

3rd Quarterly Report of the KWS Group Fiscal year 2010/2011

July 1, 2010, to March 31, 2011

Seeding the future
since 1856



3rd Quarterly Report 2010/2011

Dear shareholders and friends of KWS,

As previously announced in our ad-hoc release of May 2, 2011, the indications based on the current spring sowing season are that fiscal 2010/2011 will be an extremely successful one for KWS. We expect the KWS Group to grow its net sales by around 10% year-on-year (€754 million)*. We had previously estimated growth in net sales of 5%. Operating income (EBIT) is now expected to surpass the previous year's figure (€82 million) by approximately 40%. The previous estimate was for growth of 15%. This upward revision of our expectations is the result of strong corn and sugarbeet seed business in the company's core West European markets and in North America, where the volume of genetically modified sugarbeet varieties sold by KWS was virtually unchanged. Until shortly before sowing began, legal proceedings had put the approval for these innovative products and conditions for their cultivation in question.

Business development in the first nine months

In agriculture, it is the weather that determines when seed is sown. Consequently, our business frequently experiences considerable shifts in net sales between the individual quarters, making comparison with the same period of the previous year difficult. Net sales at the KWS Group in the period from July 1, 2010, to March 31, 2011, increased by just under 12% and amounted to €656.2 (586.9) million. Once again, the strongest growth was in the Corn Segment. We posted strong business in the Sugarbeet Segment, in particular in the EU 27. However, the sales season for Roundup Ready® seed in North America will fall primarily in the fourth quarter.

In the first nine months, the KWS Group's operating income improved by just over 15% to €136.4 (118.2) million. This was the result of an expansion in operating activities and of extraordinary effects, such as income from the reversal of allowances.

Net financial income/expenses is impacted by interest expense resulting from the up-front financing required to expand our business. In addition, the continuing low level of market interest rates yielded only little income from investments of cash and cash equivalents from June 30, 2010. 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	
	2010/2011	Prev. year	2010/2011	Prev. year
Net sales	505.2	466.3	656.2	586.9
Operating income	176.0	170.3	136.4	118.2
Net financial income/expenses	–2.0	–2.3	–4.7	–4.1
Result of ordinary activities	174.0	168.0	131.7	114.1
Income taxes	48.8	46.8	35.6	32.2
Net income for the period	125.2	121.2	96.1	81.9
Minority interest	0.3	0.3	3.3	2.6
Net income for the period after minority interest	124.9	120.9	92.8	79.3
Earnings per share (€)	18.92	18.32	14.07	12.02

Statement of comprehensive income

In € million	3 rd quarter		1 st –3 rd quarter	
	2010/2011	Prev. year	2010/2011	Prev. year
Net income for the period	125.2	121.2	96.1	81.9
Currency translation for foreign subsidiaries	–8.7	10.4	–18.9	8.9
Comprehensive income for the period	116.5	131.6	77.2	90.8
of which shareholders of KWS SAAT AG	116.3	131.2	74.0	88.1
of which minority interest	0.2	0.4	3.2	2.7

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 3rd quarterly 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, 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 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. The number of companies consolidated in the KWS Group increased by five fully consolidated companies with the establishment of KWS Services Deutschland GmbH and KWS Cereals USA, LLC

effective July 1, 2010, and KWS Services North, KWS Services East and KWS Services Mediterranean effective January 1, 2011. As a result, a total of 47 companies will be fully consolidated and twelve proportionately consolidated in 2010/2011.

Capital expenditure

The KWS Group invested €30.3 (44.3) million in the first three quarters of the current fiscal year, i.e. again more than the amount of depreciation of €17.7 (15.4) million. As mentioned in the semiannual report, these investments were focused primarily on expanding research capacities at Einbeck and building and expanding additional corn production plants in the U.S., Russia, Romania and France.

Of the capital expenditure on intangible assets and property, plant and equipment of €28.9 (42.6) million, 64% was in the Breeding & Services Segment, 22% in the Corn Segment, 8% in Sugarbeet and the remaining 6% in Cereals activities.

In addition, the two partners in the international potato breeding joint venture VAN RIJN – KWS B.V. have decided that KWS SAAT AG will take over the 50% stake of van Rijn effective April 1, 2011, and thus in the fourth quarter. This will make it possible to further intensify activities in the breeding, producing, distributing and marketing of seed potatoes. The now wholly-owned subsidiary KWS POTATO B.V. will be headquartered at Emmeloord in the Netherlands. As a result of this acquisition and the replacement investments still to be made in the fourth quarter, the total volume of capital spending at the end of the fiscal year will reach the level of the previous year (€58.4 million).

Seed potato business will be assigned to the Sugarbeet Segment effective April 1, 2011.

Segment report

In € million	3 rd quarter		1 st -3 rd quarter	
	2010/2011	Prev. year	2010/2011	Prev. year
Net sales	505.2	466.3	656.2	586.9
Sugarbeet	158.5	164.5	182.9	188.1
Corn	325.7	285.9	376.1	317.6
Cereals	8.0	9.1	71.7	65.0
Breeding & Services	13.0	6.8	25.5	16.2
Operating income	176.0	170.3	136.4	118.2
Sugarbeet	55.4	57.4	45.5	43.7
Corn	78.0	59.6	65.4	41.7
Cereals	1.1	0.3	17.8	13.8
Breeding & Services	41.5	53.0	7.7	19.0
Capital expenditure	7.7	15.5	28.9	42.6
Sugarbeet	0.3	1.0	2.3	5.7
Corn	0.6	3.5	6.4	10.6
Cereals	0.7	0.5	1.8	2.0
Breeding & Services	6.1	10.5	18.4	24.3

The individual segments

Business performance in all the core markets of the **Corn Segment** was very gratifying. Net sales grew by 18% to €376.1 (317.6) million, in particular on the back of corn business in North America and Germany. Apart from the expansion of operational business, significant income was obtained from the reversal of allowances for inventories thanks to the good sales situation. The segment's income as of March 31 was €65.4 (41.7) million, up almost 57% over the previous year. However, it should be noted in this respect that the segment's earnings tail off sharply toward the end of the fiscal year as a result of low net sales combined with the same level of costs (see the forecast report).

In the **Sugarbeet Segment**, net sales in the first nine months of fiscal 2010/2011 fell slightly year-on-year by 3% to €182.9 (188.1) million. This is attributable to a delay in sowing in North America, which this year fell mainly in the fourth quarter (April 1 to June 30). Legal action relating to cultivation of Roundup Ready® sugarbeet and poor weather conditions significantly delayed sales of sugarbeet seed there.

However, we showed very positive business performance in our core European markets. The good performance of our varieties in government tests and larger cultivation areas gave KWS a positive boost, above all in Germany and France. We were able to increase net sales outside the EU 27, especially in Russia. Thanks to higher sales in markets that offer higher profit margins and to non-recurring effects from the first half of the year, the segment's income was again slightly up year-on-year at €45.5 (43.7) million.

Net sales at the **Cereals Segment** as of March 31 were €71.7 (65.0) million. This 10% rise is primarily attributable to good business performance in Germany and the UK. KWS' cereal business is dominated by sales of winter varieties. Consequently, only slight net sales are generated in the second half of the year (January 1 to June 30). Because structural costs are still incurred regularly throughout the year, the segment's income will fall by the end of fiscal 2010/2011. It increased by almost 30% to €17.8 (13.8) million at the end of the third quarter.

The strong performance of this year's seed potato business and our farms increased external net sales at the **Breeding & Services Segment** to €25.5 (16.2) million. Since the KWS Group's R&D expenditure is completely included in this segment, the increase in the R&D budgets has a negative impact on its income, which was €7.7 (19.0) million as of March 31.

Balance Sheet of the KWS Group

In € million	March 31, 2011	June 30, 2010	March 31, 2010
ASSETS			
Intangible assets	49.4	49.6	48.5
Property, plant and equipment	224.9	220.6	208.8
Financial assets	5.6	5.0	4.8
Noncurrent tax assets	5.0	5.9	6.4
Deferred tax assets	27.5	26.1	20.6
Noncurrent assets	312.4	307.2	289.1
Inventories and biological assets	144.7	136.8	179.2
Trade receivables	424.1	262.1	429.4
Marketable securities	20.1	13.1	9.7
Cash and cash equivalents	101.0	100.6	70.3
Current tax assets	18.0	16.9	18.4
Other current assets	18.8	20.7	24.9
Current assets	726.7	550.2	731.9
Total assets	1,039.1	857.4	1,021.0
EQUITY AND LIABILITIES			
Subscribed capital	19.8	19.8	19.8
Capital reserve	5.5	5.5	5.5
Retained earnings	510.3	448.8	468.1
Minority interests	21.4	18.8	19.3
Equity	557.0	492.9	512.7
Long-term provisions	62.7	61.5	61.9
Long-term borrowings	20.1	21.6	16.7
Trade payables	1.6	2.3	2.3
Deferred tax liabilities	18.4	18.6	22.0
Other long-term liabilities	9.3	10.2	10.0
Noncurrent liabilities	112.1	114.2	112.9
Short-term provisions	113.9	129.5	142.5
Short-term borrowings	73.0	10.7	88.6
Trade payables	97.1	57.5	91.3
Current tax payables	48.2	22.8	39.8
Other liabilities	37.8	29.8	33.2
Current liabilities	370.0	250.3	395.4
Liabilities	482.1	364.5	508.3
Total equity and liabilities	1,039.1	857.4	1,021.0

Good sales of certified high-yielding seed significantly reduced inventories by €34.5 million compared with the same period of the previous year. Of the €144.7 million in inventories, the Corn Segment accounted for almost 58% and Sugarbeet for 29%.

Despite the increase in net sales, trade receivables fell slightly by €5.3 million year-on-year, thanks to effective receivables management and better liquidity on the part of our customers.

As a result of extensive advance payments on technology licenses in North America, short-term provisions fell by €28.6 million compared with the status at March 31, 2010.

Borrowings were reduced significantly by an increase in payments received and are in line with the positive trend of accounts receivable. The overall increase in earnings pushed up current tax payables.

Cash Flow Statement

In € million	1 st -3 rd quarter	
	2010/2011	Previous year
Net income for the period	96.1	81.9
Cash earnings	102.8	88.7
Funds tied up in net current assets	-105.4	-178.3
Net cash from operating activities	-2.6	-89.6
Net cash from investing activities	-32.6	-43.1
Net cash from financing activities	47.7	84.2
Change in cash and cash equivalents	12.5	-48.5
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	-5.1	2.9
Cash and cash equivalents at end of period	121.1	80.0

The net cash from operating activities improved by €87 million year-on-year as a result of the good net income for the period and a smaller increase in inventories.

Slightly lower capital spending in the first nine months compared with the same period for the previous year and limited borrowings resulted in much higher cash and cash equivalents of €121.1 million after the third quarter.

Statements of Changes in Equity

In € million	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	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
Balance as at June 30, 2010	474.1	18.8	492.9
Dividends paid	-12.5	-0.6	-13.1
Consolidated net income for the period	92.8	3.3	96.1
Other gains (losses)	-18.8	-0.1	-18.9
Total consolidated gains (losses)	74.0	3.2	77.2
Balance as at March 31, 2011	535.6	21.4	557.0

The KWS Group's equity rose as a result of the net income for the period and was reduced by currency translation not recognized in the income statement.

Pursuant to the resolution by the Annual Shareholders' Meeting in Einbeck on December 16, 2010, the dividend was €1.90 a share. As a result, €12.5 million was distributed to shareholders this year.

Minority interests rose by €2.6 (2.0) million.

Employees*

	1 st -3 rd quarter	
	2010/2011	Previous year
Germany	1,498	1,415
Europe (excluding Germany)	942	845
America	1,109	1,142
Other countries	101	99
Total	3,650	3,501

* at quarter end

The workforce of the KWS Group increased in the period under review, with 3,650 people employed as of March 31. We expect an average of around 3,600 employees for the year, a rise of approximately 3% over the previous year (3,492).

Forecast report for 2010/2011

The **Corn Segment** will generate the highest net sales and income at the KWS Group this fiscal year, with the return on sales (RoS) surpassing the 10% mark for the first time. The excellent performance of our varieties promises further gains in market share in our core European markets. We also anticipate a significant increase in net sales in North America. Our business in Central, Eastern and Southeastern Europe picked up again as well. These markets suffered heavily from the financial and economic crisis. We therefore expect net sales at the Corn Segment to rise by approximately 10% over the previous year (€413.4 million). Apart from this expansion in operational business, the segment's anticipated income will be boosted by extraordinary effects totaling around €10 million from the reversal of allowances for inventories and belated royalty payments from the 2010 sales season. The segment's RoS will thus increase above-proportionately to around 12% at the end of the fiscal year.

As anticipated, the expansion of **Sugarbeet** cultivation area in the EU 27 as a response to the high world market price for sugar had a positive impact on our sugarbeet seed business. Net sales in the EU rose by over 10%. Farmers in Russia and Ukraine also grew more sugarbeet again.

In North America, the United States Department of Agriculture (USDA) gave its approval for the commercial cultivation of Roundup Ready® sugarbeet – provisionally and subject to conditions – on February 4, 2011. A petition for an injunction against this decision was filed immediately, but unsuccessfully, with the result that the use of the herbicide-tolerant sugarbeet was permitted by the courts shortly before the sowing season. Despite the various conditions imposed, sugarbeet farmers then decided again in favor of these genetically improved varieties, leaving our sales and market share in this special segment virtually stable year-on-year. Overall, we thus expect an increase in net sales of just over 6% and in the segment's income by just over 40% (without consideration of potato activities).

The **Cereals Segment** will post an increase of just over 6% in net sales by the end of fiscal 2010/2011. Although we generate only low net sales from summer cereals in the fourth quarter, we obtain royalties for farm-saved seed from our varieties in that period. The segment's income will improve by around 20% over the previous year (€10.5 million).

External net sales at the **Breeding & Services Segment** are generated by our farms and from our potato activities. Starting from last year's very low level, more seed potatoes were sold in the current fiscal year, backed by significantly higher prices for potatoes for consumption. The segment's income reflects above all our steadily growing expenditure on product development. Overall, we will spend more than €110 (97.5) million on research and development in fiscal 2010/2011, which will accordingly reduce the segment's income.

The anticipated operational growth of the **KWS Group** will more than compensate for the rise in R&D expenditure. We will also achieve extraordinary income, particularly from the reversal of allowances for receivables and inventories. In fiscal 2010/2011, the KWS Group's net sales are expected to increase by 10% to €830 million and operating income is expected to grow by 40% to €115 million.

Report on risks and opportunities

An unavoidable latent risk for our corn business in Germany is the possibility of the adventitious presence of traces of genetically modified organisms (GMOs) in conventional seed. To determine whether such organisms are present, the German authorities take and test samples. They respond to even the slightest traces of GMOs by ordering the sown areas to be plowed up – an administrative practice unique in Europe. There is no tolerance threshold, and follow-up tests are not allowed. In such cases, the resultant damage is to be borne by the breeding industry, even though the individual breeders have had the seed tested for freedom from GMOs by an independent laboratory before it is supplied to customers. The German plant breeding industry has thus called on political bodies to stop closing their eyes to the technical and biological realities and to set the long-needed threshold values and thus establish a climate of legal certainty for all those involved.

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 page 49-51 of the 2009/2010 Annual Report.

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

Einbeck, May 27, 2011

KWS SAAT AG

The Executive Board



P. von dem Bussche



Ch. Amberger



L. Broers



H. Duenbostel

Financial calendar

October 27, 2011	Publication of the 2010/2011 financial statements; Annual Press Conference and Analysts' Conference in Frankfurt
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November 25, 2011	Report on the 1 st quarter 2011/12
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December 14, 2011	Annual Shareholders' Meeting in Einbeck
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KWS SAAT AG

Grimsehlstraße 31

Postfach 14 63

37555 Einbeck

Phone: +49 (0) 55 61/311-0

Fax: +49 (0) 55 61/311-322

www.kws.com

E-Mail: info@kws.com