Annual Report 2005|2006

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Segments of the KWS Group

Sugar beet
KWS SAAT AG
As well as 16 subsidiaries and affiliated companies*
Net sales € 205,4 Mio
Operating result € 24,9 Mio

Corn
KWS MAIS GMBH
As well as 14 subsidiaries and affiliated companies
Net sales € 242,2 Mio
Operating result € 10,4 Mio

Cereals
LOCHOW-PETKUS GMBH
As well as three subsidiaries and affiliated companies
Net sales € 50,2 Mio
Operating result € 1,8 Mio

Breeding & Services
KWS SAAT AG
As well as 10 subsidiaries and affiliated companies
Net sales €103,3 Mio (net sales of third parties € 7,2 Mio)
Operating result € 9,6 Mio

*Subsidiaries and affiliated companies see page 69

KWS SAAT AG

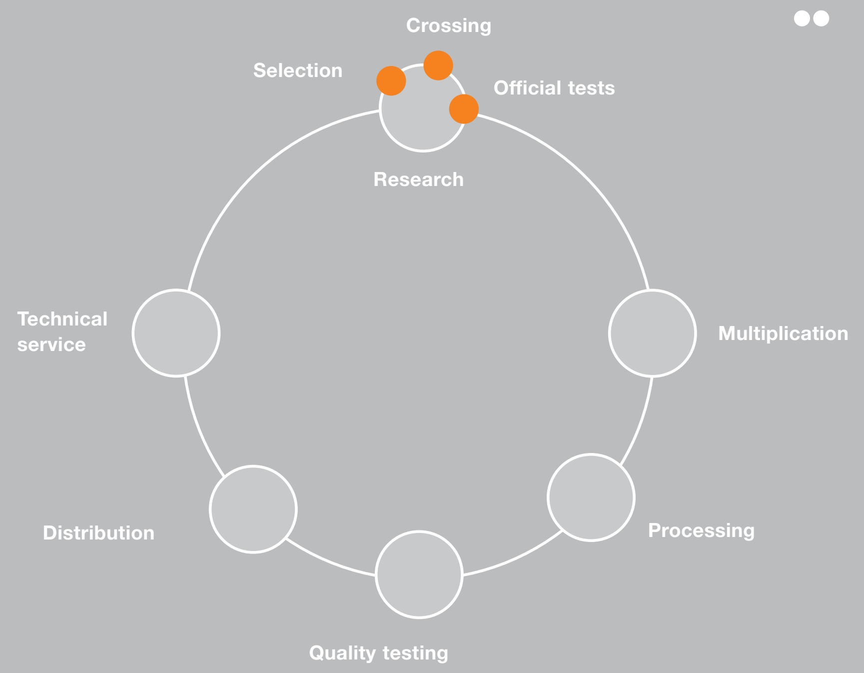
KWS

Key Figures of the KWS Group

Fiscal year Figures in millions of €	**2005/06**	**2004/05**	**2003/04**	**2002/03***	**2001/02***
Net sales	505.0	495.3	444.5	424.3	433.7
Operating income as a % of net sales	46.7 9.2	56.3 11.4	52.3 11.8	50.0 11.8	51.8 12.0
Net income as a % of net sales	28.4 5.6	34.8 7.0	29.8 6.7	28.9 6.8	29.7 6.9
Cash flow (after tax)	42.4	47.0	43.0	52.1	53.4
Equity	338.0	326.2	294.0	226.1	211.7
Equity ratio in %	58.6	57.0	59.5	52.5	49.2
Balance sheet total	577.0	572.4	494.4	431.0	430.1
Return on equity in %	8.9	10.8	10.1	14.2	15.4
Return on assets in %	5.3	7.5	6.5	7.2	7.8
Fixed assets	188.6	185.6	169.2	120.7	124.0
Capital expenditure	23.8	36.9	24.7	20.7	34.2
Depreciation	17.0	16.8	16.7	21.1	18.2
Average number of employees	2,652	2,550	2,516	2,336	2,233
Personnel costs	109.1	101.4	98.3	97.0	97.8
Performance of KWS shares in € Lowest price	62.70**	570	470	451	450
Highest price	87.40**	769	684	535	540
Dividend per share Anniversary bonus	1.00 0.20	12.00	11.00	11.00	11.00

* Financial statements according to HGB
** Value after the 1:10 share split

KWS worldwide



AS AN INDEPENDENT SEED SPECIALIST, WE HOLD OUR PRODUCTS TO THE STANDARDS OF SUSTAINABILITY – AND ALWAYS WITH THE GOAL OF ENABLING COMPETITIVE AGRICULTURE IN A HEALTHY ENVIRONMENT.

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The Executive Board of KWS SAAT AG (left to right):
Philip von dem Bussche | Sugar Beet, New Markets/Products
Dr. Christoph Amberger | Corn, Cereals, Marketing
Dr. Hagen Duenbostel | Finance, Controlling, IT
Dr. Dr. h.c. Andreas J. Büchting (Chairman) | Corporate Affairs, R&D

Chairman's Foreword

Dear Shareholders and friends of KWS,

"Tradition does not mean preserving the ashes, but fanning the flames." This philosophical insight has guided us through the 150th year of our foundation. The basic mood was and is as positive, cheerful and international as the soccer world experienced on the occasion of the 2006 World Cup in Germany. Our World Cup was called "KWS YOUnited" and was held at the beginning of September. Around half of all KWS' employees – over 1,300 – from 27 nations got together in Einbeck and forged new relationships useful for creating new ideas. After all, our company's success over the past 150 years has been the result of the ideas and energy of its employees. I would like to express my warmest thanks on behalf of the Executive Board for the creativity and great commitment of our employees in fiscal 2005/2006 – and all the more so in a year in which our sugar beet seed business was significantly impaired by external factors, such as reform of the European Sugar Market Regime.

Nevertheless, the KWS Group grew again in fiscal 2005/2006. The decisive factor in this success was our regional and product diversification. For the first time, our net sales exceeded the €500 million mark, meaning we have been able to double them in just ten years. As forecast, our earnings before interest and taxes (EBIT) were almost €47 million. We are not dissatisfied with this development – especially given the reform of the sugar market that was adopted at the end of 2005 – even though it is down 17% over the previous year. The reform resulted in a declassification of quota sugar and thus a reduction in sugar production in the EU's 25 states. As a consequence, the cultivation area for sugar beet fell by around 20% in the 2006 vegetation period.

However, changing times always mean new opportunities. We were able to compensate in part for the expected declines in sugar beet business in the EU by growing our sales in Eastern Europe and winning further market share in the EU. In addition, sugar beet is being increasingly used to produce bioethanol. In France, 25% of sugar beet cultivation area is already used for this purpose. Ethanol factories are starting to be built in Germany, too. In the medium term we anticipate that around 10% of sugar beet cultivation area will be devoted to bioethanol production.

Our products corn and rapeseed are profiting from higher international demand for regenerative sources of energy as well. We have developed and marketed a new corn variety with a high energy content for producing biogas from biomass. And our high-yielding rapeseed hybrid varieties are in growing demand as a means of winning biodiesel. We tapped further growth potential by expanding our market position in Southeastern Europe and the U.S. through intensification of our corn activities.

This year our subsidiary Lochow-Petkus GmbH was able to look back on 125 successful years of business (slogan: "With growing enthusiasm") and maintain its leading position in Europe's cereals market.

Fiscal 2005/2006 was also of significance from the point of view of the stock market. In March 2006 we gained admission to the Prime Standard of Frankfurt Stock Exchange following conversion of our accounting and reporting to IFRS and submission of quarterly reports. That paved the way for our inclusion in the SDAX of Deutsche Börse, where KWS SAAT AG has also been listed since June 19, 2006.

The Executive Board's thanks go in particular to all shareholders, customers and partners who once again displayed their trust in KWS this year. We live from this trust and will do all we can to ensure that KWS continues to advance.

Yours,

Dr. Dr. h.c. Andreas J. Büchting
Chairman of the Executive Board

The KWS share

KWS SHARE HOLDS STEADY +++ QUARTERLY REPORTING FOR THE FIRST TIME +++ 1:10 SHARE SPLIT +++ CAPITAL STOCK INCREASED +++ LISTING IN THE PRIME STANDARD +++ ADMISSION TO THE SDAX.

KWS SAAT AG still on track for the future

The performance of shares of KWS SAAT AG was largely in line with that of the German stock market in general in fiscal 2005/2006. Their price was also impacted by a forecast published in February 2006 to the effect that earnings would be lower due to the changes in the EU sugar market. A subsequent phase of consolidation in the share price was followed by a slight rebound in June 2006, with the result that it was back at the level at which it began fiscal 2005/06 as the period under review ended.

The shareholder structure of KWS SAAT AG is marked by high continuity, since the outside shareholders are predominantly buy-and-hold investors. The reason for this is the future prospects of KWS shares, resulting from the long-term significance of international seed business. This continuity enables us to move forward actively with business developments, for example in the wake of reform of the EU Sugar Market Regime, which will entail a consolidation phase of 1–2 years. Particularly investors with a longer investment horizon put their trust in KWS.

Stock listing upgraded

KWS has been listed on the Hanover Stock Exchange for more than 50 years. As a consequence of the increased free float, the tradability of KWS' shares has improved. In a first step, the shares were admitted to the Regulated Market of the Frankfurt Stock Exchange on June 30, 2005, with the aim of moving up to the Prime Standard. Ahead of this, we converted our accounting system to IFRS and introduced quarterly reporting. On April 5, 2006, KWS gained admission to this market segment and then moved up to the SDAX on June 19, 2006.

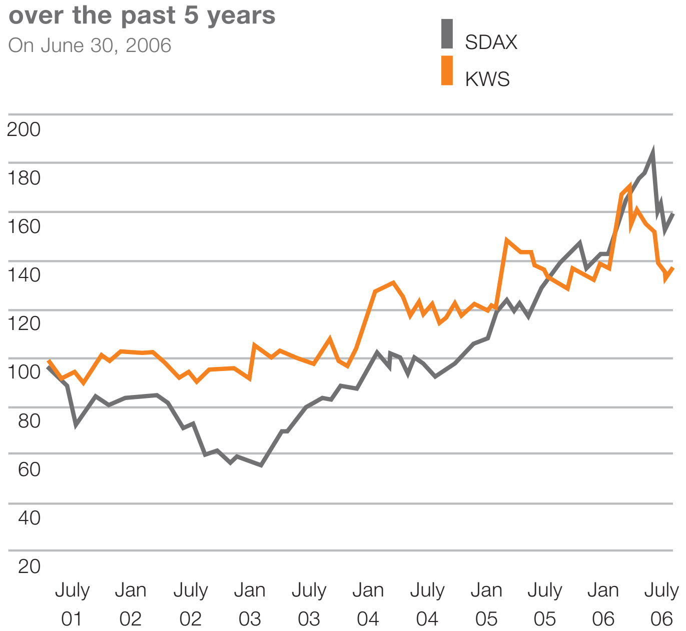
1:10 share split implemented

In January 2006 the Shareholders' Meeting adopted a share split in the ratio of 1:10 so as to make it easier to trade the shares. Since this split there have been 6,600,000 shares. As part of the stock split, KWS increased its capital stock from corporate funds, without the issue of new shares, by € 2.8 million to €19.8 million. The imputed share in the capital stock then rose to € 3.00 per share. At the same time as the share split, collective custody of KWS shares was introduced and existing actual shares were also included in the securities account.

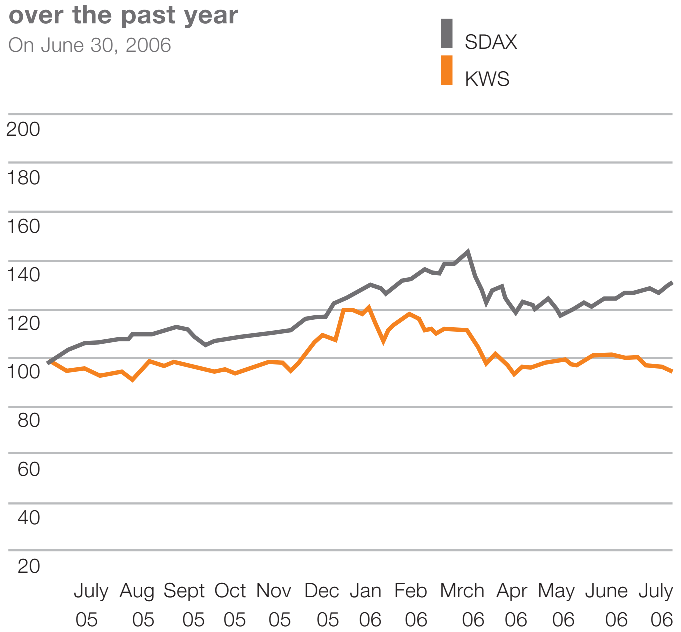
Increased trading in KWS shares

The number of shares traded in the period under review grew by more than 40% year-on-year. The increase to 1.47 (1.04) million traded shares shows that the company's capital market orientation and the measures it has implemented are having an impact. Particularly in the second half of the year – i.e. following the share split – around 79% more shares were traded on all German stock markets than in the first six months. That means an average of 5,670 KWS shares were bought and sold each trading day.

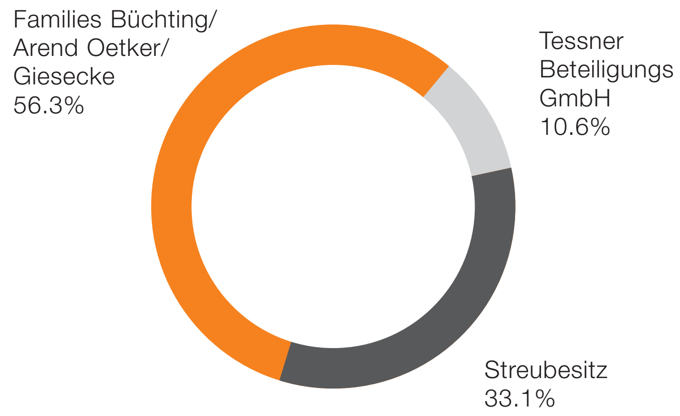
Performance of KWS shares over the past 5 years
On June 30, 2006



Performance of KWS shares over the past year
On June 30, 2006



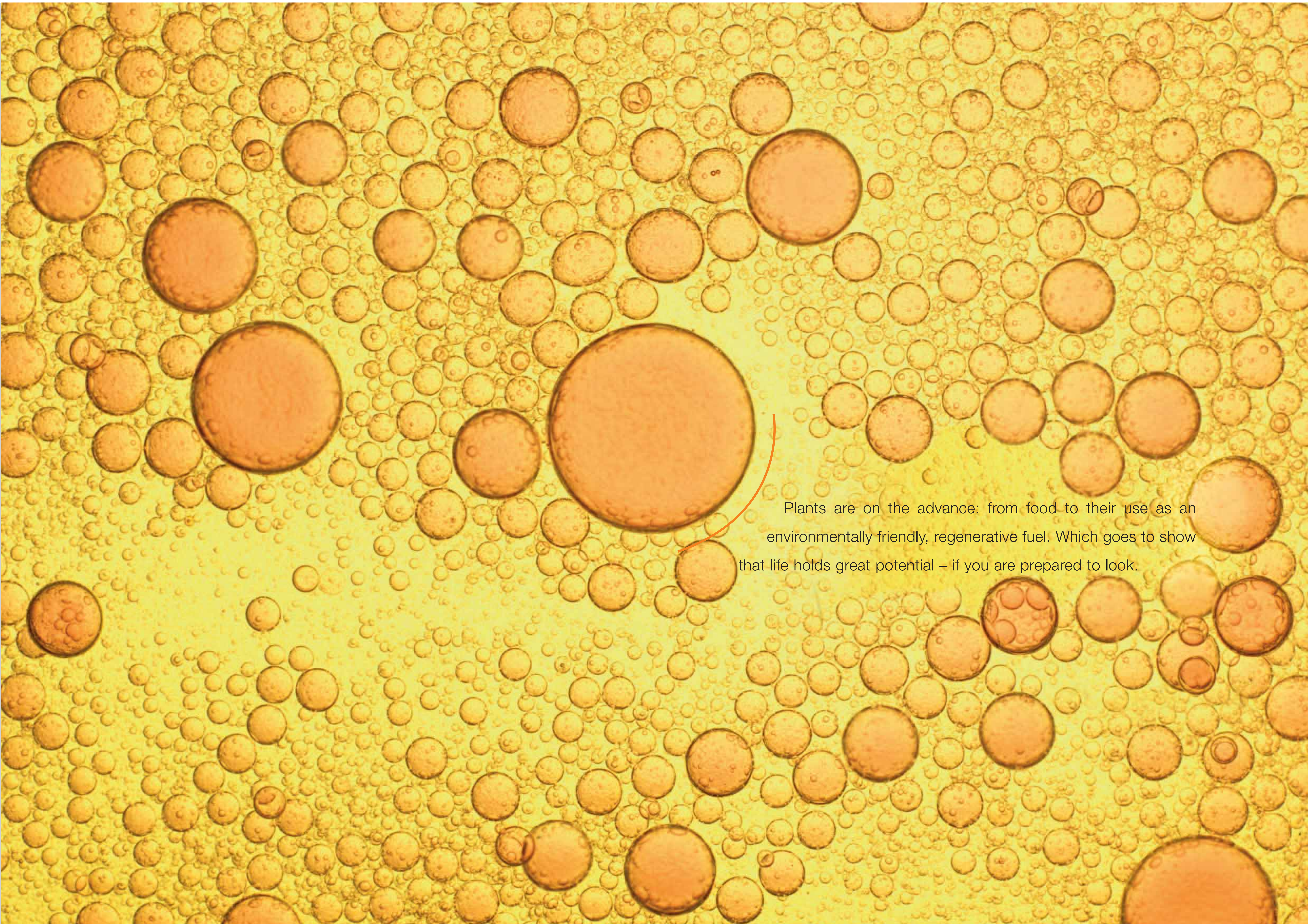
Shareholder structure
on June 30, 2006



Earning figures
in Euro

	2003/2004*	2004/2005*	2005/2006
Earnings per share	4.27	5.09	4.16
Cash flow per share	6.52	7.12	6.42
Equity per share	44.55	49.42	51.21
Dividend	1.10	1.20	1.00 + 0.20

*All price and share data is adjusted for the split and specified in accordance with IFRS.



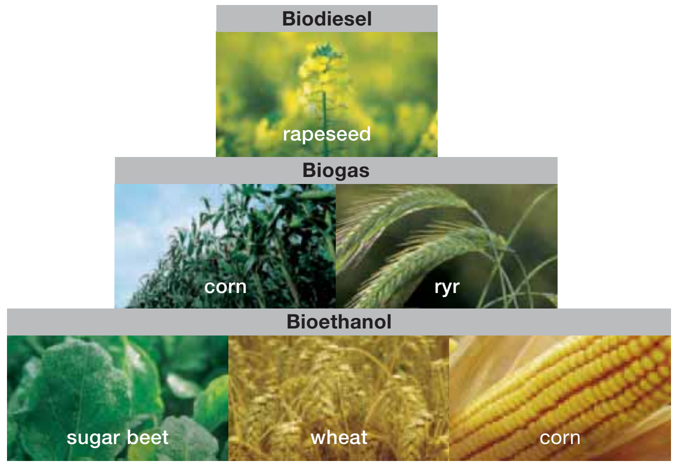
Plants are on the advance: from food to their use as an environmentally friendly, regenerative fuel. Which goes to show that life holds great potential – if you are prepared to look.

Spotlight topic: The power of plants

BIOFUELS – BIODIESEL, BIOETHANOL AND BIOGAS – ARE THE BLOCKBUSTERS IN AGRICULTURAL MARKETS, PARTICULARLY IN VIEW OF RISING PRICES FOR FOSSIL FUELS.

Worldwide production of bioethanol has doubled to 36 billion liters in the past five years, corresponding to 1.2% of global gasoline consumption. At the same time, the volume of biodiesel has quadrupled to 3.6 billion liters, largely in Europe. In Germany the focus so far has been on biodiesel and biogas. Biodiesel production currently supplies about 3% of the German diesel fuel market, while German biogas plants already supply 50% of the electrical power of a modern atomic power plant.

Energy from plants with products of KWS



Bioethanol: the most important regenerative source of energy

Bioethanol is the world's most important regenerative source of energy. From region to region, however, the growth opportunities for the individual biogenic fuels vary greatly. The most important countries for bioethanol production are Brazil and the U.S. Production in Brazil is based on sugar cane. For some years now, gasoline in Brazil has contained around 25% of ethanol. Flexible fuel vehicles there enable the admixture ratio to be changed without any problems. The main raw material for ethanol in the U.S. is corn. Approximately 20% of corn produced in the U.S. goes to make ethanol. Further growth will be generated by the August 2005 Energy Policy Act, which aims at doubling the production of biofuels in the U.S. by 2010.

Europe: share of biofuels to increase to 5.75%

With its biofuel strategy, the EU Commission is aiming for a consumption ratio of 5.75% (currently 1.4%) by 2010. However, the responsibility for implementation lies with the member states. Germany is promoting ethanol production with tax exemptions, for example, and as of January 1, 2007, by means of an obligation to admix ethanol as part of a law aimed at changing the biofuel ratio, under which at least 3% of bioethanol must be added to gasoline by 2010. In Europe, around 3.8 million tons of cereals – corresponding to a cultivation area of some 650,000 ha – are used for ethanol production. Moreover, sugar beet is gaining more and more in importance as a source of ethanol following reform of the EU Sugar Market Regime. In the wake of the reform, new plants for producing ethanol from this raw material are planned in several EU states, including Germany and France. The construction of annex plants directly linked to a sugar factory is initially envisioned. The resultant demand for raw materials will probably necessitate an additional cultivation area of approximately 200,000 ha in the medium term.

Germany: the largest biodiesel market in the EU

Germany has built up the largest market for biodiesel in the EU. A successive increase in tax on biodiesel up to the full rate of 45 cents/l has recently been introduced in the

Energy potential from energy plants

Renewable energies	rapeseed	cereals	power-corn
Product	Biodiesel	Bioethanol	Biogas
Ertrag/ha	1.200l	2.500l	19.000m^3
KWh/ha	10.500	15.000	105.000
PKW km-Leistung/ha	16.000	20.000	130.000

KWS' energy plant program has special new breeds for the production of biogas.

country. At the same time, however, an obligation to add biodiesel to conventional diesel amounting to at least 4.4% of fuel consumption will be introduced effective January 1, 2007, guaranteeing minimum sales volumes. Biodiesel has also experienced a significant upturn in other EU countries. However, one limiting factor on production is the fact that the need for crop rotation with rapeseed restricts further expansion of cultivation areas in the EU. As a result, the growth opportunities for this sector lie mainly in Eastern Europe.

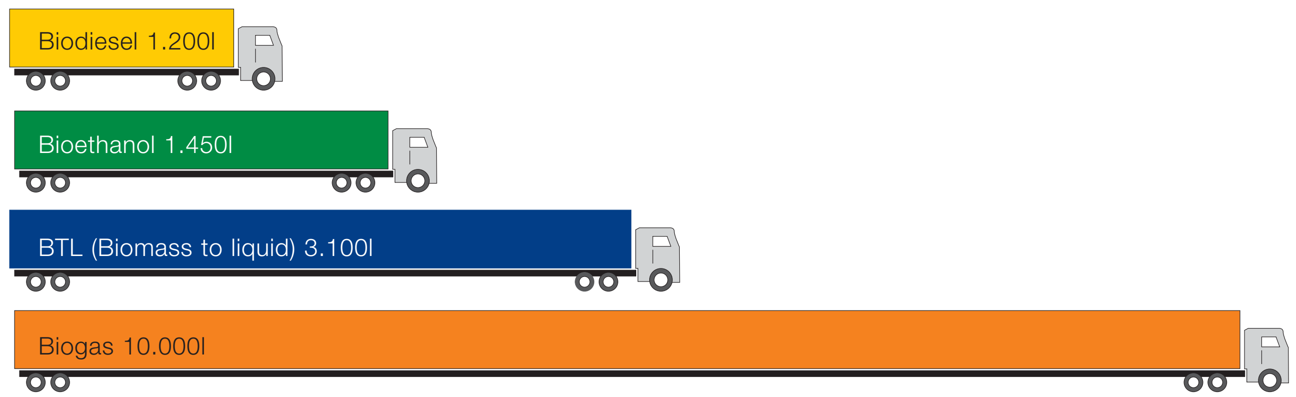
Prospects for biogas

Biomethane production has a far greater energy potential and thus the best growth opportunities. This is based on the fermentation of biomass. The higher yield can be explained by the fact that not only traditional harvested products (rapeseed or grain) are used in production, but the entire plant. Corn and cereals are typically used as the raw material for biogas plants. In 2006, the cultivation of corn for energy already accounted for an area of more than 150,000 ha in Germany.

However, the German Renewable Energy Act (EEG) stipulates that the gas produced in biogas plants must first be converted to electricity so that it can then be fed into the electricity grid, with subsidies of up to 21 cents a KWh. The high losses in efficiency of up to 84% that occur in converting biomass in the various process steps speak for feeding biogas – after it has been processed to give it the quality of natural gas – directly into the gas networks in order to supply the markets for heat and fuel. To enable this, the EEG would have to be amended.

KWS' product portfolio is a perfect match for the needs of all three bioenergy sectors. We have been quick to recognize the market opportunities, especially for corn in biogas production, and enhanced them as part of our own breeding program for energy corn. As a result, we have already positioned ourselves as a market leader in this field.

Energy plants create mobility



Kraftstofferträge/ha (als Dieseläquivalent)

Report of the Supervisory Board

The deliberations of the Supervisory Board in the first half of fiscal 2005/2006 focused on the reform of the European Sugar Market Regime and its effects on KWS' sugar beet segment.

In January 2006, the EU Commission adopted the new Sugar Market Regime, a step that created greater planning security for KWS' sugar beet activities. At its meetings in the second half of the year, the Supervisory Board dealt with the strategic expansion of new markets and new products. This included above all an analysis of the fast growing bioenergy sector and the future challenges this would entail for plant breeding at KWS.

Dr. Guenther H. W. Stratmann
Chairman of the Supervisory Board

In addition, further measures aimed at expanding new or young KWS markets were discussed and adopted. These included investment in corn production plants and the launch of a breeding program in Argentina.

The Supervisory Board held five meetings with the Executive Board in the period under review. It received continuous updates on the situation of KWS SAAT AG and the KWS Group as well as on the profitability and general development of the various businesses and dealt in detail with matters of corporate policy and other fundamental issues of corporate planning. On the basis of these deliberations, the Supervisory Board approved the submitted measures and business transactions requiring its consent. The Supervisory Board was furnished with regular written reports from the Executive Board on the status of business development, profitability, significant business deals and special questions. In addition to being kept up-to-date and discussing issues of importance, the Chairman of the Supervisory Board also took part in several meetings of the Executive Board on focal topics.

The Supervisory Board has set up a committee for Executive Board affairs that held one meeting and reported on its work to the Supervisory Board. In the year under review, the committee addressed in particular the need to find an Executive Board member with responsibility for research. In its meeting on July 5, 2006, the Supervisory Board appointed Dr. Léon Broers as a deputy member of the Executive Board of KWS SAAT AG effective February 1, 2007. After a period of familiarization, he will take over responsibility for research and breeding on July 1, 2007. Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Hannover, the independent auditor chosen at the Shareholders' Meeting and commissioned by the Supervisory Board, has audited the financial statements of KWS SAAT AG that were prepared by the Executive Board for fiscal 2005/2006 and the financial statements of the KWS Group (consolidated financial statements), as well as the management report of KWS SAAT AG and the KWS Group (Group management report), including the accounting reports and gave them an unqualified audits opinion, and awarded them its unqualified audit certificate

The Supervisory Board received and examined the financial statements and management reports of KWS SAAT AG and the KWS Group, along with the report by the independent auditor of KWS SAAT AG and the KWS Group and the proposal on utilization of the net profit for the year made by KWS SAAT AG and also received detailed explanations of questions on the agenda at its meeting to discuss the financial statements on October 30, 2006. The auditor took part in the meeting and reported on the main results of its audit. Based on the findings of its examination, the Supervisory Board does not raise any objections. It gives its consent to the financial statements of KWS SAAT AG, which are thereby approved. The Supervisory Board also gives its consent to the statements of the KWS Group. It also endorses the proposal by the Executive Board on how to utilize the profits of KWS SAAT AG.

The composition of the Supervisory Board changed in the under review. Philip von dem Bussche was a member of the Supervisory Board through September 30, 2005. After his move to the Executive Board of KWS SAAT AG effective October 1, 2005, Goetz von Engelbrechten was registered as a member of the Supervisory Board by the District Court of Göttingen on November 7, 2005, before the Shareholders' Meeting elected him to the body for the current period of office on January 18, 2006.

The Supervisory Board expresses its recognition and thanks to the Executive Board and all employees for the work they have done.

Einbeck, October 30, 2006

Dr. Guenther H. W. Stratmann
Chairman of the Supervisory Board

Supervisory Board

Dr. Carl-Ernst Büchting
Einbeck
Honorary Chairman

Dr. Guenther H. W. Stratmann
Düsseldorf
Attorney-at-law
Chairman

Dr. Arend Oetker
Berlin
Businessman
Deputy Chairman

Philip von dem Bussche
Bad Essen
Farmer
Until September 30, 2005

Goetz von Engelbrechten
Uelzen
Farmer
Since November 7, 2005

Eckhard Halbfaß
Einbeck
Farmer
Member of the Works Committee of KWS SAAT AG

Jürgen Kunze
Einbeck
Chairman of the Works Committee of KWS SAAT AG

Prof. Dr. Ernst-Ludwig Winnacker
München
President of "Deutsche Forschungsgemeinschaft (DFG)"

Life needs light. Long ago, photosynthesis first enriched our atmosphere with oxygen. Today, plants still grow and people still breathe thanks to it. The shining ball in the sky is the basis of our very existence.

Report on the Performance of the KWS Group

IN THE YEAR MARKING THE 150TH ANNIVERSARY OF ITS FOUNDING, KWS WAS ABLE TO MEET THE CHALLENGE OF THE SUGAR MARKET REFORM AND EXPLOIT ITS OPPORTUNITIES IN NEW MARKETS AND WITH NEW PRODUCTS. FOR THE FIRST TIME, SALES EXCEEDED THE €500 MILLION MARK. HOWEVER, NET INCOME DECREASED AS EXPECTED.

The KWS Group grew again in fiscal 2005/2006, despite the anticipated effects of the sugar market reform. One important factor in this success was our regional and product diversification. And changing times always mean new opportunities: Sugar beet is increasingly being used to produce bioethanol, and our corn and rapeseed varieties are also profiting from greater international demand for biofuels. We were quick to recognize these opportunities for growth and prepared for them in our breeding and sales activities.

The KWS Group

Apart from KWS SAAT AG, the consolidated KWS Group comprises a total of 45 (46) subsidiaries and associated companies. We have merged three French subsidiaries into one company. With the inclusion of the Ukrainian subsidiary and a further French subsidiary, the total number of fully consolidated companies now amounts to 40 (41). As in the previous year, four foreign companies were proportionally consolidated. Two companies are still included in the KWS Group's financial statements at equity.

Sales shows continued growth

In the year under review, the KWS Group's net sales rose by €9.7 million to €505.0. The expected decline in sales in the sugar beet segment was more than compensated for by extra revenue from the corn segment. KWS grew in foreign countries, while a slight decline in sales of 2.3% was recorded in Germany. Sales in foreign countries now account for 76 (75)% of total sales.

Overview of product segments

Sugar beet shows growth outside the EU

The cultivation area for sugar beet in the European Union fell by one fifth due to reform of the Sugar Market Regime. As market leader, KWS naturally suffered significant losses in net sales – 17.1% – in the EU. By contrast, we achieved growth of 15.1% outside the EU, with the result that our sugar beet segment posted total net sales of €205.4 (217.9) million in the year under review, a decline of 5.7%.

Corn sales are booming

In the year under review, the corn segment continued its double-digit sales growth of the previous years. Net sales increased by 11.4 (13.8)% to €242.5 (217.6), accounting for 48% of KWS' business volume. We achieved this strong growth in Europe and North America alike. Genetically improved products are in strong demand, particularly in the U.S.; these varieties now account for more than 70% of net sales in that market. This is also true of KWS' products.

Stable cereal business

The cereals segment posted net sales of €50.2 million, just slightly down from the previous year (€52.4 million). However, the LOCHOW-PETKUS Group was able to maintain its leading market position in cereals breeding in Europe.

Focus on core functions

The KWS Group is securing the market positions it has won and is growing in new markets. Further measures aimed at expanding structures in South and Southeastern Europe and in North America were required to enable this in the past fiscal year. Selling costs rose by a total of 12.4% to €99.7 (88.7) million due to expansion of structures on our growth markets and now equal 20 (18)% of net sales. In addition, we have already prepared adjustments to distribution structures in the EU as a consequence of the sugar market reform. Cost of production rose by 4.9% to €327.7 (312.4) million. As a result, gross profit decreased by 3.1% year-on-year to €177.3 (183.0) million. Administrative costs were reduced by €2.2 million to €36.9 (39.1) million and amounted to 7.3% (7.9%) of net sales.

Einbeck has been the home of KWS SAAT AG for more than 60 years. Some 800 employees work in Einbeck, in particular in research, breeding and sugar beet seed processing, as well as in sales and administration.

At €6.0 (1.1) million, the balance of other operating income and other operating expenses was far higher than in previous years. Other operating income rose, in particular as a result of the reversal of provisions and the fact that allowances on receivables in Eastern Europe were no longer needed.

Operating result under pressure

The operating result for the KWS Group fell year-on-year by 17.1% to € 46.7 (56.3) million. Very different reasons resulted in the lower operating results in each individual segment. As expected, development of the highest-earning segment, sugar beet, was shaped by the reductions in the area under cultivation in the EU. Although the losses in sugar beet sales were more than compensated for in the corn segment, this was not true of the decline in operating result. Instead, we had to undertake additional efforts in the corn segment to expand and secure our market position in Southern and Southeastern Europe.

In addition, we had to absorb a lower contribution to earnings from hybrid rye business due to lower sales and additional value-added tax claims for previous years. The share contributed by the corn segment to the KWS Group's operating result is now 22.3%, following 18.8% in the previous year. By contrast, the contributions to earnings made by the sugar beet and cereals segments fell to 53.3 (55.1)% and 3.7 (6.5)% respectively. The breeding & services segment increased its contribution to earnings this fiscal year from 19.6% to 20.7%.

Clear improvement in financial results

An improved market situation for potatoes in 2005/2006 resulted in an increase of € 1.2 million in net income from associated companies. Interest expenses were € – 3.7 (– 4.4) million, despite rising interest rates and a decrease in the amount of funds committed. Income was also generated through financial instruments used to hedge long-term against fluctuations in interest rates. The net financial expense reported by the KWS Group was € – 2.5 (– 4.9) million.

Lower tax burden

The result of ordinary activities was € 44.2 (51.4) million. The KWS Group's total tax expenditures consequently decreased by 5.1% to € 15.8 (16.6) million, increasing the tax rate to 35.7% from 32.3% in the previous year. Low effective tax charges in our growth markets outside Germany mean that the tax rate is below the normal German level of 38.1%.

Our cereal varieties are increasingly also being used to produce biogenic fuels. 2,500 liters of bioethanol can be produced from one hectare of wheat.

Sharp drop in net income

The KWS Group's net income was € 28.4 (34.8) million, down 18.4% year-on-year. Return on net sales after tax fell from 7.0% to 5.6%.

New seed processing plants

KWS invested €22.8 (36.5) million in property, plant and equipment and intangible assets. This is primarily aimed at further improving seed quality and expanding capacities. The largest individual investments related to the corn processing plants in France and North America.

Of the total investments by the KWS Group, 49.5% went to Germany, 26.7% to Europe (excluding Germany), 23.3% to North and South America and 0.6% to other foreign countries. More than 40% of its investments were made in the breeding & services segment and more than a quarter in the corn segment.

During the fiscal year, the KWS Group recorded depreciation and amortization of €17.0 million, meaning that, once again, investments exceeded depreciation by a significant margin.

Improved assets situation

The total assets of €577.0 (572.4) million are at the level of the previous year, meaning that – along with an increase in equity of €11.8 million – the equity ratio is now 58.6 (57.0)%. As a result, the KWS Group's capital resources remain solid.

Working capital, which increased sharply last year, remained steady in the year under review, although the product segments varied in their development. While inventories and receivables in the corn segment increased by almost 10% as a reflection of our business expansion, we were able to reduce working capital by over 13% in the sugar beet segment. Totaling €293.3 (296.5) million, inventories and receivables still accounted for around 50% of total assets. On the balance sheet date, cash and cash equivalents, including securities, amounted to €55.6 (52.9) million.

Equity rose to €338.0 (326.2) million, and fully covered noncurrent assets and inventories. Debt capital fell to a total of €239.1 (246.2), while long-term borrowings remained almost constant at €93.9 (95.5) million. Short-term borrowings were reduced by €5.6 million and were covered at a rate of 180 (176)% by cash and cash equivalents and receivables.

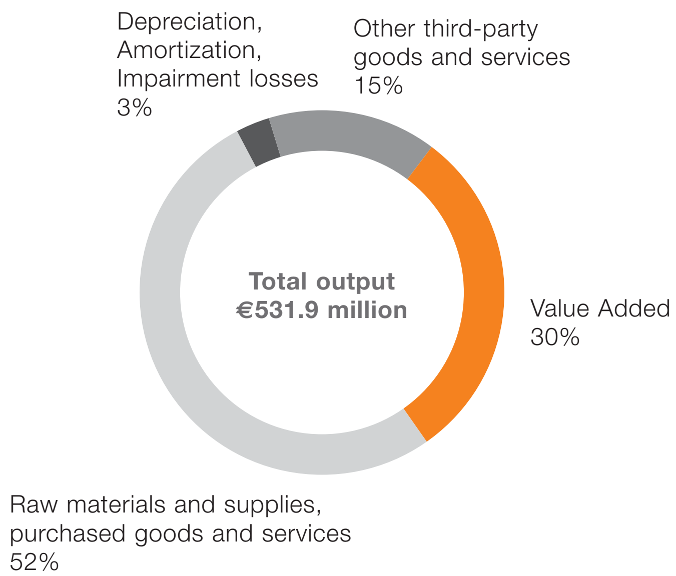
High cash flow improves net liquidity

While the increase in working capital resulted in a considerable amount of committed funds in previous years, net cash from operating activities rose to €53.4 million in the year under review, representing a year-on-year increase of €42.3 million. The ratio of cash flow to net sales was 10.6 (2.2)%, underlining the KWS Group's great financial strength. Net funds used in investing activities were €20.1 (30.1) million, giving a free cash flow of €33.3 (– 19.1) million, with net cash used in financing activities at €26.4 (– 8.8) million. Net cash consequently improved markedly to €44.3 (24.0) million.

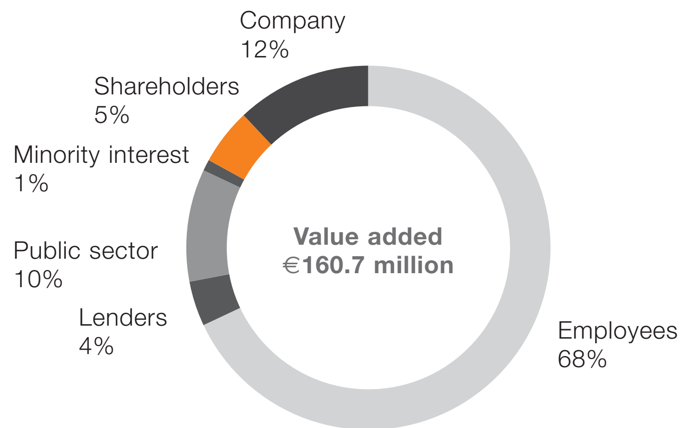
Proposed appropriation of profits

In January 2006, a dividend of €12.00 per share was paid for fiscal 2004/2005 for each of the 660,000 shares, resulting in a total distribution of €7.9 million. For the year under review, KWS SAAT AG reported net income of €13.4 million, compared to €15.4 million for the previous year. Following the 1:10 share split, the Executive and Supervisory Boards will propose payment of a dividend of €1.00 for each of the 6,600,000 shares, plus an anniversary bonus of €0.20 to mark KWS' 150th year, at the Annual Shareholders' Meeting, making the total distribution this year €7.9 (7.9) million. €5.5 (7.7) million were allocated to revenue reserves.

Creation of Value added



Distribution of Value added



Value added

In fiscal year 2005/2006, the KWS Group generated total output of €531.9 (518.7) million, consisting of net sales of €505.0 (495.3) million and other income of €26.9 (23.4) million.

Deducting the costs of raw materials and supplies and of third-party goods and services attributable to cost of sales totaling €275.4 (261.7) million, depreciation, amortization, and impairment losses of €16.8 (16.8) million and other third-party goods and services of €79.9 (79.7) million gives value added of €160.7 (160.5) million.

The distribution was as follows: Employees received €109.1 million, including social insurance and retirement benefit costs, compared with €101.4 million in the previous year. Interest paid to lenders fell by €0.4 million from €6.5 million to ?6.1 million. The public sector received €17.1 (17.8) million. Value added of €0.9 (1.2) million was distributed to minority shareholders. The shareholders will again receive a dividend of €7.9 million, with the result that €19.6 (25.7) million will be retained by the company.

It can evaporate, freeze, rain or flow with the tides: water. An element of all forms of life on earth. The source of development for every cell. The fountain to quench a thirst for life.

Sugar beet segment

FISCAL 2005/2006 WAS DOMINATED BY THE REFORM OF THE EUROPEAN SUGAR MARKET REGIME. HOWEVER, KWS WAS ABLE TO COMPENSATE PARTLY FOR THE SIGNIFICANT REFORM-RELATED REDUCTIONS BY GROWING AGAIN OUTSIDE THE EU.

As expected, the area under cultivation for sugar beet in the EU was reduced by 20% to 1.75 (2.2) million hectares in the first year of the reform. However, this reduction did not make its impact felt to the fullest extend on our European business. In the EU's 25 states, our sales fell by 17.1% to €116.9 (141.0) million. At the same time, the use of sugar beet outside the food sector grew in importance for the first time. Sugar beet was grown for industrial use – in particular for production of ethanol – on some 130,000 hectares.

The cultivation of sugar beet worldwide amounted to 5.1 (5.5) million hectares in the year under review. Against this backdrop, it is especially gratifying that we were able to continue our growth in markets outside the EU. The segment sharply increased its net sales in these markets by 15.1% to €88.5 (76.9) million.

Despite the reduction caused by the reform of the Sugar Market Regime, net sales in the sugar beet segment fell overall by just 5.7% to €205.4 (217.9) in the year under review. By contrast, the segment's operating result fell disproportionately by €6.1 million or 19.7% to €24.9 (31.0) million, corresponding to a return on net sales rate of 12.1 (14.2)%. However, we reduced inventories from seed multiplication in 2004 and 2005 in the year under review, something that put more pressure on the result. Destruction and devaluation of inventories are commercial precautions and effective instruments that protect against risks in the further course of business.

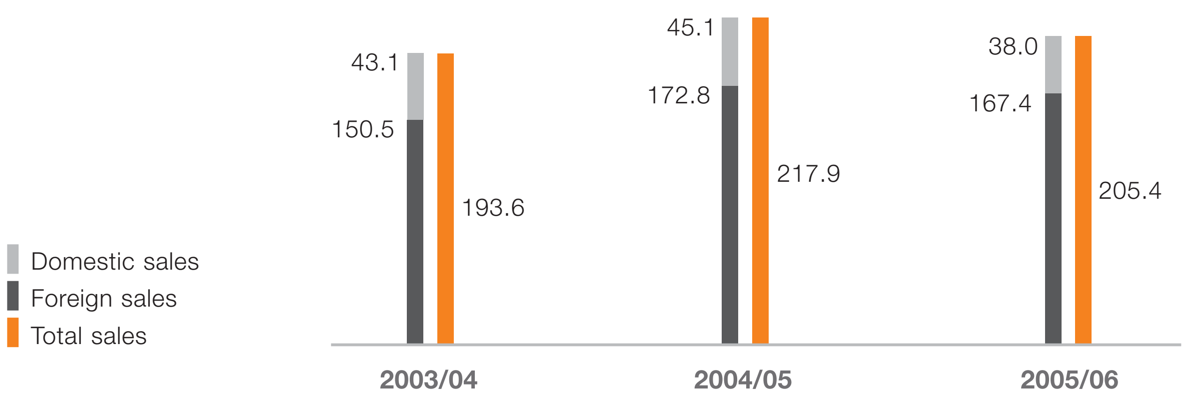
The regions

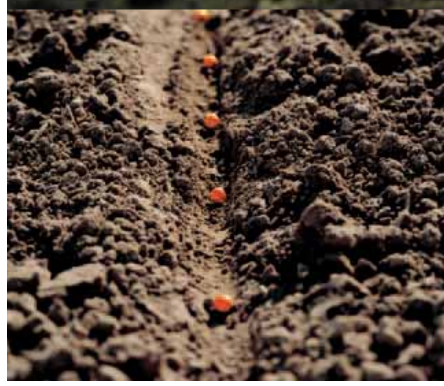
There were great variances in the sales season in the individual markets of the European Union. While we were able to expand our market position in France and the Netherlands and thus compensate for the effect of the Sugar Market Regime reform, we suffered declines in sales in Germany, Poland and above all in Italy, where sugar beet cultivation contracted by over 65% versus last year, as a result of the reform.

The most important individual markets for our sugar beet varieties outside the EU are the U.S. and the Russian Federation. We were able to stabilize our sales in North America at a very high market share of more than 60%, and we again sold more seed in the Russian Federation. Ukraine also offers considerable market potential. However, there are high import duties on certified seed there, meaning that Ukrainian agriculture largely uses its own seed. Nevertheless, we posted significant sales in Ukraine this season for the first time. Eastern Europe now accounts for over 10 (8)% of our sugar beet business and is thus the segment's growth region. KWS varieties were also sold to an increasing extent in Asia – Japan and China – in the year under review.

The harvest volume in seed multiplication for 2005 was again above planned levels due to the very good multiplication conditions; it also produced an above-average yield of saleable seed that met KWS' high quality requirements. As a result, there is a solid supply situation, above all for our many new varieties.

Sugar beet segment sales in millions of €





Plowing is being used less and less in sugar beet cultivation. Mulch seeding is a method that is easier on the soil in the seedbed.

Corn segment

CORN HAS A BROAD RANGE OF USES. IT IS GROWN WORLDWIDE AS FODDER AND A SOURCE OF ENERGY. CORN ALSO SUPPLIES FAR MORE OXYGEN FOR THE ENVIRONMENT THAN OTHER CROPS AND IS DISTINGUISHED BY OUTSTANDING NUTRIENT EFFICIENCY. KWS' CORN VARIETIES DEMONSTRATE THESE QUALITIES IN PARTICULAR AND THUS CREATE NEW GROWTH.

The corn segment again posted significant growth in net sales and for the first time became the main contributor to the KWS Group's sales. This growth comes mainly from the regions of North America, Germany and Southeastern Europe, as well as from oil seed. The segment's external net sales increased by 11.3% to €242.2 (217.6) million. By contrast, its operating result was €10.4 (10.6) million and thus only at the level of the previous year. Nevertheless, corn is making a growing contribution to value added at KWS with the sales-dependent royalties it pays to the breeding & services segment.

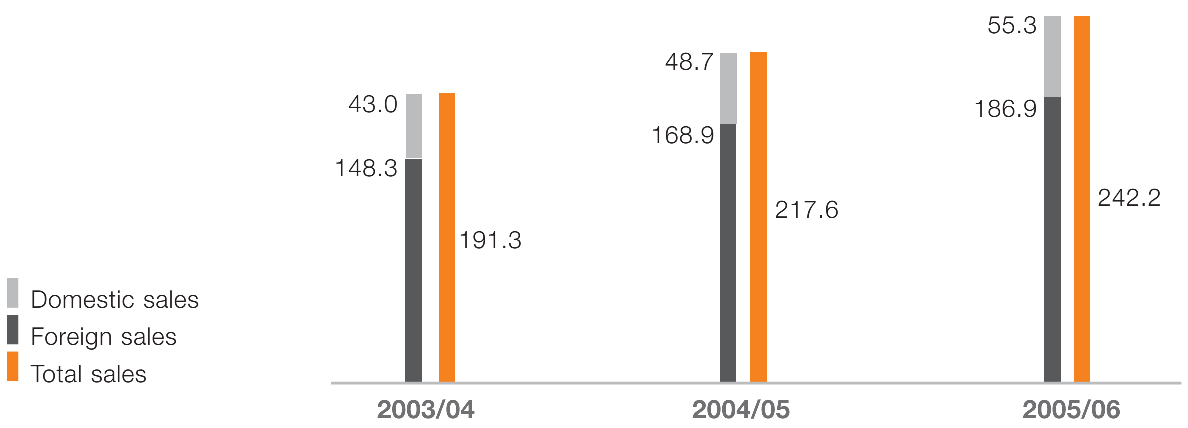
The regions

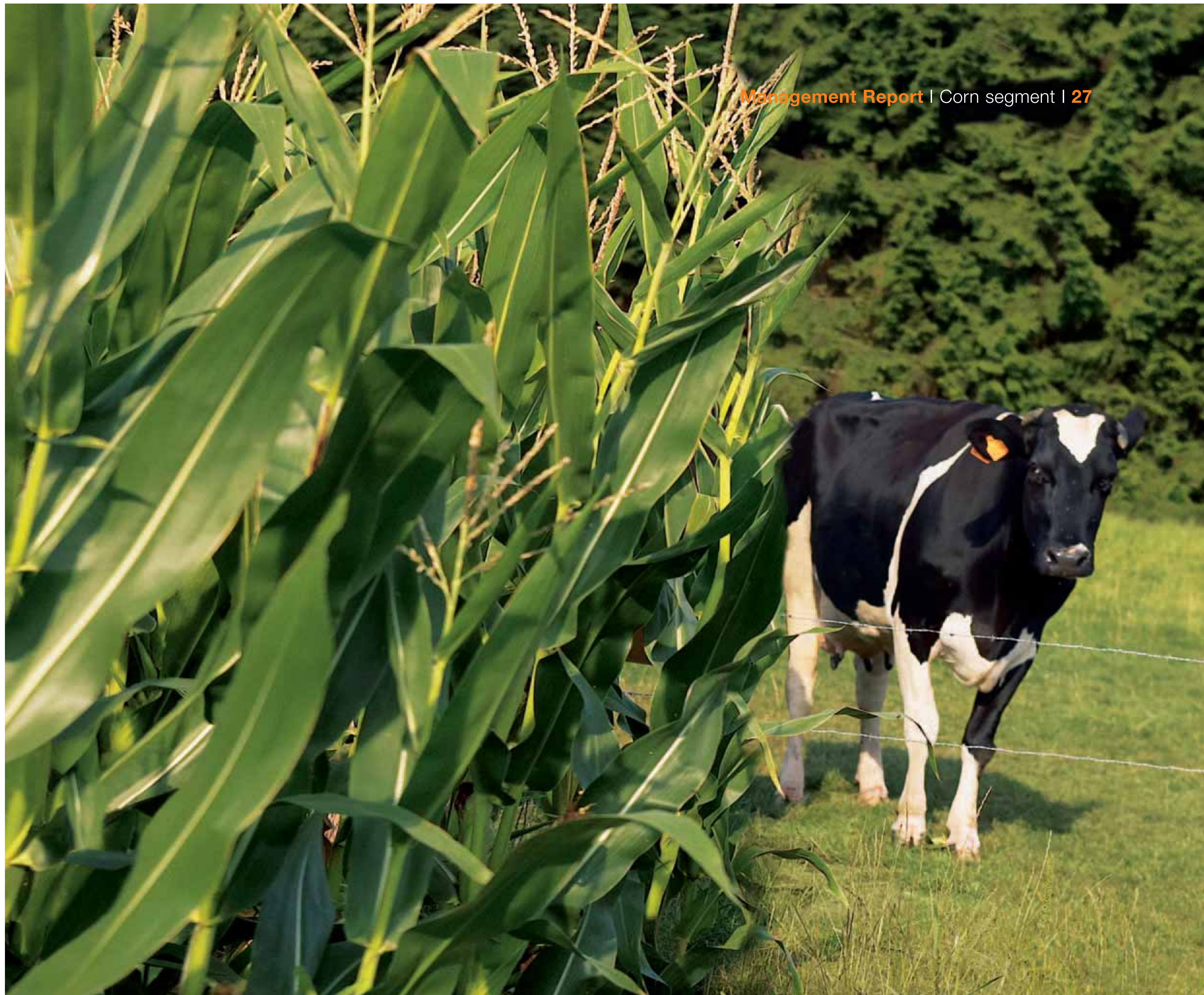
There was growing demand for KWS' corn varieties in all regions in fiscal 2005/2006. At the same time, we were able to raise prices in individual markets. The only exception is Southern Europe, and above all Italy. Despite expansion of the sales organization there, we were not able to maintain the net sales of the previous year in the most competitive market in Southern Europe. There were also problems with the quality of seed multiplication that likewise put pressure on the operating result. By contrast, the Southeastern Europe region developed in gratifying fashion and – owing to its largely untapped market potential – is of major importance for the segment's growth. We were able to post significant increases there both in terms of net sales and operating result.

The steady growth of the North American joint venture AgReliant also continued, despite an intensifying competitive environment. AgReliant has firmly established itself as the largest independent seed supplier in North America and occupies fourth place in the market. The total net sales of AgReliant Genetics, LLC (U.S.) and AgReliant Genetics Inc. (Canada) increased by 18% to €196 (166) million. So as to ensure further growth, we again significantly expanded breeding and distribution activities and expanded and modernized the production plants in the year under review. AgReliant is a joint venture with the French breeding company Limagrain; it is consolidated at 50% in the KWS Group.

We have been able to grow our leading market position further in Germany thanks to significant increases in sales. Our new silage and grain corn varieties have confirmed their high quality in official variety tests and sold well in the market. For the first time, we were able to sell a small volume of KURATUS, a genetically improved variety that is resistant to the European corn borer. This is just a small step following twenty years of research and development

Corn segment sales in millions of €





Whether silage, grain or energy corn: there was growing demand for KWS' corn varieties in all regions in fiscal 2005/2006.

in the field of "green genetic engineering" in Germany. However, we are still cautious about the further sales opportunities for this product due to the reservations that prevail.

For the first time, KWS supplied the market with a special product for the booming segment of bioenergy production – the new corn variety ATLETICO. This variety differs from traditional silage corn varieties in that it yields significantly more biomass. Corn cultivation for biogas production accounted for an area of 150,000 hectares in Germany, the Netherlands and Austria in 2006, more than double the previous year's figure. In addition, the production of biodiesel based on oil seed rape grew dynamically throughout Europe. KWS was able to share in this and sold around 30% more winter oil seed rape. This far exceeded the relative expansion in cultivation area.

Cereals segment

THE LOCHOW-PETKUS GROUP CONSOLIDATES ITS LEADING POSITION IN A TOUGH BUSINESS ENVIRONMENT

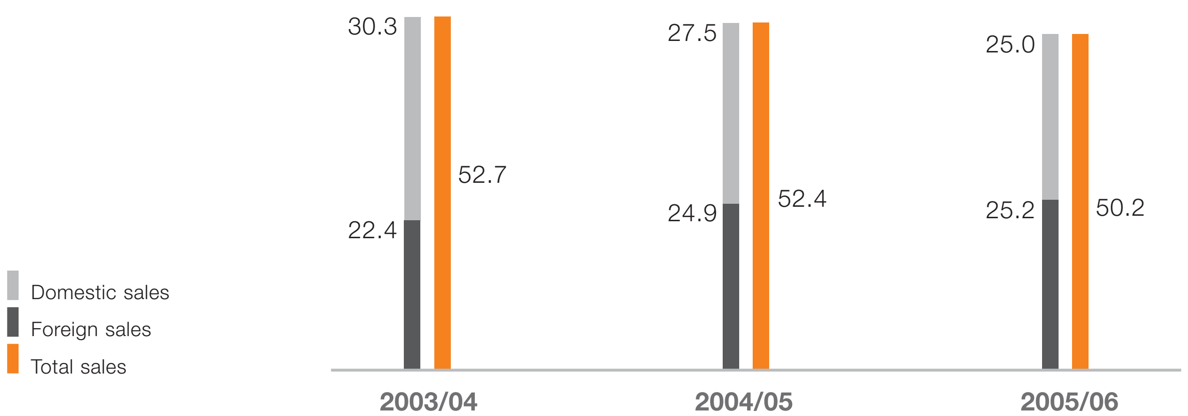
The 2005 cereal harvest was interrupted in large parts of Europe by long periods of rainfall, resulting in yield losses and reduced quality. While cereals with good quality were able to be sold on the market at satisfactory prices, an excess supply of low-quality fodder cereals led to significant price and sales problems there. Cereal cultivation areas remained relatively constant in the 2006 sowing season in the key European markets of Germany, France and the UK, but a lower intensity of sowing and a slight decline in seed rotation reduced the market potential for certified seed. Wheat remains the outstanding main crop, being cultivated on around half the area used for cereals.

Net sales for the segment, which is served by the LOCHOW-PETKUS Group, were €50.2 (52.4) million in the past fiscal year, slightly down year-on-year. Increased sales of barley could not compensate for declines in net rye sales, which were mainly caused by reductions in cultivation area. The high proportion of international net sales of 50.2% (47.5%) illustrates the strong position of international business within the LOCHOW-PETKUS Group. Segment earnings amounted to €1.8 (3.6) million and were burdened not only by a decline in rye sales, but also by additional taxes. A retroactive change in value-added tax on seed royalties in Germany (16% instead of the previous 7%) could not be charged to customers in full.

KWS was able to consolidate its leadership in the European market for seed cereals in the past fiscal year. LOCHOW-PETKUS varieties maintained their leading position in terms of total multiplication area, with reductions in wheat being roughly compensated for by increases in barley. The basis for this success is a close network of breeding and testing stations throughout Northwest Europe. This structure with the subsidiaries and associated companies LOCHOW-PETKUS POLSKA (Poland), CPB TWYFORD (UK) and MOMONT (France) has resulted in an extensive range of varieties for key crops.

LOCHOW-PETKUS also again underscored its outstanding market position in rye seed business in fiscal 2005/2006. It had immediate success in establishing the innovative PollenPlus® technology on the German market. Thanks to this technology, rye varieties exhibit a far better pollen donating ability, something that represents a considerable agronomic benefit. It strengthened its leading position in wheat, in particular by gaining market share in the UK. The growth in barley is attributable above all to increased sales in France, Germany and Eastern Europe. Increases were also achieved in rapeseed business in the French market.

Cereals segment revenue in millions of €



"125 years of growing enthusiasm" was the slogan of this year's anniversary celebrations at Lochow-Petkus. The company has 125 years of experience in cereals breeding – know-how that benefits our customers.

Left: Ferdinand von Lochow

1881	Ferdinand von Lochow begins breeding rye and oats on his estate in Petkus/Brandenburg
1926	Founding of F. von Lochow-Petkus GmbH
1945	Relocation of the breeding material to Bergen/Celle district
1968	KWS acquires a majority stake in the company and merges it with its own cereals activities
1984	Approval for the first hybrid rye variety

A small, round grain has
enough energy to germinate into
a new plant under a dark layer of soil.
All it needs is a good chance – just like all life.

Breeding & services segment

PLANTS ARE HIGHLY EFFICIENT COLLECTORS THAT CONVERT SOLAR ENERGY INTO CHEMICAL ENERGY THROUGHOUT THEIR GROWTH PERIOD AND THUS ALSO STORE THE ATTAINED ENERGY. THEIR CAPACITY FOR STORING IT IS DETERMINED BY THEIR GENETIC PROPERTIES. THE TASK OF BREEDING AT KWS IS TO OPTIMIZE THESE PROPERTIES.

Regenerative raw materials for producing bioenergy are gaining in importance worldwide. In 2004 KWS was the first breeding company to launch a program for breeding energy corn with a particularly high yield of biomass. The starting point for the program was the high biomass potential of KWS' silage corn varieties. In 2006 we obtained approval for ATLETICO from the Bundessortenamt (German Federal Office of Plant Varieties). ATLETICO is an initial "energy corn" variety with a total dry mass yield of up to 220 dt/ha – or a significant increase over traditional silage corn varieties that have been grown up to now for producing biogas. In view of a sustained innovation rate of 2% additional yield per year, this new breed can be regarded as a quantum leap. With this new generation, KWS offers farmers varieties with the very highest capacity for storing energy. An equivalent of 100,000 KWh can be produced with one hectare of energy corn.

A further current focus is bioethanol, which is obtained through the fermentation of plants that contain carbon. KWS is excellently positioned here with its current range of sugar beet, corn, rye and wheat varieties. KWS is also tackling the challenges of the second generation of biofuels in its breeding activities, for example producing ethanol from whole-plant fermentation or synthetic biofuels.

Sugar beet breeding

Development of rhizomania-resistant varieties has been intensified as part of sugar beet breeding. This virus is now widespread in all European markets. A particular challenge is the simultaneous objective of also increasing sugar content. Selection with the aid of markers means that genotypes that unite both properties can now be identified more quickly and that the properties can be fixed more efficiently in breeding material.

Our progress regarding nematode resistance is especially positive. Damage in practical use has already been significantly reduced thanks to a type of resistance developed for the first time by KWS.
A special focus of our activity in the past year was on further developing the herbicide-tolerant Roundup Ready varieties for the American market.

Plant genome research

KWS continues its strong commitment to genome research, among other things as part of the German plant genome research program GABI (Genome Analysis in the Biological System of the Plant). Results from GABI are now being used in practical breeding in the form of new molecular markers for selecting important properties. In May 2006, the request for proposals for a further phase of support – GABI FUTURE – was published. KWS will participate in this again in several joint projects. At the same time, GABI is expanding its network internationally, for example with French and Spanish programs. All of KWS' research and breeding departments leverage the possibilities of cooperating with leading national and international groups of researchers. KWS' commitment to genome research is geared as a whole to the development of new technologies for increasing the efficiency and effectiveness of breeding processes, in particular in the form of new network technologies, but also as the basis for new genetic engineering approaches.

Breeding in figures

The breeding & services segment comprises our activities in the field of breeding, variety development and research. The segment also includes our potato activities, central corporate functions and farming. In the past fiscal year, our breeding work provided the product segments with a total of 283 (241) new product approvals worldwide. Of these official distribution approvals, 127 (125) were granted to new KWS sugar beet varieties, 119 (88) to corn, 36 (21) to cereals and one (7) for oil and field seed. Despite successful product development, total net sales for the segment fell by 6.4% to €103.3 (110.4) million and operating income by 12.9% to €9.6 (11.1) million. This was due to lower royalties from the sugar beet segment, which could not be offset by higher royalties from the corn segment. Sales of farm products and breeding services to third parties reached €7.2 (7.4) million.

KWS has also been storing breeding material in Petri dishes since the 1970s. We retain the genetic material of our plants over generations in these in vitro cultures (in vitro = Latin for "in glass").

Potato activities at SAKA-RAGIS

Marketing of seed potatoes in fiscal 2005/2006 was substantially impacted by the effects of the previous year, which was characterized by excess supply on the potato market and a historically low price level. Consequently, cultivation areas in the 2006 planting season were low throughout the EU.

KWS' associated company SAKA-RAGIS (stake: 44.5%) was able to grow its sales in this difficult market environment, mainly due to improved business from exports to Central and Eastern Europe. Intensive breeding activity is also the basis for our further development in the field of potatoes. The innovative power of SAKA-RAGIS is documented in fiscal 2005/2006 by six new variety approvals in Germany – no other company achieved a higher number this year.

Outlook for the 2005/2006 fiscal year

CULTIVATION OF PLANTS FOR ENERGY WILL HAVE A POSITIVE IMPACT ON THE DEVELOPMENT OF ALL SEGMENTS AT THE KWS GROUP THIS FISCAL YEAR.

Major momentum will come from the European Union's decision to mandate the introduction of the admixture of biofuels for diesel and gasoline engines as of January 1, 2007. While biofuels now account for 1.4% vehicle fuel usage in Europe, this proportion is to be increased to 5.75% by 2010. The German government is currently planning a mandated-admixture of 3% of ethanol in gasoline and 5% of biodiesel in diesel as of 2007. The use of biofuels is now mandatory in the U.S., resulting in growing global demand.

In the wake of this fundamental policy decision, the European sugar industry has decided to expand bioethanol production based on sugar beet. To enable this, a number of sugar factories are now being complemented by ethanol plants, which will be completed by the 2007 campaign. The consequence of this is that not only surpluses (former exports or C sugar) will be used, but that additional sugar beet will be cultivated for industrial use. Nevertheless, we expect to see a further reduction in cultivation area in the EU in the second year of the sugar market reform and a more than 10% decline in net sales in the **sugar beet segment.** We are countering the continuing pressure on earnings with significant cost-cutting measures. For instance, the seed multiplication area for 2006 was reduced considerably due to the fact that the post-reform cultivation areas could be planned and that our inventory situation remained good.

The recently completed rapeseed sowing season clearly shows the growing demand for biodiesel. We posted an increase of around 40% in sales of KWS rapeseed hybrids. Moreover, the energy corn variety ATLETICO will stimulate business in the **corn segment.** However, a crucial factor will remain the growth we can achieve with our silage and grain corn varieties. We still anticipate increasing net sales in all regions, especially in Southeastern Europe, North America, France and Germany. Overall, we will probably be able to achieve double-digit growth in net sales again at the corn segment. At the same time, we expect clear growth in the operating result, especially given the fact that our burdens in Southern Europe will be lower. We also assume that our business in Argentina will expand in the medium term. KWS has had a presence and continually grown there for many years. This fiscal year we have launched corn breeding activities at our own breeding station in Argentina – a further regional focus alongside Europe and North America.

The general conditions in the cereals markets have improved in the current year. The long dry period in the summer of 2006 entailed a below-average cereals harvest in Europe. The resultant high level of prices for consumption grain will have a positive impact on our current business in the **cereals segment.** We expect to see an increase in rye and rapeseed business, with stable net sales as a whole. The segment's operating result will recover following the subsequent value-added tax claims in 2005/2006 and move back to its former level.

The KWS Group therefore forecasts slightly improved operating income on the basis of a constant level of net sales in its 2006/2007 annual financial statements – an upward trend that we could not have expected in the second year of the sugar market reform without the new industry for bio-energy plants.

Otherwise, there have been no events of particular significance since the end of last fiscal year.

Risks for future development

THE KWS GROUP IS SUBJECT TO THE USUAL ECONOMIC AND POLITICAL RISKS IN THE COUNTRIES IN WHICH IT AND ITS SUBSIDIARIES OPERATE. THE FOLLOWING SECTION PROVIDES AN OVERVIEW OF INDUSTRY- AND COMPANY-RELATED RISKS.

Risk management

The KWS Group's planning, controlling and reporting processes include risk management instruments. They ensure systematic identification, evaluation, control and documentation of risks. Risk management comprises strategic controlling, operational controlling, and the quality and process monitoring systems. In addition, the system supplies information that helps identify risks promptly. The effectiveness of the early warning system at the parent company was established by the auditor as part of its audit of the annual financial statements.

Risks from operating activities

Our business operations are subject to the usual market risks resulting from sales and currency uncertainties. However, one concrete risk is the reform of the European Sugar Market Regime, which was finalized by the EU on November 24, 2005. The reformed version, which is to be valid until September 30, 2015, resulted in a 20% reduction in sugar beet cultivation area in the EU in the very first vegetation period (2006). A further decline in area can be expected for the 2007 sowing season. Sugar companies will still receive the maximum allowance of €730/t for opting out voluntarily from sugar production this year – a large incentive. This compensation payment will be reduced considerably in 2008 and 2009.

In addition, the import duties on sugar from the least developed countries (LDCs) were reduced as of July 1, 2006. If the world market price for unrefined sugar, which has increased significantly in the past years, does not reach the level of the European reference price in the medium term, considerable sugar exports from the LDCs to the EU can be expected in the future – to the detriment of domestic production. The world market price is mainly influenced by the volume produced by Brazil. If Brazil also expands its sugar production, despite growing demand for bioethanol, the goal of producing beet sugar at competitive prices will be difficult to achieve.

Political risks

Although the segment of energy plant cultivation is booming at present, its further development is dependent on the price of fossil fuels and general political conditions. Selective promotion measures are required, in particular in financing the hefty investment needed to start up bioenergy production. For example, the profitability of biogas plants could be improved considerably if the biogas produced were able to be fed directly into the gas pipeline network; a large part (over 80%) of the energy is lost in the customary process of converting the gas into electricity.

Financial risks

We were able to arrange a syndicated loan of €100 million with our principal bankers in the year under review in order to protect against possible liquidity risks. The loan commitment's term will initially be five years. We counter market interest rate risks with standardized hedging instruments as far as possible. As part of our management of receivables risks, credit limits are set, accompanied by the monitoring of customers' credit ratings and payment behavior. We use the usual derivative instruments to hedge currency risks that may stem from foreign currency seed sales and breeding expenses.

Weather risks

Weather conditions have considerable influence on the breeding and multiplication processes of plant breeders. As far as possible, we counteract any production losses by spreading production over different locations in different countries and continents. On the other hand, good weather may result in better harvests and thus increased inventories that cannot be sold promptly and necessitate provisions for possible losses or even their destruction. Crop failures would have the opposite effect.

Every person is different,
every person is special. In interaction with
our ideas and skills, our intellect and creativity
can achieve great things – in order to treat life on
earth with respect.

Employees

OUR EMPLOYEES ARE THE KEY TO OUR SUCCESS. CREATIVE AND COMMITTED PEOPLE REPEATEDLY PRODUCE INNOVATIONS THAT ENSURE NEW GROWTH.

The foundation for this is our employees' enthusiasm, passion and joy in succeeding – regardless of where they make their contribution within the company. We count on the knowledge and experience of every single employee and rely on cooperation across departments, disciplines, regions and age groups.

Recognizing talents

In order to fulfill our technological leadership ambition, we seek suitable young employees worldwide. In addition, at an early stage we encourage especially talented people in our company who want and are able to assume more responsibility.

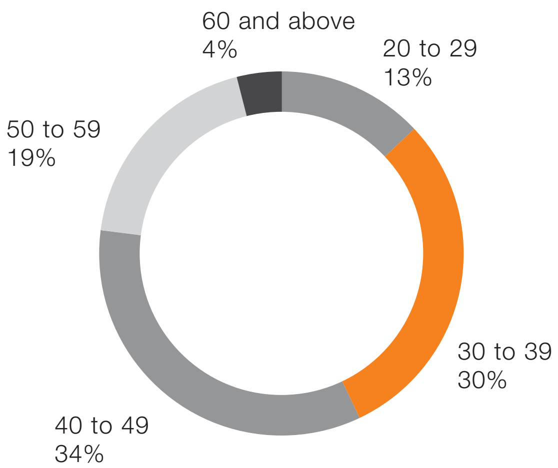
Our goal is to identify, hire and systematically develop the best executives and specialists. Each year in Germany we hold a Personal Evaluation Center, where we initiate an intensive process aimed at identifying special talents and formulating specific personnel development plans together with them. The Centers are held internally with the involvement of the responsible executives. We will also expand this development instrument in the current fiscal year to include the international companies in the KWS Group so as to ensure top achievements and value added for our customers into the future.

Employees in figures

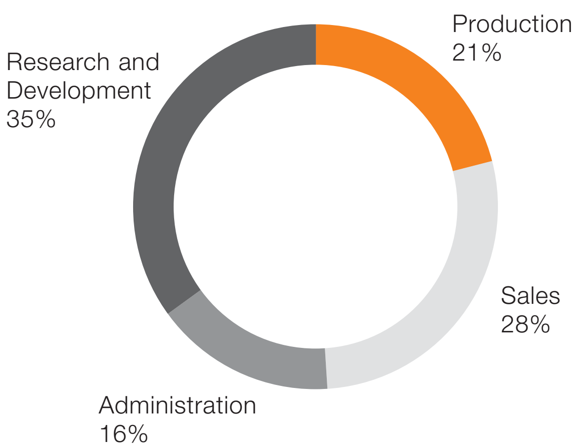
In the fiscal year 2005/2006, the KWS Group employed 2,652 (2,550) people worldwide, of whom 782 (797) were at KWS SAAT AG. Personnel expenses at the KWS Group rose by 7.5% to € 109.1 (101.4) million; KWS SAAT AG accounted for € 37.7 (37.2) million of this.

Overall, we again trained more people than we actually need ourselves at KWS SAAT AG last fiscal year: an average of 73 (76) apprentices and 12 (12) trainees in five vocations. We are thus making an active contribution to improving the chances of young people in particular on the labor market.

KWS Group employees by age



KWS Group employees by role



KWS YOUnited

A festival of nations

The KWS Group is now represented worldwide in the moderate climatic zones. Under the slogan "KWS YOUnited," people from 27 nations congregated in Einbeck at the beginning of September to mark KWS' 150th anniversary. The 1,300 participants included around 300 guests from the KWS Group's subsidiaries and associated companies to celebrate its anniversary as befitted the occasion. Many of these international guests were accommodated privately in the homes of Einbeck colleagues.

To kick off the "KWS YOUnited" event, 1,300 KWS employees sang the English KWS company song "We all work for an Orange Company".

Participants then enjoyed a beautiful fall day during a half-day bicycle tour to a KWS' research station at Wetze, a former monastery 12 km away. After a breather , the 1,300 participants formed the letters "KWS" (see previous page). In the evening an exciting party with the theme "150 Years of KWS" was held in a logistics hall on the company grounds. Tours of four KWS locations in Germany rounded out the program the next day.

These shared experiences perceptibly strengthened the team spirit throughout the KWS Group. Everyone was proud to be part of the "orange company."

Annual Financial Statements of the KWS Group 2005/2006

Balance Sheet

at June 30, 2006

ASSETS	Note No.	June 30, 2006 T€	Previous year T€
Intangible assets	(2)	30,339	28,923
Property, plant and equipment	(3)	144,236	142,051
Investments in affiliated companies	(4)	6,074	6,045
Other financial assets	(5)	7,991	8,586
Deferred tax assets	(6)	15,074	12,768
Noncurrent assets		**203,714**	**198,373**
Inventories	(7)	108,678	106,083
Trade receivables	(8)	184,643	190,452
Available-for-sale securities	(9)	13,298	20,844
Cash and cash equivalents	(10)	42,322	32,011
Other current assets		24,368	24,674
Current assets		**373,309**	**374,064**
Total assets		**577,023**	**572,437**

EQUITY AND LIABILITIES		June 30, 2006 T€	Previous year T€
Subscribed capital		19,800	17,000
Capital reserve		5,530	5,530
Retained earnings		294,012	282,943
Minority interest		18,622	20,739
Equity	**(11)**	**337,964**	**326,212**
Long-term provisions		69,590	69,678
Long-term borrowings		6,412	7,858
Deferred tax liabilities		16,922	16,836
Other long-term liabilities		1,000	1,140
Noncurrent liabilities	**(12)**	**93,924**	**95,512**
Short-term provisions		66,809	56,646
Short-term borrowings		4,940	20,987
Trade payables		38,727	37,417
Current tax payables		12,554	8,294
Other liabilities		22,105	27,369
Current liabilities	**(13)**	**145,135**	**150,713**
Liabilities		**239,059**	**246,225**
Total equity and liabilities		**577,023**	**572,437**

Income Statement

for the period July 1, 2005 through June 30, 2006

	Note No.	2005/06 T€	Previous year T€
Net sales	(16)	504,958	495,326
Cost of sales		327,626	312,357
Gross profit on sales		**177,332**	**182,969**
Selling expenses		99,739	88,655
General and administrative expenses		36,872	39,108
Other operating income	(17)	23,351	21,275
Other operating expenses	(18)	17,414	20,155
Operating income		**46,658**	**56,326**
Interest and other income		2,378	2,042
Interest and other expenses		6,060	6,484
Share of profit from affiliated companies		692	-488
Other income from equity investments		471	4
Net financial income / expenses	**(19)**	**-2,519**	**-4,926**
Result of ordinary activities		**44,139**	**51,400**
Income taxes	(20)	15,772	16,616
Net income for the year	**(22)**	**28,367**	**34,784**
Share of minority interest		928	1,196
Net income after minority interest		**27,439**	**33,588**
Earnings per share in €		**4,16**	**5,09**

Statement of Changes in Fixed Assets 2005/06

Values in € thousands, unless otherwise specified

	Gross values							Amortization/depreciation								Net book values	
	Balance 07/01/2005	**Currency translation**	**Changes in the consol. group**	**Additions**	**Disposals**	**Transfers**	**Balance 06/30/2006**	**Balance 07/01/2005**	**Currency translation**	**Changes in the consol. group**	**Additions**	**Reversal of impairment losses**	**Dis-posals**	**Trans-fers**	**Balance 06/30/2006**	**Balance 06/30/2006**	**Previous year**
Patents, industrial property rights, and software	14,464	-97	8	1,063	557	105	14,986	9,534	-39	-64	1,037	0	483	0	9,985	5,001	4,930
Goodwill	48,621	-503	-6	1,878	0	0	49,990	24,628	22	0	2	0	0	0	24,652	25,338	23,993
Intangible assets	**63,085**	**-600**	**2**	**2,941**	**557**	**105**	**64,976**	**34,162**	**-17**	**-64**	**1,039**	**0**	**483**	**0**	**34,637**	**30,339**	**28,923**
Land and buildings	135,092	-1,221	0	2,335	171	3,833	139,868	40,611	-409	0	4,051	0	29	3	44,227	95,641	94,417
Technical equipment and machinery	110,527	-1,368	0	5,777	2,775	4,231	116,392	83,160	-1,048	0	6,575	0	2,444	2	86,245	30,147	27,367
Operating and office equipment	55,073	-1,022	42	4,719	6,920	420	52,312	40,908	-836	13	4,712	0	6,534	-5	38,258	14,054	14,229
Payments on account	6,038	-41	0	7,039	53	-8,589	4,394	0	0	0	0	0	0	0	0	4,394	6,038
Property, plant and equipment	**306,730**	**-3,652**	**42**	**19,870**	**9,919**	**-105**	**312,966**	**164,679**	**-2,293**	**13**	**15,338**	**0**	**9,007**	**0**	**168,730**	**144,236**	**142,051**
Affiliated companies	6,045	0	0	1,354	1,325	0	6,074	0	0	0	0	0	0	0	0	6,074	6,045
Other financial assets	8,586	0	98	320	249	0	8,755	0	0	102	667	0	5	0	764	7,991	8,586
Financial assets	**14,631**	**0**	**98**	**1,674**	**1,574**	**0**	**14,829**	**0**	**0**	**102**	**667**	**0**	**5**	**0**	**764**	**14,065**	**14,631**
Assets	**384,446**	**-4,252**	**142**	**24,485**	**12,050**	**0**	**392,771**	**198,841**	**-2,310**	**51**	**17,044**	**0**	**9,495**	**0**	**204,131**	**188,640**	**185,605**

Statements of Changes in Equity

Values in € thousands, unless otherwise specified

	Parent Company						Minority Interests				Group Equity
				Comprehensive Other Group Income				Comprehensive Other Group Income			
	Subscribed capital	Capital reserve	Accumulated Group equity from earnings	Adjustments from currency translation	Other trans-actions	Equity	Minority interest	Adjustments from currency translation	Other trans-actions	Equity	
Balance as at June 30, 2004	**17,000**	**5,530**	**255,127**	**-3,082**	**198**	**274,773**	**19,195**	**23**	**0**	**19,218**	**293,991**
Dividends paid			-7,260			-7,260	-545			-545	-7,805
Changes in the consolidated group					683	683	-90			-90	593
Other changes					260	260	570			570	830
Consolidated net income			33,588			33,588	1,196			1,196	34,784
Other recognized gains (losses)				3,603	226	3,829		390		390	4,219
Change in accounting policy					-400	-400				0	-400
Total consolidated gains (losses)			33,588	3,603	-174	37,017	1,196	390	0	1,586	38,603
Balance as at June 30, 2005	**17,000**	**5,530**	**281,455**	**521**	**967**	**305,473**	**20,326**	**413**	**0**	**20,739**	**326,212**
Dividends paid			-7,920			-7,920	-310			-310	-8,230
Changes in the consolidated group					219	219	24			24	243
Other changes	2,800		-2,800		-158	-158	-2,207			-2,207	-2,365
Consolidated net income			27,439			27,439	928			928	28,367
Other recognized gains (losses)				-5,284	-427	-5,711		-552	0	-552	-6,263
Total consolidated gains (losses)			27,439	-5,284	-427	21,728	928	-552	0	376	22,104
Balance as at June 30, 2006	**19,800**	**5,530**	**298,174**	**-4,763**	**601**	**319,342**	**18,761**	**-139**	**0**	**18,622**	**337,964**

Cash Flow Statement

	Note	2005/06 T€	Previous year T€
Net income (including minority interest) before extraordinary items		28,367	34,784
Depreciation/reversal of impairment losses (–) on property, plant, and equipment		16,377	16,774
Increase/decrease (–) in long-term provisions		-58	-659
Other noncash expenses/income (–)		-7,218	-3,664
Cash earnings according to DVFA/SG		**37,468**	**47,235**
Increase/decrease (–) in short-term provisions		15,326	23,242
Net gain (–)/loss from the disposal of assets		-150	-266
Increase (–)/decrease in inventories, trade receivables, and other assets not attributable to investing or financing activities		7,096	-63,017
Increase/decrease (–) in trade payables and other liabilities not attributable to investing or financing activities		-6,327	3,887
Net cash from operating activities	**(A)**	**53,413**	**11,081**
Proceeds from disposals of property, plant, and equipment		1,062	2,477
Payments (–) for capital expenditure on property, plant, and equipment		-16,669	-23,169
Proceeds from the disposal of intangible assets		9	152
Payments (–) for capital expenditure on intangible assets		-1,247	-3,996
Proceeds from disposal of financial assets		244	2,198
Payments (–) for financial assets		-320	-381
Proceeds from the disposal of consolidated companies and other business units		0	218
Payments (–) for the acquisition of consolidated companies and other business units		-3,175	-7,635
Net cash from investing activities	**(B)**	**-20,096**	**-30,136**
Proceeds from additional capital		0	1,200
Dividend payments (–) to shareholders parent and minority		-8,964	-7,805
Proceeds from issuing bonds and borrowings		16,245	41,182
Payments (–) to redeem bonds and borrowings		-33,727	-25,759
Net cash from financing activities	**(C)**	**-26,446**	**8,818**
Net cash changes in cash and cash equivalents		**6,871**	**-10,237**
- Effect of exchange rate changes on assets		1,942	-1,234
- Effect of exchange rate changes on equity		-5,836	3,993
- Others		-212	2,045
Changes in cash and cash equivalents due to exchange rate, consolidated group, and measurement changes		**-4,106**	**4,804**
Cash and cash equivalents at beginning of year		52,855	58,288
Cash and cash equivalents at end of year	**(D)**	**55,620**	**52,855**

Notes to the Cash Flow Statement

Figures in € thousands, unless otherwise specified; previous-year values in parentheses

The cash flow statement, which has been prepared according to IAS 7 (indirect method), shows the changes in cash and cash equivalents of the KWS Group in the three categories of operating activities, investing activities, and financing activities. The effects of exchange rate changes and changes in the consolidated group have been eliminated from the respective balance sheet items, except those affecting cash and cash equivalents.

(A) Cash flows from operating activities

The cash proceeds from operating activities are primarily determined by the cash earnings according to DVFA/SG. They were €37,468 thousand, €9,767 lower than the previous year. The proportion of DVFA/SG cash earnings included in sales was 7.4 (9.5)%. Lower inventories and receivables resulted in cash proceeds of €7,096 thousand (€ -63,017 thousand). The cash proceeds from operating activities also include interest income of €2,242 thousand (€1,681 thousand) thousand and interest expense of €3,013 thousand (€3,224 thousand). Income tax payments amounted to €13,874 thousand (€24,567 thousand).

(B) Cash flows from investing activities

A net total of €20,096 thousand (€30,136 thousand) was required to finance investing activities. An amount of €17,916 thousand (€27,165 thousand) was paid for intangible and tangible assets and an amount of €320 thousand (€381 thousand) for financial assets. There were total cash receipts of €1,315 thousand (€4,827 thousand) for disposals of assets. In the fiscal year under review, the remaining shares of external shareholders were acquired at a total price of €3,175 thousand. In the fiscal year under review, interests in companies and parts of companies were acquired for a total purchase consideration of €0 thousand (€9,468 thousand) and sold for a total disposal consideration of €0 thousand (€218 thousand); €3,175 thousand (€7,635 thousand) of the purchase consideration and 100% of the disposal consideration was cash.

(C) Cash flows from financing activities

Financing activities resulted in cash outflows of €26,446 thousand (€ -8,818 thousand). The divided payments to shareholders parent and minority related to the dividends of €7,920 thousand (€7,260 thousand) paid to the shareholders of KWS SAAT AG, as well as profit distributions paid to other shareholders of and capital reductions at fully consolidated subsidiaries of €1,044 thousand (€545 thousand). In addition, there were new borrowings of €16,245 thousand (€41,182 thousand) and liabilities of €33,727 thousand (€25,759 thousand) were repaid.

(D) Supplementary information on the cash flow statement

As in previous years, cash and cash equivalents are composed of cash (on hand and balances with banks) and current available-for-sale securities.

Cash and cash equivalents includes €7,640 thousand (€6,214 thousand) from partially consolidated companies.

Information on acquisitions and disposals of subsidiaries and other business units

	2005/06	Previous Year
Total amount of all purchase prices	0	9,468
Total amount of sales prices	0	218
Total amount of cash components of purchase prices	0	7,635
Total amount of cash components of sales prices	0	218
Total amount of all cash and cash equivalents acquired with the companies	0	2,265
Total amount of all cash and cash equivalents sold with the companies	0	127

Amounts of other assets and liabilities acquired or sold with the companies

	2005/06		Previous year	
	acquired	sold	acquired	sold
Assets	0	0	1,799	378
Current assets, incl. prepaid expenses (excluding cash and cash equivalents)	0	0	12,673	1,051
Provisions	0	0	850	104
Liabilities, incl. deferred income	0	0	14,239	1,226

Segment reporting

Figures in € thousands, unless otherwise specified; previous-year values in parentheses

In accordance with its internal reporting system, the KWS Group is primarily organized by the following business segments:

- Sugar beet
- Corn
- Cereals
- Breeding & services

The research and development function is contained in the breeding & services segment. Because of their minor importance within the KWS Group, the distribution and production of oil and field seed are reported in the cereals and corn segments, depending on the legal entities involved.

Description of segments

Sugar beet

The results of the multiplication, processing and distribution activities for sugar beet seed are reported under the sugar beet segment. Under the leadership of KWS SAAT AG, fifteen (thirteen) foreign subsidiaries and affiliated companies and one (one) subsidiary in Germany are active in this segment.

Corn

KWS MAIS GMBH is the lead company for the corn segment. In addition to KWS MAIS GMBH, business activities are conducted by one German company (as in the previous year) and thirteen (fourteen) foreign companies of the KWS Group. The production and distribution activities of this segment relate to corn for grain and silage corn, and to oil and field seed.

Cereals

The lead company of this segment, which essentially concerns the production and distribution of hybrid rye, wheat, and barley, as well as oil and field seed, is LOCHOW-PETKUS GMBH, an 81%-owned subsidiary of KWS SAAT AG, with – as in the previous year – its three foreign subsidiaries and affiliated companies in France, Great Britain, and Poland.

Breeding & services

This segment includes the centrally controlled corporate functions of research and breeding, as well as services for the KWS product segments of sugar beets, corn and cereals and consulting services for the KWS Group and other customers.

Considered a core competence for the KWS Group's entire product range, **plant breeding**, including the related biotechnology research, is essentially concentrated at the parent company in Einbeck. All the breeding material, including the relevant information and expertise about how to use it, is owned by KWS SAAT AG, with respect to sugar beet and corn, and by LOCHOW-PETKUS GMBH, with respect to cereals. Research and breeding are also performed by the wholly-owned German subsidiary PLANTA ANGEWANDTE PFLANZENGENETIK UND BIOTECHNOLOGIE GMBH and breeding activities are conducted by ten other German and foreign subsidiaries and affiliated companies, as in the previous year.

SAKA-RAGIS PFLANZENZUCHT GBR breeds and distributes potatoes in the KWS Group. This company is 45% owned by the fully consolidated RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH. The operating income of RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH is included in the operating income of the breeding & services segment, but the operating income of SAKA-RAGIS PFLANZENZUCHT GBR and SAKA RAGIS AGRAR-PRODUKTE GMBH & CO. KG, in which RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH holds a 36% interest, is reported as part of finance costs under "Share of profit from affiliated companies."

Consulting services include the systems business of KWS SAAT AG and its agricultural operations, KWS KLOSTERGUT WIEBRECHTSHAUSEN GMBH, KWS SAATFINANZ GMBH, which mainly handles insurance for KWS, and EURO-HYBRID GESELLSCHAFT FÜR GETREIDEZÜCHTUNG MBH.

The **other services** performed for the KWS product segments essentially include all the management services of KWS SAAT AG, such as holding company and administrative functions, including strategic development projects, which are not directly charged to the product segments or indirectly allocated to them by means of an appropriate cost formula.

Segment information

Segment sales contains both sales from third parties (external sales) and sales between the segments (intersegment sales). The prices for intersegment sales are determined on an arm's-length basis. Uniform royalty rates per segment are used as the basis for this. In the previous year, these royalty rates were further differentiated within the sugar beet segment.

	Segment sales		Internal sales		External sales	
	2005/06	Previous year	2005/06	Previous year	2005/06	Previous year
Sugar beet	205,377	217,908	8	0	205,369	217,908
Corn	242,487	217,842	246	238	242,241	217,604
Cereals	52,624	54,645	2,426	2,267	50,198	52,378
Breeding & services	103,328	110,382	96,178	102,946	7,150	7,436
KWS Group	**603,816**	**600,777**	**98,858**	**105,451**	**504,958**	**495,326**

The breeding & services segment generates 93.1% (93.3%) of its sales from the other segments. The sales of this segment represents 1.4% (1.5%) of the Group's external sales.
The corn segment is the largest contributor of external sales, accounting for 48.0% (43.9%) of external sales, followed by sugar beet with 40.7% (44.0%) and cereals with 9.9% (10.6%).

External sales by region

	2005/06	Previous year
Germany	121,803	124,628
Europe (excluding Germany)	224,616	230,590
Americas	130,909	117,550
Rest of world	27,630	22,558
	504,958	**495,326**

68.6% (71.7%) of total sales are recorded in Europe (including Germany).

The operating income of each segment is reported as the **segment result**. The segment results are presented on a consolidated basis.

Depreciation and amortization charges of €16,377 thousand (€16,210 thousand) allocated to the segments relate exclusively to intangible assets and property, plant, and equipment.

The **other noncash items recognized in the income statement** relate to noncash changes in the allowances on inventories and receivables, and in provisions. In all of the segments this item consisted of net expenses.

The operating assets of the segments are composed of intangible assets, property, plant, and equipment, inventories and all receivables, other assets, and prepaid expenses that can be charged directly to the segments or indirectly allocated to them by means of an appropriate cost formula.

Cash and cash equivalents and/or current available-for-sale securities are allocated to the segments only to the extent that the allocation of operating liabilities makes it necessary to increase operating assets by a corresponding amount.

	Segment earnings		Depreciation and amortization		Other noncash items		Assets		Liabilities	
	2005/06	Previous year	2005/06	Previous year	2005/06	Previous year	2005/06	Previous year	2005/06	Previous year
Sugar beet	24,864	31,015	4,404	4,658	13,979	8,719	127,193	146,254	28,855	32,298
Corn	10,400	10,600	2,269	1,937	23,886	6,701	203,972	189,060	103,273	86,862
Cereals	1,748	3,638	1,832	1,547	687	215	29,594	27,734	6,954	7,208
Breeding & services	9,646	11,073	7,872	8,068	2,557	13,086	133,507	133,961	66,204	66,991
Total segments							**494,266**	**497,009**	**205,286**	**193,359**
Others							82,757	75,428	33,773	52,865
KWS Group	**46,658**	**56,326**	**16,377**	**16,210**	**41,109**	**28,721**	**577,023**	**572,437**	**239,059**	**246,224**

The operating liabilities attributable to the segments include the borrowings reported on the balance sheet, less provisions for taxes and the portion of other liabilities that cannot be charged directly to the segments or indirectly allocated to them by means of an appropriate cost formula. Pension provisions are recorded for the first time in accordance with the segments to which the employees belong. The amounts for the previous year have been adjusted accordingly. Borrowings are added to operating liabilities only when they exceed the available cash. Assets or liabilities that have not been allocated to the segments are reported as “Others.”

Capital expenditure on assets was mainly attributable to the breeding & services segment, where it amounted to €9,555 thousand (€12,584 thousand), and the corn segment, where it amounted to €5.901 thousand (€18,708 thousand. 49% (35%) of capital expenditure was made in Germany, mainly in Einbeck, and 27% (23%) in Europe (excluding Germany).

Investments in long-term assets by segment

	2005/06	Previous year
Sugar beet	4,281	4,037
Corn	5,625	18,708
Cereals	3,350	1,558
Breeding & services	9,555	12,584
	22,811	**36,887**

Investments in long-term assets by region

	2005/06	Previous year
Germany	11,281	12,826
Europe (excluding Germany)	6,084	8,341
North and South America	5,308	15,252
Rest of world	138	468
	22,811	**36,887**

Operating assets by region

	2005/06	Previous year
Germany	202,208	212,808
Europe (excluding Germany)	164,815	165,922
North and South America	121,969	111,630
Rest of world	5,274	6,649
	494,266	**497,009**

Notes for the KWS Group 2005/06

Figures in € thousands, unless otherwise specified; previous-year values in parentheses

The KWS Group (KWS-Konzern) 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) and in addition the commercial law regulations to be applied pursuant to section 315a (1) of the HGB (German Commercial Code). The consolidated financial statements discharge the obligations of LOCHOW-PETKUS GMBH, Einbeck, to produce its own financial statements. The following standards have already been published, but have not yet been applied: Amendments to IAS 1 and IFRS 7 (Financial instruments: Disclosures). Since these relate to disclosure obligations in the notes to the consolidated financial statements, there will be no effects on the balance sheet or income statement.

General disclosures

Companies consolidated in the KWS Group

The 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.

Consolidation methods

The single-entity financial statements of the individual subsidiaries and joint ventures included in the consolidated financial statements were uniformly prepared on the basis of the accounting and measurement methods applied at KWS SAAT AG; they were audited by independent auditors. For fully or proportionately consolidated units acquired before July 1, 2003, the Group exercised the option allowed by IFRS 1 to maintain the consolidation procedures chosen to date. The goodwill reported in the HGB financial statements as of June 30, 2003 was therefore transferred unchanged to the opening IFRS balance sheet. For acquisitions made after June 30, 2003, capital consolidation follows the purchase method by allocating the cost of acquisition to the Group’s interest in the subsidiary’s equity at the time of acquisition. Any excess of interest in equity over cost is recognized as an asset, up to the amount by which fair value exceeds the carrying amount. Any goodwill remaining after first-time consolidation is recognized under intangible assets.

According to IFRS 3, goodwill is not amortized, but tested for impairment at least once a year (impairment-only approach). Investments in non-consolidated companies are carried at cost.

Investments in affiliated companies are measured at equity and were recognized in the consolidated financial statements at the time of acquisition or first-time consolidation. Goodwill is reported in a separate account under intangible assets.

Joint ventures are carried according to the percentage of equity held in the companies concerned using IFRS 3.

Subsidiaries and joint ventures are consolidated and associated companies measured at equity only if such recognition is considered material for the fair presentation of the financial position and results of operations of the KWS Group. As part of the elimination of intra-Group balances, borrowings, receivables, liabilities, and provisions are netted between the consolidated companies. Intercompany profits not realized at Group level are eliminated from intra-Group transactions. Sales, income, and expenses are netted between consolidated companies, and intra-Group distributions of profit are eliminated.

Deferred taxes on consolidation transactions recognized in income are calculated at the tax rate applicable to the company concerned. These deferred taxes are aggregated with the deferred taxes recognized in the separate financial statements.

Minority interests are recognized in the amount of the imputed percentage of equity in the consolidated companies.

Currency translation

Under IAS 21, the financial statements of the consolidated foreign subsidiaries and joint ventures that conduct their business as financially, economically, and organizationally independent entities are translated into euros using the functional currency method as follows:

- Income statement items at the average exchange rate for the year.

- Balance sheet items at the exchange rate on the balance sheet date. The difference resulting from the application of annual average rates to the net profit for the period in the income statement is taken directly to equity.

Classification of the balance sheet and the income statement

The costs for the functions include all directly attributable costs, including other taxes and research and development expenses. Research grants are not deducted from the costs to which they relate, but reported gross under other operating income.

Accounting policies

Consistency of accounting policies

The accounting policies are largely unchanged from the previous year. All estimates and assessments as part of accounting and measurement are continually reviewed; they are based on historical patterns and expectations about the future regarded as reasonable in the particular circumstances. For the first time, the future contribution commitments to the Pensionssicherungsverein of €414 thousand were accrued as a provision. The previous year was adjusted, with an amount of €400 thousand being charged against the revenue reserves without any effect on profit.

Intangible assets

Purchased intangible assets are carried at cost less amortization over a useful life of three to ten years. Impairment losses on intangible assets with finite useful lives are recognized according to IAS 36. Goodwill with an indefinite useful life is not amortized, but tested for impairment at least once a year. The procedure for the impairment test is explained in the notes to the balance sheet. Intangible assets acquired as part of business combinations are carried separately from goodwill if they are separable according to the definition in IAS 38 or result from a contractual or legal right, and fair value can be reliably measured.

Property, plant, and equipment

Property, plant, and equipment is measured at cost less depreciation. A loss is recognized for an impairment expected to be permanent. In addition to directly attributable costs, the cost of self-produced plant or equipment also includes a proportion of the overheads and depreciation / amortization, but no finance charges. Straight-line depreciation of buildings is based on a useful life of 50 years. The useful lives of technical equipment and machinery range from 5 to 15 years, and for operating and office equipment from 3 to 10 years. Low-value assets are fully expensed in the year of purchase; they are reported as additions and disposals in the year of purchase in the statement of changes in noncurrent assets. Impairment losses on property, plant, and equipment are recognized according to IAS 36 whenever the recoverable amount of the assets is less than its carrying amount. The recoverable amount is the higher of the asset's net realizable value and its value in use (value of future cash flows expected to be derived from the asset).

Investments in affiliated companies and other financial assets

Investments are measured at cost. The cost of equity-accounted investments is increased or decreased by proportionate changes in equity. Assets available for sale are carried at market value if this can be reliably measured. Unrealized gains and losses, including deferred taxes, are recognized directly in the revaluation reserve under equity. Permanent impairment losses are recognized immediately through the income statement. Borrowings are carried at amortized cost.

Inventories

Inventories are carried at cost less an allowance for obsolescent or slow-moving items. In addition to directly attributable costs, the cost of sales also includes indirect labor and materials including depreciation under IAS 2. Under IAS 41, biological assets are measured at the expected sales proceeds, less costs to sell. The measurement procedure used is based on standard industry value tables.

Receivables and other assets

Receivables and other current assets are recognized at nominal values. Concretized individual risks are accounted for with appropriate allowances.

Current securities

Available-for-sale securities are carried at market value. Unrealized gains and losses, including deferred taxes, are recognized directly in the revaluation reserve under equity.

Deferred taxes

Deferred taxes are calculated on differences between the IFRS carrying amounts of assets and liabilities and their tax base, and on loss carryforwards; they are reported on a gross basis. Under IAS 12, deferred taxes are calculated on the basis of the applicable local income tax.

Provisions for pensions and other employee benefits

Under IAS 19, obligations from direct pension commitments are measured using actuarial principles under the accrued benefit valuation method. Gains or losses from unplanned changes in accrued benefits and from changes in actuarial assumptions are disregarded if the change moves within a 10% corridor of the accrued benefits. Only if the gains or losses exceed this threshold will they be distributed over the remaining working lives and included in the provision.

Other provisions

Tax and other provisions account for all discernible risks and contingent liabilities. Depending on circumstances, they are measured at the most probable amount or at the expected value.

Liabilities

Liabilities are recognized at their repayment amounts.

Contingencies

The contingent liabilities recognized in the balance sheet correspond to the loan amounts drawn down as of the balance sheet date.

Consolidated group and changes in the consolidated group

Number of companies including the KWS SAAT AG

	2005/06			Previous year		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Consolidated	11	29	**40**	11	30	**41**
Consolidated at quota	0	4	**4**	0	4	**4**
	11	33	**44**	11	34	**45**
At-equity	2	0	**2**	2	0	**2**
Total	13	33	**46**	13	34	**47**

The companies are listed on page 69 under item number (29).

Changes in the fully consolidated companies relate to the first-time consolidation of the following subsidiary of EURO-HYBRID GMBH

- KWS UKRAINE T.O.W., Kiev, Ukraine

the first-time consolidation of the following subsidiary of BETASEED INC.

- BETASEED FRANCE S.A.R.L., Sarreguemines, France

The following subsidiaries that have been merged with KWS FRANCE S.A.R.L., Roye, France, to pool sugar beet and breeding activities

- KWS SEMENCES S.A.R.L., Sarreguemines, France
- SOCIETE DES MAIS EUROPEENS S.A.R.L., Sarreguemines, France

KWS SEMENA D.O.O., Ljubljana, Slovenia, was deconsolidated at December 31, 2005, due to discontinuation of its active business operations.

KWS UKRAINE T.O.W. was included in the consolidated group effective July 1, 2005, owing to its increased importance for the KWS Group. EURO-HYBRID GMBH holds 80% and KWS SAATFINANZ GMBH 20% of the share in the company. First-time consolidation in accordance with IFRS 3 did not result in any expense or income for the KWS Group. Since being included in the consolidated group, KWS UKRAINE T.O.W. has reduced the KWS Group's operating income by €551 thousand.

BETASEED FRANCE S.A.R.L. was included in the consolidated group after it commenced its active business operations on July 1, 2005. BETASEED INC. holds all the shares in the company. First-time consolidation in accordance with IFRS 3 did not result in any expense or income for the KWS Group. Since being included in the consolidated group, BETASEED FRANCE S.A.R.L. has reduced the KWS Group's operating income by €90 thousand.

The financial position and results of operations of proportionately consolidated and equity-accounted companies are as follows:

Proportionately consolidated companies

	2005/06	Previous year
Noncurrent assets	28,171	26,690
Current assets	71,306	61,569
Total assets	**99,477**	**88,259**
Equity	48,031	44,301
Noncurrent liabilities	821	1,983
Current liabilities	50,625	41,975
Total equity and liabilities	**99,477**	**88,259**
Net sales	**107,218**	**92,804**
Net profit for the year	**9,823**	**10,024**

Companies carried at-equity

	2005/06	Previous year
Noncurrent assets	21,236	20,202
Current assets	11,102	11,254
Total assets	**32,338**	**31,456**
Equity	23,097	20,226
Noncurrent liabilities	6,026	6,844
Current liabilities	3,215	4,386
Total equity and liabilities	**32,338**	**31,456**
Net sales	**11,000**	**9,590**
Net profit for the year	**3,164**	**1,730**

The companies carried at equity relate exclusively to the potato activities assigned to the breeding & services segment.

Notes to the Balance Sheet

Figures in € thousands, unless otherwise specified; previous-year figures in parentheses

(1) Assets

The statement of changes in noncurrent assets contains a breakdown of assets summarized in the balance sheet and shows how they changed in 2005/06. Capital expenditure on assets was €23,131 thousand (€36,887 thousand), plus €692 thousand (€76 thousand) from the share in net profit of equity-accounted affiliated companies attributable to the KWS Group and other changes at the associated companies of €662 thousand, so that total additions to assets amounted to €24,485 thousand (€36,963 thousand). The management report describes the significant additions to assets. Depreciation and amortization amounted to €17,044 thousand (€16,774 thousand).

(2) Intangible assets

This item includes purchased varieties, rights to varieties and distribution rights, software licenses for electronic data processing, and goodwill. Additions to intangible assets amounting to €2,941 thousand (€10,864 thousand) relate primarily to goodwill from the acquisition of the remaining shares (26%) in CPB TWYFORD LTD., UK. Amortization of intangible assets amounted to €1,039 thousand (€1,556 thousand); this charge is included in the relevant functional costs, depending on the operational use of the intangible assets.

The goodwill recognized as an asset relates mainly to the company AGRELIANT GENETICS LLC. (€17,523 thousand) in the corn segment and the companies SOCIETE DE MARTINVAL S.A. (€3,706 thousand) and CPB TWYFORD LTD. (€1,693 thousand) in the cereals segment.

In order to meet the requirements of IFRS 3 in combination with IAS 36 and to determine any impairment of goodwill, cash-generating units have been defined in line with internal reporting guidelines. In the KWS Group, these units are the legal entities. To test for impairment, the carrying amount of each entity is determined by allocating the assets and liabilities, including attributable goodwill and intangible assets. An impairment loss is recognized if the recoverable amount of an entity is less than its carrying amount. The recoverable amount is the higher of the entity's net realizable value and its value in use (value of future cash flows expected to be derived from the entity). The impairment test uses the expected future cash flows on which the medium-term plans of the companies are based; these plans, which cover a period of four years, have been approved by the Executive Board. They are based on historical patterns and expectations about future market development. For the European and American markets, the key assumptions on which corporate planning is based include assumptions about price trends for seed, in addition to the development of market shares and the regulatory framework. Company-internal projections take the assumptions of industry-specific market analyses and company-related growth perspectives into account.

A standard discount rate of 7.5% (7.1%) has been assumed to calculate present values. A growth rate of 1.5% (1.5%) has been applied beyond the detailed planning horizon in order to allow for extrapolation in line with the expected inflation rate. Tests provided evidence that the goodwill recognized in the consolidated balance sheet and determined for the cash-generating units is not impaired. No impairment losses were required. In the previous year, an impairment loss of €564 thousand had to be recognized on goodwill allocated to an associated company.

(3) Property, plant, and equipment

Capital expenditure amounted to €19,870 thousand (€25,642 thousand) and depreciation amounted to €15,338 thousand (€15,218 thousand). The management report describes the significant capital expenditure.

(4) Investments in affiliated companies

This item relates to equity-accounted investments in affiliated companies. Total additions of €1,354 thousand (€76 thousand) represent the share in net profit of the affiliated companies attributable to the KWS Group, which amounted to €692 thousand. Total disposals of €1,325 thousand (€1,808 thousand) relate to profit distributions within the consolidated group of €951 thousand. The balance sheet date of SAKA-RAGIS AGRARPRODUKTE GMBH & CO. KG (December 31) differs from that of the KWS Group. Inclusion of this company on the basis of the annual financial statements as of December 31, 2005 has not had any significant impact on the consolidated financial statements.

(5) Other financial assets

Investments in non-consolidated subsidiaries and shares in cooperatives and GmbHs that are of minor significance, totaling €3,335 thousand (€4,136 thousand), are reported in this account since a market value cannot be reliably determined. As a result, the mutual investment in our French partner RAGT SEMENCES S.A. is carried at an unchanged cost of €4,000 thousand. Listed shares are carried at market value of €102 thousand (€90 thousand).

This account also includes interest-bearing home-building loans to employees and other interest-bearing loans totaling €554 thousand (€360 thousand). Amortization of other financial assets of €667 thousand was already recognized as expense in previous years.

(6) Deferred tax assets

Under IAS 12, deferred tax assets are calculated as the difference between the IFRS balance sheet amount and the tax base. They are reported on a gross basis and total €15,074 thousand (€12,768 thousand), of which €1,904 thousand (€84 thousand) will be carried forward for the future use of tax losses.

(7) Inventories

	06/30/2006	Previous year
Raw materials and consumables	9,557	9,020
Work in process	30,857	34,391
Immature biological assets	5,662	5,015
Finished goods	62,602	57,657
	108,678	**106,083**

Inventories increased by €2,595 thousand, or + 2.4%, net of writedowns totaling €29.129 thousand (€27,162 thousand). Immature biological assets relate to living plants in the process of growing (before harvest). The field inventories of the previous year have been harvested in full and the fields have been newly tilled in the year under review. Public subsidies of €1,111 thousand (€1,132 thousand) were granted for the total area under cultivation of 4,854 (4,495) ha.

(8) Current receivables

	06/30/2006	Previous year
Trade receivables	184,643	190,452
Other current assets	24,369	24,674
	209,012	**215,126**

Trade receivables amounted to €184,643 thousand, a decrease of 3.1% over the figure of €190,452 thousand for the previous year; this amount includes €1,050 thousand (€3,060 thousand) receivables from related parties.

Other current assets also include current financing receivables, tax assets und prepaid expenses.

Current financing receivables include an amount of €495 thousand (€0 thousand) receivable from related parties and an amount of €0 thousand (€862 thousand) receivable from participations.

Current receivables include an amount of €658 thousand (€1,115 thousand) due after more than one year.

(9) Securities

Securities amounting to €13,298 thousand (€20,844 thousand) relate primarily to short-term liabilities securities and fund shares.

(10) Cash

Cash of €42,322 thousand (€32,011 thousand) consists of balances with banks and cash on hand. The cash flow statement explains the change in this item compared with the previous year.

The financial assets consist primarily of bank balances and cash on hand, trade receivables, other receivables, and securities. The credit risk is mainly related to trade receivables. The amount recognized in the balance sheet is net of allowances for receivables expected to be uncollectible, estimated on the basis of historical patterns and the current economic environment. The credit risk on cash and derivative financial instruments is limited because they are kept with banks that have been given a good credit rating by international rating agencies. There is no significant concentration of credit risks, because the risks are spread over a large number of contract partners and customers.

(11) Equity

The subscribed capital of KWS SAAT AG was increased from company funds by €2,800,000.00 in accordance with a resolution adopted by the Shareholders' Meeting on January 18, 2006, and is €19,800,000.00 as of the balance sheet date. Following a 1:10 share split, the bearer shares are certificated by a global certificate for 6,600,000 shares.

Equity (including minority interest) increased by €11,752 thousand, from €326,212 thousand to €337,964 thousand. For details, see the statement of changes in equity.

(12) Noncurrent liabilities

	06/30/2006	Previous year
Long-term provisions	69,590	69,678
Long-term financial liabilities	6,412	7,858
Deferred tax liabilities	16,922	16,836
Other long-term liabilities	1,000	1,140
	93,924	**95,512**

Retirement benefits are based on defined benefit obligations, determined by years of service and pensionable compensation.

Pension provisions are measured using the accrued benefit method under IAS 19, on the basis of assumptions about future development. The assumptions in detail are that wages and salaries will increase by 2.00% (2.00%) annually and pensions by 1.25% (1.25%) annually.

The discount rate was 4.75%, compared with 4.25% the year before.

No income or expenses were recognized as a result of changes in retirement obligations or benefits payable or from the adjustment to assumptions.

Interest expenses on pension provisions are recognized in net-finance income/expenses or cost. The expenses of new pension entitlements that arose during the fiscal year are recognized in functional costs.

The accrued benefit is reconciled to the provisions reported in the consolidated financial statements as follows:

	06/30/2006	Previous year
Accrued benefit entitlements	70,002	73,874
Actuarial losses	-4,423	-8,272
	65,579	**65,602**

The benefit obligations changed as follows during the fiscal year:

	2005/06	Previous year
Pension provisions at beginning of fiscal year	65,602	65,467
Changes in consolidated group	0	31
Cost of additional benefit entitlements	1,214	927
Interest expenses on benefit entitlements added in previous years	3,047	3,260
Pension payments	4,284	4,083
Transfers	0	0
Pension provisions at end of fiscal year	**65,579**	**65,602**

Long-term provisions	07/01/2005	Changes in the consol. group	Addition	Con-sumption	Reversal	06/30/2006
Pensions provisions	65,602	0	5,003	4,599	427	65,579
Other provisions	4,076	-38	232	243	16	4,011
	69,678	**-38**	**5,235**	**4,842**	**443**	**69,590**

In addition, the benefit obligation from salary conversion was backed by a guarantee that exactly matches the present value of the obligation of €2,802 thousand (€2,525 thousand) (defined contribution plan).

The long-term financial liabilities include loans from banks amounting to €5,597 thousand (€6,041 thousand). Of the long-term loans, an amount of €1,807 thousand is scheduled to be repaid in each of 2006/2007 and 2007/2008. The remaining loans payable of €1,983 thousand have remaining maturities through 2015.

Under IAS 12, deferred tax liabilities are calculated as the difference between the IFRS balance sheet amount and the tax base. They are reported on a gross basis and total €16,922 thousand (€16,836 thousand).

(13) Current liabilities

Short-term liabilities decreased by a total of €5,578 thousand to €145,135 thousand. As part of intra-Group financing, financial liabilities to related parties were reduced by €13,555 thousand.

	06/30/2006	Previous year
Trade payables to affiliates	336	0
Trade payables	38.391	37.417
Trade payables	**38.727**	**37.417**
Current liabilities to banks	2.719	2.925
Current liabilities to affiliates	523	14.078
Current liabilities to investees and investors	0	610
Other current financial liabilities	1.698	3.374
Current financial liabilities	**4.940**	**20.987**
Current provisions	**66.809**	**56.646**
Tax liabilities	**12.554**	**8.294**
Other liabilities	**22.105**	**27.369**
	145.135	**150.713**

The tax liabilities of €12,554 thousand (€8,294 thousand) include amounts for the year under review and the period not yet concluded by the external tax audit.

Short-term provisions	07/01/2005	Changes in the consol. group	Addition	Con-sumption	Reversal	06/30/2006
Obligations from sales transaction	17,730	-243	17,466	12,658	3,496	18,799
Obligations from purchase transaction	23,282	-53	33,912	23,510	291	33,340
Other obligations	15,633	-213	10,433	10,659	524	14,670
	56,645	**-509**	**61,811**	**46,827**	**4,311**	**66,809**

(14) Contingent liabilities

As in the previous year, there are no contingent liabilities to report.

(15) Other financial obligations

There was a €4,529 thousand (€1,331 thousand) obligation from uncompleted capital expenditure projects.

The management report describes the objectives and methods of the risk management system.

Common derivative financial instruments, which are recognized at market values on the balance sheet date under IAS 39, are used to hedge interest rate and foreign currency risks. The derivative financial instruments are measured according to the mark-to-market method, which uses recognized mathematical models, such as present value or Black-Scholes, to calculate option values, taking their volatility, remaining maturity, and capital market interest rates into account.

	Nominal volume 06/30/2006	Carrying values 06/30/2006	Market values 06/30/2006
Currency hedges	32,629	-252	-252
Interest-rate hedges	76,226	204	204
	108,855	**-48**	**-48**

The remaining maturities of currency hedges are less than one year. Of the interest-rate derivatives, hedges with a nominal volume of €37,113 thousand will mature within one year. Transactions with a volume of €32,000 thousand have remaining maturities of more than 5 years.

Obligations under rental agreements and leases

	06/30/2006
Due in fiscal year 2006/07	5,001
Due 2007/08 through 2010/11	9,056
Due after 2010/2011	1,570
	15,627

The leases relate primarily to full-service agreements for IT equipment and fleet vehicles, which also include services for which a total of €2,165 thousand (€1,003 thousand) was paid in the year under review. The main leasehold obligations relate to land under cultivation.

Notes to the Income Statement

Figures in € thousands, unless otherwise specified; previous-year figures in parentheses

Income statement for the period July 1, 2005 through June 30, 2006

	2005/06		Previous year	
	€ millions	**% of sales**	**€ millions**	**% of sales**
Net sales	505.0	100.0	495.3	100.0
Cost of sales	327.7	64.9	312.3	63.1
Gross profit on sales	**177.3**	**35.1**	**183.0**	**36.9**
Selling expenses	99.7	19.8	88.7	17.9
General and administrative expenses	36.9	7.3	39.1	7.9
Other operating income	23.4	4.6	21.3	4.3
Other operating expenses	17.4	3.4	20.2	4.0
Operating income	**46.7**	**9.2**	**56.3**	**11.4**
Net financial income/ expenses	-2.5	-0.5	-4.9	-1.0
Result of ordinary activities	**44.2**	**8.7**	**51.4**	**10.4**
Income taxes	15.8	3.1	16.6	3.4
Net income for the year	**28.4**	**5.6**	**34.8**	**7.0**
Shares of minority interest	1.0	0.2	1.2	0.2
Net income after minority interest	**27.4**	**5.4**	**33.6**	**6.8**

(16) Net sales

By product category	**2005/06**	**Previous year**
Certified seed sales	451,808	440,485
Royalties income	28,766	31,475
Basic seed sales	4,191	7,446
Services fee income	3,172	2,949
Other sales	17,021	12,971
	504,958	**495,326**

By region	**2005/06**	**Previous year**
Germany	121,803	124,628
Europe	224,616	230,590
Americas	130,909	117,550
Rest of world	27,630	22,558
	504,958	**495,326**

For further details of sales, see segment reporting. Sales are recognized when the agreed goods or services have been supplied and risk and title pass to the buyer. Any rebates or discounts are taken into account.

The **cost of sales** increased by €15,269 thousand to €327,626 thousand, or 64.9% (63.1%) of sales. The total cost of goods sold was €119,796 thousand (€106,882 thousand). This amount includes additional allowances on inventories totaling €2,534 thousand, charged to segment results as follows: charged to corn €4,001 thousand, discharged to sugar beet €1,248 thousand and cereals €219 thousand. Research and development is recognized as an expense in the year it is incurred; in the year under review, this amounted to €75,353 thousand (€71,342 thousand) the year before. Development costs for new varieties are not recognized as an asset because evidence of future economic benefit can only be provided after the variety has been officially certified.

The €11,084 thousand increase in **selling expenses** to €99,739 thousand is mainly due to expanded activities in the North America and Southern/Southeastern Europe regions. This is 19.8% of sales, up from 17.9% the year before.

General and administrative expenses decreased by €2,236 thousand to €36,872 thousand, representing 7.3% of sales, after 7.9% the year before.

(17) Other operating income

	2005/06	**Previous year**
Income from sales of fixed assets	788	1,072
Income from the reversal of provisions	4,596	1,448
Exchange rate gains and gains from currency and interest rate hedges	4,865	5,647
Income from recoveries on receivables written off	38	827
Income from reversal of allowances of receivables	2,867	486
Research grants	1,677	2,416
Income relating to previous periods	1,384	424
Income from cost allocations	116	213
Income from loss compensation received	259	301
Miscellaneous other operating income	6,761	8,441
	23,351	**21,275**

Other operating income was up by €2,076 thousand, mainly due to the reversal of provisions and to the fact that allowances for receivables in Eastern Europe were no longer required.

(18) Other operating expenses

	2005/06	**Previous year**
Legal form expenses	894	873
Allowances on receivables	2,946	3,168
Counterparty default	1,812	941
Exchange rate losses and losses on currency and interest rate hedges	6,322	4,311
Losses from sales of fixed assets	638	805
Expenses relating to previous periods	1,457	2,134
Other expenses	3,345	7,923
	17,414	**20,155**

Other operating expenses indicate in particular the increased currency and credit risk in growth markets. Of the necessary allowances for receivables, €2,431 thousand (€1,387 thousand) was charged to the corn segment and €515 thousand (€1,781 thousand) to the sugar beet segment.

(19) Net financial income/expenses

	2005/06	**Previous year**
Interest income	2,242	1,681
Interest expenses	3,013	3,224
Income from securities	18	0
Income from other financial assets	118	360
Reversal of impairment losses on other long-term investments	0	1
Interest expenses on donation of pension provisions	3,047	3,260
Net interest expense	**-3,682**	**-4,442**
Profit from affiliated companies	692	76
Impairment losses on goodwill from affiliated companies	0	564
Income from equity investments	471	4
Net income from equity investments	**1,163**	**-484**
Net financial income/expenses	**-2,519**	**-4,926**

The previous year's **net financial result** improved by €2,407 thousand to € –2,519 thousand, with **net income from equity investments** increasing by €1,647 thousand to €1,163 thousand. The **share of profit of affiliated companies** relates to potato activities. **Net interest expense** improved by €760 thousand.

(20) Income taxes

Income tax expense is computed as follows:

	2005/06	Previous year
Income taxes, Germany	9,268	11,768
Income taxes, other countries	8,724	8,680
Current expenses from income taxes	17,992	20,448
Thereof from previous years	-2,481	-2,828
Deferred taxes, Germany	-1,679	-4,057
Deferred taxes, other countries	-541	225
Deferred tax income/expense	-2,220	-3,832
Reported income tax expense	**15,772**	**16,616**

Adjusted for tax relating to previous periods, KWS pays 38.1% tax in Germany. Corporate income tax of 25.0% (25.0%) and solidarity tax of 5.5% (5.5%) are applied uniformly to distributed and retained profits. In addition, municipal trade income tax is payable on profits generated in Germany. Trade income tax is applied at a weighted average rate of 16.0% (unchanged from the previous year). Since this tax is deductible as an operating expense, the total tax rate is 38.1% (38.1%).

Under German tax law, both German and foreign dividends are 95% tax exempt.

The profits generated by Group companies outside Germany are taxed at the rates applicable in the country in which they are based.

For the German Group companies, deferred tax was calculated at 38.1%. For foreign Group companies, deferred tax was calculated using the tax rates applicable in the country in which they are based.

Deferred taxes are calculated on the basis of the following temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base:

	Deferred tax assets		Deferred tax liabilities	
	06/30/2006	Previous year	06/30/2006	Previous year
Intangible assets	45	77	496	579
Biological assets	0	0	5	5
Property, plant and equipment	77	18	13,460	14,505
Financial assets	365	170	367	539
Inventories	5,840	4,483	197	165
Current assets	1,103	811	1,783	197
Noncurrent liabilities	585	718	533	640
Current liabilities	4,846	5,999	30	198
Tax loss carry-forward	1,904	84	0	0
Other consol. transactions	309	408	51	8
Deferred taxes recognized	**15,074**	**12,768**	**16,922**	**16,836**

Whereas loss carryforwards of €4,089 thousand (€3,839 thousand) were not regarded as being able to be utilized in the previous year, deferred tax assets were able to be recognized as an asset in the year under review owing to the improved earnings prospects of the subsidiaries. The anticipated taxable profits projected in the medium-term plans of the companies were used for this; these plans, which cover a period of four years, have been approved by the Executive Board. They are based on historical patterns and expectations about future market development.

Full distribution to shareholders of all taxable and non-taxable components of equity would currently result in an unrecognized entitlement to a reduction in corporation tax of €8,117 thousand (€8,645 thousand). These claims for tax reduction result from the change in the German tax system from the imputation method to the "half-income method," which had to be applied for the first time for fiscal 2001/2002. A corporation tax claim of €528 thousand was recognized as an asset in the year under review on the basis of the proposed dividend payment by KWS SAAT AG.

The following schedule reconciles the expected income tax expense to the reported income tax expense. The calculation assumes an expected tax expense, applying the German tax rate to the profit before tax of the entire Group:

	2005/06	Previous year
Earnings before income taxes	44,139	51,400
Expected income tax expense*	16,818	19,583
Difference in income tax liability outside Germany	-447	-890
Tax portion for:		
Tax-free income	-144	-260
Expenses not deductible for tax purposes	1,847	2,643
Temporary differences and losses for which no deferred taxes have been recognized	1,199	-226
Tax credits	-952	-1,211
Taxes relating to previous years	-2,481	-2,828
Other tax effects	-68	-195
Reported income tax expense	15,772	16,616
Effective tax rate	35.7%	32.3%
*Tax rate in Germany	38.1%	38.1%

Other taxes, primarily real estate tax, are allocated to the relevant functions.

(21) Personnel costs / employees

	2005/06	Vorjahr
Wages and salaries	86,722	80,606
Social security contributions, expenses for pension plans and benefits	22,343	20,821
Expenses for pension plans and benefits	4,798	4,788
	109,065	**101,427**

Personnel costs went up by €7,638 thousand to €109,065 thousand, an increase of 7.5%. The number of employees (including trainees and interns) increased by 102 (or + 4.0%) to 2,652.

Compensation increased by 7.6% to €86,722 thousand. **Social security contributions, expenses for pension plans and benefits** were €1,522 thousand higher than in the previous year. An amount of €865 thousand was recognized as an expense for defined contribution plans in the year under review.

Employees*	2005/06	Previous year
Germany	1,179	1,172
Rest of Europe	570	530
Americas	765	678
Rest of world	138	170
Total	**2,652**	**2,550**

* Annual average

Of the above number, 482 (452) employees are included according to the percentage of equity held in the companies that employ them. 965 (906) employees are employed by an unchanged number of four proportionately consolidated investees. If these persons are included in full, the workforce total is 3,135 (3,043). The reported number of employees is greatly influenced by seasonal labor.

Shares issued to employees under share purchase plans

In January of		2006	2005	2004	2003	2002
Shares issued	(No.)	206	239	250	279	284
Cost of acquisition per share in	€	699	565	492	491	489
Preferred price when purchasing one share	€	546	440	336	297	296
when purchasing two shares	€	1,227	1,015	826	748	746

As part of share purchase plans, shares in KWS SAAT AG were acquired and sold to eligible employees under payroll tax incentives. €25 thousand are included for this in the personnel costs.

(22) Net income for the year

Net income for the year fell by €6,417 thousand to €28,367 thousand, representing a return on sales of 5.6%, down from 7.0% the year before. The net profit for the period after minority interest is €27,439 thousand, and €4.16 for each of the 6,600,000 shares on issue.

(23) Total remuneration of the Supervisory Board and Executive Board and of former members of the Supervisory Board and Executive Board of KWS SAAT AG

Supervisory Board compensation 2005/06

	Fixed €	Performance-related €	Total €
Dr. Guenther H. W. Stratmann*	24,000	60,000	84,000
Dr. Arend Oetker**	12,000	30,000	42,000
Philip von dem Bussche***	2,000	5,000	7,000
Goetz von Engelbrechten***	5,200	12,900	18,100
Eckard Halbfaß	8,000	20,000	28,000
Jürgen Kunze	8,000	20,000	28,000
Prof. Dr. Ernst-Ludwig Winnacker	8,000	20,000	28,000
	67,200	**167,900**	**235,100**

*Chairman **Deputy Chairman ***partially

The members of the Supervisory Board receive fixed compensation and variable compensation based on the dividend paid. Providing that the annual meeting of shareholders resolves the proposed dividend, total compensation of the members of the Supervisory Board will be €235 thousand (€238 thousand), excluding value-added tax. €168 thousand (€170 thousand) of the total compensation is performance-related.

In the year under review, Dr. Guenther H. W. Stratmann was a partner in the consulting firm Freshfields Bruckhaus Deringer, Düsseldorf.

In this period, this firm invoiced KWS €199 thousand (€192 thousand) for consulting services.

In fiscal year 2005/2006, total Executive Board compensation amounted to €1,860 thousand (€2,391 thousand). Variable compensation of €1,104 thousand (€1,573 thousand), calculated on the basis of the net profit for the period of the KWS Group, includes compensation of €15 thousand (€19 thousand) for duties performed in subsidiaries. The fixed compensation includes not only the agreed salaries, but also nonmonetary compensation granted by KWS SAAT AG. In addition, an amount of €342 thousand (€489 thousand) had to be allocated to pension provisions under IAS 19.

Executive Board compensation 2005/06

	Fixed €	Performance-related €	Total €
Dr. Dr. h.c. Andreas J. Büchting*	277,501.76	348,596.01	626,097.77
Dr. Christoph Amberger	177,489.16	348,596.01	526,085.17
Philip von dem Bussche**	127,803.63	174,298.00	302,101.63
Dr. Hagen Duenbostel	173,677.32	232,397.33	406,074.65
	756,471.87	**1,103,887.35**	**1,860,359.22**

*Chairman **partially

Compensation of former members of the Executive Board and their surviving dependents amounted to €732 thousand (€721 thousand). Pension provisions recognized for this group of persons amounted to €7,800 thousand (€6,194 thousand) as of June 30, 2006.

(24) Shareholdings of members of the Supervisory Board and Executive Board (as of September 30, 2006)

Dr. Arend Oetker indirectly holds a total of 1,650,010 shares in KWS SAAT AG. All together, the members of the Supervisory Board hold 1,650,600 shares in KWS SAAT AG.

Dr. Dr. h.c. Andreas J. Büchting holds 100,020 shares in KWS SAAT AG.

(25) Audit of the annual financial statements

On January 18, 2006, the Annual Shareholders' Meeting of KWS SAAT AG elected the accounting firm Deloitte & Touche GmbH, Hanover, to be the Group's auditors for fiscal year 2005/2006.

For fiscal year 2006/2007, fees for consulting services (excluding auditing) of €100 thousand are expected.

Fee paid to the external auditors under section 314 sentence 1 no. 9 of the HGB	**T€**
a) Audit of the consolidated financial statements	566
b) Certification and valuation services	41
c) Tax consulting	41
d) Other services	3
Total fee paid in 2005/06	**651**

(26) Declaration of compliance with the German Corporate Governance Code

KWS SAAT AG has issued the declaration of compliance with the German Corporate Governance Code required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made this accessible to its shareholders.

(27) Related party disclosures

As part of its operations, KWS procures goods and services worldwide from a large number of business partners, including companies in which KWS has an interest. Business dealings with these companies are always conducted on an arm's length basis; from the KWS Group's perspective, these dealings have not been material. As part of Group financing, short-term loans are taken out from and granted to subsidiaries at market interest rates. A total of 14 shareholders declared to KWS SAAT AG in 2002 that as a result of mutual allocations, they respectively hold more than 50% of the voting rights. No other related parties have been identified for whom there is a special reporting requirement under IAS 24.

(28) Supervisory Board and Executive Board of KWS SAAT AG

SUPERVISORY BOARD

Dr. Carl-Ernst Büchting
Einbeck
Honorary Chairman

Dr. Guenther H. W. Stratmann
Düsseldorf
Attorney-at-law
Chairman

Membership of other legally mandated Supervisory Boards:
apetito AG, Rheine (Deputy Chairman)
AGCO GmbH, Marktoberdorf
Membership of comparable German and foreign oversight boards:
apetito catering GmbH, Rheine (Deputy Chairman)

Dr. Arend Oetker
Berlin
Businessman
Deputy Chairman

Membership of other legally mandated Supervisory Boards:
Schwartau GmbH & Co. KGaA, Bad Schwartau (Chairman)
Degussa AG, Düsseldorf
Merck KGaA, Darmstadt
Membership of comparable German and foreign oversight boards:
Hero AG, Lenzburg (President)
Bâloise Holding AG, Basel
TT-Line GmbH, Hamburg (Chairman)
E. Gundlach GmbH & Co. KG, Bielefeld
Leipziger Messe GmbH, Leipzig
Berliner Philharmonie GmbH, Berlin (Chairman)

Philip von dem Bussche
Bad Essen
Farmer
Until September 30, 2005

Goetz von Engelbrechten
Uelzen
Farmer
Since November 7, 2005

Membership of other legally mandated Supervisory Boards:
Nordzucker AG, Braunschweig

Eckhard Halbfaß
Einbeck
Farmer
Member of the Works Council of KWS SAAT AG

Jürgen Kunze
Einbeck
Chairman of the Works Council of KWS SAAT AG

Prof. Dr. Ernst-Ludwig Winnacker
Munich
President of Deutsche Forschungsgemeinschaft (DFG – German Research Foundation)

Membership of other legally mandated Supervisory Boards:
Bayer AG, Leverkusen
MediGene AG, Munich
Wacker Chemie AG, Munich

EXECUTIVE BOARD

Dr. Dr. h.c. Andreas J. Büchting
Einbeck
Chairman
Corporate Affairs, R&D

Membership of other legally mandated Supervisory Boards:
Conergy AG, Hamburg

Dr. Christoph Amberger
Northeim
Corn, Cereals, Marketing

Philip von dem Bussche
Einbeck
Sugar Beet, New Markets / Products
Since October 1, 2005

Dr. Hagen Duenbostel
Einbeck
Finance, Managerial Accounting, IT

(29) Significant subsidiaries and affiliated companies

A list of shareholdings of KWS SAAT AG is filed with the Commercial Register of the Göttingen District Court (HR B 130986).

Sugar beet

100 % BETASEED INC[2]
Shakopee, MN/USA
100 % KWS FRANCE S,A,R,L,
Roye/France
100 % DELITZSCH PFLANZENZUCHT GMBH[11]
Winsen(Aller)
100 % KWS RUS O,O,O,[14]
Moscow/Russian Federation
100 % KWS ITALIA S,P,A,
Forli/Italy
100 % KWS POLSKA SP,Z O,O,
Poznan/Poland
100 % KWS SCANDINAVIA AB[11]
Stockholm/Sweden
100 % KWS SEMILLAS IBERICA S,L,[11]
Barcelona/Spain
100 % SEMILLAS KWS CHILE LTDA,
Santiago de Chile/Chile
100 % KWS SEME YU D,O,O,
Belgrad/Serbia and Montenegro
100 % SEMENA AG
Basel/Switzerland
100 % ACH SEEDS INC,[4]
Eden Prairie, MN/USA
100 % BETASEED FRANCE S,A,R,L,[4]
Sarreguemines/France
100 % KWS UKRAINE TOW,[14]
Kiew/Ukraine
67 % KWS TÜRK TARIM TICARET A,S,[11]
Eskisehir/Turkey
100 % PAN TOHUM ISLAH[11/13/15]
VE ÜRETME A,S,
Ankara/Turkey

Corn

90 % KWS MAIS GMBH
Einbeck
100 % KWS BENELUX B,V,[5]
Amsterdam/Netherlands
100 % KWS SEMENA S,R,O,[5]
Zahorska Ves/Slovakia
100 % KWS MAIS FRANCE S,A,R,L,[5]
Sarreguemines/France
100 % KWS AUSTRIA SAAT GMBH [5]
Linz/Austria
100 % KWS SEMINTE S,R,L,[5]
Bukarest/Romania
100 % KWS SJEME D,O,O,[5]
Zagreb/Croatia
100 % KWS OSIVA S,R,O,[5]
Velke Mezirici/Czech Republic
100 % KWS SEMENA BULGARIA E,O,O,D,[5]
Sofia/Bulgaria
100 % AGROMAIS SAATZUCHT GMBH[5]
Everswinkel
95,7 % KWS ARGENTINA S,A,[5]
Balcarce/Argentina
51 % RAZES HYBRIDES S,A,R,L,[3]
Alzonne/France
50 % AGRELIANT GENETICS LLC,[6] **
Westfield, IND/USA
50 % AGRELIANT GENETICS INC, **
Chatham, Ontario/Canada
50 % KWS RAGT HYBRID KFT,[7] **
Györ/Hungary

Cereals

81 % LOCHOW-PETKUS GMBH
Bergen
100 % CPB TWYFORD LTD, [8]
Thriplow/Great Britain
100 % LOCHOW-PETKUS POLSKA SP,Z O,O, [8]
Kondratowice/Poland
49 % SOCIETE DE MARTINVAL S,A, [9] **
Mons-en-Pévèle/France

Breeding & Services

100 % PLANTA ANGEWANDTE PFLANZENGENETIK UND BIOTECHNOLOGIE GMBH ***
Einbeck
100 % KWS INTERSAAT GMBH
Einbeck
100 % KWS SEEDS INC, [10]
Shakopee, MN/USA
100 % GLH SEEDS, INC, [2]
Shakopee, MN/USA
100 % KWS SAATFINANZ GMBH
Einbeck
100 % RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH
Einbeck
44,5 % SAKA-RAGIS PFLANZEN-ZUCHT GBR [12] *
Hamburg
35,8 % SAKA RAGIS AGRARPRODUKTE GMBH & CO KG [12] *
Hamburg
100 % KWS KLOSTERGUT WIEBRECHTSHAUSEN GMBH
Northeim-Wiebrechtshausen
100 % EURO HYBRID GESELLSCHAFT FÜR GETREIDEZÜCHTUNG mbH
Einbeck

* Carrying amount equals proportion of equity held under section 312 of the HGB (equity accounting)
** Proportionate consolidation
*** Profit transfer agreement
1) The percentages stated relate to the interest held by the parent
2) Subsidiary of KWS SEEDS INC.
3) Subsidiary of KWS FRANCE S.A.R.L.
4) Subsidiary of BETASEED INC.
5) Subsidiary of KWS MAIS GMBH
6) Investee of GLH SEEDS, INC.
7) Investee KWS MAIS GMBH
8) Subsidiary of LOCHOW-PETKUS GMBH
9) Participation of LOCHOW-PETKUS GMBH
10) Subsidiary of KWS INTERSAAT GMBH and KWS SAAT AG
11) Subsidiary of KWS INTERSAAT GMBH
12) Participation of RAGIS KARTOFFELZUCHT- & HANDELSGESELLSCHAFT MBH
13) Participation of KWS SAAT AG and KWS TÜRK TARIM TICARET A.S.
14) Subsidiary of EURO HYBRID GMBH and KWS SAATFINANZ GMBH
15) Participation of EURO HYBRID GMBH and KWS SAATFINANZ GMBH

June 30, 2006

(30) Proposal for the appropriation of net retained profits

A share split in the ratio of 1:10 was carried out in the year under review. A proposal will be made to the Annual Share-holders' Meeting that an amount of €7,920,000.00 of KWS SAAT AG's net retained profit of €7,940,000.00 should be distributed as a dividend of €1.00 (€12.00), plus an anniversary bonus of €0.20 to mark KWS' 150th year, for each of the 6,600,000 (660,000) shares.

The balance of €20,000.00 is to be carried forward to the new account.

Einbeck, October 12, 2006

KWS SAAT AG Executive Board

A. Büchting C. Amberger P. von dem Bussche H. Duenbostel

Auditors' Report

We have audited the annual financial statements of the KWS Group – consisting of the Balance Sheet, the Income Statement, the Notes, the Cash Flow Statement, the Statement of Changes in Equity and Segment reporting – and the Group Management Report for the fiscal year from July 1, 2005, to June 30, 2006, all of which were prepared by KWS SAAT AG, Einbeck. The preparation of the consolidated financial statements and Group Management Report according to the International Financial Reporting Standards (IFRS) as applicable in the EU, and in addition according to the commercial law regulations to be applied pursuant to section 315a (1) of the HGB (German Commercial Code), is the responsibility of the Executive Board of the company. Our task, on the basis of the audit we have conducted, is to give an opinion on the consolidated financial statements and the Group Management Report.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Certified Public Accountants). According to these standards, the audit must be planned and executed in such a way that misstatements and violations materially affecting the presentation of the view of the assets, financial position and earnings conveyed by the consolidated financial statements, taking into account the applicable regulations on orderly accounting, and by the Group Management Report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal operating environment of the Group and evaluations of possible errors are taken into account. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are evaluated mainly on the basis of test samples within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the companies consolidated, the accounting and consolidation principles used and any significant estimates made by the Executive Board, as well as the evaluation of the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

On the basis of our audit, we have no reservations to note.

In our opinion pursuant to the findings gained during the audit, the consolidated financial statements of KWS SAAT AG, Einbeck, comply with the IFRS as applicable in the EU, and in addition with the commercial law regulations to be applied pursuant to section 315a (1) of the HGB (German Commercial Code) and give a true and fair view of the assets, financial position and earnings of the Group, taking into account these regulations. The Group Management Report accords with the consolidated financial statements, conveys overall an accurate view of the Group's position and accurately presents the opportunities and risks of future development.

Hannover, October 12, 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. F. Beine)
Auditor

(T. Römgens)
Auditor

Corporate Governance Report

The KWS Group is committed to positive and responsible corporate governance. Providing transparent and timely information to our shareholders and the public is a key part of this. The Executive Board and Supervisory Board of KWS implement the main elements of the standards of the Corporate Governance Code and report annually on the company's corporate governance. Any changes or deviations from the code's recommendations are explained and published. In the notes to the consolidated financial statements, we also report on the compensation system for the Executive and Supervisory Boards, the shares owned by members of the bodies and the independence and payment structure of the auditor.

Compliance declaration:

I. The Executive Board and Supervisory Board of KWS SAAT AG declare in compliance with section 161 AktG (German Stock Corporation Act) that – with the exception of the points stated under II – the company

- has complied with the recommendations of the German Corporate Governance Code in the version dated June 2, 2005, since the last compliance declaration on November 23, 2005, and
- complies and will comply in the future with the recommendations of the German Corporate Governance Code in the version dated June 12, 2006, which was published on July 24, 2006 in the Electronic Federal Gazette.

II. During the 2005/2006 fiscal year, KWS SAAT AG did not implement the following provisions of the code:

The deductible recommended by clause 3.8 GCCG in the D & O insurance coverage for the Supervisory and Executive Boards is still not provided for in the policy in question.

An Audit Committee in conformance with clause 5.3.2 GCCG has not been established. Instead regular and intensive discussions are conducted between the Chairman of the Supervisory Board, the Executive Board and the statutory auditors. The five other members of the Supervisory Board are also included appropriately.

The GCCG recommends (clause 7.1.2) that consolidated financial statements and interim reports be published within 90 days and 45 days respectively. Observance of the recommended publication deadlines is not ensured because of the seasonal course of business. The company therefore refrains from preparing an abridged version of the consolidated financial statements and moving up their publication.

Einbeck, October 30, 2006

The Supervisory Board

The Executive Board

Annual Shareholders’ Meeting on December 14, 2006

The Company’s Executive Board hereby invites you to the

Annual Shareholders’ Meeting
on Thursday, December 14, 2006, at 11 a.m.,

at the Company’s premises in 37574 Einbeck, Grimsehlstraße 31, Germany.

AGENDA

1. Presentation of the approved financial statements of KWS SAAT AG, the financial statements of the KWS Group (consolidated financial statements) approved by the Supervisory Board, the Management Reports for KWS SAAT AG and the KWS Group for the fiscal year from July 1, 2005, to June 30, 2006, and the report of the Supervisory Board

2. Resolution on the appropriation of the net retained profit

3. Resolution on the granting of discharge to the Executive Board

4. Resolution on the granting of discharge to the Supervisory Board

5. Appointment of the independent auditor for fiscal year 2006/2007