

3rd Quarterly Report of the KWS Group
Fiscal Year 2009/2010

July 1, 2009, to March 31, 2010

Seeding the future
since 1856



3rd Quarterly Report 2009/2010

Dear shareholders and friends of KWS,

After the first nine months of fiscal 2009/2010, we can confirm our forecast for the year as a whole (July 1 to June 30). We were again able to grow net sales in our main business segments of corn and sugarbeet, offsetting the results of the restrained cereals and rape-seed business in the last fall sowing season. We therefore anticipate an increase in net sales at the KWS Group of about 4 % (€ 717.2 million)* by the end of the current fiscal year.

The operational earnings strength of our business has improved as expected. We have stepped up our efforts in product development and raised the research and development budget for the current fiscal year by about 10 % (€ 89.5 million). Despite these additional costs for developing products for the future, the KWS Group's operating income will remain at the high level of the previous year (€ 77.9 million).

In the past nine months of fiscal 2009/2010, net sales of the KWS Group grew by some 3 % to € 586.9 (€ 572.3) million and operating income by 12 % to € 118.2 (€ 105.8) million.

Interest expense from financing the company's operations and lower income from investment of the net cash balance as a result of the continued low level of interest rates meant that the financial income/expenses was negative. 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

In € million	3 rd quarter		1 st -3 rd quarter	
	2009/2010	Prev. year	2009/2010	Prev. year
Net sales	466.3	430.5	586.9	572.3
Operating income	170.3	145.7	118.2	105.8
Net financial income/expenses	-2.3	-2.1	-4.1	-4.2
Result of ordinary activities	168.0	143.6	114.1	101.6
Income taxes	46.8	42.7	32.2	30.9
Net income for the period	121.2	100.9	81.9	70.7
Minority interest	0.3	3.8	2.6	6.6
Net income for the period after minority interest	120.9	97.1	79.3	64.1
Earnings per share (€)	18.32	14.71	12.02	9.71

Statement of comprehensive income

In € million	3 rd quarter		1 st -3 rd quarter	
	2009/2010	Prev. year	2009/2010	Prev. year
Net income for the period	121.2	100.9	81.9	70.7
Currency translation for foreign subsidiaries	10.4	-4.0	8.9	-0.1
Deferred taxes on components of other total income	0.0	0.0	0.0	0.0
Comprehensive income for the period	131.6	97.0	90.8	70.6
of which shareholders of KWS SAAT AG	131.2	92.4	88.1	64.0
of which minority interest	0.4	4.6	2.7	6.6

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 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, 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 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. 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. The Chinese service company KWS R&D CHINA was included in the consolidated companies effective January 1, 2010, to strengthen

KWS' research activities. As a result, a total of 42 companies will be fully consolidated and twelve proportionately consolidated in 2009/2010.

Capital expenditure

In the first three quarters of the current fiscal year, the KWS Group invested €40.3 (€25.1) million in property, plant and equipment. Depreciation amounted to €15.4 (€11.6) million in the same period. The largest part of the investments went to expanding building and greenhouse space at Einbeck and establishing new production plants in Europe and the U.S. – a requirement for ensuring that KWS can continue its sustainable growth.

Of the total segment capital expenditure of €42.6 (€44.1) million, 57 % was in the breeding & services segment, 25 % in the corn segment, 13 % in sugarbeet and the remaining 5 % in cereals activities.

The individual segments

Corn business continued to develop very well in the period under review, with both our European and North American business contributing to this development. Net sales for the segment rose to €317.6 (€298.7) million. However, the sales season for corn seed extends well into the fourth quarter, in which approximately 20 % of the segment's net sales are regularly generated. The segment's income was €41.7 (€31.3) million, well above the figure for the same period of the previous year.

Sugarbeet seed business also grew in the current year. While our business has stabilized in the countries covered by the European Sugar Market Regime, despite the high sugar yields and thus the slight decline in cultivation area, it picked up noticeably outside the EU 27. High market prices for sugar and positive trends in the markets of Southeastern and Eastern Europe resulted in an expansion of cultivation areas. In addition, sales of high-margin herbicide-tolerant sugarbeet in North American were extremely gratifying, with higher

revenues for this herbicide-tolerant technology (tech fee) also being achieved in the market. Moreover, accounts receivable for which allowances had already been formed were received, and the segment's income rose to €43.7 (€32.9) million.

Net sales at the **cereals segment** as of March 31 were €65.0 (€79,4) million. KWS' cereals business is mainly characterized by strong sales of winter cereal varieties and comparatively lower levels of summer cereals business. Consequently, the segment's revenue in the second half of the year (January 1 to June 30) is normally far lower than in the first half. Since its costs are spread roughly equally over the year, the segment's income falls in the course of the year and was €13.8 (€15.2) million at the end of the third quarter.

The net sales of the **breeding & services** segment, which are generated by its seed potato business and its farms, was €16.2 (€17.1) million at the end of the third quarter. Its income was €19.0 (€26.4) million, but that will fall markedly in the further course of the year (see the forecast report).

Segment report

In € million	3 rd quarter		1 st –3 rd quarter	
	2009/2010	Prev. year	2009/2010	Prev. year
Net sales	466.3	430.5	586.9	572.3
Sugarbeet	164.5	156.9	188.1	177.1
Corn	285.9	261.0	317.6	298.7
Cereals	9.1	5.2	65.0	79.4
Breeding & services	6.8	7.4	16.2	17.1
Operating income	170.3	145.7	118.2	105.8
Sugarbeet	57.4	46.8	43.7	32.9
Corn	59.6	54.8	41.7	31.3
Cereals	0.3	–3.6	13.8	15.2
Breeding & services	53.0	47.7	19.0	26.4
Capital expenditure	15.5	11.3	42.6	44.1
Sugarbeet	1.0	2.6	5.7	4.4
Corn	3.5	4.9	10.6	12.3
Cereals	0.5	1.0	2.0	2.3
Breeding & services	10.5	2.8	24.3	25.1

Balance Sheet of the KWS Group

In € million	March 31, 2010	June 30, 2010
ASSETS		
Intangible assets	48.5	47.9
Property, plant and equipment	208.8	180.7
Financial assets	4.8	3.2
Noncurrent tax assets	6.4	6.4
Deferred tax assets	20.2	16.9
Noncurrent assets	288.7	255.1
Inventories and biological assets	179.2	121.5
Trade receivables	429.4	216.9
Marketable securities	9.7	14.1
Cash and cash equivalents	70.3	111.5
Current tax assets	18.8	15.6
Other current assets	24.9	21.3
Current assets	732.3	500.9
Total assets	1,021.0	756.0
EQUITY AND LIABILITIES		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	468.1	391.9
Minority interests	19.3	17.3
Equity	512.7	434.5
Long-term provisions	61.9	62.0
Long-term borrowings	16.7	1.9
Trade payables	2.3	6.4
Deferred tax liabilities	22.0	18.1
Other long-term liabilities	10.0	10.3
Noncurrent liabilities	112.9	98.7
Short-term provisions	142.5	112.7
Short-term borrowings	88.6	6.7
Trade payables	91.3	55.2
Current tax payables	39.8	18.3
Other liabilities	33.2	29.9
Current liabilities	395.4	222.8
Liabilities	508.3	321.5
Total equity and liabilities	1,021.0	756.0

The increase in inventories is in line with the planned higher production volume from the 2009 harvest. Of the inventories of €179.2 million, almost 63 % are accounted for by the corn segment and 24 % by sugarbeet. Because of our growth in net sales, inventories are up €16.6 million year-on-year. Our strategy of sustained growth also demands higher inventories so that the different requirements of the individual future markets can be addressed.

Net sales in the third quarter were €466.3 million, up about €36 million from the previous year, and were the cause of the increase in trade receivables to €429.4 million at March 31, 2009. One-third of that is accounted for by the sugarbeet segment, while two-thirds were the result of deliveries of corn seed.

The increase in tax liabilities compared to March 31, 2009, is attributable to the good business results in the past quarter. The rise in trade payables at the end of the third quarter and in short-term provisions is largely due to outstanding payment of royalties, as well as to anticipated seed returns and credit balances.

Further short-term loans were raised to provide financing during the year and resulted in an increase in borrowings. These will be repaid as planned by the end of the fiscal year.

Cash Flow Statement

In € million	1 st -3 rd quarter	
	2009/2010	Previous year
Net income for the period	81.9	70.7
Cash Earnings	88.7	87.9
Funds tied up in net current assets	-178.3	-128.5
Net cash from operating activities	-89.6	-40.6
Net cash from investing activities	-43.1	-40.2
Net cash from financing activities	84.2	50.8
Change in cash and cash equivalents	-48.5	-30.0
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	2.9	1.0
Cash and cash equivalents at end of period	80.0	83.9

The net cash from operating activities was impacted by the increase in inventories and high level of receivables. The capital expenditure also resulted in a cash outflow at the level of the previous year. Consequently, cash and cash equivalents fell from June 30, 2009, to March 31, 2010, by € 45.6 million to € 80.0 million, on a par with the comparable figure for the previous year.

Statements of Changes in Equity

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	64.1	6.6	70.7
Other gains (losses)	5.7	-1.0	4.7
Total consolidated gains (losses)	69.8	5.6	75.4
Balance as at March 31, 2009	435.7	25.8	461.5
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	-0.1	-0.1
Consolidated net income for the period	79.3	2.6	81.9
Other gains (losses)	8.8	0.1	8.9
Total consolidated gains (losses)	88.1	2.7	90.8
Balance as at March 31, 2010	493.4	19.3	512.7

The good business performance in the third quarter and resultant net income for the period led to a marked increase in equity of € 78.2 million.

Pursuant to a resolution of the Annual Shareholders' Meeting on December 17, 2009, in Einbeck, the dividend was set at € 1.80, meaning that a total of € 11.9 million was distributed to shareholders.

The 10 % minority interest in corn business was bought back at the end of last fiscal year, resulting in a sharp drop in total minority interests. In addition, the other shareholders profited more greatly last year from the good results for cereals.

Employees*

	1 st -3 rd quarter	
	2009/2010	Previous year
Germany	1,415	1,338
Europe (excluding Germany)	845	757
Americas	1,142	1,086
Other countries	99	104
Total	3,501	3,285

* at the end of the quarter

3,501 people were employed worldwide at KWS at March 31, 2010. The workforce increased in all main growth regions; its growth reflects the expansion of our business activity. We expect the workforce to average more than 3,400 for the year, a rise of 7 % over the previous year (3,215).

Forecast report for 2009/2010

It is becoming apparent that we will win market share in our most important European **corn sales regions** thanks to our good variety performance. We will also successfully defend our position in North America, despite considerable competitive pressure. In addition, the dollar is trending in our favor, with the result that we expect net sales at the corn segment to increase by at least 5 % over the whole of fiscal 2009/2010. The economies of scale connected with the expansion of our business volume will improve our return on investment. We anticipate that the segment will improve its income at the end of the fiscal year by just over 30 % compared with the previous year (€25.2 million).

Our **sugarbeet seed** business in the EU 27 has already run its course for the year. Subject to goods being returned, we have stabilized our net sales at the level of the previous year (€112 million).

In the legal proceedings against the USDA in the U.S., the lobbying groups have not succeeded with their petition for an injunction against the cultivation of herbicide-tolerant sugarbeet. As a result, there will be no restrictions this year on the commercial planting of these new products. Once again, just over 95% of sugarbeet farmers

used these genetically improved varieties. The sugarbeet segment's income benefited from growing revenue from this technology (+ 20 %). It will increase by just over 50 % over the previous year (€ 23.2 million), meaning that the segment will return to the earnings strength typical of it in former years.

The business trend for hybrid rye seed, as explained in the first two quarterly reports, will result in a decline in **net sales for the cereals segment** at June 30 to the level of the fiscal year before last, 2007/2008. The weakening in the high-margin hybrid rye business is expected to reduce income at the segment by 35 % compared with the previous year (€ 12.0 million).

We anticipate that external sales at the **breeding & services segment** will be around € 23 million, on a par with the previous year (€ 23.4 million). The segment's income will be shaped by the expansion of R&D activities. R&D expenditure will increase in the current fiscal year by about € 9 million to some € 98 million. In addition, the internal royalties from the cereals and rapeseed business will be reduced. As a result, the segment's income will fall at the end of the fiscal year to approximately 10 % of that of the previous year (€ 17.5 million).

Overall, the **KWS Group** therefore expects to post an increase of at least 4 % in net sales and stable operating income of around € 78 million.

Report on risks and opportunities

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

Risks

In the action brought by a number of lobbying groups against the U.S. Department of Agriculture (USDA), the petitioners filed for an injunction on January 19, 2010, with the objective of forcing a suspension of the permission to sell and produce herbicide-tolerant sugarbeet in the U.S. until a more comprehensive environmental compatibility study has been submitted.

Although the judge dismissed the petition for an injunction for the 2010 vegetation period, he also made clear in the reasons for his ruling that this should not be seen as a preliminary decision in the principal proceedings. A final judgment cannot be expected until toward the end of the year.

Opportunities

It is customary in the industry that certified seed not sold by agricultural retailers is taken back by the breeder and again undergoes the quality assurance and certification process for the next season. It is apparent that there is very strong demand for our corn hybrids in the current season, which means that returns may well be lower than in previous years and not reduce net sales to the usual extent.

Einbeck, May 28, 2010

KWS SAAT AG

The Executive Board



Philip von dem Bussche



Christoph Amberger



Léon Broers



Hagen Duenbostel

Financial calendar

October 28, 2010	Publication of the 2009/2010 financial statements; Annual press conference in Hanover; Analysts' Conference in Frankfurt
November 26, 2010	Report on the 1st quarter 2010/2011
December 16, 2010	Annual Shareholders' Meeting in Einbeck

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