Semiannual Report of the KWS Group
Fiscal Year 2006/2007

July 1 to December 31, 2006

KWS

KWS SAAT AG

Report of the Executive Board

Dear shareholders and friends of KWS,

In the first half of the year, the KWS Group posted net sales of around € 91 million, on a par with the previous year. While sugar beet seed business was restrained due to an impending reduction in quotas by the EU Commission, the product segments of cereals and corn recorded year-on-year increases. Above all, sales of rapeseed and rye hybrids developed very well as a result of the fall sowing season. 47 (41)*% of these net sales in the first half of the year was generated by the cereals segment, 25 (23)% by the corn segment, including oil seed, and 25 (32)% by sugar beet. For the year as a whole, we expect the KWS Group to again post a slight increase in sales volume over the previous year (€ 505 million).

Operating income (EBIT) remains negative at € –44.7 million due to seasonal factors, but up some 10% year-on-year. Apart from a more profitable cereals business, this is due to structural adjustments in the sugar beet segment. The lower income from corn over the previous year is attributable to the continued expansion of sales activities. This strain is eased by a reduction in all functional costs in the US dollar zone due to exchange rate factors. Overall, we assume that we will be able to maintain this income trend in the second half of the year.

Finance income/expenses reflects both interest income from investment of the net cash balance at June 30, 2006, and interest expense from financing the company's operations. The figure for income tax expenses was obtained by applying the effective tax rate for the fiscal year as a whole to the pre-tax profits for the half year. Pursuant to the change in tax law (SEStEG = Societas Europaea Introductory Act) at December 31, 2006, a credit balance of around € 7 million in corporate income tax resulting from the change from the imputation method to the "half-income method" had to be carried as assets. This tax income from other periods means that the tax rate is below 30% and entails a stronger increase in net income for the year than expected.

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

Income statement

€ millions	2nd quarter 06/07	2nd quarter 05/06	1st half year 06/07	1st half year 05/06
Net sales	39.5	49.4	91.4	91.3
Operating income	–24.6	–24.7	–44.7	–49.4
Net financial income/expenses	–0.6	–1.2	–1.5	–1.8
Result of ordinary activities	–25.2	–25.9	–46.2	–51.2
Income taxes	–16.1	–10.5	–23.9	–17.5
Net income for the year	–9.1	–15.4	–22.3	–33.7
Minority interest	0.3	0.6	0.4	–0.1
Net income after minority interest	–9.4	–16.0	–22.7	–33.6
Earnings per share (€)	**–1.41**	**–2.42**	**–3.44**	**–5.09**

The individual segments

Net sales for the sugar beet segment in the first half of the year amounted to € 22.8 (29.1) million. The decline of 22% is mainly attributable to orders being deferred until the third quarter. Farmers have considerably delayed their decision on whether to cultivate sugar beet, in particular in the area covered by the European Sugar Market Regime. There has as yet been no comprehensive voluntary discontinuation of production on the part of the sugar industry, so an obligatory reduction in areas was to be expected. Then, on February 22, 2007, in its Management Committee for Sugar, the EU Commission decided to reduce production volumes by 13.5% for the sugar marketing year 2007/2008 – i.e. effective as of the sugar beet sowing year 2007. This reduction applies in particular to member states that have not yet returned quotas to the restructuring fund. That means that only 86.5% percent of the quota can be used in Germany, France, the UK and other major producer countries. Anything produced above and beyond that must be sold as industrial sugar.

The drop in net sales in the first half of the year did not fully impact the segment's income thanks to the structural adjustments that had been initiated. The segment's operating income amounts to € –10.2 (–9.3) million – 10% below the previous year.

The corn segment profited in the first six months from a further rise in sales of our high-yielding rapeseed hybrids. The increase in net sales for the segment to € 23.0 (21.2) million is mainly attributable to this product group. Profit for the segment of € –24.3 (–22.8) million reflects the higher structural costs in Southern and Southeast Europe and North America, which – due to seasonal factors – are not offset by net sales.

Our cereals business posted net sales of € 42.8 (37.6) million, a clear increase year-on-year due to improvement in the hybrid rye business. Seen as an average over many years, this segment generates some 75% of its net sales volume from winter sowing. Operating income for the segment was € 7.2 (4.4) million, a figure that will fall in the second half of the fiscal year, given no reduction in costs and lower sales. A strong strain was placed on the figure for the previous year by the familiar value-added tax effects.

Capital expenditure

In the first quarter, KWS invested € 9.9 (11.0) million in property, plant and equipment. It is therefore showing capital expenditure above depreciation of € 7.1 (7.3) million.

Out of total capital expenditure of € 10.5 (14.0) million within the KWS Group, around 42% was in the breeding & services segment and 25% in the corn segment. Some 65% of all capital expenditure was made in Europe, more than half of it in Germany.

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

Segment report

€ millions	2nd quarter 06/07	2nd quarter 05/06	1st half year 06/07	1st half year 05/06
Net sales	**39.5**	**49.4**	**91.4**	**91.3**
Sugar beet	15.9	18.7	22.8	29.1
Corn	9.0	13.7	23.0	21.2
Cereals	13.2	15.0	42.8	37.6
Breeding & services	1.4	2.0	2.8	3.4
Operating income	**–24.6**	**–24.7**	**–44.7**	**–49,4**
Sugar beet	–6.8	–8.9	–10.2	–9.3
Corn	–13.4	–10.1	–24.3	–22.8
Cereals	2.0	3.0	7.2	4.4
Breeding & services	–6.4	–8.7	–17.4	–21.7
Capital expenditure	**4.6**	**3.8**	**10.5**	**14.0**
Sugar beet	1.0	0.2	2.3	1.7
Corn	0.9	2.1	2.7	5.4
Cereals	0.5	0.1	1.1	2.4
Breeding & services	2.2	1.4	4.4	4.5

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 semiannual financial statements of the KWS Group were prepared in accordance with IAS 34, and have not been examined by an auditor or undergone a complete statutory audit. Exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2006, 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, 2006, 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 consolidated half-year financial statements of the KWS Group include the separate financial statements of KWS SAAT AG and its subsidiaries in Germany and other countries in which it directly or indirectly controls more than 50% of the voting rights. In addition, joint ventures are proportionately consolidated, according to the percentage of equity held in those companies. Subsidiaries and joint ventures that are considered immaterial for the presentation and evaluation of the financial position and performance of the Group are not included.

The companies consolidated in the KWS Group have been reduced by one fully consolidated company as a result of the merger of our two Turkish subsidiaries. Our Hungarian subsidiary KWS Magyarország Vetomagtermelo és Forgalmazó Kft is now fully consolidated following takeover of the remaining shares in it effective July 1, 2006. As a result, a total of 40 companies will be fully consolidated and three (four) proportionately consolidated in 2006/2007, while two companies will still be included at equity in the consolidated financial statements.

Balance Sheet of the KWS Group

€ millions	December 31, 2006	June 30, 2006
Assets		
Intangible assets	30.0	30.3
Property, plant and equipment	146.7	144.2
Investments in affiliated companies	6.1	6.1
Other long-term investments	15.3	8.0
Deferred tax assets	16.9	15.1
Assets	**215.0**	**203.7**
Inventories	178.5	108.7
Trade receivables	70.5	184.6
Marketable securities	4.2	13.3
Cash and cash equivalents	65.3	42.3
Other current assets	44.7	24.4
Current assets	**363.2**	**373.3**
Total assets	**578.2**	**577.0**
Equities and Liabilities		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	262.3	294.1
Minority interests	19.2	18.6
Equity	**306.8**	**338.0**
Long-term provisions	69.5	69.6
Long-term borrowings	5.6	6.4
Deferred tax liabilities	17.0	16.9
Other long-term liabilities	0.9	1.0
Noncurrent liabilities	**93.0**	**93.9**
Short-term provisions	56.5	66.8
Short-term borrowings	31.6	4.9
Trade payables	54.4	38.7
Current tax payables	9.8	12.6
Other liabilities	26.1	22.1
Current liabilities	**178.4**	**145.1**
Liabilities	**271.4**	**239.0**
Total equity and liabilities	**578.2**	**577.0**

The increase in inventories is due to the absorption of the new harvest in 2006 and processing of it to produce certified seed that could be sold. Lower inventories compared to the previous year and the good quality of the 2006 harvest necessitated lower additional adjustments totaling € 2.4 (5.5) million.

Successful accounts receivable management resulted in a large reduction in trade receivables of € 70.5 million following € 184.6 million at July 30, 2006, on net sales of € 91.4 million in the first half of the year. Additional short-term loans of € 26.7 million were also required to finance business operations, resulting in a net cash balance of € 32.3 million at December 31, 2006.

The increase in other current assets of € 20.3 million is mainly due to claims for tax refunds pursuant to the negative profit for the half year.

Cash Flow Statement

€ millions	1st half year 2006/2007	2005/2006
Net income for the year	**–22.3**	**–33.7**
Cash earnings according to DVFA/SG	**–16.8**	**–29.6**
Cash used for net current assets	28.2	18.5
Net cash from operating activities	**11.4**	**–11.1**
Net cash from investing activities	**–13.8**	**–15.3**
Net cash from financing activities	**16.3**	**35.9**
Change in cash and cash equivalents	13.9	9.5
Cash and cash equivalents at beginning of period	55.6	52.9
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	0.0	0.3
Cash and cash equivalents at end of period	**69.5**	**62.7**

Net cash outflow from investing activities of € 13.8 million includes capital expenditure on property, plant and equipment in the first quarter in the sum of € 9.9 million, final payments for such expenditures initiated in 2005/2006, and acquisition of the remaining shares (50%) in our Hungarian corn company.

Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2005	**305.5**	**20.7**	**326.2**
Dividends paid	0.0	–0.3	–0.3
Changes in consolidation scope	0.2	–1.8	–1.6
Other changes	0.0	–0.4	–0.4
Consolidated net profit	–33.6	–0.1	–33.7
Other gains (losses)	1.6	–0.1	1.5
Total consolidated gains (losses)	**–31.8**	**–2.7**	**–34.5**
Balance as at December 31, 2005	**273.7**	**18.0**	**291.7**
Balance as at June 30, 2006	**319.4**	**18.6**	**338.0**
Dividends paid	–7.9	–0.2	–8.1
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net profit	–22.7	0.4	–22.3
Other gains (losses)	–1.2	0.4	–0.8
Total consolidated gains (losses)	**–23.9**	**0.8**	**–23.1**
Balance as at December 31, 2006	**287.6**	**19.2**	**306.8**

The changes in equity reflect the negative profit for the half year. Pursuant to the resolution adopted by the Annual Shareholders' Meeting on December 14, 2006, KWS SAAT AG paid a dividend of € 1.00 per share plus a € 0.20 anniversary bonus to its shareholders, i.e. a total of € 7.9 million.

Employees*

	1st half year 2006/2007	2005/2006
Germany	1,087	1,111
Europe (excluding Germany)	518	476
America	872	764
Other countries	78	41
Total	**2,555**	**2,392**

* at quarter end

Of the above number, 560 (351) employees are included according to the percentage of equity held in the companies that employ them. It relates to 1,121 (703) employees of three (four) proportionately consolidated associated companies.

Outlook

KWS generates 80% of its net sales in the third and fourth quarters, above all from its main products sugar beet and corn. The quota reduction by the EU for the sugar marketing year 2007/2008 was within our expectations, with the result that we stand by our forecast for the sugar beet segment of as much as 10% lower net sales. Segment income will stabilize compared with the previous year due to the fact that structural adjustments will begin to gain traction. While no reliable statement can be made on the anticipated performance of our corn business at the start of the selling season, higher costs have been incurred as the result of the further expansion of our sales activities. Taking into account the good level of cereals business, a slight increase in sales volume and a clear improvement in income are anticipated for the KWS Group.

Changes on the Executive Board

Dr. Léon Broers began his work 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 from Andreas J. Büchting on July 1, 2007. This change will help prepare the way for the retirement of Andreas J. Büchting as Chairman of the Executive Board at the next Annual Shareholders' Meeting (December 13, 2007), as announced at the most recent Annual Shareholders' Meeting. The position of Chairman will then be assumed by Philip von dem Bussche.

The report on the third quarter will be published on May 30, 2007, at www.kws.com.

Einbeck, February 28, 2007

KWS SAAT AG

The Executive Board

A. Büchting

Ch. Amberger

P. von dem Bussche

H. Duenbostel

L. Broers (deputy)

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