

3rd Quarterly Report of the KWS Group

Fiscal year 2013/2014

July 1, 2013, to March 31, 2014

KWS



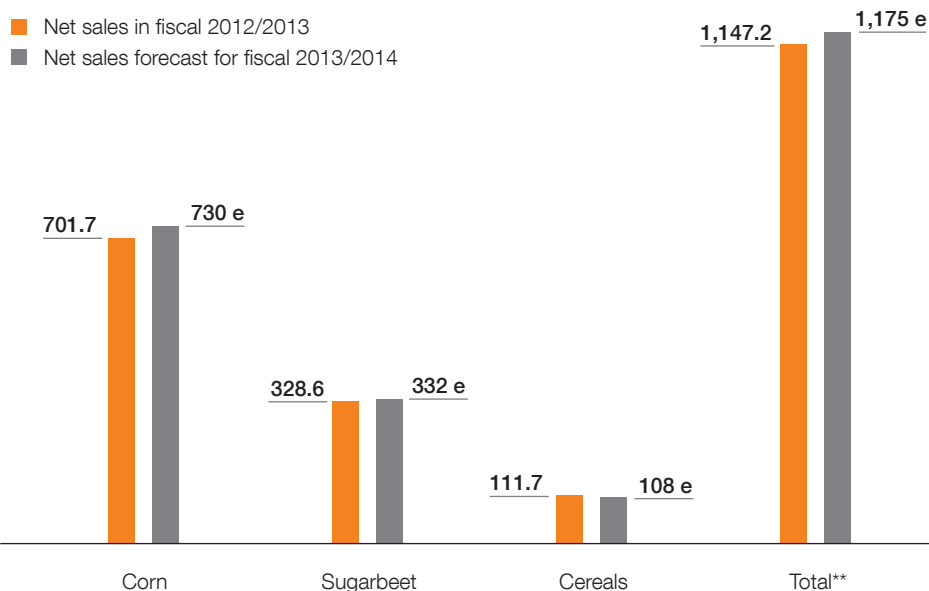
Seeding the future
since 1856

Guidance for fiscal 2013/2014 (ending June 30, 2014)

- We expect net sales in fiscal 2013/2014 to grow by nearly 3% to about €1.2 (1.1) billion* despite negative exchange rate developments in some important regions.
- Expansion of research and development (R&D) and our sales structures is proceeding as planned.
- We anticipate operating income (EBIT) of around €134 (150.7) million, reflecting higher function costs as well as negative exchange rate effects. Consequently, the EBIT margin is expected to be around 11.4 (13.1) %.

Outlook for the segments and the Group

in € million



EBIT margins

in %

	Forecast Fiscal year 2013/2014	Fiscal year 2012/2013
Corn	12.9 e	13.1
Sugarbeet	20.5 e	22.4
Cereals	16.8 e	24.0
Total**	11.4 e	13.1

* The figures in parentheses are those for the previous year.

** Includes net sales and EBIT for the Corporate Segment, which are not explicitly shown in detail here.

Overview of quarters 1 to 3, 2013/2014

KWS Group

Negative exchange rate development weighed on sales and EBIT. The planned significant expansion in R&D and sales activities also impacted earnings strength, which is still high, however.

- Net sales increased by 4.6% to €921.7 (880.9) million
- EBIT: €167.8 (185.6) million; change: –9.6%

Corn Segment

Strong growth in South America and Southeastern Europe; higher volumes sold in North America despite reduced corn cultivation area.

- Net sales: €561.3 (524.2) million; change: 7.1%
- EBIT: €103.5 (105.1) million; change: –1.5%

Sugarbeet Segment

Year-on-year increase in net sales compensated for higher R&D and sales expenditures.

- Net sales: €259.2 (247.5) million; change: 4.7%
- EBIT: €75.6 (76.8) million; change: –1.6%

Cereals Segment

Lower market prices for cereals for consumption led to reduced seed sales, while a lower share of rye in the sales mix impacted earnings.

- Net sales: €97.2 (104.8) million; change: –7.3%
- EBIT: €25.4 (31.9) million; change: –20.4%

Corporate

Expansion of research as planned and a slight increase in costs for the central functions; lower net sales at the farms.

- Net sales: €4.0 (4.4) million; change: –9.1%
- EBIT: € –36.7 (–28.2) million; change: –30.1%

The KWS Group at a glance

Quarters 1 to 3, 2013/2014*

		1st–3rd quarter 2013/2014	1st – 3rd quarter 2012/2013
Net sales and income			
Net sales	€ million	921.7	880.9
EBIT	€ million	167.8	185.6
Net income for the period	€ million	115.0	124.6
Capital expenditure			
Capital expenditure on property, plant and equipment	€ million	43.3	38.7
Capital expenditure on intangible assets	€ million	5.4	0.0
Investments in financial assets	€ million	0.3	0.1
Total capital expenditure	€ million	49.0	41.7
Depreciation, amortization and write-downs	€ million	29.2	25.8
Capital structure			
Total assets	€ million	1,464.8	1,432.5
Equity	€ million	720.6	708.7
Equity ratio	%	49.2	48.0
Net borrowings	€ million	108.6	55.7
Net borrowings as a % of equity (gearing)	%	15.1	8.1
Employees in the KWS Group		4,875	4,562
Share			
Number of shares		6,600,000	6,600,000
Last day of trading in the third quarter		March 31, 2014	March 28, 2013
Closing price on last day of trading in the third quarter	€	262.90	278.00
Market capitalization on last day of trading in the third quarter	€ million	1,735	1,835
Market capitalization of free float on last day of trading in the third quarter	€ million	522	552

* Our main products – corn and sugarbeet – are sown in the third quarter of our fiscal year. Consequently, we typically generate most of our sales in this period, while our structural costs are spread evenly over the entire fiscal year.

3rd Quarterly Report 2013/2014

Business development in the first nine months

Income statement

In € million				
	3rd quarter		1st – 3rd quarter	
	2013/ 2014	Previous year	2013/ 2014	Previous year
Net sales	712.2	674.6	921.7	880.9
Operating income	261.6	244.7	167.8	185.6
Net financial income/expenses	-3.0	-3.4	-8.3	-6.4
Result of ordinary activities	258.6	241.3	159.5	179.2
Income taxes	73.6	70.7	44.5	54.6
Net income for the period	185.0	170.6	115.0	124.6
of which shareholders of KWS SAAT AG	182.8	169.4	109.4	118.3
of which minority interest	2.2	1.2	5.6	6.3
Earnings per share (€)	27.69	25.67	16.57	17.92

KWS Group

The KWS Group's net sales for the first nine months of fiscal 2013/2014 rose by 4.6% to €921.7 (880.9) million. Adjusted for negative exchange rate effects of €42.4 million, net sales would be €964.1 million. In particular, the two segments Corn and Sugarbeet contributed to this positive performance, while the Cereals Segment posted net sales below those of the previous year due to lower demand for rye seed as a result of prices for that crop.

By increasing our research and development budget and further expanding our sales structures, we are investing in creating new markets and products and are sticking to our strategic goal of further strengthening the foundation of our company's long-term growth. In this way, we intend to tap further sustained earnings potential, even though that results in charges from higher functional costs in the short term. In conjunction with negative exchange rate effects which are recognized in income, our operating income (EBIT) fell by 9.6% to €167.8 (185.6) million.

Net financial income/expenses contain only low interest income from the positive net cash balance as a result of the continuing low level of interest. Dynamic expansion of our business in South America meant additional interest expenses, which perceptibly reduced the net financial result. 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

In € million

	3rd quarter		1st – 3rd quarter	
	2013/ 2014	Previous year	2013/ 2014	Previous year
Net income for the period	185.0	170.6	115.0	124.6
Gain/loss from financial instruments available for sale	0.0	0.0	0.0	0.1
Currency translation for foreign subsidiaries	-8.2	4.4	-24.1	-5.7
Comprehensive income for the period	176.8	175.0	90.9	119.0
of which shareholders of KWS SAAT AG	174.4	173.6	85.6	112.6
of which minority interest	2.4	1.4	5.3	6.4

The statement of comprehensive income reconciles the income for the period with total income. Currency translations on the reporting date resulted in a reduction of equity by €24.1 (5.7) million.

Segment report

In € million

	3rd quarter		1st – 3rd quarter	
	2013/ 2014	Previous year	2013/ 2014	Previous year
Net sales	712.2	674.6	921.7	880.9
Corn	465.7	441.3	561.3	524.2
Sugarbeet	233.3	222.0	259.2	247.5
Cereals	11.9	10.3	97.2	104.8
Corporate	1.3	1.0	4.0	4.4
Operating income	261.6	244.7	167.8	185.6
Corn	159.6	149.4	103.5	105.1
Sugarbeet	110.9	105.9	75.6	76.8
Cereals	0.2	-5.3	25.4	31.9
Corporate	-9.1	-5.3	-36.7	-28.2

Corn Segment

The business performance of the Corn Segment in the first nine months of 2013/2014 was significantly influenced by negative exchange rate effects in North and South America and Eastern Europe. That affected the segment's net sales by around €32 million. In addition, an increasing number of North American farmers decided to grow soybeans, which meant that corn cultivation area fell year on year. Nevertheless, we managed to increase our volume of sales in North America year on year. Revenue in this segment rose by a total of 7.1% to €561.3 (524.2) million. The planned high expenditure on expanding our production and sales structures and negative exchange rate developments reduced the segment's income (EBIT) slightly by 1.5% to €103.5 (105.1) million.

Sugarbeet Segment

Continuing high demand for our sugarbeet varieties in North America and large parts of Northern Europe made a major contribution to the 4.7% increase in the segment's sales to €259.2 (247.5) million in the first nine months of fiscal 2013/2014. However, potato sales remained stable – not least because of the smaller seed potato harvest in the Netherlands that resulted from weather conditions. Given the higher function costs and negative exchange rate effects, the segment's income (EBIT) declined slightly by 1.6% to €75.6 (76.8) million.

Cereals Segment

As expected, the performance of our Cereals Segment in the first nine months of fiscal 2013/2014 was impacted by the change in the price of rye relative to that for wheat. While the price of rye was in some cases well above that of wheat in the previous year, normalcy returned with lower price levels, with the result that demand for our rye seed was significantly lower, in particular in Germany and Poland. Consequently, the segment's net sales amounted to €97.2 million and thus below the high level of the previous year (€104.8 million). The changes in the sales mix, coupled with a corresponding reduction in the share of high-margin rye varieties, and planned higher sales and research and development expenditure resulted in a decline in the segment's income (EBIT) by 20.4% to €25.4 (31.9) million.

Corporate

Net sales at our Corporate Segment are generated largely by our farms. They fell in the first nine months of fiscal 2013/2014 by 9.1% to €4.0 (4.4) million. Higher cross-segment function and research costs reduced income (EBIT) to € –36.7 (–28.2) million.

Capital expenditure

In € million				
	3rd quarter		1st – 3rd quarter	
	2013/ 2014	Previous year	2013/ 2014	Previous year
Total	15.5	12.9	48.8	41.7
Corn	6.6	6.4	26.8	17.2
Sugarbeet	4.6	4.5	10.8	15.4
Cereals	1.6	1.3	4.8	4.9
Corporate	2.7	0.7	6.4	4.2

KWS invested a total of €48.8 (41.7) million in the first three quarters of fiscal 2013/2014, with property, plant and equipment accounting for €43.3 (38.7) million. As in previous years, capital expenditure was therefore well above depreciation of €29.2 (25.8) million. The main single investments related to expenditure for expanding corn seed production capacities in France and North America and modernizing sugarbeet seed production in North America.

Of the total capital expenditure (excluding financial investments) of €48.8 (41.7) million in the KWS Group, 54.9% was in the Corn Segment, 22.1 % in the Sugarbeet Segment, 9.9% in the Cereals Segment and 13.1% in the Corporate Segment.

Capital expenditure by region



Balance sheet of the KWS Group

Assets

In € million	March 31, 2014	June 30, 2013	March 31, 2013
Intangible assets	103.1	101.9	108.0
Property, plant and equipment	300.8	287.6	279.2
Financial assets	1.9	9.8	4.3
Noncurrent tax assets	4.1	5.7	5.0
Deferred tax assets	54.7	44.5	39.1
Noncurrent assets	464.6	449.5	435.6
Inventories and biological assets	243.8	144.4	204.9
Trade receivables	581.8	359.9	595.3
Marketable securities	19.7	100.9	44.2
Cash and cash equivalents	83.7	101.5	91.1
Current tax assets	34.8	24.4	26.0
Other current assets	36.4	40.1	42.7
Current assets	1,000.2	771.2	1,004.2
Total assets	1,464.8	1,220.7	1,439.8

Equity and Liabilities

In € million	March 31, 2014	June 30, 2013	March 31, 2013
Subscribed capital	19.8	19.8	19.8
Capital reserve	5.5	5.5	5.5
Retained earnings	659.0	593.2	630.6
Minority interests	36.3	31.8	35.6
Equity	720.6	650.3	691.5
Long-term provisions	89.3	91.7	88.0
Long-term borrowings	95.2	98.5	97.1
Trade payables	5.4	1.7	1.7
Deferred tax liabilities	28.1	29.7	37.7
Other long-term liabilities	13.4	9.1	9.5
Noncurrent liabilities	231.4	230.7	234.0
Short-term provisions	138.6	131.4	142.2
Short-term borrowings	116.8	33.3	93.9
Trade payables	114.4	82.7	156.9
Current tax payables	62.9	31.9	58.0
Other liabilities	80.1	60.4	63.3
Current liabilities	512.8	339.7	514.3
Liabilities	744.2	570.4	748.3
Total equity and liabilities	1,464.8	1,220.7	1,439.8

We increased our inventories as planned in order to avoid supply bottlenecks. Trade receivables were €13.5 million lower than a year ago despite the fact that net sales were €40 million higher. At the same time, the sharp reduction in trade payables resulted in a higher level of funds tied up in net current assets. Net financial debt at March 31, 2014, was €108.6 (55.7) million, following a net financial balance of €70.6 (75.9) million on June 30, 2013.

The long-term provisions increased by €25 million, which was taken directly to equity, as a result of the revaluation of pension provisions in accordance with IAS 19R, and the figure for the previous year was adjusted accordingly. The long-term financial borrowings include the option to purchase further shares in the Brazilian production and distribution company.

Equity increased to €720.6 million compared with €691.5 million in the previous year. The equity ratio on March 31, 2014, was 49.2 (48.0) %.

Cash flow statement

In € million		
	1st – 3rd quarter	
	2013/ 2014	Previous year
Net income for the period	115.0	124.6
Cash earnings	111.6	133.5
Funds tied up in net current assets	-223.1	-197.4
Net cash from operating activities	-111.5	-63.9
Net cash from investing activities	-48.5	-66.5
Net cash from financing activities	65.5	82.9
Change in cash and cash equivalents	-94.5	-47.5
Cash and cash equivalents at beginning of period (July 1)	202.4	183.0
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	-4.4	-0.2
Cash and cash equivalents at end of period (March 31)	103.5	135.3

The reduction in trade payables resulted in higher net working capital on the balance sheet date, which reduced net cash from operating activities to € -111.5 (-63.9) million in the first nine months of the fiscal year.

Net funds used in investing activities were €48.5 million compared with €66.5 million in the previous year, while net cash from financing activities was €65.5 (82.9) million.

Cash and cash equivalents at the end of the period totaled €103.5 (135.3) million.

Statements of changes in equity

In € million	Group interests	Minority interests	Group equity
Balance as at June 30, 2012	578.6	24.5	603.1
Adjustment for IAS 19R	-16.8	-0.4	-17.2
Balance as at June 30, 2012 (adjusted)	561.8	24.1	585.9
Dividends paid	-18.5	-0.6	-19.1
Other changes	0.0	5.7	5.7
Consolidated net income for the period	118.3	6.3	124.6
Other gains (losses)	-5.7	0.1	-5.6
Total consolidated gains (losses)	112.6	6.4	119.0
Balance as at March 31, 2013	655.9	35.6	691.5
Balance as at June 30, 2013	635.3	32.2	667.5
Adjustment for IAS 19R	-16.8	-0.4	-17.2
Balance as at June 30, 2013 (adjusted)	618.5	31.8	650.3
Dividends paid	-19.8	-0.8	-20.6
Other changes	0.0	0.0	0.0
Consolidated net income for the period	109.4	5.6	115.0
Other gains (losses)	-23.8	-0.3	-24.1
Total consolidated gains (losses)	85.6	5.3	90.9
Balance as at March 31, 2014	684.3	36.3	720.6

Equity is impacted by the consolidated net income, payout of our dividend in December 2013 and currency translation not recognized in the income statement. The adjustment in accordance with IAS 19R also impacted equity.

The dividend was set at €3.00 for each of the 6.6 million shares pursuant to a resolution adopted by the Annual Shareholders' Meeting on December 19, 2013, resulting in a total payout of €19.8 (18.5) million.

Employees

Employees by regions

	1st – 3rd quarter	
	2013/2014	Previous year
Germany	1,816	1,667
Europe (excluding Germany)	1,194	1,104
Americas	1,732	1,658
Other countries	133	133
Total	4,875	4,562

At March 31, 2014, we had 4,875 (4,562) employees worldwide. The largest increase in our headcount was in Germany (149 new jobs). We plan to increase the workforce at the KWS Group to around 4,900 by June 30, 2014, a year-on-year increase of 7.4%.

Risks and opportunities

There has been no significant change in the situation as to opportunities and risks at the KWS Group compared with at June 30, 2013. Risks that jeopardize the company's existence are not discernible at the present.

Professional cash management, sufficient long-term syndicated loans and a high equity ratio are the three main elements with which we address the liquidity risk. Compliance with financial covenants, which are part of our loan agreements, has always been ensured up to now. We agree on extensive trade credit insurance for risky regions to minimize the risk of losing receivables. We also reduce the risk of payment defaults through an active receivables management policy.

You can find detailed information on our risk management system and the risk situation of the KWS Group in the section "Risks for future development" on pages 42 – 45 of our 2012/2013 Annual Report. There are opportunities in particular in the area of research and development as well as in the systematic planned expansion of our production and sales structures.

Report on events after the balance sheet date

There were also no events after March 31, 2014, that can be expected to have a significant impact on the KWS Group's earnings, financial position and assets.

Forecast for 2013/2014

KWS Group

Given our satisfactory performance in the first nine months of fiscal 2013/2014, we expect net sales to grow by almost 3% to around €1.2 billion. Negative exchange rate effects (especially in North and South America and Eastern Europe) will reduce sales by a total volume of just over €53 million. In particular, the Corn Segment is affected by weak exchange rate developments. However, it remains the key driver to the KWS Group's growth, while the Sugarbeet Segment is expected to remain stable and the Cereals Segment to weaken slightly.

In the current fiscal year, just over 13 (11.6) % of our net sales will be spent on our diverse R&D activities. The focus of these activities will still be at our headquarters in Einbeck. However, we will put a second research location into operation in the U.S. in the coming fiscal year. Our objective in doing that is to strengthen KWS' position in global plant research and also further expand our presence in one of the key markets.

In China we can now take a further step, following the approval granted on May 14, 2014, by the Chinese Ministry of Agriculture for our joint venture with our long-standing partner Beidahuang Kenfeng Seed Ltd. This joint venture will now establish the structures needed to begin its operations in fiscal 2015/2016. In addition, we have reached an agreement with the family shareholders of KWS LOCHOW GMBH to acquire the remaining 18.9% stake in that company. A purchase agreement to this effect was certified on May 26, 2014. The transaction is to be concluded in the current fiscal year. The family shareholders intend to maintain an investment in the industry and possibly acquire shares in KWS SAAT AG with some of the proceeds.

We are sticking to our overall strategic course of sustainable and long-term development of the company. The focus of that will be on young breeding programs in our new markets and product categories as well as on biotechnology projects, among other things as part of the corn research joint venture GENECTIVE that we successfully run with our French partner Vilmorin & Cie. In addition, we will invest just over €90 (65.2) million in fiscal 2013/2014 in, among other things, expanding our production capacities in order to create the structures we need for future growth. The higher expenditures will impact operating income in the current fiscal year, with the result that it will decline slightly after two exceptional years. Accordingly, we aim to post operating income of around €134 (150.7) million. The EBIT margin would then be 11.4%.

Corn Segment

With our strong portfolio of varieties we expect net sales in fiscal 2013/2014 to rise by up to 4% to €730 (701.7) million, despite the fact that exchange rate influences will be felt from North and South America. There are signs that corn cultivation area in the important North American market will fall perceptibly as a result of farmers' decision to grow more soybeans this year. All in all, however, we anticipate further growth in volumes, with the result that net sales in this key market should be stable, while we expect in some cases significant boosts to growth from our South American market, where we are still in the process of building our operations, and from Europe. We forecast that operating income (EBIT) at the Corn Segment will increase by around 2% over the previous year's figure of €92.0 million.

Sugarbeet Segment

Positive developments in the North American sugarbeet market and Turkey, as well as stable potato business, mean we can confirm our previous expectations for the Sugarbeet Segment. We anticipate that net sales in fiscal 2013/2014 will rise slightly to around €332 (328.6) million. However, higher R&D costs and write-downs in connection with streamlining of our portfolio of varieties will have a negative impact on the segment's income (EBIT), which will probably be around 6% below the previous year's figure of €73.5 million.

Cereals Segment

While the price of rye was above that of wheat in the previous year, that situation reversed itself again in the year under review, with the result that there was – as expected – lower demand for our rye varieties, in particular from Germany, Central Europe and Eastern Europe. Consequently, we assume that net sales in the Cereals Segment in fiscal 2013/2014 will fall to around €108 (111.7) million. As a result, we would just barely fail to match the exceptional level of the previous year and once again achieve a more than satisfactory volume. The lower share of rye in the product mix, coupled with higher expenditure on our new wheat breeding program in North America, is likely to result in a decline in the segment's income (EBIT) of approximately 30% from last year's figure of €26.8 million.

Corporate

The costs of cross-segment research and central functions are charged to the Corporate Segment. As far as can be seen at present, its income (EBIT) will be around 14% below the level of the previous year (€–41.6 million) due to higher research costs and administrative function costs.

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. Exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2013, were used. The Notes appended to the annual financial statements as of June 30, 2013, therefore apply accordingly; intersegment sales are not shown. 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.

The number of companies consolidated in the KWS Group did not change in the third quarter of the fiscal year. As a result, a total of 57 companies will be fully consolidated and eight proportionately consolidated in 2013/2014.

Einbeck, May 27, 2014

KWS SAAT AG

The Executive Board



Philip von dem Bussche



Léon Broers



Hagen Duenbostel



Eva Kienle

Financial calendar

October 16, 2014	Publication of the 2013/2014 financial statements, Annual press and analyst conference in Frankfurt
November 26, 2014	Report on the 1st quarter 2014/2015
December 18, 2014	Annual Shareholders' Meeting in Einbeck
February 25, 2015	Report on the 2nd quarter 2014/2015

Safe Harbor Statement

This document contains forward-looking statements about future developments based on the current assessments of management. These forward-looking statements may be identified by words such as “forecast,” “assume,” “believe,” “assess,” “expect,” “intend,” “can/may/might,” “plan,” “should” or similar expressions.

These statements are subject to certain elements of uncertainty, risks and other factors that may result in significant deviations between expectations and actual circumstances. Examples of such risks and factors are market risks (such as changes in the competitive environment or risks of changes in interest or exchange rates), product-related risks (such as production losses as a result of bad weather, failure of production plants or quality-related risks), political risks (such as changes in the regulatory environment, including those with regard to the general regulatory framework for the cultivation of energy plants, or violations of existing laws and regulations, for example those regarding genetically modified organisms in corn seed) and general economic risks. Forward-looking statements must therefore not be regarded as a guarantee or pledge that the developments or events they describe will actually occur. We do not intend, nor do we assume any obligation, to update or revise these forward-looking statements, since they are based solely on circumstances on the day they were published.

A German version of the 3rd Quarterly Report 2013/2014 is available at www.kws.de/ir.

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This translation of the original German version of the 3rd Quaterly Report has been prepared for the convenience of our English-speaking shareholders. The German version is legally binding.