

Semiannual Report of the KWS Group
Fiscal Year 2007/2008

July 1 to December 31, 2007

Seeding the future
since 1856



Interim report

Dear shareholders and friends of KWS,

In the seed industry, the months of October to December are characterized by low net sales. This, coupled with the fact that costs are spread evenly over the fiscal year, meant that operating income for this period was – as usual in the sector – negative. Still, business developments were extremely positive in the first half of 2007/2008, due largely to successful sales of our winter cereal and rapeseed varieties. We continue to expect a positive performance for the fiscal year as a whole as well: As far as can be seen at present, we will again expand our corn and cereals businesses and keep our sugarbeet seed business at a stable level.

Business development in the first six months

Net sales at the KWS Group rose in the first half of the year to € 110.3 (91.4)* million, up over 20 % year-on-year. This was largely due to greater demand for our cereal varieties. High consumer prices and the cessation of set-asides induced farmers to grow more wheat, rye and barley again. Sales of our rapeseed varieties also developed positively. Despite a reduction in cultivation area in the EU, we were able to grow net sales further in this business segment by winning market share. Business with corn and sugarbeet – the largest contributors to the KWS Group's sales – will not pick up steam until the sowing season in spring. Consequently, the semi-annual figures at December 31 do not reveal a clear trend. 50 (47) % of these net sales in the first half of the year was generated by the cereals segment, 28 (25) % by the corn segment, including oil seed, and 19 (25) % by sugarbeet.

Operating income (EBIT) was € –45.6 (–44.7) million – on a par with the previous year, despite the clear increase in net sales. This is mainly due to the higher cost of sales. Multiplication costs in seed production rose in line with the increase in consumer prices for agri-

cultural raw materials, since the payments we make to our multiplication partners are linked to consumer prices. In addition, we have intensified our efforts in breeding, in particular in the cultivation of energy plants, and breeding costs are included in the cost of sales. The increase in administrative expenses reflects the extensive projects conducted by Central Marketing and in cross-product brand management. Overall, we assume that we will be able to match the outstanding earnings of € 63.9 million from the previous year.

Finance income/expenses includes not only interest income from investment of the net cash balance and interest expense from financing the company's operations, but also the profit from disposal of our potato activities effective July 1, 2007. 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 half year. The corporate income tax reform means that the rate of taxation in Germany will fall from 38.1 % to just under 30 %. Adjustments to deferred tax assets and liabilities resulted in income of € 1.0 million.

Income statement

€ millions	2 nd quarter		1 st half year	
	07/08	06/07	07/08	06/07
Net sales	48.4	39.5	110.3	91.4
Operating income	-30.3	-24.6	-45.6	-44.7
Net financial income/expenses	-0.9	-0.6	4.8	-1.5
Result of ordinary activities	-31.2	-25.2	-40.8	-46.2
Income taxes	-9.8	-16.1	-15.7	-23.9
Net income for the period	-21.4	-9.1	-25.1	-22.3
Minority interest	0.4	0.3	1.7	0.4
Net income for the period after minority interest	-21.8	-9.4	-26.8	-22.7
Earnings per share (€)	-3.3	-1.4	-4.1	-3.4

The individual segments

As part of the implementation of the reform of the EU Sugar Market Regime, European sugar producers had returned quotas of almost 2.5 million tons for the sugar marketing year 2008/2009 by the end of January 2008. As a result of this 15 % decline, the 13.5 % reduction demanded by the EU in February 2007 was slightly exceeded. We expect that this will result in a drop in cultivation area for quota sugar production to 1.4 (1.6) million hectares by the 2008 sowing season. However, this return of quotas is not reflected in the net sales of € 21.4 (22.8) million at the **sugarbeet** segment in the first half of the year.

New orders in North America are very positive. As anticipated, demand for our herbicide-tolerant, genetically modified sugarbeet varieties (the Roundup Ready varieties) is very good. It is becoming apparent that more than a third of the sugarbeet cultivation area (a total area of 500,000 hectares) is being sown with our Roundup Ready varieties in the very first year of their launch. However, this rapid penetration of the market has also incited action from opponents of genetic engineering. On January 23, 2008, a number of environmental groups filed a lawsuit against the United States Department of Agriculture (USDA) in a court in California, seeking to call into question the approval for cultivation of Roundup Ready sugarbeet that was granted in March 2005 and arguing that the impact on the environment had not been examined closely enough. We will follow the proceedings through our subsidiary Betaseed and provide assistance if required. However, we anticipate long and drawn-out proceedings. On the other hand, shipment of seed is well underway. This will be completed by the end of March, so we do not currently expect it to impair our ongoing campaign.

Net income for the sugarbeet segment in the first half of the year was € -10.7 (-10.2) million, on a par with the same period of the previous year.

The **corn** segment profited in the first six months from a further rise in sales of our high-yielding rapeseed hybrids. An added factor was that deliveries of corn seed were brought forward in various markets. One-third of this increase in net sales for the segment to € 30.5 (23.0) million is attributable to additional rapeseed sales and

two-thirds to shifts between quarters. The loss for the segment of € -22.9 (-24.3) millions improved slightly year-on-year as a result of the increase in net sales.

The KWS Group's **cereal** activities have been pooled for more than 40 years at the cereals breeding firm Lochow-Petkus, a company with a long tradition. Effective February 1, 2008, we rebranded this segment and changed the name of Lochow-Petkus GmbH and its foreign subsidiaries to KWS LOCHOW. As a result of this move, our international cereal operations will benefit from the KWS brand, yet the traditional name of LOCHOW will be retained in the domestic market of Germany. This measure was accompanied by very gratifying business performance. Net cereal sales rose sharply to € 54.8 (42.8) million due to improvement in the hybrid rye business and higher wheat sales. Operating income for the segment increased to € 10.7 (7.2) million, a figure that will fall in the second half of the fiscal year, given no reduction in costs and lower sales, but will be well above that of the previous year.

Capital expenditure

Intangible assets fell by € 0.9 million as a result of changes in the exchange rate for the US dollar and planned amortization.

In the first six months, KWS invested € 14.8 (9.9) million in property, plant and equipment. It is therefore showing capital expenditure well above depreciation of € 7.2 (7.1) million.

Out of total capital expenditure of € 15.6 (10.5) million on intangible assets and property, plant and equipment within the KWS Group, around 39 % was in the breeding & services segment and 24 % in the corn segment. Some two-thirds of all capital expenditure was made in Europe, more than half of that in Germany.

Our biggest single investments in property, plant and equipment were involved in the expansion of our administrative building in Einbeck and acquisition of breeding areas in Saxony-Anhalt. We invested in new technologies for cleaning, calibration and dressing

of the raw product in order to improve the quality of seed processing. Continuous improvement of these processes ensures that we comply with our high standards of quality.

Segment report

€ millions	2 nd quarter		1 st half year	
	07/08	06/07	07/08	06/07
Net sales	48.4	39.5	110.3	91.4
Segments:				
Sugar beet	15.0	15.9	21.4	22.8
Corn	13.2	9.0	30.5	23.0
Cereals	18.5	13.2	54.8	42.8
Breeding & services	1.7	1.4	3.6	2.8
Operating income	-30.3	-24.6	-45.6	-44.7
Segments:				
Sugar beet	-9.1	-6.8	-10.7	-10.2
Corn	-13.5	-13.4	-22.9	-24.3
Cereals	4.3	2.0	10.7	7.2
Breeding & services	-12.0	-6.4	-22.7	-17.4
Capital expenditure	7.4	4.6	15.6	10.5
Segments:				
Sugar beet	1.5	1.0	3.4	2.3
Corn	0.9	0.9	3.8	2.7
Cereals	1.0	0.5	2.3	1.1
Breeding & services	4.0	2.2	6.1	4.4

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). 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, 2007, 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, 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 consolidated half-year 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.

There has been a change in the companies consolidated in the KWS Group since July 1, 2007, relating to one fully consolidated company and two companies included at equity as a result of the formation of KWS SCANDINAVIA A/S, Guldborgsund / Denmark, and KWS R&D RUS LTD., Lipezk / Russia, and the sale of our potato activities, which were pooled at RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH. As a result, a total of 42 companies will be fully consolidated and 3 proportionately consolidated in 2007/2008.

Balance Sheet of the KWS Group

€ millions	December 31, 2007	June 30, 2007
Assets		
Intangible assets	34.5	35.4
Property, plant and equipment	153.4	147.9
Other long-term investments	6.7	6.0
Noncurrent tax assets	7.4	7.1
Deferred tax assets	15.2	16.3
Noncurrent assets	217.2	212.7
Inventories	168.4	90.6
Trade receivables	70.1	204.2
Marketable securities	21.7	20.0
Cash and cash equivalents	70.2	48.1
Current tax assets	26.6	7.8
Other current assets	31.0	16.0
	388.0	386.7
Noncurrent assets held for sale	0.0	10.4
Current assets	388.0	397.1
Total assets	605.2	609.8
Equity and Liabilities		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	278.1	320.8
Minority interests	21.2	20.0
Equity	324.6	366.1
Long-term provisions	60.5	59.3
Long-term borrowings	3.7	3.9
Trade payables	2.3	2.4
Deferred tax liabilities	14.5	16.7
Other long-term liabilities	4.3	4.5
Noncurrent liabilities	85.3	86.8
Short-term provisions	66.3	71.3
Short-term borrowings	27.8	4.5
Trade payables	58.3	39.8
Current tax payables	17.0	19.2
Other liabilities	25.9	20.7
Subtotal of current liabilities	195.3	155.5
Liabilities directly connected to noncurrent assets held for sale	0.0	1.4
Current liabilities	195.3	156.9
Liabilities	280.6	243.7
Total equity and liabilities	605.2	609.8

The increase in inventories is due to the absorption of the new harvest in 2007 and processing of it to produce certified seed that could be sold. Despite the good quality of the 2007 harvest, additional adjustments totaling € 1.4 (–1.5) million were required because of the volumes involved.

Successful accounts receivable management resulted in a large reduction in trade receivables of € 70.1 (70.5) million to € 204.2 (184.6) million at July 30, 2007, on net sales of € 110.3 (91.4) million in the first half of the year. Additional short-term loans of € 23.3 (26.7) million were raised to finance business operations, resulting in a net balance of € 60.4 (32.3) million at December 31, 2007.

The current tax assets are € 18.8 (20.3) million higher than at June 30, 2007, due to entitlements to a tax refund as a result of the negative earnings for the half year. The increase in other current assets of € 15.0 million to € 31 million is mainly due to payments on account to multiplication partners.

Cash flow statement

€ millions	1 st half year	
	2007/08	2006/07
Net income for the year	–25.1	–22.3
Cash earnings according to DVFA/SG	–19.4	–16.8
Cash proceeds from reducing in net current assets	37.9	28.2
Net cash from operating activities	18.5	11.4
Net cash from investing activities	–4.0	–13.8
Net cash from financing activities	13.5	16.3
Change in cash and cash equivalents	28.0	13.9
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	–4.2	0.0
Cash and cash equivalents at end of period	91.9	69.5

The net cash from investing activities of € –4.0 million includes investment in property, plant and equipment of € 14.8 million, further investments in intangible assets and financial investments, as well as the payment received from sale of our potato activities.

Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2006	319.4	18.6	326.6
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 for the period	-22.7	0.4	-22.3
Other gains (losses)	-1.2	0.4	-0.8
Total consolidated gains (losses)	-23.9	0.8	-23.1
Balance as at December 31, 2006	287.6	19.2	306.8
Balance as at June 30, 2007	346.1	20.0	366.1
Dividends paid	-9.2	-0.4	-9.6
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net profit for the period	-26.8	1.7	-25.1
Other gains (losses)	-6.7	-0.1	-6.8
Total consolidated gains (losses)	-33.5	1.6	-31.9
Balance as at December 31, 2007	303.4	21.2	324.6

The changes in equity reflect the negative profit for the half year. Pursuant to the resolution adopted by the Annual Shareholders' Meeting on December 13, 2007, KWS SAAT AG paid a dividend of € 1.40 per share to its shareholders, i.e. a total of € 9.2 million. Minority interests rose due to the good earnings from cereals.

Employees

	1 st half year	
	2007/08	Previous year
Germany	1,173	1,087
Europe (excluding Germany)	537	518
Amerika	993	872
Other countries	57	78
Total	2,760	2,555

* at quarter end

Of the above number, 529 (560) employees are included according to the percentage of equity held in the companies that employ them. It relates to 1,059 (1,121) employees of three (three) proportionately consolidated associated companies.

Outlook for fiscal 2007/2008

The return of more sugar production quotas will have an impact in time for the 2008 sowing season. As a result, we expect our net sales of sugarbeet seed in the EU 27 to fall from € 123 million in the previous year to approximately € 100 million this year. However, the planned increase in net sales in our core non-European markets (in particular in the U.S., Turkey and Russia) from € 77 million to around € 100 million means we assume that we will be able to achieve the previous year's level of net sales and earnings in the sugarbeet segment for the fiscal year as a whole.

Despite the negative impact of the weak US dollar – around € 10 million greater than in the previous year – the corn and cereals segments will contribute to slight growth in the Group's net sales. We also expect improved earnings in the cereals and corn product segments for the year as a whole. However, these gains will be offset by the increases in costs for breeding and the central functions mentioned at the beginning of this report, with the result that we expect the KWS Group's operating income to remain stable compared with the previous year (€ 63.9 million).

Forecast report

Above and beyond the opportunities and risks described in the 2006/2007 Annual Report, we currently see the following factors that may potentially have an impact on our business.

Risks

First, there is the pending lawsuit against the USDA already mentioned in the report on the sugarbeet segment. In addition, the German Parliament passed the Genetic Engineering Act (GenTG) on January 25, 2008. In our view, this piece of legislation leads up a blind alley. It impedes the use of cutting-edge and internationally recognized breeding methods in Germany. The result will be serious competitive disadvantages for agriculture, research institutions and small and medium-sized companies like KWS, in particular because it fails to clarify the issue of liability with any precision and demands that areas be reported precisely in the location registry – right down to the exact plot. The amendment to the law on labeling food that does not contain genetically modified components also dilutes the originally stricter regulations and in our view is not consistent with the principle of transparency and does not help in fostering trust.

The EU Commission is standing by its goal to reduce sugar production in the EU by a total of 3.8 million tons. Of this amount, quotas totaling 2.5 million tons were voluntarily returned by the legal deadline at the end of January 2008. In a second round, extending to the end of March, the producers who participated in the first round with at least 13.5 percent of their quota can again give up further production quantities and receive high compensation payments in exchange. If the 1.3 million ton reduction still required in the EU is not achieved, the Commission will set reduction rates in 2009/2010 (KWS' sowing season 2009) without paying any compensation.

Opportunities

On December 5, 2007, the German government passed the planned amendment to the Biofuel Quota Act. It specifies that the ratio of biofuels to fuel consumption as a whole is to be increased from 8 % in 2015 to 17 % in 2020. As a result, sustained growth in cultivation of energy plants can be expected.

On February 7, 2008, KWS and the Dutch family-owned company van Rijn signed a letter of intent relating to the formation of an internationally operating 50:50 joint venture in the field of breeding, production and marketing of seed potatoes. The company is to start selling seed potatoes in 60 countries on July 1, 2008. The partners will contribute their extensive breeding experience, technological know-how and a broad portfolio of potato varieties for processing and consumption to the joint venture. In addition, the existing international distribution structures of both organizations are to be leveraged. A sales volume of around € 30 million is budgeted for the first year. This planned acquisition means that KWS will again be involved in the strategic business segment of potatoes. The potato market has significance potential for growth, especially in Central and Eastern Europe.

Declaration by legal representatives (internal control certification)

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 opportunities and risks of the KWS Group's anticipated development.

Important dates

We will publish our report for the third quarter on May 29, 2008, at www.kws.com. We will publish the financial statements for fiscal 2007/2008 on October 30, 2008, and the Annual Shareholders' Meeting will be held on December 16, 2008, at the company's headquarters in Einbeck.

Einbeck, February 28, 2008

KWS SAAT AG

The Executive Board



P. von dem Bussche



Ch. Amberger



H. Duenbostel



L. Broers (Deputy)

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