

SUPERVISORY BOARD REPORT



Dr. Andreas Kreimeyer

Chairman of the Supervisory Board

Dear Shareholders,

The 2019 financial year again presented us with major challenges and highlighted the fact that K+S is currently navigating a difficult path.

Following an encouraging first half of the year, geopolitical turbulence and the increasingly unfavorable business conditions for potash fertilizers in the second half year led to increasing inventories at our customers, price pressure on our products, and lower production volumes, negatively impacting profitability. As a result, we were unable to meet our EBITDA targets and reduce debt as planned. Consequently, our share price dropped.

The high level of indebtedness is essentially due to two factors:

FIRSTLY

to the successful completion of the new potash production plant in Canada. This investment was approved in 2011 and was a key strategic move to secure the future viability of K+S. Although the expected potash price development currently falls short of our initial planning, K+S is set to achieve healthy profits on the potassium chloride volumes produced following the full ramp-up of the Bethune plant, which is among the world's most competitive facilities!

SECONDLY

by the continuously rising demand for major investment in environmental protection measures at the German sites, which are now almost impossible to predict. Over the past eight years, K+S has already invested around €1 billion in environmental measures to enable us to keep our domestic facilities in operation.

We have always been clear that the rapid reduction of our high level of indebtedness must be a core objective of our SHAPING 2030 strategy. In light of this, we formulated specific targets: K+S intends to halve its indebtedness by 2020 and fulfill the requirements to regain an investment grade rating in 2023.

We were already well on track by mid-2019. However, in the course of the second half of the year, the rapid deterioration of business conditions – due in particular to the trade dispute between the USA and China and China's import ban on potash – made it apparent that these targets would be unachievable by the specified dates without more extensive measures.

The central aim of the additional measures developed in 2019 and communicated in December 2019 is therefore to step up debt reduction in order to rapidly and sustainably reduce our indebtedness. We do not plan to rely on the market's self-healing powers to do this. Instead, we will act boldly and decisively to consistently drive forward our value-generating and cost-cutting projects.

On behalf of the Supervisory Board, I would like to thank all employees for their hard work and commitment. Our thanks also go to the members of the Board of Executive Directors, who are guiding κ+s through this difficult period, as well as to our employee representatives and Works Council members who have constructively contributed to the achievement of our ambitious targets with a focus on the future.

Special thanks go to you, our shareholders, for critically, but always constructively, standing by us through the challenging conditions in 2019.

ADVISING THE BOARD OF EXECUTIVE DIRECTORS AND MONITORING OF MANAGEMENT

During the 2019 financial year, the Supervisory Board diligently performed the supervisory and advisory functions incumbent on it by law and in accordance with the Articles of Association and its bylaws. Numerous matters were discussed in depth and resolutions were adopted on transactions requiring approval. We continuously monitored the Board of Executive Directors' management of the Company and advised the Board on the governance of the Group. We were always involved in decisions of fundamental importance in a timely and appropriate manner. The Board of Executive Directors regularly briefed us promptly and comprehensively on the course of business, the financial position, net assets, and results of operations, the employment situation, the progress of important investment projects, planning, and the further strategic development of the Company. Deviations from planning were explained to the Supervisory Board in detail. The risk situation and risk management were carefully considered. The Supervisory Board received written reports from the Board of Executive Directors in order to prepare for meetings. In particular, the Chairman of the Supervisory Board also remained in close personal contact with the Board of Executive Directors outside of meetings and regularly discussed significant events as well as upcoming decisions. The shareholder and employee representatives regularly discussed important agenda items at separate meetings prior to meetings of the Supervisory Board.

In 2019, five Supervisory Board meetings were held. The average attendance rate of the 16 Supervisory Board members at these meetings was 95% in the reporting period. One meeting was attended by all Supervisory Board members and at each of the four remaining meetings one member was unable to attend. All absences were excused. Of the four physical **Audit Committee** meetings, three were attended by all committee members and one member was excused from the remaining meeting. The **Nomination Committee** held three sessions, fully represented. Six of the seven meetings of the **Personnel Committee** were attended by all committee members; at one meeting one member was excused. The **Strategy Committee** met on two occasions, with full attendance at both meetings.

COMPOSITION OF THE BOARD OF EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD

The Supervisory Board appointed Ms. Fabíola Fernandez Grund to the Board of Executive Directors at its meeting of November 13, 2019. On assuming this role, Ms. Fernandez Grund will also become the Company's Labor Relations Director.

The composition of the Supervisory Board did not change in the year under review.

SUPERVISORY BOARD MEETINGS

One extraordinary and four ordinary Supervisory Board meetings were held during the 2019 financial year.

At the ordinary meeting held on March 13, 2019, the Supervisory Board examined the annual financial statements, the consolidated financial statements, and the management reports for the 2018 financial year in the presence of the auditor, approved the financial statements on the recommendation of the Audit Committee, and, following extensive discussions, agreed to the proposal of the Board of Executive Directors concerning the appropriation of profits. The business situation and the outlook for the current year were discussed in depth and the proposed resolutions for the 2019 Annual General Meeting were also approved. In addition, the findings of the audit of the non-financial statement were discussed with the auditors. Furthermore, the target agreements of the members of the Board of Executive Directors for the 2019 financial year and the determination of target achievement in 2018 as well as the adjustment of the pension ceilings were resolved. Lastly, we discussed potential acquisitions with the Board of Executive Directors.

At the ordinary meeting on May 14, 2019, the Board of Executive Directors briefed the Supervisory Board in detail on the development of the business situation, earnings in the first quarter of 2019, potential acquisitions and the status of the "Operations Excellence" project. Furthermore, the gender ratio for the Board of

Executive Directors was redefined. In addition, candidates for election to the Supervisory Board by the 2020 Annual General Meeting were nominated. In advance of this, the shareholder representatives submitted an application for separate fulfillment and forwarded it to the Chairman of the Supervisory Board.

At the ordinary meeting on August 22, 2019, we addressed the new German Corporate Governance Code and the current business situation, among other things, and approved a financing measure. The Board of Executive Directors also informed the Supervisory Board about potential acquisitions and provided an update on the K+S GROUP'S SHAPING 2030 strategy. In addition, we learned in detail about the status of the digitalization process and discussed the long-term succession planning in the Board of Executive Directors. The extension of the mandates of Dr. Lohr and Mr. Boeckers, the introduction of claw-back clauses in their contracts, the adjustment of the remuneration structure of the Board of Executive Directors and the adjustment of committee remuneration were resolved. In addition, a resolution was passed on the remuneration of non-Group mandates.

At the extraordinary meeting on November 13, 2019, we learned in detail about the preparations for the upcoming medium-term planning, the progress of the Bethune plant, and a package of measures to rapidly reduce debt. Furthermore, the filling of the additional position in the Board of Executive Directors was discussed and Ms Fernandez Grund was appointed to the Board of Executive Directors.

At the last ordinary meeting of the year, held on December 3, 2019, the Board of Executive Directors explained the current business situation and provided a forecast of the anticipated revenues and earnings of the K+S GROUP in the 2019 financial year. The planning of the K+S GROUP for 2020, including the capital expenditure and financing framework, was examined in depth (also in terms of consistency with strategic objectives) and subsequently approved. We then had a detailed discussion with the Board of Executive Directors on the package of measures to rapidly generate value and reduce indebtedness. The mandate of Mr. Roberts was extended. In addition, adjustments to age limits and election periods for Supervisory Board members and an adjustment to committee remuneration were resolved. Acting on a recommendation submitted by the Audit Committee following a structured tender procedure, we also supported a proposal to the Annual General Meeting on the election of the auditor for the annual and consolidated financial statements for the 2021 financial year. The Chairman of the Audit Committee reported on this committee's last meeting. The Supervisory Board resolved to engage DELOITTE GMBH WIRTSCHAFTS-PRÜFUNGSGESELLSCHAFT to audit the non-financial statement. The joint 2019/2020 declaration of conformity by the Board of Executive Directors and Supervisory Board was likewise approved.

🔗 'Declaration on corporate governance,' page 99

COMMITTEE MEETINGS

In addition to the Mediation Committee required by law, the Supervisory Board has established four more committees to support its tasks and responsibilities: the Audit Committee, the Personnel Committee, the Nomination Committee, and the Strategy Committee. An overview of these committees and their composition can be found in the management report on page 104 and on the K+S AKTIENGESELLSCHAFT website under "About K+S". There you can also find the bylaws for the Supervisory Board and its committees.

The **Audit Committee** met a total of four times in 2019. The committee, together with the Strategy Committee, addressed potential acquisitions on February 28. On March 1, 2019, 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 2018 annual financial statements of K+S AKTIENGESELLSCHAFT, the 2018 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 that the reappointment of DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT as auditor be proposed to the Annual General Meeting. The committee also addressed the audit tender procedure for the 2021 financial year. On August 22, 2019, the committee discussed the K+S GROUP's internal control system (ICS) in detail, especially accounting and auditing processes with the Chairman of the Board of Executive Directors and the Chief Financial Officer. Moreover, the committee acknowledged and approved the report delivered by the Chief Compliance Officer on the status of the compliance management system of the K+S GROUP. In addition, the recommendation to the plenary meeting of the Supervisory Board of two audit firms for the audit of the annual financial statements for financial year 2021 was agreed. Finally, the committee discussed focal points of the 2019 audit. At the meeting on December 3, 2019, the head of Internal Audit reported on his work in the K+S GROUP. The Board of Executive Directors reported on developments with regard to consultancy fees and donations as well as on the engagement of the auditor with non-audit services. Finally, the Audit Committee recommended that the Supervisory Board engage the statutory auditor to audit the non-financial statement. The level of indebtedness, liquidity, and measures to reduce indebtedness were also discussed.

The respective Quarterly Reports and the Half-Yearly Financial Report awaiting publication were 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 May 8, August 12, and November 12, at the end of the respective quarters.

The **Personnel Committee**, which prepares personnel decisions of the Supervisory Board and is responsible for other Executive Board matters, met seven times in 2019. It dealt with the target agreements and achievement of targets 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 circles and the total workforce, the level of the fixed remuneration of the members of the Board of Executive Directors, the redefinition of the gender ratio, the adjustment of the pension ceilings, the introduction of claw-back clauses, the expansion of the Board of Executive Directors and the associated appointment of Ms. Fernandez Grund to the Board of Executive Directors, as well as the further development of the remuneration system for the Board of Executive Directors and the Supervisory Board. Furthermore, the extension of the mandates of the members of the Executive Board was discussed. In addition, the developments of the German Corporate Governance Code and the changes in legislation regarding the 2nd Shareholder Rights Directive (ARUG II) were discussed. It also dealt with short and long-term succession planning for the Board of Executive Directors. Detailed information on the amount of compensation for the Board of Executive Directors in 2019 and the structure of the current compensation system can be found on pages 142-146.

The members of the **Nomination Committee** met four times in 2019; the main topic of discussion was long-term succession planning for the Supervisory Board. It also dealt with the age limit and the limitation on the number of election periods for Supervisory Board members.

The **Strategy Committee** met twice in 2019. The main topics of discussion were potential acquisitions and the medium-term planning, as well as the package of measures to rapidly generate value and reduce indebtedness.

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

CONFLICTS OF INTEREST

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

AUDIT OF THE 2019 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, Hanover, audited the annual financial statements of K+S AKTIENGESELLSCHAFT, prepared by the Board of Executive Directors in accordance with the rules of the German Commercial Code (HGB), the consolidated financial statements prepared on the basis of the international accounting standards as adopted by the EU and the supplementary German legal requirements required to be applied in accordance with section 315e (1) of the *Handelsgesetzbuch* (HGB - German Commercial Code) and the combined manage-

ment and Group management report for the 2019 financial year. The annual financial statements and the consolidated financial statements both received unqualified audit opinions. In addition to the statutory audit, the Supervisory Board of K+S AKTIENGESELLSCHAFT commissioned DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT to audit the conformity with limited assurance of the combined non-financial statement in accordance with the CSR-RUG. DELOITTE reported the results to the Audit Committee of K+S AKTIENGESELLSCHAFT at its meeting on March 2, 2020 and to the Supervisory Board at its meeting on March 11, 2020. Based on the audit procedures performed and the audit evidence obtained, no matters have come to the attention of DELOITTE that cause DELOITTE to believe that the condensed non-financial statement of the company for the period from January 1, to December 31, 2019 has not been prepared, in all material respects, in accordance with sections 315b, 315c in conjunction with 289c to 289e of the German Commercial Code (HGB). The aforementioned documents, the Board of Executive Directors' proposal concerning the appropriation of profits, and the audit reports of DELOITTE GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT, each of which had been submitted to the members of the Audit Committee and the Supervisory Board on time, were each addressed extensively at the Audit Committee meeting held on March 2, 2020, as well as at the Supervisory Board meeting held on March 11, 2020, 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 on 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 2019 financial year, thereby ratifying the 2019 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 99). 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.

All the best for the future!

On behalf of the Supervisory Board
Dr. Andreas Kreimeyer

Yours


Chairman of the Supervisory Board

Kassel, Germany, March 11, 2020