

Semiannual Report of the KWS Group
Fiscal Year 2010/2011

July 1 to December 31, 2010

Seeding the future
since 1856



Interim report 2010/2011

Dear shareholders and friends of KWS,

In the months July through December, our revenue stems primarily from the sale of winter cereals and winter rapeseed. We generate the largest part of our annual net sales in the spring, from corn and sugarbeet seed. Our costs, however, are spread evenly over the whole fiscal year, which is why our earnings for the first six months are generally negative.

Business development in the first six months

Net sales in the first half of the year were €151.1 (120.6)* million, some 25% higher year-on-year. It is gratifying to see that this growth comes from all segments, with outstanding contributions made by corn and cereals, where net sales grew by almost €19 million and by €7.7 million, respectively. A large part of our additional corn business was generated in North America. In the cereals arena, higher consumer prices are motivating farmers to rely to a greater extent on certified high-yield seed, and our Cereals Segment has also profited from this trend.

The KWS Group's strong performance in the first half of 2010/2011 is also reflected in an increase of €12.5 million in operating income (EBIT), to € -39.6 (€ -52.1) million. This improvement was due to additional contribution margins from the expansion of our business as well as from higher efficiency in production.

Interest income was slight, due to the still low level of interest on cash deposits. Net financial income/expenses is therefore impacted by higher interest expense as a result of the up-front financing required to expand our business.

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	
	2010/2011	Prev. year	2010/2011	Prev. year
Net sales	79.9	55.3	151.1	120.6
Operating income	-15.6	-24.0	-39.6	-52.1
Net financial income/expenses	-1.4	-0.9	-2.7	-1.8
Result of ordinary activities	-17.0	-24.9	-42.3	-53.9
Income taxes	-4.9	-6.3	-13.2	-14.6
Net income for the period	-12.1	-18.6	-29.1	-39.3
Minority interest	1.7	1.6	2.9	2.3
Net income for the period after minority interest	-13.8	-20.2	-32.0	-41.6
Earnings per share (€)	-2.09	-3.06	-4.85	-6.30

Statement of comprehensive income (first half of the year)

In € million	2 nd quarter		1 st half	
	2010/2011	Prev. year	2010/2011	Prev. year
Net income for the period	-12.1	-18.6	-29.1	-39.3
Currency translation for foreign subsidiaries	2.3	2.1	-10.2	-1.5
Comprehensive income for the period	-9.8	-16.5	-39.3	-40.8
of which shareholders of KWS SAAT AG	-11.5	-18.2	-42.2	-43.1
of which minority interest	1.7	1.7	2.9	2.3

The statement of comprehensive income reconciles the income for the period with the change in equity. Currency translations on the reporting date, in particular for the US dollar, resulted in a reduction of equity by €10.2 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 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, 2010, were used. The Notes appended to the annual financial statements as of June 30, 2010, therefore apply accordingly. The standards and interpretations to be applied for the first time as of fiscal year 2010/2011 did not have any effect on the presentation of the financial statements or the Group's financial position and performance. 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, 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.

Capital expenditure

Investments in property, plant and equipment were €20.2 (25.2) million, double the amount of depreciation of €10.2 (8.7) million. As mentioned in the first quarterly report for fiscal 2010/2011, they focused primarily on the construction of corn production facilities abroad and expanding the research facilities at Einbeck.

Of the total capital expenditure of €21.2 (€27.1) million, 58.0% was in the Breeding & Services Segment, 27.4% in the Corn Segment, 9.4% in sugarbeet and the remaining 5.2% in cereals activities.

Segment report (first half of the year)

In € million	2 nd quarter		1 st half	
	2010/2011	Prev. year	2010/2011	Prev. year
Net sales	79.9	55.3	151.1	120.6
Sugarbeet	17.1	14.9	24.4	23.6
Corn	30.3	16.1	50.5	31.7
Cereals	23.0	18.0	63.6	55.9
Breeding & services	9.5	6.3	12.6	9.4
Operating income	-15.6	-24.0	-39.6	-52.1
Sugarbeet	-3.3	-9.1	-9.9	-13.7
Corn	-6.1	-4.9	-12.5	-17.9
Cereals	9.3	9.0	16.7	13.5
Breeding & services	-15.5	-19.0	-33.9	-34.0
Capital expenditure	7.2	13.2	21.2	27.1
Sugarbeet	0.8	2.0	2.0	4.7
Corn	0.9	1.8	5.8	7.1
Cereals	0.3	0.4	1.1	1.5
Breeding & services	5.2	9.0	12.3	13.8

The individual segments

Net sales in the **Cereals Segment** in the first half of the year improved by around 14% to €63.6 (€55.9) million. We were able to grow sales of our hybrid rye, which makes a strong contribution to profits, despite difficult sowing conditions in the fall of 2010. We recorded excellent winter wheat business in the UK. Income at the segment in the first six months was €16.7 (€13.5) million, up almost 24% year-on-year, but will fall in the further course of the fiscal year due to the fact that our costs are spread evenly over the quarters.

At the end of the 2nd quarter, the **Corn Segment** posted net sales of €50.5 (31.7) million, a surge of 60% over the previous year. A main contributing factor here was the strong advance sales of corn seed in North America. Higher selling expenses in the first half of the year resulted in a below-proportionate increase in the segment's income to € –12.5 (€ –17.9) million. For example, we have further increased the number of our customer consultants in North America to achieve better penetration in the world's most important corn market, the American Corn Belt.

Net sales at the **Sugarbeet Segment** were €24.4 million, about at the level of the previous year (€23.6 million). They were generated in markets that offer higher margins and resulted, together with the lower credit risks, in an increase in the segment's income to € –9.9 (€ –13.7) million.

The main cost block at the **Breeding & Services Segment** is for product development. The segment's income at December 31, 2010, was € –33.9 (€ –34.0) million, on a par with the previous year despite an increase in royalties from the product segments. This reflects our higher expenditure on product development in the current fiscal year.

Balance Sheet of the KWS Group

in € million	December 31, 2010	June 30, 2010	December 31, 2009
ASSETS			
Intangible assets	48.1	49.6	48.1
Property, plant and equipment	227.1	220.6	195.7
Financial assets	4.6	5.0	1.5
Noncurrent tax assets	5.0	5.9	6.2
Deferred tax assets	47.4	26.1	35.2
Noncurrent assets	332.2	307.2	286.7
Inventories and biological assets	233.8	136.8	267.2
Trade receivables	104.1	262.1	94.4
Marketable securities	24.4	13.1	15.2
Cash and cash equivalents	132.0	100.6	47.3
Current tax assets	23.8	16.9	25.4
Other current assets	41.5	20.7	41.7
Current assets	559.6	550.2	491.2
Total assets	891.8	857.4	777.9
EQUITY AND LIABILITIES			
Subscribed capital	19.8	19.8	19.8
Capital reserve	5.5	5.5	5.5
Retained earnings	394.1	448.8	336.9
Minority interests	21.2	18.8	19.0
Equity	440.6	492.9	381.2
Long-term provisions	62.5	61.5	58.5
Long-term borrowings	20.8	21.6	11.7
Trade payables	1.9	2.3	3.6
Deferred tax liabilities	18.5	18.6	18.4
Other long-term liabilities	9.7	10.2	9.9
Noncurrent liabilities	113.4	114.2	102.1
Short-term provisions	36.2	129.5	30.6
Short-term borrowings	163.9	10.7	83.9
Trade payables	80.9	57.5	123.2
Current tax payables	23.0	22.8	20.8
Other liabilities	33.8	29.8	36.1
Current liabilities	337.8	250.3	294.6
Liabilities	451.2	364.5	396.7
Total equity and liabilities	891.8	857.4	777.9

The increase in inventories in the first six months of the fiscal year is the result of absorption of the new harvest in the fall, from which the seed is processed for sale in the spring.

Given an increase in net sales of just over €30 million, trade receivables only rose by just under €10 million year-on-year. Payments received in the first half of the year reduced accounts receivable by €158 million. Particularly in North America, early advance payments by our customers resulted in additional liquidity and a corresponding rise in financial liabilities, which will be offset at the time of delivery of seed for the spring sowing season.

Cash flow statement (first half of the year)

in € million	1 st half	
	2010/2011	Previous year
Net income for the period	–29.1	–39.3
Cash Earnings	–47.4	–44.6
Funds tied up in net current assets	–22.2	–66.1
Net cash from operating activities	–69.6	–110.7
Net cash from investing activities	–24.0	–26.7
Net cash from financing activities	139.4	74.5
Change in cash and cash equivalents	45.8	–62.9
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	–3.1	–0.2
Cash and cash equivalents at end of period	156.4	62.5

Net cash from operating activities rose by €41.1 million to € –69.6 million as a result of the strong business performance, which is reflected in particular in a reduction in net current assets. However, for seasonal reasons it is usually negative as of December 31. While the net cash from investing activities was on a par with the previous year, the net cash from financing activities improved by €64.9 million due to payments received on account. Cash and cash equivalents on the balance sheet date were €156.4 (62.5) million.

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

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2009	417.2	17.3	434.5
Dividends paid	-11.9	-0.6	-12.5
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
Balance as at June 30, 2010	474.1	18.8	492.9
Dividends paid	-12.5	-0.5	-13.0
Consolidated net income for the period	-32.0	2.9	-29.1
Other gains (losses)	-10.2	0.0	-10.2
Total consolidated gains (losses)	-42.2	2.9	-39.3
Balance as at December 31, 2010	419.4	21.2	440.6

Equity is mainly impacted by the consolidated net income in the first half of the year and currency translation not recognized in the income statement.

The dividend was set at €1.90 for each of the 6.6 million shares pursuant to a resolution adopted by the Annual Shareholders' Meeting on December 16, 2010, in Einbeck, resulting in a total payout of €12.5 million. Minority interests rose slightly by €2.4 (1.7) million.

Employees

	1 st half	
	2010/2011	Previous year
Germany	1,419	1,363
Europe (excluding Germany)	832	744
America	1,212	1,165
Other countries	98	103
Total	3,561	3,375

The number of persons employed by the KWS Group at the end of the first six months was 3,561 (3,375). The workforce is to be increased further to more than 3,600 by the end of the fiscal year.

Forecast report for 2010/2011

In the **Sugarbeet Segment**, we expect cultivation area to increase slightly in the EU 27 markets, which make a strong contribution to profits. This will have a positive impact on sales and earnings in our core European markets. Following two weak years, we also expect our business to pick up in Russia and Ukraine.

In North America, the United States Department of Agriculture reapproved commercial cultivation of and seed production for herbicide-tolerant Roundup Ready® sugarbeet for 2011, subject to conditions, on February 4, 2011. As expected, the petitioners filed for a temporary injunction to revoke this permission on the same day. If the court rules in favor of the petitioners, the defendants will appeal. Ultimately, the legal proceedings will continue for some time. Consequently, some farmers can be expected to decide in favor of conventional sugarbeet seed this year, despite the enormous advantages of Roundup Ready® sugarbeet. As a result, for the full year we expect slightly lower net sales for the segment, compared to the previous year, and increased income.

In view of high world market prices for corn for consumption, growing demand for corn seed is anticipated for the coming sowing season. That is especially true in North America. Net sales in the **Corn Segment** are therefore expected to rise by at least 5%. Apart from operational growth, extraordinary effects will have a positive impact on the segment's income. They include the belated royalty payments from the last sales season (as mentioned in the Q1 report) and fewer returns from the previous year's sales. As a result of our good sales opportunities, we expect to be able to make significant reversals of allowances for inventories. We anticipate that the Corn Segment's income will increase by around two-thirds.

Compared with the previous fiscal year, the **Cereals Segment** will post a slight increase in net sales and income by the end of this fiscal year.

For the first time ever, we will report negative income for the **Breeding & Services Segment** as a result of the more than 10% increase in research and development expenditure.

Overall, we foresee operational growth for the **KWS Group** again this year. Apart from growth in net sales of about 5%, the KWS Group's return on sales will increase to just above 12% as a result of the described extraordinary effects in fiscal 2010/2011 and despite expansion of our R&D activities.

Risks and opportunities

The final decision on commercial cultivation of Roundup Ready® sugarbeet in the U.S. will still have a major influence on our performance in fiscal 2010/2011.

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

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

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

Einbeck, February 25, 2011

KWS SAAT AG

The Executive Board



P. von dem Bussche



Ch. Amberger



L. Broers



H. Duenbostel

Financial calendar

May 27, 2011	Report on the 3rd quarter 2010/2011
October 27, 2011	Publication of the 2010/2011 financial statements; annual press conference and Analysts' Conference in Frankfurt
November 25, 2011	Report on the 1st quarter 2011/2012
December 14, 2011	Annual Shareholders' Meeting in Einbeck

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