Segments of the KWS Group

Sugar beet
KWS SAAT AG
As well as 16 subsidiaries and affiliated companies* Net sales € 205.4 Mio
Operating income € 24.9 Mio

Corn
KWS MAIS GMBH
As well as 14 subsidiaries and affiliated companies Net sales € 242.2 Mio
Operating income € 10.4 Mio

Cereals
LOCHOW-PETKUS GMBH
As well as three subsidiaries and affiliated companies Net sales € 50.2 Mio
Operating income € 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 income € 9.6 Mio

*RSubsidiaries and affiliated companies see page 68

Table of contents

Chairman’s Foreword .................................................................................................................. 7
The KWS share .......................................................................................................................... 8
Spotlight topic: The power of plants ......................................................................................... 12
Report of the Supervisory Board .............................................................................................. 14
Report on the performance of the KWS Group ........................................................................ 18
Segments Overview
Sugar beet segment .................................................................................................................. 24
Corn segment ............................................................................................................................. 26
Cereals segment ....................................................................................................................... 28
Breeding & services segment .................................................................................................. 32
Outlook for the 2006/2007 fiscal year ..................................................................................... 34
Risks for future development ................................................................................................... 35
Employees .................................................................................................................................. 38
Annual Financial Statements of the KWS Group ...................................................................... 41
Auditor’s Report ......................................................................................................................... 70
Corporate Governance Report ................................................................................................ 71
Agenda of the Annual Shareholders’ Meeting ......................................................................... 72
### Key Figures of the KWS Group

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>2005/06</th>
<th>2004/05</th>
<th>2003/04</th>
<th>2002/03*</th>
<th>2001/02*</th>
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<tbody>
<tr>
<td><strong>Figures in millions of €</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net sales</td>
<td>505.0</td>
<td>495.3</td>
<td>444.5</td>
<td>424.3</td>
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<td>Operating income as a % of net sales</td>
<td>46.7</td>
<td>56.3</td>
<td>52.3</td>
<td>50.0</td>
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<td>Net income as a % of net sales</td>
<td>28.4</td>
<td>34.8</td>
<td>29.8</td>
<td>28.9</td>
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<td>Cash flow (after tax)</td>
<td>42.4</td>
<td>47.0</td>
<td>43.0</td>
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<td>Equity</td>
<td>338.0</td>
<td>326.2</td>
<td>294.0</td>
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<td>Equity ratio in %</td>
<td>58.6</td>
<td>57.0</td>
<td>59.5</td>
<td>52.5</td>
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<td>Balance sheet total</td>
<td>577.0</td>
<td>572.4</td>
<td>494.4</td>
<td>431.0</td>
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<td>Return on equity in %</td>
<td>8.9</td>
<td>10.8</td>
<td>10.1</td>
<td>14.2</td>
<td>15.4</td>
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<td>Return on assets in %</td>
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<td>6.5</td>
<td>7.2</td>
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<td>Fixed assets</td>
<td>188.6</td>
<td>185.6</td>
<td>169.2</td>
<td>120.7</td>
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<td>Capital expenditure</td>
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<td>36.9</td>
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<td>Depreciation</td>
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<td>16.8</td>
<td>16.7</td>
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<td>Average number of employees</td>
<td>2,652</td>
<td>2,550</td>
<td>2,516</td>
<td>2,336</td>
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<td>Personnel costs</td>
<td>109.1</td>
<td>101.4</td>
<td>98.3</td>
<td>97.0</td>
<td>97.8</td>
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<tr>
<td>Performance of KWS shares in €</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest price</td>
<td>62.70**</td>
<td>570</td>
<td>470</td>
<td>451</td>
<td>450</td>
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<tr>
<td>Highest price</td>
<td>87.40**</td>
<td>769</td>
<td>684</td>
<td>535</td>
<td>540</td>
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<tr>
<td>Dividend per share</td>
<td>1.00</td>
<td>12.00</td>
<td>11.00</td>
<td>11.00</td>
<td>11.00</td>
</tr>
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</table>

* Financial statements according to HGB
** Value after the 1:10 share split
Chairman’s Foreword

“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 YOUnted” 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.
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 2005/06. 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.

Earning figures

<table>
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<tr>
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<tbody>
<tr>
<td>Earnings per share</td>
<td>4.27</td>
<td>5.09</td>
</tr>
<tr>
<td>Cash flow per share</td>
<td>6.52</td>
<td>7.12</td>
</tr>
<tr>
<td>Equity per share</td>
<td>44.55</td>
<td>49.42</td>
</tr>
<tr>
<td>Dividend</td>
<td>1.10</td>
<td>1.20</td>
</tr>
</tbody>
</table>

*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.

**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. Future 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 envisaged. 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 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 2004, 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 our breeding program for energy corn. As a result, we have already positioned ourselves as a market leader in this field.

**Biofuels – biodiesel, bioethanol and biogas – are the blockbusters in agricultural markets, particularly in view of rising prices for fossil fuels.**

**Energy from plants with the KWS Group product range**

<table>
<thead>
<tr>
<th>Product</th>
<th>Yield/ha</th>
<th>kWh/ha</th>
<th>Car km/ha</th>
</tr>
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<tbody>
<tr>
<td>Biodiesel</td>
<td>1,200 l</td>
<td>10,500</td>
<td>16,000</td>
</tr>
<tr>
<td>Bioethanol</td>
<td>2,500 l</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Biogas</td>
<td>19,000 m³</td>
<td>105,000</td>
<td>130,000</td>
</tr>
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**Energy potential from energy plants**

<table>
<thead>
<tr>
<th>Renewable</th>
<th>Yield/ha</th>
<th>kWh/ha</th>
<th>Car km/ha</th>
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<tr>
<td>Biodiesel</td>
<td>1,200 l</td>
<td>10,500</td>
<td>16,000</td>
</tr>
<tr>
<td>Bioethanol</td>
<td>2,500 l</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Biogas</td>
<td>19,000 m³</td>
<td>105,000</td>
<td>130,000</td>
</tr>
</tbody>
</table>

**Energy plants create mobility**

- **Biodiesel 1,200 l**
- **Bioethanol 1,450 l**
- **BTL (Biomass to liquid) 3,100 l**
- **Biogas 10,000 l**
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 period 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

Report of the Supervisory Board

Dr. Guenther H. W. Stratmann
Chairman of the Supervisory Board
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.
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 napseed varieties are also profiting from greater international demand for biocfuels. We were quick to recognize these opportunities for growth and prepared for them in our breeding and sales activities.

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 €2.8 million to €36.9 (39.1) million and amounted to 7.3% (7.9)% of net sales.

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 income under pressure

The operating income 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 incomes 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 income. 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 income 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 37.0 (30.5)% 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 as a result of hedging 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%.

Embeck has been the home of KWS SAAT AG for more than 60 years. Some 800 employees work in Embeck, in particular in research, breeding and sugar beet seed processing, as well as in sales and administration.
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 %. The KWS Group 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 €90.9 (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

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. Deducing 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 €17.0 (16.8) million and other third-party goods and services of €78.8 (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 (23.7) 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

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 extent 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.
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 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.

Corn segment sales in millions of €

<table>
<thead>
<tr>
<th></th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>43.0</td>
<td>48.7</td>
<td>55.3</td>
</tr>
<tr>
<td>Foreign</td>
<td>148.3</td>
<td>168.9</td>
<td>186.9</td>
</tr>
<tr>
<td>Total</td>
<td>191.3</td>
<td>217.6</td>
<td>242.2</td>
</tr>
</tbody>
</table>

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

“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

Report on the performance of the KWS Group | Cereals segment | 29

<table>
<thead>
<tr>
<th>Domestic sales</th>
<th>Total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>2004/05</td>
</tr>
<tr>
<td>30.3</td>
<td>27.5</td>
</tr>
<tr>
<td>22.4</td>
<td>24.9</td>
</tr>
<tr>
<td>52.7</td>
<td>52.4</td>
</tr>
<tr>
<td>Foreign sales</td>
<td>Total sales</td>
</tr>
<tr>
<td>Domestic sales</td>
<td>Foreign sales</td>
</tr>
<tr>
<td>2003/04</td>
<td>2004/05</td>
</tr>
<tr>
<td>30.3</td>
<td>27.5</td>
</tr>
<tr>
<td>22.4</td>
<td>24.9</td>
</tr>
<tr>
<td>52.7</td>
<td>52.4</td>
</tr>
</tbody>
</table>

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.
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 an approval for ATLETICO from the Bundesamt (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. However, the necessary open-land production of seed for this is being carried out exclusively in the U.S.

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 cooperations 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 profit 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.

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 2006/2007 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 ethan-ol 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 bio-ethanol, the goal of producing beet sugar at competitive prices will be difficult to achieve.

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.

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 pro-duced 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 mil-lion 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.
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.

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.”
### Balance Sheet at June 30, 2006

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Note No.</th>
<th>June 30, 2006</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>(2)</td>
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<td>28,923</td>
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<tr>
<td>Property, plant and equipment</td>
<td>(3)</td>
<td>144,236</td>
<td>142,051</td>
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<tr>
<td>Investments in affiliated companies</td>
<td>(4)</td>
<td>6,074</td>
<td>6,045</td>
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<tr>
<td>Other financial assets</td>
<td>(5)</td>
<td>7,991</td>
<td>8,586</td>
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<tr>
<td>Deferred tax assets</td>
<td>(6)</td>
<td>15,074</td>
<td>12,768</td>
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<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td><strong>203,714</strong></td>
<td><strong>198,373</strong></td>
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</table>

**Noncurrent assets**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>(7)</td>
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<tr>
<td>Trade receivables</td>
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<tr>
<td>Available-for-sale securities</td>
<td>(9)</td>
<td>13,298</td>
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<tr>
<td>Cash and cash equivalents</td>
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<tr>
<td>Other current assets</td>
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<td>24,368</td>
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<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>577,023</strong></td>
</tr>
</tbody>
</table>

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

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

Values in € thousands, unless otherwise specified

<table>
<thead>
<tr>
<th>Gross values</th>
<th>Amortization/depreciation</th>
<th>Net book values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance 07/01/2005</td>
<td>Currency translation group</td>
</tr>
<tr>
<td></td>
<td>Changes in</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the consol.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Balance 06/30/2006</td>
<td></td>
</tr>
<tr>
<td>Patents, industrial property rights, and software</td>
<td>14,464</td>
<td>–97</td>
</tr>
<tr>
<td>Goodwill</td>
<td>48,621</td>
<td>–503</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>63,085</td>
<td>–600</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>135,092</td>
<td>–1,221</td>
</tr>
<tr>
<td>Technical equipment and machinery</td>
<td>110,527</td>
<td>–1,368</td>
</tr>
<tr>
<td>Operating and office equipment</td>
<td>55,073</td>
<td>–1,022</td>
</tr>
<tr>
<td>Payments on account</td>
<td>6,038</td>
<td>–41</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>306,730</td>
<td>–3,652</td>
</tr>
<tr>
<td>Affiliated companies</td>
<td>6,045</td>
<td>0</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>8,586</td>
<td>0</td>
</tr>
<tr>
<td>Financial assets</td>
<td>14,631</td>
<td>0</td>
</tr>
<tr>
<td>Assets</td>
<td>384,446</td>
<td>–4,252</td>
</tr>
</tbody>
</table>
## Statements of Changes in Equity

Values in € thousands, unless otherwise specified

<table>
<thead>
<tr>
<th></th>
<th>Parent Company</th>
<th>Minority Interests</th>
<th>Group Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Comprehensive</td>
<td>Comprehensive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other Group Income</td>
<td>Other Group Income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Subscribed capital</td>
<td>Adjusted equity from currency translation</td>
<td>Other transactions</td>
</tr>
<tr>
<td></td>
<td>Capital reserve</td>
<td>earnings</td>
<td>translation</td>
</tr>
<tr>
<td><strong>Balance as at June 30, 2004</strong></td>
<td>17,000</td>
<td>5,530</td>
<td>255,127</td>
</tr>
<tr>
<td>Changes in the consolidated group</td>
<td>683</td>
<td>683</td>
<td>683</td>
</tr>
<tr>
<td>Other changes</td>
<td>260</td>
<td>260</td>
<td>260</td>
</tr>
<tr>
<td>Consolidated net income</td>
<td>33,588</td>
<td>33,588</td>
<td>33,588</td>
</tr>
<tr>
<td>Other recognized gains (losses)</td>
<td>3,603</td>
<td>226</td>
<td>3,829</td>
</tr>
<tr>
<td>Change in accounting policy</td>
<td>–400</td>
<td>–400</td>
<td>–400</td>
</tr>
<tr>
<td><strong>Total consolidated gains (losses)</strong></td>
<td>33,588</td>
<td>3,603</td>
<td>37,171</td>
</tr>
<tr>
<td><strong>Balance as at June 30, 2005</strong></td>
<td>17,000</td>
<td>5,530</td>
<td>281,455</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–7,920</td>
<td>–7,920</td>
<td>–7,920</td>
</tr>
<tr>
<td>Changes in the consolidated group</td>
<td>219</td>
<td>219</td>
<td>219</td>
</tr>
<tr>
<td>Other changes</td>
<td>2,800</td>
<td>2,800</td>
<td>2,800</td>
</tr>
<tr>
<td>Consolidated net income</td>
<td>27,439</td>
<td>27,439</td>
<td>27,439</td>
</tr>
<tr>
<td>Other recognized gains (losses)</td>
<td>–5,284</td>
<td>–427</td>
<td>–5,711</td>
</tr>
<tr>
<td>Change in accounting policy</td>
<td>27,439</td>
<td>27,439</td>
<td>21,728</td>
</tr>
<tr>
<td><strong>Total consolidated gains (losses)</strong></td>
<td>–5,284</td>
<td>–427</td>
<td>–5,711</td>
</tr>
<tr>
<td><strong>Balance as at June 30, 2006</strong></td>
<td>19,800</td>
<td>5,530</td>
<td>298,174</td>
</tr>
</tbody>
</table>
### Cash Flow Statement

#### Note 2005/06 Previous year

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (including minority interest) before extraordinary items</td>
<td>€28,367</td>
<td>€34,784</td>
</tr>
<tr>
<td>Depreciation/reversal of impairment losses (+) on property, plant, and equipment</td>
<td>€16,377</td>
<td>€16,774</td>
</tr>
<tr>
<td>Increase/decrease (+) in long-term provisions</td>
<td>–58</td>
<td>–653</td>
</tr>
<tr>
<td>Other noncash expenses/income (-)</td>
<td>–7,218</td>
<td>–3,064</td>
</tr>
<tr>
<td>Cash earnings according to DVFA/SG</td>
<td>€37,468</td>
<td>€47,235</td>
</tr>
</tbody>
</table>

Increase/decrease (-) in short-term provisions
Net gain (+)/loss from the disposal of assets
Increase (+)/decrease in inventories, trade receivables, and other assets not attributable to investing or financing activities
Increase/decrease (-) in trade payables and other liabilities not attributable to investing or financing activities

#### (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) and interest expense of €3,013 thousand (€2,224 thousand). Income tax payments amounted to €13,874 thousand (€24,567 thousand).

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposals of property, plant, and equipment</td>
<td>€1,062</td>
<td>€2,477</td>
</tr>
<tr>
<td>Payments (+) for capital expenditure on property, plant, and equipment</td>
<td>–16,669</td>
<td>–23,169</td>
</tr>
<tr>
<td>Proceeds from the disposal of intangible assets</td>
<td>9</td>
<td>152</td>
</tr>
<tr>
<td>Payments (+) for capital expenditure on intangible assets</td>
<td>–1,247</td>
<td>–3,996</td>
</tr>
<tr>
<td>Proceeds from disposal of financial assets</td>
<td>244</td>
<td>2,198</td>
</tr>
<tr>
<td>Payments (+) for financial assets</td>
<td>–320</td>
<td>–381</td>
</tr>
<tr>
<td>Proceeds from the disposal of consolidated companies and other business units</td>
<td>0</td>
<td>218</td>
</tr>
<tr>
<td>Payments (+) for the acquisition of consolidated companies and other business units</td>
<td>–3,175</td>
<td>–7,635</td>
</tr>
</tbody>
</table>

Net cash from operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposals of property, plant, and equipment</td>
<td>€1,062</td>
<td>€2,477</td>
</tr>
<tr>
<td>Dividend payments (+) to shareholders parent and minority</td>
<td>–8,964</td>
<td>–7,805</td>
</tr>
<tr>
<td>Proceeds from issuing bonds and borrowings</td>
<td>16,245</td>
<td>41,182</td>
</tr>
<tr>
<td>Payments (+) to redeem bonds and borrowings</td>
<td>–33,727</td>
<td>–25,759</td>
</tr>
</tbody>
</table>

Net cash from financing activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash changes in cash and cash equivalents</td>
<td>€6,871</td>
<td>€10,237</td>
</tr>
<tr>
<td>– Effect of exchange rate changes on assets</td>
<td>1,942</td>
<td>–1,234</td>
</tr>
<tr>
<td>– Effect of exchange rate changes on equity</td>
<td>–5,836</td>
<td>3,993</td>
</tr>
<tr>
<td>– Others</td>
<td>–212</td>
<td>2,045</td>
</tr>
</tbody>
</table>

Changes in cash and cash equivalents due to exchange rate, consolidated group, and measurement changes

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>€52,855</td>
<td>€58,288</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>€55,620</td>
<td>€52,855</td>
</tr>
</tbody>
</table>

#### (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 (€4,927 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.

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposals of property, plant, and equipment</td>
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<td>€2,477</td>
</tr>
<tr>
<td>Proceeds from the disposal of intangible assets</td>
<td>9</td>
<td>152</td>
</tr>
<tr>
<td>Proceeds from the disposal of consolidated companies and other business units</td>
<td>0</td>
<td>218</td>
</tr>
<tr>
<td>Payments (+) for the acquisition of consolidated companies and other business units</td>
<td>–3,175</td>
<td>–7,635</td>
</tr>
<tr>
<td>Total amount of all purchase prices</td>
<td>0</td>
<td>7,635</td>
</tr>
<tr>
<td>Total amount of sales prices</td>
<td>0</td>
<td>2,265</td>
</tr>
<tr>
<td>Total amount of all cash and cash equivalents acquired with the companies</td>
<td>0</td>
<td>127</td>
</tr>
</tbody>
</table>

#### (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.

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from issuing bonds and borrowings</td>
<td>€16,245</td>
<td>€41,182</td>
</tr>
<tr>
<td>Payments (+) for financial assets</td>
<td>–320</td>
<td>–381</td>
</tr>
<tr>
<td>Proceeds from the disposal of intangible assets</td>
<td>9</td>
<td>152</td>
</tr>
<tr>
<td>Payments (+) for the acquisition of consolidated companies and other business units</td>
<td>–3,175</td>
<td>–7,635</td>
</tr>
<tr>
<td>Total amount of all purchase prices</td>
<td>0</td>
<td>7,635</td>
</tr>
<tr>
<td>Total amount of sales prices</td>
<td>0</td>
<td>2,265</td>
</tr>
<tr>
<td>Total amount of all cash and cash equivalents acquired with the companies</td>
<td>0</td>
<td>127</td>
</tr>
</tbody>
</table>

#### (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

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of all purchase prices</td>
<td>0</td>
<td>9,468</td>
</tr>
<tr>
<td>Total amount of sales prices</td>
<td>0</td>
<td>218</td>
</tr>
<tr>
<td>Total amount of cash and cash equivalents acquired with the companies</td>
<td>0</td>
<td>2,265</td>
</tr>
<tr>
<td>Total amount of all cash and cash equivalents sold with the companies</td>
<td>0</td>
<td>127</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>0</td>
<td>1,799</td>
</tr>
<tr>
<td>Current assets, incl. prepaid expenses (excluding cash and cash equivalents)</td>
<td>0</td>
<td>12,673</td>
</tr>
<tr>
<td>Provisions</td>
<td>0</td>
<td>850</td>
</tr>
<tr>
<td>Liabilities, incl. deferred income</td>
<td>0</td>
<td>14,239</td>
</tr>
</tbody>
</table>

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.
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 stover 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-PET-KUS 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-PET-KUS 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 KARTOFFEL-ZUCHT- & 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 AGRA-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 SAATFANZ 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

<table>
<thead>
<tr>
<th>Segment</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar beet</td>
<td>205,377</td>
<td>217,908</td>
<td>217,908</td>
<td>205,369</td>
<td>217,908</td>
</tr>
<tr>
<td>Corn</td>
<td>242,487</td>
<td>217,842</td>
<td>238</td>
<td>242,241</td>
<td>217,604</td>
</tr>
<tr>
<td>Cereals</td>
<td>52,624</td>
<td>54,645</td>
<td>2,426</td>
<td>2,267</td>
<td>50,198</td>
</tr>
<tr>
<td>Breeding &amp; services</td>
<td>103,328</td>
<td>110,382</td>
<td>96,178</td>
<td>102,946</td>
<td>7,150</td>
</tr>
<tr>
<td>KWS Group</td>
<td>603,816</td>
<td>600,777</td>
<td>98,858</td>
<td>105,451</td>
<td>504,958</td>
</tr>
</tbody>
</table>

#### Internal sales

<table>
<thead>
<tr>
<th>Segment</th>
<th>2005/06</th>
<th>2006/07</th>
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<td>600,777</td>
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<td>504,958</td>
</tr>
</tbody>
</table>

#### External sales

<table>
<thead>
<tr>
<th>Segment</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
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<td>KWS Group</td>
<td>603,816</td>
<td>600,777</td>
<td>98,858</td>
<td>105,451</td>
<td>504,958</td>
</tr>
</tbody>
</table>

### Segment sales by region

<table>
<thead>
<tr>
<th>Region</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>121,803</td>
<td>124,628</td>
</tr>
<tr>
<td>Europe (excluding Germany)</td>
<td>224,616</td>
<td>230,590</td>
</tr>
<tr>
<td>Americas</td>
<td>130,909</td>
<td>117,550</td>
</tr>
<tr>
<td>Rest of world</td>
<td>27,630</td>
<td>22,558</td>
</tr>
<tr>
<td>Total</td>
<td>504,958</td>
<td>495,326</td>
</tr>
</tbody>
</table>

The breeding & services segment generates 93.1 % (90.3 %) 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 %).

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.
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 a separate account under intangible assets.

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 amortized cost. 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

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th></th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Foreign</td>
<td>Total</td>
</tr>
<tr>
<td>Consolidated</td>
<td>11</td>
<td>29</td>
<td>40</td>
</tr>
<tr>
<td>Consolidated at quota</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>34</td>
<td>44</td>
</tr>
<tr>
<td>At-equity</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>33</td>
<td>46</td>
</tr>
</tbody>
</table>

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., Roves, 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 € 651 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**

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent assets</td>
<td>28,171</td>
<td>26,690</td>
</tr>
<tr>
<td>Current assets</td>
<td>71,306</td>
<td>61,569</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>99,477</td>
<td>88,259</td>
</tr>
<tr>
<td>Equity</td>
<td>48,031</td>
<td>44,301</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>821</td>
<td>1,983</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>50,625</td>
<td>41,975</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>99,477</td>
<td>88,259</td>
</tr>
</tbody>
</table>

**Companies carried at-equity**

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent assets</td>
<td>21,236</td>
<td>20,202</td>
</tr>
<tr>
<td>Current assets</td>
<td>11,102</td>
<td>11,254</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>32,338</td>
<td>31,456</td>
</tr>
<tr>
<td>Equity</td>
<td>20,097</td>
<td>20,226</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>6,026</td>
<td>6,944</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>6,215</td>
<td>4,306</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>32,338</td>
<td>31,456</td>
</tr>
</tbody>
</table>

**Net sales**

- 107,218 €
- 92,804 €

**Net profit for the year**

- 9,823 €
- 10,024 €

**Properties, 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.

**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 AGROPRAKTONE 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.

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

(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.

The benefit obligations changed as follows during the fiscal year:

(8) Current receivables
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.

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

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.

The remaining maturities of currency hedges are less than one year. 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.

The remaining maturities of currency hedges are less than one year. 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.

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).

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.

<table>
<thead>
<tr>
<th>Long-term provisions</th>
<th>07/01/2005</th>
<th>Changes in the consol. group</th>
<th>Addition</th>
<th>Consumption</th>
<th>Reversal</th>
<th>06/30/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions provisions</td>
<td>65,602</td>
<td>0</td>
<td>5,003</td>
<td>4,599</td>
<td>427</td>
<td>65,579</td>
</tr>
<tr>
<td>Other provisions</td>
<td>4,076</td>
<td>−38</td>
<td>232</td>
<td>243</td>
<td>16</td>
<td>4,011</td>
</tr>
<tr>
<td></td>
<td><strong>69,678</strong></td>
<td><strong>−38</strong></td>
<td><strong>5,235</strong></td>
<td><strong>4,842</strong></td>
<td><strong>443</strong></td>
<td><strong>69,590</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short-term provisions</th>
<th>07/01/2005</th>
<th>Changes in the consol. group</th>
<th>Addition</th>
<th>Consumption</th>
<th>Reversal</th>
<th>06/30/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligations from sales transaction</td>
<td>17,730</td>
<td>−243</td>
<td>17,466</td>
<td>12,658</td>
<td>3,496</td>
<td>18,799</td>
</tr>
<tr>
<td>Obligations from purchase transaction</td>
<td>23,282</td>
<td>−53</td>
<td>33,912</td>
<td>23,510</td>
<td>291</td>
<td>33,340</td>
</tr>
<tr>
<td>Other obligations</td>
<td>15,623</td>
<td>−213</td>
<td>10,430</td>
<td>10,659</td>
<td>524</td>
<td>14,670</td>
</tr>
<tr>
<td></td>
<td><strong>56,645</strong></td>
<td><strong>−509</strong></td>
<td><strong>61,811</strong></td>
<td><strong>46,827</strong></td>
<td><strong>4,311</strong></td>
<td><strong>66,809</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(13) Current liabilities</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>06/30/2006</td>
</tr>
<tr>
<td>Trade payables to affiliates</td>
<td>336</td>
</tr>
<tr>
<td>Trade payables</td>
<td>38,391</td>
</tr>
<tr>
<td>Trade payables</td>
<td>36,727</td>
</tr>
<tr>
<td>Current liabilities to banks</td>
<td>2,719</td>
</tr>
<tr>
<td>Current liabilities to affiliates</td>
<td>523</td>
</tr>
<tr>
<td>Current liabilities to investors and investors</td>
<td>0</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>1,698</td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>4,940</td>
</tr>
<tr>
<td>Current provisions</td>
<td>66,809</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>12,554</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>22,105</td>
</tr>
<tr>
<td></td>
<td><strong>145,135</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(14) Contingent liabilities</th>
<th>Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>06/30/2006</td>
</tr>
<tr>
<td>Obligations under rental agreements and leases</td>
<td>06/30/2006</td>
</tr>
<tr>
<td>Currency hedges</td>
<td>32,629</td>
</tr>
<tr>
<td>Due in fiscal year 2006/07</td>
<td>5,001</td>
</tr>
<tr>
<td>Interest-rate hedges</td>
<td>76,226</td>
</tr>
<tr>
<td>Due 2007/08 through 2010/11</td>
<td>9,056</td>
</tr>
<tr>
<td>Due after 2010/2011</td>
<td>1,570</td>
</tr>
<tr>
<td></td>
<td><strong>108,855</strong></td>
</tr>
</tbody>
</table>

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.
(17) Other operating income

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

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.

(18) Other operating expenses

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:

<table>
<thead>
<tr>
<th>Previous</th>
<th>Deferred tax assets</th>
<th>Deferred tax liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005/06</td>
<td>06/30/2006</td>
<td>06/30/2006</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>45 77</td>
<td>496 579</td>
</tr>
<tr>
<td>Biological assets</td>
<td>0 0</td>
<td>5 5</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>77 18</td>
<td>13,460 14,505</td>
</tr>
<tr>
<td>Financial assets</td>
<td>365 170</td>
<td>367 539</td>
</tr>
<tr>
<td>Inventories</td>
<td>5,840 4,483</td>
<td>197 165</td>
</tr>
<tr>
<td>Current assets</td>
<td>1,103 811</td>
<td>1,783 197</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>585 718</td>
<td>533 640</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>4,846 5,999</td>
<td>30 196</td>
</tr>
<tr>
<td>Tax loss carry-forward</td>
<td>1,304 84</td>
<td>0 0</td>
</tr>
<tr>
<td>Other current transactions</td>
<td>309 408</td>
<td>51 8</td>
</tr>
<tr>
<td>Deferred taxes recognized</td>
<td>15,074 12,766</td>
<td>16,922 16,836</td>
</tr>
</tbody>
</table>

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.

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:

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:

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

*Tax rate in Germany 38.1% 38.1%

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

(21) Personnel costs / employees

<table>
<thead>
<tr>
<th>2005/06</th>
<th>Vorjahr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>86,722 80,606</td>
</tr>
<tr>
<td>Social security contributions, expenses for pension plans and benefits</td>
<td>22,343 20,821</td>
</tr>
<tr>
<td>Expenses for pension plans and benefits</td>
<td>4,798 4,788</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>109,065 101,427</strong></td>
</tr>
</tbody>
</table>

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.

Shares issued to employees under share purchase plans

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares issued (No.)</td>
<td>206</td>
<td>239</td>
<td>250</td>
<td>279</td>
<td>284</td>
</tr>
<tr>
<td>Cost of acquisition per share in €</td>
<td>699</td>
<td>565</td>
<td>492</td>
<td>431</td>
<td>489</td>
</tr>
<tr>
<td>Preferred price when purchasing one share in €</td>
<td>546</td>
<td>440</td>
<td>336</td>
<td>297</td>
<td>296</td>
</tr>
<tr>
<td>Preferred price when purchasing two shares in €</td>
<td>1,227</td>
<td>1,015</td>
<td>828</td>
<td>748</td>
<td>746</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fixed</th>
<th>Performance-related</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>Dr. Guenther H. W. Stratmann*</td>
<td>24,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Dr. Arend Otter**</td>
<td>12,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Philip von dem Bussche***</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Goetz von Engelbrecht****</td>
<td>5,200</td>
<td>13,000</td>
</tr>
<tr>
<td>Eckard Habichal</td>
<td>8,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Jürgen Kunze</td>
<td>8,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Prof. Dr. Ernst-Ludwig Winnacker</td>
<td>8,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>67,200</strong></td>
<td><strong>167,900</strong></td>
<td><strong>235,100</strong></td>
</tr>
</tbody>
</table>

*Chairman **Deputy Chairman ***partially

Executive Board compensation 2005/06

<table>
<thead>
<tr>
<th>Fixed</th>
<th>Performance-related</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>Dr. Dr. h.c.</td>
<td>Andreas J. Büchting*</td>
<td>277,501.76</td>
</tr>
<tr>
<td>Dr. Christoph</td>
<td>Ambberger</td>
<td>177,489.16</td>
</tr>
<tr>
<td>Philip von dem Bussche**</td>
<td>127,803.63</td>
<td>174,298.00</td>
</tr>
<tr>
<td>Dr. Hagen</td>
<td>Duinrootel</td>
<td>173,677.32</td>
</tr>
<tr>
<td><strong>756,471.87</strong></td>
<td><strong>1,103,887.35</strong></td>
<td><strong>1,860,359.22</strong></td>
</tr>
</tbody>
</table>

*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 compensations 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 €213 thousand (€192 thousand) for consulting services.

(24) 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.

(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.

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

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

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

Dr. Arend Otter 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.

Dr. Dr. h.c. Andreas J. Büchting owns 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.
(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 13088).

<table>
<thead>
<tr>
<th>Sugar beet</th>
<th>Corn</th>
<th>Cereals</th>
<th>Breeding &amp; Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% BETASEED INC.</td>
<td>90% KWS MAIS GMBH</td>
<td>90% KWS MAIS GMBH</td>
<td>100% LOCHNOW-PETKUS GMBH</td>
</tr>
<tr>
<td>2)</td>
<td>3)</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS AG</td>
<td>81% LOCHEW-PETKUS GMBH</td>
<td>100% DEP TRYPPERT LTD.</td>
<td>**</td>
</tr>
<tr>
<td>**</td>
<td>**</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% PECERINO GMBH</td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% KWS Interseeds, Inc.</td>
<td>100% KWS SEEDS INC.</td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% KWS SEMITAARGEBAU</td>
<td>100% KWS SEMITA S.A.R.L.</td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% KWS VERSATILE SEEDS GMBH</td>
<td>100% KWS VERSATILE SEEDS GMBH</td>
<td>**</td>
</tr>
<tr>
<td>100% KWS MAIS S.A.R.L.</td>
<td>100% KWS VERSATILE SEEDS GMBH</td>
<td>100% KWS VERSATILE SEEDS GMBH</td>
<td>**</td>
</tr>
<tr>
<td>95.7% KWS ARGENTINA S.A.</td>
<td>51% KWS ARGENTINA S.A.</td>
<td>51% KWS ARGENTINA S.A.</td>
<td>**</td>
</tr>
<tr>
<td>77.1% KWS ARGENTINA S.A.</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>**</td>
</tr>
<tr>
<td>77.1% KWS ARGENTINA S.A.</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>**</td>
</tr>
<tr>
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<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>**</td>
</tr>
<tr>
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<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>**</td>
</tr>
<tr>
<td>77.1% KWS ARGENTINA S.A.</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>50% AGREEMENTS GMBH &amp; CO KG</td>
<td>**</td>
</tr>
</tbody>
</table>

(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 Shareholders’ 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’s 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.
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.

Einbeck, October 30, 2006
The Supervisory Board
The Executive Board

We have audited 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

[Signatures]

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

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.

The GCGS 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
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.

A G E N D A

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

Disclaimer
This translation of the original German version of the annual report has been prepared for the convenience of our English-speaking shareholders. The German version is legally binding.