

# 1st Quarterly Report of the KWS Group Fiscal Year 2008/2009

July 1 to September 30, 2008

**Seeding the future**  
since 1856



## Report of the Executive Board

Dear shareholders and friends of KWS,

This quarterly report will inform you about our business performance in the first three months of fiscal 2008/2009. We achieve most of our seed sales in this period from crops such as rye, rape-seed and wheat, which are primarily sown in the fall. However, the time of sowing can vary with weather conditions, which means that the quarterly financial statements can be compared with those for the same period of the previous year to only a limited degree. Sales of our proportionately consolidated joint venture Van Rijn – KWS B.V., where our new potato activities have been bundled since July 1, 2008, are also included for the first time. Taken as an average over the years, the net sales generated in the first three months account for around one-tenth of the KWS Group's annual sales. The lion's share of our seed sales comes in the spring from corn and sugarbeet.

## Business performance

Net sales at the KWS Group in the first quarter of fiscal 2008/2009 were € 82.8 (61.9)\* million, a 34 % year-on-year increase that was mainly the result of successful hybrid rye business in Germany and Northern Europe. Operating income in the first quarter is negative due to the seasonal nature of our business and was € –11.2 (–15.3) million.

Net financial income/expenses reflects both interest income from the positive net cash balance at June 30, 2008, and interest expense from pension provisions. In the previous year, this item also included the profit from the sale of our potato activities. The figure for income tax expenses was obtained by applying the effective tax rate planned for the fiscal year as a whole to the pre-tax profits for the quarter.

\* The figures in parentheses are those for the previous year

## Income statement

€ millions	1 <sup>st</sup> quarter	
	2008/2009	Previous year
Net sales	82.8	61.9
Operating income	-11.2	-15.3
Net financial income/expenses	0.1	5.7
Result of ordinary activities	-11.1	-9.6
Income taxes	-4.8	-5.9
Net income for the period	-6.3	-3.7
Minority interest	2.8	1.3
Net income after minority interest	-9.1	-5.0
<b>Earnings per share (€)</b>	<b>-1.38</b>	<b>-0.76</b>

## The individual segments

The prices for cereals for consumption tended lower in the period July to September, but were on a comparable level with those of the previous year in absolute terms. The KWS LOCHOW GMBH, in which the KWS Group's cereals activities are bundled, was able to improve its net sales further in this environment. Hybrid rye sales increased clearly and will probably account for around 50 % (39 %) of our cereals business for the first time this fiscal year. While sales of barley experienced a slightly positive trend overall, sales volumes of winter wheat declined in Germany and France. Net sales in the **cereals segment** were € 56.1 (36.3) million. The segment's income rose to € 14.7 (6.4) million, but will weaken again slightly due to running costs as the year under review 2008/2009 progresses.

Sowing of winter rapeseed from August to September largely determines the volume of net sales for the first quarter in the **corn segment**. Cultivation area in the EU 27 fell slightly at the time of this year's winter rapeseed sowing season. Sales volumes of rapeseed remained stable, while it was possible to raise prices slightly. Net sales for the segment thus increased to € 20.4 (17.4) million. Income for the quarter was also slightly better than that of the previous year at € -8.5 (-9.4) million.

Following net sales of € 6.3 million in the same period for the previous year, the figure for the **sugarbeet segment** in the first quarter of the current fiscal year was down slightly from last year at € 4.8 million. The higher cost of sales and selling expenses, in particular as a result of the expansion of our distribution structures in Turkey, put an additional strain on income for the quarter, which was € –5.1 million compared with € –1.5 million in the previous year.

### Capital expenditure

In the first quarter, KWS invested € 8.8 (7.8) million in property, plant and equipment. It is therefore showing capital expenditure well above depreciation at € 4.6 (3.6) million. Our biggest single investments in property, plant and equipment relate to drying, processing and storage capacities in Romania, Ukraine and the U.S. in the corn segment. Acquisition of our new potato activities in the joint venture Van Rijn – KWS B.V., which is consolidated proportionately in the breeding & services segment, resulted in additions of € 17.7 million to property, plant and equipment.

Of the total capital expenditure of € 26.7 (8.2) million within the KWS Group, 76% was thus in the breeding & services segment, 19% in the corn segment, 3% in the cereals segment and 2% in the sugarbeet segment.

### Segment report

€ millions	1 <sup>st</sup> quarter	
	2008/2009	Previous year
<b>Net sales</b>	<b>82.8</b>	<b>61.9</b>
Sugarbeet	4.8	6.3
Corn	20.4	17.4
Cereals	56.1	36.3
Breeding & services	1.5	1.9
<b>Operating income</b>	<b>–11.2</b>	<b>–15.3</b>
Sugarbeet	–5.1	–1.5
Corn	–8.5	–9.4
Cereals	14.7	6.4
Breeding & services	–12.3	–10.8
<b>Capital expenditure</b>	<b>26.7</b>	<b>8.2</b>
Sugarbeet	0.6	2.0
Corn	5.2	2.8
Cereals	0.7	1.3
Breeding & services	20.2	2.1

### **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 quarterly financial statements of the KWS Group were 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, 2008 were used. The Notes appended to the annual financial statements as of June 30, 2008, 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 quarterly financial statements of the KWS Group include 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.

Effective July 1, 2008, the companies consolidated in the KWS Group increased with the formation of our joint venture Van Rijn – KWS B.V., Poeldijk/Netherlands and its four subsidiaries. As a result, a total of 42 companies will be fully consolidated and eight proportionately consolidated in 2008/2009.

## Balance Sheet of the KWS Group

€ millions	September 30, 2008	June 30, 2008
<b>Assets</b>		
Intangible assets	52.6	34.5
Property, plant and equipment	163.3	157.1
Other financial assets	5.5	5.5
Noncurrent tax assets	7.5	7.1
Deferred tax assets	18.8	19.6
<b>Noncurrent assets</b>	<b>247.7</b>	<b>221.1</b>
Inventories	127.7	85.8
Trade receivables	214.0	224.2
Marketable securities	18.0	18.0
Cash and cash equivalents	46.0	95.0
Current tax assets	19.3	7.1
Other current assets	35.4	19.9
<b>Current assets</b>	<b>460.4</b>	<b>450.0</b>
<b>Total assets</b>	<b>708.1</b>	<b>671.1</b>
<b>Equity and Liabilities</b>		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	351.3	351.8
Minority interests	23.6	20.9
<b>Equity</b>	<b>400.2</b>	<b>398.0</b>
Long-term provisions	61.6	60.9
Long-term borrowings	2.5	2.6
Trade payables	2.0	2.0
Deferred tax liabilities	17.7	13.8
Other long-term liabilities	11.1	11.3
<b>Noncurrent liabilities</b>	<b>94.9</b>	<b>90.6</b>
Short-term provisions	56.5	88.2
Short-term borrowings	54.9	3.9
Trade payables	54.8	36.9
Current tax payables	22.6	22.6
Other liabilities	24.2	30.9
<b>Current liabilities</b>	<b>213.0</b>	<b>182.5</b>
<b>Liabilities</b>	<b>307.9</b>	<b>273.1</b>
<b>Total equity and liabilities</b>	<b>708.1</b>	<b>671.1</b>

The increase in inventories is due to the absorption of the new harvest in 2008. The necessary risks of realization were reflected by additional adjustments. We have since received payment of more than 40 % of the accounts receivable at June 30, 2008. The reduction in current provisions was primarily due to the payment of royalties that had been outstanding as of June 30.

Following the increase in total assets in the first three months of this fiscal year, we can report a slight decrease in the equity ratio of 57 %, compared with 59 % on June 30, 2008. The net financial balance as of September 30, 2008, amounted to € 7 (3) million, after € 107 (60) million on June 30, 2008.

### Cash flow statement

€ millions	1 <sup>st</sup> quarter	
	2008/2009	Previous year
<b>Net income for the period</b>	<b>-6.3</b>	<b>-3.7</b>
<b>Cash earnings</b>	<b>-0.8</b>	<b>-1.0</b>
Funds tied up in net current assets	-77.0	-57.5
<b>Net cash from operating activities</b>	<b>-77.8</b>	<b>-58.5</b>
<b>Net cash from investing activities</b>	<b>-24.8</b>	<b>4.2</b>
<b>Net cash from financing activities</b>	<b>50.7</b>	<b>22.5</b>
Change in cash and cash equivalents	-51.9	-31.8
Cash and cash equiv.s at beginning of period	112.9	68.1
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	3.0	-2.6
<b>Cash and cash equivalents at end of period</b>	<b>64.0</b>	<b>33.7</b>

The net cash from investing activities reflects mainly the impact of our new potato commitment Van Rijn – KWS B.V., while the sale of our potato activities resulted in a positive cash flow in the previous year.

## Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
<b>Balance as at June 30, 2007</b>	<b>346,0</b>	<b>20,0</b>	<b>366,0</b>
Dividends paid	0,0	0,0	0,0
Changes in consolidation scope	0,0	0,0	0,0
Other changes	0,0	0,0	0,0
Consolidated net profit	-5,0	1,3	-3,7
Other gains (losses)	-4,1	0,0	-4,1
<b>Total consolidated gains (losses)</b>	<b>-9,1</b>	<b>1,3</b>	<b>-7,8</b>
<b>Balance as at September 30, 2007</b>	<b>336,9</b>	<b>21,3</b>	<b>358,2</b>
<b>Balance as at June 30, 2008</b>	<b>377,1</b>	<b>20,9</b>	<b>398,0</b>
Dividends paid	0,0	0,0	0,0
Changes in consolidation scope	0,0	0,0	0,0
Other changes	0,0	0,0	0,0
Consolidated net profit	-9,1	2,8	-6,3
Other gains (losses)	8,6	-0,1	8,5
<b>Total consolidated gains (losses)</b>	<b>-0,5</b>	<b>2,7</b>	<b>2,2</b>
<b>Balance as at September 30, 2008</b>	<b>376,6</b>	<b>23,6</b>	<b>400,2</b>

As in the previous year, the changes in equity reflect the negative – due to seasonal influences – profit for the quarter. No dividends were paid out in the period under review. Currency effects taken directly to equity, particularly those from the stronger US dollar, caused equity to increase by € 2.2 million despite the negative quarterly result.



## Employees\*

	1 <sup>st</sup> quarter	
	2008/2009	Previous year
Germany	1,404	1,305
Europe (excluding Germany)	750	642
America	865	768
Other countries	84	43
<b>Total</b>	<b>3,103</b>	<b>2,758</b>

\* at quarter end

Our employees are the most important factor in the success of KWS. At September 30, we had 3,103 employees worldwide, with workforce growth in all regions. Plans call for this level to be maintained in fiscal 2008/2009, resulting in an increase in the size of the workforce – particularly in research and development and due to the inclusion of the employees of our new joint venture Van Rijn – KWS B.V. – of about 10 % over that of the previous year (2,856).

## KWS launches employee stock participation program

It is our employees who fulfill KWS' promises to our customers – day in and day out. In doing so they ensure the lasting success of our company. For that reason, we want to let our employees participate in the long-term success of our company to a greater extent than before and thus increase their ties of loyalty to the company. To that end, KWS is launching a new employee stock participation program. In all, the stock purchase program will have a volume of up to 30,000 KWS shares. At a discounted price 20 % below the stock market price, all employees – with the exception of members of management and control bodies – will be able to purchase up to 500 shares each. In the current fiscal year, the program is initially restricted to the employees of the KWS Group in the EU 27 and to the period between December 1, 2008, and January 31, 2009.

## Outlook

We continue to expect to grow sales at the KWS Group by up to 10 % over the previous year (€ 599.1 million). Sales revenue from our new potato business Van Rijn – KWS B.V. will contribute to this for the first time. Income at the corn segment will remain at the same high level, and the weaker income we expect from sugarbeet will be offset by positive performance in the cereals segment. We therefore expect to attain the operating income level of 2007/2008 again (€ 70.1 million) despite a sharp rise in the cost of sales.

A total area of 30 thousand hectares still has to be returned in the EU 27 as part of the reform of the Sugar Market Regime. However, we expect that sugarbeet cultivation will pick up in Germany as a result of a slight increase in areas. As far as can be seen at present, the foreign business of the **sugarbeet segment** will expand further in America through sales of herbicide-tolerant Roundup Ready varieties, while we will not achieve our planned sales in Eastern Europe. High sugar inventories and the fact that our customers are experiencing liquidity bottlenecks will diminish our sales opportunities in the spring of 2009. For the fiscal year as a whole, we currently anticipate a stable net sales volume, yet rising costs, and thus expect income for the sugarbeet segment to be below that of the previous year (€ 28.1 million).

We anticipate rising sales quantities in the **corn segment**, above all in France, Southeastern and Eastern Europe and the U.S. Since most multiplication agreements for sales in 2009 were concluded on the basis of the high consumer prices in the fall of 2007, the costs of producing corn seed have increased significantly. It is not yet possible to determine the extent to which these cost increases can be passed on, due to fierce competition in the market. The corn segment will thus probably achieve its strong result of the previous fiscal year 2007/2008 (€ 23.3 million).

Our Annual Shareholders' Meeting will be held on December 16, 2008, at 11:00 a.m., as usual at the company's headquarters in Einbeck.

Einbeck, November 28, 2008

**KWS SAAT AG**

The Executive Board



P. von dem Bussche



Ch. Amberger



H. Duenbostel



L. Broers (deputy)

**Financial calendar**

December 16, 2008	Annual Shareholders' Meeting in Einbeck
February 26, 2009	Report on the 2nd quarter 2008/2009
May 28, 2009	Report on the 3rd quarter 2008/2009
October 29, 2009	Annual Press Conference in Hanover; Analysts' Conference in Frankfurt

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