

Interim Report of the KWS Group  
Fiscal Year 2007/2008

**July 1, 2007, to March 31, 2008**

**Seeding the future**  
since 1856



## Interim management report

Dear shareholders and friends of KWS,

Following completion of the spring sowing season 2008, we would like to inform you of the main developments at the KWS Group. Overall, KWS was able to share in the global intensification of agricultural production and significantly expand its corn and cereals business segments. This is reflected in net sales of € 483.6 (428.3) million\* in the first nine months of fiscal 2007/2008, a year-on-year increase of 12.9 %. However, sales in the sugarbeet segment were down as a result of a 15 % reduction in cultivation area worldwide. As far as can be seen at present, we expect the KWS Group to grow its annual sales to about € 585 (537.9) million as of June 30, 2008.

The KWS Group also grew its operating profit (EBIT) year-on-year in the third quarter of fiscal 2007/2008. A marked drop in earnings in the sugarbeet segment was more than compensated for by the improved earnings posted by the corn segment. Thanks to royalties generated internally from product development, our core segment of breeding & services is profiting from the rise in net sales of corn and cereals, as well as from the successful marketing of genetically modified sugarbeet in the U.S. This will offset higher R&D expenditure in fiscal 2007/2008. Over the year as whole, the corn and cereals product segments will be able to increase their contribution to the KWS Group's operating profit significantly and more than offset the decline in the sugarbeet segment. We expect total profit to rise by around 10 %.

Net financial income/expenses reflects both interest income from investment of the positive net cash balance at June 30, 2007, interest expense from financing the company's operations and the profit from the potato activities sold at July 1, 2007. 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. Due to the corporate income tax reform in Germany, the tax rate has fallen from 38.1 % to just under 30 %. Adjustments to deferred tax assets and liabilities resulted in non-recurring income of € 1.0 million.

## Income statement

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	07/08	06/07	07/08	06/07
Net sales	373.4	336.9	483.6	428.3
Operating income	139.4	136.2	93.8	91.5
Net financial income/expenses	0.7	-0.3	5.5	-1.8
Result of ordinary activities	140.1	135.9	99.3	89.7
Income taxes	38.3	48.6	22.6	24.7
Net income for the year	101.8	87.3	76.7	65.0
Minority interest	4.7	2.4	6.4	2.8
Net income after minority interest	97.1	84.9	70.3	62.2
<b>Earnings per share (€)</b>	<b>14.71</b>	<b>12.86</b>	<b>10.65</b>	<b>9.42</b>

## The individual segments

### Sugarbeet

The world market price for sugar in the past year was not able to keep pace with the price increases for other agricultural products, in particular wheat. As a consequence, many farmers – above all in Eastern Europe – decided to cultivate cereals, corn and soybean in the current fiscal year. According to our preliminary estimates, global sugarbeet cultivation area fell in one year from 5.2 to 4.4 million hectares. As expected, area within the regulated EU 27 sugar market declined from 1.78 to almost 1.5 million hectares as part of the reform of the Sugar Market Regime. Meanwhile, American farmers used the opportunity to increase the profitability of their sugarbeet cultivation by means of the first genetically modified sugarbeet varieties from KWS. Our herbicide-tolerant sugarbeet varieties were sown on around 40 % of the sugarbeet cultivation area in North America. Overall, net sales for the segment at March 31, 2008, were € 159.8 (171.7) million, down some 7 % year-on-year. However, we expect to post almost 20 % of our annual net sales in the fourth quarter as a result of later sowing stemming from the weather conditions.

In contrast, profit for the segment was € 34.0 (45.5) million, well below the figure for the same period of the previous year, but still at the level of fiscal 2005/2006, when we had to cope with the first cuts from the reform of the Sugar Market Regime. It should also be

kept in mind that the previous year's profit was bolstered by the reversal of adjustments for inventories.

### **Corn**

The corn segment far exceeded our expectations by generating sales of € 255.7 (203.8) million at March 31, 2008. We were able to increase our sales significantly, in particular in the strategic growth region of Southeastern Europe, as well as in our home market of Germany and in France, Europe's largest agricultural market. Our North American joint venture AgReliant will also contribute to the segment's growth in net sales this fiscal year despite a considerable strain resulting from the weak U.S. dollar. Including successful rapeseed business in the first half of the year, the segment's profit at the end of the third quarter is accordingly € 29.9 (16.8) million, well up year-on-year.

### **Cereals**

The KWS LOCHOW Group, in which our cereals activities are bundled, reported net sales of € 62.0 (48.7) million at March 31, 2008. This growth is attributable to the previously reported increases in sales of winter cereal varieties, above all hybrid rye. In the third and fourth quarters, net sales come from summer cereal varieties; however, these are usually not able to cover the costs of the respective quarter.

### **Capital expenditure**

In the first nine months, KWS invested € 20.1 (13.2) million alone in property, plant and equipment. It is therefore showing capital expenditure at almost double the amount of depreciation, for which the figure is € 10.9 (11.3) million.

Out of total capital expenditure on intangible assets and property, plant and equipment of € 21.4 (18.6) million within the KWS Group, 40 % was in the breeding & services segment and 25 % in the corn segment. Some 72 % 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 in expanding the office building in Einbeck and acquiring breeding areas in Saxony-Anhalt. In order to improve the quality of seed processing, we invested in new technologies for cleaning,

calibrating and dressing the raw goods. Continuous improvement of these processes ensures compliance with our high standards of quality.

## Segment report

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	07/08	06/07	07/08	06/07
<b>Net sales</b>	<b>373.4</b>	<b>336.9</b>	<b>483.6</b>	<b>428.3</b>
Sugarbeet	138.4	148.9	159.8	171.7
Corn	225.2	180.8	255.7	203.8
Cereals	7.2	5.9	62.0	48.7
Breeding & services	2.6	1.3	6.1	4.2
<b>Operating income</b>	<b>139.4</b>	<b>136.2</b>	<b>93.8</b>	<b>91.5</b>
Sugarbeet	44.7	55.7	34.0	45.5
Corn	52.7	41.1	29.9	16.8
Cereals	-0.3	-0.3	10.4	6.9
Breeding & services	42.3	39.7	19.5	22.3
<b>Capital expenditure</b>	<b>5.8</b>	<b>8.1</b>	<b>21.4</b>	<b>18.6</b>
Sugarbeet	0.6	0.8	4.1	3.1
Corn	1.6	0.5	5.4	3.2
Cereals	1.2	0.7	3.4	1.8
Breeding & services	2.4	6.1	8.5	10.5

## 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 Interpretations Committee (IFRIC). All disclosures on KWS are therefore disclosures on the Group within the meaning of these regulations. The interim report of the KWS Group was prepared in accordance with IAS 34, and have not been examined by an auditor or undergone a complete statutory audit. Exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2007 were used. The Notes appended to the annual financial statements as of June 30, 2007, 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 2007/2008, KWS SCANDINAVIA AB, Sweden, was sold at the share of equity held in it after its activities were taken over by the newly established subsidiary in Denmark. As a result, a total of 41 companies are now fully consolidated and three proportionately consolidated in the KWS Group.

## **Balance Sheet of the KWS Group**

The inventories also include the processed and marketable certified seed for the fourth quarter following a good harvest in 2007. Of this, more than 50 % is attributable to corn inventories and just over one quarter to sugarbeet seed. Corn inventories are around € 10 million lower than a year ago, while the other inventories are at the level of the previous year.

Trade receivables of € 327 million were reported at March 31 on net sales of € 373 million in the third quarter. Receivables from deliveries of corn seed are 24 % higher than at the same time a year ago, whereas receivables from sugarbeet are 20 % lower than 12 months ago and account for just 30 % of total trade receivables. Additionally short-term loans of € 18 million were required to finance business operations, with the result that the net cash at March 31, 2008, was € 49 million, after € 60 million on June 30, 2007.

The increase in trade payables and in short-term provisions totaling € 42 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 € 16 million rise in current tax payables is the profit for the third quarter.

€ millions	March 31, 2008	June 30, 2007
<b>Assets</b>		
Intangible assets	33.8	35.4
Property, plant and equipment	153.3	147.9
Other financial assets	6.3	6.0
Noncurrent tax assets	7.5	7.1
Deferred tax assets	16.6	16.3
<b>Noncurrent assets</b>	<b>217.5</b>	<b>212.7</b>
Inventories	103.2	90.6
Trade receivables	326.9	204.2
Marketable securities	9.2	20.0
Cash and cash equivalents	65.8	48.1
Current tax assets	7.5	7.8
Other current assets	24.4	16.0
	<b>537.0</b>	<b>386.7</b>
Noncurrent assets held for sale	0.0	10.4
<b>Current assets</b>	<b>537.0</b>	<b>397.1</b>
<b>Total assets</b>	<b>754.5</b>	<b>609.8</b>
<b>Equity and Liabilities</b>		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	369.2	320.8
Minority interests	25.5	20.0
<b>Equity</b>	<b>420.0</b>	<b>366.1</b>
Long-term provisions	60.8	59.3
Long-term borrowings	3.6	3.9
Trade payables	1.9	2.4
Deferred tax liabilities	14.5	16.7
Other long-term liabilities	11.3	4.5
<b>Noncurrent liabilities</b>	<b>92.1</b>	<b>86.8</b>
Short-term provisions	80.8	71.3
Short-term borrowings	22.4	4.5
Trade payables	72.8	39.8
Current tax payables	34.8	19.2
Other liabilities	31.6	20.7
Subtotal of current liabilities	242.4	155.5
Liabilities directly connected to noncurrent assets held for sale	0.0	1.4
<b>Current liabilities</b>	<b>242.4</b>	<b>156.9</b>
<b>Liabilities</b>	<b>334.5</b>	<b>243.7</b>
<b>Total equity and liabilities</b>	<b>754.5</b>	<b>609.8</b>

## Cash flow statement

€ millions	1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2007/08	2006/07
<b>Net income for the year</b>	<b>76.7</b>	<b>65.0</b>
<b>Cash earnings according to DVFA/SG</b>	<b>86.1</b>	<b>72.0</b>
Cash flow from changes of net current assets	–74.4	–64.1
<b>Net cash from operating activities</b>	<b>11.7</b>	<b>7.9</b>
<b>Net cash from investing activities</b>	<b>–11.7</b>	<b>–19.1</b>
<b>Net cash from financing activities</b>	<b>9.5</b>	<b>4.8</b>
Change in cash and cash equivalents	9.4	–6.4
Cash and cash equiv.s at beginning of period	68.1	55.6
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	–2.5	–0.6
<b>Cash and cash equivalents at end of period</b>	<b>75.0</b>	<b>48.6</b>

The net cash from operating activities improved in the first nine months by just over € 4 million year-on-year due to the increase in net income for the year. The net cash from investing activities of € –11.7 million includes capital expenditure on property, plant and equipment of € 20.1 million and other investments in intangible and financial assets, as well as the proceeds from sale of our potato activities.

## Statements of Changes in Equity of KWS Group

The changes in equity reflect the profit for the third quarter. Pursuant to the resolution adopted by the Shareholders Meeting on December 13, 2007, KWS SAAT AG paid out dividends totaling € 9.2 million to its shareholders. The minority interests profited from the positive earnings of the cereals and corn segments.

€ millions	Group interests	Minority interests	Group equity
<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>
<b>Balance as at June 30, 2007</b>	<b>346.1</b>	<b>20.0</b>	<b>366.1</b>
Dividends paid	-9.2	-0.4	-9.6
Changes in consolidation scope	0.0	0.0	0.0
Other changes	1.2	0.0	1.2
Consolidated net profit	70.3	6.4	76.7
Other gains (losses)	-13.9	-0.5	-14.4
<b>Total consolidated gains (losses)</b>	<b>56.4</b>	<b>5.9</b>	<b>62.3</b>
<b>Balance as at March 31, 2008</b>	<b>394.5</b>	<b>25.5</b>	<b>420.0</b>

## Employees\*

	1 <sup>st</sup> –3 <sup>rd</sup> quarter 2007/08	Previous year
Germany	1,228	1,137
Europe (excluding Germany)	654	609
America	858	899
Other countries	58	59
<b>Total</b>	<b>2,798</b>	<b>2,704</b>

\* at quarter end

Of the above number, 497 (540) employees are included according to the percentage of equity held in the companies that employ them. This figure relates to a total of 996 (1,081) employees from – still – three associated companies that are included at-equity in the consolidated financial statements.

## Outlook for fiscal 2007/2008

At the time of the 2008 sowing season, **sugarbeet cultivation area** in the EU 27 had fallen by just over 15 % to almost 1.5 million hectares. In the wake of this development, we currently anticipate that net sales in the EU 27 will decline by 13 % to € 107 million. On the other hand, we expect sales to grow outside the EU by 14 % to around € 87 million. That is a satisfactory development, given the unexpectedly high reduction in area, especially in Eastern Europe, and the weak dollar, and it is sustained mainly by the successful sales of genetically modified sugarbeet in the U.S. and the sharp increase in net sales in Turkey.

Sugarbeet remains the most profitable segment at the KWS Group. After a return on sales (ROS) of 17 % in this segment last year, we anticipate that this figure will fall to around 15 % in fiscal 2007/2008. Last year's profit of € 35.1 million at the segment, which was impacted by extraordinary effects, will not be able to be achieved as a result of higher unit costs, coupled with a decline in net sales and negative currency influences.

The trend emerging for the **corn segment** in the current fiscal year is again very gratifying. Strategic expansion of our growth markets – in particular Southeastern Europe – is having an impact and is accompanied by higher shares in our core markets of Germany and France. We expect net sales for fiscal 2007/2008 to grow by 15 % year-on-year, while profit at the segment is likely to increase by just over 60 % compared with the previous year (€ 13.3 million) as a result of strong demand and improved margins.

**Cereals business** will likewise post a very gratifying fiscal 2007/2008, with net sales growing by some 20 % (previous year: € 54.5 million) and profit by around 50% (previous year: € 5.3 million).

That means that the **KWS Group** will improve net sales by around 9 % and record about a 10 % higher operating profit in fiscal 2007/2008.

## Forecast report

Above and beyond the opportunities and risks described in the Semiannual Report, there is currently a further risk factor resulting from the directive issued by Germany's Federal Office for Consumer Protection and Food Safety on the suspension of approval for a number of commonly used seed treatment agents (insecticides). The entails a ban on sowing seed that has been treated in this way. If the ban lasts, we would have to write down stocks of already dressed seed.

In April 2008, following successful negotiations, we signed the joint venture agreement with our new Dutch partner Van Rijn relating to potato breeding and the production and marketing of seed potatoes. The company, which is headquartered in Poeldijk near Amsterdam, will commence its operations on July 1, 2008; it will be proportionately consolidated at 50 % in the breeding & services segment of the KWS Group.

## Dates

We will present the 2007/2008 financial statements of the KWS Group and KWS SAAT AG to the media at our annual press conference on October 30, 2008. At the same time, we will publish our 2007/2008 Annual Report in the Internet at [www.kws.de](http://www.kws.de). **Our company's Annual Shareholders' Meeting will be held on December 16, 2008, as customary at the company's headquarters in Einbeck.**

Einbeck, May 29, 2008

**KWS SAAT AG**

The Executive Board



P. von dem Bussche



Ch. Amberger



H. Duenbostel



L. Broers (deputy)

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