Interim Report of the KWS Group
Fiscal Year 2005/2006

July 1, 2005, to March 31, 2006

150 YEARS KWS ••• 150 YEARS KWS ••• 150 YEARS KWS

KWS

KWS SAAT AG

Report of the Executive Board

Dear shareholders and friends of KWS,

The seasonal nature of the seed business is particularly clear in the third quarter. Seen as an average over many years, we achieve some 60% of our total annual net sales in this period, since our main generators of revenue – sugar beet and corn – are sown in the spring. In the third quarter of the current fiscal year, we sold seed worth around €311 million. All in all, we anticipate that the net sales volume of the KWS Group for fiscal 2005/2006 will exceed the €500 million mark for the first time ever.

In the sugar beet segment, by March 31 we had already achieved €175 million, or around 85% of net sales for the year. By contrast, corn is usually sown at the end of the sowing period, with the result that net sales for the corn segment are €178 million at March 31, just around 75% of anticipated net annual sales.

Operating profit (EBIT) at March 31 was an above-average €71 million due to seasonal factors and will be reduced by research and development expenditures and structural costs in the fourth quarter. Due to the strains on profits in the sugar beet and cereals segments described in the last quarterly report, we still expect that our operating profit will be down some 20% from the previous year (€56.3 million)*. The anticipated increase in net sales in the corn segment will not yet compensate for this drop. Structural costs in Southern and Southeast Europe, which are higher than in the previous year, have led to a clear reduction in the segment results.

Finance income/expenses reflects both interest income from investment of liquid funds and interest expense from financing the company's operations. The figure for income tax expenses was obtained by applying the effective tax rate expected for the fiscal year as a whole to the pre-tax profits for the first nine months.

* The figures in parentheses give the corresponding values for the previous year

Income statement

€ millions	3rd quarter 05/06	3rd quarter 04/05	1st to 3rd quarter 05/06	1st to 3rd quarter 04/05
Net sales	310.9	292.3	402.2	383.9
Operating income	120.6	113.4	71.2	80.0
Net financial income/expenses	−0.2	−0.2	−2.0	−1.7
Result of ordinary activities	120.4	113.2	69.2	78.3
Income taxes	43.4	38.8	25.9	26.4
Net income for the year	77.0	74.4	43.3	51.9
Minority interest	1.5	1.1	1.4	2.2
Net income after minority interest	75.5	73.3	41.9	49.7
Earnings per share (€)	**11.44**	**11.12**	**6.35**	**7.55**

The individual segments

Sugar beet

The downgrading of quota sugar and reduction of sugar production in the 25 EU states – in particular in Italy – due to reform of the sugar market regime will entail a reduction of over 25% in the sugar beet cultivation area, to around 1.6 million hectares in the growing season 2006. At the same time, the cultivation of sugar beet for industrial use (bioethanol and industrial alcohol) has been markedly expanded. Overall, beet is cultivated this year on an area of 1.75 (2.21) million hectares in the 25 EU states.

The decline in net sales in the EU, due largely to the reduction in areas under cultivation, will be around 17% for the year at KWS, while net sales outside the EU will rise by about 12%. There are signs of significant growth in the Ukraine, Turkey, Russia and China. As a result, net sales for the segment at March 31 are €174.7 (180.2) million, just €5.5 million lower year-on-year. By contrast, profit for the segment is strained over-proportionately by the drop in market volume in the 25 EU states and by a higher cost structure in relation to sales outside the EU. At €36.6 (43.6) million, segment profit is well above the level of the total year due to seasonal influences. We expect operating profit for the sugar beet segment at June 30 to be down by over 26% (€31 million).

Corn

Net sales at June 30 in the corn segment is expected to increase by just over 10% compared to the previous year and is already €177.8 (152.5) million at March 31. The rise is driven by growth in North America and Western Europe. In the markets of Southern and Southeast Europe – above all in Italy – KWS does not yet have adequate market penetration, despite its good varieties. Further measures were therefore needed to expand sales structures in these markets. Although the segment's profit at the end of the third quarter increased year-on-year to €16.2 (15.5) million, it will remain at the previous year's level at June 30, especially since higher structural costs and increased competitive pressure in North America are putting a greater strain on profits.

Cereals

Seed for summer cereals worth €6.4 million was sold in the cereals segment in the third quarter, as a result net sales at March 31 rose overall to €44.0 (45.4) million. Over the whole year, we expect the volume of net sales to fall by around 6%. Profit in the segment is strained by the lower contribution margin from hybrid rye business and by additional taxes. The tax authorities will retroactively levy value-added tax on seed licensing business at the rate of 16%, instead of the 7% rate on seed up to now. This retroactive levy will mean that Lochow-Petkus will not be able to pass on the subsequent tax claims to its customers in full. The effect of value-added tax will be fully absorbed in this year's segment profit; however, its profit will fall by half as a result.

Capital expenditure

In the first nine months, KWS invested €17.3 (26.5) million, of which €15.0 (18.3) million was in property, plant and equipment. It is therefore showing capital expenditure well above depreciation of €12.5 (11.9) million.

Out of total capital expenditure within the KWS Group, more than 35% was spent in the corn segment and over 30% in the breeding & services segment. Over 70% of all capital expenditure was made in Europe, more than half of that in Germany.

Our biggest single investments in property, plant and equipment were the corn processing plants in France and North America. Seed processing includes the cleaning, quality testing, calibration and seed treatment of the raw product. These highly developed processes contribute greatly to seed quality.

Intangible assets increased overall by €2.2 million. This was due to the goodwill from the acquisition of the remaining share of our British cereals company, CPB TWYFORD LTD., Thriplow, and necessary expenditures for data processing software.

Segment report

€ millions	3rd quarter 05/06	3rd quarter 04/05	1st to 3rd quarter 05/06	1st to 3rd quarter 04/05
Net sales	**310.9**	**292.3**	**402.2**	**383.9**
Sugar beet	145.6	147.5	174.7	180.2
Corn	156.6	135.7	177.8	152.5
Cereals	6.4	4.9	44.0	45.4
Breeding & services	2.3	4.2	5.7	5.8
Operating income	**120.6**	**113.4**	**71.2**	**80.0**
Sugar beet	45.8	47.5	36.6	43.6
Corn	39.0	34.6	16.2	15.5
Cereals	–1.5	–2.4	2.9	4.9
Breeding & services	37.3	33.8	15.5	16.0
Capital expenditure	**3.3**	**16.7**	**17.3**	**26.5**
Sugar beet	1.2	0.8	2.9	2.9
Corn	0.7	10.4	6.1	13.3
Cereals	0.0	0.1	2.4	1.2
Breeding & services	1.4	5.4	5.9	9.1

Basis of accounting and reporting

The KWS Group is a consolidated group as defined in the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), London, taking into account the interpretations of the International Financial Reporting Committee (IFRIC). The interim report of the KWS Group was prepared in accordance with IAS 34, and exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2005, were used, although separate disclosure of the profit from affiliated companies was dispensed with for the accurate presentation of the financial position and performance. The Notes appended to the annual financial statements as of June 30, 2005, therefore apply accordingly. The income taxes were calculated on the basis of the individual country-specific income tax rates, taking account of the planning for the fiscal year as a whole.

Companies consolidated in the KWS Group

The interim report of the KWS Group includes the separate financial statements of KWS SAAT AG and its subsidiaries in Germany and other countries in which it directly or indirectly controls more than 50% of the voting rights. In addition, joint ventures are proportionately consolidated, according to the percentage of equity held in those companies. Subsidiaries and joint ventures that are considered immaterial for the presentation and evaluation of the financial position and performance of the Group are not included.

Through the first consolidation of KWS UKRAINE T.O.W., Kiev/Ukraine, effective July 1, 2005, the scope of consolidation expanded by one fully consolidated company.

Balance Sheet of the KWS Group

€ millions	March 31, 2006	June 30, 2005
Assets		
Intangible assets	29.4	28.9
Biological assets	0.1	0.1
Property, plant and equipment	145.5	142.0
Investments in affiliated companies	6.1	6.0
Other long-term investments	8.6	8.6
Deferred tax assets	13.6	12.8
Assets	**203.3**	**198.4**
Inventories	138.6	106.1
Trade receivables	268.0	190.4
Marketable securities	3.9	20.8
Cash and cash equivalents	35.0	32.0
Other current assets	24.3	24.7
Current assets	**469.8**	**374.0**
Total assets	**673.1**	**572.4**
Equities and Liabilities		
Subscribed capital	19.8	17.0
Capital reserve	5.5	5.5
Retained earnings	314.1	283.4
Minority interests	19.5	20.7
Equity	**358.9**	**326.6**
Long-term provisions	68.9	69.3
Long-term borrowings	7.8	7.9
Deferred tax liabilities	16.5	16.8
Other long-term liabilities	1.1	1.1
Noncurrent liabilities	**94.3**	**95.1**
Short-term provisions	72.9	56.6
Short-term borrowings	32.2	21.0
Trade payables	52.7	37.4
Current tax payables	28.8	8.3
Other liabilities	33.3	27.4
Current liabilities	**219.9**	**150.7**
Liabilities	**314.2**	**245.8**
Total equity and liabilities	**673.1**	**572.4**

Inventories at March 31, 2006, also include the processed and marketable certified seed for the fourth quarter following a good harvest in 2005; of this, almost two thirds is attributable to corn inventories and one quarter to sugar beet seed. Given sales opportunities necessitated additional obsolescence adjustments, which related primarily to the corn segment.

Trade receivables of €268 million were reported at March 31 on net sales of more than €310 million in the third quarter. Short-term loans of €11.2 million were required to finance business operations.

The increase in short-term provisions by €16.3 million and in trade payables is mainly due to the sales-related license costs and the research and development expenditure that still has to be charged. The cause of the €20 million rise in current tax payables is the profit for the third quarter.

Cash Flow Statement

€ millions	1st to 3rd quarter 2005/2006	2004/2005
Net income for the year	**43.3**	**51.9**
Cash earnings according to DVFA/SG	**49.1**	**61.5**
Cash used for net current assets	–46.4	–90.8
Net cash from operating activities	**2.7**	**–29.3**
Net cash from investing activities	**–18.2**	**–24.0**
Net cash from financing activities	**2.7**	**55.5**
Change in cash and cash equivalents	–12.8	2.2
Cash and cash equivalents at beginning of period	52.9	58.3
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	–1.2	–4.2
Cash and cash equivalents at end of period	**38.9**	**56.3**

Net cash outflow from investing activities of €18.2 million includes capital expenditure on property, plant and equipment in the sum of €15.0 million and the acquisition of the remaining share (26%) of our British cereals company, CPB TWYFORD LTD., Thriplow. Successful management of accounts receivable resulted in less cash being tied up for working capital, which improved net cash from operating activities by a total of €32 million.

Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2004	**274.8**	**19.2**	**294.0**
Dividends paid	–7.3	–0.5	–7.8
Changes in consolidation scope	0.7	–0.1	0.6
Other changes	0.0	0.0	0.0
Consolidated net profit	49.8	2.1	51.9
Other gains (losses)	–3.5	–0.1	–3.6
Total consolidated gains (losses)	**46.3**	**2.0**	**48.3**
Balance as at March 31, 2005	**314.5**	**20.6**	**335.1**
Balance as at June 30, 2005	**305.9**	**20.7**	**326.6**
Dividends paid	–7.9	–0.5	–8.4
Changes in consolidation scope	0.2	–1.8	–1.6
Other changes	0.0	–0.5	–0.5
Consolidated net profit	41.9	1.4	43.3
Other gains (losses)	–0.7	0.2	–0.5
Total consolidated gains (losses)	**41.2**	**1.6**	**42.8**
Balance as at March 31, 2006	**339.4**	**19.5**	**358.9**

The changes in equity reflect the profit for the third quarter. Pursuant to the resolution adopted by the Shareholders Meeting on January 18, 2006, KWS SAAT AG paid dividends totaling €7.9 million to its shareholders. The minority interests in the KWS Group's reported equity were reduced by a total of €1.2 million due to the profits and acquisition of the remaining share of CPB TWYFORD LTD.

Employees*

	1st to 3rd quarter 2005/2006	2004/2005
Germany	1,158	1,131
Europe (excluding Germany)	582	552
America	699	646
Other countries	66	170
Total	**2,505**	**2,499**

* at quarter end

Significant events after March 31, 2006

KWS SAAT AG was admitted to Prime Standard on the Frankfurt Stock Exchange effective April 5, 2006, after the share had been split in the ratio of 1:10 on March 20, 2006. The shares have thus become more visible and attractive to a larger investor community. As a result of listing in Prime Standard, we now meet all the formal criteria for admission to the SDAX index.

Outlook

Fiscal year 2005/2006 is shaped on the whole by the effects of the reform of the European sugar market regime, which will be reflected in the segment's net sales and profits and the Group's profits. This impact will continue in the coming fiscal year 2006/2007, i.e. the second year of the reform. Nevertheless, positive trends are emerging in the **sugar beet** segment: our growth of more than 12% in markets outside the European Union and the numerous initiatives relating to alternative use of sugar beet in the industrial sector. The share of sugar beet area earmarked for producing alcohol and ethanol in France is already 25%. Bioethanol plants are also in the planning stage in Germany which will require an area of around 40,000 hectares to supply them in the midterm, i.e. over 10% of the cultivation area.

International demand for renewable sources of energy is creating new opportunities for growth, above all in the **corn** segment. For instance, our new energy corn variety ATLETICO has excellent biomass potential for biogas plants in Germany. There is also growing demand for high-yielding rape hybrids for the production of biodiesel.

Last but not least, following the extraordinary pressure on profits in the current fiscal year we expect a more positive business development again in the **cereals** segment – in Germany and in other European markets.

The 150th anniversary of our company's founding will be celebrated this fall with a "KWS Family Fest." We have invited 300 employees of the whole KWS Group to come to Einbeck in early September; most of them will be guests of their German colleagues. Among other things, they will take a bicycle tour together with all Einbeck-based KWS employees – a total of about 1,300 people. The motto of the event is "KWS YOUnited!"

On October 31, 2006, we will publish the financial statements 2005/2006 for the KWS Group. On December 14, 2006, we will then welcome our shareholders to the Annual Shareholders' Meeting, which will again take place at the company's premises in Einbeck.

Einbeck, May 31, 2006

KWS SAAT AG

THE EXECUTIVE BOARD

A. Büchting
Ch. Amberger

P. von dem Bussche
H. Duenbostel