

# ANNUAL REPORT 2016



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## DEVELOPMENT OF FORECASTS FOR THE FULL YEAR 2016

		Forecast Annual Report 2015	Forecast Q1/16	Forecast H1/16	Forecast Q3/16	Actual 2016	Outlook 2017
<b>K+S Group</b>							
Revenues	€ billion	moderate decrease	moderate decrease	3.50–3.70	3.50–3.60	3.46	tangible increase
EBITDA <sup>1</sup>	€ million	significant decrease	significant decrease	500–600	500–560	519.1	tangible increase
Operating profit (EBIT I)	€ million	significant decrease	significant decrease	200–300	200–260	229.3	tangible increase

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

## REVIEW 2016

February 2016	April 2016	May 2016	July 2016	August 2016	September 2016	December 2016
Water protection package of measures successfully implemented – Saline wastewater halved in just a few years	Topping-out ceremony for new KCF facility for the reduction of saline wastewater from 2018 onwards	K+S launches solar salt project in Australia	K+S acquires fertilizer activities in China	Symbolic start of commissioning of Legacy	More than 12,000 participants in the human chain for the preservation of the potash industry in the Werra Valley	K+S invests in fertilizer manufacturer in Saudi Arabia  Deep-well injection application approved with restrictions

### About this report:

Published on: 16 March 2017

Reporting period: 1 January to 31 December 2016

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, since the last Annual Report. Statements regarding substantial sustainability issues are included in the combined Management Report and therefore

reviewed by external auditors (see also Auditor's Report). We follow the recommendations of the International Integrated Reporting Council (IIRC) and use the work process to exchange information 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 2016 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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<sup>1</sup> The Management Report of K+S Aktiengesellschaft and the Group Management Report for the 2016 financial year are combined.

TEN-YEAR SUMMARY K+S GROUP <sup>1</sup>											
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Profit and Loss</b>											
Revenues	€ million	3,344.1	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
– thereof Potash and Magnesium Products business unit	€ million	1,407.9	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
– thereof Salt business unit	€ million	545.1	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
Earnings before interest, taxes, depreciation and amortisation (EBITDA) <sup>2</sup>	€ million	413.9	1,484.4	411.8	953.0	1,146.0	1,033.3	907.2	895.5	1,057.5	519.1
– thereof Potash and Magnesium Products business unit <sup>2</sup>	€ million	255.1	1,286.3	317.2	567.1	833.8	867.2	667.5	618.5	689.2	184.8
– thereof Salt business unit	€ million	76.5	77.6	200.3	369.7	337.9	179.5	235.9	276.0	381.0	322.3
EBITDA margin	%	12.4	31.0	11.5	20.6	28.7	26.3	23.0	23.4	25.3	15.0
Depreciation <sup>3</sup>	€ million	128.2	141.7	173.8	238.5	239.8	229.2	251.3	254.3	275.9	289.8
Operating earnings (EBIT I)	€ million	285.7	1,342.7	238.0	714.5	906.2	804.1	655.9	641.3	781.6	229.3
– thereof Potash and Magnesium Products business unit	€ million	177.9	1,203.2	231.7	475.9	739.5	770.9	552.5	488.8	546.1	33.6
– thereof Salt business unit	€ million	47.8	45.2	140.4	238.1	211.4	61.6	117.8	172.9	266.3	203.7
EBIT I margin	%	8.5	28.0	6.7	15.4	22.7	20.4	16.6	16.8	18.7	6.6
– Potash and Magnesium Products business unit	%	12.6	50.2	16.3	25.5	34.7	33.7	27.1	25.9	26.1	2.2
– Salt business unit	%	8.8	7.3	13.8	13.8	12.4	4.1	6.7	9.7	13.8	11.6
Group earnings from continued operations, adjusted <sup>4</sup>	€ million	175.3	979.3	93.6	453.8	625.6	538.1	437.1	366.6	542.3	130.5
Earnings per share from continued operations, adjusted <sup>4</sup>	€	1.06	5.94	0.56	2.37	3.27	2.81	2.28	1.92	2.83	0.68
<b>Cash flow</b>											
Operating Cash flow	€ million	-108.3	802.7	534.8	826.4	633.4	607.2	755.7	719.1	669.4	445.4
Capital expenditure <sup>3</sup>	€ million	171.6	197.5	177.6	188.6	293.1	465.5	742.5	1,153.2	1,278.8	1,170.8
Adjusted Free Cash flow	€ million	-258.5	605.5	-811.1	667.3	216.6	199.1	48.7	-306.3	-635.9	-776.8
<b>Balance Sheet</b>											
Balance sheet total	€ million	2,964.8	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
Equity	€ million	931.8	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
Equity ratio	%	31.4	49.5	40.1	47.6	50.9	51.4	45.3	50.6	51.9	47.2
Net debt as of 31 Dec.	€ million	1,085.1	570.0	1,351.3	732.5	610.8	827.3	1,037.0	1,626.2	2,399.8	3,583.8
Net debt/EBITDA	x	2.6	0.4	3.3	0.8	0.5	0.8	1.1	1.8	2.3	6.9
Working capital	€ million	570.6	962.3	970.5	959.4	840.9	1,025.7	844.9	768.1	945.9	894.6
Return on Capital Employed (ROCE)	%	15.5	64.0	9.3	22.0	25.2	19.9	15.2	12.7	12.5	3.0
<b>Employees</b>											
Employees as of 31 Dec. <sup>5</sup>	number	12,033	12,368	15,208	14,186	14,338	14,362	14,421	14,295	14,383	14,530
Average number of employees <sup>5</sup>	number	11,959	12,214	13,044	14,091	14,155	14,336	14,348	14,295	14,276	14,446
<b>The Share</b>											
Book value per share	€	5.65	10.41	10.94	13.85	15.86	17.73	17.75	20.77	22.44	23.78
Dividend per share <sup>6</sup>	€	0.50	2.40	0.20	1.00	1.30	1.40	0.25	0.90	1.15	0.30
Dividend yield <sup>6</sup>	%	1.2	6.0	0.5	1.8	3.7	4.0	1.1	3.9	4.9	1.3
Closing price as of 31 Dec. <sup>7</sup>	XETRA, €	40.69	39.97	39.99	56.36	34.92	35.00	22.38	22.92	23.62	22.69
Market capitalisation	€ billion	6.7	6.6	7.7	10.8	6.7	6.7	4.3	4.4	4.5	4.3
Enterprise value as of 31 Dec.	€ billion	7.8	7.2	9.0	11.5	7.3	7.5	5.3	6.1	6.9	7.9
Average number of shares <sup>8</sup>	million	164.94	164.95	166.15	191.34	191.33	191.40	191.40	191.40	191.40	191.40

UNITS AT A GLANCE<sup>1</sup>

## POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

	2012	2013	2014	2015	2016
in € million					
Revenues	2,290.6	2,037.6	1,884.0	2,091.3	1,531.6
EBITDA <sup>2</sup>	867.2	667.5	618.5	689.2	184.8
EBIT I	770.9	552.5	488.8	546.1	33.6
Capital expenditure	332.9	606.5	1,040.4	1,145.0	1,009.8
Employees (number)	8,310	8,367	8,299	8,404	8,502

Potash and magnesium crude salts are extracted at six mines. We use them to produce a wide range of plant nutrients and, in addition, we process our raw materials into products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as elements for feed. We are currently making investments to develop the Legacy Project – a greenfield project in Saskatchewan, Canada. After the commissioning in summer 2016, the start of production is expected in the second quarter 2017.

## COMPLEMENTARY ACTIVITIES

	2012	2013	2014	2015	2016
in € million					
Revenues	153.7	159.4	158.3	157.7	161.1
EBITDA	28.3	31.7	34.3	35.0	30.8
EBIT I	21.1	24.7	24.2	26.4	21.9
Capital expenditure	6.3	3.4	5.1	6.5	5.8
Employees (number)	293	293	289	281	276

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

## SALT BUSINESS UNIT

	2012	2013	2014	2015	2016
in € million					
Revenues	1,484.8	1,751.4	1,778.5	1,925.2	1,762.2
EBITDA	179.5	235.9	276.0	381.0	322.3
EBIT I	61.6	117.8	172.9	266.3	203.7
Capital expenditure	111.3	107.4	87.5	118.1	148.8
Employees (number)	5,092	5,091	5,075	5,054	5,001

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

<sup>1</sup> Information refers to the continued operations of the K+S Group.

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

<sup>1</sup> 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.

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

<sup>3</sup> Investments in or earnings-effective depreciation on property, plant and equipment, intangible assets and investment properties as well as depreciation on financial assets.

<sup>4</sup> 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 154). In addition, related effects on deferred and cash taxes are eliminated; tax rate for 2016: 29.3% (2015: 28.7%).

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

<sup>6</sup> The figure for 2016 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.

<sup>7</sup> 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.

<sup>8</sup> 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.



PREAMBLE

KASSEL, 3 MARCH 2017

*Dear Shareholders, dear Sir or Madam,*

We have every reason to look to the future of our company with optimism. Legacy, our new potash plant in Canada, will sustainably enhance our resource and production base, and is about to produce its first ton of potash. The rail connection to the network of our partner, Canadian Pacific Railway, has been finished and the construction of the harbor facility in Vancouver is almost complete. In short: we are entering the final stretch to supply our customers with high-quality plant nutrients and later also potash for numerous industrial applications – products that are needed around the world – from Canada.

In addition, since the beginning of this year, we have once again had the option of deep-well injection for larger volumes of saline wastewater from potash production at the Werra plant in Germany. This is an important step to securing domestic production and against the background of our application already filed in April 2015 for a long-awaited decision. However, we should not forget the significant impact that the restricted and ultimately unavailable option of deep-well injection had in 2016 – also financially. Production standstills were inevitable as operations were suddenly dependent on the water flow of the Werra river; in other words, it was contingent on the weather. More than 1,000 of our miners as well as our colleagues above ground were affected by shortened working hours.

In 2017, production still may not run totally smoothly due to the restrictions included in the deep-well injection permit. However, the 'Kainite Crystallization Flotation' facility (KCF), which is currently under construction, will help reduce the volume of wastewater by an additional 20% from 2018 onwards, thus improving the situation significantly. Our goal is to avoid deep-well injection from 2022 onwards as much as possible. We have therefore implemented various projects to further explore residue reduction and alternative disposal measures. On top of that, the agreed trials to cover tailings piles are being prepared and further options to backfill large volumes of brine in underground mines are being examined. These efforts ensure that we will make further progress in the future to the benefit of our company and the environment.

#### **KEY DATA 2016**

The environment our operating business faced in 2016 was anything but favorable. The winter weather both at the beginning and the end of the year was once again mild. Low potash prices led to a strong decline in earnings in our Potash and Magnesium Products business unit. In addition, we suffered from the issues at our Werra plant which burdened our operating profits by almost € 200 million. As a result, we were not able to earn our cost of capital, and the proposed dividend will experience a significant decline.

Despite all this, we achieved operating earnings of € 229 million. One reason for this is our successfully concluded 'Fit for the Future' programme. The savings achieved in the past three years ex-



ceeded our own expectations every step of the way. Whether in production and materials handling or logistics and IT, we managed to sustainably reduce costs and to create more efficient structures – a path we will continue to follow.

The company has also once again proved that it is able to successfully get through difficult times. This is the virtue of our more than 14,000 employees globally. Our team has shown continued dedication to K+S, and everybody has done a great job despite the challenges. Many have shown solidarity with their colleagues at the Werra, and for that alone our employees deserve the respect and sincere thanks of the entire Board of Executive Directors. Personally, the team spirit in our company has impressed me and fills me with pride.

## **OUTLOOK**

Dear Shareholders,

Your K+S will continue to make progress – the year 2016 was not a benchmark for the future. Our business unit Salt is well on track to achieving the goals of its “Salt 2020” strategy. We are no longer so dependent on the volatile de-icing business compared to a few years ago and have achieved significant improvements with regard to efficiency and growth.

We are confident that our Potash and Magnesium Products business unit will increase its capacity by 2 million tons by the end 2017 with the successful opening of the Legacy Project, despite the incident there last summer. Against the complexity of such a large project, it is an outstanding achievement that from today's point of view we remain within the budget of about € 3.1 billion. In addition, we are making good progress to enhance areas that distinguish us from the competition. The acquired activities of Huludao Magpower in China and stake in Saudi-Arabian Al-Biarig specifically strengthen our Specialty business. We consequently want to continue on this route.

All of the above are cornerstones for the growth of the K+S Group. Our goal to achieve an EBITDA of about € 1.6 billion by 2020 remains. This may seem ambitious in light of the current potash prices, but the motivation within our company to reach the target is huge, and therefore we will stick to it.

Ladies and Gentlemen,

The lines above report on a company that had to withstand considerable operating challenges, but which also remained to a large extent untouched by the many crises and upheavals the world faced. My desire for our K+S is that this remains true beyond my service as CEO of K+S Aktiengesellschaft, which will end in May 2017 after 17 years on the board of the company. With regard to this, I would like to express my thanks to you – our employees, our customers, shareholders,

and partners. Let me conclude by saying that I wish my successor, Dr Burkhard Lohr, all the best for continued success in future endeavors.

Yours faithfully



**NORBERT STEINER**  
CHAIRMAN OF THE BOARD OF  
EXECUTIVE DIRECTORS



THE BOARD OF EXECUTIVE DIRECTORS <sup>1</sup>

**NORBERT STEINER**  
LAWYER, CHAIRMAN OF THE BOARD OF  
EXECUTIVE DIRECTORS

was born in Siegen in 1954. After studying law in Heidelberg and completing a legal traineeship in the district of the Higher Regional Court of Karlsruhe, Steiner began his professional career in the tax department of BASF AG in 1983, heading the customs and excise duties sub-department from 1988 onwards. He took charge of the legal affairs, tax and insurance department of K+S AKTIENGESELLSCHAFT in 1993. Norbert Steiner became a member of the Board of Executive Directors in May 2000. In January 2006, he was appointed Deputy Chairman and in July 2007 Chairman of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. He is responsible for the Corporate Communications, Corporate Development, Corporate Executive HR, Internal Auditing, Investor Relations as well as Legal, GRC, Corporate Secretary departments.



**DR BURKHARD LOHR**  
BUSINESS ADMINISTRATION GRADUATE

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. Dr Burkhard Lohr has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT since 1 June 2012 and is responsible for Corporate Controlling, Corporate Finance and Accounting, Corporate Procurement, Corporate Tax, Technical Center (Geology, Mining, Research and Development, Technics/Energy) 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)

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. Mark Roberts became CEO of MORTON SALT in Chicago, USA, on 1 October 2009. He has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT since 1 October 2012. He is responsible for the Salt business unit and for Animal Hygiene Products.

<sup>1</sup> The mandate of Dr Radmacher effective until 31 August 2016 was not extended. He left the company with effect from 29 February 2016. Norbert Steiner had temporarily taken over the duties of Dr Radmacher.



**DR THOMAS NÖCKER**  
PERSONNEL DIRECTOR, LAWYER

was born in Neukirchen-Vluyn in 1958. After studying law and subsequently obtaining a doctorate from the University of Münster, Nöcker completed his legal training 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 HR, Corporate IT, Corporate Health, Safety & Environment, Business Center (Communication Services, Financial Accounting, HR Services, Insurance, IT Services, Logistics Europe, Procurement/Materials Management Europe, Project Management, Real Estate and Facility Management) and K+S TRANSPORT GMBH.



**DR OTTO LOSE<sup>2</sup>**  
LAWYER, ECONOMIST

was born in Frankfurt am Main in 1971. After studying law at the Universities of Göttingen and Münster and his work at the Court of Appeals in Berlin, he studied economics at the University of Stuttgart, where he also received his doctorate. In 2001, he resumed his professional activities at HEIDELBERGCEMENT. As co-managing director of a subsidiary starting in 2003, he was responsible for the commercial sector, as well as the distribution and introduction of new products. After the acquisition of the subsidiary by the international cement and building materials producer DYCKERHOFF, he assumed senior positions managing the company's Ukraine business, before he returned to Germany in 2009. As a member of the management board, he assumed overall responsibility for the business in Eastern Europe. After the Italian BUZZI-UNICEM-GROUP, which held the majority of shares in DYCKERHOFF since 2002, increased its holdings, Dr Lose left DYCKERHOFF at the end of 2013. From 2014, he was a Managing Partner at RÖMHELD & MOELLE EISENGIESSEREI. Since 1 January 2017, 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 as well as Waste Management and Recycling.

<sup>2</sup> Member of the Board of Executive Directors since 1 January 2017.

## SUPERVISORY BOARD REPORT

*Dear Shareholders,*

The following Supervisory Board report provides information about the activities of the Supervisory Board during the 2016 financial year and the findings of the audit of the 2016 annual financial statements and consolidated financial statements.

The Board's meetings and discussions focused primarily on the following items:

- + The business situation of the K+S GROUP,
- + The K+S GROUP strategy,
- + The disposal of saline wastewater,
- + The implementation of financing measures,
- + The progress and commissioning of the Legacy Project and
- + The selection of suitable candidates for Board of Executive Directors and Supervisory Board appointments.

### ADVICE TO THE BOARD OF EXECUTIVE DIRECTORS AND MONITORING OF MANAGEMENT

The Supervisory Board diligently performed the control and consultancy tasks imposed on it by law, the Articles of Association and its bylaws during the 2016 financial year. Numerous matters were discussed in depth and resolutions were adopted regarding transactions requiring approval. We monitored the Board of Executive Directors' executive management on an ongoing basis and advised the latter on the management of the Company. We were always involved in decisions of fundamental importance in a timely and appropriate manner. The Board of Executive Directors informed us on a regular basis, promptly and comprehensively, also via conference calls, for example, about the course of business, the earnings and financial position and assets and liabilities, the employment situation, the progress of important investment projects (primarily the Legacy Project and capital expenditure for water protection), planning and the further strategic development of the Company. Deviations from plans were explained to the Supervisory Board in detail. The risk situation and risk management

were always carefully considered. The Supervisory Board received written reports from the Board of Executive Directors in order to prepare for meetings. The Chairman of the Supervisory Board also remained in close communication 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 seven Supervisory Board meetings was 94 % during the reporting period. Three meetings were attended by all Supervisory Board members, one member was unable to attend two meetings, at one meeting two members gave their apologies and at a further meeting three members gave their apologies. Thus, in 2016, no Supervisory Board member attended fewer than half of the meetings. The Audit Committee met on four occasions. Two of these meetings were attended by all Committee members, one member gave his/her apologies at one meeting and two members gave their apologies at the other. The Nomination Committee met on four occasions. Three of these meetings were attended by all Committee members, two members gave their apologies at the other meeting. Three of the five meetings of the Personnel Committee were attended by all Committee members; one member gave his/her apologies at each of the other two meetings.

### COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF EXECUTIVE DIRECTORS

In February, the Supervisory Board and Dr Andreas Radmacher, member of the Company's Board of Executive Directors, mutually agreed not to renew the mandate of Dr Radmacher which was due to end on 31 August 2016. He left the Company with effect from 29 February 2016.

At its meeting on 24 August, the Supervisory Board appointed Dr Burkhard Lohr as the Company's new Chairman of the Board of Executive Directors. The 54-year old, who currently serves as Chief Financial Officer of the Company, will succeed Norbert Steiner (62), who is retiring on 12 May 2017.

At its meeting on 31 August, the Supervisory Board appointed Thorsten Boeckers (41), who has served as Head of Investor Relations at K+S since 2012, as Dr Lohr's successor as the new Chief Financial Officer.

On 23 September 2016, the Supervisory Board appointed Dr Otto Lose (46) to the Board of Executive Directors of the Company with effect from 1 January 2017. He is responsible for the business units Potash and Magnesium Products as well as Waste Management and Recycling.

The following changes were made to personnel on the Supervisory Board: Gerd Kübler, Head of Mining at K+S AKTIENGESELLSCHAFT, was legally appointed as a member of the Supervisory Board acting as executive staff representative on 1 January 2016. He took over from Dr Rainer Gerling, who was appointed to the Board of Directors of K+S KALI GMBH with effect from 1 January 2016, and stepped down from his position on the Supervisory Board on 31 December 2015. Rüdiger Kienitz retired from the Supervisory Board on 31 March 2016. The Supervisory Board expresses its thanks to Mr Kienitz for his commitment and long service and wishes him all the best for his retirement. In his place, Anke Roehr was legally appointed as a member of the Supervisory Board acting as employee representative with effect from 1 April 2016. Mrs Roehr is Chairwoman of the Works Council of the head office of ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG in Hanover.

### SUPERVISORY BOARD MEETINGS

A total of four ordinary and three extraordinary Supervisory Board meetings were held during the 2016 financial year.

An extraordinary meeting of the Supervisory Board was held on 17 February 2016 via a conference call. The focus of the meeting was Dr Radmacher's term of office on the Board of Executive Directors.

At the ordinary meeting held on 9 March 2016, the Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the management reports in the presence of the auditor, approved the financial statements on the recommendation of the Audit Committee and agreed to the proposal of the Board of Executive Directors for the appropriation of profits for the 2015 financial year following extensive discussions. The business situation and the outlook for the current year were discussed in depth and the proposed resolutions for the 2016 Annual General Meeting approved. The Supervisory Board was given detailed information by the Company's external legal advisors on the status of the investigation by the Meiningen public prosecutor's office. In addition, approval was given for the

raising of further outside funds in the form of debt securities (bonds, 'Schuldschein' (promissory notes), private placements) in the capital market.

👁️ ,Financial position', page 86

At the ordinary meeting held on 10 May 2016, the Board of Executive Directors provided comprehensive information to the Supervisory Board about the development of the business situation and the result in the first quarter and reported on the current status of the approval process for the disposal of saline wastewater.

During the period 22 to 25 August 2016, the Supervisory Board visited the future 'Legacy' production site in Canada together with the Board of Executive Directors. Commissioning started following a symbolic act. The Supervisory Board also gained an overview of the progress of the project, the extent of the incident that occurred in July 2016 in which a process vessel was damaged, and the future schedule. At its ordinary meeting on 24 August 2016, the Supervisory Board in detail discussed the situation regarding the disposal of saline wastewater at the Werra plant. The Board of Executive Directors' report and the extensive discussion on the strategic orientation of the K+S GROUP represented an additional focus. The Supervisory Board also appointed Dr Lohr as the Company's new Chairman of the Board of Executive Directors from 12 May 2017, who will succeed Mr Steiner.

At the extraordinary meetings on 31 August and 23 September 2016, the Supervisory Board agreed on Dr Lohr's successor as Chief Financial Officer and replacement for the Board position responsible for the Potash and Magnesium Products and Waste Management and Recycling business units.

At the last ordinary meeting of the year on 22 November 2016, the Board of Executive Directors firstly gave a detailed report on the situation regarding the disposal of saline wastewater, causes for and measures to prevent heavy metals leaching from the soil as well as planned tailings pile expansions. Furthermore, 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 2016. Finally, the Supervisory Board discussed the Legacy Project and was given a detailed report of the project's progress and further development by project manager, Dr Ulrich Lamp. The auditors also reported new

legal auditing requirements to the Supervisory Board as well as other selected issues in this context. K+S GROUP planning for 2017, including the investment and financing framework conditions, was examined in depth (also in terms of conformity with strategic objectives) and then approved.

Furthermore, approval was given to the 2016/2017 joint declaration on conformity by the Board of Executive Directors and the Supervisory Board.

© ‚Declaration on Corporate Governance‘, page 49

#### COMMITTEE MEETINGS

In addition to the Mediation Committee required by law, the Supervisory Board has established three further committees to support its tasks and responsibilities: the Audit Committee, the Personnel Committee and the Nomination Committee. An overview of these committees and their composition can be found in the Management Report on page 53 and on the K+S AKTIENGESELLSCHAFT website under ‘Corporate Governance’.

The Audit Committee met four times in 2016. On 26 February 2016, 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 2015 annual financial statements of K+S AKTIENGESELLSCHAFT, the 2015 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 to the Annual General Meeting that DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT (previously: DELOITTE & TOUCHE GMBH) again be elected as auditor. At its meeting on 8 August 2016, the committee together with the Chairman of the Board of Executive Directors and the Chief Financial Officer discussed in depth the Half-Yearly Financial Report as well as the ad-hoc disclosure on 27 June 2016, the Legacy Project and the saline wastewater situation at the Werra plant. On 24 August 2016, the committee discussed the K+S GROUP internal control system 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 Chairman of the Board of Executive Directors on the status of compliance organisation of the K+S GROUP. Finally, the committee discussed the key areas of the 2016 audit. At the meeting on 22 November 2016, the Board of Executive Directors reported in writing on internal audit work within the K+S GROUP as well as developments with regard to consultancy fees and donations. The consequences of new INTERNATIONAL FINANCIAL REPORTING STANDARDS were also discussed.

Finally, advance approval was given in the context of the Audit Regulation for non-audit services provided by the auditor.

The respective Quarterly 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 and 7 November 2016.

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 2016. 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 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 as well as the lifting of the cap on fringe benefits. Arrangements for the end of Dr Radmacher’s term of office and the process of looking for a new member of the Board of Executive Directors were completed successfully. Repeatedly, the Personnel Committee discussed on the remuneration system applicable to the Board of Executive Directors. There was no reason for changes, as its key aspects – short and long term performance related components, non-performance related elements and a cap regarding fringe benefits – meet all the requirements of a modern remuneration system applicable to the Board of Executive Directors. Detailed information about the level of remuneration of the Board of Executive Directors in 2016 as well as the structure of the remuneration system, which has not changed significantly since its approval by the Annual General Meeting on 11 May 2010, can be found on pages 121 – 129.

The members of the Nomination Committee met four times in 2016. The subject of discussions held related mainly to the Supervisory Board’s long-, medium- and short-term succession planning.

Again, the Mediation Committee did not need to meet in the past financial year.

#### CONFLICTS OF INTERESTS

No conflicts of interests involving members of the Board of Executive Directors or of 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 2016 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 2016 financial year, and issued unqualified audit certificates in each case. The aforementioned documents, the Board of Executive Directors' recommendation concerning the appropriation of the accumulated profit and the audit reports of DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, each of which had been submitted to the members of the Audit Committee and the Supervisory Board on time, were each dealt with comprehensively at the Audit Committee meeting held on 3 March 2017, as well as at the Supervisory Board meeting held on 14 March 2017, 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 2016 financial year thereby ratifying the 2016 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 49). 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 employee representatives for their continued high level of commitment and the successful work done during the past financial year.

Dear Shareholders,

my mandate as a shareholder representative on the Supervisory Board of K+S AKTIENGESELLSCHAFT will come to an end after the 2017 Annual General Meeting, following ten

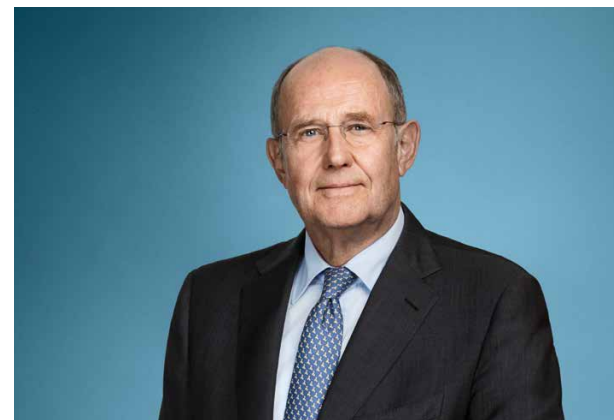
years of activity in the Supervisory Board and prior to that 17 years on the Board of Executive Directors. I would like to take this opportunity to thank you, the shareholders, the Supervisory Board, the Board of Executive Directors and all the employees of the K+S GROUP for the confidence placed in me over the years and for the cooperation that has always been positive. I wish our K+S and my successor sustainable success and also the little bit of good fortune that is needed in the global markets.

Warm regards,

ON BEHALF OF THE SUPERVISORY BOARD

DR RALF BETHKE  
CHAIRMAN OF THE SUPERVISORY BOARD

KASSEL, GERMANY,  
14 MARCH 2017



## K+S ON THE CAPITAL MARKET

CAPITAL MARKET DATA		TAB: 0.0.1				
		2012	2013	2014	2015	2016
Closing price on 31 December	XETRA, €	35.00	22.38	22.92	23.62	22.69
Highest price	XETRA, €	40.86	37.53	26.60	38.81	23.62
Lowest price	XETRA, €	30.40	15.92	19.44	22.40	16.06
Average number of shares <sup>1</sup>	million	191.40	191.40	191.40	191.40	191.40
Market capitalisation on 31 December	€ billion	6.7	4.3	4.4	4.5	4.3
Average daily trading volume	million units	1.27	2.75	1.92	2.21	1.74
Enterprise value (EV) on 31 December	€ billion	7.5	5.3	6.1	6.9	7.9
Enterprise value to revenues (EV/revenues)	x	1.9	1.4	1.6	1.7	2.3
Enterprise value to EBITDA (EV/EBITDA)	x	8.3	5.9	6.8	6.5	15.3
Enterprise value to EBIT I (EV/EBIT I)	x	11.5	8.1	9.5	8.8	34.6
Book value per share	€/share	17.73	17.75	20.77	22.44	23.78
Earnings per share, adjusted <sup>2,3</sup>	€/share	3.33	2.28	1.92	2.83	0.68
Dividend per share <sup>4</sup>	€/share	1.40	0.25	0.90	1.15	0.30
Total dividend payment <sup>4</sup>	€ million	268.0	47.9	172.3	220.1	57.4
Payout ratio <sup>4,5</sup>	%	42.0	10.9	47.0	40.6	44.0
Dividend yield (closing price) <sup>4</sup>	%	4.0	1.1	3.9	4.9	1.3

<sup>1</sup> Total number of shares less the average number of own shares held by K+S.

<sup>2</sup> The adjusted key figures 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 future capital expenditure in Canadian dollars (Legacy Project) (see also 'Notes to the income statement and Statement of comprehensive income' on page 154). Related effects on deferred and cash taxes are also eliminated; tax rate in 2016: 29.3% (2015: 28.7%).

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

<sup>4</sup> The figure for 2016 corresponds to the dividend proposal.

<sup>5</sup> Based on adjusted Group earnings after taxes.

## K+S SHARE

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

## K+S BOND (DECEMBER 2018)

WKN/ISIN: A1Y CR4/XS0997941199  
 Stock exchange admission/listing:  
 Luxembourg Stock Exchange  
 Issue volume: € 500 million  
 Denomination: € 1,000  
 Issue price: 99.777%  
 Interest coupon: 3.125%  
 Due: 6 December 2018  
 Bond rating: S&P: BB+

## K+S BOND (DECEMBER 2021)

WKN/ISIN: A1Y CR5/XS0997941355  
 Stock exchange admission/listing:  
 Luxembourg Stock Exchange  
 Issue volume: € 500 million  
 Denomination: € 1,000  
 Issue price: 99.539%  
 Interest coupon: 4.125%  
 Due: 6 December 2021  
 Bond rating: S&P: BB+

## K+S BOND (JUNE 2022)

WKN/ISIN: A1P GZ8/DE000A1PGZ82  
 Stock exchange admission/listing:  
 Luxembourg Stock Exchange  
 Issue volume: € 500 million  
 Denomination: € 100,000  
 Issue price: 99.422%  
 Interest coupon: 3.000%  
 Due: 20 June 2022  
 Bond rating: S&P: BB+; Moody's: Ba1

## COMPANY RATING

S&P: BB+ (outlook: negative)

## THE SHARE

### PRICE RISES IN THE MARKETS AFTER A TURBULENT YEAR

The volatility of the oil price, weak economic data from China as well as the continued high liquidity supply by the leading central banks made for a wide range of fluctuations in the listings of international stock companies in the first six months of the year. Significant political events such as the United Kingdom's vote to leave the European Union put the stock markets under pressure half way through the year. International stock exchange prices recovered at the end of the year stimulated by the announced investment in us infrastructure and the expectation of an overall industry-friendly policy supported by the newly elected President Trump.

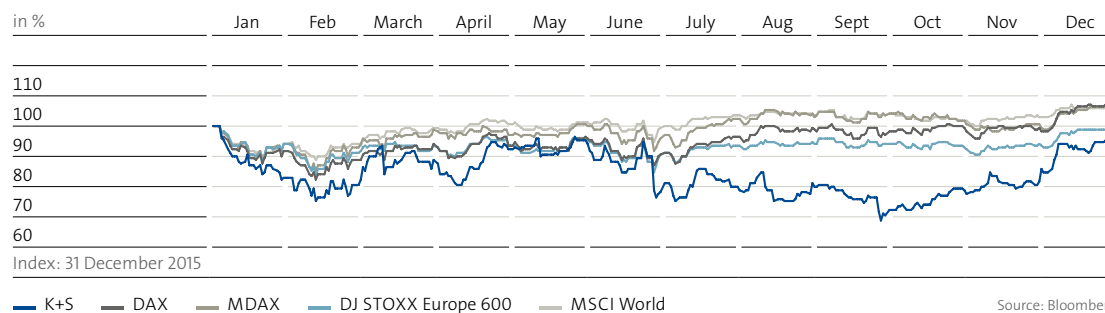
The German DAX index exhibited an increase of 6.9% in 2016 and reached 11,481 points at the end of the year; the MDAX closed at 22,189 points and was up 6.8% over the course of the year. While the European DJ STOXX EUROPE 600 index fell by 1.2% to 361 points, the global MSCI WORLD index showed positive trends and rose by 5.3% to 1.751 points. / FIG: 0.0.1

### LOW POTASH PRICES AND PRODUCTION LIMITATIONS INFLUENCE K+S SHARE PRICE

The decline in the price of potash containing fertilizers, which was significant in places, as well as production limitations stemming from the limited disposal options

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

FIG: 0.0.1



for saline wastewater at the Werra plant, put pressure on the K+S share over the whole year. The share reached its lowest price of € 17 in the middle of the year. The capital market rewarded the realization of additional disposal options, the permit to continue deep-well injection until the end of 2021 and the stabilisation of potash prices. Consequently, the share showed an upward trend in the last quarter and ended the year at € 22.69, which was only slightly below the previous year's level (year-end closing price 2015: € 23.62).

□ [www.k-plus-s.com/share](http://www.k-plus-s.com/share)

Since 21 March 2016, K+S has been listed on the MDAX index. Prior to this, the K+S share was listed on the most important German share index DAX for eight years.

### SHARE PRICES OF NORTH AMERICAN COMPETITORS RECOVER

We are also tracking the performance of our share compared with our publicly listed competitors. These include, in particular, the fertilizer producers POTASHCORP and MOSAIC as well as the primarily salt producing company COMPASS MINERALS from the USA.

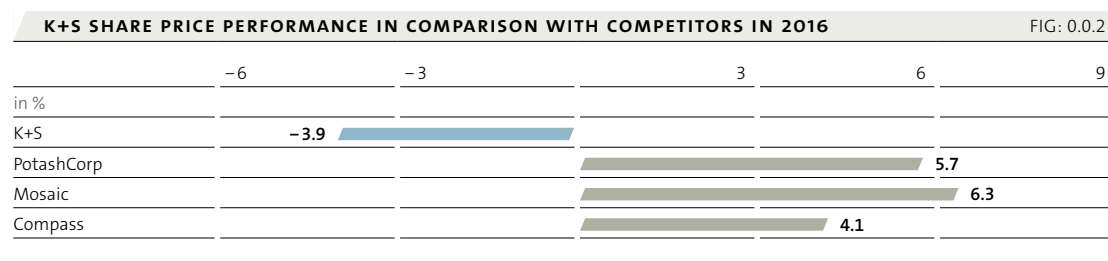
/ FIG: 0.0.2

Affected by limited disposal options in conjunction with production suspensions, the K+S share was unable to participate in the stabilisation of potassium chloride prices in the second half of the year to the same extent as its competitors. The share prices of POTASHCORP and MOSAIC recovered, compared with the heavy price losses in the previous year, and increased by around 6% respectively during the

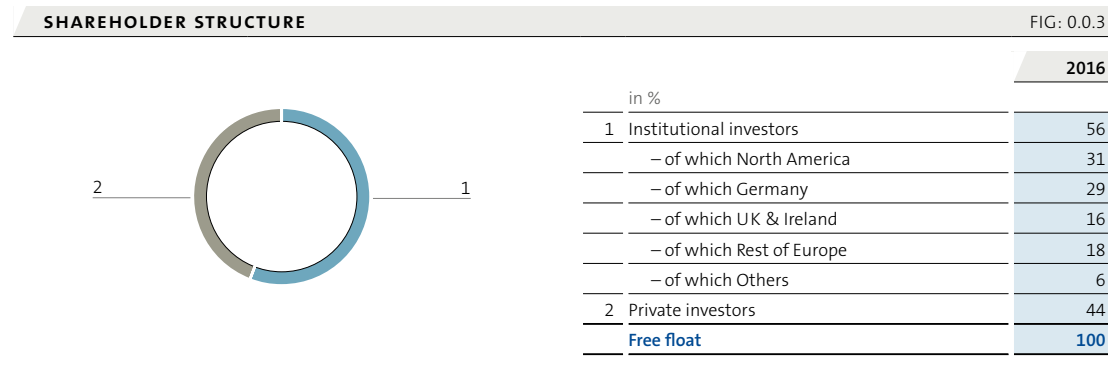
year under review. This development was also due to the announced merger of POTASHCORP and Canadian fertilizer producer AGRIMUM. The price of the COMPASS MINERALS share recorded an increase of around 4%.

#### SHAREHOLDER STRUCTURE

Until the end of February, no shareholder notified us of holdings above the legal reporting threshold of 3%. Under the free float definition applied by DEUTSCHE BÖRSE AG, the free float is 100%. / FIG: 0.0.3



Source: Bloomberg



#### 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](http://www.k-plus-s.com/adr); [www.otcqx.com](http://www.otcqx.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: 0.0.2

##### RATING

Following an industry-wide review of the credit ratings of several fertilizer producers by rating agency STANDARD & POOR'S, among others our rating was downgraded in October 2016 from BBB- to BB+ with a 'negative' outlook. The lower potash prices compared with the previous year and the negative effect on earnings

due to the limited deep-well injection options were particularly crucial in this respect. The new rating had no significant negative impact on the Company's eligibility for financing.

## INVESTOR RELATIONS

### RESEARCH COVERAGE ON K+S

The 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, 33 banks analysed us on a regular basis during the 2016 financial year (2015: 31).

In late February 2017, according to BLOOMBERG, 9 banks gave us a 'buy/accumulate' recommendation, 13 a 'hold/neutral' recommendation and 11 a 'reduce/sell' recom-

mendation. The average target share price was about € 21.

□ [www.k-plus-s.com/analysts](http://www.k-plus-s.com/analysts)

### K+S INVESTOR RELATIONS OFFERS A COMPREHENSIVE RANGE OF INFORMATION

In the past year, we have responded to the ever-increasing need for information on the part of the capital market by offering 55 roadshows and conference days (2015: 52). We held investor meetings in Europe, North America, Asia and Australia and we 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 Directors as part of our ongoing financial reporting.

□ [www.youtube.com/user/kplussag](http://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 management, and provide comprehensive, prompt and objective information about our strategy as well as about any events relevant to the capital markets that concern the K+S GROUP.

## BOND PRICES AND YIELDS

TAB: 0.0.2

	31.12.2016	
	Price	Yield
in %		
K+S bond (December 2018); coupon: 3.125%	105.1	0.4
K+S bond (December 2021); coupon: 4.125%	113.0	1.4
K+S bond (June 2022); coupon: 3.000%	105.2	2.0

Source: Bloomberg

# COMBINED MANAGEMENT REPORT

## 1

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1.1	Company Profile	21	1.7	K+S AKTIENGESELLSCHAFT (Explanations Based on the German Commercial Code (HGB))	117
1.2	Declaration on Corporate Governance	49	1.8	Responsibility Statement from the Legal Representatives of K+S AKTIENGESELLSCHAFT	120
1.3	Corporate Strategy	69	1.9	Remuneration Report	121
1.4	Economic Report	77			
1.5	Risk and Opportunity Report	99			
1.6	Forecast Report	114			

## 1.1 COMPANY PROFILE

### 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 development. In addition to K+S AKTIENGESELLSCHAFT, all significant holding companies in which K+S AKTIENGESELLSCHAFT holds the majority of voting rights, have been included in the consolidated financial statements. As a rule, the ability to exercise control is based on a direct or indirect majority of voting rights. Subsidiaries of minor importance are not consolidated.

© 'Notes', List of Shareholdings, page 189

Significant subsidiaries are the directly held K+S KALI GMBH, K+S SALZ GMBH and K+S FINANCE BELGIUM BVBA. K+S SALZ GMBH groups together ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG (ESCO) and K+S NETHERLANDS HOLDING B.V., which, amongst others, holds shares in subsidiaries 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) through subsidiaries. K+S KALI GMBH and K+S SALZ GMBH essentially hold their for-

eign subsidiaries through their own intermediate holding companies. K+S ENTSORGUNG GMBH, K+S TRANSPORT GMBH and CHEMISCHE FABRIK KALK GMBH (CFK) are held directly by K+S AKTIENGESELLSCHAFT.

Compared with the position on 31 December 2015, the scope of consolidation has changed as follows: On 4 May 2016, K PLUS S SALT AUSTRALIA PTY LTD, PERTH, AUSTRALIA was acquired. The company is a 100 % subsidiary of ESCO INTERNATIONAL GMBH, Hanover.

K PLUS S SALT AUSTRALIA PTY LTD operates the Ashburton Salt project for the future extraction of solar salt in Western Australia. As part of Group internal restructuring of companies in France, K+S KALI FRANCE S.A.S. merged with ESCO HOLDING FRANCE S.A.S. K+S KALI REIMS S.A.S. was established in this context and has taken over the operations of the merged company K+S KALI FRANCE S.A.S. K+S HOLDING FRANCE S.A.S. was liquidated.

### HOLDING COMPANY

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

### BUSINESS UNITS

K+S AKTIENGESELLSCHAFT comprises the Potash and Magnesium Products, Salt and Complementary Activities business units.

☐ [www.k-plus-s.com/business](http://www.k-plus-s.com/business)

## KEY SITES

The following overview indicates the most important K+S GROUP sites in Germany and abroad: / FIG: 1.1.1

🕒 'Value Creation', page 24; 🕒 'Application', page 30

## KEY SITES

	Site		Site
K+S sites in Kassel, Hesse	H	Morton Salt Head Office, Chicago, Illinois, USA	S12
Werra integrated potash plant, Hesse and Thuringia (Heringen/Merkers/Philippsthal/Untereibzsch)	K1 ↗	Rittman evaporated salt plant, Ohio, USA	S13
Zielitz potash mine, Saxony-Anhalt	K2 ↗	Fairport salt mine, Ohio, USA	S14 ↗
Sigmundshall potash mine, Lower Saxony	K3 ↗	Grand Saline salt mine, Texas, USA	S15 ↗
Neuhof-Ellers potash mine, Hesse	K4 ↗	Weeks Island salt mine, Louisiana, USA	S16 ↗
Bergmannssegen-Hugo potash mine, Lower Saxony	K5 ↗	Hutchinson evaporated salt plant, Kansas, USA	S17
K+S KALI France Head Office, Reims, France	K6	Silver Springs evaporated salt plant, New York, USA	S18
K+S KALI Wittenheim, production plant, Wittenheim, France	K7	Grantsville solar evaporation salt facility, Utah, USA	S19
K+S Polska, distribution company, Poznan, Poland	K8	Manistee evaporated salt plant, Michigan, USA	S20
K+S Potash Canada, Saskatoon/ Legacy Project, Saskatchewan, Canada	K9 ↗	Newark evaporated salt and sea salt facility, California, USA	S21
K+S Brasileira Fertilizantes e Produtos Industriais, distribution company, São Paulo, Brazil	K10	Port Canaveral processing site, Florida, USA	S22
Shenzhen K+S Trading, distribution company, Shenzhen, China	K11	Glendale solar evaporated salt facility, Arizona, USA	S23
K+S (Huludao) Magnesium Products, production plant and distribution company, Huludao City, China	K12	Inagua sea salt facility, Bahamas	S24
K+S Asia Pacific, distribution company, Singapore, Singapore	K13	K+S Windsor Salt Head Office, Pointe-Claire, Québec, Canada	S25
K+S Fertilizers, distribution company, New Delhi, India	K14	Mines Seleine salt mine, Québec, Canada	S26 ↗
esco Head Office in Hanover, Lower Saxony	S1	Ojibway salt mine, Ontario, Canada	S27 ↗
Borth salt mine, North Rhine-Westphalia	S2 ↗	Windsor evaporated salt plant, Ontario, Canada	S28
Braunschweig-Lüneburg salt mine, Lower Saxony	S3 ↗	Pugwash salt mine, Nova Scotia, Canada	S29 ↗
Bernburg salt mine, Saxony-Anhalt	S4 ↗	Lindbergh brine plant, Alberta, Canada	S30
Frisia Zout BV. brine plant, Harlingen, Netherlands	S5	Salina Diamante Branco sea salt facility, Galinhos, Brazil	S31
esco Benelux, distribution company, Diegem, Belgium	S6	Servicios Portuarios Patillos S.A., Port of Patillos, Iquique, Chile	S32
K+S Czech Republic, distribution and production company, Prague, Czech Republic	S7	Salztagebaubetrieb K+S Chile, Tarapaca, Atacama-Wüste, Chile	S33
esco Holding France, Dombasle-sur-Meurthe, France	S8	K+S Chile Head Office, Santiago de Chile, Chile	S34
Levallois-Perret, Saline Cérébos, Salt production and packaging, France	S9	K+S Entsorgung GmbH, Kassel, Hesse	E1
esco Spain Head Office, Barcelona, Spain	S10	Granulation of Animal Hygiene Products, Bad Salzdettfurth, Lower Saxony	E2
Vatel – Companhia de Produtos Alimentares Head Office, Alverca, Portugal	S11	K+S Transport GmbH, Hamburg	E3
		Chemische Fabrik Kalk GmbH, Cologne, North Rhine-Westphalia	E4
		MSW-Chemie GmbH, Langelsheim, Lower Saxony	E5



FIG: 1.1.1



## VALUE CREATION

<b>POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT</b>		<b>SALT BUSINESS UNIT</b>		<b>COMPLEMENTARY ACTIVITIES</b>	
FIG: 1.1.2		FIG: 1.1.3		FIG: 1.1.4	
<b>Revenues 2016</b> € 1,531.6 million	<b>EBIT I 2016</b> € 33.6 million	<b>Revenues 2016</b> € 1,762.2 million	<b>EBIT I 2016</b> € 203.7 million	<b>Revenues 2016</b> € 161.1 million	<b>EBIT I 2016</b> € 21.9 million
<b>Employees</b> 8,502	<b>Production capacity</b> currently about 7 million tonnes	<b>Employees</b> 5,001	<b>Production capacity</b> around 32 million tonnes	<b>Employees</b> 276	
<b>Fifth largest potash producer in the world</b>		<b>World's largest supplier of salt products</b>			
<b>Product categories</b> Potassium chloride Fertilizer specialties Industrial products	<b>Areas of application</b> Agriculture Chemical industry Oil and gas drilling Pharmaceutical industry Cosmetic industry Food industry Animal feed industry	<b>Product categories</b> Consumer products Salt for food processing industry Industry salt Salt for chemical use De-icing salt	<b>Areas of application</b> 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	<b>Waste Management and Recycling</b> Underground disposal of waste in potash and rock salt mines and recycling activities.	
<b>Production in Europe</b> 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, three processing sites in France belong to the business unit.		<b>Regional portfolio</b> 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.		<b>K+S Transport GmbH</b> Own logistics service provider	
<b>Greenfield Project Legacy, Canada</b> Development of the Legacy Project in Canada. Long-term additional production capacity of 2.86 million tonnes. Start of production of the Legacy in the second quarter of 2017.		<b>Production in Europe</b> 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.		<b>Animal hygiene products</b> Granulation of CATSAN® and THOMAS®	
		<b>Production in North America</b> 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		<b>CFK (Trading)</b> Chemische Fabrik Kalk GmbH (CFK) trades several basic chemicals.	
		<b>Production in South America</b> One rock salt open-cast mine in Salar Grande in the Chilean Atacama desert, one sea salt facility in the north-eastern part of Brazil.			

Raw materials are at the beginning of many value chains: Our plant nutrient products contribute towards ensuring a food supply for the growing global population. Our pharmaceutical salts are important for health. Our salts for food supplements provide people and animals with essential minerals. Our industrial products make an important contribution to safety, progress and prosperity across the world.

Our value chain in the Potash and Magnesium Products business unit and in the Salt business unit, which extends over the following six sections, is presented below: exploration, mining, production, logistics, sales/marketing and application. / FIG: 1.1.5

[www.k-plus-s.com/valuechain](http://www.k-plus-s.com/valuechain)

**EXPLORATION**

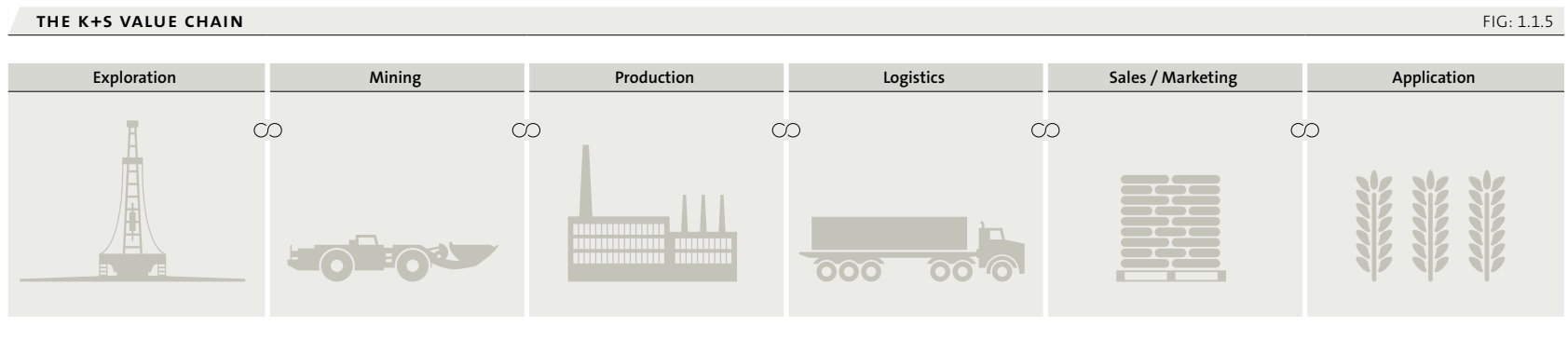
Exploration provides insights on the dimensions and structure of deposits, as well as their depth and mineral content. The data obtained are used to estimate reserves in accordance with international standards. Underground exploration is predominantly conducted worldwide by drilling and seismic measurements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

**RESERVES AND RESOURCES**

Our potash and rock salt mineral deposits are either owned 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 it over the long term.

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 manner or have not yet been identified. The information about reserves takes account of existing extraction and impoverishment losses. 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.

We are quoting reserves and resources in the KLSA 009 mining lease area in the Canadian province of



Saskatchewan, where the Legacy Project is located, in millions of tonnes of potassium chloride as an end product ready for sale. The corresponding deductions for losses during extraction and processing have been taken into account here. Reserves total 160 million tonnes and resources around 982 million tonnes. Pursuant to the requirements of Canadian standard NI 43-101, a total of 88 million tonnes of these resources can be categorised as 'indicated', meaning exploration results permit a high degree of reliability. The remaining 894 million tonnes are classified as 'inferred', which means that information on the dimensions and structure of the deposit, as well as the depth and mineral content based on geological conclusions by analogy and isolated test drilling, has not yet been verified by concrete exploration results.

In the Salt business unit, K+S has reserves of 1.1 billion tonnes of crude salt (plus solar salt with practically infinitely available reserves). Additional extractable resources can be disclosed amounting to around 1.3 billion tonnes of rock salt 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 the realisation of synergies between the Potash

and Magnesium Products and Salt business units possible. These involve the exchange of technical, geological and logistics know-how as well as coordinated procurement of machines and auxiliary materials.

📖 'Glossary', page 196

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 ( $MgSO_4$ )/kieserite ( $MgSO_4 \cdot H_2O$ ) 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 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 a brine field in the Netherlands and one in Germany for the extraction of evaporated salt as well as other brine plants in the USA and Canada. Following the completion of the new potash plant in Saskatchewan, Canada, the Potash and Magnesium Products business unit will also extract potassium chloride by means of solution mining. Symbolic commissioning of the Legacy Project plant facilities took place at the end of August 2016. The

## FOCUS: SIEGFRIED-GIESEN RESERVE MINE

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 relevant authorities at the beginning of 2015. Additional documents were presented in November 2016. An official decision on this application is currently expected in the middle of 2017. In the light of current market analyses and the assessment of economic framework conditions, at this time, it cannot be assumed that a positive planning decision will be directly followed by a recommissioning of the site. Nevertheless, market conditions will continue to be reviewed on an ongoing basis in the future with a view to recommissioning.

📄 [www.kali-gmbh.com/siegfriedgiesen](http://www.kali-gmbh.com/siegfriedgiesen)

first tonne of potash is expected in the second quarter of 2017.

In 2016, around 31.6 million tonnes of crude salt were mined by the Potash and Magnesium Products business unit; 20.4 million tonnes were extracted by the Salt business unit. We mined a total of 52.0 million tonnes of raw material in 2016 (2015: 59.5 million tonnes).

## LONG-TERM PLANNING OF MINES

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

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 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.

The annual production capacity of the Potash and Magnesium Products business unit is currently around 7 million tonnes. The Legacy plant in Canada is set to reach an initial production capacity of 2 million tonnes at the end of 2017.

In addition to potassium (between 13 % and 27 % potassium chloride resource content), the potash deposits of K+S KALI GMBH in Germany also contain magnesium and sulphur (between 11 % and 27 % magnesium sulphate resource content). Depending on the quality of the crude salt, we use processes such as thermal dissolution,

flotation and, partly in combination with both of these, electrostatic separation (ESTA process) for processing.

🔗 'Glossary', page 196; 🔗 'Environment', page 41; 🔗 'Risk and Opportunity Report', page 99

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 and could be doubled in the foreseeable future. The transaction was completed in January 2017. With the acquisition of a 30 % stake in fertilizer manufacturer AL-BIARIQ FOR FERTILIZER PLANT CO., LTD. (AL-BIARIQ) from Saudi Arabia in December 2016, K+S is expanding its business with fully soluble potassium sulphate which will be manufactured in AL-BIARIQ's highly modern production facilities on the Red Sea using the Mannheim procedure. The annual capacity is 20,000 tonnes of SOP (water soluble) and is set to double in 2017. The transaction is due to be closed in the second quarter of 2017.

🔗 'Glossary', page 196

K+S has an annual production capacity of about 32 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 vaporising the water of 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 flowing 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, K+S will make a final investment decision on whether to build the solar salt production facility, in 2019 at the earliest. Annual production capacity could be approximately 3.5 million tonnes of solar salt.

## PROCUREMENT

In 2016, K+S purchased technical goods and services, raw materials, consumables and supplies for around € 2.3 billion (2015: € 2.7 billion) from around 19,900 suppliers. The majority of our purchasing volumes relates to capital goods, in particular facilities in the context of the Legacy Project, as well as maintenance and expansion measures. Materials going into our production or our products only represent a small part of the purchasing volume.

Open and fair partnership characterises the cooperation with our suppliers and service providers, which we select in a systematic, transparent and IT-supported process not only 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). In the context of 'sustainable supply chains', which is part of the 2016–2018 sustainability programme, we will especially focus on sustainability and compliance with our values, the further development of comprehensive supplier management and risk assessment. Our aim is to continue and build up long-term partnerships through cooperation. We assess the entire procurement process from the initial request through to delivery of the service and settlement. In this regard we consider quality as well as environmental and safety standards. This evaluation is supplemented by a self-assessment which every new supplier is required to submit. Should it become evident that a supplier does not meet our criteria, the Company's internal participants in the supply chain will be informed immediately. Virtually all of our partners originate from OECD countries.

© 'Sustainability Strategy', page 73

## 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 advan-

tages, 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.

Each year K+S conveys over 50 million tonnes of goods on average, including double counts when using different transport carriers. We have a worldwide network of warehouse, harbour and distribution locations at our disposal.

### 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 transport in Germany using inland water vessels and the railway.

In Port Moody at the Vancouver harbour, K+S POTASH CANADA (KSPC) is currently working with partners to build the most modern potash terminal in the world. Using this facility, potash products from the Legacy Proj-

ect in Canada will be loaded onto ships and transported to customers in the future.

KSPC will have 500 rail cars on its disposal which have been designed especially for KSPC's requirements to transport goods from the plant to the harbour. The fleet of rail cars is set to be expanded at a later time as production volume increases.

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 2016.

### 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. Requests that we make to our logistics service providers include both social and environmental aspects in order to identify sustainability potential.

## SALES/MARKETING

We aim to be the 'go-to' partner for our customers. 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. We offer a comprehensive range of goods and services for agriculture, industry and public and private consumers.

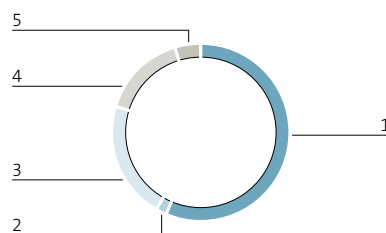
#### CUSTOMER INTERESTS

We are in continuous dialogue with our customers in order to understand their expectations and requirements and to increase their confidence in our products and services. We seek direct dialogue with our customers through customer visits or we use the opportunities given at trade fairs and conferences. Periodically, and this was the case in 2016, K+S KALI GMBH conducted a customer satisfaction analysis to identify changes in customer purchasing behaviour and potential new factors influencing customer satisfaction at an early stage. Information gained from the customer satisfaction analysis on brand perception and image will make it easier to tailor market presence towards customer expectations. The results of the survey will be available in 2017.

Assured quality, on-time delivery and professional advice contribute significantly to customer loyalty. In terms of 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 reviewed by accredited external certification companies. We constantly assess our products for possible risks to health and safety and for their environmental friendliness, and ensure that they are safe for people and not harmful to

**POTASH AND MAGNESIUM PRODUCTS – SALES VOLUMES BY REGION**

FIG: 1.1.6



	2015	2016
in %		
1 Europe	54.7	56.5
– of which Germany	16.3	15.9
2 North America	1.7	1.9
3 South America	21.6	21.4
4 Asia	18.2	15.7
5 Africa, Oceania	3.8	4.5

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 focal points for sales are in South America, particularly in Brazil, as well as in Asia. / FIG: 1.1.6

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

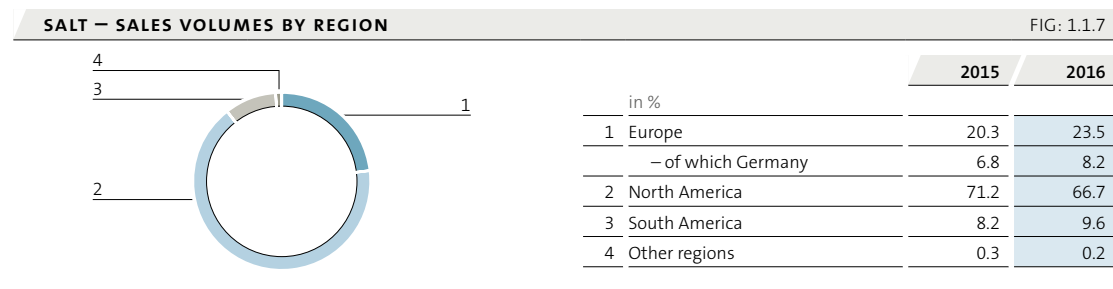
Important competitors are the North American companies, POTASHCORP, MOSAIC and AGRIUM. They operate a joint export organisation with CANPOTEX. Other important competitors are Russian URALKALI and Belarussian BELARUSKALI, Israeli ICL, Jordanian APC and Chilean SQM.

### IMPORTANT SALES REGIONS AND COMPETITIVE POSITIONS — SALT BUSINESS UNIT

Business unit revenues are generated primarily on the American continent. Here, the USA, Canada, Brazil and Chile are particularly important markets. The key sales regions in Europe include Germany, the Benelux countries, France, Scandinavia, the Iberian Peninsula, the Czech Republic, Poland and the Baltic states. / FIG: 1.1.7

In terms of production capacity, K+S is the largest supplier of salt products in the world. ESCO is Europe's leading producer of salt products for the food sector, salts for chemical and industrial use and de-icing salts, in addition to its competitors SÜDWESTDEUTSCHE SALZWERKE, SALINS DU MIDI and AKZONOBEL. With 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 one of the largest salt producers in North America, together with CARGILL and COMPASS MINERALS.

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 weather-dependent demand for de-icing salt, ensuring reliable supply to our customers. In the other market segments, the demand situation is relatively stable. While the market for salt in Western Europe and North America in most cases only exhibits low growth rates, a trend towards a stronger increase in demand is being observed in the emerging countries. Thanks to a cooperation with Chinese partners, MORTON SALT has



also been able to offer high-quality food grade salts there since 2015. This move is MORTON SALT's response to the growing popularity of its products in China which goes hand in hand with an emerging middle class that has an increasing demand for imported products of superior quality.

#### BRAND PORTFOLIO

The number of K+S brand rights increased slightly in 2016. The K+S GROUP uses, among others, CÉRÉBOS®, ESCO®, K+S-LOGO®, MORTON®, STIER®, UMBRELLA GIRL®, VATEL® and WINDSOR® as umbrella brands. AXAL®, REGENIT®, SALDORO®, ACTION MELT®, SEASON-ALL®, SYSTEM SAVER®, BIOSAL®, LOBOS®, KADD®, KORN-KALI®, PATENTKALI® and KALISEL®, for example, are used as product brands. BLIZZARD WIZARD® is used as the brand name for de-icing salt in the USA. At the end of 2016, the K+S GROUP held a total of 2,550 (2015: 2,426) national and regional proprietary rights, derived from 558 basic trademarks (2015: 558).

#### APPLICATION

##### 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 ecological 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 industry as well as feed production components.

□ [www.k-plus-s.com/potash](http://www.k-plus-s.com/potash)

##### Potassium chloride

The mineral fertilizer, potassium chloride, with universal areas of application, 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 first 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, wine or vegetables.

### Industrial Products

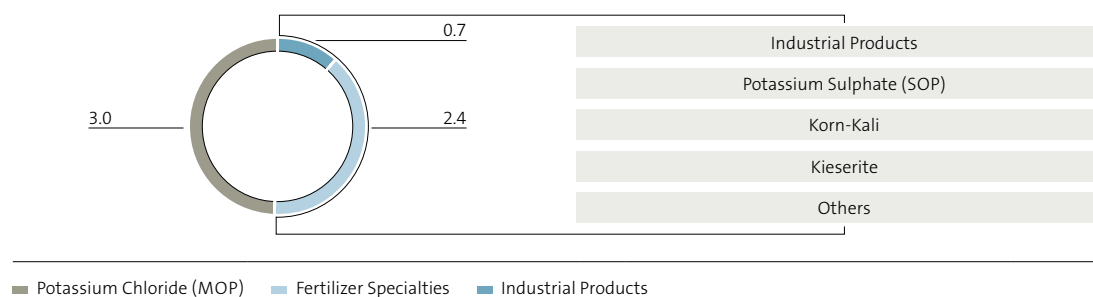
Furthermore, we offer a wide range of high-quality potassium and magnesium products for industrial applications that are available in different degrees of purity and in specific grain sizes. These are used, for example, in chlorine-alkaline electrolysis in the chemical industry, in the production of glass and 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.

**POTASH AND MAGNESIUM PRODUCTS – PRODUCT PORTFOLIO**  
(2016 SALES VOLUMES IN MILLION TONNES)

FIG: 1.1.8



As a service, the Potash and Magnesium Products business unit offers professional advice to customers in the agricultural sector. We anticipate trends and research altered general conditions with a view to water and resource efficiency and in connection with soil fertility. Our aim is to optimise the provision of crops with plant nutrients 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. In 2016, we supervised more than 100 tests worldwide. The focus here was on cultivating potatoes, corn, oil palms,

rapeseed and soybeans. For our customers, we offered individual fertilization recommendations, which are the prerequisites for 'good 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: 1.1.8

The 'Growth for Uganda' project launched by K+S KALI GMBH in cooperation with SASAKAWA AFRICA ASSOCIATION in 2013 has trained almost 100,000 farmers so far to use better agricultural techniques and to reduce post-harvest losses. Supply with 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 characterised by small farms, the goal

**FOCUS: FUTURE FOOD FORUM**

Every two years and most recently in October 2016, κ+s organises the Future Food Forum in Berlin ahead of the World Food Day. It provides an international platform for the exchange of ideas for combatting hunger and unites stakeholders drawn from politics, economics and science. The dialogue focusses on the issue of how the agricultural and food sector can improve production methods and distribution channels at a local level. The role of international cooperation in nutritional issues is also a topic for discussion.

[www.k-plus-s.com/future-food-forum](http://www.k-plus-s.com/future-food-forum)

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](http://www.kali-gmbh.com/uganda)

**PRODUCTS AND SERVICES FROM THE SALT BUSINESS UNIT**

The Salt business unit offers its customers various salt products. Depending on the particular applications, 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](http://www.k-plus-s.com/salt)

**Consumer products**

In the consumer products segment κ+s produces a broad product portfolio including table salt, water softening salt and dishwasher salt. The portfolio also

includes premium products such as kosher and low sodium salt.

**Salt for food processing industry**

Salt for the food processing industry market 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 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 κ+s. Premium de-icing blends, with the addition of calcium or magnesium chloride, are also offered. These products 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: 1.1.9

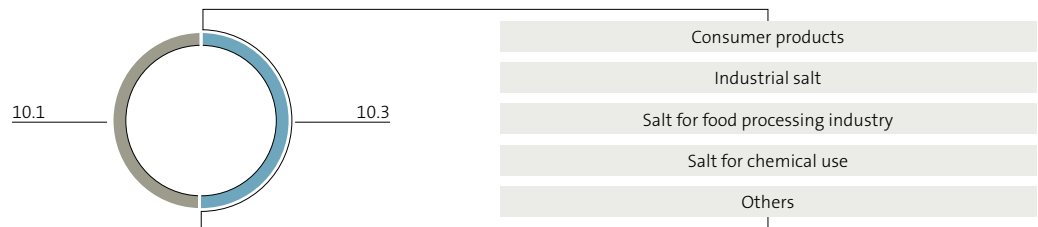
**COMPLEMENTARY ACTIVITIES**

**WASTE MANAGEMENT AND RECYCLING**

Waste Management and Recycling uses parts of the underground chambers created as a result of the

**SALT – PRODUCT PORTFOLIO (2016 SALES VOLUMES IN MILLION TONNES)**

FIG: 1.1.9



■ De-icing salt ■ Non de-icing salt

extraction of crude salt for the long-range safe disposal and reutilisation of waste. The salt mineral deposits used by K+S ENTSORGUNG GMBH for this purpose are impervious to gas and liquids and are securely separated from the layers carrying groundwater. A combination of geological and technical barriers ensures the highest possible level of safety.

Two underground storage sites are operated by the business unit. The waste stored there is isolated permanently from the biosphere. It also operates five underground waste reutilisation facilities. Officially approved waste, for example residues from flue gas cleaning, is used here to fill caverns. K+S ENTSORGUNG GMBH offers the recycling of salt slag for the secondary aluminium industry. An additional business sector is the recycling above ground of low-contaminated materials by subsidiary company K+S BAUSTOFFRECYCLING GMBH.

The business unit's main focus of activity is Europe. K+S leads the way in the highly competitive market for underground waste disposal. Customers are offered specific added value with a large number of sites, technologies and practices as well as a comprehensive service.

#### 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 diverse logistics services.

#### CHEMISCHE FABRIK KALK GMBH (CFK)

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

#### VALUE CREATION STATEMENT

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

In 2016, our added value amounted to € 1,253.5 million (2015: € 1,890.1 million). The majority (81%) of € 1,011.0 million was allocated to our employees (2015: € 1,080.0 million (57 %)). This share is composed of wages and salaries, social insurance contributions and pension contributions. € 23.5 million was performance-related remuneration (2015: € 97.2 million). Local authorities received taxes and fees of € 46.6 million (4 %) (2015: € 205.4 million (11 %)). € 65.4 million (5 %) went as interest to lenders (2015: € 62.4 million (3 %)). It is assumed that the shareholders will receive the suggested € 57.4 million (4 %) in

dividends (2015: € 220.1 million (12 %)) and the Company retained € 73.1 million (6 %) in the form of reserves and other assets (2015: € 322.2 million (17 %)).

/ TAB: 1.1.1, 1.1.2

VALUE ADDED – ACCRUAL		TAB: 1.1.1	
	2015	2016	
in € million			
Revenues	4,175.5	3,456.6	
Other income	314.4	157.9	
Cost of materials	-1,468.7	-1,247.8	
Depreciation and amortisation	-320.7	-328.5	
Other expenses	-810.4	-784.7	
<b>Value added</b>	<b>1,890.1</b>	<b>1,253.5</b>	

VALUE ADDED – ALLOCATION		TAB: 1.1.2	
	2015	2016	
in € million			
To employees (wages, salaries, social benefits)	1,080.0	1,011.0	
To governments (taxes, fees)	205.4	46.6	
To lenders (interest expenses)	62.4	65.4	
To shareholders (dividends) <sup>1</sup>	220.1	57.4	
To the Company (reserves and Other)	322.2	73.1	
<b>Value added</b>	<b>1,890.1</b>	<b>1,253.5</b>	

<sup>1</sup> Dividends relate to the year under review and are paid in the following year. The figure for 2016 corresponds to the dividend proposal.

## RESEARCH & DEVELOPMENT

### GOALS AND MAIN FOCUSES OF OUR RESEARCH ACTIVITIES

We pursue the following three equally important goals with our research and development activities:

- + Increasing customer benefits
- + Deploying raw materials, capital, energy and human resources as effectively and efficiently as possible
- + Conserving the environment through the sustainable use of resources and steady reduction of production residues

We constantly review our extraction and production processes with regard to the use of the resources available to us and further develop our procedures and products.

### RESEARCH FIGURES

Research and development costs totalled € 13.7 million in the reporting period and were therefore moderately

RESEARCH AND DEVELOPMENT COSTS <sup>1</sup> TAB: 1.1.3		
	2015	2016
in € million		
Potash and Magnesium Products business unit	7.9	8.1
Salt business unit	3.7	3.9
Other research costs	3.1	1.7
<b>Total</b>	<b>14.7</b>	<b>13.7</b>

<sup>1</sup> Information refers to the continued operations of the K+S Group.

### RESEARCH FIGURES<sup>1</sup>

TAB: 1.1.4

	2012	2013	2014	2015	2016
in € million					
Research and development costs	19.4	13.9	12.2	14.7	13.7
Research intensity (research costs/revenues)	0.5%	0.4%	0.3%	0.4%	0.4%
Capitalised development-related capital expenditure	14.2	5.0	3.5	2.0	1.4

<sup>1</sup> Information refers to the continued operations of the K+S Group.

below the figure in the previous year (2015: € 14.7 million), nevertheless matching the level in the recent years. According to plan, capitalised development-related capital expenditure of € 1.4 million in the year under review was below the previous years' level (2015: € 2.0 million). The main expenditure remained the development of innovative cavern technology for Legacy. / TAB: 1.1.3, 1.1.4

Most of the research and development costs in the Potash and Magnesium Products business unit were related to research projects designed to improve production processes for minimising solid and liquid production residues from potash production.

In the Salt business unit, the emphasis was on food technology with the focus on reducing sodium in the food processing sector as well as the development of de-icing salt products.

### RESEARCH INSTITUTIONS AND COOPERATION

In terms of research and development, we use the existing Group-wide synergies and cooperate with universi-

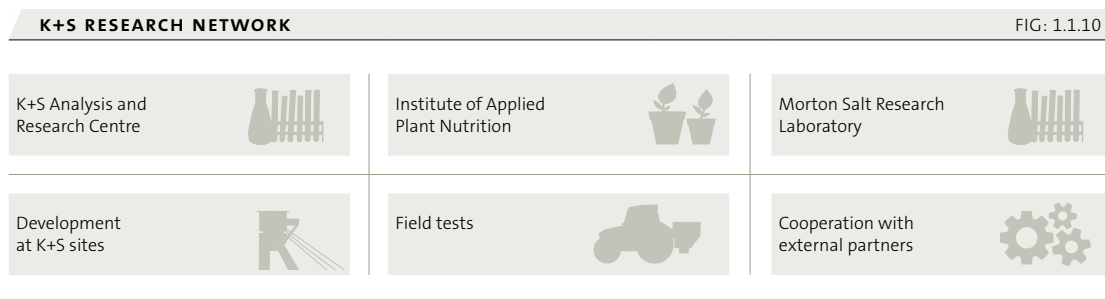
ties, other external institutions and industrial partners on special research projects. / FIG: 1.1.10

### K+S ANALYSIS AND RESEARCH CENTRE

The key tasks of the K+S ANALYSIS AND RESEARCH CENTRE (AFZ) opened in Unterbreizbach in 2015 include carrying out various analyses and basic application-oriented research for all business units of the K+S GROUP as well as process and product development. The AFZ is, for example, involved in developing synthetic magnesium sulphate (SMS) as part of the acquisition of MAGPOWER and quality optimisation for the Legacy Project. AFZ also performs water monitoring and environmental analysis for K+S KALI GMBH.

### MORTON SALT RESEARCH LABORATORY

MORTON SALT operates a modern research and development laboratory in Elgin, Illinois, USA, which focuses on four key areas: process and product development, food technology and analytics. These main points contribute to the product innovation targets, namely providing



new products and improving existing products by modifying product features.

#### EXTERNAL RESEARCH PARTNERSHIPS

The INSTITUTE OF APPLIED PLANT NUTRITION (IAPN) has been operated as a PUBLIC-PRIVATE PARTNERSHIP (PPP) in Göttingen by K+S KALI GMBH together with the GEORG-AUGUST UNIVERSITY OF GÖTTINGEN since late 2010. The cooperation was extended in the summer of 2016. As an established interface between science and business, the institute tackles current practical issues and passes on new findings to the agricultural sector.

[www.iapn.de/en](http://www.iapn.de/en)

The IAPN works on resource efficiency issues. Climate change is resulting in longer and more extreme dry periods worldwide. In the first years, research focused on the key question for agricultural practice of how plants can make better use of scarce water with regard to the

nutrients potassium and magnesium. New techniques to investigate the efficiency of water use by agricultural crops have been developed.

In September 2016, K+S KALI GMBH signed an agreement with FUJIAN AGRICULTURE AND FORESTRY UNIVERSITY to jointly establish an INTERNATIONAL MAGNESIUM INSTITUTE (IMI) with its headquarters in Fu Zhou/China. The cooperation will involve the development of scientific know-how for application of the plant nutrient magnesium in the agriculture in Asia.

#### SELECTED RESEARCH AND DEVELOPMENT PROJECTS AND RESULTS

- + In 2016, K+S KALI GMBH first offered its customers an SOP granulate as input material for the premium 'bulk blends' segment.
- + The AFC modelled various process alternatives for reducing saline water using the in-house developed

software 'PROPHET' ('PROCESS MODELLING WITH PHASE EQUILIBRIA TOOLS').

- + Various process analysis technologies (PAT) for the Legacy Project were developed, tested and brought to operational maturity. Implementation in our plant in Canada started at the beginning of 2017.
- + Further development of the ESTA technology has started with the aim of improving yield and continuing to reduce proportions of useful ingredients in the residue left behind.
- + After a period of three years, the 'lysimeter experiment' for gradual coverage of our tailings pile in Wintershall was successfully completed. A major trial for gravelling one complete side of the tailings pile in Wintershall is currently being planned.
- + In Chile, a new three-phase reactor for processing copper ore was developed in partnership with the UNIVERSIDAD TÉCNICA FEDERICO SANTA MARÍA in Valparaiso. The reactor will improve copper leaching in the production process using salt.

#### PATENT PORTFOLIO

The K+S GROUP's global patent portfolio currently includes 62 patent families (2015: 53), which are protected by 258 national rights (2015: 234). The patents are used, for example, in the areas of electrostatic separation processes, granulate production and flotation. Only a small amount of licence revenues was generated.

## EMPLOYEES

### WORKING AT K+S

Our employees' skills, commitment and good ideas make a crucial contribution to ensuring the long-term success and growth of K+S. We give them specific encouragement to demonstrate their skills and abilities and offer them support and motivation in the process.

Competition for qualified managers and specialists is fierce in all the regions in which we operate. Attracting, successfully integrating and retaining employees is an important factor in terms of our success. We are working on an integrative and comprehensive global human resources strategy to contribute towards the

#### FOCUS: RESULTS OF THE EMPLOYEE SURVEY

In response to the results of the employee survey conducted in 2015, measures were implemented for greater transparency and better communication between employees and managers. 'Breakfast with the Boss' offers subscribers at various sites on both sides of the Atlantic the opportunity for face-to-face talks with members of the Board of Executive Directors, managing directors or plant managers to discuss company decisions and share opinions and ideas. 'Good Question! The K+S forum for employees' has been widely accepted. Employees can ask questions on the Intranet on topics they are involved in, are unclear to them or they would like to get more information about, and the respective specialist units respond.

long-term growth of the K+S GROUP. The following sections describe the focus of our activities.

### IDEA MANAGEMENT/CONTINUOUS IMPROVEMENT PROCESS

The idea management/continuous improvement process (KVP) gives all employees the opportunity to take an active role in operating processes and structures and be involved in shaping these. A total of 12,430 ideas were submitted in 2016 (2015: 14,707). We attribute the fall in the number of ideas to the interruptions to production at the Werra plant in 2016. Working shorter hours meant that the employees had less opportunities to submit their ideas. 52 % (2015: 55 %) of the ideas were implemented and contributed € 5.3 million (2015: € 6.5 million) to operating income, expressed as first year benefits. The benefit over a period of two and a half years, i.e. the economic effect generated, less the actual cost of knowledge management was € 11.4 million (2015: € 14.2 million).

### ATTRACTING EMPLOYEES

K+S operates a future-oriented human resources policy. We want to be an attractive employer where employees can deploy their strengths and feel that their performance is recognised. Our management ethos is based on mutual trust. Changes are shaped proactively. We encourage and challenge our employees.

We offer employees and job applicants a variety of tasks, appropriate pay as well as comprehensive opportunities for further training and international career development. We offer diverse and interesting work opportunities from training to starting a career straight after studies, as trainees on our two-year international trainee programme or directly as an experienced specialist or manager.

### EMPLOYMENT TRENDS

As of 31 December 2016, the K+S GROUP employed a total of 14,653 people or 14,530 FTE respectively (2015: 14,497

#### EMPLOYEES BY UNIT

TAB: 1.1.5

	2015	%	2016	%
in Full Time Equivalents (FTE) as at 31 December <sup>1</sup>				
Potash and Magnesium Products business unit	8,404	58.4	8,502	58.5
Salt business unit	5,054	35.1	5,001	34.4
Complementary Activities	281	2.0	276	1.9
Departments of K+S Aktiengesellschaft	644	4.5	751	5.2
<b>K+S Group</b>	<b>14,383</b>	<b>100.0</b>	<b>14,530</b>	<b>100.0</b>

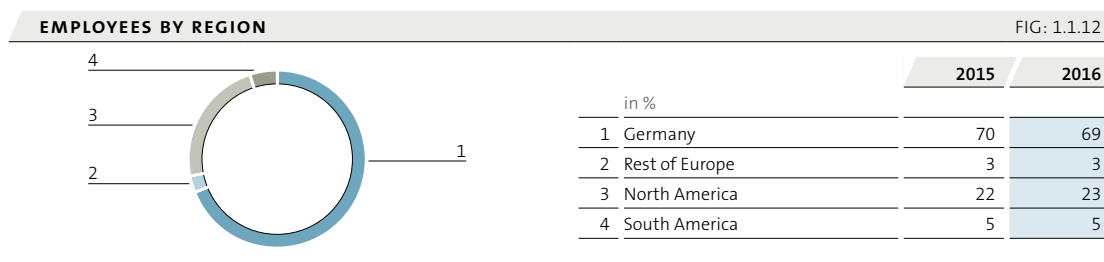
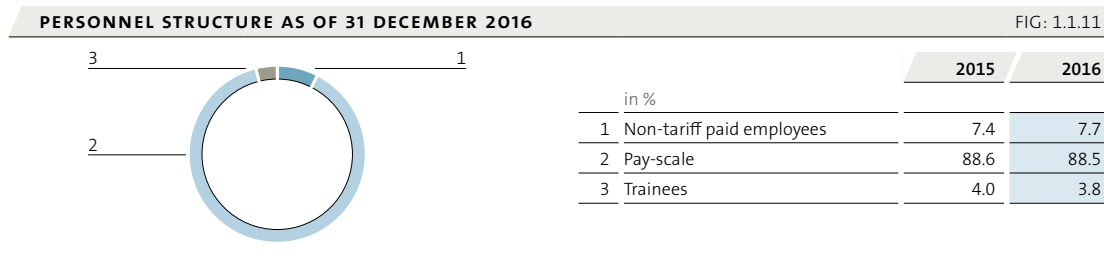
<sup>1</sup> FTE = Full Time Equivalents: part-time positions are weighted in accordance with their respective share of working hours.

employees or 14,383 FTE respectively). Particularly the filling of vacant positions led to an increase in personnel. Furthermore, there was a slight increase in personnel in the Potash and Magnesium Products business unit essentially due to projects in Canada. The number of employees in the Salt business unit fell slightly, which is due in particular to restructuring measures and measures to increase efficiency. / TAB: 1.1.5

7.7% of our workforce consists of employees not covered by a collective wage agreement (2015: 7.4%), 88.5% of employees covered by a wage agreement (2015: 88.6%) and 3.8% of trainees (2015: 4.0%). / FIG: 1.1.11

#### HUMAN RIGHTS/ELIMINATION OF DISCRIMINATION/DIVERSITY

K+S creates a workplace atmosphere that facilitates an open exchange of ideas and an approach to dealing with one another characterised by trust. Equal opportunities and the rejection of all forms of discrimination are self-evident for us. This has been laid down in our CORE VALUES AND PRINCIPLES (CODE OF CONDUCT). We have confirmed this approach by signing the UN GLOBAL COMPACT and the DIVERSITY CHARTER, a German initiative designed to encourage diversity in companies and institutions. We respect and support the observance of internationally recognised human rights and conduct ourselves in accordance with the laws of the countries in which we are active. We strictly reject all forms of forced labour and child labour. We specifically encourage intercultural competences, for example through post-



ings abroad. We value the variety of experiences and perspectives of our employees. / FIG: 1.1.12

📖 'Sustainability Strategy', page 73

Traditionally, more men than women have worked in the mining industry. As of 31 December 2016, 88% of our workforce was male and 12% female (based on the number of employees). We are committed to equal opportunities. The target figures for the percentage of women at managerial levels below the Board of Execu-

tive Directors of K+S AKTIENGESELLSCHAFT can be found in the Declaration on Corporate Governance section on page 54.

We offer our employees in Germany individual part-time arrangements and support them through family-friendly initiatives in order to balance the requirements of working and family life. These initiatives include additional leave for emergency situations where childcare is required at short notice, further training opportunities

during parental leave or an advisory service for employees with dependents requiring care. We also offer a day care centre close to the Company headquarters in Kassel. For over ten years, employees of K+S AKTIENGESELLSCHAFT as well as its subsidiaries at the Kassel site have benefitted from trust-based working hours. The framework wage agreement concerning demographics was signed in October 2016. This should ensure a sustainable and forward-looking human resources policy in Germany and offer incentives for longer employment with the Company. Measures tailored to specific needs are due to be agreed following a qualified demographic analysis.

As part of the 'Employee Assistance Programme', employees in the USA are offered various services designed

#### **FOCUS: INCHARGE MENTOR PROGRAMME AND CAREER GUIDANCE**

K+S is a partner of the InCharge initiative which aims to introduce people who have been granted asylum to the German labour market. K+S employees take on a mentoring task here and work with their mentee on an individual basis on issues related to starting work. By offering career guidance, K+S also makes a contribution towards integrating refugees who are looking for training opportunities. The aim of the entry qualification programme is to prepare both young refugees and young Germans to join a training scheme at K+S. The young people find out what is involved in a training scheme at K+S and the opportunities it offers. They are also given help to identify their career interests and strengths and weaknesses.

to support the work/life balance. These services range from domestic help through to at-home care for relatives. At the Chicago site, employees are given the option to work flexible hours or remotely from home.

In the Canadian companies, employees are supported beyond the legal requirements through flexible working hours, compressed working weeks or teleworking on a location-based, individually agreed basis.

Employees with young children in the Chilean companies are offered flexible working hours, funding for external nursery places and assistance with a portion of their children's school fees.

#### **DEVELOPING AND PROMOTING EMPLOYEES**

K+S wants to develop and deploy employees' full potential in the best possible way, fill specialist and management positions Group-wide primarily from its own ranks and make a long-term, attractive career possible for its employees. Continuous learning is beneficial in terms of employee development and encourages employee loyalty.

#### **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 2016, a total of 561 young people were undergoing training at K+S GROUP companies in Germany (2015: 573); 172 (2015: 163) new trainees were appointed in 2016. At the end of the year, the training ratio, based on employees in Germany, was 5.6%, slightly below the level in the previous year (2015: 5.7%). Last year, we hired approximately 91% of our trainees.

#### **COMPETENCY MODEL AND TALENT MANAGEMENT**

The K+S competency model defines which competences the employees in different roles require. It forms part of the basis for HR development and was introduced across the Group in 2016 as a human resources instrument. It has led to training and seminars, which K+S offers in support of competence development. Managers and employees can specifically discuss an employee's areas for development, for example as part of the annual appraisal, using the K+S competency model.

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. Employees are identified from the talent management process, who are able to participate in the global development programme TRACK+S as a result of their excellent performance and potential in order to promote careers in a targeted manner and prepare those involved for managerial or expert roles.



The κ+s career path project aims to identify different prospects for the professional future of employees and make opportunities for development more transparent.

#### CONTINUING EDUCATION AND FURTHER TRAINING

κ+s offers 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.

Capital expenditure in continuing education and further training amounted to around € 14.7 million (2015: € 14.7 million). A slight increase in the number of further training days attended in Germany to 16,630 (2015: 15,438) contrasted with a moderate decrease in the costs of continuing education and further training in the κ+s foreign subsidiaries.

#### RETAINING EMPLOYEES

We are proud of our mining traditions. On average, our employees are 43 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 the average staffing level – is 5.9 % (2015: 6.3 %); taking only resignations into account, it is 2.1 % (2015: 2.2 %). In addition to con-

tinuing education and further training, κ+s is striving to retain employees in the long-term through performance-related remuneration and the employee share ownership programmes.

#### HEALTH/OCCUPATIONAL SAFETY

Health and safety are at the centre of further development as part of the κ+s Sustainability Programme 2016-2018. Improvements in these areas are cross-sectional tasks for the κ+s GROUP. We want to integrate health and safety activities worldwide. With this in mind, we launched the foKuS project ('Focus on integrating HSE systems together') in June 2016. This global project aims to further develop our health, safety and environment (HSE) activities and processes. The core aims of foKuS are to define an HSE strategy, create a global organisational framework for HSE and define common minimum standards. The project is due to be completed by the end of 2017.

🔗 'Sustainability Strategy', page 73; 🔗 'Environment', page 41

Our aim is to prevent accidents, reduce work-related health risks and increase knowledge of healthy and safe conduct in the workplace. In terms of health and occupational safety, we assess dangers on an ongoing basis together with work-related pressures and health risks. If deviations or potential for improvement are identified, we actively work to introduce measures to protect health and safety.

#### Health

We have signed the LUXEMBOURG DECLARATION ON WORKPLACE HEALTH PROMOTION and in doing so have reinforced our commitment to working conditions that promote health. We strive to create working conditions and procedures that ensure the health and safety of our employees. Our employees, also in the case of a longer working life, should be able to work in a healthy and motivating environment. Our programme designed to promote health focuses on individual requirements, operational situations and country-specific circumstances and laws. Our workplace health promotion supplements the management systems with prevention and measures to improve health competences. Occupational 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. The proportion of disabled employees accounted for 7.1% of the κ+s workforce in Germany (2015: 7.4 %), once again reaching a level above the national average in Germany of just under 5%.

In North America, MORTON SALT continued the 'Dash Well-Being Programme' in 2016. This comprehensive programme considers different aspects of employee satisfaction such as health, welfare and social aspects.

An important aspect of health care is reliable compliance with occupational exposure limit values. In the

event of new occupational exposure limit values for nitrogen monoxide, we will not hesitate to accept this challenge in the context of a large-scale implementation project. The purpose is to check whether it is technically possible by developing low-emission explosive substances, optimising ventilation systems, using alternative drive technologies and making extensive replacements of diesel-driven machines to comply with the ambitious threshold values at the end of a transition period of five years. Moreover, an epidemiological study should contribute towards expanding basic knowledge on the health-related effects.

🕒 'Risk and Opportunity Report', page 99

### Occupational Safety

Occupational safety is extremely important to us. Even though our accident figures are not higher than those of the rest of the industry, we have set ourselves the objective of making an improvement and are aiming for a 'zero accident' target in all our business activities. Advanced systems and processes constitute factors for the success of occupational safety. Our occupational safety programmes take into account site-specific challenges and local legislation.

The Potash and Magnesium Products business unit has signed up to the 'VISION ZERO. ZERO ACCIDENTS – WORK HEALTHY!' campaign, an initiative launched by the GERMAN SOCIAL ACCIDENT INSURANCE INSTITUTION FOR THE RAW MATERIALS AND CHEMICAL INDUSTRY (BG RCI)

and insured companies there. VISION ZERO is aimed at a longer period. Individual targets such as the reduction of particular accident figures in the short term and specific measures, such as the further qualification of managers in the area of health care and occupational safety, have been set. K+S KALI GMBH has also undertaken in a joint cooperation agreement to arrange certification in accordance with the BG RCI 'Sicher mit System' ('Systematically Safe') quality seal at all sites over the next few years.

MORTON SALT lives by the credo 'Nothing is more important to us than health and safety' – not production, not sales, not profit – and has therefore also declared a 'MISSION ZERO' target.

In 2016, 772 accidents occurred at our sites worldwide (2015: 876<sup>1</sup>). The accident rate (workplace accidents divided by number of hours worked multiplied by one million) fell to 31.9 (2015: 35.6). Workplace accidents with working hours lost per one million hours worked increased to 8.2 in 2016 (2015: 7.7). The severity of accidents (working days lost divided by the number of hours worked multiplied by one million) was 593.8 in the year under review (2015: 214.5).

There was one fatal accident at work involving the death of an external employee at one of our German sites in June 2016.

### REMUNERATION SYSTEM AND PERSONNEL EXPENSES

In the K+S GROUP we pursue the aim of rewarding our employees across the world in line with the market and in relation to performance. The introduction of a new collective wage agreement was completed at all locations in Germany in 2015. Industrial, commercial and technical occupations are now comparable for the first time in one system. All employees covered by the framework collective agreement for the potash and rock salt mining industry have been transferred from the previous collective wage agreement to the new one. The performance appraisal components included in the rate structure will be uniformly applied to all sites for the first time from May 2017.

As part of our regular review of our remuneration system, roles not covered by collective wage agreement were assessed in 2016 based on standard criteria across the Group. In the next stage, the required need for adjustment will be 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. Results are expected during the course of 2017.

<sup>1</sup> The previous year's figures have been adjusted based on subsequent data received.

In 2016, personnel expenses amounted to € 1,011.0 million and were therefore a good 6 % below the level in the previous year (2015: € 1,080.0 million). During the year under review, personnel expenses per employee (FTE) amounted to € 69,987 (2015: € 75,653) and thus fell by around 7%. Personnel expenses fell essentially on account of lower accruals for performance-related remuneration.

The proportion of variable remuneration included in personnel expenses with which we involve our employees in the success of the Company in the context of a performance-related remuneration system, was € 23.5 million in 2016 or approximately 2 % (2015: € 97.2 million or approximately 9%).

#### CO-DETERMINATION

K+S respects the freedom to join or not join trade unions and the right to collective bargaining. Social partners are included in key decisions in accordance with the

#### FOCUS: HUMAN CHAIN

More than 12,000 people stood up for German potash mining in the Werra valley in September 2016 under the slogan 'If the Werra plant dies, an entire region dies with it'. Organised by the works council and the IG BCE, employees together with their families and friends, partner companies, unions and political representatives, and many other local supporters, formed a 13 kilometre long human chain joining the three K+S production sites of the integrated Werra plant in Hesse and Thuringia.

legal framework. We believe that informed employees are better motivated and more ready to share the consequences of difficult decisions. Co-determination promotes and demands acceptance of responsibility with a medium and long-term perspective. Approximately 83 % of employees covered by a collective 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.

#### PENSION SCHEME

K+S helps its employees secure their standard of living in old age by offering various locally-tailored options as part of the Company pension scheme. Every employee in the participating German companies receives an employer supplement corresponding to 13 % of the sum that is paid 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 contribution-based pension plans, which are predominantly financed by the employees themselves and subsidised by the employer. In 2016, we spent a total of € 21.7 million (2015: € 20.6 million) on contribution-based pension plans.

#### ENVIRONMENT

The extraction and processing of raw materials always involves intervening in nature. We work continuously to limit this impact to the minimum and to find solutions to environmental and social challenges. For the purpose of environmentally compatible production whilst at the same time maintaining economic efficiency, we use well-engineered mining methods and treatment processes. On a Group level, we identified water, waste and energy/climate as key environmental topics. Our handling of these issues is described below. Reported environmental indicators are collected for all key consolidated sites and are based largely on measurements (92–100 %, apart from waste data which is largely based on calculations).

 'Sustainability Strategy', page 73

Our environmental management records and systematically assesses the effects of our corporate activities on the environment in order to derive measures or targets. Environmental management generally takes account of site-specific challenges, but is coordinated on an issue-specific basis across locations, business units or across the Group. Our environmental experts meet at regular intervals on boards, in competence centres or in working groups to exchange experiences and best practices and to develop standards.

Environmental performance indicators at site and business unit level are collected using environmental man-

agement software that has been introduced at all production sites. We track the development of our environmental performances as well as the achievement of our site-specific targets using the generated reports.

K+S KALI GMBH has been operating an environmental management system for tailings pile planning at the Werra plant since 2014, which is based on ISO 14001. Comparable systems are due to be set up in the future for other sites.

MORTON SALT intends to operate all production sites in accordance with the ISO 14001 environment management system by the end of 2020 and arrange independent certification. In order to achieve this target, a further three sites were certified in 2016 in addition to the two sites already included. Four sites have been prepared for certification in 2017.

#### CAPITAL EXPENDITURE AND OPERATING COSTS FOR ENVIRONMENTAL PROTECTION

In 2016, environment-related capital expenditure totalled € 92.7 million (2015: € 104.8 million). The overall rather low level relates to capital expenditure in the areas of water protection as well as air pollution control and climate protection. Once the modernisation of kieserite flotation at the Wintershall site as part of the implementation of the package of measures for water protection in 2015 was largely completed, only comparatively low capital expenditure was spent in the past year for the facility that was commissioned at the beginning of 2016. Other

#### CAPITAL EXPENDITURE IN ENVIRONMENTAL PROTECTION <sup>1</sup>

TAB: 1.1.6

	2015	2016	absolute deviation	%
in € million				
Water protection	88.4	80.3	- 8.1	- 9.2
Air pollution control and climate protection	10.1	3.4	- 6.7	- 66.3
Waste management	5.4	5.3	- 0.1	- 1.9
Nature conservation <sup>2</sup> and soil rehabilitation	0.8	3.5	2.7	> 100
Others	0.1	0.2	0.1	100
<b>Total</b>	<b>104.8</b>	<b>92.7</b>	<b>- 12.1</b>	<b>- 11.5</b>

<sup>1</sup> The reporting of environmental costs is based on the German Environmental Statistics Act (Umweltstatistikgesetz, UStatG), but also includes items from our global operations.

<sup>2</sup> Including landscape preservation.

reductions in capital expenditure for water protection were due to the construction of additional saline wastewater storage ponds that started in the middle of 2016 and is still ongoing as well as the still incomplete planning approval procedure for the extension of the tailings pile at the Hattorf site. In contrast, capital expenditure in two additional storage ponds was completed in 2015 and initial technical capital expenditure made in anticipation of the required expansion of tailings pile capacity. Construction of the KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF) at the Hattorf site, which is currently pressing ahead with the focus on certain main aspects, is on schedule. The majority of capital expenditure is expected in 2017. The newly developed facility, which has received total capital expenditure of around € 180 million and is due to be commissioned in 2018, is set to reduce saline wastewater volume by around a

further 20% or 1.5 million m<sup>3</sup> per year and will obtain additional valuable material for fertilizer production. The project marks a further milestone in the K+S measures to relieve the pressure on the Werra-Weser river system in terms of the environment over the long-term and at the same time safeguard jobs and secure the future of the sites in the Hesse-Thuringia potash district.

The lower capital expenditure on air pollution control and climate protection is due to the extensive implementation in 2015 of projects at two North American salt sites, which generate steam in an environmentally friendly manner based on gas.

The reasons for the higher capital expenditure on nature conservation and soil rehabilitation were further compensatory and replacement measures as part of the still

**OPERATING EXPENSES FOR ENVIRONMENTAL PROTECTION <sup>1</sup>**

TAB: 1.1.7

	2015	2016	absolute deviation	%
in € million				
Water conservation	123.6	117.1	-6.5	-5.3
Prevention of air pollution and climate protection	34.9	31.1	-3.8	-10.9
Waste management	10.2	9.1	-1.1	-10.8
Nature conservation <sup>2</sup> and land reclamation	2.3	2.0	-0.3	-13.0
Others	5.8	4.2	-1.6	-27.6
<b>Total</b>	<b>176.8</b>	<b>163.5</b>	<b>-13.3</b>	<b>-7.5</b>

<sup>1</sup> The reporting of environmental costs is based on the German Environmental Statistics Act (Umweltstatistikgesetz, UStatG), but also includes items from our global operations.

<sup>2</sup> Including landscape preservation.

ongoing approval process for the expansion of tailings pile capacity at the Hattorf site. / TAB: 1.1.6

In 2016, operating costs for environmental protection fell compared with the previous year (2015: € 176.8 million) by € 13.3 million to € 163.5 million. This decline is due in particular to the limited options for saline wastewater disposal at the Werra plant and the associated unavoidable interruptions to production. Against this backdrop, the operating costs in both factory operations and in the use of product conditioning materials to avoid dust build-up were significantly lower than in the previous year. However, the costs of eliminating solid and liquid production residues at the Werra plant fluctuated around the previous year's level, in spite of the lower amount due to production, as additional expenses were incurred for supplementary saline wastewater disposal measures (temporary storage in the Merkers mine, discharging into

our decommissioned Bergmannsseggen-Hugo mine) and operating costs for the collection of saline seepage water at the sides of the Hattorf tailings pile.

Other significant cost reductions were the result of measures that did not apply in 2016, but which were taken in 2015 to complete the expansion of tailings pile capacity at the Sigmundshall potash site and the preparation of the tailings pile area at the Neuhof-Ellers site. / TAB: 1.1.7

Operating costs primarily include additional environmental protection measures. These measures relate in particular to water conservation, prevention of air pollution and climate protection, waste management, nature conservation, soil rehabilitation and relate to facilities separate from other production processes. Operating costs and depreciation and amortisation relating to production facilities included in the package of measures

for water protection, which are integrated into production processes at the Werra plant, are not included. Both the costs of the additional environmental protection measures and the integrated costs not shown here are production cost components as a whole and thus increase the specific costs per tonne of product.

**WATER**

Water is used in a large number of mining and production processes.

**WATER WITHDRAWAL**

Efficient water usage is a Group-wide objective. MORTON SALT has defined specific targets for reducing its fresh water requirement by 10 % by 2020 based on 2013 data. We use water of variable origin and quality, including sea water, river water, ground water and drinking water. / TAB: 1.1.8

**WATER WITHDRAWAL**

TAB: 1.1.8

	2015	2016
in million m <sup>3</sup>		
<b>Seawater</b>		
Seawater and other salty water	267.2	263.0
<b>Fresh water</b>		
River water	126.9	111.8
Ground water	7.5	6.5
Drinking water	1.1	1.1
<b>Total fresh water withdrawal</b>	<b>135.5</b>	<b>119.4</b>

Seawater and water from saltwater inland lakes is used in the production of solar salt. Locations close to the ocean use seawater also as cooling water. In 2016, we used 119.4 million m<sup>3</sup> of fresh water (2015: 135.5 million m<sup>3</sup>). The removal of sea water and saline water from inland saline lakes amounted to 263.0 million m<sup>3</sup> (2015: 267.2 million m<sup>3</sup>).

River water is used in production processes and as process water (largely cooling water); 106.8 million m<sup>3</sup> (2015: 108.7 million m<sup>3</sup>) of this was discharged back into surface waters. If hygiene guidelines or quality requirements make provision for the use of water of drinking water quality, this is also used in production. It is either drawn from the communal water supply or partially extracted from the groundwater in our own facilities.

#### WASTEWATER

In 2016, there was 6.6 million m<sup>3</sup> of saline wastewater (2015: 8.5 million m<sup>3</sup>). The volume and chemical composition of process wastewater are dependent on many factors such as raw salt quality, the processing method used, the product manufactured and the product quality required. Tailings pile runoff is collected by sealing and drainage systems. Liquid residues that are not recycled are disposed of on the basis of existing permits and in compliance with official threshold values for discharging into rivers and deep-well injection into deep rock layers.

In 2016, 5.7 million m<sup>3</sup> (2015<sup>1</sup>: 4.8 million m<sup>3</sup>) was discharged into rivers, the majority into the Werra river. Only 0.9 million m<sup>3</sup> was injected into the plate dolomite in 2016 (2015: 3.7 million m<sup>3</sup>) due to a limited transitional deep-well injection permit and temporary production standstills in parts of the Werra plant. In addition, 0.54 million m<sup>3</sup> of sanitary wastewater (2015: 0.53 million m<sup>3</sup>) was either discharged into communal sewage plants or treated in our own wastewater treatment plants.

#### PACKAGE OF MEASURES FOR WATER PROTECTION IMPLEMENTED – SALINE WASTEWATER HALVED

The objectives involved in the implementation of the package of measures for water protection between 2011 and 2015 were extremely challenging: to halve the volume of saline wastewater at the Werra plant through capital expenditure of around € 400 million in new facilities developed by K+S. K+S reached this milestone objective with the completion of components in the package of measures in the spring of 2014,

- + the ESTA-facility at the Philipsthal site,
- + the evaporation plant in Heringen,
- + the cold preliminary decomposition and thick matter facility in Unterbreizbach,
- + as well as the kieserite flotation facility that became fully operational in early 2016 after just a short start-up phase.

The volume of wastewater was further reduced by a total of 50% to seven million m<sup>3</sup>. As a comparison, in

1997, the volume was still over 20 million m<sup>3</sup> and in 2006, the base year for the package of measures, it was 14 million m<sup>3</sup> per year.

📖 'Risk and Opportunity Report', page 99;  
🌐 [www.k-plus-s.com/waterprotection](http://www.k-plus-s.com/waterprotection)

The addition of a further processing facility, the KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF) is set to reduce the volume of saline wastewater at the Werra plant again by around 20% or 1.5 million m<sup>3</sup> per year, as mentioned before.

#### SALINE WASTEWATER DISPOSAL REMAINS CHALLENGING

On 23 December 2016, the Kassel Regional Council approved the continued deep-well injection of saline wastewater from potash production at the Werra plant. The long-awaited water law permit is valid from 1 January 2017 to 31 December 2021 and enables an annual injection volume of 1.5 million m<sup>3</sup>, limited to 5,000 m<sup>3</sup> per day – 2 million cubic meters had been applied for on average for the years 2016–2021. The permit also includes a number of ancillary provisions. However, in low water level periods the disposal of saline wastewater will remain a major challenge. Consequently, production at the Hattorf site already had to be suspended at the beginning of the year. As of 2018, the

<sup>1</sup> The previous year's figures have been adjusted based on subsequent data received.

commissioning of the new KCF plant will have a positive impact on the disposal situation.

#### SUPPLEMENTARY WASTEWATER DISPOSAL MEASURES

K+S is working hard to implement additional saline wastewater disposal measures in order to scale down production limitations in the event of continuing low water levels in the Werra. Permits were granted in 2016 for the temporary storage of brine at the Springen mining field (Merkers mine) and for discharging tailings pile water into the inactive K+S Bergmannsseggen-Hugo mine (Hanover region). Since February 2017, a cavern at the underground gas storage facility in Bernburg is furthermore being secured by flooding with saturated saline water from potash production at the Werra plant. Additional measures include the expansion of basin capacity on site which will further increase the flexibility of wastewater management. Other measures are currently in preparation stages. For this purpose, technical issues need to be resolved, permits have to be obtained and infrastructure has to be modified subsequently.

#### LONG-TERM CONTINUATION OF DOMESTIC POTASH MINING

In view of the salt management plan agreed by the Weser River Basin Association in March 2016, in addition to ongoing research and development work, K+S is currently also testing the covering of tailings piles. Many

years of experience at the Sigmundshall site in Lower Saxony can be drawn on in this respect. If the tests on covering and revegetation adapted for the site have positive results, the same measures could be implemented on tailings piles at the Werra plant from around 2025 so that much less saline wastewater would accumulate in the long-term.

Furthermore, a project group is looking into the question of whether saline wastewater can be stacked underground in order to reduce injection volumes even further where appropriate. This project for which there is no experience to date on this scale should return a result in 2018.

The planning and approval process for a possible long-distance pipeline to the Upper Weser that could become operational from 2022 is also continuing.

The realisation of all these projects will require further high capital expenditure. Our aim is to ensure the long-term economic sustainability of potash production in Germany in accordance with the internationally comparatively high environmental standard.

#### WASTE (SOLID RESIDUES)

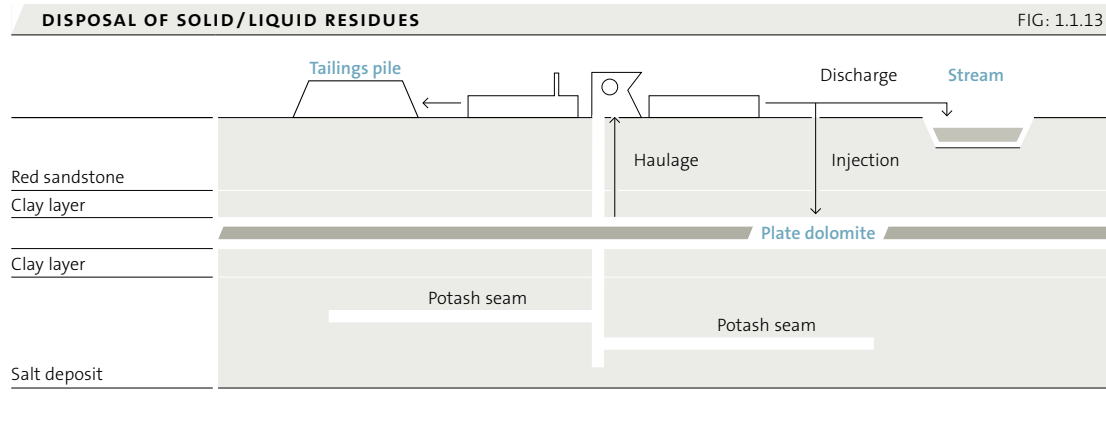
Most of our solid waste can be categorised as mining waste. This occurs during the extraction and processing of crude potash salts and is piled up using state of the art equipment in accordance with statutory requirements,

or placed in mine openings underground. Non-mining waste that accumulates in considerably lower volumes is also disposed of in accordance with regulations.

#### TAILINGS PILE MANAGEMENT

Worldwide, piling up solid residues from potash production is a state of the art technique. Depending on the deposit type, a certain amount can be accommodated underground as backfill material, the rest is piled up above ground. In 2016, K+S KALI GMBH piled up 23.7 million tonnes of solid residues (2015: 27.3 million tonnes) and returned 1.6 million tonnes underground as backfill (2015: 1.9 million tonnes). Tailings piles are created and configured depending on the conditions at the individual locations. Comprehensive monitoring schedules have been defined by the licensing authorities for the tailings piles. In addition to numerous measuring points for groundwater and surface water monitoring, these schedules also include dust and structural safety measurements. Regular inspections are also made to monitor tailings pile infrastructure and tailings pile operations. / FIG: 1.1.13

Higher heavy metal concentrations have been measured at several groundwater measuring points and wells, mainly to the east of the Hattorf tailings pile. In terms of their composition and concentration, these cannot be classified as tailings pile material. Our experts are assuming that heavy metals occurring naturally underground here have been dissolved by saline seep-



age. Investigation into causes takes place in collaboration with universities and research centres. Measures have been introduced, and in some cases already taken, to reduce the impact on the environment in the short term, such as the collection and processing of water escaping from the wells. κ+s communicates transparently and keeps the authorities directly abreast of the current situation. The authorities are also given detailed information about the planning and implementation of measures.

© 'Risk and Opportunity Report', page 99

The extension of existing tailings piles is unavoidable in order to secure potash production in the long term. It is our aim to complete the planning approval procedure for the Hattorf tailings pile until the end of 2017.

Moreover, κ+s KALI GMBH will submit the approval documents for extension of the tailings piles in Zielitz and Wintershall to the relevant authorities in 2017. In the run-up to the approval process, the general public has been provided with comprehensive information about the project through a variety of communication channels. The official licensing procedure also includes a public consultation.

Compensatory and replacement measures are provided for by law in connection with the tailings pile expansions; some of these have been implemented already. These measures are being planned and coordinated with the relevant nature conservation authorities, land owners and communities as well as several nature conservation organisations. The compensatory measures

include long-term projects that aim to create new biotopes for fauna and flora. Reforestation will also be carried out in areas deemed to be of poor quality from a nature conservation perspective in order to conserve useable agricultural areas. New habitats will also be created in neighbouring areas ahead of expansion.

Small and medium-sized inoperative tailings piles have been covered as part of our old pile strategy in an effort to avoid and minimise long-term impact on nature and the environment. Additionally, 41 disused tailings piles in Lower Saxony and two in Baden-Württemberg are being maintained. 15 of these have been revegetated and another six are in the process of being revegetated. Eleven smaller tailings piles have been removed and three have been partly deconstructed. The application documents to cover the 'Lower Saxony' tailings pile in Wathlingen are currently being compiled and are expected to be submitted in the first quarter of 2017. The tailings pile at the Sigmundshall plant is gradually being covered and revegetated during the operational phase using the κ+s in-house developed thin film process.

To reduce land use and the associated formation of tailings pile wastewater as well as impact on most subjects of protection, such as soil or bodies of water, active tailings piles are raised to heights of up to 200 metres with steep slopes. We are currently conducting extensive research and pilot tests on this type of tailings pile so that we can select and improve suitable covering mate-



rials that allow for revegetation. In this way, the amount of saline tailings pile runoff will be reduced dramatically over the long term.

The tailings piles at the Werra plant sites will be covered in the long-term as part of the WESER RIVER BASIN COMMISSION (FGG Weser) salt master plan. After a period of three years, it was possible to complete a 'lysimeter experiment' for gradual coverage of our tailings pile in Wintershall. A semi-technical test on the coverage of tailings piles is currently in the approval process. In addition, tests on 'innovative erosion protection' have been carried out at the Neuhof tailings pile since autumn 2016, which are also designed to reduce the accumulation of tailings pile water. The Zielitz site is testing a so-called 'infiltration inhibiting layer' on a pilot tailings pile to reduce the accumulation of tailings pile water.

#### OTHER WASTE

The collection of hazardous waste is obligatory in Germany. We collect other non-hazardous waste on a voluntary basis in order to identify potential for cost savings and volume reduction. MORTON SALT is working with an external waste consulting company in order to improve waste management at its production sites in North America and the Bahamas. MORTON SALT has set a target of reducing landfill waste by 50 % (compared with the base year 2013) by 2020. In 2016, the volume of waste (not including building waste) accrued by the K+S GROUP was 42,589.0 tonnes (2015: 64,412.6 tonnes).

It was possible to recycle 52.3 % of this waste. Of the total amount of waste (not including building waste), 4.4 % is classified as hazardous and disposed of in accordance with the relevant regulations (2015: 4.5 %).

#### ENERGY/CLIMATE

We want to use energy efficiently. To ensure our competitiveness, we must optimise energy consumption. In addition to its positive impact on the economic efficiency of K+S, effective energy management should reduce energy-related impact on the environment, such as greenhouse gas emissions.

#### ENERGY EFFICIENCY

Overall energy consumption fell to 9,030.8 GWh in 2016 due to lower production in the business units (2015: 9,805.2 GWh). / TAB: 1.1.9

In 2016, we operated a DIN EN ISO 50001 certified energy management system in all German companies. We conduct regular audits in accordance with DIN EN 16247 in all other 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. In addition to the large number of measures implemented, increased awareness on the part of our employees of careful use of energy also contributes.

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 %.

By improving the performance of the waste heat recovery boiler of a gas and steam turbine power plant (GaS unit) at the Hattorf site, in addition to increasing steam

**ENERGY INPUT BY ENERGY SOURCE** TAB: 1.1.9

	2015	2016
in GWh		
<b>Direct energy sources</b>	<b>7,618.6</b>	<b>6,887.5</b>
Natural gas	6,110.7	5,962.2
Coal	1,059.7	558.2
Diesel	405.2	342.6
Fuel oil	32.3	14.3
Liquid petroleum gas (LPG)	8.0	7.8
Petrol	2.7	2.4
<b>Indirect energy sources</b>	<b>2,186.6</b>	<b>2,143.3</b>
Externally sourced electricity	464.4	501.4
Externally sourced steam	1,719.0	1,638.9
Externally sourced heat	3.2	3.0
<b>Total energy consumption</b>	<b>9,805.2</b>	<b>9,030.8</b>
<b>Sold electricity</b>	<b>32.8</b>	<b>25.5</b>

tonnage, the efficiency level of the unit was improved in 2016.

Investigations into the use of further cogeneration units to increase energy efficiency and save CO<sub>2</sub> continued at the K+S AKTIENGESELLSCHAFT, ESCO and K+S KALI GMBH sites, and possible projects substantiated at two sites.

MORTON SALT has set a target of reducing energy consumption by 20% compared with the base year of 2013 by 2020. Consequently, two coal-powered operating sites in the USA were converted to gas as a reduced-emissions energy source in 2016. This conversion leads to the reduction of coal input across the K+S GROUP. MORTON SALT is also investigating the possibility of using renewable energy sources (solar and/or wind) at three production sites in North America and one in the Bahamas.

On account of the constant expansion of our underground raw material mining areas, we are anticipating an increasing specific requirement for primary energy. All other things being equal, this will require a continually increasing energy input from natural gas to produce the energy necessary to ventilate the mine workings and operate the conveyors underground as well as from diesel to transport personnel. Furthermore, the average recyclable material content of German deposits is tending to decline which in turn increases specific energy input.

With a view to making further savings by using primary energy, we are investigating the expansion of combustion technology on an industrial scale at several locations.

#### CLIMATE

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.

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 agreement signing the Paris Climate Treaty. The aims defined in the Paris Climate Treaty are set to be implemented in the Federal Republic of Germany through the 2050 Climate Protection Plan. The outcomes of the Paris Treaty and its implementation in Germany through the 2050 Climate Protection Plan will be analysed in terms of their impact on K+S.

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 cost of reduction is lowest. Carbon dioxide emissions can be reduced by capping emissions allowances in the marketplace. 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 that are subject to emissions trading. Their emissions are recorded in accordance with applicable EU monitoring guidelines and verified by external audit organisations.

This year we report Scope 1 and Scope 2 emissions in full. In addition to CO<sub>2</sub>, we also report CO<sub>2</sub> equivalents (CO<sub>2</sub>e), which are composed of greenhouse gases other than CO<sub>2</sub>, for example methane (CH<sub>4</sub>). In 2016, CO<sub>2</sub>e emissions from the consumption of all direct and indirect fuels (Scope 1 and 2) was 1.7 million tonnes and thus, based on the calculation basis using emission factors from the GREENHOUSE GAS PROTOCOL, lower than in the previous year (2.0 million tonnes<sup>1</sup>) according to energy consumption.

<sup>1</sup> The previous year's figures have been adjusted based on subsequent data received.

## 1.2 DECLARATION ON CORPORATE GOVERNANCE <sup>2</sup>

In accordance with Sections 289a and 315 of the German Commercial Code (Handelsgesetzbuch – 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.

We provide information about the Company's position and any significant changes in business to the shareholders, shareholder associations, financial analysts, the media and interested members of the public, simultaneously and in an equal manner, through regular, open and up-to-date communication. We not only publish all important information such as details of the Annual General Meeting, press releases, ad hoc disclosures and notifications of voting rights, all Annual Reports, but also analysts' recommendations and consensus forecasts as well as Company presentations on our website.

<sup>2</sup> The information in the 'Governing Bodies', 'Governance / Declaration of Conformity' and 'Compliance Management' sections in accordance with Section 289a of the German Commercial Code (HGB) are not the subject of the annual audit in accordance with Section 317 (2) (4) of the German Commercial Code (HGB).

The financial calendar can be found in the Annual Report, in the Half-Yearly and Quarterly Reports as well as on the Company's website. The Company's Articles of Association and the bylaws of the Board of Executive Directors and the Supervisory Board can also be viewed on this website as well as detailed information on the implementation of the recommendations and suggestions made in the German Corporate Governance Code. An e-mail newsletter provides up-to-date news from the K+S GROUP.

### 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 German Stock Corporation Act (Aktiengesetz), the German Co-Determination Act (Mitbestimmungsgesetz), 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 can exercise their voting rights through an authorised representative of their choice and can issue instructions to them or can also cast a postal vote. A power of attorney can be granted or instructions issued using 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](http://www.k-plus-s.com/agm)

### SUPERVISORY BOARD

In accordance with Article 8 (1) (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 co-determination in accordance with the German Co-Determination Act (Mitbestimmungsgesetz). The Supervisory Board members are therefore elected as representatives of the shareholders by the Annual General Meeting and as employee representatives by the employees of the K+S GROUP in Germany on a 50-percent basis. An election is held around every five years.

☐ [www.k-plus-s.com/corporategovernance](http://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, course of business, the

earnings, 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 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. 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 12

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

- + The Audit Committee performs the tasks arising from the German Stock Corporation Act (Aktiengesetz) as well as the German Corporate Governance Code. It is particularly 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's auditors as well as the audit of the financial statements. It also discusses the Half-Yearly Report and the Quarterly Reports with the Board of Executive Directors prior to publication. Based on his experience as former head of the Central Legal Affairs, Tax and Insurance Department and as

former Chief Compliance Officer of BASF SE, Dr Sünnner (independent financial expert), Chairman of the Audit Committee, has comprehensive knowledge and experience in the application of accounting principles and internal control procedures. 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. With regard to determining the total remuneration for the individual members of the Board of Executive Directors, and resolving contractual matters, the Committee submits proposals for resolutions to the plenary meeting of the Supervisory Board. 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 recommends 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.
- + The Mediation Committee performs the tasks set out in Section 31 (3) (1) of the German Co-Determination Act (Mitbestimmungsgesetz). 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.

□ [www.k-plus-s.com/articlesofassociation](http://www.k-plus-s.com/articlesofassociation)

In accordance with the German Act on Equal Participation of Women and Men in Management Positions, the minimum percentage of women and men on the Supervisory Board is 30% respectively (to be kept in mind during the new elections and postings abroad that will be necessary after 1 January 2016). Two female shareholder representatives and one female employee representative already have a seat on the Supervisory Board. The next Supervisory Board election to fall under this new statutory regulation will take place for the shareholders' side in 2017 and for the employees' side in 2018.

It can be seen from the Company's most recent declaration on conformity that the recommendation under Item 5.4.1 of the German Corporate Governance Code is being followed, insofar as the Supervisory Board is supposed to indicate specific targets in terms of 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.

Mindful of this, the Supervisory Board has passed the following resolution:

"The Supervisory Board shall ensure that its members are persons of integrity, associated with the social market economy, and have skills and many years of experience in the management of and/or provision of consulting

services to commercial enterprises or business-oriented institutions. Experience and specific knowledge of the Company's main fields of activity are desirable. At least one independent financial expert must have a seat on the Supervisory Board. On the basis of his or her nationality or professional experience, at least one member of the Supervisory Board should stay abreast of the increased internationality of the Company. Experience in relation to the regions in which the K+S GROUP has a strong presence is particularly desirable.

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.'

The Supervisory Board believes that the aforementioned objectives are fulfilled at present.

#### MEMBERS OF THE SUPERVISORY BOARD IN THE 2016 FINANCIAL YEAR

(Information on other supervisory board appointments and supervisory bodies as at: 31 December 2016)

#### **Dr Ralf Bethke (born 1942), graduate in business administration, chairman of the supervisory board Shareholder representative**

Entrepreneur (as member of the supervisory boards mentioned below)

Chairman of the Supervisory Board since 14 May 2008  
In office until the end of the 2017 Annual General Meeting  
First appointed: 1 July 2007

Other supervisory board appointments:

- + BENTELER INTERNATIONAL AG, Salzburg (Chairman)<sup>1</sup>
- + DJE KAPITAL AG, Pullach (Chairman)<sup>1</sup>

#### **Michael Vassiliadis (born 1964), chemical laboratory assistant, 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
- + EVONIK INDUSTRIES AG, Essen (Vice-Chairman) (until 18 May 2016)
- + STEAG GMBH, Essen (Vice-Chairman)<sup>1</sup>
- + RAG AKTIENGESELLSCHAFT, Herne (Vice-Chairman)<sup>1</sup>

- + RAG DSK AG, Herne (Vice-Chairman)<sup>1</sup>
- + RAG STIFTUNG, Essen<sup>1</sup>

#### **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)<sup>1</sup>
- + DEUTSCHE SHELL HOLDING GMBH, Hamburg<sup>1</sup>
- + DEUTSCHE SHELL GMBH, Hamburg<sup>1</sup>
- + SHELL DEUTSCHLAND OIL GMBH, Hamburg<sup>1</sup>

#### **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

<sup>1</sup> Not listed on a stock exchange.

Other supervisory board appointments:  
+ A.S. CRÉATION TAPETEN AG, Gummersbach

**Philip Freiherr von dem Bussche (born 1950),  
graduate 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)<sup>1</sup>  
+ DF WORLD OF SPICES GMBH, Dissen (Member  
of the Advisory Board)<sup>1</sup>  
+ GRIMME GMBH & CO. KG, Damme (Chairman  
of the Advisory Board)<sup>1</sup>  
+ DLG E.V., Frankfurt am Main (Chairman of the  
Supervisory Board)<sup>1</sup>

**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

**Wesley Clark (born 1952), master's degree in 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 board appointments:  
+ Board of PATRIOT SUPPLY HOLDINGS, INC., Fort  
Worth, Texas, USA (Non-Executive Chairman)<sup>1</sup>  
+ Board of ABC SUPPLY CORPORATION, Beloit,  
Wisconsin, USA<sup>1</sup>  
+ Board of CLARCOR INC., Franklin, Tennessee, USA  
+ Board of DISTRIBUTION INTERNATIONAL, Inc., Fort  
Worth, Texas, USA (Non-Executive Chairman)<sup>1</sup>  
+ Board of ULINE INC., Pleasant Prairie, Wisconsin,  
USA (until 15 December 2016)<sup>1</sup>

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

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

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

**Axel Hartmann (born 1958), retail salesman  
Employee representative**

Vice Chairman of the Collective Works Council of the  
K+S GROUP  
Chairman of the Works Council of K+S KALI GMBH'S  
Neuhof-Ellers plant

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

**Rüdiger Kienitz (born 1960), mining technologist  
Employee representative**

Member of the Works Council of K+S KALI GMBH'S  
Werra plant (until 31 March 2016)

Resigned on 31 March 2016  
First appointed: 26 March 1998

**Michael Knackmuß (born 1975), car mechanic  
Employee representative**

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

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

**Dr rer. nat. Andreas Kreimeyer (born 1955), graduate  
in biology**

**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 bodies:

- + ACATECH – DEUTSCHE AKADEMIE DER TECHNIK-  
WISSENSCHAFTEN E.V., Munich, Member of  
Executive Committee<sup>1</sup>
- + C.H. BOEHRINGER SOHN AG & CO. KG, Ingelheim,  
Germany (Member of Advisory Group)<sup>1</sup>
- + KARLSRUHER INSTITUT FÜR TECHNOLOGIE (KIT),  
Karlsruhe (Vice-Chairman of the Supervisory Board)<sup>1</sup>

**Gerd Kübler (born 1967), graduate 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 Collective 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

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

Other supervisory board appointments:

- + COMMERZ REAL AG, Eschborn (until 28 February 2016)<sup>1</sup>
- + Board of Directors of ESSILOR INTERNATIONAL S.A.,  
Charenton-le-Pont, France (since 11 May 2016)

**Anke Roehr (born 1964), industrial clerk**  
**Employee representative**

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

Employee in sales and distribution of deicing agents  
at 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 in Neustadt a.d. 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](http://www.k-plus-s.com/supervisoryboard)

#### **SUPERVISORY BOARD COMMITTEES**

##### **AUDIT COMMITTEE**

- + Dr Eckart Sünner (Chairman)
- + Ralf Becker
- + Dr Ralf Bethke
- + Axel Hartmann
- + Dr Annette Messemer
- + Michael Vassiliadis

##### **PERSONNEL COMMITTEE**

- + Dr Ralf Bethke (Chairman)
- + Jella S. Benner-Heinacher

<sup>1</sup> Not listed on a stock exchange.

- + Harald Döll
- + Michael Vassiliadis

#### NOMINATION COMMITTEE

- + Dr Ralf Bethke (Chairman)
- + Philip Freiherr von dem Bussche
- + George Cardona
- + Dr rer. nat. Andreas Kreimeyer

#### MEDIATION COMMITTEE

- + Dr Ralf Bethke (Chairman)
- + Harald Döll
- + Dr Eckart Sünner
- + Michael Vassiliadis

#### THE BOARD OF EXECUTIVE DIRECTORS

The Board of Executive Directors is responsible for managing the Company in accordance with the law, the Articles of Association and its bylaws, taking account of the resolutions adopted by the Annual General Meeting. The Board of Executive Directors represents the Company in its dealings with third parties. 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. Following the departure of Dr Radmacher on 29 February 2016, the number of members of the Board of Executive Directors fell temporarily from five to four. Since the appointment of Dr Lose to the Board of Executive Directors as of 1 January 2017, the Board of Executive Directors has had five male members. With regard to the German Act on Equal Participation of Women and Men in Management Positions, the defined target figure

for the percentage of women on the Board of Executive Directors of 0 % has been met for the first period defined by the Supervisory Board up to 31 December 2016. For the period up to 1 December 2020, the Supervisory Board of K+S AKTIENGESELLSCHAFT has again set a target figure for the percentage of women on the Board of Executive Directors as 0 %.

In accordance with the legislation, we have set target figures for the percentage of women at management levels below the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. A target figure of 13 % was set for management team I of K+S AKTIENGESELLSCHAFT for the first period defined by the Board of Executive Directors until 31 December 2016, and a target figure of 10 % for management team II. We thus built on the status quo when formulating the targets. As at 31 December 2016, the target figure for the percentage of women in management team I of 13 % was met and the target figure for the percentage of women in management team II was slightly exceeded at 11 %. The Board of Executive Directors has determined a target figure of 13 % for management team I and a target figure of 11 % for management team II for the period until 31 December 2021, thus again replicating the status quo.

The bylaws govern the cooperation of the Board of Executive Directors and the allocation of business responsibilities as well as mutual representation. The relevant members of the Board of Executive Directors need to be informed about matters concerning more than one business unit or department; measures which also concern other units or departments or deviate from usual day-to-day business have to be agreed with the other mem-

bers 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 on important business matters and measures.

☐ [www.k-plus-s.com/articlesofassociation](http://www.k-plus-s.com/articlesofassociation)

#### MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

(Information on responsibilities and appointments, if not stated differently as at: 31 December 2016)

##### **Norbert Steiner (born 1954), lawyer, chairman**

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

1 March to 31 December 2016<sup>1</sup>:

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

In office until 11 May 2017

First appointed: 12 May 2000

Supervisory Board appointments:

- + TALANX AG, Hanover
- + HDI V.A.G., Hanover<sup>2</sup>
- + K+S KALI GMBH (Chairman), Kassel<sup>3</sup>



**Dr Burkhard Lohr (born 1963), graduate in business administration**

- + Corporate Controlling
- + Corporate Finance and Accounting
- + Corporate Procurement
- + Corporate Tax
- + Technical Centre and sub-units:
  - Geology
  - Mining
  - Research and Development
  - Technics/Energy
- + All direct shareholdings of the Company insofar as they are not assigned to another area of responsibility

In office until 31 May 2020

First appointed: 1 June 2012

Supervisory board appointments:

- + K+S KALI GMBH, Kassel<sup>3</sup>

Supervisory bodies:

- + HDI-GERLING INDUSTRIE VERSICHERUNG AG, Hanover, Member of Southern Regional Advisory Board<sup>2</sup>
- + COMMERZBANK AG, Frankfurt/Main, Member of North West Regional Advisory Board

**Dr Otto Lose (born 1971), lawyer and economist**

Since 1 January 2017<sup>1</sup>:

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

In office until 31 December 2019

First appointed: 1 January 2017

Supervisory board appointments since 1 January 2017:

- + K+S KALI GMBH, Kassel<sup>3</sup>

**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
  - HR Services
  - 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 appointments:

- + K+S KALI GMBH, Kassel<sup>3</sup>

**Dr Andreas Radmacher (born 1965)<sup>1</sup>, graduate in engineering**

Until 29 February 2016<sup>1</sup>:

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

Resigned on 29 February 2016

First appointed: 1 September 2013

Supervisory board appointments

until 29 February 2016:

- + K+S KALI GMBH, Kassel<sup>3</sup>

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

- + Salt business unit

- + Animal hygiene products

In office until 30 September 2020

First appointed: 1 October 2012

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[www.k-plus-s.com/corporategovernance](http://www.k-plus-s.com/corporategovernance)

<sup>1</sup> The Supervisory Board of K+S Aktiengesellschaft and Dr Andreas Radmacher reached a mutual agreement not to renew Dr Andreas Radmacher's term of office which expired on 31 August 2016. He left the Company with effect from 29 February 2016. Norbert Steiner assumed temporary responsibility for Dr Radmacher's tasks until 31 December 2016. Dr Otto Lose has been responsible for the Potash and Magnesium Products and Waste Management and Recycling business units since 1 January 2017.

<sup>2</sup> Not listed on a stock exchange.

<sup>3</sup> Group appointment.

### COOPERATION BETWEEN BOARD OF EXECUTIVE DIRECTORS AND 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 concern corporate strategy, planning, 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 on 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 INTERESTS

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

### D&O INSURANCE

We have taken out D&O insurance in case a claim for compensation is made against members of the Board of Executive Directors or of the Supervisory Board based on statutory third-party liability provisions, on account of a breach of duty committed in the exercise of their activity. 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 OF THE BOARD OF EXECUTIVE DIRECTORS

In accordance with Article 19 of the Market Abuse Regulation (Publication of Managers' transactions; previously Section 15a of the German Securities Trading Act (WpHG)), members of the Company's Board of Executive Directors and of the Supervisory Board must disclose the purchase and disposals of Company shares.

In 2016 we published the following information on Directors' Dealings: / TAB: 1.2.1, 1.2.2

☐ [www.k-plus-s.com/directorsdealings](http://www.k-plus-s.com/directorsdealings)

On 31 December 2016, the members of the Board of Executive Directors and of the Supervisory Board held less than 1 % of the shares of K+S AKTIENGESELLSCHAFT and related financial instruments.

### GOVERNANCE AND MONITORING

The target status of an effective and legally compliant governance and monitoring system (internal con-

#### DIRECTORS' DEALINGS MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS

TAB: 1.2.1

	Date	Transaction	Number	Price	Amount
Dr Thomas Nöcker	12 September 2016	Share purchase	3,000	18.045 €	54,135.00 €
Dr Thomas Nöcker	1 September 2016	Share purchase	2,500	19.042 €	47,605.95 €
Mark Roberts	24 March 2016	Purchase of ADRs	2,500	11.57 \$	28,925.00 \$
Dr Thomas Nöcker	11 March 2016	Share purchase	1,000	20.495 €	20,495.13 €
Dr Thomas Nöcker	10 March 2016	Share purchase	1,500	21.419 €	32,128.50 €

#### DIRECTORS' DEALINGS MEMBERS OF THE SUPERVISORY BOARD

TAB: 1.2.2

	Date	Transaction	Number	Price	Amount
Dr Anette Messemer	21 January 2016	Share purchase	2,555	19.499 €	49,822.00 €

trol system in a broader sense) in the K+S GROUP has been defined by the 'Governance and Monitoring in the K+S GROUP' guideline agreed by the Board of Executive Directors in addition to the relevant statutory requirements. These guidelines also stipulate the regulatory and organisational measures required to ensure that this status is achieved and maintained. This system should guarantee

- + 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 and 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 ON CONFORMITY**

Over and above the legal obligations, we have defined our own core values and principles (Code of Conduct) which form a compulsory framework for our conduct, our decisions and provide 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. We consider it a great challenge to maintain and to continuously develop this reputation. In order to do this we rely on the integrity and responsibility of each individual employee.

#### **Sustainability**

We know that a sustainable successful economy is based not only on rules and laws, but also requires people's basic trust. In order to achieve our principal goal,

which is sustainable economic success, we also consider the connected ecological and social aspects of our activities.

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

#### **Integrity**

We 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 employ-

ees. 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 '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 (= 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 2016, the Company's Board of Executive Directors and the Supervisory Board made the following joint declaration in accordance with Section 161 of the German Stock Corporation Act (AktG):

'We declare that the recommendations of the Government Commission on the German Corporate Governance Code, published by the German Ministry of Justice in the official section of the German Federal Gazette on 5 May 2015, were followed in 2016 or will be followed in 2017, except for the recommendations in Clause 5.1.2 Paragraph 2 Sentence 3 (Determination of an age limit for the members of the Board of Executive Directors) and 5.4.1 Paragraph 2 Sentence 1 (Determination of an age limit as well as a regular limit of length of membership for the members of the Supervisory Board). We do not believe that it is necessary or appropriate to establish strict age limits for the members of the Board of Executive Directors and the Supervisory Board as well as a regular limit of length of membership, since the ability to carry out the work of the respective corporate responsibility area does not necessarily end upon reaching a certain age or a certain length of membership, but depends solely on the respective individual capabilities. Also considering the demographic developments, age limits in particular conflict with meeting

the general interest of the Company to fill the positions in its corporate boards in the best possible way.

Kassel, December 2016'

Of the numerous suggestions contained in the Code, only the following have not been fully implemented by K+S:

- + The Annual General Meeting will not be streamed live online in its entirety (Code Item 2.3.3), but only up to the end of the speech given by the Chairman of the Board of Executive Directors.
- + The suggestion in Item 3.7 Paragraph 3 will only be taken up insofar as, in the event of a takeover bid, an extraordinary General Meeting should only be convened in the cases indicated.

[www.k-plus-s.com/corporategovernance](http://www.k-plus-s.com/corporategovernance)

#### 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.

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. He 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 as well as 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, occupational 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 RISKS AND OPPORTUNITIES

The risk and opportunity management system pursues the aim of promptly identifying and evaluating risks and opportunities across the whole of the K+S GROUP, which may have a direct or indirect influence on the asset, financial or earnings position and taking steps to prevent/reduce the risks or use the opportunities and thus be 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 man-

agement 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 99.

#### SUSTAINABILITY MANAGEMENT

Corporate action on the part of K+S 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. Therefore, 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.

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 K+S and further determine, analyse and prioritise the general sustainability requirements of K+S 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 2016 to advise on the materiality analysis and to push the 2016–2018 K+S sustainability programme forward. Moreover, workshops were held to discuss the areas for action with the respective specialist units.

© 'Sustainability Strategy', page 73

## GOVERNANCE

The framework and general objectives of the K+S GROUP governance system are derived from its vision and mission, which are described in the 'Corporate Strategy' section on page 69.

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 K+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 has to be 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 K+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. Cen-

tral controlling consolidates mid-term planning by the business units and departments into operational planning as well as human resources, capital expenditure and financial planning of the K+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 K+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 in a monthly rolling process and consolidated into the K+S GROUP by Central Controlling. The actual values available and new information about business development are gradually 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 K+S GROUP.

#### KEY FINANCIAL PERFORMANCE INDICATORS

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

- + Operating earnings EBIT I (κ+s GROUP, business units)
- + EBITDA<sup>1</sup> (κ+s GROUP, business units)
- + Capital expenditure<sup>2</sup> (κ+s GROUP, business units)
- + Adjusted free cash flow<sup>3</sup> (κ+s GROUP)
- + Return on Capital Employed 'ROCE'<sup>4</sup> (κ+s GROUP, business units)
- + Group earnings after taxes, adjusted (κ+s GROUP)

🔗 'Definitions of key financial indicators', page 193;

🔗 'Glossary', page 196

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

The activities of our operating units are managed on the basis of the aforementioned performance indicators, with particular importance attached to EBITDA and EBIT I, as these are, in our opinion, the appropriate variables for assessing earnings capacity. Key figures for the management of the capital structure, its target figures and values actually achieved can be found on

page 86. Capital expenditure is also an important management variable both at operating unit and Group level in terms of achieving a targeted allocation of our financial resources. When considering cash flow figures, the 'adjusted free cash flow' figure is of particular relevance due to the high capital expenditure in 2016.

We use the performance indicator Return on capital employed (ROCE) to monitor this financial objective and derive the value added using the weighted average cost of capital rate before taxes. We also continually monitor the 'Adjusted Group earnings after tax' figure, the basis for dividend proposals.

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 80 and that of cash flow and capital expenditure in the 'Financial Position' section on page 86.

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 prices and the number of employees. However, these are not considered as key performance indicators within the meaning of German Accounting Standard (DRS) 20.

#### NON-FINANCIAL PERFORMANCE INDICATORS

The requirements of κ+s and those imposed on it will be determined, analysed and prioritised in the context of sustainability management in order to define spe-

cific sustainability targets for sub-areas (sites, companies, product segments etc.). Thus, the efficient use of water and energy are general aims in terms of the environment.

🔗 'Sustainability strategy', page 73

#### 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: The management responsible for an internal process must analyse the risks jeopardising the achievement of objectives that is legally compliant and complies with internal regulations. Upstream, process-integrated controls are to be defined depending on the significance of the respective risk 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. Reports containing

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

<sup>2</sup> Capital expenditure on property, plant and equipment, intangible assets, investment properties and financial assets.

<sup>3</sup> The calculation of the 'Adjusted free cash flow' performance indicator can be found in the Economic Report on page 89.

<sup>4</sup> The calculation of the 'ROCE' performance indicator can be found in the Economic Report on page 86.

summary audit results are produced for these audits and presented to the respective responsible management, in order to support managers with assessing general suitability and actual effectiveness of the governance and monitoring system. The reliability of the risk 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 (5) AND SECTION 315 (2)(5) OF THE GERMAN COMMERCIAL CODE (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 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 additional guidelines and 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 significant 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 automat-

ically 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 audit 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 2016 audit was conducted by DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Hanover (formerly DELOITTE & TOUCHE GMBH, 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 7.21. of the German Corporate Governance Code. The elected auditor is appointed by the Supervi-



sory 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 German Stock Corporation Act (AktG).

**INFORMATION IN ACCORDANCE WITH SECTION 289 (4) AND SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB) AS WELL AS EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS IN ACCORDANCE WITH SECTION 176 (1) (1) OF THE GERMAN STOCK CORPORATION ACT (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 members of the Board of Executive Directors are governed by Section 84 of the German Stock Corporation Act (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 can appoint a member of the Board of Executive Directors as chairman of the Board of Executive Directors. The Supervisory Board can rescind the appointment of a member of the Board of Executive Directors or the appointment of the chairman of the Board of Executive Directors if there is good cause.

The Annual General Meeting can pass amendments to the Articles of Association with a simple majority of the share capital represented (Section 179 (2) of the German Stock Corporation Act (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 THE SHAREHOLDERS' RIGHT TO SUBSCRIBE

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).

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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 exclud-

ing 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 by 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 THE SHAREHOLDERS' RIGHT TO SUBSCRIBE TOGETHER WITH SIMULTANEOUS CREATION OF 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 a right to subscribe 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 the right to subscribe, 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 the right to subscribe 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 attributable to shares issued during this authorisation period in connection with another increase in capital where the right to subscribe is excluded in direct or indirect application of Section 186 (3) (4) of the German Stock Corporation Act (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 the right to subscribe is excluded in direct or indirect application of Section 186 (3) (4) of the German Stock Corporation Act (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  $\kappa+s$  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  $\kappa+s$  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 German Stock Corporation Act (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 Compa-

ny'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  $\kappa+s$  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 finan-

cial 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 General 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 by 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) (8) of the German Stock Corporation Act (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) (8) of the German Stock Corporation Act (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) (3) of the German Stock Corporation Act (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 German Stock Corporation Act (AktG). The Board of Executive Directors is authorised pursuant to Section 237 (3) (3) clause 2 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 shareholders' 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 three bonds issued by K+S AKTIENGESELLSCHAFT in 2012 and 2013, as well as the 'Schuldscheindarlehen' (promissory notes) issued in 2016, the respective creditors have the right, in the event of a change of control, to terminate the bonds or 'Schuldscheindarlehen' (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 rou-

tine 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 121. The programme with a long-term incentive character (LTI), introduced in 2010 for the Board of Executive Directors and for senior management, includes no compensation agreements.

The existing compensation agreements with the members of the Board of Executive Directors take into appropriate consideration both the legitimate interests of those concerned and of the Company and its shareholders.

## **1.3 CORPORATE STRATEGY**

As an international resources company, we think and act long term. For us, sustainable development means future viability. We seek to attain sustainable economic success while considering the social and ecological aspects that are tied to our business model. We systematically identify and assess relevant issues and social

trends early on in order to incorporate them into our management processes and derive measures.

Megatrends such as scarcity of resources, globalisation, demographic change, climate change or innovation cycles characterise the economic, social and ecological environment, with different regional effect in some cases, and influence our long-term strategic focus.

### **VISION AND MISSION**

Our vision and mission provide the framework for today's activities and for the strategic orientation of the Group and aim to explain the basis for our thinking and actions to our employees, shareholders, lenders, customers, suppliers and the public.

[www.k-plus-s.com/vision](http://www.k-plus-s.com/vision)

#### **VISION**

A source of growth and life through nutrients and minerals

#### **MISSION**

Through commitment to our core values and principles (Code of Conduct) and pursuing our vision, we seek:

- + to attain sustainable economic success while remaining focused on the social and ecological aspects that are tied to our business model

- + to mine and process raw materials while using our products and services to improve nutrition, health and quality of life
  - + to achieve a leading position in the markets we serve
  - + to be the 'go-to' partner for our customers
  - + to strengthen our raw material and production base and expand it globally
  - + to increase added value by developing new products and more efficient processes
  - + to be recognised as an attractive employer for employees all over the world
- set ourselves an agenda which we have pursued consistently in 2016 with the acquisitions in China and Saudi-Arabia. The focuses are:
- + successful commissioning of new potash production in Canada (Legacy Project)
  - + managing environmental challenges, particularly in Germany
  - + enhancing our portfolio of higher yielding products
  - + successful implementation of the 'Salt 2020' strategy
  - + keeping cost discipline above and beyond the 'FIT FOR THE FUTURE' programme

## GROWTH STRATEGY

Our two-pillar strategy proved its worth once again in 2016. In an environment of low prices for potash containing products, winter business that was comparatively below average and in spite of significant production limitations at the Werra plant, we managed to achieve a respectable result on account of our strong position in Europe, our specialties products and the growth-oriented non de-icing salt business.

© 'Presentation of segments', page 93

We want to continue to grow in both pillars and consequently set ourselves the ambitious goal in 2015 of achieving EBITDA of around € 1.6 billion (2016: € 0.5 billion) by 2020. Despite the current challenges, we have our sights firmly on this target. For this purpose, we have

The sustainable growth of enterprise value in the form of a premium on the cost of capital before taxes of at least 15 % continues to be central to our financial objectives. We want to achieve this mark again by 2020 at the latest.

The individual components of the long-term K+S growth strategy are shown and subsequently discussed in the following figure. / FIG: 1.3.1

### DIFFERENTIATION AND SUSTAINABLE MARGIN GROWTH THROUGH SPECIALISATION

K+S aims to expand market positions in its business units, in particular through marketing its diverse specialty products. The refinement of mined crude salt makes it possible to achieve higher margins and enables us to be more resilient to market fluctuations.

### COMPONENTS OF THE K+S GROWTH STRATEGY

FIG: 1.3.1

Differentiation and Sustainable Margin Growth through Specialisation		Expansion of Strategic Business Units through Acquisitions and Cooperations
Expansion of a Balanced Regional Portfolio	Setting Standards for Quality, Reliability and Service	Increasing Efficiency and Exploiting Synergies

### STRATEGIC DIRECTION OF THE BUSINESS UNITS

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

#### POTASH AND MAGNESIUM PRODUCTS

The Potash and Magnesium Products business unit is seeking to attain a balanced presence in the important agricultural regions of Europe, South America, North America and Asia to balance seasonal differences and reduce cyclical regional demand effects.

The individual strategic fields of action are as follows:

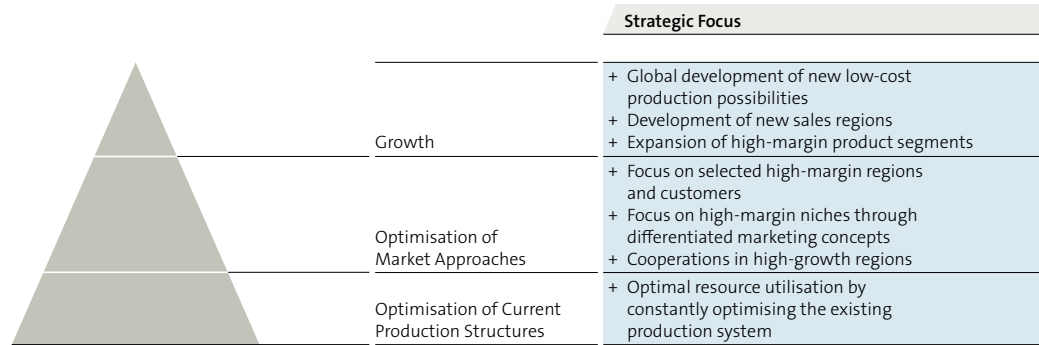
/ FIG: 1.3.2

In 2016, the Potash and Magnesium Products business unit reviewed its market strategy with the focus on



**STRATEGY POTASH AND MAGNESIUM PRODUCTS**

FIG: 1.3.2



2015 alone we invested around € 400 million in modern technical facilities and processes as part of the package of measures for water protection. A further approximately € 180 million will be spent on the construction of a KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF), which is already underway, reducing the volume of saline wastewater again by about 20% from 2018 onwards.

© 'Environment', page 41

A further central milestone will be the start of production of the Legacy Project in the Canadian province of Saskatchewan in the second quarter of 2017. Annual production capacity will be expanded gradually in subsequent years reaching 2.86 million tonnes in 2023. More than 400 permanent jobs will be created upon completion of the construction phase. The Legacy Project will supplement the existing production network of κ+s with an important North American site.

As an addition to the Group-wide 'FIT FOR THE FUTURE' project, the 'POTASH 2.0' project was completed successfully in the Potash and Magnesium Products business unit in 2016. To boost competitiveness, the programme aimed to further develop business processes and introduce a new structural and procedural organisation along with cost savings.

the expansion of customer-oriented specialties products. The newly acquired production site in Huludao (China) will make an important contribution in this respect. With this acquisition, the business unit's product portfolio was complemented by synthetic magnesium sulphate (SMS). The Potash and Magnesium Products business unit is also consistently expanding its product range in the area of fertigation with a stake in SOP producer AL-BIARIQ (Saudi-Arabia). We see the use of fertilizer specialties in water efficient micro-irrigation systems as a future growth area.

© 'Presentation of segments', page 93

The promotion of innovations also plays a crucial role in the new market strategy. The business unit is con-

vinced that the agricultural industry will change, not least as a result of the increasing possibilities offered by digitalisation. The business unit sees this as an opportunity and has developed appropriate concepts and created structures with the goal of helping to shape the change.

Managing environmental challenges is very significant for us. We want to make the best possible use of the resources available to us and at the same time reduce the impact on nature to a minimum. κ+s has made many efforts to improve the environmental conditions at the Werra and Weser rivers over the past few decades. We reduced saline wastewater by almost two thirds between 1997 and 2015. Between 2011 and

The Potash and Magnesium Products business unit is pursuing the target to achieve an EBITDA of at least € 1.2 billion in 2020.

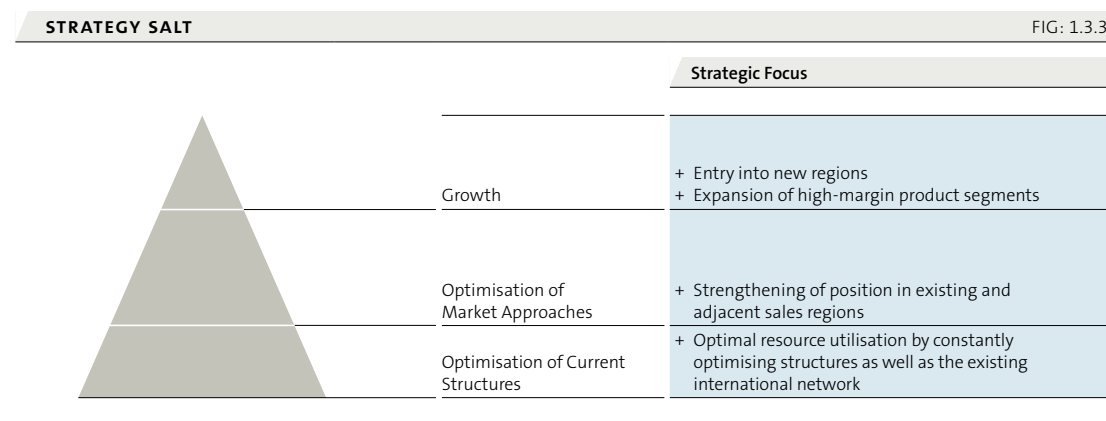
### SALT

The business unit Salt particularly strives to advance growth in selected regions and market segments.

We see the following strategic fields of action for the Salt business unit: / FIG: 1.3.3

At our European subsidiary ESCO, business and plant optimisation and organisational restructures will allow for more flexible responses to changing market conditions. As part of its growth strategy, ESCO is increasing production capacities for rock salt in German mines. Moreover, ESCO relies on growth in high-margin segments, such as pharmaceutical salts. These measures will ensure an increase in competitiveness in the long-term.

An ongoing priority for our US subsidiary MORTON SALT is the optimisation of the North American production and distribution network. The business unit continues to adhere to the achievement of its ambitious effectiveness and efficiency targets it has set itself in the context of the 'SCORE' initiative. A recent example is the reconfiguration of our solar salt activities. As part of this initiative, MORTON SALT will close the Newark plant in California in 2017 and increase capabilities at two other solar salt sites accordingly. This step



towards more efficient use of available resources will offer advantageous positioning to support growth targets. The optimisation of the North American distribution network focuses on consolidating the warehouse footprint and streamlining the transportation management system. In 2016, MORTON SALT launched its Masterbrand campaign 'Walk her Walk', with an emphasis on corporate social responsibility to strengthen brand position. MORTON SALT will continue to drive innovation and premium positioning of the brand across various product and market segments.

In Chile and Peru, retail food grade salt brands 'LOBOS' and 'BIOSAL' enjoyed continued success in 2016. Sales volumes increased consistently through 2016 with support from advertising campaigns. Further expansion

of this business, as well as optimisation of the logistics chain will continue to be the focus for the next few years in order to secure growth potential in this region.

In addition to growth in current markets, the Salt business unit will promote expansion into Asia by increasing salt sales for chemical industry applications. With this in mind, the business unit managed to reach an important milestone in terms of expansion into Asia with the acquisition of the solar salt project 'Ashburton Salt' in Western Australia. When the necessary permits have been granted and the feasibility study has been completed successfully, K+S is expected to make a final investment decision in 2019 at the earliest. The business unit Salt also plans to increase the

presence of the MORTON SALT brand in selected consumer segments within China. Local personnel should facilitate not only the achievement of the strategic goal of increasing sales volumes and strengthening customer loyalty in existing markets, but also the tapping of new segments.

Our 'Salt 2020' strategy, to which the initiatives previously mentioned belong, is thus gaining further momentum. In spite of the overall mild winter in 2016, we are well on the way to our target of increasing the operating earnings (EBIT I) of the Salt business unit based on a normal winter to over € 250 million by 2020; this would correspond to an EBITDA of around € 400 million. Particularly with sales of salts that are not weather-related, such as consumer products, industrial salt and salt for chemical use as well as salt for food processing, we have been able to report significant growth in margins since the launch of our initiative 'Salt 2020' and for the first time, generate more than half of operating earnings here.

#### EXPANSION OF A BALANCED REGIONAL PORTFOLIO

Worldwide, both potash and salt markets are characterised by seasonal and regional fluctuations in demand. K+S is aiming for a balanced regional portfolio, which should enable the offsetting of weather-related fluctuations and cushioning of cyclical market trends.

#### SETTING OF STANDARDS FOR QUALITY, RELIABILITY AND SERVICE

K+S's goal is to be the 'go-to' partner for its customers in the market. Consistent customer orientation and high product quality are essential requirements in this respect. Individual advice to customers makes it possible to identify and offer needs-based solutions.

#### INCREASING EFFICIENCY AND EXPLOITING SYNERGIES

With regard to the competitiveness of the Potash and Magnesium Products and Salt business units, costs are a key success factor. Our focus here is the consistent pursuit of cost-cutting and efficiency improvement initiatives throughout all process chains.

We see further potential regarding the realisation of synergies between the Potash and Magnesium Products and Salt business units in the exchange of technical, geological and logistics know-how as well as economies of scale in the procurement of machines and auxiliary materials. Moreover, we were able to record good progress in the financial year regarding a market presence across the business units in selected regions (cross-selling).

#### STRATEGIC FINANCING MEASURES

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

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

To achieve these objectives, we issued three bonds with a total volume of € 1.5 billion. We also placed 'Schuldscheine' (promissory notes) totalling € 700 million with different terms and fixed interest in the year under review. Moreover, we have a credit line of € 1 billion which runs until June 2020. This liquidity supply as well as future operating cash flows serve to finance general company purposes and the Legacy Project.

Liquidity is managed by the central treasury department. We strive for a constant liquidity reserve for the K+S GROUP of at least € 300 million. In the case of capital expenditure, we pursue the goal of optimising the income earned from liquid funds at a balanced risk/opportunity ratio.

#### SUSTAINABILITY STRATEGY

We know that sustainable corporate governance is a worthwhile pursuit. We systematically identify and assess relevant issues and social trends early on in order to incorporate them into our management processes and derive

measures. This helps us to advance our existing business, seize new business opportunities and minimise risk.

📄 [www.k-plus-s.com/sustainability](http://www.k-plus-s.com/sustainability)

#### **K+S SUSTAINABILITY PROGRAMME 2016 – 2018**

The 2016–2018 sustainability programme was decided as the outcome of the ‘Sustainability Roadmap’ at the beginning of 2016, in which the following Group-wide areas for action are defined:

##### **Elimination of discrimination/Diversity**

We provide an environment of equal opportunities and reject any kind of discrimination. The Human Resources strategy which is currently under development forms the basis for sub-strategies derived from it, including analysis of anti-discrimination activities and approaches to diversity. A global survey was conducted in 2016 in order to identify the status quo.

📄 ‘Human rights/ Elimination of discrimination/ Diversity’, page 37

##### **Health, Occupational safety**

Occupational safety is of key importance to us. This is why we aim to reach the target of ‘zero accidents’ in all of our business activities. We intend to expand and further develop our health and occupational safety management approaches globally.

📄 ‘Health/ Occupational Safety’, page 39

##### **Environment**

We strive to keep environmental impact as low as possible in order to produce in an environmentally sensitive

manner whilst maintaining a high level of economic efficiency. In the ‘foKus’ project, we are dealing with the global organisation framework of environmental activities and processes.

📄 ‘Environment’, page 41

##### **Human Rights**

We respect and support the observance of internationally recognised human rights. We act in accordance with the laws of the countries in which we operate. We reject any form of forced and child labour. In terms of human rights, various steps have been defined in order to start a human rights due diligence audit in a pilot country. The procedure is intended to identify actual and potential impact on human rights, consider resultant insights, take measures and ensure their implementation.

📄 ‘Human rights/ Elimination of discrimination/ Diversity’, page 37

##### **Sustainable supply chains**

Open and fair collaboration characterises the cooperation with our suppliers and service providers. In the area of ‘Sustainable supply chains’, a common understanding of the current status quo and future requirements from a sustainability perspective has been developed. Under the leadership of the procurement departments and in cooperation with the key companies, the further development of comprehensive supplier management along with risk assessment is set to become a focus of even greater attention.

📄 ‘Procurement’, page 27

#### **UPDATING THE MATERIALITY ANALYSIS IN 2016**

K+S AKTIENGESELLSCHAFT updated its 2014 materiality analysis in 2016. Relevant internationally recognised guidelines for corporate sustainability management were considered when selecting the topics, namely the principles of the United Nations GLOBAL COMPACT, the OECD guidelines for multinational enterprises, the guidance on social responsibility (DIN ISO 26.000: 2010) and the guidelines of the GLOBAL REPORTING INITIATIVE. The selection of issues to be assessed built on the results of the previous analysis and summarised individual issues. Questionnaires were produced for this purpose in which the legal requirements and impacts of corporate actions on each issue and, conversely, the importance of the issue to the success of the company were considered. Employees from specialist departments and from all key K+S companies were surveyed. At the same time, stakeholder requirements for the K+S GROUP were processed by reviewing several hundred individual documents at our disposal. Finally, the Governance Risk Compliance Committee and the Sustainability Committee analysed the results. The connection between the issues, which is reasonable for an integrated approach, became apparent in order to consider their links and impact on the business activities.

The summarised issues are positioned within the matrix according to their relevance for the K+S GROUP and its stakeholders. These include ‘sustainability management’, ‘Governance, Risk, Compliance’, ‘stakeholder dialogue’, ‘economic impact’, ‘sustainable supply chains’,

'human rights', 'employees' and 'HSE' (Health, Safety, Environment). / FIG: 1.3.4

**SELECTED STAKEHOLDER DIALOGUES**

An essential instrument for identifying relevant issues and social trends is the exchange with our stakeholders.

[www.k-plus-s.com/stakeholderdialog](http://www.k-plus-s.com/stakeholderdialog)

We treat our employees, business partners and other stakeholders with respect and fairness. Depending on the occasion, we share views and experiences in order to make our own positions and points of view clear, but also to understand the concerns of others, constantly reviewing our operations and, if necessary, developing alternative solutions. In this way we increase understanding in a complex environment, learn about new business trends and thereby shape the development of business. The following table provides an overview.

/ TAB: 1.3.1

**MATERIALITY ANALYSIS: INTERNAL AND EXTERNAL VIEWS**

FIG: 1.3.4



## OVERVIEW STAKEHOLDER DIALOGUE

TAB: 1.3.1

		<b>K+S MATERIALITY ISSUES</b> Economic impact; sustainability management; governance, risk, compliance; stakeholder dialogue; employees, health, safety; elimination of discrimination/diversity and environment; human rights; supply chains
<b>EMPLOYEES</b> Our success is based on the competence and performance of our employees. The exchange with our employees plays an important role. There are meetings of the workforce at many locations and we use the internet to share current information.	Main issues	Decision of personal policy, compensation, communication, work and family etc.
	Methods	Meetings with selected stakeholders, joint projects, workshop/conferences
	Frequency	Frequently – continuously
<b>CUSTOMERS AND BUSINESS PARTNER</b> The dialogue with our customers helps us to better identify their needs, allowing us to target products and services. Along with face-to-face meetings we use satisfaction survey to identify starting points for continued improvement. We offer a wide range of information on the internet.	Main issues	Quality management, production conditions, compliance with regulations and standards
	Methods	Surveys meetings with selected stakeholders
	Frequency	Occasional – frequently
<b>SHAREHOLDERS/INVESTORS/ANALYSTS</b> We receive suggestions from capital market participants at numerous roadshows and conferences.	Main issues	Company valuation, strategic orientation, transparency, targets, results, risks/chances, competition, license terms, environmental issues, finance
	Methods	Meetings with selected stakeholders, workshops
	Frequency	Occasional
<b>POLICY MAKERS AND ADMINISTRATION</b> We are in dialogue with representatives from governments, representatives of administrations and parliamentarians at both a national and international level. Directly or in various associations and organisations we discuss our position in political debates.	Main issues	Approval processes, framework conditions, infrastructure questions, economic effects, lobbying, transparency, jobs
	Methods	Meetings with selected stakeholders, workshops
	Frequency	Continuously
<b>LOCAL COMMUNITIES AT SITES</b> It is important to us to be good neighbours in the communities and regions where we are located. For this reason we foster a dialogue with the respective local governments and residents.	Main issues	Environmental protection, jobs, involvement in respective regions, lobbying, transparency, production conditions, environment issues, occupational safety
	Methods	Meetings with selected stakeholders, workshops
	Frequency	Occasional

#### COOPERATION IN GLOBAL SUSTAINABILITY INITIATIVES

The role of companies as key partners to achieve the seventeen goals of sustainable development (SDGs) is emphasised in the document adopted by the UN in September 2015 entitled 'Transforming Our World: The 2030 Agenda for Sustainable Development'. For the purpose of analysing potentially reasonable linkages, the K+S GROUP compares current company activities with the SDGs as part of sustainability management.

We want to promote dialogue between various stakeholders, stay up to date and be involved in shaping the international sustainability debate through our involvement in global sustainability initiatives.

□ [www.k-plus-s.com/stakeholderdialog](http://www.k-plus-s.com/stakeholderdialog)

#### EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

In order to make the contribution of Germany's raw material sector transparent and help it achieve greater prominence, we are involved in the German EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE – EITI. Together with other industry representatives, non-profit organisations and policymakers we discuss and shape the implementation of this international standard in Germany.

□ [www.d-eiti.de/en](http://www.d-eiti.de/en)

#### GLOBAL COMPACT OF THE UNITED NATIONS

K+S admits its responsibility to the ten principles of GLOBAL COMPACT in the areas of human rights, labour, environment and anti-corruption. These are reflected in our CORE VALUES AND PRINCIPLES (CODE OF CONDUCT) which are binding on all employees.

□ [www.unglobalcompact.org](http://www.unglobalcompact.org)

#### SUSTAINABILITY RATINGS AND RANKINGS

Our activities and measures on sustainability issues have been rated independently in various sustainability rankings. In 2016, we achieved a total score of 63 with SUSTAINALYTICS (2015: 59). At MSCI, we were rated G according to a new valuation basis (2015: A).

#### 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 sponsoring are governed by an internal guideline. K+S does not make any contributions to political parties, including closely connected organisations or persons. A total of about € 958,000 in donations was made to benefit scientific and charitable causes in 2016. In addition to donations, we also contribute material goods and support our employees to get involved in charity work.

□ [www.k-plus-s.com/sponsoring](http://www.k-plus-s.com/sponsoring)

## 1.4 ECONOMIC REPORT

### OVERVIEW OF THE COURSE OF BUSINESS

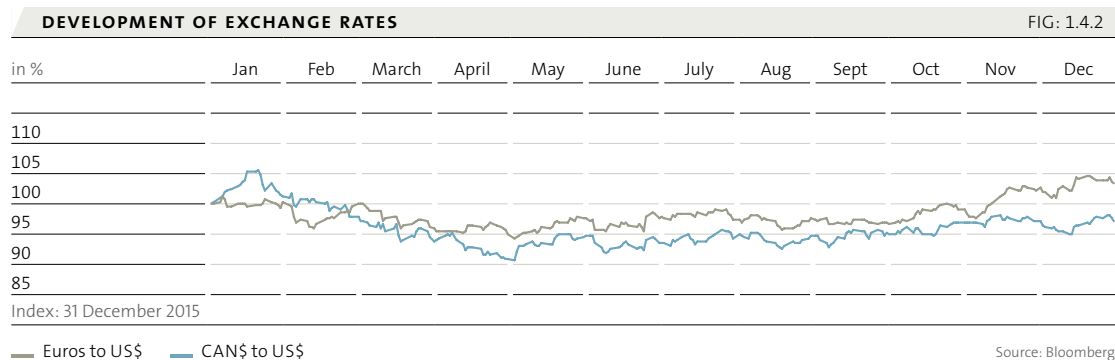
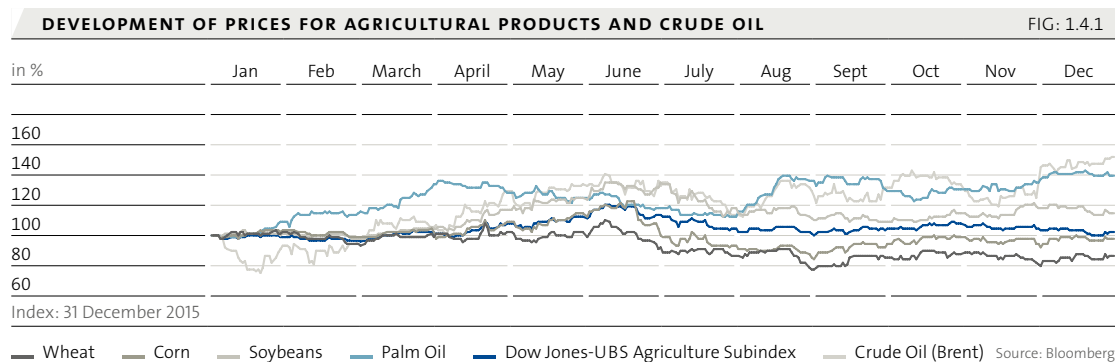
#### MACROECONOMIC ENVIRONMENT

The following discussion on the macroeconomic situation is based on forecasts by the KIEL INSTITUTE FOR THE WORLD ECONOMY and the INTERNATIONAL MONETARY FUND (IMF).

Global gross domestic product rose by 3.1% in 2016. In the industrialised nations and especially the USA, the development of expansion rates was rather cautious at the beginning of the year and became more dynamic in the second half of the year. While the economic performance of some emerging countries in Latin America was affected by the ongoing recession, the moderate economic expansion continued in the European Union over the course of the year.

Prices of major soft commodities with just a few exceptions stabilised at a low level over the course of the year. The DOW JONES-UBS AGRICULTURE SUBINDEX, which tracks trends in the prices of corn, soybeans, sugar, wheat, soy oil, cotton and coffee, grew by around 2% during the year. / FIG: 1.4.1

The price of oil recovered significantly in the course of the year under review since its downturn in 2015.



At the end of December, the price of Brent Crude was around USD 57 per barrel (31 December 2015: USD 37). The decision by OPEC (ORGANISATION OF PETROLEUM EXPORTING COUNTRIES) to reduce output drove the

price of oil up, especially towards the end of the year. Nevertheless, the average price for the year of around USD 45 was lower than in the previous year (2015: USD 54).

The NCG Natural Gas Year Future, which focuses primarily on western and southern Germany, also experienced an increase from around € 15/MWh to € 18/MWh during the year under review. However, the average figure fell to around € 16/MWh compared to the previous year (2015: € 20/MWh).

Developments in the currency markets in 2016 were characterised by a further weakening of the euro against the US dollar. After it first dropped to EUR/USD 1.15 in relation to the euro, it has moved towards parity initially after the presidential election in the USA. Averaged for the year, however, the value of the US dollar stood at EUR/USD 1.11 and therefore at the previous year's level (2015: EUR/USD 1.11). / FIG: 1.4.2

#### 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 particularly affected by the cost of purchasing gas. The comparatively low cost of purchasing gas in Europe, despite the latest price increases, had an ongoing favourable effect on our cost position in the year under review.
- + Foreign currency hedging system: The use of hedging instruments for the Potash and Magnesium Products business unit resulted in an unchanged average exchange rate compared to the previous year of EUR/USD 1.20 in 2016, including hedging costs. We also



hedged the euro exchange rate for the Legacy Project capital expenditure payable in Canadian dollars. The average hedging rate in the year under review was EUR/CAD 1.49 (2015: EUR/CAD 1.47).

- + In spite of some significant price increases in major soft commodities, they continued to trade at a comparatively low level at the end of the year under review. At the same time, agricultural expenses, for example for fertilizers, followed this development. The resulting earnings prospects should still give farmers sufficient incentive to increase yield per hectare by making use of plant nutrients.

#### **INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS** **POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT**

In the first half of the year, the industry situation in the Potash and Magnesium Products business unit was characterised by increasing price pressure overseas on the standard product potassium chloride (MOP). Demand for potassium chloride was cautious and remained below the strong period in the previous year mainly due to high customer inventory levels, continued low agricultural prices, the outstanding contracts with Chinese and Indian buyers and the late start to the fertilizer season in some areas. This prompted various potash producers to reduce existing capacities significantly in part.

In the middle of the year, major potash suppliers agreed with Chinese and Indian customers on a price for potassium chloride of USD 219 and 227 per tonne, respectively, including shipping. Sales volumes subsequently recovered significantly in the second half of the year, in some cases even leading to low product availability towards the end of the year. Initial slight price recoveries were recognisable in almost all regions. Nevertheless, on average over the year, the price level remained significantly lower than in the previous year.

The fertilizer specialties segment was no longer able to escape the general falling price trend for potash containing plant nutrients. This was because customers exhibited tangible purchasing restraint due to high inventory levels and in expectation of falling prices. Nevertheless, the price decline in this segment was not as sharp in percentage terms as farmers cultivating chloride-sensitive crops, such as vegetables or wine, tend to be less sensitive to the actual cost of fertilizer application on account of the attractive earnings that can be generated with these crops.

#### **SALT BUSINESS UNIT**

In North America and Europe, the mild winter led to a decrease in demand, high inventory levels and strong competition in de-icing bids. Consequently, contract prices showed a moderate decline for the 2016/17 winter season. A larger number of snow days in the fourth quarter of 2016 compared to the unusually mild period

in the previous year led to a partial reduction of inventory levels at the end of the year. Stronger demand was seen especially in Canada.

The consumer products business continued to show positive trends, especially in the premium segment. Continued growth in demand for sea salt and kosher salt was recorded in North America. Volumes and prices remained virtually stable in Europe.

General conditions for sales of industrial and food processing salts remained nearly unchanged in the course of 2016 compared to the previous year. Demand and price levels stayed more or less the same in Europe and South America. Slightly higher global demand for pharmaceutical salts was seen due primarily to an ageing population.

High customer inventories in Europe and North America led to greater competition in the salt for chemical use segment at the beginning of the year. However, the impact on the price level in Europe was small due to reduced product availability, especially in the second half of the year. Demand remained muted in South America due to sustained economic weakness.

#### **KEY EVENTS AFFECTING THE COURSE OF BUSINESS**

- + High inventories held by our customers and mild weather led to a significant decrease in sales volumes

for the de-icing salt business in North America and Europe.

- + Considerable production limitations at the Werra plant were due to the restricted injection volume for saline wastewater in 2016 and the low water flow in the Werra river.
- + The contracts signed with Chinese and Indian customers in the summer of 2016 led to a significant recovery of sales volumes of potassium chloride in the second half of the year.

#### COMPARISON OF ACTUAL AND PROJECTED COURSE OF BUSINESS

##### REVENUES FORECAST

The revenues forecast as part of the 2015 Annual Report assumed a moderate decrease in revenues for 2016 compared with the preceding period. However, the revenues of € 3.46 billion generated by the K+S GROUP in 2016 remained significantly below the revenues in the previous year (2015: € 4.18 billion). This was due to a sharper than expected decrease in the average price level for potash as well as a higher number of lost days at the Werra plant resulting from the limited deep-well injection permit for saline wastewater, but also decreased sales volumes in the de-icing salt business caused by low demand because of mild weather.

##### EARNINGS FORECAST

At € 519.1 million and € 229.3 million respectively, operating earnings EBITDA and EBIT I in the 2016 financial year showed the decline as projected compared to the previ-

ous year. Furthermore, we assumed a significant decrease in the Potash and Magnesium Products business unit in March 2016. At € 184.8 million and € 33.6 million respectively, both figures met this qualitative forecast but still remained significantly below our expectations. In the Salt business unit, an EBITDA of € 322.3 million and an EBIT I of € 203.7 million were generated in accordance to the forecasted significant decline formulated in the 2015 Annual Report. The same applies to Adjusted Group earnings after taxes which amounted to € 130.5 million and the ROCE at 3.0% (2015: 12.5%). As anticipated, ROCE of 0.7% was significantly lower in the Potash and Magnesium Products business unit (2015: 14.4%); another significant decline from 11.4% to 8.1% was recorded in the Salt business unit as well. The mild winter in Europe and North America in 2016 led to a deviation from the expected tangible decrease.

##### CASH FLOW FORECAST

The forecast in the 2015 Annual Report of a significantly negative free cash flow (adjusted) for the financial year 2016 was confirmed. It amounted to € -776.8 million in the period under review (2015: € -635.9 million).

##### CAPITAL EXPENDITURE FORECAST

In the 2015 Annual Report, we estimated capital expenditure volume for the 2016 financial year moderately below the previous year at € 1.3 billion. The actual figure amounted to € 1,170.8 million and thus was in line with our forecast. With € 1,009.8 million in the Potash and Magnesium Products business unit and € 148.8 million

in the Salt business unit, capital expenditure in the year under review met our projections (tangible decline and significant increase, respectively) forecasted in March 2016.

#### EARNINGS POSITION

##### SIGNIFICANT DECREASE IN REVENUES COMPARED WITH THE PREVIOUS YEAR

In the 2016 financial year, revenues declined significantly to € 3,456.6 million compared with € 4,175.5 million in the previous year. The decrease in the Potash and Magnesium Products business unit is mainly due to a lower average price level and the production limitations at the integrated Werra plant. In the Salt business unit, mild weather in 2016 was the primary cause of a negative volume 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

VARIANCE COMPARED WITH PREVIOUS YEAR	TAB: 1.4.1
	2016
in %	
<b>Change in revenues</b>	<b>-17.2</b>
– volume/structure-related	–9.5
– price/pricing-related	–7.6
– currency-related	–0.1
– consolidation-related	–

Products business unit usually benefits 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: 1.4.1, 1.4.2

🕒 'Presentation of segments', page 93

🕒 'Segment reporting', page 136

Within the K+S GROUP, the Salt business unit achieved the highest revenues in this financial year, accounting for around 51 % of total revenues, and was followed by the Potash and Magnesium Products business unit and Complementary Activities. / FIG: 1.4.3

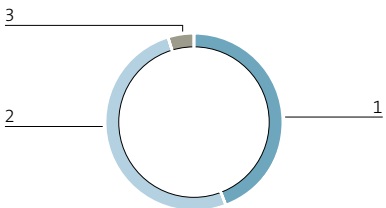
In terms of regional distribution, low potash prices and a lack of volume due to production limitations at the integrated Werra plant led to a lower percentage of revenues in South America, which is one of the crucial overseas regions for the Potash and Magnesium Products business unit. Accordingly, the share of the main sales regions for the Salt business unit (North America and Europe) increased. We therefore continued to generate the largest share of revenues in Europe, now accounting for around 43 % of revenues. North America achieved approximately 38 % and Asia represented 6 % of total revenues. / FIG: 1.4.4

#### DEVELOPMENT OF ORDERS

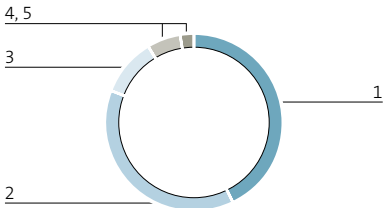
Most of our business is not covered by longer-term agreements on fixed volumes and prices.

REVENUES BY UNIT							TAB: 1.4.2
	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Potash and Magnesium Products business unit	2,091.3	460.5	370.9	301.7	398.5	1,531.6	-26.8
Salt business unit	1,925.2	594.6	319.2	346.4	502.0	1,762.2	-8.5
Complementary Activities	157.7	40.0	41.8	39.0	40.3	161.1	+2.2
Reconciliation	1.3	0.4	0.2	0.5	0.6	1.7	+30.8
<b>K+S Group</b>	<b>4,175.5</b>	<b>1,095.5</b>	<b>732.1</b>	<b>687.6</b>	<b>941.4</b>	<b>3,456.6</b>	<b>-17.2</b>
Share of total revenues (%)	—	31.7	21.2	19.9	27.2	100.0	—

REVENUES BY UNIT		FIG: 1.4.3	
	2015	2016	
in %			
1 Potash and Magnesium Products business unit	50.1	44.3	
2 Salt business unit	46.1	51.0	
3 Complementary Activities	3.8	4.7	



REVENUES BY REGION		FIG: 1.4.4	
	2015	2016	
in %			
1 Europe	39.8	42.9	
— of which Germany	14.2	15.6	
2 North America	36.1	38.1	
3 South America	12.8	10.4	
4 Asia	8.8	6.1	
5 Africa, Oceania	2.5	2.5	



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. Where contractually agreed volumes are subject to fluctuations permitted by law depending on weather conditions, these 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 SELECTED COST TYPES

The cost of materials, personnel expenses as well as freight costs and energy costs are of superior importance for us. At € 1,247.8 million, the cost of materials decreased tangibly due mainly to volume and price effects (2015: € 1,468.7 million). In 2016, personnel expenses amounted to € 1,011.0 million and were there-

EBITDA BY UNIT <sup>1</sup>							TAB: 1.4.3	
	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%	
in € million								
Potash and Magnesium Products business unit	689.2	137.1	50.4	5.2	-7.8	184.8	-73.2	
Salt business unit	381.0	150.0	32.8	46.9	92.6	322.3	-15.4	
Complementary Activities	35.0	7.5	8.4	5.4	9.4	30.8	-12.0	
Reconciliation <sup>2</sup>	-47.7	-9.3	-8.2	-1.6	0.3	-18.8	+60.6	
<b>K+S Group</b>	<b>1,057.5</b>	<b>285.3</b>	<b>83.4</b>	<b>55.9</b>	<b>94.4</b>	<b>519.1</b>	<b>-50.9</b>	
Share of total EBITDA (%)	—	55.0	16.1	10.8	18.2	100.0	—	

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

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

fore moderately below the level in the previous year (2015: € 1,080.0 million). This is due mainly to significantly lower performance-based remuneration. Freight costs benefited from the lower prices for crude oil on the one hand but, on the other hand, were significantly below the figure in the previous year at € 637.5 million mainly due to volume (2015: € 808.9 million). Energy expenses were € 212.4 million compared to € 246.8 million, with the decrease being mainly due to pricing and volume effects.

🔗 'Notes', page 136

#### EARNINGS DEVELOPMENT IN THE PAST FINANCIAL YEAR

##### 'FIT FOR THE FUTURE' SUCCESSFULLY COMPLETED

We successfully concluded the 'FIT FOR THE FUTURE' programme at the end of 2016. The aim was to make the

cost and organisation structure of the Group even more efficient, striving for total cost savings of € 500 million between 2014 and 2016 compared with previous budgets for this period. In addition to actual savings, this figure also includes expenses that were originally planned, but have been avoided. At around € 600 million, we significantly outperformed our expectations.

Cost savings and efficiency improvements focused in particular on the areas of production, materials management, logistics and IT. For example, we have introduced an IT-supported system for central production management, commissioned new hydrostatic machines with lower operating costs for underground use, realised savings on packaging materials, optimised the logistics network in Europe and North America and reorganised our Chilean shipping company, EMPREMAR MARITIMA, S.A.

## EBIT I BY UNIT

TAB: 1.4.4

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Potash and Magnesium Products business unit	546.1	102.3	14.7	-48.9	-34.6	33.6	-93.8
Salt business unit	266.3	122.5	4.9	18.4	57.9	203.7	-23.5
Complementary Activities	26.4	5.3	6.2	3.2	7.1	21.9	-17.0
Reconciliation <sup>1</sup>	-57.2	-11.7	-10.8	-4.1	-3.0	-29.8	+47.9
<b>K+S Group</b>	<b>781.6</b>	<b>218.4</b>	<b>15.0</b>	<b>-31.4</b>	<b>27.5</b>	<b>229.3</b>	<b>-70.7</b>
Share of total EBIT I (%)	—	95.2	6.5	-13.7	12.0	100.0	—

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

## 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 (€ 38.6 million), amounted to € 519.1 million in the year under review and were down significantly on the high value in the previous year (2015: € 1,057.5 million).

/ TAB: 1.4.3

Operating earnings EBIT I amounted to € 229.3 million in the year under review for the reasons already mentioned, compared with € 781.6 million in the previous year; this represents a decline of around 70%. Savings from the 'FIT FOR THE FUTURE' programme and our strong non de-icing salt business counteracted this development. / TAB: 1.4.4

EBIT I includes depreciation and amortisation (adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised) of € 289.8 million. These increased by around 5% compared with the previous year (2015: € 275.9 million), mainly due to additional capital expenditure in water protection.

## RESULT AFTER OPERATING HEDGES (EBIT II)

An operating profit EBIT II of € 291.0 million after operating hedges was generated in 2016 (2015: € 715.6 million). The difference between EBIT I and EBIT II is the result of effects on earnings arising from operating forecast hedging transactions of € +61.7 million (2015: € -66.0 million). This positive effect was largely the result of eliminating maturing transactions with negative market values from the accounts and the positive change in

the market values of outstanding hedging transactions due to favourable average hedging rates.

🔗 'Consolidated financial statements', page 131;

🔗 'Glossary', page 196

In accordance with IFRS, fluctuations in market value from hedging transactions are reported in the income statement. EBIT II includes all results from hedging transactions, that is both reporting date-related valuation effects and results from any hedging derivatives realised. Any effects on earnings arising from the hedging of underlying transactions relating to financing that are not reflected in EBIT are reported in the financial result.

## FINANCIAL RESULT

In 2016, the financial result was € -51.9 million compared with € -33.7 million in the previous year. The higher capitalisation of interest on debt this year (€ +27.2 million) could not compensate the negative effect of the valuation of mining provisions (2016: € -36.4 million; 2015: € -10.5 million), the decrease in other financial results (€ -12.5 million) and higher interest expenses due to the issuing of 'Schuldscheindarlehen' (promissory notes) (€ -4.5 million). The financial result also includes interest expenses for pension provisions (2016: € -6.0 million; 2015: € -5.6 million).

## GROUP EARNINGS AND EARNINGS PER SHARE

In the year under review, Group earnings after taxes amounted to € 174.1 million (2015: € 495.2 million). Tax

**COMPUTATION OF THE ADJUSTED GROUP EARNINGS**

TAB: 1.4.5

	2015	2016
in € million		
Group earnings	495.2	174.1
Income (-)/expenses (+) from market value changes of operating forecast hedges still outstanding	85.5	-4.4
Neutralising of market fluctuations of realised operating forecast hedges recognised in previous periods	-22.0	-43.6
Elimination of resulting deferred and cash taxes	-18.9	18.1
Realised income (-)/expenses (+) arising from hedging of anticipated capital expenditure in Canada	2.5	-13.7
<b>Group earnings, adjusted</b>	<b>542.3</b>	<b>130.5</b>

**EARNINGS PER SHARE**

TAB: 1.4.6

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
Earnings per share (€)	2.59	1.05	—	-0.15	0.01	0.91	-64.8
Earnings per share, adjusted (€) <sup>1</sup>	2.83	0.77	—	-0.14	0.05	0.68	-75.9
Average number of shares (millions)	191.40	191.40	191.40	191.40	191.40	191.40	—

<sup>1</sup> The adjusted key figures 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 future capital expenditure in Canadian dollars (Legacy Project). Related effects on deferred and cash taxes are also adjusted; tax rate for 2016: 29.3% (2015: 28.7%).

expenses were € 64.7 million (2015: € 186.5 million) and consisted of cash taxes of € 79.5 million (2015: € 205.2 million) and non-cash deferred taxes of € -14.8 million (2015: € -18.7 million). The decrease in cash taxes was due to the lower domestic operating earnings. The anticipated income tax expense was calculated based on a

domestic Group income tax rate of 29.3% (2015: 28.7%); the increase over the previous year is mainly due to higher trade tax assessment rates.

In the year under review, earnings per share reached € 0.91 and were therefore around 65% below the pre-

vious year's figure of € 2.59. As in the previous year, an average number of 191.4 million outstanding no-par value shares was used as the basis for calculation.

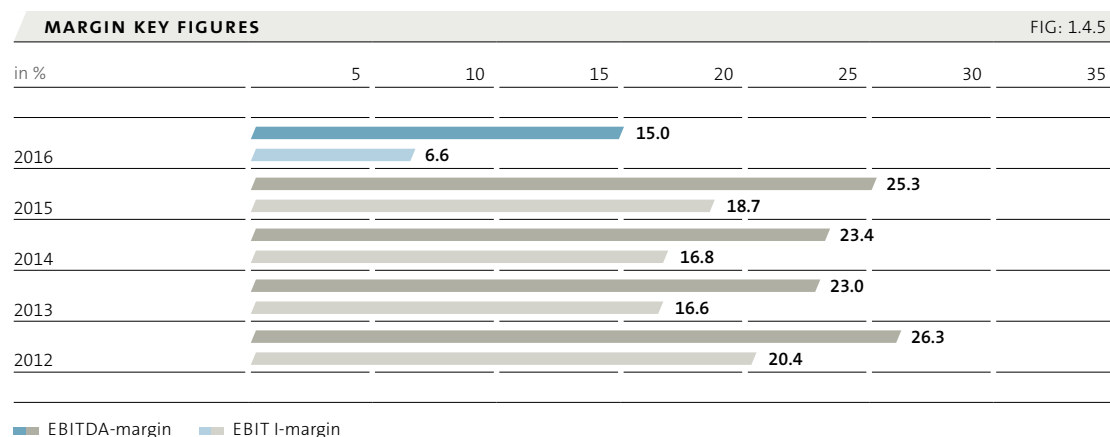
**ADJUSTED GROUP EARNINGS AND ADJUSTED EARNINGS PER SHARE**

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. The adjusted Group earnings serve as a basis for calculating dividends in accordance with our distribution policy and are determined as follows: / TAB: 1.4.5

Adjusted Group earnings after taxes amounted to € 130.5 million (2015: € 542.3 million). Considering an adjusted pre-tax result of € 177.4 million, the adjusted Group tax rate was 26.5% in the year under review compared with 27.5% in the previous year. Adjusted earnings per share reached € 0.68 (2015: € 2.83). 191.4 million no-par value shares were used as the basis for this calculation as well.

As of 31 December 2016, we held no shares of our own. At the end of the year, the total number of shares outstanding was therefore 191.4 million no-par value shares.

/ TAB: 1.4.6



## KEY FIGURES ON EARNINGS POSITION

### MARGIN KEY FIGURES

The margin key figures also deteriorated noticeably in the year under review: Earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 519.1 million in 2016 resulted in an EBITDA margin of around 15% compared to about 25% in the previous year; the EBIT I margin only reached about 7% (2015: 19%). The return on revenues was around 4% (2015: 13%). / FIG: 1.4.5

© 'Definitions of key financial indicators', page 193

### 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 are 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 2016, this was 1.0% (2015: 1.5%). The risk premium has been

calculated using a market risk premium of 6.3% (2015: 6.0%) as well as the applicable beta factor of 0.97 derived from the peer group (2015: 0.91) in relation to the MSCI WORLD benchmark index. This means that an equity provider would be entitled to notional returns of 7.1% (2015: 6.9%).

The average interest on debt before taxes was 3.4% (2015: 3.0%) and is based on the peer group company rating and a corresponding spread applicable to the risk-free interest rate. After taking the adjusted Group tax rate of 26.5% into account, this results in an average cost of debt after taxes of 2.5% (2015: 2.2%). The debt-equity ratio calculated according to the peer group method is 31.5% (2015: 22.1%).

In total, this results in a weighted average cost of capital for the K+S GROUP of 6.0% (2015: 6.0%) after taxes. Based on an average figure for capital tied up of € 7,702.6 million (of which operationally tied up: € 7,533.6 million) for 2016, this gives a cost of capital of € 462.2 million (2015: € 409.0 million). This corresponds to a cost of capital before taxes of 8.2% (2015: 8.3%).

### PROFITABILITY RATIOS

The profitability ratios decreased as well, primarily due to the negative price and volume effects in the Potash and Magnesium Products business unit. In the year under review, the return on equity after taxes was 2.9% (2015: 13.1%) with the return on total investment

**COMPUTATION OF ROCE** TAB: 1.4.7

	2015	2016
in € million		
<b>EBIT I</b>	<b>781.6</b>	<b>229.3</b>
Intangible assets <sup>1</sup>	831.9	843.3
Property, plant and equipment	5,054.8	6,456.0
Investments in affiliated companies and other equity interests	13.6	27.0
<b>Operating fixed assets</b>	<b>5,900.3</b>	<b>7,326.3</b>
Inventories	705.3	710.4
Accounts receivable – trade	708.6	656.5
Other assets	377.2	357.5
Accounts payable – trade	– 306.0	– 343.8
Other liabilities	– 166.8	– 193.7
Current provisions	– 405.6	– 322.5
Working capital adjustments <sup>2</sup>	33.4	30.3
Working capital	945.9	894.6
Capital employed	6,846.2	8,220.9
<b>ROCE = Operating earnings (EBIT I) / Capital employed (average for the year)</b>	<b>12.5%</b>	<b>3.0%</b>
– Potash and Magnesium Products business unit	14.4%	0.7%
– Salt business unit	11.4%	8.1%
– Complementary Activities	27.6%	28.2%

<sup>1</sup> Adjusted by the deferred tax included in goodwill from initial consolidation.

<sup>2</sup> 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.

**MULTIPLE PERIOD OVERVIEW OF MARGIN AND PROFITABILITY RATIOS<sup>1</sup>** TAB: 1.4.8

	2012	2013	2014	2015	2016
Figures in %					
Gross margin	45.1	43.2	42.1	45.9	38.9
EBITDA-margin	26.3	23.0	23.4	25.3	15.0
EBIT I-margin	20.4	16.6	16.8	18.7	6.6
Return on revenues <sup>2</sup>	13.7	11.1	9.6	13.0	3.8
Return on equity after taxes <sup>2,3</sup>	19.6	12.8	9.9	13.1	2.9
Return on total investment <sup>2,3</sup>	16.1	10.9	9.0	10.4	2.7
Return on Capital Employed (ROCE)	19.9	15.2	12.7	12.5	3.0
Weighted average cost of capital before taxes	8.7	8.2	8.4	8.3	8.2
Value added (€ million)	452.4	302.3	216.4	262.8	– 391.7

<sup>1</sup> Information refers to the continued operations of the K+S Group.

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedging transactions in the respective reporting period as reported in EBIT I, which eliminates effects from fluctuations in the market value of the hedges as well as effects from the exchange rate hedging of future capital expenditure in Canadian dollars (Legacy Project). Related effects on deferred and cash taxes are also eliminated; tax rate for 2016: 29.3% (2015: 28.7%).

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

amounting to 2.7% (2015: 10.4%). The return on capital employed (ROCE) of the K+S GROUP declined to 3.0% in the year under review compared with 12.5% in the previous year. This was due to the significant decrease in EBIT I and a higher working capital commitment, mainly because of Legacy. The ROCE was therefore below our cost of capital of 8.2% before taxes. As a result, the K+S GROUP was forced to record a negative value added of € – 391.7 million for the past financial year. The Potash and Magnesium Products business unit followed this development for the reasons already mentioned; the ROCE was 0.7%. The Salt business unit achieved a value of 8.1%. / TAB: 1.4.7, 1.4.8

🕒 'Definitions of key financial indicators', page 193

**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 as well as



+ reducing financial risks also by using 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 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: 1.4.9**

© 'K+S on the capital market', page 16

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 US dollars minus freight and capital expenditure for the

KEY FIGURES AND MANAGEMENT OF THE CAPITAL STRUCTURE						TAB: 1.4.9
	Target range	2012	2013	2014	2015	2016
Net debt/EBITDA	1.0 to 1.5	0.8	1.2	1.8	2.3	6.9
Net debt/equity (%)	max. 100	24.4	30.5	40.9	55.9	78.7
Equity ratio (%)	40 to 50	51.4	45.3	50.6	51.9	47.2

FOREIGN CURRENCY HEDGING – POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT						TAB: 1.4.10
	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016
EUR/USD exchange rate after premiums	1.20	1.20	1.21	1.20	1.15	1.20
Average EUR/USD spot rate	1.11	1.10	1.13	1.12	1.08	1.11

Legacy Project in US dollars) 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 prevailing 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 the 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 2016, the price of the US dollar realised in the Potash and Magnesium Products business unit was EUR/USD 1.20 including costs and therefore at the level of the previous year (2015: EUR/USD 1.20). / **TAB: 1.4.10**

Payments will be made mainly in Canadian dollars (CAD) and partly in US dollars for the construction of Legacy during the primary investment phase until the second quarter of 2017. The capital expenditure in Canadian dollars is aided in part by a natural hedge arising from surpluses in the salt business in Canada. Futures and options, which lock in a worst-case scenario, are largely used to hedge the remaining CAD net position. The average hedging rate in 2016 was EUR/CAD 1.49 (2015: EUR/CAD 1.47). Capital expenditure in US dollars is included in the USD net position of the Potash and Magnesium Products business unit; during the investment phase, this leads to a reduction in the total US dollar volume requiring hedging. In the subsequent operating phase, the net position will increase due to the anticipated additional USD revenues.

[www.k-plus-s.com/legacy](http://www.k-plus-s.com/legacy)

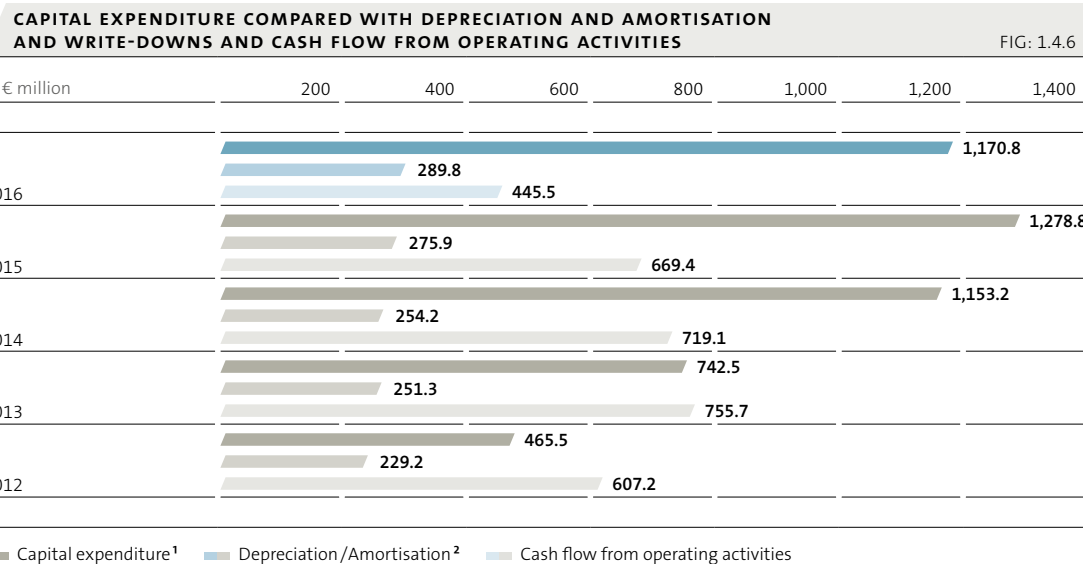
### CAPITAL EXPENDITURE ANALYSIS

The K+S GROUP invested a total of € 1,170.8 million in 2016 (2015: € 1,278.8 million). As expected, the decrease was mainly due to the lower capital expenditure for our Legacy Project in Canada compared to the previous year, which continues to represent the majority of total capital expenditure. Moreover, due to the damage and the resulting process delay, capital expenditure has been postponed to 2017. / TAB: 1.4.11

At the end of the year, there were capital expenditure obligations totalling € 287.1 million which relate to

CAPITAL EXPENDITURE BY UNIT <sup>1</sup>							TAB: 1.4.11	
	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%	
in € million								
Potash and Magnesium Products business unit	1,145.0	266.8	334.6	224.4	184.1	1,009.8	-11.8	
Salt business unit	118.1	12.2	26.1	33.9	76.5	148.8	+26.0	
Complementary Activities	6.5	0.5	1.2	1.5	2.6	5.8	-11.1	
Other capital expenditure	9.2	0.3	0.9	1.4	3.8	6.4	-30.5	
<b>K+S Group</b>	<b>1,278.8</b>	<b>279.8</b>	<b>362.8</b>	<b>261.2</b>	<b>267.0</b>	<b>1,170.8</b>	<b>-8.4</b>	
Share of capital expenditure (%)	—	23.9	31.0	22.3	22.8	100.0	—	

<sup>1</sup> Relates to cash investments in tangible and intangible assets taking account of reimbursement claims from additional claims management.



<sup>1</sup> Relates to cash investments in tangible and intangible assets taking account of reimbursement claims from additional claims management.

<sup>2</sup> Depreciation, amortisation and write-downs affecting net income on property, plant and equipment, intangible assets and investment properties, as well as depreciation and amortisation of financial assets.

investment projects from 2016 and earlier that have not been completed yet. / FIG: 1.4.6

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

We invested € 1,009.8 million in the Potash and Magnesium Products business unit and therefore € 135.2 million less than in the previous year (2015: € 1,145.0 million). Most of the capital expenditure applied to the Legacy Project in Canada. With the exception of the areas affected by the damage, construction work is mostly complete. Six pads have been built, connected to the factory and are available for production. The tracks for the rail link are completed, and the first rail cars have been produced and delivered. Construction work in the warehouse and loading facilities at the Vancouver site is virtually complete as well. We also made considerable investments in measures for water protection in the Hesse-Thuringia potash district, especially in the construction of the KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF).

🕒 'Presentation of segments', page 93; 🌿 'Environment', page 41

#### SALT BUSINESS UNIT

Capital expenditure in the Salt business unit increased to € 148.8 million in 2016 (2015: € 118.1 million). The measures to secure production at the Borth and Frisia sites, the expansion of the plant at Port Canaveral in Florida, USA, with respect to the production facilities and storage areas as well as measures to eliminate the

#### CASH FLOW OVERVIEW

TAB: 1.4.12

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Cash flow from operating activities	669.4	293.8	65.4	31.1	55.1	445.4	-33.5
Cash flow from investment activities	-775.8	-219.8	-300.1	-315.0	-366.5	-1,201.4	-54.9
<b>Free cash flow</b>	<b>-106.4</b>	<b>74.0</b>	<b>-234.7</b>	<b>-283.9</b>	<b>-311.4</b>	<b>-756.0</b>	—
Adjustment for acquisitions and disposals of securities and other financial investments	-529.5	-23.6	6.8	5.1	-9.1	-20.8	+96.1
<b>Adjusted free cash flow</b>	<b>-635.9</b>	<b>50.4</b>	<b>-227.9</b>	<b>-278.8</b>	<b>-320.5</b>	<b>-776.8</b>	<b>-22.2</b>

storm damage at the site in Inagua, Bahamas, were among the most significant projects in the year under review.

#### COMPLEMENTARY ACTIVITIES

The capital expenditure on Complementary Activities decreased to € 5.8 million (2015: € 6.5 million). In the Waste Management and Recycling segment, progress was made on the development of a further underground storage field at the Bernburg site in Germany.

#### LIQUIDITY ANALYSIS

The gross cash flow in the 2016 financial year amounted to € 368.5 million, compared with € 835.3 million in the previous year. Cash flow from operating activities in the year under review was € 445.4 million (2015: € 669.4 million). The decrease was mainly due to lower operat-

ing earnings EBIT I. This was counteracted by declining working capital commitments.

/ TAB: 1.4.12

Cash flow from investment activities (excluding acquisitions/disposals of securities and other financial investments) amounted to € -1,222.2 million in 2016 (2015: € -1,305.3 million) and essentially reflects capital expenditure in the Legacy Project. Adjusted free cash flow (excluding acquisitions/disposals of securities and other financial investments) amounted to € -776.8 million (2015: € -635.9 million).

Cash flow from financing activities increased to € 769.1 million in the year under review (2015: € -151.5 million) due to the issue of 'Schuldscheindarlehen' (promissory notes) in the summer of 2016 with a total volume of € 700 million.

As of 31 December 2016, net cash and cash equivalents amounted to € 134.7 million (31 December 2015: € 118.5 million). These consist of term deposit investments, money market instruments and comparable securities with a residual term of less than three months.

/ TAB: 1.4.13

#### FINANCING ANALYSIS

The financing structure of the K+S GROUP continued to be stable in the year under review. As of 31 December 2016, 88 % of financing resulted from equity and long-term debt, which in turn preferentially consists of bond payables and provisions (31 December 2015: 89 %).

/ FIG: 1.4.7

#### EQUITY RATIO BELOW PREVIOUS YEAR

Equity grew to € 4,552.2 million in the year under review compared to € 4,295.6 million in the previous year. Due to a proportionately higher increase in debt to a total of € 5,093.3 million (2015: € 3,978.0 million), the equity ratio declined to 47.2 % (2015: 51.9 %).

#### DEBT SHARE INCREASED

Long-term debt including long-term provisions amounted to € 3,930.4 million as of 31 December 2016 (2015: € 3,036.8 million). As a result, the proportion of long-term debt increased to 40.7% of the balance sheet total (31 December 2015: 36.7%), which was mainly due to higher long-term financial liabilities and an increase in provisions for mining obligations.

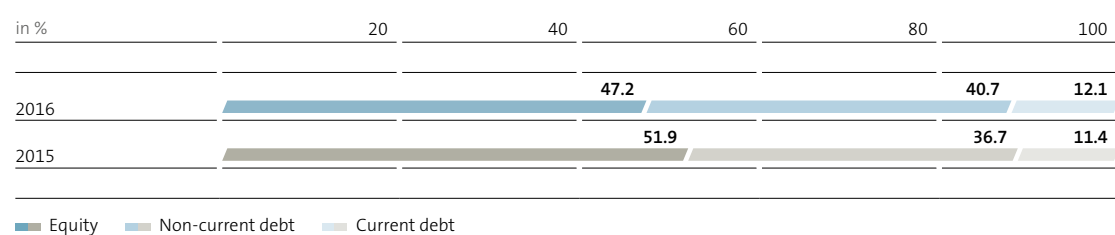
#### MULTIPLE PERIOD OVERVIEW OF THE FINANCIAL POSITION

TAB: 1.4.13

	2012	2013	2014	2015	2016
in € million					
Equity	3,393.9	3,396.6	3,974.5	4,295.6	4,552.2
Equity ratio (%)	51.4	45.3	50.6	51.9	47.2
Non-current debt	2,555.3	2,686.8	2,999.8	3,036.8	3,930.4
– of which provisions for pensions and similar obligations	160.1	102.6	162.8	166.1	186.7
– of which provisions for mining obligations	706.6	743.9	872.5	870.1	996.0
Long-term provisions as share of balance sheet total (%)	15.1	12.9	15.2	12.5	12.3
Current debt	647.4	1,414.8	880.9	941.2	1,162.9
– of which trade accounts payable	289.2	271.5	284.6	306.0	343.8
Financial liabilities	1,265.8	2,255.2	1,551.3	1,543.7	2,534.5
Net financial liabilities	– 39.4	190.5	590.9	1,363.6	2,401.1
Net debt	827.3	1,037.0	1,626.2	2,399.8	3,583.8
Debt/equity ratio I (%)	37.3	66.4	39.0	35.9	55.7
Debt/equity ratio II (%)	24.4	30.5	40.9	55.9	78.7
Working capital	1,025.7	844.9	768.1	945.9	894.6
Cash flow from operating activities	607.2	755.7	719.1	669.4	445.4
Free cash flow	– 359.4	– 53.6	134.2	– 106.4	– 756.0
Cash flow from financing activities	243.0	721.3	– 787.8	– 151.5	769.1

#### EQUITY AND LIABILITIES

FIG: 1.4.7



Current debt was € 1,162.9 million on the reporting date (31 December 2015: € 941.2 million). Its share of the balance sheet total therefore increased to 12.1% as of 31 December 2016 (2015: 11.4%).

🕒 'Notes', page 136

#### FINANCIAL LIABILITIES

Financial liabilities amounted to € 2,534.5 million as of 31 December 2016 (2015: € 1,543.7 million). The increase was mainly due to the issue of 'Schuldscheindarlehen' (promissory notes) in the summer of 2016 with a total volume of € 700 million as well as the utilisation of a syndicated loan. The majority of long-term debt continues to be attributable to the corporate bonds issued in June 2012 and December 2013.

Financial liabilities in foreign currencies are denominated mainly in us dollars. As of 31 December 2016, these amounted to € 22.6 million after conversion.

#### PROVISIONS

The long-term provisions of the K+S GROUP are provisions particularly for mining obligations as well as for pensions and similar obligations.

The provisions for long-term mining obligations increased to € 996.0 million (2015: € 870.1 million). The average discount rate declined to 3.3% (2015: 3.5%).

The long-term provisions for pensions and similar obligations also increased slightly to € 186.7 million (2015: € 166.1 million). The average weighted interest rate for pensions and similar obligations was 3.0% as of 31 December 2016 (2015: 3.1%). The actuarial valuation of pension provisions uses the projected unit credit method in accordance with IAS 19.

🕒 'Notes', page 136

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

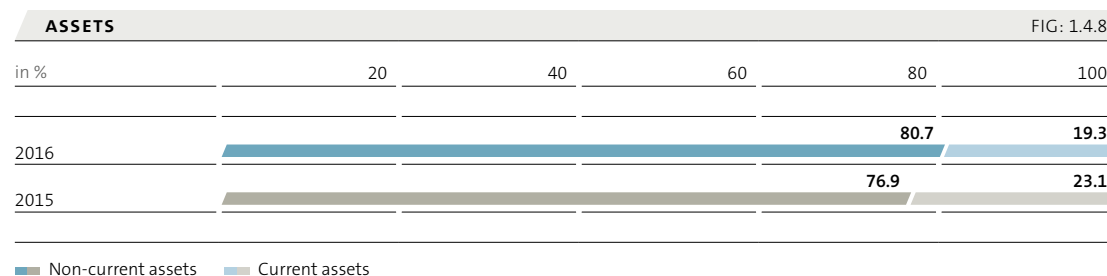
We use operating leases for company vehicles, storage capacities and IT equipment, for example; their scope has no material bearing on the economic position of the K+S GROUP.

## ASSET POSITION

### ANALYSIS OF ASSET STRUCTURE

The balance sheet total of the K+S GROUP was € 9,645.5 million as of 31 December 2016 (31 December 2015: € 8,273.6 million). Fixed assets increased to € 6,456.0 million, mainly due to capital expenditure in the Legacy Project (31 December 2015: € 5,054.8 million). Cash and cash equivalents, current and non-current securities and other financial investments at € 161.5 million remained at the level of the previous year (31 December 2015: € 163.1 million), while trade accounts receivable decreased to € 656.5 million (2015: € 708.6 million). The ratio of non-current to current assets shifted to 81:19 (2015: 77:23). / FIG: 1.4.8

The net debt of the K+S GROUP was € 3,583.8 million as of 31 December 2016 (31 December 2015: € 2,399.8 million). Net financial liabilities, excluding provisions, amounted



to € 2,401.1 million as of the reporting date (2015: € 1,363.6 million). / TAB: 1.4.14, 1.4.15

© 'Definitions of key financial indicators', page 193

### EARMARKED ASSETS

In 2005, we began out-financing pension obligations of the domestic companies through a Contractual Trust Arrangement (CTA model). Such allocation of funds requires the earmarking of financial resources. The same applies to plan assets which serve the financing of the pension obligations in Canada. Moreover, reinsurance arrangements are in place which are also to be classified as plan assets according to IFRS. Obligations treated in this way are shown on the balance sheet on a net basis in accordance with IFRS. In 2016, assets earmarked in connection with personnel obligations amounted to € 434.7 million compared with € 417.9 million in the previous year.

© 'Notes', Note (21), page 168

### ASSETS NOT SHOWN ON THE BALANCE SHEET

Other financial obligations totalled € 550.3 million as of 31 December 2016 (31 December 2015: € 778.3 million) and concern both obligations arising from as yet incomplete capital expenditure projects as well as from operating leases for factory and office equipment (for example 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.

### NET DEBT

TAB: 1.4.14

	31.12.2015	31.12.2016
in € million		
Cash and cash equivalents	123.1	140.2
Long-term securities and other financial investments	—	7.0
Short-term securities and other financial investments	40.0	14.3
Financial liabilities	-1,543.7	-2,534.5
Liabilities from finance leases	-5.2	-50.7
Reimbursement claim (Morton Salt bond)	22.2	22.6
<b>Net financial liabilities</b>	<b>-1,363.6</b>	<b>-2,401.1</b>
Provisions for pensions and similar obligations	-166.1	-186.7
Provisions for mining obligations	-870.1	-996.0
<b>Net debt</b>	<b>-2,399.8</b>	<b>-3,583.8</b>

### MULTIPLE PERIOD OVERVIEW OF NET ASSET POSITION

TAB: 1.4.15

	2012	2013	2014	2015	2016
in € million					
Property, plant and equipment, intangible assets	3,528.2	3,868.9	5,128.3	6,123.1	7,540.4
Financial assets, long-term securities and other financial investments	515.4	193.2	47.0	14.1	34.4
Inventories	687.9	552.6	578.8	705.3	710.4
Accounts receivable – trade	770.3	737.9	732.9	708.6	656.5
Cash and cash equivalents, current securities and other financial investments	786.8	1,867.5	910.0	163.1	154.5

### EXPLANATION OF COMPANY ACQUISITIONS AND DISPOSALS

In the year under review, the K+S GROUP initiated the planning process for the possible construction of a

solar salt production facility near Onslow in Western Australia. In a first step, K+S purchased mining licences for the Ashburton Salt project from a group of local investors.

The K+S GROUP has also taken over the production facility together with all existing patents from the Chinese fertilizer producer HULUDAO MAGPOWER FERTILIZERS CO., LTD. (MAGPOWER). The transaction was closed in January 2017 in the course of an asset deal and therefore has no impact on the asset position in the year under review.

Furthermore, the K+S GROUP has signed a contract to take over a 30 % share of the fertilizer producer AL-BIARIQ FOR FERTILIZER PLANT CO., LTD. (AL-BIARIQ) from Saudi Arabia. This transaction is due to be completed during the 2017 financial year and has had no impact on the asset position yet.

## PRESENTATION OF SEGMENTS

### POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT

#### SIGNIFICANT DECREASE IN REVENUES COMPARED WITH THE PREVIOUS YEAR

In the year under review, revenues in the Potash and Magnesium Products business unit fell to € 1,531.6 million due to a lower price level as well as production limitations at the integrated Werra plant related to the disposal of saline wastewater (2015: € 2,091.3 million). The reason for the decrease in sales volumes to around 6.1 million tonnes (2015: 6.8 million tonnes) was attributable to both the production shortfall and to the purchasing restraint in the first half of 2016 following the delay in spring fertilization in some areas, as well as to the fact

## KEY FIGURES

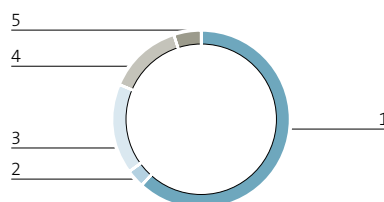
TAB: 1.4.16

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Revenues	2,091.3	460.5	370.9	301.7	398.5	1,531.6	-26.8
– of which potassium chloride	891.6	189.3	155.3	135.9	166.3	646.8	-27.5
– of which fertilizer specialties	928.5	202.8	151.6	110.5	171.4	636.3	-31.5
– of which industrial products	271.2	68.4	64.0	55.3	60.8	248.5	-8.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA) <sup>1</sup>	689.2	137.1	50.4	5.2	-7.8	184.8	-73.2
Operating earnings (EBIT I)	546.1	102.3	14.7	-48.9	-34.6	33.6	-93.8

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

## REVENUES BY REGION

FIG: 1.4.9



	2015	2016
in %		
1 Europe	54.7	61.7
– of which Germany	15.6	16.7
2 North America	3.3	3.3
3 South America	19.7	16.5
4 Asia	17.5	13.5
5 Africa, Oceania	4.8	5.0

that major potash producers were comparatively late in signing contracts with Chinese and Indian customers.

/ FIG: 1.4.9 / TAB: 1.4.16, 1.4.17

© 'Industry-specific framework conditions', page 79

## VARIANCE COMPARED WITH PREVIOUS YEAR

TAB: 1.4.17

	2016
in %	
Change in revenues	-26.8
– volume/structure-related	-11.3
– price/pricing-related	-15.6
– currency-related	+0.1
– consolidation-related	–

**DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES BY REGION <sup>1</sup>**

TAB: 1.4.18

		2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
<b>Revenues</b>	<b>€ million</b>	<b>2,091.3</b>	<b>460.5</b>	<b>370.9</b>	<b>301.7</b>	<b>398.5</b>	<b>1,531.6</b>	<b>-26.8</b>
Europe	€ million	1,143.1	316.3	217.1	167.5	244.2	945.1	-17.3
Overseas	US\$ million	1,052.1	158.9	173.7	149.8	166.8	649.2	-38.3
<b>Sales volumes</b>	<b>t million (product)</b>	<b>6.82</b>	<b>1.69</b>	<b>1.48</b>	<b>1.26</b>	<b>1.62</b>	<b>6.06</b>	<b>-11.2</b>
Europe	t million (product)	3.73	1.05	0.78	0.65	0.95	3.42	-8.2
Overseas	t million (product)	3.09	0.64	0.70	0.61	0.67	2.63	-14.9
<b>Average price</b>	<b>€/t (product)</b>	<b>306.5</b>	<b>272.4</b>	<b>250.1</b>	<b>238.8</b>	<b>246.1</b>	<b>252.9</b>	<b>-17.5</b>
Europe	€/t (product)	306.3	302.3	279.1	258.2	256.5	276.0	-9.9
Overseas	US\$/t (product)	340.3	246.6	246.4	243.7	250.0	246.7	-27.5

<sup>1</sup> 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 respective product mix and should therefore be taken as a rough indication only.

The proportion of revenues generated in Europe in the year under review was approximately 62%. The majority of the remaining revenues was generated in South America and Asia. / TAB: 1.4.18

In the year under review, revenues for potassium chloride decreased to € 646.8 million due to price and volume effects (2015: € 891.6 million). Prices declined significantly over the course of the year, particularly in the overseas regions. In Europe, sales volumes of 1.1 million tonnes for potassium chloride in the year under review were at the same level as the previous year (2015: 1.1 million tonnes), while due to availability, 1.9 million tonnes of potassium chloride were sold overseas, which was tangibly less

than during the same period in the previous year (2015: 2.1 million tonnes).

The disposal-related production limitations at the integrated Werra plant had an impact particularly on the high-margin specialties business. As a result, the demand for these products could not be met fully. In the fertilizer specialties segment, revenues fell significantly from € 928.5 million in the previous year to € 636.3 million in the year under review. Sales volumes in Europe were down from 2.2 million tonnes to 1.8 million tonnes and overseas sales of about 0.6 million tonnes were also significantly lower than the previous year's value (2015: 0.8 million tonnes).

In the industrial products unit, revenues decreased to € 248.5 million due to price effects (2015: € 271.2 million). Sales volumes in both Europe (0.5 million tonnes) and overseas (0.2 million tonnes) were stable.

**EBITDA AND EBIT I SUBSTANTIALLY AFFECTED**

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the business unit amounted to € 184.8 million in the year under review and were therefore significantly lower than the previous year's figure (2015: € 689.2 million). Also, a significant decrease in operating earnings EBIT I to € 33.6 million had to be accepted (2015: € 546.1 million). This was mainly due to the significantly lower price level for potash containing plant nutrients (€ 327.5 million) and production limitations (€ 198.0 million) at the integrated Werra plant. Planned higher start-up costs in the context of the Legacy Project also had a negative impact on the result. On the other hand, savings in terms of energy and freight costs as well as from the 'FIT FOR THE FUTURE' programme had a positive effect.

**LEGACY: PRODUCTION OF FIRST TONNE OF POTASH EXPECTED IN THE SECOND QUARTER OF 2017**

Legacy is a greenfield project to set up solution mining-based potash production in the southern part of the Canadian province of Saskatchewan. The plant will reach a production capacity of 2.86 million tonnes by 2023 and consequently will complement the German production network significantly, reduce average production costs and extend the average lifetime of the K+S potash mines. The new potash plant will also increase



international competitiveness and contribute positively to the K+S GROUP as a whole.

The main focus in the year under review was the completion of the steel structure, the factory building and the loading facilities, as well as the infrastructure. Six pads have been built, connected to the factory and are available for production. The tracks for the rail link are completed and the first rail cars have been produced and delivered. Construction work in the warehouse and loading facilities at the Vancouver site is virtually complete as well.

In July 2016, a process vessel became detached from its mounting during a routine test and fell to the floor, causing considerable damage to property. No employees were injured. Commissioning officially began as planned at the end of August 2016; work to repair the damage progressed according to schedule in the second half of 2016. With the exception of the areas affected by the damage, construction work is mostly complete and as a result, production of the first tonne of potash should start in the second quarter of 2017. We are still assuming that we will be able to achieve the target production capacity of 2 million tonnes at the end of 2017. Production will be below the originally expected volume of up to 1 million tonnes for the 2017 financial year during the delayed start-up period.

Due to the damage it is to be expected that the CAD 4.1 billion budget will be moderately exceeded. However, in view of the favourable development of exchange rates (particularly concerning the Canadian dollar

against the euro), the euro budget of approximately € 3.1 billion planned in 2013 looks set to remain unchanged.

#### SALINE WASTEWATER DISPOSAL CHALLENGING

The review of the application submitted by K+S to the Kassel Regional Council in April 2015 to continue deep-well injection until the end of 2021 lasted until the end of December 2016 and therefore longer than initially expected. Under the terms of the temporary permit, which was applicable until then, only a limited volume of saline wastewater could be injected underground. Therefore, disposal was based closely on the flow of water in the Werra river during 2016. The result: Unavoidable production limitations at individual Werra plant sites during the months in which there was low rainfall, despite effective wastewater management, the use and expansion of storage basins on site, as well as the establishment of additional temporary measures of disposal. Over the year, production at the Unterbreizbach and Hattorf sites had to be suspended in part. This resulted in a production shortfall of around 0.8 million tonnes. The deep-well injection permit for saline wastewater from potash production at the Werra plant, granted in December 2016, enables an annual injection volume of 1.5 million m<sup>3</sup>, limited to 5,000 m<sup>3</sup> per day – 2 million cubic meters had been applied for on average for the years 2016–2021. The permit also includes a number of ancillary provisions. As it was the case in the first months of 2017, further production limitations in long periods of low water level in the Werra river therefore cannot be ruled out during the course of the year.

🌐 'Environment', page 41

#### EXPANSION OF FERTILIZER SPECIALTIES BUSINESS

In July 2016, K+S reported that it had taken over the activities of HULUDAO MAGPOWER FERTILIZERS CO., LTD. (MAGPOWER), the Chinese manufacturer of magnesium sulphate fertilizers, for a low two-digit million euro amount. MAGPOWER is one of the largest Chinese producers of synthetic magnesium sulphate (SMS), which is used as a fertilizer for oil palms, soybeans and sugar cane as well as for industrial applications. The modern and economic production facility in Huludao City currently has a capacity of 90,000 tonnes, with the possibility of doubling this figure to 180,000 tonnes in the foreseeable future. The transaction was completed successfully in January 2017.

In December 2016, K+S signed a contract to acquire a 30% stake in fertilizer manufacturer AL-BIARIQ FOR FERTILIZER PLANT CO., LTD. (AL-BIARIQ) from Saudi Arabia for a high single-digit million euro amount. AL-BIARIQ is a manufacturer of fully water-soluble potassium sulphate (SOP), which is primarily used for the liquid fertilization of fruit and vegetables. The state-of-the-art production facility on the Red Sea has an annual capacity of 20,000 tonnes of SOP (water-soluble) and this figure is set to double to 40,000 tonnes in 2017. According to the agreement, K+S will take on the marketing, sales and distribution of the fertilizers produced at AL-BIARIQ.

Both purchases follow the management agenda of K+S, strengthen the Group's competitive position in the area

of fertilizer specialties and serve as important milestones for its expansion in Asia.

### SALT BUSINESS UNIT

#### REVENUES LOWER THAN PREVIOUS YEAR DUE TO WEATHER CONDITIONS

A new market segmentation with a stronger focus on areas of applications and customers was introduced in the Salt business unit at the beginning of the year. This applies in particular to consumer and food processing products. The new segmentation enables an improved analysis of business operations and market developments and also supports the implementation of our strategic goals.

© 'Industry-specific framework conditions', page 79

In the year under review, the Salt business unit generated revenues of € 1,762.2 million; this was about 8% below the previous year (2015: € 1,925.2 million). The decline is mainly due to lower demand in de-icing salt, which is the result of mild temperatures in the year under review. At 10.1 million tonnes, significantly less de-icing salt was sold over the course of the year (2015: 11.9 million tonnes). The average price in this segment was around 7% lower than the previous year's figure. The us Midwest saw the most tangible reduction in prices for the 2016/17 season. As a result, revenues for de-icing salt amounted to € 609.9 million in 2016 and were therefore significantly lower than the previous year's figure (2015: € 773.4 million).

Revenues for consumer products such as table salts and water softening salts of € 426.9 million in the year under

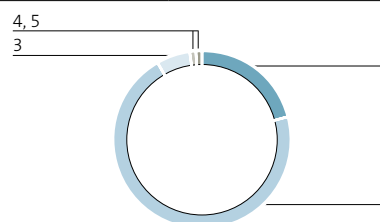
### KEY FIGURES

TAB: 1.4.19

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Revenues	1,925.2	594.6	319.2	346.4	502.0	1,762.2	-8.5
– of which de-icing salt	773.4	313.1	33.8	54.1	208.9	609.9	-21.1
– of which consumer products	427.2	103.6	110.6	104.9	107.8	426.9	-0.1
– of which industrial salt	322.3	78.4	77.7	78.6	80.1	314.8	-2.3
– of which food processing	237.8	60.3	60.0	64.2	61.8	246.3	+3.6
– of which salt for chemical use	123.5	29.5	28.4	35.2	31.8	124.9	+1.1
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	381.0	150.0	32.8	46.9	92.6	322.3	-15.4
Operating earnings (EBIT I)	266.3	122.5	4.9	18.4	57.9	203.7	-23.5

### REVENUES BY REGION

FIG: 1.4.10



	2015	2016
in %		
1 Europe	18.7	21.4
– of which Germany	7.0	8.5
2 North America	74.6	71.9
3 South America	6.3	6.3
4 Asia	0.2	0.2
5 Africa, Oceania	0.2	0.2

review remained at the same level as the previous year. A moderate decline in volume was offset by higher average prices, mainly on the American continent. Sales volumes decreased from 1.7 million tonnes to 1.6 million tonnes. Reporting differed from the previous year due to the new market segmentation (for example, re-clas-

sification of water softening salt for private purposes in the consumer products segment).

/ FIG: 1.4.10 / TAB: 1.4.19, 1.4.20

Revenues for industrial salts, for example for the fishery, feed, crude oil/natural gas and pharmaceutical industry,

**VARIANCE COMPARED WITH PREVIOUS YEAR**

TAB: 1.4.20

	2016
in %	
<b>Change in revenues</b>	<b>-8.5</b>
– volume/structure-related	-8.7
– price/pricing-related	+0.5
– currency-related	-0.3
– consolidation-related	–

were down slightly in the past financial year due to volume effects; revenues amounted to € 314.8 million compared to € 322.3 million in the previous year. The ongoing low oil and gas prices led to a decline in demand for salt in drilling fluids primarily in North America. Overall the business unit reported sales of 3.4 million tonnes in this segment, a decrease of around 3 % on the previous year's value (3.5 million tonnes).

Due to volume and price effects, revenues for salt in food processing increased particularly in North America; the total figure of € 246.3 million was slightly higher than the previous year (2015: € 237.8 million). Sales volumes amounted to just under 1.3 million tonnes, compared to approximately 1.2 million tonnes in 2015.

Revenues of € 124.9 million for salt for chemical use in the year under review were at the level of the previous year (2015: € 123.5 million). While average prices in North and South America showed a slight decline, sales

volumes in Europe rose significantly as we managed to gain additional market shares. Sales volumes of 3.0 million tonnes in total were therefore moderately higher than in the previous year (2.9 million tonnes).

Sales volumes totalling 19.4 million tonnes for crystallized salt in the business unit were around 8 % below the value of the previous year due to weather conditions (2015: 21.1 million tonnes). / TAB: 1.4.21

**OPERATING EARNINGS EBITDA AND EBIT I SIGNIFICANTLY BELOW PREVIOUS YEAR**

After a positive previous year, earnings before interest, taxes, depreciation and amortisation (EBITDA) fell significantly to € 322.3 million mainly due to the lower sales

volumes and average price level in the de-icing salt segment (2015: € 381.0 million). Operating earnings EBIT I followed this development and amounted to € 203.7 million in the year under review; this corresponds to a decline of around 24 % compared with the previous year's figure (2015: € 266.3 million). Despite the weakness in the de-icing salt segment, business for salts that are not used for road safety experienced renewed strength. For the first time in K+S history, our strong brand portfolio enabled us to generate more than 50 % of the operating earnings with these products. Furthermore, cost savings associated with the 'FIT FOR THE FUTURE' programme as well as structural initiatives in the context of the 'Salt 2020' strategy had a positive influence on the result. The aspects mentioned above, however, were not able to offset the negative

**DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES<sup>1</sup>**

TAB: 1.4.21

		2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
<b>De-icing salt</b>								
Revenues	€ million	773.4	313.1	33.8	54.1	208.9	609.9	-21.1
Sales volumes	t million	11.88	4.89	0.64	1.04	3.53	10.10	-15.0
Average price	€/t	65.1	64.0	52.8	52.3	59.2	60.4	-7.2
<b>Consumer products, food processing, industrial salt and salt for chemical use</b>								
Revenues	€ million	1,110.7	271.7	276.8	283.0	281.4	1,112.9	+0.2
Sales volumes	t million	9.23	2.24	2.25	2.50	2.27	9.26	+0.3
Average price	€/t	120.3	121.5	123.1	113.3	124.1	120.2	–

<sup>1</sup> Revenues include prices both inclusive and exclusive of freight costs. Prices are also affected by exchange rate changes and the respective product mix and should therefore be taken as a rough indication only.

volume and price effects for de-icing salt as well as higher expenses for marketing activities, which will benefit the brand strength of our premium products in the future.

#### K+S LAUNCHES 'ASHBURTON SALT' PROJECT IN AUSTRALIA

At the end of May 2016, K+S initiated the planning process for the possible construction of a solar salt production facility near Onslow in Western Australia. In a first step, K+S has purchased mining licences for the Ashburton Salt project from a local group of investors.

The Ashburton Salt project is still in the very early stages of development. K+S is currently preparing the required documents to apply for the necessary environmental permits and completing a feasibility study for the project. Annual production capacity could be approximately 3.5 million tonnes of solar salt, and about 75 direct jobs may be created at the new site. The salt produced in Australia should mainly be supplied to the chemical industry in Asia, particularly to China. For the full realisation of the project, K+S estimates an anticipated capital expenditure of around AU\$ 350 million. The approval process is expected to last at least until 2019. Only when the necessary permits have been granted and the feasibility study has been completed, K+S will make a final decision on whether to build the production facility.

#### 'SALT 2020' STRATEGY ON THE RIGHT TRACK

The business unit has set itself the target of making significant improvements in its efficiency and profitability. We are also focussing on achieving further growth in

selected regions and market segments. In this context, assuming normalised winter business, we are expecting an increase in operating earnings EBIT I to over € 250 million by 2020. This corresponds to EBITDA of over € 400 million.

#### COMPLEMENTARY ACTIVITIES

REVENUES TOTALED € 161.1 MILLION (+2.2%)

At € 161.1 million, revenues for Complementary Activities were about 2% higher than the previous year's figure (2015: € 157.7 million). In accordance with IFRS, internal revenues deriving from services provided to K+S GROUP companies are not included in these figures. If these internal revenues are included, total revenues

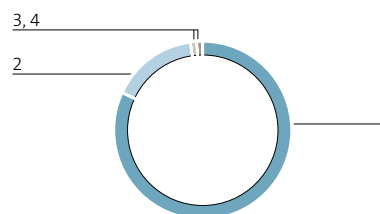
#### KEY FIGURES

TAB: 1.4.22

	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	%
in € million							
Revenues	157.7	40.0	41.8	39.0	40.3	161.1	+2.2
– Waste Management and Recycling	88.0	21.7	24.0	21.5	22.3	89.6	+1.7
– K+S Transport GmbH	11.9	3.0	2.4	2.2	2.5	10.1	-15.1
– Animal hygiene products	39.0	10.2	10.1	10.2	9.6	40.0	+2.8
– CFK (Trading)	18.9	5.2	5.6	5.3	5.4	21.5	+13.8
Earnings before interest, taxes, depreciation and amor (EBITDA)	35.0	7.5	8.4	5.4	9.4	30.8	-12.0
Operating earnings (EBIT I)	26.4	5.3	6.2	3.2	7.1	21.9	-17.0

#### REVENUES BY REGION IN 2016

FIG: 1.4.11



	2015	2016
in %		
1 Germany	83.0	83.5
2 Rest of Europe	16.8	16.2
3 Asia	0.1	0.2
4 Africa, Oceania	0.1	0.1

**VARIANCE COMPARED WITH PREVIOUS YEAR**

TAB: 1.4.23

	2016
in %	
<b>Change in revenues</b>	<b>+2.2</b>
– volume/structure-related	+2.9
– price/pricing-related	–0.7
– currency-related	–
– consolidation-related	–

for the year under review amounted to € 187.6 million (2015: € 188.7 million). / FIG: 1.4.14 / TAB: 1.4.22, 1.4.23

Revenues rose from € 88.0 million to € 89.6 million in the Waste Management and Recycling segment in the year under review mainly as a result of volume effects. At € 10.1 million, revenues for K+S TRANSPORT GMBH declined compared with the previous year (2015: € 11.9 million). Revenues of € 40.0 million in the Animal Hygiene Products segment exceeded the level of the previous year (2015: € 39.0 million). The CFK trading business recorded a volume-related increase in revenues to € 21.5 million (2015: € 18.9 million).

**EBITDA AND OPERATING EARNINGS EBIT I**

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for Complementary Activities amounted to € 30.8 million in the year under review and were below the value of the previous year (2015: € 35.0 million). Operating earnings EBIT I amounted to € 21.9 million and was thus around 17% below the value of the previous year

(2015: € 26.4 million). Whilst the operating earnings of the Animal Hygiene Products segment and CFK (Trading) rose mainly on account of volumes, the figures for K+S TRANSPORT GMBH and the Waste Management and Recycling segment were down due to cost and volume effects.

**OTHER EVENTS**

On 13 September 2016, Meiningen Regional Court submitted its decision not to open a criminal trial with regard to alleged crimes concerning Gerstungen Through Injection in the years 1999 until 2007. Furthermore, the Regional Court declared that the searches of commercial and residential premises were unlawful. The seizure orders were suspended. The Meiningen Public Prosecution Office filed an appeal against the decision made by the Regional Court, on which the Thuringia Higher Regional Court in Jena must now issue a ruling.

**ASSESSMENT OF THE CURRENT ECONOMIC SITUATION BY THE BOARD OF EXECUTIVE DIRECTORS <sup>1</sup>**

High demand in the second half of 2016 has led to the stabilisation of prices for potassium chloride, while prices for fertilizer specialties such as potassium sulphate (SOP) remained at a good level. Nevertheless, on

<sup>1</sup> As of 3 March 2017.

average over the year, the price level was significantly lower than in the previous year. In addition, the limited availability of injection volume for saline wastewater and the low water flow of the Werra river in 2016 led to significant production limitations at the Werra plant. In the Salt business unit, savings from the 'FIT FOR THE FUTURE' programme and our strong non de-icing salt business could not compensate for the negative price and volume effects due to the mild weather. Operating earnings EBIT I were € 229.3 million and therefore down significantly (2015: € 781.6 million). The ratio of net debt to EBITDA increased to 6.9 times (including provisions) for the aforementioned reasons and the ongoing high planned capital expenditure in the Legacy Project; this should mark the peak (2015: 2.3 times).

**1.5 RISK AND OPPORTUNITY REPORT**

K+S regularly encounters developments and events that may have both a positive and a negative impact on the assets, liabilities, financial or earnings position. We define risks as the possible occurrence of developments and events, which may adversely affect the achievement of our short and mid-term goals as well as our strategic goals. 'Opportunities' are essentially viewed as potential future internal and external developments or events that may have a positive impact on the achievement of our business and financial objectives. Both risks and opportunities can therefore lead to deviations from our planning.

## MANAGEMENT PROCESS

### IDENTIFICATION

Potential risks and opportunities are generally identified in the respective corporate departments using various tools. There are a number of tools available for this purpose. We look closely at current business operations and project management, evaluate information from our customers, suppliers and institutions, relevant revenue/cost elements and mining circumstances and observe risk indicators and success factors from the economic, legal and political environment.

© 'Declaration on Corporate Governance', page 49

### ASSESSMENT AND MANAGEMENT

Standard methods are used to assess the risks and opportunities identified in terms of the likelihood of their materialisation and with regard to potential financial impact. This allows us to set priorities and allocate resources appropriately, for example capital and/or personnel for measures to mitigate risks and promote opportunities.

For each risk, a gross assessment is carried out initially, regarding the likelihood of materialisation and the loss potential in terms of financial impact. The next step involves developing suitable counter-measures, considering alternative risk scenarios. Our aim is to reduce the loss potential and the likelihood of materialisation. 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 (by taking out insurance, for example). If the gross likelihood of materialisation and/or gross loss potential could be reliably reduced by implementing effective and appropriate counter-measures, the focus of consideration will be on the net likelihood of materialisation and net loss potential affecting the operating result. Regarding their likelihood of materialisation and loss potential, risks are internally assessed 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. Assessments made for risks that have already been identified as well as the counter-measures described and implemented must be reported on an ongoing basis in the event of significant changes and if defined thresholds are exceeded. They must also be reviewed in terms of their actuality and effectiveness and adjusted accordingly.

To assess their financial impact, each opportunity is examined in terms of its feasibility, economic efficiency and any risks that may be associated with it. Suitable supportive measures are specifically sought, pursued and implemented in order to take advantage of opportunities. The benefit potential only applies to the net perspective following implementation of appropriate promotive measures. The assessment periods are identical to those used for risk assessment.

### REPORTING

Internal risk and opportunity reporting is based on a threshold concept which was reviewed and adjusted in 2016. 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 materialisation and loss potential and/or benefit potential are reached. Furthermore, information about whether a risk or an opportunity is included in the forecast or planning must also be provided.

Risks and opportunities considered in mid-term planning or forecast through corresponding earnings discounts or premiums are not part of the risk and opportunity reporting.

Moreover, when determining the substantial general premises in terms of mid-term planning or forecast (for example volumes, prices, costs, exchange rates, interest rates), the relevant risks and opportunities need to be considered in the best possible way. The negative/positive influence that certain deviations would have on individual planning premises has to be disclosed for particular planning assumptions ('sensitivities').

The Board of Executive Directors and the relevant managers retain a constant overview of the current risk and opportunity exposure as part of standard reporting. Significant risks that arise in the short term are communicated directly and immediately to the Board of

Executive Directors 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, risk of default and liquidity risk) through special management. Centralised finance management has been established in K+S AKTIENGESELLSCHAFT for this purpose. Additionally, we manage our capital structure in order to secure the financing of business operations and investment activities at all times and in the long term.

🕒 'Financial position', page 86

Our international business activities can lead to currency-related market revenue risks, which we counteract through hedging transactions as part of currency management. Internal regulations determine the permitted hedging strategies as well as hedging instruments, responsibilities, processes and control mechanisms. Other market price risks may result from changes in interest rates. Similar regulations apply insofar as derivative financial instruments are used in a targeted way for hedging purposes. Financial transactions are

only conducted with appropriate partners. The suitability of partners and compliance with position limits are constantly reviewed through regular monitoring. A balanced distribution of derivative financial instruments across various institutions is implemented to further limit the risk of default.

🕒 'Notes', page 136

The instruments selected are used exclusively to secure underlying transactions, but are not used for trading or speculation purposes. Firstly, hedging transactions are concluded for already existing underlying transactions. Our intention here is to largely avoid 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 (forecast hedges).

### RISKS AND OPPORTUNITIES 2017 – 2019

Risks and opportunities which could impact the earnings, financial or asset position of K+S during the mid-term planning period (3 years) and have not yet been taken into account in planning are listed and described in the following section. We have updated the value thresholds compared with the previous year. Both net loss and benefit potential is differentiated as follows:

- + Significant financial impact: > € 200 million
- + Moderate financial impact: > € 25–200 million (previously > € 10–200 million)

The relevant likelihood of materialisation is differentiated as follows:

- + Likely: > 50 %
- + Possible: 10–50 % (previously 5–50 %)
- + Unlikely: < 10 % (previously < 5 %)

We show changes in the assessment of risks and opportunities in comparison to the previous year as follows:

- + Higher than in the previous year: ↑
- + Lower than in the previous year: ↓

A change in the framework conditions in comparison to the assumptions made in our mid-term planning may result in a reassessment of risks and opportunities. The results are then communicated accordingly in our interim reporting.

### OVERVIEW OF RISKS

The following table provides an overview of the risks with significant and moderate net loss potential with their net likelihood of materialisation and their financial impact for an observation period of 3 years, as well as the change in the assessment compared with the previous year. The mentioned risks are considered to be potential negative deviations compared with the premises

made in mid-term planning (for example, in respect of volumes, earnings, costs, exchange rates).

/ TAB: 1.5.1

### OVERVIEW OF OPPORTUNITIES

The following table provides an overview for an observation period of three years of opportunities with significant and moderate net benefit potential, the net likelihood of their materialising and their financial impact as well as the change in the assessment compared with the previous year. The mentioned opportunities are considered to be potential positive deviations compared with the premises made in mid-term planning (for example, in respect of volumes, earnings, costs, exchange rates).

/ TAB: 1.5.2

### EXTERNAL AND SECTOR-SPECIFIC RISKS AND OPPORTUNITIES

#### MACROECONOMIC DEVELOPMENTS

The impact of the general economic situation on demand for de-icing and industrial salt as well as salt for consumer products and food processing is of minor importance, since this business is largely independent of economic conditions in contrast to salt for chemical use.

Demand for potash and magnesium products on the other hand is significantly influenced by economic growth and the associated rising standards of liv-

RISKS		TAB: 1.5.1		
		Likelihood of materialisation	Loss potential	
<b>External and sector-specific risks</b>				
Macroeconomic developments		Possible	Significant	
Increased supply/reduced demand		Possible	Significant	
Weather-related decrease in demand		Possible	Significant	
Weather-related production limitation		Possible	New	Moderate New
<b>Risks arising from changes in the legal environment</b>				
Management planning in accordance with the Water Framework Directive or change, refusal or revocation by a court of official licences for the disposal of liquid and solid production residues.		Possible	Significant	
Increased 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 wastes		Possible	Moderate	
<b>Operational risks</b>				
Legacy Project		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	
Litigation risks		Unlikely	New	Significant New
Loss of suppliers and supply bottlenecks		Unlikely	Moderate	
Personnel		Unlikely	Moderate	
IT security		Unlikely	Moderate	
<b>Financial risks</b>				
Currency/exchange rate fluctuations		Possible	Significant	



**RISKS (CONTINUED)**

TAB: 1.5.1

	Likelihood of materialisation	Loss potential
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 in financial transactions	Unlikely	Moderate

**OPPORTUNITIES**

TAB: 1.5.2

	Likelihood of materialisation	Benefit potential
<b>External and sector-specific opportunities</b>		
Macroeconomic developments	Possible	Moderate ↓
Price increase	Possible	Moderate ↓
Weather-related increase in demand	Possible	Significant
<b>Operational opportunities</b>		
Market penetration, market development, expansion in capacity, cost optimisation, acquisitions and/or strategic partnerships, innovation	Possible	Moderate ↓
Energy costs	Unlikely ↓	Moderate
<b>Financial opportunities</b>		
Currency/exchange rate fluctuations	Possible	Significant
Change in the general interest rate level	Possible	Moderate
Upgrading of the company rating	Possible	Moderate

ing in the regions relevant to us, trends in soft commodity prices and, in part, also by political decisions in some consumer countries. International prices of

agricultural products stabilised in 2016 on a continuing low level (FAO Food-Price-Index) with individual trends varying. For certain products, some positive

price developments were also identified. Overall, we believe that agricultural prices should still reach a level that will provide an incentive for farmers to increase their yield per hectare also through a more intensive use of plant nutrients.

There is a risk that the growth of the emerging countries will slow down contrary to expectations and/or that the sovereign debt crisis in the euro region 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 negatively impact their demand for plant nutrients. The impact on the Company depends on the duration and the intensity of the respective scenario.

We analysed the scenario of the United Kingdom's exit from the EU. According to this, no noteworthy impact on K+S can be expected. The share of the United Kingdom in the total revenues of the K+S GROUP is in a low single-digit percentage range.

Changes in US trade policy are possible and will be observed on an ongoing basis. The relevant impact cannot be assessed at present.

Should the global economy develop better than expected and growth prove to be higher, especially in our main sales regions of Europe, North America, Brazil and South East Asia, this could lead to positive variance in relation to planning.

We would respond to the influences described above with demand-oriented production management.

The future macroeconomic situation impacts our business. Our planning is based on the expectations stated in the forecast report, therefore the assessment of the future macroeconomic situation is considered directly in the forecast for 2017.

© 'Macroeconomic Framework Conditions', page 77

#### INCREASED SUPPLY/REDUCED DEMAND

Primarily products from our Potash and Magnesium Products business unit could be threatened by considerable decreases in demand due to external influences.

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 capacities based on their forecasts for long-term growth in demand on the global potash market. A fragmentation of competitors could also lead to increased supply.

In terms of demand, macro-economic factors such as unfavourable exchange rate developments or liquidity reduction of farm businesses could influence demand in individual markets. This also applies to political market regulation, for example through regional subsidies or the imposition of customs duties on fertilizers. Environmental influences such as diseases in certain crops or the occurrence of animal epidemics could also

lead to a decline in demand. Moreover, demand could also develop negatively due to deliberate purchasing restraint on the part of our customers.

Should the market not be ready to absorb additional volumes entirely, this could increase competitive pressure during a transitional period. Furthermore, the producers may attempt to gain additional market share or regain lost market shares by increasing supply within given capacity. Increased competitive pressure could also result from a decline in demand.

Major changes in capacities and their utilisation, increases in supply from individual producers within available capacities as well as longer-term decreases in demand could substantially affect pricing and/or sales prospects. This could disrupt the existing structure of the entire plant nutrient market appreciably, 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 the intensity of these events. Since the development of new potash capacities is highly capital-intensive and takes many years to implement, there should be an incentive for the producers to obtain an attractive premium on the capital employed. We regard the long-term drivers as still valid: Demand for agricultural products and thus for plant nutrients depends

on megatrends such as the growing world population, a rising standard of living in the emerging countries and the development of the bioenergy sector. 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 as well as expand our specialty products.

#### PRICE INCREASE

Opportunities with a significant positive impact basically exist in demand for potash and magnesium products.

If farmers utilise any additional available uncultivated land or increase the intensity of existing cultivation, this would require greater 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 fertilization involving the use of the main nutrients nitrogen, phosphorus and potassium 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 is highly dependent on the scale of the fertilizer price increase triggered as a result. Compared with the assumptions made in our mid-term planning, we consider positive price effects with moderate impact

as possible, but we do not anticipate significant impact in the medium-term owing to increasing competition.

#### **WEATHER-RELATED INCREASE 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 the rolling average for the past ten years.

Above-average strong winters in the de-icing salt regions of K+S could have a moderate positive financial impact on the development of Company revenues and earnings with respect to one year. Should such positive weather conditions be repeated during the mid-term period, this could open up significant opportunities.

#### **WEATHER-RELATED DECREASE IN DEMAND**

A sales volume risk for the Potash and Magnesium Products as well as Salt business units may 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. This also applies to weather phenomena such as El Niño or droughts which could lead to large-scale losses of yields for

farmers in the affected regions and reduced use of plant nutrients.

Likewise, mild winters in the main sales regions for de-icing salt (Europe, North America) could decrease sales volumes for this product group considerably. Adverse effects would have a moderate impact on the expected earnings with respect to one year. Should such negative weather conditions be repeated during the mid-term period, this could have significant adverse effects.

We are responding to such fluctuations with regional diversification, demand-oriented production management and flexible working hour models.

#### **WEATHER-RELATED PRODUCTION LIMITATION**

In the Potash and Magnesium Products business unit, water law framework conditions play a particular role at the production sites. The current permit for deep-well injection into the plate dolomite at the Werra site enables an annual injection volume of 1.5 million m<sup>3</sup> of saline wastewater from production until the end of 2021. Longer low water level periods in the Werra river could lead to production limitations particularly in 2017 as this disposal channel, which is approved until the end of 2021, would then not be available to the extent required. Consequently, production at the Hattorf site already had to be suspended at the beginning of the year. As of 2018,

the commissioning of the new KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF) will have a positive impact on the disposal situation.

🔗 'Environment', page 41

Apart from this, K+S is working hard to implement additional saline wastewater disposal measures in order to scale down production limitations. We have obtained permits for the temporary storage of brine at the Springen mining field (Merkers mine) and for discharging tailings pile water into the inactive K+S Bergmannsseggen-Hugo mine (Hanover region). Furthermore, since February 2017, a 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 the expansion of basin capacity on site which will further increase the flexibility of wastewater management. From today's point of view, the additional measures which are currently under review still need some time for implementation. Technical issues need to be resolved, permits obtained and infrastructure has to be modified subsequently.

#### **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 legislation with respect to production in Germany and Europe. The importance of these legislative frameworks 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 CHANGE, 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, solid residues as well as liquid residues (saline wastewater) arise both from current production and as a result of rainfall on the tailings piles. The solid residues are either placed onto our tailings piles or disposed underground. Saline wastewater is discharged into rivers and some is injected into the dolomite layer.

**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 framework conditions for the above-mentioned means of disposal of residues from the German sites. For the next few years, management plans for the second management period of 2015 to 2021 by the individual river authorities are relevant in this regard.

🔗 'Environment', page 41

In March 2016, the environment ministers of the federal states represented in the Weser River Basin Association (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 2015 to 2021 and will not lead to any directly disadvantageous impact on potash production in the Hesse-Thuringia potash district during this period. The definition of target values and further measures for the third management period from 2021 to 2027 will be reviewed and adjusted where appropriate prior to adoption. If the aspects included in the management plan for the period 2015 to 2021 (in particular the target values and restrictions on the flow rate capacity of a long-distance pipeline) also appear in the plan for the period beyond 2021, considerable risks regarding the granting

and retaining of operating licences, planning decisions approving public works and water permits cannot be ruled out.

Further measures for saline wastewater prevention and additional means of disposal will be examined and tested during the period 2015 to 2021.

**REFUSAL OF OFFICIAL PERMITS FOR THE DISPOSAL OF LIQUID PRODUCTION RESIDUES: INJECTION**

On 23 December 2016, the Kassel Regional Council approved the continued deep-well injection of saline wastewater from potash production at the Werra plant. The water law permit is valid from 1 January 2017 to 31 December 2021 and enables an average annual injection volume of 1.5 million m<sup>3</sup>, limited to 5,000 m<sup>3</sup> per day – 2 million cubic metres had been applied for on average for the years 2016–2021. The permit also includes a number of ancillary provisions that must be observed and implemented. Thanks to this permit, an important disposal channel is available again. The municipality of Gerstungen challenged the permit at the Kassel administrative court and filed an appeal. The BUND also announced its intention to take legal action against the water law permit.

🔗 'Environment', page 41

If, contrary to expectations, circumstances arise that could lead to an adverse effect on usable groundwater resources, or if appeals against existing permits were

successful, this could result in the restriction or withdrawal of existing permits.

This in turn could lead to production outages and/or considerable production limitations at the affected sites due to a lack of injection volume. We believe that the decision by the authorities will endure and that potash production at the Werra plant is possible under the given framework conditions.

K+S continues to work hard on measures to reduce saline wastewater and on alternative disposal options. The aim of these measures is to safeguard the associated jobs and maintain added value over the long term by means of further largescale investments, to reduce impact on the Werra and Weser rivers and to ensure the future viability of the potash plants in the Hesse-Thuringia potash district. Moreover, K+S commissioned a concept and feasibility study in January 2017 with the aim of extracting further products from the processing of saline wastewater.

#### REFUSAL OR REVOCATION BY A COURT OF OFFICIAL PERMITS FOR THE DISPOSAL OF LIQUID AND SOLID PRODUCTION RESIDUES

If licences and permits for the raising 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 this is compatible with the legal and statutory framework. Furthermore, it represents the state of the art and there is governmental and broad political support in the federal states relevant for the preservation of potash mining in Germany.

☞ 'Tailings pile management', page 45

Individual licences and permits for the necessary expansion of tailings piles may not be granted in certain circumstances or could only be approved 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 consequences as well as in terms of human resources. This could be avoided by the development of further securing measures and re-planning, which would result in significant cost increases.

The authorities imposed new requirements on the disposal concept we originally filed during the ongoing official plan approval procedure for the expansion of the Hattorf tailings pile. We are currently reviewing the tailings pile expansion concept. If the revised concept should not be approved by the authorities, the required permit may be granted with a delay. Due to the necessary re-planning period regarding the expansion of the tailings pile, this could lead to temporary production limitations.

#### 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, particularly in the surrounding area of the Hattorf tailings pile. In terms of their composition and concentration, these cannot be classified as tailings pile material. We are assuming that naturally occurring heavy metals in the layers of loam and clay in the soil beneath the Hattorf tailings pile are dissolved by saline seepage water in conjunction with a low pH value of the soil. The heavy metals come to the surface through springs in Thuringia within a limited local area. With the approval of the authorities, K+S has developed a concept to achieve sustainable measures for the Hattorf tailings pile by late autumn 2017. Initial steps (for example collecting, draining and cleaning of the emerging spring water) have been taken. Sustainable measures such as drainages or wells are at the stage of planning and implementation. Investigation into causes takes place in collaboration with universities and research centres.

☞ 'Tailings pile management', page 45

Checks are currently being made to see what the situation is like at other sites and whether the circumstances are likely to influence future permits for the disposal of solid production residues.

#### **INCREASED 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 corresponding mandatory standards. As a result of stricter local requirements, comprehensive measures may be required, including indoor storage.

We have therefore launched an internal programme in conjunction with environment experts that includes 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 for collateral security under mining law is subject to the dutiful discretion of the acting authorities; existing collateral security is currently usually provided through the formation of corresponding provisions as well as through declarations of backing or group guarantees. If additional security had to be provided, this could limit the Company's financial leeway if such security were provided through bank guarantees or the depositing of financial funds.

#### **TIGHTENING OF EXISTING REGULATIONS ON THE UNDERGROUND DISPOSAL OF MINING WASTES**

The Closed Cycle and Waste Management Law (KrWG) and the German Federal General Mining Ordinance (ABBergV) must be taken into account in relation to 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 wastes, as it may then only be possible to store wastes with mineral properties underground. This would have the effect of driving up 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**

Against the background of growth potential and an associated long-term increase in demand, external growth is also needed in order to retain or expand current market shares. Corresponding opportunities arise through acquisitions and/or strategic partnerships. In 2016, we developed a new strategic concept for a successful future for the Potash and Magnesium Products business unit. We are also pursuing our established 'Salt

2020' strategy in the Salt business unit and are continuing to implement it successfully. The aim is to constantly improve earnings and increase the value of the Company.

The Potash and Magnesium Products business unit will take advantage of opportunities in the market through investment in new products and business approaches, in some cases together with external partners. The acquisition of the operations of Chinese company MAGPOWER enables us to participate in the growing demand for magnesium sulphate in Asia. We see particular opportunities in the fertigation segment. Spreading liquid fertilizers or fertilizers that have been dissolved in water is the fastest growing segment in the fertilizer market. Here, we will expand the product portfolio through our envisaged investment in the producer AL-BIARIQ in Saudi Arabia. We are also expecting a strong increase in dialysis products outside Europe. With quality oil drilling services, we aim to convince customers and achieve success. Moreover, we are working on new business models that will result from the digital transformation of our markets.

In the Salt business unit, we want to increase our market share by generating higher sales volumes from our existing customer base and/or by acquiring new customers. Likewise, we are reviewing whether it would be possible to enter new sales regions with our products. For example, Asia offers significant long-term pros-

pects, especially in the pharmaceutical and chemical sectors. According to estimates, half of the total global demand for salt will come from this region by 2018. We are reviewing several options in order to participate in this growth in the future.

The two business units will closely review possibilities to optimise costs (for example, by way of process digitisation at the underground mines or by increasing the efficiency of machinery, processes and organisational structures) on an ongoing basis.

#### LEGACY PROJECT

K+S POTASH CANADA is currently building a new solution mine in the Canadian province of Saskatchewan. The project known as Legacy has progressed significantly and construction is almost finished. Full commissioning is therefore imminent.

Due to the damage caused by a large process vessel in July 2016, it is to be expected that the CAD 4.1 billion budget will be moderately exceeded. However, in view of the favourable development of exchange rates (particularly concerning the Canadian dollar against the euro), the euro budget of around € 3.1 billion planned in 2013 looks set to remain unchanged. Commissioning of the facility began on schedule in August 2016. However, the first tonne of potash is now set to be produced in the second quarter of 2017 and not at the end of 2016 as originally forecasted. Nevertheless, we are still assum-

ing that it will be able to reach the target production capacity of 2 million tonnes at the end of 2017. We have considered the corresponding impact in our planning.

We are currently not anticipating that considerable additional capital will be required. However, until production finally starts, further negative impact (for example, material damage or problems starting up the machines) essentially cannot be ruled out. Furthermore, checks are currently being made to see whether any reimbursement claims to suppliers exist on account of defective service provision. This is not unusual in the case of investment projects on the scale of the Legacy project.

The indicated impact would adversely affect economic efficiency if an increase in the capital requirement could not be offset by operating cost savings or improved operating business. Moreover, any resulting delay or legislative approval influences may lead to the expected production volume only being available at a later point in time.

If both these risk factors materialise in combination with each other, depending on the length of the delay and the amount of additional capital required, this could have a significant impact. We believe this scenario to be unlikely at the present time as the project is well advanced. A materialisation of risk with a moderate

impact cannot be ruled out due to the size of the project and is therefore possible.

On-schedule completion of the project is ensured by an experienced project team as well as an efficient project organisation. A continuous controlling process and regular reporting secure the early identification of deviations and the prompt introduction of appropriate counteractive measures.

#### ENERGY COSTS AND ENERGY SUPPLY

The energy costs of K+S are determined particularly by the consumption of natural gas. This applies in varying degrees to all corporate departments. Energy prices are often subject to sharp fluctuations. Significant energy price rises in comparison to the projected price level constitute a price risk and cannot be ruled out in the future. A positive development of energy costs in comparison with projected costs provides an opportunity for K+S. However, we are not expecting this due to the current low price level.

👁 'Energy/Climate', page 47

In order to limit this risk, we have reduced the natural gas requirement of our potash and salt production in Europe by using steam from alternative fuel heating systems. Moreover, we are pursuing a hedging strategy worldwide which allows us to secure attractive prices for purchasing natural gas in the medium-term by reaching fixed supply agreements. If the competitive

situation permits, we would try to pass on cost increases to the customers.

#### **FREIGHT COSTS AND AVAILABILITY OF TRANSPORT**

Our total costs are also influenced by freight costs to a considerable degree. A significant proportion of our products in terms of volume has, in some cases, to be transported to the customer over long distances. A reduced availability of freight capacity could result in higher actual costs. Furthermore, considerable additional costs arise in the event of increases in mineral oil prices. The heavy reliance of our business operations on transport likewise makes us highly dependent on the respective infrastructure facilities such as ports, roads, railway lines and loading facilities. A bottleneck could restrict the sales prospects and thus production.

If the competitive situation permits, we would try to pass on cost increases to the customers.

#### **PRODUCTION EQUIPMENT**

The production facilities of the K+S GROUP are characterised by high complexity and efficiency. As a result of operational and accident risks to which facilities, production plants, storage and loading facilities are exposed, business interruptions may occur and personal injury, damage to property or impact on the environment caused as well.

Where possible and economically viable, suitable insurance will be taken out with the aim of limiting these risks.

#### **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 limitations/outages as well as personal injury and damage to property. Underground extraction will therefore be carried out in compliance with specific safety guidelines in the event of escapes of CO<sub>2</sub>.

#### **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 considerable damage to the property of third parties and in personal injury or death.

Our professional dimensioning of the underground safety pillars based on comprehensive research work serves to secure the stability of the mine workings over a longer period of time, and therefore to prevent rock bursts. After the closure of a location, preservation measures are carried out, for which appropriate provisions

have been made. A constant monitoring of the mine workings should 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. Ongoing maintenance activities on the shafts ensure that the risk of groundwater inflows can virtually be ruled out. Because the top of a shaft is in a high position, surface water is not expected to gain access to mine workings even if flooding occurs. It is possible to limit hydrogeological risks due to the existing safeguards we have put in place; however, these risks could result in significant damage culminating in the total loss of the mine.

Extensive exploration work is carried out by means of seismology, drilling and ground-penetrating radar in order to secure the mines. The preservation of protective layers and the adequate dimensioning of safety pillars ensure the best possible mine safety.

#### **COMPLIANCE**

There is a general risk that members of management/supervisory bodies or employees of the K+S GROUP companies may breach laws, internal regulations or regulatory standards recognised by the Company. K+S could sustain damage to its assets or reputation as a result.

🔗 'Declaration on Corporate Governance', page 49



We have established Group-wide compliance management, which counters breaches of compliance, including through training in the significant risk areas (for example, anti-trust law and competition law, corruption and money laundering).

#### LITIGATION RISKS

In September 2016, the Meiningen Regional Court submitted its decision not to open a criminal trial with regard to alleged crimes concerning Gerstungen Through Injection in the years 1999 until 2007 and dismissed the request of the Public Prosecution Office to admit K+S as secondary participant (Nebenbeteiligte). The Meiningen Public Prosecution Office filed an appeal against the decision made by the Regional Court, on which the Thuringia Higher Regional Court in Jena must now issue a ruling.

There is no evidence that those responsible at K+S AKTIENGESELLSCHAFT or at K+S KALI GMBH have actually committed a criminal offence. If the employees responsible are convicted, any advantages gained by the companies (K+S AKTIENGESELLSCHAFT, K+S KALI GMBH) from the criminal action could be lost. However, the financial advantage the companies are supposed to have gained from the alleged criminal action is not apparent and the reason for and the amount calculated by the Public Prosecution Office is incomprehensible. Reports by independent third parties found no evidence of illegal conduct on the part of those responsible at the time.

If any other process risks exist, these are presented in the context of the respective risk.

#### 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, on which we only have very little influence or no influence at all, could result in the limited availability of these materials and equipment and thus to a significant increase in costs or to adverse effects on production.

We will mitigate these procurement risks through market analyses, targeted supplier selection or evaluation, long-term supply agreements, clearly defined quality standards and modern purchasing methods.

#### HUMAN RESOURCES

Competition for qualified managers and specialists is fierce in all the regions in which we operate. The loss of employees in key positions could constitute a risk. Moreover, we will 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 job starters, but also for qualified managers and

specialists. By offering practical support for the next generation of employees, targeted training and further training measures as well as promoting high-achievers and employees showing potential, the K+S GROUP still succeeds in retaining qualified managers and specialists in the long term. By adopting this strategy and increasing cooperation with selected higher education institutions, we offer qualified managers and specialists promising career prospects.

#### IT SECURITY

Our IT systems support almost all Company functions to a high degree. The IT security risk lies in the 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. We consider a prolonged failure of the IT systems to be unlikely because of our precautionary measures.

We limit such risk by asking independent experts to review the scope and effectiveness of our wide-ranging security measures.

#### 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 draw 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 were also generated in other national currencies (for example, Canadian dollar, Chilean peso and pound sterling). Our earnings are therefore exposed to exchange rate fluctuations. This could lead to the value of the service performed not matching the value of the consideration received in transactions, because income and expenditure arise at different times in different currencies. Exchange rate fluctuations, especially in relation to 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. Noteworthy risks will also arise in the future from the development of CAD/USD and CAD/euro exchange rates due to the commissioning of the Legacy Project.

We use derivative financial instruments in order to counter exchange rate risks arising from transactions. Significant net positions are hedged through derivatives, normally options and futures, in the context of transaction hedging. These ensure a 'worst case' exchange rate. The volumes to be hedged are determined on the basis of revenue and cost budgeting and expected investment using safety margins and are updated on an ongoing basis in order 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 could result in currency-related fluctuations in the 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.

🔗 'Financial position', page 86; 🔗 'Notes', page 136

Conversely, favourable exchange rate and interest rate developments may have a positive impact on earnings and cash flow, thus representing 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 liabilities with variable interest, as well as on interest income for investments with variable interest. On the other hand, the market values of financial instruments are affected. However, due to the current financing structure, only a moderate impact is expected.

The K+S GROUP has to report long-term provisions, in particular from mining obligations and pensions at the

actual present value of expenditure expected in the future. A change in the market interest rates compared with the previous reporting date could therefore lead to changes in the discount rates on the current reporting date and thus to an adjustment of long-term 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 136

#### 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 downgrade K+S's credit rating.

A downgrade could impact negatively on the costs of financing of K+S. Conversely, an upgrade in the credit rating – and hence an improvement of the Company rating – has a positive effect on the actual costs and availability of the Company's financing options.

K+S has currently commissioned rating agency STANDARD & POOR'S to publish ratings. / TAB: 1.5.3

**DEVELOPMENT OF CREDIT RATING** TAB: 1.5.3

Date	Rating	Outlook
<b>Standard &amp; Poor's</b>		
21 October 2016	BB+	Negative
8 August 2016	BBB-	Negative
12 April 2016	BBB-	Stable
28 August 2015	BBB	Negative

**LIQUIDITY**

A liquidity risk consists in the failure to procure the financial means needed to meet payment obligations or in not being able to do so in a timely manner. External factors, especially a general financial crisis, could result in the inability to replace credit lines or bonds on acceptable commercial terms if the need should arise. There would also be a risk that the expenses associated with procuring liquidity would increase.

For this reason, the main goal of our liquidity management is to ensure the ability to make payments at any given time. The liquidity requirement is determined by our liquidity planning and is to be covered by liquid reserves, committed credit lines and other financing instruments.

© 'Notes', Note (25) 'Financial Liabilities', page 177

Liquidity is managed by the central treasury department using cash pool systems. As of 31 December 2016, the available liquidity amounted to € 851.5 million, and consisted of investments with maturities of up to one

year and liquid reserves as well as the unused part of our syndicated credit line running until 2020. The available liquidity was therefore significantly above our targeted minimum reserve of € 300 million. In the case of investments, we pursue the goal of optimising the income earned from liquid reserves at low risk.

**DEFAULT ON RECEIVABLES FROM CUSTOMERS**

We maintain comprehensive business relationships with many customers. If one or more major customers is/are not in a position to fulfil their contractual payment obligations towards us, this could result in corresponding losses for us. This could have an adverse effect on the financial position of κ+s.

Risks arising from payment default are covered across the Group mainly by 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.

**CHANGE IN INDIVIDUAL RISKS AND OPPORTUNITIES COMPARED WITH THE PREVIOUS PERIOD**

The assessments made in relation to the likelihood of materialisation and/or potential impact of the risks and opportunities reported in previous periods are shown in the tables on page 102 and 103.

Risks in relation to the disposal of liquid and solid production residues continue to be significant. These now also include risks at the Werra site owing to weather-related production limitations. Due to the progress made on our new Legacy production facility, risks relating to this are decreasing, however negative influences with moderate impact are still possible because of the scale of the project. The litigation risk in connection with the investigation on account of alleged water pollution has been identified as a new risk.

The risk of changes in occupational exposure limit values has materialised for our German mining operations. The Committee on Hazardous Substances (AGS) at the Federal Ministry of Labour and Social Affairs (BMAS) redefined the future applicable workplace limits for nitrogen monoxide (NO) and nitrogen dioxide (NO<sub>2</sub>) in May 2016. The statutory requirements for nitrogen oxide must be met accordingly within the transition period of five years applicable to mining (by 31 October 2021). This will entail capital expenditure during the observation period of three years, which we have taken into account

in our planning. Consequently, there is no further reporting on this situation at this point.

Owing to the newly developed strategy in the Potash and Magnesium Products business unit and the established 'Salt 2020' strategy in the Salt business unit, we see good opportunities for growth in the medium- and long-term. Compared with the assumptions made in our mid-term planning, we now consider opportunities arising from macroeconomic developments and from price increases of potash and magnesium products with moderate financial impact as possible.

#### **ASSESSMENT OF RISK AND OPPORTUNITY POSITION BY THE BOARD OF EXECUTIVE DIRECTORS**

The risk and opportunity position is assessed based on the findings of our risk and opportunity management system in conjunction with the planning, management and monitoring systems in place.

With regard to the respective likelihood of materialisation and the potential financial impact of the risks discussed, and on the basis of the findings of our mid-term planning, the Board of Executive Directors does not at the present time expect any future development where the risks, whether individually or in conjunction with other risks, could have a lasting and adverse influence

on the earnings, financial or asset position of K+S that could jeopardise its existence. The risk position of K+S is unchanged due to developments in the potash market, the uncertainties regarding the legal framework as well as the cost pressure for environmental and additional disposal measures.

The opportunities open to K+S in the medium term are slightly less compared with the previous year. Nevertheless, we are confident that K+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, compared with the previous year, the risk and opportunity position remains challenging due to general conditions in the Potash and Magnesium Products business unit.

## **1.6 FORECAST REPORT**

### **FUTURE MACROECONOMIC SITUATION**

The following discussion on the future macroeconomic situation is based on forecasts by the KIEL INSTITUTE FOR THE WORLD ECONOMY and the INTERNATIONAL MONETARY FUND (IMF). / TAB: 1.6.1

The INTERNATIONAL MONETARY FUND is forecasting a growth rate of 3.4% in global gross domestic product for 2017. In spite of political uncertainties, experts are assuming that the economic upturn in the industrialised nations will continue in view of the ongoing overall expansive monetary policy, incentives from financial policy as well as gradually increasing wage levels. Economic expansion should also experience a gradual upturn in many emerging countries; however, continually low raw material prices as well as structural problems that are unresolved in many cases should limit growth prospects in part.

As a result of the imminent UK exit from the European Union, no direct noteworthy impact on K+S can be expected. The share of the United Kingdom in the total revenues of the K+S GROUP is in a low single-digit percentage range.

### **FUTURE INDUSTRY SITUATION**

#### **POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT**

In the 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 trends in increased

**PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT**

TAB: 1.6.1

	2013	2014	2015	2016	2017e
in %; real					
Germany	+0.6	+1.6	+1.5	+1.7	+1.5
European Union (EU-28)	+0.3	+1.6	+2.0	+1.7	+1.6
World	+3.3	+3.4	+3.2	+3.1	+3.4

Source: IMF

demand for potash. Even the current 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 the event of shortage.

For 2017, we are expecting global potash demand slightly above the level in the year under review (2016: around 64 million tonnes including about 4 million tonnes of potassium sulphate and potash grades with a lower mineral content). While the prices of fertilizer specialties such as potassium sulphate (SOP) should remain at a good level, the prices for standard potash (MOP) are expected to only recover gradually, especially in some overseas regions.

**SALT BUSINESS UNIT**

In the de-icing salt segment, the 2016/2017 winter season started better than in the weak previous year, however sales remained below the long-term average until the editorial deadline of this report. Only in Europe, the

reduction in inventory levels was comparatively high at the beginning of the year.

North America is among the leading sales regions for the consumer products and food processing salt business. Demand is anticipated to remain largely stable here in 2017. Consumption at the previous year's level is expected in Europe and South America as well. However, a global trend of increased use of high-quality products such as sea salt or kosher salt as well as low-sodium products is discernible in the long term.

Demand in the salt for chemical use and industrial salt segments should remain stable or increase slightly. Moderate growth rates continue to be expected particularly for pharmaceutical salts in view of the increasingly ageing population. In South America, growing demand for salt for the extraction of copper from the mined raw ore (copper leaching) has been recorded. This development is expected to continue in 2017 as well. Demand in the chemical industry, for instance for plastics pro-

duction, should also increase in the wake of the robust US economy and ongoing low energy costs. However, the economic situation that is still strained in parts of Europe should have a weakening effect.

As the world's largest salt producer, we are well positioned to meet the challenges arising in our market environment. With our production sites in North America and Europe, we serve our customers in all sectors where sodium chloride is used. Likewise, our production in Chile and Brazil puts us in a very good position to further participate in the growth potential in South and Central America. We are anticipating an increase in consumption here, especially in salts for chemical and industrial use.

**EXPECTED DEVELOPMENT OF REVENUES AND EARNINGS**

Our assessment for 2017 as a whole is mainly based on the following assumptions:

**POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT**

- + The deep-well injection permit for saline wastewater from potash production at the Werra plant, granted in 2016, enables an annual injection volume of 1.5 million m<sup>3</sup>, limited to 5,000 m<sup>3</sup> per day. The permit also includes a number of ancillary provisions. As it was

the case in the first months of 2017, further production limitations in long periods of low water level in the Werra river therefore cannot be ruled out during the course of the year.

- + Assuming average weather conditions for the remainder of the year, we are currently anticipating significantly higher sales volumes (2016: 6.1 million tonnes), as we are expecting initial volumes from Legacy in Canada and MAGPOWER in China.
- + The start of production at Legacy during the year with the initial depreciation and amortisation should have an impact with a higher burden placed on EBIT I (2016: € -93 million).
- + We are working hard to implement additional saline wastewater disposal measures in order to improve production possibilities at the integrated Werra plant. From 2018 onwards, the commissioning of the new KAINITE CRYSTALLIZATION AND FLOTATION FACILITY (KCF) will have a positive impact on the disposal situation at the Werra plant.
- + Also in 2017, we are expecting intense competition, along with continued low soft commodity prices. High demand for potassium chloride, especially in the second half of 2016, has led to a stabilisation of prices. We are expecting a slight increase in the average price for the year as a whole (2016: € 253/t).

#### SALT BUSINESS UNIT

- + The winter weather that prevailed prior to the preparation date and moderately increasing sales of non de-icing salts should lead to moderately higher sales volumes overall (2016: 19.4 million tonnes).

#### K+S GROUP

- + Average spot rate of EUR/USD 1.10 (2016: EUR/USD 1.11).

#### REVENUES AND EARNINGS FORECAST

In the light of the assumptions described above, revenues and operating earnings EBITDA and EBIT I of the K+S GROUP should be tangibly higher in the 2017 financial year than in the previous year (2016: € 3,457 million, € 519 million, € 229 million). In the Potash and Magnesium Products business unit (2016: € 185 million and € 34 million respectively) as well as in the Salt business unit (2016: € 322 million and € 204 million respectively), we are currently expecting a tangible increase in operating earnings. Further production limitations in longer periods of low water levels in the Werra river cannot be ruled out during the course of the year and could lead to substantial deviations from our assessment. Adjusted Group earnings after taxes should also increase tangibly compared with the same period in the previous year (2016: € 131 million).

#### ANTICIPATED FINANCIAL POSITION AND PLANNED CAPITAL EXPENDITURE

The expected capital expenditure volume of the K+S GROUP for 2017 should remain significantly below the level in the previous year due to lower capital expenditure in the Legacy Project (2016: € 1.2 billion). While this should be reflected particularly in significantly lower capital expenditure in the Potash and Magnesium Products business unit (2016: € 1.0 billion), the level in the Salt business unit should remain virtually unchanged

(2016: € 149 million). The adjusted free cash flow of the K+S GROUP should show a tangible improvement compared with the previous year (2016: € -777 million), however it will still be negative. The return on capital employed (ROCE) should show a tangible increase due to the improvement in earnings in spite of a higher capital commitment (2016: 3.0%). On a business unit level, ROCE should also experience a tangible improvement (2016: Potash and Magnesium Products 0.7%; Salt 8.1%).

#### PROPOSED DIVIDEND FOR THE 2016 FINANCIAL YEAR

Our earnings-based dividend policy is basically reflected in a payout ratio of 40 to 50% of adjusted Group earnings after taxes. Consequently, the Board of Executive Directors intends to propose a dividend of € 0.30 per share (previous year: € 1.15 per share) to the Annual General Meeting on 10 May 2017; this corresponds to a payout ratio of 44% (previous year: 41%).

#### MEDIUM-TERM FORECAST

In spite of the numerous challenges, we are still optimistic that we will be able to achieve our target of Group EBITDA of around € 1.6 billion in 2020. Our 'Salt 2020' strategy is already on track towards achieving the EBITDA target of over € 400 million assuming a normal winter. In the Potash and Magnesium Products business unit we are assuming unaffected operations of our potash plants

in Germany. In addition, we are particularly optimistic about the Legacy Project which will have made significant contributions to earnings at that time. We do not believe that the current dip in the potash market, which represents a major challenge on the way to achieving our target by 2020, will last as the medium-term and long-term growth trends remain intact. Consequently, we are anticipating a higher potash price level than at present in the context of our medium-term forecast. We are also developing numerous strategic initiatives, which should contribute towards achieving this target.

#### **GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE K+S GROUP**

The Board of Executive Directors of K+S AKTIENGESELLSCHAFT is expecting the operating earnings EBITDA and EBIT I of the K+S GROUP for the 2017 financial year to be tangibly higher than in the previous year. The deep-well injection permit for saline wastewater from potash production at the Werra plant, granted in 2016, contains a lower injection volume than had been applied for, as well as a number of ancillary provisions. As it was the case in the first months of 2017, further production limitations in long periods of low water level in the Werra river therefore cannot be ruled out during the course of the year and could lead to substantial deviations from this assessment. It is unlikely that the expected tangible increase in operating earnings in the Salt business unit will be able to offset this in any event. Capital expenditure for 2017 should decrease sig-

nificantly due in particular to lower expenditure for the Legacy Project. Nevertheless, adjusted free cash flow is again likely to be negative.

#### **1.7 K+S AKTIENGESELLSCHAFT (EXPLANATIONS BASED ON THE GERMAN COMMERCIAL CODE (HGB))**

The Management Report of K+S AKTIENGESELLSCHAFT and the Group Management Report for the 2016 financial year are combined. The annual financial statements of K+S AKTIENGESELLSCHAFT in accordance with the GERMAN COMMERCIAL CODE (HGB) and the combined Management Report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

#### **DECLARATION ON CORPORATE GOVERNANCE**

The Declaration on Corporate Governance in accordance with Section 289a of the German Commercial Code (HGB) is shown on page 49.

#### **REMUNERATION REPORT**

The information to be disclosed in accordance with Section 289 (2) (5) of the German Commercial Code (HGB) is provided on page 121.

#### **INFORMATION IN ACCORDANCE WITH SECTION 289 (4) OF THE GERMAN COMMERCIAL CODE (HGB) AND EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS**

Information in accordance with Section 289 (4) of the German Commercial Code (HGB) and the explanatory report of the Board of Executive Directors can be found on page 63.

#### **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 overview of the course of business can be found on pages 21–80.

#### **EARNINGS POSITION**

At € 138.2 million, revenues of K+S AKTIENGESELLSCHAFT were € 19.6 million above the level in the previous year (€ 118.6 million). Revenues in the Animal hygiene products segment were slightly above the previous year's level (+3 %) and in the IT segment tangibly above the previous year's level (+6 %). Other revenues increased by € 16.2 million to € 53.5 million (2015: € 37.3 million), firstly due to an increase in internal Group

billing of services to Group companies and secondly, to the first-time application of the German Accounting Directive Implementation Act (BilRUG) and the associated redefinition of revenues. / TAB: 1.7.1

Other operating income decreased significantly by € 56.6 million to € 124.8 million (2015: € 181.4 million). The main reasons were declining earnings from exchange rate hedging transactions for USD and CAD positions.

Other operating expenses decreased from € 173.7 million to € 137.6 million due to the decline in price losses, lower expenses for hedging transactions as well as lower consulting expenses, among others.

Income from investments declined from € 578.6 million in 2015 to € 243.1 million in 2016. The main reason for this is the elimination of K+S KALI GMBH profit transfer (from € 505.1 million in 2015 to € -4.3 million in 2016). The increased income from the interests in K+S SALZ GMBH of € 97.3 million (2015: € 50.0 million), K+S INVESTMENTS LIMITED from € 81.3 million (2015: —) and K+S FINANCE BELGIUM BVBA from € 45.5 million (2015: —) had the opposite effect. Other investment income arose among other things from the profit transfers of K+S ENTSORGUNG GMBH of € 10.9 million (2015: € 11.6 million) and K+S TRANSPORT GMBH of € 7.1 million (2015: € 10.6 million).

Other interest and similar income declined essentially on account of lower income from securities from € 4.1 million to € 3.2 million.

#### INCOME STATEMENT OF K+S AKTIENGESELLSCHAFT<sup>1</sup>

TAB: 1.7.1

in € million	2015	2016
<b>Revenues</b>	<b>118.6</b>	<b>138.2</b>
Cost of sales	123.0	122.7
<b>Gross profit</b>	<b>-4.3</b>	<b>15.5</b>
Sales and distribution, general and administrative expenses and research costs	36.7	26.7
Other operating income and expenses	7.7	-12.8
Income from investments, net	578.6	243.1
Interest income, net	-115.8	-121.8
Write-downs of long-term financial assets and securities classified as current assets	2.5	1.1
Expenses from transfer of losses	—	4.3
<b>Earnings before income taxes</b>	<b>426.8</b>	<b>91.8</b>
Taxes on income	153.4	15.1
<b>Net income</b>	<b>273.5</b>	<b>76.8</b>
<b>Profit carried forward</b>	<b>—</b>	<b>—</b>
<b>Allocation to revenue reserves</b>	<b>—</b>	<b>—</b>
<b>Accumulated profit</b>	<b>273.5</b>	<b>76.8</b>

<sup>1</sup> A detailed income statement can be found in the 2016 financial statements of K+S Aktiengesellschaft.

Interest and similar expenses increased from € 120.1 million to € 125.0 million mainly due to higher interest expenses for 'Schuldscheindarlehen' (promissory notes). This was accompanied by lower expenses from the accumulation of provisions.

Income after taxes declined by € 196.7 million to € 76.8 million (2015: € 273.5 million).

#### ASSETS AND FINANCIAL POSITION

Fixed assets increased by € 1,017.2 million to € 6,643.1 million (2015: € 5,625.9 million) due essentially to capital injections in affiliated companies. Consequently, the share of fixed assets in the balance sheet total was 92 % (2015: 87 %). Overall, the balance sheet total was up € 819.3 million to € 7,250.0 million in 2016. Current assets decreased by € 192.7 million to € 588.7 million (2015: € 781.5 million). Receivables from affiliated compa-



nies declined from € 696.7 million in the previous year to € 482.5 million. The main reason for this decrease were lower receivables from profit transfer. Receivables from affiliated companies showed the opposite development. / TAB: 1.7.2

There was no positive consolidation difference resulting from a surplus of cover fund assets for obligations arising from pension commitments in the 2016 financial year (2015: € 0.9 million). / TAB: 1.7.3

Equity fell by € 143.3 million to € 2,136.2 million compared with the previous year (2015: € 2,279.5 million). The equity ratio was 30 % as of the reporting date (2015: 35 %). Liabilities to affiliated companies of € 2,388.9 million (2015: € 2,373.5 million) essentially consisted of cash pooling liabilities and loan liabilities.

The increase in short-term liabilities to banks as well as the issue of 'Schuldscheindarlehen' (promissory notes) resulted in an increase of all liabilities of € 1,003.0 million to € 4,926.4 million (2015: € 3,923.4 million). The company reported provisions of € 187.4 million on the reporting date with a predominantly long-term character. The company's financing came to a considerable extent from funds available in the long term.

#### DETAILS ON OWN SHARES

The information in accordance with Section 160 (1) (2) of the German Stock Corporation Act (Aktiengesetz) is

<b>BALANCE SHEET OF K+S AKTIENGESELLSCHAFT – ASSETS</b>		TAB: 1.7.2	
	31.12.2015	31.12.2016	
in € million			
Intangible assets	11.1	8.8	
Property, plant and equipment	64.0	63.5	
Financial assets	5,550.8	6,570.8	
<b>Fixed assets</b>	<b>5,625.9</b>	<b>6,643.1</b>	
Inventories	1.8	1.6	
Receivables and other assets	751.9	544.5	
Securities	10.2	8.9	
Cash on hand and bank balances	17.6	33.8	
<b>Current assets</b>	<b>781.5</b>	<b>588.7</b>	
<b>Prepaid expenses</b>	<b>22.5</b>	<b>18.2</b>	
<b>Positive consolidation difference arising from offsetting of assets</b>	<b>0.9</b>	<b>—</b>	
<b>ASSETS</b>	<b>6,430.8</b>	<b>7,250.0</b>	

<b>BALANCE SHEET OF K+S AKTIENGESELLSCHAFT – EQUITY AND LIABILITIES</b>		TAB: 1.7.3	
	31.12.2015	31.12.2016	
in € million			
Subscribed capital	191.4	191.4	
Capital reserve	701.6	701.6	
Retained income	1,113.1	1,166.4	
Accumulated profit	273.5	76.8	
<b>Equity</b>	<b>2,279.5</b>	<b>2,136.2</b>	
Provisions for pensions and similar obligations	—	1.4	
Tax provisions	28.6	5.0	
Other provisions	198.7	181.0	
<b>Provisions</b>	<b>227.3</b>	<b>187.4</b>	
<b>Liabilities</b>	<b>3,923.4</b>	<b>4,926.4</b>	
<b>Deferred expenses</b>	<b>0.6</b>	<b>—</b>	
<b>EQUITY AND LIABILITIES</b>	<b>6,430.8</b>	<b>7,250.0</b>	

included in the Notes to the 2016 annual financial statements of K+S AKTIENGESELLSCHAFT.

## EMPLOYEES

An annual average of 900 employees (2015: 809 employees) were employed at K+S AKTIENGESELLSCHAFT, 16 of whom were trainees (2015: 17 trainees). The increase in personnel is mainly due to reassignments of human resources from the Potash and Magnesium Products business unit to K+S AKTIENGESELLSCHAFT.

## DIVIDENDS

K+S AKTIENGESELLSCHAFT reports accumulated profit of € 76.8 million for the 2016 financial year (2015: € 273.5 million).

The Board of Executive Directors intends to propose to the Annual General Meeting on 10 May 2017 to use the accumulated profit of K+S AKTIENGESELLSCHAFT from the 2016 financial year as presented in the following table. / TAB: 1.7.4

## RESEARCH & DEVELOPMENT

Detailed information about the research and development activities of the K+S GROUP, which relate primar-

ily to holding companies with operating activities, can be found on page 34.

## 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 99.

The description of the internal monitoring system with regard to the accounting process of K+S AKTIENGESELLSCHAFT (Section 289 (5) of the German Commercial Code (HGB)) can be found on page 61.

## SUBSEQUENT EVENTS

'Subsequent Events' concerning the K+S GROUP and K+S AKTIENGESELLSCHAFT can be found on page 187.

## FORECAST REPORT

The earnings development of K+S AKTIENGESELLSCHAFT depends to a large extent on the development of its subsidiaries. The expected business development

APPROPRIATION OF PROFITS <sup>1</sup>		TAB: 1.7.4
	2015	2016
in € million		
Dividend per share (€)	1.15	0.30
Total dividend payment taking into account 191,400,000 no-par value bearer shares eligible for dividend	220.1	57.4
Allocation to retained income	53.4	19.4
Profit carried forward	—	—
<b>Accumulated profit</b>	<b>273.5</b>	<b>76.8</b>

<sup>1</sup> Amounts are rounded.

for the K+S GROUP can be found in the 'Forecast Report' on page 114.

## 1.8 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, 3 March 2017

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 moment in 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. Apart from the disclosures required by law, the company assumes no obligation to update the statements contained in this Management Report.

## 1.9 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 of each member of the Board of Executive Directors, their individual performance, the performance of the Board of Executive Directors as a whole, 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 elements and those with a long-term incentive character. The annual remuneration elements include both components not related to performance and performance-related elements. The components not related to performance consist of fixed remuneration as well as non-cash remuneration and other benefit packages; the bonus is the performance-related part. There is also a variable remuneration component, based on key figures, with a long-term incentive (LTI) character. The mem-

bers of the Board of Executive Directors also have pension commitments.

Fixed remuneration as 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 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 addition, 80% of the variable component is linked to company performance, i.e. to the return on total investment achieved; the remaining 20% is dependent on personal performance. 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.

In 2016, the Chief Financial Officer received 1.2 times the remuneration of an ordinary member of the Board of Executive Directors and the Chairman of the Board of Executive Directors 1.7 times.

Income can also be drawn from a long-term incentive programme based on key figures 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:

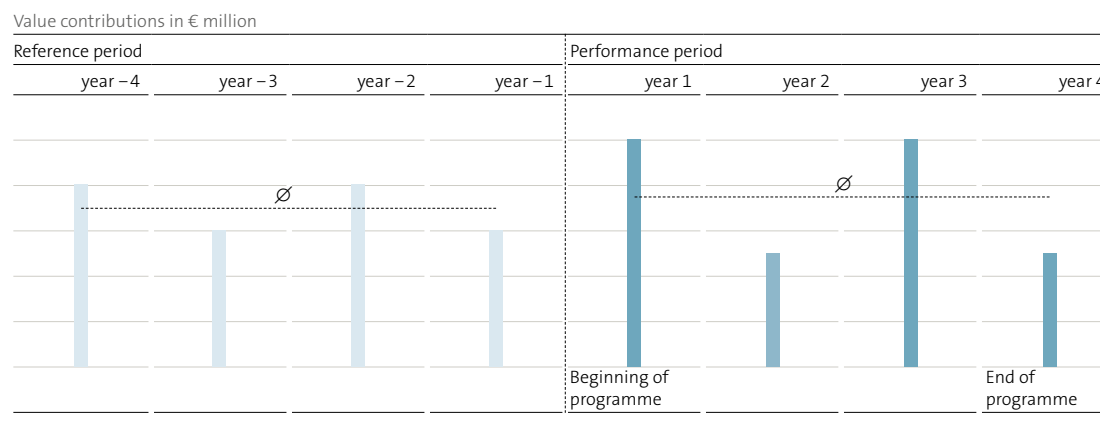
Operating earnings (EBIT I)
+ Interest income for the financial year
– Capital costs (before taxes) for the financial year
= Value contribution

A cap for the value contribution exists at € ± 500 million per financial year.

Two four-year periods (a 'reference period' and a 'performance period') are compared to determine the result for an LTI tranche. The reference period covers the four years prior to commencement of the respective LTI, while the performance period covers the four years of

### LTI PROGRAMME

FIG: 1.9.1



the respective LTI term. The following diagram shows the LTI programme periods: / FIG: 1.9.1

The average of the four value contributions for the reference period is calculated at the beginning of an LTI and the average of the four value contributions for the performance period at the end of the programme. The difference between these average value contributions is reflected as a percentage on a scale from € – 200 million to € + 200 million. If the value contributions in the reference and performance period are the same, 100% of the LTI is paid out. In this case, the variable component of remuneration with a long-term incentive character for an ordinary member of the Board of Executive

Directors is € 350,000. In the case of underperformance, the payment decreases on a straight-line basis to 0% in line with the percentage deviation. In the case of overperformance, the payment increases accordingly up to an upper limit of 200% (= € 700,000). Currently, the component of remuneration is 1.2 times that of an ordinary member of the Board of Executive Directors for the Chief Financial Officer and 1.7 times for the Chairman 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 dis-

## LTI PROGRAMME 2013 – 2016

FIG: 1.9.2

in € million	2009	2010	2011 <sup>1</sup>	2012	2013	2014	2015	2016	2017	2018	2019	Result
LTI 2013				Ø 297				Ø 39				Difference = € – 258 million Disbursement <sup>2</sup> = € 0.0 thousand
	– 32	334	500	384	222	102	226	– 396	–	–	–	
LTI 2014					Ø 360				not yet complete (Ø to date: – 23)			
	–	334	500	384	222	102	226	– 396	–	–	–	
LTI 2015						Ø 302						not yet complete (Ø to date: – 85)
	–	–	500	384	222	102	226	– 396	–	–	–	
LTI 2016							Ø 234					not yet complete (Ø to date: – 396)
	–	–	–	384	222	102	226	– 396	–	–	–	

■ Reference period ■ Performance period

<sup>1</sup> In 2011, the cap limit was reached on account of extremely good value contributions.

<sup>2</sup> For an ordinary member of the Board of Executive Directors, payment is made in April of the year following the end of the programme.

counted pro-rata payment for all current tranches is generally made in April of the following year. / FIG: 1.9.2

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: 1.9.1

## ILLUSTRATIVE CALCULATION OF THE ANNUAL REMUNERATION OF A MEMBER OF THE BOARD OF EXECUTIVE DIRECTORS

TAB: 1.9.1

in €	Target achievement 100 %	Target achievement 0 %	Maximum Target achievement
Fixed remuneration: 40 %	420,000	420,000	420,000
Bonus: 60 %	630,000 <sup>1</sup>	0 <sup>2</sup>	938,000 <sup>3</sup>
– of which Company performance: 80 %	504,000	0	749,000
– of which individual target achievement: 20 %	126,000	0	189,000
<b>Annual remuneration</b>	<b>1,050,000</b>	<b>420,000</b>	<b>1,358,000</b>
LTI programme	350,000 <sup>4</sup>	0 <sup>5</sup>	700,000 <sup>6</sup>
<b>Total remuneration</b>	<b>1,400,000</b>	<b>420,000</b>	<b>2,058,000</b>

<sup>1</sup> Return on total investment ≥ minimum return; individual target achievement ≥ 100 %.

<sup>2</sup> Return on total investment ≤ 0 %; individual target achievement ≤ 0 %.

<sup>3</sup> Return on total investment ≥ minimum return + 21 percentage points; individual target achievement ≥ approx. 150 %.

<sup>4</sup> Difference in average value contributions between reference and performance period = € 0 million ± 100 %.

<sup>5</sup> Difference in average value contributions between reference and performance period ≤ € – 200 million ± 0 %.

<sup>6</sup> Difference in average value contributions between reference and performance period ≥ € + 200 million ± 200 %.

### REMUNERATION AMOUNT

Details of the individual remuneration of the Board of Executive Directors in the 2016 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: 1.9.2, 1.9.3

Mark Roberts receives his remuneration in euro. 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 contract signature (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 6.8 times (2015: 5.0 times) that of senior executives worldwide and 22.3 times (2015: 24.7 times) the total workforce. The increase in the ratio of the Board of Executive directors to the senior executives is due to the differing remuneration systems. The remuneration system applicable to the senior executives responds to both upward and downward fluctuations in a highly volatile way. For this year, the single-year variable remuneration for this group of persons amounted to 0 % in terms of the company success.

### REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS (ALLOWANCES GRANTED)

	Norbert Steiner, CEO Member of the Board of Executive Directors since 05 / 2000			
	2015	2016	2016 (min)	2016 (max)
in € thousand				
Fixed remuneration	680.0	714.0	714.0	714.0
Fringe benefit <sup>1</sup>	26.8	27.2	27.2	27.2
<b>Total</b>	<b>706.8</b>	<b>741.2</b>	<b>741.2</b>	<b>741.2</b>
Single-year variable remuneration	1,020.0	1,071.0	0.0	1,594.6
Multi-year variable remuneration	595.0	595.0	0.0	1,190.0
– LTI	595.0	595.0	0.0	1,190.0
<b>Total</b>	<b>2,321.8</b>	<b>2,407.2</b>	<b>741.2</b>	<b>3,525.8</b>
– Service costs	581.8	601.6	601.6	601.6
<b>Total remuneration</b>	<b>2,903.6</b>	<b>3,008.8</b>	<b>1,342.8</b>	<b>4,127.4</b>

<sup>1</sup> Fringe benefits capped at € 75,000.

<sup>2</sup> 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)

	Norbert Steiner, CEO Member of the Board of Executive Directors since 05 / 2000	
	2015	2016
in € thousand		
Fixed remuneration	680.0	714.0
Fringe benefits	26.8	27.2
<b>Total</b>	<b>706.8</b>	<b>741.2</b>
Single-year variable remuneration	1,016.0 <sup>1</sup>	637.8
Multi-year variable remuneration	320.7	0.0
– Programme description (programme term)	2012–2015	2013–2016
Others	–	–
<b>Total<sup>2</sup></b>	<b>2,043.5<sup>1</sup></b>	<b>1,379.0</b>
– Pension expenses	581.8	601.6
<b>Total remuneration</b>	<b>2,625.3<sup>1</sup></b>	<b>1,980.6</b>

<sup>1</sup> Including repayment of the unspent volume of the accumulation of short-time compensation as described in the 2015 Annual Report.

<sup>2</sup> Total corresponds to the information in accordance with Section 314 of the German Commercial Code (HGB) and German Accounting Standard 17.

<sup>3</sup> Including exchange rate offsetting.

TAB: 1.9.2

	Dr Burkhard Lohr, CFO Member of the Board of Executive Directors since 06/2012				Dr Andreas Radmacher Member of the Board of Executive Directors from 09/2013 to 02/2016				Mark Roberts <sup>2</sup> Member of the Board of Executive Directors since 10/2012				Dr Thomas Nöcker Member of the Board of Executive Directors since 08/2003			
	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015 <sup>3</sup>	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)
	460.0	504.0	504.0	504.0	400.0	70.0	70.0	70.0	400.0	420.0	420.0	420.0	400.0	420.0	420.0	420.0
	23.4	25.5	25.5	25.5	25.8	4.4	4.4	4.4	52.2	51.3	51.3	51.3	27.3	25.0	25.0	25.0
	<b>483.4</b>	<b>529.5</b>	<b>529.5</b>	<b>529.5</b>	<b>425.8</b>	<b>74.4</b>	<b>74.4</b>	<b>74.4</b>	<b>452.2</b>	<b>471.3</b>	<b>471.3</b>	<b>471.3</b>	<b>427.3</b>	<b>445.0</b>	<b>445.0</b>	<b>445.0</b>
	690.0	756.0	0.0	1,125.6	600.0	—	—	—	600.0	630.0	0.0	938.0	600.0	630.0	0.0	938.0
	402.5	420.0	0.0	840.0	350.0	—	—	—	350.0	350.0	0.0	700.0	350.0	350.0	0.0	700.0
	402.5	420.0	0.0	840.0	350.0	—	—	—	350.0	350.0	0.0	700.0	350.0	350.0	0.0	700.0
	<b>1,575.9</b>	<b>1,705.5</b>	<b>529.5</b>	<b>2,495.1</b>	<b>1,375.8</b>	<b>74.4</b>	<b>74.4</b>	<b>74.4</b>	<b>1,402.2</b>	<b>1,451.3</b>	<b>471.3</b>	<b>2,109.3</b>	<b>1,377.3</b>	<b>1,425.0</b>	<b>445.0</b>	<b>2,083.0</b>
	586.1	597.4	597.4	597.4	541.7	86.0	86.0	86.0	526.5	592.9	592.9	592.9	419.3	410.8	410.8	410.8
	<b>2,162.0</b>	<b>2,302.9</b>	<b>1,126.9</b>	<b>3,092.5</b>	<b>1,917.5</b>	<b>160.4</b>	<b>160.4</b>	<b>160.4</b>	<b>1,928.7</b>	<b>2,044.2</b>	<b>1,064.2</b>	<b>2,702.2</b>	<b>1,796.6</b>	<b>1,835.8</b>	<b>855.8</b>	<b>2,493.8</b>

<sup>3</sup> Transfer of the residual terms of LTI claims that Mr Roberts received as CEO of Morton Salt.

TAB: 1.9.3

	Dr Burkhard Lohr, CFO Member of the Board of Executive Directors since 06/2012		Dr Andreas Radmacher <sup>5</sup> Member of the Board of Executive Directors from 09/2013 to 02/2016		Mark Roberts Member of the Board of Executive Directors since 10/2012		Dr Thomas Nöcker Member of the Board of Executive Directors since 08/2003	
	2015	2016	2015	2016	2015 <sup>3</sup>	2016 <sup>3</sup>	2015	2016
	460.0	504.0	400.0	70.0	452.9	513.7	400.0	420.0
	23.4	25.5	25.8	4.4	52.2	51.3	27.3	25.0
	<b>483.4</b>	<b>529.5</b>	<b>425.8</b>	<b>74.4</b>	<b>505.1</b>	<b>565.0</b>	<b>427.3</b>	<b>445.0</b>
	687.3 <sup>1</sup>	435.1	597.7 <sup>1</sup>	—	678.6 <sup>1</sup>	428.1	597.7 <sup>1</sup>	350.0
	—	0.0	—	—	122.1	0.0	188.7	0.0
	—	2013–2016	—	—	2012–2015	2013–2016	2012–2015	2013–2016
	—	—	—	—	-15.1 <sup>4</sup>	—	—	—
	<b>1,170.7<sup>1</sup></b>	<b>964.6</b>	<b>1,023.5<sup>1</sup></b>	<b>74.4</b>	<b>1,290.7<sup>1</sup></b>	<b>993.1</b>	<b>1,213.7<sup>1</sup></b>	<b>795.0</b>
	586.1	597.4	541.7	86.0	526.5	592.9	419.3	410.8
	<b>1,756.8<sup>1</sup></b>	<b>1,562.0</b>	<b>1,565.2<sup>1</sup></b>	<b>160.4</b>	<b>1,817.2<sup>1</sup></b>	<b>1,586.0</b>	<b>1,633.0<sup>1</sup></b>	<b>1,205.8</b>

<sup>4</sup> Repayment exchange rate offsetting after reconciliation of the actual tax rate from 2016.

<sup>5</sup> Dr Andreas Radmacher left the Board of Executive Directors with effect from 29 February 2016, his mandate expired on 31 August 2016. In addition to the disclosed total remuneration as a member of the Board of Executive Directors, Dr Radmacher received the following remuneration for the remaining time of his mandate from 1 March until 31 August: fixed remuneration of € 210.0 thousand, fringe benefits of € 28.9 thousand, single-year variable remuneration of € 386.7 thousand, general compensation from the long-term incentive programme for the periods 2014–2017, 2015–2018 and 2016–2019 of € 95.0 thousand, pension expenses of € 258.1 thousand as well as compensation according to restraint on competition for 24 months after resignation of € 27.0 thousand per month.

The Supervisory Board and Dr Andreas Radmacher reached a mutual agreement not to renew Dr Radmacher's term of office which expired on 31 August 2016. He left the Company on 29 February 2016. The contractual entitlements for the period between 1 March and 31 August 2016 have been settled and are outlined in footnote 5 of the inflow table.

The total remuneration of the Board of Executive Directors related to five members, four of whom were in office for the whole year. In the previous year, the Board of Executive Directors consisted of five members, all of whom were in office for the whole year. All components of the remuneration of the Board of Executive Directors are reviewed every three years – this cycle already ended on 1 January 2015. Due to the ongoing 'FIT FOR THE FUTURE' savings programme, the Supervisory Board, with the consent of the Board of Executive Directors, postponed the review for a year to 1 January 2016. Consequently, the remuneration of the Board of Executive Directors was not increased until that point by 5%. As shown in figure 1.9.2 on page 123, the value contributions generated in the four-year performance period were below those generated in the reference period. Therefore, the 2013 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.

<b>PENSIONS<sup>1</sup></b>						TAB: 1.9.4
		Age	Current value as of 1 January	Pension expenses <sup>2</sup>	Current value as of 31 December	
in € thousand						
Norbert Steiner	2016	62	7,323.4	762.7	8,641.1	
	2015		6,709.9	722.7	7,323.4	
Dr Thomas Nöcker	2016	58	5,306.2	527.6	6,279.6	
	2015		4,886.9	521.9	5,306.2	
Dr Burkhard Lohr	2016	53	2,041.7	642.3	2,923.8	
	2015		1,496.1	617.5	2,041.7	
Mark Roberts	2016	53	1,951.5	635.9	2,867.2	
	2015		1,210.3	551.9	1,951.5	
Dr Andreas Radmacher (member until 29 February 2016)	2016	51	1,233.6	92.8	1,747.2	
	2015		735.9	557.2	1,233.6	
<b>Total</b>	<b>2016</b>		<b>17,856.4</b>	<b>2,661.3</b>	<b>22,458.9</b>	
	<b>2015</b>		<b>20,549.9</b>	<b>2,971.2</b>	<b>17,856.4</b>	

<sup>1</sup> According to IFRS.

<sup>2</sup> Including interest expenses.

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 2016 modules for the members of the Board of Executive Directors are between 8.5 and 13.0%, 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. Claims arising from modules earned are non-forfeitable. A fixed euro-US dollar translation rate has been agreed



for Mark Roberts as part of the extension of his term of office.

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, claims can already be made in accordance with the pension commitment at that time.

The following amounts were allocated to the pension provisions for members of the Board of Executive Directors in 2016. / TAB: 1.9.4

The pension module earned by each of the members of the Board of Executive Directors in 2016 gives rise to

pension expenses, which are calculated in accordance with actuarial principles. The increase in current values compared with 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 claims arising from the 'change of control' clause may not exceed the value of the combined annual remuneration for three years. In the event of a change of control, 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 € 1.8 million in the reporting year (2015: € 1.5 million). The increase is due to the compensation according to restraint on competition, which Dr Radmacher will receive for a period of 24 months after his resignation.

#### 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 2016 financial year are shown in the table below: / TAB: 1.9.5

Additionally, in 2016, members of the Supervisory Board were reimbursed expenses totalling € 128.5 thousand (2015: € 68.8 thousand). In 2016, remuneration was neither paid for Supervisory Board activities in subsidiaries, nor were benefits provided to members of the Supervisory Board for individual services, particularly consultancy or brokerage services.

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 <sup>1</sup>

TAB: 1.9.5

		Fixed remuneration	Audit Committee	Personnel Committee	Nomination Committee <sup>3</sup>	Attendance fees	Total
in €							
Dr Ralf Bethke (Chairman)	2016	200,000	15,000	15,000	15,000	14,250	259,250
	2015	200,000	15,000	15,000	–	10,500	240,500
Michael Vassiliadis (Vice-Chairman)	2016	150,000	15,000	7,500	–	6,750	179,250
	2015	150,000	15,000	7,500	–	6,750	179,250
Ralf Becker	2016	100,000	15,000	–	–	6,750	121,750
	2015	100,000	15,000	–	–	7,500	122,500
Jella S. Benner-Heinacher	2016	100,000	–	7,500	–	8,250	115,750
	2015	100,000	–	7,500	–	6,750	114,250
George Cardona	2016	100,000	–	–	7,500	6,750	114,250
	2015	100,000	–	–	–	6,000	106,000
Wesley Clark	2016	100,000	–	–	–	3,000	103,000
	2015	100,000	–	–	–	3,000	103,000
Harald Döll	2016	100,000	–	7,500	–	6,000	113,500
	2015	100,000	–	7,500	–	6,750	114,250
Axel Hartmann	2016	100,000	15,000	–	–	6,000	121,000
	2015	100,000	15,000	–	–	7,500	122,500
Rüdiger Kienitz (until 31 March 2016)	2016	25,000	–	–	–	750	25,750
	2015	100,000	–	–	–	5,250	105,250
Michael Knackmuß	2016	100,000	–	–	–	3,750	103,750
	2015	100,000	–	–	–	4,500	104,500
Dr Andreas Kreimeyer (since 12 May 2015)	2016	100,000	–	–	7,500	7,500	115,000
	2015	66,667	–	–	– <sup>2</sup>	3,750	70,417
Gerd Kübler (since 1 January 2016)	2016	100,000	–	–	–	4,500	104,500
	2015	–	–	–	–	–	–
Dieter Kuhn	2016	100,000	–	–	–	4,500	104,500
	2015	100,000	–	–	–	4,500	104,500
Dr Annette Messemer	2016	100,000	15,000	–	–	6,750	121,750
	2015	100,000	15,000	–	–	5,250	120,250
Anke Roehr (since 1 April 2016)	2016	75,000	–	–	–	3,000	78,000
	2015	–	–	–	–	–	–

REMUNERATION OF THE SUPERVISORY BOARD <sup>1</sup> (CONTINUED)

TAB: 1.9.5

		Fixed remuneration	Audit Committee	Personnel Committee	Nomination Committee <sup>3</sup>	Attendance fees	Total
in €							
Dr Eckart Süner	2016	100,000	30,000	—	—	6,750	136,750
	2015	100,000	30,000	—	—	7,500	137,500
Philip Freiherr von dem Bussche (since 12 May 2015)	2016	100,000	—	—	7,500	6,000	113,500
	2015	66,667	—	—	— <sup>2</sup>	4,500	71,167
<b>Total</b>	2016	<b>1,750,000</b>	<b>105,000</b>	<b>37,500</b>	<b>37,500</b>	<b>101,250</b>	<b>2,031,250</b>
	2015 <sup>4</sup>	<b>1,583,333</b>	<b>105,000</b>	<b>37,500</b>	— <sup>3</sup>	<b>90,000</b>	<b>1,815,833</b>

<sup>1</sup> Excluding reimbursement for the value added tax (VAT) to be paid by the members of the Supervisory Board as a consequence of their activities.

<sup>2</sup> Member of the committee since 12 May 2015.

<sup>3</sup> No remuneration in accordance with Articles of Association as number of meetings attended too low in 2015.

<sup>4</sup> Excluding members who retired in 2015.

# CONSOLIDATED FINANCIAL STATEMENTS

## 2

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INCOME STATEMENT <sup>1</sup>		TAB: 2.1.1	
	Notes	2015	2016
in € million			
<b>Revenues</b>	(1)	<b>4,175.5</b>	<b>3,456.6</b>
Cost of sales		2,260.5	2,110.7
<b>Gross profit</b>		<b>1,915.0</b>	<b>1,345.9</b>
Selling expenses		824.5	737.1
General and administrative expenses		218.1	220.0
Research and development costs		14.7	13.7
Other operating income	(2)	180.6	141.9
Other operating expenses	(3)	200.6	253.9
Income from investments, net	(4)	5.7	4.0
Result from operating forecast hedges	(5)	-127.8	23.9
<b>Result after operating hedges (EBIT II) <sup>2</sup></b>		<b>715.6</b>	<b>291.0</b>
Interest income	(6)	10.0	6.5
Interest expenses	(6)	52.5	54.7
Other financial result	(7)	8.8	-3.7
<b>Financial result</b>		<b>-33.7</b>	<b>-51.9</b>
<b>Earnings before income taxes</b>		<b>681.9</b>	<b>239.1</b>
Taxes on income	(8)	186.5	64.7
– of which deferred taxes		-18.7	-14.8
<b>Net income</b>		<b>495.4</b>	<b>174.4</b>
Minority interests in earnings		0.2	0.3
<b>Group earnings after taxes and minority interests</b>		<b>495.2</b>	<b>174.1</b>
<b>Earnings per share in € (undiluted = diluted)</b>	(11)	<b>2.59</b>	<b>0.91</b>

STATEMENT OF COMPREHENSIVE INCOME <sup>1</sup>		TAB: 2.2.1	
	Notes	2015	2016
in € million			
<b>Net income</b>		<b>495.4</b>	<b>174.4</b>
Financial assets available for sale		-3.5	–
Difference resulting from foreign currency translation		1.6	301.0
<b>Items that may be reclassified subsequently to profit or loss</b>		<b>-1.9</b>	<b>301.0</b>
Revaluation of net debt/defined benefit pension plan assets		-0.3	2.1
<b>Items that will not be reclassified to profit or loss</b>		<b>-0.3</b>	<b>2.1</b>
<b>Other income after taxes</b>		<b>-2.2</b>	<b>303.1</b>
<b>Comprehensive income for the period</b>		<b>493.2</b>	<b>477.5</b>
Minority interests in comprehensive income		0.2	0.3
<b>Group comprehensive income after taxes and minority interests</b>		<b>493.0</b>	<b>477.2</b>

OPERATING EARNINGS (EBIT I) <sup>1, 2</sup>		TAB: 2.2.2	
	Notes	2015	2016
in € million			
<b>Result after operating hedges (EBIT II) <sup>3</sup></b>		<b>715.6</b>	<b>291.0</b>
Income (-)/expenses (+) arising from fluctuations in the market value of outstanding operating forecast hedges		85.5	-4.4
Neutralisation of market value fluctuations recorded in prior periods for realised operating forecast hedges		-22.0	-43.6
Realised income (-)/expenses (+) of currency hedging for capital expenditure in Canada		2.5	-13.7
<b>Operating earnings (EBIT I) <sup>3</sup></b>		<b>781.6</b>	<b>229.3</b>

ADDITIONAL KEY EARNINGS FIGURES <sup>1, 2</sup>		TAB: 2.2.3	
	Notes	2015	2016
in € million			
<b>Operating earnings (EBIT I) <sup>3</sup></b>		<b>781.6</b>	<b>229.3</b>
<b>Group earnings after taxes, adjusted</b>	(11)	<b>542.3</b>	<b>130.5</b>
<b>Earnings per share in €, adjusted</b>	(11)	<b>2.83</b>	<b>0.68</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.

<sup>2</sup> Key figures not defined in the IFRS regulations.

<sup>3</sup> The K+S Group is managed, inter alia, on the basis of operating earnings (EBIT I). Reconciliation of EBIT II to operating earnings (EBIT I) is recorded below the income statement (see also the 'Notes to the income statement and the statement of comprehensive income' on page 154).

<b>BALANCE SHEET <sup>1</sup></b>		TAB: 2.3.2	
	Notes	31.12.2015	31.12.2016
in € million			
Intangible assets	(12)	1,068.3	1,084.4
– of which goodwill from acquisitions of companies	(12)	725.9	753.4
Property, plant and equipment		5,054.8	6,456.0
Investment properties	(13)	6.4	6.1
Financial assets	(14)	14.1	27.4
Other financial assets	(18, 19)	112.1	87.5
Other non-financial assets		3.8	4.1
Securities and other financial investments	(15)	–	7.0
Deferred taxes	(16)	98.9	117.4
Refund claims for income taxes		0.1	–
<b>Non-current assets</b>		<b>6,358.5</b>	<b>7,789.9</b>
Inventories	(17)	705.3	710.4
Accounts receivable – trade	(18)	708.6	656.5
Other financial assets	(18, 19)	101.2	146.9
Other non-financial assets		160.1	118.9
Refund claims for income taxes		76.8	68.4
Securities and other financial investments	(15)	40.0	14.3
Cash on hand and bank balances	(30)	123.1	140.2
<b>Current assets</b>		<b>1,915.1</b>	<b>1,855.6</b>
<b>ASSETS</b>		<b>8,273.6</b>	<b>9,645.5</b>

<b>BALANCE SHEET <sup>1</sup></b>		TAB: 2.3.2	
	Notes	31.12.2015	31.12.2016
in € million			
Subscribed capital	(20)	191.4	191.4
Capital reserve	(20)	646.5	645.7
Other reserves and accumulated profit	(20)	3,456.5	3,713.6
Total K+S AG shareholders' equity		4,294.4	4,550.7
Minority interests		1.2	1.5
<b>Equity</b>		<b>4,295.6</b>	<b>4,552.2</b>
Financial liabilities	(25)	1,514.9	2,214.7
Other financial liabilities	(19, 25)	40.7	57.7
Other non-financial liabilities		6.3	9.4
Provisions for pensions and similar obligations	(21)	166.1	186.7
Provisions for mining obligations	(22)	870.1	996.0
Other provisions	(22, 23)	144.2	158.8
Deferred taxes	(16)	294.5	307.1
<b>Non-current debt</b>		<b>3,036.8</b>	<b>3,930.4</b>
Financial liabilities	(25)	28.8	319.8
Accounts payable – trade	(25)	306.0	343.8
Other financial liabilities	(19, 25)	94.9	86.5
Other non-financial liabilities		24.9	40.0
Income tax liabilities		81.0	50.3
Provisions	(22, 24)	405.6	322.5
<b>Current debt</b>		<b>941.2</b>	<b>1,162.9</b>
<b>EQUITY AND LIABILITIES</b>		<b>8,273.6</b>	<b>9,645.5</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.

<b>CASH FLOW STATEMENT <sup>1</sup></b>		TAB: 2.4.1	
	Notes	2015	2016
in € million	(30)		
<b>Result after operating hedges (EBIT II)</b>		<b>715.6</b>	<b>291.0</b>
Income (-)/expenses (+) arising from fluctuations in the market value of outstanding operating forecast hedges		85.5	-4.4
Neutralisation of market value fluctuations recorded in prior periods for realised operating forecast hedges		-22.0	-43.6
Realised income (-)/expenses (+) of currency hedging for capital expenditure in Canada		2.5	-13.7
Write-downs (+)/write-ups (-) on intangible assets, property, plant and equipment and financial assets		275.9	289.8
Increase (+)/decrease (-) in non-current provisions (without interest rate effects)		-25.5	11.3
Interests and dividends received and similar income		10.0	7.2
Gains (+)/losses (-) from the realisation of financial assets/liabilities		37.6	-5.1
Interest paid (-)		-54.0	-59.2
Income taxes paid (-)		-191.9	-102.8
Other non-cash expenses (+)/income (-)		1.6	-2.0
Gain (-)/loss (+) on the disposal of fixed assets and securities		-3.2	17.0
Increase (-)/decrease (+) in inventories		-107.4	12.2
Increase (-)/decrease (+) in receivables and other assets from operating activities		-40.6	85.3
Increase (+)/decrease (-) in liabilities from operating activities		-44.0	-1.5
Increase (+)/decrease (-) in current provisions		32.8	-34.0
Out-financing of plan assets		-3.5	-2.1
<b>Cash flow from operating activities</b>		<b>669.4</b>	<b>445.4</b>
Proceeds from disposals of fixed assets		5.3	3.0
Disbursements for intangible assets		-5.6	-9.6
Disbursements for fixed assets		-1,303.9	-1,202.2
Disbursements for financial assets		-1.1	-13.4
Proceeds from the disposal of securities and other financial investments		725.3	33.5
Disbursements for the purchase of securities and other financial investments		-195.8	-12.7
<b>Cash flow from investment activities</b>		<b>-775.8</b>	<b>-1,201.4</b>
Dividends paid		-172.3	-220.1
Payments from other allocations to equity		2.6	2.4
Purchase of own shares		-3.1	-2.9
Sales of own shares		-	0.4

<b>CASH FLOW STATEMENT <sup>1</sup></b>		TAB: 2.4.1	
	Notes	2015	2016
in € million	(30)		
Repayment (-) of financial liabilities		-6.7	-168.1
Assumption (+) of financial liabilities		28.0	1,157.4
<b>Cash flow from financing activities</b>		<b>-151.5</b>	<b>769.1</b>
<b>Change in cash and cash equivalents affecting cash flow</b>		<b>-257.9</b>	<b>13.1</b>
Change in cash and cash equivalents resulting from exchange rates		6.0	3.1
<b>Change in cash and cash equivalents</b>		<b>-251.9</b>	<b>16.2</b>
<b>Net cash and cash equivalents as of 1 January</b>		<b>370.3</b>	<b>118.5</b>
<b>Net cash and cash equivalents as of 31 December</b>		<b>118.5</b>	<b>134.7</b>
- of which cash on hand and bank balances		123.1	140.2
- of which cash invested with affiliated companies		0.5	0.1
- of which cash received from affiliated companies		-5.2	-5.6

<sup>1</sup> Rounding differences may arise in percentages and numbers.

**STATEMENT OF CHANGES IN EQUITY<sup>1</sup>**

in € million	Subscribed capital (20)	Capital reserve	Accumulated profit/revenue reserves (20)
Balance as of 1 January 2016	191.4	646.5	3,265.9
Net income	–	–	174.1
Other income after taxes	–	–	–
<b>Overall result for the period</b>	<b>–</b>	<b>–</b>	<b>174.1</b>
Dividend for the previous year	–	–	–220.1
Issuance of shares to employees	–	–0.8	–
<b>Balance as of 31 December 2016</b>	<b>191.4</b>	<b>645.7</b>	<b>3,219.9</b>
Balance as of 1 January 2015	191.4	646.5	2,939.0
Net income	–	–	495.2
Other income after taxes	–	–	–
<b>Overall result for the period</b>	<b>–</b>	<b>–</b>	<b>495.2</b>
Dividend for the previous year	–	–	–172.3
Transactions with non-controlling interests	–	–	3.8
Other changes in equity	–	–	0.2
<b>Balance as of 31 December 2015</b>	<b>191.4</b>	<b>646.5</b>	<b>3,265.9</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.



TAB: 2.5.1

	Differences from foreign currency translation (20)	Financial assets available for disposal (20)	Revaluation of defined benefit pension plans (20)	Total K+S AG shareholders' equity	Minority interests	Equity
	288.9	—	–98.3	4,294.4	1.2	4,295.6
	—	—	—	174.1	0.3	174.4
	301.0	—	2.1	303.1	—	303.1
	<b>301.0</b>	<b>—</b>	<b>2.1</b>	<b>477.2</b>	<b>0.3</b>	<b>477.5</b>
	—	—	—	–220.1	—	–220.1
	—	—	—	–0.8	—	–0.8
	<b>589.9</b>	<b>—</b>	<b>–96.2</b>	<b>4,550.7</b>	<b>1.5</b>	<b>4,552.2</b>
	287.3	3.5	–98.0	3,969.7	4.8	3,974.5
	—	—	—	495.2	0.2	495.4
	1.6	–3.5	–0.3	–2.2	—	–2.2
	<b>1.6</b>	<b>–3.5</b>	<b>–0.3</b>	<b>493.0</b>	<b>0.2</b>	<b>493.2</b>
	—	—	—	–172.3	—	–172.3
	—	—	—	3.8	–3.8	—
	—	—	—	0.2	—	0.2
	<b>288.9</b>	<b>—</b>	<b>–98.3</b>	<b>4,294.4</b>	<b>1.2</b>	<b>4,295.6</b>

## 2.6 NOTES

## SEGMENT REPORTING

SEGMENT REPORTING <sup>1</sup>					
	Notes	Total revenues		of which revenues with third parties (37)	
		2015	2016	2015	2016
in € million					
Potash and Magnesium Products business unit		2,169.5	1,612.6	2,091.3	1,531.6
Salt business unit		1,930.7	1,771.2	1,925.2	1,762.2
Complementary Activities		188.7	187.6	157.7	161.1
Reconciliation <sup>2</sup>	(36)	-113.4	-114.8	1.3	1.7
<b>K+S total</b>		<b>4,175.5</b>	<b>3,456.6</b>	<b>4,175.5</b>	<b>3,456.6</b>

	Notes	Assets		Liabilities	
		2015	2016	2015	2016
in € million					
Potash and Magnesium Products business unit		5,002.7	6,030.5	1,331.3	1,570.3
Salt business unit		3,181.3	3,297.1	600.2	593.5
Complementary Activities		129.6	105.1	78.7	53.7
Reconciliation <sup>2</sup>	(36)	-40.0	212.8	1,967.8	2,875.8
<b>K+S total</b>		<b>8,273.6</b>	<b>9,645.5</b>	<b>3,978.0</b>	<b>5,093.3</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.

<sup>2</sup> Figures for business units are shown before intersegment consolidation. Expenses and income as well as items disclosed on the balance sheet that cannot be allocated to business units are recorded separately. Both effects are shown under 'Reconciliation'.

<sup>3</sup> Adjusted by the depreciation and amortisation amount not recognised in profit and loss in the context of own work capitalised.

<sup>4</sup> Return on Capital Employed (Definition can be found in the 'Further Information' section on page 193).

<sup>5</sup> Relates to cash investments in tangible and intangible assets taking account of claims for reimbursement from supplementary claims management.

<sup>6</sup> Concerns scheduled write-downs. Substantial non-scheduled amortisations are presented in the Notes (35).

TAB: 2.6.1

	of which intersegment revenues		EBIT I		EBITDA <sup>3</sup>	
	2015	2016	2015	2016	2015	2016
	78.2	81.0	546.1	33.6	689.2	184.8
	5.5	9.0	266.3	203.7	381.0	322.3
	31.0	26.5	26.4	21.9	35.0	30.8
	-114.7	-116.5	-57.2	-29.9	-47.7	-18.8
	—	—	<b>781.6</b>	<b>229.3</b>	<b>1,057.5</b>	<b>519.1</b>

	ROCE <sup>4</sup>		Capital expenditure <sup>5</sup>		Depreciation and amortisation <sup>3,6</sup>	
	2015	2016	2015	2016	2015	2016
	14.4%	0.7%	1,145.0	1,009.8	142.9	151.2
	11.4%	8.1%	118.1	148.8	111.3	113.2
	27.6%	28.2%	6.5	5.8	8.5	8.9
	0.0%	0.0%	9.2	6.4	10.5	11.1
	<b>12.5%</b>	<b>3.0%</b>	<b>1,278.8</b>	<b>1,170.8</b>	<b>273.2</b>	<b>284.4</b>

## DEVELOPMENT OF FIXED ASSETS

DEVELOPMENT OF FIXED ASSETS 2016 <sup>1</sup>

	Notes	Balance as of 1.1.2016	Change in scope of consolidations	Additions	Disposals	Reclassifications	Gross carrying amounts	
							Exchange rate differences	Balance as of 31.12.2016
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		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 completion		5.4	—	4.4	—	-0.3	—	9.5
<b>Intangible assets</b>	<b>(12)</b>	<b>1,260.8</b>	<b>3.1</b>	<b>6.5</b>	<b>6.1</b>	<b>0.4</b>	<b>44.1</b>	<b>1,308.8</b>
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
<b>Property, plant and equipment</b>		<b>7,896.4</b>	<b>—</b>	<b>1,542.7</b>	<b>90.2</b>	<b>-34.4</b>	<b>268.3</b>	<b>9,582.9</b>
<b>Investment properties</b>	<b>(13)</b>	<b>11.4</b>	<b>—</b>	<b>—</b>	<b>0.3</b>	<b>—</b>	<b>—</b>	<b>11.1</b>
Shares in affiliated companies		15.4	—	13.4	—	—	—	28.8
Participating interests		0.1	—	—	—	—	—	0.1
Other loans and financial assets		0.5	—	—	0.1	—	—	0.5
<b>Financial assets</b>	<b>(14)</b>	<b>16.0</b>	<b>—</b>	<b>13.4</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>29.3</b>
<b>Fixed assets</b>		<b>9,184.6</b>	<b>3.1</b>	<b>1,562.6</b>	<b>96.7</b>	<b>-34.0</b>	<b>312.4</b>	<b>10,932.1</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.

TAB: 2.6.2

	Balance as of 1.1.2016	Change in scope of consolidation	Additions scheduled	Additions non-scheduled	Disposals	Reclassifications	Write- ups	Depreciation and amortisation		Net carrying amounts
								Exchange rate differences	Balance as of 31.12.2016	Balance as of 31.12.2016
	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
	<b>192.6</b>	—	<b>31.0</b>	—	<b>5.9</b>	—	—	<b>6.8</b>	<b>224.4</b>	<b>1,084.4</b>
	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
	<b>2,841.6</b>	—	<b>292.0</b>	<b>5.3</b>	<b>39.9</b>	<b>-0.1</b>	—	<b>28.1</b>	<b>3,126.9</b>	<b>6,456.0</b>
	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
	<b>3,041.0</b>	—	<b>323.0</b>	<b>5.4</b>	<b>45.9</b>	<b>-0.1</b>	—	<b>34.9</b>	<b>3,358.1</b>	<b>7,573.9</b>

DEVELOPMENT OF FIXED ASSETS 2015 <sup>1</sup>

	Gross carrying amounts							Balance as of 31.12.2015
	Notes	Balance as of 1.1.2015	Change in scope of consolidation	Additions	Disposals	Reclassifications	Exchange rate differences	
in € million								
Other acquired concessions, industrial property rights, similar rights and assets, and licences in such rights and assets		66.4	—	2.0	1.8	2.2	2.1	71.0
Customer relations		231.7	—	—	0.1	—	18.8	250.4
Brands		119.4	—	—	—	—	10.0	129.4
Port concessions		33.7	—	—	—	—	3.9	37.6
Goodwill from acquisitions		674.6	—	0.4	—	—	50.9	725.9
Internally generated intangible assets		25.7	—	0.1	—	0.1	—	26.0
Emission rights		15.0	—	0.2	—	—	—	15.1
Intangible assets in completion		4.8	—	2.9	—	-2.3	—	5.4
<b>Intangible assets</b>	<b>(12)</b>	<b>1,171.4</b>	<b>—</b>	<b>5.6</b>	<b>1.9</b>	<b>—</b>	<b>85.6</b>	<b>1,260.8</b>
Land, land rights and buildings including buildings on third-party land		1,111.4	—	36.2	10.7	68.1	8.5	1,213.5
Finance leases for land etc.		2.1	—	—	—	—	0.2	2.3
Raw material deposits		724.6	—	—	—	—	9.0	733.5
Technical equipment and machinery		2,914.5	—	122.8	48.3	173.9	26.2	3,189.1
Finance leases for technical equipment and machinery		38.2	—	2.6	—	8.5	-3.2	46.1
Ships		47.3	—	—	—	—	5.4	52.8
Finance leases for ships		2.0	—	—	—	—	-0.1	1.9
Other equipment, operating and office equipment		407.7	—	25.2	15.0	4.0	-3.8	418.1
Finance leases for other equipment etc.		0.7	—	—	—	—	0.1	0.8
Prepayments and assets under construction		1,459.5	—	1,171.9	0.4	-254.5	-138.2	2,238.3
<b>Property, plant and equipment</b>		<b>6,708.0</b>	<b>—</b>	<b>1,358.6</b>	<b>74.4</b>	<b>—</b>	<b>-95.8</b>	<b>7,896.4</b>
<b>Investment properties</b>	<b>(13)</b>	<b>12.9</b>	<b>—</b>	<b>—</b>	<b>1.5</b>	<b>—</b>	<b>—</b>	<b>11.4</b>
Shares in affiliated companies		14.8	—	1.0	0.5	—	—	15.4
Participating interests		0.1	—	—	—	—	—	0.1
Other loans and financial assets		0.6	—	—	0.1	—	—	0.5
<b>Financial assets</b>	<b>(14)</b>	<b>15.5</b>	<b>—</b>	<b>1.1</b>	<b>0.6</b>	<b>—</b>	<b>—</b>	<b>16.0</b>
<b>Fixed assets</b>		<b>7,907.8</b>	<b>—</b>	<b>1,365.3</b>	<b>78.4</b>	<b>—</b>	<b>-10.2</b>	<b>9,184.6</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.

TAB: 2.6.3

	Balance as of 1.1.2015	Change in scope of consolidation	Additions scheduled	Additions non-scheduled	Disposals	Reclassifications	Write-ups	Depreciation and amortisation		Net carrying amounts
								Exchange rate differences	Balance as of 31.12.2015	Balance as of 31.12.2015
	42.2	—	7.3	—	1.8	—	—	1.3	49.1	21.9
	95.3	—	16.2	—	0.1	—	—	6.1	117.6	132.7
	11.2	—	0.2	—	—	—	—	0.2	11.5	117.9
	0.9	—	0.1	—	—	—	—	0.1	1.2	36.4
	—	—	—	—	—	—	—	—	—	725.9
	6.1	—	6.9	—	—	—	—	—	13.0	13.0
	—	—	—	—	—	—	—	—	—	15.1
	—	—	—	—	—	—	—	—	—	5.4
	<b>155.8</b>	—	<b>30.8</b>	—	<b>1.9</b>	—	—	<b>7.7</b>	<b>192.5</b>	<b>1,068.3</b>
	389.3	—	44.9	2.8	1.7	-0.1	—	3.7	438.9	774.6
	1.3	—	0.3	—	—	—	—	0.2	1.8	0.6
	29.3	—	4.7	—	—	—	—	0.7	34.7	698.8
	1,883.0	—	176.0	1.2	44.3	0.1	0.4	15.1	2,030.7	1,158.4
	4.4	—	2.0	—	—	—	—	-0.4	6.0	40.0
	5.2	—	2.0	—	—	—	—	0.6	7.8	44.9
	0.7	—	0.1	—	—	—	—	-0.1	0.8	1.1
	281.2	—	55.7	—	14.3	—	1.0	-1.7	320.0	98.2
	0.6	—	0.1	—	—	—	—	0.1	0.8	—
	—	—	—	—	—	—	—	—	—	2,238.3
	<b>2,595.2</b>	—	<b>285.8</b>	<b>4.0</b>	<b>60.3</b>	—	<b>1.4</b>	<b>18.3</b>	<b>2,841.6</b>	<b>5,054.8</b>
	<b>6.6</b>	—	—	—	<b>1.5</b>	—	—	—	<b>5.0</b>	<b>6.4</b>
	1.8	—	—	0.1	—	—	—	—	1.9	13.5
	—	—	—	—	—	—	—	—	—	0.1
	—	—	—	—	—	—	—	—	—	0.5
	<b>1.8</b>	—	—	<b>0.1</b>	—	—	—	—	<b>1.9</b>	<b>14.1</b>
	<b>2,759.0</b>	—	<b>316.6</b>	<b>4.1</b>	<b>63.7</b>	—	<b>1.4</b>	<b>26.0</b>	<b>3,041.0</b>	<b>6,143.6</b>

## DEVELOPMENT OF PROVISIONS

DEVELOPMENT OF PROVISIONS<sup>1</sup>

	Notes	Balance as of 1.1.2016	Exchange rate differences	Change in scope of consolidation
in € million				
Backfilling of mines and shafts		338.8	1.9	—
Maintenance of tailings piles		439.0	—	—
Mining damage risks		46.7	—	—
Other mining obligations		45.6	—	—
<b>Provisions for mining obligations</b>	<b>(22)</b>	<b>870.1</b>	<b>1.9</b>	<b>—</b>
Long-term incentives		6.1	—	—
Anniversary pay		29.9	—	—
Other personnel obligations		8.2	0.2	—
<b>Personnel obligations</b>	<b>(23)</b>	<b>44.2</b>	<b>0.2</b>	<b>—</b>
<b>Other provisions</b>	<b>(22)</b>	<b>100.0</b>	<b>1.4</b>	<b>—</b>
<b>Provisions (non-current debt)</b>		<b>1,014.3</b>	<b>3.5</b>	<b>—</b>
Provisions for mining obligations	(22)	15.9	—	—
Personnel obligations	(24)	145.8	1.5	—
Provisions for obligations from sale transactions	(24)	41.5	0.4	—
Provisions for obligations from purchase contracts	(24)	167.6	12.4	—
Other provisions		34.8	0.6	—
<b>Provisions (current debt)</b>		<b>405.6</b>	<b>14.9</b>	<b>—</b>
<b>Provisions</b>		<b>1,419.9</b>	<b>18.4</b>	<b>—</b>

<sup>1</sup> Rounding differences may arise in percentages and numbers.



TAB: 2.6.4

	Additions	Interest component	Utilisation	Reversal	Reclassification	Balance as of 31.12.2016
	46.3	6.1	4.2	27.9	-4.8	356.2
	78.4	24.3	1.0	0.4	—	540.3
	2.6	4.8	1.2	1.5	—	51.4
	3.7	1.2	2.3	0.1	—	48.1
	<b>131.0</b>	<b>36.4</b>	<b>8.7</b>	<b>29.9</b>	<b>-4.8</b>	<b>996.0</b>
	—	—	5.2	0.9	—	—
	1.7	1.8	1.6	—	—	31.8
	2.3	—	1.4	0.3	—	9.0
	<b>4.0</b>	<b>1.8</b>	<b>8.2</b>	<b>1.2</b>	—	<b>40.8</b>
	<b>22.7</b>	<b>2.5</b>	<b>0.6</b>	<b>7.5</b>	<b>-0.5</b>	<b>118.0</b>
	<b>157.7</b>	<b>40.7</b>	<b>17.5</b>	<b>38.6</b>	<b>-5.3</b>	<b>1,154.8</b>
	1.5	—	0.2	—	4.3	21.5
	65.7	—	125.7	5.2	—	82.1
	39.3	—	27.9	7.8	-2.9	42.6
	127.0	—	135.4	30.2	—	141.4
	20.5	—	18.9	3.2	1.1	34.9
	<b>254.0</b>	—	<b>308.1</b>	<b>46.4</b>	<b>2.5</b>	<b>322.5</b>
	<b>411.7</b>	<b>40.7</b>	<b>325.6</b>	<b>85.0</b>	<b>-2.8</b>	<b>1,477.3</b>

## GENERAL PRINCIPLES

The consolidated financial statements of the K+S GROUP as of and for the period ended 31 December 2016 have been prepared by K+S AKTIENGESELLSCHAFT based on the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB). All mandatory IFRS as of the reporting date, insofar as these have been recognised by the European Union, as well as the additional requirements under commercial law set out in Section 315a of the German Commercial Code (HGB), have been taken into account.

K+S AKTIENGESELLSCHAFT is a listed public limited company entered in the commercial register held by the Kassel District Court under number HRB 2669 with its head office at Berthavon-Suttner-Str. 7, 34131 Kassel, Germany.

The consolidated financial statements are prepared in euro (€). In the interests of clear presentation, the individual items in the consolidated financial statements are presented in millions of euro (€ million). Rounding differences may arise in percentages and numbers.

The consolidated financial statements were prepared by the Board of Executive Directors on 3 March 2017 and presented to the Supervisory Board for approval at its meeting on 14 March 2017.

## SCOPE OF CONSOLIDATION

The following companies were included in the scope of consolidation in 2016:

- + K PLUS S SALT AUSTRALIA PTY LTD
- + K+S KALI REIMS S.A.S.

The following companies were removed from the scope of consolidation in 2016 as a result of merger and liquidation:

- + K+S KALI FRANCE S.A.S.
- + K+S HOLDING FRANCE S.A.S.

K PLUS S SALT AUSTRALIA PTY LTD, which operates the Ashburton project for the extraction of solar salt in Western Australia, was acquired by the K+S GROUP on 4 May 2016. Since there were no business operations in accordance with IFRS 3 on the acquisition date, the purchase price was allocated in full to the acquired licences.

As part of internal Group restructuring of companies in France, K+S KALI FRANCE S.A.S. merged with ESCO HOLDING FRANCE S.A.S. K+S KALI REIMS S.A.S. was established in this process and has taken over the operations of the merged company K+S KALI FRANCE S.A.S. K+S HOLDING FRANCE S.A.S. was liquidated.

15 (2015: 15) domestic and 42 (2015: 42) foreign companies were fully included in the consolidated financial statements. 31 (2015: 30) subsidiaries were not included in the consolidated financial statements and were stated at acquisition cost, as they are of minor importance for the consolidated financial statements with regard to balance sheet total, revenues and earnings.

As a general rule, joint ventures and companies over which companies of the K+S GROUP exercise significant influence (associated companies) are measured using the equity method. The potential impact on earnings of accounting for such equity interests using the equity method is, however, immaterial from a Group perspective. As a result of their overall immateriality, all interests in joint ventures and associated companies were therefore stated at acquisition cost less impairments in the financial year 2016 as in the previous year.

A complete overview of the interests of K+S AKTIENGESELLSCHAFT is available in the list of shareholdings on page 189.

## 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 currently enable it to control the relevant activities. The relevant activities are those that have a sig-

nificant influence on the company's yields. As a rule, the ability to exercise control is based on K+S AKTIENGESELLSCHAFT directly or indirectly holding a majority of voting rights. Consolidation begins on the date when K+S AKTIENGESELLSCHAFT obtains the ability to exercise control.

The financial statements of the consolidated companies are prepared as of the balance sheet date for the consolidated financial statements. The assets and liabilities of the consolidated subsidiaries are recognised and measured uniformly in accordance with the policies described here and in the following notes.

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

As part of capital consolidation, the acquisition costs of investments are offset against the share of the remeasured equity attributable to them as of the date of acquisition. Asset-side balances that remain after allocation to assets and liabilities are carried as goodwill. Liability-side balances from capital consolidation are recorded directly affecting profit or loss.

#### **JOINT ACTIVITIES, JOINT VENTURES AND ASSOCIATED COMPANIES**

Joint activities and joint ventures are defined by the existence of a contractual agreement, according to which K+S AKTIENGESELLSCHAFT directly or indirectly conducts the respective activities jointly with a company outside the Group.

Associated companies are companies over which K+S AKTIENGESELLSCHAFT directly or indirectly has significant influence.

#### **ACCOUNTING AND VALUATION PRINCIPLES**

##### **RECORDING OF INCOME AND EXPENSES**

Revenues are income resulting from ordinary activities. Revenues are recorded insofar the amount and actual costs incurred or yet to be incurred in connection with the respective business transaction can be reliably determined. Furthermore, the business transaction must be likely to yield an economic benefit. In the K+S GROUP, revenues include proceeds from the sale of goods and the provision of services, as well as contract revenues from customer-specific construction contracts net of sales deductions.

Revenues deriving from the sale of goods are reported as of the time when the associated risks of ownership have been transferred, provided no effective authority to dispose or other continuing right of disposal in respect of the sold goods is retained.

Revenues from services and customer-specific construction contracts are recognised at the percentage of completion, provided this can be estimated reliably. If the percentage of completion cannot be estimated reliably, revenues are only recognised to the extent of the incurred expenses, the recovery of which is expected by the Company. In the K+S GROUP, revenues from services are reported according to the service provided, contract revenues from customer-specific construction contracts using the ratio of costs incurred to the expected total costs. In the context of order production, contractual amendments introduced by customers with respect to the range of services to be provided can increase or reduce contract revenues. An expected loss on a production order is immediately recognised as an expense. Also, there is no subsequent correction of revenues that have already been recorded in the context of a service transaction, insofar as these are irrecoverable. Irrecoverable amounts are recorded directly as an expense.

If the amount can be determined reliably and the business transaction or event is likely to yield an economic benefit, other operating income is recorded for the relevant period as of the date when a respective legal (contractual or statutory) claim arises.

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

### INCOME FROM INVESTMENTS, NET

This item includes earnings from non-consolidated subsidiaries stated at acquisition cost, joint ventures, associated companies and other investments. Distributions, profit transfers, impairments and profits and losses from the disposal of these companies are included in the income from investments.

### INTANGIBLE ASSETS

Intangible assets are essentially only reported insofar as they are likely to yield a future economic benefit and the costs of acquiring or producing such assets can be measured reliably. Intangible assets acquired are stated at acquisition cost. Internally generated intangible assets are capitalised at their development cost (production costs).

Insofar as their useful lives can be determined, intangible assets are amortised on a scheduled basis. In the event of an indefinite useful life, no scheduled amortisation is recognised but impairment charges are recorded when required. An indefinite useful life is generally assumed in the case of goodwill.

Scheduled amortisation of intangible assets is recorded using the straight-line method based on customary useful lives. Intangible assets with a finite useful life are based on the following useful lives applied across the Group:

USEFUL LIVES FOR INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE		TAB: 2.6.5
in years		
Customer relations		5–20
Brands		0–20
Port concessions		250
Other intangible assets		2–50

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:

- + Cost of sales
- + Selling expenses

- + General and administrative expenses
- + Research and development costs
- + Other operating expenses

Impairment charges are recorded in case of impairment. If the reasons giving rise to previously recorded impairment charges no longer exist, a corresponding write-up is recognised that may not exceed the amortised carrying amount. Impairment charges to goodwill must not be reversed.

The value of goodwill is reviewed at least once a year. Impairment charges are recorded if required. A possible need for impairment is determined according to IAS 36 by comparing the carrying amounts for the cash-generating units to which goodwill is assigned, against the realisable amount. The realisable amount is the higher of the fair value less actual costs to sell and the value in use. The value in use is determined based on the discounted expected future cash flows from the cash-generating units to which the corresponding goodwill amounts are assigned.

CO<sub>2</sub> emission rights are measured for the first time at acquisition cost. Thus, rights granted free of charge are capitalised with a value of zero and those acquired for a consideration are capitalised at acquisition cost. If the fair value on the reporting date falls below the acquisition cost, the carrying amount of the cash-generating unit holding the emission rights is compared with the value in use of that unit within the framework of an impairment test.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and, if required, impairment charges. The acquisition or production costs also include future demolition and restoration expenses. Impairment charges are recognised for any impairment losses that exceed the scheduled depreciation already recorded; they are reported under other operating expenses. Such impairment losses are determined in accordance with IAS 36 by making a comparison of the carrying amounts with the discounted future cash flows that are expected for the assets affected. If no independent cash flows can be allocated to the assets affected, the cash flows for the corresponding cash-generating unit are used instead for comparative reasons. If the reasons giving rise to recorded impairment

charges no longer exist, corresponding write-ups are recognised that may not exceed the amortised carrying amounts.

The raw material deposits acquired are recognised as fixed assets. Depreciation starts with the first-time extraction of raw materials. Gallery and excavation work are also shown as property, plant and equipment.

If property, plant and equipment are sold or shut down, the gain or loss represented by the difference between sales proceeds and the residual carrying amount is recorded under other operating income or expenses.

Scheduled amortisation of property, plant and equipment is recorded using the straight-line method based on customary useful lives. Property, plant and equipment is based on the following useful lives applied across the Group:

USEFUL LIVES FOR PROPERTY, PLANT AND EQUIPMENT		TAB: 2.6.6
in years		
Buildings		14–33 $\frac{1}{3}$
Raw material deposits		17–250
Gallery and excavation work		4–122
Technical equipment and machinery		4–25
Ships		25
Other equipment, operating and office equipment		3–10

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:

- + Cost of sales
- + Selling expenses
- + General and administrative expenses
- + Research and development costs
- + Other operating expenses

### CAPITALISATION OF BORROWING COSTS

Borrowing costs, which may be allocated directly to the acquisition, construction or manufacture of a qualifying asset, are to be capitalised as part of the acquisition or manufacturing costs of that asset. A qualifying asset exists if a period of at least one year is necessary to make it ready for its intended use or sale. If the qualifying asset is demonstrably not financed from outside funds, there are no borrowing costs to be capitalised. In the cash flow statement, capitalised borrowing costs are reported in the item 'Interest paid' under cash flow from operating activities.

### LEASING

A lease relationship is an agreement under which the lessor transfers to the lessee the right to use an asset for a particular period of time in exchange for a single payment or a series of payments. Leases are sub-divided into finance leases and operating leases. A finance lease arises if substantially all the risks and rewards incident to ownership of an asset are transferred to the lessee and the latter is subsequently the beneficial owner of the asset. If that is the case, the lessee capitalises 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 liability arising from the lease. The asset is depreciated in a manner that essentially does not differ from the treatment of comparable assets under (legal) ownership. Lease payments from operating leases are recognised as expenses over the lease term on a straight-line basis, unless a different systematic basis more closely corresponds to the expected use over time. Conditional lease payments under an operating lease are recorded as expense in the period they are incurred.

### GOVERNMENT ASSISTANCE

Government assistance for the acquisition or production of property, plant and equipment (for example, investment premiums and grants) reduce the acquisition or production costs of the assets to which they relate. Performance-related assistance is offset against the corresponding expenses in the current year.

### INVESTMENT PROPERTIES

Investment properties are primarily leased objects. They are stated at amortised cost less scheduled depreciation. Scheduled amortisation of investment property is recorded using

the straight-line method based on customary useful lives. A useful life of 50 years is generally assumed. Income from the disposal of investment properties is recorded in the financial result.

#### **NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AS WELL AS DISCONTINUED OPERATIONS**

A non-current asset (or a disposal group) is classified as held for sale if the related carrying amount is principally recovered through a sale transaction rather than through continuing use. This is the case if the asset (or the disposal group) is available for sale in its present condition and if such sale is highly probable. Non-current assets (or disposal groups) which are classified as held for sale are stated at the lower of the carrying amount and the fair value less costs to sell. Depreciation of these assets no longer takes place.

An operation is disclosed as a discontinued operation if it was sold or is classified as held for sale and

- + which represents a separate major line of business or a geographical area of operations,
- + is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- + represents a subsidiary exclusively acquired with a view to resale.

#### **FINANCIAL INSTRUMENTS**

Financial instruments are contracts that give rise to a financial asset for one of the parties 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 on hand and bank balances, trade receivables, receivables from customer-specific construction contracts, securities, financial investments as well as derivative financial instruments with a positive market value. Financial liabilities include, in particular, financial liabilities, trade payables as well as derivative financial instruments with a negative market value.

Financial instruments are initially recognised at their fair value as soon as the reporting enterprise becomes a contractual party for the financial instrument. Transaction costs that are to be allocated directly to the acquisition are then taken into account in determining

the carrying amount when the financial instruments are not subsequently measured at fair value with recognition in profit or loss.

Financial assets that are not recorded at fair value through profit or loss are examined at each balance sheet date according to IAS 39 to determine if there are objective indications justifying the assumption that the financial assets may be impaired. Examples of such objective indications include significant payment difficulties of a debtor, breach of contract due to default or late interest and redemption payments, a high likelihood of debtor insolvency, major changes in the legal, technology or economic environment or the lasting and significant drop in the value of a listed equity instrument.

The classification of financial instruments to one of the following valuation categories defined in IAS 39 determines subsequent measurement:

#### **LOANS AND RECEIVABLES:**

This valuation category comprises non-derivative financial assets with fixed or determinable payments, which are not listed on an active market. These include trade receivables, loans, fixed- or variable-rate securities (without an active market) as well as bank deposits.

After being recognised for the first time, the financial assets belonging to this valuation category are measured at amortised cost applying the effective interest method less impairments. Non-interest-bearing or low-interest receivables due in more than three months are discounted. If there are objective indications, impairments are recognised in profit or loss through separate adjustment accounts. When the reasons for previously recorded impairments cease to apply, the impairments are reversed. Receivables are derecognised when settled or when they become uncollectible. Other assets are derecognised on disposal or in the absence of value.

#### **FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS:**

This valuation category comprises financial assets held for trading, which have been acquired with the intention to be sold over the short term. Derivatives with positive market values are also classified as held for trading unless they form part of a hedging relationship in accordance with IAS 39.

They are subsequently stated at fair value. Changes in fair value are recorded through profit or loss. Securities are derecognised after disposal on the settlement date.

#### FINANCIAL INVESTMENTS HELD TO MATURITY:

At present, the K+S GROUP holds no financial instruments in the valuation category 'Financial investments held to maturity'.

#### FINANCIAL ASSETS AVAILABLE FOR SALE:

This valuation category comprises non-derivative financial assets which have been determined to be available for sale or are not classified into any of the valuation categories mentioned above. This valuation category includes certain debt and equity instruments such as investments in (non-consolidated) affiliated companies.

They are stated for the first time and subsequently at fair value. If the fair value of equity instruments cannot be reliably determined since no active market exists, they are subsequently valued at acquisition cost (if applicable less impairment charges). This applies, for example, to investments in (non-consolidated) affiliated companies. Changes in fair value arising on subsequent measurement are recorded in the revaluation reserve and not recognised in profit or loss. The unrealised gains or losses previously recorded in the revaluation reserve are only recorded in profit or loss at the time of sale or if there are objective indications of impairment. If the reasons for a previously recorded impairment cease to apply, impairment reversals on debt instruments are recorded through profit or loss, increases in the value of equity instruments without affecting profit or loss.

#### FINANCIAL LIABILITIES VALUED AT AMORTISED COST:

All financial liabilities with the exception of derivative financial instruments are stated at amortised cost applying the effective interest method. Liabilities are derecognised on settlement or if the reasons for recognising a liability no longer apply.

#### FINANCIAL LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS:

This valuation category comprises derivative financial instruments with negative market values which are essentially classified as 'Held for trading'. This rule does not apply to derivatives which are part of a hedging relationship in accordance with IAS 39.

#### DERIVATIVES

Derivatives are stated at fair value. Changes in fair value are recorded in the income statement through profit or loss. Derivatives are derecognised on the settlement date.

#### INVENTORIES

In accordance with IAS 2, assets that are designated for sale in the normal course of business (finished goods and goods purchased for resale), are in the process of being produced for sale (work in progress) or are used in production or the provision of services (raw materials and supplies) are recorded under inventories.

Inventories are valued at average cost or at the lower net realisable value. In addition to direct costs, production costs also include reasonable proportions of fixed and variable material and manufacturing overheads as long as they occur in connection with the production process. The same applies to general and administrative expenses, pension and support expenses as well as other social expenses. Fixed overheads are allocated on the basis of normal capacity. The net realisable value corresponds to the estimated selling price less the costs that are yet to be incurred until completion as well as the necessary selling expenses.

#### CASH ON HAND AND BANK BALANCES

This item includes cheques, cash on hand and bank balances. It also includes financial investments with a maturity of generally not more than three months from the time of acquisition.

#### PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions and similar obligations are calculated in accordance with actuarial principles applying the projected unit credit method. The discount factor is calculated on the basis of the yields for high-quality corporate bonds available on the reporting date. High-quality corporate bonds are those bonds that have an AA rating. Essentially, the corporate bonds to be applied here are those which correspond to the anticipated maturity and currency of the pension obligations. Since the availability of correspondingly long-term corporate bonds as at the balance sheet date was insufficient, the interest rate with matching maturity in such cases was determined by means of extrapolation. Moreover, future expected salary and pension increases, cost increases regarding health care benefit commitments as

well as probabilities of death, for example, are taken into account. Insofar as plan assets exist, such assets are offset against the related 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 given above. Both factors are determined at the beginning of the reporting period after taking into account anticipated allocations/disbursements.

Revaluations of the net liabilities from defined benefit pension plans are recorded in other comprehensive income. They include:

- + actuarial gains/losses,
- + income from plan assets excluding amounts included in the net interest attributable to the net liabilities from defined benefit pension plans (asset) and
- + changes in the effects of the assets' upper limit excluding amounts included in the net interest attributable to the net liabilities from defined benefit pension plans (asset).

#### **MINING AND OTHER PROVISIONS**

Provisions are recognised at an amount corresponding to the extent to which they are expected to be used for discharging present obligations in relation to third parties arising from a past event. Such utilisation must be more probable than improbable and it must be possible to reliably estimate the amount of the obligations. Non-current provisions with a residual maturity of more than one year are discounted applying a capital market rate of interest of suitable duration to take account of future cost increases insofar as the interest rate effect is material.

#### **DEFERRED TAXES**

In accordance with IAS 12, deferred taxes are determined using the balance sheet liability method that is commonly accepted internationally. This results in the recognition of deferred tax items for temporary differences between the tax values and the values in the consolidated balance sheet as well as for tax loss carryforwards. However, deferred tax assets are only recognised to the extent that it is sufficiently probable that they will be realised. Deferred taxes are measured applying the tax rates that, under current legislation, would apply in the future when the temporary differences will likely be reversed. 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 material conditions causing such amendment to enter into force arise. Deferred tax assets and liabilities are not discounted applying the rules in IAS 12. Deferred tax assets and liabilities are offset within individual companies or within tax group companies according to timing.

#### **ACQUISITIONS**

Business combinations are accounted for using the purchase method. In connection with the revaluation of a company that has been acquired, all hidden reserves and hidden liabilities of the acquired company are identified and assets, liabilities and contingent liabilities are stated at their fair value (taking into account the exceptions regulated in IFRS 3). Any resulting positive difference in relation to the costs of acquiring the company is capitalised as goodwill. A negative difference is recorded directly through profit or loss.

#### **DISCRETIONARY ASSUMPTIONS AND ESTIMATES**

##### **DISCRETIONARY ASSUMPTIONS CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS**

Non-current intangible assets, property, plant and equipment and investment properties are stated in the balance sheet at amortised cost. The option also allowed of reporting them at fair value, provided certain conditions are met, is not utilised.

##### **ESTIMATES AND ASSUMPTIONS CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS**

In terms of reason and amount, certain values stated in the IFRS financial statements are in part based on estimates as well as on the stipulation of certain assumptions. This is particularly necessary in the case of

- + determining the useful lives of depreciable fixed assets,
- + determining valuation assumptions and future earnings in connection with impairment tests, especially for capitalised goodwill,
- + determining the net realisable value of inventories,



- + determining the parameters necessary for the valuation of pension provisions and similar obligations (for example, discount factor, future development of wages / salaries and pensions, probabilities of death, cost trend in health care),
- + determining amounts, performance due dates and discount factors for the valuation of provisions for mining obligations,
- + selecting parameters in connection with the model-based valuation of derivatives (for example, assumptions regarding volatility and interest rate),
- + determining the outcome of customer-specific construction contracts according to the percentage of completion method (estimate of contract progress, total contract costs, cost to be incurred until completion, total order-related revenues and contract-related risks),
- + determining the usability of tax loss carryforwards as well as
- + determining the fair value of intangible assets, property, plant and equipment as well as liabilities acquired in connection with a merger, and determining the useful lives of the intangible assets and property, plant and equipment acquired.

Despite taking great care in producing such estimates, actual developments may differ from the assumptions made.

#### **FOREIGN CURRENCY TRANSLATION**

The annual financial statements of foreign Group companies are converted to euros in accordance with the functional currency concept set out in IAS 21. All companies conduct their operations independently in financial, economic and organisational terms. The functional currency generally corresponds to the local currency. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Income and expenses are translated applying the average exchange rates for the quarter. The resulting currency translation differences are recorded in equity without recognition in profit or loss. If Group companies are no longer consolidated, the relevant currency translation difference is released and recognised in profit or loss.

In the case of 12 companies, the US dollar, in deviation from the local currency, is used as the functional currency, as these companies generate the majority of their cash inflows and

cash outflows in this currency. The US dollar is used in the case of the following companies: COMPANIA MINERA PUNTA DE LOBOS LTDA., EMPRESA DE SERVICIOS LTDA., EMPRESA MARITIMA S.A., INAGUA GENERAL STORE, LTD., INAGUA TRANSPORTS, INC., INVERSIONES COLUMBUS LTDA., INVERSIONES EMPREMAR LTDA., K+S FINANCE BELGIUM BVBA, MORTON BAHAMAS LTD., SERVICIOS MARITIMOS PATILLOS S.A., SERVICIOS PORTUARIOS PATILLOS S.A. and K+S CHILE S.A.

The conversion of key currencies in the group was based on the following exchange rates per euro:

EXCHANGE RATES		TAB: 2.6.7			
					2016
	Period-end exchange rate on 31 December	Quarterly average exchange rate Q1	Quarterly average exchange rate Q2	Quarterly average exchange rate Q3	Quarterly average exchange rate Q4
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
Great Britain pound (GBP)	0.856	0.770	0.787	0.850	0.869

EXCHANGE RATES		TAB: 2.6.8			
					2015
	Period-end exchange rate on 31 December	Quarterly average exchange rate Q1	Quarterly average exchange rate Q2	Quarterly average exchange rate Q3	Quarterly average exchange rate Q4
per € 1					
US dollar (USD)	1.089	1.126	1.105	1.112	1.095
Canadian dollar (CAD)	1.512	1.396	1.359	1.454	1.462
Czech koruna (CZK)	27.023	27.624	27.379	27.075	27.057
Brazilian real (BRL)	4.312	3.224	3.398	3.934	4.214
Chilean peso (CLP)	773.823	703.941	683.068	752.343	764.115
Great Britain pound (GBP)	0.734	0.743	0.721	0.717	0.722

In the year under review, translation differences of € -11.9 million on balance (2015: € 3.4 million) were recorded in the income statement (for example, measurement/realisation of receivables and liabilities in a foreign currency), which were mainly shown in other operating income or expenses.

## NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS		TAB: 2.6.9	
		Date of mandatory application <sup>1</sup>	Date of mandatory application for K+S Group <sup>2</sup>
Standard/interpretation			
Change	Collective standard for the amendment of several IFRSs	Annual improvements in IFRSs, cycle 2010–2012	1 July 2014
			1 February 2015
Change	IAS 19	Performance-oriented schemes: Employee contributions	1 July 2014
			1 February 2015
Change	IFRS 10, 12, IAS 28	Investment entities: Application of exemption from consolidation requirement	1 January 2016
Change	IAS 16, 41	Agriculture: Fruit-bearing plants	1 January 2016
			1 January 2016
Change	Collective standard for the amendment of several IFRSs	Annual improvements in IFRSs, cycle 2012–2014	1 January 2016
			1 January 2016
Change	IFRS 11	Accounting for the acquisition of shares in joint business activities	1 January 2016
Change	IAS 27	Equity method in separate financial statements	1 January 2016
Change	IAS 1	Disclosure initiative	1 January 2016
			1 January 2016
Change	IAS 16, 38	Clarification of acceptable depreciation and amortisation methods	1 January 2016
			1 January 2016

<sup>1</sup> To be first applied according to IASB to financial years commencing on or after this date.

<sup>2</sup> To be first applied to companies with their registered address in the EU to financial years commencing on or after this date. The application of new or amended IFRS standards or interpretations for companies with their registered address in the EU requires an endorsement by the EU Commission. Occasionally, the date of mandatory application determined in the context of endorsement may differ from the first-time application date stipulated by the IASB.

The changes to the accounting standards had no material impact on the consolidated financial statements of the K+S GROUP.

**NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED**

The following accounting standards and interpretations were published by the IASB before the balance sheet date; their application by the K+S GROUP will however only become mandatory at a later date.

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED			TAB: 2.6.10	
Standard/interpretation			Date of mandatory application <sup>1</sup>	Date of mandatory application for K+S Group <sup>2</sup>
Change	IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	Open
Change	IAS 7	Disclosure initiative	1 January 2017	Open
Change	IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018	Open
Change	IFRS 15	Clarification of IFRS 15 'Proceeds from contracts with customers'	1 January 2018	Open
Change	IAS 40	Transfers of investment property	1 January 2018	Open
Change	Collective standard for the amendment of several IFRSs	Annual improvements in IFRSs, cycle 2014 – 2016	1 January 2018 <sup>3</sup>	Open
New	IFRIC 22	Foreign currency transactions and advanced consideration	1 January 2018	Open
New	IFRS 9	Financial instruments	1 January 2018	1 January 2018
New	IFRS 15	Proceeds from contracts with customers	1 January 2018	1 January 2018
New	IFRS 16	Leases	1 January 2019	Open

<sup>1</sup> To be first applied according to IASB to financial years commencing on or after this date.

<sup>2</sup> To be first applied to companies with their registered address in the EU to financial years commencing on or after this date. The application of new or amended IFRS standards or interpretations for companies with their registered address in the EU requires an endorsement by the EU Commission. Up to this point, the mandatory application date for companies with their registered address in the EU has been open. Occasionally, the date of mandatory application determined in the context of endorsement may differ from the first-time application date stipulated by the IASB.

<sup>3</sup> The changes to IFRS 12 are applicable to financial years commencing on or after 1 January 2017.

**IFRS 9 'FINANCIAL INSTRUMENTS'**

IFRS 9 replaces the current standard for the accounting of financial instruments, IAS 39 'Financial instruments: Recognition and measurement'. The adoption of IFRS 9 means that the measurement of financial assets at 'amortised acquisition costs' or at 'fair value' will depend in future on the underlying business model as well as on the structuring of the contractually agreed payment streams. The new IFRS 9 regulations on recording impairments are based on expected defaults. Previously, impairments were only recorded if they applied to loss events that had already occurred. The regulations regarding the accounting of hedging relationships have also changed. These are now increasingly geared towards the corporate risk management strategy.

The effects of IFRS 9 on the consolidated financial statements of the K+S GROUP are currently being examined. A reliable assessment of the quantitative effects is not possible at present. Impact could result particularly from the new impairment provisions. Trade receivables constitutes the key balance sheet item for which expected losses must be recorded as impairment in the future. However, since these are covered largely by bad debt insurance or other hedging instruments, an initial assessment indicates that no significant adverse effect on earnings can be expected. The new regulation on hedging relationships has no impact as the K+S GROUP does not currently form balance sheet hedging relationships. Moreover, IFRS 9 will lead to new qualitative and quantitative disclosure obligations.

The new standard must be applied to financial years commencing on or after 1 January 2018. Early application of IFRS 9 in the K+S GROUP is not envisaged.

**IFRS 15 'PROCEEDS FROM CONTRACTS WITH CUSTOMERS'**

IFRS 15 replaces the current standards IAS 11 'Construction contracts' and IAS 18 'Revenue' as well as the corresponding interpretations IFRIC 13 'Customer loyalty programmes', IFRIC 15 'Arrangements for the construction of real estate', IFRIC 18 'Transfers of assets from customers' and SIC-31 'Revenue: Barter transactions involving advertising services'. The core principle of IFRS 15 is to record sales revenues at the amount of expected consideration from the customer for the performance obligation that is assumed (delivery of goods and/or services). IFRS 15 encompasses a five-stage model which (with few exceptions) applies to sales revenues from contracts with customers.

The K+S GROUP launched a Group-wide project in 2016 to assess the impact and implement the new provisions. A reliable assessment of the quantitative effects is not possible before the project has been completed.

According to an initial analysis, there could be changes for the K+S GROUP particularly in relation to multi-component contracts. An assessment needs to be made in the case of these contracts whether and how the transaction price should be divided between separate performance obligations. The main scenario for the K+S GROUP is the reporting of transport services in connection with sales of products. So far, revenues from transport services have been realised at the K+S GROUP based on a given date. In the future, such revenues will be recorded, either based on a given date or a given period of time, depending on contractual agreements with the customers. As a result, delays in the realisation of revenues are expected in places. Moreover, IFRS 15 will lead to new qualitative and quantitative disclosure obligations.

The new standard must be applied to financial years commencing on or after 1 January 2018. Early application of IFRS 15 in the K+S GROUP is not envisaged.

#### IFRS 16 'LEASES'

IFRS 16 replaces the current standard 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 the uniform recording on the balance sheet of all leases on the part of the lessee. The previously required differentiation between financing and operating leases does not apply to the lessee. In future, all rights and obligations arising from leases must be recorded on the balance sheet as rights of use and leasing liabilities. The only exceptions are short-term leases of up to one year as well as so-called 'small ticket leases' (for example, office furniture and equipment). Owing to this extension to the balance sheet, liabilities will increase and the equity ratio will fall accordingly. In the case of leases, which are currently classified as operating leases, in future the lessee will record depreciation and amortisation and interest expenses instead of leasing expenses. This change will lead inter alia to an improvement in the key figures EBIT I, EBIT II and EBITDA. Altering the disclosure of leasing expenses from operating leases will also result

in an improvement in cash flow from operating activities and a deterioration in cash flow from financing activities. Moreover, IFRS 16 will lead to new qualitative and quantitative disclosure obligations.

The new standard must be applied to financial years commencing on or after 1 January 2019. The standard has not yet been adopted by the EU. The K+S GROUP is not intending to apply the standard before 1 January 2019.

The K+S GROUP launched a Group-wide project in 2016 to assess the impact and implement the new provisions. A reliable assessment of the quantitative effects is not possible before the project has been completed. With regard to existing obligations arising from operating leases as of 31 December 2016, we refer to the respective information relating to leases.

#### OTHER CHANGES

The change to IAS 7 includes new notes regarding changes in financial liabilities, which will be shown in the cash flow statement under cash flows from financing activities. From today's perspective, the extra changes to the accounting standards and interpretations 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 shown on page 131. The income statement has been prepared in accordance with the cost of sales method.

The K+S GROUP uses derivatives to hedge market price change risks. The hedging strategy is explained in more detail in the notes (19). Hedging relationships according to IAS 39 are not formed between the derivatives and the described underlying transactions, consequently, fluctuations in the market values of the outstanding derivatives are recorded in the income statement through profit or loss. Earnings are furthermore impacted by the exercise/settlement, sale or expiry of derivatives used for hedging purposes.

In the income statement, the effects of hedging transactions are reported under the following items based on the purpose of hedging:

#### A) RESULT FROM OPERATING FORECAST HEDGING TRANSACTIONS

All effects on earnings arising from the forecast hedging of operating transactions which will be recognised in profit or loss in future periods are combined in this earnings line item. 'Forecast' refers to underlying transactions expected with a high degree of probability, but have not yet been recognised in the balance sheet or income statement. The word 'operating' relates to underlying transactions which will affect EBIT. Significant cases of application are

- + hedging expected revenues in USD
- + hedging expected cash outflows (capital expenditure, operating expenses) in Canadian dollars

#### B) OTHER OPERATING INCOME/EXPENSES

This item includes effects on results from hedging existing foreign currency receivables (for example, hedging USD receivables against currency fluctuations with a EUR/USD forward transaction).

#### C) FINANCIAL RESULT

Effects on earnings from the hedging of underlying transactions relating to financing, the impact of which does not influence EBIT either in the current financial year or in future financial years, are shown in the financial result.

Internal controlling at the K+S GROUP is based, among other things, on operating earnings EBIT I. This differs from the EBIT II shown in the income statement in that no account is taken of market value fluctuations arising from operating forecast hedges that result from market valuation during the term of the hedging instrument prescribed in accordance with IAS 39. As a result, the following effects are to be eliminated from the 'Result from operating forecast hedges' in the income statement:

#### INCOME/EXPENSE FROM MARKET FLUCTUATIONS OF OUTSTANDING OPERATING FORECAST HEDGES

Until maturity, hedging transactions are to be valued at market value on each balance sheet date. The deviation from the carrying amount is to be recorded as income or expense.

#### NEUTRALISATION OF MARKET VALUE FLUCTUATIONS RECORDED IN PRIOR PERIODS FOR REALISED OPERATING FORECAST HEDGES

The carrying amount of the hedge is to be derecognised at the time of realisation. Realisation takes place by the exercising/settlement, expiry or sale of the hedging instrument. The difference between the realised amount and carrying amount is the income or expense for the current period. As EBIT I is intended to show earnings free of influences from market valuation in accordance with IAS 39, market value fluctuations from earlier periods included in the carrying amount are to be eliminated.

If hedging of the expected capital expenditure in Canadian dollars for the Legacy Project is involved, the above items along with all effects on results will be eliminated when determining EBIT I. As the hedged underlying transactions (capital expenditure in Canadian dollars) are only recognised in EBIT I with a delay by means of depreciation, the disclosure – as a result of the absence of the earnings effects from the underlying transaction – of the earnings effects of these hedging transactions arising upon maturity on EBIT I would not result in an inconclusive determination of earnings.

**RECONCILIATION OF RESULT FROM OPERATING  
FORECAST HEDGES IN EBIT I**

TAB: 2.6.11

	Notes	2015	2016
in € million			
<b>Result from operating forecast hedges</b>	(5)	-127.8	23.9
Income (-)/expenses (+) arising from fluctuations in the market value of outstanding operating forecast hedges		85.5	-4.4
Neutralisation of market value fluctuations recorded in prior periods for realised operating forecast hedges		-22.0	-43.6
Realised income (-)/expenses (+) of currency hedging for capital expenditure in Canada		2.5	-13.7
<b>Result from operating forecast hedges included in EBIT I</b>		<b>-61.8</b>	<b>-37.8</b>

Due to the elimination of all market value fluctuations during the term, the result from operating forecast 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 less the premium paid or plus the premium received. The effects of hedging for the expected capital expenditure in Canadian dollars are generally not included in EBIT I (see above).

The reconciliation of EBIT II to the operating earnings EBIT I by eliminating the above effects is shown in a separate calculation below the statement of comprehensive income.

**(1) REVENUES**

The sales revenues of the K+S GROUP are € 3,456.6 million (2015: € 4,175.5 million), with € 3,321.0 million (2015: € 4,034.4 million) resulting from the sale of goods, € 125.4 million (2015: € 136.5 million) resulting from the provision of services and € 10.2 million (2015: € 4.6 million) from accruals for customer-specific construction contracts. The breakdown of the revenues by business unit as well as intersegment revenues are presented in the segment information on page 136. The regional breakdown of the revenues is disclosed in the notes to the segment reporting under Note (37).

**(2) OTHER OPERATING INCOME**

Other operating income includes the following material items:

**OTHER OPERATING INCOME**

TAB: 2.6.12

	2015	2016
in € million		
Gains from exchange rate differences / hedging transactions	77.2	46.1
Reversals of provisions	41.7	28.9
Compensation and refunds received	25.1	38.9
Reversals of allowances for receivables	5.4	0.8
Income from letting and leasing	4.6	4.5
– of which investment properties	1.6	1.4
Income from disposal of property, plant and equipment and intangible assets	1.6	0.9
Sundry income	25.0	21.8
<b>Other operating income</b>	<b>180.6</b>	<b>141.9</b>

Compensation and refunds in 2016 include income from damages covered by insurance benefits of € 38.6 million (previous year: € 17.9 million), of which attributable mainly to impaired or lost fixed assets.

### (3) OTHER OPERATING EXPENSES

Other operating expenses include the following material items:

<b>OTHER OPERATING EXPENSES</b>		TAB: 2.6.13	
in € million	2015	2016	
Legacy-related expenses	41.1	66.9	
Losses from exchange rate differences/hedging transactions	77.8	47.5	
Allocations/utilisation of other provisions	-2.6	32.7	
Losses from disposal of fixed assets	4.3	21.2	
Ancillary capital expenditure costs	12.8	16.1	
Expenses unrelated to the reporting period	7.6	12.3	
Depreciation and amortisation	8.3	9.6	
– of which impairment charges	4.0	5.3	
Write-downs on trade receivables	3.0	6.6	
Expenses related to consulting services, expert opinions and lawyers' fees	12.4	3.7	
Expenses related to approval processes	4.2	3.6	
Expenses related to leased investment properties	1.2	0.6	
Expenses/refunds for disused plants and maintenance of Merkers	0.5	-0.2	
Sundry expenses	30.0	33.3	
<b>Other operating expenses</b>	<b>200.6</b>	<b>253.9</b>	

### (4) INCOME FROM INVESTMENTS, NET

In the financial year, investment income of € 4.1 million (2015: € 5.8 million) and impairment charges of € 0.1 million (2015: € 0.1 million) were realised.

### (5) RESULT FROM OPERATING FORECAST HEDGES

<b>RESULT FROM OPERATING FORECAST HEDGES</b>		TAB: 2.6.14	
in € million	2015	2016	
Result from the realisation of currency hedging transactions (expected USD revenues)	-39.8	5.8	
– of which positive earnings contributions	11.1	17.8	
– of which negative earnings contributions	-50.9	-12.0	
Result from the realisation of currency hedging transactions (expected CAD capital expenditure)	-2.5	13.7	
– of which positive earnings contributions	12.2	16.0	
– of which negative earnings contributions	-14.7	-2.3	
<b>Result from realised hedging transactions</b>	<b>-42.3</b>	<b>19.5</b>	
Market value changes from hedging transactions yet to reach maturity (related to anticipated revenues in USD)	-51.0	-8.2	
– of which positive market value changes	6.7	8.2	
– of which negative market value changes	-57.7	-16.4	
Market value changes from hedging transactions yet to reach maturity (related to anticipated capital expenditure in CAD)	-34.5	12.6	
– of which positive market value changes	–	13.4	
– of which negative market value changes	-34.5	-0.8	
<b>Result from market value fluctuations for hedging transactions yet to reach maturity</b>	<b>-85.5</b>	<b>4.4</b>	
<b>Result from operating forecast hedges</b>	<b>-127.8</b>	<b>23.9</b>	

**(6) INTEREST INCOME, NET**

<b>INTEREST INCOME, NET</b>		TAB: 2.6.15	
	2015	2016	
in € million			
Interest and similar income from securities	3.6	0.3	
Interest from credit institutions	3.3	3.3	
Interest income pension provisions	0.1	0.1	
Other interest and similar income	3.0	2.8	
<b>Interest income</b>	<b>10.0</b>	<b>6.5</b>	
Interest expenses bonds/'Schuldscheindarlehen' (promissory notes)	-52.7	-57.5	
Interest component from measurement of provisions for mining obligations	-10.5	-36.4	
Interest expenses pension provisions	-5.6	-6.0	
Capitalisation of borrowing costs	30.0	57.2	
Other interest and similar expenses	-13.7	-12.0	
<b>Interest expenses</b>	<b>-52.5</b>	<b>-54.7</b>	
<b>Interest income, net</b>	<b>-42.5</b>	<b>-48.2</b>	

In determining the capitalisation of borrowing costs, a weighted financing cost rate of 2.9% was applied (2015: 3.5%).

The 'Interest component from measurement of provisions for mining obligations' consists of the balance of the following items:

<b>INTEREST COMPONENT OF PROVISIONS FOR MINING OBLIGATIONS</b>		TAB: 2.6.16	
	2015	2016	
in € million			
Interest effect from the change in the discount factor for mining provisions	—	-13.8	
Increase in mining provisions due to expiry (accumulation)	-27.0	-30.7	
Interest effect from the reversal of provisions for mining obligations	16.5	8.1	
<b>Interest component from measurement of provisions for mining obligations</b>	<b>-10.5</b>	<b>-36.4</b>	

**(7) OTHER FINANCIAL RESULT**

<b>OTHER FINANCIAL RESULT</b>		TAB: 2.6.17	
	2015	2016	
in € million			
Result from realisation of financial assets/liabilities	37.7	-5.1	
Result from valuation of financial assets/liabilities	-28.9	1.4	
<b>Other financial result</b>	<b>8.8</b>	<b>-3.7</b>	

**(8) TAXES ON INCOME**

<b>TAXES ON INCOME</b>		TAB: 2.6.18	
	2015	2016	
in € million			
Current taxes	205.2	79.5	
– in Germany	157.3	21.4	
– outside Germany	47.9	58.1	
Deferred taxes	-18.7	-14.8	
– in Germany	-30.2	8.8	
– outside Germany	11.5	-23.6	
– of which from loss and interest carryforwards	21.8	1.5	
<b>Taxes on income</b>	<b>186.5</b>	<b>64.7</b>	

Deferred taxes in Germany were calculated using a tax rate of 29.3% (2015: 28.7%). In addition to an unchanged corporate income tax rate of 15.0% and an unchanged solidarity surcharge of 5.5%, an average trade tax rate of 13.5% (2015: 12.9%) was taken into account. Deferred taxes in other countries are computed applying the respective national income tax rates for profit retention.

The following table reconciles the anticipated to the actual tax expense. The anticipated income tax expense was calculated based on a domestic Group income tax rate of 29.3% (2015: 28.7%).



**RECONCILIATION OF TAXES ON INCOME**

TAB: 2.6.19

	2015	2016
in € million		
Earnings before income taxes	681.9	239.1
<b>Anticipated income tax expense (Group tax rate: 29.3%; previous year: 28.7%)</b>	<b>195.7</b>	<b>70.1</b>
Changes in anticipated tax expense:		
Reduction in tax resulting from tax-exempt income and other items	–	–
– Tax-exempt income from investments and profits on disposals	–2.4	–1.4
– Other tax-exempt income	–22.4	–19.3
Trade tax additions/reductions	1.3	3.6
Increase in tax resulting from non-tax-deductible expenses and other items	9.1	7.2
Permanent deviations	–0.6	–0.2
Allowances on/non-recognition of deferred tax assets	8.0	0.5
Effects from tax rate differences	–5.2	1.1
Effects from tax rate changes	3.0	–
Taxes for preceding years	–0.5	3.0
Other effects	0.5	0.1
<b>Actual tax expense</b>	<b>186.5</b>	<b>64.7</b>
<b>Tax rate<sup>1</sup></b>	<b>27.4%</b>	<b>27.1%</b>

<sup>1</sup> Based on adjusted Group earnings after taxes.

**(9) COST OF MATERIALS**
**COST OF MATERIALS**

TAB: 2.6.20

	2015	2016
in € million		
Cost of raw materials and supplies and goods purchased for resale	576.9	501.8
Cost of external services	645.0	533.6
Energy costs	246.8	212.4
<b>Cost of materials</b>	<b>1,468.7</b>	<b>1,247.8</b>

**(10) PERSONNEL EXPENSES/EMPLOYEES**
**PERSONNEL EXPENSES**

TAB: 2.6.21

	2015	2016
in € million		
Wages and salaries	832.1	766.6
Social security costs	218.2	209.9
Pension expenses	29.7	34.5
<b>Personnel expenses</b>	<b>1,080.0</b>	<b>1,011.0</b>

**EMPLOYEES INCLUDING TEMPORARY EMPLOYEES**

TAB: 2.6.22

	2015	2016
Annual average (FTE)		
Germany	9,882	10,018
Outside Germany	4,394	4,428
<b>Total</b>	<b>14,276</b>	<b>14,446</b>
– of which trainees	513	497

ⓘ 'Employees', page 36; ⓘ 'Remuneration Report', page 121

**(11) EARNINGS PER SHARE**
**EARNINGS PER SHARE**

TAB: 2.6.23

	2015	2016
in € million		
<b>Group earnings after taxes and minority interests</b>	<b>495.2</b>	<b>174.1</b>
Average number of shares (in millions)	191.4	191.4
<b>Earnings per share in € (undiluted = diluted)</b>	<b>2.59</b>	<b>0.91</b>
<b>Group earnings after taxes, adjusted<sup>1</sup></b>	<b>542.3</b>	<b>130.5</b>
<b>Earnings per share in €, adjusted<sup>1</sup></b>	<b>2.83</b>	<b>0.68</b>

<sup>1</sup> Adjusted Group earnings after taxes are calculated on the basis of the result from operating forecast hedges included in EBIT I taking tax effects into account. A reconciliation statement can be found on page 80 of the Management Report and a description of the reconciliation items in the notes to the income statement and statement of comprehensive income on page 154. Adjusted earnings per share are calculated by dividing adjusted Group earnings after taxes and minority interests by the weighted average number of shares outstanding. The adjusted values are figures not defined in the IFRS rules.

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

In the event of utilisation of the authorised capital or a conditional capital increase (see Management Report/Declaration on Corporate Governance, page 49), earnings per share could be diluted in the future.

## NOTES TO THE BALANCE SHEET

The balance sheet is presented on page 132. The balance sheet is organised according to the maturity of the assets and liabilities. The development of the gross carrying amounts and the depreciation/amortisation of the individual fixed asset items is shown separately on page 138.

### (12) INTANGIBLE ASSETS

The goodwill from acquisitions disclosed in the consolidated balance sheet is allocated to the following cash-generating units (CGUs):

BREAKDOWN OF GOODWILL BY CASH-GENERATING UNIT		TAB: 2.624	
	2015	2016	
in € million			
CGU Salt America	696.0	722.4	
CGU Potash and Magnesium Products	16.2	17.3	
CGU Salt Europe	13.7	13.7	
<b>Total goodwill</b>	<b>725.9</b>	<b>753.4</b>	

The Salt business unit is divided into the cash-generating units Salt America and Salt Europe. The increase in goodwill is based on the effects of the foreign currency translation on the balance sheet date.

In connection with the examination of goodwill for impairment, the residual carrying amounts for the respective cash-generating units were compared with their value in use. The determination of the values in use was based on the present value of the future cash flows of the business units assuming continued use. The cash flow forecast is based on the current medium-term plans of the K+S GROUP or the respective business units. The medium-term plans are based on own experience, current business performance, and the best possible estimate of individual influencing factors such as energy and freight costs or fluctuations in currency exchange rates. Market assumptions are included as described in the Forecast Report.

The forecast period covers the years 2017 to 2019 for CGU Salt America and CGU Salt Europe as well as 2017 to 2026 for CGU Potash and Magnesium Products; moreover, a growth rate of 2.0% (2015: 2.0%) for nominal cash flows from the year 2020 or 2027 was assumed to compensate for inflation with respect to costs and revenues after the end of the detailed planning period. The forecast period of CGU Potash and Magnesium Products until 2026 factors in the gradual expansion of production capacity due to the Legacy Project in Canada.

The following discount factors were applied as at the end of the financial year:

DISCOUNT FACTORS IMPAIRMENT TEST		TAB: 2.6.25		
	2015		2016	
	Before taxes	After taxes	Before taxes	After taxes
Interest rates in %				
CGU Salt America	8.3	6.0	8.2	6.0
CGU Potash and Magnesium Products	8.3	6.0	8.2	6.0
CGU Salt Europe	8.3	6.0	8.2	6.0

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 the cost of capital', page 85

The impairment tests conducted at the end of the 2016 financial year confirmed that the goodwill items were not impaired. According to our estimate, 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 € 119.9 million (2015: € 115.7 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. These brand rights are fully allocated to CGU Salt America.

The impairment test of the brand rights with indefinite useful lives, conducted on an annual basis, was carried out by comparing the values in use of the brands with the carrying amounts. The value in use was determined using the relief-from-royalty method, which derives the brand value from the licence costs saved. Brand-specific revenues for the years 2017–2020 were determined based on corporate planning, and an annual growth rate of 2.0 % (2015: 2.0 %) was assumed for the period from 2021. 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 at a risk-adjusted pre-tax interest rate of 12.2 % (2015: 12.5 %). The impairment test on the brands carried out on this basis at the end of the 2016 financial year did not result in any impairment charges.

The customer relationships arising from the acquisition of the MORTON GROUP are a significant intangible asset. As of 31 December 2016, the carrying amount totalled € 119.9 million (2015: € 131.8 million), the remaining useful life as of the reporting date was around 10 years (2015: 11 years).

### (13) INVESTMENT PROPERTIES

As of 31 December 2016, the fair values of investment properties amounted to € 18.4 million (2015: € 18.4 million). The fair values were estimated by internal specialist departments based on local market conditions. In determining the values, particular account was taken of local property valuation records and, in part, of external valuation reports. The valuation methods correspond to level 3 of the three-tier valuation hierarchy set out in IFRS 13.

### (14) FINANCIAL ASSETS

An amount of € 27.0 million (2015: € 13.6 million) is accounted for by investments in affiliated companies as well as equity interests. Of this amount, € 0.4 million (2015: € 0.5 million) relates to other loans (mainly to employees) and other financial assets. The effective annual rates of interest again range between 0 and 5.0 % and the remaining fixed interest period ranges between one year and 20 years.

The maximum default risk as of the balance sheet date corresponds to the amount stated in the balance sheet. There are no specific grounds that would suggest the possible occurrence of defaults. There are no significant concentrations of default risk.

### (15) SECURITIES AND OTHER FINANCIAL INVESTMENTS

SECURITIES AND OTHER FINANCIAL INVESTMENTS		TAB: 2.6.26	
	2015	2016	
in € million			
Securities and other financial investments (non-current)	–	7.0	
Securities and other financial investments (current)	40.0	14.3	
<b>Securities and other financial investments</b>	<b>40.0</b>	<b>21.3</b>	

This item includes various investments (commercial papers, bonds, 'Schuldscheindarlehen' (promissory notes), investment funds and repo business), which, in accordance with IAS 39, are classified as 'Loans and receivables' or 'Available-for-sale financial assets'.

**(16) DEFERRED TAXES**

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

	TAB: 2.6.27			
	Deferred tax assets		Deferred tax liabilities	
	2015	2016	2015	2016
in € million				
Intangible assets	3.3	3.1	119.9	119.7
Property, plant and equipment	21.4	40.1	421.6	476.4
Inventories	2.7	5.2	0.4	1.4
Accounts receivable – trade	0.8	0.7	5.0	9.2
Other financial assets	11.5	10.4	14.5	17.3
– of which derivative financial instruments	5.1	2.2	2.7	5.4
Provisions	232.6	282.4	4.1	4.2
Accounts payable – trade	–	–	0.1	0.1
Other financial liabilities	19.9	23.3	7.7	12.2
– of which derivative financial instruments	8.2	1.3	–	–
<b>Gross amount</b>	<b>292.2</b>	<b>365.2</b>	<b>573.3</b>	<b>640.5</b>
– of which non-current	249.7	307.6	562.3	615.2
Allowances	–2.1	–2.6	–	–
Tax loss carryforwards	69.0	67.5	–	–
Consolidations	18.6	17.8	–	–2.9
Balances	–278.8	–330.5	–278.8	–330.5
<b>Balance sheet carrying amount (net)</b>	<b>98.9</b>	<b>117.4</b>	<b>294.5</b>	<b>307.1</b>

Deferred taxes totalling € 23.1 million (2015: € 20.7 million) were not capitalised as utilisation of the underlying loss carryforwards or the realisation of taxable income appears unlikely. The underlying loss carryforwards amount to € 252.4 million (2015: € 253.7 million).

In the year under review, deferred taxes of € 2.7 million (2015: € 4.2 million) were recorded as other income.

The balance sheet value of the deferred taxes changed by € 5.9 million as of 31 December 2016 (2015: € 5.8 million) and comprises an increase in deferred tax assets of € 18.5 million (2015: € 24.5 million) and an increase in deferred tax liabilities of € 12.6 million (2015: € 18.7 million).

Taking into account the deferred taxes of € 2.7 million recorded as other income in the year under review (2015: € 4.2 million) and currency-related effects of € 11.6 million (2015: € 8.7 million), this results in deferred tax income of € 14.8 million disclosed in the income statement (2015: € 18.7 million).

Temporary differences of € 348.0 million (2015: € 306.9 million) relate to shares in subsidiaries for which no deferred tax liabilities are accrued in accordance with IAS 12.39.

**(17) INVENTORIES**

	TAB: 2.6.28	
	2015	2016
in € million		
Raw materials, consumables and supplies	230.8	245.9
Unfinished goods, work in progress	21.4	30.1
Finished products and goods purchased for resale	453.1	434.4
<b>Inventories</b>	<b>705.3</b>	<b>710.4</b>

Inventories of € 43.4 million (2015: € 50.8 million) were stated at net realisable value. The reporting of net realisable value resulted in write-downs of € 1.2 million (2015: € 1.4 million).

**(18) ACCOUNTS RECEIVABLE – TRADE AND OTHER FINANCIAL ASSETS**

<b>ACCOUNTS RECEIVABLE – TRADE AND OTHER FINANCIAL ASSETS</b>		TAB: 2.6.30		
	2015	of which residual term over 1 year	2016	of which residual term over 1 year
in € million				
Accounts receivable – trade	708.6	–	656.5	–
Other financial assets	213.3	112.1	234.4	87.5
– of which derivative financial instruments	30.4	18.6	37.4	13.7
– of which claim for reimbursement Morton Salt bond	22.4	22.2	22.8	22.6
– of which receivables from affiliated companies	6.0	–	7.3	–
<b>Accounts receivable – trade and other financial assets</b>	<b>921.9</b>	<b>112.1</b>	<b>890.9</b>	<b>87.5</b>

The allowances for trade receivables and other financial assets have developed as follows:

<b>ALLOWANCES</b>		TAB: 2.6.30	
	2015	2016	
in € million			
Balance as at 1 January	11.8	5.1	
Additions	3.0	6.6	
Reversal	5.4	0.8	
Utilisation	1.3	0.2	
Other changes	3.0	0.4	
<b>Balance as at 31 December</b>	<b>5.1</b>	<b>10.3</b>	

Allowances of € 10.1 million (2015: € 4.9 million) were disclosed for the trade receivables portfolio as of 31 December 2016. € 0.2 million (2015: € 0.2 million) result from allowances on other financial assets. The allowances are based on 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 2016, € 0.2 million in non-interest-bearing and low-interest receivables were discounted (2015: € 0.2 million).

The following table provides information about the extent of the risks of default contained in the items 'Accounts receivable – trade'.

<b>DEFAULT RISKS</b>		TAB: 2.6.31				
	Carrying amount	of which neither overdue nor adjusted as of the reporting date	of which unadjusted but overdue as of the reporting date since			
			< 30 days	> 31 and < 90 days	> 91 and < 180 days	> 180 days
in € million						
<b>2016</b>						
Accounts receivable – trade	656.5	598.2	18.4	11.8	0.4	2.6
<b>2015</b>						
Accounts receivable – trade	708.6	659.5	12.4	10.3	2.1	9.4

As of the balance sheet date, € 1.5 million (2015: € 10.2 million) of unimpaired other financial assets was overdue.

The risk of default is the risk of a contractual partner failing to discharge its contractual payment obligations. Customer receivables are to the largest extent secured against a default risk by means of appropriate insurance coverage and other hedging instruments. Across the Group, 60 % (2015: 71 %) of all insurable receivables are hedged against default. This ensures that only a low partial loss is incurred in the event of default. An internal credit check is conducted in the case of customers for whom such cover cannot be obtained. There is no significant concentration of risk with respect to receivables.

Receivables management is geared towards collecting all outstanding accounts punctually and in full as well as towards avoiding the loss of receivables. Invoices are issued on a daily basis and invoice data is transferred to debtor accounts online. Accounts outstanding are monitored on an ongoing basis with system support and in line with the payment terms agreed with the customers. Payment terms generally range from 10 to 180 days, with longer terms being customary in some markets. In the case of late payment, reminders are issued at regular two-week intervals.

The maximum risk of default with respect to receivables and other financial assets is reflected in the carrying amount disclosed in the balance sheet. As of 31 December 2016, the maximum default amount in the highly unlikely event of a simultaneous default on all unsecured receivables was € 293.1 million (2015: € 229.6 million).

Current and non-current other financial assets include financial assets of € 54.5 million (2015: € 51.3 million) that were deposited as collateral for obligations. The largest item is a time-restricted deposit of financial funds for securing a bank guarantee. The funds will be available again upon expiry of the guarantee period.

The receivables arising from the accounting treatment of customer-specific construction contracts comprise the following:

<b>CUSTOMER-SPECIFIC CONSTRUCTION CONTRACTS</b>		TAB: 2.6.32
in € million	2015	2016
Contract costs incurred and contract gains recognised	22.4	32.6
Less advance payments received	18.7	25.6
<b>Receivables from customer-specific construction contracts</b>	<b>3.7</b>	<b>7.0</b>

As in the previous year, there were no customer-specific construction contracts with a debit balance as of 31 December 2016.

#### (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, for example, those aimed at limiting certain costs. The use of derivative financial instruments is regulated by guidelines and procedural instructions. A strict segregation is ensured between trading, settlement and control. Derivative financial instruments are only traded with banks that have a good credit rating, which is monitored continually by means of appropriate instruments. In principle, the entire portfolio of derivative financial instruments is distributed amongst several banks to reduce the risk of default. The level of risk of default is limited to the amount of the derivatives capitalised on the balance sheet.

The goal of interest rate management is to curb the risks arising from an increasing interest burden 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 issued in the year under review have variable interest rates, interest 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 on account of the short residual term and the low interest rates meaning that the risk of declining rates is minimal.

Derivatives are used to hedge exchange rate risks in order to limit the risks to which operating business activities can be exposed as a result of changes in exchange rates. Exchange rate risks exist mainly with respect to the us dollar and the Canadian dollar, and, to a lesser extent, the British pound and the Chilean peso. Hedging transactions are executed in relation to billed receivables and anticipated net positions on the basis of projected revenues. In this regard, the net positions are determined on the basis of revenue and cost budgeting using safety margins and updated on an ongoing basis to avoid excess hedging or hedging shortfalls.

The hedging transactions used can have terms of up to three years for the hedging of anticipated positions. The main objective is the hedging of a worst-case scenario. Here, futures and plain vanilla options are used, whereby the participation in a favourable market development is generally limited by the sale of simple options. This also serves to reduce premium expenses. Basically, it is also possible to use compound options consisting of an option on a simple option, which can be acquired at a later date for a fixed amount.

The terms of hedging transactions in respect of billed receivables are, in keeping with the agreed payment terms, less than one year.

The hedging transactions in respect of anticipated net positions as described above are used in the Potash and Magnesium Products business unit for us dollar positions as well as for Canadian dollar positions for future production in Canada. Hedging transactions in respect of billed receivables are concluded in the Potash and Magnesium Products business unit.

Trading in all the aforementioned derivatives is solely otc. Forward exchange operations and option contracts are generally transacted via a trading platform through which quotations are obtained from several banks so that a transaction can then be executed with the bank providing the best quotation.

In the case of forward exchange transactions, there is a market value risk on the respective reporting date. However, there are countervailing effects stemming from the currency-based measurement of receivables when derivatives are used in order to hedge foreign currency receivables.

The market values computed correspond to the value upon hypothetical early transfer on the balance sheet date. The values are computed using recognised mathematical models generally used by market participants. These calculations were based particularly on the following parameters 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 rates and exercise prices,
- + the traded volatilities and
- + and the counterparty risk.

IAS 39 permits hedging relationships to be established between underlying business transactions and derivative financial instruments. However, this is principally not applied.

🕒 'Notes to the income statement and the statement of comprehensive income'; page 154

The following derivative foreign exchange financial transactions existed as at 31 December 2016:

<b>DERIVATIVE FOREIGN EXCHANGE TRANSACTIONS</b>		TAB: 2.6.33		
	2015		2016	
	Nominal values <sup>1</sup>	Fair values	Nominal values <sup>1</sup>	Fair values
in € million				
GBP forward exchange transactions				
– of which maturing in 2016	14.3	0.2	–	–
– of which maturing in 2017	–	–	13.7	–
CAD forward exchange transactions				
– of which maturing in 2016	466.2	0.2	–	–
– of which maturing in 2017	180.9	–15.7	412.7	–9.1
– of which maturing in 2018	–	–	90.5	1.8
USD forward exchange transactions				
– of which maturing in 2016	863.2	–18.3	–	–
– of which maturing in 2017	–	–	642.0	8.5
– of which maturing in 2018	–	–	64.3	–0.4
CLP forward exchange transactions				
– of which maturing in 2016	24.6	–1.0	–	–
– of which maturing in 2017	–	–	14.2	0.8
Simple currency options purchased (USD)				
– of which maturing in 2016	339.7	1.8	–	–
– of which maturing in 2017	403.8	15.0	403.8	3.0
– of which maturing in 2018	–	–	168.6	6.0
Simple currency options sold (USD)				
– of which maturing in 2016	373.0	–28.8	–	–
– of which maturing in 2017	463.6	–7.8	463.6	–5.5
– of which maturing in 2018	–	–	182.1	–6.7
Simple currency options purchased (CAD)				
– of which maturing in 2017	151.4	0.8	156.3	0.2
– of which maturing in 2018	69.3	2.8	71.6	3.1
Simple currency options sold (CAD)				
– of which maturing in 2017	139.7	–9.5	144.3	–4.8
– of which maturing in 2018	64.9	–3.0	67.1	–1.9
Interest caps purchased				
– of which maturing in 2019	–	–	140.0	0.2
– of which maturing in 2021	–	–	118.0	1.3
<b>Foreign currency transactions in total</b>	<b>3,554.7</b>	<b>–63.3</b>	<b>3,152.8</b>	<b>–3.5</b>

<sup>1</sup> In euros using weighted average rates.

## (20) EQUITY

The development of individual equity items is shown separately on page 134.

### SUBSCRIBED CAPITAL

The subscribed capital of K+S AKTIENGESELLSCHAFT is the same as in the previous year at € 191.4 million and is divided into 191.4 million no-par value registered shares. The shares are fully paid up.

Ⓢ Information in accordance with Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB) as well as explanatory report of the Board of Executive Directors in accordance with Section 176 (1) (1) of the German Stock Corporation Act (AktG), page 63

### SUBSCRIBED CAPITAL

TAB: 2.6.34

in € million	Shares outstanding	Subscribed capital
	31.12.2014	191.4
31.12.2015	191.4	191.4
<b>31.12.2016</b>	<b>191.4</b>	<b>191.4</b>

### SHARE BUYBACK

According to the resolution passed by the Annual General Meeting on 12 May 2015, the Board of Executive Directors was authorised to acquire own shares up to 10 % of the share capital by 11 May 2020. K+S AKTIENGESELLSCHAFT did not make use of this authorisation in the 2016 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 € 19,140,000.00, in one lump sum or several partial amounts at different times, by issuing a maximum of 19,140,000 new no-par bearer shares (authorised capital) dur-



ing 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 no-par bearer shares (authorised capital II) during the period to 10 May 2021. K+S AKTIENGESELLSCHAFT did not make use of these authorisations in the 2016 financial year.

#### SUBSCRIBED CAPITAL

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 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 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. K+S AKTIENGESELLSCHAFT did not make use of this authorisation in the 2016 financial year.

#### CAPITAL RESERVE

The capital reserve mainly consists of the share premium received as part of share issues of K+S AKTIENGESELLSCHAFT.

#### OTHER RESERVES AND ACCUMULATED PROFIT

This item summarises the revenue reserves, the accumulated profit, the differences from currency translation, fair valuation reserve of securities which are classified as 'financial assets available for sale' and revaluations from pensions and similar obligations.

The revenue reserves mainly consist of past earnings of the consolidated companies less dividends paid to shareholders. The item 'Differences from foreign currency translation' mainly comprises differences from the translation of the functional currency of foreign business operations into the reporting currency of the Group (€).

#### OTHER COMPREHENSIVE INCOME

TAB: 2.6.35

	2015			2016		
	Before taxes	Tax effect	Net	Before taxes	Tax effect	Net
in € million						
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>0.9</b>	<b>-2.8</b>	<b>-1.9</b>	<b>301.9</b>	<b>-0.9</b>	<b>301.0</b>
Financial assets available for disposal	-4.1	0.6	-3.5	—	—	—
– of which changes in fair value	—	—	—	—	—	—
– of which reclassifications to profit or loss	-4.1	0.6	-3.5	—	—	—
Difference resulting from foreign currency translation	5.0	-3.4	1.6	301.9	-0.9	301.0
– of which change in unrealised gains/losses	5.0	-3.4	1.6	301.9	-0.9	301.0
<b>Items that will not be reclassified to profit or loss</b>	<b>3.9</b>	<b>-4.2</b>	<b>-0.3</b>	<b>-0.8</b>	<b>2.9</b>	<b>2.1</b>
Revaluation of net debt/defined benefit pension plan assets	3.9	-4.2	-0.3	-0.8	2.9	2.1
<b>Other comprehensive income</b>	<b>4.8</b>	<b>-7.0</b>	<b>-2.2</b>	<b>301.1</b>	<b>2.0</b>	<b>303.1</b>

#### ACCUMULATED PROFIT OF THE INDIVIDUAL FINANCIAL STATEMENTS OF K+S AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE (HGB))

The annual financial statements of K+S AKTIENGESELLSCHAFT as prepared in accordance with the German Commercial Code (HGB) are decisive in terms of dividend distribution. It is intended to propose to the Annual General Meeting that a dividend of € 0.30 per share (2015: € 1.15), i.e., 57.4 million in total (2015: € 220.1 million) be distributed to the shareholders and the remaining amount of € 19.4 million (2015: € 53.4 million) be allocated to reserves. As of the balance sheet date, the following accumulated profit was disclosed in the individual financial statements of K+S AKTIENGESELLSCHAFT:

<b>ACCUMULATED PROFIT OF K+S AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE (HGB))</b>	TAB: 2.6.36	
	2015	2016
in € million		
Accumulated profit of K+S Aktiengesellschaft as of 1 January	182.3	273.4
Dividend payment for previous year	-172.3	-220.1
Allocation to other revenue reserves (resolution passed by the Annual General Meeting)	-10.1	-53.3
Net income of K+S Aktiengesellschaft	273.5	76.8
<b>Accumulated profit of K+S Aktiengesellschaft as of 31 December</b>	<b>273.4</b>	<b>76.8</b>

#### (21) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The K+S GROUP has assumed a number of defined benefit pension commitments. Most of the commitments relate to Germany and Canada.

##### GERMANY

The K+s pension scheme is a significant pension plan in Germany and essentially consists of a basic pension, a supplementary pension II as well as rules governing vested rights. The basic pension is based on a modular system, under which hypothetical contributions corresponding to a certain percentage of pensionable income are collected annually. The pension entitlement is computed by applying a fixed percentage to total hypothetical contributions. Supplementary pension II is a final salary plan, with the corresponding enti-

tlement based on certain percentages for 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 in the case of periods of service before the introduction of the basic pension and supplementary pension II. This pension plan has now been discontinued and consequently no other employees are eligible to acquire the benefits.

Alongside the K+s pension scheme, numerous individual commitments were made, especially in relation 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 pension level may not be exceeded.

In addition, there are further company-specific pension commitments in Germany that were already discontinued some years ago. Most of the beneficiaries are already drawing pensions.

The pension obligations described are essentially covered in Germany by means of a contractual trust arrangement (CTA). The vehicle used for this is the K+S VERMÖGENSTREUHÄNDER E.V., which was established in 2005, and manages the assets dedicated to the servicing of pension obligations on a fiduciary basis. While the pension payments continue to be made by the respective company, the payments are generally reimbursed by the CTA as they arise. There are no minimum funding requirements.

Moreover, commitments are in place that will be met through a provident fund. These obligations are covered as far as possible by pledged reinsurance arrangements and from 31 December 2016 will be recorded on the balance sheet as defined benefit commitments.

##### CANADA

In Canada, alongside defined benefit pension commitments, there are pension-like plans which entail commitments, for example, to provide medical benefits to those eligible under them upon retirement.

The pension plans essentially provide for benefits that are computed as a percentage of the average five highest annual salaries while taking into account length of service. In this context, certain upper limits have to be observed. From 1 January 2016, all active plan members can earn no further entitlements, however they will participate in a defined contribution scheme. The commitment was converted prospectively, which means that entitlements acquired 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 these, 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 fiduciary basis. It is responsible for the payment of pensions to retired employees 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-like commitments cover payments for life, dental and medical insurance. The level of payments for dental and medical insurance depends on the average claims ratio of the retired employees, whereas life insurance essentially involves a fixed-sum commitment. No plan assets were established for the pension-like commitments and there are no minimum funding requirements.

#### OTHER COUNTRIES

Other pension commitments largely relate to pension-like plans in the United States and the Bahamas which provide for payments towards medical and life insurance. 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.

The plans described above include a number of risks. The main ones are:

- + Investment risks: The provisions for pensions and similar obligations are calculated using a discount factor based on AA-rated corporate bonds. If the yield for the plan assets is below this interest rate, there is a corresponding coverage shortfall. The investments are spread widely, mainly in bonds and shares, with the latter being particularly exposed to significant market value fluctuations.
- + Inflationary risks: In Germany, pension levels essentially need to be reviewed every three years in accordance with the German Act on Improving Company Retirement Pension Plans (Gesetz zur Verbesserung der betrieblichen Altersvorsorge (BetrAVG)), which 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 therefore leads to a corresponding increase in the respective obligations.
- + Interest rate risks: A decrease in yields for 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.
- + Cost trend in health (North America, in particular Canada and the Bahamas): As payments connected with medical benefit commitments are essentially adjusted for the cost trend in health care, an increase in prices of medicine, hospital costs etc. in the respective country leads to an increase in obligations.
- + Longevity risks: Life expectancy is taken into account when 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 results in an increase in obligation levels.

The K+S GROUP strives to reduce the risks by, for example, changing from defined benefit plans to defined contribution plans. Thus, most of the workforce in Germany has now received exclusively defined contribution commitments. In North America as well, benefit commitments were either compensated or frozen and transferred to a defined contribution system.

The following assumptions have been made in calculating provisions for pensions and similar obligations on the balance sheet date:

**ACTUARIAL ASSUMPTIONS – MEASUREMENT OF PENSION COMMITMENTS** TAB: 2.6.37

	2015		2016	
	Germany	Outside Germany	Germany	Outside Germany
in % (weighted average)				
<b>Pension commitments</b>				
Actuarial interest rate	2.2	3.9	1.8	3.9
Anticipated annual increase in salaries and wages	1.8	3.5	1.8	3.0
Anticipated annual pension increase	1.6	1.1	1.6	1.0
<b>Other benefit commitments similar to pensions</b>				
Actuarial interest rate	—	4.3	—	4.3

To determine the pension expenses for 2016, the following actuarial assumptions – stipulated at the end of financial year 2015 – were used:

**ACTUARIAL ASSUMPTIONS – PENSION COMMITMENT EXPENSES** TAB: 2.6.38

	2015		2016	
	Germany	Outside Germany	Germany	Outside Germany
in % (weighted average)				
<b>Pension commitments</b>				
Actuarial interest rate	2.1	3.9	2.2	3.9
Anticipated annual increase in salaries and wages	1.8	3.5	1.8	3.5
Anticipated annual pension increase	1.6	1.1	1.6	1.1
<b>Other benefit commitments similar to pensions</b>				
Actuarial interest rate	—	4.0	—	4.3

As of 31 December 2016, the following mortality tables were applied:

- + Germany: Heubeck Richtttafeln 2005 G (2015: Heubeck Richtttafeln 2005 G)
- + Canada: CPM 2014 Private Scale B with adjustment factor (2015: CPM 2014 Private Scale B with adjustment factor)
- + US/Bahamas: RP 2014 Scale MP-2016 (2015: RP 2014 Scale MP-2015)

In the case of commitments similar to pensions for health care benefits, the following annual cost increases – declining over time – were assumed:

- + Canada: 6.5 % / 5.0 % as of 2024 (2015: 6.7 % / 4.0 % as of 2024)
- + Bahamas: 6.25 % / 4.5 % as of 2024 (2015: 6.5 % / 4.5 % as of 2024)

The following tables show the development of the defined benefit obligation and the plan assets:

**DEVELOPMENT DEFINED BENEFIT OBLIGATION**

TAB: 2.6.39

	2015				2016			
	Total	Germany	Outside Germany	Outside Germany	Total	Germany	Outside Germany	Outside Germany
		Pensions	Pensions	Similar obligations		Pensions	Pensions	Similar obligations
in € million								
Defined benefit obligation as of 1 January	584.4	264.7	226.7	93.0	579.0	259.1	222.1	97.8
Service costs	12.0	7.1	2.2	2.7	10.9	6.8	0.7	3.4
Past service costs	-2.6	—	0.9	-3.5	1.1	—	1.1	—
Interest expenses	17.7	5.4	8.5	3.8	18.3	5.5	8.6	4.2
Revaluations <sup>1</sup>	9.8	-3.1	8.5	4.4	13.9	19.4	-8.6	3.1
– of which actuarial gains (-)/losses (+) from changes in demographic assumptions	-0.9	—	0.4	-1.3	-2.5	—	-0.6	-1.9
– of which actuarial gains (-)/losses (+) from changes in financial assumptions	5.7	-3.5	2.2	7.0	23.0	21.5	-5.4	6.9
– of which actuarial gains (-)/losses (+) based on experience-based adjustments	5.0	0.4	5.9	-1.3	-6.6	-2.1	-2.6	-1.9
Pension payments	-26.0	-14.7	-9.0	-2.3	-26.0	-14.3	-9.4	-2.3
Plan adjustments/payments	-0.6	-0.3	-0.3	—	0.8	0.9	-0.1	—
Exchange rate fluctuations	-15.7	—	-15.4	-0.3	19.3	—	14.4	4.9
<b>Defined benefit obligation as of 31 December</b>	<b>579.0</b>	<b>259.1</b>	<b>222.1</b>	<b>97.8</b>	<b>617.3</b>	<b>277.4</b>	<b>228.8</b>	<b>111.1</b>

<sup>1</sup> The 2016 figures include actuarial losses of € 7.0 million from changes in financial assumptions in Germany arising from the first-time recording on the balance sheet of the provident fund.

## DEVELOPMENT PLAN ASSETS

TAB: 2.6.40

	2015			2016		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
		Pensions	Pensions		Pensions	Pensions
in € million						
Plan assets as of 1 January	425.7	221.8	203.9	417.4	219.2	198.2
Interest income	12.2	4.5	7.7	12.5	4.7	7.8
Employer contributions	3.5	2.0	1.5	2.1	1.9	0.2
Gains (+)/losses (-) from revaluation (without amounts recognised in interest income) <sup>1</sup>	13.7	5.6	8.1	13.1	9.4	3.7
Pension payments	-23.5	-14.7	-8.8	-23.4	-14.3	-9.1
Exchange rate fluctuations	-14.2	—	-14.2	13.0	—	13.0
<b>Plan assets as of 31 December</b>	<b>417.4</b>	<b>219.2</b>	<b>198.2</b>	<b>434.7</b>	<b>220.9</b>	<b>213.8</b>

<sup>1</sup> The 2016 figures include a revaluation gain in Germany of € 6.8 million arising from the first-time recording on the balance sheet of the provident fund.

For reconciliation to the balance sheet carrying amounts, the defined benefit obligation must be offset against the plan assets.

## RECONCILIATION BALANCE SHEET VALUES PENSIONS AND SIMILAR OBLIGATIONS

TAB: 2.6.41

	2015				2016			
	Total	Germany	Outside Germany	Outside Germany	Total	Germany	Outside Germany	Outside Germany
		Pensions	Pensions	Similar obligations		Pensions	Pensions	Similar obligations
in € million								
Defined benefit obligation as of 31 December	579.0	259.1	222.1	97.8	617.3	277.4	228.8	111.1
Plan assets as of 31 December	417.4	219.2	198.2	—	434.7	220.9	213.8	—
<b>Balance sheet values as of 31 December</b>	<b>161.6</b>	<b>39.9</b>	<b>23.9</b>	<b>97.8</b>	<b>182.6</b>	<b>56.5</b>	<b>15.0</b>	<b>111.1</b>
– of which pension provisions and similar obligations (+)	166.1	44.4	23.9	97.8	186.7	60.6	15.0	111.1
– of which assets (-)	-4.5	-4.5	—	—	-4.1	-4.1	—	—

The following amounts were recorded in the statement of comprehensive income:

EFFECTS STATEMENT OF INCOME								TAB: 2.6.42
	2015				2016			
	Total	Germany	Outside Germany	Outside Germany	Total	Germany	Outside Germany	Outside Germany
		Pensions	Pensions	Similar obligations		Pensions	Pensions	Similar obligations
in € million								
Service costs	12.0	7.1	2.2	2.7	10.9	6.8	0.7	3.4
Past service costs	-2.6	—	0.9	-3.5	1.1	—	1.1	—
Net interest expenses (+)/income (-)	5.5	0.9	0.8	3.8	5.8	0.8	0.8	4.2
Expenses (+)/income (-) plan adjustments/payments	-0.6	-0.3	-0.3	—	0.8	0.9	-0.1	—
<b>Amounts recognised in the income statement</b>	<b>14.3</b>	<b>7.7</b>	<b>3.6</b>	<b>3.0</b>	<b>18.6</b>	<b>8.5</b>	<b>2.5</b>	<b>7.6</b>
Gains (-)/losses (+) from revaluation of plan assets (without amounts recognised in interest income)	-13.7	-5.6	-8.1	—	-13.1	-9.4	-3.7	—
Actuarial gains (-)/losses (+) from changes in demographic assumptions	-0.9	—	0.4	-1.3	-2.5	—	-0.6	-1.9
Actuarial gains (-)/losses (+) from changes in financial assumptions	5.7	-3.5	2.2	7.0	23.0	21.5	-5.4	6.9
Actuarial gains (-)/losses (+) based on experience-based adjustments	5.0	0.4	5.9	-1.3	-6.6	-2.1	-2.6	-1.9
<b>Amounts recognised in other comprehensive income<sup>1</sup></b>	<b>-3.9</b>	<b>-8.7</b>	<b>0.4</b>	<b>4.4</b>	<b>0.8</b>	<b>10.0</b>	<b>-12.3</b>	<b>3.1</b>
<b>Total (amounts recognised in statement of comprehensive income)</b>	<b>10.4</b>	<b>-1.0</b>	<b>4.0</b>	<b>7.4</b>	<b>19.4</b>	<b>18.5</b>	<b>-9.8</b>	<b>10.7</b>

<sup>1</sup> The 2016 figures for Germany include actuarial losses of € 7.0 million from changes in financial assumptions arising from the first-time recording on the balance sheet of the provident fund and a revaluation gain for plan assets of € 6.8 million.

Service costs (including past service costs) are reported in accordance with the allocation of employees to the respective EBIT functional area. Net interest expenses or income are reported in net interest income.

The fair value of plan assets is distributed across the following investment classes:

<b>DISTRIBUTION OF PLAN ASSETS BY INVESTMENT CLASS</b>						TAB: 2.6.43
	2015			2016		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
	Pensions	Pensions		Pensions	Pensions	
in € million						
Bonds	190.3	117.4	72.9	177.6	104.3	73.3
– Government bonds	44.1	2.3	41.8	48.5	1.6	46.9
– Corporate bonds	146.2	115.1	31.1	129.1	102.7	26.4
Shares	192.6	69.9	122.7	210.8	76.7	134.1
– Consumer	50.5	20.3	30.2	49.4	22.6	26.8
– Raw materials	16.6	12.1	4.5	24.3	17.8	6.5
– Finance	38.1	11.5	26.6	44.2	12.3	31.9
– Industry	21.8	9.5	12.3	24.6	9.0	15.6
– Energy	18.8	5.5	13.3	21.8	5.8	16.0
– Other	46.8	11.0	35.8	46.5	9.2	37.3
Cash on hand and bank balances	11.5	9.8	1.7	15.6	9.6	6.0
Reinsurance arrangements	12.9	12.9	—	21.5	21.5	—
Other	10.1	9.2	0.9	9.2	8.8	0.4
<b>Plan assets as of 31 December</b>	<b>417.4</b>	<b>219.2</b>	<b>198.2</b>	<b>434.7</b>	<b>220.9</b>	<b>213.8</b>

Investments held through investment funds were assigned to the individual investment classes in the list above. Most 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 notes with a carrying amount of € 23.9 million (2015: € 22.6 million) that are not traded on an active market. There is no active market for reinsurance arrangements.

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.

<b>SENSITIVITY ANALYSIS FROM 31 DECEMBER 2016</b>						TAB: 2.6.44
	Change in assumption	Change in cash value of commitments				
		Total	Germany	Outside Germany	Outside Germany	
		Pensions	Pensions	Pensions	Similar obligations	
in € million						
Actuarial interest rate	+100 basis points	–83.9	–34.7	–31.1	–18.1	
Actuarial interest rate	–100 basis points	102.9	44.1	36.1	22.7	
Anticipated annual increase in salaries and wages	+50 basis points	3.0	1.1	1.9	—	
Anticipated annual increase in salaries and wages	–50 basis points	–3.0	–1.1	–1.9	—	
Anticipated annual pension increase	+50 basis points	27.7	15.2	12.5	—	
Anticipated annual pension increase	–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 values in the previous year were as follows:

<b>SENSITIVITY ANALYSIS FROM 31 DECEMBER 2015</b>		TAB: 2.6.45			
	Change in assumption	Change in cash value of commitments			
		Total	Germany	Outside Germany	Outside Germany
			Pensions	Pensions	Similar obligations
in € million					
Actuarial interest rate	+100 basis points	-75.1	-31.2	-28.0	-15.9
Actuarial interest rate	-100 basis points	95.2	39.4	35.0	20.8
Anticipated annual increase in salaries and wages	+50 basis points	2.8	1.1	1.7	—
Anticipated annual increase in salaries and wages	-50 basis points	-2.8	-1.1	-1.7	—
Anticipated annual pension increase	+50 basis points	27.2	14.9	12.3	—
Anticipated annual pension increase	-50 basis points	-23.2	-12.6	-10.6	—
Medical cost trend	+50 basis points	9.4	—	—	9.4
Medical cost trend	-50 basis points	-7.3	—	—	-7.3
Life expectancy	+1 year	20.9	8.6	7.4	4.9
Life expectancy	-1 year	-19.3	-8.4	-6.5	-4.4

Undiscounted payments for pensions and similar obligations are expected to fall due as follows in subsequent years:

<b>ANTICIPATED PAYMENTS FOR PENSIONS AND SIMILAR OBLIGATIONS</b>		TAB: 2.6.46	
		31.12.2015	31.12.2016
in € million			
< 1 year		26.9	28.5
Between 1 and 5 years		111.0	117.1
Between 5 and 10 years		147.0	153.2
> 10 years		926.2	986.9
<b>Total</b>		<b>1,211.1</b>	<b>1,285.7</b>

The weighted average duration of obligations in Germany as of 31 December 2016 is 14 years (2015: 14 years), for pension obligations outside Germany 15 years (2015: 14 years), and for obligations similar to pensions outside Germany 19 years (2015: 19 years). The duration and maturity profile of the obligations differ significantly in part between individual companies. In terms of asset allocation, this fact is essentially taken into account, especially in Germany. The aim is to service the pension payments from current plan asset income.

In the 2017 financial year, an outflow of funds of € 2.7 million (2015: € 2.5 million) from pension commitments and commitments similar to pensions is to be expected. This outflow encompasses allocations to plan assets and pension payments which are not covered by corresponding reimbursements from plan assets.

In addition, there are further retirement pension plans for which no provisions need to be recognised, as there are no further obligations apart from the payment of the contributions (defined contribution plans). These comprise both solely employer-financed benefits and premiums for converting employees' remuneration into pensions.

Employers and employees made contributions under the supplementary pension plan that has since been closed and is operated through the BASF pension fund. In 2011, the BASF pension fund terminated the regular memberships for K+S employees, so that as of 31 December 2016, only extraordinary memberships applied in the case of the employees concerned and those memberships are continued as vested pension rights. In addition, the BASF pension

fund makes regular pension scheme payments to (former) K+S employees. K+S GROUP company employees with vested pension rights and retired employees account for less than 10 % of the total BASF pension fund.

As a result of the termination of the regular memberships, the payment of further contributions into the BASF pension fund is essentially no longer required. However, the secondary liability imposed by the German Act on Improving Company Retirement Pension Plans (Betrag) means that an obligation to assume liabilities could arise for K+S, especially with regard to the adjustment of current pension payments to account for inflation. Pension adjustments not absorbed by the BASF pension fund must be borne by K+S. No contribution payments to the BASF pension fund are expected for 2017.

The provision of such pensions through the BASF pension fund is to be classified as a multi-employer plan within the meaning of IAS 19.32 et seq. The plan is essentially a defined benefit plan. As reliable information in particular regarding plan assets is only available for the pension fund as a whole and not for those shares in it attributable to the K+S GROUP, insufficient information is available for reporting the plan on the balance sheet. This is why the plan is treated as a defined contribution plan in accordance with IAS 19.34.

Overall, pension expenses are as follows for the period under review:

PENSION EXPENSES			TAB: 2.6.47			
	2015			2016		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
in € million						
Expenses defined contribution plans	20.6	3.1	17.5	21.7	2.7	19.0
Expenses defined benefit plans	9.1	7.1	2.0	12.8	7.7	5.1
<b>Pension expenses (recorded in EBIT)</b>	<b>29.7</b>	<b>10.2</b>	<b>19.5</b>	<b>34.5</b>	<b>10.4</b>	<b>24.1</b>

In addition, contributions of € 83.7 million (2015: € 85.7 million) were paid to state pension insurance funds.

## (22) PROVISIONS FOR MINING OBLIGATIONS

PROVISIONS FOR MINING OBLIGATIONS			TAB: 2.6.48	
	2015		2016	
	Total	of which current	Total	of which current
in € million				
Mine and shaft backfilling	354.7	15.9	377.7	21.5
Maintenance of tailings piles	439.0	—	540.3	—
Mine damages	46.7	—	51.4	—
Restoration	29.5	—	33.0	—
Others	16.1	—	15.1	—
<b>Provisions for mining obligations</b>	<b>886.0</b>	<b>15.9</b>	<b>1,017.5</b>	<b>21.5</b>

Provisions for mining obligations are recognised as a result of statutory and contractual requirements as well as conditions imposed by public agencies and are given concrete form particularly in operating plans and water law permit decisions. These obligations, which are mainly those under public law, require surface securing and recultivation measures. Mining damage can result from underground extraction and the related possible lowering of the land at surface level or as a result of damage in the production process in the form of dust or salinisation. The obligations that might arise are covered by provisions.

The amount of the provisions to be recognised is based on expected expenditures or estimated compensation. Provisions for mining obligations mainly have a long-term character and, based on future anticipated expenditure, are carried at the discounted amount required to settle the obligation as of the balance sheet date. A future price increase of 1.5 % is assumed (2015: 1.5 %) here. The discount factor for mining obligations in EU countries amounts to 3.3 % (2015: 3.5 %). As a discount factor for mining obligations in North America, we used an interest rate of 5.2 % in the USA (2015: 5.0 %) and 4.5 % in Canada (2015: 4.2 %). Overall, changes in the discount rates led to an increase in provisions of € 73.5 million. The anticipated timing for the settlement of such obligations largely depends on how much longer the locations will remain economically productive. A portion of the obligations extend well beyond 2050.

Additions to mining provisions totalling € 168.9 million (2015: € 30.1 million) for the year under review are largely due to the fall in the discount rate, the annual accumulation of provisions, the formation of additional provisions for mining risks and the revaluation of existing provisions.

Mining provisions of € 8.9 million (2015: € 13.0 million) were used to discharge maintenance obligations. These also include expenditure connected with mining damage risks.

Reversal of provisions totalling € 29.9 million (2015: € 19.1 million) were largely the result of backfilling in connection with reutilisation business.

### (23) LONG TERM OBLIGATIONS TO EMPLOYEES

LONG TERM OBLIGATIONS TO EMPLOYEES		TAB: 2.6.49	
in € million	2015	2016	
Provisions for anniversary bonuses	29.9	31.8	
Provisions for long-term incentives	6.1	–	
Other personnel obligations	8.2	9.0	
<b>Total long-term obligations to employees</b>	<b>44.2</b>	<b>40.8</b>	

Provisions for anniversary bonuses are formed based on future payments in connection with 25, 40 and 50 year service anniversaries. They are valued by applying the projected unit credit method. Calculations are made based on an actuarial interest rate of 1.8 % (2015: 2.2 %) with an anticipated annual increase in salaries and wages of 1.8 % (2015: 1.8 %).

Accounting for provisions of the indicator-based 'Long-term Incentive Programme' is based on the projected unit credit method. Actuarial gains and/or losses are recorded in profit or loss. An actuarial interest rate of 0.0 % was used as a basis in 2015.

### (24) CURRENT PROVISIONS

Obligations derived from sales transactions apply mostly to discounts and price concessions; purchase contracts indicate provisions for outstanding invoices. Current personnel obligations mostly consist of provisions for performance-related remuneration, as well as provisions for outstanding vacation leave and non-working shifts.

🔗 'Employees', page 36; 🔗 'Remuneration Report', page 121

### (25) FINANCIAL LIABILITIES

The following table shows a liquidity analysis of financial liabilities in the form of contractually agreed, non-discounted cash flows:

2016 LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES					TAB: 2.6.50
in € million	2016 Carrying amount	2016 Total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 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 notes	698.6	728.5	6.7	680.6	41.2
– of which liabilities to banks	319.8	319.8	319.8	–	–
Accounts payable – trade	343.9	343.9	342.6	0.7	0.6
Liabilities from finance leases	50.7	50.7	3.6	13.4	33.7
Other non-derivative financial liabilities	52.5	52.5	52.3	–	0.2
<b>Non-derivative financial liabilities</b>	<b>2,981.6</b>	<b>3,248.4</b>	<b>778.3</b>	<b>1,879.4</b>	<b>590.7</b>

**2015 LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES** TAB: 2.6.51

	Cash flows				
	2015 Carrying amount	2015 Total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
in € million					
Financial liabilities	1,543.6	1,835.2	82.2	702.4	1,050.6
– of which bonds	1,514.0	1,805.5	53.3	701.6	1,050.6
– of which liabilities to banks	29.6	29.7	28.9	0.8	–
Accounts payable – trade	305.9	305.9	304.9	0.8	0.2
Liabilities from finance leases	5.2	5.2	0.8	2.5	1.9
Other non-derivative financial liabilities	36.6	36.6	36.3	–	0.3
<b>Non-derivative financial liabilities</b>	<b>1,891.3</b>	<b>2,182.9</b>	<b>424.2</b>	<b>705.7</b>	<b>1,053.0</b>

The financial liabilities as of the reporting date largely pertain to K+S AKTIENGESELLSCHAFT. They are the result of bonds issued in June 2012, with a volume of € 500.0 million, a fixed interest rate of 3.0% and a maturity of ten years, as well as bonds issued in December 2013, with a volume of € 500.0 million and a maturity of five years, with a fixed interest rate of 3.125%, and bonds issued in December 2013, with a volume of € 500.0 million and a maturity of eight years, with a fixed interest rate of 4.125%.

Promissory notes were also issued in the summer of 2016 with a total volume of € 700.0 million. The volume is divided into fixed and variable tranches for periods of between three and seven years. The average interest rate over all tranches is approx. 1.00% per annum.

Moreover, 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 which matures in 2020. Interest and repayment amounts resulting from this bond are to be paid by ROHM & HAAS and are contractually covered by a bank guarantee. Reimbursement claims for interest and repayment amounts resulting from this contractual structure are listed under the item 'Other financial assets' both in the short- and long-term.

© 'K+S on the capital market', page 16

The following table shows the Group's liquidity analysis for derivative financial liabilities. The table is based on non-discounted gross cash flows for derivative financial instruments which are offset on a gross basis.

**2016 LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL LIABILITIES** TAB: 2.6.52

	Cash flows				
	2016 Carrying amount	2016 Total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
in € million					
<b>Gross fulfilment</b>					
Foreign currency derivatives	-40.9	4.8	257.2	-252.4	–
Payment obligation <sup>1</sup>		-1,490.1	-920.6	-569.5	–
Payment claim <sup>1</sup>		1,494.9	1,177.8	317.2	–

**2015 LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL LIABILITIES** TAB: 2.6.53

	Cash flows				
	2015 Carrying amount	2015 Total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
in € million					
<b>Gross fulfilment</b>					
Foreign currency derivatives	-93.7	-22.8	-41.0	18.1	–
Payment obligation <sup>1</sup>		-1,999.0	-1,255.9	-743.2	–
Payment claim <sup>1</sup>		1,976.2	1,214.9	761.3	–

<sup>1</sup> Translation of payment transactions in foreign currency at spot rate.

## (26) FURTHER INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of the Group's financial instruments:

	Measurement category under IAS 39	2015		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
in € million					
Investments in affiliated companies and equity interests	Available for sale	13.6	13.6	27.0	27.0
Loans	Loans and receivables	0.5	0.5	0.4	0.4
<b>Financial assets</b>		<b>14.1</b>	<b>14.1</b>	<b>27.4</b>	<b>27.4</b>
<b>Accounts receivable – trade</b>	<b>Loans and receivables</b>	<b>708.6</b>	<b>708.6</b>	<b>656.5</b>	<b>656.5</b>
Derivatives with positive market value	Held for trade	30.4	30.4	37.4	37.4
Other non-derivative financial assets	Loans and receivables	182.9	182.9	197.0	197.0
<b>Other financial assets</b>		<b>213.3</b>	<b>213.3</b>	<b>234.4</b>	<b>234.4</b>
<b>Securities and other financial investments</b>	<b>Loans and receivables</b>	<b>40.0</b>	<b>40.0</b>	<b>14.2</b>	<b>14.2</b>
<b>Securities and other financial investments</b>	<b>Available for sale</b>	<b>—</b>	<b>—</b>	<b>7.0</b>	<b>7.0</b>
<b>Cash on hand and bank balances</b>	<b>Loans and receivables</b>	<b>123.1</b>	<b>123.1</b>	<b>140.2</b>	<b>140.2</b>
<b>Financial liabilities</b>	<b>Financial liabilities at amortised cost</b>	<b>1,543.7</b>	<b>1,681.9</b>	<b>2,534.5</b>	<b>2,660.2</b>
<b>Accounts payable – trade</b>	<b>Financial liabilities at amortised cost</b>	<b>306.0</b>	<b>306.0</b>	<b>343.9</b>	<b>343.9</b>
Derivatives with negative market value	Held for trade	93.8	93.8	40.9	40.9
Other non-derivative financial liabilities	Financial liabilities at amortised cost	36.7	36.7	52.5	52.5
Liabilities from finance leases	IFRS 7	5.2	5.2	50.7	50.7
<b>Other financial liabilities</b>		<b>135.7</b>	<b>135.7</b>	<b>144.1</b>	<b>144.1</b>

The carrying amounts of the financial instruments, aggregated according to the measurement categories of IAS 39, are as follows:

	2015	2016
in € million		
Financial assets available for sale	13.6	34.0
Loans and receivables	1,055.1	1,008.3
Financial assets held for trade	30.4	37.4
Financial liabilities at amortised cost	1,886.4	2,930.7
Financial liabilities held for trade	93.8	40.9

The fair values accompanying the financial instruments are mostly based on the market information available on the balance sheet date. They can be assigned to one of the three levels of the fair value hierarchy in accordance with IFRS 13.

Level 1 financial instruments are calculated on the basis of prices quoted on active markets for identical assets and liabilities. Level 2 financial instruments are calculated on the basis of input factors which can be derived from observable market data, or on the basis of market prices for similar instruments. Level 3 financial instruments are calculated on the basis of input factors that cannot be derived from observable market data.

The following spreadsheet shows the fair value assets and debts to accompany the financial instruments:

ACCOMPANYING ASSETS AND LIABILITIES MEASURED AT FAIR VALUE					TAB: 2.6.56			
	2015				2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
in € million								
Assets	30.4	—	30.4	—	44.4	—	44.4	—
Derivative financial instruments that are not part of a hedge under IAS 39	30.4	—	30.4	—	37.4	—	37.4	—
Financial assets available for sale	—	—	—	—	7.0	—	7.0	—
Equity and liabilities	93.8	—	93.8	—	40.9	—	40.9	—
Derivative financial instruments that are not part of a hedge under IAS 39	93.8	—	93.8	—	40.9	—	40.9	—

The derivative financial instruments are largely made up of currency derivatives (forward exchange operations, options). The fair value of forward exchange operations is calculated by estimating future cash flow based on the listed forward exchange rates on the reporting date and the agreed forward exchange rates which are subsequently discounted at an interest rate in line with the respective maturities and currencies. Recognised option pricing models are applied when determining the fair value of currency options and input parameters observed in the market on the reporting date are introduced into these models (in particular, exchange rate, interest rate, volatility). In addition, the risk of counterparty default is taken into account when performing the calculations.

Fair values for financial assets available for sale are based on the cash values of the payments associated with these balance sheet items (Level 2).

It is not possible to determine fair values reliably for equity instruments measured at acquisition cost due to the absence of active markets. This includes shares in (non-consolidated) subsidiaries, joint ventures, associated companies and equity interests. It is assumed that the carrying amounts correspond to fair values on the balance sheet date.

In the case of trade accounts receivable, Other non-derivative financial assets as well as Liquid assets, the carrying amounts correspond to their fair values, as their maturities are largely short-term.

The fair values of securities and other financial investments belonging to the 'Loans and receivables' category correspond to the present values of the payments 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, we use the present value of future payment streams (Level 2). We use market interest rates with suitable maturity to calculate discounts.

In the case of trade accounts payable and other non-derivative financial liabilities, it is assumed that the carrying amounts correspond to the fair values for these instruments as their maturities are mostly short-term.

For loans and liabilities from finance leases, we assume that the carrying amounts correspond to the fair values due to insignificant deviations from market and computational interest rates.

The following spreadsheet shows the net results from financial instruments:

NET RESULTS FROM FINANCIAL INSTRUMENTS			TAB: 2.6.57	
	2015	2016		
in € million				
Financial assets available for sale	5.7	4.0		
Loans and receivables	41.6	4.9		
Financial assets and liabilities held for trading	-128.6	10.6		
Financial liabilities at amortised cost	-30.9	-19.3		

The net result from financial assets available for sale is primarily made up of gains or losses on equity investments. The net result from loans and receivables includes, for the most part, the effects of currency translation and changes in allowances. The net result from financial assets and liabilities held for trading is predominantly made up of effects arising from the fair value measurement and realisation of derivative financial instruments. The net result from financial liabilities measured at amortised cost stems mainly from the effects of foreign currency translation.

Total interest income and expenses for financial assets and liabilities that are measured at fair value without recognition in profit or loss were as follows:

<b>NET INTEREST INCOME FROM FINANCIAL INSTRUMENTS</b>	TAB: 2.6.58	
in € million	2015	2016
Interest income	8.4	6.0
Interest expenses before capitalisation of borrowing costs	56.7	65.3
Capitalised borrowing costs	30.0	57.2
Interest expenses after capitalisation of borrowing costs	26.7	8.1

#### LIQUIDITY RISKS

A liquidity risk consists in the failure to procure the financial means needed to meet payment obligations or in not being able 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 if the need should arise. There would also be a risk that the expenses associated with procuring liquidity would rise. For this reason, the main goal of our liquidity management 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 system. The liquidity requirement is determined by our liquidity planning. Available liquidity amounted to € 851.5 million as of 31 December 2016 (2015: € 1,163.1 million) and consisted of short-term investments with maturities of up to one year and liquid reserves as well as the unused part of our syndicated credit line running until 2020.

#### DEFAULT RISKS

Customer receivables are to the largest extent secured against a default risk by means of appropriate insurance coverage and other hedging instruments. We only waive a security against non-payment following a critical review of the customer relationship and express approval.

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.

#### MARKET RISKS

Interest risks are created by a change in market interest rates, which may have an impact on interest payable or receivable, and also by the fair value of the financial instrument. This can cause corresponding changes to earnings or equity. In accordance with IFRS 7, risks of changes in interest rates must be described using a sensitivity analysis. This analysis is based on the following assumptions:

- + The effect on earnings or equity identified by way of the sensitivity analysis is based on the total on 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 income and are taken into account in an earnings-orientated sensitivity analysis.
- + Changes in market interest rates for primary financial instruments with fixed interest rates, stated at amortised cost, do not have an impact on earnings or equity and are therefore not taken into account during the sensitivity analysis. While these instruments are subject to interest risk when reinvested, this is not taken into account in a sensitivity analysis carried out on the balance sheet date.

🔗 'Financial risks and opportunities', page 111

There were variable rate liabilities on the reporting date.

An increase in the reference interest rate by one percentage point would have led to a further interest burden of € 2.0 million for long-term variable rate liabilities on the reporting date. The interest caps acquired would have neutralised this effect. A decrease in the refer-

ence interest rate by one percentage point would have no impact on the interest expenses for long-term variable rate liabilities.

In addition to receivables and liabilities in the Group currency (€), we also have items in foreign currencies. In accordance with IFRS 7, currency risks must be described using a sensitivity analysis. Had the euro appreciated or depreciated against foreign currencies (primarily the US dollar) by 10%, the change in the fair value recognised in profit or loss of the net balance of foreign currency receivables and liabilities would have equalled € +/- 15.8 million (2015: € +/- 25.5 million).

In addition, there were investments for which the contracting parties – usually banks – provided collateral on the balance sheet date. These are known as repo transactions and are secured investments. The collateral, which cannot be used in other ways, is agreed with the contracting party using a ‘basket’, defined mainly by investment class, ratings, countries and currencies. The aforementioned criteria determine the loan value at which the collateral will be taken into account; in other words, when the rating decreases or the transferability of the respective collateral is reduced, the loan value is also reduced and additional collateral must be provided. The given framework of the potential collateral depends on our internal monitoring, which, fundamentally, takes into account the rating and the value of the particular credit default swaps.

## (27) INFORMATION ABOUT CAPITAL MANAGEMENT

The aim of capital management in the K+S GROUP is to ensure and effectively control liquidity across the Group, maintain and optimise financing capability as well as reduce financial risks.

📄 ‘Financial position’, page 86

The financial policy instruments for attaining these aims essentially include financing measures that affect both equity capital and debt. 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 figures such as net debt/EBITDA, net debt/equity and the equity ratio.

### KEY FIGURES AND MANAGEMENT OF THE CAPITAL STRUCTURE

TAB: 2.6.59

	Target range	2012	2013	2014	2015	2016
in € million						
Net debt / EBITDA	1.0 to 1.5	0.8	1.2	1.8	2.3	6.9
Net debt / Equity (%)	max. 100	24.4	30.5	40.9	55.9	78.7
Equity ratio (%)	40 to 50	51.4	45.3	50.6	51.9	47.2

Managed capital was as follows on the reporting date:

### MANAGED CAPITAL

TAB: 2.6.60

	2015	2016
in € million		
Equity	4,295.6	4,552.2
Non-current debt	3,036.8	3,930.4
Current debt	941.2	1,162.9

## (28) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

In the K+S GROUP, general business practice is associated with various risks for which we have formed provisions, provided that the conditions for recognition according to IAS 37 have been fulfilled. Apart from that, there are no substantial risks which would lead to the disclosure of contingent liabilities. In 2016, liabilities from incomplete capital expenditure projects totalled € 287.1 million (2015: € 598.3 million). For additional financial liabilities due to leasing, please see the information under Note (29).



**(29) LEASING**

Certain technical equipment and machinery, such as pipeline networks connected to our Legacy Project in Canada, are used in the context of finance leasing and are capitalised as such, as economic ownership of the leased asset is attributed to the K+S GROUP. Specifically, this applies to the following items:

<b>LEASED FINANCIAL ASSETS</b>		TAB: 2.6.61	
		2015	2016
in € million			
Land, land rights and buildings		0.6	0.3
Technical equipment and machinery		40.0	34.8
Ships		1.1	1.0
Other equipment, operating and office equipment		—	—
Prepayments and assets under construction		—	46.2
<b>Total</b>		<b>41.7</b>	<b>82.3</b>

The relevant payment obligations from finance lease contracts are due as follows:

<b>LEASING LIABILITIES</b>							TAB: 2.6.62	
	Minimum leasing payments		Interest component received		Leasing liabilities			
	2015	2016	2015	2016	2015	2016		
in € million								
Due in up to 1 year	1.8	5.1	0.9	1.5	1.0	3.6		
Due in 2–5 years	5.2	20.4	2.9	7.0	2.3	13.4		
Due in more than 5 years	2.9	38.3	1.0	4.6	1.9	33.7		
<b>Total</b>	<b>9.9</b>	<b>63.8</b>	<b>4.8</b>	<b>13.1</b>	<b>5.2</b>	<b>50.7</b>		

In order to handle transport needs for the new K+S location in Canada, a Canadian railway company, CANADIAN PACIFIC RAILWAY, will add a siding track to their railroad network. The contractual obligations arising from this agreement qualify as finance leasing,

and will lead to an estimated balance sheet amount of CAD 140.2 million in the first six months of 2017.

The K+S GROUP has only minor obligations as a lessor.

The K+S GROUP is also a lessee in terms of operating leases. Given the relevant contractual arrangements, these assets are not to be carried under fixed assets. Operating leases exist, for example, for factory and office equipment (for example, vehicles, technical equipment and machines, office space and storage capacity). Expenditure arising from operating leasing in 2016 amounted to € 51.1 million (2015: € 59.9 million). The nominal value of future minimum leasing payments from non-terminable operating leases is distributed over future periods as follows:

<b>OBLIGATIONS FROM OPERATING LEASES (NOMINAL VALUES)</b>			TAB: 2.6.63	
			2015 <sup>1</sup>	2016
in € million				
– due in following year			25.3	44.1
– due in years 2 to 5			77.5	126.0
– due after 5 years			77.2	93.1
<b>Total</b>			<b>180.0</b>	<b>263.2</b>

<sup>1</sup> Previous year's figures have been adjusted.

The main operating leases relate to leases for office space, technical equipment and railway freight wagons. Some of these include rental extension and/or purchase options, which are not significantly lower than the fair value of the respective assets on the possible option exercise date, as well as a small number of price adjustment clauses.

In the case of both finance leases and operating leases, as well as all other leases, which qualify as operating leases, there are some rental extensions and/or purchase options available, as well as a small number of price adjustment clauses.

## NOTES TO THE CASH FLOW STATEMENT

The cash flow statement is presented on page 133. Non-cash transactions from discontinued operations were not taken into account.

🕒 'Financial position', page 86

### (30) FURTHER INFORMATION ABOUT THE CASH FLOW STATEMENT

<b>NET CASH AND CASH EQUIVALENTS</b>	TAB: 2.6.64	
	2015	2016
in € million		
Cash and cash equivalents (according to balance sheet)	123.1	140.2
Cash invested with affiliated companies	0.5	0.1
Cash received from affiliated companies	-5.2	-5.6
<b>Net cash and cash equivalents</b>	<b>118.5</b>	<b>134.7</b>

Cash and cash equivalents include cheques, cash on hand and bank balances, as well as financial investments with a term that generally does not exceed three months from the time of acquisition. These financial investments consist predominantly of short-term deposits at credit institutions and other cash equivalent investments.

Cash investments with affiliated companies are reported under 'Other financial assets' (current) and cash received from affiliated companies is reported under 'Other financial liabilities' (current).

Payments and profit transfers from non-consolidated companies totalled € 4.2 million during the reporting period (2015: € 4.0 million).

On the reporting date, there were trade accounts payable and current provisions totalling € 251.8 million (2015: € 177.8 million), which resulted from non-cash additions to fixed assets. These were attributable mainly to the Legacy Project in Canada.

Currency hedges were negotiated in order to secure CAD capital expenditure payments for the Legacy Project against currency fluctuations. The hedging transactions that were due in 2016 resulted in a cash inflow of € 12.7 million (2015: cash inflow of € 21.6 million), which will be reported under payments for fixed assets.

## NOTES TO THE SEGMENT REPORTING

Segment reporting is presented on page 136.

### (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, de-icing 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 that are important for the K+S GROUP. The K+S GROUP possesses its own logistics service provider in K+S TRANSPORT GMBH and its subsidiary. CHEMISCHE FABRIK KALK GMBH trades in different basic chemicals.

The accounting and valuation procedures applied to determine segment information are in basic terms identical to the accounting and valuation principles of the K+S GROUP.

**(32) PRINCIPLES OF SEGMENT ASSET AND DEBT 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 keys.

Financial assets (with the exception of equity interests) and long-term financial liabilities are not allocated to a segment.

**(33) PRINCIPLES OF SEGMENT EARNINGS ALLOCATION**

Data for determining segment earnings are based on income statements according to the total cost method (internal reporting structure of the K+S GROUP). Income statements for companies included within the segment earnings are allocated to segments in accordance with profit centre accounting.

Operating earnings (EBIT I) are treated by the K+S GROUP as the most important internal earnings figure and as an indicator of earnings capacity. In addition to not including net interest income and tax expense, other income and expenses affecting the financial result are not taken into account in segment earnings allocation. In addition, certain results from operating forecast hedges are eliminated in these calculations, as tax effects are taken into account (see also 'Notes to the income statement and statement of comprehensive income' on page 154).

In addition to EBIT I, Earnings before interest, taxes, depreciation and amortisation (EBITDA) constitutes a significant management variable. To calculate EBITDA, depreciation and amortisation are added to EBIT I, however after adjustment of the depreciation and amortisation amount not recognised in profit or loss in the context of own work capitalised. In the year under review, the adjusted depreciation and amortisation amount not recognised in profit and loss was € 38.6 million (2015: € 43.4 million).

Business unit earnings are presented on a consolidated basis. Intra-segment deliveries and services are also consolidated.

**(34) PRINCIPLES FOR TRANSFER PRICES BETWEEN SEGMENTS**

Transfer prices for deliveries and services between segments are treated as if they were to be paid by an external third party in exactly the same situation and under the same circumstances. Methods for determining transfer prices are documented in a timely manner and maintained at all times. The price comparison method, the resale price method, the cost plus method or a combination of all three may be applied when determining transfer prices for deliveries and services. We select the method which best reflects the way external prices are determined in comparable markets.

**(35) ADDITIONAL SEGMENT INFORMATION****POTASH AND MAGNESIUM PRODUCTS BUSINESS UNIT**

For obligations not claimed in 2016, we released provisions totalling € 17.1 million (2015: € 20.5 million). Insurance payments of € 24.8 million were collected during the year under review. The disposal of assets resulted in a loss of € 20.0 million in 2016.

**SALT BUSINESS UNIT**

For obligations not claimed during the reporting period, we released provisions of € 8.4 million (2015: € 14.5 million). Insurance payments of € 13.5 million (2015: € 14.1 million) were collected during the year under review.

**(36) NOTES TO THE RECONCILIATION ITEMS**

Reconciliation of segment figures to corresponding items in the consolidated financial statements of the K+S GROUP includes items allocated to central functions as well as consolidation-related effects. The main items are:

<b>RECONCILIATION SEGMENT FIGURES</b>		TAB: 2.6.65	
	2015	2016	
in € million			
<b>Reconciliation of segment results (EBIT I)<sup>1</sup></b>			
Result for central functions	-57.2	-29.9	
	<b>-57.2</b>	<b>-29.9</b>	
<b>Reconciliation of segment assets</b>			
Fixed assets	81.9	78.7	
Deferred tax assets	98.9	117.4	
Market values of derivatives	-10.5	-1.8	
Claims for income tax refunds	76.9	68.5	
Other receivables	81.8	89.2	
Cash and cash items	64.2	56.5	
Consolidation-related effects	-433.2	-195.7	
	<b>-40.0</b>	<b>212.8</b>	
<b>Reconciliation of segment liabilities</b>			
Provisions for pensions and similar obligations	24.0	34.5	
Other provisions	61.3	35.6	
Deferred tax liabilities	294.5	307.1	
Market values of derivatives	51.2	-6.0	
Financial liabilities	1,543.7	2,534.5	
Other liabilities	47.2	97.6	
Income tax liabilities	81.0	50.3	
Consolidation-related effects	-134.9	-177.8	
	<b>1,968.0</b>	<b>2,875.8</b>	

<sup>1</sup> The K+S Group is managed, inter alia, on the basis of operating earnings (EBIT I). Reconciliation of EBIT II to operating earnings (EBIT I) is recorded below the income statement (see also the 'Notes to the income statement and the statement of comprehensive income' on page 154).

**(37) REVENUES BY REGION**

The breakdown of revenues by geographical location for the K+S GROUP is as follows:

<b>REVENUES BY REGION</b>		TAB: 2.6.66	
	2015	2016	
in € million			
Europe	1,661.7	1,484.3	
– of which Germany	593.3	540.5	
North America	1,505.4	1,318.1	
– of which USA	1,236.7	1,044.4	
South America	535.0	363.9	
Asia	368.6	209.9	
Africa, Oceania	104.8	80.4	
<b>Total revenues</b>	<b>4,175.5</b>	<b>3,456.6</b>	

Allocation is based on the registered office of customers. No individual customer accounted for more than 10 % of the total revenue in the 2015 and 2016 financial years.

**(38) LONG-TERM ASSETS BY REGION**

The long-term assets of the K+S GROUP comprise intangible assets, tangible assets and investment properties. They break down into geographical regions as follows:

<b>NON-CURRENT ASSETS BY REGION</b>		TAB: 2.6.67	
	2015	2016	
in € million			
Europe	1,570.6	1,688.3	
– of which Germany	1,500.5	1,625.5	
North America	4,008.0	5,289.0	
– of which USA	1,109.5	1,162.4	
– of which Canada	2,879.9	4,094.8	
South America	550.9	566.0	
– of which Chile	544.4	557.2	
Africa, Oceania	–	3.2	
<b>Total assets</b>	<b>6,129.5</b>	<b>7,546.5</b>	

Allocation is performed according to the location of the relevant assets.

**OTHER INFORMATION****AUDITOR'S FEES**

<b>AUDITOR'S FEES</b>		TAB: 2.6.68	
	2015	2016	
in € million			
Audit service	0.7	0.7	
Other assurance services	0.2	0.1	
<b>Auditor's fees</b>	<b>0.9</b>	<b>0.8</b>	

Auditing services include auditing the consolidated financial statements and annual financial statements of all consolidated German companies. The auditor provided no tax advice or other consultancy services.

**GOVERNMENT ASSISTANCE**

<b>GOVERNMENT ASSISTANCE</b>		TAB: 2.6.69	
	2015	2016	
in € million			
Investment grants / premiums	4.6	2.6	
Performance-related assistance	0.4	—	
<b>Government assistance</b>	<b>5.0</b>	<b>2.6</b>	

The investment grants / premiums included here relate to sums received for developing areas in the Federal Republic of Germany, the United States and Canada.

Performance-related assistance concerns support that is provided by the Federal Labour Office (Bundesagentur für Arbeit) in accordance with the German Law on Partial Retirement (Altersteilzeitgesetz).

**EVENTS AFTER THE REPORTING DATE**

On 11 January 2017, the K+S GROUP took over the production facility together with all existing patents of Chinese fertilizer producer HULUDAO MAGPOWER FERTILIZERS CO., LTD. (MAGPOWER) 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 site's current capacity is 90,000 tonnes per annum, which may double to 180,000 tonnes in the foreseeable future.

Apart from this, no significant changes have occurred in the economic environment or in the position of the industry since the end of the financial year.

**AFFILIATED COMPANIES AND RELATED PARTIES**

In addition to the subsidiaries included in our consolidated financial statements, the K+S GROUP is affiliated to other related companies; these include non-consolidated subsidiaries, joint ventures and companies over which the K+S GROUP is able to exercise decisive influence (associated companies). A complete overview of all related companies can be found in the list of all shareholdings on page 189.

The following table shows K+S GROUP transactions with non-consolidated companies which took place during the reporting period. The business transactions were subject to normal market conditions.

<b>TRANSACTIONS WITH NON-CONSOLIDATED SUBSIDIARIES</b>		TAB: 2.6.70	
	2015	2016	
in € million			
Trade revenues	31.4	30.8	
Deliveries and services received	24.7	21.3	
Income from dividend payments and profit transfers	4.8	4.0	
Other income	0.7	0.1	
Other expenses	1.9	1.7	

Trade revenues are mostly the result of goods sold by consolidated companies to foreign distribution companies. Deliveries and services received largely consist of deliveries of explosives and chemical products to a German subsidiary as well as commissions which were invoiced by foreign distribution companies.

On 31 December 2016, the following outstanding balances with non-consolidated subsidiaries were disclosed:

<b>BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES</b>		TAB: 2.6.71	
	2015	2016	
in € million			
Receivables from affiliated companies	6.0	7.3	
– from bank transactions	0.5	0.1	
Liabilities to affiliated companies	10.8	10.4	
– from bank transactions	5.2	5.6	

On the balance sheet date, as in the previous year, there were no allowances on receivables from affiliated companies. There are no contingency insurance plans for receivables from subsidiaries. The receivables and liabilities from bank transactions are the result of centralised withdrawal and investment of cash at K+S AKTIENGESELLSCHAFT (cash pooling). On the balance sheet date, there were no loans to non-consolidated subsidiaries.

Transactions carried out by the K+S GROUP together with joint ventures and associated companies are immaterial from a Group perspective.

Related parties 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 parties 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 parties.

#### TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS

TAB: 2.6.72

	2015	2016
in € million		
<b>Total remuneration of the Supervisory Board</b>	<b>2.0</b>	<b>2.0</b>
– of which fixed	2.0	2.0
<b>Total remuneration of the Board of Executive Directors</b>	<b>6.7</b>	<b>4.2</b>
– of which fixed	2.4	2.2
– of which performance-related	3.6	1.9
– of which LTI programmes	0.6	–
<b>Total remuneration of former members of the Board of Executive Directors and their surviving dependents</b>	<b>1.5</b>	<b>1.8</b>
<b>Pension provisions for former members of the Board of Executive Directors and their surviving dependents</b>	<b>24.2</b>	<b>23.2</b>

The total remuneration of the Board of Executive Directors in the year under review was paid to five Board members; four of these were in office for the whole year. In the previous year, the Board of Executive Directors consisted of five members, all of whom were in office for the whole year.

In the period under review, the service costs of the pensions of the Board of Executive Directors amounted to € 2.3 million (2015: € 2.7 million).

The remuneration system for the Board of Executive Directors consists of the following elements:

- + regular monthly payments (fixed salary) to which benefits in kind are added
- + performance-related non-recurrent remuneration, with bonuses based on the return on total investment and on an individual performance-related component, and paid in the following financial year
- + the long-term incentive (LTI) programme

The individual remuneration received by the members of the Board of Executive Directors in the 2016 financial year is presented in the Remuneration Report section in the Management Report on page 121.

Dr Andreas Radmacher resigned from the Board of Executive Directors with effect from 29 February 2016; his employment contract ended on 31 August 2016. In addition to the reported overall remuneration as a member of the Board of Executive Directors, Dr Radmacher also received the following remuneration for the remaining term of his employment contract from 1 March to 31 August: Fixed remuneration of € 210,000, fringe benefits of € 28,900, single-year variable remuneration of € 386,700, lump sum payment from the Long-Term-Incentive programme for the periods 2014 to 2017, 2015 to 2018 as well as 2016 to 2019 of € 95,000, pension benefits of € 258,100 as well as a monthly waiting allowance in accordance with ban on competition for 24 months following departure of € 27,000.

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.

#### SHAREHOLDINGS IN K+S AKTIENGESELLSCHAFT

On 27 December 2016, BLACKROCK, INC., New York (USA), notified us of holdings above the legal threshold of 3 %, holding 3.12 % of the company. Until the end of February, no shareholder notified us of holdings above the legal reporting threshold of 3 %.

#### DECLARATION OF CONFORMITY CONCERNING THE GERMAN CORPORATE GOVERNANCE CODE

The declaration of conformity pursuant to Section 161 of the German Stock Corporation Act concerning the recommendations made by the 'Government Commission on the German Corporate Governance Code' has been made by the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT for 2016 / 2017 and is available to shareholders on the K+S GROUP website (www.k-plus-s.com) as well as published on page 58 of the combined Management Report.

#### LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 OF THE GERMAN COMMERCIAL CODE (HGB)

The values in the following tables also apply, for the most part, to the previous year. If any deviations occur, these are included in a footnote on the respective company.

#### LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 OF THE GERMAN COMMERCIAL CODE (HGB)

TAB: 2.6.73

	Company's registered office		Interests in capital	Share of voting rights
in %				
<b>Fully consolidated German subsidiaries (15 companies)</b>				
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 <sup>1,2</sup>	Hanover	Germany	100.00	100.00
esco international GmbH <sup>2</sup>	Hanover	Germany	100.00	100.00
K+S Bahamas Salt Asset Management GmbH & Co. KG <sup>1,3</sup>	Kassel	Germany	100.00	100.00
K+S Baustoffrecycling GmbH <sup>4</sup>	Sehnde	Germany	100.00	100.00
K+S Beteiligungs GmbH <sup>2,4</sup>	Kassel	Germany	100.00	100.00
K+S Entsorgung GmbH <sup>2,4</sup>	Kassel	Germany	100.00	100.00
K+S Kali GmbH <sup>2,4</sup>	Kassel	Germany	100.00	100.00
K+S North America Asset Management GmbH <sup>2</sup>	Kassel	Germany	100.00	100.00
K+S North America Salt Asset Management GmbH & Co. KG <sup>1,3</sup>	Kassel	Germany	100.00	100.00
K+S Salz GmbH <sup>2,4</sup>	Hanover	Germany	100.00	100.00
K+S Transport GmbH <sup>2,4</sup>	Hamburg	Germany	100.00	100.00
Kali-Union Verwaltungsgesellschaft mbH <sup>2,4</sup>	Kassel	Germany	100.00	100.00
<b>Fully consolidated foreign companies (42 companies)</b>				
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 Holding France S.A.S.	Dombasle-sur-Meurthe	France	100.00	100.00
esco Spain S.L.	Barcelona	Spain	100.00	100.00
Frisia Zout B.V.	Harlingen	Netherlands	100.00	100.00

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 2.6.73

	Company's registered office		Interests in capital	Share of voting rights
in %				
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 Empremer Ltda.	Santiago de Chile	Chile	48.87	100.00
Inversiones K+S Sal de Chile Ltda.	Santiago de Chile	Chile	100.00	100.00
K plus S Salt Australia Pty Ltd.	Perth	Australia	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
K+S Investments Ltd.	St. Julians	Malta	100.00	100.00
K+S KALI du Roure S.A.S.	Le Teil	France	100.00	100.00
K+S KALI Reims S.A.S.	Reims	France	100.00	100.00
K+S KALI Rodez S.A.S.	Sainte- Radegonde	France	97.45	97.45
K+S KALI Wittenheim S.A.S.	Wittenheim	France	100.00	100.00
K+S 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

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 2.6.73

	Company's registered office		Interests in capital	Share of voting rights
in %				
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
<b>Non-consolidated German companies (12 companies) <sup>5</sup></b>				
1. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
1. K+S Verwaltungs GmbH & Co. Erwerbs KG	Kassel	Germany	100.00	100.00
3. K+S Verwaltungs GmbH & Co. Erwerbs KG <sup>3</sup>	Kassel	Germany	100.00	100.00
4. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
Beienrode Bergwerks-GmbH	Kassel	Germany	89.80	89.80
esco Verwaltungs GmbH	Hanover	Germany	100.00	100.00
Ickenroth GmbH	Staudt	Germany	100.00	100.00
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
<b>Non-consolidated foreign companies (19 companies) <sup>5</sup></b>				
esco Nordic AB	Gothenburg	Sweden	100.00	100.00
Imperial Thermal Products Inc.	Chicago	USA	100.00	100.00
ISX Oil & Gas Inc.	Calgary	Canada	100.00	100.00
K plus S Africa (Pty) Ltd.	Johannesburg	South Africa	100.00	100.00
K+S Asia Pacific Pte. Ltd.	Singapore	Singapore	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



**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 2.6.73

	Company's registered office		Interests in capital	Share of voting rights
in %				
K+S Fertilizers (India) Private Limited	New Delhi	India	100.00	100.00
K+S (Huludao) Magnesium Products Co. Ltd.	Huludao	China	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.	Posen	Poland	100.00	100.00
K+S UK & Eire Ltd.	Hertford	United Kingdom	100.00	100.00
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
<b>Associated companies and joint ventures (three companies)<sup>6</sup></b>				
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
<b>Other interests (six companies)<sup>7</sup></b>				
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
Pristav Pardubice a.s.	Pardubice	Czech Republic	0.41	0.41
Zoll Pool Hamburg AG	Hamburg	Germany	1.43	1.43

<sup>1</sup> Utilisation of the exemption provision of Sec. 264b of the German Commercial Code (HGB).

<sup>2</sup> Utilisation of the exemption provision of Sec. 291 of the German Commercial Code (HGB).

<sup>3</sup> Unlimited liability on the part of the parent company or another company included in the consolidated financial statements.

<sup>4</sup> Utilisation of the exemption provision of Sec. 264 Para. 3 of the German Commercial Code (HGB).

<sup>5</sup> No consolidation due to minor importance.

<sup>6</sup> Equity method not used due to minor importance.

<sup>7</sup> Statement of amount of equity and earnings of the last financial year omitted due to minor importance.

**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 51; this list is also part of the CONSOLIDATED NOTES.

**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 54; this list is also part of the CONSOLIDATED NOTES.

Kassel, 3 March 2017

K+S AKTIENGESELLSCHAFT  
BOARD OF EXECUTIVE DIRECTORS

## AUDITOR'S REPORT

We have audited the consolidated financial statements of K+S AKTIENGESELLSCHAFT, Kassel, consisting of the income statement and comprehensive statement of income, cash flow statement, balance sheet, statement of changes in equity and notes, as well as the Management Report combined with the Group Management Report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the Group Management Report in accordance with INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) as applied within the EU and the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 1 of the German Commercial Code (HGB) is the responsibility of the company's Board of Executive Directors. Our task is to evaluate the consolidated financial statements and the Group Management Report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the German Commercial Code (HGB) and the standards accepted in Germany for the audit of financial statements set out by the GERMAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (INSTITUT DER WIRTSCHAFTSPRÜFER). These standards require that we plan and perform the audit in such a way that inaccurate statements and violations that may have a significant effect on both the presentation of the consolidated financial statements as viewed under the applicable accounting regulations, and on the presentation of assets and the financial and earnings position as presented in the Group Management Report, can be recognised with sufficient certainty. When determining audit procedures, we took into account our knowledge of the company's business activities, as well as their economic and legal environment. We also considered possible mistakes. During the audit, we primarily make use of random checks to test the effectiveness of internal accounting control as related to the accounting system, and also to find evidence supporting information disclosed in both the consolidated financial statements and the Group Management report. The audit assesses the annual financial statements of the companies included in the consolidated financial statements, determines the scope of consolidation, tests the accounting and consolidation principles as well as significant estimates made by the Board of Executive Directors, and also evaluates the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not discovered any cause for concern.

In our opinion, which is based on our audit findings, the consolidated financial statements of K+S AKTIENGESELLSCHAFT, Kassel, comply with the IFRS as applied in the EU as well as the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 1 of the German Commercial Code (HGB) and give a true and fair view of the assets, financial and earnings position of the Group in accordance with such provisions. The Group Management Report is consistent with the consolidated financial statements, complies with the legal requirements, provides a suitable understanding of the position of the Group and suitably presents the risks of future development.

Hanover, 3 March 2017

DELOITTE GMBH	(Kompenhans)	(Dr Meyer)
Auditing company	Auditor	Auditor

## FURTHER INFORMATION

### 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 DEBT = Financial Liabilities + provisions for pension and similar obligations + non-current provisions for mining obligations – cash on hands and bank balances – securities and other financial investments

NET FINANCIAL LIABILITIES = Financial liabilities – cash on hand and bank balances – securities and other financial investments

OPERATING ASSETS = Intangible assets<sup>5</sup> + property, plant and equipment + shares in affiliated companies + participating interests

RETURN ON CAPITAL EMPLOYED (ROCE) =  $\frac{\text{Operating earnings (EBIT I)}}{\text{Operating assets}^2 + \text{working capital}^{2,4}}$

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 =  $\frac{\text{Adjusted earnings before taxes}^{1,3} + \text{interest expenses}}{\text{Adjusted balance sheet total}^{1,2,4}}$

VALUE ADDED = (ROCE – weighted average cost of capital before taxes) × (operating assets<sup>2</sup> + working capital<sup>2,4</sup>)

WORKING CAPITAL = Inventories + receivables and other assets<sup>6</sup> – current provisions – accounts payable trade – other payables<sup>6</sup>

<sup>1</sup> Adjusted for the effects of market value changes of operating forecast hedges still outstanding; for adjusted Group earnings, the resulting tax effects were also eliminated.

<sup>2</sup> Annual average.

<sup>3</sup> Including earnings before taxes of discontinued operations.

<sup>4</sup> Adjusted for reimbursement claims and corresponding obligations.

<sup>5</sup> Adjusted by deferred tax influencing goodwill from initial consolidation.

<sup>6</sup> 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 business 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 support 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
<b>General Standard Disclosures:</b>			
<b>Strategy and analysis</b>			
G4-1	Statement from the most senior decision-makers	5–9	
G4-2	Description of important key impacts, risks, and opportunities	99–114	
<b>Organisational profile</b>			
G4-3	Name of the organisation	204	
G4-4	Primary brands, products, and services	30	
G4-5	Location of the organisation's headquarters	204	
G4-6	Countries where the organisation operates	22–23	
G4-7	Nature of ownership and legal form	21	
G4-8	Important markets	29–30	
G4-9	Scale of the organisation	22, 36	
G4-10	Total workforce	36–37	6
G4-11	Employees covered by collective bargaining agreements	41	3
G4-12	Description of the organisation's supply chain	27	

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES			
	GRI Indicators	Page	UN Global Compact
G4-13	Significant changes during the reporting period	21–48	
G4-14	Implementation of the precautionary approach	99–114	
G4-15	Support of external initiatives	37, 39, 77	
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<b>Identified material aspects and boundaries</b>			
G4-17	Liste of consolidated companies	144	
G4-18	Process for defining the report content	74–75	
G4-19	List of material aspects	75	
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G4-22	Restatements of information provided in previous reports	39, 41	
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<b>Stakeholder engagement</b>			
G4-24	Stakeholder groups engaged	75–76	
G4-25	Identification and selection of stakeholders	75–76	
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<b>Report profile</b>			
G4-28	Reporting period	204	
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<b>Governance</b>			
G4-34	Governance structure including highest governance body	49–55	
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	GRI Indicators	Page	UN Global Compact
<b>Specific Standard Disclosures:</b>			
<b>Category: Economic</b>			
G4-DMA	Management approach	69–77	
<b>Economic performance</b>			
G4-EC1	Direct economic value generated and distributed	24, 57	
<b>Human rights</b>			
G4-DMA	Management approach	41	7, 8, 9
<b>Energy</b>			
G4-EN3	Energy consumption within the organisation	41, 47–48	7, 8, 9
G4-EN4	Energy consumption outside of the organisation	41, 47–48	
<b>Water</b>			
G4-EN8	Total water withdrawal by source	41, 43–44	7, 9
<b>Emissions</b>			
G4-EN15	Direct greenhouse gas emission (Scope 1)*	48, 201	
G4-EN16	Indirect greenhouse gas emission (Scope 2)*	48, 201	
<b>Effluents and waste</b>			
G4-EN22	Total water discharge by quality and destination	41, 44	7
G4-EN23	Total weight of waste by type and disposal method	41, 45	7
MM3	Total amounts of overburned, rock, tailings, and sludges and their associated risks	45	
<b>Overall</b>			
G4-EN31	Total environmental protection expenditures and investments by type	42–43	9
<b>Category: Society</b>			
<b>Labour practices and decent work</b>			
G4-DMA	Management approach	36–39	1, 3, 6
<b>Employment</b>			
G4-LA1	New employee hires and employee turnover*	36–37	6

GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES			
	GRI Indicators	Page	UN Global Compact
<b>Labor/management relations</b>			
G4-LA4	Minimum notice periods regarding significant operational changes*	36	3
MM4	Strikes and lock-outs*	41	3
<b>Occupational health and safety</b>			
G4-LA6	Accidants, occupational diseases, lost days, fatalities*	39–40	
<b>Training and education</b>			
G4-LA9	Average hours of training*	38, 39	
<b>Diversity and equal opportunity</b>			
G4-LA12	Composition of governance bodies and employees according to diversity*	34, 50	6
<b>Equal remuneration of women and men</b>			
G4-LA13	Ratio of basic salary of women to men*	38, 39, 117	6
<b>Human rights</b>			
G4-DMA	Management approach	37, 74	1, 2
<b>Non-discrimination</b>			
G4-HR3	Number of discrimination and corrective actions taken*	57	6
<b>Freedom of association and right to collective bargaining</b>			
G4-HR4	Operations and suppliers in which the right to freedom of association may be violated or at significant risk, and measures taken*	74	3
<b>Child labor</b>			
G4-HR5	Operations and suppliers with significant risks for incidents of child labor, and measures taken*	37, 57, 74	5
<b>Forced or compulsory labor</b>			
G4-HR6	Operations and suppliers with significant risks for incidents of forced or compulsory labor, and measures taken*	74, 100	4
<b>Indigenous rights</b>			
MM5	Total number of operations taking place in or adjacent to indigenous peoples and formal agreements with indigenous peoples' communities*	74	
<b>Human rights grievance mechanisms</b>			
G4-HR12	Formal grievance about human rights impacts field*	58–59	

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GRI INDEX AND UN GLOBAL COMPACT PRINCIPLES			
	GRI Indicators	Page	UN Global Compact
<b>Society</b>			
G4-DMA	Management approach	75–76	10
<b>Local communities</b>			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes*	76	
<b>Anti-corruption</b>			
G4-SO4	Communication and training on anti-corruption*	58–59	10
<b>Public policy</b>			
G4-SO6	Total value of political contribution	77	10
<b>Anti-competitive behavior</b>			
G4-SO7	Legal actions for anti-competitive behavior or anti-trust*	58–59	10
<b>Compliance</b>			
G4-SO8	Fines and sanctions for non-compliance	58–59	10
<b>Supplier assessment for impacts on society</b>			
G4-SO10	Negative impacts on society in the supply chain and actions taken*	22, 74	
<b>Grievance mechanisms for impacts on society</b>			
G4-SO11	Number of grievances about impacts on society	58–59	
<b>Product responsibility</b>			
G4-DMA	Management approach	29	
<b>Product and service labeling</b>			
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*	29	

## GLOSSARY

<b>BRINE</b>	Aqueous rock salt solution. Natural brine is obtained through drilling underground deposits of brine or through the controlled drill-hole solution mining procedure and also produced through the dissolution of mined rock salt.
<b>BULK BLENDERS</b>	Operators of bulk fertilizer equipment, in which various nutrients are combined.
<b>CARBON DIOXIDE</b>	Carbon dioxide (CO <sub>2</sub> ) is a chemical compound comprising carbon and oxygen. It is produced during the combustion of fuels containing carbon or fossil fuels.
<b>CASHFLOW</b>	Net balance of incoming and outgoing payments during a reporting period.
<b>CAVERN</b>	In mining, a cavern is a large, artificially created underground cavity.
<b>CHLORINE-ALKALINE ELECTROLYSIS</b>	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.
<b>COGENERATION</b>	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.

<b>COLD PRELIMINARY DECOMPOSITION</b>	Magnesium chloride is separated from crude salt in cold preliminary decomposition. Carnallite is mixed with water. This produces a saturated magnesium chloride solution and the decomposition salt. The decomposition salt is dehydrated using various filters and washed to further reduce fractions of magnesium chloride. The decomposition salt is then conveyed to the thermal dissolution process where the recyclable fraction, potassium chloride, is separated from the sodium chloride.	<b>CRYSTALLISED SALT</b>	In contrast to liquid brine, crystallised salt exists in solid form, such as food grade salt and de-icing salt.
<b>COMPLEX FERTILIZERS</b>	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.	<b>DIN ISO 26000:2010 SOCIAL RESPONSIBILITY GUIDELINE</b>	DIN ISO 26000:2010 provides guidance on how businesses and organisations can operate in a socially responsible way. The guideline specifies seven key principles and seven core subjects.
<b>COMPLIANCE</b>	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.	<b>EBIT I</b>	(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.
<b>COST OF CAPITAL</b>	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.	<b>EBIT II</b>	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.
		<b>EBITDA</b>	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. K+S calculates EBITDA based on operating earnings EBIT I 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.

<b>ELECTROSTATIC PREPARATION PROCESS (ESTA®)</b>	The ESTA® process is a dry processing method for potash crude salts, patented by K+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.	<b>GREENFIELD PROJECT</b>	In mining, a greenfield project denotes the creation of basically new capacities, including infrastructure investment. The K+S Legacy Project in Saskatchewan, Canada, is the first potash greenfield project for around forty years. There are also brownfield projects in potash mining where the capacity of an existing mine is expanded.
<b>ENTERPRISE VALUE</b>	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).	<b>GREENHOUSE GAS (GHG) PROTOCOL</b>	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 CO <sub>2</sub> equivalents. A CO <sub>2</sub> equivalent has the same global warming potential as one unit of CO <sub>2</sub> .
<b>EVAPORATED SALT</b>	is produced by evaporating saturated brine, whereby sodium chloride crystallises.	<b>GRI – GLOBAL REPORTING INITIATIVE</b>	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.
<b>EVAPORATION PLANT</b>	An evaporation plant is used to process saltwater from potash production by evaporating it into saleable magnesium chloride solution, thereby guaranteeing the reduction of saline wastewater.	<b>INTEGRATED REPORTING</b>	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.
<b>FLOTATION</b>	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.		
<b>FREE FLOAT</b>	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).		
<b>GRANULATE PRODUCTION</b>	Granulate production describes the production of spreadable fertilizer granules that can be distributed using an agricultural fertilizer spreader.		



<p><b>KAINITE CRYSTALLISATION AND FLOTATION FACILITY (KCF)</b></p>	<p>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.</p>	<p><b>PADS</b></p>	<p>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 100 x 100 m, 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.</p>
<p><b>KIESERITE</b></p>	<p>Mg[so<sub>4</sub>].H<sub>2</sub>O, 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.</p>	<p><b>PLANNING APPROVAL PROCEDURE</b></p>	<p>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.</p>
<p><b>LYSIMETER TEST</b></p>	<p>A lysimeter is a device used to investigate ground water levels and to sample soil seepage water for the purpose of determining quantity and quality.</p>	<p><b>PLATE DOLOMITE (LEINE CARBONATE)</b></p>	<p>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.</p>
<p><b>OECD GUIDELINES FOR MULTINATIONAL COMPANIES</b></p>	<p>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.</p>	<p><b>POTASSIUM CHLORIDE (KCL)</b></p>	<p>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.</p>
<p><b>OPEN-CAST MINING</b></p>	<p>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.</p>	<p><b>POTASSIUM SULPHATE (SOP)</b></p>	<p>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.</p>
<p><b>OPERATING FORECAST HEDGES</b></p>	<p>To hedge future currency positions (mainly in us dollars), we use operating derivatives in the form of options and futures (see also transaction risks).</p>	<p><b>RATING</b></p>	<p>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.</p>

<b>RETURN ON CAPITAL EMPLOYED (ROCE)</b>	Return on Capital Employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed.	<b>THERMAL DISSOLUTION PROCESS</b>	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.
<b>SODIUM CHLORIDE</b>	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 plastics.	<b>THICK MATTER FACILITY</b>	The thick matter plant enables the utilisation of wastewater. Wastes are mixed with process water in a mixer. This mixture is then piped to a storage tank. Finally, it is sucked out of the storage tank using hydraulic thick matter pumps and pumped through a hydraulic feed pipe into back-filled caverns for safety reasons.
<b>SOLAR SALT</b>	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.	<b>TRANSACTION RISK</b>	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.
<b>SOLUTION MINING</b>	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.	<b>TRANSLATION RISK</b>	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.
<b>STAKEHOLDER</b>	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.	<b>UNITED NATIONS GLOBAL COMPACT</b>	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.
<b>SUSTAINABLE DEVELOPMENT GOALS (SDGS)</b>	The agenda adopted by the United Nations 'Transforming our World: the 2030 Agenda for Sustainable Development' includes 17 sustainable development goals.		
<b>SYNTHETIC MAGNESIUM SULPHATE (SMS)</b>	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.		

<b>VALUE ADDED</b>	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.
<b>WATER-SOFTENING SALTS</b>	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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Dividend payment	15 May 2017
Half-yearly Financial Report, 30 June 2017	15 August 2017
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