

Semiannual Report of the KWS Group
Fiscal Year 2009/2010

July 1 to December 31, 2009

Seeding the future
since 1856



Interim report 2009/2010

Dear shareholders and friends of KWS,

In the months of July to December, we generate net sales from our cereals and rapeseed business for the fall sowing season and from the first deliveries of our corn and sugarbeet varieties for the spring season. It is in the nature of our business that we only generate just under a fifth of our net annual sales in the first half of the year, while costs are spread almost evenly over the whole fiscal year. As a consequence, our earnings for the first six months are usually negative. In contrast, our outlook for the fiscal year as a whole is positive. After the first six months, we are still sticking to our forecast of being able to follow up on our outstanding fiscal 2008/09. Positive currency trends are one reason for this, while strong variety performance – especially in corn breeding – is also reinforcing our current assessment.

Business development in the first six months

Net sales in the first half of the year were €120.6 (141.8)* million, some 15 % lower year-on-year. This is due to the decline in our winter cereal and winter rapeseed business, as we stated in our Q1 report. The slight growth in the sugarbeet segment and the reduction in revenue from corn at December 31, 2009, is the result of shifts in sales between periods; no trend for the fiscal year as a whole can be deduced from this.

Operating income (EBIT) was €-52.1 (-39.9) million, reflecting the significant expansion (by more than 10 %) of our R&D activities that we had announced and the fall in contribution margins from our cereals and rapeseed business. On the other hand, the level of payments received and early orders by our customers were good, enabling us to reverse allowances for receivables and inventories.

As a result of the currently low level of interest, net financial income/expenses contains lower interest income and interest expense

compared with the previous year, resulting overall in a slight improvement in net financial income/expenses. The figure for income taxes was obtained by applying the effective tax rate planned for the fiscal year as a whole to the pre-tax profits for the half year.

Income statement (first half of the year)

In € million	2 nd quarter		1 st half	
	2009/2010	Prev. year	2009/2010	Prev. year
Net sales	55.3	59.0	120.6	141.8
Operating income	-24.0	-28.7	-52.1	-39.9
Net financial income/expenses	-0.9	-2.2	-1.8	-2.1
Result of ordinary activities	-24.9	-30.9	-53.9	-42.0
Income taxes	-6.3	-7.0	-14.6	-11.8
Net income for the period	-18.6	-23.9	-39.3	-30.2
Minority interest	1.6	-0.1	2.3	2.7
Net income for the period after minority interest	-20.2	-23.8	-41.6	-32.9
Earnings per share (€)	-3.06	-3.61	-6.30	-4.98

Statement of comprehensive income (first half of the year)

In € million	2 nd quarter		1 st half	
	2009/2010	Prev. year	2009/2010	Prev. year
Net income for the period	-18.6	-23.9	-39.3	-30.2
Currency translation for foreign subsidiaries	2.1	-4.6	-1.5	3.9
Deferred taxes on components of other total income	0.0	0.0	0.0	0.0
Comprehensive income for the period	-16.5	-28.5	-40.8	-26.3
of which shareholders of KWS SAAT AG	-18.2	-27.8	-43.1	-28.3
of which minority interest	1.7	-0.7	2.3	2.0

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). All disclosures on KWS are therefore disclosures on the Group within the meaning of these regulations. The semiannual financial statements of the KWS Group were 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, 2009, were used. The Notes appended to the annual financial statements as of June 30, 2009, therefore apply accordingly. As a result of the first-time application of the revised version of IAS 1, the income statement is supplemented as of fiscal 2009/2010 by the changes in equity in the form of a statement of comprehensive income. 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 consolidated semiannual financial statements of the KWS Group include the single-entity 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, 2009, the number of companies consolidated in the KWS Group fell by one fully consolidated company with the merger of KWS SEMINTE S.R.L., Romania, with DUNASEM S.R.L. As a result, a total of 41 companies will be fully consolidated and twelve proportionately consolidated in 2009/2010.

Capital expenditure

In the first six months, the KWS Group invested €25.2 (14.3) million in property, plant and equipment. It is therefore once again showing capital expenditure well above depreciation of €8.7 (7.7) million.

In the sugarbeet segment, there was increased investment in production plants in Germany and the U.S., as well as in a breeding station in Russia. In the corn segment, capital spending was mainly channeled to the construction of production plants in Eastern Europe and the U.S. The R&D investments at Einbeck related to greenhouses and building expansions required for further research.

Out of total capital expenditure of €27.1 (32.8) million (the previous year's figure was impacted by our new potato commitment), 51% was in the breeding & services segment, 26% in the corn segment, 17% in sugarbeet and the remaining 6% in our cereal activities.

Segment report (first half of the year)

In € million	2 nd quarter		1 st half	
	2009/2010	Prev. year	2009/2010	Prev. year
Net sales	55.3	59.0	120.6	141.8
Sugarbeet	14.9	15.4	23.6	20.2
Corn	16.1	17.3	31.7	37.7
Cereals	18.0	18.1	55.9	74.2
Breeding & services	6.3	8.2	9.4	9.7
Operating income	-24.0	-28.7	-52.1	-39.9
Sugarbeet	-9.1	-8.8	-13.7	-13.9
Corn	-4.9	-15.0	-17.9	-23.5
Cereals	9.0	4.1	13.5	18.8
Breeding & services	-19.0	-9.0	-34.0	-21.3
Capital expenditure	13.2	6.1	27.1	32.8
Sugarbeet	2.0	1.2	4.7	1.8
Corn	1.8	2.2	7.1	7.4
Cereals	0.4	0.6	1.5	1.3
Breeding & services	9.0	2.1	13.8	22.3

The individual segments

In the **cereals segment**, the impact of low prices for cereals for consumption during the fall sowing season resulted in a sharp decline in demand for certified seed. Sales of our hybrid rye varieties were hit in particular. Compared with the extraordinarily good previous year, our hybrid rye business dropped off by around 20%. Net sales for the cereals segment were thus €55.9 (74.2) million in the first half of the year. The segment's income consequently fell to €13.5 (18.8) million.

Net sales in the **corn segment** for the first six months were €31.7 (37.7) million, a year-on-year decline attributable to lower rapeseed business and shifts between quarters. However, first-half income improved sharply year-on-year to €-17.9 (-23.5) million despite the drop in net sales for the period. This is due to the reversal of allowance for payments that have now been received and for inventories, as well as a reduction in internal license costs. We anticipate better sales opportunities in the current year as a result of our good variety performance and the fact that the liquidity situation of our customers in Southeastern and Eastern Europe is slowly stabilizing.

Net sales in the **sugarbeet segment** were €23.6 (20.2) million and its income €-13.7 (-13.9) million, in both cases on a par with the previous year.

In contrast, strategic expansion of our R&D activities is having a significant impact on our core segment of **breeding & services**. By successfully hiring around 70 additional experts last calendar year, we are able to launch extensive new research and breeding projects and cooperative ventures. Combined with lower internal income from royalties from our cereals and rapeseed business, this resulted in income of €-34.0 million for the first six months, compared with €-21.3 million in the previous year.

Balance Sheet of the KWS Group

In € million	December 31, 2009	June 30, 2009
ASSETS		
Intangible assets	48.1	47.9
Property, plant and equipment	195.7	180.7
Financial assets	1.5	3.2
Noncurrent tax assets	6.2	6.4
Deferred tax assets	18.7	16.9
Noncurrent assets	270.2	255.1
Inventories and biological assets	267.2	121.5
Trade receivables	94.4	216.9
Marketable securities	15.2	14.1
Cash and cash equivalents	47.3	111.5
Current tax assets	41.9	15.6
Other current assets	41.7	21.3
Current assets	507.7	500.9
Total assets	777.9	756.0
EQUITY AND LIABILITIES		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	336.9	391.9
Minority interests	19.0	17.3
Equity	381.2	434.5
Long-term provisions	58.5	62.0
Long-term borrowings	11.7	1.9
Trade payables	3.6	6.4
Deferred tax liabilities	18.4	18.1
Other long-term liabilities	9.9	10.3
Noncurrent liabilities	102.1	98.7
Short-term provisions	74.7	112.7
Short-term borrowings	39.8	6.7
Trade payables	123.2	55.2
Current tax payables	20.8	18.3
Other liabilities	36.1	29.9
Current liabilities	294.6	222.8
Liabilities	396.7	321.5
Total equity and liabilities	777.9	756.0

As customary in the course of the year, the new harvest is absorbed in the fall and processed into certified seed. Apart from a planned increase in corn inventories, high-quality multiplication in the sugar-beet segment resulted in a sharp rise in inventories, which means that the availability of seed for the spring sowing season is secured.

In the first half of the year, we received payments of accounts receivable totaling €120 million, despite the impact of the financial crisis. As a result, receivables fell considerably over the figure at June 30, 2009. The current tax assets increased to €41.9 million, since entitlements to a tax refund as a result of the negative operating income had to be carried.

Cash flow statement (first half of the year)

In € million	1 st half	
	2009/2010	Previous year
Net income for the period	-39.3	-30.2
Cash Earnings	-44.6	-25.2
Funds tied up in net current assets	-22.0	8.9
Net cash from operating activities	-66.6	-16.3
Net cash from investing activities	-26.7	-31.3
Net cash from financing activities	30.4	21.8
Change in cash and cash equivalents	-62.9	-25.8
Cash and cash equivalents at beginning of period	125.6	112.9
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	-0.2	0.1
Cash and cash equivalents at end of period	62.5	87.2

Net cash from operating activities fell to €-66.6 (-16.3) million as a result of the lower net income for the period, the reversal of provisions and allowances and the increase in inventories.

Net cash from investing activities was €-26.7 due to lower capital expenditure. Cash and cash equivalents at the end of the period totaled €62.5 (87.2) million.

Statements of Changes in Equity (first half of the year)

In € million	Group interests	Minority interests	Group equity
Balance as at June 30, 2008	377.1	20.9	398.0
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 for the period	-32.9	2.7	-30.2
Other gains (losses)	4.4	-0.7	3.7
Total consolidated gains (losses)	-28.5	2.0	-26.5
Balance as at December 31, 2008	337.4	22.2	359.6
Balance as at June 30, 2009	417.2	17.3	434.5
Dividends paid	-11.9	-0.6	-12.5
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net income for the period	-41.6	2.3	-39.3
Other gains (losses)	-1.5	0.0	-1.5
Total consolidated gains (losses)	-43.1	2.3	-40.8
Balance as at December 31, 2009	362.2	19.0	381.2

The changes in equity essentially reflect the Group's income for the half year.

The dividend was set at € 1.80 for each of the 6.6 million shares pursuant to a resolution adopted by the Annual Shareholders' Meeting on December 17, 2009, in Einbeck, resulting in a total payout of €11.9 million. Minority interests rose slightly by € 1.7 (1.3) million.

Employees

	1 st half	
	2009/2010	Previous year
Germany	1,363	1,262
Europe (excluding Germany)	744	649
America	1,165	1,132
Other countries	103	104
Total	3,375	3,147

The number of persons employed by the KWS Group at the end of the first six months (December 31) was 3,375 (3,147). The workforce is to be increased further to more than 3,400 (3,215) by the end of the fiscal year.

Forecast report for 2009/2010

The **corn segment** will remain the KWS Group's strongest growth area in the current year. We again anticipate increased sales in many regions. We expect higher business volumes above all in North America and Eastern and Southeastern Europe. If the US dollar continues to stabilize, we currently forecast an increase in net sales of around 5%. The easing in the economic situation of agriculture, particularly in Eastern Europe, will have a positive impact on the segment's income. Lower inventory risks and positive signals in receivables management are helping to improve results.

Favorable weather conditions in Europe resulted in an extremely high sugar yield in the last **sugarbeet** campaign. This sugar surplus will presumably have an impact on the production quotas for the coming 2010/2011 sugar campaign, and we assume that there will consequently be a slight reduction in the sugarbeet cultivation area in the EU 27 in the spring of 2010. We see opportunities for growth primarily in Eastern Europe, but also in Northern Africa and Asia. We still expect net sales at the sugarbeet segment to increase slightly by the end of the fiscal year. The segment's income will probably improve since the one-time burdens on the previous year's income (€23.2 million) will not recur.

Although the **cereals segment** will not be able to follow up on the exceptional year 2008/2009, it is expected to post results on a par with those of the very good 2007/2008.

The expansion of our **R&D activities** in fiscal 2009/10 is proceeding as planned. Expenditures on our extensive breeding programs and research initiatives will rise by just over 10 % year-on-year.

Following the recent appreciation in the US dollar, we continue to expect net sales at the **KWS Group** to rise slightly by the end of the fiscal year and our earnings strength to remain at the same level despite a sharp increase in R&D expenditure.

Report on risks and opportunities

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

Risks

In the third year after the market launch of herbicide-tolerant sugarbeet, American sugarbeet farmers have now adopted these innovative varieties almost completely (95%). Nevertheless, a number of environmental associations have filed a suit against the U.S. Department of Agriculture (USDA) with the goal of effecting the suspension of the permission to sell and produce these genetically modified varieties until an environmental compatibility study is submitted for them. To that end, the petitioners filed for an injunction on January 19, 2010. However, a complete halt to cultivation – in particular commercial cultivation – is not expected.

Opportunities

The general liquidity situation in Southeastern and Eastern Europe means that we can expect more orders and payments of accounts receivable from this region. The stabilization of the Eastern European currencies, as well as a further increase in the value of the US dollar, hold out the hope of higher earnings from the net sales generated by our subsidiaries.

Declaration by legal representatives (Responsibility Statement)

We declare to the best of our knowledge that these interim consolidated financial statements give a true and fair view of the assets, financial position and earnings of the KWS Group in compliance with the accounting principles applicable to interim reporting, and that an accurate picture of the course of business, including business results, and the Group's situation is conveyed by the interim group management report, and that it describes the main risks and opportunities of the KWS Group's anticipated development.

Einbeck, February 25, 2010

KWS SAAT AG

The Executive Board



P. von dem Bussche



Ch. Amberger



L. Broers



H. Duenbostel

Financial calendar

May 28, 2010	Report on the 3rd quarter 2009/2010
October 28, 2010	Publication of the 2009/2010 financial statements; Annual press conference in Hanover; Analysts' Conference in Frankfurt
December 16, 2010	Annual Shareholders' Meeting in Einbeck

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