Quarterly Report of the KWS Group
Fiscal Year 2006/2007

July 1 to September 30, 2006

KWS

KWS SAAT AG

Report of the Executive Board

Dear shareholders and friends of KWS,

These quarterly financial statements are intended to provide you with information on our business performance in the first three months of fiscal 2006/2007. Our main sales in this period come from winter seed, such as rye, wheat and rapeseed, whereas corn and sugar beet – the main generators of revenue at the KWS Group – are not sown until the spring. Consequently, KWS generates an average of just 10 % of its annual net sales in the first quarter. Later planting due to weather conditions and the markedly seasonal nature of seed business mean that any comparison of the quarterly financial statements with those for the same period of the previous year are necessarily qualified and give no indication of development for the fiscal year as a whole.

Business performance

Net sales at the KWS Group in the first quarter were € 51.9 (41.9)* million. Above all, sales of our rye and rapeseed hybrids developed well. Around 57 % (54 %) of business was generated by the cereals segment, 27 % (18 %) by the oil seed product segment within the corn segment, and 13 % (25 %) by sugar beet seed. Operating income within the KWS Group was negative in the first quarter due to seasonal factors and is € -20.1 (-24.7) million, better than in the previous year as a result of higher sales.

Net financial income/expenses reflects both interest income from investment of the positive net cash balance at June 30, 2006, and interest expense from financing the company's operations. The figure for income tax expenses was obtained by applying the effective tax rate planned for the fiscal year as a whole to the pre-tax profits for the quarter.

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

Income statement

€ millions	1st quarter 2006/07	2005/06
Net sales	51.9	41.9
Operating income	–20.1	–24.7
Net financial income/expenses	–0.8	–0.6
Result of ordinary activities	–20.9	–25.3
Income taxes	–7.7	–7.0
Net income for the year	–13.2	–18.3
Minority interest	0.1	–0.7
Net income after minority interest	–13.3	–17.6
Earnings per share (€)	**–2.01**	**–2.67**

The individual segments

Net sales in the sugar beet segment are € 6.9 (10.4) million, down year-on-year due to the fact that some delivery dates fell in a different quarter. The anticipated effects in the second year of the european sugar market reform are not yet reflected in this result. Measures to cut the cost of production and selling expenses have already been initiated, but will only have an impact in the further course of the fiscal year. The segment's quarterly income of € -3.3 (-0.4) million therefore does not indicate any trend for the fiscal year as a whole.

By contrast, the selling season for winter rapeseed is already over. Our continued progress in this product category is reflected in the quarterly figures for the corn segment, where net sales are € 14.0 (7.6) million. The KWS Group's rapeseed varieties, some of which are distributed through the Lochow-Petkus Group, have now captured a market share of 15 % in Europe. Another positive factor is the continuing trend toward higher-yielding and thus higher-quality hybrid varieties. Despite the budgeted increase in selling expenses, the corn segment's income for the quarter is up year-on-year at € -10.9 (-12.7) million.

Winter cereals business has performed very well. Net sales are at € 29.6 (22.6) million or over 30 % up year-on-year, and profits even more than trebled to € 5.1 million following € 1.4 million in the previous year. This is mainly due to increased sales this fall of our hybrid rye varieties, which have a high contribution margin.

Capital expenditure

In the first quarter, KWS invested € 5.6 (7.7) million in property, plant and equipment. It is therefore showing capital expenditure well above depreciation of € 3.7 (3.9) million. Our biggest single investments in property, plant and equipment relate to a drying plant for processing corn seed in North America and a new logistics building at Einbeck.

Out of total capital expenditure of € 5.8 (10.2) million within the KWS Group, 38 % was in the breeding & services segment, 31 % in the corn segment, 21 % in the sugar beet segment and 10 % in cereals.

Segment report

	1st quarter	
€ millions	**2006/07**	**2005/06**
Net sales	**51.9**	**41.9**
Sugar beet	6.9	10.4
Corn	14.0	7.6
Cereals	29.6	22.6
Breeding & services	1.4	1.3
Operating income	**–20.1**	**–24.7**
Sugar beet	–3.3	–0.4
Corn	–10.9	–12.7
Cereals	5.1	1.4
Breeding & services	–11.0	–13.0
Capital expenditure	**5.8**	**10.2**
Sugar beet	1.2	1.5
Corn	1.8	3.3
Cereals	0.6	2.3
Breeding & services	2.2	3.1

Basis of accounting and reporting

The KWS Group is a consolidated group as defined in the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), London, taking into account the interpretations of the International Financial Reporting Committee (IFRIC). The quarterly financial statements of the KWS Group were prepared in accordance with IAS 34, and exactly the same accounting methods applied in the preparation of the consolidated financial statements as of June 30, 2006 were used. The Notes appended to the annual financial statements as of June 30, 2006, therefore apply accordingly. The income taxes were calculated on the basis of the individual country-specific income tax rates, taking account of the planning for the fiscal year as a whole.

Companies consolidated in the KWS Group

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

The companies consolidated in the KWS Group have been reduced by one fully consolidated company as a result of the merger of our two Turkish subsidiaries. Our Hungarian subsidiary will no longer be proportionately, but rather fully consolidated following takeover of the remaining shares in it. As a result, a total of 40 companies will be fully consolidated and three proportionately consolidated in 2006/2007, while two companies will still be included at equity in the consolidated financial statements.

Balance Sheet of the KWS Group

€ millions	September 30, 2006	June 30, 2006
Assets		
Intangible assets	30.3	30.3
Property, plant and equipment	146.8	144.2
Investments in affiliated companies	6.1	6.1
Other long-term investments	8.0	8.0
Deferred tax assets	15.8	15.1
Assets	**207.0**	**203.7**
Inventories	130.9	108.7
Trade receivables	172.0	184.6
Marketable securities	2.1	13.3
Cash and cash equivalents	13.2	42.3
Other current assets	32.5	24.4
Current assets	**350.7**	**373.3**
Total assets	**557.7**	**577.0**
Equities and Liabilities		
Subscribed capital	19.8	19.8
Capital reserve	5.5	5.5
Retained earnings	281.8	294.1
Minority interests	18.9	18.6
Equity	**326.0**	**338.0**
Long-term provisions	69.8	69.6
Long-term borrowings	5.8	6.4
Deferred tax liabilities	17.2	16.9
Other long-term liabilities	0.9	1.0
Noncurrent liabilities	**93.7**	**93.9**
Short-term provisions	39.0	66.8
Short-term borrowings	38.7	4.9
Trade payables	30.2	38.7
Current tax payables	11.2	12.6
Other liabilities	18.9	22.1
Current liabilities	**138.0**	**145.1**
Liabilities	**231.7**	**239.0**
Total equity and liabilities	**557.7**	**577.0**

The increase in inventories is due to the absorption of the new harvest in 2006. Inventories at the sugar beet segment are almost 30 % lower year-on-year, whereas they increased by 17 % in the corn segment in line with the growth in sales. Since seed are living goods, the customary risks of realization were reflected by additional adjustments totaling € 1.0 million, almost all of which related to the corn segment. The decrease in current liabilities is mainly due to payments received. Receivables at the corn segment were reduced in the first three months by € 30 million. The reduction in current provisions was primarily due to the payment of royalties that had been outstanding as of June 30.

Following this seasonal reduction in net profits, we can still report an almost unchanged equity ratio of around 59 % as of September 30, despite a negative operating profit for the quarter. Net financial liabilities as of September 30, 2006, amounted to € 29 (38) million, after a net balance of € 44 (24) million on June 30, 2006.

Cash Flow Statement

€ millions	1st quarter 2006/07	1st quarter 2005/06
Net income for the year	**–13.2**	**–18.3**
Cash earnings according to DVFA/SG	**–5.9**	**–15.3**
Cash used for net current assets	–57.6	–35.1
Net cash from operating activities	**–63.5**	**–50.4**
Net cash from investing activities	**–9.5**	**–11.6**
Net cash from financing activities	**31.7**	**35.1**
Change in cash and cash equivalents	–41.3	–26.9
Cash and cash equivalents at beginning of period	55.6	52.9
Changes in cash and cash equivalents due to exchanging rate, consolidated group and measurement changes	1.0	0.5
Cash and cash equivalents at end of period	**15.3**	**26.5**

Net cash outflow from investing activities of € 9.5 million includes capital expenditure on property, plant and equipment in the first quarter in the sum of € 5.6 million and the settlement of liabilities from investing activities of € 3.9 million from the last fiscal year.

Statements of Changes in Equity of KWS Group

€ millions	Group interests	Minority interests	Group equity
Balance as at June 30, 2005	**305.9**	**20.7**	**326.6**
Dividends paid	0.0	0.0	0.0
Changes in consolidation scope	0.0	0,0	0.0
Other changes	–0.2	–2.1	–2.3
Consolidated net profit	–17.6	–0.7	–18.3
Other gains (losses)	0.4	–0.2	0.2
Total consolidated gains (losses)	**–17.2**	**–0.9**	**–18.1**
Balance as at September 30, 2005	**288.5**	**17.7**	**306.2**
Balance as at June 30, 2006	**319.4**	**18.6**	**338.0**
Dividends paid	0.0	0.0	0.0
Changes in consolidation scope	0.0	0.0	0.0
Other changes	0.0	0.0	0.0
Consolidated net profit	–13.3	0.1	–13.2
Other gains (losses)	1.0	0.2	1.2
Total consolidated gains (losses)	**–12.3**	**0.3**	**–12.0**
Balance as at September 30, 2006	**307.1**	**18.9**	**326.0**

As in the previous year, the changes in equity reflect the negative profit for the quarter. No dividends were paid out in the period under review.

Employees*

	1st quarter 2006/07	2005/06
Germany	1,222	1,234
Europe (excluding Germany)	597	529
America	702	563
Other countries	57	189
Total	**2,578**	**2,515**

* at quarter end

Of the above number, 532 (350) employees are included according to the percentage of equity held in the companies that employ them. It relates to 1,066 (702) employees of three proportionately consolidated associated companies.

Outlook

Producers sold around 1.5 million tons of quota sugar in the first year of the European sugar market reform. The sugar industry has until the end of January 2007 to declare the extent to which the opt-out regulations as part of the restructuring fund will be utilized in the coming sugar year. The anticipated sugar beet cultivation area for the sowing season in spring 2007 cannot be estimated precisely ahead of these declarations of intent. Overall, we therefore still assume that sales for the segment will fall by 10 %. However, profits will not be strained to the same extent thanks to pinpointed cuts in the cost of production and selling expenses.

On the basis of positive sales of cereals and rapeseed and a further expansion in our corn business in the coming spring, we forecast that the KWS Group's net sales will still remain stable, with operating income improving slightly.

Miscellaneous

KWS has built up a network of partnerships with various national and international research institutions. A particularly successful collaboration has developed over the years with the University of Hohenheim. To mark our 150th anniversary, we have therefore established an endowed chair, the “F. W. Schnell Endowed Chair for Crop Biodiversity and Breeding Informatics.” Professor F.W. Schnell played a major role in introducing hybrid breeding in Germany.

For a total period of eight years, KWS and the University of Hohenheim will equally share the costs for personnel, materials and equipment for the endowed chair. The university has also pledged to continue funding the chair for at least eight more years after that.
The endowed chair will pursue a new direction that is unique in Europe. Its goal is to tap the immense natural diversity for breeding, with informatics will playing an essential role. The results of research in crop biodiversity and breeding informatics will have a major influence on how new breeding objectives are tackled in the future and promise to deliver important contributions to ensuring a sustainable basis for food and natural raw materials.

Apart from research, training and education are of great importance to plant breeding in Germany. With the endowed chair, KWS intends to promote the attractiveness of the subject of plant breeding and the potential of the discipline, as well as open up new paths in education by imparting not only technical know-how, but also social and leadership skills.

Our **Annual Shareholders' Meeting** will be held on **December 14, 2006,** at 11:00 a.m., as usual at the company's headquarters in Einbeck.

Einbeck, November 30, 2006

KWS SAAT AG

THE EXECUTIVE BOARD

A. Büchting   Ch. Amberger

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