Annual Report
2004/2005

150 Years KWS SAAT AG –
Changing Prospects over Time

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KWS

KWS SAAT AG

Annual Report
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150 Years of KWS SAAT AG –
Changing Prospects over Time

KWS

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

Chairman's Foreword

Dear Shareholders and friends of KWS,

In 2006 KWS will look back over **150 years of history.** Throughout this long journey, KWS has always seen itself as a reliable partner of the farming community. Seed is the crucial production tool of our customers and hence our maxim is: to develop innovative varieties to create economically interesting prospects – yesterday, today and for the future.

This 2004/2005 Annual Report surveys a markedly good financial performance. This is particularly gratifying in an anniversary year. KWS Group **sales and earnings** in the fiscal year outperformed the previous year and exceeded expectations. The KWS Group posted sales of €495 million. This represents an increase of 11.4 %. Above all, the corn segment showed a further positive trend and achieved the highest increase for the fifth consecutive year. Despite coming off a high level the sugar beet segment excelled once more, particularly in markets outside the jurisdiction of the EU Sugar Market Regime. In spite of a declining rye market, sales in the cereals segment remained stable due to our strong range of varieties. Overall, the KWS Group's operating result (EBIT) was €56.3 million, an increase of 7.7 %. Net income for the year rose by 17 % to €34.8 million.

Growth at KWS was driven mainly organically, but also through an acquisition. In December 2004 AgReliant – the joint venture founded in 2000 by KWS and our French partner company – acquired Producers Hybrids in Nebraska, a corn and soybean seed marketing company. This enables a continuous market penetration in the Western USA.

KWS has assumed a new role on the **capital market.** Until recently 90 % of the shares were in firm hands; now they are available to a wider circle of investors, because of this significant increase in the free float, from 8.2 % to 33.1 %. Südzucker AG and Hypovereinsbank decided to place their shares on the capital market in December 2004. To safeguard the interests of the company and our shareholders, we have been closely involved in the placement process. The altered shareholder structure has meant that the share's liquidity on the market has significantly increased, and more investors now participate in the success of the company. With our successful conversion to IFRS as well as the introduction of quarterly reports commencing the first quarter of fiscal 2005/2006, KWS has fulfilled the criteria for admission to the Prime Standard of the German Stock Exchange.

KWS remains the family-run, independent company it has been ever since 1856. In that year the farmer, **Matthias Christian Rabbethge,** acquired the majority interest in the sugar factory in Kleinwanzleben. This was the birth of KWS and dynamic growth followed. Above all, the succeeding generations made it their goal to increase sugar yield from raw beets and to create a new source of income for the farming community. Using a polarimeter, Matthias Rabbethge Junior selected beets according to their sugar content. The result of this progressive approach was a "sugar beet" that helped the emerging business enterprise KWS to achieve an early breakthrough. Ever since then, innovational energy in plant breeding has formed the basis of our company policy and our success.

With its **sugar beet seed** KWS was able to quickly expand into international markets. Eighteen hundred ninety-eight saw the company's expansion into the Ukraine, then and now the largest sugar beet cultivation area in the world. Even before First World War we were in a position to meet a quarter of global demand for sugar beet seed.

Agricultural intensification presented new challenges. Disease and pest infestation steadily spread. As early as 1920, **resistance breeding** became a focal issue at Kleinwanzleben, thus assuring yields in the field. In the 1980s and 1990s, for example, European sugar beet cultivation would have been broken down by the Rhizomania virus if resistant varieties had not been developed. KWS succeeded in developing rhizomania-tolerant varieties using classical breeding that again guaranteed sugar beet growers new cultivation reliability.

With the commencement of **corn breeding** in 1955 we also set out on a new path. At that time the South American plant was regarded as an exotic species in Germany. Today one cannot imagine fodder troughs without it, and it has become the most important agricultural crop worldwide. Due to its enormous biomass, corn could also serve as a renewable energy source. KWS started early breeding special energy corn varieties, and today is leading in this field.

In the 1970s and 1980s KWS was one of the first to introduce cell biology and molecular genetics. We are convinced of the advantages of biological progress. This also applies to **"green genetic engineering."** Genetic methods should be used where valuable genetic traits cannot be achieved through conventional methods.

As in the past, KWS will continue to bank on the initiative and creativity of its **employees.** They are undoubtedly the key to the excellent market position that KWS enjoys in the sector. Our employees deserve our wholehearted recognition for their extraordinary commitment, their outstanding performance, and their deep sense of responsibility.

Our thanks also go to our shareholders, customers and partners. Their reliable and mutually beneficial relationships have contributed to the 150-year success story of KWS. Rest assured that we will do everything to maintain these valuable relationships.

Yours,

Andreas J. Büchting

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

» In 1838 about a dozen farmers and craftsmen join forces in Kleinwanzleben near Magdeburg to found a sugar factory. In 1847 Matthias Christian Rabbethge moves to Kleinwanzleben where he initially purchases a farm. He also acquires a stake in the sugar factory. In the first few years this proves to be an unwise investment: beet quality is poor, sugar yield is low. But Matthias Christian Rabbethge believes in the success of beet sugar production and gradually acquires further shares in the factory.

By 1856 his stake amounts to more than 70 %. At this time his son Matthias Rabbethge Junior is at college in Jena – his scientifically run beet breeding operation will be the basis for the future success of the company. In the same year Matthias Christian Rabbethge establishes a general partnership where he is joined by his future son-in-law, Julius Giesecke. This is the birth of KWS. «

1838	Foundation of the Kleinwanzleben sugar factory as a joint stock company
1856	Matthias Christian Rabbethge acquires the majority interest in the sugar factory and forms a general partnership
1858	Marie Rabbethge, the daughter of Matthias Christian Rabbethge, marries Julius Giesecke; at the same time Julius Giesecke's father, Adolf Giesecke, purchases half of Matthias Christian Rabbethge's stake in the sugar factory
1859	Matthias Rabbethge Junior starts beet breeding
1864	Rabbethge & Giesecke OHG fully acquires the Kleinwanzleben sugar factory
1885	The OHG becomes "Zuckerfabrik Kleinwanzleben vormals Rabbethge & Giesecke Aktiengesellschaft"

Source: Company archives in Kleinwanzleben – since 1991 again open to the public

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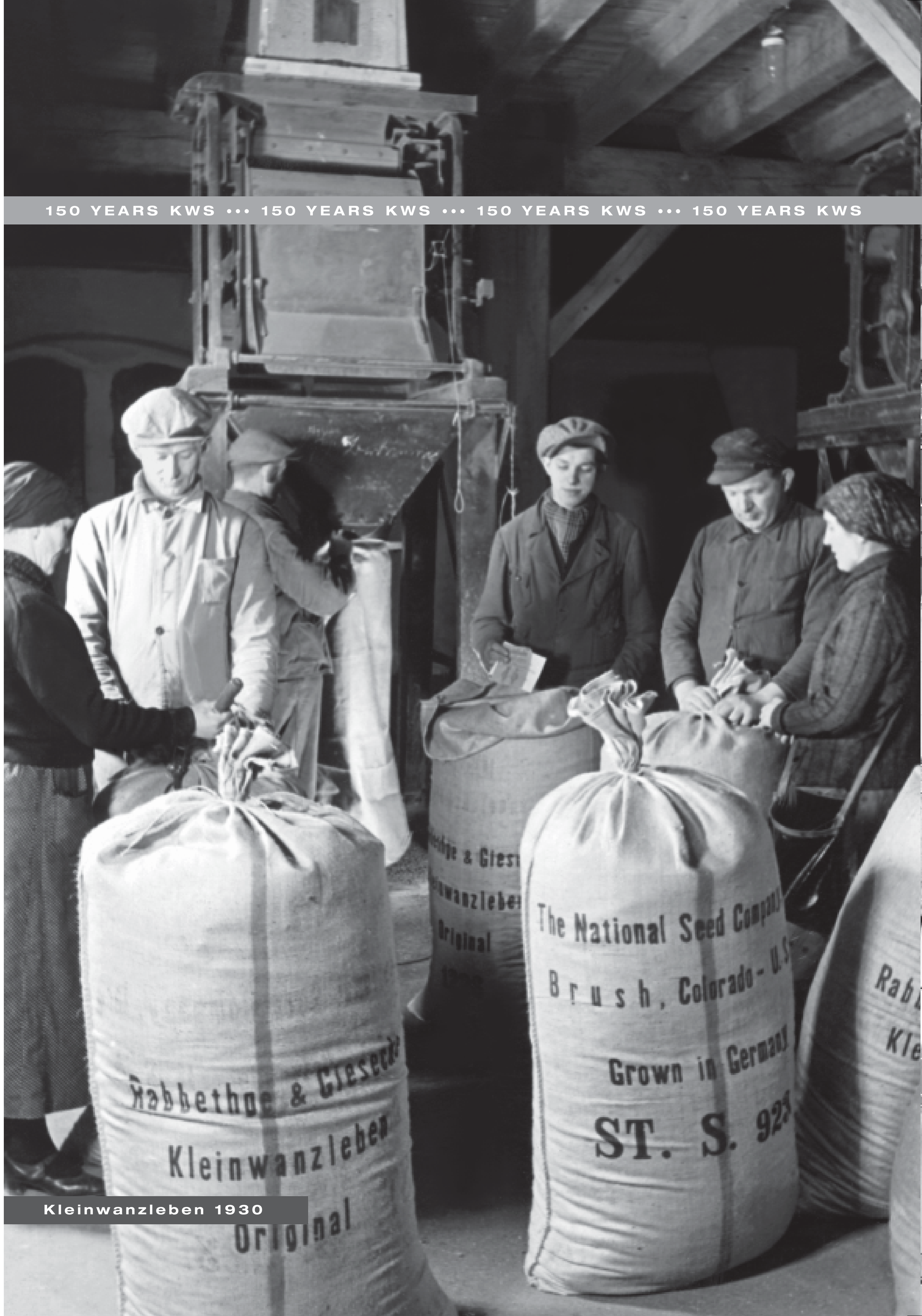
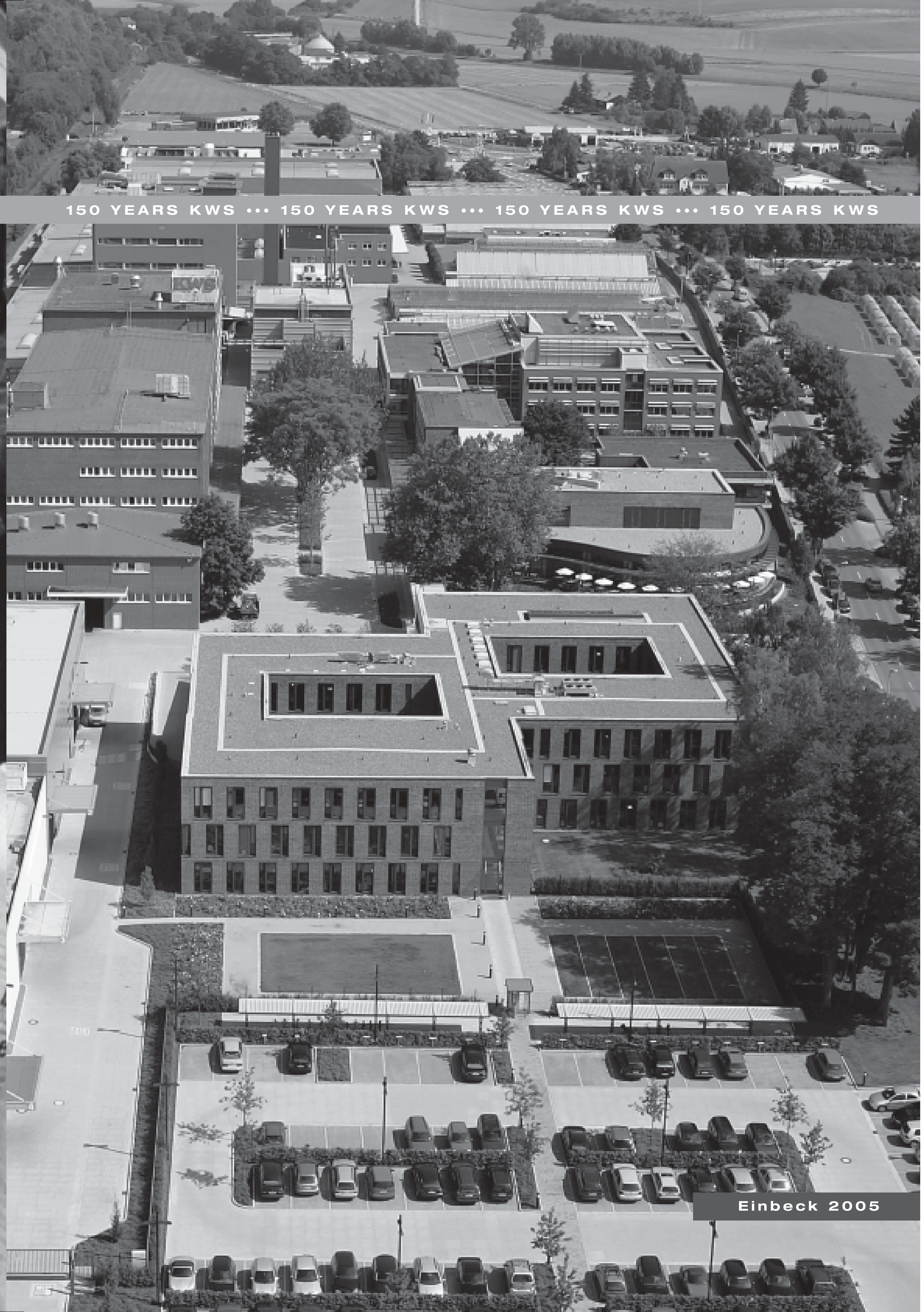


Kleinwanzleben 1930



Einbeck 2005

Kleinwanzleben | Einbeck

1856
Foundation in Kleinwanzleben near Magdeburg from left to right: Matthias Christian Rabbethge, Julius Giesecke, Matthias Rabbethge Junior

1885
Rabbethge & Giesecke OHG becomes Zuckerfabrik Kleinwanzleben vormals Rabbethge & Giesecke Aktiengesellschaft

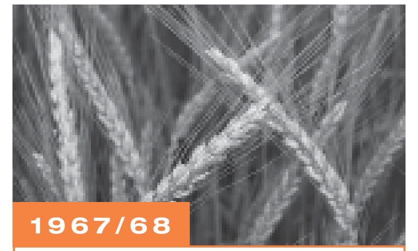
1900
A global sugar beet seed market leader with branches in the Ukraine and several other countries

1920
Start of cereal, fodder beet, and potato breeding

1945
New start in Einbeck

since 1955
Expansion of the breeding program to include corn and oil and protein plants

since 1961
Subsidiaries and associated companies in Europe and overseas



1967/68
Merger of Heine Peragis cereal breeding with LOCHOW-PETKUS

1972
First laboratory for cell biology

1975
Inclusion of the abbreviation KWS in the company name KWS Kleinwanzlebener Saatzucht AG vormals Rabbethge & Giesecke

1860 | 1870 | 1880 | 1890 | 1900 | 1910 | 1920 | 1930 | 1940 | 1950 | 1960 | 1970 | 1980

1865

Cross breeding: Gregor Mendel lays the basis.

In 1856 Gregor Mendel, an Augustinian monk, crosses red and white flowering pea plants, observes their offspring and concludes that there must be two genes for each trait but that only one is passed on: the dominant gene, in his case causing the red flowers, asserts itself in the offspring. However, the recessive gene is also retained, so that a number of the grandchildren once again produce white blossom. Furthermore, Mendel observes that in other plants the traits are combined and the plants produce pink blossom.

Mendel recognizes that the traits are inherited in a certain numerical ratio and in 1865 publishes his results: Mendel's Laws of Heredity. Plant breeders still use these findings today, crossing plants and thus creating a number of new genotypes from which they select the most suitable. This is because only plants with the best traits are used for further breeding.

Mendel's Laws of Heredity – meanwhile lost – are only rediscovered in 1900. Together with the findings of chromosome theory, they build the basis of genetics.

1908

Hybrid breeding: Yield "Explosion."

The next major step forward is achieved only four decades after the Laws of Heredity have been published: In 1908 the American G. M. Shull publishes the methods which provide significant increases in yields. Shull succeeds in creating pure lines by repeated inbreeding of corn plants. The subsequent cross of inbred lines produces plants that exhibit a veritable explosion in yield compared to the original plants. This phenomenon is called heterosis: crossbred off-spring of these inbred lines, known as hybrids, show increased size, vigor and yield compared to their parents. Today, the majority of breeding programs for corn, sugar beet, rape and rye are based on hybrid breeding. The next breakthrough in work on inbred lines occurs almost 60 years after Shull: the so-called "double haploid technology" allows to generate pure inbred lines in less than one year by regeneration of intact plants from single reproductive cells and chemically induced doubling of the reduced (haploid) chromosome set.

Cross breeding | Hybrid breeding | Biotechnology

1984

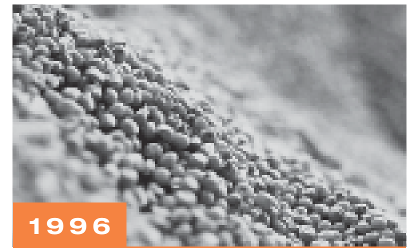
Foundation of PLANTA Angewandte Pflanzengenetik und Biotechnologie GmbH

1988

KWS acquires 100 % stake in BETASEED, INC., USA

1990

Repurchase of the breeding station in Kleinwanzleben



1996

Sales at KWS exceed the €250 million mark

1999

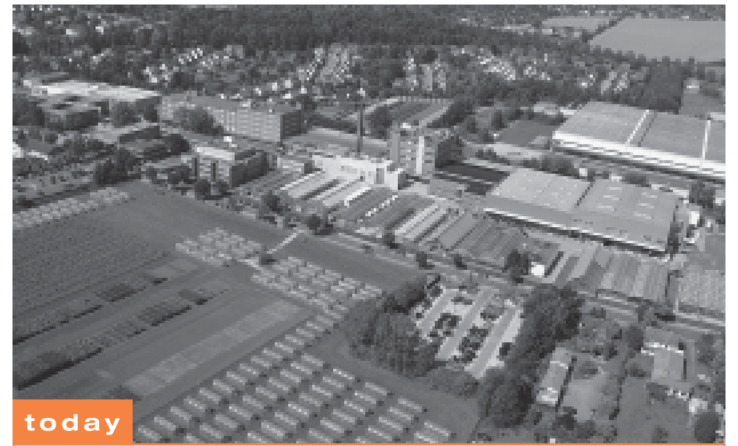
Change of corporate name to KWS SAAT AG

2000

The number of employees in the KWS Group exceeds the 2,000 mark. Cooperation with French partner LIMAGRAIN in North America: foundation of the corn company AgReliant

2003

Overseas share of sales of the KWS Group increases to 70 %



today

KWS – market leader in plant breeding, with activities in more than 65 countries worldwide

1985 1990 1995 2000 2005 2010

since 1970

Biotechnology: A step towards the future.

For 30 years biotechnological tools have been supplementing conventional breeding and have prompted major changes during this period: biotechnology encompasses cell biology, genetic engineering and genomics. With the aid of cell biology complete plants can be developed from single plant cells – a prerequisite for genetic engineering.

Genetic engineering allows the introduction of individual genes into the genome of plants to improve specific plant traits. Not only genes from related plants but also from different organisms can be combined and completely new traits introduced into the gene pool. In practice, the major traits today are disease and pest resistance as well as herbicide tolerance. In future, the specific engineering of compounds or the development of salt and drought resistant plants is conceivable.

since 1990

Genome research: A new chapter in breeding.

The goal of plant genome research is to decode the structure and function of all genes (i.e. of the genome) of a plant species. Today, for example, the sequencing of the rice genome has been completed. Further sequencing projects are ongoing and the description of the precise function of up to 50,000 genes of a species remains a future challenge. For example, genome research is able to identify genome segments that are responsible for the expression of agriculturally relevant plant traits such as yield or pest resistance.

In close cooperation with research partners, KWS has been able to identify, for example, corn genes and genome segments that are involved in determining cold tolerance, nitrogen efficiency and plant digestibility. These examples illustrate the major significance of genome research in accelerating breeding progress and the production of more modern, improved varieties.

» You need a lot of grip to get on in agriculture. You must always have the courage to try something new. «

Henning Gruß, farmer

Mr. Gruß, which development in plant breeding do you think was a landmark for agriculture?

» Off the top of my head, the development of monogerm sugar beet seed in the 60s: prior to this my father had to thin out the seedlings by hand. Today a single beet grows from one seed – and saves us farmers a lot of work. Another example is the rhizomania infestation at the beginning of the 90s: at that time KWS was the first seed company to supply rhizomania-tolerant plants. Without these varieties we would have had to give up sugar beet cultivation altogether. «

What is so special about KWS as a company?

» KWS offers quality products and an experienced consulting service. Whether I want to plant a new variety, or I'm worried about pest or disease infestation or whether I'm looking for crop alternatives, I will always find a competent contact at KWS. When I first started in energy corn cultivation for the biogas plant of the public services, KWS was able to supply, for example, a special energy corn variety. «

What are the future challenges for you as a farmer?

» You need a lot of grip to get on in agriculture. You must always have the courage to try something new. Today, structural change is the challenge in agriculture. To survive you have to either maximize productivity, grow and cooperate, or exploit new sources of income. «

Hand in hand: Agriculture and plant breeding.

When farmers need quality varieties and superior advice, they know they have a competent partner in KWS. What today may be self-evident was not feasible for earlier generations because each farmer was responsible for producing his own seed. A portion of the harvest was retained and used as seed for the following year. It was not until the middle of the 19th century that a few farmers started to specialize in breeding seed and this led to the foundation of the first seed corporations, including KWS in 1856.

In cooperation with its customers KWS develops high-quality products.

In the early 19th century, the Berlin chemist Andreas Sigismund Marggraf and his student Franz Carl Achard discovered that sugar can be extracted from fodder beet. Almost at the same time Napoleon declared the Continental Blockade of British colonial goods, thus preventing the import of cane sugar. As a consequence, a flourishing European sugar industry quickly evolved. People like Matthias Rabbethge Junior recognized the opportunity to achieve improved seed by selecting beets for their sugar content. This led to a long-term improvement in the sugar yield of beet sugar production and ultimately to a stable income for farmers.

Plant breeding transforms agriculture.

Controlled and scientifically based plant breeding is a young discipline with four important milestones so far: the crossing of plants thanks to Mendel's Laws of Heredity in 1865, the discovery of hybrid breeding in 1908, the development of biotechnology in the 1970s and, finally, DNA diagnostics in the 1990s. As a result, the work of farmers has changed radically during the past 150 years. KWS has played a significant role in many stages along the way. At the beginning of the 1980s, for example, a virus – known as rhizomania – infested sugar beet in Germany and caused losses of up to 50 % of the harvest. KWS launched the first healthy variety, thereby ensuring continued sugar beet cultivation in the affected areas.

The discovery of sugar in fodder beet generated the momentum for sugar beet breeding.

Competent consulting services as a success factor.

KWS is working today, and will continue to do so in future, to provide solutions for these challenges. Customer satisfaction enjoys top priority at KWS. In Germany alone, there are 120 consultants who visit farmers to assist them in selecting the right seed for their soil, to present new varieties, and to answer any questions on current plant cultivation. The relationship between KWS and farmers is based on give and take, because KWS is also reliant on constructive feedback from farmers. This exchange generates products tailor-made to their requirements on a long-term basis.

» Corn is much more than just a foodstuff or fodder. As a renewable raw material and energy source it is the crop of the future. «

Dr. Walter Schmidt, Corn Breeding Germany

Mr. Schmidt, as a corn breeder, what do you regard as the most important development in plant breeding?

» The most important milestone for corn breeding is the development of hybrid breeding at the beginning of the 20th century. Naturally, in the course of time a number of decisive discoveries have been made – but more important is what this development reveals: with the assistance of plant breeding we can utilize the incredible adaptability of nature. We are not working against nature but with her. And only in the cooperation between man and nature can we succeed. «

What is so special about KWS as a company?

» KWS thinks plant breeding, KWS lives plant breeding. Plant breeding has been our core business for 150 years and not just one segment amongst many. All our customers and employees benefit from this. If I've been observing corn for months in the field and have a question for my colleagues in the biotechnology department, then I just call them up – we know each other. At the same time, thanks to the size of the company, we are able to carry out research ourselves. This combination is what makes KWS so successful. «

What are the future challenges for corn breeding?

» Corn is much more than just a foodstuff or fodder. As a renewable raw material and energy source it is the crop of the future and its potential is a huge challenge for us breeders. For me personally, energy corn is currently the most important issue. Fossil energy is nearing depletion and it is up to all of us to drive forward the development of plants for future energy production and to open up new paths. «

Corn, the immigrant success story.

Nowadays corn is planted in fields all over Germany and Europe. Fifty years ago, it was still regarded as exotic in this country. Although the first corn plants arrived in Germany as early as the 17th century, corn was not able to assert itself against domestic cereal varieties. Up until 1945 only a mere 50,000 hectares of corn were planted in Germany, and only in warmer regions such as the Rhine rift valley. Thanks to newer varieties adapted to a cooler climate, around 1.7 million hectares of corn are now planted and the KWS Group alone supplies seed for approximately 400,000 hectares.

A success story penned by plant breeding.

In 1955 KWS started to breed corn. During the past 50 years it has been successful in significantly accelerating hybrid breeding using double haploid techniques. KWS was the first seed company to completely convert its breeding program to these techniques. Compared with conventional hybrid breeding the advantage lies mainly in the speed of development: whereas in the past new inbred lines required a development period of four to five years, the new lines can now be produced within one year.

Corn is the crop of the future.

To continue to meet future customer requirements and to contribute significantly to safeguarding global nutrition, the company will pursue its efforts in plant breeding. Hence KWS is committed to the concept of extracting the best from plants through careful research and development. Corn especially offers a wide range of opportunities for the future, not only as food and fodder but meanwhile as a renewable raw material or energy source.

Corn starch, for example, is used increasingly in the production of paper and synthetics, as an adhesive or in the chemical industry. The development of special energy corn for biogas is still in its infancy. However, successes in breeding to increase biomass yield are already impressive. For KWS this project presents one of the greatest challenges because the issue of renewable energy will become increasingly interesting due to finite resources. KWS is working at full speed to create the basis for economic biogas production.

The future belongs to innovative varieties which are resistant to pests and offer high yields.

Energy plants – an alternative for the environment, agriculture and the consumer.

»Genetic engineering is certainly not always the solution to every problem. But it offers opportunities that would not be available using purely conventional methods.«

Dr. Anja Matzk, Regulatory Affairs Biotechnology

Ms. Matzk, as a scientist, which discovery do you regard as revolutionizing plant breeding?

» Green genetic engineering and the possibilities it has opened up for plant breeding – this has fascinated me since my college days. However, despite all the buzz let's not lose track of the fact that genetic engineering is just a tool that is used alongside many others in plant breeding. It is most certainly not the solution to every problem. But it does offer opportunities that would not be available using purely conventional methods. «

What makes KWS so special?

» The willingness to engage in dialogue and its openness, particularly in the debate on genetically improved seed, are unique at KWS. Society has always been, and will continue to be, afraid of anything new. But it is of greatest importance to take people's concerns seriously and to communicate new developments openly. This is the best way to establish a trusting relationship. KWS has done this from the beginning, and will continue to do so in future. «

Which issues confront plant breeding in the 21st century?

» The main issues confronting us are the consequences of climate change, global population growth and the increasing scarcity of resources. Plant breeding can make a huge contribution here. Therefore, we must invest in research and development today. The demands for high-performance seed are continually increasing; using innovative tools we can meet this challenge. «

Biotechnology – tomorrow's answers.

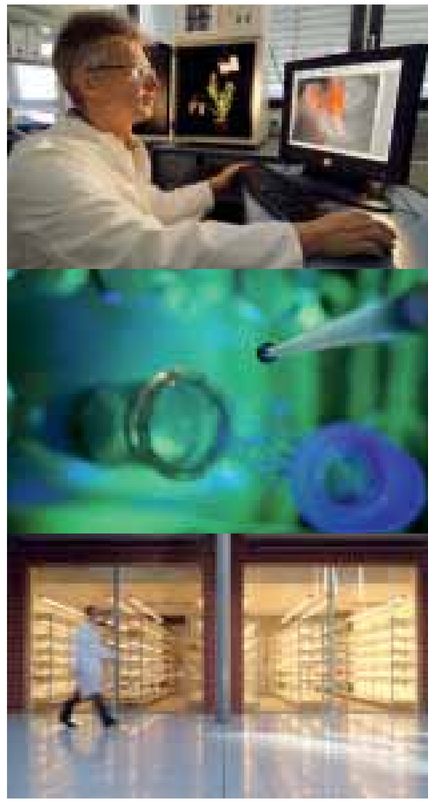
Many of us can still remember the incredible summer of 2003, but sunshine also has its shady side: the negative effects of a very hot period on vegetation and plant growth are examples of the challenges that an eventual climate change poses for agriculture. Companies such as KWS are able to contribute to meeting these challenges. Biotechnology will play a key role here.

Biotechnology opens up new opportunities.

Biotechnology makes use of results from the molecular analysis of plant features. Since the 1980s KWS has been developing methods based on cell and molecular biotechnology. Today, using molecular methods we are able to identify and track valuable traits such as resistance to diseases in our varieties and to introduce them into existing lines by controlled cross breeding. In addition, using "green genetic engineering" we can transfer important traits from other organisms into our crops.

Using green genetic engineering we can create resistant varieties that reduce the need for pesticides. There are also benefits for human health: scientists, for example, are working on deactivating the gluten in wheat that would result in fewer allergic reactions. Genetic engineering also plays a role in the development of industrial raw material from plants: individual usage of potato starch is only possible upon modification of the compound by genetic engineering.

As early as 1972, KWS established the first laboratory for cell biology. In 1984 the KWS subsidiary "PLANTA Applied Plant Genetic Engineering and Biotechnology Ltd" was founded, followed by the inauguration of a new biotech center, the "Biotechnikum," in 1999. This biotechnology service and development center is one of the most efficient and modern installations in the whole industry.

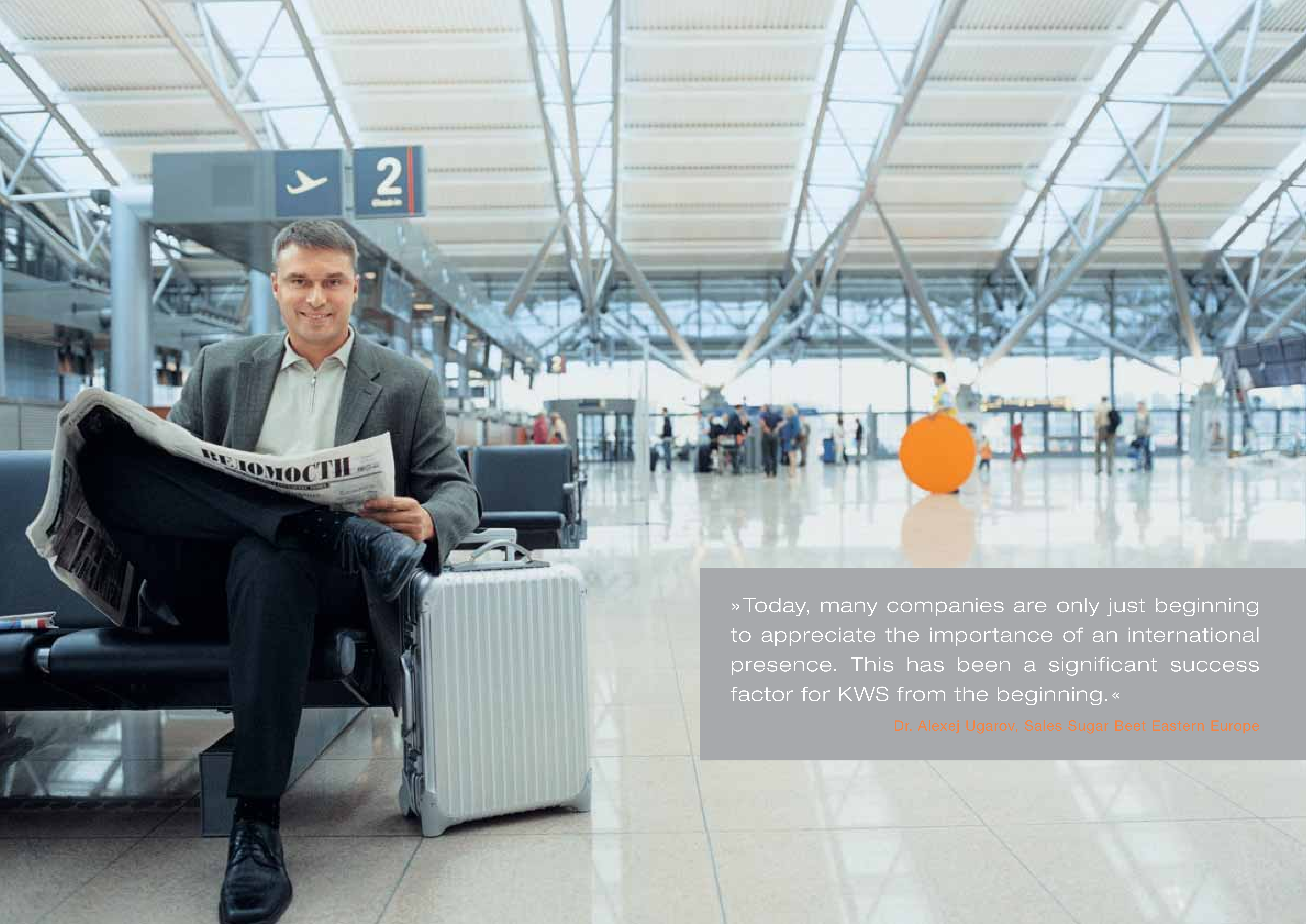


The architecture of the KWS biotech center reflects the transparency and openness of the company.

Solutions in dialogue.

Despite the potential of genetic engineering, Germany is home to a heated and often emotional debate on this new technological tool. Yet, a wide reservoir of experience exists with genetically modified plants: in the past year alone more than 80 million hectares worldwide were planted with genetically modified plants, more than seven times the total agricultural acreage in Germany. To establish trust, KWS is committed to open dialogue and careful consideration of the opportunities and risks, on a case-by-case basis – the best way to meet the challenges of the future.

100 experts from biotechnology provide innovation at KWS.



»Today, many companies are only just beginning to appreciate the importance of an international presence. This has been a significant success factor for KWS from the beginning.«

Dr. Alexej Ugarov, Sales Sugar Beet Eastern Europe

Dr. Ugarov, what do you regard as being the most significant development in the seed sector?

» The opening to the Eastern European market is a great development opportunity, but also a challenge. The potential is enormous: Russia and Ukraine alone with a cultivation area of 150 million hectares correspond to half the acreage of the EU. I was born in Russia, and so it's particularly interesting for me to be able to offer the people in this region high-quality seed and to communicate the related know-how. These markets are not new territories for KWS. The company is returning to its roots, since KWS already owned a subsidiary in Ukraine in 1898. «

What is so special about KWS as a seed company?

» Today, many companies are only just beginning to appreciate the importance of an international presence. This has been a significant success factor for KWS from the beginning. This implies not only exporting to the sales markets of this world: more importantly, KWS works together with the local people and adapts its varieties to the conditions of the individual regions. Genetic resources can thus be beneficial worldwide. «

What are the challenges facing a seed company from the marketing viewpoint?

» In our industry you need to be very patient. This applies not only to variety development but also to sales strategies. Eastern Europe had to stabilize politically first. Today, we have a sustainable agricultural policy in place in Russia so that farmers are able to invest. They are placing more emphasis on quality, and KWS is their ideal partner. «

Seed knows no boundaries.

Beet seed from Kleinwanzleben was already an international sales hit at the end of the 19th century. As a result, KWS established a series of branches abroad fairly early on. In 1898 a subsidiary was founded in the Ukraine, then as now the world's largest beet cultivation area. In 1910 "Kleinwanzleben" meets one quarter of global demand for sugar beet seed. Following both world wars, KWS concentrates on resuming its ties abroad and resuscitating its export activities. Despite losing its headquarters in Kleinwanzleben, together with its research and production facilities, KWS varieties were already being sown in 1948 in Denmark, England, France and Switzerland, as well as in Turkey and Yugoslavia.

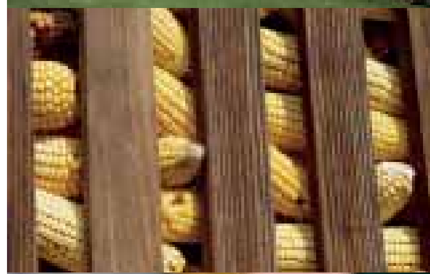
Reliable and long-lasting customer ties are founded on high-performance products.

Today, KWS SAAT AG generates 75 % of its sales abroad through its 46 subsidiaries and associated companies. Worldwide, KWS is represented in 68 countries in the temperate climate zone through its breeding and sales activities.

New markets, new challenges.

Following German reunification, the Central, Eastern and Southeastern European markets offer the most substantial growth potential for sales of agricultural-quality seed. As a result, the seed must be specifically adapted to meet the needs and requirements of the respective target markets. Genetic traits are not the only important issue: technical properties, in particular, must also be considered. A further consideration is the strong demand for consulting and other services as a result of increasing privatization of Eastern European operations.

In the meantime, the KWS Group has established 12 companies in the Eastern and Southeastern European markets. Also, breeding stations are being set up or expanded in Russia, Poland, Hungary and Romania, to enable KWS varieties to be adapted to perfectly meet local requirements.



Over the course of 150 years KWS has evolved to become an international seed specialist for our most important crops.

Diversity as competitive advantage.

Only by being successful in its core markets, a company can acquire the potential to open up new markets. For almost 50 years the USA and Canada have belonged to KWS's core markets – markets that are shaped by strong competitive and innovative pressures. The evidence for this lies, above all, in the development of genetically improved varieties. In North America the demand for these special varieties has increased enormously over the past ten years as a result of their economic and ecological advantages. The share of sales accounted for by the genetically improved corn varieties of AgReliant, our North American joint venture, is currently 60 %; for soya varieties it is 90 %.

As a seed specialist KWS is well placed in the various markets and the most varied product segments to always be able to supply farmers with the most innovative and reliable varieties.

»150 years of KWS – as an independent seed specialist we measure our products against the criteria of sustainability – with the goal of underpinning competitive agricultural activity in a healthy environment.«

Fiscal Year
2004/2005

Report of the Supervisory Board

The consultations of the Supervisory Board in fiscal 2004/2005 focused on the European Commission's proposals for the reform of the EU Sugar Market Regime and the challenges this presents for KWS.

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

The strategic approach being followed by KWS consists in achieving further increases in the product yields of sugar beet varieties with the aim of improving the productivity and competitiveness of European sugar beet cultivation. This is based on the premise that we not only maintain but actually intensify our efforts in the area of sugar beet breeding. Further expansion of the corn segment was also discussed. The members investigated a number of potential acquisitions, as a result of which we acquired a North American distribution company, Producers Hybrids, and set up new companies in Bulgaria and the Czech Republic. Another topic that was discussed in detail was the rape and energy corn businesses, for which expectations are high.

Also central to the Supervisory Board's discussions were the issues surrounding KWS' future presence on the capital market in the wake of its successful placement of 25 % of its shares in December 2004. In order to change the nominal value of the share, the Supervisory Board decided to propose to the Shareholders' Meeting on January 18, 2006 a 1:10 share split and an increase in the capital stock of €2.8 million from corporate funds. It was also decided to apply for admission to the Prime Standard.

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

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Hanover, the independent auditor chosen by the Shareholders Meeting and commissioned by the Supervisory Board, has audited the financial statements of KWS SAAT AG that were prepared by the Executive Board for fiscal 2004/2005 and the financial statements of the KWS Group (consolidated financial statements), as well as the management report of KWS SAAT AG and the KWS Group (Group management report), including the bookkeeping, and awarded them its unqualified audit certificate.

The Supervisory Board received and examined the financial statements and management reports of KWS SAAT AG and the KWS Group, along with the report by the independent auditor of KWS SAAT AG and the KWS Group and the proposal on utilization of the net profit for the year made by KWS SAAT AG and also received detailed explanations of questions on the agenda at its meeting to discuss the financial statements on November 23, 2005. 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

Supervisory Board

Dr. Carl-Ernst Büchting
Einbeck
Honorary Chairman

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

Dr. Arend Oetker
Berlin
Businessman
Deputy Chairman

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

Goetz von Engelbrechten
Uelzen
Farmer
Since November 7, 2005

Eckard Halbfaß
Einbeck
Deputy Chairman of the Works Committee of KWS SAAT AG

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

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

endorses the proposal by the Executive Board on how to utilize the profits of KWS SAAT AG.

The Supervisory Board is sad to report the death, on June 28, 2005, of former Executive Board member Armin Leidloff aged 85 years. In 1955 he became the Executive Board member responsible for sales, and he succeeded in reopening and developing markets which had for the most part been closed to KWS during the period immediately after World War II. During the 27 years that he worked for KWS, Armin Leidloff laid the foundations for our company's revival and growth. In recognition of this achievement, the company will always hold him in grateful memory.

After 19 years with the company, Dr. Christopher Ahrens retired from the Executive Board of KWS SAAT AG on June 30, 2005. Christopher Ahrens was the Executive Board member responsible for the successful development of our sugar beet segment, and from 1989 was also responsible for rebuilding the sales structures in our Eastern European markets. In addition to this, he represented KWS on numerous national and international committees and boards, and his presidency of the International Seed Federation (ISF), as well as his commitment to the Deutsch-Russischer Kooperationsrat (council for cooperation between Germany and Russia) deserve special mention here. Indeed, for all his extremely successful endeavors for the benefit of the company, the Supervisory Board owes Christopher Ahrens its special thanks.

With effect from July 1, 2005 the Supervisory Board appointed acting Executive Board member Dr. Hagen Duenbostel a regular member of the Executive Board.

Following Christopher Ahrens' departure from the Executive Board of KWS SAAT AG he was replaced on October 1, 2005 by Philip von dem Bussche, currently President of "Deutsche Landwirtschaftsgesellschaft (DLG)," who took over responsibility for the sugar beet segment and new markets/products, as well as for the regions Germany and Central and Eastern Europe. Philip von dem Bussche, who has a distinguished record as an agricultural expert, has been serving on the Supervisory Board of KWS since May 2000, from which he resigned to take up his activities on the Executive Board.

The vacancy thus created on the Supervisory Board was soon closed. On November 7, 2005, at the request of the Executive Board, the District Court of Göttingen registered Goetz von Engelbrechten as a member of the Supervisory Board of KWS SAAT AG. Goetz von Engelbrechten is a graduate in business administration and a farmer, and lives in Uelzen. He had previously worked for KWS for 20 years. Most recently, he was responsible for KWS' cereals segment, before moving to Nordzucker AG in 1992, first as a member of its Executive Board until, in 2003, he was appointed to its Supervisory Board. At Nordzucker he was recently engaged in helping the company to meet the commercial challenges of sugar market reform.

This appointment by the court is to be superseded by a shareholders' vote. At the official Shareholders' Meeting on January 18, 2006 Goetz von Engelbrechten will therefore be proposed for reelection to the Supervisory Board for the remainder of his current mandate.

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

Einbeck, November 23, 2005

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

Invitation to the Annual Shareholders' Meeting on January 18, 2006

The Management Board cordially invites you to the Annual Shareholders' Meeting on Wednesday, January 18, 2006 at 11 a.m. at the Company's business premises in 37574 Einbeck, Grimsehlstraße 31.

Agenda

1. Presentation of the adopted annual financial statements of KWS SAAT AG, the annual financial statements of the KWS Group as approved by the Supervisory Board (consolidated financial statements), the management reports for KWS SAAT AG and the KWS Group for the fiscal year from July 1, 2004 to June 30, 2005, 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 members of the Management Board

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

5. Resolution on a capital increase from corporate funds and the re-division of capital stock after appropriate amendment of the Articles of Association

6. Resolution on changes to the Articles of Association pursuant to the law on Corporate Integrity and Modernization of the Right to Contest Shareholders' Resolutions (Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts (UMAG))

7. Election of a new member of the Supervisory Board

8. Election of the auditor for fiscal year 2005/2006

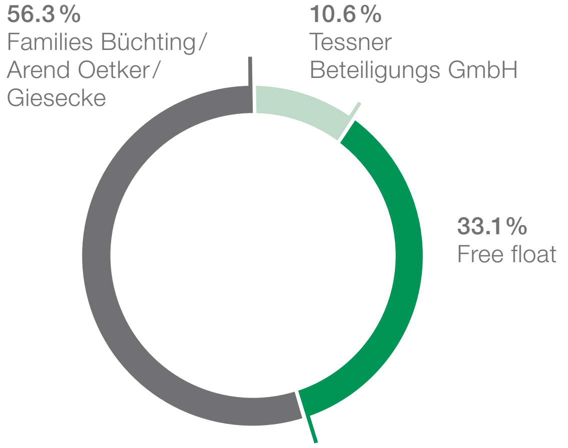
KWS shares

KWS SAAT AG's capital market actions are preparing the basis for the future. In compliance with EU Regulation 1606/2002 relating to publicly traded companies, KWS replaced its accounting system that was based on the Handelsgesetzbuch (HGB – German Commercial Code) with one that is based on the generally accepted International Financial Reporting Standards (IFRS).

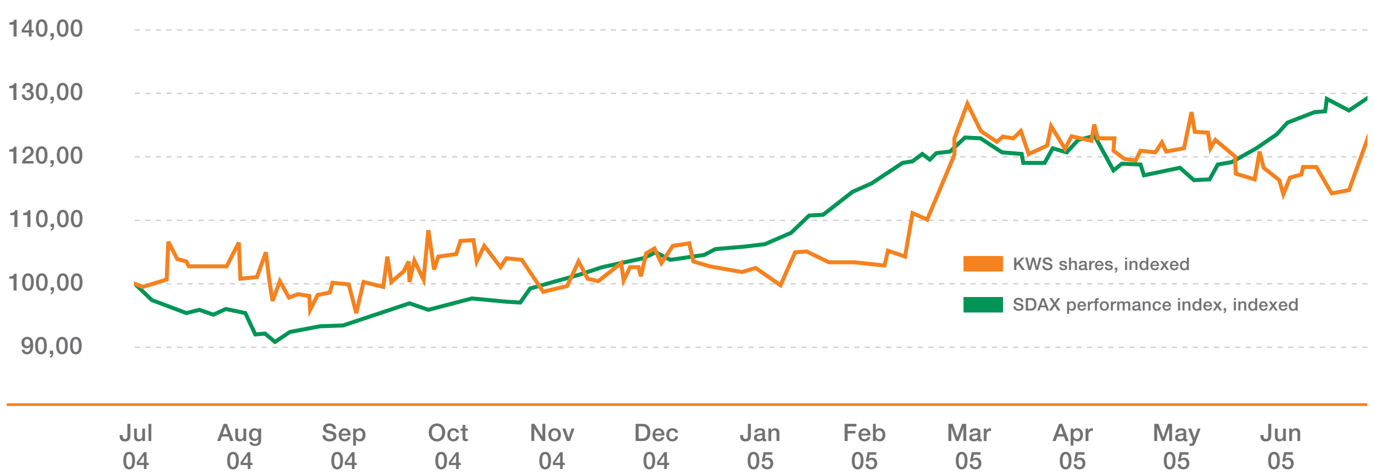
It also succeeded in placing the large blocks of shares held by Südzucker AG and Bayerische Hypo- und Vereinsbank with institutional investors, thereby increasing the free float, which is important for the share's liquidity, from 8 % to 33 %.

The company has been admitted to the Regulated Market of Frankfurt Stock Exchange since June 30, 2005, which has brought the shares to the attention of investors. The newly added investor relations section on KWS' website (www.kws.com) features extensive information about and around the company's shares.

Shareholder structure (on June 30, 2005)



KWS share price, July 1, 2004 to June 30, 2005



In the year under review, operating income rose by 8 % and net income for the year by 17 %. To continue the earnings-based dividend policy of recent years, the Executive Board and the Supervisory Board are therefore proposing an increased dividend of 12 (11) € per share to the Annual Shareholders' Meeting.

The generally positive mood in Germany's stock markets continued during 2005. Despite record oil prices, the DAX managed to rise by 20 % while the SDAX even rose by 30 %.

KWS SAAT AG share performance was virtually unrelated to the performance of the SDAX. Most of the share's growth impetus resulted from the placement of 25 % of the Company's shares on the capital market in December 2004 (which was oversubscribed 1.9 times). After a brief period of consolidation, the price is currently moving mostly sideways around the 700 € mark, which translates into an increase of around 20 % over the past fiscal year.

With the introduction of quarterly reports starting in the first quarter of fiscal 2005/2006 and adoption of the IFRS, KWS has now fulfilled the criteria for admission to the Prime Standard segment of the German Stock Exchange, which also qualifies it to be included in the select SDAX index. A 1-for-10 share split will be proposed at the forthcoming Annual Shareholders' Meeting. The higher number of shares at a lower price will make investing in KWS shares a more attractive option for private investors and is also expected to increase the liquidity of the shares.

Data on KWS shares

WKN (German Securities Code) / ISIN Securities ID	707400/DE0007074007
Stock market symbol	KWS
Stock markets	Xetra, Frankfurt, Hanover
Number of shares	660,000
Opening price on July 1, 2004 (Frankfurt)	€600.00
Closing price on June 30, 2005 (Frankfurt)	€725.00
Highest (closing) price in the fiscal year (March 7, 2005)	€769.00
Lowest (closing) price in the fiscal year (September 7, 2004)	€570.00

Report on the performance of the KWS Group

The KWS Group continued its successful growth during fiscal 2004/2005. Its strong financial base allowed it to expand its market position and open up new markets abroad.

The new KWS FORUM – a center for visitors and employees – marks the completion of the investment program at the Einbeck site.

As far as net sales and income were concerned, the KWS Group exceeded even its own expectations. Net income for the year reached a new high, whith our main product segments sugar beet and corn each made an equal contribution to positive business growth. The cereals segment remained stable at last years' level.

The past fiscal year was primarily characterized by expansion abroad. Our competitive positions in the Southern and South-Eastern European and North American markets were strengthened further. KWS also increased its investment in the corn segment by expanding its sales channels and opening a new production plant in France.

Our extensive investment program at our Einbeck headquarters is now complete. The new KWS FORUM – an Information Center for visitors and employees – means that we now have the facilities to properly welcome the large numbers of customers and business associates from all over the world.

KWS continues to grow outside Germany

Apart from KWS SAAT AG, the consolidated KWS Group comprises a total of 46 (42) subsidiaries and associated companies. New subsidiaries were formed in Bulgaria and the Czech Republic, whereas our IT services company "MOD Management Organisation und Datenverarbeitung Consulting GmbH" was divested via a management buyout. With the inclusion of the Russian subsidiary and two German subsidiaries, the total number of fully consolidated companies now amounts to 41 (37). As in the previous year, four foreign companies were proportional consolidated. Another two (two) companies are included in the KWS Group's financial statements at equity.

Sharp growth in net sales

In the year under review, the KWS Group's net sales rose to the highest level ever in the company's history. The Group posted total sales of €495.3 (444.5) million, an increase of 11.4 %, far exceeding even its own expectations. As predicted, sales abroad rose even more sharply than at home, and now account for 75 (73) % of total sales.

Overview of product segments

Sugar beet maintains its position in the world market

The KWS Group maintained its market position in the sugar beet product segment and achieved net sales of €217.9 (193.6) million for the year under review. In the markets outside the EU's 25 member nations, the Group even posted a 17 % sales volume increase. In view of the potential further decline in cultivation areas within the EU in the wake of Sugar Market Regime regulations, this growth in business is very gratifying.

Corn continues to be a main growth driver

With a 13.7 % growth in net sales to €217.6 (191.3) million in the year under review, the corn segment again exceeded last years' sales levels. KWS posted sharp growth in North America. Genetically improved products are in strong demand, particularly in the US. These new varieties now account for almost 60 % of net sales in this market.

Cereals remain constant

At €52.4 (52.7) million, net sales have remained stable in our cereals product segment, with lower sales of rye being compensated for by higher wheat sales. All other types of cereals maintained their levels from the previous year. The LOCHOW-PETKUS Group thus remains one of the strongest cereal breeders in Europe.

Higher expenditures for structural changes

The KWS Group is still geared for expansion. The past fiscal year saw further up-front expenditures aimed at building up markets in South-Eastern Europe and distribution structures in North America. As a result, selling costs rose by 13.7 % to €88.7 (78.0) million and now equal 17.9 (17.6) % of net sales. Cost of production rose by 11.5 % to €312.4 (280.0) million, which was proportionate to net sales. As a result, gross profit increased by 11.3 %, to €183.0 (164.5) million. And despite extraordinary costs incurred as a result of our adoption of International Accounting Standards, administrative costs fell to 7.9 % and amounted to €39.1 (37.1) million of net sales.

At €1.1 (2.9) million, the balance of other operating income and other operating expenses was once again positive. Other operating income rose sharply, largely as a result of favorable exchange rates and increases in research subsidies grants. Other operating expenses, however, rose even more sharply. They included valuation adjustments to allowances on receivables and short-term provisions to take account of increasing risk levels in our growth markets.

High operating result

The operating result for the KWS Group improved by almost 8 % year-on-year, despite the Group's continued structural expansion in Southern and South-Eastern Europe and the investments such a high-growth region requires. In the year under review, all segments made a substantial contribution to operating result, which amounted to €56.3 (52.3) million. Particularly gratifying was the corn segment, where operating result increased by 13.2 %, bringing the segment's share to 18.8 (17.9) %. By contrast, the contributions to earnings made by the sugar beet and cereals segments fell to 55.1 (61.0) % and 6.5 (6.8) % respectively. The breeding & service segment increased its contribution to earnings this fiscal year from 14.3 to 19.6 %.

Financial results slightly lower

A smaller contribution from the potato business coupled with necessary amortization of goodwill resulted in a negative net income from participations of €–0.5 (1.3) million. The year under review saw an improvement in interest expenses, which dropped to €–4.4 million despite an increase in the amount of funds committed to €–5.4 million. Income was also generated through financial instruments used to hedge against fluctuations in interests and foreign exchange rates. The net financial income reported by the KWS Group was €–4.9 (–4.2) million. As a result, income from ordinary operations was €51.4 (48.1) million.

Tax rate reduced

The KWS Group's total tax expenditures fell by 9.6% to €16.6 (18.4) million, reducing the tax rate from 38.2% to 32.3%. The causes included tax income from previous years and lower effective tax charges in our growth markets. Without the tax income from prior years, the tax rate in Germany would not have decreased.

Net income reaches highest ever level

Despite continuing high levels of structural costs in its new markets, the KWS Group posted net income for the year of €34.8 million – well in excess of the previous year's figure of €29.8 million. Return on net sales rose from 6.7 to 7.0%.

Expansion of production and sales capacities

KWS expanded its production and sales capacities by investing €36.5 (23.9) million in property, plant and equipment and intangible assets. Its largest investments were the acquisition of US company Producers Hybrids and the expansion of its corn production plant in the south of France; the Information Center for visitors and employees at the Einbeck site was also completed.

From the total of €36.9 (24,7) million invested by KWS, 41.3% went to North and South America, 34.8% to Germany, 22.6% to other European countries and 1.3% to other foreign countries. More than half of its investments were made in the corn segment, and more than a third in the breeding & services segment.

During the fiscal year, the KWS Group posted depreciation and amortization of €16.8 million. Once again, investments exceeded depreciation/amortization by a significant margin.

Growth also visible in balance sheet indicators

With an increase of €78.1 million in the Group's total assets to €572.4 million, its equity ratio fell slightly to 57.1 (59.5)%. As a result, the company's capital resources remain excellent. The approximately 15% increase in total assets is mainly attributable to changes in working capital. Last year's excellent harvests, coupled with prime yields, resulted in significantly increased inventories in spite of higher net sales volumes. Totaling €296.5 (236.0) million, inventories and receivables accounted for around 50% of total assets. The increase in receivables is primarily due to longer payment terms on growth markets. On the balance sheet date, cash and cash equivalents, including securities, amounted to €52.9 (58.3) million. At €24.0 (44.9) million, net cash was reduced due to the increase in inventories and receivables.

Equity rose by about 11% to €326.6 (294.0) million, and fully covers noncurrent assets and inventories. Debt capital rose to €245.8 (200.4) million. While long-term borrowings remained constant at around €95 million, short-term borrowings rose by €45,9 million. These items were covered at a rate of 161% by cash and cash equivalents and receivables.

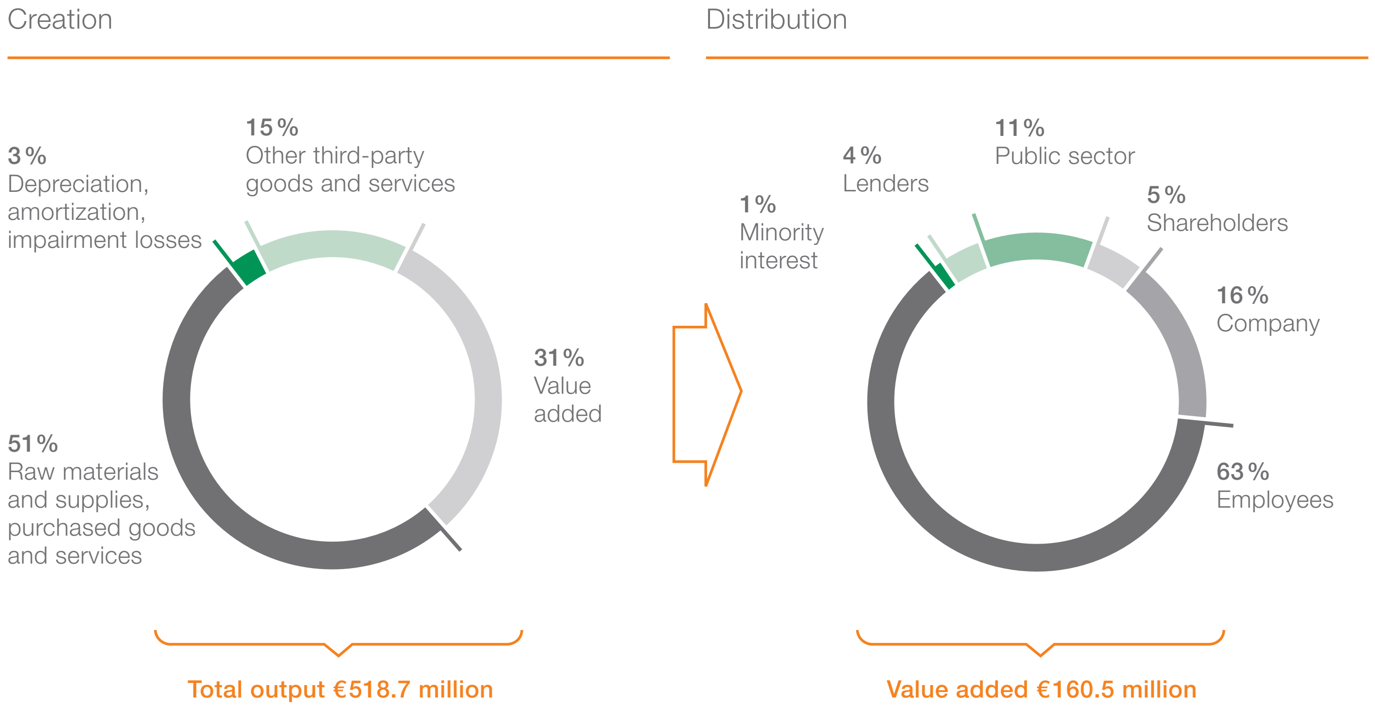
Cash flow characterized by major investments

The cash flow (DVFA/SG) amounted to €47.0 million, which represents a year-on-year increase of €4.0 million. The ratio of cash flow to net sales was 9.5 (9.7)%, which underlines the KWS Group's great financial strength. At the same time, the net funds used in investing activities rose to €30.1 (21.8) million, while increased inventories and receivables accounted for €60,5 million.

Proposed appropriation of profits

For the year under review, KWS SAAT AG reported net income of €15.4 million, compared to €14.8 million for the previous year. In January 2005, a dividend of €11.00 per share was paid for fiscal 2003/2004, resulting in a total distribution of €7.3 million. The Executive and Supervisory Boards will propose payment of a dividend of €12.00 per share at the Annual Shareholders' Meeting 2006, making the total distribution this year €7.9 million. €7.7 (7.4) million were allocated to revenue reserves.

Value added in the KWS Group



Value added

In fiscal year 2004/2005, the KWS Group generated total output of €518.7 (461.4) million, consisting of net sales of €495.3 (444.5) million and other income of €23.4 (16.9) million.

Deducting the costs of raw materials and supplies and of third-party goods and services attributable to cost of sales totaling €261.7 (214.6) million, depreciation, amortization, and impairment losses of €16.8 (16.7) million and other third-party goods and services of €79.7 (74.4) million gives value added of €160.5 (155.7) million.

The distribution was as follows: Employees received €101.4 million, including social insurance and retirement benefit costs, compared with €98.3 million in the previous year. Interest paid to lenders remained constant at €6.5 million, and public sector received €17.8 (21.0) million. Value added of €1.2 (1.6) million was distributed to minority shareholders. The shareholders will receive a dividend of €7.9 million, with the result that €25.7 (21.0) million will be retained by the company.

Sugar beet segment

In KWS' legacy segment excellent product performance generated new levels of growth. The sugar beet segment further improved its leading position on the market, posting its highest net sales ever in fiscal 2004/2005.

KWS obtained the world's first approval for distributing a herbicide-tolerant sugar beet in March 2005.

In the year under review, segment sales rose by 12.6 % to € 217.9 (193.6) million. Although the area under cultivation in the European Union remained almost unchanged from the previous year at 2.2 million hectares, KWS nevertheless achieved 10 % higher net sales of € 141 million in this region. The expected reduction in areas under cultivation following the EU's Sugar Market Regime makes the 17 % increase in net sales outside the EU's 25 states to € 77 million particularly significant. Our single most important market outside the EU is North America, which contributed a good 14 % to the segment's net sales. Our local subsidiary BETASEED maintains a stable share of 67 % on this market.

All our European regions, without exception, experienced good sales seasons. We were particularly successful in the four largest markets of France, Germany, Poland and Italy. Our market share was higher in Germany and significantly higher in France. Sales increased significantly in Italy and Poland.

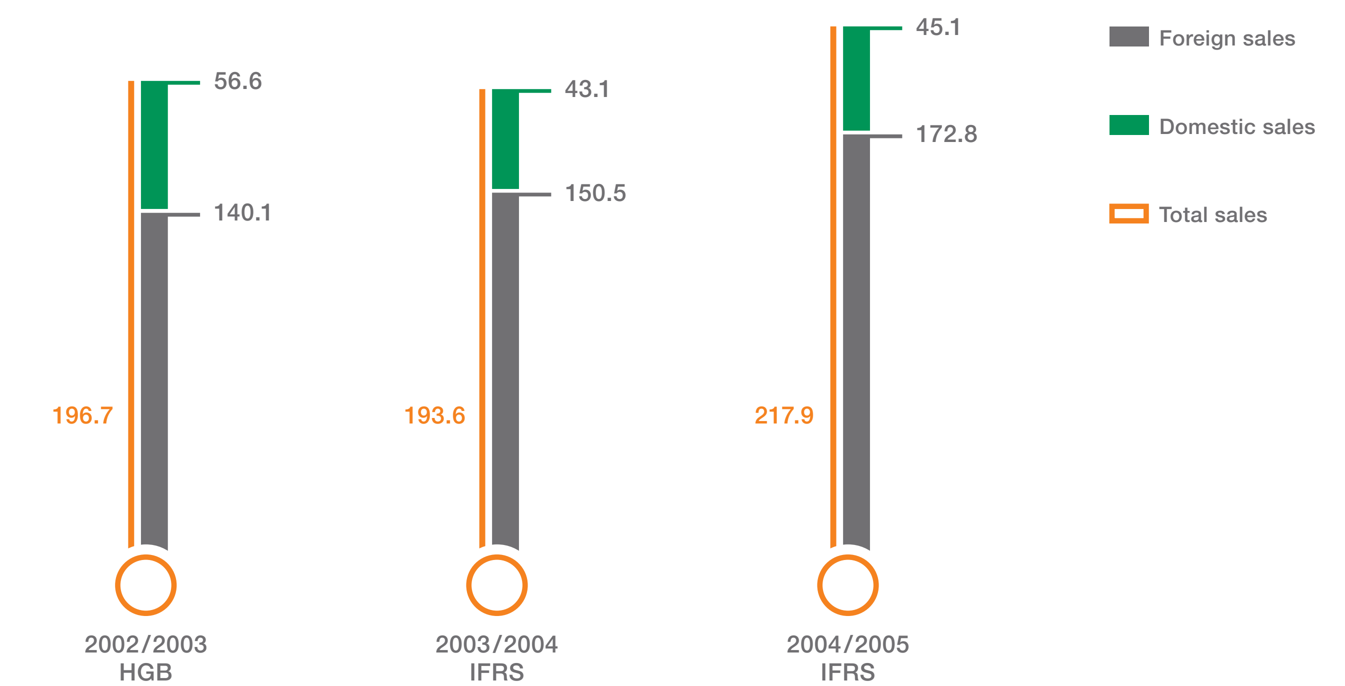
Business growth was also positive in Eastern Europe, despite far-reaching import restrictions imposed by the Ukraine. Sales in the Russian Federation already account for 7 % of total net sales for the sugar beet segment. Increased sales were also recorded in Asia, primarily in Turkey, Iran and China.

Smaller markets such as Scandinavia and the Netherlands also developed positively for KWS. In these markets, which tend to be difficult for KWS because of the competitive situation, we nevertheless managed to increase our net sales and market shares.

The operating result for the segment fell slightly to € 31.0 (31.9) million, while the return on net sales rate dropped to 14.2 (16.5) %. These figures already include substantial valuation adjustments to inventories. Seed production rose about 25 % more than planned in 2004 because of unusually favorable weather conditions. In addition, the amount of saleable seed was higher than planned. While this increase in inventories ensures an excellent supply of product that meets KWS' renowned high quality standards, it also leads to a devaluation of inventories. To avoid oversupply in the current fiscal year, seed multiplication has been reduced in 2005.

After receiving US regulatory approval for commercialization of genetically modified sugar beets resistant to Roundup Ready® in March 2005, BETASEED began preparations for seed multiplication of Roundup Ready® (RR) resistant varieties. Therefore, it is possible for RR varieties to start enhancing KWS' US product portfolio in 2007. For political reasons, however, these varieties cannot be marketed in Europe at this time.

Sugar beet segment sales in millions of €



Corn segment

The corn segment proved to be the most rapidly growing product segment within the KWS Group once again. The North American business in particular, but also the oil and field seed business within the segment, grew at above-average rates.

Special varieties of cord for generating biogas support positive growth in the corn segment.

Net sales for the corn segment increased by 13.8 % to € 217.6 (191.3) million. The segment also posted an improvement in operating results, which rose to € 10.6 (9.4) million, up 13.2 %.

All in all, our corn business in Europe was adversely affected during the past fiscal year by the decline in cultivation areas. The market volume of grain maize, in particular, fell sharply as a result of lower prices. KWS nevertheless managed to achieve a year-on-year increase in net sales and improve its market share for the region. Southern Europe, and Italy in particular, recorded especially sharp growth rates. This shows that we are beginning to reap the benefits of investments made in previous years in breeding late-maturity group varieties and setting up an associated sales organization. In the year under review, the decline in cultivation areas was most pronounced on French maize markets. Although KWS was able to maintain its market position, it was unable to match the previous year's net sales.

In the South-East Europe region, which is very important for the segment's medium-term growth prospects, not every country met its net sales target as planned levels of market penetration have still not been attained in some of them. We will therefore further increase our commitment in the region. In Hungary and Romania, KWS has reinforced its long-term position by establishing new breeding programs. The Central Europe Region is already making a significant contribution to the segment's income. The same applies to the countries of Northern Europe, where KWS has traditionally held market shares in excess of 20 %.

In Germany we maintained our market-leading position through two sales channels, KWS and AgroMais, both of which generated increases in net sales. This development was further supported by a new market segment that offers special corn varieties for the generation of biogas. This market segment already represents 5 % of the cultivated area in Germany, and KWS has already started to breed varieties specially designed for this purpose. We are therefore in an excellent position to meet the demand on this rapidly growing market.

Positive growth continued at our North American joint venture AgReliant for the fifth consecutive year since setting this company in partnership with French breeder LIMAGRAIN, the business is continuing to develop well. Fifty percent of AgReliant's net sales are consolidated in the KWS Group. Fiscal 2004/2005 saw further consolidation among our competitors in the North American market for corn and soybean seed – a market environment which favored AgReliant's continued growth, which was both organic and acquisition-driven. At the end of December 2004, AgReliant purchased Nebraska-based seed company Producers Hybrids. This acquisition complements AgReliant's already excellent market position in the Eastern and Northern Corn Belt. And with AgReliant's share of the overall market now standing at around 6 %, the acquisition further strengthened the company's position as No. four on the corn market in North America.

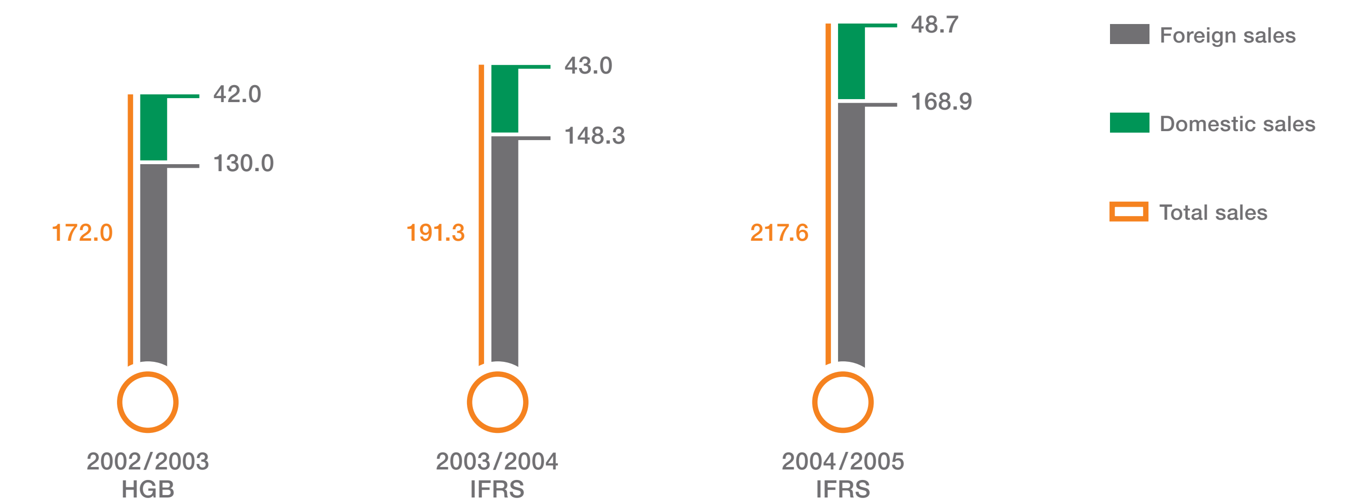
Corn sales rose by 31 %, with the total net sales of AgReliant Genetics LLC (USA) and AgReliant Genetics INC. (Canada) rising by 28 % to € 166.6 (130.0) million.

Genetically improved varieties are increasingly becoming the standard in the US. Approximately half of the corn seed AgReliant sells is genetically improved. US farmers have a distinct preference for varieties that already combine multiple genetic improvements. AgReliant is one of the few seed companies able to offer corn varieties with a combination of three genetically created resistances against a herbicid, the corn borer and the corn root worm borer – so-called "triple stacks".

Rapeseed as a source of energy

The rapeseed business almost doubled compared to last year to € 6.1 million. The greatest increase was posted by the two high-yielding hybrid varieties MIKA and ALKIDO. Rapeseed is becoming increasingly important as a source of energy in the form of biodiesel. In Germany, biodiesel is used both as a pure fuel and for blending with mineral diesel oil. A significant market for biodiesel is also developing in France.

Corn segment sales in millions of €



Cereals segment

The KWS Group's cereals business is constant year-on-year, although the market continues to be tough.

The share of foreign sales has increased to 47.5 % on European core markets for cereals and rapeseed.

Europe enjoyed record cereal harvests in 2004, which made marketing difficult and led to significant price reductions. In the key European markets of Germany, France and the United Kingdom, cultivated areas remained constant in the 2005 sowing season at 16.7 million hectares. A reduced level of seed rotation, however, had a negative effect on the certified seed market. The predominance of wheat continued, and while rye cultivation in Germany declined by about 10 %, however, sales of certified seed were stable.

During the past fiscal year, net sales for the segment, which is served by the LOCHOW-PETKUS Group, remained constant year-on-year at € 52.4 (52.7) million. The proportion of international net sales within the segment continued to rise from 42.5 % to 47.5 % – further validating LOCHOW-PETKUS's growth strategy on the key European markets. Segment earnings remained unchanged at € 3.6 (3.6) million, with improvements in the wheat business compensating for lower rye sales.

The success of our cereal breeding activities, which consist of an integrated network of breeding and testing stations stretching across the whole of North-West Europe, is reflected in the fact that we have been granted marketing approval for a further 21 (39) varieties this year. Our most exciting new variety is POLLINO, a hybrid rye based on the PollenPlus® concept which LOCHOW-PETKUS developed. Its outstanding pollen donating ability considerably reduces the risk of ergot fungus infestation. This represents major progress in breeding, especially in light of POLLINO's potentially high agronomic performance.

The fact that LOCHOW-PETKUS's varieties now account for around 90,000 hectares of multiplication area is a forceful reminder of the extent to which the company has captured the market. The continued growth of wheat and barley in combination with our outstanding range of rye products has further strengthened LOCHOW-PETKUS's position as a leading European cereal breeding company. And with its 25 % share of the wheat multiplication area in Germany, LOCHOW-PETKUS is now the largest wheat breeder in the country. In order to ensure that these positive developments in the cereals segment continue, the company has increased its involvement in basic research by participating in wheat and barley genome research projects.

On July 1, 2005, LOCHOW-PETKUS acquired the remaining 26 % share in its English subsidiary CPB TWYFORD, making it the sole shareholder.

Cereals segment revenue in millions of €

Breeding & services segment

New products for global markets: corn as a source of energy for Germany, rapeseed hybrids for the United Kingdom, malting barley for Russia and herbicide-tolerant sugar beet for the US. They all come from the breeding & services segment of KWS.

The number of international marketing approvals for new varieties increased from 231 to 241 last year.

The Institute for Plant Breeding represents the core of the breeding & services segment. With its wide range of breeding and research activities it lays the basis for the product segments of KWS. In addition, the breeding & services segment includes: KWS corporate functions, its potato activities – in the form of its share in the SAKA-RAGIS Group – and its farm operations.

The segment's success in fiscal year 2004/2005 is reflected in its net sales, which rose by 7.2 %, to € 110.4 (103.0) million, but even more so in its operating income, which rose by 48.6 % to € 11.1 (7.4) million. 93 % of the segment's net sales came from KWS-internal royalties paid by the product segments for the development of varieties. Sales of farm products and breeding services to third parties reached € 7.4 (6.9) million.

The number of international marketing approvals for KWS varieties rose to 241 (231) – proof that our product pipeline will be well filled for several years to come. Many of our candidates were successful in official variety tests, resulting in 125 (99) approvals for sugar beet, 88 (85) for corn, 21 (39) for cereals and 7 (8) for oil and catch crops.

In addition, specialty varieties were promoted in official field trials, for example corn varieties particularly suited for the production of biogas, as a source of renewable energy. Against a background of finite fossil fuels, increasing environmental and climatic concerns and rising energy prices, the use of biomass for the production of energy is on the rise. Experts predict that in Germany up to two million hectares might be allocated for the cultivation of energy crops in the near future. However, achieving this goal is and will continue to be a tremendous challenge for agronomy and plant breeding. Breeding for biomass represents a paradigm change. To date, corn is the major "energy crop". KWS currently offers conventional silage corn varieties (GAVOTT, CAMPESINO, SAMPAIO), which provide high dry mass yields required for cost-efficient energy production in biogas plants. Employing new breeding approaches, KWS will increase the dry mass production of corn to approximately 300 dt/ha, from the current level of 150 – 180 dt/ha. The first pure "energy corn" varieties are expected to obtain approval in the spring of 2007.

KWS successfully breeds first genetically engineered sugar beet

The genetically engineered Roundup-Ready (RR) sugar beet is the result of a cooperative effort between KWS and Monsanto. The cultivation of herbicide-tolerant sugar beet allows the reduction of chemical plant protection, resulting in lower production costs for the farmer. The commercial cultivation of RR sugar beet has already been approved in the US. The export of processed products to important markets such as Canada, Japan, Australia, New Zealand, and the Philippines is already permitted. In the US, the first large-scale cultivation of RR sugar beet is expected for 2007. Though not approved for commercial cultivation in the EU, yet, RR sugar beet also offers major potential for Europe, particularly in view of the envisaged EU Sugar Market Reform.

EU Sugar Market Reform – KWS breeders accept the challenge

The pending reform of the EU Sugar Market Regime will place sugar beet in greater competition with sugar cane. This requires even greater efforts to improve sugar beet productivity. Sugar beet breeders at KWS are facing up to the challenge. A major issue for sugar beet breeding is the negative correlation between root yield and sugar content. The breeding goal is to brake this correlation and to simultaneously increase both root yield and sugar content of new varieties.

As another consequence of the Sugar Market Reform, resistance breeding will become even more important in future. Rationalization in sugar beet cultivation will lead to a concentration of the beet acreage in the vicinity of sugar factories. These areas may succumb to serious infestation with pathogens, in particular beet nematodes. KWS is developing highly productive nematode-resistant sugar beet varieties and thus offers a ground-breaking solution to better position the company to face the pending reform of the EU Sugar Market Regime.

Integrating the results of genome research into corn breeding

The genome represents the sum of all genes of an organism. Genome research is concerned with the decoding of genes in order to analyze the structure and interaction of genetic information. For several years, KWS has been engaged in international plant genome research projects (GABI and EUREKA). Taking corn as an example, genes have been identified that are involved in the determination of agronomically important properties such as cold tolerance, nitrogen efficiency and plant digestibility. The first results are already being applied in practical corn breeding at KWS.

Potato activities at SAKA-RAGIS

2004/2005 was a difficult year for potatoes. High harvest volumes and consequently low prices across the EU led to major marketing problems for both table and processing potatoes. This in turn led to a decline in cultivation area and a higher percentage of farm-saved tubers being used in the 2005 planting season. As a result of this negative market cycle, KWS' associated company, SAKA-RAGIS, posted significantly lower (44.5 %) net sales than the previous year. Income was also unsatisfactory.

Innovation drives KWS' work – 36 % of employees work in research and development.

Outlook for the 2005/2006 fiscal year

The reform of the European Sugar Market Regime will have a significant impact on the current fiscal year 2005/2006.

While the corn segment is expected to continue the rapid growth enjoyed in recent years and last fall's cereal grain plantings resulted in solid net sales growth, the effects of the Sugar Market Regime on our **sugar beet segment** are difficult to predict. Overall, however, the KWS Group expects to be able to compensate for the sugar beet segment's expected drop in net sales with increases in the corn segment.

Originally, the EU's resolutions on the reform of the sugar market were supposed to be passed in 2005. Now it is doubtful that this will happen before the coming sowing season in April 2006. In any case, the resolutions will come too late to adjust to the new conditions. This is particularly true with respect to seed production, because we had to produce the seed for the coming sowing season in the 2005 cultivation year without being able to estimate how the cultivation area in Europe would develop. Given that it amounted to 2.2 million hectares in 2005, we are now working on a basis of 1.7 million hectares in 2006.

The proposals for the sugar market reform include one-time opt-out allowances for both the sugar industry and farmers. Whether farmers will take advantage of these already in 2006 will depend on the ability to shut down sugar refineries over the short term or on the availability of alternative crops for the individual farmer. We therefore do not intend to undertake any major restructuring in either seed production or marketing in the current fiscal year. We also do not intend to reduce our breeding activities to any extent, as in the long term the main objective must be to further increase the genetic superiority of sugar beet over sugar cane.

Nevertheless, we are preparing for a decline in cultivation areas of up to 20 % in the high-margin markets of the EU's 25 states over the course of this fiscal year, while we expect to see continued growth outside of the EU's 25 states.

We are again expecting pronounced growth in both sales and earnings in the **corn segment** during the current fiscal year. Furthermore, with our new high-yielding varieties and efficient production and sales organizations within the various markets, we are expecting further increases in net sales in all regions, particularly in North America, South-Eastern Europe and Southern Europe, but also in Germany as a result of the added impetus to growth provided by biomass.

We are also expecting sharp increases in sales of **rapeseed**, especially in Germany, France and Poland. The market for biodiesel made from rapeseed will also continue to grow during the current fiscal year, helping European governments to meet their Kyoto Protocol commitments to reduce CO_2 emissions.

The renewed excellent grain harvest of 2005 is having a negative effect on our current business in the **cereals segment**. As considerable quantities of last year's consumption grain have yet to be marketed, no recovery in prices is in sight. As this difficult market situation continues, less certified seed is being used for sowing in the fall of 2005. However, thanks to the continuing stabilization of the rye business, net sales for the segment as a whole are expected to be only slightly lower than last year's.

Most of the effects of the sugar market reform described above are expected to be felt in fiscal 2005/2006, while the effects of compensatory measures implemented in the sugar beet segment, together with the continued expansion of markets outside the EU's 25 states, will only be felt over the medium-term. On the other hand, since we expect the significant growth in the corn segment to continue, we are expecting the KWS Group's financial statements for 2005/2006 to show a slight overall increase in net sales with reduced earnings.

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 operates. The following section provides an overview of industry- and company-related risks and describes its risk management goals and methods.

Recognizing perspectives – at KWS that means: grasping entrepreneurial opportunities and considering risks.

Risk management
Risk management, which is an integral part of the KWS Group's planning, controlling and reporting processes, is aimed at systematically identifying, evaluating, controlling and documenting risks. It comprises strategic controlling, operational controlling, the quality and process monitoring system and an early warning system to identify serious risks.

Key risks from operating activities
Our business operations are subject to the usual market risks resulting from sales and currency uncertainties.

Financial and currency risks
The usual derivative instruments are used to hedge interest rate and currency risks, which tend mainly to stem from foreign currency seed sales and breeding expenses. As a result of its reliable credit sources and liquidity management, KWS currently has no identifiable liquidity risks. Receivables risk is minimized through efficient credit management with set credit limits and the associated monitoring of customers' credit ratings and payment behavior.

Product and production risks
Reductions in the cultivation areas for sugar beet, corn and rye were amply compensated for by gains in market share and increased net sales in other product areas, particularly for rapeseed and wheat. This is how our broad product range and the geographical distribution of our production sites contribute to the diversification of risks.

Sugar beet cultivation in Europe will have to become even more efficient if its economic and ecological advantages are to provide leverage in the competition with sugar cane over the long term. As in the past, sugar beet breeding will be of crucial importance in this process. The advantages of sugar beet include the fact that, despite its comparable yield potential, it requires less use of pesticides and fertilizers and much less water than sugar cane and can be included in resource-saving annual crop rotation programs. Despite all this, sugar cane cultivation is expanding rapidly, especially in tropical areas, where it often involves excessive rainforest clearing.

Weather conditions have considerable influence on the breeding and multiplication processes of plant breeders. Weather conditions in 2004/05 led to record harvests, resulting in increased inventories. Provisions for possible losses on inventories resulted in additional charges. We counteract storm damage and climate change by dispersing breeding and production sites throughout the temperate climate zones around the globe.

Risks arising from the reform of EU Sugar Market Regime
The agricultural policy framework in particular has a major impact on our sugar beet seed business. On June 22, 2005 the EU Commission published its latest proposals for the forthcoming reform of the EU's Sugar Market Regime. They include merging A and B quotas, reducing sugar prices by 39 % to €386 per ton and reducing sugar beet prices by 43 % to €25.05 per ton. This process is to be completed gradually until the end of farming year 2007/2008 and cushioned by payments to farmers of 60 % of their lost income. At the same time, a voluntary restructuring program involving further compensation payments will be aimed at encouraging the sugar industry and farmers in general to bail-out of sugar production.

International trade policies are the main reason for the reform of the sugar market. On the one hand, the EU is committed through the "Everything But Arms" initiative to open its markets to agricultural products from the poorest developing countries starting in 2009. On the other hand, it already re-exports surplus sugar originally imported from countries in Africa, the Caribbean and the Pacific (the ACP states). In addition, the WTO panel ruling of April 28, 2005 prohibits both the export of European cane sugar and the re-export of ACP sugar, as they represent subsidized agricultural exports. As a result, the EU will have to greatly reduce the amount of sugar it produces if it is to meet its obligations to the ACP states and other less-developed countries.

Research and development
A further risk lies in European – and in particular German – reservations about genetically engineered crops in agriculture. The cultivation area of such plants is growing steadily in many countries. In Europe, however, their market launch on any significant scale is not in sight, and in Germany it has been effectively ruled out by the amendment to the Genetic Engineering Act in the summer of 2004. As a consequence, both research and commercial cultivation are facing severe competitive disadvantages, although increasing quantities of products from genetically engineered plants are being imported – and have been consumed here for more than 15 years now, apparently without posing any identifiable risk.

Other risks
From a risk perspective, decisions regarding investments in construction and research projects present a particular challenge. Decisions of this kind are prepared and implemented in accordance with specific rules governing responsibilities and approval processes.

Employees

Creative people are innovative and always come up with new ideas. They think “outside the box” and constantly question standards and rules. To do so, they must have courage, determination and confidence.

An excellent working climate creates commitment: and that includes freedom.

KWS encourages these attributes in a number of ways. Successful managers allow creative team members the freedom to be innovative. Making good use of this freedom requires not only courage, but suitable structures and processes that test the practicability and economic potential of new ideas.

This kind of freedom was one of the topics discussed at KWS’ first International Management Circle. In the fall of 2004, KWS managers from all over the world met for the first time at our breeding station in Seligenstadt, near Würzburg, to exchange information and ideas. Taking advantage of this new network they discussed the various aspects of corporate development and expressed great satisfaction at the expertise gained during the event. This gathering is to become an annual event, with staff development a permanent item on the agenda.

Facts and figures

Fiscal 2004/05 saw KWS’ workforce grow to 2,550 (2,516) people, 797 (793) of whom are employed by KWS SAAT AG. That’s around one third of all employees.

At KWS SAAT AG, personnel expenses rose by 2.5 % to € 37.2 (36.3) million. Within the KWS Group as a whole, personnel expenses rose by 3.2 % to € 101.4 (98.3) million. The current wage agreement, which includes a distinctive social component, took effect on July 1, 2005 and will remain in force for 24 months. The agreed adjustments to wages and salaries will come into force in two stages. On July 1 of each respective year, pay for all groups will be raised by a fixed amount. Another achievement of the pay talks was the merging of various variable one-time payments and their first-time inclusion in the pay agreement as a performance-based entitlement.

For KWS, we also signed a works agreement with the works council committing the company to contribute to the child care costs of KWS employees starting on July 1, 2005.

Focus on continuing training and development

In an average year, KWS provides agricultural, technical and/or commercial training for 76 (75) trainees. The proportion of the workforce undergoing training at KWS SAAT AG has remained at around 9.5 % for several years now. We thus make a major contribution to the training offered in the region and train more people than we actually need ourselves. For this reason, it is not possible to offer permanent employment to all trainees after they complete their programs.

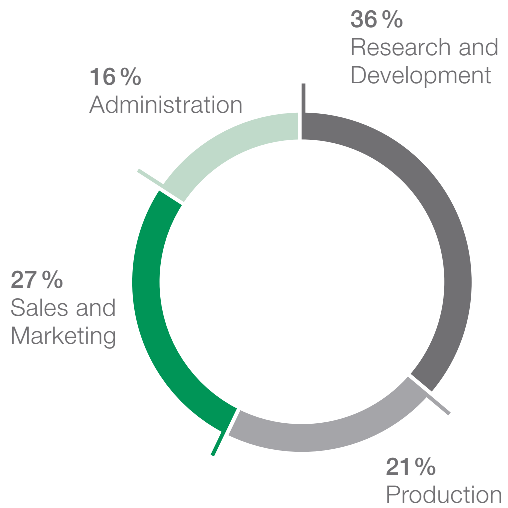
We aim to recruit from within our own ranks. As recruiting is becoming increasingly international, we are now finding that we can employ some of our trainees in our foreign subsidiaries once they have successfully completed their training – an option which turned out to be very popular.

At the same time, we are also expanding our trainee program. Our training program includes placements in different areas of the business, which helps trainees to really get to know the company. We have also made it compulsory to attend special seminars designed for the various trainee programs, and we organize individually tailored trips abroad. Trainees rate these components of their trainee program very highly.

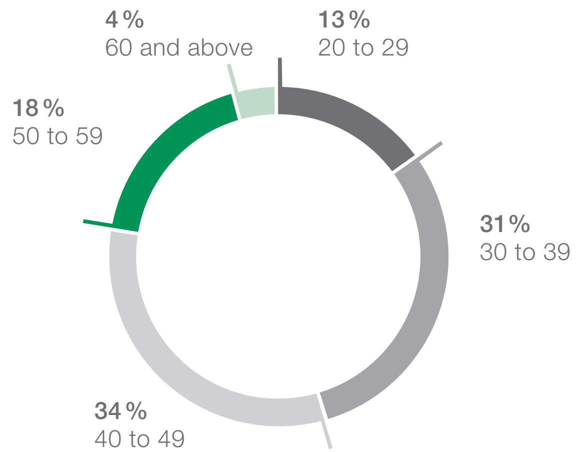
In this way, we systematically acquire qualified junior employees with intercultural experience for all areas of the KWS Group.

Now, as ever, openness and trust are fundamental to the relationship between people and the company they are working for. We make this possible.

KWS Group employees by role



KWS Group employees by age



Key Figures of the KWS Group

Fiscal year	04/05*	03/04*	figures in millions of € 02/03	01/02	00/01
Net sales	**495.3**	444.5	424.3	433.7	392.8
Operating income	**56.3**	52.3	50.0	51.8	52.9
as a % of net sales	**11.4**	11.8	11.8	12.0	13.5
Net income	**34.8**	29.8	28.9	29.7	28.1
as a % of net sales	**7.0**	6.7	6.8	6.9	7.2
Cash flow (after tax)	**47.0**	43.0	52.1	53.4	48.8
Equity	**326.6**	294.0	226.1	211.7	201.2
Equity ratio in %	**57.1**	59.5	52.5	49.2	48.6
Balance sheet total	**572.4**	494.4	431.0	430.1	414.1
Return on equity in %	**10.8**	10.1	14.2	15.4	17.0
Return on assets in %	**7.5**	6.5	7.2	7.8	8.2
Fixed assets	**185.6**	169.2	120.7	124.0	115.3
Capital expenditure	**36.9**	24.7	20.7	34.2	24.9
Depreciation	**16.8**	16.7	21.1	18.2	17.7
Average number of employees	**2.550**	2.516	2.336	2.233	2.106
Personnel costs	**101.4**	98.3	97.0	97.8	84.1
Performance of KWS shares in €					
Lowest price	**570**	470	451	450	520
Highest price	**769**	684	535	540	690
Dividend per share	**12.0**	11.0	11.0	11.0	11.0

* under IFRS

Annual Financial Statements of the KWS Group **2004/2005**

Balance Sheet

at June 30, 2005

ASSETS	Note No.	June 30, 2005	Previous year
		€ thousands	
Intangible assets	(2)	28,923	19,640
Biological assets		64	63
Property, plant, and equipment	(3)	141,987	132,765
Investments in affiliated companies	(4)	6,045	7,777
Other financial assets	(5)	8,586	8,913
Deferred tax assets	(6)	12,768	9,969
Noncurrent assets		198,373	179,127
Inventories	(7)	106,083	74,839
Trade receivables	(8)	190,452	161,165
Available-for-sale securities	(9)	20,844	7,469
Cash and cash equivalents	(10)	32,011	50,819
Other current assets	(8)	24,674	20,952
Current assets		374,064	315,244
Total assets		572,437	494,371

EQUITY AND LIABILITIES	Note No.	June 30, 2005	Previous year
		€ thousands	
Subscribed capital		17,000	17,000
Capital reserve		5,530	5,530
Retained earnings		283,343	252,243
Minority interest		20,739	19,218
Equity	(11)	326,612	293,991
Long-term provisions		69,278	69,937
Long-term borrowings		7,858	6,243
Deferred tax liabilities		16,836	17,961
Other long-term liabilities		1,140	1,389
Noncurrent liabilities	(12)	95,112	95,530
Short-term provisions		56,646	34,105
Short-term borrowings		20,987	7,179
Trade payables		37,417	27,717
Current tax payables		8,294	11,317
Other liabilities		27,369	24,532
Current liabilities	(13)	150,713	104,850
Liabilities		245,825	200,380
Total equity and liabilities		572,437	494,371

Income Statement

for the period July 1, 2004 through June 30, 2005

	Note No.	2004/05	Previous year
		€ thousands	
Net sales	(16)	495,326	444,492
Cost of sales		312,357	280,026
Gross profit on sales		182,969	164,466
Selling expenses		88,655	77,987
General and administrative expenses		39,108	37,113
Other operating income	(17)	21,275	13,742
Other operating expenses	(18)	20,155	10,816
Operating income		56,326	52,292
Interest and other income		2,042	1,662
Interest and other expenses		6,484	7,091
Share of profit from affiliated companies		–488	1,128
Other income from equity investments		4	146
Net financial income/expenses	(19)	–4,926	–4,155
Result of ordinary activities		51,400	48,137
Income taxes	(20)	16,616	18,373
Net income for the year	(22)	34,784	29,764
Share of minority interest		1,196	1,575
Net income after minority interest		33,588	28,189
Earnings per share (in €)		50.89	42.71

Statement of Changes in Fixed Assets 2004/05

Values in € thousands, unless otherwise specified.

	Gross values							Amortization/depreciation								Net book values	
	Balance 1.7.2004	Currency translation	Changes in the consol. group	Additions	Disposals	Transfers	Balance 30.6.2005	Balance 1.7.2004	Currency translation	Changes in the consol. group	Additions	Reversal of impairment losses	Disposals	Transfers	Balance 30.6.2005	Balance 30.6.2005	Previous year
Intangible assets																	
Patents, industrial property rights, and software	12,923	19	–165	1,781	173	79	14,464	8,790	16	–148	988	0	112	0	9,534	4,930	4,133
Goodwill	39,580	111	0	9,083	153	0	48,621	24,073	50	0	568	0	63	0	24,628	23,993	15,507
	52,503	130	–165	10,864	326	79	63,085	32,863	66	–148	1,556	0	175	0	34,162	28,923	19,640
Biological assets																	
Animal livestock	50	5	0	0	4	0	51	0	0	0	0	0	0	0	0	51	50
Plants	13	0	0	0	0	0	13	0	0	0	0	0	0	0	0	13	13
	63	5	0	0	4	0	64	0	0	0	0	0	0	0	0	64	63
Property, plant, and equipment																	
Land and buildings	128,639	763	62	5,515	3,471	3,520	135,028	39,933	242	–1	4,094	0	3,663	6	40,611	94,417	88,706
Technical equipment and machinery	102,938	1,251	–680	6,252	1,681	2,447	110,527	78,467	979	–477	6,118	0	1,850	–77	83,160	27,367	24,471
Operating and office equipment	52,879	599	134	4,284	3,709	886	55,073	37,972	503	74	5,006	0	2,718	71	40,908	14,165	14,907
Payments on account	4,681	275	0	9,591	1,577	–6,932	6,038	0	0	0	0	0	0	0	0	6,038	4,681
	289,137	2,888	–484	25,642	10,438	–79	306,666	156,372	1,724	–404	15,218	0	8,231	0	164,679	141,987	132,765
Financial assets																	
Affiliated companies	7,777	0	0	76	1,808	0	6,045	0	0	0	0	0	0	0	0	6,045	7,777
Other financial assets	8,918	0	–323	381	390	0	8,586	5	0	–4	0	1	0	0	0	8,586	8,913
	16,695	0	–323	457	2,198	0	14,631	5	0	–4	0	1	0	0	0	14,631	16,690
Assets	358,398	3,023	–972	36,963	12,966	0	384,446	189,240	1,790	–556	16,774	1	8,406	0	198,841	185,605	169,158

Statement of Changes in Fixed Assets 2003/04

Values in € thousands, unless otherwise specified.

	Gross values							Amortization/depreciation								Net book values	
	Balance 1.7.2003	Currency translation	Changes in the consol. group	Additions	Disposals	Transfers	Balance 30.6.2004	Balance 1.7.2003	Currency translation	Changes in the consol. group	Additions	Reversal of impairment losses	Disposals	Transfers	Balance 30.6.2004	Balance 30.6.2004	Previous year
Intangible assets																	
Patents, industrial property rights, and software	13,488	−116	0	380	829	0	12,923	8,777	64	0	777	0	828	0	8,790	4,133	4,711
Goodwill	38,893	−224	0	911	0	0	39,580	23,426	−34	0	681	0	0	0	24,073	15,507	15,468
	52,381	−340	0	1,291	829	0	52,503	32,203	30	0	1,458	0	828	0	32,863	19,640	20,179
Biological assets																	
Animal livestock	71	−2	0	0	19	0	50	0	0	0	0	0	0	0	0	50	70
Plants	13	0	0	0	0	0	13	0	0	0	0	0	0	0	0	13	13
	84	−2	0	0	19	0	63	0	0	0	0	0	0	0	0	63	83
Property, plant, and equipment																	
Land and buildings	120,422	−681	0	9,578	3,844	3,164	128,639	39,741	−342	0	4,013	0	3,488	9	39,933	88,706	80,681
Technical equipment and machinery	103,794	−645	0	4,441	6,560	1,908	102,938	78,822	−436	0	6,293	0	6,292	80	78,467	24,471	24,972
Operating and office equipment	53,198	−672	0	4,014	4,281	620	52,879	37,197	−309	0	4,928	0	3,755	−89	37,972	14,907	16,002
Payments on account	5,992	−68	0	4,564	115	−5,692	4,681	0	0	0	0	0	0	0	0	4,681	5,991
	283,406	−2,066	0	22,597	14,800	0	289,137	155,760	−1,087	0	15,234	0	13,535	0	156,372	132,765	127,646
Financial assets																	
Investments in affiliated companies	9,956	0	0	1,932	1,748	−2,363	7,777	0	0	0	0	0	0	0	0	7,777	9,957
Other financial assets	6,618	−1	0	53	115	2,363	8,918	1	0	0	4	0	0	0	5	8,913	6,616
	16,574	−1	0	1,985	1,863	0	16,695	1	0	0	4	0	0	0	5	16,690	16,573
Assets	352,445	−2,409	0	25,873	17,511	0	358,398	187,964	−1,057	0	16,696	0	14,363	0	189,240	169,158	164,481

Statements of Changes in Equity

Values in € thousands, unless otherwise specified.

	Parent Company						Minority Interests				Group Equity
				Comprehensive Other Group Income				Comprehensive Other Group Income			
	Subscribed capital	Capital reserve	Accumulated Group equity from earnings	Adjustments from currency translation	Other transactions	Equity	Minority interest	Adjustments from currency translation	Other transactions	Equity	
Balance as at June 30, 2003	17,000	5,530	234,198	0	0	256,728	17,511	0	0	17,511	274,239
Dividends paid			−7,260			−7,260	−513			−513	−7,773
Changes in the consolidated group						0				0	0
Other changes						0	622			622	622
Consolidated net income			28,189			28,189	1,575			1,575	29,764
Other recognized gains (losses)				−3,082	198	−2,884		23		23	−2,861
Total consolidated gains (losses)			**28,189**	**−3,082**	**198**	**25,305**	**1,575**	**23**		**1,598**	**26,903**
Balance as at June 30, 2004	17,000	5,530	255,127	−3,082	198	274,773	19,195	23	0	19,218	293,991
Dividends paid			−7,260			−7,260	−545			−545	−7,805
Changes in the consolidated group					683	683	−90			−90	593
Other changes					260	260	570			570	830
Consolidated net income			33,588			33,588	1,196			1,196	34,784
Other recognized gains (losses)				3,603	226	3,829		390		390	4,219
Total consolidated gains (losses)			**33,588**	**3,603**	**226**	**37,417**	**1,196**	**390**	**0**	**1,586**	**39,003**
Balance as at June 30, 2005	17,000	5,530	281,455	521	1,367	305,873	20,326	413	0	20,739	326,612

Cash Flow Statement

	Note	€ Thousands 2004/05	Previous year
Net income (including minority interest) before extraordinary items		34,784	29,764
Depreciation/reversal of impairment losses (–) on property, plant, and equipment		16,774	16,696
Increase/decrease (–) in long-term provisions		–659	–872
Other noncash expenses/income (–)		–3,664	–3,102
Cash earnings according to DVFA/SG		**47,235**	**42,486**
Increase/decrease (–) in short-term provisions		23,242	–210
Net gain (–)/loss from the disposal of assets		–266	158
Increase (–)/decrease in inventories, trade receivables, and other assets not attributable to investing or financing activities		–63,017	–11,711
Increase/decrease (–) in trade payables and other liabilities not attributable to investing or financing activities		3,887	5,886
Net cash from operating activities	(A)	**11,081**	**36,609**
Proceeds from disposals of property, plant, and equipment		2,477	1,125
Payments (–) for capital expenditure on property, plant, and equipment		–23,169	–22,598
Proceeds from the disposal of intangible assets		152	2
Payments (–) for capital expenditure on intangible assets		–3,996	–1,291
Proceeds from disposal of financial assets		2,198	1,863
Payments (–) for financial assets		–381	–856
Proceeds from the disposal of consolidated companies and other business units		218	0
Payments (–) for the acquisition of consolidated companies and other business units		–7,635	0
Net cash from investing activities	(B)	**–30,136**	**–21,755**
Proceeds from additional capital		1,200	620
Dividend payments (–) to shareholders parent and minority		–7,805	–7,773
Proceeds from issuing bonds and borrowings		41,182	5,912
Payments (–) to redeem bonds and borrowings		–25,759	–27,806
Net cash from financing activities	(C)	**8,818**	**-29,047**
Net cash changes in cash and cash equivalents		**–10,237**	**–14,193**
○ Effect of exchange rate changes on assets		–1,234	1,353
○ Effect of exchange rate changes on equity		3,993	–3,059
○ Others		2,045	200
Changes in cash and cash equivalents due to exchange rate, consolidated group, and measurement changes		**4,804**	**–1,506**
Cash and cash equivalents at beginning of year		58,288	73,987
Cash and cash equivalents at end of year	(D)	**52,855**	**58,288**

Notes to the Cash Flow Statement

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

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

(A) Cash flows from operating activities

The cash proceeds from operating activities are primarily determined by the cash earnings according to DVFA/SG, which increased by €4,749 thousand to €47,235 thousand. The proportion of DVFA/SG cash earnings included in sales was 9.5% (8.6%). The increase in inventories and receivables used €63,017 thousand (€11,711 thousand). The cash proceeds from operating activities include interest income of €1,681 thousand (€1,567 thousand) and interest expense of €3,224 thousand (€3,929 thousand). Income tax payments amounted to €24,567 thousand (€12,436 thousand).

(B) Cash flows from investing activities

A net total of €30,136 thousand (€21,755 thousand) was required to finance investing activities. An amount of €27,165 thousand (€23,889 thousand) was paid for intangible and tangible assets and an amount of €381 thousand (€856 thousand) for financial assets. There were total cash receipts of €4,827 thousand (€2,990 thousand) for disposals of assets. In the fiscal year under review, interests in companies were acquired for a total purchase consideration of €9,468 thousand and sold for a total disposal consideration of €218 thousand; €7,635 thousand of the purchase consideration and 100% of the disposal consideration was cash.

(C) Cash flows from financing activities

Financing activities resulted in cash proceeds of €8,818 thousand (–€29,047 thousand). The profit distributions related to the dividends of €7,260 thousand (€7,260 thousand) paid to the shareholders of KWS SAAT AG and profit distributions of €545 thousand (€513 thousand) paid to other shareholders of fully consolidated subsidiaries. In addition, there were new borrowings of €41,182 thousand (€5,912 thousand) and liabilities of €25,759 thousand (€27,806 thousand) were repaid.

(D) Supplementary information on the cash flow statement

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

Cash and cash equivalents includes €6,214 thousand (€8,414 thousand) from partially consolidated companies.

Information on acquisitions and disposals of subsidiaries and other business units	2004/05	Previous year
Total amount of all purchase prices	9,468	0
Total amount of sales prices	218	0
Total amount of cash components of purchase prices	7,635	0
Total amount of cash components of sales prices	218	0
Total amount of all cash and cash equivalents acquired with the companies	2,265	0
Total amount of all cash and cash equivalents sold with the companies	127	0

Amounts of other assets and liabilities acquired or sold with the companies	2004/05 acquired	2004/05 sold	Previous year acquired	Previous year sold
Assets	1,799	378	0	0
Current assets, incl. prepaid expenses (excluding cash and cash equivalents)	12,673	1,051	0	0
Provisions	850	104	0	0
Liabilities, incl. deferred income	14,239	1,226	0	0

Segment reporting

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

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

- Sugar beet
- Corn
- Cereals
- Breeding & services

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

Description of segments

Sugar beet

The results of the multiplication, processing and distribution activities for sugar beet seed are reported under the sugar beet segment. Under the leadership of KWS SAAT AG, thirteen (twelve) foreign subsidiaries and affiliated companies and one (zero) 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 fourteen (twelve) foreign companies of the KWS Group. The production and distribution activities of this segment relate to corn for grain and silage corn, and to oil and field seed.

Cereals

The lead company of this segment, which essentially concerns the production and distribution of hybrid rye, wheat, and barley, as well as oil and field seed, is LOCHOW-PETKUS GMBH, an 81%-owned subsidiary of KWS SAAT AG, with its three (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. In addition, the Group's potato activities represented by its investment in the SAKA-RAGIS Group and its agricultural operations and consulting services for the KWS Group and other customers are assigned to this segment.

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

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

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

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

Segment information

Segment sales contains both sales from third parties (external sales) and sales between the segments (intersegment sales). The prices for intersegment sales are determined on an arm's-length basis.

	Segment sales		Internal sales		External sales	
	2004/05	Previous year	2004/05	Previous year	2004/05	Previous year
Sugar beet	217,908	193,688	0	43	217,908	193,645
Corn	217,842	191,422	238	160	217,604	191,262
Cereals	54,645	53,684	2,267	969	52,378	52,715
Breeding & services	110,382	102,973	102,946	96,103	7,436	6,870
KWS Group	600,777	541,767	105,451	97,275	495,326	444,492

The breeding & services segment generates 93.3% (93.3%) of its sales from the other segments. The sales of this segment represents 1.5% (1.5%) of the Group's external sales.

The sugar beet segment is the largest contributor of external sales, accounting for 44.0% (43.6%) of external sales, followed by corn with 43.9% (43.0%) and cereals with 10.6% (11.9%).

External sales by region	2004/05	Previous year
Germany	124,628	119,423
Europe (excluding Germany)	230,590	209,386
Americas	117,550	99,656
Rest of world	22,558	16,027
	495,326	444,492

71,7% (74,0%) 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 €16,774 thousand (€16,696 thousand) allocated to the segments relate exclusively to intangible assets and property, plant, and equipment. An impairment loss on goodwill of €564 thousand was recognized for SAKA-RAGIS PFLANZENZUCHT GBR; it is reported as part of finance costs.

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.

	Segment earnings		Depreciation and amortization		Other noncash items		Assets		Liabilities	
	2004/05	Previous year	2004/05	Previous year	2004/05	Previous year	2004/05	Previous year	2004/05	Previous year
Sugar beet	31,015	31,899	4,658	4,564	8,719	7,788	146,254	136,117	20,972	18,930
Corn	10,600	9,368	1,937	1,178	6,701	25,452	189,060	130,573	86,862	63,893
Cereals	3,638	3,575	1,547	1,382	215	627	27,734	24,927	7,208	6,567
Breeding & services	11,073	7,450	8,632	9,572	13,086	3,246	133,961	128,646	78,318	73,033
Total segments							**497,009**	**420,263**	**193,360**	**162,423**
Others							75,428	74,108	52,465	37,957
KWS Group	**56,326**	**52,292**	**16,774**	**16,696**	**28,721**	**37,113**	**572,437**	**494,371**	**245,825**	**200,380**

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 operating liabilities attributable to the segments include the borrowings reported on the balance sheet, less provisions for taxes and the portion of other liabilities that cannot be charged directly to the segments or indirectly allocated to them by means of an appropriate cost formula. Borrowings are added to operating liabilities only when they exceed the available cash. Assets or liabilities that have not been allocated to the segments are reported as “Others”.

Capital expenditure on assets was mainly attributable to the corn segment and amounted to €18,708 thousand (€3,116 thousand). 41% (17%) of capital expenditure was made in North and South America and 35% (65%) in Germany, mainly in Einbeck.

Investments in long-term assets by segment	2004/05	Previous year
Sugar beet	4,037	3,769
Corn	18,708	3,116
Cereals	1,558	1,053
Breeding & services	12,584	16,808
	36,887	**24,746**

Investments in long-term assets by region	2004/05	Previous year
Germany	12,826	16,181
Europe (excluding Germany)	8,341	3,228
North and South America	15,252	4,170
Rest of world	468	1,167
	36,887	**24,746**

Operating assets by region	2004/05	Previous year
Germany	212,808	207,729
Europe (excluding Germany)	165,922	122,741
North and South America	111,630	84,629
Rest of world	6,649	5,164
	497,009	**420,263**

Notes to the Annual Financial Statements

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

The KWS Group (KWS-Konzern) is a consolidated group as defined in the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), London, taking into account the interpretations of the International Financial Reporting Committee (IFRIC). The consolidated financial statements of the KWS Group were prepared for the first time under these international standards as of June 30, 2005, applying IFRS 1. For the purpose of previous-year comparison, the figures for the 2003/04 fiscal year, which is based on the opening balance sheet as of July 1, 2003, have been determined accordingly. The requirements of section 292a of the Handelsgesetzbuch (HGB – German Commercial Code) for the exemption from the preparation of consolidated financial statements under German commercial law (HGB) have been met. The consolidated financial statements discharge the obligations of LOCHOW-PETKUS GMBH, Bergen, and KWS MAIS GMBH, Einbeck, to produce their own financial statements. The following standards (rev. 2003) were used before they became effective: IFRS 1, IFRS 3, IFRS 5, IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 32, IAS 33, IAS 40, and IAS 39 (rev. 2004).

General disclosures

Basis of accounting

The first-time adoption of the IFRSs as of July 1, 2003 led to the following significant changes compared with the previous accounting method under the HGB:

- Classification of the balance sheet into noncurrrent and current assets and noncurrent and current liabilities under IAS 1
- Amortization of goodwill discontinued and replaced by a requirement to perform an annual impairment test under IFRS 3
- Straight-line depreciation under IAS 16 (previously reducing-balance depreciation with change of method)
- Measurement of biological assets at fair value under IAS 41
- Deferred taxes computed using the liability method under IAS 12
- Pension provisions measured using the accrued benefit method under IAS 19 (previously entry-age normal method)
- Prohibition on recognition of future internal expenses (e.g. deferred maintenance) under IAS 37
- Translation of monetary receivables and liabilities at the closing rate under IAS 21
- Market value accounting mandatory for some financial instruments under IAS 39
- Interest portion from additions to pension provisions reported under net interest

The differences between carrying amounts in the HGB and IFRS balance sheets had the following effects on equity as of the balance sheet date:

	06/30/2003	06/30/2004
Equity according to HGB	226,103	270,439
Fixed assets	43,742	16,657
Current assets	10,764	12,695
Deferred tax assets	7,684	−3,905
Deferred tax liabilities	−20,020	−6,169
Pension provisions	−9,389	−8,546
Other provisions	30,821	38,817
Minority interests	−16,135	−25,997
Other adjustments	669	0
Equity according to IFRSs	**274,239**	**293,991**

Although net income according to IFRSs is €1,064 thousand, the difference recognized in equity narrowed by €24,584 thousand in 2003/04. New rules for consolidated financial statements under HGB (section 308 (3) of the HGB no longer applies) required assets to be remeasured, which led to an increase in equity of €18,026 thousand, taking deferred tax liabilities into account. In addition, the first-time adoption of German Accounting Standard (GAS) 10, which requires deferred tax assets and liabilities to be determined and reported on a gross basis, resulted in an increase in equity of €8,879 thousand.

The income statement shows the following differences affecting net profit or loss for 2003/04:

Income statement 2003/04	HGB	Reconciliation	IFRS
Net sales	443,713	779	444,492
Cost of sales	287,352	–7,326	280,026
Gross profit on sales	**156,361**	**8,105**	**164,466**
Selling expenses	75,757	2,230	77,987
General and administrative expenses	36,820	293	37,113
Other operating income	17,097	–3,355	13,742
Other operating expenses	13,305	–2,489	10,816
Operating income	**47,576**	**4,716**	**52,292**
Net financial income/expenses	**–267**	**–3,888**	**–4,155**
Result of ordinary activities	**47,309**	**828**	**48,137**
Income taxes	18,975	–602	18,373
Net income for the year	**28,334**	**1,430**	**29,764**
Minority interest	1,209	366	1,575
Net income for the year after minority interest	**27,125**	**1,064**	**28,189**
Earnings per share (€)	**41.10**	**1.61**	**42.71**

There were significant differences as a result of higher depreciation of property, plant, and equipment under IFRSs; the fact that goodwill is no longer amortized accounts for a difference of €2,752 thousand. Under IFRSs, the interest portion from additions to provisions for pensions, partial retirement, and long-service awards is reported under interest and similar expenses. This change increases the IFRS operating profit by €3,162 thousand and increases finance costs by the same amount.

The differences in the cash flow statement are as follows:

Cash flow statement 2003/04	HGB	IFRS
Net income for the year	28,334	29,764
Depreciation of property, plant, and equipment/reversal of impairment losses	19,637	16,696
Change in long-term provisions	828	–872
Other noncash expenses/income	–3,152	–3,102
Cash earnings according to DVFA/SG	**45,647**	**42,486**
Change in short-term provisions	1,620	–210
Net gains/losses from the disposal of assets	–35	158
Change in inventories, trade receivables, and other assets	–14,256	–11,711
Change in trade payables and other liabilities	3,741	5,886
Net cash from operating activities	**36,717**	**36,609**
Cash receipts from sales of assets	3,460	2,990
Cash payments for capital items	–26,060	–24,745
Net cash from investing activities	**–22,600**	**–21,755**
Proceeds from increases in equity	622	620
Dividends paid and redemption of equity	–7,773	–7,773
Proceeds from noncurrent liabilities	5,912	5,912
Repayment of noncurrent liabilities	–26,539	–27,806
Net cash from financing activities	**–27,778**	**–29,047**
Net cash change in cash and cash equivalents	–13,661	–14,193
Cash effect of changes in the exchange rate and in the consolidated group	–1,852	–1,506
Cash and cash equivalents at beginning of year	73,832	73,987
Cash and cash equivalents at end of year	**58,319**	**58,288**
Cash on hand and balances with banks	50,819	50,819
Current available-for-sale securities	7,500	7,469
Cash and cash equivalents	**58,319**	**58,288**

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 and given unqualified audit opinions by independent auditors. For fully or proportionately consolidated units acquired before July 1, 2003, the Group exercised the option allowed by IFRS 1 to maintain the consolidation procedures chosen to date. The goodwill reported in the HGB financial statements as of June 30, 2003 was therefore transferred unchanged to the opening IFRS balance sheet. For acquisitions made after June 30, 2003, capital consolidation follows the purchase method by allocating the cost of acquisition to the Group's interest in the subsidiary's equity at the time of acquisition. Any excess of interest in equity over cost is recognized as an asset, up to the amount by which fair value exceeds the carrying amount. Any goodwill remaining after first-time consolidation is recognized under intangible assets.

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

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

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

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

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

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

Currency translation

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

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

Classification of the balance sheet and the income statement

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

Accounting policies

Consistency of accounting policies

The accounting policies are largely unchanged from the previous year. All estimates and assessments as part of accounting and measurement are continually reviewed; they are based on historical patterns and expectations about the future regarded as reasonable in the particular circumstances.

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 and intangible assets with indefinite useful lives are 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.

Biological assets

Pursuant to IAS 41, biological assets are measured at the expected sales proceeds, less costs to sell.

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 non-current assets. Impairment losses on property, plant, and equipment are recognized according to IAS 36 whenever the recoverable amount of the assets is less than its carrying amount. The recoverable amount is the higher of the asset's net realizable value and its value in use (value of future cash flows expected to be derived from the asset).

Investments in affiliated companies and other financial assets

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

Inventories

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

Receivables and other assets
Receivables and other current assets are recognized at nominal values. Individual risks and the general credit risk 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 KWS SAAT AG	2004/05			previous year		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Consolidated	11	30	41	10	27	37
Consolidated at quota	0	4	4	–	4	4
	11	34	45	10	31	41
At-equity	2	0	2	2	0	2
Total	**13**	**34**	**47**	**12**	**31**	**43**

The companies are listed under item number 30.

Changes in the fully consolidated companies relate to

the following newly established subsidiaries of KWS MAIS GMBH
- KWS SEMENA BULGARIA E.O.O.D., Sofia, Bulgaria
- KWS OSIVA S.R.O., Velké Mezirici, Czech Republic

the acquisition of the following subsidiary of KWS INTERSAAT GMBH
- DELITZSCH PFLANZENZUCHT GMBH, Winsen (Aller), Germany

the first-time consolidation of the following subsidiary of KWS SAAT AG
- EUROHYBRID GMBH, Einbeck, Germany, and its subsidiary
- KWS RUS O.O.O., Moscow, Russian Federation

MOD MANAGEMENT, ORGANISATION UND DATENVERARBEITUNG CONSULTING GMBH, Einbeck, Germany, was disposed of as part of a management buy-out.

As of March 31, 2005, KWS INTERSAAT GMBH acquired the 100 % interest in DELITZSCH PFLANZENZUCHT GMBH, Winsen (Aller) at a purchase price of €44 thousand. Pursuant to IFRS 3, the difference from first-time consolidation of €898 thousand was recognized as other operating income of the KWS Group. Since the date of acquisition, DELITZSCH PFLANZENZUCHT GMBH has reduced the KWS Group's operating profit by €174 thousand. If the acquisition date had been July 1, 2004, the sales of the KWS Group would have been €1,900 thousand higher, and operating income would have been €300 thousand higher.

As of December 31, 2004, AGRELIANT GENETICS LLC., Westfield, IN, USA paid a purchase price of €18,848 thousand to acquire noncurrent assets of €3,387 thousand and current assets of €9,621 thousand and assumed liabilities of €7,941 thousand from PRODUCERS HYBRIDS in North America. The purchased goodwill of €13,781 thousand is included in an amount of €7,800 thousand in additions to intangible assets, according to the proportionate consolidation of AGRELIANT GENETICS LLC. In fiscal year 2004/05, PRODUCERS HYBRIDS contributed €1,577 thousand to the operating income of the KWS Group. If the acquisition date had been July 1, 2004, the sales of the KWS Group would have been unchanged, and operating income would have been €1,000 thousand lower.

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

Proportionately consolidated companies

	2004/05	Previous year
Noncurrent assets	26,690	15,583
Current assets	61,569	47,722
Total assets	**88,259**	**63,305**
Equity	44,301	35,026
Noncurrent liabilities	1,983	1,264
Current liabilities	41,975	27,014
Total equity and liabilities	**88,259**	**63,304**
Net sales	**92,804**	**67,931**
Net profit for the year	**10,024**	**4,602**

Companies carried at-equity

	2004/05	Previous year
Noncurrent assets	20,202	21,917
Current assets	11,254	10,861
Total assets	**31,456**	**32,778**
Equity	20,226	19,731
Noncurrent liabilities	6,844	8,185
Current liabilities	4,386	4,862
Total equity and liabilities	**31,456**	**32,778**
Net sales	**9,590**	**14,993**
Net profit for the year	**1,626**	**4,814**

Notes to the Balance Sheet

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

(1) Assets

The statement of changes in noncurrent assets contains a breakdown of assets summarized in the balance sheet and shows how they changed in 2004/05. Capital expenditure on assets was €36,887 thousand (€24,745 thousand), plus €76 thousand (€1,129 thousand) from the share in net profit of equity-accounted affiliated companies attributable to the KWS Group, so that total additions to assets amounted to €36,963 thousand (€25,874 thousand). The management report describes the significant additions to assets. Depreciation and amortization amounted to €16,774 thousand (€16,696 thousand).

(2) Intangible assets

This item includes purchased varieties, rights to varieties and distribution rights, software licenses for electronic data processing, and goodwill. Additions to intangible assets amounting to €10,864 thousand (€1,291 thousand) relate primarily to goodwill from the acquisition of PRODUCERS HYBRIDS in North America and subsequent expenditure for the interest in AGRELIANT GENETICS LLC. Amortization of intangible assets amounted to €1,556 thousand (€1,459 thousand); this charge is included in the relevant functional costs, depending on the operational use of the intangible assets.

In order to meet the requirements of IFRS 3 in combination with IAS 36 and to determine any impairment of goodwill, cash-generating units have been defined in line with internal reporting guidelines. In the KWS Group, these units are the legal entities. To test for impairment, the carrying amount of each entity is determined by allocating the assets and liabilities, including attributable goodwill and intangible assets. An impairment loss is recognized if the recoverable amount of an entity is less than its carrying amount. The recoverable amount is the higher of the entity's net realizable value and its value in use (value of future cash flows expected to be derived from the entity). The impairment test uses the expected future cash flows on which the medium-term plans of the companies are based; these plans, which cover a period of four years, have been approved by the Executive Board. They are based on historical patterns and expectations about future market development.

For the European and American markets, the key assumptions on which corporate planning is based include assumptions about price trends for seed, in addition to the development of market shares and the regulatory framework. Company-internal projections take the assumptions of industry-specific market analyses and company-related growth perspectives into account. A standard discount rate of 7.1% has been assumed to calculate present values. No growth rate has been applied beyond the detailed planning horizon in order to allow for extrapolation in line with the expected inflation rate. Tests provided evidence that, with one exception, the goodwill recognized in the consolidated balance sheet and determined for the cash-generating units is not impaired. An impairment loss of €564 thousand was recognized on goodwill allocated to an associated company. In the previous year, one item of goodwill was written off in full and an impairment loss of €667 thousand had to be recognized.

(3) Property, plant, and equipment

Capital expenditure amounted to €25,642 thousand (€22,598 thousand) and depreciation amounted to €15,218 thousand (€15,234 thousand). The increase in capital expenditure was mainly due to the expansion of production capacity in the corn segment in France.

(4) Investments in affiliated companies

This item relates to equity-accounted investments in affiliated companies. Total additions of €76 thousand represent the share in net profit of the affiliated companies attributable to the KWS Group. Total disposals of €1,808 thousand relate to profit distributions within the consolidated group. The balance sheet date of SAKA-RAGIS AGRARPRODUKTE GMBH & CO. KG (December 31) differs from that of the KWS Group. Inclusion of this company on the basis of the annual financial statements as of December 31, 2004 has not had any significant impact on the consolidated financial statements.

(5) Other financial assets

Investments in non-consolidated subsidiaries and shares in cooperatives and GmbHs that are of minor significance, totaling €4,136 thousand, are reported in this account. The mutual investment in our French partner RAGT SEMENCES S.A. is carried at cost of €4,000 thousand. Listed shares are carried at market value of €90 thousand; the HGB balance sheet as of June 30, 2003 included an amount of €38 thousand under other financial assets. This account also includes interest-bearing home-building loans to employees and other interest-bearing loans totaling €360 thousand.

(6) Deferred tax assets

Under IAS 12, deferred tax assets are calculated as the difference between the IFRS balance sheet amount and the tax base. They are reported on a gross basis and total €12,768 thousand (€9,969 thousand), of which €84 thousand (€8 thousand) will be carried forward for the future use of tax losses

(7) Inventories

	06/30/2005	Previous year
Raw materials and consumables	9,020	7,855
Work in process	34,391	22,705
Immature biological assets	5,015	5,022
Finished goods	57,657	39,257
	106,083	74,839

Inventories increased by €31,244 thousand, or + 41.8%, net of write-downs totaling €27,162 thousand (€20,082 thousand). Immature biological assets relate to living plants in the process of growing (before harvest). Public subsidies of €1,132 thousand were granted for the total area under cultivation of around 4,500 ha.

(8) Current receivables

	06/30/2005	Previous year
Trade receivables	190,452	161,165
Other current assets	24,674	20,952
Current receivables	215,126	182,117

Trade receivables increased by €29,287 thousand, from €161,165 thousand to €190,452 thousand, an increase of +18.2%; this amount includes €3,060 thousand (€11,035 thousand) receivables from related parties. The increase is mainly due to sales growth in some markets with significantly longer payment terms, particularly in Eastern and Southern Europe.

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

Current financing receivables include an amount of €866 thousand (€862 thousand) receivable from related parties.

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

(9) Securities

Securities amounting to €20,843 thousand (€7,469 thousand) relate primarily to short-term liabilities securities and fund shares.

(10) Cash

Cash of €32,011 thousand (€50,819 thousand) consists of balances with banks and cash on hand. The cash flow statement explains the change in this item compared with the previous year.

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

(11) Equity

As of the balance sheet date, the Subscribed capital of KWS SAAT AG was € 17,000,000.00, unchanged form the previous year. The 660,000 bearer shares are subdivided as follows:

21,000 certificates for	1	share each	21,000 shares
15,400 certificates for	10	shares each	154,000 shares
9,700 certificates for	50	shares each	485,000 shares

Equity (including minority interest) increased by € 32,621 thousand, from € 293,991 thousand to € 326,612 thousand. For details, see the statement of changes in equity.

(12) Noncurrent liabilities

	06/30/2005	Previous year
Long-term provisions	69,278	69,937
Long-term financial liabilities	7,858	6,243
Deferred tax liabilities	16,836	17,961
Other long-term liabilities	1,140	1,389
	95,112	95,530

Long-term provisions	07/01/2004	Changes in the consol. group	Additions	Consumptions	Reversals	06/30/2005
Pensions provisions	65,467	31	4,298	4,083	111	65,602
Other provisions	4,470	–865	699	583	45	3,676
	69,937	–834	4,997	4,666	156	69,278

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

Pension provisions are measured using the accrued benefit method under IAS 19, on the basis of assumptions about future development. The assumptions in detail are that wages and salaries will increase by 2.00 % (2.25 %) annually and pensions by 1.25 % (1.25 %) annually.

The discount rate was 4.25 %, compared with 5.25 % the year before.

No income or expense was recognized as a result of changes in retirement obligations or benefits payable.

Interest cost on pension provisions is recognized in finance income or cost. The cost of new pension entitlements that arose during the fiscal year is recognized in functional costs.

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

	06/30/2005	06/30/2004
Accrued benefit entitlements	73,874	65,792
Actuarial losses	–8,272	–325
	65,602	65,467

The benefit obligations changed as follows during the fiscal year:

	2004/05	2003/04
Pension provisions at beginning of fiscal year	65,467	64,708
Changes in consolidated group	31	0
Cost of additional benefit entitlements	927	1,104
Interest cost on benefit entitlements added in previous years	3,260	3,162
Pension payments	4,083	3,507
Pension provisions at end of fiscal year	65,602	65,467

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

The long-term financial liabilities include loans from banks amounting to € 6,041 thousand (€ 6,072 thousand). Of the long-term loans, an amount of € 1,807 thousand is scheduled to be repaid in each of 2006/07 and 2007/08. The remaining loans payable of € 2,427 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 € 16,836 thousand (€ 17,961 thousand).

(13) Current liabilities

	06/30/2005	Previous year
Trade payables to affiliates	0	22
Trade payables	37,417	27,695
Trade payables	37,417	27,717
Current liabilities to banks	2,925	4,180
Current liabilities to affiliates	14,078	1,079
Current liabilities to investees and investors	610	0
Other current financial liabilities	3,374	1,920
Current financial liabilities	20,987	7,179
Current provisions	56,646	34,105
Tax liabilities	8,294	11,317
Current finance lease liabilities	57	39
Deferred income	10	21
Other current liabilities	27,302	24,472
Other liabilities	27,369	24,532
	150,713	104,850

Short-term liabilities increased by a total of € 45,863 thousand to € 150,713 thousand. Due to increasing intra-Group financing, financial liabilities to related parties increased by € 12,999 thousand.

The tax liabilities of € 8,294 thousand (€ 11,317 thousand) include amounts for the year under review and the period not yet concluded by the external tax audit.

Short-term provisions	07/01/2004	Changes in the consol. group	Addition	Consumptions	Reversals	06/30/2005
Obligations from sales transaction	10,675	251	16,828	9,608	416	17,730
Obligations from purchase transaction	14,017	330	22,097	12,616	546	23,282
Other obligations	9,413	221	14,839	8,473	366	15,634
	34,105	802	53,764	30,697	1,328	56,646

(14) Contingent liabilities

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

(15) Other financial obligations

There was a €1,331 thousand (€3,571 thousand) obligation from uncompleted capital expenditure projects .

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

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

	Nominal volume 06/30/2005	Carrying values 06/30/2005	Market values 06/30/2005
Currency hedges	21,594	189	189
Interest-rate hedges	101,339	–400	–400
	122,933	–211	–211

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

	06/30/2005
Obligations under rental agreements and leases	
Due in fiscal year 2005/06	4,799
Due 2006/07 through 2009/10	12,038
Due after 2009/10	1,947
	18,784

The leases relate primarily to IT equipment and fleet vehicles; €1,003 thousand was paid under these leases in the year under review. The main leasehold obligations relate to land under cultivation.

Notes to the Income Statement

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

Income statement for the period July 1, 2004 through June 30, 2005	2004/05 € millions	2004/05 % of sales	Previous year € millions	Previous year % of sales
Net sales	495.3	100.0	444.5	100.0
Cost of sales	312.3	63.1	280.0	63.0
Gross profit on sales	183.0	36.9	164.5	37.0
Selling expenses	88.7	17.9	78.0	17.6
General and administrative expenses	39.1	7.9	37.1	8.4
Other operating income	21.3	4.3	13.7	3.1
Other operating expenses	20.2	4.0	10.8	2.4
Operating income	56.3	11.4	52.3	11.7
Net financial income/expenses	–4.9	–1.0	–4.2	–0.9
Result of ordinary activities	51.4	10.4	48.1	10.8
Income taxes	16.6	3.4	18.3	4.1
Net income for the year	34.8	7.0	29.8	6.7
Shares of minority interest	1.2	0.2	1.6	0.4
Net income after minority interest	33.6	6.8	28.2	6.3

(16) Net sales

By product category	2004/05	Previous year
Certified seed sales	440,485	393,581
Royalties income	31,475	28,067
Basic seed sales	7,446	6,893
Services fee income	2,949	2,784
Other sales	12,971	13,167
	495,326	444,492

By region	2004/05	Previous year
Germany	124,628	119,423
Europe	230,590	209,386
Americas	117,550	99,656
Rest of world	22,558	16,027
	495,326	444,492

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

The **cost of sales** increased by €32,331 thousand to €312,357 thousand, or 63.1% (63.0%) of sales. The total cost of goods sold was €106,882 thousand. This amount includes additional allowances on inventories totaling €7,080 thousand, charged to segment results as follows: sugar beet €6,522 thousand, corn €308 thousand, cereals €41 thousand, and breeding & services €209 thousand. Research and development is recognized as an expense in the year it is incurred; in the year under review, this amounted to €71,342 thousand (€67,999 thousand the year before). Development costs for new varieties are not recognized as an asset because evidence of future economic benefit can only be provided after the variety has been officially certified.

The €10,668 thousand increase in **selling expenses** to €88,655 thousand is mainly due to expanded activities in the North America and South/South-East Europe regions. This is 17.9% of sales, up from 17.6% the year before.

General and administrative expenses went up by €1,995 thousand to €39,108 thousand, representing 7.9% of sales, after 8.4% the year before.

(17) Other operating income

	2004/05	Previous year
Income from sales of fixed assets	1,072	235
Income from the reversal of provisions	1,448	1,605
Exchange rate gains and gains from currency and interest rate hedges	5,647	3,115
Income from recoveries on receivables written off	827	1,556
Research grants	2,416	1,279
Income relating to previous periods	424	0
Income from cost allocations	699	167
Income from loss compensation received	301	0
Miscellaneous other operating income	8,441	5,785
	21,275	13,742

Other operating income was up by €7,533 thousand, mainly due to favorable exchange rate movements and higher research grants.

(18) Other operating expenses

	2004/05	Previous year
Legal form expenses	873	904
Allowances on receivables	3,168	1,136
Counterparty default	941	275
Exchange rate losses and losses on currency and interest rate hedges	4,311	3,033
Losses from sales of fixed assets	805	391
Expenses relating to previous periods	2,134	415
Other expenses	7,923	4,662
	20,155	10,816

Other operating expenses increased significantly, particularly due to higher risks in the Group's growth markets and resulting allowances on receivables, of which €1,781 thousand was charged to the sugar beet segment and €1,387 thousand to the corn segment.

(19) Net financial income/expenses

	2004/05	Previous year
Interest income	1,681	1,567
Interest expense	3,224	3,929
Income from other financial assets	360	87
Reversal of impairment losses on other long-term investments	1	8
Interest expenses on donation of pension provisions	3,260	3,162
Net interest expense	–4,442	–5,429
Profit from affiliated companies	76	1,128
Impairment losses on goodwill from affiliated companies	564	0
Income from equity investments	4	146
Net income from equity investments	–484	1,274
Net financial income/expenses	–4,926	–4,155

The previous year's finance cost increased by €771 thousand to €–4.926 thousand, with net income from equity investments falling by €1,758 thousand and turning into a loss of €–484 thousand. The share of profit of affiliated companies relates to potato activities. Net interest expense was €987 thousand lower.

(20) Income taxes

Income tax expense is computed as follows:

	2004/05	Previous year
Income taxes, Germany	11,768	10,911
Income taxes, other countries	8,680	8,447
Current expenses from income taxes	20,448	19,358
Thereof from previous years	–2,828	711
Deferred taxes, Germany	–4,057	–1,506
Deferred taxes, other countries	225	521
Deferred tax income/expense	–3,832	–985
Reported income tax expense	16,616	18,373

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

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

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

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

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

	Deferred tax assets		Deferred tax liabilities	
	06/30/2005	Previous year	06/30/2005	Previous year
Intangible assets	77	102	579	631
Biological assets	0	0	5	5
Property, plant, and equipment	18	27	14,505	15,328
Financial assets	170	167	539	730
Inventories	4,483	2,884	165	151
Current assets	811	2,172	197	146
Noncurrent liabilities	718	547	640	443
Current liabilities	5,999	3,665	198	209
Tax loss carryforward	84	8	0	0
Other consolidation transactions	408	397	8	318
Deferred taxes recognized	12,768	9,969	16,836	17,961

No deferred tax assets were recognized for loss carryforwards of €3,839 thousand (€5,182 thousand), because the companies concerned will only start generating profits from which they can be deducted in 2008, after the tax loss utilization period has expired.

Full distribution to shareholders of all taxable and non-taxable components of equity would currently result in an unrecognized entitlement to a reduction in corporation tax of €8,645 thousand (€9,173 thousand).

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:

	2004/05	Previous year
Earnings before income taxes	51,400	48,137
Expected income tax expense*	19,583	18,340
Difference in income tax liability outside Germany	–890	–312
Tax portion for:		
○ Tax-free income	–260	–669
○ Expenses not deductible for tax purposes	2,643	147
○ Temporary differences and losses for which no deferred taxes have been recognized	–226	38
Tax credits	–1,211	0
Taxes relating to previous years	–2,828	711
Other tax effects	–195	118
Reported income tax expense	16,616	18,373
Effective tax rate	32.3 %	38.2 %
*Tax rate in Germany	38.1 %	38.1 %

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

(21) Personnel costs / employees

	2004/05	Previous year
Wages and salaries	80,606	78,059
Social security contributions, expenses for pension plans and benefits	20,821	20,225
	101,427	98,284

Personnel costs went up by €3,143 thousand to €101,427 thousand, an increase of 3.2 %. The number of employees (including trainees and interns) increased by 34 (or +1.4 %) to 2,550.

Compensation increased by 3.3 % to €80,606 thousand. Social security contributions, expenses for pension plans and benefits were €596 thousand higher than in the previous year. An amount of €2,057 thousand was recognized as an expense for defined contribution plans in the year under review.

Employees*	2004/05	Previous year
Germany	1,172	1,212
Rest of Europe	530	619
Americas	678	481
Rest of world	170	204
Total	2,550	2,516

*Annual average

Of the above number, 452 (425) employees are included according to the percentage of equity held in the companies that employ them. 906 (852) employees are employed by an unchanged number of four proportionately consolidated investees. If these persons are included in full, the workforce total is 3,043 (2,943).

	Shares issued to employees under share purchase plans						
In January of		2005	2004	2003	2002	2001
Shares issued	No.	239	250	279	284	231
Cost of acquisition	T€	135	123	137	139	150
Preferred price						
○ when purchasing one share	€	440.00	336.00	297.00	296.00	386.00
○ when purchasing two shares	€	1,015.00	826.00	748.00	746.00	925.00

As part of share purchase plans, shares in KWS SAAT AG were acquired and sold to eligible employees under payroll tax incentives.

(22) Net income for the year

Net income for the year went up by €5,020 thousand to €34,784 thousand, representing a return on sales of 7.0 %, up from 6.7 % the year before. The net profit for the period after minority interest is €33,588 thousand, or €50.89 for each of the 660,000 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

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 €238 thousand (€221 thousand), excluding value-added tax. €170 thousand (€153 thousand) of the total compensation is performance-related.

Supervisory Board compensation 2004/05	Fixed €	Performance-related €	Total €
Dr. Guenther H. W. Stratmann*	24,000.00	60,000.00	84,000.00
Dr. Arend Oetker**	12,000.00	30,000.00	42,000.00
Philip Freiherr von dem Bussche	8,000.00	20,000.00	28,000.00
Eckhard Halbfaß	8,000.00	20,000.00	28,000.00
Jürgen Kunze	8,000.00	20,000.00	28,000.00
Prof. Dr. Ernst-Ludwig Winnacker	8,000.00	20,000.00	28,000.00
	68,000.00	170,000.00	238,000.00

*Chairman; **Deputy Chairman

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 €192 thousand (€21 thousand) for consulting services.

In fiscal year 2004/05, total Executive Board compensation amounted to €2,391 thousand (€2,018 thousand). Variable compensation of €1,573 thousand (€1,211 thousand), calculated on the basis of the net profit for the period of the KWS Group, includes compensation of €19 thousand (€19 thousand) for duties performed in subsidiaries. In addition, an amount of €489 thousand was added to pension provisions under IAS 19.

Executive Board compensation 2004/05	Fixed €	Performance-related €	Total €
Dr. Dr.h.c. Andreas J. Büchting*	277,229.48	429,078.95	706,308.43
Dr. Christopher Ahrens	220,108.98	429,078.95	649,187.93
Dr. Christoph Amberger	176,137.38	429,078.95	605,216.33
Dr. Hagen Duenbostel	144,210.75	286,052.62	430,263.37
	817,686.59	1,573,289.47	2,390,976.06

*Chairman

Compensation of former members of the Executive Board and their surviving dependents amounted to €721 thousand (€700 thousand). Pension provisions recognized for this group of persons amounted to €6,194 thousand (€5,782 thousand) as of June 30, 2005.

(24) Loans to members of the Supervisory Board and Executive Board of KWS SAAT AG

One employee representative in the Supervisory Board repaid his loan (€1 thousand) as scheduled in the year under review. No new loans have been issued.

(25) Shareholdings of members of the Supervisory Board and Executive Board

(as of September 30, 2005)

Dr. Arend Oetker indirectly holds a total of 165,001 shares in KWS SAAT AG. All together, the members of the Supervisory Board hold 165,078 shares in KWS SAAT AG.

Dr. Dr.h.c. Andreas J. Büchting holds 10,002 shares in KWS SAAT AG.

(26) Audit of the annual financial statements

On January 18, 2005, the annual meeting of shareholders of KWS SAAT AG elected the accounting firm Deloitte & Touche GmbH to be the Group's auditors for fiscal year 2004/05.

Fee paid to the external auditors under section 285 sentence 1 no. 17 of the HGB	T€
a) Audit of the consolidated financial statements	302
b) Certification and valuation services	157
c) Tax consulting	23
d) Other services	28
Total fee paid in 2004/05	510

For fiscal year 2005/06, fees for consulting services (excluding auditing) of €100 thousand are expected.

(27) 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.

(28) 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.

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

Supervisory Board

Dr. Carl-Ernst Büchting
Einbeck
Honorary Chairman

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

Membership of other legally mandated Supervisory Boards:
apetito AG, Rheine (Deputy Chairman)

Membership of comparable German and foreign oversight boards:
Fendt GmbH, Marktoberdorf
apetito catering GmbH, Rheine (Deputy Chairman)

Dr. Arend Oetker
Berlin
Businessman
Deputy Chairman

Membership of other legally mandated Supervisory Boards:
Schwartau GmbH & Co. KGaA, Bad Schwartau (Chairman)
Cognos AG, Hamburg
Degussa AG, Düsseldorf
Merck KGaA, Darmstadt

Membership of comparable German and foreign oversight boards:
Hero AG, Lenzburg (President)
Baloise Holding AG, Basel
TT-Line GmbH, Hamburg (Chairman)
E. Gundlach GmbH & Co. KG, Bielefeld
Leipziger Messe GmbH, Leipzig
Gerling Versicherung-Beteiligungs AG, Cologne

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

Membership of comparable German and foreign oversight boards:
VTV Vereinigte Tierversicherungsgesellschaft a.G., Wiesbaden

Goetz von Engelbrechten
Uelzen
Farmer
Since November 7, 2005

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

Eckhard Halbfaß
Einbeck
Deputy Chairman of the Works Council of KWS SAAT AG

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

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

Membership of other legally mandated Supervisory Boards:
Bayer AG, Leverkusen
MediGene AG, München

Executive Board

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

Membership of legally mandated Supervisory Boards:
NORD/LB Norddeutsche Landesbank, Hanover
Conergy AG, Hamburg

Dr. Christopher Ahrens
Einbeck
Sugar Beet, Eastern Europe
Until June 30, 2005

Dr. Christoph Amberger
Northeim
Corn, Cereals, Marketing

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

Membership of comparable German and foreign oversight boards:
VTV Vereinigte Tierversicherungsgesellschaft a.G., Wiesbaden

Dr. Hagen Duenbostel (deputy*)
Einbeck
Finance, Managerial Accounting, IT
*Deputy until June 30, 2005, regular member of the Executive Board since July 1, 2005

(30) Significant subsidiaries and affiliated companies

A list of shareholdings of KWS SAAT AG is filed with the Commercial Register of the Göttingen District Court (HR B 130986). The following subsidiaries and associated companies were included in the consolidated group:[1)]

Sugar beet

- 100 % BETASEED INC.[2)] Shakopee, MN/USA
- 100 % KWS FRANCE S.A.R.L.[3)] Roye/France
- 100 % DELITZSCH PFLANZENZUCHT GMBH[11)] Winsen (Aller)
- 100 % KWS RUS O.O.O.[14)] Moskow/Russian Federation
- 100 % KWS ITALIA S.P.A. Forli/Italy
- 100 % KWS POLSKA SP.Z O.O. Poznan/Poland
- 100 % KWS SCANDINAVIA AB[11)] Stockholm/Sweden
- 100 % KWS SEMILLAS IBERICA S.L.[11)] Barcelona/Spain
- 100 % SEMILLAS KWS CHILE LTDA. Santiago de Chile/Chile
- 100 % KWS SEME YU D.O.O. Belgrad/Serbia and Montenegro
- 100 % SEMENA AG Basel/Switzerland
- 100 % ACH SEEDS INC.[4)] Eden Prairie, MN/USA
- 67 % KWS TÜRK TARIM TICARET LIMITED SIRKETI[11)] Eskisehir/Turkey
- 94 % PAN TOHUM ISLAH VE ÜRETME A.S.[13)] Ankara/Turkey

Corn

- 90 % KWS MAIS GMBH Einbeck
- 100 % KWS BENELUX B.V.[5)] Amsterdam/Netherlands
- 100 % KWS SEMENA S.R.O.[5)] Zahorska Ves/Slovakia
- 100 % KWS SEMENA D.O.O.[5)] Ljubljana/Slovenia
- 100 % KWS MAIS FRANCE S.A.R.L.[5)] Sarreguemines/France
- 100 % KWS AUSTRIA SAAT GMBH[5)] Linz/Austria
- 100 % KWS SEMINTE S.R.L.[5)] Bucharest/Romania
- 100 % KWS SJEME D.O.O.[5)] Zagreb/Croatia
- 100 % KWS OSIVA S.R.O.[5)] Velke Mezirici/Czech Republic
- 100 % KWS SEMENA BULGARIA E.O.O.D.[5)] Sofia/Bulgaria
- 100 % AGROMAIS SAATZUCHT GMBH[5)] Everswinkel
- 96,8 % KWS ARGENTINA S.A.[5)] Balcarce/Argentinia
- 51 % RAZES HYBRIDES S.A.R.L.[3)] Alzonne/France
- 50 % AGRELIANT GENETICS LLC.[6)]** Westfield, IN/USA
- 50 % AGRELIANT GENETICS INC.** Chatham, Ontario/Canada
- 50 % KWS RAGT HYBRID KFT.[7)]** Györ/Hungary

Cereals

- 81 % LOCHOW-PETKUS GMBH Bergen
- 74 % CPB TWYFORD LTD.[8)] Thriplow/Great Britain
- 100 % LOCHOW-PETKUS POLSKA SP.Z O.O.[8)] Kondratowice/Poland
- 49 % SOCIETE DE MARTINVAL S.A.[9)]** Mons-en-Pévèle/France

Breeding & services

- 100 % PLANTA ANGEWANDTE PFLANZENGENETIK UND BIOTECHNOLOGIE GMBH*** Einbeck
- 100 % KWS INTERSAAT GMBH Einbeck
- 100 % KWS SEEDS INC.[10)] Shakopee, MN/USA
- 100 % GLH SEEDS INC.[2)] Shakopee, MN/USA
- 100 % KWS SAATFINANZ GMBH Einbeck
- 100 % KWS SEMENCES S.A.R.L. Sarreguemines/France
- 100 % SOCIETE DES MAIS EUROPEENS S.A.R.L.[3)] Sarreguemines/France
- 100 % RAGIS KARTOFFELZUCHT & HANDELSGESELLSCHAFT MBH Einbeck
- 44,5 % SAKA-RAGIS PFLANZENZUCHT GBR[12)]* Hamburg
- 35,8 % SAKA RAGIS AGRARPRODUKTE GMBH & CO. KG[12)]* Hamburg
- 100 % KWS KLOSTERGUT WIEBRECHTSHAUSEN GMBH Northeim-Wiebrechtshausen
- 100 % EURO HYBRID GESELLSCHAFT FÜR GETREIDEZÜCHTUNG mbH Einbeck

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

June 30, 2005

(31) Proposal for the appropriation of net retained profits

A proposal will be made to the annual meeting of shareholders that an amount of €7,920,000.00 of KWS SAAT AG's net retained profit of €8,000,000.00 should be distributed as a dividend of €12.00 (€11.00) for each of the 660,000 shares.

The balance of €80,000.00 is to be carried forward to the new account.

The dividend will be paid on dividend coupon no. 58.

Einbeck, October 20, 2005

KWS SAAT AG
EXECUTIVE BOARD

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

Auditors’ Report

We have audited the annual financial statements of the KWS Group consisting of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement and the Notes for the fiscal year from July 1, 2004 to June 30, 2005, all of which were prepared by KWS SAAT AG, Einbeck. The preparation and the content of the financial statements according to the International Financial Reporting Standards (IFRS) as applicable in the EU are 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 as to whether the consolidated financial statements are in accordance with the IFRS.

We conducted our audit of the annual financial statements in accordance with German auditing regulations and 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 it is possible to judge, with reasonable certainty, whether the consolidated financial statements are free from material misstatements. 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 evidence supporting the amounts and disclosures in the consolidated financial statements is evaluated on the basis of test samples within the framework of the audit. The audit includes assessing the accounting principles used and any significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, financial position, earnings and cash flows for the Group’s fiscal year in accordance with IFRS.

On the basis of our audit, which also extends to the management report prepared by the Executive Board for the fiscal year from July 1, 2004 to June 30, 2005, we have no reservations to note. In our opinion, the management report of the Group provides an accurate impression overall of the situation of the Group and adequately presents the risks for future development. In addition, we confirm that the consolidated financial statements and the management report of the Group for the fiscal year from July 1, 2004 to June 30, 2005 satisfy the requirements for the company’s exemption from its duty to prepare consolidated financial statements and a Group management report in accordance with German law.

Hanover, November 4, 2005

DELOITTE & TOUCHE GMBH
WIRTSCHAFTSPRÜFERGESELLSCHAFT (AUDITORS)

Dr. F. Beine
AUDITOR

Th. Römgens
AUDITOR

Compliance declaration

I. We have complied with the practices recommended by the ‘Government Commission on the German Corporate Governance Code’ during the year under review with the exception of the recommendations listed under II below.

II. During the 2004/05 fiscal year, KWS SAAT AG did not implement the following provisions of the code:

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

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

> The GCCG recommends (clause 7.1.2) that consolidated financial statements and interim reports be published within 90 days and 45 days respectively. We have not complied with the recommendation due to the considerable additional costs we incurred this year as a result of changing to the international accounting standard IFRS this year. It will be possible to comply with the publication deadlines in reporting year 2005/2006.

Einbeck, November 23, 2005 | The Supervisory Board | The Executive Board

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