

1st Quarterly Report of the KWS Group
Fiscal year 2010/2011

July 1 to September 30, 2010

KWS



Seeding the future
since 1856

1st Quarterly Report 2010/2011

Dear shareholders and friends of KWS,

In this quarterly report, we would like to inform you of our business performance in the first three months of fiscal 2010/2011. The months of July to September are the time when winter cereals and winter rapeseed are sown in the northern hemisphere. In the same period, we generate initial sales from corn and sugarbeet hybrids in the southern hemisphere, in Argentina and Chile. Since the time of sowing can change due to weather conditions, information drawn from a comparison with the previous year's quarter is of only limited value in our industry.

The trend in the first quarter of 2010/2011 suggests that our fall business will be good. While the same quarter of the previous year was impacted by weak hybrid rye business, we posted a slight rise in net sales in the Cereals Segment this year, despite difficult sowing conditions for winter cereals. The Corn Segment benefited from growing demand for KWS' varieties in Argentina, among other things. Consolidated net sales were €71.1 (65.3) million, up around 9% year-on-year. Operating income improved by almost 15% to €-24.0 (-28.1) million, attributable to expansion of our operational business, belated royalty payments from the last sales season and lower returns of seed from the previous year's sales. Nevertheless, the KWS Group's operating income in the first quarter is usually negative, as we generate approximately 90% of net seed sales in spring.

As in the previous year, net financial income/expenses contain only low interest income from the positive net cash balance at June 30, 2010, as a result of the low level of interest rates, but higher interest expense from our long-term funding.

* The figures in parentheses are those for the previous year

Income statement

€ millions	1 st quarter	
	2010/2011	Previous year
Net sales	71.1	65.3
Operating income	-24.0	-28.1
Net financial income/expenses	-1.4	-0.9
Result of ordinary activities	-25.4	-29.0
Income taxes	-8.4	-8.3
Net income for the period	-17.0	-20.7
of which shareholders of KWS SAAT AG	-18.2	-21.4
of which minority interest	1.2	0.7
Earnings per share (€)	-2.76	-3.23

The figure for income taxes was obtained by applying the effective tax rate per company planned for the fiscal year as a whole to the pre-tax profits for the quarter.

Statement of comprehensive income

€ millions	1 st quarter	
	2010/2011	Previous year
Net income for the period	-17.0	-20.7
Currency translation for foreign subsidiaries	-12.6	-3.6
Comprehensive income for the period	-29.6	-24.3
of which shareholders of KWS SAAT AG	-30.7	-24.9
of which minority interest	1.1	0.6

Because the dollar depreciated by 10%, the valuation of our American group companies at the end of the 1st quarter was lower, resulting in a direct reduction in equity totaling €12.6 million.

Capital expenditure

In the first quarter, KWS invested €13.5 (12.7) million in property, plant and equipment. It is therefore showing capital expenditure well above quarter-related depreciation at €5.8 (5.1) million. The biggest single investments were in research and development: New special-purpose rooms for our in-vitro plants and additional block-type thermal power station modules to enable the use of biogas were built in Einbeck. Other individual investments related to expansion of our corn production capacities in Russia and France.

Out of total capital expenditure of €14.0 (13.9) million within the KWS Group, 51% was in the Breeding & Services Segment, 35% in the Corn Segment, 8% in the Sugarbeet Segment and 6% in the Cereals Segment.

The individual product segments

€ millions	1 st quarter	
	2010/2011	Previous year
Net sales	71.1	65.3
Sugarbeet	7.3	8.7
Corn	20.1	15.6
Cereals	40.6	37.9
Breeding & Services	3.1	3.1
Operating income	-24.0	-28.1
Sugarbeet	-6.6	-4.6
Corn	-6.4	-13.0
Cereals	7.4	4.5
Breeding & Services	-18.4	-15.0
Capital expenditure	14.0	13.9
Sugarbeet	1.2	2.7
Corn	4.9	5.3
Cereals	0.8	1.1
Breeding & Services	7.1	4.8

In the first three months of fiscal 2010/2011, our **Cereals Segment** grew its net sales to €40.6 (37.9) million, i.e. by around 7% year-on-year. The segment's income rose by just over 64% to €7.4 (4.5) million, thanks mainly to higher sales of our hybrid rye varieties and excellent wheat business in the UK.

In the **Corn Segment**, our efforts to expand distribution structures in Argentina over the past years gained traction in the first quarter of 2010/2011. Sales there got off to a positive start in the months July to September. 25% of our sales in Argentina now come from genetically modified varieties. The difficult weather conditions in Europe resulted in a more than 10% reduction in cultivation area for oil seed, especially winter rapeseed, meaning that we were not quite able to maintain the sales volume of the previous year. Net sales from rapeseed were stable year-on-year thanks to the increased contribution by hybrid varieties. The segment's net sales rose by 29% to €20.1 (15.6) million, while its income improved to €-6.4 (-13.0) million. Belated royalty payments by third parties to KWS MAIS GMBH for the 2010 spring sowing season and reduced returns from dealers contributed to this.

For season-related reasons, we sell **sugarbeet seed** in the first quarter only in southern markets such as Morocco and Chile. Net segment sales came in at €7.3 (8.7) million, down slightly year-on-year. The segment's quarterly income fell by 44% to €-6.6 (-4.6) million.

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, 2010, were used. The Notes appended to the annual financial statements as of June 30, 2010, 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 consolidated 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, 2010, the number of companies consolidated in the KWS Group increased by two fully consolidated companies with the establishment of KWS Services Deutschland GmbH and KWS Cereals US LLC. As a result, a total of 44 companies will be fully consolidated and twelve proportionately consolidated in 2010/2011.

Balance Sheet of the KWS Group

€ millions	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009
ASSETS			
Intangible assets	48.1	49.6	47.9
Property, plant and equipment	224.6	220.6	187.6
Financial assets	4.6	5.0	1.5
Noncurrent tax assets	5.3	5.9	5.7
Deferred tax assets	39.5	26.1	17.7
Noncurrent assets	322.1	307.2	260.4
Inventories and biological assets	170.5	136.8	154.5
Trade receivables	190.6	262.1	175.3
Marketable securities	22.6	13.1	16.9
Cash and cash equivalents	45.5	100.6	57.1
Current tax assets	21.7	16.9	27.0
Other current assets	24.7	20.7	29.5
Current assets	475.6	550.2	460.3
Total assets	797.7	857.4	720.7
EQUITY AND LIABILITIES			
Subscribed capital	19.8	19.8	19.8
Capital reserve	5.5	5.5	5.5
Retained earnings	418.2	448.8	367.0
Minority interests	19.9	18.8	17.9
Equity	463.4	492.9	410.2
Long-term provisions	62.2	61.5	60.7
Long-term borrowings	20.8	21.6	1.8
Trade payables	1.8	2.3	5.6
Deferred tax liabilities	18.3	18.6	18.1
Other long-term liabilities	10.0	10.2	10.1
Noncurrent liabilities	113.1	114.2	96.3
Short-term provisions	70.2	129.5	66.3
Short-term borrowings	42.3	10.7	41.2
Trade payables	55.9	57.5	61.8
Current tax payables	26.6	22.8	19.1
Other liabilities	26.2	29.8	25.8
Current liabilities	221.2	250.3	214.2
Liabilities	334.3	364.5	310.5
Total equity and liabilities	797.7	857.4	720.7

The increase in inventories is due to the absorption of the new harvest in 2010. The necessary risks of realization were reflected by additional adjustments. Despite crop failures and payment difficulties in Eastern Europe, the payment morale of our customers is generally satisfactory. Trade receivables at June 30 were considerably higher as a result of the fact that net sales in fiscal 2009/2010 were up by 5%. We have since received payment of 54% (49%) of the accounts receivable. The net financial balance as of September 30, 2010, was €5.0 (31.0) million, after €81.4 (117.0) million on June 30, 2010.

The reduction in current provisions was primarily due to the payment of royalties that had been outstanding as of June 30. Despite the low income in the first three months of this fiscal year, the equity ratio is virtually unchanged at 58.1%, compared with 57.5% on June 30, 2010.

Cash Flow Statement

€ millions	1 st quarter	
	2010/2011	Previous year
Net income for the period	-17.0	-20.7
Cash earnings	-30.4	-19.3
Funds tied up in net current assets	-27.8	-51.2
Net cash from operating activities	-58.2	-70.5
Net cash from investing activities	-14.8	-14.4
Net cash from financing activities	30.7	34.5
Change in cash and cash equivalents	-42.3	-50.4
Cash and cash equivalents at beginning of period	113.7	125.6
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	-3.3	-1.2
Cash and cash equivalents at end of period	68.1	74.0

A lower level of funds tied up in net current assets resulted in less net cash used in operating activities. The net cash from investing activities remained at the level of the previous year.

Statements of Changes in Equity of the KWS Group

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2009	474.1	18.8	492.9
Dividends paid	0.0	0.0	0.0
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.1	0.0	0.1
Consolidated net income for the period	-18.2	1.2	-17.0
Other gains (losses)	-12.5	-0.1	-12.6
Total consolidated gains (losses)	-30.7	1.1	-29.6
Balance as at September 30, 2009	443.5	19.9	463.4
 Balance as at June 30, 2010	 417.2	 17.3	 434.5
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 income for the period	-21.4	0.7	-20.7
Other gains (losses)	-3.5	-0.1	-3.6
Total consolidated gains (losses)	-24.9	0.6	-24.3
Balance as at September 30, 2010	392.3	17.9	410.2

As in the previous year, the changes in equity reflect the negative profit for the quarter, again reflecting the seasonal nature of our business. No dividends were paid out in the period under review.

Employees*

	1 st quarter 2010/2011	Previous year
Germany	1,516	1,490
Europe (excluding Germany)	984	824
America	940	884
Other countries	73	88
Total	3,513	3,286

* at the end of the quarter

At September 30, we had 3,513 employees worldwide. We hired employees in just about all regions. We are planning to increase the workforce to around 3,600 by the end of the fiscal year, a rise of almost 3% over the previous year (3,492).

Outlook

We again expect a sharp increase in demand for our corn hybrids, especially in the U.S. and Southeastern and Southern Europe. Our gratifying performance in the first quarter confirms our forecast that we will be able to grow net sales at the **Corn Segment** by at least 5% in the current fiscal year. Thanks to the receipt of additional royalty payments and fewer returns from dealers in the first quarter, we expect an above-proportionate increase in the segment's income for the fiscal year.

We are striving to maintain the good level of net sales and income in the current fiscal year in the **Sugarbeet Segment**. Our business in North America is vital to the segment's performance. In that market we achieve most of our net sales with Roundup Ready® sugarbeet, which was developed with the help of genetic engineering. As a result of legal action initiated against the U.S. Department of Agriculture (USDA), on which we have reported on several occasions, permission to sell and produce this sugarbeet was suspended in August 2010. The ruling was based on a formal error in the approval process and not on security concerns. It also does not mean a permanent ban on growing them. To enable their renewed approval, the USDA will prepare a more extensive environmental impact statement, which is expected to be completed by mid-2012. It has also announced its intention to grant approvals – subject to conditions – in the meantime so as to enable commercial growing of Roundup Ready® sugarbeet again for the coming season. The reason for that is likely to be found in the fact that 95% of American sugarbeet farmers use these special varieties with outstanding success.

As far as can be seen at present, net sales and income at the **Cereals Segment** will grow slightly, in line with our forecasts.

We intend to expand our R&D activities further and will strive to maintain the **KWS Group's** good earnings situation with a double-digit return. We expect the KWS Group's net sales and income to grow by around 5% by the end of 2010/2011.

Risks and opportunities

You can find detailed information on the opportunity and risk management system and the risk situation at the Group in the section "Risks and chances for future development" on page 49–51 of the 2009/2010 Annual Report.

Risks that jeopardize the company's existence are not currently discernible.

Our Annual Shareholders' Meeting will be held on December 16, 2010, at 11:00 a.m., as usual at the company's headquarters in Einbeck.

Einbeck, November 26, 2010

KWS SAAT AG

The Executive Board



Philip von dem Bussche



Christoph Amberger



Léon Broers



Hagen Duenbostel

Financial calendar

December 16, 2010 Annual Shareholders' Meeting in Einbeck

February 25, 2011 Report on the 2nd quarter 2010/2011

May 27, 2011 Report on the 3rd quarter 2010/2011

October 27, 2011 Publication of the 2010/2011 annual statements;
Annual press conference in Frankfurt;
Analyst conference in Frankfurt

December 14, 2011 Annual Shareholders' Meeting in Einbeck

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