

Interim Report of the KWS Group  
Fiscal Year 2006/2007

**July 1, 2006 to March 31, 2007**

**KWS SAAT AG**



## Report of the Executive Board

Dear shareholders and friends of KWS,

The spring sowing season in our core markets is largely over. Sales of our main performers – corn and sugarbeet seed – developed positively. We were again able to grow our corn business significantly and, at the same time, the anticipated decline in sugarbeet seed business did not materialize. Our Group generated net sales of € 337 (311)\* million in the third quarter, up 8% year-on-year. Subject to the returns of already supplied seed customary in the seed sector, we assume that annual sales for fiscal 2006/2007 will increase slightly to just over € 520 (505) million or by +3%.

As things now appear, the KWS Group's operating profit (EBIT) will likely increase faster than sales on the basis of the results from the spring sowing season. It is expected to be 20% above that of the previous year (€ 46.7 million). This is mainly attributable to the positive development of the sugarbeet segment. The still extensive sugarbeet cultivation area in the European Union, gains in market share and successful cost and inventory management will considerably improve the segment's results in fiscal 2006/2007. However, stronger reductions in cultivation area and thus lower seed sales can be anticipated for fiscal 2007/2008.

As already reported, the cereals segment is also contributing to the gratifying increase in the KWS Group's earnings. In the corn segment, on the other hand, the expected growth in sales is not matched by an improvement in its earnings, since we have continued our efforts to expand our corn business – above all in the growth markets of Southern and Southeast Europe and in North America – at considerable up-front costs. As a result, expenses in the regions of Southern and Southeast Europe are still placing a strain on operating profit.

In the last quarter operating income of € 92 (71) million at March 31, 2007, will fall due to the fact that sales and income will be clearly lower for seasonal reasons.

Net financial income/expenses reflects both interest income from investment of financial resources after June 30, 2006, and interest expense from financing the company's operations during the year. The figure for income tax expenses was obtained by applying the

effective tax rate for the fiscal year as a whole to the pre-tax profits for the first nine months. In doing so, a credit balance of around € 7 million in corporate income tax had to be carried as assets pursuant to the amendment in tax law (SEStEG) that came into effect on December 12, 2006 (cf. the Semiannual Report). This tax income from other periods means that the tax rate is below 30% and entails an increase in net income for the year in excess of the growth in operating business.

## Income statement

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	06/07	05/06	06/07	05/06
Net sales	336.9	310.9	428.3	402.2
Operating income Net financial income/expenses	136.2 -0.3	120.6 -0.2	91.5 -1.8	71.2 -2.0
Result of ordinary activities	135.9	120.4	89.7	69.2
Income taxes	48.6	43.4	24.7	25.9
Net income for the year	87.3	77.0	65.0	43.3
Minority interest	2.4	1.5	2.8	1.4
Net income after minority interest	84.9	75.5	62.2	41.9
<b>Earnings per share (€)</b>	<b>12.86</b>	<b>11.44</b>	<b>9.42</b>	<b>6.35</b>

## The individual segments

### Sugarbeet

In the second year of the reform of the European Sugar Market Regime, the EU again offered an opt-out allowance for the sugar industry of € 730 a ton so as to reduce sugar production in the EU in compliance with WTO regulations. However, this offer was hardly taken up, probably due to growing demand for bioethanol in Europe, among other things. The opt-out allowance is tied to complete dismantling of production facilities, with the alternative use of sugarbeet for ethanol production being ruled out. Moreover, additional capacities for industrial beet processing are currently being created, mainly in Germany and France, and are to be put into operation in time for the coming campaign. This even resulted in a slight increase in cultivation areas in these markets. At the time of the 2007 sowing season, sugarbeet was cultivated for sugar production on approximately 1.6 (1.7) million hectares and for

ethanol production on around 160 (130) thousand hectares in the 27 states of the EU.

In addition, we were able to grow our market share in a number of EU states, in particular in France. On balance, sales for the segment within the EU 27 are slightly above those of the previous year (€ 116.9 million). However, we expect net sales to fall by over 10% outside the EU. This is due to the exchange rate for the dollar as well as to lower sales of seed in Turkey, where the state-owned sugar industry has fallen back on seed stocks of the past years in the course of its privatization.

As a result, net sales for the segment at March 31, 2007, are € 171.7 (174.7) million, just € 3.0 million lower year-on-year. In contrast, profit for the segment is at € 47.5 (36.6) million, well above the level of the year as a whole due to seasonal reasons. We expect operating profit for the sugarbeet segment at June 30 to be up by around 40%. Cost savings in sales and successful working capital management, in particular regarding inventories, have helped increase earnings.

### **Corn**

In our corn business, we again expect double-digit sales growth, to which all regions – but above all the German market and North America – will contribute. Net sales for the segment at June 30 are expected to increase by just over 10% and are already at € 203.8 (177.8) million at March 31. However, earnings performance is strained by high up-front costs, primarily as a result of the creation of sales structures in Southern and Southeast Europe, regions that, however, offer the greatest growth potential. The segment's profit at the end of the third quarter is € 16.8 (16.2) million, i.e. stable year-on-year, and will just be able to maintain the level of the previous year at June 30.

### **Cereals**

Seed for summer cereals worth € 5.9 (6.4) million was sold in the cereals segment in the third quarter, as a result of which net sales at March 31 rose overall to € 48.7 (44.0) million. For the whole year, we expect the volume of net sales to increase by around 5%. Growing hybrid rye business and higher barley sales are having a positive impact on the segment's profit. Operating income at March 31 was € 6.9 (2.9) million. We anticipate an increase in operating income of around 140% in the cereals segment for the fiscal year as a whole.

## Capital expenditure

Intangible assets increased overall by € 4.2 million to € 34.5 (30.3) million. A prime factor here was the licensing of the basic technology for developing a herbicide-tolerant, genetically improved sugarbeet from outside the company. KWS has succeeded in establishing herbicide resistance in the sugarbeet genome and is now marketing such varieties in North America.

In the first nine months, KWS invested € 13.2 (15.0) million in property, plant and equipment. It is therefore showing capital expenditure well above depreciation, for which the figure is € 11.3 (12.5) million. Out of total capital expenditure of € 18.6 (17.3) million within the KWS Group, more than 50% was in the breeding and services segment and around 17% each in the corn and sugarbeet segments. Some 74% of all capital expenditure was made in Europe, more than half of it in Germany.

Our biggest single investments in property, plant and equipment were a drying plant for processing corn seed in North America and the construction of a new logistics hall and a greenhouse in Einbeck.

## Segment report

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	06/07	05/06	06/07	05/06
<b>Net sales</b>	<b>336.9</b>	<b>310.9</b>	<b>428.3</b>	<b>402.2</b>
Sugar beet	148.9	145.6	171.7	174.7
Corn	180.8	156.6	203.8	177.8
Cereals	5.9	6.4	48.7	44.0
Breeding & services	1.3	2.3	4.2	5.7
<b>Operating income</b>	<b>136.2</b>	<b>120.6</b>	<b>91.5</b>	<b>71.2</b>
Sugar beet	57.7	45.8	47.5	36.6
Corn	41.1	39.0	16.8	16.2
Cereals	-0.3	-1.5	6.9	2.9
Breeding & services	37.7	37.3	20.3	15.5
<b>Capital expenditure</b>	<b>8.1</b>	<b>3.3</b>	<b>18.6</b>	<b>17.3</b>
Sugar beet	0.8	1.2	3.1	2.9
Corn	0.5	0.7	3.2	6.1
Cereals	0.7	0.0	1.8	2.4
Breeding & services	6.1	1.4	10.5	5.9

## **Basis of accounting and reporting**

The KWS Group is a consolidated group as defined in the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), London, taking into account the interpretations of the International Financial Reporting Committee (IFRIC). The interim report of the KWS Group was prepared in accordance with IAS 34, and exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2006, were used, although separate disclosure of the profit from affiliated companies was dispensed with for the accurate presentation of the financial position and performance. The Notes appended to the annual financial statements as of June 30, 2006, therefore apply accordingly. The income taxes were calculated on the basis of the individual country-specific income tax rates, taking account of the planning for the fiscal year as a whole.

## **Companies consolidated in the KWS Group**

The interim report of the KWS Group includes the separate financial statements of KWS SAAT AG and its subsidiaries in Germany and other countries in which it directly or indirectly controls more than 50% of the voting rights. In addition, joint ventures are proportionately consolidated, according to the percentage of equity held in those companies. Subsidiaries and joint ventures that are considered immaterial for the presentation and evaluation of the financial position and performance of the Group are not included.

In the third quarter of fiscal 2006/2007, the companies consolidated in the KWS Group were supplemented by the production company Dunasem S.R.L. Bucharest, which is intended to ensure our supply of corn seed in Southeast Europe. As a result, a total of 41 companies are now fully consolidated and 3 proportionately consolidated, while 2 companies will still be included at equity in the consolidated financial statements.

## Balance Sheet of the KWS Group

€ millions	March 31, 2007	June 30, 2006
<b>Assets</b>		
Intangible assets	34.5	30.3
Property, plant and equipment	145.9	144.2
Investments in affiliated companies	6.1	6.1
Other long-term investments	14.2	8.0
Deferred tax assets	17.9	15.1
<b>Assets</b>	<b>218.6</b>	<b>203.7</b>
Inventories	114.2	108.7
Trade receivables	309.8	184.6
Marketable securities	7.2	13.3
Cash and cash equivalents	41.4	42.3
Other current assets	22.6	24.4
<b>Current assets</b>	<b>495.2</b>	<b>373.3</b>
<b>Total assets</b>	<b>713.8</b>	<b>577.0</b>
<b>Equities and Liabilities</b>		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	346.0	294.1
Minority interests	21.6	18.6
<b>Equity</b>	<b>392.9</b>	<b>338.0</b>
Long-term provisions	68.7	69.6
Long-term borrowings	4.2	6.4
Deferred tax liabilities	17.1	16.9
Trade payables	5.9	0.0
Other long-term liabilities	4.6	1.0
<b>Noncurrent liabilities</b>	<b>100.5</b>	<b>93.9</b>
Short-term provisions	72.0	66.8
Short-term borrowings	21.7	4.9
Trade payables	71.4	38.7
Current tax payables	34.4	12.6
Other liabilities	20.9	22.1
<b>Current liabilities</b>	<b>220.4</b>	<b>145.1</b>
<b>Liabilities</b>	<b>320.9</b>	<b>239.0</b>
<b>Total equity and liabilities</b>	<b>713.8</b>	<b>577.0</b>

The inventories also include the processed and marketable certified seed for the fourth quarter following a good harvest in 2006. Of this, around 60% is attributable to corn inventories and one quarter to sugarbeet seed. Since it was to be assumed that the change in the Sugar Market Regime would result in sharp reductions in cultivation areas and our inventory management was based on sales planning to reflect that, the gratifyingly high volume of sales in 2007 significantly reduced inventories. Consequently,

lower storage risks also meant lower adjustments for sugarbeet inventories.

Trade receivables of € 310 million were reported at March 31 on net sales of € 337 million in the third quarter. Additionally short-term loans of € 15 million were required to finance business operations, with the result that the net cash balance at March 31, 2007, was € 23 million, after € 44 million on June 30, 2006.

The increase in trade payables and in short-term provisions totaling € 44 million is largely due to the sales-related license costs and the seed returns and credit balances that still have to be settled. The cause of the € 22 million rise in current tax payables is the profit for the third quarter.

### Cash Flow Statement

€ millions	1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2006/2007	2005/2006
Net income for the year	65.0	43.3
Cash earnings according to DVFA/SG	72.0	49.1
Cash used for net current assets	–64.1	–46.4
Net cash from operating activities	7.9	2.7
Net cash from investing activities	–19.1	–18.2
Net cash from financing activities	4.8	2.7
Change in cash and cash equivalents	–6.4	–12.8
Cash and cash equivalents at beginning of period	55.6	52.9
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	–0.6	–1.2
Cash and cash equivalents at end of period	48.6	38.9

The net cash from operating activities improved in the first nine months by over € 5 million year-on-year. Net cash used in investing activities exceeds the net cash from operating and financing activities, with the result that cash and cash equivalents at March 31 are € 7 million lower than on June 30, 2006.

## Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
<b>Balance as at June 30, 2005</b>	<b>305.9</b>	<b>20.7</b>	<b>326.6</b>
Dividends paid	-7.9	-0.5	-8.4
Changes in consolidation scope	0.2	-1.8	-1.6
Other changes	0.0	-0.5	-0.5
Consolidated net profit	41.9	1.4	43.3
Other gains (losses)	-0.7	0.2	-0.5
<b>Total consolidated gains (losses)</b>	<b>41.2</b>	<b>1.6</b>	<b>42.8</b>
<b>Balance as at March 31, 2006</b>	<b>339.4</b>	<b>19.5</b>	<b>358.9</b>
 <b>Balance as at June 30, 2006</b>	 <b>319.4</b>	 <b>18.6</b>	 <b>338.0</b>
Dividends paid	-7.9	-0.2	-8.1
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net profit	62.2	2.8	65.0
Other gains (losses)	-2.4	0.4	-2.0
<b>Total consolidated gains (losses)</b>	<b>59.8</b>	<b>3.2</b>	<b>63.0</b>
<b>Balance as at March 31, 2007</b>	<b>371.3</b>	<b>21.6</b>	<b>392.9</b>

The changes in equity reflect the profit for the third quarter. Pursuant to the resolution adopted by the Shareholders Meeting on December 14, 2006, KWS SAAT AG paid out dividends totaling € 7.9 million to its shareholders. The minority interests profited from the good earnings of the cereal segment.

## Employees\*

	1 <sup>st</sup> –3 <sup>rd</sup> quarter 2006/2007	2005/2006
Germany	1,137	1,161
Europe (excluding Germany)	609	583
America	899	898
Other countries	59	66
<b>Total</b>	<b>2,704</b>	<b>2,708</b>

\* at quarter end

## Outlook

We forecast an increase in consolidated sales to over € 520 (505) million for the fiscal year ending June 30, 2007. The Group's operating income will grow faster than sales and is expected to be some 20% above the previous year's € 46.7 million.

Outlook for the coming fiscal year 2007/2008: The restructuring of the European sugar market and the growing demand for bioethanol have significantly impaired the ability of the sugar industry and agriculture to plan ahead. It is therefore understandable that **sugarbeet** processing facilities that can be used for both purposes have not been closed to the necessary extent, despite the high allowances. Nevertheless, the production of quota sugar must be reduced by 6 million tons within the period covered by the reform (up to fiscal 2009/2010) to avoid a further increase in surpluses. Only 2.2 million tons have been taken out of the market up to now, with the result that the EU responded in February 2007 with an obligatory 13.5% reduction in the quota. Moreover, there are now plans to create additional incentives for producers to opt out, with the result that we must be prepared for a reduction in sugarbeet cultivation in the EU of over 10% for 2008, despite an increase in the areas for industrial beet. In contrast, sales of sugarbeet seed will pick up primarily in the U.S. thanks to the marketing of herbicide-tolerant sugarbeet and in Turkey and Eastern Europe.

There are likewise growth opportunities in the **corn** segment in North America, where there is intensified use of bioethanol as an automotive fuel, something that will entail a clear expansion in grain corn cultivation area. We are also planning to boost the sales of energy corn varieties in Germany and grow our markets in Southern and Southeast Europe. Rapeseed business in Europe encountered limits to its growth for the time being in the current fiscal year.

There are also positive perspectives in the **cereals** segment. The high consumer prices for rye are expected to result in an expansion of these cultivation areas. This crop will probably experience growing demand again, in particular in dry locations.

We will present the 2006/2007 financial statements of the KWS Group and KWS SAAT AG at our annual press conference on October 31, 2007. At the same time, we will publish our 2006/2007 Annual Report in the Internet at [www.kws.com](http://www.kws.com). Our company's Annual Shareholders' Meeting will be held on December 13, 2007, at 11:00 a.m., as customary at the company's headquarters in Einbeck.

Einbeck, May 30, 2007

**KWS SAAT AG**

The Executive Board



A. Büchting



Ch. Amberger



P. von dem Bussche



H. Duenbostel



L. Broers (deputy)

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