss potential or the likelihood of occurrence. The decision whether to implement the measures also takes account of the actual costs required. In the process, risks can also be transferred to a third party. If the gross likelihood of occurrence and/or gross loss poten-

tial can be reliably reduced by implementing effective and appropriate counter-measures, the focus of consideration will be on the net likelihood of occurrence and the net loss potential affecting the operating result.

With regard to their likelihood of occurrence and loss potential, risks are assessed internally for a short-, medium- and long-term observation period, i.e. for the coming 12, 36 and 120 months from the time of identification or review. The assessments for risks that have already been identified and the counter-measures developed and possibly implemented are continuously reviewed to ensure these are up to date and effective; they are adjusted and reported in the event of significant changes or if defined thresholds are exceeded.

To assess the financial impact, each opportunity is examined in terms of its feasibility, profitability and any risks it may entail. Suitable development measures are specifically sought, pursued and implemented in order to make effective use of opportunities. The benefit potential only applies to the net perspective following implementation of appropriate development measures. The assessment periods are identical to those used for risk assessment.

ASSESSMENT OF NON-FINANCIAL IMPACT

Identified risks can also have negative effects on the non-financial aspects of environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Identified risks that

materialise may give rise to reputational risks that are difficult or impossible to quantify.

🔗 'Non-financial statement', page 45

The non-financial impact is identified and assessed based on our central sustainability analyses and using the dimensions of loss potential and likelihood of occurrence.

Systems and concepts for managing developments or events that may affect the above-mentioned aspects are described in our sustainability strategy in the non-financial statement.

REPORTING

Internal reporting on risks and opportunities is based on a threshold concept. This involves continuous reporting on risks and opportunities by the corporate departments to the Board of Executive Directors if defined thresholds for both the likelihood of occurrence and loss potential/benefit potential are exceeded. Information on whether a risk or an opportunity is included in the forecast or planning is also provided.

Risks and opportunities whose financial impact is considered in the medium-term planning or forecast through corresponding earnings discounts or premiums do not form part of risk and opportunity reporting. Where risks could have a significant or serious non-financial impact on the aspects of environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters, we specify these in the description of the relevant risk.

Moreover, when determining the substantial general assumptions for the medium-term planning or forecast (such as volumes, revenues, costs, exchange rates, interest rates), the relevant risks and opportunities need to be considered in the likeliest scenario. In addition, the negative/positive effect that certain deviations would have on the individual planning parameters is required to be disclosed for particular planning assumptions ('sensitivities').

The Board of Executive Directors and management continually have an overview of the current risk and opportunity exposure thanks to standardised reporting. Significant risks that arise in the short term are communicated directly to the

Board of Executive Directors without delay in case of urgency. The Supervisory Board is also briefed by the Board of Executive Directors on a regular basis and in a timely manner, immediately in urgent cases.

RISK MANAGEMENT IN RELATION TO THE UTILISATION OF FINANCIAL INSTRUMENTS (IFRS 7)

We aim to limit financial risks (for example, exchange rate risk, interest rate risk, default risk and liquidity risk) through special management. A centralised finance management system has been set up at K+S AKTIENGESELLSCHAFT for this purpose. In addition, we manage our capital structure to safeguard the financing of business operations and investing activities at all times and in the long term.

🔗 'Financial position', page 87

Our international business activities can give rise to currency-related revenue risks, which we counteract through hedging transactions as part of our currency management. Internal regulations determine the permissible hedging strategies as well as hedging instruments, responsibilities, processes and control mechanisms. Other market risks may arise from changes in interest rates. Similar regulations apply insofar as derivative financial instruments are specifically used here for hedging purposes. Financial transactions are conducted only with suitable partners. The suitability of partners and compliance with position limits is continuously reviewed through regular monitoring. A balanced distribution of the financial derivatives used across various counterparties is implemented to further limit the risk of default.

🔗 'Notes', page 138

The instruments selected are used exclusively to secure underlying transactions, but are not used for trading or speculative purposes. Firstly, hedging transactions are concluded for existing underlying transactions. Our intention here is to largely avert exchange rate risks arising from recognised underlying transactions (usually receivables). Secondly, we enter into hedging transactions for future business, which can be anticipated with a high level of probability based on empirically reliable findings (anticipatory hedges).

RISKS AND OPPORTUNITIES 2018 – 2020

Risks and opportunities that could affect the results of operations, financial position and net assets of κ+s during the medium-term planning period (three years) and have not yet been incorporated into the planning are listed and described in this section. The cumulative net loss/net benefit potential is distinguished as follows:

- + Significant financial impact: >€200 million
- + Moderate financial impact: >€25–200 million

The relevant likelihood of occurrence is differentiated as follows:

- + Likely: > 50 %
- + Possible: 10–50 %
- + Unlikely: < 10 %

RISKS

TAB: 2.6.1

	Likelihood of occurrence		Loss potential	
External and industry-specific risks				
Macroeconomic developments	Possible		Significant	
Increased supply/reduced demand	Possible		Significant	
Weather-related fluctuations in demand	Possible		Significant	
Additional weather-related costs	Possible	New	Moderate	New
Risks arising from changes in the legal environment				
Management planning in accordance with the Water Framework Directive or amendment, refusal or revocation by a court of official licences for the disposal of liquid and solid production residues	Possible		Significant	
More stringent requirements regarding the outdoor storage of de-icing salt in North America	Possible		Significant	
Requirement for collateral security under mining law	Possible		Moderate	
Tightening of existing regulations on the underground disposal of mining waste	Possible		Moderate	
Operational risks				
Leveraging of synergies	Possible	New	Moderate	New
Ramp-up phase at the Bethune site	Possible	New	Moderate	New
Litigation risks and legal disputes	Possible	↑	Moderate	↓
Energy costs and energy supply	Possible		Moderate	
Freight costs and availability of transport capacity	Possible		Moderate	
Production equipment	Possible		Moderate	
Carbon dioxide pockets in deposits	Possible		Moderate	
Damage due to rock bursts	Unlikely		Significant	
Water inflow	Unlikely		Significant	
Compliance	Unlikely		Significant	
Loss of suppliers and supply bottlenecks	Unlikely		Moderate	
Personnel	Unlikely		Moderate	
IT security	Unlikely		Moderate	
Reputation	Unlikely	New	Moderate	New
Financial risks				
Currency/exchange rate fluctuations	Possible		Significant	
Change in the general interest rate level	Possible		Moderate	
Downgrading of the company rating	Possible		Moderate	
Liquidity	Unlikely		Significant	
Default on receivables from customers	Unlikely		Moderate	
Default of partners in financial transactions	Unlikely		Moderate	

OPPORTUNITIES

TAB: 2.6.2

	Likelihood of occurrence		Benefit potential	
External and industry-specific opportunities				
Macroeconomic developments	Possible		Moderate	
Price increase/increase in demand	Possible		Moderate	
Weather-related fluctuations in demand	Possible		Significant	
Operational opportunities				
Market penetration, market development, expansion in capacity, cost optimisation, acquisitions and/or strategic partnerships, innovation	Possible		Moderate	
Leveraging of synergies	Possible	New	Moderate	New
Ramp-up phase at the Bethune site	Possible	New	Moderate	New
Litigation	Possible	New	Moderate	New
Energy costs	Possible	↑	Moderate	
Financial opportunities				
Currency/exchange rate fluctuations	Possible		Significant	
Change in the general interest rate level	Possible		Moderate	
Upgrading of the company rating	Possible		Moderate	

We show changes in the assessment of risks and opportunities compared with the previous year as follows:

- + Higher than in the previous year: ↑
- + Lower than in the previous year: ↓

A change in the general conditions compared with the assumptions made in our medium-term planning may result in a reassessment of risks and opportunities over time. The results are then communicated accordingly in our interim reporting.

OVERVIEW OF RISKS

The following table provides an overview of the risks with significant or moderate net loss potential with their net likelihood of occurrence for an observation period of three years, as well as the change in the assessment compared with the previous year. Comparable risks from different segments are aggregated and reported. The risks listed are considered as potential negative deviations from the assumptions made in the medium-term planning (for example in respect of volumes, revenues, costs, exchange rates and interest rates). If no segment is specified, the risks apply to the entire K+S GROUP. / TAB: 2.6.1

OVERVIEW OF OPPORTUNITIES

The following table provides an overview of the opportunities with significant and moderate net benefit potential with

their net likelihood of occurrence for an observation period of three years, as well as the change in the assessment compared with the previous year. Comparable opportunities from different segments are aggregated and reported. The opportunities listed are considered as potential positive deviations compared with the assumptions made in the medium-term planning (for example in respect of volumes, revenues, costs, exchange rates and interest rates). If no segment is specified, the opportunities concern the entire K+S GROUP. / TAB: 2.6.2

EXTERNAL AND SECTOR-SPECIFIC RISKS AND OPPORTUNITIES

MACROECONOMIC DEVELOPMENTS

Demand for potash and magnesium products is significantly influenced by economic growth and the associated rising standards of living in the regions relevant to us, trends in soft commodity prices and, in part, also by political decisions in some consumer countries. International prices for potassium chloride continued to increase almost everywhere in 2017, continuing the trend seen since mid-2016. Overall, we believe that agricultural prices should continue to provide an incentive for farmers to increase their yield per hectare also through more intensive use of

plant nutrients. There is a risk that growth in the emerging economies will slow down contrary to expectations and/or that the sovereign debt crisis in the euro area will intensify again. If this should lead to agricultural prices falling to a level that triggers uncertainty among farmers about their future income situation, it could adversely affect their demand for plant nutrients. The impact on the Company depends on the duration and the intensity of the relevant scenario.

The impact of the general economic situation on demand for de-icing and industrial salt as well as for consumer products and salt for food processing is of minor importance, since this business is largely independent of economic conditions.

Changes in us trade policy in particular are currently the focus of discussion. These are possible and are being continuously monitored. The future effects of the us tax reform also carry certain uncertainties. The relevant impact cannot be assessed at present. Should the global economy develop better than expected and growth prove to be higher than generally forecasted, especially in our main sales regions of Europe, North America, Brazil and South East Asia, this could lead to positive deviations from planning.

We would respond to the effects described above with demand-oriented production management.

As K+S's planning is based on the expectations stated in the forecast report, the assessment of the future macroeconomic situation is incorporated directly in the forecast for 2018.

© 'Macroeconomic environment', page 78

INCREASED SUPPLY/ REDUCED DEMAND

Particularly products from our Potash and Magnesium Products business unit could be threatened by considerable decreases in demand caused by external influences.

In terms of demand, macroeconomic factors such as unfavourable exchange rate developments or liquidity reduction of farm businesses could affect demand in individual sales regions. The same is true for political market regulation, for example through regional subsidy cuts, the imposition of customs duties on fertilizers or the introduction of more restrictive fertilizer regulations. Environmen-

tal factors such as diseases in certain crops or the occurrence of animal epidemics could likewise lead to a decline in demand. Moreover, demand could also develop negatively due to deliberate purchasing restraint on the part of our customers.

Changes on the supply side could arise as a result of capacity expansion. New and existing producers are in the process of expanding their production capacity based on their forecasts of long-term growth in demand on the global potash market.

Should the market not be ready to absorb additional volumes entirely, this could increase competitive pressure during a transitional period. Furthermore, producers could attempt to gain additional market share or regain lost market share by increasing supply within available capacity. A decline in demand could also give rise to increased competitive pressure.

Major increases in capacity and its utilisation, increases in supply from individual producers within available capacity as well as longer-term decreases in demand could substantially affect pricing and/or sales prospects. This could change the existing structure of the entire plant nutrient market, even resulting in the squeezing out of supply-side competition. Consequently, a drop in potash prices and/or saleable volumes cannot be ruled out.

The impact on the Company depends on the duration and intensity of these events. Since the development of new potash capacity is very capital-intensive and takes many years to implement, there should be an incentive for producers to obtain an attractive premium on the capital employed. We consider the long-term drivers to be still valid: demand for agricultural products and thus for plant nutrients depends on megatrends such as the growing world population and a rising standard of living in the emerging economies. Plant nutrients, which increase yields and enhance quality, will therefore also play a key role in future agricultural production.

To increase competitiveness, we are working to further improve our cost and organisational structures and expand our speciality products.

PRICE INCREASE/ INCREASE IN DEMAND

Opportunities with significant positive effects essentially lie in demand for potash and magnesium products.

In 2017, the industry situation in the Potash and Magnesium Products business unit was characterised by strong demand. International prices for potassium chloride continued to increase almost everywhere in 2017, continuing the trend seen since mid-2016. If farmers utilise any additional available uncultivated land or increase the intensity of existing cultivation, this would require additional use of plant nutrients and in future could result in global demand for potash fertilizers rising faster than forecasted. In addition, the trend towards balanced fertilisation involving the use of the main nutrients nitrogen (N), phosphorus (P) and potassium (K) in key sales regions such as India and China could lead to disproportionate growth in demand for potash.

The financial impact of the associated increase in demand depends to a large extent on the scale of the fertilizer price increase triggered as a result. Compared with the assumptions made in our medium-term planning, we consider positive price effects with a moderate impact to be possible, but we do not anticipate a significant impact in the medium-term owing to increasing competition.

WEATHER-RELATED FLUCTUATIONS IN DEMAND

In the Salt business unit, the weather in the de-icing salt regions of Europe and North America is of particular relevance. Our planning is based on a rolling average for the past ten years. An unusually hard winter in K+S's de-icing salt regions could have a clearly positive effect on sales volumes of de-icing salt caused by a weather-related increase in demand. This in turn could put pressure on inventory levels and subsequently result in increasing prices. Conversely, mild winters may lead to a weather-related decrease in demand and thus considerably reduced sales volumes; this in turn could create large season-ending inventories of de-icing salt, putting pressure on tenders for the upcoming winter season. Both cases would have a moderate financial impact on the development of the Company's revenues and earnings with respect to one year. Should such positive or negative weather conditions be repeated during the medium-term period, significant opportunities or risks could arise.

We are responding to such fluctuations with regional diversification, demand-oriented production management and flexible working time models. Strategic inventories and flexible adjustment of production levels of de-icing salt enable us to meet spikes in demand even at short notice.

A sales risk for the Potash and Magnesium Products business unit could arise as a result of the dependence on weather conditions. Prolonged cold and wet weather conditions during the spring season, which is particularly important for Europe, could, for example, result in shifts in or even declining sales of plant nutrients. The same holds for weather phenomena such as El Niño or droughts, which could lead to significant losses of yields for farmers in the affected regions and reduced use of plant nutrients.

ADDITIONAL WEATHER-RELATED COSTS

In the Potash and Magnesium Products business unit, water law framework conditions are particularly important at some production sites for the unrestricted use of the available technical production capacity. We believe that the commissioning of the new KAINITE-CRYSTALLISATION AND FLOTATION FACILITY (KCF) in January 2018 will allow the Werra facility to dispose of all saline wastewater close to the site under the existing permits in a hydrological normal year. In a dry year, however, certain volumes of saline wastewater would have to be disposed of remotely, generating additional costs for the transportation of this waste.

For this reason, K+S developed additional measures for wastewater disposal. We have obtained permits for temporary storage of brine at the Springen mining field (Merkers mine) and for discharging process and tailings pile water into the inactive K+S Bergmannssegen-Hugo mine (Hanover region). Furthermore, another cavern at the underground gas storage facility in Bernburg is being secured by flooding with saturated saline water from potash production at the Werra plant. Additional measures include continuous expansion of basin capacity on site to further increase the flexibility of wastewater management. Other measures are currently under review which from the current perspective would still need some time for implementation. Technical issues need to be resolved and permits obtained and subsequent adjustments to infrastructure will be required.

RISKS ARISING FROM CHANGES IN THE LEGAL ENVIRONMENT

A large number of licences and permits under public law are required for the exercise of our activities, particularly in the areas of mining/extraction/processing and disposal of residues. The framework for the granting of these licences and permits is firmly entrenched in European and national environmental, water and mining law with respect to production in Germany and Europe. We believe that the regulatory density will increase further in the future.

There is a risk for all activities requiring approval that third parties will appeal against licences or permits after they have been granted and that these will be revoked by courts. Furthermore, extensions of existing licences and permits or new ones granted may be restricted in terms of time and scope, permanently amended or refused or further conditions may be attached.

MANAGEMENT PLANNING IN ACCORDANCE WITH THE WATER FRAMEWORK DIRECTIVE OR AMENDMENT, REFUSAL OR REVOCATION BY A COURT OF OFFICIAL LICENCES FOR THE DISPOSAL OF LIQUID AND SOLID PRODUCTION RESIDUES

In the Potash and Magnesium Products business unit, both solid residues and liquid residues (saline wastewater) arise from both ongoing production and the tailings piles. The solid residues are either placed on our tailings piles or disposed of underground. Saline wastewater is discharged into rivers in accordance with existing permits and some is injected into the dolomite layer. It is also used to secure old mines permanently.

REFUSAL OF OFFICIAL PERMITS FOR THE DISPOSAL OF LIQUID PRODUCTION RESIDUES: DISCHARGE

The management plans based on the European Water Framework Directive and German water legislation impose significant general conditions for the above-mentioned means of disposal of residues from the German sites. For the coming years, the management plans for the second management period of 2015 to 2021 of the individual river authorities are relevant in this regard.

🔗 'Non-financial-Statement', Environment, page 48

In March 2016, the environment ministers of the federal states represented in the Weser River (FGG Weser) ratified the detailed Salt management plan as well as a comprehensive Salt programme of measures for 2015 to 2021 in accordance with the EU Water Framework Directive. This management plan forms the regulatory framework for the period from 2015 to 2021 and will not have any direct adverse effect on potash production in the Hesse-Thuringia potash district during this period. Further measures and target values for the third management period from 2021 to 2027 will be reviewed and defined in the coming years. If the aspects included in the management plan for the period from 2015 to 2021 (in particular the target values in bodies of water) also appear in the plan for the period after 2021 without further realizable and proportionate measures being available, considerable risks relating to the granting and retention of operating licences, planning decisions approving public works and water permits cannot be ruled out. This could have a material adverse effect on employment and on the region's economic situation.

Further measures for saline wastewater prevention and additional means of disposal will be examined and tested during the period from 2015 to 2021.

REFUSAL OF OFFICIAL PERMITS FOR THE DISPOSAL OF LIQUID PRODUCTION RESIDUES: INJECTION

In December 2017, BUND withdrew its complaint and the emergency petition based on this against the existing deep well injection permit at the Hattorf plant dated 23 December 2016. Furthermore, that month, as part of a settlement, the municipality of Gerstungen and K+S unanimously declared the application for annulment and the emergency petition against the above-mentioned permit settled at the Kassel administrative court. Ending the legal disputes with BUND and the municipality of Gerstungen will give K+S greater legal certainty as regards the existing deep well injection permit.

🔗 'Non-financial-Statement', Environment, page 48

If, contrary to expectations, circumstances arise that could have an adverse effect on usable groundwater resources, or if appeals against the existing permit were successful, this could result in the restriction or revocation of existing permits.

This in turn could lead to production stoppages and/or major cuts in production at the affected sites due to a lack of disposal options for saline wastewater (injection volumes) and/or give rise to additional costs for transport to remote alternative disposal sites. We believe that the decisions by the authorities will endure and that potash production at the Werra plant is possible under these circumstances. The results of a 3D groundwater model also confirm that adverse effects from the injection to the groundwater can be excluded. A revocation is still possible if compliance with the threshold values at two wells of a potable water supply facility is not ensured.

K+S continues to work hard on measures to reduce saline wastewater and on alternative disposal options. These are designed to ensure the disposal of production and tailings pile wastewater into the Werra river largely through the discharge permit. The aim of these measures is also to maintain added value and safeguard the associated jobs over the long term by means of further substantial investments, as well as to reduce the impact on the Werra and Weser rivers and thus ensure the future viability of the potash plants in the Hesse-Thuringia potash district.

REFUSAL OR REVOCATION BY A COURT OF OFFICIAL PERMITS FOR THE DISPOSAL OF SOLID PRODUCTION RESIDUES

If licences and permits for the enlargement of tailings piles are revoked or necessary projects for the expansion of tailings piles are not approved or are only approved subject to unreasonably high requirements, it would not be possible to dispose of the solid residues. We consider the complete refusal or the withdrawal of all existing licences and permits for the expansion of tailings piles to be unlikely, as the permits are compatible with the legal and statutory framework. Furthermore, they represent the state of the art and there is governmental and widespread political support for the preservation of potash mining in Germany in the federal states that are relevant to us.

📄 'Non-financial-Statement', Environment, page 48

Individual licences and permits for the necessary expansion of tailings piles might not be granted in certain circumstances or might be approved only to a limited extent. In the worst case, this would result in an adjustment of production levels and possibly the closure of the affected sites with considerable negative economic repercussions both for the Company and for the employment and eco-

nomie situation of the region in question. This could be avoided through the development of further safeguards and through rescheduling, which would nevertheless lead to significant cost increases.

Positive developments can be reported concerning the approval process for the expansion of tailings pile capacity at the Hattorf site, which started in 2011. Based on the concept, which has been enhanced further to reduce the environmental impact, the licensing authorities have issued a positive overall forecast as regards the approvability. Accordingly, the application for 'early commencement' for surface clearance was approved on 9 November 2017. We are therefore confident of being able to complete the approval process such that this has no material effects on production. Moreover, the approval process for the expansion of tailings pile capacity at the Wintershall and Zielitz sites is on schedule.

INCREASE IN HEAVY METAL VALUES IN THE GROUND AND SURFACE WATER IN THE SURROUNDING AREA OF THE TAILINGS PILES

In the course of our comprehensive and continuous monitoring of the ground and surface water in the surrounding area of the tailings piles, an increase in heavy metal values was identified. However, in terms of their composition and concentration, these cannot be classified as tailings pile material.

📄 'Non-financial-Statement', Environment, page 48

According to the current state of knowledge, a greater number of decisive factors with locally varying degrees of manifestation and interaction could play a role in the emergence of this phenomenon. Therefore, K+S has, in collaboration with external research institutions, adopted a fundamental investigation regarding the circumstances (comprehensive survey, supplementary monitoring measures and construction of additional measuring points) that extends across the locations. With the approval of the authorities, K+S has, with due regard to conditions at the individual locations, developed respective concepts (including collecting, draining and cleaning of the emerging spring water at the Hattorf location as well as drainage works and wells or the removal of topsoil with heavy metal mobilisation potential) to encounter the described phenomenon. Individual measures have already been implemented.

The potential impact of increased amounts of heavy metals and trace matters on the subjects of protection (partic-

ularly groundwater and drinking water protection areas) located in the sphere of influence of the tailings piles are therefore virtually excluded through suitable technical measures with due regard to general conditions at the individual locations.

Individual licences and permits for the necessary expansion of tailings piles at the Werra and Zielitz locations may be granted in certain circumstances with the imposing of further safety measures. However, it is unlikely that licenses and permits will be refused.

MORE STRINGENT REQUIREMENTS REGARDING THE OUTDOOR STORAGE OF DE-ICING SALT IN NORTH AMERICA

In the past, there have been no special environmental protection requirements regarding the outdoor storage of de-icing salt in North America. However, more and more individual states and local authorities are now moving towards defining mandatory standards in this regard. As a result of stricter local requirements, comprehensive measures may be required, including indoor storage.

In conjunction with environment experts we continue to work on environmental audits to determine whether owned and leased warehouse locations comply with the new local requirements.

REQUIREMENT FOR COLLATERAL SECURITY UNDER MINING LAW

The requirement to furnish collateral security under mining law is subject to the professional judgement of the acting authorities; at the present time, existing collateral security is usually provided through the formation of corresponding provisions as well as through comfort letters or group guarantees. If additional security had to be furnished, this could narrow the Company's financial scope, especially if such security were required to be provided through bank guarantees or a deposit of funds.

TIGHTENING OF EXISTING REGULATIONS ON THE UNDERGROUND DISPOSAL OF MINING WASTE

The Closed Cycle and Waste Management Law (KrWG) and the German Federal General Mining Ordinance (ABBergV) must be complied with for underground waste disposal. The existing regulations currently vary from one federal state to another. A tightening of the regulations could result in higher

costs for the underground disposal of mining waste, as it may then only be possible to store waste with mineral properties underground. This would have the effect of driving up running disposal costs as well as the costs required to close down mining sites.

OPERATIONAL RISKS AND OPPORTUNITIES

MARKET PENETRATION, MARKET DEVELOPMENT, EXPANSION IN CAPACITY, COST OPTIMISATION, ACQUISITIONS AND/OR STRATEGIC PARTNERSHIPS, INNOVATION

In all the segments, we use our growth potential to increase our market share by generating higher sales volumes from our existing customer base and/or by acquiring new customers. Furthermore, we are reviewing whether it would be possible to enter new sales regions with our products. We also want to use our market-related opportunities by investing in new products and business approaches. The enterprise value should be continually increased in the process. This will require external growth, plus an organisational reorientation. In addition, possibilities to optimise costs (e.g. by way of process digitalisation at the underground mines or by increasing the efficiency of machinery, processes and organisational structures) will be closely reviewed on an ongoing basis.

Through the systematic implementation of the growth initiatives, defined in detail in our corporate and sustainability strategy, we want to successfully use the opportunities presented and achieve sustainable, profitable growth.

LEVERAGING OF SYNERGIES

K+S assumes the leveraging of synergies will increase earnings by at least € 150 million per year from the end of 2020. Significant deviations from projected effects represent both a risk and an opportunity.

RAMP-UP PHASE AT THE BETHUNE SITE

Our new potash mine at the Bethune site in Canada was opened on 2 May 2017 after nearly five years in construction. The initial tonnes of potash were produced in mid-June 2017. The desired annualized production capacity of two million tonnes has been achieved. When a site of this size is being built, negative effects in the transition to regular operation

(e.g. goods that temporarily do not conform to specifications) cannot be ruled out completely, which may result in goods being reworked or lead to price reductions. Conversely, planned qualitative and quantitative objectives may also be surpassed.

Through systematic cost and quality management we try to limit negative effects and increase earnings contributions.

LITIGATION RISKS AND LEGAL DISPUTES

K+S is exposed to risks arising from legal disputes or legal proceedings in which we are either currently involved or that could arise in the future.

At the present time, it cannot be ruled out that K+S might be involved in lawsuits and arbitration proceedings with suppliers in connection with supplies and services procured in connection with the investment project for building the new Bethune potash mine. For our part, we also intend to assert reimbursement claims against contracting parties involved in the project. The outcome of potential legal disputes, which can take an extended period of time to clarify, is very difficult to predict. This could result in cash outflows or inflows that negatively or positively affect the site's profitability. The impact in terms of liquidity and earnings varies significantly. Through the formation of a claim management team, a continuous claim management process is ensured with the goal of processing K+S's existing receivables from suppliers and recovery claims to achieve the best possible outcome.

All other process risks are described in the context of the relevant risk.

ENERGY COSTS AND ENERGY SUPPLY

The energy costs incurred by K+S are primarily determined based on its consumption of natural gas. This applies in varying degrees to all corporate departments. Energy prices are often subject to strong fluctuations. Sharp rises in energy prices compared with the projected price level constitute a price risk and cannot be ruled out in the future. A positive development of energy costs compared with projected costs provides an opportunity for K+S.

© 'Non-financial-Statement', Environment, page 48

To limit this risk, we have reduced the quantities of natural gas required for our potash and salt production in Europe by using steam from alternative fuel heating systems. Moreover, we are pursuing a hedging strategy worldwide that allows us to secure attractive prices for purchasing natural gas in the medium term by concluding fixed supply agreements.

FREIGHT COSTS AND AVAILABILITY OF TRANSPORT CAPACITY

Our total costs are influenced by freight costs to a considerable degree. A significant proportion of our products in terms of volume needs to be transported to the customer over long distances in some cases. Reduced availability of freight capacity could result in higher costs. Furthermore, considerable additional costs are incurred when crude oil prices rise. The heavy reliance of our business operations on transport likewise makes us highly dependent on the relevant infrastructure facilities such as ports, roads, railway lines and loading facilities. A breakdown or a bottleneck could limit the sales prospects and thus production.

We make every effort to reduce cost increases.

PRODUCTION EQUIPMENT

The production facilities of the K+S GROUP are characterised by a high degree of complexity and efficiency. As a result of operational and accident risks to which our facilities, production plants, storage and loading facilities are exposed, business interruptions may occur and serious personal injury or damage to property or the environment may also be caused.

Where possible and economically viable, suitable insurance cover is taken out with the aim of limiting these risks. Tailored training and staff development measures are also designed to increase occupational safety.

CARBON DIOXIDE POCKETS IN DEPOSITS

Carbon dioxide pockets constitute a latent potential danger in certain mines. Despite our comprehensive safety measures, carbon dioxide could escape from these pockets in an uncontrolled manner. Consequently, there are risks of production cuts/stoppages as well as of personal injury and damage to property. Underground extraction is therefore always carried out in compliance with specific safety guidelines in case of escapes of CO₂.

DAMAGE DUE TO ROCK BURSTS

There is the specific risk at active and inactive mining sites of a sudden subsidence of the earth's surface over a large area that could, in certain circumstances, be severe (rock burst). If a rock burst occurs, in addition to the partial or complete loss of the mine and damage to facilities, it could also result in personal injury or death and in considerable damage to the property of third parties.

Our professional dimensioning of the underground safety pillars based on comprehensive research serves to secure the surface, safeguard the stability of the mine workings over a longer period of time and therefore prevent rock bursts. After the closure of a location, preservation measures are carried out, for which appropriate provisions have been recognised. Continuous monitoring of the mine workings aims to provide timely indications of whether additional measures for the protection of the mine workings and the prevention of damage resulting from mining are necessary.

WATER INFLOW

Hydrogeological risks generally exist in underground mining operations. There are risks in connection with shafts that cut through water-bearing rock shafts and in saline deposits in rock strata. Hydrogeological risks are limited through the extensive safeguards we have put in place; however, these risks could result in significant uncontrollable damage culminating in the total loss of the mine. In this case, material adverse effects on employment, the region's economic situation and damage to the environment and to property would be virtually unavoidable.

Extensive exploration work is carried out by means of seismology, drilling and ground-penetrating radar in order to secure the mines. Preservation of protective layers and adequate dimensioning of safety pillars ensure maximum mine safety. Ongoing maintenance work on the shafts ensures that the risk of groundwater inflows can normally be virtually ruled out. Because the top of a shaft is in a high position, surface water is not expected to gain access to mine workings even if flooding occurs.

COMPLIANCE

There is a general risk that members of management/supervisory bodies or employees of K+S GROUP companies may breach laws, internal regulations or regulatory standards rec-

ognised by the Company. K+S could sustain damage to its assets or reputation as a result.

🕒 'Declaration on Corporate Governance', page 55

We have established a Group-wide compliance management system that helps to raise awareness among employees and prevent breaches of compliance, including through training in the main areas of risk (for example, anti-trust law and competition law, corruption and money laundering).

LOSS OF SUPPLIERS AND SUPPLY BOTTLENECKS

The number of suppliers for raw materials, consumables and supplies as well as technical equipment and spare parts specific to mining is limited. In spite of counter-measures in place, supply bottlenecks, non-delivery or delivery boycotts, over which we only have very little influence or no influence at all, could result in limited availability of these materials and thus lead to a significant increase in costs or have adverse effects on production.

We will mitigate these procurement risks through market analyses, targeted supplier selection and evaluation, long-term supply agreements, clearly defined quality standards and state-of-the-art purchasing methods.

PERSONNEL

Competition for qualified managers and specialists is fierce in all of the regions in which we operate. The loss of employees in key positions could constitute a risk. Moreover, we could be facing demographic challenges in the future, especially in Europe and North America. This increases the risk that suitable applicants for vacancies will not be found or that it will take considerable time and effort to find them.

The K+S GROUP wants to be an attractive employer not only for entry-level staff, but also for qualified managers and specialists. By offering practical support for the next generation of employees as well as tailored training and further education measures and by promoting high achievers and employees showing potential, the K+S GROUP still succeeds in permanently motivating employees and in retaining qualified managers and specialists for the long term. In addition, our focus on diversity in our workforce enables us to unlock all potential in the labour market. By adopting this strategy and increasing cooperation with selected higher education insti-

tutions, we offer qualified managers and specialists promising career prospects.

🔗 'Employees', page 41

IT SECURITY

Our IT systems support almost all corporate functions in large measure. The IT security risk lies primarily in loss of the availability, integrity, confidentiality and authenticity of data due to external attacks (for example, hackers, viruses) and internal risks (for example, technical failure, sabotage). If this risk were to materialise, serious interruptions to business could result. However, we consider a prolonged failure of the IT systems to be unlikely due to the precautions we take.

We limit such risk by having independent experts continuously review the scope and effectiveness of our wide-ranging security measures. Insurance to cover claims from IT system failures has been taken out for cyber-attacks with a loss amount of € 50 million.

REPUTATION

The materialisation of any risk may have a financial impact for the Company that is difficult or impossible to quantify depending on the perception among the general public of a loss of image. This includes, in particular, risks with material adverse effects on the non-financial aspects of environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters, as well as failure to achieve management-related targets defined by the Company.

We counter such developments with open, timely communication to our stakeholders.

FINANCIAL RISKS AND OPPORTUNITIES

CURRENCY/EXCHANGE RATE FLUCTUATIONS

A currency risk results from transactions which are not effected in the currency of our Group reporting (the euro). In the case of this risk, we make a distinction between transaction and translation risks.

TRANSACTION RISKS

A significant proportion of K+S GROUP revenues is in US dollars. In addition to this, revenues are also generated in

other national currencies (such as Canadian dollars, Chilean pesos and pounds sterling). Our earnings are therefore exposed to exchange rate fluctuations. This may lead to the value of the service performed not matching the value of the consideration received in transactions, because income and expenditure are incurred at different times in different currencies. Exchange rate fluctuations, especially in the euro/us dollar exchange rate, have so far primarily affected the Potash and Magnesium Products business unit, particularly in relation to the level of earnings and receivables. Due to the commissioning of the Bethune site in Canada and the resulting costs incurred in Canadian dollars, fluctuations in the exchange rate between the Canadian dollar and the us dollar or the euro are also of considerable significance.

🔗 'Financial position', page 87; 🔗 'Notes', page 138

We use derivative financial instruments to counter exchange rate risks arising from transactions. Significant net positions are hedged using derivatives, normally options and futures, in the context of transaction hedging. These ensure a 'worst case' exchange rate. On the basis of revenue and cost planning as well as expected capital expenditure, the volumes to be hedged are determined and updated continuously using safety margins, so as to avoid excess hedging or hedging shortfalls.

TRANSLATION RISKS

Furthermore, currency effects arise in relation to subsidiaries whose functional currency is not the euro, since the earnings of these companies calculated in a foreign currency are translated into euros at average rates and recognised in net profit or loss. However, the net assets of these companies are translated into euros at the rates prevailing on the reporting date. This conversion system could result in currency-related fluctuations in the earnings and equity of K+S. These translation effects arise both in the Potash and Magnesium Products business unit and in the Salt business unit and are not hedged.

Conversely, favourable exchange rate developments may have a positive impact on earnings and equity, thus presenting an opportunity.

CHANGE IN THE GENERAL INTEREST RATE LEVEL

Both risks and opportunities arise as a result of changes in the general interest rate level. On the one hand, changes

in market interest rates have an effect on future interest payments for variable-rate liabilities, as well as on interest income for variable-rate investments. The market values of financial instruments are also affected. However, due to the current financing structure, only a moderate impact is expected.

The K+S GROUP is required to report non-current provisions, particularly from mining obligations and pensions, at the present value of the future anticipated expenditure. A change in the market interest rates compared with the preceding reporting date could therefore lead to changes in the discount rates on the current reporting date and thus to an adjustment of non-current provisions. A one-off adjustment by half a percentage point would have a moderate impact on the balance sheet and the earnings of the K+S GROUP.

👁️ 'Notes', page 138

Most of the pension obligations are covered by plan assets resulting from fixed-income securities, shares and other investments. Decreasing income from these investments may have an unfavourable effect on the fair value of the plan assets. We mitigate the risk of fluctuations in the fair value of the plan assets through balanced asset allocation and continuous analysis of the investment risks.

UPGRADING/DOWNGRADING OF THE COMPANY RATING

Ratings are used to assess the creditworthiness of companies and are normally issued by external rating agencies. The rating provides indications of the ability of companies to pay, particularly for credit institutions and institutional investors. It cannot be ruled out that a rating agency might change K+S's credit rating.

👁️ 'Financial position', page 87

A downgrade could impact negatively on the costs of financing for K+S. Conversely, an upgrade in the credit rating – and hence an improvement in the Company's rating – has a positive effect on the costs and availability of the Company's financing options. The Company hopes to regain an investment grade rating in 2023; at the present time, we believe that an upgrade before 2020 is unlikely.

We hedge this risk through forward-looking financing measures.

LIQUIDITY

A liquidity risk entails the failure to procure the financial means needed to meet payment obligations or the inability to do so in a timely manner. External factors, especially a general financial crisis, could result in it not being possible to replace credit lines or bonds on acceptable commercial terms should the need arise. In this case, a risk associated with procuring liquidity would also arise.

For this reason, the principal objective of our liquidity management activities is to ensure the ability to make payments at any given time. The liquidity requirement is determined through our liquidity planning and must be met with cash on hand and bank balances, committed credit lines and other financial instruments.

👁️ 'Notes', Note (25) 'Financial liabilities', page 181

Liquidity is managed by the central treasury department using cash pooling systems. As of 31 December 2017, the available liquidity amounted to € 1,141.0 million and consisted of investments and cash on hand and bank balances as well as the unused portion of our syndicated credit line running until mid-2020. The available liquidity was therefore significantly higher than our target minimum reserve of € 300 million. In the case of investments, we pursue the goal of optimising the income earned from cash on hand and bank balances at low risk.

DEFAULT ON RECEIVABLES FROM CUSTOMERS

We maintain comprehensive business relationships with many customers. If one or more major customer/s is/are not in a position to fulfil their contractual payment obligations towards us, this could result in corresponding losses for us, which in turn could have an adverse effect on the financial position of K+S.

Risks arising from payment default are covered across the Group mainly through credit insurance. We only waive a security against non-payment following a critical review of the customer relationship and express approval.

DEFAULT OF PARTNERS IN FINANCIAL TRANSACTIONS

Default risks also exist with regard to partners with which we have concluded hedging transactions, credit lines exist or money was invested. A potential failure of a bank or another partner could have an adverse effect on the financial position

of κ+s. There is no particular dependency on any individual financial institutions.

CHANGES IN INDIVIDUAL RISKS AND OPPORTUNITIES COMPARED WITH THE PRIOR PERIOD

The assessments made in relation to the likelihood of occurrence and/or financial impact of the risks and opportunities reported in prior periods are shown in tables 2.6.1 and 2.6.2 on pages 102 and 103.

Risks in the Potash and Magnesium Products business unit in relation to the disposal of liquid and solid production residues continue to be significant on account of the regulatory conditions. The risk of a refusal or revocation by a court of official permits for the disposal of solid production residues and the disposal of liquid residues remains within the probability of risk of between 10 % and 50 %. The agreements reached for deep-well injection are creating greater legal certainty and leading to a substantial reduction within this range.

The risk of a weather-related production cut at the Hattorf site no longer exists. We believe that the commissioning of the new KAINITE-CRYSTALLISATION AND FLOTATION FACILITY (κCF) will allow the Werra facility to dispose of all saline wastewater close to the site under the existing permits in a hydrological normal year. Due to the implementation of further disposal alternatives, we no longer anticipate production cuts, even in a dry year.

The new potash mine at the Bethune site was opened on 2 May 2017 after nearly five years in construction. The initial tonnes of potash were produced in mid-June 2017. The risks and opportunities arising from operation of the new Bethune site have been integrated into the existing system.

The litigation risk regarding advantages gained from alleged crimes concerning Gerstungen through injection in the years 1999–2007 no longer exists. In a ruling on 5 May 2017, the Thuringia Higher Regional Court in Jena rejected an appeal by the Meiningen Public Prosecutor's Office. The subject of this appeal was the decision by the Meiningen Regional Court in September 2016 to not to open a lawsuit against active and former members of the Board of Executive Directors and

employees. The ruling on 5 May upheld the Regional Court's decision. In light of these events, advantages gained by the Company are ruled out.

Leveraging of synergies as well as legal disputes was augmented. Reputational risks were analysed and incorporated.

Due to the current price level for energy, we estimate that opportunities to reduce energy costs compared with forecasts may arise again.

ASSESSMENT OF RISK AND OPPORTUNITY POSITION BY THE BOARD OF EXECUTIVE DIRECTORS: NO RISKS TO THE COMPANY'S CONTINUED EXISTENCE AS A GOING CONCERN

The risk and opportunity position is assessed below based on the findings of our risk and opportunity management system in conjunction with the planning, management and monitoring systems in place.

Taking into account the likelihood of occurrence and the financial impact of each of the risks discussed, and based on the findings of our medium-term planning, at the present time the Board of Executive Directors does not expect any future development where the risks, either individually or in conjunction with other risks, could have a lasting adverse effect on the results of operations, financial position and net assets of κ+s, jeopardising its continued existence as a going concern. κ+s's risk position has improved due to positive developments in the potash market and the environmental regulations, notwithstanding the cost pressure for environmental and additional disposal measures.

The opportunities open to κ+s in the medium term were analysed as a whole versus the previous year and provide a positive outlook. We are confident that κ+s's operating strength provides a solid foundation for our future business growth and that the resources necessary to take advantage of the opportunities are available.

Overall, the risk and opportunity position has improved compared with the previous year but remains on high attention owing to the general conditions in the Potash and Magnesium Products business unit.

2.7 REPORT ON EXPECTED DEVELOPMENTS

We expect to see a tangible rise in revenues in 2018; earnings before interest, taxes, depreciation and amortisation (EBITDA) should increase significantly compared to 2017. The main reasons for these developments are the higher production volumes assumed at the Bethune site and the expected absence of wastewater-related production stoppages at the Werra plant.

FUTURE MACROECONOMIC SITUATION

The following details on the future macroeconomic situation are based on forecasts by the KIEL INSTITUTE FOR THE WORLD ECONOMY and the INTERNATIONAL MONETARY FUND (IMF).

/ TAB: 2.7.1

The INTERNATIONAL MONETARY FUND forecasts a growth rate of 3.9% in global gross domestic product for 2018. Experts assume that the economic upturn in the industrialised nations will continue in view of the most recent effects of us fiscal policy measures and the sustained expansive monetary policy. Many emerging market countries continued to see economic growth rebound, a trend that many experts think is likely to continue in 2018. The growth in commodity prices remains slow. In combination with the restrained wage growth and only minimal core price gains, that is currently keeping inflation rates low in many industrialised nations. If the price increases should pick up speed more quickly than currently expected, this could soon be reflected in rising price levels. This could likely weaken the real economy.

The imminent UK exit from the European Union is not expected to have an appreciable impact on the future financial position and results of operations of K+S. The share of the United Kingdom in the total revenues of the K+S GROUP is in the low single-digit percentage range.

FUTURE INDUSTRY SITUATION

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

In future, too, it will only be possible to meet the increasing demand for soft commodities in light of a constantly growing global population, changing eating habits and limited arable land by intensifying fertilizer application. A balanced use of mineral plant nutrients is crucial here and should lead to at least stable demand in 2018 as well. Even the continued low price level of agricultural products should continue to give farmers an ongoing sufficient incentive to increase yield per hectare by a balanced or even greater use of fertilizers in case of deficiency.

PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT

TAB: 2.7.1

	2014	2015	2016	2017	2018e
in %; in real terms					
Germany	+1.9	+1.5	+1.9	+2.5	+2.3
European Union (EU-28)	+1.8	+2.3	+1.8	+2.4	+2.2
World	+3.6	+3.4	+3.2	+3.7	+3.9

Source: IMF

For 2018, we expect global potash demand to remain at least stable with the year under review (2017: around 69 million tonnes including around 4 million tonnes of potassium sulphate and potash grades with a lower mineral content). Prices for fertilizer specialties are showing initial indications of recovery and the price environment for standard potash (MOP) should continue to recover, at least in the first six months of 2018.

SALT BUSINESS UNIT

In the de-icing salt segment, the 2017/2018 winter season started better overall than the weak previous year. This was mainly attributable to good wintery weather conditions in North America.

North America is among the leading sales regions for the consumer products and food processing salt business. Demand in this area is expected to remain more or less stable in 2018. Consumption at the previous year's level is expected in Europe and South America as well. In the long term, however, a global trend of increased use of more premium salt such as sea salt or kosher salt as well as low-sodium products is discernible.

In the salt for chemical use and industrial salt segments, demand is expected to rise slightly in the medium term. The global economic upturn should increase the demand for salt for industrial applications significantly. Aided by the aging population, demand for pharmaceutical salts should continue to support moderate growth rates. In South America, demand for salt for the extraction of copper from the mined raw ore (copper leaching) is expected to grow in 2018 as well.

EXPECTED DEVELOPMENT OF REVENUES AND EARNINGS

Our assessment for full-year 2018 is mainly based on the following assumptions:

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

+ Robust demand for potassium chloride, especially in the second half of 2017, has resulted in further price increases in the overseas markets. For the full-year 2018, we expect demand to remain at least stable and, along with that, prices to rise at least in the short term.

+ Furthermore, cuts in production due to a lack of disposal options are not expected in 2018 in longer periods of low water level in the Werra river, as it was the case in the first months of 2017.

SALT BUSINESS UNIT

+ The winter weather that prevailed prior to the preparation date, primarily in North America, and slightly increasing sales of non de-icing salts should lead to tangibly higher sales volumes overall (2017: 20.3 million tonnes).

K+S GROUP

+ Average exchange rate for the year of EUR / USD 1.20 (2017: EUR / USD 1.13).

REVENUES AND EARNINGS FORECAST

In the 2018 financial year, we expect revenues of the K+S GROUP to be tangibly higher (2017: € 3,627 million) than the previous year and earnings before interest, taxes, depreciation and amortisation (EBITDA) to be significantly higher (2017: € 576.7 million). Particularly in the Potash and Magnesium Products business unit, the increase in production volumes at the Bethune site in Canada and the expected absence of wastewater-related production stoppages at the Werra plant should result in a significant recovery in earnings (2017: € 268.8 million). In the Salt business unit, we assume that a tangible increase in sales volumes and improvements in the product mix should result in a tangible increase in EBITDA (2017: € 325.2 million). The adjusted Group earnings after taxes should also increase significantly compared to the same period in the previous year (2017: € 145 million).

ANTICIPATED FINANCIAL POSITION AND PLANNED CAPITAL EXPENDITURE

The expected capital expenditure volume of the K+S GROUP for 2018 should remain significantly below the level of the previous year as a result of the completed construction of the Canadian Bethune production site (2017: € 810.8 million). The adjusted free cash flow should therefore show a significant improvement compared to the previous year (2017: € -389.8 million), however it is expected to remain slightly negative. The return on capital employed (ROCE) should increase significantly due to significantly higher earnings and despite more capital being tied up (2017: 3.2%). On a business unit level,

ROCE should therefore also see a significant improvement (2017: Potash and Magnesium Products 1.4 %; Salt 8.9 %).

PROPOSED DIVIDEND FOR THE 2017 FINANCIAL YEAR

Our earnings-based dividend policy is essentially reflected in a payout ratio of 40 to 50 % of adjusted Group earnings after taxes. Consequently, the Board of Executive Directors and the Supervisory Board intend to propose a dividend of € 0.35 per share (previous year: € 0.30 per share) to the Annual General Meeting on 15 May 2018; this corresponds to a payout ratio of 46 % (previous year: 44 %) of the adjusted Group earnings after taxes.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE K+S GROUP

The Board of Executive Directors of K+S AKTIENGESELLSCHAFT views 2018 optimistically and expects that EBITDA of the K+S GROUP will be significantly higher than that of the previous year. In particular, the new Bethune potash plant in Canada and greater production security at the Werra site in connection with further price increases should contribute to a significant increase in earnings in the Potash and Magnesium Products business unit. This represents the tangible reward of the hard work in recent months and years. The Salt business unit had a promising start to 2018. K+S was once again able to help the local authorities and consumers around the world to guarantee road safety in winter. Demand was strong at the beginning of the year, particularly in the North American de-icing salt regions. The Board of Executive Directors also expects further growth in the non-de-icing salt business in 2018. Overall, the K+S GROUP's adjusted free cash flow should improve significantly, even though it is expected to remain slightly negative.

2.8 K+S AKTIENGESELLSCHAFT (EXPLANATIONS BASED ON THE GERMAN COMMERCIAL CODE (HGB))

The management report of K+S AKTIENGESELLSCHAFT and the Group management report have been combined for the 2017 financial year. The annual financial statements of K+S AKTIENGESELLSCHAFT in accordance with the GERMAN COMMERCIAL CODE (HGB) and the combined Management Report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

DECLARATION ON CORPORATE GOVERNANCE

The Declaration on Corporate Governance in accordance with Section 289f of the German Commercial Code (HGB) is shown on page 55.

INFORMATION IN ACCORDANCE WITH SECTION 289A (1) OF THE GERMAN COMMERCIAL CODE (HGB) AND EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS

Information in accordance with Section 289a (1) of the German Commercial Code (HGB) and the explanatory report of the Board of Executive Directors can be found on page 69.

REMUNERATION REPORT

The information to be disclosed in accordance with Section 289a (2) of the German Commercial Code (HGB) is provided on page 122.

BUSINESS OPERATIONS, CORPORATE STRATEGY, CORPORATE MANAGEMENT AND MONITORING, OVERVIEW OF THE COURSE OF BUSINESS

Information on business operations, corporate strategy, corporate management and monitoring as well as an over-

view of the course of business can be found on pages 29–41 and 55–81.

RESULTS OF OPERATIONS

At € 136.3 million, revenues of K+S AKTIENGESELLSCHAFT were € 1.9 million below the level in the previous year (€ 138.2 million). Revenues in the Animal Hygiene Products segments slightly surpassed the level of the previous year (+2%); revenues in the IT segment fell by 12%. Other revenues increased by € 2.5 million to € 56.0 million (2016: € 53.5 million), mainly due to an increase in intragroup billing of services rendered to Group companies. / TAB: 2.8.1

Other operating income increased significantly by € 21.5 million to € 146.3 million (2016: € 124.8 million). This was mainly attributable to higher income from the measurement of USD and CAD items compared to the previous year.

Other operating expenses decreased from € 137.6 million to € 129.5 million. This is due mainly to the reduction in exchange rate losses and lower taxes for previous years.

Income from investments declined from € 243.1 million in 2016 to € 76.6 million in 2017. In the previous year, income from investments included the investments in K+S SALZ GMBH, K+S INVESTMENTS LIMITED and K+S FINANCE BELGIUM BVBA. Higher earnings from the investment in K+S KALI GMBH of € –4.3 million in 2016 to € 58.4 million in 2017 had an offsetting effect. Additional income from investments resulted from the transfer of profit from K+S ENTSORGUNG GMBH at € 8.9 million (2016: € 10.9 million) and K+S TRANSPORT GMBH at € 7.4 million (2016: € 7.1 million).

Other interest and similar income increased from € 3.2 million to € 10.9 million mainly on account of higher interest income from Group companies and higher interest income for additional tax charges.

Interest and similar expenses increased from € 125.0 million to € 149.6 million mainly due to higher interest expenses

INCOME STATEMENT OF K+S AKTIENGESELLSCHAFT ¹

TAB: 2.8.1

in € million	2016	2017
Revenues	138.2	136.3
Cost of sales	122.7	141.8
Gross profit	15.5	- 5.5
Sales and distribution, general and administrative expenses and research costs	26.7	36.9
Other operating income and expenses	-12.8	16.9
Income from investments, net	243.1	76.6
Interest income	-121.8	-138.7
Write-downs of long-term financial assets and securities classified as current assets	1.1	0.2
Expenses from transfer of losses	4.3	-
Earnings before tax	91.8	- 87.9
Income tax expense	15.1	24.5
Earnings for the period	76.8	- 112.4
Withdrawals from other reserves	-	179.4
Accumulated profit	76.8	67.0

¹ A detailed income statement is included in the 2017 Annual Financial Statements of K+S Aktiengesellschaft.

BALANCE SHEET OF K+S AKTIENGESELLSCHAFT – ASSETS

TAB: 2.8.2

in € million	31.12.2016	31.12.2017
Intangible assets	8.8	8.4
Tangible fixed assets	63.5	61.4
Financial investments	6,570.8	6,923.8
Fixed assets	6,643.1	6,993.7
Inventories	1.6	1.7
Receivables and other assets	544.5	427.4
Securities	8.9	6.2
Cash on hand and bank balances	33.8	46.5
Current assets	588.7	481.8
Prepaid expenses	18.2	14.3
ASSETS	7,250.0	7,489.8

caused by the bond issued in the spring of 2017, higher expenses for interest on provisions and higher interest expenses payable to Group companies.

Income after taxes declined by € 189.2 million to € - 112.4 million (2016: € 76.8 million).

FINANCIAL POSITION

Fixed assets increased by € 350.6 million to € 6,993.7 million (2016: € 6,643.1 million) due essentially to capital injections to

affiliated companies. Consequently, fixed assets accounted for 93 % of total assets (2016: 92 %). Overall, the total assets were up € 239.8 million to € 7,489.8 million in 2017. Current assets decreased by € 106.9 million to € 481.8 million (2016: € 588.7 million). Receivables from affiliated companies declined from € 482.5 million in the previous year to € 372.4 million. Lower receivables from profit transfer were the main reason for this decrease. / TAB: 2.8.2, 2.8.3

Equity declined by € 169.8 million to € 1,966.4 million compared to the previous year (2016: € 2,136.2 million). The equity ratio was 26 % as of the reporting date (2016: 30 %).

BALANCE SHEET OF K+S AKTIENGESELLSCHAFT – EQUITY AND LIABILITIES

TAB: 2.8.3

	31.12.2016	31.12.2017
in € million		
Issued capital	191.4	191.4
Share premium	701.6	701.6
Retained earnings	1,166.4	1,006.4
Accumulated profit	76.8	67.0
Equity	2,136.2	1,966.4
Provisions for pensions and similar obligations	1.4	2.6
Tax provisions	5.0	25.8
Other provisions	181.0	208.2
Provisions	187.4	236.6
Liabilities	4,926.4	5,281.3
Prepaid expenses	—	5.5
EQUITY AND LIABILITIES	7,250.0	7,489.8

Liabilities to affiliated companies of € 2,241.0 million (2016: € 2,388.9 million) primarily consisted of cash pooling liabilities and loan liabilities.

Fixed assets increased by € 354.9 million to € 5,281.3 million in the 2017 financial year (2016: € 4,926.4 million). This increase is mainly attributable to the issue of a bond in the spring of 2017. Current liabilities to banks and liabilities to affiliated companies developed in the opposite direction. As of the reporting date, the company reported provisions of € 236.6 million with a predominantly long-term character. The company's financing came to a considerable extent from funds available in the long term.

EMPLOYEES

An annual average of 962 employees (2016: 900 employees) were employed at K+S AKTIENGESELLSCHAFT, 20 of whom were trainees (2016: 16 trainees). The increase in personnel is mainly due to reassignments of human resources from other business units to K+S AKTIENGESELLSCHAFT.

DIVIDENDS

K+S AKTIENGESELLSCHAFT reports accumulated profit of € 67.0 million for the 2017 financial year (2016: € 76.8 million).

The Board of Executive Directors and the Supervisory Board intend to propose to the Annual General Meeting on

15 May 2018 to use the accumulated profit of K+S AKTIENGESELLSCHAFT from the 2017 financial year as presented in table 2.8.4. / TAB: 2.8.4

DETAILS ON OWN SHARES

The information in accordance with Section 160 (1) (2) of the German Stock Corporation Act (Aktiengesetz) is included in the Notes to the 2017 annual financial statements of K+S AKTIENGESELLSCHAFT.

RESEARCH AND DEVELOPMENT

Detailed information about the research and development activities of the K+S GROUP, which relate primarily to holding companies with operating activities, can be found on page 43.

APPROPRIATION OF PROFITS ¹

TAB: 2.8.4

	2016	2017
in € million		
Dividend per share (€)	0.30	0.35
Total dividend payment taking into account 191,400,000 no-par value bearer shares eligible for dividend	57.4	67.0
Allocation to other reserves	19.4	—
Accumulated profit	76.8	67.0

¹ Amounts are rounded.

RISKS AND OPPORTUNITIES

The business development of K+S AKTIENGESELLSCHAFT is essentially subject to the same risks and opportunities as the K+S GROUP. K+S AKTIENGESELLSCHAFT participates in the risks and opportunities of its shareholdings and subsidiaries according to its respective interest share. More information can be found in the 'Risk and Opportunity Report' on page 100.

The description of the internal monitoring system with regard to the accounting process of K+S AKTIENGESELLSCHAFT (Section 289 (4) of the German Commercial Code (HGB)) can be found on page 67.

REPORT ON POST-BALANCE SHEET DATE EVENTS

The 'Report on Post-balance Sheet Date Events' for the K+S GROUP and K+S AKTIENGESELLSCHAFT can be found on page 191.

REPORT ON EXPECTED DEVELOPMENTS

The earnings performance of K+S AKTIENGESELLSCHAFT depends to a large extent on the performance of its subsidiaries. The expected business development for the K+S GROUP can be found in the 'Report on Expected Developments' on page 114.

2.9 RESPONSIBILITY STATEMENT FROM THE LEGAL REPRESENTATIVES OF K+S AKTIENGESELLSCHAFT

To the best of our knowledge, and in accordance with the applicable principles for financial reporting, the consolidated financial statements and the annual financial statements of K+S AKTIENGESELLSCHAFT give a true and fair view of the assets, financial and earnings position of the Group and K+S AKTIENGESELLSCHAFT, and the combined Management Report includes a fair review of the development and performance of the business and the position of the Group and K+S AKTIENGESELLSCHAFT, together with a description of the principal opportunities and risks associated with the expected development of the Group and K+S AKTIENGESELLSCHAFT.

Kassel, 7 March 2018

K+S AKTIENGESELLSCHAFT
BOARD OF EXECUTIVE DIRECTORS

FORWARD-LOOKING STATEMENTS

This 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 time. Should the assumptions underlying these forecasts prove incorrect or should certain risks – such as those referred to in the Risk Report – materialise, actual developments and results may deviate from current expectations. The Company assumes no obligation to update the statements contained in this Management Report, save for the making of such disclosures as required by law.

2.10 REMUNERATION REPORT

This report explains the main features of the remuneration systems used for the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT, together with the specific design of the individual components.

REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS

REMUNERATION STRUCTURE

The criteria for the appropriateness of remuneration include, in particular, the responsibilities and performance of the Board of Executive Directors, a comparison with senior executives worldwide and the total workforce, as well as the economic situation, the success and future prospects of the Company, considering comparable remuneration of their peer group.

The remuneration for the members of the Board of Executive Directors consists of annual components and those with a long-term incentive character. The annual remuneration components include both those not related to performance (fixed) and performance-related components (variable). The components not related to performance consist of fixed remuneration as well as non-cash remuneration and other benefit packages; the bonus (STI) is the performance-related part. There is also a variable remuneration component, based on key indicators, with a long-term incentive (LTI) character. The members of the Board of Executive Directors also have pension commitments.

In 2017, the Supervisory Board fundamentally redefined the remuneration system for the Board of Executive Directors. The new system takes effect on 1 January 2018. In the following, the old system according to which the Board of Executive Directors was remunerated in 2017 will be described first.

REMUNERATION SYSTEM THROUGH 31 DECEMBER 2017

Fixed, basic remuneration not related to performance is paid monthly. Additionally, the members of the Board of Executive Directors receive fringe benefits, in particular contributions to pension, health and long-term care insurance as well as non-cash remuneration, which consists mainly of the use of company cars.

In order to harmonise the interests of shareholders to a great extent with those of the Board of Executive Directors, part of the bonus (STI) is determined on the basis of the return on the total investment of the Group. Moreover, the personal performance of the members of the Board of Executive Directors is taken into consideration when calculating bonuses; these are paid in the following financial year.

The structure of the annual remuneration in a normal year provides for a fixed remuneration of 40% and variable, short-term performance-related components of 60%. In turn, 80% of the variable component (STI) is linked to company performance, i.e. to the return on total investment achieved; the remaining 20% is dependent on personal performance. Individual targets are defined for each member of the Board of Executive Directors. Variable remuneration of 100% is reached if the return on total investment achieved reaches at least 115% of the respective capital cost rate and, secondly, personal performance has been assessed as 100%. Remuneration based on the return on total investment is capped at a ceiling of 21 percentage points above the minimum return. The target achievement ranges for the two variable remuneration components are between 0 and around 150%. Moreover, fringe benefits have also been capped since 2013.

The Chairman of the Board of Executive Directors receives 1.5 times the remuneration of an ordinary member of the Board of Executive Directors.

Income can also be drawn from a long-term incentive programme based on key indicators as a variable component of remuneration with a long-term incentive and risk character. The system is based on a multi-year assessment in accordance with the value contributions achieved. The Company's success is thereby determined on the basis of two four-year periods. The value contribution is derived as follows:

Operating earnings (EBIT I)
+ interest income for the financial year
– capital costs (before taxes) for the financial year
–
= value contribution

Directors is € 350,000. In the case of underperformance, the payment decreases on a straight-line basis to 0% in line with the percentage deviation. In the case of outperformance, the payment increases accordingly up to an upper limit of 200% (= € 700,000). The Chairman of the Board of Executive Directors receives 1.5 times that of an ordinary member of the Board of Executive Directors.

Payment is made in April of the year following the end of the programme. In the event of termination of an employment contract or reaching retirement age, a discounted pro-rata payment for all current tranches is generally made in April of the following year. / FIG: 2.10.2

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

A sample calculation of the annual remuneration of a member of the Board of Executive Directors is shown below.

/ TAB: 2.10.1

REMUNERATION SYSTEM FROM 1 JANUARY 2018

According to the new recommendation of the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK) paragraph 4.2.3 (2) (3) of DCGK, variable components should generally have a multi-year assessment basis

that shall have essentially forward-looking characteristics. To ensure this, the Supervisory Board fundamentally redefined the remuneration of the Board of Executive Directors.

In addition to fixed remuneration and the previous fringe benefits which are paid out monthly, the Board of Executive Directors also continues to receive performance-related remuneration components.

The performance-related remuneration components still consist of two parts. The short-term incentive (STI) relates to the ongoing financial year and, at 40%, comprises the smaller part of variable remuneration. The long-term incentive (LTI) comprises the more significant part, at 60%, and is made up of two equally weighted components. One is linked to value added (LTI I) and the second is linked to share price performance (LTI II). Both components are measured over a three-year period.

Going forward, STI is measured against reaching the EBITDA from the annual plan. If the EBITDA figure from the annual plan approved by the Supervisory Board is reached, the STI base amount is 100%. If the actual EBITDA exceeds or falls short of the planned EBITDA, the percentage rate of target achievement increases or decreases in a linear fashion by the same percentage. Maximum target achievement is 200% and minimal achievement is 0%.

In addition, after the financial year in question has ended, the Supervisory Board sets a performance factor for the

ILLUSTRATIVE CALCULATION OF THE ANNUAL REMUNERATION OF A MEMBER OF THE BOARD OF EXECUTIVE DIRECTORS

TAB: 2.10.1

in €	Target achievement 100%	Target achievement 0%	Maximum target achievement
Fixed remuneration: 40%	420,000	420,000	420,000
Bonus: 60%	630,000 ¹	0 ²	938,000 ³
– of which Company performance: 80%	504,000	0	749,000
– of which individual target achievement: 20%	126,000	0	189,000
Annual remuneration	1,050,000	420,000	1,358,000
LTI PROGRAMME	350,000 ⁴	0 ⁵	700,000 ⁶
Total remuneration	1,400,000	420,000	2,058,000

¹ Return on total investment $\hat{=}$ minimum return; individual target achievement $\hat{=}$ 100%.

² Return on total investment $\hat{=}$ 0%; individual target achievement $\hat{=}$ 0%.

³ Return on total investment \geq minimum return + 21 percentage points; individual target achievement $\hat{=}$ around 150%.

⁴ Difference in average value contributions between reference and performance periods = € 0 million $\hat{=}$ 100%.

⁵ Difference in average value contributions between reference and performance periods \leq € -200 million $\hat{=}$ 0%.

⁶ Difference in average value contributions between reference and performance periods \geq € +200 million $\hat{=}$ 200%.

LTI-PROGRAMME II

FIG: 2.10.3

Reference period	Performance period			
	2017	2018	2019	2020
MDAX 2017 ¹				MDAX 2020 ²
K+S share 2017 ¹				K+S share 2020 ²
	Beginning of programme		End of programme	

¹ Average for the stock market year.

² Average of stock market year 2020, basis for performance comparison to 2017.

entire team of executive directors. This serves as a multiplier on the base amount of STI and ranges from 0.8 to 1.2. The result of the performance factor depends on achievement of annual targets defined between the Supervisory Board and the entire Board of Executive Directors. For the years from 2018 to 2020, the specific target is reaching the milestones of the SHAPING 2030 strategy, e.g. reducing the net debt/EBITDA ratio.

Sample calculation for applying the performance factor:

STI fulfilment level, e.g. 100 % x performance factor, e.g. 1.1 = 110 %

To determine LTI I, before the performance period begins, the Supervisory Board as a rule uses the medium-term planning to define value creation for each year of the performance period. The planned value added corresponds to the arithmetical mean of the three value contribution figures of the performance period. After the performance period has ended, actual value creation is compared to planned value creation. If actual and plan value creation are the same, target achievement is 100 %. If the actual value contribution exceeds or falls short of the planned value contribution, the percentage rate of target achievement increases or decreases in a linear fashion by the same percentage. Maximum target achievement is 200 % and minimal achievement is 0 %.

LTI II is based on the K+S share price performance (incl. dividends paid) compared to the performance of the MDAX (Performance Index). If the K+S share price performance is equal to the performance of the MDAX during the reference period, target achievement is 100 %. If the price performance of the K+S share exceeds or falls short of the performance of the MDAX, the percentage rate of target achievement increases

or decreases in a linear fashion by the same percentage. Maximum target achievement is 200 % and minimal achievement is 0 %. / FIG: 2.10.3

In the new composition of the Board of Executive Directors, the Chairman of the Board of Executive Directors receives 1.5 times the remuneration of an ordinary member of the Board of Executive Directors.

REMUNERATION AMOUNT

Details of the individual remuneration of the Board of Executive Directors in the 2017 financial year are shown in the tables below. The difference between the 'Allowances granted' and 'Inflow' tables merely relates to the variable remuneration elements. The 'Allowances granted' table shows amounts that have been promised in the event of 100 % target achievement. The 'Inflow' table, on the other hand, shows amounts that will be paid in the following year based on the targets that have actually been achieved.

/ TAB: 2.10.2, 2.10.3

Mark Roberts receives his remuneration in euros. In order to limit exchange rate risks, a clause has been agreed according to which exchange rate offsetting takes place at the end of each year, in the event that the actual rate of the respective transfers differs from the rate upon signing the contract (EUR 1.00 = USD 1.30) by more than 10 % in individual cases or by more than 5 % on average for the whole year.

Therefore, the salary of the Board of Executive Directors in the previous year on average was 5.5 times (2016: 6.8 times) that of senior executives worldwide and 21.0 times (2016: 22.3 times) the total workforce. The decrease in the ratio of the Board of Executive Directors to the senior executives is attributable to the fact that the Board of Executive Direc-

REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS (ALLOWANCES GRANTED)

	Dr Burkhard Lohr Chairman of the Board of Executive Directors since 5/2017 Member of the Board of Executive Directors since 6/2012				Norbert Steiner ⁴ Chairman of the Board of Executive Directors until 5/2017 Member of the Board of Executive Directors from 5/2000 to 5/2017			
	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
	in € thousand							
Fixed remuneration	504.0	584.8	584.8	584.8	714.0	256.3	256.3	256.3
Fringe benefits ¹	25.5	26.9	26.9	26.9	27.2	11.2	11.2	11.2
Total	529.5	611.7	611.7	611.7	741.2	267.5	267.5	267.5
Single-year variable	756.0	877.3	0.0	1,306.1	1,071.0	384.4	0.0	572.3
Multi-year variable remuneration	420.0	487.3	0.0	974.6	595.0	213.6	0.0	427.2
– LTI	420.0	487.3	0.0	974.6	595.0	213.6	0.0	427.2
Total	1,705.5	1,976.3	611.7	2,892.4	2,407.2	865.5	267.5	1,267.0
– Service costs	597.4	740.0	740.0	740.0	601.6	211.8	211.8	211.8
Total remuneration	2,302.9	2,716.3	1,351.7	3,632.4	3,008.8	1,077.3	479.3	1,478.8

¹ Fringe benefits are capped at € 75,000.

² Before exchange rate offsetting: A US dollar rate is stipulated for the translation of remuneration. Since payments are initially converted using current rates, offsetting may be required after the end of the year.

REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS (INFLOW)

	Dr Burkhard Lohr Chairman of the Board of Executive Directors since 5/2017 Member of the Board of Executive Directors since 6/2012		Norbert Steiner ⁴ Chairman of the Board of Executive Directors until 5/2017 Member of the Board of Executive Directors from 5/2000 to 5/2017	
	2017	2016	2017	2016
	in € thousand			
Fixed remuneration	584.8	504.0	256.3	714.0
Fringe benefits	26.9	25.5	11.2	27.2
Total	611.7	529.5	267.5	741.2
Single-year variable	540.1	435.1	213.6	637.8
Multi-year variable remuneration	0.0	0.0	0.0	0.0
– LTI	2014–2017	2013–2016	2014–2017	2013–2016
Other	–	–	–	–
Total 1	1,151.8	964.6	481.1	1,379.0
– Pension-related expenses	740.0	597.4	211.8	601.6
Total remuneration	1,891.8	1,562.0	692.9	1,980.6

¹ Total corresponds to disclosures in accordance with Section 314 of the German Commercial Code (HGB) and German Accounting Standard (DRS) 17.

² Incl. exchange rate offsetting.

TAB: 2.10.2

Thorsten Boeckers CFO Member of the Board of Executive Directors since 5/2017				Mark Roberts ² Member of the Board of Executive Directors since 10/2012				Dr Thomas Nöcker Member of the Board of Executive Directors since 8/2003				Dr Otto Lose Member of the Board of Executive Directors from 1 to 11/2017			
2016	2017 ³	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
—	269.3	269.3	269.3	420.0	420.0	420.0	420.0	420.0	420.0	420.0	420.0	—	385.0	385.0	385.0
—	12.7	12.7	12.7	51.3	55.4	55.4	55.4	25.0	25.5	25.5	25.5	—	25.3	25.3	25.3
—	282.0	282.0	282.0	471.3	475.4	475.4	475.4	445.0	445.5	445.5	445.5	—	410.3	410.3	410.3
—	403.9	0.0	601.4	630.0	630.0	0.0	938.0	630.0	630.0	0.0	938.0	—	577.5	0.0	859.8
—	57.8	0.0	115.6	350.0	350.0	0.0	700.0	350.0	350.0	0.0	700.0	—	320.8	0.0	641.6
—	57.8	0.0	115.6	350.0	350.0	0.0	700.0	350.0	350.0	0.0	700.0	—	320.8	0.0	641.6
—	743.7	282.0	999.0	1,451.3	1,455.4	475.4	2,113.4	1,425.0	1,425.5	445.5	2,083.5	—	1,308.6	410.3	1,911.7
—	521.8	521.8	521.8	592.9	648.2	648.2	648.2	410.8	432.2	432.2	432.2	—	593.4	593.4	593.4
—	1,265.5	803.8	1,520.8	2,044.2	2,103.6	1,123.6	2,761.6	1,835.8	1,857.7	877.7	2,515.7	—	1,902.0	1,003.7	2,505.1

³ Assumption of the remaining periods for the LTI entitlements that Mr Boeckers received as the Head of Investor Relations of K+S Aktiengesellschaft.

⁴ As the Chairman of the Board of Executive Directors, Mr Steiner receives 17 times the remuneration of an ordinary member.

TAB: 2.10.3

Thorsten Boeckers CFO Member of the Board of Executive Directors since 5/2017		Mark Roberts Member of the Board of Executive Directors since 10/2012		Dr Thomas Nöcker Member of the Board of Executive Directors since 8/2003		Dr Otto Lose ³ Member of the Board of Executive Directors from 1 to 11/2017	
2017	2016	2017 ²	2016 ²	2017	2016	2017	2016
269.3	—	481.1	513.7	420.0	420.0	385.0	—
12.7	—	55.4	51.3	25.5	25.0	25.3	—
282.0	—	536.5	565.0	445.5	445.0	410.3	—
232.5	—	429.8	428.1	362.6	350.0	320.8	—
0.0	—	0.0	0.0	0.0	0.0	—	—
2014–2017	—	2014–2017	2013–2016	2014–2017	2013–2016	—	—
—	—	—	—	—	—	—	—
514.5	—	966.3	993.1	808.1	795.0	731.1	—
521.8	—	648.2	592.9	432.2	410.8	593.4	—
1,036.3	—	1,614.5	1,586.0	1,240.3	1,205.8	1,324.5	—

³ Dr Otto Lose resigned from the Board of Executive Directors with effect from 28 November 2017; his employment contract ended on 31 December 2017. In addition to the reported overall remuneration as a member of the Board of Executive Directors, Dr Lose also received the following remuneration for the remaining term of his original employment contract from 29 November 2017 to 31 December 2019: For December 2017, fixed remuneration amounting to € 35.0 thousand, fringe benefits of € 2.3 thousand, one year of variable remuneration of € 29.2 thousand. For the period beginning on 1 January 2018: fixed remuneration of € 840.0 thousand, one year of variable remuneration of € 860.0 thousand, lump-sum compensation from the long-term incentive programme for the periods 2017–2019, 2018–2019 and 2019 of € 100.0 thousand, pension-related expenses of € 1,270.1 thousand.

⁴ As the Chairman of the Board of Executive Directors, Mr Steiner receives 17 times the remuneration of an ordinary member.

tors 100% agreed to payment of the short-term incentive for the 2017 financial year to the workforce in order to offset a strongly lower variable remuneration, while the Board of Executive Directors was remunerated for the lower figures actually achieved.

Norbert Steiner's term of office ended on 11 May 2017. Dr Burkhard Lohr, the Company's former Chief Financial Officer, took over as Chief Executive Officer from 12 May 2017. Thorsten Boeckers has held the post of CFO since this date.

At its meeting on 28 November 2017, the Supervisory Board resolved to advance the implementation of the new Group strategy in future with a reduced, restructured Board of Executive Directors, which will be supported by an extended management team. The reduced management team will be composed of Dr Burkhard Lohr, the Company's Chief Executive Officer, along with Chief Financial Officer Thorsten Boeckers and Mark Roberts, who holds the new position of Chief Operating Officer.

Dr Thomas Nöcker (59) will enter retirement on 1 September 2018 and hand over the areas for which he was responsible to his colleagues in the Board of Executive Directors before his appointment expires on 31 August 2018.

In light of the new corporate structure as part of SHAPING 2030, Dr Otto Lose stepped down from the Board of Executive Directors with effect from 28 November 2017 and left the Company on 31 December 2017. The contractual entitlements for the time period between 1 January 2018 and 31 December 2019 have been compensated and are outlined in footnote 3 of the inflow table.

The total remuneration of the Board of Executive Directors related to five members, three of whom were in office for the whole year. In the previous year, the Board of Executive Directors consisted of five members, of whom four were in office for the whole year.

As shown in figure 2.10.2 on page 123, the value contributions generated in the four-year performance period were below those generated in the reference period. Consequently, the 2014 LTI programme had no positive value.

PENSION COMMITMENTS

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

The pension modules are calculated on the basis of 40% of the fixed annual remuneration of the respective member of the Board of Executive Directors. The annual total pension under this modular system has an upper ceiling in order to avoid disproportionate pensions in the case of long-standing appointments (>15 years). The amount is calculated in accordance with actuarial principles and set aside for retirement; the factors for the creation of the 2017 modules for the members of the Board of Executive Directors are between 8.0 and 18.5%, depending on their age. These factors decline with increasing age. The individual pension modules earned during the respective financial years are totalled and, when the insured event occurs, the respective member of the Board of Executive Directors or, if applicable, his survivors, receive the benefit to which they are entitled. The upper limit for the Chairman of the Board of Executive Directors is € 325,000, and for an ordinary member of the Board of Executive Directors it is € 245,000. The figures are reviewed in a three-year cycle and adjusted if necessary.

Pension benefits are adjusted in line with changes in the 'consumer price index for Germany' only on payment. Entitlements arising from modules earned are non-forfeitable. A fixed euro-US dollar translation rate has been agreed for Mark Roberts.

If the term of office of a member of the Board of Executive Directors ends, the retirement pension starts upon reaching the age of 65 unless it is to be paid on the basis of an occupational or general disability or as a surviving dependent's pension in the event of death. In the event of an occupational or general disability of a member of the Board of Executive Directors prior to reaching pension age, the respective member receives a disability pension commensurate with the pension modules created up to the time the disability occurs. If invalidity occurs before the age of 55, modules are fictitiously created on the basis of a minimum value for the years missing up to the age of 55. In the event of the death of an active or former member of the Board of Executive Directors, the surviving spouse receives 60%, each orphan 30% and each half-orphan 15% of the benefit. The maximum amount for benefit awarded to surviving dependents must not exceed 100% of the pension payment. If this amount is reached, the benefit is reduced proportionately. If a member of the Board of Executive Directors retires at the age of 60, entitlements can already be claimed in accordance with the pension commitment at that time.

In 2017, the following amounts were allocated to pension provisions for members of the Board of Executive Directors:

/ TAB: 2.10.4

PENSIONS¹

TAB: 2.10.4

in € thousand		Age	Current value as of 1.1	Pension expense ²	Current value as of 31.12
Dr Burkhard Lohr	2017	54	2,923.8	792.7	3,545.3
	2016		2,041.7	642.3	2,923.8
Norbert Steiner (member until 11 May 2017)	2017	63	8,641.1	367.3	8,519.0
	2016		7,323.4	762.7	8,641.1
Thorsten Boeckers ³ (member until 12 May 2017)	2017	42	279.9	526.8	796.0
	2016		—	—	—
Dr Thomas Nöcker	2017	59	6,279.6	545.3	6,602.0
	2016		5,306.2	527.6	6,279.6
Mark Roberts	2017	54	2,867.2	699.8	3,068.6
	2016		1,951.5	635.9	2,867.2
Dr Otto Lose ⁴ (member from 1 January to 28 November 2017)	2017	47	0.0	593.4	593.4
	2016		—	—	—
Dr Andreas Radmacher (member until 29 February 2016)	2017		—	—	—
	2016	51	1,233.6	92.8	1,747.2
Total	2017		20,991.6	3,525.3	23,124.3
	2016		17,856.4	2,661.3	22,458.9

¹ Disclosures in accordance with IFRS.² Including interest expense.³ Includes pension entitlements from the time as Head of Investor Relations of K+5 Aktiengesellschaft.⁴ Dr Otto Lose resigned from the Board of Executive Directors with effect from 28 November 2017; his employment contract ended on 31 December 2017. In addition to the pension expenses reported, pension-related expenses of € 1,270.1 thousand were incurred for the remaining period of his original employment contract from 29 November 2017 to 31 December 2019, increasing the current value of the total entitlement as of 31 December 2017.

The pension module earned by each of the members of the Board of Executive Directors in 2017 gives rise to pension expenses, which are calculated in accordance with actuarial principles. The increase in current values compared to the previous year's value is due to the fact that the period until the assumed start of the pension is one year shorter.

EARLY TERMINATION OF EXECUTIVE BOARD CONTRACTS

If the appointment as board member is revoked, the member of the Board of Executive Directors receives, at the time of termination, a severance payment of 1.5 times the fixed remuneration, however, up to a maximum of the total remuneration for the remaining term of the employment contract.

In the event of an early termination of an Executive Board contract as the result of a takeover ('change of control'), the fixed remuneration and bonuses outstanding until the end of the original term of the appointment will be paid plus a compensatory payment, unless there are reasons justifying a termination of the respective contract without giving notice. The bonus is calculated in accordance with the average of the preceding two years. The compensatory payment is 1.5 times the annual fixed remuneration. In addition, there is an upper limit for severance payments, whereby entitlements arising

from the 'change of control' clause may not exceed the value of the combined annual remuneration for three years. In the event of a change of control, members of the Board of Executive Directors enjoy no extraordinary right to terminate their contract.

OTHER

The members of the Board of Executive Directors were not promised or granted benefits by third parties in relation to their activity as Board members during the reporting year. Apart from the employment contracts mentioned, there are no contractual relationships between the Company or its Group companies and members of the Board of Executive Directors or persons closely related to them.

The total remuneration of previous members of the Board of Executive Directors and their surviving spouses amounted to € 2.1 million in the reporting year (2016: € 1.8 million). The increase is due to the inclusion of Mr Steiner as a retiree.

**REMUNERATION OF THE SUPERVISORY BOARD
REMUNERATION STRUCTURE**

The remuneration of the Supervisory Board is regulated in Article 12 of the Articles of Association. A member of the

Supervisory Board receives fixed annual remuneration of € 100,000. The Chairman of the Supervisory Board receives twice this amount and the Vice-Chairman 1.5 times this amount.

The members of the Audit Committee each receive annual remuneration of € 15,000 and the members of the Personnel Committee € 7,500. Each member of the Nomination Committee receives annual remuneration of € 7,500 if at least two meetings have taken place during the respective year. The chairmen of these committees each receive twice this amount and a vice-chairman 1.5 times this amount. Finally, each member of the Supervisory Board receives a fee of € 750 for attending a meeting of the Supervisory Board or one of its committees; however, if more than one meeting is held on the same day, members will receive a maximum of € 1,500 per day. The members of the Supervisory Board are entitled to reimbursement by the Company of any expenses that are necessary and reasonable for the performance of their duties, as well as to the reimbursement of any value added tax (VAT) to be paid as a consequence of their activities in their capacity as Supervisory Board members.

REMUNERATION AMOUNT

Details of the individual remuneration of the Supervisory Board for the 2017 financial year are shown in the table below: / TAB: 2.10.5

Additionally, in 2017, members of the Supervisory Board were reimbursed expenses totalling € 64.9 thousand (2016: € 128.5 thousand). In 2017, no remuneration was paid to members of the Supervisory Board for services personally rendered, particularly consultancy or brokerage services, nor were benefits provided.

In addition to the Supervisory Board remuneration, employee representatives, who are employees of the K+S GROUP, receive remuneration that is not related to activities performed for the Supervisory Board.

REMUNERATION OF THE SUPERVISORY BOARD ¹

TAB: 2.10.5

		Fixed remuneration	Audit Committee	Personnel Committee	Nomination Committee	Attendance fees	Total
in €							
Dr Ralf Bethke (Chairman until 10 May 2017)	2017	83,333	6,250	6,250	6,250	4,500	106,583
	2016	200,000	15,000	15,000	15,000	14,250	259,250
Dr Andreas Kreimeyer (Chairman since 10 May 2017)	2017	166,667	—	8,125 ^{2,3}	10,625 ³	10,500	195,917
	2016	100,000	—	—	7,500	7,500	115,000
Michael Vassiliadis (Vice Chairman)	2017	150,000	15,000	7,500	—	8,250	180,750
	2016	150,000	15,000	7,500	—	6,750	179,250
Ralf Becker	2017	100,000	15,000	—	—	6,750	121,750
	2016	100,000	15,000	—	—	6,750	121,750
Jella S. Benner-Heinacher	2017	100,000	—	7,500	5,000 ²	11,250	123,750
	2016	100,000	—	7,500	—	8,250	115,750
George Cardona	2017	100,000	—	—	7,500	6,750	114,250
	2016	100,000	—	—	7,500	6,750	114,250
Wesley Clark	2017	100,000	—	—	—	3,750	103,750
	2016	100,000	—	—	—	3,000	103,000
Harald Döll	2017	100,000	—	7,500	—	5,250	112,750
	2016	100,000	—	7,500	—	6,000	113,500
Axel Hartmann	2017	100,000	15,000	—	—	6,750	121,750
	2016	100,000	15,000	—	—	6,000	121,000
Michael Knackmuß	2017	100,000	—	—	—	3,750	103,750
	2016	100,000	—	—	—	3,750	103,750
Thomas Kölbl (since 10 May 2017)	2017	66,667	10,000	—	—	4,500	81,167
	2016	—	—	—	—	—	—
Gerd Kübler	2017	100,000	—	—	—	3,750	103,750
	2016	100,000	—	—	—	4,500	104,500
Dieter Kuhn	2017	100,000	—	—	—	3,750	103,750
	2016	100,000	—	—	—	4,500	104,500
Dr Annette Messemer	2017	100,000	15,000	—	—	6,750	121,750
	2016	100,000	15,000	—	—	6,750	121,750
Anke Roehr (since 1 April 2016)	2017	100,000	—	—	—	3,750	103,750
	2016	75,000	—	—	—	3,000	78,000
Dr Eckart Sünner	2017	100,000	30,000	—	—	6,750	136,750
	2016	100,000	30,000	—	—	6,750	136,750
Philip Freiherr von dem Bussche	2017	100,000	—	—	7,500	8,250	115,750
	2016	100,000	—	—	7,500	6,000	113,500
Total	2017	1,766,667	106,250	36,875	36,875	105,000	2,051,667
	2016⁴	1,725,000	105,000	37,500	37,500	100,500	2,005,500

¹ Excluding reimbursement to members of the Supervisory Board for value added tax (VAT) paid as a consequence of their activities.

² Since 10 May 2017.

³ Chairman since 21 August 2017.

⁴ Excluding members who retired in 2016.

CONSOLIDATED FINANCIAL STATEMENTS

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INCOME STATEMENT ¹

TAB: 3.1.1

in € million	Notes	2016	2017
Revenues	(1)	3,456.6	3,627.0
Cost of sales ⁴		2,202.3	2,414.6
Gross profit		1,254.3	1,212.4
Selling expenses ⁴		645.5	704.5
General and administrative expenses		220.0	231.4
Research and development costs		13.7	16.6
Other operating income	(2)	141.9	187.8
Other operating expenses	(3)	253.9	186.1
Income from investments, net	(4)	4.0	4.5
Gains/(losses) on operating anticipatory hedges	(5)	23.9	61.2
Earnings after operating hedges (EBIT II)^{2,3}		291.0	327.3
Finance income	(6)	6.5	10.6
Finance costs	(6)	54.7	53.4
Other financial result	(7)	-3.7	16.4
Financial result		-51.9	-26.4
Earnings before tax		239.1	300.9
Income tax expense	(8)	64.7	116.3
– of which deferred taxes		-14.8	-14.4
Earnings for the period		174.4	184.6
Non-controlling interests		0.3	–
Earnings after tax and non-controlling interests		174.1	184.6
Earnings per share in € (basic = diluted)	(11)	0.91	0.96

STATEMENT OF COMPREHENSIVE INCOME ¹

TAB: 3.2.1

in € million	Notes	2016	2017
Earnings for the period		174.4	184.6
Exchange differences on translation of foreign operations		301.0	-528.4
Items of other comprehensive income that may be reclassified to profit or loss in subsequent periods		301.0	-528.4
Remeasurement gains/(losses) on defined benefit plans		2.1	7.8
Other comprehensive income not to be reclassified to profit or loss		2.1	7.8
Other comprehensive income after tax	(20)	303.1	-520.6
Total comprehensive income for the period		477.5	-336.0
Non-controlling interests		0.3	–
Total comprehensive income for the period, net of tax and non-controlling interests		477.2	-336.0

¹ Rounding differences may arise in percentages and numbers.

² The reconciliation of EBIT II to operating earnings (EBIT I) and EBITDA is presented in the notes (see 'Notes to the Income Statement and the Statement of Comprehensive Income' on page 157).

³ Key performance indicators which are not defined in the IFRS.

⁴ Previous year restated due to structural distinction between production cost and selling expenses introduced in the year under review. An amount of € 91.6 million was reclassified from selling expenses to production cost without affecting profit or loss.

BALANCE SHEET ¹

TAB: 3.3.1

in € million	Notes	31 December 2016	31 December 2017
Intangible assets	(12)	1,084.4	962.8
– of which goodwill from acquisitions of companies	(12)	753.4	672.7
Property, plant and equipment		6,456.0	6,692.6
Investment properties	(13)	6.1	5.3
Financial investments	(14)	27.4	21.0
Other financial assets ²	(18, 19)	61.6	46.3
Other non-financial assets ²		30.0	29.0
Securities and other financial investments	(15)	7.0	7.0
Deferred taxes	(16)	117.4	95.2
Non-current assets		7,789.9	7,859.3
Inventories	(17)	710.4	690.9
Trade receivables	(18)	656.5	714.9
Other financial assets ²	(18, 19)	123.1	107.6
Other non-financial assets ²		142.7	155.9
Income tax refund claims		68.4	31.7
Securities and other financial investments	(15)	14.3	11.4
Cash and cash equivalents	(30)	140.2	182.6
Current assets		1,855.6	1,895.1
ASSETS		9,645.5	9,754.4

BALANCE SHEET ¹

TAB: 3.3.2

in € million	Notes	31 December 2016	31 December 2017
Issued capital	(20)	191.4	191.4
Share premium	(20)	645.7	645.7
Other reserves and net retained earnings	(20)	3,713.6	3,322.1
Total equity attributable to shareholders of K+S Aktiengesellschaft		4,550.7	4,159.2
Non-controlling interests		1.5	1.5
Equity		4,552.2	4,160.7
Financial liabilities	(25)	2,214.7	2,451.8
Other financial liabilities	(19, 25)	57.7	154.2
Other non-financial liabilities		9.4	10.2
Income tax liabilities		—	48.5
Provisions for pensions and similar obligations	(21)	186.7	166.4
Provisions for mining obligations	(22)	996.0	1,000.0
Other provisions	(22, 23)	158.8	156.4
Deferred taxes	(16)	307.1	252.6
Non-current liabilities		3,930.4	4,240.2
Financial liabilities	(25)	319.8	569.9
Trade payables	(25)	343.8	288.4
Other financial liabilities	(19, 25)	86.5	89.3
Other non-financial liabilities		40.0	58.8
Income tax liabilities		50.3	54.6
Provisions	(22, 24)	322.5	292.3
Current liabilities		1,162.9	1,353.5
TOTAL EQUITY AND LIABILITIES		9,645.5	9,754.4

¹ Rounding differences may arise in percentages and numbers.

² Prior-year figures restated (amounts reclassified between other financial and non-financial assets, aggregate of the two items remains unchanged).

STATEMENT OF CASH FLOWS ¹

TAB: 3.4.1

in € million	Notes (30)	2016	2017
Earnings after operating hedges (EBIT II)		291.0	327.3
Income (-)/expenses (+) arising from changes in the fair value of outstanding operating anticipatory hedges		-4.4	-37.2
Elimination of prior-period changes in the fair value of operating anticipatory hedges		-43.6	-10.3
Realised gains (-)/losses (+) from currency hedging for capital expenditure in Canada		-13.7	-9.0
Depreciation, amortisation, impairment losses (+)/reversals of impairment losses (-)		289.8	305.9
Increase (+)/decrease (-) in non-current provisions (excluding interest rate effects)		11.3	5.4
Interest received and similar income		7.2	10.6
Realised gains (+)/losses (-) on financial assets/liabilities		-5.1	-20.2
Interest paid (-)		-59.2	-63.5
Income tax paid (-)		-102.8	-36.0
Other non-cash expenses (+)/income (-)		-2.0	2.0
Gain (-)/loss (+) on sale of assets and securities		17.0	-22.4
Increase (-)/decrease (+) in inventories		12.2	-31.1
Increase (-)/decrease (+) in receivables and other operating assets		85.3	-99.9
Increase (+)/decrease (-) in liabilities from operating activities		-1.5	-34.0
Increase (+)/decrease (-) in current provisions		-34.0	22.9
Allocations to plan assets		-2.1	-3.6
Net cash flow from operating activities		445.4	306.8
Proceeds from sale of assets		3.0	60.0
Purchases of intangible assets		-9.6	-11.3
Purchases of property, plant and equipment		-1,202.2	-743.5
Purchases of financial investments		-13.4	-7.6
Proceeds from sale of consolidated companies		—	5.8
Proceeds from sale of securities and other financial investments		33.5	62.4
Purchases of securities and other financial investments		-12.7	-29.3
Net cash flows from/(used in) investing activities		-1,201.4	-663.5
Dividends paid		-220.1	-57.4
Proceeds from other allocations to equity		2.4	2.0
Purchases of own shares		-2.9	-2.4
Sales of own shares		0.4	0.2
Repayment (-) of borrowings		-168.1	-385.4
Proceeds (+) from borrowings		1,157.4	854.5
Net cash flows from/(used in) financing activities		769.1	411.5
Cash change in cash and cash equivalents		13.1	54.8
Exchange rate-related change in cash and cash equivalents		3.1	-17.7
Consolidation-related change in cash and cash equivalents		—	3.9
Net change in cash and cash equivalents		16.2	41.0
Net cash and cash equivalents as of 1 January		118.5	134.7
Net cash and cash equivalents as of 31 December		134.7	175.7
— of which cash on hand and bank balances		140.2	182.6
— of which cash invested with affiliated companies		0.1	—
— of which cash received from affiliated companies		-5.6	-6.9

¹ Rounding differences may arise in percentages and numbers.

STATEMENT OF CHANGES IN EQUITY¹

TAB: 3.5.1

	Issued capital	Share premium	Net retained profits/ revenue reserves	Foreign currency translation reserve	Remeasurement gains/ (losses) on defined benefit plans	Total equity attributable to shareholders of K+S AG	Non-controlling interests	Note (20) Equity
in € million								
Balance as of 1 January 2017	191.4	645.7	3,219.9	589.9	-96.2	4,550.7	1.5	4,552.2
Earnings for the period	—	—	184.6	—	—	184.6	—	184.6
Other comprehensive income after tax	—	—	—	-528.4	7.8	-520.6	—	-520.6
Total comprehensive income for the period	—	—	184.6	-528.4	7.8	-336.0	—	-336.0
Dividend for the previous year	—	—	-57.4	—	—	-57.4	—	-57.4
Other changes in equity	—	—	1.9	—	—	1.9	—	1.9
Balance as of 31 December 2017	191.4	645.7	3,349.0	61.5	-88.4	4,159.2	1.5	4,160.7
Balance as of 1 January 2016	191.4	646.5	3,265.9	288.9	-98.3	4,294.4	1.2	4,295.6
Earnings for the period	—	—	174.1	—	—	174.1	0.3	174.4
Other comprehensive income after tax	—	—	—	301.0	2.1	303.1	—	303.1
Total comprehensive income for the period	—	—	174.1	301.0	2.1	477.2	0.3	477.5
Dividend for the previous year	—	—	-220.1	—	—	-220.1	—	-220.1
Issuance of shares to employees	—	-0.8	—	—	—	-0.8	—	-0.8
Balance as of 31 December 2016	191.4	645.7	3,219.9	589.9	-96.2	4,550.7	1.5	4,552.2

¹ Rounding differences may arise in percentages and numbers.

3.6 NOTES

SEGMENT REPORTING

SEGMENT REPORTING ¹

	Notes	Total revenues		of which revenues with third parties	
		2016	2017	2016	2017
in € million					
Potash and Magnesium Products business unit		1,612.6	1,773.6	1,531.6	1,703.5
Salt business unit		1,771.2	1,771.6	1,762.2	1,762.0
Complementary activities		187.6	188.6	161.1	159.9
Reconciliation ²	(36)	-114.8	-106.8	1.7	1.6
K+S total		3,456.6	3,627.0	3,456.6	3,627.0

	Notes	Assets		Liabilities	
		2016	2017	2016	2017
in € million					
Potash and Magnesium Products business unit		6,030.5	6,400.1	1,570.3	1,415.2
Salt business unit		3,297.1	3,001.5	593.5	612.3
Complementary activities		105.1	104.9	53.7	56.1
Reconciliation ²	(36)	212.8	247.9	2,875.8	3,510.1
K+S total		9,645.5	9,754.4	5,093.3	5,593.7

¹ Rounding differences may arise in percentages and numbers.

² Figures for business units are shown before intersegment consolidation. Expenses and income as well as balance sheet items that cannot be allocated to business units are reported separately. Both effects are shown under 'Reconciliation'.

³ Adjusted for depreciation and amortisation recognized directly in equity in the context of own work capitalised.

⁴ Return on capital employed (see definition in section entitled 'Further information' on page 205).

⁵ Relates to cash payments for investments in property, plant and equipment and intangible assets, taking claims for reimbursement from claim management into account.

⁶ Relates to systematic depreciation and amortisation. If material impairment losses or reversals of impairment losses are involved, they are disclosed in note (35).

TAB: 3.6.1

of which intersegment revenues		EBIT I		EBITDA ³	
2016	2017	2016	2017	2016	2017
81.0	70.1	33.6	81.3	184.8	268.8
9.0	9.6	203.7	223.0	322.3	325.2
26.5	28.7	21.9	23.5	30.8	30.3
-116.5	-108.4	-29.9	-57.0	-18.8	-47.6
—	—	229.3	270.8	519.1	576.7

ROCE ⁴		Capital expenditure ⁵		Depreciation and amortisation ^{3,6}	
2016	2017	2016	2017	2016	2017
0.7%	1.4%	1,009.8	680.4	151.2	187.4
8.1%	8.9%	148.8	118.8	113.2	98.6
28.2%	33.8%	5.8	4.4	8.9	6.8
—	—	6.4	7.2	11.1	9.4
3.0%	3.2%	1,170.8	810.8	284.4	302.2

STATEMENT OF CHANGES IN NON-CURRENT ASSETS

STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017¹

	Notes	Gross carrying amounts						Balance as of 31 December 2017
		Balance as of 1 January 2017	Change in scope of consolidation	Additions	Disposals	Reclassifications	Translation differences	
in € million								
Other acquired concessions, industrial property rights, similar rights and assets, and licences in such rights and assets		72.1	0.6	16.3	1.1	1.0	-5.0	83.9
Customer relations		259.9	—	—	—	—	-28.8	231.2
Brands		133.7	—	—	—	—	-14.1	119.6
Port concessions		38.8	—	—	—	—	-4.7	34.1
Goodwill from acquisitions of companies		753.4	—	—	—	—	-80.7	672.7
Internally generated intangible assets		26.1	—	0.4	—	4.6	—	31.1
Emission rights		15.2	—	0.2	0.1	—	—	15.2
Intangible assets in progress		9.5	—	5.6	—	-5.3	—	9.8
Intangible assets	(12)	1,308.8	0.6	22.5	1.3	0.3	-133.3	1,197.6
Land, land rights and buildings including buildings on third-party land		1,396.7	-6.2	124.8	51.3	797.0	-53.1	2,207.8
Finance leases for land etc.		2.4	—	—	1.1	—	-0.3	1.0
Raw material deposits		768.8	—	—	—	—	-65.8	703.1
Technical equipment and machinery		3,451.4	-5.2	400.8	61.9	2,055.1	-124.6	5,715.7
Finance leases for technical equipment and machinery		43.4	—	139.6	0.1	70.7	-5.6	248.1
Ships		58.8	—	0.7	—	0.3	-7.2	52.6
Finance leases for ships		2.0	—	—	—	—	-0.1	1.9
Other equipment, operating and office equipment		441.9	-0.1	25.8	13.5	23.2	-11.7	465.7
Finance leases for other equipment etc.		—	—	—	—	—	—	—
Prepayments and assets under construction		3,417.4	-0.2	236.4	1.8	-2,946.3	-148.5	557.0
Property, plant and equipment		9,582.9	-11.7	928.2	129.6	—	-416.8	9,952.9
Investment properties	(13)	11.1	—	—	0.9	—	—	10.2
Shares in affiliated companies		28.8	-13.9	7.5	0.2	—	—	22.2
Equity investments		0.1	—	—	—	—	—	0.1
Other loans and other financial assets		0.5	—	0.1	0.1	—	—	0.4
Financial investments	(14)	29.3	-13.9	7.6	0.3	—	—	22.7
Non-current assets		10,932.1	-25.0	958.3	132.1	0.3	-550.1	11,183.4

¹ Rounding differences may arise in percentages and numbers.

TAB: 3.6.2

	Balance as of 1 January 2017	Change in scope of consolidation	Depreciation and amortisation	Impairment losses	Reversals of impairment losses	Disposals	Reclassifications	Translation differences	Depreciation, amortisation and impairment losses	Net carrying amounts
									Balance as of 31 December 2017	Balance as of 31 December 2017
	52.1	—	8.9	—	—	1.1	—	-3.1	56.8	27.1
	139.2	—	15.0	—	—	—	—	-15.4	138.8	92.3
	11.8	—	0.2	—	—	—	—	-0.2	11.8	107.9
	1.4	—	0.1	—	—	—	—	-0.2	1.4	32.7
	—	—	—	—	—	—	—	—	—	672.7
	19.9	—	6.0	—	—	—	—	—	26.0	5.2
	—	—	—	—	—	—	—	—	—	15.2
	—	—	—	—	—	—	—	—	—	9.8
	224.4	—	30.4	—	—	1.1	—	-18.9	234.7	962.8
	489.8	-4.3	58.5	4.8	—	18.7	—	-10.9	519.2	1,688.7
	2.1	—	0.1	—	—	1.1	—	-0.2	0.9	0.2
	40.8	—	6.5	—	—	—	—	-3.3	44.0	659.0
	2,211.2	-3.6	199.7	0.1	1.3	57.9	0.3	-42.0	2,306.5	3,409.2
	8.6	—	4.5	—	—	—	—	-0.5	12.6	235.5
	10.3	—	2.3	—	—	—	—	-1.4	11.2	41.4
	1.0	—	0.1	—	—	—	—	-0.1	1.1	0.8
	363.1	-0.5	24.2	—	—	13.1	—	-8.9	364.9	100.8
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	557.0
	3,126.9	-8.4	296.0	4.9	1.3	90.8	0.3	-67.3	3,260.3	6,692.6
	4.9	—	—	—	—	—	—	—	4.9	5.3
	1.9	-0.3	—	—	—	—	—	—	1.6	20.5
	—	—	—	—	—	—	—	—	—	0.1
	—	—	—	—	—	—	—	—	—	0.4
	1.9	-0.3	—	—	—	—	—	—	1.7	21.0
	3,358.1	-8.7	326.4	4.9	1.3	91.9	0.3	-86.2	3,501.6	7,681.7

STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2016¹

	Gross carrying amounts							Balance as of 31 December 2016
	Notes	Balance as of 1 January 2016	Change in scope of consolidation	Additions	Disposals	Reclassifi- cations	Translation differences	
in € million								
Other acquired concessions, industrial property rights, similar rights and assets, and licences in such rights and assets		71.0	3.1	1.8	5.9	0.7	1.5	72.1
Customer relations		250.4	—	—	—	—	9.5	259.9
Brands		129.4	—	—	—	—	4.3	133.7
Port concessions		37.6	—	—	—	—	1.2	38.8
Goodwill from acquisitions of companies		725.9	—	—	—	—	27.5	753.4
Internally generated intangible assets		26.0	—	0.1	—	0.1	—	26.1
Emission rights		15.1	—	0.2	0.1	—	—	15.2
Intangible assets in progress		5.4	—	4.4	—	-0.3	—	9.5
Intangible assets	(12)	1,260.8	3.1	6.5	6.1	0.4	44.1	1,308.8
Land, land rights and buildings including buildings on third-party land		1,213.5	—	135.7	29.7	59.8	17.4	1,396.7
Finance leases for land etc.		2.3	—	—	—	—	0.1	2.4
Raw material deposits		733.5	—	—	—	—	35.3	768.8
Technical equipment and machinery		3,189.1	—	122.2	30.4	136.5	34.0	3,451.4
Finance leases for technical equipment and machinery		46.1	—	—	0.4	-5.0	2.8	43.4
Ships		52.8	—	1.4	—	2.5	2.2	58.8
Finance leases for ships		1.9	—	—	—	—	0.1	2.0
Other equipment, operating and office equipment		418.1	—	21.4	9.7	4.3	7.8	441.9
Finance leases for other equipment etc.		0.8	—	—	0.8	—	—	—
Prepayments and assets under construction		2,238.3	—	1,262.1	19.1	-232.4	168.7	3,417.4
Property, plant and equipment		7,896.4	—	1,542.7	90.2	-34.4	268.3	9,582.9
Investment properties	(13)	11.4	—	—	0.3	—	—	11.1
Shares in affiliated companies		15.4	—	13.4	—	—	—	28.8
Equity investments		0.1	—	—	—	—	—	0.1
Other loans and other financial assets		0.5	—	—	0.1	—	—	0.5
Financial investments	(14)	16.0	—	13.4	0.1	—	—	29.3
Non-current assets		9,184.6	3.1	1,562.6	96.7	-34.0	312.4	10,932.1

¹ Rounding differences may arise in percentages and numbers.

TAB: 3.6.3

	Balance as of 1 January 2016	Change in scope of consolidation	Depreciation and amortisation	Impairment losses	Reversals of impairment losses	Disposals	Reclassifications	Translation differences	Depreciation, amortisation and impairment losses		Net carrying amounts
									Balance as of 31 December 2016	Balance as of 31 December 2016	
	49.2	—	7.7	—	—	5.9	—	1.2	52.1	20.1	
	117.6	—	16.1	—	—	—	—	5.5	139.2	120.7	
	11.5	—	0.2	—	—	—	—	0.1	11.8	122.0	
	1.2	—	0.1	—	—	—	—	—	1.4	37.4	
	—	—	—	—	—	—	—	—	—	753.4	
	13.0	—	6.9	—	—	—	—	—	19.9	6.2	
	—	—	—	—	—	—	—	—	—	15.2	
	—	—	—	—	—	—	—	—	—	9.5	
	192.6	—	31.0	—	—	5.9	—	6.8	224.4	1,084.4	
	438.9	—	45.9	1.6	—	0.7	—	4.1	489.8	906.9	
	1.8	—	0.3	—	—	—	—	0.1	2.1	0.3	
	34.7	—	4.7	—	—	—	—	1.4	40.8	728.0	
	2,030.7	—	189.9	3.7	—	28.9	—	15.7	2,211.2	1,240.2	
	6.0	—	2.2	—	—	—	-0.1	0.5	8.6	34.8	
	7.8	—	2.1	—	—	—	—	0.4	10.3	48.5	
	0.8	—	0.1	—	—	—	—	0.1	1.0	1.0	
	320.0	—	46.8	—	—	9.5	—	5.8	363.1	78.8	
	0.8	—	—	—	—	0.8	—	—	—	—	
	—	—	—	—	—	—	—	—	—	3,417.4	
	2,841.6	—	292.0	5.3	—	39.9	-0.1	28.1	3,126.9	6,456.0	
	5.0	—	—	—	—	0.1	—	—	4.9	6.1	
	1.9	—	—	—	—	0.1	—	—	1.9	26.9	
	—	—	—	—	—	—	—	—	—	0.1	
	—	—	—	—	—	—	—	—	—	0.4	
	1.9	—	—	0.1	—	—	—	—	1.9	27.4	
	3,041.0	—	323.0	5.4	—	45.9	-0.1	34.9	3,358.1	7,573.9	

STATEMENT OF CHANGES IN PROVISIONS

STATEMENT OF CHANGES IN PROVISIONS ¹

in € million	Notes	Balance as of 1 January 2017	Translation differences	Change in scope of consolidation
Backfilling of vacant mines and shafts		356.2	-2.5	—
Maintenance of tailings piles		540.3	—	—
Risk of mining damage		51.4	—	—
Other mining obligations		48.1	—	—
Provisions for mining obligations	(22)	996.0	-2.5	—
Service anniversaries		31.8	—	—
Other personnel obligations		9.0	-0.7	0.1
Personnel obligations	(23)	40.8	-0.7	0.1
Other provisions	(22)	118.0	-4.3	-0.1
Provisions (non-current liabilities)		1,154.8	-7.5	—
Provisions for mining obligations	(22)	21.5	—	—
Personnel obligations	(24)	82.1	-4.6	-0.4
Provisions for obligations from sales transactions	(24)	42.6	-1.0	-0.1
Provisions for obligations from purchase contracts	(24)	141.4	-6.0	—
Other provisions		34.9	-1.3	—
Provisions (current liabilities)		322.5	-12.9	-0.5
Provisions		1,477.3	-20.4	-0.5

¹ Rounding differences may arise in percentages and numbers.

BASIS OF PREPARATION

The consolidated financial statements of the K+S GROUP prepared by K+S AKTIENGESELLSCHAFT as of 31 December 2017 have been prepared in accordance with the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) issued by the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB). This process took account of all IFRS adopted by the European Union for which application was mandatory as of the balance sheet date, as well as the additional requirements of section 315e of the German Commercial Code (Handelsgesetzbuch, HGB).

K+S AKTIENGESELLSCHAFT is a listed stock corporation (Aktiengesellschaft) registered in the commercial register under HRB 2669 at the Local Court of Kassel. Its registered office is Bertha-von-Suttner-Str. 7, 34131 Kassel, Germany.

The consolidated financial statements are prepared in euros (€). To ensure a clear presentation, the individual

items of the consolidated financial statements are presented in millions of euros (€ million). Rounding differences may arise in percentages and numbers.

The consolidated financial statements were prepared by the Board of Executive Directors on 7 March 2018 and presented to the Supervisory Board for approval at its meeting on 14 March 2018.

SCOPE OF CONSOLIDATION

The following companies were included in the scope of consolidation in 2017:

- + K+S ASIA PACIFIC PTE LTD.
- + K+S (HULUDAO) MAGNESIUM PRODUCTS CO., LTD.

On 11 January 2017, the production facilities together with all existing patents of the Chinese fertilizer producer HULUDAO MAGPOWER FERTILIZERS CO., LTD. (MAGPOWER)

TAB: 3.6.4

	Additions	Interest component	Utilisation	Reversal	Reclassification	Balance as of 31 December 2017
	10.4	5.0	4.6	19.7	—	344.8
	13.9	16.2	1.2	4.0	—	565.2
	0.8	-12.6	1.1	5.5	—	33.0
	10.0	1.5	1.5	1.1	—	57.0
	35.1	10.1	8.4	30.3	—	1,000.0
	0.8	-0.1	1.8	—	—	30.7
	21.3	—	1.6	0.4	-0.8	26.9
	22.1	-0.1	3.4	0.4	-0.8	57.6
	2.3	3.4	12.4	6.4	-1.8	98.7
	59.5	13.4	24.2	37.1	-2.6	1,156.3
	1.3	—	0.4	—	—	22.4
	101.6	—	64.0	3.3	0.8	112.2
	36.0	—	19.7	19.0	—	38.8
	80.2	—	131.0	4.6	-1.2	78.8
	25.2	—	23.4	2.3	7.0	40.1
	244.3	—	238.5	29.2	6.6	292.3
	303.8	13.4	262.7	66.3	4.0	1,448.6

were acquired as part of an asset deal for a total purchase price of € 13.1 million. MAGPOWER is one of the largest Chinese producers of synthetic magnesium sulphate, which is used, among other things, to fertilize oil palms, soybeans and sugar cane as well as for industrial applications. This acquisition will drive the expansion of the specialties business forward and improve access to the growth markets in South East Asia.

The following companies were removed from the scope of consolidation in 2017 as a result of disposals:

- + K+S KALI DU ROURE S.A.S.
- + K+S KALI RODEZ S.A.S.

15 (2016: 15) domestic and 42 (2016: 42) foreign companies were included in the consolidated financial statements. 27 (2016: 31) subsidiaries were not included in the consolidated financial statements and are measured at cost, as they are immaterial to the consolidated financial statements in terms of total assets, revenues and earnings.

All joint ventures and companies over which companies of the K+S GROUP exercise significant influence (associates) are accounted for using the equity method. The potential impact on earnings of accounting for such equity interests using the equity method is, however, immaterial from a Group perspective. As a result of their overall immateriality, all equity investments in joint ventures and associated companies were therefore recognised at cost less impairment in both the 2017 financial year and the previous year.

A complete summary of equity investments of K+S AKTIENGESELLSCHAFT can be found in the list of shareholdings on page 194.

CONSOLIDATION METHODS

SUBSIDIARIES

Subsidiaries are companies controlled by K+S AKTIENGESELLSCHAFT. Control is presumed to exist in cases where

K+S AKTIENGESELLSCHAFT has pre-existing rights that give it the current ability to direct the relevant activities. The relevant activities are those that have a significant effect on the company's returns. As a rule, the ability to exercise control is based on K+S AKTIENGESELLSCHAFT directly or indirectly holding a majority of the voting rights. Consolidation begins on the date when K+S AKTIENGESELLSCHAFT gains control of the investee.

The financial statements of the consolidated subsidiaries are prepared as of the same balance sheet date as the consolidated financial statements. The assets and liabilities of the consolidated subsidiaries are recognised and measured uniformly in accordance with the policies described here and in the following notes.

Revenues, expenses and income generated or incurred between consolidated companies while the companies concerned are members of the K+S GROUP are eliminated in full. Similarly, receivables and liabilities as well as inter-company profits resulting from goods and services supplied between consolidated subsidiaries are eliminated, unless they are immaterial.

In acquisition accounting, the cost of the investee is offset against the share of the remeasured equity attributable to it at the date of acquisition. Any positive difference that remains after allocating the purchase price to the assets and liabilities is recognised as goodwill. Any negative differences from the purchase price allocation are recognised in profit or loss.

JOINT OPERATIONS, JOINT VENTURES AND ASSOCIATES

Joint operations and joint ventures are defined by the existence of a contractual arrangement according to which K+S AKTIENGESELLSCHAFT directly or indirectly conducts the respective activities jointly with a non-Group company.

Associates are companies over which K+S AKTIENGESELLSCHAFT directly or indirectly has significant influence.

ACCOUNTING POLICIES

RECOGNITION OF INCOME AND EXPENSES

Revenues are income generated in the ordinary course of business. Revenues are recognised, if the amount, as well as the actual costs incurred or yet to be incurred in con-

nection with the transaction, can be reliably determined. Furthermore, it must be probable that future economic benefits will flow to the Company. In the K+S GROUP, revenues include income from the sale of goods and the provision of services, as well as contract revenues from customer-specific construction contracts, net of revenue deductions.

Revenues derived from the sale of goods are reported as of the date when the associated risks of ownership have been transferred, provided no continuing managerial involvement or effective control over the sold goods is retained.

Revenues from services and customer-specific construction contracts are recognised using the percentage of completion method, if they can be estimated reliably. In the K+S GROUP, revenues from services are reported after the service has been provided, whereas contract revenues from customer-specific construction contracts are recognised according to the ratio of costs incurred to expected total costs. If the percentage of completion cannot be estimated reliably, revenues are recognised only to the extent of the expenses incurred that the Company is expected to recover. In the context of contract manufacture, amendments introduced by customers with respect to the range of goods and services to be provided can increase or reduce contract revenues. An expected loss on a construction contract is immediately recognised as an expense. Moreover, revenues that have already been recognised for a service transaction are not adjusted retrospectively, if they subsequently become irrecoverable. Irrecoverable amounts are immediately recognised as an expense.

If the amount can be determined reliably and it is probable that economic benefits will flow to the Company as a result of the transaction, other operating income is recognised in the period in which a legal (contractual or statutory) claim arises.

Operating expenses are charged to profit or loss on the date the goods or services are used or the expenses are incurred.

NET INCOME FROM EQUITY INVESTMENTS

This item contains income from non-consolidated subsidiaries measured at cost, joint ventures, associates and other

equity investments on a net basis. This item contains distributions, profit or loss transfers, impairment losses and gains and losses on the disposal of these companies.

INTANGIBLE ASSETS

Intangible assets are only recognised, if it is probable that future economic benefits will flow to the Company and the cost of such assets can be measured reliably. Purchased intangible assets are recognised at cost. Internally generated intangible assets are recognised at the development cost attributable to them (production costs).

If their useful lives can be determined, intangible assets are subject to systematic amortisation. If they have indefinite useful lives, they are not amortised, but written down for impairment, if necessary. Goodwill is always assumed to have an indefinite useful life.

Intangible assets are amortised using the straight-line method based on normal useful lives. For intangible assets with finite useful lives, the following useful lives are applied as standard across the Group:

/ TAB: 3.6.5

The amortisation charges for the financial year are disclosed in the income statement in line with the use of the assets concerned under the following items:

- + Production cost
- + Selling expenses
- + General and administrative expenses
- + Research and development costs
- + Other operating expenses

Impairment losses are recognised in case of impairment. If the reasons for previously recognised impairment losses no longer exist, the impairment loss is reversed, although the net carrying amount of the asset must not be exceeded. Impairment losses on goodwill must not be reversed.

Goodwill is tested for impairment at least once a year and an impairment loss is recognised if necessary. Any need to recognise an impairment loss is determined in accordance with IAS 36 by comparing the carrying amounts of the cash-generating units to which goodwill has been allocated with the recoverable amounts of the units. The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is determined based on the discounted expected future cash flows from the cash-generating units to which the corresponding goodwill amounts have been allocated.

CO₂ emission rights are initially measured at cost. Accordingly, rights granted free of charge are recognised at a value of zero and those acquired for a consideration are recognised at cost. If the fair value on the reporting date falls below cost, an impairment test is carried out under which the carrying amount of the cash-generating unit holding the emission rights is compared with the value in use of that unit.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation and, if required, impairment losses. Cost also includes future restoration and recultivation expenses. Impairment

USEFUL LIVES OF INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

TAB: 3.6.5

in years

Customer relations	5–20
Brands	0–20
Port concessions	250
Other intangible assets	2–50

losses in excess of depreciation charges already recognised are charged to other operating expenses. These impairment losses are determined in accordance with IAS 36 by comparing the carrying amounts with the discounted expected future cash flows of the assets concerned. If no specific cash flows can be allocated to the assets concerned, the cash flows of the corresponding cash generating units are used for the comparison instead. If the reasons for previously recognised impairment losses no longer exist, the impairment loss is reversed as appropriate, although the net carrying amounts must not be exceeded.

Acquired raw material deposits are recognised as property, plant and equipment. Depreciation starts on the date the raw materials are first extracted. Galleries and excavations are also reported under property, plant and equipment.

If property, plant and equipment is sold or decommissioned, the gain or loss calculated as the difference between the sale proceeds and the net carrying amount is recognised in other operating income or expenses.

Property, plant and equipment is depreciated using the straight-line method based on normal useful lives. The following useful lives are applied to property, plant and equipment as standard across the Group:

/ TAB: 3.6.6

The depreciation charges for the financial year are disclosed in the income statement in line with the use of the assets concerned under the following items:

- + Production cost
- + Selling expenses
- + General and administrative expenses

- + Research and development costs
- + Other operating expenses

CAPITALISATION OF BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and should therefore be capitalised. A qualifying asset is an asset that takes a period of at least one year to get ready for its intended use or sale. If the qualifying asset can be shown not to be financed with borrowings, no borrowing costs are recognised. In the statement of cash flows, capitalised borrowing costs are reported under 'Interest paid' in 'Net cash flow from operating activities'.

LEASES

A lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for a single payment or a series of payments. Leases are divided into finance leases and operating leases. A finance lease is a lease that substantially transfers all the risks and rewards of ownership to the lessee, who consequently becomes the beneficial owner of the asset. If that is the case, the lessee recognises the asset at its fair value or, if lower, at the present value of the minimum lease payments. A corresponding amount is recognised as a lease liability. The depreciation policy for lease assets is the same as for comparable (legally) owned assets. Lease payments under operating leases are recognised as expenses over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user's benefit. Conditional lease payments under an operating lease are expensed in the period they are incurred.

GOVERNMENT GRANTS

Government grants for the acquisition or production of property, plant and equipment (e.g. investment subsidies and grants) reduce the cost of the assets to which they relate. Performance-related grants are offset against the corresponding expenses in the current year.

INVESTMENT PROPERTIES

Investment properties are primarily leased properties. They are carried at amortised cost less depreciation. Investment property is depreciated using the straight-line method based on normal useful lives. A useful life of 50 years

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

TAB: 3.6.6

in years	
Buildings	15–50
Raw material deposits	17–250
Technical equipment and machinery (galleries and excavations)	4–122
Technical equipment and machinery (other)	8–39
Ships	25
Other equipment, operating and office equipment	7–11

is generally assumed. The depreciation expense is recognised under other operating expenses. Income from the disposal of investment properties is recognised in the financial result.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AS WELL AS DISCONTINUED OPERATIONS

A non-current asset (or disposal group) is classified as held for sale, if most of its carrying amount will be recovered through a sale transaction rather than through continuing use. This is the case, if the asset (or disposal group) is available for sale in its present condition and if such sale is highly probable. Non-current assets (or disposal groups) classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. These assets are no longer depreciated.

An operation is reported as a discontinued operation, if it has been sold or is classified as held for sale and

- + represents a separate major line of business or a geographical area of operations,
- + is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- + represents a subsidiary exclusively acquired with a view to resale.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset for one of the parties to such contract and to a financial liability or equity instrument for the other party. As a rule, financial assets and financial liabilities are disclosed separately from each other (no offsetting). Financial assets mainly comprise cash and cash equivalents, trade receivables, receivables from customer-specific construction contracts, securities, financial investments as well as derivative finan-

cial instruments with a positive fair value. Financial liabilities include, in particular, financial obligations, trade payables as well as derivative financial instruments with a negative fair value.

Financial instruments are initially recognised at their fair value as soon as the reporting enterprise becomes a contractual party to the financial instrument. Transaction costs that can be allocated directly to the acquisition are taken into account in determining the carrying amount, if the financial instruments are not subsequently measured at fair value through profit or loss.

Financial assets that are not recognised at fair value through profit or loss are assessed in accordance with IAS 39 at each balance sheet date to determine, whether there is any objective evidence of impairment. Examples of such objective evidence include significant payment difficulties of a debtor, breach of contract due to default or late interest and principal payments, a high probability of debtor insolvency, major changes in the legal, technological or economic environment or a sustained and significant drop in the value of a listed equity instrument.

The allocation of financial instruments to one of the following measurement categories defined in IAS 39 determines subsequent measurement:

LOANS AND RECEIVABLES:

This measurement category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include trade receivables, loans, fixed- or floating-rate securities (without an active market) as well as bank deposits.

After initial measurement, the financial assets belonging to this measurement category are measured at amortised

cost applying the effective interest method less impairment. Non-interest-bearing or low-interest receivables with maturities of more than three months are discounted. If there is objective evidence, impairment losses are recognised and charged to profit or loss through separate impairment accounts. If the reasons for previously recognised impairment losses no longer apply, the impairment loss is reversed. Receivables are derecognised when settled or when they become uncollectible. Other assets are derecognised on disposal or, if they are impaired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:

This measurement category comprises financial assets held for trading that have been acquired with the intention to sell in the short term. Derivatives with positive fair values are also classified as held for trading unless they have been designated as hedging instruments in accordance with IAS 39.

They are subsequently measured at fair value. Changes in fair value are recognised through profit or loss. Securities are derecognised after disposal on the settlement date.

HELD-TO-MATURITY INVESTMENTS:

At present, the K+S GROUP does not hold any financial instruments in the 'held-to-maturity investments' category.

AVAILABLE-FOR-SALE FINANCIAL ASSETS:

This measurement category comprises non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as any of the valuation categories mentioned above. This measurement category includes certain debt and equity instruments such as shares in (non-consolidated) affiliated companies.

They are initially and subsequently measured at fair value. If the fair value of equity instruments cannot be reliably determined because no active market exists, they are subsequently measured at cost (less impairment, if applicable). This applies, for example, to investments in (non-consolidated) affiliated companies. Changes in fair value arising on subsequent measurement are recognised in the revaluation surplus directly in equity. Unrealised gains or losses previously recognised in the revaluation surplus are only reclassified to profit or loss when the instrument is sold or if there

is objective evidence of impairment. If the reasons for previously recognised impairment losses no longer apply, impairment losses on debt instruments are reversed through profit or loss, while impairment losses on equity instruments are reversed through equity.

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST:

All financial liabilities, with the exception of derivative financial instruments, are carried at amortised cost applying the effective interest method. Liabilities are derecognised on settlement or if the reasons for recognising a liability no longer apply.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS:

This measurement category comprises derivative financial instruments with negative fair values classified as held for trading. This category is not used for derivatives that have been designated as hedging instruments in accordance with IAS 39.

DERIVATIVES

Derivatives are measured at fair value. Changes in fair value are recognised through profit or loss. Derivatives are derecognised on the settlement date.

INVENTORIES

In accordance with IAS 2, inventories include assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the production process for sale in the ordinary course of business (work in progress), and materials and supplies that are consumed in production (raw materials, consumables and supplies).

Inventories are measured at the lower of average cost and net realisable value. In addition to direct costs, production costs also include reasonable proportions of fixed and variable material and manufacturing overheads provided they are incurred in connection with the production process. The same applies to general administrative expenses, post-employment and other employee benefit costs as well as other social security expenses. Fixed overheads are allocated on the basis of normal capacity. Net realisable value is defined as the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

CASH AND CASH EQUIVALENTS

This item includes cash on hand and balances with banks. It also includes financial investments with a maturity of generally not more than three months from the date of acquisition.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions and similar obligations are determined in accordance with actuarial principles applying the projected unit credit method. The discount rate is determined on the basis of the returns for high-grade corporate bonds available on the reporting date. High-grade corporate bonds are bonds with an AA rating. To this end, corporate bonds that match the expected maturity and currency of the pension obligations must be used. Since appropriate long-term corporate bonds were not always available at the balance sheet date, the interest rate with matching maturities was in such cases determined by means of extrapolation. Aspects such as future expected salary and pension increases, cost increases for healthcare benefit commitments as well as mortality rates are also taken into account. Any plan assets are offset against the corresponding obligations.

The net interest for a reporting period is determined by multiplying the net liabilities from the defined benefit pension plans (asset) by the discount factor specified above. Both factors are determined at the beginning of the reporting period after taking into account expected allocations/disbursements.

Remeasurement gains or losses on the net liabilities from defined benefit pension plans are recognised in other comprehensive income. They include:

- + actuarial gains/losses,
- + income from plan assets, excluding amounts contained in the net interest attributable to the net liabilities from defined benefit pension plans (asset) and

- + changes in the effects of the asset ceiling, excluding amounts contained in the net interest attributable to the net liabilities from defined benefit pension plans (asset).

MINING AND OTHER PROVISIONS

Provisions are recognised in an amount corresponding to the extent to which they are expected to be used for discharging current obligations to third parties arising from a past event. Such utilisation must be more probable than not and it must be possible to reliably estimate the amount of the obligations. Non-current provisions with a remaining maturity of more than one year are discounted using a capital market interest rate of suitable duration to take account of future cost increases, if the interest rate effect is material.

DEFERRED TAXES

Deferred taxes are determined in accordance with IAS 12 using the accounting-based liability method in line with common international practice. This results in the recognition of deferred tax items for temporary differences between the tax base and the amounts recognised in the consolidated balance sheet, as well as for tax loss carryforwards. However, deferred tax assets are only recognised, if it is sufficiently probable that they will be realised. Deferred taxes are measured using tax rates that, under current legislation, are expected to apply in the future when the temporary differences will reverse. The effects of changes in tax legislation on deferred tax assets and liabilities are recognised in profit or loss in the period in which the changes in legislation have been substantively enacted. As specified in IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset based on maturity within individual companies or within tax groups.

ACQUISITIONS

Business combinations are accounted for using the acquisition method. In connection with the remeasurement of the acquiree, all hidden reserves and hidden liabilities of

the acquiree are uncovered, and assets, liabilities and contingent liabilities are recognised at their fair values (with the exceptions specified in IFRS 3). Any resulting positive difference from the cost of the acquiree is recognised as goodwill. Any negative difference is immediately recognised in profit or loss.

JUDGEMENT AND ESTIMATES

JUDGEMENT IN THE APPLICATION OF ACCOUNTING POLICIES

Non-current intangible assets, property, plant and equipment and investment properties are measured at cost less amortisation or depreciation in the financial statements. The option to carry them at fair value, which is allowed under certain conditions, is not exercised.

ESTIMATES AND ASSUMPTIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The reasons for and amount of some items recognised in the IFRS financial statements are in some cases based on estimates and the definition of certain assumptions. This is particularly necessary in the case of

- + determining the useful lives of depreciable items of property, plant and equipment,
- + specifying measurement assumptions and future gains or losses in connection with impairment tests, especially for capitalised goodwill,
- + determining the net realisable value of inventories,
- + determining the inputs necessary for the measurement of pension provisions and similar obligations (e.g. discount rate, future wage/salary and pension trends, mortality rates, healthcare cost trends),
- + determining amounts, settlement dates and discount rates for the measurement of provisions for mining obligations,
- + selecting inputs for the model-based measurement of derivatives (e.g. assumptions about volatility and interest rates),
- + determining the profit or loss on customer-specific construction contracts accounted for using the percentage-of-completion method (estimate of contract prog-

- ress, total contract costs, cost to completion, total contract revenue and contract risks),
- + determining the usability of tax loss carryforwards and
- + determining the fair value of intangible assets, property, plant and equipment and liabilities acquired in connection with a business combination, and determining the useful lives of the intangible assets and property, plant and equipment acquired.

Despite taking great care in producing such estimates, actual outcomes may differ from the assumptions made.

CHANGES IN USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

In financial year 2017, analyses led to the extension of the standard Group-wide useful lives of certain classes of property, plant and equipment. The adjusted useful lives were applied as changes in accounting estimates in accordance with IAS 8 on a prospective basis as from 1 July 2017.

The resulting effect on the financial statements for financial year 2017 and the subsequent two financial years is a reduction in depreciation expenses. Assuming that the assets will be held until the end of their estimated useful lives, the effect recognised in financial year 2017 was € 54 million. The corresponding reduction in depreciation expenses is expected to amount to around € 100 million in financial year 2018 and to around € 110 million in financial year 2019.

START OF DEPRECIATION OF BETHUNE

An asset must be depreciated or amortised as soon as it is available for use as intended by the management. In relation to the Bethune plant, it was determined that this point has been reached on the basis of the following criteria:

- + ability to ensure continuous production of the product in saleable condition,
- + amount of capital expenditure incurred compared with planned capital expenditure,
- + degree of physical completion of the plant.

Based on the above criteria, depreciation of the Bethune plant began on 1 September 2017. The completed facilities were reclassified from 'assets under construction' to the

appropriate asset class and depreciation commenced on a prospective basis on the basis of useful lives.

SIGMUNDSHALL POTASH MINE

In financial year 2017, it was decided to discontinue potash production at the Sigmundshall mine already by the end of financial year 2018 because stocks that can be mined profitably are coming to an end. Discussions are currently taking place with workforce representatives and the trade union to find new opportunities and alternatives for the employees affected. In addition, negotiations are taking place to achieve a fair balance of interests and a socially acceptable redundancy plan. The expenses expected to arise were taken into account by recognising a personnel provision. Other factors weighing on earnings will result from the reduction in the planned useful lives due to shorter terms and from adjustments to the mining provisions for this location. In total, this had an impact of € 43.0 million on profit or loss in financial year 2017, all of which was attributable to the Potash and Magnesium Products business unit.

CURRENCY TRANSLATION

The annual financial statements of foreign Group companies are translated into euros in accordance with the functional currency concept of IAS 21. All companies conduct their operations independently in financial, economic and organisa-

tional terms. The functional currency generally corresponds to the local currency. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates for the quarter. The resulting currency translation differences are recognised directly in equity. When Group companies exit the scope of consolidation, the corresponding currency translation difference is reversed and recognised in profit or loss.

13 companies use the us dollar, rather than their local currency, as the functional currency, because these companies generate most of their cash flows in this currency. The companies using the us dollar are: COMPANIA MINERA PUNTA DE LOBOS LTDA., EMPRESA DE SERVICIOS LTDA., EMPRESA MARITIMA S.A., INAGUA GENERAL STORE, LTD., INAGUA TRANSPORTS, INC., INVERSIONES COLUMBUS LTDA., INVERSIONES EMPREMAR LTDA., K+S ASIA PACIFIC PTE. LTD., K+S CHILE S.A., K+S FINANCE BELGIUM BVBA, MORTON BAHAMAS LTD., SERVICIOS MARITIMOS PATILLOS S.A. and SERVICIOS PORTUARIOS PATILLOS S.A.

The translation of significant currencies in the Group was based on the following exchange rates per one euro:

/ TAB: 3.6.7, 3.6.8

In the year under review, net translation differences of € 34.1 million (2016: € –11.9 million) were recognised in the income statement (e.g. measurement/realisation of receivables and liabilities in a foreign currency), which were mainly reported in other operating income or expenses.

EXCHANGE RATES

TAB: 3.6.7

	2017				
	Closing rate as of 31 December	Q1 quarterly average	Q2 quarterly average	Q3 quarterly average	Q4 quarterly average
per €1					
US dollar (USD)	1.199	1.065	1.102	1.175	1.177
Canadian dollar (CAD)	1.504	1.410	1.482	1.473	1.496
Czech koruna (CZK)	25.535	27.021	26.535	26.085	25.650
Brazilian real (BRL)	3.973	3.347	3.544	3.715	3.820
Chilean peso (CLP)	738.085	698.293	731.358	754.190	745.933
Pound sterling (GBP)	0.887	0.860	0.861	0.898	0.887

	2016				
	Closing rate as of 31 December	Q1 quarterly average	Q2 quarterly average	Q3 quarterly average	Q4 quarterly average
per € 1					
US dollar (USD)	1.054	1.102	1.129	1.117	1.079
Canadian dollar (CAD)	1.419	1.515	1.455	1.456	1.440
Czech koruna (CZK)	27.021	27.040	27.040	27.029	27.029
Brazilian real (BRL)	3.431	4.304	3.963	3.622	3.555
Chilean peso (CLP)	706.669	772.367	764.979	738.881	717.092
Pound sterling (GBP)	0.856	0.770	0.787	0.850	0.869

NEW OR AMENDED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

The amendment to IAS 7 has led to additional disclosures on changes in liabilities arising from financing activities. The reconciliation statement comprises both cash and non-cash items (see p. 188). The other amendments to the financial reporting standards had no material impact on the consolidated financial statements of the K+S GROUP. / TAB: 3.6.9

NEW OR AMENDED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED

The following financial reporting standards and interpretations were published by the IASB by the balance sheet date, although application by the K+S GROUP is only required at a subsequent date. / TAB: 3.6.10

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces the current standard for accounting for financial instruments, IAS 39 Financial Instruments: Recognition and Measurement. Its application is mandatory for K+S from financial year 2018 onwards; there is no early application. The effect of initial application as of 1 January 2018 is recognised directly in equity under retained earnings. Prior-year figures will not be restated. In addition to new qualitative and quantitative disclosure requirements, IFRS 9 will lead to adjustments in the following three areas:

CLASSIFICATION AND MEASUREMENT

The classification and measurement of financial assets will in future depend on the underlying business model and the contractual cash flow characteristics. K+S's business model specifies that financial assets are always held to maturity. Since the cash flows received normally represent solely payments of principal and interest on the underlying receivables, the vast majority of instruments will continue to be measured at amortised cost (especially in the case of trade receivables and other financial assets).

One exception is the measurement of subsidiaries, joint ventures, associates and other equity investments that are not included in the consolidated financial statements due to immateriality. These have previously been measured at cost and will in future be recognised at fair value. This will lead to an increase in the carrying amount from € 20.6 million to € 71.2 million at the time of initial application. For subsequent periods, the OCI option will be exercised in all cases, which allows changes in fair value to be recognised in other comprehensive income without reclassifying them to the income statement.

The treatment of financial liabilities will not change.

IMPAIRMENT

The new guidance of IFRS 9 for recognising impairment is based on expected credit losses. To date, impairment losses have only been recognised for loss events that have already occurred.

The main balance sheet items affected are trade receivables. The simplified model will be used, under which credit losses expected over the life of the instrument are recognised on initial recognition. As of the reporting date, 93 % of the Group's trade receivables that qualify for hedge accounting were pro-

tected against default with credit insurance and other hedging instruments. Due to the excellent credit ratings of the credit insurers, the risk is largely limited to a small excess. Most of the trade receivables that cannot be hedged were receivables from public-sector customers. Based on past

NEW OR AMENDED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

TAB: 3.6.9

Standard/interpretation			Date of mandatory application ¹	Date of mandatory application in the K+S Group ²
Amendment	IAS 7	Disclosure initiative	1 January 2017	1 January 2017
Amendment	IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	1 January 2017
Amendment	Collective standard to amend several IFRS	Annual improvements to IFRS, 2014–2016 cycle	1 January 2017 ³	1 January 2017 ³

¹ IASB requires initial application for reporting periods beginning on or after this date.

² Initial application for companies whose registered office is in the EU for reporting periods beginning on or after this date. The application of new or amended IFRS standards or interpretations for companies whose registered office is in the EU is subject to endorsement by the European Commission. Early application of IFRS standards or interpretations (if provided for by the IASB) is subject to EU endorsement. Occasionally, the date of mandatory application determined in the endorsement may differ from the first-time application date stipulated by the IASB.

³ The amendments to IFRS 1 and IAS 28 are effective for reporting periods beginning on or after 1 January 2018.

NEW OR AMENDED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED

TAB: 3.6.10

Standard/interpretation			Date of mandatory application ¹	Date of mandatory application in the K+S Group ²
Amendment	IAS 19	Plan Amendments, Curtailments and Settlements	1 January 2019	open
Amendment	IAS 28	Investments in Associates and Joint Ventures	1 January 2019	open
Amendment	IAS 40	Investment Property	1 January 2018	open
Amendment	IFRS 2	Classification and Measurement of Share-Based Payment	1 January 2018	open
Amendment	IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018 ³	1 January 2018 ³
Amendment	IFRS 9	Prepayment Features with Negative Compensation	1 January 2019	open
Amendment	IFRS 15	Clarifications to IFRS 15 Proceeds from Contracts with Customers	1 January 2018	1 January 2018
Amendment	Collective standard to amend several IFRS	Annual improvements to IFRS, 2015–2017 cycle	1 January 2019	open
new	IFRS 9	Financial Instruments	1 January 2018	1 January 2018
new	IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018
new	IFRS 16	Leases	1 January 2019	1 January 2019
new	IFRS 17	Insurance Contracts	1 January 2021	open
new	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	open
new	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	open

¹ IASB requires initial application for reporting periods beginning on or after this date.

² Initial application for companies whose registered office is in the EU for reporting periods beginning on or after this date. The application of new or amended IFRS standards or interpretations for companies whose registered office is in the EU is subject to endorsement by the European Commission. Until then, the date of mandatory application for companies whose registered office is in the EU remains open. Early application of IFRS standards or interpretations (if provided for by the IASB) is subject to EU endorsement. Occasionally, the date of mandatory application determined in the endorsement may differ from the first-time application date stipulated by the IASB.

³ As a result of the amendment to IFRS 4, insurers meeting certain criteria have the option to be exempted from the application of IFRS 9 Financial Instruments until 1 January 2021 ('deferral approach').

default rates, no material defaults are expected for these receivables and the unhedged portion of trade receivables that are in principle eligible for hedge accounting (7%). There is no indication that future default rates will significantly differ from past default rates. For this reason, the unadjusted past default rates were applied to the calculation.

In addition to hedging derivatives, the 'other financial assets' item contains a large number of individual items (e.g. claims for reimbursement, assets pledged as collateral, insurance receivables), for which no material impairment losses are expected. The derivatives continue to be measured at fair value and are not subject to impairment rules.

Overall, the amended impairment rules will not have a material effect at the time of initial application. In subsequent periods, the amounts of impairment losses may fluctuate if expectations change.

HEDGE ACCOUNTING

The amended regulations on hedge accounting aim for a closer alignment of hedge accounting with the company's risk management strategy. The new regulations will have no impact as the K+S GROUP does not currently apply hedge accounting.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The aim of IFRS 15 is to introduce standardised, sector-independent revenue recognition requirements that are applicable to all types of transactions. To this end, a five-step revenue recognition model has been developed, which applies to all contracts with customers (with few exceptions). IFRS 15 replaces the current standards, IAS 11 Construction Contracts and IAS 18 Revenue as well as the corresponding interpretations.

The K+S GROUP launched a Group-wide project in 2016 to assess the impact and implement the new requirements. As part of this project, the K+S GROUP's predominant transactions were subjected to a comprehensive analysis, which found that the application of IFRS 15 will result in changes to the accounting treatment of multiple element arrangements. Multiple element arrangements are transactions containing several contractual promises to the customer, each of which represents a separate performance obliga-

tion under IFRS 15. Under these contracts, total revenue (transaction price) is allocated to the respective performance obligation on the basis of the ratios of the individual selling prices to each other. The share of total revenues attributable to each performance obligation is recognised as the performance obligation is met (over time or at a point in time).

In the K+S GROUP, multiple element arrangements occur in the form of goods supplies and transport services provided subsequently. Whether a transport service represents a separate performance obligation depends on the relevant contractual arrangements with the customer. To date, the K+S GROUP has recognised revenues from transport services simultaneously with the revenues attributable to the supply of goods. In future, the share of revenues attributable proportionately to transport services identified as a separate performance obligation will be recognised pro rata over the duration of the goods transport (recognition over time). This will result in a timing mismatch between the recognition of revenues and the recognition of the corresponding selling expenses. The quantitative effects on the K+S GROUP's assets, liabilities, financial position and profit or loss arising from the different accounting treatment of multiple element arrangements are not material from the Group's perspective.

As things stand at present, no other changes have been identified as a result of the application of IFRS 15, apart from quantitative and qualitative disclosure requirements.

The K+S GROUP will initially apply IFRS 15 using the modified retrospective method. In this process, the opening carrying amount of retained earnings (equity) as of 1 January 2018 will be adjusted for the cumulative effect of initial application (K+S GROUP: reduced). The K+S GROUP has exercised the option that allows users to apply IFRS 15 retrospectively only to contracts that have not yet been (fully) performed as of 1 January 2018. The K+S GROUP does not make use of practical expedients in relation to contract modifications that the standard setter has made available for initial application. There are no contracts to be classified as 'modified' within the meaning of IFRS 15. Contracts containing (explicitly agreed or implied) significant financing arrangements do not normally exist in the K+S GROUP. Should this apply to future contracts with customers, the

Group will make use of the expedient to recognise these effects in the transaction price only if the payment terms exceed one year. The K+S GROUP does not capitalise the costs of obtaining contracts with payment terms of one year or less, but recognises them immediately in profit or loss (practical expedient).

Effects from the application of IFRS 15 in future periods may arise due to changes in business (such as price or volume changes) or changes in the business model of the K+S GROUP.

The new standard must be applied to financial years beginning on or after 1 January 2018. The K+S GROUP has not early adopted IFRS 15.

IFRS 16 LEASES

IFRS 16 replaces the current IAS 17 Leases as well as the associated interpretations: IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The core concept of the new standard is to standardise the accounting treatment of all leases by the lessee. The previously required differentiation between finance and operating leases no longer applies to the lessee. In future, all rights and obligations arising from leases must be recognised in the balance sheet as right of use assets and lease liabilities. The only exceptions are short-term leases of up to one year for low-value assets.

Because of the growth in the balance sheet, liabilities will increase and the equity ratio will decline accordingly. For leases currently classified as operating leases, the lessee will in future recognise depreciation and impairment on the right-of-use asset and interest expenses on the carrying amount of the lease liability, instead of lease expenses. This change will lead to an improvement in key figures such as EBIT I, EBIT II and EBITDA. Changes in the way lease expenses from operating leases are reported will also result in an improvement in cash flows from operating activities and a deterioration in cash flows from financing activities. Moreover, IFRS 16 will require new qualitative and quantitative disclosures.

The new standard must be applied to financial years beginning on or after 1 January 2019. The K+S GROUP intends to apply the new guidance from 1 January 2019 onwards using the modified retrospective method and opt not to restate prior-year figures. No decision has as yet been taken whether to exercise the various options contained in IFRS 16. There is an accounting and measurement option to apply the standard to a portfolio of leases with the same or similar characteristics. In addition, there is an option not to recognise a right-of-use asset for short-term leases (with a lease term of 12 months or less) and low-value assets as well as an option to separate lease components from non-lease components (service). The cumulative effect of the transition will be recognised directly in equity at the time of transition.

The K+S GROUP launched a Group-wide project back in 2016 to assess the impact and implement the new requirements. All accounting-relevant data of existing leases is currently being collated. Once this process has been completed, the IT implementation will start on this basis. It is not currently possible to reliably estimate the quantitative effect at the time of initial application because the data is incomplete and changes to the lease portfolio are expected for 2018. Information on existing lease obligations as of 31 December 2017 can be found in the notes on page 187.

OTHER AMENDMENTS

As things stand at present, the other changes to the financial reporting standards and interpretations will have no material impact on the consolidated financial statements of the K+S GROUP.

NOTES TO THE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

The income statement and statement of comprehensive income are presented on page 133. The income statement has been prepared in accordance with the cost of sales method.

The K+S GROUP uses derivatives to hedge market risk. The hedging strategy is explained in more detail in note (19). Hedge accounting according to IAS 39 is not applied to the

derivatives and hedged items described above so that fluctuations in the fair values of the outstanding derivatives are recognised through profit or loss at each balance sheet date. In addition, the exercise/settlement, sale or expiry of derivatives used for hedging purposes also have an effect on profit or loss.

Depending on the purpose of the hedge, the effects of hedging are reported under the following items in the income statement:

A) GAINS/(LOSSES) ON OPERATING ANTICIPATORY HEDGES

All effects on profit or loss arising from anticipatory hedges of operating transactions to be recognised in profit or loss in future periods are combined in this income statement line item. 'Anticipatory' refers to hedged items expected with a high degree of probability, although they have not yet been recognised in the balance sheet or income statement. 'Operating' relates to hedged items that will have an effect on EBIT.

Significant cases of application are

- + hedging forecasted revenues in USD
- + hedging forecasted cash outflows (capital expenditure, operating expenses) in Canadian dollars

B) OTHER OPERATING INCOME/EXPENSES

This item includes effects on profit or loss from hedging existing foreign currency receivables (e.g. hedging USD receivables against exchange rate fluctuations with a EUR/USD forward exchange contract).

C) FINANCIAL RESULT

Effects on profit or loss from hedging items with a financing element that affect EBIT neither in the current financial year nor in future financial years are reported in the financial result (e.g. interest derivatives).

Internal control of the K+S GROUP is performed on the basis of EBITDA, which is in turn determined on the basis of operating earnings (EBIT I). EBIT I differs from the EBIT II reported in the income statement in that fair value fluctuations arising from operating anticipatory hedges are not taken into account if they result from fair value measurement during

the term of the hedging instrument as specified in IAS 39. As a result, the following effects must be eliminated from EBIT II reported in the income statement:

INCOME/EXPENSES ARISING FROM CHANGES IN THE FAIR VALUE OF OUTSTANDING OPERATING ANTICIPATORY HEDGES

Until maturity, the hedging transactions must be measured at fair value as of each balance sheet date. Any difference from the carrying amount is recognised as income or expense.

ELIMINATION OF PRIOR-PERIOD CHANGES IN THE FAIR VALUE OF OPERATING ANTICIPATORY HEDGES

The carrying amount of the hedging instrument is derecognised at the time it is realised. It is realised when the hedging instrument is exercised/settled, expires or is sold. The difference between the realised amount and carrying amount is the income or expense recognised in the current period. Since EBIT I is intended to show earnings that exclude the effects of fair value measurement in accordance with IAS 39, changes in fair value from earlier periods included in the carrying amount are eliminated.

Due to the elimination of all fair value changes during the term, the gain or loss on operating anticipatory hedges included in EBIT I corresponds to the value of the hedging transaction at the time of realisation (difference between the spot rate and hedging rate); in the case of options, it is reduced by the premium paid or increased by the premium received.

If the currency hedge relates to the expected capital expenditure denominated in Canadian dollars for the Bethune plant, EBIT I is adjusted for not only the above-mentioned items, but all effects on profit or loss. Since the hedged items (capital expenditure in Canadian dollars) affect EBIT I only with a time lag through depreciation and amortisation, the fact that the hedged items do not affect profit or loss means that to report the effect on profit or loss of these hedges arising on maturity would not produce meaningful information on the profitability figure expressed in EBIT I. / TAB: 3.6.11

(1) REVENUES

The sales revenues of the K+S GROUP amounted to € 3,627.0 million (2016: € 3,456.6 million), with € 3,496.4 million (2016: € 3,321.0 million) resulting from the sale of goods, € 123.1 million (2016: € 125.4 million) from the provision of services and € 7.5 million (2016: € 10.2 million) from recognising revenues under customer-specific construction contracts. The breakdown of revenues by business unit as well as intersegment revenues are presented in the segment information

on page 138. The regional breakdown of revenues is shown in the Segment Reporting Disclosures under note (37).

(2) OTHER OPERATING INCOME

Other operating income includes the following material items: / TAB: 3.6.12

Compensation and refunds in 2017 include income from loss compensation covered by insurance pay-outs in the amount

RECONCILIATION TO OPERATING EARNINGS (EBIT I) AND EBITDA

TAB: 3.6.11

	2016	2017
in € million		
Earnings after operating hedges (EBIT II)	291.0	327.3
Income (-)/expenses (+) arising from changes in the fair value of outstanding operating anticipatory hedges	-4.4	-37.2
Elimination of prior-period changes in the fair value of operating anticipatory hedges	-43.6	-10.3
Recognised income (-)/expenses (+) of currency hedging for capital expenditure in Canada	-13.7	-9.0
Operating earnings (EBIT I)	229.3	270.8
Depreciation and amortisation (+)/impairment losses (+)/reversals of impairment losses (-) on non-current assets	328.4	330.0
Capitalised depreciation expenses recognised directly in equity ¹ (-)	-38.6	-24.1
EBITDA	519.1	576.7

¹ Relates to depreciation of assets used to create other items of property, plant and equipment. The depreciation expenses are capitalised as part of cost and not charged to profit or loss.

OTHER OPERATING INCOME

TAB: 3.6.12

	2016	2017
in € million		
Gains from exchange rate differences/currency hedging transactions	46.1	37.4
Reversals of provisions	28.9	41.9
Compensation and refunds received	38.9	49.5
Reversals of allowances for receivables	0.8	0.3
Rental and leasing income	4.5	4.6
– of which from investment properties	1.4	1.5
Income from the disposal of property, plant and equipment and intangible assets	0.9	28.3
Other income	21.8	25.8
Other operating income	141.9	187.8

of € 46.9 million (2016: € 38.6 million), most of which is attributable to impaired or destroyed items of property, plant and equipment.

(3) OTHER OPERATING EXPENSES

Other operating expenses include the following material items: / TAB: 3.6.13

The net 'Additions to/utilisation of provisions' item includes personnel expenses in connection with the discontinuation of potash production at the Sigmundshall mine.

(4) NET INCOME FROM EQUITY INVESTMENTS

In the financial year, investment income of € 4.5 million (2016: € 4.1 million) was realised; there were no impairment losses (2016: € 0.1 million).

(5) GAINS/(LOSSES) ON OPERATING ANTICIPATORY HEDGES

More information on 'Gains/(losses) on operating anticipatory hedges' can be found in the 'Notes to the Income Statement and Statement of Comprehensive Income' on page 157.

/ TAB: 3.6.14

OTHER OPERATING EXPENSES

TAB: 3.6.13

in € million	2016	2017
Losses on exchange rate differences/currency hedging transactions	47.5	47.5
Expenses for the Bethune plant until production start	66.9	30.4
Additions to/utilisation of provisions	32.7	19.9
Ancillary capital expenditure costs	16.1	16.7
Prior-period expenses	12.3	10.7
Depreciation, amortisation and impairment losses	9.6	8.3
– of which impairment losses	5.3	4.9
Losses on the disposal of non-current assets	21.2	6.6
Other expenses	47.5	46.0
Other operating expenses	253.8	186.1

GAINS/(LOSSES) ON OPERATING ANTICIPATORY HEDGES

TAB: 3.6.14

in € million	2016	2017
Gain/loss on the realisation of currency hedging transactions (expected USD revenues)	5.8	15.0
– of which positive contributions to profit or loss	17.8	24.0
– of which negative contributions to profit or loss	-12.0	-9.0
Gain/loss on the realisation of currency hedging transactions (expected CAD capital expenditure)	13.7	9.0
– of which positive contributions to profit or loss	16.0	16.5
– of which negative contributions to profit or loss	-2.3	-7.5
Gain/loss on realised hedging transactions	19.5	24.0
Changes in the fair value of hedging transactions not yet due (expected USD revenues)	-8.2	37.2
– of which positive fair value changes	8.2	38.2
– of which negative fair value changes	-16.4	-1.0
Changes in the fair value of hedging transactions not yet due (expected CAD capital expenditure)	12.6	—
– of which positive fair value changes	13.4	—
– of which negative fair value changes	-0.8	—
Gain/loss from fair value fluctuations for hedging transactions not yet due	4.4	37.2
Gains/(losses) on operating anticipatory hedges	23.9	61.2

(6) NET INTEREST

In determining the borrowing costs to be capitalised, a weighted cost of capital of 2.6 % was applied (2016: 2.9%).

/ TAB: 3.6.15

The 'Interest component from measurement of provisions for mining obligations' consists of the net balance of the following items: / TAB: 3.6.16

(7) OTHER FINANCIAL RESULT

/ TAB: 3.6.17

NET INTEREST

TAB: 3.6.15

	2016	2017
in € million		
Interest and similar income from securities	0.3	1.1
Bank interest	3.3	3.7
Interest income from pension provisions	0.1	0.1
Other interest and similar income	2.8	5.7
Interest income	6.5	10.6
Interest expense on bonds / promissory note loans	-57.5	-71.4
Interest component from measurement of provisions for mining obligations	-36.4	-10.1
Interest expense on pension provisions	-6.0	-5.8
Capitalisation of borrowing costs	57.2	51.4
Other interest and similar expenses	-12.0	-17.5
Interest expense	-54.7	-53.4
Net interest	-48.2	-42.8

INTEREST COMPONENT OF PROVISIONS FOR MINING OBLIGATIONS

TAB: 3.6.16

	2016	2017
in € million		
Interest rate effect from the change in the discount rate for provisions for mining obligations	-13.8	-0.1
Increase in provisions for mining obligations due to passage of time (interest cost)	-30.7	-32.0
Interest rate effect from the reversal of provisions for mining obligations	8.1	22.0
Interest component from measurement of provisions for mining obligations	-36.4	-10.1

OTHER FINANCIAL RESULT

TAB: 3.6.17

	2016	2017
in € million		
Gain/loss on the realisation of financial assets/liabilities	-5.1	-20.1
Income from the measurement of financial assets/liabilities	1.4	36.5
Other financial result	-3.7	16.4

(8) INCOME TAX EXPENSE

Deferred taxes in Germany were calculated using a tax rate of 29.9 % (2016: 29.3 %). In addition to an unchanged corporate income tax rate of 15.0 % and an unchanged solidarity surcharge of 5.5 % on the corporate income tax rate, an average trade tax rate of 14.1 % (2016: 13.5 %) was taken into account. Deferred taxes in other countries are calculated applying the respective national income tax rates for profit retention.

/ TAB: 3.6.18

The following table reconciles expected to actual tax expense. The expected income tax expense was calculated based on a domestic Group income tax rate of 29.9 % (2016: 29.3 %). / TAB: 3.6.19

An amount of € –26 million included in the effects of tax rate changes relates to a special item from the remeasurement of deferred taxes due to the reduction in the corporate income tax rate in the USA from 35 % to 21 %. The full amount of other effects of changes in tax laws relates to repatriation tax payable on a once-off basis in connection with the us tax reforms. This is because, under the reforms, there is a transition from the previous global taxation system to a territorial taxation system, which will lead to tax being charged on pre-

viously untaxed earnings and profits generated at the level of foreign companies.

The figure has been determined on the basis of current estimates and is subject to uncertainty, because further guidance and instructions on how to apply the law are still expected.

INCOME TAX EXPENSE		TAB: 3.6.18
in € million	2016	2017
Current taxes	79.5	130.7
– in Germany	21.4	24.3
– other countries	58.1	106.4
Deferred taxes	–14.8	–14.4
– in Germany	8.8	16.4
– other countries	–23.6	–30.8
– of which from loss carryforwards and tax credits	1.5	–2.3
– of which attributable to temporary differences	–16.3	–12.1
Income tax expense	64.7	116.3

TAXES ON INCOME

TAB: 3.6.19

in € million	2016	2017
Earnings before tax	239.1	300.9
Expected income tax expense (Group tax rate: 29.9 %; previous year: 29.3 %)	70.1	90.0
Changes in expected tax expense:		
Reduction in tax resulting from tax-free income and other items	–	–
– Tax-free income from investments and gains on disposals	–1.4	–0.9
– Other tax-free income	–19.3	–10.8
Trade tax additions/deductions	3.6	4.1
Increases in tax resulting from non-deductible expenses and other items	7.2	5.9
Permanent differences	–0.2	–0.9
Increases/reductions in tax resulting from the measurement of deferred tax assets	0.5	–3.2
Effects of tax rate differences	1.1	6.4
Effects of tax rate changes	–	–25.8
Effects of other changes in tax law	–	54.3
Taxes for prior years	3.0	–2.0
Other effects	0.1	–0.8
Actual tax expense	64.7	116.3
Tax rate¹	27.1 %	38.7 %

¹ Based on consolidated profit before tax.

(9) COST OF MATERIALS

/ TAB: 3.6.20

(10) PERSONNEL EXPENSES/EMPLOYEES

/ TAB: 3.6.21, 3.6.22

🔗 'Employees', page 41; 🔗 'Remuneration Report', page 122

(11) EARNINGS PER SHARE

Undiluted earnings per share are calculated by dividing consolidated earnings after taxes and non-controlling interests by the weighted average number of shares outstanding. Since none of the conditions resulting in the dilution of earnings per share are met in the K+S GROUP at present, undiluted earnings per share are the same as diluted earnings per share. / TAB: 3.6.23

If the authorised capital is utilised or a conditional capital increase is implemented (see note (20), page 171), earnings per share could be diluted in the future.

COST OF MATERIALS TAB: 3.6.20

	2016	2017
in € million		
Expenses for raw materials and supplies and for purchased goods	501.8	523.6
Cost of purchased services ¹	590.4	657.9
Energy costs	212.4	253.3
Cost of materials	1,304.6	1,434.8

¹ Previous year restated by € 56.8 million due to a structural distinction.**PERSONNEL EXPENSES** TAB: 3.6.21

	2016	2017
in € million		
Wages and salaries	766.6	854.6
Social security costs	209.9	221.4
Pension	34.5	30.2
Personnel expenses	1,011.0	1,106.2

EMPLOYEES INCLUDING TEMPORARY EMPLOYEES

TAB: 3.6.22

	2016	2017
Annual average (FTEs)		
Germany	10,018	10,100
Other countries	4,428	4,554
Total	14,446	14,654
– of which trainees	497	505

EARNINGS PER SHARE ¹

TAB: 3.6.23

	2016	2017
in € million		
Earnings after tax and non-controlling interests	174.1	184.6
Average number of shares (in millions)	191.4	191.4
Earnings per share in € (basic = diluted)	0.91	0.96

¹ The calculation of adjusted earnings per share is described in the combined management report on page 85.

NOTES TO THE BALANCE SHEET

The balance sheet is presented on page 134. The balance sheet is classified according to the maturity of the assets and liabilities. The gross carrying amounts and depreciation, amortisation and impairment losses on individual non-current assets are shown separately on page 140.

(12) INTANGIBLE ASSETS

In the consolidated balance sheet, goodwill from business combinations is allocated to the following cash-generating units (CGUs): / TAB: 3.6.24

The Salt business unit is divided into the cash-generating units Salt America and Salt Europe. The decrease in goodwill is due to the effects of currency translation as of the reporting date.

In order to test goodwill for impairment, the net carrying amounts of the respective cash-generating units were compared with their values in use. Values in use were determined on the basis of the present value of the future cash flows of the cash-generating units. The CGU Salt America is based on the assumption of continuing use. The periods applied to the CGUs Salt Europe and Potash and Magnesium Products are determined by the reserves of raw materials and annual production. The cash flow forecast is based on the latest mid-term planning of the K+S GROUP or the respective business units on the basis of plans of the company concerned. The mid-term planning is based on internal estimates of the performance of the operating business, market studies, the latest financial results and the best estimate of drivers such as energy and shipping costs or exchange rates.

ALLOCATION OF GOODWILL BY CASH-GENERATING UNIT TAB: 3.6.24

	2016	2017
in € million		
CGU Salt America	722.4	642.7
CGU Potash and Magnesium Products	17.3	16.3
CGU Salt Europe	13.7	13.7
Total goodwill	753.4	672.7

For the CGU Salt America and the CGU Salt Europe, the mid-term planning is based on the detailed forecast period from 2018 to 2020. For the CGU Potash and Magnesium Products, the detailed forecast period covers the years 2018 to 2030. For years beyond the detailed forecast period, a growth rate of 2.0% has been assumed for the nominal cash flows (2016: 2.0%) to compensate for cost and revenue inflation. The forecast period of the CGU Potash and Magnesium Products, which ends in 2030, reflects the gradual expansion of production capacity at the new Bethune production plant in Canada.

For the CGU Potash and Magnesium Products, the forecast reflects a slight increase in sales volumes, based on the increase in production at the new Bethune mine in Canada. In addition, a slight recovery in the prices of potassium chloride has been assumed.

The price and sales forecasts for the CGUs Salt America and Salt Europe are based on the assumption of moderate rises in sales volumes and slight price increases. While the assumed volume growth is based on an anticipated normalisation of winter weather and on our strategy, the expected price trends primarily reflect our participation in the anticipated market performance.

The following discount rates were applied as of the end of the financial year: / TAB: 3.6.25

The rates of interest for the cash-generating units correspond to the weighted cost of capital for the K+S GROUP before and after taxes.

© 'Computation of Cost of Capital', page 86

The impairment tests conducted at the end of the 2017 financial year confirmed that the goodwill items were not impaired. According to our assessment, realistic changes in the fundamental assumptions on which the process of determining the values in use is based would not result in the carrying amount of the particular cash-generating unit exceeding its value in use.

Brand rights totalling € 106.3 million (2016: € 119.9 million) are, in view of their level of awareness in the relevant sales regions as well as their strategic relevance, classified as assets with indefinite useful lives. All brand rights are allocated to the CGU Salt America.

DISCOUNT RATES USED IN THE IMPAIRMENT TEST

TAB: 3.6.25

	2016		2017	
	before tax	after tax	before tax	after tax
Interest rates in %				
CGU Salt America	8.2	6.0	8.5	6.0
CGU Potash and Magnesium Products	8.2	6.0	8.5	6.0
CGU Salt Europe	8.2	6.0	8.5	6.0

SECURITIES AND OTHER FINANCIAL INVESTMENTS

TAB: 3.6.26

	2016	2017
in € million		
Securities and other financial investments (non-current)	7.0	7.0
Securities and other financial investments (current)	14.3	11.4
Securities and other financial investments	21.3	18.4

The impairment test on the brand rights with indefinite useful lives, which is conducted annually, was carried out by comparing the values in use of the brands with their carrying amounts. The value in use was determined using the relief-from-royalty method, which derives the brand value from the licence costs saved. The brand-specific revenues for the years 2018 to 2021 were determined on the basis of the corporate planning, and an annual growth rate of 2.0% (2016: 2.0%) was assumed for the period from 2022. The applicable licence prices for the brands were derived from third-party comparisons. The value in use was then determined by discounting the licence costs saved using a risk-adjusted pre-tax interest rate of 12.7% (2016: 12.2%). The impairment test on the brands carried out on this basis at the end of the 2017 financial year did not result in any impairment losses.

The customer relationships obtained as a result of the acquisition of the MORTON GROUP are a significant intangible asset. As of 31 December 2017, the carrying amount totalled € 91.8 million (2016: € 119.9 million), the remaining useful life as of the reporting date was around 9 years (2016: 10 years).

(13) INVESTMENT PROPERTIES

As of 31 December 2017, the fair values of investment properties amounted to € 16.8 million (2016: € 18.4 million). The fair values were estimated by internal specialist departments on

the basis of local market conditions. In determining the values, particular account was taken of local property valuation records and, in part, of external valuation reports. The measurement methods correspond to Level 3 of the three-level fair value hierarchy set out in IFRS 13.

(14) NON-CURRENT FINANCIAL ASSETS

An amount of € 20.6 million (2016: € 27.0 million) is attributable to investments in affiliated companies and equity investments.

The maximum default risk as of the balance sheet date corresponds to the amount recognised in the balance sheet. There are no specific indications that would suggest any possible default. There are no significant concentrations of default risk.

(15) SECURITIES AND OTHER FINANCIAL INVESTMENTS

This item includes various investments (e.g. bonds and repos), which, in accordance with IAS 39, are classified as loans and receivables or available-for-sale financial assets. / TAB: 3.6.26

(16) DEFERRED TAXES

The following deferred tax assets and liabilities recognised in the balance sheet relate to recognition and measurement differences for individual balance sheet line items and to tax loss carryforwards: / TAB: 3.6.27

Deferred taxes totalling € 21.9 million (2016: € 23.1 million) were not capitalised as utilisation of the underlying loss carryforwards or the realisation of taxable income is considered unlikely. The underlying loss carryforwards amount to € 216.3 million (2016: € 252.4 million). They expire in the following periods: / TAB: 3.6.28

In the year under review, a deferred tax charge of € –5.4 million (2016: credit of € 2.7 million) was recognised in other comprehensive income.

The amount of deferred taxes recognised in the balance sheet declined by € –32.3 million as of 31 December 2016 (2016: € 5.9 million); this change is made up of a decrease in deferred tax assets of € –22.2 million (2016: € 18.5 million) and a decrease in deferred tax liabilities of € –54.5 million (2016: € 12.6 million).

Taking into account deferred tax charge of € –5.4 million (2016: € 2.7 million) and currency translation effects of

DEFERRED TAXES

TAB: 3.6.27

in € million	Deferred tax assets		Deferred tax liabilities	
	2016	2017	2016	2017
Intangible assets	3.1	1.7	119.7	64.3
Property, plant and equipment	40.1	47.6	476.4	468.9
Inventories	5.2	5.7	1.4	3.3
Trade receivables	0.7	0.7	9.2	1.6
Other assets	10.4	5.2	17.3	11.1
– of which derivative financial instruments	2.2	–	5.4	0.1
Provisions	282.4	234.1	4.2	3.7
Trade payables	–	–	0.1	0.1
Other liabilities	23.3	63.6	12.2	35.5
– of which derivative financial instruments	1.3	1.3	–	–
Gross amount	365.2	358.6	640.5	588.5
– of which non-current	307.6	317.3	615.2	560.0
Valuation allowances	–2.6	–1.6	–	–
Tax loss carryforwards	67.5	58.1	–	–
Consolidations	17.8	13.9	–2.9	–2.1
Netting	–330.5	–333.8	–330.5	–333.8
Carrying amount (net)	117.4	95.2	307.1	252.6

EXPIRY OF UNRECOGNISED LOSS CARRYFORWARDS

TAB: 3.6.28

in € million	2016	2017
Unrecognised loss carryforwards	252.4	216.3
– of which loss carryforwards expiring within one year	0.6	–
– of which loss carryforwards expiring after between two and five years	0.2	–
– of which loss carryforwards expiring after five years	190.8	159.8
– loss carryforwards that do not expire	60.8	56.5

€ 23.3 million (2016: € 11.6 million) recognised in other comprehensive income in the year under review, this results in deferred tax income of € 14.4 million disclosed in the income statement (2016: € 14.8 million).

Temporary differences of € 461.6 million (2016: € 348.0 million) are related to shares in subsidiaries for which no deferred tax liabilities are recognised in accordance with IAS 12.39.

(17) INVENTORIES

Since inventories are carried at net realisable value, allowances of € 9.8 million (2016: € 1.2 million) were recognised in the period under review. / TAB: 3.6.29

INVENTORIES		TAB: 3.6.29	
	2016	2017	
in € million			
Raw materials, consumables and supplies	245.9	254.2	
Work in progress	30.1	23.9	
Finished goods and merchandise	434.4	412.8	
Inventories	710.4	690.9	

(18) TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

Trade receivables recognised in connection with accounting for customer-specific construction contracts break down as follows: / TAB: 3.6.30, 3.6.31

As in the previous year, there were no customer-specific construction contracts with negative balances as of 31 December 2017.

Current and non-current financial assets include an amount of € 16.9 million (2016: € 54.5 million) relating to assets pledged as collateral for obligations.

CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS		TAB: 3.6.31	
	2016	2017	
in € million			
Contract costs incurred and contract profit recognised	32.6	40.1	
Less advances received	25.6	36.9	
Receivables from customer-specific construction contracts	7.0	3.2	

TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

TAB: 3.6.30

	2016	of which remaining maturity of more than 1 year	2017	of which remaining maturity of more than 1 year
in € million				
Trade receivables	656.5	—	714.9	—
Other financial assets	184.7	61.6	154.0	46.3
— of which derivative financial instruments	37.4	13.7	45.0	3.0
— of which claim for reimbursement for Morton Salt bond	22.8	22.6	19.8	19.6
— of which receivables from affiliated companies	7.3	—	6.7	—
Trade receivables and other financial assets	841.2	61.6	868.9	46.3

The allowances for trade receivables and other financial assets have changed as follows: / TAB: 3.6.32

Allowances of € 11.2 million were recognised on trade receivables as of 31 December 2017 (2016: € 10.1 million). Impairment losses recognised on other financial assets amounted to € 0.2 million (2016: € 0.2 million). The impairment is due to the assessment of the existing risk of default. If receivables have a residual term of more than three months, they are discounted applying interest rates as of the balance sheet date.

As of 31 December 2017, non-interest-bearing and low-interest receivables amounting to € 0.5 million were discounted (2016: € 0.2 million).

The following table provides information about the extent of the risk of default contained in 'Trade receivables'

/ TAB: 3.6.33

As of the balance sheet date, an amount of € 0.7 million (2016: € 1.5 million) of the unimpaired other financial assets was overdue.

The risk of default is the risk of a contractual partner failing to meet its contractual payment obligations. The vast majority of customer receivables are hedged against default risk with appropriate insurance coverage and other hedging

instruments. Across the Group, 93 % (2016: 60 %) of all insurable receivables are hedged against default. This ensures that only a small residual loss is incurred in the event of default. An internal credit check is conducted for customers that cannot be hedged. There is no significant concentration of risk relating to receivables.

Receivables management is aimed at collecting all outstanding accounts punctually and in full as well as of avoiding the loss of receivables. Invoices are issued on a daily basis and invoice data is transferred to debtor accounts online. Accounts receivable are monitored on an ongoing basis with system support, in accordance with the payment terms agreed with the customers. Most payment terms range from 10 to 180 days, with longer terms being customary in some

ALLOWANCES

TAB: 3.6.32

	2016	2017
in € million		
As of 1 January	5.1	10.3
Additions	6.6	2.2
Reversals	0.8	0.3
Utilisation	0.2	0.8
Other changes	0.4	—
As of 31 December	10.3	11.4

RISK OF DEFAULT

TAB: 3.6.33

	Carrying amount	of which neither overdue nor impaired as of the reporting date	of which not impaired but overdue as of the reporting date for			
			< 30 days	> 31 and < 90 days	> 91 and < 180 days	> 180 days
in € million						
2017						
Trade receivables	714.9	662.1	21.0	4.8	1.0	2.3
2016						
Trade receivables	656.5	598.2	18.4	11.8	0.4	2.6

markets. In the case of late payment, reminders are issued at regular two-week intervals.

In the case of trade receivables and other financial assets that are neither overdue nor impaired, it is assumed that the respective debtors are in good financial standing.

The maximum risk of default on receivables and other financial assets is reflected in the carrying amount recognised in the balance sheet. As of 31 December 2017, the maximum amount in default in the highly unlikely event of a simultaneous default on all unsecured receivables was € 169.6 million (2016: € 293.1 million).

(19) DERIVATIVE FINANCIAL INSTRUMENTS

Currency and interest rate management is performed centrally for all Group companies. This also applies to the use of derivative financial instruments, e.g. those aimed at limiting certain costs. The use of derivative financial instruments is regulated by guidelines and procedural instructions. Trading, settlement and control are strictly segregated. Derivative financial instruments are only traded with banks that have a good credit rating; they are monitored continually by means of appropriate instruments. As a rule, the entire portfolio of derivative financial instruments is distributed amongst several banks to reduce the risk of default. The level of default risk is limited to the amount of derivative financial assets.

The aim of interest rate management is to mitigate the risks arising from rising interest expense for financial liabilities as well as the risks arising from declining interest income from financial assets as a result of changes in the general level of interest rates. Since some of the promissory notes outstanding have floating interest rates, interest rate caps were acquired in order to eliminate the risk of higher interest charges. In the case of the financial assets, there is currently no identifiable need for action because of the short remaining maturities and the low interest rates, meaning that there is a minimal risk of declining rates.

Derivatives are used in currency hedging in order to limit the risks to which operating activities can be exposed as a result of changes in exchange rates. Exchange rate risks exist mainly with respect to the us dollar and the Canadian dollar, and, to a lesser extent, pound sterling, the Chilean peso

and the Australian dollar. Hedging transactions are entered into for invoiced receivables and anticipated net positions on the basis of projected revenues. In this context, the net positions are determined on the basis of revenue and cost planning using safety margins and updated continuously to avoid excess hedging or hedging shortfalls.

The hedging transactions used for hedging of anticipated positions can have maturities of up to three years. The main objective is to hedge a worst-case scenario. Here, futures and plain vanilla options are used, although participation in favourable market developments is generally limited by the sale of simple options. This also serves to reduce premium expenses. In principle, it is also possible to use compound options consisting of an option on a plain vanilla option, which can be acquired at a later date for a fixed amount.

Based on the agreed payment terms, the maturities of instruments used to hedge invoiced receivables are less than one year.

The hedges of anticipated net positions described above are used in the Potash and Magnesium Products business unit for us dollar positions as well as for Canadian dollar positions for production in Canada. Hedges of invoiced receivables are entered into in the Potash and Magnesium Products business unit.

All the above-mentioned derivatives are traded over the counter only. Forward exchange and option contracts are always transacted via a trading platform through which quotations are obtained from several banks so that a transaction can be entered into with the bank providing the best quotation.

Forward exchange contracts are subject to market risk on the respective reporting date. This is, however, offset by the opposite effects of currency-based measurement of receivables, which uses derivatives to hedge foreign currency receivables.

The fair values determined in this process correspond to the hypothetical value they would have on early transfer on the balance sheet date. The values are determined using recognised financial methods generally used by market

DERIVATIVE FINANCIAL INSTRUMENTS

TAB: 3.6.34

	2016		2017	
	Nominal values ¹	Fair values	Nominal values ¹	Fair values
in € million				
GBP/EUR forward exchange contracts				
– of which maturing in 2017	13.7	–	–	–
– of which maturing in 2018	–	–	6.9	–
AUD/EUR forward exchange contracts				
– of which maturing in 2017	–	–	–	–
– of which maturing in 2018	–	–	1.0	–
CAD/EUR forward exchange contracts				
– of which maturing in 2017	412.7	-9.1	–	–
– of which maturing in 2018	90.5	1.8	231.7	7.5
USD/EUR forward exchange contracts				
– of which maturing in 2017	642.0	8.5	–	–
– of which maturing in 2018	64.3	-0.4	733.4	8.3
– of which maturing in 2019	–	–	33.4	1.0
CLP/EUR forward exchange contracts				
– of which maturing in 2017	14.2	0.8	–	–
– of which maturing in 2018	–	–	89.6	-0.2
Plain vanilla currency options purchased (USD/EUR)				
– of which maturing in 2017	403.8	3.0	–	–
– of which maturing in 2018	168.6	6.0	259.8	15.1
Plain vanilla currency options sold (USD/EUR)				
– of which maturing in 2017	463.6	-5.5	–	–
– of which maturing in 2018	182.1	-6.7	246.0	-0.3
Plain vanilla currency options purchased (CAD/USD)				
– of which maturing in 2017	156.3	0.2	–	–
– of which maturing in 2018	71.6	3.1	89.4	4.6
– of which maturing in 2019	–	–	26.5	1.1
Plain vanilla currency options sold (CAD/USD)				
– of which maturing in 2017	144.3	-4.8	–	–
– of which maturing in 2018	67.1	-1.9	83.6	-0.2
– of which maturing in 2019	–	–	25.2	-0.4
Interest caps purchased				
– of which maturing in 2019	140.0	0.2	140.0	–
– of which maturing in 2021	118.0	1.3	118.0	0.9
Total derivative financial instruments	3,152.8	-3.5	2,084.5	37.4

¹ In euros, translated using weighted average exchange rates.

participants. These calculations were based in particular on the following inputs that applied on the balance sheet date:

- + the spot exchange and forward exchange rates of the currencies concerned,
- + the interest rate level,
- + the agreed hedging levels and exercise prices,
- + the traded volatilities and
- + the counterparty risk.

Although IAS 39 permits hedging relationships to be established between hedged items and derivative financial instruments, this is not applied (see 'Notes to the Income Statement and the Statement of Comprehensive Income' on page 157).

The following foreign exchange derivative financial instruments existed as of 31 December 2017: / TAB: 3.6.34

(20) EQUITY

The changes in individual equity items are shown separately on page 137.

ISSUED CAPITAL

The issued capital of K+S AKTIENGESELLSCHAFT is unchanged from the previous year at € 191.4 million, divided into 191.4 million no-par-value registered shares. The shares are fully paid up. / TAB: 3.6.35

🔍 'Disclosures in Accordance with Section 289a (1) and Section 315a (1) of the HGB as well as the Explanatory Report of the Board of Executive Directors in Accordance with Section 176(1) Sentence 1 of the AktG' on page 69

SHARE BUY-BACK

According to the resolution adopted by the Annual General Meeting on 12 May 2015, the Board of Executive Directors was authorised to acquire own shares of up to 10 % of the share capital until 11 May 2020. K+S AKTIENGESELLSCHAFT did not make use of the authorisation in the 2017 financial year.

AUTHORISED CAPITAL

The Board of Executive Directors was authorised by the Annual General Meeting on 12 May 2015 to increase the Company's share capital, with the consent of the Supervisory Board, by a total of up to € 19,140,000.00, on one or several occasions, by issuing up to 19,140,000 new no-par-value registered shares (Authorised Capital) until 11 May 2020. The Board

of Executive Directors was further authorised on 11 May 2016 to increase the Company's share capital, with the consent of the Supervisory Board, by a total of up to € 19,140,000.00, on one or several occasions, by issuing up to 19,140,000 new no-par-value registered shares (Authorised Capital II) until 10 May 2021. K+S AKTIENGESELLSCHAFT did not make use of the authorisations in the 2017 financial year.

CONDITIONAL CAPITAL

The share capital is conditionally increased by up to € 19,140,000.00 by issuing up to 19,140,000 no-par-value registered shares (Conditional Capital).

The Board of Executive Directors is authorised until 11 May 2020, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or warrant-linked bonds on one or several occasions and to grant conversion rights to or impose conversion obligations on the holders or creditors of bonds or to issue warrants on shares in the Company in a proportionate amount of the share capital of up to € 19,140,000.00 in total. K+S AKTIENGESELLSCHAFT did not make use of the authorisation in the 2017 financial year.

SHARE PREMIUM

The share premium mainly consists of the premium received as part of share issues of K+S AKTIENGESELLSCHAFT.

OTHER RESERVES AND NET RETAINED PROFITS

This item summarises retained earnings, net retained profits, currency translation differences, the reserve for fair value measurement of securities classified as available-for-sale financial assets and the remeasurement of pensions and similar obligations.

ISSUED CAPITAL

TAB: 3.6.35

in € million	Outstanding shares on issue	Issued capital
31 December 2015	191.4	191.4
31 December 2016	191.4	191.4
31 December 2017	191.4	191.4

OTHER COMPREHENSIVE INCOME

TAB: 3.6.36

	2016			2017		
	Before taxes	Tax effect	Net	Before taxes	Tax effect	Net
in € million						
Items of other comprehensive income that may be reclassified to profit or loss in subsequent periods	301.9	- 0.9	301.0	- 532.1	3.7	- 528.4
Exchange differences on translation of foreign operations	301.9	- 0.9	301.0	- 532.1	3.7	- 528.4
– of which change in unrealised gains / losses	301.9	- 0.9	301.0	- 532.1	3.7	- 528.4
Items of other comprehensive income not to be reclassified to profit or loss	- 0.8	2.9	2.1	13.0	- 5.2	7.8
Remeasurement gains / (losses) on defined benefit plans	- 0.8	2.9	2.1	13.0	- 5.2	7.8
Other comprehensive income	301.1	2.0	303.1	- 519.1	- 1.5	- 520.6

NET RETAINED PROFITS OF K+S AKTIENGESELLSCHAFT (HGB)

TAB: 3.6.37

	2016	2017
in € million		
Net retained profits of K+S Aktiengesellschaft as of 1 January	273.4	76.8
Dividend distributed for previous year	- 220.1	- 57.4
Appropriation to other revenue reserves (resolution of Annual General Meeting)	- 53.3	- 19.4
Earnings for the year of K+S Aktiengesellschaft	76.8	- 112.4
Withdrawal from other revenue reserves	—	179.4
Net retained profits of K+S Aktiengesellschaft as of 31 December	76.8	67.0

Net retained profits mainly consist of past earnings of the companies included in the consolidated financial statements, less dividends paid to shareholders. Currency translation differences mainly comprise differences from the translation of foreign business operations from the functional currency into the Group's reporting currency (euro). / TAB: 3.6.36

NET RETAINED PROFITS REPORTED IN THE SINGLE-ENTITY FINANCIAL STATEMENTS OF K+S AKTIENGESELLSCHAFT (HGB)

The dividend distribution is based on the annual financial statements of K+S AKTIENGESELLSCHAFT as prepared in accordance with the German Commercial Code (Handelsgesetzbuch, HGB). There is an intention to propose to the Annual General Meeting that a dividend of € 0.35 per share (2016: € 0.30), i.e. € 67.0 million in total (2016: € 57.4 million), be distributed to the shareholders. As of the balance sheet date, the following net retained profits were reported in the single-entity financial statements of K+S AKTIENGESELLSCHAFT: / TAB: 3.6.37

(21) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The K+S GROUP has made a number of defined benefit pension commitments. Most of the commitments relate to Germany and Canada.

GERMANY

A significant pension plan in Germany is the K+S pension scheme, which consists primarily of a basic pension, supplementary benefits II as well as vested pension rights. The basic pension is based on a modular system under which notional contributions corresponding to a certain percentage of pensionable income are collected annually. The pension entitlement is calculated by applying a fixed percentage to total notional contributions. Supplementary benefits II are a final salary plan under which the entitlement is based on certain percentages of salary components above statutory and miners' insurance, multiplied by the number of pensionable years of service. Fixed euro amounts or vested

rights to final-salary percentages were granted for periods of service before the introduction of the basic pension and supplementary benefits II. This pension plan has since been discontinued, so that no additional employees are eligible to acquire benefits.

Alongside the k+s pension scheme, numerous individual commitments were made, especially to members of the Board of Executive Directors and senior management. They are generally based on a modular system under which a certain percentage of pensionable annual income is converted into a lifelong pension applying an age-related factor. The total entitlement corresponds to the sum of the individual year-based modules. In this context, a certain defined benefit level may not be exceeded.

In addition, there are other company-specific pension commitments in Germany, which were already discontinued some years ago. Most of the beneficiaries are already drawing pensions.

In Germany, all the pension obligations described above are covered by a contractual trust arrangement (CTA). The vehicle used for this is the k+s Vermögenstreuhand e.V., which was established in 2005 as a trustee to manage the assets dedicated to the servicing of pension obligations. While the pension payments continue to be made by the respective company, the payments are normally reimbursed by the CTA as they occur. There are no minimum funding requirements.

Moreover, there are deferred compensation arrangements and commitments that will be met through a provident fund. These obligations are largely covered by reinsurance policies.

CANADA

In Canada, in addition to defined benefit pension commitments, there are pension-related plans that entail commitments, for example, to provide medical benefits to eligible beneficiaries after retirement.

The pension plans in principle provide for benefits that are calculated as a percentage of the average five highest annual

salaries, while taking into account length of service. In this context, certain ceilings have to be observed. Since 1 January 2016, active plan members can no longer earn new entitlements, but in return they participate in a defined contribution scheme. The commitment was switched prospectively, which means that benefits vested up to this date will remain unchanged. Pension plans in Canada are regulated by law, for example, by the Financial Services Commission in Ontario and the Canada Revenue Agency. There are minimum funding requirements under the Pension Benefits Act (Ontario). To satisfy them, an independent actuarial valuation is generally performed in the middle of the year. The aim is to determine the funded status of the pension plan in accordance with legal requirements. If the plan is underfunded, the shortfall must be made up within a period of five to 15 years based on the type of shortfall. The valuation differs from an IFRS valuation in that, for example, a different discount factor is applied.

The Canadian plan assets are held by an external company on a trust basis. It is responsible for the payment of pensions to pensioners as well as the management of plan assets. The trustee is selected by the MORTON SALT, INC. Employee Benefits Committee, which comprises company representatives and external advisors. It is also responsible for determining the investment strategy.

The pension-related benefit commitments cover payments for life, dental and medical insurance. The level of payments for the dental and medical insurance depends on the average claims ratio of the pensioners, whereas life assurance in principle involves a fixed-sum commitment. No plan assets were established for the pension-related benefit commitments and there are no minimum funding requirements.

OTHER COUNTRIES

The other pension commitments largely relate to pension-related plans in the United States and the Bahamas, which provide for payments towards medical and life assurance policies. No plan assets were established for these commitments and there are no minimum funding requirements. In addition, there are pension commitments of minor significance in other countries.

ACTUARIAL ASSUMPTIONS – MEASUREMENT OF PENSION COMMITMENTS

TAB: 3.6.38

in % (weighted average)	2016		2017	
	Germany	Other countries	Germany	Other countries
Pension commitments				
Discount rate	1.8	3.9	2.0	3.7
Expected annual rise in income	1.8	3.0	1.8	3.0
Expected annual rise in pensions	1.6	1.0	1.6	1.0
Other pension-related benefit commitments				
Discount rate	—	4.3	—	3.9

ACTUARIAL ASSUMPTIONS – PENSION COMMITMENT EXPENSES

TAB: 3.6.39

in % (weighted average)	2016		2017	
	Germany	Other countries	Germany	Other countries
Pension commitments				
Discount rate	2.2	3.9	1.8	3.9
Expected annual rise in income	1.8	3.5	1.8	3.0
Expected annual rise in pensions	1.6	1.1	1.6	1.0
Other pension-related benefit commitments				
Discount rate	—	4.3	—	4.3

The plans described above are subject to a number of risks, in particular:

- + Investment risks: The provisions for pensions and similar obligations are calculated using a discount rate based on AA-rated corporate bonds. If the yield on plan assets is below this interest rate, this will result in underfunding. The investments are spread widely, mainly in bonds and equities, with the latter being particularly exposed to significant market price fluctuations.
- + Inflationary risks: In Germany, the German Company Pension Plan Act (Gesetz zur Verbesserung der betrieblichen Altersvorsorge, BetrAVG) requires a review of pension levels every three years, and this generally results in pensions being adjusted for inflation. Pension commitments in Canada are adjusted annually at a rate of 50% of the consumer price index (CPI). As a rule, an increase in the respective rates of inflation will therefore lead to a corresponding increase in the respective obligations.
- + Interest rate risks: A decrease in yields on corporate bonds and, consequently, in the discount rate leads to an increase

in obligations, which is only partially offset by a corresponding change in the value of plan assets.

- + Healthcare cost trend (North America, in particular Canada and the Bahamas): Since payments for medical benefit commitments are adjusted in line with cost trends in healthcare, an increase in medicine prices, hospital costs etc. in the respective country will lead to an increase in obligations.
- + Longevity risks: Life expectancy is taken into account in calculating obligation levels by using mortality tables. An increase in life expectancy results in a corresponding increase in the obligations.
- + Salary risks: If the actual trend in salaries exceeds the anticipated trend, this will result in an increase in obligation levels.

The K+S GROUP strives to mitigate the risks by, for example, changing over from defined benefit plans to defined contribution plans. For this reason, most of the workforce in Germany now receives defined contribution commitments

only. In North America, too, benefit commitments have been either settled or frozen and transferred to a defined contribution system.

The following assumptions have been made in calculating provisions for pensions and similar obligations as of the balance sheet date: / TAB: 3.6.38

To determine the pension expenses for 2017, the following actuarial assumptions – defined at the end of financial year 2016 – were used: / TAB: 3.6.39

As of 31 December 2017, the following mortality tables were applied:

- + Germany: Heubeck mortality tables 2005 G (2016: Heubeck mortality tables 2005 G)
- + Canada: CPM 2014 Private Scale B with adjustment factor (2016: CPM 2014 Private Scale B with adjustment factor)
- + USA/Bahamas: RP 2014 Scale MP-2017 (2016: RP 2014 Scale MP-2016)

In the case of pension-related commitments for healthcare benefits, the following annual cost increases were assumed:

- + Canada: 6.3 %, declining to 5.0 % from 2024 (2016: 6.5 % / 5.0 % from 2024)
- + Bahamas: 5.5 % (2016: 6.25 % / 4.5 % from 2024)

The following tables show the changes in the projected benefit obligation and plan assets: / TAB: 3.6.40, 3.6.41

CHANGES IN PROJECTED BENEFIT OBLIGATION

TAB: 3.6.40

	2016				2017			
	Total	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries
		Pensions	Pensions	Pension-related obligations		Pensions	Pensions	Pension-related obligations
in € million								
Projected benefit obligation on 1 January	579.0	259.1	222.1	97.8	617.3	277.4	228.8	111.1
Changes to the scope of consolidation	—	—	—	—	-0.5	—	-0.5	—
Service costs	10.9	6.8	0.7	3.4	13.9	9.9	1.2	2.8
Past service costs	1.1	—	1.1	—	-9.9	—	0.1	-10.0
Interest expense	18.3	5.5	8.6	4.2	17.7	4.9	8.3	4.5
Remeasurement ¹	13.9	19.4	-8.6	3.1	14.1	-2.0	3.2	12.9
– of which actuarial gains (-)/losses (+) from changes in demographic assumptions	-2.5	—	-0.6	-1.9	-2.9	—	—	-2.9
– of which actuarial gains (-)/losses (+) from changes in financial assumptions	23.0	21.5	-5.4	6.9	17.4	-3.2	5.6	15.0
– of which actuarial gains (-)/losses (+) based on experience-based adjustments	-6.6	-2.1	-2.6	-1.9	-0.4	1.2	-2.4	0.8
Pension payments	-26.0	-14.3	-9.4	-2.3	-27.0	-14.1	-10.7	-2.2
Plan amendments/settlements	0.8	0.9	-0.1	—	—	—	—	—
Exchange rate fluctuations	19.3	—	14.4	4.9	-22.7	—	-13.0	-9.7
Projected benefit obligation on 31 December	617.3	277.4	228.8	111.1	602.9	276.1	217.4	109.4

¹ The actuarial losses arising from changes in financial assumptions in Germany include effects of the initial recognition of deferred compensation and the provident fund in an amount of € 4.3 million (2017) and € 7.0 million (2016).

CHANGES IN PLAN ASSETS

TAB: 3.6.41

	2016			2017		
	Total	Germany	Other countries	Total	Germany	Other countries
		Pensions	Pensions		Pensions	Pensions
in € million						
Plan assets on 1 January	417.4	219.2	198.2	434.7	220.9	213.8
Finance income	12.5	4.7	7.8	11.9	4.0	7.9
Employer contributions	2.1	1.9	0.2	3.6	3.0	0.6
Gains (-)/losses (+) from remeasurement of plan assets (excluding amounts recognised in interest income) ¹	13.1	9.4	3.7	27.1	16.7	10.4
Pension payments	-23.4	-14.3	-9.1	-23.9	-14.1	-9.8
Exchange rate fluctuations	13.0	—	13.0	-12.1	—	-12.1
Plan assets on 31 December	434.7	220.9	213.8	441.3	230.5	210.8

¹ The remeasurement gain in Germany includes effects of the initial recognition of deferred compensation and the provident fund in an amount of € 4.3 million (2017) and € 6.8 million (2016).

RECONCILIATION TO CARRYING AMOUNTS OF PENSIONS AND SIMILAR OBLIGATIONS

TAB: 3.6.42

	2016				2017			
	Total	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries
		Pensions	Pensions	Pension-related obligations		Pensions	Pensions	Pension-related obligations
in € million								
Projected benefit obligation on 31 December	617.3	277.4	228.8	111.1	602.9	276.1	217.4	109.4
Plan assets on 31 December	434.7	220.9	213.8	—	441.3	230.5	210.8	—
Carrying amounts on 31 December	182.6	56.5	15.0	111.1	161.6	45.6	6.6	109.4
– of which provisions for pensions and similar obligations (+)	186.7	60.6	15.0	111.1	166.4	50.4	6.6	109.4
– of which assets (-)	-4.1	-4.1	—	—	-4.8	-4.8	—	—

For reconciliation to the carrying amounts, the projected benefit obligation must be offset against plan assets.

/ TAB: 3.6.42

The following amounts were recognised in the statement of comprehensive income: / TAB: 3.6.43

The service costs (including past service costs) are reported according to the allocation of employees to the respective EBIT functional area. Net interest expense or income is reported in net interest. Positive past service cost for pension-related obligations in other countries is attributable to the introduction of minimum periods of service as an eligibility criterion.

The fair value of plan assets is distributed across the following investment classes: / TAB: 3.6.44

Investments held through investment funds were allocated to the individual investment classes in the list above. A majority of the bonds are rated as investment grade. The shares are regularly traded on an active market. While the same generally applies to the bonds, the item includes promissory note loans with a carrying amount of € 18.3 million (2016: € 23.9 million) that are not traded on an active market. There is no active market for reinsurance arrangements. Own financial instruments are held in an amount of € 3.0 million (2016: € 0 million).

EFFECTS ON THE STATEMENT OF COMPREHENSIVE INCOME

TAB: 3.6.43

	2016				2017			
	Total	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries
		Pensions	Pensions	Pension-related obligations		Pensions	Pensions	Pension-related obligations
in € million								
Service costs	10.9	6.8	0.7	3.4	13.9	9.9	1.2	2.8
Past service costs	1.1	—	1.1	—	-9.9	—	0.1	-10.0
Net interest expenses (+)/income (-)	5.8	0.8	0.8	4.2	5.8	0.9	0.4	4.5
Expenses (+)/income (-) from plan amendments/settlements	0.8	0.9	-0.1	—	—	—	—	—
Amounts recognised in the income statement	18.6	8.5	2.5	7.6	9.8	10.8	1.7	-2.7
Gains (-)/losses (+) on remeasurement of plan assets (excluding amounts recognised in interest income)	-13.1	-9.4	-3.7	—	-27.1	-16.7	-10.4	—
Actuarial gains (-)/losses (+) from changes in demographic assumptions	-2.5	—	-0.6	-1.9	-2.9	—	—	-2.9
Actuarial gains (-)/losses (+) from changes in financial assumptions	23.0	21.5	-5.4	6.9	17.4	-3.2	5.6	15.0
Actuarial gains (-)/losses (+) based on experience-based adjustments	-6.6	-2.1	-2.6	-1.9	-0.4	1.2	-2.4	0.8
Amounts recognised in other comprehensive income¹	0.8	10.0	-12.3	3.1	-13.0	-18.7	-7.2	12.9
Total (amounts recognised in statement of comprehensive income)	19.4	18.5	-9.8	10.7	-3.2	-7.9	-5.5	10.2

¹ As a result of the initial recognition of deferred compensation and the provident fund, the figures for Germany include actuarial losses from changes in financial assumptions in an amount of € 4.3 million (2017) and € 7.0 million (2016) and a remeasurement gain on plan assets in an amount of € 4.3 million (2017) and € 6.8 million (2016).

BREAKDOWN OF PLAN ASSETS BY INVESTMENT CLASS

TAB: 3.6.44

	2016			2017		
	Total	Germany	Other countries	Total	Germany	Other countries
		Pensions	Pensions		Pensions	Pensions
in € million						
Bonds	177.6	104.3	73.3	190.9	102.6	88.3
– Government bonds	48.5	1.6	46.9	66.5	1.7	64.8
– Corporate bonds	129.1	102.7	26.4	124.4	100.9	23.5
Shares	210.8	76.7	134.1	191.1	75.1	116.0
– Consumer	49.4	22.6	26.8	47.0	21.9	25.1
– Raw materials	24.3	17.8	6.5	21.2	14.7	6.5
– Finance	44.2	12.3	31.9	35.8	8.7	27.1
– Industry	24.6	9.0	15.6	24.0	9.6	14.4
– Energy	21.8	5.8	16.0	19.1	7.0	12.1
– Other	46.5	9.2	37.3	44.0	13.2	30.8
Cash and cash equivalents	15.6	9.6	6.0	21.5	16.4	5.1
Reinsurance arrangements	21.5	21.5	—	29.0	29.0	—
Other	9.2	8.8	0.4	8.8	7.4	1.4
Plan assets on 31 December	434.7	220.9	213.8	441.3	230.5	210.8

in € million	Change in assumption	Change in present value of obligations			
		Total	Germany	Other countries	Other countries
			Pensions	Pensions	Pension-related obligations
Discount rate	+ 100 basis points	-78.0	-34.0	-25.7	-18.3
Discount rate	- 100 basis points	98.0	43.1	31.8	23.1
Expected annual rise in income	+ 50 basis points	2.4	1.0	1.4	—
Expected annual rise in income	- 50 basis points	-2.5	-1.0	-1.5	—
Expected annual rise in pensions	+ 50 basis points	26.6	14.9	11.7	—
Expected annual rise in pensions	- 50 basis points	-23.7	-13.5	-10.2	—
Medical cost trend	+ 50 basis points	9.8	—	—	9.8
Medical cost trend	- 50 basis points	-8.7	—	—	-8.7
Life expectancy	+ 1 year	19.7	8.6	5.9	5.2
Life expectancy	- 1 year	-19.3	-8.4	-5.7	-5.2

in € million	Change in assumption	Change in present value of obligations			
		Total	Germany	Other countries	Other countries
			Pensions	Pensions	Pension-related obligations
Discount rate	+ 100 basis points	-83.9	-34.7	-31.1	-18.1
Discount rate	- 100 basis points	102.9	44.1	36.1	22.7
Expected annual rise in income	+ 50 basis points	3.0	1.1	1.9	—
Expected annual rise in income	- 50 basis points	-3.0	-1.1	-1.9	—
Expected annual rise in pensions	+ 50 basis points	27.7	15.2	12.5	—
Expected annual rise in pensions	- 50 basis points	-24.9	-13.8	-11.1	—
Medical cost trend	+ 50 basis points	9.5	—	—	9.5
Medical cost trend	- 50 basis points	-8.6	—	—	-8.6
Life expectancy	+ 1 year	20.0	9.1	6.3	4.6
Life expectancy	- 1 year	-19.5	-8.9	-6.1	-4.5

The following sensitivity analysis shows how the present value of the obligation would change in the event of a change in actuarial assumptions. No correlation between individual assumptions was taken into account, which means that in the event of one assumption being changed, the other assumptions remained unchanged. The projected unit credit method used to determine the carrying amounts was also used in the sensitivity analysis. / TAB: 3.6.45

The previous year's analysis identified the following values:
/ TAB: 3.6.46

The following maturities of undiscounted payments of pensions and similar obligations are expected in subsequent years: / TAB: 3.6.47

As of 31 December 2017, the weighted average duration of obligations in Germany was 14 years (2016: 14 years), for pension obligations outside Germany it was 13 years (2016: 15 years), and for pension-related obligations outside Germany it was 20 years (2016: 19 years). The duration and maturity profile of the obligations differ between individual companies, significantly so in some cases. The asset allocation generally

takes this circumstance into account, especially in Germany. The aim is to service the pension payments from current plan asset income.

In the 2018 financial year, a cash outflow of € 3.5 million (2016: € 2.7 million) is expected from pension and similar commitments. This outflow comprises allocations to plan assets and pension payments that are not covered by corresponding reimbursements from plan assets.

In addition, there are other pension plans for which no provisions need to be recognised, since there are no obligations other than contribution payments (defined contribution plans). These comprise both benefits funded solely by the employer and deferred compensation subsidies for employees.

Employers and employees made contributions under the – now closed – supplementary pension plan operated via the BASF pension fund. In 2011, the BASF pension fund terminated the regular memberships for K+S employees, so that as of 31 December 2017, only extraordinary membership is available for the employees concerned and those memberships are continued as vested pension rights. In addition, the BASF pension fund makes regular pension scheme payments to (former) K+S employees. K+S GROUP company employees with

vested pension rights and pensioners account for less than 10 % of the total BASF pension fund.

The pension benefits provided via the BASF pension fund are to be classified as a multi-employer plan within the meaning of IAS 19.32 et seq. In principle, the plan is a defined benefit plan. Since reliable information, in particular on plan assets, is only available for the pension fund as a whole and not specifically for the units attributable to the K+S GROUP, insufficient information is available for reporting the plan on the balance sheet. That is why the plan is accounted for as a defined contribution plan in accordance with IAS 19.34.

As a result of the termination of regular memberships, no further contributions are to be paid into the BASF pension fund. Due to a decrease in the discount rate at the BASF pension fund, the need for a special contribution was identified in 2017; under the technical business plan, the proportionate share attributable to K+S is € 5.7 million. This amount was recognised through profit or loss and charged to the appropriate functional area in the financial year under review; the payment will be made in 2018. Apart from the special contribution described above, no other contribution payments are expected to be made to the BASF pension fund in 2018.

Moreover, the secondary liability governed by the German Company Pension Plan Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung, BetrAVG) may give rise to an obligation to assume liabilities for K+S, especially for inflation adjustments to current pension payments. Pension adjustments not covered by the BASF pension plan must be assumed by K+S.

In total, pension expenses are as follows for the period under review: / TAB: 3.6.48

In addition, contributions of € 85.8 million (2016: € 83.7 million) were paid to government pension funds.

EXPECTED PAYMENTS OF PENSIONS AND SIMILAR OBLIGATIONS

TAB: 3.6.47

in € million	31.12.2016	31.12.2017
Up to 1 year	28.5	28.4
Between 1 and 5 years	117.1	115.2
Between 5 and 10 years	153.2	148.2
More than 10 years	986.9	984.8
Total	1,285.7	1,276.6

PENSION EXPENSE

TAB: 3.6.48

in € million	2016			2017		
	Total	Germany	Other countries	Total	Germany	Other countries
Defined contribution expenses	21.7	2.7	19.0	26.2	7.7	18.5
Defined benefit expenses	12.8	7.7	5.1	4.0	9.9	-5.9
Pension expense (recognised in EBIT)	34.5	10.4	24.1	30.2	17.6	12.6

	2016		2017	
	Total	of which current	Total	of which current
in € million				
Mine and shaft backfilling	371.2	14.9	361.1	16.2
Maintenance of tailings piles	540.3	—	565.2	—
Mining damage	57.6	6.3	39.1	6.1
Renaturation	33.0	—	41.0	—
Other	15.4	0.3	16.0	0.1
Mining provisions	1,017.5	21.5	1,022.4	22.4

(22) PROVISIONS FOR MINING OBLIGATIONS

Provisions for mining obligations are recognised as a result of legal and contractual requirements as well as conditions imposed by the authorities; details are primarily provided in operating plans and water permit decisions. These obligations, most of which are subject to public law, require surface securing and renaturation measures. Mining damage can result from underground extraction and any resulting subsidence or from damage in the production process in the form of dust or saltwater intrusion. Any obligations arising as a result are covered by provisions. / TAB: 3.6.49

The amount of the provisions to be recognised is based on expected expenditure or estimated compensation. It is determined by internal experts and – where necessary – with the help of third-party reports prepared using state-of-the-art techniques and in compliance with current legal requirements. Since some of the settlement dates are in the future, there may be differences between actual and estimated expenses, even though great care is taken in applying these techniques. These differences may arise, for example, from different cost trends, technological advances or changes in legal requirements. These circumstances are taken into account by regularly recalculating the provisions required.

Provisions for mining obligations are mainly non-current provisions, which are recognised at the settlement amount determined on the basis of expenses expected to be incurred in the future and discounted to the balance sheet date. In this process, a future price increase of 1.5 % is

assumed (2016: 1.5 %). The discount rate for mining obligations in EU countries is 3.3 % (2016: 3.3 %). The discount rate used for mining obligations in North America is 4.7 % in the USA (2016: 5.2 %) and 4.2 % in Canada (2016: 4.5 %). The expected settlement dates largely depend on the remaining useful lives of the locations. Some of the obligations extend well beyond 2050.

The additions to mining provisions totalled € 46.5 million (2016: € 168.9 million) for the year under review. They were largely attributable to interest cost added to provisions, the recognition of additional provisions for mining risks and the remeasurement of existing provisions.

Mining provisions were used in an amount of € 8.8 million (2016: € 8.9 million) to settle obligations to secure mines.

Provisions totalling € 30.3 million (2016: € 29.9 million) were reversed, largely from provisions for mine and shaft backfilling and mining damage risks.

(23) NON-CURRENT PERSONNEL OBLIGATIONS

The carrying amount of provisions for anniversary bonuses is € 30.7 million (2016: € 31.8 million) and therefore represents a significant item under non-current personnel obligations. They are recognised for future payments in connection with 25, 40 and 50-year service anniversaries. They are measured using the projected unit credit method. Calculations are based on a discount rate of 2.0 % (2016: 1.8 %) with an anticipated annual increase in salaries and wages of 1.8 % (2016: 1.8 %).

(24) CURRENT PROVISIONS

Obligations arising from sales transactions relate primarily to discounts and price concessions; provisions for outstanding invoices are recognised on the basis of purchase contracts. Current personnel obligations mostly consist of provisions for performance-related remuneration and provisions for untaken vacation leave and non-working shifts.

🕒 'Employees', page 41; 🕒 'Remuneration Report', page 122

(25) FINANCIAL LIABILITIES

The following table shows the liquidity analysis of financial liabilities in the form of contractually agreed, undiscounted cash flows: / TAB: 3.6.50, 3.6.51

LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES IN 2017

TAB: 3.6.50

in € million	Cash flows				
	2017 carrying amount	2017 total	Remaining maturity < 1 year	Remaining maturity > 1 year and < 5 years	Remaining maturity > 5 years
Financial liabilities	3,021.7	3,310.0	648.4	1,991.9	669.7
– of which bonds	2,142.6	2,401.1	569.6	1,202.4	629.1
– of which promissory note loans	763.6	791.9	7.7	743.6	40.6
– of which liabilities to banks	115.5	117.0	71.1	45.9	–
Trade payables	288.4	288.4	286.8	1.0	0.6
Liabilities from finance leases	173.0	202.0	21.8	119.2	61.0
Other non-derivative financial liabilities	62.9	62.9	62.9	–	–
Non-derivative financial liabilities	3,546.0	3,863.3	1,019.9	2,112.1	731.3

LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES IN 2016

TAB: 3.6.51

in € million	Cashflows				
	2016 carrying amount	2016 total	Remaining maturity < 1 year	Remaining maturity > 1 year and < 5 years	Remaining maturity > 5 years
Financial liabilities	2,534.5	2,801.3	379.8	1,865.3	556.2
– of which bonds	1,516.1	1,753.0	53.3	1,184.7	515.0
– of which promissory note loans	698.6	728.5	6.7	680.6	41.2
– of which liabilities to banks	319.8	319.8	319.8	–	–
Trade payables	343.9	343.9	342.6	0.7	0.6
Liabilities from finance leases	50.7	63.8	5.1	20.4	38.3
Other non-derivative financial liabilities	52.5	52.5	52.3	–	0.2
Non-derivative financial liabilities	2,981.6	3,261.5	779.8	1,886.4	595.3

ISSUED BONDS¹ AND PROMISSORY LOAN NOTES

TAB: 3.6.52

	2016		2017	
	Nominal amount	Nominal interest rate	Nominal amount	Nominal interest rate
	in € million	% p.a.	in € million	% p.a.
2012/22 bond	500	3.000%	500	3.000%
2013/18 bond	500	3.125%	500	3.125%
2013/21 bond	500	4.125%	500	4.125%
2017/23 bond	—	—	625	2.625%
Promissory note loans (fixed, mature 2019–23)	442	Average around 1%	482	Average around 1%
Promissory note loans (floating, mature 2019–22)	258	Based on EURIBOR	283	Based on EURIBOR

¹ In addition, there is a USD bond taken over in 2009 as part of the acquisition of Morton Salt with a nominal value of USD 22.6 million and a maturity date in 2020. Interest and principal payments resulting from this bond are to be paid by Rohm & Haas and are covered by a contractual bank guarantee. Reimbursement claims for payments of interest and principal resulting from this legal construct are reported under 'Other financial assets', both current and non-current.

LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL LIABILITIES IN 2017

TAB: 3.6.53

in € million	2017 carrying amount	2017 total	Remaining maturity < 1 year	Remaining maturity > 1 year and < 5 years	Cash flows
					Remaining maturity > 5 years
Gross settlement					
Currency derivatives	-7.6	-31.6	-31.6	—	—
Payment obligation ¹		-539.8	-539.8	—	—
Payment claim ¹		508.2	508.2	—	—

¹ Translation of payment transactions in foreign currency at the spot rate.

LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL LIABILITIES IN 2016

TAB: 3.6.54

in € million	2016 carrying amount	2016 total	Remaining maturity < 1 year	Remaining maturity > 1 year and < 5 years	Cash flows
					Remaining maturity > 5 years
Gross settlement					
Currency derivatives	-40.9	4.8	257.2	-252.4	—
Payment obligation ¹		-1,490.1	-920.6	-569.5	—
Payment claim ¹		1,494.9	1,177.8	317.2	—

¹ Translation of payment transactions in foreign currency at the spot rate.

The bonds and promissory note loans issued break down as follows: / TAB: 3.6.52

non-discounted gross cash which are settled on a gross basis. / TAB: 3.6.53, 3.6.54

© 'k+s on the Capital Market', page 24

The following table shows the Group's liquidity analysis for derivative financial liabilities. The table is based on

(26) FURTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of the Group's financial instruments: / TAB: 3.6.55

The carrying amounts of the financial instruments, aggregated according to IAS 39 measurement categories, are as follows: / TAB: 3.6.56

The fair values of the financial instruments are mostly based on the market information available on the balance sheet date. They can be allocated to one of the three levels of the fair value hierarchy of IFRS 13.

Level 1 financial instruments are measured on the basis of quoted prices in active markets for identical assets and liabilities. Level 2 financial instruments are measured on the basis

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

TAB: 3.6.55

in € million	Measurement category in accordance with IAS 39	2016		2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Shares in affiliated companies and other equity investments ¹	Available for sale	27.0	27.0	20.6	20.6
Loans	Loans and receivables	0.4	0.4	0.4	0.4
Financial investments		27.4	27.4	21.0	21.0
Trade receivables	Loans and receivables	656.5	656.5	714.9	714.9
Derivatives with positive fair values	Held for trading	37.4	37.4	45.0	45.0
Other non-derivative financial assets	Loans and receivables	147.3	147.3	109.0	109.0
Other financial assets		184.7	184.7	154.0	154.0
Securities and other financial investments	Loans and receivables	14.3	14.3	11.4	11.4
Securities and other financial investments	Available for sale	7.0	7.0	7.0	7.0
Cash and cash equivalents	Loans and receivables	140.2	140.2	182.6	182.6
Financial liabilities	Financial liabilities at amortised cost	2,534.5	2,660.2	3,021.7	3,153.6
Trade payables	Financial liabilities at amortised cost	343.9	343.9	288.4	288.4
Derivatives with negative fair values	Held for trading	40.9	40.9	7.6	7.6
Other non-derivative financial liabilities	Financial liabilities at amortised cost	52.5	52.5	62.9	62.9
Liabilities from finance leases	IFRS 7	50.7	50.7	173.0	173.0
Other financial liabilities		144.1	144.1	243.5	243.5

¹ Following the initial application of IFRS 9 as of 1 January 2018, this item will be measured at fair value of € 71.2 million.

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AGGREGATED BY MEASUREMENT CATEGORY

TAB: 3.6.56

in € million	2016	2017
Available-for-sale financial assets	34.0	27.6
Loans and receivables	958.7	1,018.3
Financial assets held for trading	37.4	45.0
Financial liabilities at amortised cost	2,930.7	3,373.1
Financial liabilities held for trading	40.9	7.6

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

TAB: 3.6.57

in € million	2016				2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets	44.4	—	44.4	—	52.0	—	52.0	—
Derivative financial instruments not designated as hedging instruments under IAS 39	37.4	—	37.4	—	45.0	—	45.0	—
Available-for-sale financial assets	7.0	—	7.0	—	7.0	—	7.0	—
Equity and liabilities	40.9	—	40.9	—	7.6	—	7.6	—
Derivative financial instruments not designated as hedging instruments under IAS 39	40.9	—	40.9	—	7.6	—	7.6	—

of inputs that can be derived from observable market data, or on the basis of market prices for similar instruments. Level 3 financial instruments are measured on the basis of inputs that cannot be derived from observable market data.

The table below shows the assets and liabilities measured at fair value: / TAB: 3.6.57

The derivative financial instruments primarily consist of currency derivatives (forward exchange contracts, options). The fair value of forward exchange contracts is calculated by estimating future cash flows based on the quoted forward exchange rates as of the reporting date and the agreed forward exchange rates, which are subsequently discounted at an interest rate matching the respective maturities and currencies. Recognised option pricing models are applied when determining the fair value of currency options, using inputs observed in the market on the reporting date (in particular exchange rate, interest rate, volatility). In addition, the risk of counterparty default is taken into account when performing the calculations.

Fair values of available-for-sale financial assets are based on the present values of the cash flows associated with these balance sheet items (Level 2).

Equity instruments measured at cost include shares in (non-consolidated) subsidiaries, joint ventures, associates and other equity investments. Following the initial application of IFRS 9 as of 1 January 2018, these instruments will be measured at fair value.

In the case of trade receivables, other non-derivative financial assets and cash and cash equivalents, the carrying amounts

correspond to their fair values, because these instruments mostly have short maturities.

The fair values of securities and other financial investments belonging to the loans and receivables category correspond to the present values of the cash flows associated with these balance sheet items (Level 2).

In the case of financial liabilities, fair value is based on market prices, if active markets exist (Level 1); if not, the present value of future cash flows is used (Level 2). They are discounted using market interest rates with matching maturities.

In the case of trade payables and other non-derivative financial liabilities, it is assumed that the carrying amounts correspond to the fair values of these instruments, because these instruments mostly have short maturities.

For loans and liabilities from finance leases, we assume that carrying amounts correspond to fair values, because differences between market interest rates and discount rates are not material.

The following table shows the net gains or losses on financial instruments: / TAB: 3.6.58

Net gains/losses on available-for-sale financial instruments primarily comprise gains or losses on equity investments. Net gains/losses on loans and receivables mainly include the effects of currency translation and changes in allowances. Net gains/losses on financial assets and liabilities held for trading consist mainly of effects arising from the fair value measurement and realisation of derivative financial instruments. Net gains/losses on financial liabilities measured at

amortised cost come mainly from the effects of currency translation.

Total interest income and expenses for financial assets and liabilities measured at fair value through other comprehensive income were as follows: / TAB: 3.6.59

LIQUIDITY RISK

Liquidity risk entails the failure to procure the funds needed to meet payment obligations or the inability to do so in a timely manner. External factors, especially a general financial crisis, could make it impossible to replace credit lines or bonds on acceptable commercial terms should the need arise. There would also be a risk that the cost of procuring liquidity would rise. For this reason, the principal objective of our liquidity management activities is to ensure the ability to make payments at any given time. Liquidity is managed by the Central Treasury unit using a Group-wide cash pool-

ing system. The liquidity requirement is determined in our liquidity planning. Available liquidity amounted to € 1,141.0 million as of 31 December 2017 (2016: € 851.5 million); it consisted of short-term investments and cash and cash equivalents as well as the undrawn part of our syndicated credit line, which matures in 2020.

📖 'Financial Risks and Opportunities', page 111

RISK OF DEFAULT

The vast majority of customer receivables are hedged against default risk with appropriate insurance coverage and other hedging instruments. We only waive a security against non-payment following a critical review of the customer relationship and specific approval. The vast majority of unsecured receivables are receivables from public-sector customers.

📖 'Financial Risks and Opportunities', page 111

Default risks also exist with regard to partners with which we have entered into hedging transactions, credit lines exist or money has been invested. A potential default of a bank or other party could have an adverse effect on the financial position.

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS

TAB: 3.6.58

in € million	2016	2017
Available-for-sale financial assets	4.0	4.5
Loans and receivables	4.9	-39.8
Financial assets and liabilities held for trading	10.6	28.9
Financial liabilities at amortised cost	-19.3	71.8

NET INTEREST ON FINANCIAL INSTRUMENTS

TAB: 3.6.59

in € million	2016	2017
Interest income	6.0	10.5
Interest expenses before capitalisation of borrowing costs	65.3	85.5
Capitalised borrowing costs	57.2	51.7
Interest expenses after capitalisation of borrowing costs	8.1	33.8

MARKET RISKS

Interest rate risk arises from a change in market interest rates, which may have an impact on interest payable or receivable, and also on the fair values of financial instruments. This may also impact on earnings or equity. Under IFRS7, interest rate risk must be presented using sensitivity analysis. This analysis is based on the following assumptions:

- + The effect on earnings or equity identified by way of sensitivity analysis relates to the total as of the balance sheet date and demonstrates the hypothetical effect over one year.
- + Changes in market interest rates for primary financial instruments with variable interest rates have an impact on net interest and are taken into account in an earnings-based sensitivity analysis.
- + Changes in market interest rates for primary financial instruments with fixed interest rates that are measured at amortised cost do not have an impact on earnings or equity and are therefore not taken into account during the sensitivity analysis. While these instruments are subject

KEY CAPITAL STRUCTURE INDICATORS ¹

TAB: 3.6.60

	2013	2014	2015	2016	2017
in € million					
Net debt/EBITDA	1.2	1.8	2.3	6.9	7.2
Net debt/equity (%)	30.5	40.9	55.9	78.7	99.5
Equity ratio (%)	45.3	50.6	51.9	47.2	42.7

¹ See 'Definition of financial indicators' on page 205. Information on how EBITDA is calculated can be found in the 'Notes to the Income Statement and the Statement of Comprehensive Income' on page 157.

to interest rate risk on reinvestment, this is not taken into account in the sensitivity analysis carried out as of the balance sheet date.

🔗 'Financial Risks and Opportunities', page 111

There were floating-rate liabilities as of the reporting date.

An increase in the reference interest rate by one percentage point would have led to further interest charges of € 2.1 million for non-current floating-rate liabilities as of the balance sheet date (2016: € 2.0 million). The purchased interest rate caps would have reduced this effect to an interest charge of € 0.2 million (in 2016, the interest rate caps would have eliminated this effect). As in the previous year, a decrease in the reference interest rate by one percentage point would have had no impact on the interest expenses for non-current floating-rate liabilities.

In addition to receivables and liabilities denominated in Group currency, there are also items in foreign currency. Under IFRS 7, exchange rate risks must be presented using sensitivity analysis. If the euro had been 10 % stronger or weaker against foreign currencies (mainly us dollar), the carrying amount of the net position of foreign currency receivables and liabilities would have increased or decreased by € + / - 16.8 million (2016: € + / - 15.8 million) through profit or loss.

As of the balance sheet date, there were also investments for which collateral had been provided by the counterparties, normally banks. They relate to repo transactions that have the features of secured term investments. The terms and limits for the collateral, which cannot be appropriated for any other purpose, are agreed with the counterparty on the basis of a collateral basket, which is primarily defined by asset class, rating, country and currency. The lending value up

to which the collateral is taken into account depends on the above criteria, i.e. if the rating or tradability of the collateral declines, the lending value decreases, and additional collateral has to be provided. The appropriate terms and limits of the eligible collateral are based on our internal monitoring, which always takes the rating and the level of credit default insurance (using credit default swaps) into account.

(27) INFORMATION ON CAPITAL MANAGEMENT

The aim of capital management in the K+S GROUP is to ensure and efficiently control liquidity across the Group, maintain and optimise financing capability and reduce financial risk.

🔗 'Financial Position', page 87

The financial policy instruments for meeting these aims include financing measures that involve both equity and borrowings. All financing measures in the Company, which also include cash, currency and interest rate management, are coordinated and managed by the Central Treasury unit.

Capital management is guided by financial indicators such as net debt/EBITDA, net debt/equity and the equity ratio.

/ TAB: 3.6.60

MANAGED CAPITAL

TAB: 3.6.61

	2016	2017
in € million		
Equity	4,552.2	4,160.7
Non-current liabilities	3,930.4	4,240.2
Current liabilities	1,162.9	1,353.5

Managed capital was as follows as of the reporting date:

/ TAB: 3.6.61

(28) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

In the K+S GROUP, general business activities are associated with a number of risks, for which provisions have been recognised, provided that the conditions for recognition according to IAS 37 have been met. In addition, there is an obligation to disclose contingent liabilities. Contingent liabilities are possible obligations, which are not recognised in the balance sheet, because it is less probable that they will be used. In 2017, contingent liabilities amounted to around € 16.0 million (2016: around € 15.0 million), resulting mainly from legal risks.

In 2017, liabilities from uncompleted capital expenditure projects totalled € 148.1 million (2016: € 287.1 million). They related almost exclusively to uncompleted capital expenditure projects in property, plant and equipment. For additional financial liabilities due to leasing, see the disclosures in Note (29).

(29) LEASES

Certain technical equipment and machinery, such as supply networks, dedicated railway sidings, railway goods carriages and cogeneration units, is used in the context of finance leases; it is capitalised because beneficial ownership of the leased asset is attributable to the K+S GROUP. Specifically, this applies to the following items: / TAB: 3.6.62

The relevant payment obligations from finance leases are due as follows: / TAB: 3.6.63

The K+S GROUP only acts as lessor to an insignificant extent.

The K+S GROUP is also a lessee in operating leases. Given the relevant contractual arrangements, these assets are not recognised as non-current assets. Operating lease expenses incurred in 2017 amounted to € 54.2 million (2016: € 51.1 million). The nominal amount of future minimum lease payments from non-cancellable operating leases is allocated to future periods as follows: / TAB: 3.6.64

LEASE ASSETS

TAB: 3.6.62

	2016	2017
in € million		
Land, land rights and buildings	0.3	0.2
Technical equipment and machinery	34.8	235.5
Ships	1.0	0.8
Prepayments and assets under construction	46.2	—
Total	82.3	236.5

OBLIGATIONS FROM OPERATING LEASES (NOMINAL VALUES)

TAB: 3.6.64

	2016	2017
in € million		
– due in the following year	44.1	45.2
– due within 2–5 years	126.0	102.7
– due after 5 years	93.1	92.3
Total	263.2	240.2

LEASE LIABILITIES

TAB: 3.6.63

	Minimum lease payments		Interest component included		Lease liabilities	
	2016	2017	2016	2017	2016	2017
in € million						
Due within 1 year	5.1	21.8	1.5	2.6	3.6	19.2
Due within 2–5 years	20.4	119.2	7.0	11.2	13.4	108.0
Due after 5 years	38.3	61.0	4.6	15.2	33.7	45.8
Total	63.8	202.0	13.1	29.0	50.7	173.0

The main operating leases relate to vehicles, office premises, storage capacity, technical equipment and machinery and railway goods carriages.

Both finance and operating leases sometimes contain lease renewal and/or purchase options and, to a small extent, price adjustment clauses. In the case of operating leases, the price of exercising the purchase option is not significantly lower than the fair value of the assets concerned at the time the option can be exercised.

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement is presented on page 136. No cash transactions from discontinued operations had to be included.

🔗 'Financial Position', page 87

(30) OTHER CASH FLOW STATEMENT DISCLOSURES

Cash and cash equivalents include cash on hand and balances with banks, as well as financial investments with a maturity that generally does not exceed three months from the date of acquisition. These financial investments consist predominantly of short-term deposits at credit institutions and other cash-equivalent investments. / TAB: 3.6.65

Cash deposits with affiliated companies are reported under 'Other financial assets' (current) and cash deposits received from affiliated companies are reported under 'Other financial liabilities' (current).

Dividend payments and profit transfers from non-consolidated companies totalled € 3.9 million in the reporting period (2016: € 4.2 million).

On the reporting date, there were trade payables and current provisions totalling € 300.7 million (2016: € 251.8 million), which resulted from non-cash additions to property, plant and equipment. Similar to the non-cash additions to finance leases, they are primarily attributable to the new Bethune plant.

NET CASH AND CASH EQUIVALENTS TAB: 3.6.65

	2016	2017
in € million		
Cash and cash equivalents (as recognised in balance sheet)	140.2	182.6
Cash deposits with affiliated companies	0.1	—
Cash deposits received from affiliated companies	-5.6	-6.9
Net cash and cash equivalents	134.7	175.7

NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES TAB: 3.6.66

	Carrying amount 1 January 2017	Cash flows from financing activities (net)	Changes to the scope of consolidation	Additions to finance leases	Changes in exchange rates	Other effects	Carrying amount 31 December 2017
in € million							
Bonds	1,516.1	625.0	—	—	-2.7	4.0	2,142.4
Promissory note loans	698.6	65.0	—	—	—	0.2	763.8
Liabilities to banks	319.8	-204.3	—	—	—	—	115.5
Total financial liabilities (as recognised in balance sheet)	2,534.5	485.7	—	—	-2.7	4.2	3,021.7
Liabilities from finance leases	50.7	-16.6	—	139.6	-6.2	5.4	173.0
Reimbursement claim from Morton Salt bond	-22.6	—	—	—	2.7	0.3	-19.6
Total	2,562.6	469.1	—	139.6	-6.2	9.9	3,175.1

Currency hedges were entered into to hedge CAD-denominated capital expenditure payments for the Bethune plant against currency fluctuations. The hedges that matured in 2017 resulted in a cash inflow of € 2.0 million (2016: cash inflow of € 12.7 million), which is reported under purchases of property, plant and equipment. / TAB: 3.6.66

SEGMENT REPORTING DISCLOSURES

Segment reporting is presented on page 138.

(31) DEFINITION OF SEGMENTS

Segments are defined according to products. This corresponds to the internal organisational and reporting structure of the K+S GROUP.

The Potash and Magnesium products segment combines the production and marketing of potash fertilizers and fertilizer specialties as well as potash and magnesium compounds for technical, industrial and pharmaceutical applications.

The Salt segment encompasses the production and marketing of consumer products, salt for food processing, industrial salt and salt for chemical use, deicing salt and sodium chloride brine.

The Complementary Activities segment bundles together not only recycling activities and waste disposal and/or reutilisation in potash and rock salt mines and CATSAN® and THOMAS® granulation, but also other activities important for the K+S GROUP. The K+S GROUP has its own logistics service provider: K+S TRANSPORT GMBH. CHEMISCHE FABRIK KALK GMBH trades in different basic chemicals.

The accounting policies applied to determine the segment information are the same as those of the K+S GROUP.

(32) PRINCIPLES OF SEGMENT ASSET AND LIABILITY ALLOCATION

Assets, provisions and liabilities are allocated to a segment according to their use or origin. If they are used by or originate in more than one segment, they are allocated based on appropriate formulas.

Financial assets (with the exception of equity interests) and non-current financial liabilities are not allocated to segments.

(33) PRINCIPLES OF SEGMENT PROFIT OR LOSS ALLOCATION

The data for determining segment profit or loss is based on income statements produced according to the total cost (nature of expense) method (internal reporting structure of the K+S GROUP). Income statements of the companies included in segment profit or loss are allocated to segments in accordance with profit centre accounting.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is used by the K+S GROUP as the most important internal profitability variable and performance indicator. The calculation of EBITDA is based on EBIT I. Net interest and tax expense as well as other income and expenses affecting the financial result are not included in the calculation. In addition, certain gains or losses arising from operating anticipatory hedging transactions are eliminated, taking tax effects into account (see 'Notes to the Income Statement and Statement of Comprehensive Income' on page 157). EBITDA, is calculated by adding the included depreciation and amortisation to EBIT I, but adjusted for the depreciation and amortisation recognised directly in equity for own work capitalised. In the year under review, the adjusted depreciation and amortisation amount recognised directly in equity was € 24.1 million (2016: € 38.6 million).

Business unit profit or loss is presented on a consolidated basis. Intra-segment supplies of goods and services are consolidated.

(34) PRINCIPLES OF INTERSEGMENT TRANSFER PRICING

Transfer prices for supplies of goods and services between segments are set on an arm's length basis, as they would be payable by an unrelated third party. Transfer pricing methods are documented on a timely basis and kept up to date at all times. The comparable uncontrolled price method, the resale price method, the cost plus method or a combination of all three may be used when determining transfer prices for goods and services. We select the method that

best reflects the way external prices are determined in comparable markets.

(35) ADDITIONAL SEGMENT DISCLOSURES

POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

Provisions amounting to € 23.1 million (2016: € 17.1 million) were reversed in the reporting period for unused obligations. Insurance pay-outs of € 33.4 million (2016: € 24.8 million) were collected during the year under review. The disposal of items of property, plant and equipment resulted in a loss of € 20.0 million in 2016.

SALT BUSINESS UNIT

Provisions amounting to € 13.6 million (2016: € 8.4 million) were reversed in the reporting period for unused obligations. Insurance pay-outs of € 13.4 million (2016: € 13.5 million) were collected during the year under review. The disposal of items

of property, plant and equipment resulted in a loss of € 28.1 million in 2017.

(36) NOTES TO THE RECONCILIATION ITEMS

The reconciliation of segment figures to the corresponding items in the consolidated financial statements of the K+S GROUP includes items allocated to central functions as well as consolidation effects. The main items are: / TAB: 3.6.67

(37) REVENUES BY REGION

The breakdown of the K+S GROUP's revenues by region is as follows: / TAB: 3.6.68

The allocation is based on the registered office of customers. No single customer accounted for more than 10% of total revenues in the 2017 and 2016 financial years.

RECONCILIATION OF SEGMENT FIGURES

TAB: 3.6.67

in € million	2016	2017
Reconciliation of segment earnings (EBITDA)¹		
EBIT I before consolidation	213.8	20.7
Consolidation effects	-243.7	-77.7
Depreciation, amortisation and impairment losses	11.1	9.4
	-18.8	-47.6
Reconciliation of segment assets		
Non-current assets	78.7	88.3
Deferred tax assets	117.4	95.2
Fair values of derivatives	-1.8	29.0
Income tax refund claims	68.5	31.7
Other receivables	89.2	91.4
Cash and cash equivalents	56.5	67.3
Consolidation effects	-195.7	-155.0
	212.8	247.9
Reconciliation of segment liabilities		
Provisions for pensions and similar obligations	34.5	28.5
Other provisions	35.6	40.2
Deferred tax liabilities	307.1	252.6
Fair values of derivatives	-6.0	-5.8
Financial liabilities	2,534.5	3,021.7
Other liabilities	97.6	256.6
Income tax liabilities	50.3	54.6
Consolidation effects	-177.8	-138.3
	2,875.8	3,510.1

¹ The reconciliation of EBIT II to operating earnings (EBIT I) and EBITDA is presented in the notes (see 'Notes to the Income Statement and the Statement of Comprehensive Income' on page 157).

(38) NON-CURRENT ASSETS BY REGION

The non-current assets of the K+S GROUP comprise intangible assets, property, plant and equipment and investment properties. They break down into regions as follows:

/ TAB: 3.6.69

The allocation is based on the location of the relevant assets.

OTHER DISCLOSURES**AUDITOR'S FEES**

The audit services include the audit of the consolidated financial statements and annual financial statements of all consolidated German companies. The other assurance services primarily relate to the issuance of comfort letters, energy law compliance audits and the EMIR audit. The auditor did not provide any tax advice or other consultancy services.

/ TAB: 3.6.70

GOVERNMENT GRANTS

The investment grants/subsidies reported here relate to amounts received for developing areas in the Federal Republic of Germany, the United States and Canada. / TAB: 3.6.71

EVENTS AFTER THE BALANCE SHEET DATE

No significant changes have occurred in the general economic environment or in the situation of the industry since the end of the financial year under review.

RELATED PARTIES

In addition to the subsidiaries included in the consolidated financial statements, the K+S GROUP has relations with other related companies; these include non-consolidated subsidiaries, joint ventures and companies over which the K+S GROUP can exercise significant influence (associates). A complete summary of all related companies can be found in the list of shareholdings on page 194.

REVENUES BY REGION TAB: 3.6.68

	2016	2017
in € million		
Europe	1,484.3	1,586.6
– of which Germany	540.5	592.7
North America	1,318.1	1,286.2
– of which USA	1,044.4	998.1
South America	363.9	388.5
Asia	209.9	291.8
Africa, Oceania	80.4	73.9
Total revenues	3,456.6	3,627.0

NON-CURRENT ASSETS BY REGION TAB: 3.6.69

	2016	2017
in € million		
Europe	1,688.3	1,760.2
– of which Germany	1,625.5	1,700.4
North America	5,289.0	5,392.0
– of which USA	1,162.4	1,017.1
– of which Canada	4,094.8	4,340.0
South America	566.0	493.8
– of which Chile	557.2	485.6
Asia	–	10.9
Africa, Oceania	3.2	3.8
Total assets	7,546.5	7,660.7

AUDITOR'S FEES TAB: 3.6.70

	2016	2017
in € million		
Audit services	0.7	0.7
Other assurance services	0.1	0.4
Auditor's fees	0.8	1.1

GOVERNMENT GRANTS TAB: 3.6.71

	2016	2017
in € million		
Investment grants/subsidies	2.6	1.7
Government grants	2.6	1.7

Table 3.6.72 shows K+S GROUP transactions with non-consolidated subsidiaries in the reporting period. The transactions were conducted at arm's length. / TAB: 3.6.72

Trade revenues are mostly the result of goods sold by consolidated companies to foreign distribution companies. Goods and services received largely consist of supplies of explosives and chemical products by a German subsidiary as well as commissions invoiced by foreign distribution companies.

On 31 December 2017, the following outstanding balances with non-consolidated subsidiaries were reported: / TAB: 3.6.73

As in the previous year, there were no allowances on receivables from affiliated companies as of the balance sheet date. There are no contingency insurance policies for receivables from non-consolidated subsidiaries. Banking receivables are the result of centralised withdrawals and deposits of cash at K+S AKTIENGESELLSCHAFT (cash pooling). As of the balance sheet date, there were no loans to non-consolidated subsidiaries.

Transactions carried out by the K+S GROUP with joint ventures and associates are immaterial from a Group perspective.

Related persons are defined as persons who are responsible for the planning, management and monitoring of a company. They include the Board of Executive Directors and the Supervisory Board. The remuneration of related persons is presented in the following section as well as in the Remuneration Report section in the combined Management Report. There were no other material transactions with related persons. / TAB: 3.6.74

The total remuneration of the Board of Executive Directors in the year under review was paid to five Board members; three of these were in office for the whole year. In the previous year, the Board of Executive Directors had five members, four of whom were in office for the whole year.

In the period under review, the service cost for the pensions of the Board of Executive Directors amounted to € 3.1 million (2016: € 2.2 million).

The remuneration system for the Board of Executive Directors has the following elements:

- + regular monthly payments (fixed salary) to which non-cash benefits are added
- + non-recurrent performance-related remuneration, with bonuses based on the return on total investment and on

TRANSACTIONS WITH NON-CONSOLIDATED SUBSIDIARIES

TAB: 3.6.72

in € million	2016	2017
Trade revenues	30.8	29.8
Goods and services received	21.3	20.5
Income from dividend payments and profit transfers	4.0	4.6
Other income	0.1	0.2
Other expenses	1.7	1.4

BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES

TAB: 3.6.73

in € million	2016	2017
Receivables from affiliated companies	7.3	6.7
– of which banking receivables	0.1	–
Liabilities to affiliated companies	10.4	11.0
– of which banking receivables	5.6	6.9

TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS

TAB: 3.6.74

in € million	2016	2017
Total remuneration of the Supervisory Board	2.0	2.1
– of which fixed	2.0	2.1
Total remuneration of the Board of Executive Directors	4.2	4.7
– of which fixed	2.2	2.4
– of which performance-related	1.9	2.1
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	1.8	2.1
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	23.2	23.7

- an individual performance-related component, and paid in the subsequent financial year
- + long-term incentive (LTI) programme

The individual remuneration received by the members of the Board of Executive Directors in the 2017 financial year is disclosed in the Remuneration Report section of the combined Management Report on page 122.

In addition to the Supervisory Board remuneration, employee representatives who are employees of the K+S GROUP receive remuneration that is not related to activities performed for the Supervisory Board.

SHARES HELD IN K+S AKTIENGESELLSCHAFT

On 3 January 2018, PLATINUM INVESTMENT MANAGEMENT LIMITED, Sydney (Australia), notified us that its share of the voting rights had exceeded the threshold of 3% and that it now holds 3.05% of the company. Until the end of February, no other shareholder notified us of shareholdings above the legal reporting threshold of 3%.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The declaration of conformity pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) with the recommendations of the Government Commission on the German Corporate Governance Code was issued by the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT for 2017/2018. It is available to shareholders on the K+S GROUP website (www.k-plus-s.com) and also published on page 64 of the combined Management Report.

LIST OF SHAREHOLDINGS IN ACCORDANCE
WITH SECTION 313 OF THE HGB

The figures in the following tables also apply to the previous year. If there are any deviations, these are commented on in a footnote on the company concerned. / TAB: 3.6.75

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 OF THE HGB

TAB: 3.6.75

in %	Company's registered office		Interest held	Share of voting rights
Fully consolidated German companies (15 companies)				
K+S Aktiengesellschaft	Kassel	Germany	—	—
Chemische Fabrik Kalk GmbH	Cologne	Germany	100.00	100.00
Deutscher Straßen-Dienst GmbH	Hanover	Germany	100.00	100.00
esco – european salt company GmbH & Co. KG ^{1,2}	Hanover	Germany	100.00	100.00
esco international GmbH ²	Hanover	Germany	100.00	100.00
K+S Bahamas Salt Asset Management GmbH & Co. KG ^{1,7}	Kassel	Germany	100.00	100.00
K+S Baustoffrecycling GmbH ³	Sehnde	Germany	100.00	100.00
K+S Beteiligungs GmbH ^{2,3}	Kassel	Germany	100.00	100.00
K+S Entsorgung GmbH ^{2,3}	Kassel	Germany	100.00	100.00
K+S Kali GmbH ^{2,3}	Kassel	Germany	100.00	100.00
K+S North America Asset Management GmbH ²	Kassel	Germany	100.00	100.00
K+S North America Salt Asset Management GmbH & Co. KG ^{1,7}	Kassel	Germany	100.00	100.00
K+S Salz GmbH ^{2,3}	Hanover	Germany	100.00	100.00
K+S Transport GmbH ^{2,3}	Hamburg	Germany	100.00	100.00
Kali-Union Verwaltungsgesellschaft mbH ^{2,3}	Kassel	Germany	100.00	100.00
Fully consolidated foreign companies (42 companies)				
Canadian Brine, Ltd.	Pointe-Claire	Canada	100.00	100.00
Compania Minera Punta de Lobos Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa de Servicios Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa Maritima S.A.	Santiago de Chile	Chile	99.59	99.59
esco benelux N.V.	Diegem	Belgium	100.00	100.00
esco france S.A.S.	Levallois-Perret	France	100.00	100.00
esco Spain S.L.	Barcelona	Spain	100.00	100.00
Frisia Zout BV.	Harlingen	Netherlands	100.00	100.00
Glendale Salt Development, LLC	Chicago	USA	100.00	100.00
Inagua General Store, Ltd.	Nassau	Bahamas	100.00	100.00
Inagua Transports, Inc.	Chicago	USA	100.00	100.00
Inversiones Columbus Ltda.	Santiago de Chile	Chile	2.00	100.00
Inversiones Empremar Ltda.	Santiago de Chile	Chile	100.00	100.00
Inversiones K+S Sal de Chile SpA	Santiago de Chile	Chile	100.00	100.00
K plus S Salt Australia Pty Ltd	Perth	Australia	100.00	100.00
K+S Asia Pacific Pte. Ltd.	Singapore	Singapore	100.00	100.00
K+S Canada Holdings Ltd.	Vancouver	Canada	100.00	100.00
K+S Chile S.A.	Santiago de Chile	Chile	99.64	99.64
K+S Czech Republic a.s.	Prague	Czech Republic	100.00	100.00
K+S Finance Belgium BVBA	Diegem	Belgium	100.00	100.00
K+S Finance Ltd.	St. Julians	Malta	100.00	100.00

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 OF THE HGB (CONTINUED)

TAB: 3.6.75

in %	Company's registered office		Interest held	Share of voting rights
K+S France S.A.S.	Dombasle-sur-Meurthe	France	100.00	100.00
K+S (Huludao) Magnesium Products Co. Ltd.	Huludao	China	100.00	100.00
K+S Investments Ltd.	St. Julians	Malta	100.00	100.00
K+S KALI France S.A.S.	Reims	France	100.00	100.00
K+S KALI Wittenheim S.A.S.	Wittenheim	France	100.00	100.00
K+S Montana Holdings, LLC	Chicago	USA	100.00	100.00
K+S Netherlands Holding BV.	Harlingen	Netherlands	100.00	100.00
K+S North America Corporation	Chicago	USA	100.00	100.00
K+S Perú S.A.C.	Lima	Peru	100.00	100.00
K+S Potash Canada General Partnership	Vancouver	Canada	100.00	100.00
K+S Salt LLC	Chicago	USA	100.00	100.00
K+S Windsor Salt Ltd.	Vancouver	Canada	100.00	100.00
Montana US Parent Inc.	Chicago	USA	100.00	100.00
Morton Bahamas Ltd.	Nassau	Bahamas	100.00	100.00
Morton Salt, Inc.	Chicago	USA	100.00	100.00
Salina Diamante Branco Ltda.	Rio de Janeiro	Brazil	100.00	100.00
Salines Cérébos S.A.S.	Levallois-Perret	France	100.00	100.00
Servicios Maritimos Patillos S.A.	Santiago de Chile	Chile	99.64	100.00
Servicios Portuarios Patillos S.A.	Santiago de Chile	Chile	99.53	99.89
VATEL Companhia de Produtos Alimentares S.A.	Alverca	Portugal	100.00	100.00
Weeks Island Landowner, LLC	Chicago	USA	100.00	100.00
Non-consolidated German companies (9 companies)⁴				
4. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
Beienrode Bergwerks-GmbH	Kassel	Germany	89.80	89.80
esco Verwaltungs GmbH	Hanover	Germany	100.00	100.00
Ickenroth GmbH	Staudt	Germany	100.00	100.00
K+S An-Instituts Verwaltungsgesellschaft mbH	Kassel	Germany	100.00	100.00
K+S Consulting GmbH	Kassel	Germany	100.00	100.00
K+S Versicherungsvermittlungs GmbH	Kassel	Germany	100.00	100.00
MSW-Chemie GmbH	Langelsheim	Germany	100.00	100.00
Wohnbau Salzdetfurth GmbH	Bad Salzdetfurth	Germany	100.00	100.00
Non-consolidated foreign companies (18 companies)⁴				
Al Biariq for Fertilizer Plant Co. Ltd. ⁸	Riyadh	Saudi Arabia	30.00	30.00
Imperial Thermal Products, Inc.	Chicago	USA	100.00	100.00
ISX Oil & Gas Inc.	Calgary	Canada	100.00	100.00
K plus S Africa (Pty) Ltd.	Johannesburg	South Africa	100.00	100.00
K plus S Middle East FZE	Jebel Ali, Dubai	United Arab Emirates	100.00	100.00
K+S Brasileira Fertilizantes e Produtos Industriais Ltda.	São Paulo	Brazil	100.00	100.00
K+S Denmark Holding ApS	Hellerup	Denmark	100.00	100.00
K+S Entsorgung (Schweiz) AG	Delémont	Switzerland	100.00	100.00
K+S Fertilizers (India) Private Limited	New Delhi	India	100.00	100.00
K+S Italia S.r.L.	Verona	Italy	100.00	100.00
K+S Legacy GP Inc.	Vancouver	Canada	100.00	100.00
K+S Mining Argentina S.A.	Buenos Aires	Argentina	100.00	100.00
K+S Polska Sp. z o.o.	Poznan	Poland	100.00	100.00
K+S UK & Eire Ltd.	Hertford	United Kingdom	100.00	100.00

in %	Company's registered office		Interest held	Share of voting rights
Kali (U.K.) Ltd.	Hertford	United Kingdom	100.00	100.00
Kali AG	Frauenkappelen	Switzerland	100.00	100.00
OOO K+S Rus	Moscow	Russian Federation	100.00	100.00
Shenzhen K+S Trading Co. Ltd.	Shenzhen	China	100.00	100.00
Associates and joint ventures (3 companies)⁵				
Börde Container Feeder GmbH	Haldensleben	Germany	33.30	33.30
Morton China National Salt (Shanghai) Salt Co., Ltd.	Shanghai	China	45.00	45.00
Werra Kombi Terminal Betriebsgesellschaft mbH	Philippsthal	Germany	50.00	50.00
Other equity investments (6 companies)⁶				
Fachschule f. Wirtschaft und Technik Gem. GmbH	Clausthal	Germany	9.40	9.40
Lehrter Wohnungsbau GmbH	Lehrte	Germany	6.70	6.70
Nieders. Gesellschaft zur Endablagerung von Sonderabfall mbH	Hanover	Germany	0.10	0.10
Poldergemeinschaft Hohe Schaar	Hamburg	Germany	8.66	8.66
Přístav Pardubice a.s.	Pardubice	Czech Republic	0.41	0.41
Zoll Pool Hamburg AG	Hamburg	Germany	1.43	1.43

¹ Exemption provision of section 264b of the HGB applied.

² Exemption provision of section 291 of the HGB applied.

³ Exemption provision of section 264(3) of the HGB applied.

⁴ Not consolidated due to immateriality.

⁵ Not equity-accounted due to immateriality.

⁶ Amount of equity and prior-year profit/loss not disclosed due to immateriality.

⁷ Unlimited liability of the parent company or another consolidated company.

⁸ Control assumed on the basis of potential voting rights.

MEMBERS OF THE SUPERVISORY BOARD

A list of members of the Supervisory Board and its committees can be found in the Management Report on page 57; this list is also part of the 'Notes to the Consolidated Financial Statements'.

MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

A list of members of the Board of Executive Directors and its responsibilities can be found in the Management Report on page 61; this list is also part of the 'Notes to the Consolidated Financial Statements'.

Kassel, 7 March 2018

K+S AKTIENGESELLSCHAFT BOARD OF EXECUTIVE DIRECTORS

AUDITOR'S REPORT

We audited the consolidated financial statements of K+S AKTIENGESELLSCHAFT, Kassel, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statements of cash flows for the financial year from January 1, 2017 through December 31, 2017 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the group management report of K+S AKTIENGESELLSCHAFT, Kassel, which is combined with the company's management report, for the financial year from January 1, 2017 through December 31, 2017. In conformity with German legal regulations, we have not audited the parts of the combined management report specified in the Chapter 'Other information' of our independent auditor's report with regard to their content.

In our opinion, based on our knowledge obtained during the audit,

- + the accompanying consolidated financial statements comply with INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) as adopted by the EU and the supplementary German legal regulations to be applied in accordance with Section 315e(1) of the HGB (German Commercial Code) in all material respects and give a true and fair view of the Group's net assets and financial position as of December 31, 2017 as well as its results of operations for the financial year from January 1, 2017 through December 31, 2017 in accordance with these requirements and
- + the accompanying combined management report as a whole provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the content of the parts of the combined management report detailed in the

Chapter 'Other information' of our independent auditor's report.

Pursuant to Section 322(3) Sentence 1 of the HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements and the combined management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 of the HGB and the EU Audit Regulation (No. 537/2014; hereinafter referred to as 'EU Audit Regulation'), and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (INSTITUT DER WIRTSCHAFTSPRÜFER, IDW). Our responsibilities under these requirements and principles are further described in the Section 'Auditor's responsibility for the audit of the consolidated financial statements and the combined management report' of our report. We are independent of the group companies in accordance with European and German commercial law and rules of professional conduct and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. In addition, pursuant to Article 10(2) lit. f EU Audit Regulation, we declare that we have not provided any prohibited non-audit services pursuant to Article 5(1) EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and combined management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 through December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon but we do not provide a separate opinion on these issues.

In the following we present the key audit matters in our view:

1. Provisions for mining obligations
2. Impairment of goodwill for 'Salt America'
3. Impairment of goodwill for 'Potash and Magnesium Products'
4. Closure of the Sigmundshall mine

Our presentation of these key audit matters is structured as follows:

- a) Description (including reference to corresponding information in the consolidated financial statements)
- b) Auditor's response
- c) Important findings, if applicable

1. MINING PROVISIONS

- a) In the consolidated financial statements of K+S AKTIENGESELLSCHAFT as of December 31, 2017, mining provisions of €1,000.0 million (equivalent to 10.3% of total Group assets) are reported under non-current provisions (€22.4 million is reported under current provisions). Changes in interest rates can significantly impact the measurement of this major balance sheet item. Due to their long-term nature, furthermore, the provisions are heavily based on estimates and assumptions by the legal representatives with regard to future cost developments and technological innovations. As estimated values result in an increased risk of incorrect information in financial reporting and measurement decisions by the legal representatives have a direct and significant impact on the consolidated financial statements, we rated this matter as particularly significant.

The disclosures about the mining provisions are contained in Section 22 of the notes to the consolidated financial statements.

- b) In the course of our audit, we critically assessed the development of the liabilities reported in the previous year and analysed the measures taken by the legal representatives to assess the completeness and valuation of the mining obligations. In this connection, we examined the structures and procedures of the process for establishing mining provisions with regard to their appropriateness and the effectiveness of the audit-relevant controls. In doing so, we have prepared our analysis based on our knowledge of the legal, contractual and regulatory requirements, the up-to-dateness of the respective

mine stabilization concepts and cost rates, and our audit results from the previous year, and examined the current level of the financial obligations resulting from regulatory requirements and mine sealing concepts by means of evidence in the form of correspondence with the mining authorities and individual audit reports. In examining the discount rate, we received verification of the applied parameters.

2. IMPAIRMENT OF GOODWILL FOR 'SALT AMERICA'

- a) In the consolidated financial statements of K+S AKTIENGESELLSCHAFT as of December 31, 2017, goodwill of EUR 642.7 million (equivalent to 6.6% of total Group assets) from the cash-generating unit (CGU) 'Salt America' is recognised under the balance sheet item 'Goodwill from acquisitions of companies.' The company subjects this material item of goodwill to an impairment test at the CGU level on the closing date of the financial year. The value in use to be compared to the respective carrying amount is determined according to the discounted cash flow method using a valuation model. The expected future cash flows are discounted using the weighted cost of capital of the respective cash-generating unit.

As the result of this valuation depends heavily on the estimates of the legal representatives with regard to the future cash flows and the applied discount rate and growth rate, this matter was a special focus of our audit.

The disclosures about goodwill are contained in Section 12 of the notes to the consolidated financial statements.

- b) In the course of our audit, we examined the structures and procedures of the process for measuring goodwill with regard to their appropriateness and the effectiveness of the audit-relevant controls with the help of valuation specialists. To examine the appropriateness of the future cash flows used in the calculation, we, for example, compared these figures with the current budgets from the three-year planning adopted by the legal representatives and approved by the supervisory board, as well as with general and industry-specific market expectations.

As even relatively small changes in the applied discount rate can have significant effects on the determined value in use, we also received verification of the parameters

applied to determine the discount rate, including particularly the risk-free interest rate, the market risk premium and the beta factor, including the weighted average cost of capital, as well as the assumptions on which the model is based, and reconstructed the calculation scheme for value in use.

Due to the materiality of the goodwill allocated to the CGU 'Salt America' and to the fact that the measurement of this goodwill also depends on the general price development and economic conditions, which cannot be influenced by the Group, we carried out sensitivity analyses to audit whether the goodwill is sufficiently covered by the discounted cash flow surpluses.

We also examined the completeness and accuracy of the information required to be disclosed in the notes to the consolidated financial statements pursuant to IAS 36.

- c) Even an increase in the discount factor by 2 percentage points to 8.0% does not cause the carrying amount of the goodwill allocated to 'Salt America' to exceed its value in use according to the conducted sensitivity analysis.

3. IMPAIRMENT OF GOODWILL FOR 'POTASH AND MAGNESIUM PRODUCTS'

- a) In the consolidated financial statements of K+S AKTIENGESELLSCHAFT as of December 31, 2017, goodwill of EUR 16.3 million (equivalent to 0.2% of total Group assets) allocated to the CGU 'Potash and Magnesium Products' is recognised under the balance sheet item 'Goodwill from acquisitions of companies.' The company subjects this item of goodwill to an impairment test at the CGU level on the closing date of the financial year. The value in use to be compared to the respective carrying amount is determined according to the discounted cash flow method using a measurement model.

The result of this valuation depends heavily on uncertainties with regard to the future cash flows and the applied discount rate. The uncertainties with regard to the cash flows result from the current state of the potash market and the price development, the legal uncertainties with regard to the discharge of saline wastewater from the Werra plant and the risks pertaining to the startup phase of the new potash mine in Bethune. This matter was therefore a special focus of our audit.

The disclosures about goodwill are contained in Section 12 of the notes to the consolidated financial statements.

- b) To examine the appropriateness of the future cash flows used in the calculation of goodwill, we, for example, compared these figures with the current budgets from the planning adopted by the legal representatives and approved by the supervisory board, as well as with general and industry-specific market expectations, against the background of the current state of the potash market and the price development. We also critically evaluated the legal representatives' assessment of the consequences that the disposal of saline wastewater could have for the Group. With regard to the Bethune site, we compared the projected cash flow surpluses of the CGU through 2030, which take into account the successive establishment of production capacities for the Legacy project (now: Bethune production site), with market expectations. Considering that even relatively small changes in the applied discount rate can have significant effects on the determined value in use, we also received verification of the parameters applied to determine the discount rate, including particularly the risk-free interest rate, the market risk premium and the beta factor, including the weighted average cost of capital, as well as the assumptions on which the model is based, and reconstructed the calculation scheme for value in use with regard to consistency and the calculation system. Due to the uncertainties related to the goodwill allocated to the CGU 'Potash and Magnesium Products' and to the fact that the measurement of this goodwill also depends on the general price development and economic conditions, which cannot be influenced by the Group, we used sensitivity analyses to determine whether the goodwill is sufficiently covered by the discounted cash flow surpluses.

We also examined the completeness and accuracy of the information required to be disclosed in the notes to the consolidated financial statements pursuant to IAS 36.

- c) Even an increase in the discount factor by 2 percentage points to 8.0 percent does not cause the carrying amount of the goodwill allocated to 'Potash and Magnesium Products' to exceed its value in use according to the conducted sensitivity analysis.

4. CLOSURE OF THE SIGMUNDSHALL MINE

a) Due to the decision made by the legal representatives of the company in November 2017 to discontinue potash production at the Sigmundshall mine at the end of financial year 2018, the Group recognised expenses of €43.0 million in 2017. These expenses result from adjustments in the calculation of mining obligations, from the reduction of the scheduled useful life of the fixed assets, and from the establishment of personnel provisions according to the forecasted career path.

We rated this matter as particularly significant because not just the mining obligations, but also the recognition of completeness and measurement of the personnel obligations resulting from the closure are based heavily on estimates and assumptions by the legal representatives.

The disclosures about the provisions for mining obligations are contained in Section 22 of the notes to the consolidated financial statements. The information on the personnel provisions related to Sigmundshall can be found in the introduction to the notes to the consolidated financial statements in the section pertaining to the accounting and valuation principles.

b) With regard to the audit procedure for the mining obligations, we refer to the remarks under '1. Mining obligations'.

With regard to the personnel obligations, we assessed the recognition criteria according to IFRS. We assessed in particular whether the factual conditions for a severance payment obligation according to Section 1a German Dismissal Protection Act apply and whether a justified expectation was raised among the affected employee group. In this connection, we received verification of and analysed the most important assumptions for the value assessment (particularly the underlying personnel expenses, the forecasted career path and estimation parameters).

OTHER INFORMATION

The legal representatives are responsible for the other information. The other information comprises:

- + the Group's consolidated nonfinancial statement pursuant to Sections 289b and 289e and Sections 315b and 315c HGB specified in Chapter 1.2 of the combined management report,

- + the Group's statement on business management pursuant to Sections 289f and 315d HGB specified in Chapter 1.3 'Statement on Business Management and Corporate Governance' of the combined management report,
- + the other sections of the combined management report marked as 'unaudited',
- + assurance pursuant to Sections 297(2) Sentence 4 of the HGB to the consolidated financial statements and assurance pursuant to Section 315(1) Sentence 5 of the HGB to the group management report, and
- + all remaining components of the annual report, with the exception of the audited consolidated financial statements and the combined management report and our Auditor's Report.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to cover the other information, and accordingly we do not issue an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information

- + is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- + otherwise appears to be substantially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements which comply with IFRS as adopted by the EU and the supplementary requirements of the German legal regulations pursuant to Section 315e(1) of the HGB in all material respects, so that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls they have identified as necessary in order to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. Furthermore, they have the responsibility to disclose matters relating to the Group's ability to continue as a going concern, if relevant. In addition, they are responsible for using the going concern basis of accounting, unless the intention is to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, the legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) which they have deemed necessary in order to enable the preparation of a combined management report in accordance with the applicable German legal regulations and to furnish sufficient and appropriate evidence for the statements in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the findings of the audit, is in accordance with the German legal regulations, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 of the HGB and the EU Audit Regulation and gener-

ally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

As part of an audit, we exercise professional judgement and maintain professional scepticism. We also

- + identify and assess the risks of material misstatements in the consolidated financial statements and in the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- + obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- + evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.
- + form a conclusion on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and combined management report, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- + evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner such that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German law pursuant to Section 315e(1) of the HGB.
- + obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinions.
- + evaluate the consistency of the combined management report with the consolidated financial statements, its legal consistency, and the view provided of the Group's position.
- + perform audit procedures on the forward-looking information presented by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we particularly evaluate the significant assumptions underlying the forward-looking information by the legal representatives and evaluate the correct derivation of forward-looking information from these assumptions. We do not issue an independent opinion on the forward-looking information or on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking information.

We communicate with those charged with governance among other matters, on the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control, which we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report on the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

OTHER INFORMATION PURSUANT TO ARTICLE 10 EU AUDIT REGULATION

We were appointed by the Annual General Meeting on May 10, 2017 to audit the consolidated financial statements. We were engaged by the Supervisory Board on August 22, 2017. We have been engaged continuously as the auditors of the consolidated financial statements of K+S AKTIENGESELLSCHAFT, Kassel, since the financial year 2017.

We confirm that the audit opinions contained in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation ('Prüfungsbericht').

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Dr Christian H. Meyer.

Hanover, 7 March 2018

DELOITTE GMBH
Wirtschaftsprüfungsgesellschaft

(Kompenhans)
Auditor

(Dr Meyer)
Auditor

FURTHER INFORMATION

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DEFINITIONS OF KEY FINANCIAL INDICATORS

Book Value per Share	=	$\frac{\text{Equity}}{\text{Total number of shares as of 31 Dec}}$
EBIT I-Margin	=	$\frac{\text{Operating Earnings (EBIT I)}}{\text{Revenues}}$
EBITDA-Margin	=	$\frac{\text{EBITDA}}{\text{Revenues}}$
Enterprise Value	=	Market capitalisation + net debt
DEBT I	=	$\frac{\text{Bank loans and overdrafts}}{\text{Equity}}$
DEBT II	=	$\frac{\text{Net Debt}}{\text{Equity}}$
Gross Cash Flow	=	EBIT I + write-downs / – write-ups on intangible assets, property, plant and equipment and financial assets + increase / – decrease in non-current provisions (without interest rate effects) + interests and dividends received and similar income + gains / – losses from the realisation of financial assets / liabilities – interest paid – income taxes paid + other non-cash expenses - other non-cash income
Net Financial Liabilities	=	Financial liabilities – cash on hand and balances with banks – securities and other financial investments
Net Debt	=	Financial liabilities + provisions for pension and similar obligations + non-current provisions for mining obligations – cash on hands and balances with banks – securities and other financial investments
Operating Assets	=	Intangible assets ⁴ + property, plant and equipment + shares in affiliated companies + participating interests
Return on Capital Employed (ROCE)	=	$\frac{\text{Operating Earnings (EBIT I)}}{\text{Operating assets}^2 + \text{working capital}^{2,3}}$
Return on Equity	=	$\frac{\text{Adjusted Group earnings after taxes}^1}{\text{Adjusted equity}^{1,2}}$
Return on Revenues	=	$\frac{\text{Adjusted Group earnings after taxes}^1}{\text{Revenues}}$
Return on Total Investment	=	$\frac{\text{Adjusted earnings before taxes}^1 + \text{interest expenses}}{\text{Adjusted balance sheet total}^{1,2,3}}$
Value Added	=	(ROCE – weighted average cost of capital before taxes) x (operating assets ² + working capital ^{2,3})
Working Capital	=	Inventories + accounts receivable trade + other assets ⁵ – current provisions – accounts payable trade – other payables ⁵

¹ Adjusted for the effects of market value changes of operating forecast hedges; for adjusted Group earnings, the related effects on deferred and cash taxes are also eliminated.

² Annual average.

³ Adjusted for reimbursement claims and corresponding obligations.

⁴ Adjusted by deferred tax influencing goodwill from initial consolidation.

⁵ Without the market value of operating forecast hedges still outstanding as well as derivatives no longer in operation, but including premiums paid for derivatives used for operating purposes; without receivables and liabilities from financial investments; adjusted for reimbursement claims as well as the surplus of the CTA plan assets.

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES

This report was prepared in accordance with Core G4 GRI requirements and considers the G4 Sector Disclosures: Mining and Metals document.

For issues we assessed as material, we report the respective GRI indicators. For some indicators we do not provide detailed disclosures, as we are currently examining their relevance, we considered them as non-material, data are not easily available, or we do not publicly report on them for reasons of busi-

ness policy. Following the 'comply or explain' approach, we have marked those indicators that are not fully covered by (*).

As a member of the UN GLOBAL COMPACT, K+S AKTIENGESELLSCHAFT supports the ten principles in the areas of human rights, labor, environment and anti-corruption. The overview shows where to find information regarding the ten principles in this Annual Report.

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES

	GRI Indicators	Page	UN Global Compact
General Standard Disclosures:			
Strategy and analysis			
G4-1	Statement from the most senior decision-makers	2–3	
G4-2	Description of important key impacts, risks, and opportunities	100–113	
Organisational profile			
G4-3	Name of the organisation	216	
G4-4	Primary brands, products, and services	36–40	
G4-5	Location of the organisation's headquarters	216	
G4-6	Countries where the organisation operates	30–31	
G4-7	Nature of ownership and legal form	29	
G4-8	Important markets	36–37	
G4-9	Scale of the organisation	32	
G4-10	Total workforce	41–45	6
G4-11	Employees covered by collective bargaining agreements	47	3
G4-12	Description of the organisation's supply chain	53–54	
G4-13	Significant changes during the reporting period	29	
G4-14	Implementation of the precautionary approach	100–113	
G4-15	Support of external initiatives	46, 53	
G4-16	Memberships in associations and interest groups	53	
Identified material aspects and boundaries			
G4-17	Liste of consolidated companies	144	
G4-18	Process for defining the report content	45–46	
G4-19	List of material aspects	45–46	
G4-20	Material aspects of the company	45–46	

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES (CONTINUED)

	GRI Indicators	Page	UN Global Compact
G4-21	Material aspects outside of the company	45–46	
G4-22	Restatements of information provided in previous reports	45	
G4-23	Significant changes in the reporting scope and boundaries	144	
Stakeholder engagement			
G4-24	Stakeholder groups engaged	45–46	
G4-25	Identification and selection of stakeholders	45–46	
G4-26	Approaches to stakeholder engagement and frequency	46	
G4-27	Key concerns of stakeholders and statements	46	
Report profile			
G4-28	Reporting period	U2	
G4-29	Date of publication of the most recent report	216	
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G4-31	Contact point for questions regarding the report	216	
G4-32	'In accordance' option GRI Index	45, 206	
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Governance			
G4-34	Governance structure including highest governance body	55–74	
Ethics and integrity			
G4-56	Value, principles, standards and norms	63–74	10
Specific Standard Disclosures:			
Category: Economic			
G4-DMA	Management approach	78–99	
Economic performance			
G4-EC1	Direct economic value generated and distributed	32, 40	
Category: Environmental			
G4-DMA	Management approach	48	7, 8, 9
Energy			
G4-EN3	Energy consumption within the organisation	52	7, 8, 9
G4-EN4	Energy consumption outside of the organisation	52	
Water			
G4-EN8	Total water withdrawal by source	50	7, 9
Emissions			
G4-EN15	Direct greenhouse gas emission (Scope 1)*	52–53	
G4-EN16	Indirect greenhouse gas emission (Scope 2)*	52–53	
Effluents and waste			
G4-EN22	Total water discharge by quality and destination	50	7
MM3	Total amounts of overburned, rock, tailings, and sludges and their associated risks	51	
Overall			
G4-EN31	Total environmental protection expenditures and investments by type	48–50	9

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES (CONTINUED)

	GRI Indicators	Page	UN Global Compact
Category: Society			
Labour practices and decent work			
G4-DMA	Management approach	41–43	1, 3, 6
Employment			
G4-LA1	New employee hires and employee turnover*	41–42	6
Labor /management relations			
G4-LA4	Minimum notice periods regarding significant operational changes*	41	3
MM4	Strikes and lock-outs*	41, 47	3
Occupational health and safety			
G4-LA6	Accidents, occupational diseases, lost days, fatalities*	47–48	
Training and education			
G4-LA9	Average hours of training*	42	
Diversity and equal opportunity			
G4-LA12	Composition of governance bodies and employees according to diversity*	46–47, 56–62	6
Equal remuneration of women and men			
G4-LA13	Ratio of basic salary of women to men*	42	6
Human rights			
G4-DMA	Management approach	48	1, 2
Non-discrimination			
G4-HR3	Number of discrimination and corrective actions taken*	47	6
Freedom of association and right to collective bargaining			
G4-HR4	Operations and suppliers in which the right to freedom of association may be violated or at significant risk, and measures taken*	36, 53	3
Child labor			
G4-HR5	Operations and suppliers with significant risks for incidents of child labor, and measures taken*	36, 53	5
Forced or compulsory labor			
G4-HR6	Operations and suppliers with significant risks for incidents of forced or compulsory labor, and measures taken*	36, 53	4
Human rights grievance mechanisms			
G4-HR12	Formal grievance about human rights impacts field*	48, 65	
Society			
G4-DMA	Management approach	53, 65	10
Anti-corruption			
G4-SO4	Communication and training on anti-corruption*	53, 65	10
Public policy			
G4-SO6	Total value of political contribution	53	10
Anti-competitive behavior			
G4-SO7	Legal actions for anti-competitive behavior or anti-trust*	53, 65	10
Compliance			
G4-SO8	Fines and sanctions for non-compliance	53, 65	10
Supplier assessment for impacts on society			
G4-SO10	Negative impacts on society in the supply chain and actions taken*	53–54	
Grievance mechanisms for impacts on society			
G4-SO11	Number of grievances about impacts on society	65	

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES (CONTINUED)

	GRI Indicators	Page	UN Global Compact
Product responsibility			
G4-DMA	Management approach	36	
Product and service labeling			
G4-PR3	Product and service information required by the organisation's procedure for product and service information and labeling and percentage to such information requirements*	36	

GLOSSARY

BULK BLENDERS

Operators of bulk fertilizer equipment, in which various nutrients are combined.

BRINE

Aqueous rock salt solution. Natural brine is obtained through drilling underground deposits of brine or through the controlled drillhole solution mining procedure and also produced through the dissolution of mined rock salt.

CARBON DIOXIDE

Carbon dioxide (CO₂) is a chemical compound comprising carbon and oxygen. It is produced during the combustion of fuels containing carbon or fossil fuels.

CASHFLOW

Net balance of incoming and outgoing payments during a reporting period.

CAVERN

In mining, a cavern is a large, artificially created underground cavity.

CHLORINE-ALKALINE ELECTROLYSIS

In chlorine-alkaline electrolysis, chlorine, caustic soda solution and hydrogen are produced as a result of the decomposition of the basic substance sodium chloride with the aid of electricity. Alternatively, potassium hydroxide solution is produced by the application of potassium chloride. The important basic chemicals of chlorine, caustic soda solution, hydrogen and potassium hydroxide solution form the basis of numerous chemical products.

COGENERATION

Cogeneration is a method enabling the generation of useful heat at the same time as producing electricity. Compared with separate production facilities, cogeneration plants use the respective fuel, for example, natural gas, more efficiently. The heat generated during the cogeneration process is available in the form of hot water or high-pressure steam.

COMPLEX FERTILIZERS

Complex fertilizers contain more than one nutrient, as a rule nitrogen, phosphorus and potassium as well as – depending on need and application – magnesium, sulphur or trace elements. As a result of the combination of raw materials in the production process and subsequent granulation, every single grain of the fertilizer contains precisely the same combination of nutrients; this allows for even spreading of the nutrients on the field.

COMPLIANCE

Compliance (conforming with regulations) denotes adherence to mandatory laws, internal regulations and regulatory standards recognised by the company. A compliance management system is intended to ensure compliance and avoid penalties and fines resulting from breaches of compliance and claims for damages as well as other direct or indirect negative influences (caused particularly as a result of damage to image), by identifying and evaluating compliance risks promptly and taking steps to reduce the likelihood of materialisation and their loss potential. Moreover, structured internal compliance reporting should be ensured.

COST OF CAPITAL

also WACC (weighted average cost of capital); denotes the opportunity costs arising for equity providers and/or lenders through capital made available to the company. The weighted average cost of capital rate is calculated from the aggregate of the expected returns of equity providers in terms of their equity share as well as the interest on debt in respect of the share of interest-bearing debt in total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the corporate tax rate.

CRYSTALLISED SALT

In contrast to liquid brine, crystallised salt exists in solid form, such as food grade salt and de-icing salt.

EBIT I

(Earnings before interest and taxes) The internal control of the K+S GROUP is carried out partly on the basis of its operating earnings EBIT I. Due to the elimination of all market value fluctuations during the term, the earnings from operating forecast hedges included in EBIT I correspond to the value of the hedging transaction at the time of realisation (difference between the spot rate and hedging rate), less the premium paid or plus the premium received in the case of options.

EBIT II

In accordance with IFRS, fluctuations in market value from hedging transactions are reported in the income statement. EBIT II includes all earnings from hedging transactions, i.e., both valuation effects as at the reporting date and earnings from realised operating hedging derivatives. Earnings effects arising from the hedging of underlying transactions with a financing character, whose effects impact on EBIT neither in the current financial year nor in future financial years, are stated in the financial result.

EBITDA

EBITDA (Earnings before interest, taxes, depreciation and amortisation) is intended to enable comparisons of operational earnings

power between companies and describes the profitability of companies. κ+S calculates EBITDA based on operating earnings EBIT 1 plus depreciation and amortisation of property, plant and equipment and intangible assets; the depreciation and amortisation amount not recognised in profit and loss is adjusted in the context of own work capitalised.

ENTERPRISE VALUE

Enterprise value is an indicator frequently used to determine the value of a company. It is often related to other indicators (for example, revenues, EBIT).

EVAPORATED SALT

is produced by evaporating saturated brine, whereby sodium chloride crystallises.

ELECTROSTATIC SEPARATION PROCESS (ESTA®)

The ESTA® process is a dry processing method for potash crude salts, patented by κ+S. With this process, the individual crude salt elements are charged differently, to ultimately be separated into the components sodium chloride and potassium chloride with the aid of an electric field. In comparison with classical, wet processing methods, energy inputs and production residues are significantly reduced.

FLOTATION

In production, the flotation process separates rock salt and potash or kieserite from the crude salt without heat supply. During the process, the minerals are separated into their components in a saturated saline solution as air is supplied. With the addition of flotation agents, the reusable substances adhere to the air bubbles and can thus be skimmed off after floating to the surface.

FREE FLOAT

The number of shares not held by major shareholders owning more than 5% of the shares of a company (with the exception of shares held by investment companies and asset managers).

GRANULATE PRODUCTION

Granulate production describes the production of spreadable fertilizer granules that can be distributed using an agricultural fertilizer spreader.

GREENHOUSE GAS (GHG) PROTOCOL

The Greenhouse Gas Protocol is a tool for calculating and managing the greenhouse gas emissions of companies and organisations. It includes direct emissions from core corporate areas (Scope 1), indirect emissions from the use of purchased electricity, heat and steam (Scope 2) and indirect emissions, which are upstream or downstream of corporate activities (Scope 3). To compare the global warming potential of different greenhouse gases, each greenhouse gas is converted in CO₂ equivalents. A CO₂ equivalent has the same global warming potential as one unit of CO₂.

GRI – GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative is a nonprofit foundation that develops cooperatively a framework for global sustainability reporting. The GRI reporting guideline specifies principles and indicators for organisations to measure their economic, environmental and social performance. The purpose is to promote transparency and comparability for sustainability reports.

INTEGRATED REPORTING

Integrated reporting is a standard concept that combines traditional financial reporting with non-financial reporting elements. The focus should be the company's business model and its strategy. The aim is reporting which considers all the stakeholders' interests. The goal is to reflect the interdependencies between environmental, social, governance and financial factors of decisions, which influence a company's long-term financial performance and position, by clarifying the connection between sustainability and economic values.

KAINITE CRYSTALLISATION AND FLOTATION FACILITY (KCF)

The KCF (KAINITE CRYSTALLISATION AND FLOTATION) facility represents a new process to significantly reduce saline wastewater and at the same time to increase the yield of valuable substances. By using heat energy, water is evaporated. Thereby crystallises a salt mixture, which also includes kainite – a salt containing potassium and magnesium salt. The kainite is separated by using a sorting technique (flotation) and is subsequently used for potassium sulfate production.

KIESERITE

Mg[SO₄]-H₂O, Kieserite is a mineral component of crude salt, which is composed of the water-soluble minerals magnesium and sulphur. From a chemical perspective, it is aqueous magnesium sulphate. Kieserite is used as a basic raw material in the production of plant nutrients.

OECD GUIDELINES FOR MULTINATIONAL COMPANIES

The OECD guidelines for multinational companies are government recommendations for the multinational companies which operate in or from the member states. They contain non-legally binding principles and benchmarks in the areas of basic obligations, information policy, human rights, employment policy, environmental protection, anti-corruption, consumer interests, science and technology, competition and taxation.

OPEN-CAST MINING

Open-cast mining is a form of mining for raw material deposits that takes place close to the surface. In contrast to other forms of mining, no underground tunnels or shafts are created.

OPERATING FORECAST HEDGES

To hedge future currency positions (mainly in US dollars), we use operating derivatives in the form of options and futures (see also transaction risks).

PADS

A solution mining operation typically consists of a wellfield and a processing facility. The wellfield thereby is organized into so called pads. Each pad is a relatively flat surface location with a surface of approximately 100x100m, that is used for drilling wells, creating caverns and has additional above ground facilities used for pumping water into the deposit and handling brine which is then sent via a pipeline system to the processing facility.

PLANNING APPROVAL PROCEDURE

The planning approval procedure is an approval process for specific construction/infrastructure projects to reach planning approval decisions. As an administrative act, this decision is a planning permission with a concentration effect. Therefore, a permission includes many others. The process of the procedure is formalised in the Administrative Procedure Act. The procedure always includes an involvement of concerned parties in consultations to consider their interests.

PLATE DOLOMITE (LEINE CARBONATE)

The plate dolomite (Leine carbonate) is above the salt deposits at a depth of approximately 400 to 500 metres and is covered by clay layers on both sides. It is approximately 10 metres thick and consists of limestone and dolomite rock, which already contains naturally mineralised water.

POTASSIUM CHLORIDE (KCL)

Potassium chloride (KCl) is a potassium salt used as fertilizer. In addition, it is the basic raw material for all inorganic and organic potassium compounds.

POTASSIUM SULPHATE (SOP)

Potassium sulphate is used as a fertilizer. It can be produced from mined mineral raw materials as well as using a chemical process that involves the reaction of potassium chloride with sulphuric acid.

RATING

Rating agencies award ratings of a company's ability to meet its future interest and repayment obligations in a timely manner in the form of standard categories.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on Capital Employed (roce) is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed.

SODIUM CHLORIDE

Sodium chloride (NaCl) or table salt is a crystalline mineral extracted from rock salt and sea salt. As food grade salt, sodium chloride is an indispensable mineral supplier to the human body. Sodium chloride is also used to maintain road safety and as an important element in the production of glass, paper and plastic.

SOLAR SALT

Sea water flows through large, open evaporation ponds for the production of solar salt. After several months of sunshine, the salt crystallises in the final pond.

SOLUTION MINING

In solution mining, fresh water is brought into solvent (salt) rock through a drill hole, thus creating chambers filled with a water-salt solution, so-called caverns. In a subsequent step, the saturated brine is brought to surface level along a further pipeline.

STAKEHOLDER

Stakeholders are interest groups in the working environment or in an organisation, who are directly or indirectly affected by corporate activities, currently or in the future, and are thus in an interdependent relationship. They include employees, customers, investors, suppliers, local residents and policymakers.

SYNTHETIC MAGNESIUM SULPHATE (SMS)

Synthetic magnesium sulphate is soluble in water and, among others, has a positive influence on root development, water absorption, crop yield and plant quality parameters.

THERMAL DISSOLUTION PROCESS

The thermal dissolution process is a production method used in the production of potash which is based on the temperature-dependent extraction behaviour of minerals. The different components are separated because the solubility of rock salt is consistently good regardless of the water temperature and the solubility of potassium chloride increases with the temperature.

TRANSACTION RISK

A transaction risk is a currency risk that may arise in connection with existing receivables or liabilities in a foreign currency if a transaction in a foreign currency is to be converted to the Group currency and thus represents a risk in terms of payment.

TRANSLATION RISK

A translation risk is a currency risk, which may arise as a result of translating profit, cash flow or balance sheet items to other periods or reporting dates, which are accrued in a currency other than the Group currency. This is therefore a non-cash risk.

UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact is a voluntary strategic initiative for companies designed to promote sustainable development and social commitment. The participating companies acknowledge the ten principles of the Global Compact in the areas of human rights, working standards, environmental protection and anti-corruption.

VALUE ADDED

This key figure is based on the assumption that a company creates added value for the investor when the return on the average capital employed exceeds the underlying cost of capital. This excess return is multiplied by the average capital employed (annual average for operating assets and working capital) to give the company's added value for the year under review.

WATER-SOFTENING SALTS

Water-softening salts remove hardeners such as calcium and magnesium from the water through an ion exchange process. Soft water is necessary or advantageous for numerous industrial processes, but also in private households.

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FINANCIAL CALENDAR

DATES

	2017/2018
Quarterly Report, 31 March 2018	14 May 2018
Annual General Meeting, Kassel	15 May 2018
Dividend payment	18 May 2018
Half-Yearly Financial Report, 30 June 2018	14 August 2018
Quarterly Report, 30 September 2018	15 November 2018
2018 Annual Report	14 March 2019

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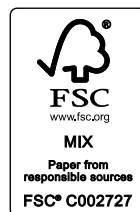
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