

3<sup>rd</sup> Quarterly Report of the KWS Group  
Fiscal Year 2008/2009

**July 1, 2008, to March 31, 2009**

**Seeding the future**  
since 1856



## 3<sup>rd</sup> Quarterly Report 2008/2009

Dear shareholders and friends of KWS,

Following completion of most of the spring sowing season, we would like to inform you in this report about the business performance of the KWS Group in the period from July 1, 2008, to March 31, 2009, and provide an outlook for the remainder of the fiscal year 2008/2009, which ends on June 30. Overall, we anticipate that annual net sales for the KWS Group will rise by more than 15 % (previous year: €599.1 million). The global economic and financial crisis has caused our business to suffer above all from negative exchange rate influences, liquidity bottlenecks on the part of our customers and the resulting need for allowances on receivables. Nevertheless, we expect to record a slight improvement in operating income over the previous year (EBIT: €70.1 million)\*. KWS is thus continuing on its path of growth and is supporting this growth sustainably with extensive investments.

In the first nine months of the fiscal year, consolidated net sales increased by 18 % to €572.3 (€483.6) million. All the segments – corn, sugarbeet, cereals and breeding & services – contributed to this gratifying growth. In addition, the breeding & services segment reported revenue for the first time from our new potato joint venture Van Rijn – KWS B.V. The KWS Group's operating income (EBIT) at March 31 was €105.8 million – well above the previous year's figure of €93.8 million.

While net financial income/expenses was positive in the past year due to the profit from the sale of our former potato activities, it will be negative again this year, as in most years. It reflects interest expense from financing the company's operations and lower income from investment of the high positive net cash balance at the beginning of the fiscal year. The current low level of interest rates resulted in a drop in the market value of our long-term interest rate hedging instruments. The applicable discount rate of 6.4 % (5.0 %) for measuring pension provisions additionally reduced net financial income by €0.8 million. 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.

## Income statement

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2008/09	2007/08	2008/09	2007/08
Net sales	430.5	373.4	572.3	483.6
Operating income	145.7	139.4	105.8	93.8
Net financial income/expenses	-2.1	0.7	-4.2	5.5
Result of ordinary activities	143.6	140.1	101.6	99.3
Income taxes	42.7	38.3	30.9	22.6
Net income for the period	100.9	101.8	70.7	76.7
Minority interest	3.8	4.7	6.6	6.4
Net income after minority interest	97.1	97.1	64.1	70.3
<b>Earnings per share (€)</b>	<b>14.71</b>	<b>14.71</b>	<b>9.71</b>	<b>10.65</b>

## The individual segments

The **corn segment** surpassed our expectations by posting an increase in net sales at March 31, 2009, of 17 % to €298.7 (255.7) million. We again grew sales of corn seed in Germany. In North America, the trend to greater cultivation areas for soybeans at the expense of corn is apparently continuing. We currently expect a slight decline in corn areas there. Nevertheless, the segment achieved strong growth in net sales in the American market as a result of price increases and a stronger U.S. dollar than in the same period for the previous year. The currencies in our Southeastern and Eastern European markets trended weaker and thus had a negative impact. Income at the segment at March 31 rose to €31.3 (29.9) million.

In France, KWS has been cooperating with the breeding company RAGT for ten years. Both companies have profited from sharing breeding material and know-how and expanded their position in the European market. However, the existing stake of around 10 % that each company holds in the other will be dissolved in the current year and taken directly to neutral result, since there is no need for the partnership to be underpinned by a capital share.

Decline in **sugarbeet cultivation** in Europe has bottomed out following completion of the reform of the European Sugar Market Regime. According to our estimates, cultivation area in the EU 27 rose slightly to 1.6 (1.5) million hectares. Sugarbeet remains – despite the lower reference prices resulting from the reform of the Sugar Market Regime – an attractive crop for European farmers. We expect global cultivation area to remain stable at 4.2 million hectares.

In the U.S., the success story of KWS' herbicide-tolerant Roundup Ready sugarbeets continues in the second year after their launch. These innovative varieties are planted on 95 % of American sugarbeet areas. However, the largest part of the contribution margins stemming from KWS' herbicide-tolerant varieties is reflected in the results of the breeding & services segment. Net sales at the segment at the end of the 3rd quarter totaled €177.1 (159.8) million. At the same time, the segment's income was impacted by the effects of the

financial crisis in Eastern and Southeastern Europe. Counterparty defaults due to liquidity bottlenecks on the part of our customers and weak local currencies are having a negative impact on our business. The sugarbeet segment's income therefore fell to € 32.9 (34.0) million.

Net sales at the **cereals segment** rose at March 31 to € 79.4 (62.0) million. Most of this revenue was achieved last fall from sales of our winter cereal varieties. This success is mainly due to sales of hybrid rye seed. The segment's revenues in the second half of the year are usually lower due to the far higher sales of winter cereal varieties compared with summer cereals. Consequently, the segment posts a weaker income in the third and fourth quarters every fiscal year. Income at March 31 was € 15.2 million, 46 % up on the previous year (€ 10.4 million).

KWS has maintained a partnership with the French cereals breeder Momont for ten years in order to strengthen its position in the French market for rapeseed hybrids and wheat. The joint venture has successfully positioned itself on the French market. However, the competitive situation in the rapeseed market continues to become more and more challenging, meaning that our growth expectations are significantly lower. We therefore amortized the goodwill in the past quarter.

The **breeding & services segment** reported its first revenue from our new potato joint venture in fiscal 2008/2009. External sales were € 17.1 (6.1) million. The segment's income improved as a result of higher royalties due to the good performance of all product segments and additional technology licenses from the sale of Roundup Ready sugarbeet in America. It rose to € 26.4 (19.5) million.

## Capital expenditure

In the first nine months, KWS invested €25.1 (20.1) million in property, plant and equipment alone. It is therefore showing capital expenditure at more than double the amount of depreciation, for which the figure is € 11.6 (10.9) million.

Most of the investments in property, plant and equipment went toward expanding corn production capacities in Eastern and Southeastern Europe and the U.S. New drying and processing plants and continuous improvement of processes ensure compliance with our high standards of quality.

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 KWS Group's total capital expenditure of €44.1 (21.4) million, just over half was in the breeding & services segment and one-third in the corn segment. Some 84 % of all capital expenditure was made in Europe, a quarter of that in Germany.

### Segment report

€ millions	3 <sup>rd</sup> quarter		1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2008/2009	2007/2008	2008/2009	2007/2008
<b>Net sales</b>	<b>430.5</b>	<b>373.4</b>	<b>572.3</b>	<b>483.6</b>
Segments:				
Sugarbeet	156.9	138.4	177.1	159.8
Corn	261.0	225.2	298.7	255.7
Cereals	5.2	7.2	79.4	62.0
Breeding & services	7.4	2.6	17.1	6.1
<b>Operating income</b>	<b>145.7</b>	<b>139.4</b>	<b>105.8</b>	<b>93.8</b>
Segments:				
Sugarbeet	46.8	44.7	32.9	34.0
Corn	54.8	52.7	31.3	29.9
Cereals	-3.6	-0.3	15.2	10.4
Breeding & services	47.7	42.3	26.4	19.5
<b>Capital expenditure</b>	<b>11.3</b>	<b>5.8</b>	<b>44.1</b>	<b>21.4</b>
Segments:				
Sugarbeet	2.6	0.6	4.4	4.1
Corn	4.9	1.6	12.3	5.4
Cereals	1.0	1.2	2.3	3.4
Breeding & services	2.8	2.4	25.1	8.5

## 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 3rd quarterly report of the KWS Group was prepared in accordance with IAS 34, and has 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, 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 report of the KWS Group on the first nine months of the current fiscal year 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.

The number of companies consolidated in the Group increased at July 1, 2008, as a result of inclusion of our joint venture Van Rijn – KWS B.V., Poeldijk/Netherlands, and its four subsidiaries. Consequently, a total of 42 companies were fully consolidated and twelve proportionately consolidated in the KWS Group in 2008/2009. Up to

now, the joint ventures included proportionately as a sub-group were counted only as one company. Now, however, their subsidiaries are recorded individually.

### Balance Sheet of the KWS Group

€ millions	March 31, 2009	June 30, 2008
<b>Assets</b>		
Intangible assets	48.9	34.5
Property, plant and equipment	168.3	157.1
Other financial assets	5.6	5.5
Noncurrent tax assets	5.6	7.1
Deferred tax assets	18.4	16.9
<b>Noncurrent assets</b>	<b>246.8</b>	<b>221.1</b>
Inventories and biological assets	162.6	85.8
Trade receivables	367.8	224.2
Marketable securities	16.8	18.0
Cash and cash equivalents	67.1	95.0
Current tax assets	14.6	7.1
Other current assets	22.1	19.9
<b>Current assets</b>	<b>651.0</b>	<b>450.0</b>
<b>Total assets</b>	<b>897.8</b>	<b>671.1</b>
<b>Equity and Liabilities</b>		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	410.4	351.8
Minority interests	25.8	20.9
<b>Equity</b>	<b>461.5</b>	<b>398.0</b>
Long-term provisions	60.1	60.9
Long-term borrowings	2.4	2.6
Trade payables	5.7	2.0
Deferred tax liabilities	17.6	13.8
Other long-term liabilities	10.4	11.3
<b>Noncurrent liabilities</b>	<b>96.2</b>	<b>90.6</b>
Short-term provisions	118.6	88.2
Short-term borrowings	67.1	3.9
Trade payables	82.7	36.9
Current tax payables	37.8	22.6
Other liabilities	33.9	30.9
<b>Current liabilities</b>	<b>340.1</b>	<b>182.5</b>
<b>Liabilities</b>	<b>436.3</b>	<b>273.1</b>
<b>Total equity and liabilities</b>	<b>897.8</b>	<b>671.1</b>



The inventories also include the processed and marketable certified seed for the fourth quarter following a good harvest in 2008. Of this, more than 50 % is attributable to corn inventories and just over one quarter to sugarbeet seed. Corn inventories are around €36 million and sugarbeet inventories some €18 million higher than a year ago.

Trade receivables of €368 million were reported at March 31 on net sales of €431 million in the third quarter. Of the total receivables, 2/3 are accounted for by the corn segment and 1/3 by the sugarbeet segment. Receivables from deliveries of corn seed are almost 10 % and receivables from sugarbeet are just over 15 % higher than at the same time a year ago. Additionally, short-term loans of €63 million were required to finance capital expenditure and business operations, with the result that the net balance at March 31, 2009, was €14 million, after €106 million on June 30, 2008.

The increase in trade payables and in short-term provisions totaling €76 million is largely due to the sales-related technology license costs and the seed returns and credit balances that still have to be settled. The good business results of the third quarter caused current tax payables to rise by €15 million.

## Cash Flow Statement

€ millions	1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2008/2009	2007/2008
<b>Net income for the period</b>	70.7	76.7
<b>Cash earnings</b>	87.9	86.1
Funds tied up in net current assets	–128.5	–74.4
<b>Net cash from operating activities</b>	–40.6	11.7
<b>Net cash from investing activities</b>	–40.2	–11.7
<b>Net cash from financing activities</b>	50.8	9.5
Change in cash and cash equivalents	–30.0	9.4
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	1.0	–2.5
<b>Cash and cash equivalents at end of period</b>	83.9	75.0

The net cash from operating activities was €–40.6 million, compared with a positive cash flow of € 11.7 million in the previous year, due to a sales-related increase in receivables and additional seed inventories.

The net cash from investing activities was impacted by expansion of capacities and acquisition of our new potato activities in Van Rijn – KWS B.V. Last year, the sales of our investments in the potato business resulted in a significant influx of cash and cash equivalents.

### Statements of Changes in Equity of the KWS Group

€ millions	Group interests	Minority interests	Group equity
<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 income	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>
<b>Balance as at June 30, 2008</b>	<b>377.1</b>	<b>20.9</b>	<b>398.0</b>
Dividends paid	–11.2	–0.7	–11.9
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net income	64.1	6.6	70.7
Other gains (losses)	5.7	–1.0	4.7
<b>Total consolidated gains (losses)</b>	<b>69.8</b>	<b>5.6</b>	<b>75.4</b>
<b>Balance as at March 31, 2009</b>	<b>435.7</b>	<b>25.8</b>	<b>461.5</b>

The changes in equity reflect the income from successful seed business in the third quarter following the customary loss in the first half of the year. Pursuant to the resolution adopted by the Shareholders' Meeting on December 16, 2008, KWS SAAT AG has paid out a dividend of € 1.70 a share, or a total of € 11.2 million, to its shareholders. The other consolidated income includes increases in equity from currency translation of € 4.8 million, compared with a reduction of € 14.6 million in the previous year.

## Employees

	1 <sup>st</sup> –3 <sup>rd</sup> quarter	
	2008/2009	2007/2008
Germany	1,338	1,228
Europe (excluding Germany)	757	654
Americas	1,086	858
Other countries	104	58
<b>Total</b>	<b>3,285</b>	<b>2,798</b>

The number of employees at the KWS Group as of March 31, 2009, was 3,285 (2,798). The year-on-year increase in the workforce was mainly in Europe and North America. We expect an average of about 3,200 employees for the year in the entire KWS Group, a rise of 12 % over the previous year.

## Outlook for the end of fiscal year 2008/2009

We expect net sales in the **corn segment** to grow sharply by the end of the fiscal year. Sales will increase in Germany in particular. Business in America will also grow as a result of the positive development of the US dollar and price increases. Overall, we anticipate that revenue from the segment will rise by just above 15 % over the previous year (€328.9 million). As expected, the segment's income will be strained by the higher cost of sales and allowances on receivables. Nevertheless, we assume it will increase by almost 10 % over the previous year (€23.2 million).

We expect net sales in the **sugarbeet segment** to rise slightly, in particular in our core market of Germany, in the wake of the expansion of sugarbeet cultivation areas in the EU 27. In North America, the market share of our Roundup Ready sugarbeet will almost touch 70 % in the second year after its launch. However, it should be noted in this respect that the main share of the value added created by these genetically modified varieties will remain in the breeding & services segment. Net sales outside the EU 27 are expected to rise by more than 20 % (€87.2 million). Overall, we assume that the

segment's net sales at June 30 will be about 10 % higher than the previous year's (€194.8 million). We anticipate that the segment's income will decline by around 15 % (€28.1 million) as a result of allowances on receivables and negative exchange rate influences.

Net sales in our **cereals business** will increase around 20 % over the previous year (€67.4 million). Due to the goodwill impairment explained in the segment report, the increase in income will be lower than we have forecast. We currently expect it to rise by just over 5 % (€9.0 million).

The **breeding & services segment** will for the first time post revenue from the joint venture Van Rijn – KWS B.V. established at the beginning of the fiscal year. We therefore anticipate net sales of around €25 (8.0) million. In addition, higher internal income from royalties will have a positive impact on earnings, which are expected to be 30 % above those for the previous year (€9.8 million).

Overall, that means that the **KWS Group** will grow net sales by over 15 % and record a slight improvement in operating income at the end of the fiscal year on June 30, 2009.

## Forecast report

Above and beyond the opportunities and risks described in the 2007/2008 Annual Report and in the 2008/2009 Semiannual Report, we currently see the following factors that may influence our business.

### Risks

More and more of KWS' business partners, above all in Eastern and Southeastern Europe, are suffering liquidity bottlenecks as a result of the global economic and financial crisis. That means a significant increase in the risk of insolvencies in the agricultural sector. The situation has become particularly aggravated in Ukraine, Moldova and Romania. Counterclaims are also being asserted against KWS in this connection.

### Opportunities

Apart from these negative influences stemming from the current worldwide recession, the global seed breeding business is quite stable compared with other sectors. Our business model is based on the vital factors of food and energy. Their ever-growing importance gives KWS the robust strength needed to withstand the short-term effects of the financial crisis.

Einbeck, May 28, 2009

**KWS SAAT AG**

The Executive Board



Philip von dem Bussche



Christoph Amberger



Hagen Duenbostel



Léon Broers

### Financial calendar

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October 29, 2009	Annual press conference in Hanover; Analyst conference in Frankfurt
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November 26, 2009	Quarterly Report for Q1 2009/2010
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December 17, 2009	Annual Shareholders' Meeting in Einbeck
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