CLAAS

HOW MUCH CLAAS IS THERE IN THE WORLD?

Annual Report 2006

FINANCIAL INDICATORS (IFRS)

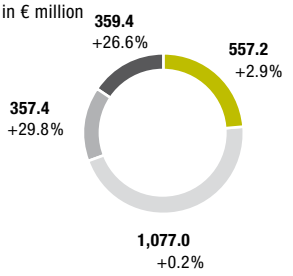
€ million

FINANCIAL PERFORMANCE	2006	2005	Change in %
Sales	2,351.0	2,175.3	8.1
EBIT	161.9	118.0	37.2
EBITDA	245.0	186.7	31.2
Net income	80.9	54.7	47.9
Income before taxes	130.7	86.4	51.3
Cash flow	171.0	130.7	30.8
R&D expenses*	99.4	78.9	26.0
FINANCIAL POSITION			
Equity	502.8	484.9	3.7
Capital expenditure	84.3	70.7	19.2
Total assets	1,598.2	1,611.7	-0.8
EMPLOYEES			
Employees as at the balance sheet date	8,191	8,134	0.7
Personnel expenses	455.7	433.1	5.2

* Before capitalized and amortized development costs.

SALES BY REGION

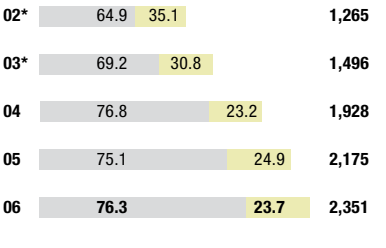
in € million



- Germany
- Rest of Western Europe
- Central and Eastern Europe
- Other Countries

SALES

in € million



- German sales in %
- Foreign sales in %

* Figures based on U.S. GAAP

HOW MUCH CLAAS IS THERE IN THE WORLD?

THERE IS A LOT OF CLAAS IN THE WORLD – more than you may imagine. You will find CLAAS wherever people are sowing, planting, fertilizing, cultivating, and harvesting. Our high-capacity harvesting machinery and tractors help farmers along the entire process chain. CLAAS machinery can be deployed anywhere, making our products an indispensable part of global agricultural technology.

BUT WE WANT MORE THAN THIS. We want there to be even more of CLAAS in the world in the future – not only for our own benefit, but to help society meet the challenge of supplying enough food and sustainable energy for the whole world. After all, we at CLAAS can make a crucial contribution to this goal, because we know what CLAAS is capable of.

HIGHLIGHTS
OF FISCAL 2006

MINISTERS OF AGRICULTURE MEET AT CLAAS 10/05

The agricultural ministers of the German states and their staff took a tour of the plant in Harsewinkel to obtain first-hand information about current trends in agricultural technology.

Ministers of agriculture see for themselves how CLAAS successfully trains its employees

GO-AHEAD FOR NEW PRODUCTION LINE 01/06

CLAAS has further modernized its main production facility in Harsewinkel. Large machinery such as the XERION system tractor and, later, the COUGAR large-area mower will be manufactured on a new production line at this facility.

XXL MACHINES AT THE AGRITECHNICA 11/05

Demand for powerful XXL agricultural machines is rising steadily. At the Agritechnica, the world's largest agricultural technology trade fair, CLAAS received several awards for its high-capacity machines.

INNOVATIONS IN HARVESTING TECHNOLOGY 07/06

CLAAS presented its innovations in harvesting technology at an international press conference in France's beautiful and famous Champagne region. One highlight was the new QUADRANT 3400 with 40% more throughput, considered the most powerful large-scale baler on the market.

New dimensions in large-scale balers

WORLD CLAAS FIELD DAYS 10/06

The WORLD CLAAS show was held for the fifth time, this time near Halle in southern Saxony-Anhalt. Over a three week period, CLAAS presented its product innovations to a total of 12,000 customers.

Informative field demonstrations showcase modern agricultural technology

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Cathrina and Helmut Claas

LADIES AND GENTLEMEN,

The Supervisory Board of CLAAS KGaA mbH monitored and analyzed the Group's business situation and risk position at its regular meetings during fiscal 2006. The Supervisory Board's assessments were based on reports by the Executive Board on the Group's strategic orientation, financial position and performance, deviations from plans made throughout the course of business, and operating decisions. The reports were received in two sessions and used as a basis for the decisions made by the Supervisory Board.

The Supervisory Board's deliberations focused on the sales and earnings outlook, the development of business as compared with internal forecasts, acceptance of the auditors' reports, the auditing of the annual financial statements of CLAAS KGaA mbH and the CLAAS Group, and plans for the year 2007, including:

- Establishment of the Russian sales company
- Progress at the Krasnodar production facility
- Construction of a new plant in India
- Change in the management structure of the CLAAS Group

The composition of the Supervisory Board, whose members were re-elected to serve another term by the Annual General Meeting held in January 2005, has not changed since that time, with two exceptions: Dr. Nicola Leibinger-Kammüller replaced Dr. Claus Helbig and Günther Linke replaced Günther Groß on the Supervisory Board.

The financial statements of CLAAS KGaA mbH and the consolidated financial statements of the CLAAS Group as of September 30, 2006 as well as the management reports for CLAAS KGaA mbH and the CLAAS Group were audited by Deloitte & Touche GmbH, Düsseldorf, the auditors elected by the Annual General Meeting on January 19, 2006 and appointed by the Supervisory Board. The statements and reports received an unqualified audit opinion dated November 20, 2006.

The financial statements of CLAAS KGaA mbH, the consolidated financial statements, and the management reports as well as the proposal for the appropriation of net profits were presented to the Supervisory Board upon completion. These documents and the auditors' reports were available to the members of the Supervisory Board and were discussed in detail at the Supervisory Board meeting held on December 14, 2006 in the presence of the auditor.

The Supervisory Board accordingly passed the following resolution:

Having examined the financial statements of CLAAS KGaA mbH, the consolidated financial statements and the management reports as well as the proposal for the appropriation of net profits, the Supervisory Board concurs with the results of the audit. No objections have been raised. The Supervisory Board therefore approves the consolidated financial statements. It recommends to the shareholders that the annual financial statements of CLAAS KGaA mbH for fiscal 2005/06 be adopted, and agrees with the proposal for the appropriation of net profits made by the Management Board of the personally liable partner.

The Supervisory Board would like to thank the Executive Board and all employees for their commitment during the year under review.

We must now continue to push ahead with product innovation, developing new markets, and extending of our global production network.

Harsewinkel, December 14, 2006
The Supervisory Board

Dipl.-Ing. Dr. h. c. Helmut Claas
(Chairman)

A LIFE IN SERVICE OF AGRICULTURAL ENGINEERING

Helmut Claas was born in Harsewinkel in 1926. After completing his vocational training and university studies, he joined the family company in 1956. Helmut Claas served on the Executive Board for more than 40 years, with some two decades as personally liable managing partner. Since 1996, he has chaired the Supervisory Board and the Shareholders' Committee. Helmut Claas is particularly involved in research and development. Numerous patents bear his name. One of his many innovations was the CLAAS hybrid system that turned combine harvesters into true all-crop machines and enabled CLAAS combine harvesters to reach their current outstanding performance levels. The Helmut Claas era saw the development of the DOMINATOR family and, later, the LEXION family. Helmut Claas celebrated his 80th birthday in the year under review.

LADIES AND GENTLEMEN, DEAR FRIENDS OF CLAAS,

Rüdiger A. Günther
Speaker of the Executive Board, CLAAS KGaA

Nearly all sectors of the economy are currently in a phase of intense consolidation. Globalization is advancing, and long-term strategies will depend on establishing structures that will meet future needs. This also applies to international agricultural engineering. CLAAS has been helping to shape these processes for many years.

At first glance, it seemed like business as usual in the year under review. We fine-tuned our strategy step by step and improved the positioning of the Company as planned. However, this does not mean that we are standing still. Quite the contrary. CLAAS is alive and well and in touch with the times.

Fiscal 2006 provided ample proof of our vitality. We continued to grow, our earnings outperformed sales by a wide margin, and we strengthened our market position. We extended our lead in combine harvesters in Europe, and our worldwide market share also increased. These achievements were supported by the market itself, which was strong in our key areas and weaker in those areas in which our competitors are predominantly active.

This is not what made the difference, however. Our improved sales and earnings are not the product of the past year alone, but the result of the decisions we have made over many years. We did not embark on the path to success by accident. We accomplished this by never losing sight of our long-term interests in times of strategic and operating difficulties, in spite of short-term exigencies.

Our global focus is an important element of this trend. We have extended our focus beyond Western Europe to Central and Eastern Europe, India and North America. CLAAS has achieved new strength in distribution activities. We have proven that we are able to develop new products and services and quickly establish them on the market. Our new sales subsidiary in Russia strengthens our presence in Eastern Europe and illustrates the importance we place on being close to our customers all over the world.

"The year 2006 proves that we did a good job cultivating the fields in the past. This means that we will be able to show how much CLAAS there is in the world in the future, too."

Our aim of being close to our customers and further improving our flexibility has led us to change the Group's management structure. Since October 2006, we have made a distinction between the Group's management functions and the operating units. CLAAS KGaA will continue to be in charge of strategic Group management, with the operating units being kept separate in order to encourage entrepreneurial thinking in the independent Grain Harvest, Forage Harvest, Tractors, and Sales business units. At the highest level, the Group Executive Board, operating and management functions work in tandem.

WITHOUT TECHNOLOGY, THERE WOULD BE NO FUTURE

In 2007, more people will be living in cities than in rural areas. The trend toward urbanization will continue, meaning that fewer and fewer people will have to produce more and more food. Continued mechanization of agricultural processes is essential to achieving this.

Source: UN

CLAAS has performed very well in past years and intends to stay the course. An important pillar of our future success involves establishing the combine harvester plant in Krasnodar, Russia. The Russian agricultural industry shows a strong propensity to invest. Demand for high-quality machines, reliability, and service continues to grow along with increasing professionalism and greater adherence to international standards in the Russian Federation.

"In short, our strategy is to achieve profitable growth."

In Asia, we plan to advance expansion from our base in India and start production of a combine harvester model developed for the local market. In the strategic market of North America, sales have risen significantly, but significant opportunities remain to be tapped.

We expect continued expansion of our tractor business to trigger a growth spurt. Tractor exports in particular have risen significantly. The French factory in Le Mans has expanded tractor production by more than 25% since the takeover, and increased the export share to 50%. The AXION model, introduced in October 2006, is the first tractor line fully developed by CLAAS. The AXION sets new standards in the 200 HP class.

A few years ago, some observers were skeptical about our ability to successfully integrate RENAULT Agriculture. Today, tractors have been fully integrated into our product line, and we are increasingly benefiting from the resulting synergies. The tractor business in France strengthened our distribution and pulled our business of combine harvesters to first place in the French market. Our future activities in the tractor business will involve the same high standards for quality, reliability and service that customers associate with the CLAAS brand. In the year under review, we exercised our option to increase our share in RENAULT Agriculture and now hold 80%.

The agenda for the coming years is clear; our strategy is to achieve profitable growth. CLAAS has a complete, well-coordinated product range that is geared to meet the highest demands. Our worldwide production network enables us to produce cost effectively and to adapt products to local needs while utilizing the expertise of the worldwide CLAAS organization. Our globally operating distribution organization supplies our technology and services all over the world. We have been doing business with many of our partners for years. CLAAS is an attractive brand that fascinates people, one with which our competent and loyal employees can identify.

CLAAS operates in a promising market. The world's population is growing, and people's eating habits are becoming more similar. To cover demand resulting from the growing population and converging eating habits, the amount of arable land would have to be doubled by 2050 at the current state of technology. This will hardly be possible, as some 90% of all arable land is already being cultivated today. The only real answer to this enormous challenge is to increase productivity and employ more innovative agricultural technology. CLAAS has been contributing to this for nearly 100 years.

Opportunities for growth also extend beyond the food chain. In these times of increasingly scarce energy resources and rising oil prices, alternative sources of energy are gaining in significance. The key is bio-energy. Targeted production and utilization of biomass can make a substantial contribution to solving the energy, raw materials, and environmental problems of the 21st century. This offers completely new perspectives for the agricultural industry. Farmers will become "energy managers." Already today, we offer a wide, high-performance spectrum of solutions in harvesting and processing technology. Agricultural technology will play a key role in the development of bio-energy into an industrialized process, a task for which we are well prepared.

It is important to us to maintain our independence. We benefit from the advantages of a family-owned business and the resulting short communication lines, quick decisions, and rapid implementation. At CLAAS, we tend to think long-term and have the ability to stay the course even if our decisions may not reflect current fads and trends. The CLAAS family shareholders contribute their passion for agriculture and share their commitment with the entire CLAAS organization as well as with farmers and contractors.

The main pillars of our corporate philosophy and our independence are satisfied customers and profitable growth. Our sense of continuity is best represented by our principal shareholder and Chairman of the Supervisory Board, Helmut Claas, who celebrated his 80th birthday this past July. His daughter Cathrina Claas has been involved in the company for several years now as deputy chair of the shareholder committee. She will ensure that the Company will follow the course laid out by her father.

"How much CLAAS is there in the world?" This is the question we pose in this Annual Report. The answer is: Today, quite a lot. And if we continue to fulfill our vision of making a contribution to feeding the world, there will be even more CLAAS in the world of tomorrow.

"It is important to us to maintain our independence."

Our goal is to be a strong company that is active internationally and helps to shape the future. This message is directed toward everyone who works together with us, including customers, distribution partners, suppliers, investors, and representatives from politics, culture and society. We thank you for the confidence you have placed in us. We would also like to thank our employees. We demand much of them, and we gain so much from them. We are extremely pleased with their dedication and competence. Finally, we would like to thank our shareholders and the supervisory bodies and technical committees, who advise and support us in all important decisions.

Sincerely,

Rüdiger A. Günther
Speaker of the Executive Board, CLAAS KGaA

THE GROUP EXECUTIVE BOARD

DR. THEO FREYE (57)
Marketing and Strategy

DR. HERMANN GARBERS (55)
Technology and Quality

RÜDIGER A. GÜNTHER (48)
Finance
Speaker of the Executive Board, CLAAS KGaA

LOTHAR KRISZUN (54)
Sales

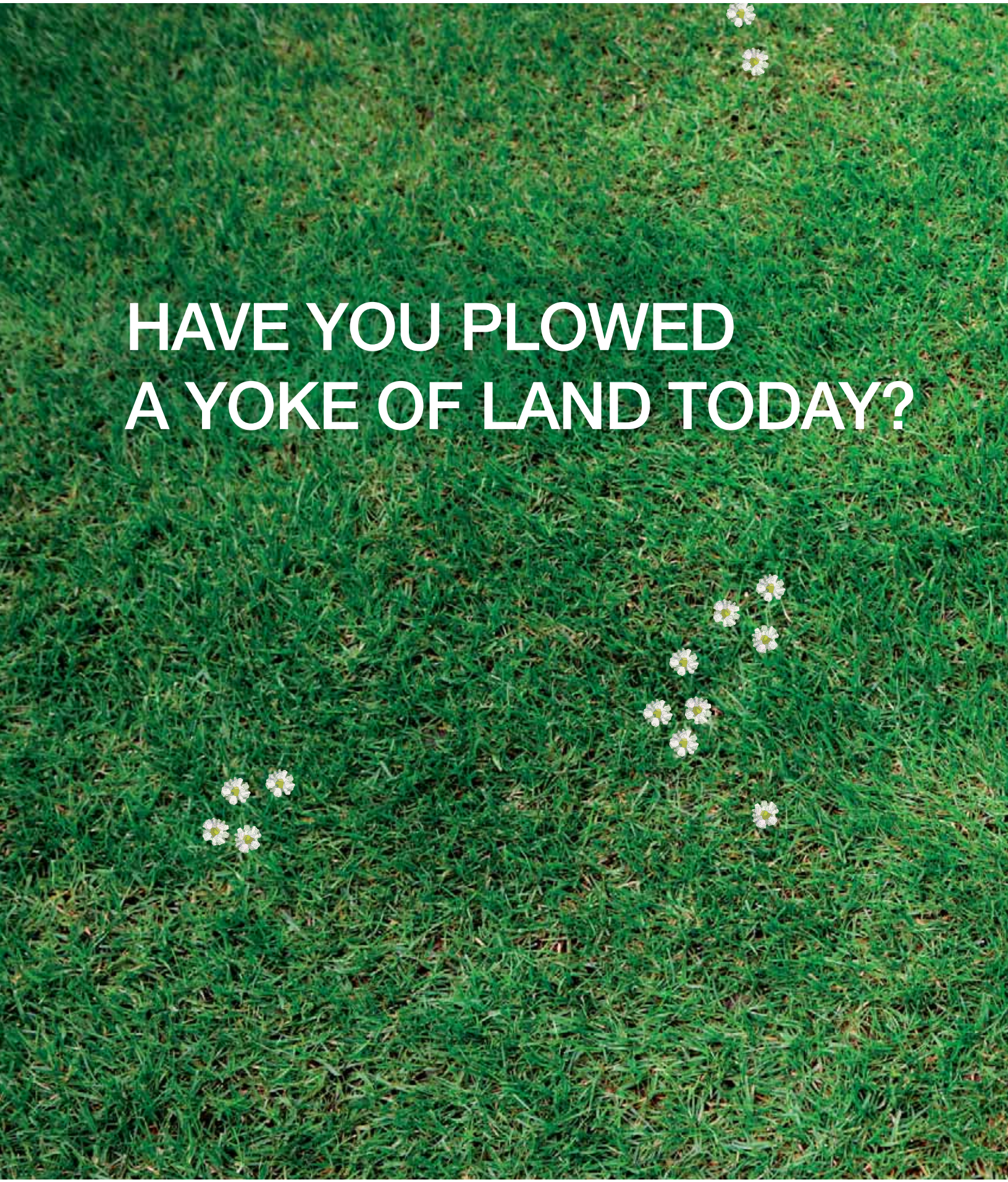
THOMAS KLATT (50)
Controlling

HANS-BERND VELTMAAT (51)
Production Engineering

DR. ROLF MEUTHER (58)
Forage Harvest

JAN-HENDRIK MOHR (42)
Grain Harvest

GUY POVIE (57)
Tractors


HAVE YOU PLOWED
A YOKE OF LAND TODAY?


50 meters
70 meters
Scale 1:400


WE'VE DONE
MUCH MORE THAN THAT.

A “yoke” used to refer to the amount of land that an experienced farmer could plow in one day with a team of oxen. Today, this is known as an acre, equivalent to 0.35 hectares.

Different standards are used to define performance today. Our COUGAR, for example, can manage at least 50 yokes – in a single hour. CLAAS machinery is not only powerful, however. Our machines also offer maximum versatility. Our 335 HP XERION is a tractor, a system hauler and a system carrier vehicle all in one.

HIGH PERFORMANCE FOR THE AGRICULTURAL INDUSTRY – THINKING IN NEW DIMENSIONS

- **PERFORMANCE EXPLOSION**
- **TOP RANKINGS FOR CLAAS**
- **THE FIRST CLAAS TRACTOR IS ON THE WAY**
- **CLAAS TECHNOLOGY FOR AVIATION, TOO**

When performance is called for, no one in the agricultural machinery sector can surpass CLAAS. Our machines and equipment are on the cutting edge worldwide in terms of capacity and efficiency. The LEXION 600 that we introduced in the summer of 2005, for instance, is the most powerful combine harvester in the world. With approximately 580 HP and a grain tank capacity of 12,000 liters, the LEXION 600 is a "factory on wheels" and comes very close to fulfilling the vision of the combine harvester of the future. On-board computers automatically guide the combine harvester along the most efficient harvesting route. The LEXION 600 can harvest more than 60 tons of grain in an hour, or enough to supply 350,000 people with their daily ration of bread.

In addition to combine harvesters, we offer five different models of foragers. The JAGUAR 900 holds the world record in performance, harvesting more than 2,000 tons of chopped silage in 12 hours. In grass harvesting, we have entered a new performance class with the COUGAR self-propelled mower. Boasting 480 HP and a 14-meter cutting width, the COUGAR is a high-power mower that provides optimum conditions to efficiently harvest grass and maximize labor productivity. Even U.S. farmers, who are used to large dimensions, are surprised by the COUGAR. In Florida, the COUGAR took three hours to harvest an area for which previous mowers had taken one and a half days. At the Agritechnica, the world's largest agricultural engineering trade fair, the COUGAR was awarded the title of "Machine of the Year". The SCORPION 9040 has set a record for the new generation of telehandlers with a lift height of 9 meters. In developing and producing the SCORPION, we work together with Kramer Werke GmbH in Überlingen, Germany.

Agricultural machinery customers are looking for efficiency, variety, technical superiority, and maximum comfort. CLAAS is setting standards in all of these areas, offering new solutions that exceed market expectations. Innovative thinking is a tradition at CLAAS.

TOP RANKINGS FOR CLAAS

CLAAS has achieved top rankings year after year on the image barometer, which the German Agricultural Society (DLG) has used to measure companies' brand images for the last 10 years.

CLAAS Harsewinkel was also selected as a promoter of innovative ideas in an image campaign entitled "Germany – Land of Ideas," a promotional contest preceding the 2006 FIFA World Cup. We were pleased to participate in the initiative of the Federal Government to present Germany as an innovative, modern, and cosmopolitan country.

In addition, our LEXION received four awards from the American Society of Agricultural and Biological Engineers – the first time in that organization's nearly 100-year history that one product line has received so many awards in a single year.

A DIVERSE PRODUCT PROGRAM

Our customers are located on all continents. They include both large and small businesses, they operate under diverse weather conditions, and they sow, plant and harvest a variety of agricultural products.

Our objective is to offer comprehensive solutions for our customers. To this end, our product strategy follows a synergistic approach, with individual machines acting as components that work together in an economic and ecological production system. By maintaining control over the harvesting process chain, we are able to implement technical solutions that fulfill our customers' needs.

CLAAS' traditional core products are combine harvesters and foragers. Every fifth combine harvester and every second forager worldwide is a CLAAS product. Our combine harvester line includes the four product groups of LEXION, MEDION, MEGA, and DOMINATOR. We also offer a large selection of headers and other accessories for the machines. For the U.S. market, we manufacture the LEXION at our plant in Omaha, Nebraska, under the brand name of CAT and distribute the machines via the Caterpillar dealer network. In India, we produce the CROP TIGER both with wheels and as a rubber belt drive for use in the rice growing areas of southern India as well as for grain harvesting in the north.

Our foragers are used to chop green fodder and corn for cattle and dairy production. The green fodder is stored and used as silage for animal feed. Our most prominent product line in foragers is the JAGUAR, which is available in five different models. One year ago, the 20,000th JAGUAR came off the assembly line in Harsewinkel. Baler manufacturing is concentrated at our factory in Metz. Balers package straw and hay to be used for winter feeding and bedding – an important by-product of harvesting. We manufacture large square balers (QUADRANT) and round balers (ROLLANT and VARIANT). Eighteen years after launching the QUADRANT 1200, we have reached another milestone based on experience gained in the production of nearly 10,000 square balers: The newly-designed QUADRANT 3400 baler combines the high standards of farmers and straw dealers for maximum compression with demands for even more power and higher throughput. The QUADRANT 3400 has the highest throughput rate on the market, and its additional suitability for silage makes it the biggest silage baler offered in the market.

In the year under review, we combined our plants at Metz and Bad Saulgau into our forage harvest business, which offers the widest product range in the industry and serves highly diversified markets. More than two-thirds of sales are generated abroad, and the product line ranges from forage equipment for small farms to large machinery for the professional segment. Most machines are used for grass harvesting. Our production facilities must be very flexible in order to supply these segments with a variety of products. We manufacture approximately 130 different forage products, ranging from mowers, tedders, swathers, and forage wagons to components and attachments for self-propelled foragers and corn pickers.

"TRACTOR OF THE YEAR"

Our tractor business dates back to the year 2003, when we acquired a majority share in RENAULT Agriculture, the leading French tractor manufacturer at the time. In the year under review, we increased our equity share to 80%. Good progress was made in integrating the French tractors into the CLAAS distribution and service network. We completed conversion of the RENAULT/CLAAS brand alliance to the single brand of CLAAS. The tractors can now be seen on fields and country roads all over Europe in the characteristic CLAAS green. The NECTIS, a special tractor developed for wine and fruit growing, has been selected as "tractor of the year" in the category of specialty tractors by European agricultural technology journalists. Our new ARES tractor, which was launched in the late fall of 2005, was awarded a "Golden Tractor" for the best design.

CLAAS' entry into the tractor market is a crucial step in ensuring the future development of the Company.

PERFORMANCE YOU CAN COUNT ON

A bale of straw weighs up to half a ton after being pressed by the new QUADRANT 3400. Able to press more than 60 tons per hour, this machine is the most powerful baler in the world. The QUADRANT 3400 can compact an entire hectare of wheat into just 14 bales of straw. Before the era of large-scale balers, one bale weighed approximately 10 kilos, meaning that instead of 14 bales, some 700 bales of straw had to be collected and transported for each hectare.

We are now able to optimize the entire harvesting system and offer innovative solutions for farmers. At CLAAS, we have a lot of experience with tractors as an integral part of harvesting technology. Tractors are key products for gaining access to agricultural machinery customers, and serve to stabilize our overall business and strengthen our independent sales network.

The model lines that we acquired from RENAULT Agriculture have been redesigned to meet our quality standards and enhanced with additional functions. The CELTIS is an all-purpose, compact tractor used primarily for mixed and grassland operations. It comes in four models in the performance range of up to 100 HP. The three ARES models cover the range between 100 and 200 HP. The ARES family unites the latest technology with high efficiency and superb comfort to suit all needs in the high-end category. The ATLES is the power horse in our product offering. The three models in the performance range of over 200 HP offer the power and absolute reliability required for professional agricultural operations.

A NEW CLAAS TRACTOR ROLLS ONTO EUROPE'S FIELDS

The AXION is setting new standards. The first tractor developed entirely by CLAAS, the AXION series rounds out our product line in the 200 HP category and is available in five models ranging from 163 to 260 HP.

XERION – A SYSTEM TRACTOR

The newly developed XERION rounds out our product line at the top end. The XERION is more than a conventional tractor. It has been designed as a system vehicle for a variety of applications. Contractors and large-scale agricultural operations that focus on efficiency for maximum daily productivity use the 335 HP XERION as a large tractor, a system hauler, and a system carrier vehicle. The XERION is geared toward attaining a high degree of traction capacity without harming the soil while providing maximum versatility. The cab offers optimum comfort, is equipped with data terminals, and is sound-regulated and climate-controlled. At the push of a button, the cab rotates 180° to move from the middle to the end of the vehicle. The large glass windows enable clear visibility in all directions.

THE AXION SETS NEW STANDARDS

In October 2006, we introduced the first new tractor developed entirely under the direction of CLAAS, the AXION. Close cooperation with and feedback from our customers brought us quickly to the conclusion that the target group in the 200 HP performance category was looking for an alternative. With a range of models offering five engines between 163 and 260 HP, we have boosted the performance spectrum of the AXION to gear it towards the special needs of large farms, contractors and machine cooperatives. The AXION is positioned uniquely in the tractor market. With an unladen weight of only approx. 7.2 tons, the AXION is a tractor with low fuel consumption and reduced soil pressure.

HIGH TECH ON THE FIELD

AGROCOM, a CLAAS subsidiary, is a pioneer in the introduction of information technology to agricultural processes. Integration of electronics makes agricultural engineering much more efficient. "Precision farming" is the key phrase in modern agriculture. This means electronically recording information on yield and working conditions, which is then put into practice via computerized devices during the sowing, fertilization, and crop protection processes. The goal of precision farming is to utilize a field's yield potential more effectively and sustainably.

AGRO-NET is a software solution for crop cultivation that unites field indexing, plot management, and yield monitoring on the basis of a digital farm map. The system can be adapted to the varying conditions in the farming business via updates and special interfaces. On the hardware side, AGROCOM offers a special sensor integrated into the front hydraulics of farm tractors to measure the density of the grain. Based on the data collected, the AGROCOM computer terminal directly controls the differentiated application of fertilizer and crop protection substances in a single step. AGRO-COMBINE Online supports intelligent machine resource planning. A

GPRS module is installed in the combine harvesters to transmit the machine data, settings, routes, harvest quantities, fuel level, and fuel consumption to the farm computer, where all machine data is evaluated online and, if necessary, transmitted to the driver. Yield monitoring and mapping are basic tools in modern farming that help to efficiently allocate resources, saving time and money.

The e-drive steering system developed by AGROCOM is an automatic parallel drive system for guiding combine harvesters and tractors. The system keeps the machinery on track, avoiding track overlaps, which even the most experienced drivers may be prone to if they don't have a parallel drive system. This process reduces the workload by approximately 7%, and allows drivers to concentrate on the attached equipment and on spreading fertilizer or sowing seeds.

CLAAS IS NOT ONLY FOR FARMING

We not only put high-tech products on the field, we also develop and manufacture state-of-the-art production facilities for industrial use. CLAAS Fertigungstechnik GmbH (CFT) is a specialist in complete production facilities for the automotive industry. Our production facilities have been further enhanced by the takeover of BRÖTJE-Automation GmbH. BRÖTJE-Automation manufactures assembly cells for fuselages and wing parts for the aviation industry. In the year under review, BRÖTJE-Automation opened a branch in the U.S. in order to increase proximity to the important U.S. aircraft market. CLAAS Fertigungstechnik is one of the few companies able to efficiently process both steel and aluminum. Both in terms of technology and production, CFT is set to shape the future of lightweight automotive body construction in close partnership with the automotive industry.

CLAAS Automation GmbH, a subsidiary of CFT, manufactures conveyor systems, loading portals, elevators, storage and delivery systems, track-bound shuttle systems, and project-specific automation systems for the automobile and automotive parts industry and for machine tool manufacturers. In China, CLAAS Automation designed and installed a production facility for crankshafts used in the production of Suzuki automobiles. Another CLAAS subsidiary, CLAAS Industrietechnik (CIT), was originally established as the supplier of drive technology and hydraulics within the CLAAS Group. Since then, the company has substantially expanded its business with third parties. CIT technology is found in power shift transmissions for specialty cross-country vehicles, in the propulsion systems for sport planes, in tracks for high-speed trains, and in hydraulic valves for the regulation of high-powered motors for applications such as off-shore drilling platforms.

CLAAS – THE HARVESTING MACHINERY SPECIALIST NOW ALSO OFFERS TRACTORS

For more than 90 years, our products and innovations have been helping to make harvesting faster, better and more reliable. We "grew up" with harvesting technology and still remain harvesting specialists. The acquisition of RENAULT Agriculture has not changed our perspective. We regard tractors as an integral part of the harvesting system – an approach that distinguishes us from our competition. We put all of our innovative powers into improving the harvesting process. In addition to technological leadership, our strategy includes seamless customer support via our retail partners, which will amount to a virtual mobility guarantee for farmers and contractors. For the end customer, this approach ultimately translates into lower costs and improved quality for each ton of grain harvested. Our lead in the market and our continued growth is based on offering our customers this high level of reliability. After all, we want to ensure that there is more of CLAAS in the world every day.

SURGE IN AGRICULTURAL PRODUCTIVITY

In the past ten years, the gross value added per wage earner in the German agricultural industry has risen by 40%. This is double the increase in productivity experienced by other industries. Along with improved crop protection products and seed varieties, the increased capacity of agricultural machinery has made a major contribution to this jump in productivity.

Source: 2006 Report of the German Farmers' Association

CAN THE WEATHER BE CONTROLLED?

* Apache rain dance steps.

NOT LIKELY.

The weather can be erratic and unpredictable, sometimes changing from one minute to the next. In the agricultural industry, the weather determines the time frame and intensity of operations. An entire harvest can be destroyed by hail within the span of only five minutes. Modern farmers are faced with these challenges during the entire year, meaning that they often are forced to make far-reaching decisions under time pressure.

We help farmers overcome these difficulties. Customer proximity is part of our corporate culture. We have a highly competent world-wide distribution and service network. Modern information technology allows us to stay in close contact with our customers, even if we are separated by great distances. Our service team has direct access to all performance and electronic data from the LEXION 600 combine harvester via GPRS and Internet, providing technicians with all necessary information before making a service call. The magic word is CLAAS TELE SERVICE.


CLAAS

CUSTOMER PROXIMITY IS ESSENTIAL, FLEXIBILITY IS CRUCIAL

- **WORLDWIDE PRODUCTION NETWORK**
- **NEW SALES COMPANY IN MOSCOW**
- **THE FINANCING SUCCESS FACTOR**
- **PROVIDING OPPORTUNITIES WITH PRE-OWNED MACHINERY**

As the English philosopher John Ruskin put it, "Sunshine is delicious, rain is refreshing, wind braces us up, snow is exhilarating; there is really no such thing as bad weather, only different kinds of good weather."

The insurance industry, hotel and restaurant owners, and farmers may disagree here. Weather conditions directly impact health and leisure time, and also shape cultures and economies. Food production in particular is highly dependent on weather conditions, which impact up to 80% of the yield. Periods of drought or heavy rain have caused wide-spread famine time and again. There is no better example of this than the mass exodus of the Irish people in the mid 19th century. In 1845, a sustained period of warm, damp weather caused widespread potato blight. More than one million people starved to death or died from disease. One and a half million Irish citizens left their home country, emigrating mainly to the United States. Even as recently as 2005, sustained rainfall delayed harvests and impaired the quality of crops in Germany, while farmers in Spain and Portugal were only able to harvest half of their crops due to a prolonged drought.

CLAAS – ALWAYS AT OUR CUSTOMERS' SERVICE

We can't change the direction of the clouds, nor can we affect the sun, the rain, or the wind. But we can help our customers with their weather-related problems and decisions, as we always strive to see the world through the eyes of farmers. Harvesting times are becoming shorter and are dependent on external conditions. The machines must be properly employed and adjusted to consistently deliver top performance. Any hold-ups in even a single step of the process chain can have serious consequences for the entire harvest. Our customers rely on having service and spare parts available at very short notice. We are well aware of this and attend to our customers' needs before and after they purchase our harvesting machines and tractors.

Farmers frequently face very short harvest windows and therefore appreciate reliable high-performance machines that help them raise their productivity and save costs, since it can be very expensive if harvesting comes to a standstill during the season. This is why in markets with a high machine population, CLAAS has a tightly woven network of service centers and spare parts warehouses. In the harvesting season, any part can be supplied anywhere in the country within a matter of hours. The hub of our worldwide sales organization for spare parts is the CLAAS Parts Logistics Center in Hamm-Uentrop. In addition, our regional warehouses in Germany are strategically located such that no sales partner or customer is more than two hours away.

AT HOME ON ALL FIELDS

Agricultural engineering is a global business, and CLAAS took an international perspective early on. Our strong market position is based not only on our first-class regional sales and service organizations. We also actively respond to the demands of globalization by including local value added in our product offerings and involving suppliers and customers in our processes.

CENTER FOR AGRICULTURAL TECHNOLOGY

In 1992, CLAAS opened the TECHNOPARC visitor center in Harsewinkel. More than 20,000 visitors come to Harsewinkel each year from all over the world to experience CLAAS first hand. Along with viewing the most modern agricultural machinery in the world, visitors can explore the history of harvesting technology. The adjoining CLAAS museum hosts early machines such as Europe's first combine harvester as well as the first models of the JAGUAR forager, today the world market leader.

CLAAS will continue to develop in the coming years, particularly in the markets of North America, Eastern Europe and Asia. Our production strategy is geared towards the challenge of global development. We have taken three directions in shaping our global production network. Firstly, we are increasing local production in critical markets. Secondly, we concentrate on local suppliers in these markets in order to localize materials and financing cycles so that we can export our products at lower prices. Finally, we have started an "Inbound Logistics" initiative to ensure that our production locations are supplied with materials quickly and flexibly, from the supplier to the assembly line.

North America is the largest agricultural engineering market in the world, and the most hotly contested. Professional cultivation of large acreages requires powerful and efficient machinery designed to handle special needs. Our own development team in Omaha adapts existing products to these requirements and also develops specific regional solutions. LEXION combine harvesters and JAGUAR self-propelled foragers succeed in meeting farmers' requirements. In foragers, we lead the U.S. market in line with our globally leading position. In combine harvesters, however, we still have work to do. Our factory in Omaha manufactures LEXIONs developed especially for the U.S. market. The network of Caterpillar dealers forms the backbone of our sales organization for combine harvesters. Caterpillar dealerships are financially strong and cover all regions in the U.S., Canada, and Mexico. The North American market for foragers, balers, and forage harvest machinery is supplied and serviced by our own CLAAS distribution subsidiary, CLAAS of America, likewise located in Omaha.

International challenges and growing business units require us to constantly review our company's organizational structure. One element of this involves making economically significant units legally independent and providing them with clear objectives and financial responsibility. CLAAS KGaA, managed as an operating holding company, includes the divisions of International Sales, CLAAS Parts Distribution (CPD), and Customer Service. At the start of the new fiscal year, these divisions were transferred to two legally independent entities. The newly formed company, CLAAS Global Sales GmbH (CGS), will deal with the previous export regions. CLAAS Service and Parts GmbH (CSP) is now responsible for customer service and spare part supply.

NEW SALES COMPANY IN MOSCOW

Our new combine harvester plant in the southern Russian city of Krasnodar went into operation in May 2005. The plant produced a total of 200 MEGA-series combine harvesters during the first year as planned, delivering them to Russian farmers in time for the 2005 harvest. In 2006, production was stepped up even further. The factory in Krasnodar is an important part of our international production network, which supplies the entire Russian Federation with CLAAS combine harvesters. The Russian factory creates local jobs and improves the quality of Russian agricultural production. Our production locations in Germany also benefit from growth in Russia, as many of the components are made in Germany and assembled in Russia. The new Russian company can be regarded as a win-win situation and an example for a successful German-Russian partnership.

The new production facility underscores our intention to make a long-term contribution to Russian farming. If this venture proceeds as expected, we will increase our current investment volume over the next few years. Although the price of a CLAAS combine harvester significantly exceeds that of our local competitors, buyers place value on factors that CLAAS can provide, such as performance, reliability, design, replacement part service, customer service, and machine resale value. The purchase of a combine harvester is an investment decision that follows the rules of economics. Russian customers are experienced professionals who frequently work more than 1000 hectares of land and precisely calculate the

AROUND THE CLOCK

In the harvesting business, nothing can be left to chance. Everything must run smoothly regardless of the weather. To this end, the CLAAS parts depot in Hamm, Germany, is available to our customers around the clock. Any CLAAS spare part can be delivered to any customer location in a matter of hours. Last year alone, the center delivered spare parts weighing a total of 13,000 tons. Some 100 employees in Hamm manage more than 100,000 different stock items, from the smallest screw to combine harvester powertrains weighing several tons. From here, the parts are shipped all over the world by land, air, or sea. In 2006, a total of approximately one million individual items were supplied.

cost/benefit ratio of their machine fleets. The decisive criterion for purchasing a combine harvester is not the cost of acquisition, but the cost of the machine over its entire life cycle, expressed as cost per ton of grain harvested.

Demand for agricultural machinery is enormous in Russia, which has 85 million hectares of arable land, exceeding the 79 million hectares available in all of the European Union. According to estimates, the Russian agricultural industry has currently filled only half of its required harvesting machine capacities. Moreover, the majority of the machines presently in use will have to be replaced over the next few years. CLAAS has been active in the markets of the Russian Federation since 1992. The Company has a well-developed service and sales network and a central replacement parts warehouse. We have also established a dedicated sales company for the Russian Federation in Moscow in order to meet the demands of this huge market and to quickly react to market needs.

AGRICULTURE IN INDIA

The Indian economy is still largely based on agriculture. 60% of workers are occupied in the agricultural industry, farming an area slightly larger than that of the European Union. Even today, most farmers sow and harvest their crops without using machines; the level of mechanization is only 10%. Most of the rural population continues to live in poor conditions while tons of rice, wheat, fruit and vegetables rot in the fields each year. Without this waste, there would be enough for everyone, especially considering that the temperatures in India generally allow crop cultivation throughout the entire year – weather permitting – with two or even three harvests.

FROM INDIA TO ALL OF ASIA

Our commitment to the Indian market is of great strategic importance. India is one of the most important and fastest expanding markets for agricultural machinery. In India, we manufacture compact rice combine harvesters for the entire Asian region. The CROP TIGER has proven to be an effective machine for Asian grain fields. Its track system, its technical ability to harvest various types of crops, and its long service life make the CROP TIGER perfect for use in extremely difficult agricultural regions.

OUR HEART BEATS IN HARSEWINKEL

Our production network is headed up by our main production facility in Harsewinkel, which has undergone complete modernization over the past few years. We have invested approximately €55 million to establish a high-tech production facility. The facility includes three new production lines for the manufacture of combine harvesters and foragers, as well as components and subassemblies for the supply of our production facilities in the USA, Russia, India, and Hungary. In the year under review, we installed a fourth production line for the assembly of the XERION. Starting in 2007, we will also be manufacturing the COUGAR forage harvest machinery in the new facility in a mixed production operation. To maximize manufacturing flexibility, our XERION and COUGAR production equipment will be completely mobile so that it can be easily rearranged, depending on which product is being built.

FIRST CLAAS CUSTOMER CARE

Reliable machines and service are of critical importance, especially at harvesting time, when the labor and money invested over the entire year must be recovered in a very short amount of time. To assure customers that all their servicing needs will be met, we offer a “First CLAAS” full service package. Our MAXI CARE servicing contract guarantees that essential harvesting machinery will be ready for operation. After the harvest, trained employees of CLAAS’ sales partners prepare the machines for the next season, looking for hidden damage and beginning wear-and-tear. Repairs are made using original CLAAS replacement parts after consultation with the customer. This process ensures that the machines remain 100% CLAAS machines. MAXI CARE offers a maximum extended protection program of three years, guaranteeing 36 months of optimum servicing by CLAAS partners. The annual post-harvest check brings the total service period to four years.

THE FIRST AGRICLAASICA EVENT

In preparation for the Agritechnica trade fair held in Hanover in November 2005, we organized our own informational event for contractors – the Agriclaasica. Here, some 2,000 professionals received advance

information on our state-of-the-art technology and current innovations. It has been our experience that focused events of this type are ideal for in-depth discussion of topics important to contractors. After reporting on the current state of the Company, we presented our new machines and provided a review of significant technical improvements and other product-related information.

FINANCING FROM A SINGLE SOURCE

The machine purchase is only part of the service package our customers expect. Farmers, contractors, and agricultural cooperatives who work with large machine fleets need a transparent financing concept before making their final purchasing decision. CLAAS sees customer financing as a strategic instrument to support sales and to strengthen customer relations. In addition to classic loan financing, we offer our customers solutions such as leasing and installment purchase plans to reduce the cost of ownership. In our core markets, CLAAS companies provide end-user financing as part of the CLAAS brand.

CLAAS Financial Services (CFS) has operated successfully for seven years. Founded in 1999, the company is a joint venture with the French BNP Paribas Lease Group. Since 2003, CFS has also been offering its financial services to tractor customers. CLAAS offers financial services in eleven countries. Italy is the newest market, and business has taken off rapidly there. In response to the excellent business trend of CFS, CLAAS has increased its ownership stake in the joint venture to 40%.

PROVIDING OPPORTUNITIES WITH PRE-OWNED MACHINERY

CLAAS has defined the pre-owned machinery market as a separate business activity and has actively pushed forward with this activity in Europe. In Germany, we offer combine harvesters in all performance classes, foragers, balers, forage wagons, and telehandlers made by CLAAS and other manufacturers in Hockenheim, Landsberg, and Grasdorf. At CLAAS' newest center in Langenau, tractors are inspected, evaluated, and repaired in accordance with customer specifications. We also have two French pre-owned machinery centers in Connantre and Toulouse. In England, our pre-owned machinery business is known by the name of Combine World. Our extensive range of products consists of machinery acquired through trade-ins and near-new rental fleet returns. The combination of full-time sales personnel and the broad selection of machinery makes these centers attractive to prospective buyers who prefer to invest in pre-owned machines.

How much CLAAS is in the world of agricultural engineering? Quite a lot, we find. Since the founding of the Company in 1913, CLAAS has on average registered one new patent each week, including pioneering new concepts as well as minor improvements to existing solutions. All of these ideas, however, serve the common goal of improving the success of agriculture – each day, all over the world.

LEXION WANTED

CLAAS Gebrauchtmaschinenzentrum (GMZ) in Landsberg specializes in the sale of pre-owned agricultural machinery. Located on the same premises is the regional spare parts warehouse for Southeastern Germany. CLAAS now has 15 employees at this location.

HOW DOES THE FUTURE LOOK?


BETTER THAN EVER.

There are many options for the future, and we are in an excellent position to take advantage of them. Just as people are turning more and more to alternative sources of energy, farmers are increasingly becoming “energy managers.” The magic word is “biomass.” We are looking at a green future, one that we at CLAAS will help to shape.

Our combine harvesters are No. 1 in Europe, and our foragers lead the world market. The strong international position of CLAAS determines our strategy: profitable growth. The strength of our Company rests on a tradition that goes back nearly 100 years and involves constantly reinventing ourselves, coming up with innovative solutions again and again, and bringing these innovations to all major world markets. Bring on the future. We are looking forward to it.

THE FUTURE IS GREEN – CLAAS GREEN

- **AGRICULTURE – A GROWTH MARKET**
- **FROM FARMERS TO ENERGY MANAGERS**
- **STRAW – A BY-PRODUCT WITH POTENTIAL**
- **THE CLAAS ACADEMY – TRAIN THE BRAIN**

The world's population is expanding rapidly. Each day, there are approximately 220,000 more people – the equivalent of a sizeable city. Eating habits are changing too, with meat making up an increasing portion of people's diets. To produce more meat, more animal feed is required. However, over half of the world's corn crop is already being fed to animals. In order to ensure food supplies in the future, the amount of arable land would have to be doubled by 2050 based on current technical standards. This is hardly possible. On the contrary, each year millions of hectares of fertile farmland are lost.

Throughout history, mankind has always found novel solutions to the dilemma of how to feed the populace. Key innovations include the plow and three-field crop rotation. Most important of all, however, is high-performance, innovative agricultural technology, with high-tech products contributing to meeting the increasing demand for food today.

However, modern agriculture means more than just fresh produce. Agriculture can do more. Electricity, heat, and fuel produced from grass, corn, or grain has already become an economic reality. For many years, CLAAS has been actively involved in the field of bio-energy. Cost effective and sustainable energy production, however, depends on sophisticated harvesting logistics.

CLAAS wants to stay in the lead. We have implemented a number of crucial decisions in past years to secure our future. We completely revamped our main facility in Harsewinkel, we reinforced our forage harvest program by increasing flexibility and capitalizing on synergies between the plants in Bad Saulgau and Metz, and we led our combine harvester production facilities in the key markets of the USA and India to independence within the Group. In Russia, we built a new plant that gives us a strong base in the Russian grain belt and will ensure deep penetration of the CIS markets.

Our product offering is continuously being enhanced. Our sales network has responded positively to the tractor business as a new member of the CLAAS family, which has expanded distribution activities and strengthened our retail position. CLAAS now offers the most modern machine fleet on the market. CLAAS Fertigungstechnik, together with BRÖTJE-Automation, is on the cutting edge of riveting and metal forming technology. We intend to capitalize on this know-how in our core business, a process that is already well underway.

We have defined our growth options more specifically by adopting a strategic platform based on four pillars. Firstly, we want to use our core products to expand on the success we have achieved in our core markets. Secondly, we aim to penetrate new markets in North America, Russia, and India with our core products. The third pillar relates to introducing new products to our core markets. This is most evident in our new tractor business. The fourth pillar involves operating in new markets with new products, with an emphasis on the activities of CLAAS Fertigungstechnik and its subsidiary, BRÖTJE-Automation.

CONTINUITY IS THE MAGIC WORD IN FINANCIAL MARKETS

The corporate financing that makes CLAAS independent and secure is just as innovative as our agricultural product and service strategy. We foresaw the trend away from traditional bank financing and

GLOBAL POPULATION TRENDS

Nearly 6 billion people populate the earth today. According to UN projections, this number will rise to 8 billion by 2025 and to 9 billion by 2050. Each year, the world's population increases by around 80 million people. This is approximately 220,000 people every day, or 2 to 3 each second. Only 3% of this population growth occurs in the industrialized countries, while 97% of it is registered in developing countries.

Source: UN

towards more diverse financing models, and accordingly geared our financing concepts towards a higher degree of diversification and internationalization by entering the capital markets. Innovative financing is one of the central elements of our Group strategy.

We have committed ourselves to a corporate policy that includes criteria such as transparency, financial communications, investor relations, and financial reporting in accordance with International Financial Reporting Standards. We also approach the capital markets with innovative topics on a regular basis in order to raise investor awareness of our Company and to increase the liquidity of the financial instruments we issue. In addition, we manage our debt capital resources in a professional manner. Each year, we prove that we achieve our strategic goals – in strict adherence to corporate governance guidelines.

FLEXIBLE ABS PROGRAM INITIATED

There is no continuity without innovation. For CLAAS, this is true not only of our products. CLAAS has a long history of innovative capital market policies. In 1997, the Company accessed the capital market for the first time, offering participation certificates and a syndicated credit facility. In 1999, CLAAS issued a euro bond. We also entered new financing territory with a private placement of bonds on the U.S. insurance market in 2002. In 2005, we issued subordinated perpetual securities with a volume of nearly €80 million. This kind of equity bond can be reported as equity under the strict regulations of IAS/IFRS, but is considered to be debt capital for tax purposes, a requirement that traditional participation certificates no longer fulfill.

In March 2006, we offered a program of asset-backed securities (ABS) incorporating new features. The €250 million program securitizes receivables owed to us by importers and retailers. It offers the innovative flexibility of adapting liquidity commitments to changing liquidity requirements. A financing volume of €250 million is in place. We are also able to adjust our liquidity requirement once per year.

Our financing concept is intended to attain a high degree of flexibility in our liquidity and financing coverage, as is suitable for an enterprise with seasonal fluctuations. Our core business, agricultural machinery, is subject to the changing seasons, with high demand in spring and summer. During these periods, products must be available at short notice. To be able to deliver quickly, we maintain and finance inventories. The size of the inventories depends on anticipated product demand, which in turn depends on harvest expectations of our customers.

When taking on the challenge of investing in emerging markets, CLAAS aims to obtain local financing in order to minimize overall risk for the Group. One example is the project financing for our new factory in Russia, which was arranged locally in 2006 and was used to finance major portions of our capital expenditure for the plant in Krasnodar as well as operating funds.

CONTINUITY AS A CORPORATE VIRTUE

Our ownership structure benefits our policy of taking advantage of both the capital market and traditional bank loans to finance business activities.

CLAAS is a family-owned company that thinks in terms of generations. Our shareholders identify with the values and long-term goals of the Company. This strong sense of stability and our diversified financing policy enable uncompromising, value-oriented corporate management.

On the one hand, CLAAS acts like a listed corporation in using international debt capital markets to finance long-term projects. On the other hand, the implementation and success of business activities

CAPITAL MARKET MILESTONES AT CLAAS IN THE PAST 5 YEARS

2001 Financial statements published for the first time in accordance with U.S. GAAP

2002 Private placement in the amount of USD 200 million, term until 2014

2004 Equity bond of €80 million, indefinite term (10-year minimum)

2005 ABS program in USA amounting to USD 44 million
Syndicated loan of €250 million, term until 2010
Transition from U.S. GAAP to IFRS

2006 ABS program with flexible credit line of up to €450 million

is measured and assessed by our shareholders with an eye towards securing the long-term future of the Company. Unlike listed corporations, we develop and pursue our corporate strategy together with our shareholders.

AGRICULTURE – A GROWTH MARKET

We intend to continue the steady growth of the past decade. Although the agricultural market is subject to cyclical activity, the market is large and still growing, making our ambitious goals attainable. The importance of agriculture will continue to increase, driven by a rapidly growing world population in combination with a scarcity of arable land, rising standards of living, changing expectations regarding nutrition, and increasing migration into cities with the resulting desertion of rural land. In order to satisfy people's needs in the future, high-tech, high-performance agricultural machines are imperative.

BIOENERGY – THE BUSINESS OF THE FUTURE

High costs, uncertain supplies, and depletion of fossil fuel reserves such as coal, oil, and natural gas call for alternative sources of energy. One of the many alternatives available is to make use of renewable raw materials and the energy derived from them. This development translates into unimagined opportunities for CLAAS: New growth fields, new products, new services, new processes, new logistics, new customers, and new challenges. Enormous quantities of biomass are required for the creation of bioenergy, and these quantities must first be harvested and transported. This is where the great future of bioenergy meets the future of CLAAS. Today, we offer a wide, high-performance spectrum of practical solutions for the harvesting and preparing of biomass. Our solutions help farmers fulfill their additional role as "energy managers".

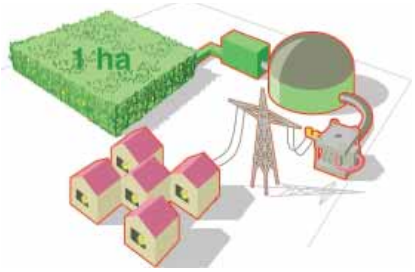
STRAW – BY-PRODUCT WITH POTENTIAL

Straw is a renewable and highly valuable raw material that is becoming ever more important. It is gaining particular significance as a source of energy. Up to now, two different procedures have been used to extract energy from straw. In the first process, the straw is chopped into very short pieces and burned in a furnace. This method produces very little pollution due to the large amount of oxygen supplied. In Denmark, there are already a number of heating plants that are powered by this process. The other process involves forming the straw into pellets. There are currently very efficient ovens that burn wood pellets in a manner suitable for residential heating systems. It is only a matter of time before these ovens are able to use clean-burning straw pellets. The market potential is enormous: Nearly half of the total heating oil used in Germany could be replaced by straw pellets.

European energy and agricultural policy is acting as the catalyst for the transformation from "farmer" to "energy manager". The Brussels Commission has stipulated that the share of renewable resources in gross domestic consumption must be doubled to 12.5% by 2010 and at least 20% by 2020 as part of EU strategy. Biomass is to make up two-thirds of this amount. The share of electricity generated from renewable energies on the EU-wide electricity market must increase to 22% by 2010, and the share of biofuels to 5.75%. In Germany, this corresponds to 2 million tons of bioethanol and 2 million tons of biodiesel. The country's Renewable Energy Act (EEG) is intended to expand the share of "ecological electricity" to 12.5% by 2010.

In Germany, the Renewable Energy Act guarantees added value for energy plant cultivation; therefore, we can expect that plant matter from farmland will be used increasingly for technical or energy-related purposes. This is leading to new challenges for farmers. A new competition is arising between food and energy for scarce land resources, which will bring a

BIOGAS – A SOURCE OF RENEWABLE ENERGY



GOOD PROSPECTS

Biogas is one of the best sources of renewable energy. The yield from one hectare of corn can produce enough electricity to supply five households of two to three persons each with electricity for a full year. In 2005, a total of approximately 2,700 agricultural biogas facilities were in operation in Germany with a total output of approximately 650 megawatts. The sector is experiencing strong growth.

Source: Fachagentur Nachwachsende Rohstoffe e.V.

change in farmers' yield strategies. Farmers will have to make an entrepreneurial decision between harvesting wheat for feed or for energy, for example.

According to estimates, a good 17% of current demand for heat and electricity in Germany, for example, could be covered by biomass alone in the future. The share of biofuels could rise to 25% by 2020. This would necessitate 3.5 million hectares of cultivable land for the estimated total consumption of 44 million tons of fuel. However, regardless of how the future scenario will play out, one thing is clear today: The future is green! And it is rooted in the fields, where we are at home.

THE CLAAS ACADEMY – TRAIN THE BRAIN

Innovations don't occur by accident. It is people, with their knowledge, passion, and enthusiasm, who succeed in finding better solutions. Modern agricultural technology demands up-to-date technical concepts. The development of high-tech solutions is based increasingly on an intelligent combination of innovative information technology and sound practical experience. This requires ongoing professional and specialist training.

In addition to a high level of qualification and professionalism, the future of CLAAS depends on our ability to transfer existing knowledge to all levels and to continuously generate new knowledge. Technology leadership cannot be attained without superior knowledge. In the CLAAS Group, we have institutionalized the transfer of knowledge and education at the CLAAS ACADEMY, our globally active training facility that is open to both our employees and our sales partners. We hold seminars and practical field applications to convey important production and service know-how to our technical employees and to support our marketing and sales experts by showing them how our machines and systems can be used.

The demands that we place on ourselves also reflect the criteria for selecting new employees: quality, professionalism, team spirit, and decision-making abilities. We are looking for the best, and fill more than 70% of our management positions from our own ranks. For nearly 20 years, we have been conducting an international training program for college graduates. This program is constantly being adapted to meet current needs, and it allows our trainees to gain experience in the Company's most important jobs in Germany and abroad over a period of 12 to 18 months.

We also hold seminars and classes on professional competence, methodological skills, and social skills as well as on foreign languages and employee management. CLAAS is also leading the way in a program that combines practical training with academic classes at the Stuttgart Vocational Training Academy and at the College of Applied Sciences for Economics in Paderborn.

Our knowledge of agricultural engineering is enriching the world. This knowledge is in the minds of our employees, our partners, and our investors. It is all around us and accessible to everyone. We add a little bit of CLAAS to the world in everything we do. This serves to illustrate that it may not always be obvious how much CLAAS there is in the world.

IN SEARCH OF EXCELLENCE

Last year, more than 7,500 salespersons, service technicians and users participated in seminars at the CLAAS ACADEMY, the international qualification and training center of the CLAAS Group. Approximately 3,500 of these participants came to our location in Harsewinkel from some 30 countries. The remaining 4,000 participants were distributed among our other training centers all over the world, for instance in France, the UK, the U.S., Russia, and the Ukraine.

CAN WE SUPPLY THE WORLD

WITH ENOUGH FOOD?

NOT WITHOUT HELP.

We have no power to influence the diametrically opposed relationship between population and land resources, with the world's population exploding and land becoming increasingly scarce. Currently, only 3% of the earth's surface is available for cultivation – and this small percentage is shrinking further.

Farmers are faced with the nearly impossible task of increasing food production while avoiding destroying the land, which represents their means of subsistence. CLAAS has a variety of ways to help them protect the soil. We have developed the TERRA TRAC rubber belt drive, which thanks to its large footprint, integrated axle shock absorbers, and even weight distribution can cross fields without exerting great pressure on the soil. This is just one way in which CLAAS is contributing to meeting the global challenges of the future.

HARSEWINKEL – OUR HOME IN WESTPHALIA
CLAAS – A PLACE OF IDEAS

- **THE SOIL – SOURCE OF LIFE AND PRODUCTION FACTOR**
- **SUCCESSFULLY PROTECTING THE SOIL**
- **FROM HARSEWINKEL OUT INTO THE WORLD**
- **THE FUTURE STARTS WITH TRAINING**

Soil plays a central role for life on earth. Without soil, there would be no agriculture. It is crucial to protect this highly-sensitive, delicate ecosystem. This is especially true in light of the very small percentage of land that is suitable for cultivation. More than 70% of the earth's surface of 510 million square kilometers is covered with water. Less than one-third of the total surface emerges from the oceans as land. Of this, barely 3% is used for agricultural purposes. The rest consists of steppes, mountains, and deserts. Protecting this scarce bit of land will be a major responsibility for future generations.

Well into the 19th century, land was considered to be an unending resource, infinitely available for people to use as needed. Swamps could be drained, low-lying areas could be dammed, and sand could be turned into arable land. In Prussia, farmers from all over Europe showed how fertile farmland could be created from the moorland and marshes along the Oder and Havel rivers.

These days are over, however, and the concept of unlimited land resources is a thing of the past. Demand for food has risen exponentially due to rapid world population growth, higher standards of living, and the globalization of world markets. Farmers must extract more from the land than ever, and can only allow it little time to recuperate. However, agriculture cannot be separated from environmental protection. After all, farmers and contractors depend on healthy and fertile soil.

THE SOIL – THE BASIS FOR THE FOOD CHAIN

Soil, along with the water, air, and life forms it contains, is the habitat for plants. The soil provides nutrients and water in addition to anchoring roots and supplying them with oxygen. If even one of these factors is missing, it is nearly impossible for plants to grow. The soil protects plants from light and extreme temperatures, and regulates the supply of water and gasses.

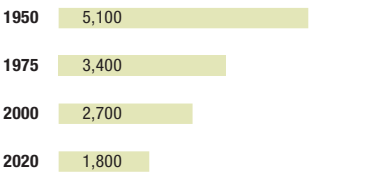
Earlier societies understood the life-giving powers of fertile soil, cherishing it as Mother Earth. Along with the climate, the soil is the critical factor in determining whether an area is suitable for farming. Fertile soil provides the basis for the food chain and is the source of virtually all life on earth.

The soil is the most important production factor in agriculture. Since soil is a limited resource, it requires special protection, especially from wind and water. A single millimeter of erosion translates into the loss of 15 tons of valuable topsoil per hectare. Wind erosion frequently occurs in regions with large, expansive surfaces, though this is also common in areas where crops are planted in tight rotation. Water erosion leads to damage in regions with inclined surfaces. Erosion problems can be combated by altering the type of land cultivation. Planting intermediate crops to cover the soil and reducing tillage operations are proven methods of keeping erosion in check.

Damage can also occur when the soil is compacted. Compaction reduces the amount of air in the soil, impairs its ability to hold water, inhibits root growth, and interferes with the organisms living in it. Modern agricultural technology offers a variety of solutions for reducing compaction. Equipping tractors with twin tires or extra-wide tires keeps pressure on the soil as low as possible. Lowering tire pressure to 0.8 bar can also significantly contribute to reducing compaction. Self-propelled harvesters can be fitted with extra-wide tires or rubber tracks to increase the footprint and minimize pressure on the soil.

ARABLE LAND PER CAPITA

in m^2



THE SOIL – A SCARCE RESOURCE

The world's population is growing, while the amount of arable land is decreasing due to overbuilding and erosion. The amount of farmland per capita is expected to shrink by one-third over the next 20 years to 1,800 m^2.

Source: FAO

The use of plows is in decline in modern soil cultivation. When fields are plowed, the leftover crops are tilled under the soil, leaving a surface free of any remains. This bare surface offers ideal conditions for wind and water erosion. In Europe, soil conservation practices have been on the advance for years in which the soil is not turned over, but mixed. Although the soil is loosened, some of the crop residue stays on the surface and is not completely buried as in plowing. In some areas of North America and Australia, soil tilling has been practiced only minimally or not at all for decades. Targeted soil conversion contributes greatly to improving the soil structure and water supply. Unplowed surfaces can also bear more weight than comparable plowed surfaces due to optimized aeration and water circulation. Exceeding the carrying capacity of the soil leads to plastic deformation, resulting in permanent compaction. If the carrying capacity of the soil is not exceeded, the soil recovers from the impact and returns to its original condition with no damage.

WE HELP PROTECT THE SOIL

We are well aware of our responsibility. We develop machines that meet both economic and ecological demands in the closed system of land cultivation. We use our competence to develop tires and vehicles that distribute heavy loads over the tire footprint. Air pressure regulators allow drivers to adjust tire pressure to the soil conditions. Our big LEXION combine harvesters are equipped with the TERRA TRAC rubber belt drive, which minimize tire pressure while optimizing maneuverability, even under difficult soil conditions such as when harvesting corn in the fall. The system is also stable on inclines thanks to the anti-slip feature.

Agricultural engineering can be made even more efficient and environmentally friendly by capitalizing on information technology. This is known as precision farming. Computer-controlled equipment regulates sowing, fertilizing, and crop protection. Fertilizer is only spread where the soil lacks nutrients, and pesticides are only used where pests are actually present. We believe that if there were more CLAAS in the world, land could be cultivated more effectively and fertile fields could be better preserved.

CLAAS – A PLACE OF IDEAS

Our interests and tasks go far beyond the borders of our Company. We have evolved into a center for global agricultural technology. Harsewinkel is an international meeting point for customers and business partners as well as representatives from politics, science, and the arts. A visible expression of our commitment is the CLAAS Foundation established in 1999. Its mission is to promote social acceptance and future developments in agriculture and agricultural engineering all over the world. The proceeds from the Foundation are used to support projects in agricultural science and to reward outstanding scientific achievements such as dissertations or theses in agricultural technology, engineering, or business. The Foundation also supports young people in their studies of agricultural science by awarding grants on a yearly basis.

From our headquarters in Harsewinkel, we have expanded into the world. However, we still remain true to traditional German values such as precision, quality, reliability, diligence, ambition, and a desire to increase our knowledge. In venturing into other lands, we have brought with us adaptability, flexibility, customer orientation, and the willingness to respect other cultures, languages, capabilities, and working methods. Wherever we establish ourselves, we adapt to the local markets and add value by establishing production facilities and acquiring local partners. CLAAS embodies a great deal of that which foreign customers appreciate as typically German, a situation which has given us a leading position in many markets.

TERRA TRAC - SOIL CONSERVATION MAXIMIZES HARVEST YIELD

Soil conservation is becoming an increasingly important issue. Soil compaction can cause losses in harvest yield. The TERRA TRAC rubber belt drive developed by CLAAS minimizes soil pressure and enables easy driving on the surface even under difficult conditions. As a consequence, a combine harvester equipped with TERRA TRAC can be used for extended time periods, which for the farmer translates into higher performance, more efficiency, and a higher yield.

Although we have expanded beyond our home base, we still draw strength from our roots in Harsewinkel. We show our commitment to Germany as a production location by making significant contributions to German society. We educate young people, create jobs, invest in new facilities and machines, pay taxes, and act as donors and sponsors. We are open to everyone, and maintain contacts with representatives of society and politics.

Just because our roots are in a small town in Westphalia does not mean that we are not a global player. We have grown from a small local company into a large corporation with a strong presence in the agricultural technology market. Cultural diversity is an obvious criterion for a globally active company. We cherish the diverse mentalities of different cultures and take advantage of this diversity for learning and growing, while at the same time reinforcing our own identity.

This philosophy is demonstrated by our workforce, which is mobile, flexible, and includes representatives of many nations. International exchanges and consistent integration management are essential elements of our employee development efforts. Assignments in the USA, Argentina, India, Australia, Russia, Hungary, Ireland, the United Kingdom, Spain, Italy, and France give our employees the opportunity to gain a deeper understanding of the Company's organization and work flows, to get to know different cultures and mentalities, and to develop valuable intercultural competence. In this way, too, there is even more of CLAAS in the world. As an intercultural event, we hold the CLAAS European Soccer Championship each year. The 2006 matches were held in the vicinity of CLAAS Saulgau, which is located in the Southern German region of Oberschwaben. Twenty-four teams fought for victory, with 300 employees competing. This popular event has been held for five years now.

MORE THAN 20 YEARS OF EMPLOYEE PARTICIPATION

CLAAS Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG) offers employees the opportunity to participate in the capital and the success of the Company as silent partners and to build up assets over the long term. CMG collects the employee contributions and makes them available to the Company as long-term financial resources. The subscription rate was over 70% in the reporting year. More than 4,600 shareholders have invested a total of €19.4 million in the Company to date.

Half of these silent partners hold approximately €2,500 in CMG, and one-third have accumulated savings in excess of €5,000. In the year under review, €3.4 million was paid out to silent partners on the shareholder capital eligible for interest.

CLAAS – AN ATTRACTIVE EMPLOYER

We sell high-tech agricultural machinery all over the world. To do so, we need innovative, motivated, well-trained, and enthusiastic employees. We look for top quality people everywhere we operate. We train new employees at our Harsewinkel headquarters, and then assign them to a CLAAS subsidiary in their home country. We regard our foreign trainees as worldwide CLAAS ambassadors.

As an employer, we offer attractive working conditions for employees who possess the right set of skills, expertise and potential. We have team spirit, and emphasize open dialog and professional networking between employees. It is important for us to make new employees feel a part of the CLAAS family. We also honor and award our employees for their achievements.

50 YEARS OF ANNIVERSARY CELEBRATIONS

This year, CLAAS recognized 110 employees at the Harsewinkel site alone for their many years of service to the Company. 34 employees were honored for their 40th year at the Company, and 76 for 25 years of service. This is the 50th year we have celebrated employee tenure at CLAAS.

We offer employee-friendly working hours. Flexible working time models in the companies of the CLAAS Group enable employees to balance production and market demands with their jobs, families, and leisure time. Up to 25 different flextime models are available in the production department in Harsewinkel alone. Our compensation structures are fair, and we take advantage of opportunities to offer motivating incentives. Variable bonuses are rewarded when specific targets are met.

THE FUTURE STARTS WITH TRAINING

To attract employees and promote company loyalty we offer extensive training and other benefits. We invest significant amounts in human resources development; in the reporting year this amounted to €12 million, or 2.6% of our total personnel expenses.

Great importance is placed on vocational training throughout the entire Group. CLAAS has more than 200 apprentices in Harsewinkel alone. The Company offers training programs in some 20 administrative and technical professions.

The vocational programs we offer include training as an industrial mechanic, machine tool mechanic, milling machine operator, parts finisher, mechatronic technician, and industrial clerk with additional certification in foreign languages. In addition, we also offer the possibility of theoretical and practical training leading to diplomas in mechanical engineering, mechatronics, industrial engineering, information management, and business management via work-study programs. This year, more than 1,000 young people applied for the 59 positions in our training program in Harsewinkel.

Our ratio of trainees to employees of 7.2% well exceeds the industry average. In Germany, we trained a total of 330 young people in the year under review. All of these graduates now have regular jobs at CLAAS, except for those who opted for advanced training.

An important part of training junior staff at CLAAS is our international trainee program. Potential management staff gain a comprehensive overview of the CLAAS Group over a period of 12-18 months, during which time the trainees can build up their own professional networks. The international nature of this training program is characterized by the variety of cultures from which the participants come as well as the experience trainees gain from working abroad.

The trainees are responsible for taking the opportunity to show their dedication and proving themselves in their selected fields. We do not give our prospective management staff any guarantees that they will be offered an executive position, but we do create a foundation for them to attain the qualifications necessary to take on positions of responsibility.

While the trainees usually specify finance/accounting, production/development, or marketing/sales as their areas of interest, they do not have to make a final decision before starting the program. Should their strengths prove to lie in another area, we support them actively in developing their talents in the chosen direction.

We also promote strength from within through our wide spectrum of continuing education opportunities, ranging from language training, technical training, safety training, and computer courses to instruction in CATIA 5, Six Sigma, and CAD as well as seminars on teamwork and team management. Our Junior Management Program, which gives promising young employees and prospective managers insight into general management, has been expanded to include a Senior Management Program.

VOCATIONAL TRAINING AT CLAAS – SETTING AN EXAMPLE

Karl-Josef Laumann, Labor Minister of North Rhine-Westphalia, visits the Technical Education Center on his tour of the training facilities and praises the exemplary vocational training offered by CLAAS.

MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

(DETAILED TABLE OF CONTENTS ON P. 59)

MANAGEMENT REPORT OF THE CLAAS GROUP

INDUSTRY TRENDS

In fiscal 2006, the global agricultural engineering market did not quite reach the high level of the previous year. Economic trends in the various regions differed, as in fiscal 2005. While the Western European markets saw a slight decline overall, the growth markets of Central and Eastern Europe made significant gains. The North American market decreased slightly from the previous year's high level. In South America, the market was again quite weak, as opposed to India, which continued to register strong growth.

In Western Europe, the market for harvesting machinery remained stable. Although some regions experienced a drop in harvest yields due to drought, higher crop prices compensated for this for the most part. The tractor market declined somewhat on the whole, with regional trends varying. In Germany, the investor climate improved significantly. The agricultural industry benefited from steady markets for agricultural products and a more stable political climate, resulting in strong growth in the sector. In France, the combine harvester market expanded slightly, while demand for tractors declined. In Italy and Spain, agricultural engineering markets continued to suffer the consequences of the drought of 2005 and declined somewhat once again. The market in the United Kingdom also remained slightly under the 2005 level.

The Central European markets stayed strong in the second year following eastward expansion of the EU. Investment activity increased thanks to higher farm income and more stable political conditions. Demand for Western European agricultural technology increased in particular due to the uninterrupted trend toward modernizing the agricultural industry and intensifying structural transformation.

The Eastern European markets were again robust in 2006, following record imports in 2005. The continuing trend toward modern farm management along with state support for structural improvements had a positive impact on this region. The resulting market potential has not yet been fully exhausted, however, since some farmers have postponed making investment decisions. The trend toward cooperation and consolidation among local equipment manufacturers is also increasing. Nevertheless, western agricultural technology has continued to make gains in Eastern Europe markets.

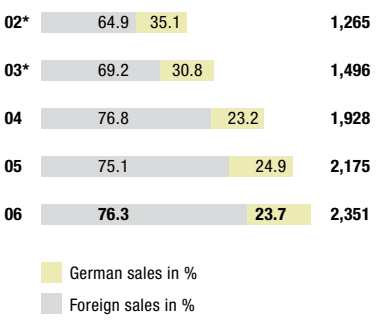
In North America, the agricultural engineering market saw increased demand in 2006 for raw agricultural materials for the production of renewable energies such as bioethanol. However, the sharp rise in prices for operating resources and uncertainty regarding the development of agricultural policy (the U.S. Farm Bill) had a negative impact, leading to a decrease in investment activity. As a result, the high level of the previous year could not be achieved, and the tractor and combine harvester markets suffered losses. The market for forage harvesting machinery continued to perform well, however.

The state of the South American market remains very poor. The year 2006 saw more massive declines, particularly in the Brazilian agricultural engineering market, which continued to suffer the effects of last year's drought in addition to another downward valuation of the Brazilian currency. This has made it considerably more difficult to export agricultural products to Brazil. As in the previous year, these developments primarily impacted the combine harvester market, which fell significantly. The market in Argentina declined slightly.

In India, the upward trend continued in the agricultural engineering market. The tractor market surpassed the previous year's record levels thanks to the stable harvests of recent years, which resulted from good monsoon seasons and growing demands for more mechanization. Harvesting machinery, particularly self-propelled harvesters, likewise benefited from this trend.

SALES

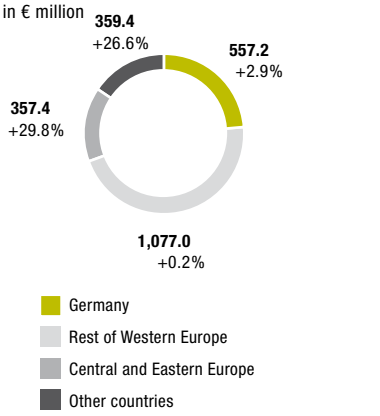
in € million



* Figures based on U.S. GAAP

SALES BY REGION

in € million



FINANCIAL PERFORMANCE

SALES

Continued sales growth in all business segments

Sales of the CLAAS Group increased by 8.1% to €2,351.0 million in fiscal 2006. All three business segments – Agricultural Engineering, Production Engineering, and Industrial Engineering – contributed to this growth. Sales performance in Agricultural Engineering varied regionally, with total sales in this business segment rising 8.3% to €2,164.2 million.

In Production Engineering, growth was primarily achieved in the areas of machine construction and aviation technology. Sales increased 3.5% to €153.3 million. In the Industrial Engineering segment, external sales climbed 14.9% to €33.5 million.

In the Agricultural Engineering segment, CLAAS increased sales – in part significantly – in the regions of Western, Central, and Eastern Europe as well as in non-European countries. The Company expanded its market position in most regions and product groups.

In Western Europe, the most important agricultural engineering market for CLAAS, sales rose 1.6% to €1,504.5 million, mainly due to significant growth in harvesting machinery sales. CLAAS has asserted itself in this market and solidified its overall position. In the Tractor business, we maintained our sales levels despite the overall declining market, thus increasing our market share.

In Germany, CLAAS increased Agricultural Engineering sales by 5.6%, continuing the steady upward trend of the previous year. This growth resulted primarily from the combine harvester and forage harvesting businesses, with the tractor division also expanding. In France, the CLAAS Group's largest European market for agricultural engineering, the high sales volumes of the previous year eased somewhat. Like other companies, CLAAS could not completely avoid the effects of the difficult market situation, particularly for the tractor business, although the Company succeeded in maintaining its market position. By contrast, the harvesting machinery business remained at the previous year's level. In the United Kingdom, sales of harvesting machines increased slightly, and the tractor business saw strong growth. CLAAS continued to expand on its leading market position in the United Kingdom. On the Iberian peninsula, unfavorable weather conditions led to sales decreases, though the decline was not as significant as in 2005. In Scandinavia, however, the upward trend continued. Growth in Denmark and Sweden was especially strong.

The agricultural engineering markets of Central Europe, which have gained considerably in significance in recent years, did not quite reach last year's level. Substantial declines in Poland contrasted with growth in Romania and Hungary, in part based on state subsidy programs.

In the Eastern European markets, CLAAS attained considerable sales increases, with growth momentum accelerating even more than in 2005. The trend was excellent in the Russian Federation as well as in the Ukraine and Belarus, where CLAAS benefited from substantial market growth.

Outside of Europe, Agricultural Engineering sales also saw strong growth of more than 25%. In the U.S., our largest non-European market, demand for CLAAS agricultural machinery again exceeded the previous year's level. Sales once again improved significantly at our two U.S. companies, CLAAS of America and CLAAS Omaha. Considerably higher forager sales contributed to this growth in particular. In Argentina, our business trend was positive despite the tense market situation, leading to a strengthening of our position in the combine harvester market. CLAAS also reported notable sales growth in India, a market that is becoming increasingly important for the Group.

The share of foreign business in total sales of the CLAAS Group increased slightly in comparison with fiscal 2005, rising to 76.3% based on increased growth outside of Germany.

Combine harvester sales increase substantially once again

The favorable performance of the harvesting machinery business, especially in Germany, the Eastern European markets, the U.S., and Argentina, led to another substantial sales increase for our combine harvester product group. Combine harvesters in the medium to high performance range made the greatest contribution to this growth.

Tractors, the second highest selling product group after combine harvesters, also performed very well. Scandinavia, especially Denmark and Norway, as well as Austria, the United Kingdom, and the CIS countries, also registered significant growth. The sustained success of the tractor business rests primarily on tractors in higher performance classes.

Sales of forager products increased substantially in Eastern Europe and the USA. Business in these markets benefited from the increasing trend toward extracting energy from sustainable raw materials. The leading position of CLAAS on the world market remained at a very high level.

In forage harvesting machinery, CLAAS reported sales growth in the German and Eastern European markets in particular. The Company's market position remained stable. Baler sales decreased slightly, mainly due to the declining trend in the high-volume markets of France and Germany.

Sales of spare parts and accessories were aided by the excellent performance of the new machinery business. Growth was achieved in all key markets. We emphasize this area due to the great significance customers place on the level of service. The encouraging trend reflects the endeavors of the service division to support our customers along the entire lifecycle of their machines.

Sales of used equipment declined. This business area focuses on the major agricultural engineering markets of France, the United Kingdom, and Germany. These countries are also responsible for marketing for Central and Eastern Europe.

Sales in the Production Engineering segment rose 3.5% to €153.3 million. Performance in this business segment continued to be affected by the stagnation in the German toolmaking industry. CLAAS Fertigungstechnik, Beelen has reacted to the weak market for tooling in the automotive industry by making internal capacity adjustments. Sales increases were primarily achieved by BRÖTJE-Automation with its products for the aviation industry and in special machine construction. New orders were restrained in the entire segment due to the current situation in the European aviation and automotive industries.

In the Industrial Engineering segment, external sales increased by 14.9% to €33.5 million. This sales growth was generated abroad for the most part, and was positively affected by the rising trend in small axles and transmissions, especially final drive and bevel gear. The principal buyers of CLAAS Industrial Engineering products are customers from the agricultural engineering and municipal technology sector.

EARNINGS

Another significant rise in earnings

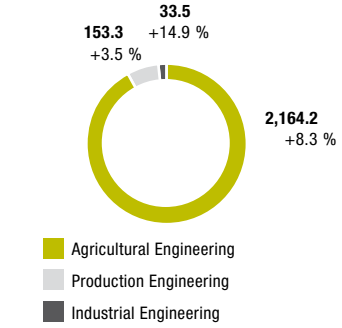
The gross profit on sales rose by €63.1 million to €619.9 million in fiscal 2006, primarily as a result of the increase in sales of €175.7 million, or 8.1%. CLAAS also improved the gross profit margin by nearly 1 percentage point to 26.4% (previous year: 25.6%). Above all, higher sales volumes in harvesting machinery contributed to the increase in gross profit (+11.3%) exceeding the increase in sales (+8.1%).

The substantial increase in gross profit reflects the solid position of CLAAS in the market as a technology leader and premium supplier. The high benefits customers derive from our products, which are sold by a professional sales force, reinforce our position in all relevant markets. The expansion of business resulted in additional earnings in after sales. The close integration of development, production, and the sales organization as well as customer service and spare parts service was also a major factor contributing to our success in fiscal 2006, as demonstrated by the significant rise in income.

Profitability was additionally bolstered by long-term programs with sustainable effects aimed at increasing efficiency and optimizing manufacturing processes to supplement our favorable product mix. The cost

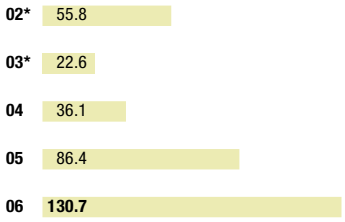
SALES BY BUSINESS SEGMENT

in € million



INCOME BEFORE TAXES

in € million



* Figures based on U.S. GAAP

reductions achieved and the more flexible cost structures implemented in connection with the "CLAAS Financial Fitness Program" remain crucial to reaching our profit targets. In this respect, we benefited from the optimization of purchasing structures begun two years ago with the goal of increasing internationalization, strengthening centralization in order to take advantage of economies of scale, and expanding product group management. We largely avoided negative effects from the fluctuation of the dollar during the year through efficient currency management and hedging.

In the Production Engineering segment, CLAAS improved earnings slightly on the whole. The earnings situation in tool making remained unsatisfactory, however.

Earnings in the Industrial Engineering segment declined slightly. Growth of the business compensated for price pressure in the markets. However, earnings in this business segment were negatively impacted on a temporary basis by one-time expenses for factory conversion carried out in order to improve overall production and logistics processes.

Operating income of the CLAAS Group rose again substantially by €41.6 million to €146.5 million. Operating income as a percentage of sales increased from 4.8% to 6.2%. This significant increase of 39.6% was mainly due to improvements in expense structures on the basis of continued increases in efficiency in the areas of production as well as in sales and administration. In production, the economies of scale resulting from volume increases had a positive impact.

In sales and administration, the expense structure level improved slightly overall, and the expenses incurred in the past fiscal year for expanding the sales organization to Eastern Europe and special marketing campaigns have already been absorbed. In research and development, the product development offensive in agricultural engineering, particularly tractors, continued. In order to meet the demands of these ambitious development projects, expenses for research and development in the year under review increased considerably by 26.0% to approximately €100 million. Research and development expenses after capitalizing development costs and offsetting amortization increased by 18.8% to €85.0 million. The R&D capitalization rate increased from 33.3% to 34.6%. Other operating expenses, net of other operating income, changed from €22.2 million in fiscal 2005 to €3.8 million in the year under review.

EXPENSE STRUCTURE BY FUNCTIONAL COST

(in % of net sales)	**2006**	2005
Cost of sales	73.6	74.4
Selling expenses	12.9	12.8
General and administrative expenses	3.5	3.7
Research and development expenses	3.6	3.3

The financial result is comprised of "income from investments," "interest and similar expenses, net," and "other financial result." These items are stated separately in the income statement. The total financial result improved by €2.7 million to €-15.8 million (previous year: €-18.5 million).

INCOME STRUCTURE

	2006 in € million	2006 in %	**2005 in € million**	2005 in %
Net sales	2,351.0	100	2,175.3	100
Gross profit on sales	619.9	26.4	556.8	25.6
Operating income	146.5	6.2	104.9	4.8
Financial result	-15.8	-0.6	-18.5	-0.8
Income before taxes	130.7	5.6	86.4	4.0
Net income	**80.9**	**3.4**	**54.7**	**2.5**

Income from investments again made a substantial contribution to the improvement in the financial result, primarily due to the income contribution from CLAAS Financial Services S.A.S., a sales financing company accounted for at equity. Total income from investments rose by €1.3 million to €4.9 million.

The sum of "interest and similar expenses, net" and the "other financial result" also increased, rising by €1.4 million. The expansion of sales resulted in a temporarily higher level of advance financing. The ensuing interest burden was disproportionately low and did not significantly affect the net of interest and similar expenses, however. The improvement of €1.9 million in the other financial result was mainly due to higher income from foreign exchange gains and losses. The hedging strategy selected enabled us to benefit from currency fluctuations.

The improvement in operating income and the financial result led to a significant rise in income before taxes of €44.3 million to €130.7 million, representing an increase of 51.2%.

The Group's net income rose from €54.7 million to €80.9 million. The tax rate increased slightly from 36.7% in the previous year to 38.1% and approximately reflects the Group's theoretical tax rate.

CASH POSITION

CASH FLOW

Increase in cash flow in accordance with DVFA/SG and cash flow from operating activities

Cash flow in accordance with DVFA/SG improved once again in the reporting year, rising €40.3 million, or 30.8 %, to €171.0 million (previous year: €130.7 million). This increasing trend is primarily attributable to the improved earnings situation.

Net cash provided by operating activities increased by €57.1 million to €150.2 million (previous year: €93.1 million) based on the improvement in cash flow in accordance with DVFA/SG and the relatively low level of funds tied up in working capital.

Net cash used for investing activities declined from €150.0 million to €13.6 million. Payments related mainly to capital expenditure for capitalized development costs, other intangible assets, and property, plant and equipment in the amount of €83.7 million (previous year: €70.0 million) as well as the purchase price of €42.5 million for the increase of our stake in RENAULT Agriculture S.A.S. by 29%. Net proceeds from the sale of securities amounted to €110.6 million; in fiscal 2005, net payments for the purchase of securities had amounted to €83.7 million. All in all, these factors led to a decrease in net cash used for investing activities of €136.4 million.

Net cash used for financing activities amounted to €86.5 million in fiscal 2006 (previous year: cash inflows of €92.4 million). Net cash used for financing activities related primarily to repayment of the Eurobond in the amount of €100 million.

The ratio of cash flow (DVFA/SG) to sales improved significantly to 7.3% from the previous year's level of 6.0%.

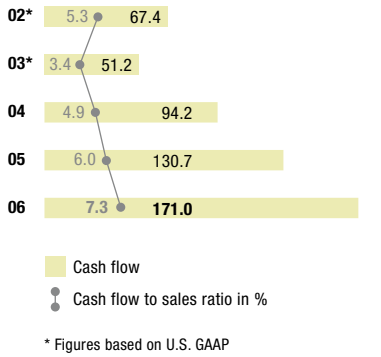
LIQUIDITY AND FINANCING

Strong liquidity position at end of fiscal year, fluctuations in liquidity and financing during the year

As of the balance sheet date, liquid assets (cash and cash equivalents plus securities classified as current assets) had declined by €64.7 million to €436.0 million from €500.7 million a year earlier. The decline was primarily due to repayment in March 2006 of the Eurobond issued in 1999 in the amount of €100 million, which had the effect of reducing financial liabilities since the bond was only refinanced in part. In addition, the purchase price for the increase of the stake in RENAULT Agriculture in January 2006 was drawn from liquid assets.

CASH FLOW (DVFA/SG)

in € million



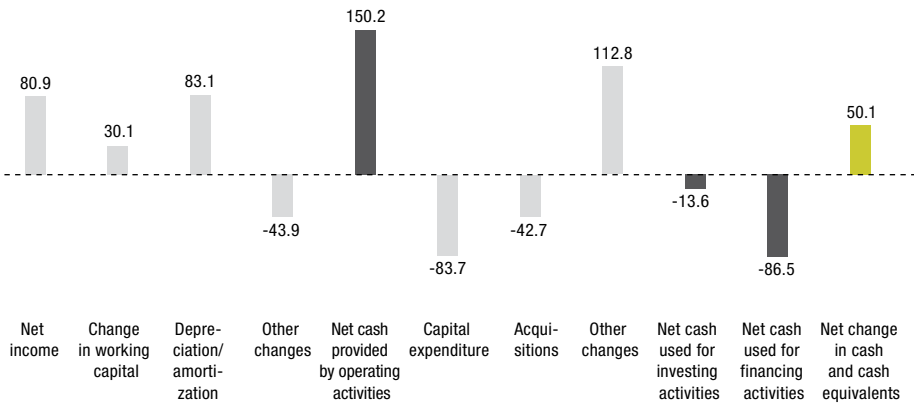
* Figures based on U.S. GAAP

CONSOLIDATED STATEMENT OF CASH FLOWS

	2006 in € million	2006 in %	**2005 in € million**	2005 in %
Cash flow in accordance with DVFA/SG	171.0	56	130.7	51
Net cash provided by operating activities	150.2	49	93.1	36
Net cash used for investing activities	-13.6	-5	-150.0	-58
Net cash provided by/used for financing activities	-86.5	-28	92.4	36
Net change in cash and cash equivalents	50.1	16	35.5	14
Effect of foreign exchange rate changes on cash and cash equivalents	-1.0	–	0.5	–
Cash and cash equivalents at beginning of year	258.3	84	222.3	86
Cash and cash equivalents at end of year	307.4	100	258.3	100

CONSOLIDATED STATEMENT OF CASH FLOWS

in € million



The seasonal nature of the agricultural engineering industry generally leads to high liquidity levels at the end of the fiscal year due to the relatively low level of capital commitments from working capital, whereas during the year, substantial financing requirements arise in order to fund working capital.

Asset-backed securities (ABS) programs with variable participation levels are in effect to reduce seasonally-related liquidity fluctuations. These programs involve selling trade receivables on a revolving basis to special-purpose entities which refinance themselves on the capital markets. In March 2006, CLAAS launched an ABS program with new features. The program volume has been set at €250 million. However, we are able to adjust the program volume once per year at our discretion within the total approved limits to meet current liquidity requirements.

The comfortable liquidity position of CLAAS at the end of the fiscal year is also reflected in the cash ratio (liquid assets in relation to current liabilities). At the end of fiscal 2006 this figure was 77.5%, nearly as high as the previous year's very good level of 79.8%. The quick ratio (the ratio of current monetary assets to current liabilities) was 135.5% as of September 30, 2006, surpassing the figure for the previous year of 132.0%.

As of the balance sheet date, financing commitments available to the CLAAS Group had decreased by €96.3 million to €760.4 million (previous year: €856.7 million), mainly due to repayment of the Eurobond in the amount of €100 million at the beginning of March 2006. In May 2006, we entered into a financing agreement in the amount of €25 million with a term of six years to finance our plant in Russia. As can be seen in the breakdown in the notes to the financial statements, financing commitments also include a bond in the amount of USD 200 million placed privately with institutional investors in the U.S. in December 2002. The bond has a coupon of 5.76% and a term of up to twelve years. In addition, a new multicurrency loan facility (syndicated loan) amounting to €250 million with a term of five years was established in July 2005.

Along with these financing commitments, we reinforced our capital base by issuing subordinated perpetual securities in October 2004 in the amount of €80 million. This equity instrument has a nominal return of 7.62%.

FINANCIAL POSITION

Structural improvements, high liquidity

Total assets as of the reporting date declined by €13.5 million from the previous year's level to €1,598.2 million despite the continued expansion in business volume. The financial ratios also changed: While the ratio of liquid assets to total assets declined due to repayment of the Eurobond and the price paid for increasing the Company's stake in RENAULT Agriculture, the level of non-current assets and inventories as a percentage of total assets increased.

Non-current assets increased by €14.8 million to €488.7 million. The ratio of non-current assets to total assets rose accordingly from 29.4% to 30.6%. The additions to non-current assets totaling €91.3 million (previous year: €86.1 million) were partly offset by disposals at a residual carrying amount of €9.7 million (previous year: €16.5 million).

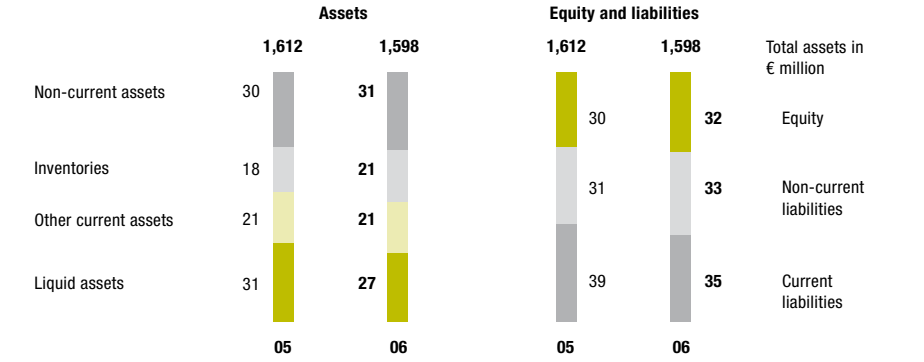
The additions to intangible assets of €38.4 million relate to several development projects that were initiated and/or brought to market with a corresponding capitalization of development costs. The carrying amount of intangible assets thus increased by €22.5 million to €145.6 million as of the balance sheet date. By contrast, property, plant and equipment changed only marginally from the previous year's level, rising to €247.7 million. The additions to property, plant and equipment of €45.9 million refer primarily to investments for modernizing and restructuring the production network and investments in product-specific tools. These additions were countered by disposals at a residual carrying amount of €1.9 million and depreciation/impairment for the fiscal year amounting to €48.0 million. The net carrying amount of investments in associates declined slightly to €26.8 million. The additions of €5.8 million to investments in associates are primarily attributable to earnings contributions from equity-accounted investments. The disposals at a residual carrying amount of €6.3 million resulted mainly from dividends collected. Other investments declined by €0.6 million to €1.3 million.

Deferred tax assets, which are required to be classified as non-current assets, decreased by €10.7 million to €28.2 million. Other non-current receivables and financial assets, however, remained at the previous year's level.

Current assets declined by €28.3 million to €1,109.5 million in the year under review, down from €1,137.8 million a year earlier. The ratio of current assets to

BALANCE SHEET STRUCTURE

in %



BALANCE SHEET STRUCTURE

	2006 in € million	2006 in %	2005 in € million	2005 in %
Non-current assets	488.7	30.6	473.9	29.4
Current assets	1,109.5	69.4	1,137.8	70.6
Total assets	**1,598.2**	**100**	**1,611.7**	**100**
Equity	502.8	31.5	484.9	30.1
Non-current liabilities	532.6	33.3	499.2	31.0
Current liabilities	562.8	35.2	627.6	38.9
Total equity and liabilities	**1,598.2**	**100**	**1,611.7**	**100**

total assets decreased accordingly from 70.6% to 69.4%.

Inventories rose by €44.9 million to €339.9 million. This rise is largely attributable to increased levels of raw materials, consumables and supplies, which in turn resulted from adjustments to build program involving harvesting machinery as well as start-up effects from the increase in production levels and stockpiling inventories of Tier II engines. In addition, the level of work in progress increased due to the expansion of components production in Russia; finished products also rose in line with the expansion of business volume. This led to just a slight increase in the average inventory turnover from 13.2% to 13.5%, which is still very good in a sector comparison.

Trade receivables declined significantly to €187.7 million, down from €248.3 million a year earlier. The decrease of €60.6 million was primarily due to increased utilization of asset-backed securities (ABS) programs. As a consequence, the receivables turnover (ratio of the average balance of trade receivables to sales) decreased from 11.3% to 9.3%. The days sales outstanding (DSO) remained nearly constant at 45 days (previous year: 42 days) after adjustment for ABS.

Liquid assets (including securities classified as current assets) decreased from €500.7 million to €436.0 million as a result of the aforementioned transactions. The ratio of liquid assets to total assets likewise decreased from 31.1% to 27.3%.

Solid cover ratios maintained

Equity rose by €17.9 million to €502.8 million, up from €484.9 million a year earlier. The increase was largely based on the excellent earnings situation, as reflected in the increase in net income of 47.9% to €80.9 million. The increase in equity was partially offset by reclassification of the remaining minority interest in RENAULT Agriculture in the amount of €29.9 million to financial liabilities due to the present ownership interest resulting from the increase of the stake in RENAULT Agriculture in January 2006, as well as the dividends paid to the shareholders in the fiscal year.

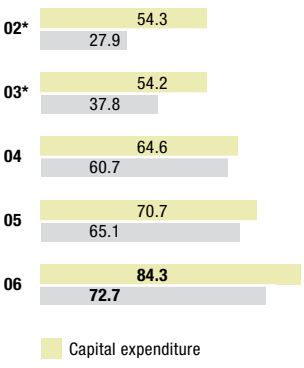
The equity-to-assets ratio improved from 30.1% to 31.5% as of the reporting date for fiscal 2006. Hence the equity base of CLAAS was further strengthened through internal financing.

Non-current liabilities increased to €532.6 million as of the balance sheet date, up from €499.2 million a year earlier. Along with pension provisions, non-current liabilities include all financial and other liabilities, and other provisions with a remaining term of more than one year. This item also includes the silent partnership of the CLAAS employee participation company (CLAAS Mitarbeiterbeteiligungs-Gesellschaft mbH) in the amount of €20.6 million (previous year: €19.3 million) as well as the deferred taxes defined as non-current under IFRS. The increase of €33.4 million in non-current liabilities resulted primarily from the increase in non-current financial liabilities attributable to reclassification of the remaining minority interest in RENAULT Agriculture, and, to a lesser extent, higher liabilities to banks.

Equity and non-current liabilities cover 211.9% of non-current assets (previous year: 207.7%). The ratio of equity and non-current liabilities to the sum of non-current assets and 50% of inventories remained quite solid at 157.2% (previous year: 158.4%).

CAPITAL EXPENDITURE AND DEPRECIATION/AMORTIZATION

in € million



* Figures based on U.S. GAAP

CAPITAL EXPENDITURE

Total capital expenditure for the 2006 reporting year amounted to €91.3 million (previous year: €86.1 million). Investments in property, plant, and equipment as well as intangible assets excluding goodwill amounted to €84.3 million, thus exceeding the previous year's level of €70.7 million and also exceeding depreciation and amortization, as in previous years. The brisk investment activity of the CLAAS Group is creating a foundation for expanding business activities and is helping to ensure the future success of the Company.

The acquisition of additional shares in RENAULT Agriculture represented the largest single investment of fiscal 2006. The Company increased its stake in France's largest tractor manufacturer from 51% to

80%. CLAAS' tractor business has been expanding rapidly since the Company acquired a majority shareholding in RENAULT Agriculture three years ago.

In addition to the assets capitalized in connection with purchase price allocation, capitalized development costs were largely responsible for the increase in intangible assets. Development activities in the reporting year focused in particular on redesigning the tractor and combine harvester product ranges.

Investments in property, plant and equipment were primarily aimed at modernizing and restructuring our global production network. The projects started in fiscal 2005 to expand and optimize production facility structures were completed as planned, and operation of the facilities continued at a proportionally high level. Investments also focused on our products. Substantial funds were invested in product-specific tools in order to expand the product line and launch new models. Investments also concentrated on improving performance in the segments and keeping our equipment up to date from a technological point of view. Most of the investments related to the factories in Harsewinkel, Le Mans, and Paderborn.

Taking into account capitalized development costs, the ratio of capital expenditure to sales was 3.6%. The investments were financed in full by operating cash flow.

RESEARCH AND DEVELOPMENT

Innovation and research as the foundation for future success

Research and development expenses before capitalization and amortization of development costs increased 26.0% (previous year: +8.5%) in the year under review to €99.4 million, up from €78.9 million in the previous year. Research and development expenses made up approximately 4.2% of sales. These figures underline the importance of research and development activities at CLAAS, as do the increase in worldwide patent registrations by 18.0% and the rise in original patent applications from 61 to 72.

Our intensive work in research and development in fiscal 2006 resulted, among other things, in the following:

- LEXION – The LEXION 580 now also includes features from the LEXION 600: the CLAAS hybrid system, the radial spreader, the cooling system, and the multifunction lever. The LEXION 580 has become the biggest selling combine harvester model in Europe. The LEXION 570 rounds out the series with the CLAAS Hybrid System and a rotor machine version (LEXION 570 C). The soil-protecting rubber track assembly TERRA TRAC is now also available on the LEXION 570. The ACTIVE TRAC four-wheel drive integrates anti-slip control in combine harvesters for the first time.

- MEGA/MEDION – These two combine harvester series' have been converted to engines that comply with the stringent EUROMOT IIIa emissions standard. MEGA/MEDION thus already meet the highest standards in environmental protection.

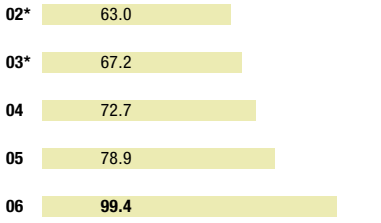
- QUADRANT 3400 – The QUADRANT 3400 is a new Class 4 large-scale square baler with a completely new bale size (Euro format 100 x 120 cm), including new drive concepts, an intelligent feeding system, and high-speed binding for a new performance class (peak loads of up to 60 tons per hour resulting in considerably more throughput than the QUADRANT 2200 currently available).

- VARIANT 360/365/380/385 – A new generation of CLAAS round balers with a variable compression chamber and higher throughput. The most important operator controls and settings are regulated via the tractor cab to enable a high level of comfort. These machines are a heavy duty option for contract operators and represent the most innovative design in the market for round balers.

- DISCO 2700/3100/3100F/3500 Contour – A new rear disc mower family, with a center mount, a new folding concept for maximum safety during transport and a hydraulic release that can be adjusted from the cab at any time. The DISCO 3100F Profil is a new

RESEARCH AND DEVELOPMENT EXPENSES BEFORE CAPITALIZED AND AMORTIZED DEVELOPMENT COSTS

in € million



* Figures based on U.S. GAAP

front-mounted mower without a conditioner. The drive concept and design are completely new.

- XERION – The newly developed GPS control system for the XERION's four-wheel drive makes precise tracking possible and increases efficiency. This year's XERION models are also equipped with engines that already meet the stringent EUROMOT IIIa emissions standard.

- ARES 500/600 – The ARES 600 is now available in a 50 km/h version. A reduction in rpm when reaching 50 km/h results in lower fuel consumption. The ARES 697 was awarded a prize for Best Design of the Year in Bologna, Italy.

- AGROCOM – In addition to new GPS and 3-D camera guidance features, the numerous innovations at AGROCOM include updates to agricultural software such as the powerful management system AGRO-BioGas 2.0 for documenting and planning all biogas production processes. AGRO-BioGas complies with all legal documentation requirements.

PURCHASING

Fiscal 2006 saw a focus on intensifying cooperation between "proFIT teams" – skilled teams created in 2005 to concentrate on specific technical areas covering all locations. We have made a substantial contribution to improving our operating result by bundling purchasing activities through establishing and integrating system suppliers and approving new, competitive suppliers.

We have introduced a comprehensive supplier evaluation and development system to support the integration of system suppliers. Systematic assessment of supplier services is an effective way of supporting efforts toward long-term cost optimization and quality improvement. Our purchasing department also promotes development partnerships by integrating suppliers in the R&D process at an early stage. The goal is to take advantage of external innovative potential so that we and our suppliers can jointly make a major contribution to expanding CLAAS' technology leadership.

One example of our successful supplier integration is the partnership model introduced in the area of non-production-related materials, which focuses on optimizing business processes and reducing the variety of materials and the number of suppliers. The model involves outsourcing logistics tasks to a selected supplier consortium with responsibility for materials planning. This considerably simplifies processing and reduces the amount of warehouse space needed as well as the amount of tied-up capital.

Our newly-initiated value analysis projects have also led to optimized processes and costs. Additional optimization potential will ensue from the future integration of these projects into a comprehensive value management concept, which will also include the newly implemented target cost analysis.

Volatile steel prices and the rising cost of oil and non-ferrous metals have presented a challenge with respect to optimizing purchasing. Thanks to a number of activities such as implementation of a centralized purchasing platform ("steel task force"), we succeeded in improving our market position vis-à-vis commodities suppliers, allowing us to ensure our supply at all times and to cover our demand for steel at very good conditions. The CLAAS steel team was honored for its success by the German Association for Materials Management, Purchasing and Logistics (BME) in a benchmark study covering German industrial companies.

We are also concentrating on making purchasing within the CLAAS Group more international. Our efforts focus on two procurement markets in which we take advantage of existing CLAAS locations. First, we expanded the purchasing platform installed at our

Indian subsidiary, CLAAS India, in 2006. In addition, the Eastern European Supplier Development team has been in operation at CLAAS Hungary since January 2006. We plan to double procurement volumes from Central and Eastern Europe as well as India and China in the coming years in order to make the Company more competitive.

Our new, cross-divisional initiative, "inbound logistics," is intended to ensure an efficient logistics chain and on-time materials supply throughout the Group. The logistics concept at CLAAS has been completely redesigned and standardized. Given that global procurement is on the rise, selected suppliers will handle most inbound transportation in the future.

HUMAN RESOURCES

As a family-owned company, CLAAS values long-term thinking and action. This is why we gear our personnel policy toward continuity, identification with the Company, and enduring structures. Our long-term personnel policy rewards us with confident employees and forms the basis for maintaining stable jobs. As of September 30, 2006, CLAAS had a total of 8,191 employees, an increase of 0.7% over the reporting date for fiscal 2005 (8,134).

To ensure our competitiveness as a company, CLAAS invests in systematic personnel development. After selecting suitable, motivated employees, we place great emphasis on training these employees, as the following examples show.

Our ratio of trainees to full-time equivalents stands at 7.2% in Germany, which is well above the industry average. We also offer a high level of vocational training in commercial and technical areas to young people at our locations in France, the United Kingdom, and India.

Another component of our personnel policy is the international trainee program, offered at CLAAS' international locations as well as in Germany. We select young college graduates for this program on the basis of Group-wide criteria. The training program is based on uniform CLAAS principles that are adapted to meet the conditions and requirements of the individual countries.

We also offer seminars for management in order to increase general management skills of both management trainees and experienced executives. In cooperation with various institutes, we have added a Senior Management Program for executive staff to complement our Junior Management Program (JUMP). These programs are tailored to the needs and goals of CLAAS, directing the focus of our executives toward developing future-oriented strategies. The programs also convey business management expertise and provide incentive for increasing personal management skills.

RISK MANAGEMENT

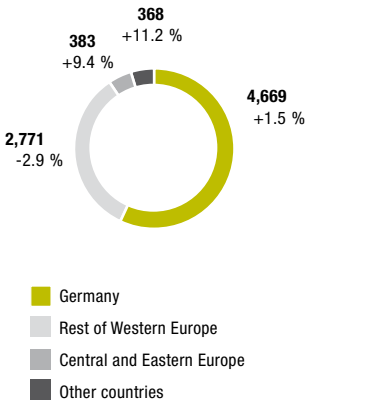
RISK MANAGEMENT SYSTEM

As a globally active corporate group, CLAAS is subject to various types of risk in connection with its worldwide business operations. Acting entrepreneurially means deliberately taking risks in order to take advantage of the related opportunities. The goal of opportunity and risk management at CLAAS is to take on reasonable, controllable risks and to deal with these risks in a responsible manner. This involves identifying existing risks as early as possible, limiting the effects of these risks, and avoiding any threat to the continued existence of the Company.

In the CLAAS Group, a uniform, Group-wide, systematic risk management system is an integral part of corporate management and control. This serves to take advantage of opportunities and to identify and control possible risks. The risk management and control system utilizes a wide variety of information for ongoing identification, evaluation, and control of risks. The existing system, which is continuously developed, fulfills statutory early warning requirements.

The Company's reporting system represents an essential element in our ongoing monitoring of economic risks. In addition to the external data supplied,

EMPLOYEES BY REGION



detailed internal reports and evaluations are provided to decision makers on a monthly basis. Budgets are monitored for deviations, earnings projections for feasibility, and any new monetary or non-monetary risks are identified and dealt with on an ongoing basis. The risk management system functions within existing organizational structures, accounted for and supported by the operating and administrative areas of responsibility. In addition to the regular information provided, the obligation to prepare ad hoc risk reports ensures prompt management action at all times. The internal auditing department monitors the adequacy of the risk control system and conformity with regulations.

INDUSTRY AND COMPANY-SPECIFIC RISKS

In addition to intense competitive pressure and continuing consolidation trends, the risk landscape at CLAAS is characterized by extremely varied harvest yields based on climatic conditions as well as agricultural policies that affect the business. Risks and opportunities are managed centrally by monitoring and evaluating market-related indicators in conjunction with the risks of the specific countries.

Acting entrepreneurially also involves dealing intensively with all risks along the value added chain. Due to faster innovation cycles, research and development activities are even more critical to ensure that innovative and technically mature products are launched on the market for the benefit of customers.

On the procurement side, risks are minimized through constant observation of the relevant markets and by drafting contracts and taking other measures that ensure supplier tie-in for as long as possible.

In the production area, all equipment is serviced regularly and any sources of risk are eliminated by modifying the equipment in order to reduce the risk of production down time (e.g. due to fire or technical defects). Flexible working time models ensure that the required human resources are available. In order to reduce quality risks, CLAAS has entrusted a central quality management department with the task of determining quality assurance strategies and coordinating standards with the operating divisions.

Markets and certain early warning indicators are observed in detail on an ongoing basis in order to identify any fluctuations in demand or changing buying behavior in our sales markets at an early stage. This further ensures that product strategies are updated and adapted to meet changed customer requirements and react to competitors.

FINANCIAL RISKS

Financial risks and currency risks are countered by employing hedging instruments as well as regular, intense monitoring of a set of early warning indicators. Credit risks that could result from payment default or delayed payments are minimized through effective receivables management, close cooperation with banks, and credit insurance. With regard to the disclosure requirements for risk management with respect to the use of financial instruments as codified in Section 315 (2) of the German Commercial Code, please refer to note 34 to the consolidated financial statements (“Derivative Financial Instruments and Hedge Accounting”).

IT RISKS

IT management at CLAAS enables our systems, security strategies and concepts to be effectively and continuously adapted and coordinated to reflect current requirements and developments. Our IT strategy is characterized by uniform, Group-wide, standardized, and clear IT structures.

LEGAL RISKS

Our decisions are based on intense legal consultation in order to counter any risks that could arise from the various provisions and statutes regarding taxes, competition laws, patents, and environmental pro-

tection. Selected risks are transferred to insurance companies where this makes economic sense. We continued our international insurance program aimed at achieving optimum risk protection and creating Group-wide uniformity and transparency by means of global master policies and national framework agreements. The possibility of premium increases in the insurance market is countered by a number of pro-active measures.

ASSESSMENT OF THE OVERALL RISK POSITION OF THE CLAAS GROUP

An analysis of the individual risks currently discernable has not identified any risks that – singly or in combination with other risks – could jeopardize the continued existence of the CLAAS Group during or beyond the period under review.

OUTLOOK FOR 2007

Global grain inventories are currently at a 25-year low. This shortage is reflected in increasing prices for agricultural products worldwide, especially grain. We therefore anticipate an overall stable global agricultural engineering market in fiscal 2007, though development is likely to vary in the individual markets.

We regard the Western European markets as stable. Although the high levels attained in the previous year in certain regional product markets will not be fully achieved in 2007, the Southern European regions should see a slight recovery from the drought of 2005. The upward price trend in raw agricultural materials has at least compensated for varying crop yields, resulting in farmers' income largely remaining at a stable level. A similarly robust trend in the price of meat and dairy products is expected to additionally support demand for agricultural machinery.

Due to the good crop prices in the new EU countries of Central Europe, investments in Western European agricultural technology are likely to remain high. Advancing structural change, EU subsidies, and national investment grants are resulting in additional investment activity and thus contributing to modernization of agriculture and rising productivity. However, the Central European economy is highly affected by rising prices for operating resources, such as fertilizers and fuels, and increasing wages, which could act to curb investments.

In 2007, the markets in Eastern Europe are likely to continue on an upward trend, and the number of western products being manufactured in these countries is expected to continue rising. Global demand for agricultural products in combination with high prices translates into increased export opportunities for Eastern Europe. Restrictive export policies for agricultural products based on the lower crop levels in Eastern Europe in 2006 could, however, inhibit investment possibilities in agricultural engineering. Moreover, increasing market protectionism could threaten the western agricultural engineering industry.

Following the weakening of the North American agricultural engineering market in 2006, the market is expected to stabilize in the coming year. The futures market for agricultural commodities is being driven by the upswing in the bioethanol industry in the USA, which now provides processing capacities for more than 20% of U.S. corn. However, as in Europe, this upward price trend is mitigated in North America by rising prices for operating resources, which could have a negative impact on farm income. In addition to developments on the agricultural commodities market, the U.S. agricultural industry will be influenced in the coming year by passage of the new farm bill, which will critically impact the U.S. market for agricultural machinery.

The South American market is expected to curb its losses in 2007 and even return to growth in some areas, taking advantage of the investment backlog that has built up in recent years. Exports of agricultural products will be significantly affected by the debt accrued by agricultural operations and the development of currency prices.

In India, the market for agricultural machinery in 2007 is not expected to quite reach the record levels of 2006, especially for tractors. Nevertheless, we expect the market to be at a high level in 2007 due to favorable underlying conditions. In addition to another good monsoon season and uninterrupted economic growth in the core Indian markets, the beneficial situation on the demand side is increasing investment security for agricultural operations in India.

We expect our business to continue to develop positively in 2007. With regard to our product groups, the product development offensive in the tractor business will make an important contribution to CLAAS' continued growth. We also anticipate continued growth in our other product groups. In terms of regions, we will work to expand our activities in the growth markets of Eastern Europe as well as in India and Argentina to promote expansion beyond our traditional markets in Western and Central Europe.

Our efforts to increase efficiency in the production area and improve the cost structure continue to have high priority. We expect to realize additional earnings potential due to sustained effects from the "CLAAS Financial Fitness Program" instituted in previous years.

Some risks will remain, however, due to the extreme volatility of energy and steel prices as well as other commodities. This trend is expected to continue in subsequent years and will require even more efficiency, coordination, and complexity in purchasing. To meet these requirements, we plan to develop additional potential and synergies in the procurement area in order to sustainably reinforce the Company's competitive position.

All in all, in fiscal 2007 we anticipate a continuation of stable sales and earnings growth, with earnings outperforming sales.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED SEPTEMBER 30, 2006

		2006 € '000	2005 € '000
Net sales	(9)	2,350,981	2,175,270
Cost of sales		1,731,048	1,618,498
Gross profit on sales		**619,933**	**556,772**
Selling expenses	(10)	302,218	278,610
General and administrative expenses	(11)	82,403	79,445
Research and development expenses	(18)	85,005	71,526
Other operating income	(12)	40,749	21,625
Other operating expenses	(13)	44,539	43,848
Operating income		**146,517**	**104,968**
Profit/loss from investments accounted for at equity		4,148	3,313
Income from other investments		771	260
Interest and similar expenses, net		-14,505	-13,971
Other financial result		-6,228	-8,131
Financial result	(14)	**-15,814**	**-18,529**
Income before taxes	(15)	**130,703**	**86,439**
Income taxes	(16)	49,770	31,704
Net income		**80,933**	**54,735**
thereof			
Net income attributable to the shareholders of CLAAS KGaA mbH		80,217	54,072
Minority interests		716	663

		2006 in €	2005 in €
Earnings per share	(17)	26.74	18.02

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2006

Assets		**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000
Intangible assets	(18)	145,605	123,054
Property, plant and equipment	(19)	247,691	243,887
Investments accounted for at equity	(20)	26,829	27,413
Other investments	(20)	1,259	1,899
Deferred tax assets	(16)	28,189	38,894
Other non-current receivables and financial assets	(21)	39,099	38,747
Total non-current assets		**488,672**	**473,894**
Inventories	(22)	339,940	294,994
Trade receivables	(21)	187,664	248,310
Current tax assets		7,315	10,630
Other current receivables and financial assets	(21)	138,690	83,136
Securities	(23)	128,584	242,466
Cash and cash equivalents	(24)	307,367	258,273
Total current assets		**1,109,560**	**1,137,809**
Total assets		**1,598,232**	**1,611,703**

Equity and liabilities		**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000
Subscribed capital		78,000	78,000
Capital reserves		38,347	38,347
Other reserves		304,485	240,913
Subordinated perpetual securities		78,616	78,616
Equity before minority interests		**499,448**	**435,876**
Minority interests		3,337	49,050
Total equity	(25)	**502,785**	**484,926**
Non-current financial liabilities	(26)	252,383	226,841
Silent partnership	(26)	20,599	19,326
Deferred tax liabilities	(16)	445	108
Other non-current liabilities	(27)	62,293	64,619
Pension provisions	(28)	158,071	152,712
Other non-current provisions	(29)	38,797	35,554
Total non-current liabilities		**532,588**	**499,160**
Current financial liabilities	(26)	64,345	137,828
Trade payables	(27)	121,005	100,740
Current tax liabilities		336	3,028
Other current liabilities	(27)	100,075	108,183
Income tax provisions	(29)	21,447	20,584
Other current provisions	(29)	255,651	257,254
Total current liabilities		**562,859**	**627,617**
Total equity and liabilities		**1,598,232**	**1,611,703**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	2006 € '000	2005 € '000
Net income	**80,933**	**54,735**
Amortization of intangible assets and depreciation of property, plant and equipment	83,131	68,725
Impairment of investments	140	–
Change in pension provisions	5,361	4,386
Change in other non-current provisions	3,243	6,015
Deferred tax income	-918	-1,921
Other non-cash income	-934	-1,282
Cash flow in accordance with DVFA/SG	**170,956**	**130,658**
Change in current provisions	729	42,219
Gain from the disposal of property, plant and equipment	-30	-2,617
Change in inventories, receivables and other assets	-39,783	-35,924
Change in trade payables and other liabilities	18,399	-41,245
Net cash provided by operating activities (I)	**150,271**	**93,091**
Payments for additions to intangible assets and property, plant and equipment (net of capitalized development costs)	-49,299	-43,730
Additions to capitalized development costs	-34,380	-26,252
Proceeds from the disposal of intangible assets and property, plant and equipment	1,171	6,800
Payments for additions to investments	-361	-11,277
Proceeds from the disposal of investments	1,330	8,651
Payments for additions to borrowings	-136	-100
Proceeds from repayment of borrowings	119	22
Payments for the purchase of securities	-66,914	-182,818
Proceeds from the sale of securities	177,522	99,087
Payments for acquisitions net of cash acquired	-42,677	-381
Net cash used for investing activities (II)	**-13,625**	**-149,998**
Proceeds from the increase in loans and the issuance of bonds	38,122	26,377
Repayment of bonds and loans	-111,304	-7,770
Proceeds from the issuance of subordinated perpetual securities	–	78,616
Proceeds from silent partnership (CMG)	1,273	1,046
Change in partners' loan accounts	1,664	1,929
Payments to minority shareholders	88	-31
Compensation for subordinated perpetual securities	-5,971	–
Dividends paid out	-10,400	-7,800
Net cash provided by/used for financing activities (III)	**-86,528**	**92,367**
Net change in cash and cash equivalents (I+II+III)	**50,118**	**35,460**
Effect of foreign exchange rate changes on cash and cash equivalents	-1,024	530
Cash and cash equivalents at beginning of year	258,273	222,283
Cash and cash equivalents at end of year	**307,367**	**258,273**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF SEPTEMBER 30, 2006

			Other reserves							
	Subscribed capital € '000	Capital reserves € '000	Accumulated profit € '000	Currency translation adjustment € '000	Unrealized gains from securities € '000	Derivative financial instruments € '000	Subordinated perpetual securities € '000	Equity before minority interests € '000	Minority interests € '000	**Total equity € '000**
Balance as of October 1, 2004	**78,000**	**38,347**	**215,799**	**-2,860**	**1,857**	**-5,220**		**325,923**	**48,448**	**374,371**
Dividend payments			-7,800					-7,800		-7,800
Compensation for subordinated perpetual securities			-5,971					-5,971		-5,971
Net income			54,072					54,072	663	54,735
Issue of subordinated perpetual securities							78,616	78,616		78,616
Changes without impact on profit and loss				2,442	732	-12,138		-8,964		-8,964
Consolidation adjustments/ other changes									-61	-61
Balance as of September 30, 2005/ October 1, 2005	**78,000**	**38,347**	**256,100**	**-418**	**2,589**	**-17,358**	**78,616**	**435,876**	**49,050**	**484,926**
Dividend payments			-10,400					-10,400		-10,400
Compensation for subordinated perpetual securities			-6,096					-6,096		-6,096
Net income			80,217					80,217	716	80,933
Changes without impact on profit and loss				-4,297	-1,430	5,578		-149		-149
Consolidation adjustments/ other changes									-46,429	-46,429
Balance as of September 30, 2006	**78,000**	**38,347**	**319,821**	**-4,715**	**1,159**	**-11,780**	**78,616**	**499,448**	**3,337**	**502,785**

AFFILIATED AND ASSOCIATED COMPANIES AS OF SEPTEMBER 30, 2006

I. AFFILIATED COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

DOMESTIC COMPANIES

No.	Company		Subscribed capital	Shareholding in %	Shareholding Owned by company No.
1	CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel	EUR	78,000,000		
2	CLAAS Selbstfahrende Erntemaschinen GmbH, Harsewinkel	EUR	25,600,000	100	1
3	CLAAS Beteiligungsgesellschaft mbH, Harsewinkel	EUR	52,000	100	40
4	CLAAS Saulgau GmbH, Bad Saulgau	EUR	7,700,000	100	1
5	CLAAS Fertigungstechnik GmbH, Beelen	EUR	5,300,000	100	1
6	CLAAS Automation GmbH, Nördlingen	EUR	260,000	100	5
7	BRÖTJE-Automation GmbH, Wiefelstede	EUR	1,030,000	100	5
8	CLAAS Industrietechnik GmbH, Paderborn	EUR	7,700,000	100	1
9	CLAAS Vertriebsgesellschaft mbH, Harsewinkel	EUR	3,100,000	100	1
10	Brandenburger Landtechnik GmbH, Liebenthal	EUR	1,000,000	50.6	9
11	Mecklenburger Landtechnik GmbH, Mühlengeez	EUR	1,000,000	80	9
12	CLAAS Grasdorf GmbH, Grasdorf	EUR	500,000	100	9
13	CLAAS Württemberg GmbH, Langenau	EUR	800,000	90	9
14	CLAAS Bordesholm GmbH, Bordesholm	EUR	750,000	74.7	9
15	AGROCOM GmbH & Co. Agrarsysteme KG, Bielefeld	EUR	117,600	100	1
16	AGROCOM Verwaltungs GmbH, Bielefeld	EUR	32,150	100	1
17	CLAAS Osteuropa Investitions GmbH, Harsewinkel	EUR	100,000	100	1
18	RENAULT Agriculture GmbH, Rosbach	EUR	511,000	100	22

FOREIGN COMPANIES

No.	Company		Subscribed capital	Shareholding in %	Shareholding Owned by company No.
19	CLAAS France Holding S.A.S., Paris, France	EUR	92,409,000	100	1
20	Usines CLAAS France S.A.S., Metz-Woippy, France	EUR	2,000,000	100	19
21	CLAAS France S.A.S., Paris, France	EUR	8,842,043	100	19
22	RENAULT Agriculture S.A.S., Vélizy, France	EUR	70,800,000	80	19
23	CLAAS Réseau Agricole S.A.S., Vélizy, France	EUR	27,400,000	100	22
24	RENAULT Agriculture Ltd., Shipston on Stour, UK	GBP	3,812,000	100	26
25	RENAULT Agriculture & Sonalika International Plc., Port Louis, Mauritius	USD	900,000	60	22
26	CLAAS Holdings Ltd., Saxham, UK	GBP	10,800,000	100	1
27	CLAAS U.K. Ltd., Saxham, UK	GBP	101,100	100	26
28	Southern Harvesters Ltd., Saxham, UK	GBP	200,000	100	27
29	Anglia Harvesters Ltd., Market Harborough, UK	GBP	400,000	100	27

FOREIGN COMPANIES

No.	Company		Subscribed capital	Shareholding in %	Shareholding Owned by company No.
30	Western Harvesters Ltd., Cheltenham, UK	GBP	281,000	75	27
31	Eastern Harvesters Ltd., Lincolnshire, UK	GBP	440,000	75	27
32	S.I.S. Ltd., Coventry, UK	GBP	45,000	100	5
33	CLAAS Italia S.p.A., Vercelli, Italy	EUR	2,600,000	100	1
34	CLAAS Ibérica S.A., Madrid, Spain	EUR	3,307,500	100	1
35	CLAAS Hungaria Kft., Törökszentmiklos, Hungary	HUF	552,740,000	100	1
36	CLAAS Finance B.V., Amsterdam, Netherlands	EUR	18,151	100	1
37	OOO CLAAS Vostok, Moscow, Russia	RUB	170,000	100	1
38	CLAAS Ukraina DP, Kiev, Ukraine	UAH	30,000	100	1
39	CLAAS Argentina S.A., Sunchales, Argentina	ARS	35,296,570	100	1
40	CLAAS North America Holdings Inc., Omaha, Nebraska, USA	USD	700	100	1
41	CLAAS of America Inc., Omaha, Nebraska, USA	USD	9,800,000	100	40
42	CLAAS Omaha Inc., Omaha, Nebraska, USA	USD	48,000,000	100	40/3
43	CLAAS North America Finance LLC., Omaha, Nebraska, USA	USD	0	100	40
44	Platte River Receivables Inc., Columbus, Indiana, USA	USD	1,500,000	100	40
45	CLAAS India Ltd., Faridabad, India	INR	206,000,000	100	1
46	OOO CLAAS, Krasnodar, Russia	RUB	353,144,130	99	17
47	BRÖTJE-Automation USA, Omaha, Nebraska, USA	USD	1,000	100	7

OTHER COMPANIES CONSOLIDATED PURSUANT TO SIC-12

No.	Company
48	CHW Fonds, Luxembourg
49	Mercator Funding Ltd., Jersey, UK

II. SIGNIFICANT INVESTMENTS IN ASSOCIATED COMPANIES

No.	Company		Subscribed capital	Shareholding in %	Shareholding Owned by company No.
50	CLAAS GUSS GmbH, Bielefeld	EUR	4,680,000	44.5	1/4
51	CS Parts Logistics GmbH, Bremen	EUR	1,550,000	50	1
52	Landtechnik-Zentrum Chemnitz GmbH, Hartmannsdorf	EUR	750,000	40	9
53	Worch und Schütze Landtechnik GmbH, Schora	EUR	55,000	39	9
54	Landtechnik Steigra GmbH, Steigra	EUR	615,000	15.1	9
55	CLAAS Traktoren Vertrieb Bayern GmbH, Vohburg	EUR	700,000	30	9
56	Technik Center Grimma GmbH, Mutzschen	EUR	350,000	30	9
57	CLAAS Finance Ltd., Basingstoke, UK	GBP	3,000,000	49	26
58	CLAAS Financial Services S.A.S., Paris, France	EUR	23,789,976	40	1
59	Harvest Machinery Ireland Ltd., Drogheda, Ireland	EUR	126,974	22.5	1
60	G.I.M.A. S.A., Beauvais, France	EUR	8,448,500	50	22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | BASIS OF PRESENTATION

The consolidated financial statements of CLAAS KGaA mbH for the fiscal year ending September 30, 2006 were prepared in accordance with the International Financial Reporting Standards (IFRS). All IFRSs/IASs and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) required to be applied in fiscal year 2006, as adopted by the EU, have been complied with. The consolidated financial statements are supplemented by a Group management report and additional notes in accordance with Section 315a of the German Commercial Code (HGB). Prior-year figures were determined in accordance with the same principles. The consolidated financial statements have been presented in euros (€). The amounts have been stated in thousands of euros (€ '000) or in millions of euros (€ million).

The income statement was prepared using the cost of sales method of accounting. The balance sheet format makes a distinction between current and non-current assets and liabilities. To improve the clarity of presentation, individual items within the balance sheet and the income statement have been combined insofar as possible and meaningful. These items are analyzed and explained in the notes. Certain amounts from the previous year have been adjusted to reflect the current presentation format for comparison purposes.

In accordance with Section 264 (3) of the HGB, the Company is exempt from the duty to publish financial statements in the German Federal Gazette (Bundesanzeiger) and to prepare notes and management reports for the following subsidiaries: CLAAS Fertigungstechnik GmbH, Beelen; CLAAS Industrietechnik GmbH, Paderborn; CLAAS Selbstfahrende Erntemaschinen GmbH, Harsewinkel; CLAAS Vertriebsgesellschaft mbH, Harsewinkel; CLAAS Saulgau GmbH, Bad Saulgau; and CLAAS Automation GmbH, Nördlingen.

2 | SCOPE OF CONSOLIDATION

FULLY CONSOLIDATED COMPANIES

Companies consolidated into the Group accounts include CLAAS KGaA mbH and all of its affiliates and the special-purpose entities that are required to be included in the consolidated financial statements pursuant to SIC-12. This constitutes a total of 49 companies (previous year: 51 companies), thereof 18 German and 31 foreign companies. The special-purpose entity Mercator Funding Ltd., Jersey, UK, was established in connection with the new CLAAS ABS program. Although CLAAS has not purchased any shares in this company, it has been included in the consolidated financial statements of the CLAAS Group pursuant to SIC-12.

All companies that are directly or indirectly controlled by CLAAS KGaA mbH were consolidated as subsidiaries in accordance with the full consolidation method.

BRÖTJE-Automation USA, Inc., Omaha, Nebraska, USA, was founded in fiscal 2006 as a wholly owned subsidiary of BRÖTJE-Automation GmbH, Wiefelstede. This company was included in the consolidated financial statements of the CLAAS Group for the first time as a fully consolidated company. BRÖTJE-Automation USA supplies machines, equipment and service for aircraft assembly.

A list of shareholdings has been attached to this report.

ACQUISITIONS IN THE FISCAL YEAR

Effective January 16, 2006, CLAAS acquired an additional 29% of the shares in RENAULT Agriculture S.A.S., Vélizy, France, increasing its stake to 80%. Call and put options exist for the remaining 20% of the shares. These options may not be exercised until January 1, 2010. In terms of economic benefits, this stake gives CLAAS a present ownership interest in RENAULT Agriculture, meaning that the shares in this company are no longer reported in equity as a minority interest, but as a liability. Previously, the company was included in the financial statements as an affiliated company (51% stake). The additional 29% stake was purchased for a price of €42.5 million. In connection with purchase price allocation, hidden reserves in the amount of €23.2 million were identified (before deferred taxes). Of this amount, €4.8 million relates to assets not subject to wear and tear. The goodwill of €10.9 million acquired by purchasing the shares was capitalized. Pursuant to IFRS, goodwill is not amortized. Instead, it is subjected to an annual impairment test.

INVESTMENTS ACCOUNTED FOR AT EQUITY

Included in the consolidated financial statements are 5 (previous year: 5) associated companies accounted for at equity: CLAAS GUSS GmbH, Bielefeld; CLAAS Finance Ltd., Basingstoke, UK; CLAAS Financial Services S.A.S., Paris, France; Harvest Machinery Ireland Ltd., Drogheda, Ireland; and G.I.M.A. S.A., Beauvais, France.

The following list summarizes the key financial figures of the companies consolidated at equity:

	2006 € '000	2005 € '000
Net sales	**345,459**	**321,626**
Income before taxes	**15,278**	**17,292**
Non-current assets	105,376	93,910
Current assets	575,363	492,678
Total assets	**680,739**	**586,588**
Equity	66,520	67,419
Liabilities	614,219	519,169
Total equity and liabilities	**680,739**	**586,588**

3 | ACCOUNTING POLICIES

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets acquired for a consideration are recognized at cost and, if a useful life can be determined, amortized over the useful life of the asset. The useful life of intangible assets ranges from three to ten years. When the useful life of an asset cannot be determined, the asset is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be permanently impaired. Goodwill is also not amortized, but is subjected to an annual impairment test. Development costs for internally generated future serial products are capitalized at cost, provided that manufacture of the products will generate probable future economic benefits for CLAAS and the other requirements of IAS 38 are fulfilled. The cost comprises all costs directly attributable to the development process plus the relevant development-related overheads. Depreciation is undertaken on a straight-line basis over the foreseen useful life of the product.

Property, plant and equipment is measured at cost and, where subject to wear and tear, depreciated on a scheduled basis. Movable assets are depreciated on a straight-line basis over their estimated useful life. The useful life of buildings ranges between 20 and 50 years. Other property, plant and equipment is depreciated over a useful life of between three and twelve years. Borrowing costs are not included in the cost of an asset pursuant to IAS 23.

The option of using the revaluation method has not been selected.

When conducting impairment tests either annually or upon indication of impairment, the carrying amount is compared with the recoverable amount, which represents the higher of the value in use and the fair value less costs to sell. The value in use is based on the present value of future cash flows expected to arise from the continuing use of the relevant asset or the cash-generating unit and from its disposal at the end of its useful life. If the recoverable amount is less than the carrying amount, an impairment loss is recognized. Any subsequent increases in value are taken into account by increasing the carrying amount of the asset, except in the case of goodwill impairment. When conducting the impairment test, the value in use is determined on the basis of the management's medium-term forecast data covering a period of five years. The forecast assumptions are adjusted to reflect current circumstances, taking into account reasonable expectations based on macroeconomic trends and historical developments. Cash flow projections are estimated by extrapolation based on the growth rates of the relevant market segment. The value in use is determined on the basis of a discount factor corresponding to the risk-adjusted minimum yield on the capital market.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Common purchases and sales of financial instruments are recognized as of the settlement date. In accordance with IFRS, financial instruments include primary financial instruments (in the case of CLAAS, subordinated perpetual securities classified as equity instruments as well as other equity investments and securities, receivables and other financial assets, cash and cash equivalents, a silent partnership, bonds and payables) and derivative financial instruments (such as swaps and options).

IAS 39 categorizes primary financial assets as follows: financial instruments held for trading, financial investments held to maturity, loans and receivables, and financial assets available for sale. Derivative financial instruments are used as hedging instruments and are therefore classified as financial instruments held for trading.

Financial instruments are recognized at amortized cost or at fair value. The fair value of a financial instrument in accordance with IFRS is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction other than a forced transaction, involuntary liquidation or distress sale. Where fair values of financial instruments are not explicitly stated, they differ only insignificantly or not at all from the carrying amounts.

PRIMARY FINANCIAL INSTRUMENTS

Investments and securities Pursuant to IAS 28/IAS 31, equity investments in associated companies and joint ventures are recognized in the amount of the prorated share in equity ("equity method") where the Group has the possibility of exercising significant influence on these companies. Other investments that are neither held for trading nor held to maturity are classified as "available for sale" financial instruments within the meaning of IAS 39 and stated at their fair values, provided the shares held by CLAAS are listed on a stock exchange or quoted market prices are available. Other investments are carried at cost (less impairment if necessary) if no quoted market price exists.

The securities held by CLAAS are either securities that are held to maturity or securities designated as "available for sale" that are neither part of the trading portfolio nor held to maturity. The securities classified as "held to maturity" are stated at amortized cost. Securities classified as "available for sale" are stated at quoted market prices (where available).

Unrealized gains and losses from available-for-sale securities stated at fair value as well as equity investments are recognized in equity without impact on earnings, taking into account deferred taxes.

Receivables and other financial assets Receivables and other financial assets are recognized at their principal amount. Adequate allowances are made for anticipated default risks. Non-interest-bearing receivables that are not expected to be collected within the normal payment cycle (usually 1 year) are discounted at the market interest rate in accordance with the maturity of the receivables.

Long-term construction contracts are reported in accordance with the percentage of completion method. The amount required to be capitalized is reported under receivables; sales are also recognized. The receivables arise when contractually agreed milestones or certain stages of completion are reached. The stage of completion (= percentage of completion) is based on the incurred costs. Existing contracts are reviewed at each reporting date to assess potential risks. In the case of anticipated losses, corresponding allowances or provisions are recognized.

Cash and cash equivalents Under IFRS, cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents as reported in the cash flow statement correspond to the same item in the balance sheet.

Liabilities Liabilities are generally carried at their repayment amount; liabilities denominated in foreign currencies are translated at the closing rate.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The CLAAS Group uses derivative financial instruments such as swaps, forward exchange contracts, interest rate swap options, forward interest rate transactions, caps and floors for hedging purposes. In accordance with IAS 39, all derivative financial instruments must be reported in the balance sheet at fair value as either assets or liabilities. If hedge effectiveness has been clearly determined and documented, hedge accounting is permitted. In hedge accounting, the recognition of changes in the fair value of a derivative instrument depends on the type of hedge. With cash flow hedges, the effective portion of the change in the fair value of a derivative instrument is reported initially as a component of equity and not taken to income until the hedged forecasted transaction is recognized in income. The ineffective portion is recognized immediately in income. With fair value hedges, gains or losses resulting from changes in the fair values of derivatives and their underlying transactions are recognized immediately in income.

Hedge accounting is discontinued if the hedging instrument expires or is sold, terminated, or exercised or the hedge no longer meets the criteria for hedge accounting. In such cases, for cash flow hedges the cumulative gains or losses on the hedging instrument that were recognized directly in equity remain in equity until the planned transaction is concluded. If a hedged forecasted transaction is no longer expected to occur, the associated cumulative gains or losses that were recognized directly in equity are reclassified in the income statement.

INVENTORIES

Inventories are measured at the lower of cost or net realizable value. Raw materials, consumables and supplies as well as merchandise are capitalized at average cost. Work in progress and finished goods are capitalized at production-related full cost, including direct materials and labor and any allocable production overheads from indirect materials as well as production-related administrative costs. Borrowing costs pursuant to IAS 23 are not included in the cost of an asset. Inventory risks that result from reduced likelihood of full utilization, as well as risks arising from an assessment of realizable sale prices, are reflected in value adjustments.

LEASES

In the case of finance leases, the leased assets are capitalized and the payment obligations resulting from future lease payments are recognized as a liability on a discounted basis. If consolidated companies act as lessees in operating leases, the lease payments are recognized as an expense.

PENSION PROVISIONS

Retirement benefit obligations are calculated using actuarial valuation methods in accordance with the projected unit credit method. This method not only takes into account pensions and accrued vested rights known at the balance sheet date, but also anticipated future salary and pension increases. Net cumulative unrecognized actuarial gains or losses as of the end of the previous reporting period that exceed the greater of 10% of the present value of the defined benefit obligation (before deducting plan assets) or 10% of the fair value of any plan assets are divided by the expected average remaining working lives of the employees participating in the plan (the “corridor approach”).

CURRENT AND DEFERRED INCOME TAXES

Tax provisions include current tax commitments. However, deferred taxes calculated in accordance with IAS 12 (“Income Taxes”) are reported under separate items in the balance sheet. They reflect future reductions or increases in the tax burden arising from temporary differences between the consolidated financial statements and the tax accounts. Deferred tax assets also comprise tax reduction claims arising from the expected realization of existing loss carryforwards in subsequent years, the materialization of which is sufficiently probable. Deferred taxes are computed using the tax rate that will apply – depending on the current legal situation – at the anticipated point in time when temporary differences are reversed. In foreign countries, country-specific tax rates are used. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that not all of the deferred tax assets can be utilized against future tax gains or if their realization is limited in time.

REVENUE RECOGNITION

Revenue is recognized upon completion of delivery or service and transfer of risk to the customer.

In the case of long-term construction contracts, revenue is recognized in accordance with the percentage of completion method as contractually agreed milestones or certain stages of completion are reached.

4 | CONSOLIDATION PRINCIPLES

The separate financial statements of the consolidated subsidiaries have been prepared using the uniform accounting policies relevant for the CLAAS Group. As a rule, the statements are prepared for the fiscal year ending September 30.

When consolidating the equity of Group companies, the carrying amounts of the subsidiaries are set off against the respective share in equity of the affiliates at the time of acquisition. Residual amounts arising on the assets side are capitalized as goodwill and subjected to an annual impairment test. Any differences arising on the liabilities side are reported as other operating income.

Investments in associates are accounted for using the equity method. The same principles as those pertaining to full consolidation are applied with respect to the elimination of intercompany relationships.

Receivables, payables, net sales, income, and expenses between consolidated entities are eliminated upon consolidation. Intercompany profits and losses within inventories are adjusted accordingly.

Tax deferrals are created for differing tax charges arising from consolidation measures that impact earnings and are likely to be reversed in future fiscal years. Deferred tax assets and liabilities are offset where applicable.

5 | FOREIGN CURRENCY TRANSLATION

In accordance with IAS 21, currency translation is based on the functional currency concept. The functional currency is the currency of the primary economic environment in which an entity operates. As a rule, this is the currency in which cash is generated and expensed.

In the consolidated financial statements, all balance sheet items of economically independent foreign entities are translated at the closing rate; expenses and income are translated at the average exchange rate for the fiscal year. Adjustments resulting from currency translations in the financial statements are excluded from income and reported in equity.

The following exchange rates were used for countries that are not part of the European Monetary Union:

		Average rate		Closing rate	
		2006 in €	2005 in €	**2006 in €**	2005 in €
1	US dollar	0.81	0.79	0.79	0.83
1	Pound sterling	1.46	1.45	1.48	1.47
1	Ukrainian hryvnia	0.16	0.15	0.16	0.17
100	Hungarian forint	0.38	0.40	0.37	0.40
100	Indian rupee	1.78	1.79	1.72	1.89
100	Russian ruble	2.94	2.79	2.99	2.92

6 | LITIGATION AND DAMAGE CLAIMS

As a result of their general business operations, CLAAS Group companies are involved in a variety of legal and official governmental proceedings, or there is a possibility of such proceedings being instituted or asserted in the future (for instance with respect to patents, product liability, or competition). Although the outcome of individual proceedings cannot be predicted with certainty given the unforeseeable nature of events associated with legal disputes, the current assessment is that no significant adverse impact on the Group's results of operations will occur beyond the risks reflected in liabilities and provisions in the financial statements.

7 | USE OF ESTIMATES AND MANAGEMENT JUDGMENTS

In preparing the consolidated financial statements, it is to some extent necessary to make assumptions and estimates relating to the amount and presentation of assets and liabilities and income and expenses as well as any contingent liabilities in the reporting period. These estimates and assumptions primarily relate to assessing the value of assets, defining a uniform Group standard for the economic lives of property, plant and equipment, and recognizing and measuring provisions based on the current state of knowledge. In particular, assumptions regarding expected business development are based on circumstances at the time of preparation of the consolidated financial statements as well as the probable development of global markets and industries. The actual amounts may differ from the original estimates if outside developments over which management has no control should cause these parameters to change.

At the time the consolidated financial statements were prepared, the assumptions and estimates were not subject to any specific risks. Thus from a current perspective, no major adjustments to the carrying amounts of the assets and liabilities disclosed on the balance sheet are to be expected for the following year.

8 | NEW FINANCIAL REPORTING STANDARDS

The following revised or newly published IFRSs relevant for CLAAS have been applied for the first time to the current fiscal year:

- IAS 24 (rev. 2003) Related Party Disclosures
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

In addition, the IASB has published the following standards and interpretations that CLAAS will not apply before they take effect:

- IFRS 7 Financial Instruments: Disclosures
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatements Approach under IAS 29 (Financial Reporting in Hyperinflationary Economies)
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives

IFRS 7 and the related changes to IAS 1 are required to be applied to annual periods beginning on or after January 1, 2007. This requirement will lead to greater detail in disclosures on financial instruments. With respect to future application of the interpretations, we do not anticipate any material significance for the consolidated financial statements of CLAAS, given that the interpretations are either not relevant at present or they are not expected to have a significant impact on financial performance and financial position.

9 | NET SALES

Net sales also include sales from long-term construction contracts, which have been accounted for in accordance with the percentage of completion method. The amount to be capitalized from long-term construction contracts that cannot yet be billed is reported under receivables and recognized as sales. Sales accounted for using the POC method amounted to €47.4 million (previous year: €12.1 million).

10 | SELLING EXPENSES

Outgoing freight in the amount of €49.7 million (previous year: €41.0 million) was reported under selling expenses.

11 | GENERAL AND ADMINISTRATIVE EXPENSES

As CLAAS regards administrative expenses of its sales companies as selling expenses, these are not included in general and administrative expenses.

12 | OTHER OPERATING INCOME

Other operating income is composed of the following:

	2006 € '000	2005 € '000
Release of provisions	21,277	–
Release of discounts and allowances for bad debts	1,615	2,499
Gains on disposal of intangible assets and property, plant and equipment	943	3,157
Rental and lease income	408	423
Other income	16,506	15,546
Total	**40,749**	**21,625**

13 | OTHER OPERATING EXPENSES

	2006 € '000	2005 € '000
Goodwill impairment	10,515	3,694
Losses on disposal of property, plant and equipment	1,490	540
Allowances for bad debts	1,454	3,167
Expenses for additions to provisions	–	9,655
Other expenses	31,080	26,792
Total	**44,539**	**43,848**

Other expenses comprise a number of minor items such as litigation expenses, fees and charges, and personnel expenses not related to specific functions.

14 | FINANCIAL RESULT

The financial result is made up of three components: "income from investments," "interest and similar expenses, net" and "other financial result."

INCOME FROM INVESTMENTS

Income from investments comprises income from both equity-accounted investments and from other investments. Both items are reported separately under the financial result.

Income from investments accounted for at equity relates to earnings contributions from investments in associates.

INCOME FROM INVESTMENTS ACCOUNTED FOR AT EQUITY

	2006 € '000	2005 € '000
Income from investments accounted for at equity	4,148	3,820
Expense for investments accounted for at equity	–	-507
thereof: Impairment	–	–
Total	**4,148**	**3,313**

Income from other investments generally includes all income and expense resulting from holding or selling investments that are neither fully consolidated nor accounted for at equity.

INCOME FROM OTHER INVESTMENTS

	2006 € '000	2005 € '000
Income from investments	333	248
Income from disposal of investments	578	12
Impairment of investments	-140	–
Total	**771**	**260**

INTEREST AND SIMILAR EXPENSES, NET

	2006 € '000	2005 € '000
Interest expense	-27,616	-27,964
thereof: Interest expense from unwinding the discount on non-current provisions	(-268)	(-306)
Interest income	12,067	13,235
Income from other securities and non-current loans	1,044	758
Total	**-14,505**	**-13,971**

Interest and similar expenses, net includes all income and expenses resulting from holding or selling securities or financial assets other than investments.

OTHER FINANCIAL RESULT

	2006 € '000	2005 € '000
Profits transferred under partial profit transfer agreements (CMG)	-3,539	-3,613
Interest element of lease payments	-81	-70
Foreign exchange gains and losses	220	-933
Miscellaneous financial expense	-2,828	-3,515
Total other financial result	**-6,228**	**-8,131**
Financial result	**-15,814**	**-18,529**

Profits transferred under partial profit transfer agreements (CMG) reflect payments based on Group net income with respect to the silent partnership held by CLAAS Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG).

15 | INCOME BEFORE TAXES

Income before taxes is divided into domestic and foreign earnings contributions as follows:

	2006 € '000	2005 € '000
Domestic	97,271	46,605
Foreign	33,432	39,834
Total	**130,703**	**86,439**

16 | INCOME TAXES

Income taxes comprise current taxes and deferred taxes.

CURRENT TAXES

	2006 € '000	2005 € '000
Domestic		
Corporate income tax/solidarity surcharge	33,194	11,012
Municipal trade tax	12,153	12,387
Subtotal	**45,347**	**23,399**
Foreign	6,821	11,133
Total current taxes	**52,168**	**34,532**

DEFERRED TAXES

	2006 € '000	2005 € '000
Domestic	5,190	-4,616
Foreign	-7,588	1,788
Total deferred taxes	**-2,398**	**-2,828**
Total income taxes	**49,770**	**31,704**

A tax rate of 38% was assumed for temporary differences in the calculation of deferred taxes for domestic companies (previous year: 38%). Deferred taxes result from temporary differences in the following balance sheet accounts:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Deferred tax assets		
Property, plant and equipment	5,157	3,213
Inventories	52,508	40,630
Finance lease	210	523
Provisions	47,845	51,640
Loss carryforwards	7,320	5,328
Other	20,333	28,492
Subtotal	**133,373**	**129,826**
Valuation allowance	-10,417	-11,984
Subtotal	**122,956**	**117,842**
Deferred tax liabilities		
Intangible assets	31,179	26,120
POC receivables	15,309	11,208
Property, plant and equipment	10,539	14,173
Other	38,185	27,555
Subtotal	**95,212**	**79,056**
Total deferred tax assets, net	**27,744**	**38,786**

Under IAS 12, deferred tax assets and liabilities should be offset, provided they are from the same tax authority and refer to the same period. After netting, deferred taxes are reported as follows:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Deferred tax assets	28,189	38,894
Deferred tax liabilities	445	108
Total deferred tax assets, net	**27,744**	**38,786**

Deferred tax assets and liabilities, which are recognized in equity with no impact on income, amounted to €6.2 million on the reporting date (previous year: €8.9 million). No deferred tax liabilities were recognized for temporary differences related to investments in associates.

The following table reconciles the anticipated income tax expense for the previous year and the year under review with the expenses finally recognized. The expected tax charge is determined by multiplying the Group tax rate by income before taxes. In fiscal 2006, the applicable tax rate was 38.0% (previous year: 38.0%) and consisted of the German domestic corporate income tax, the solidarity surcharge and the municipal trade tax.

	2006 € '000	2005 € '000
Current taxes	52,168	34,532
Deferred taxes	-2,398	-2,828
Income taxes	49,770	31,704
Income before taxes	130,703	86,439
Theoretical tax expense of 38% (previous year: 38%)	**49,667**	**32,847**
Difference in foreign tax rates	-6,644	-2,134
Tax effects on		
payment of taxes for previous years	404	586
goodwill impairment from business combinations	3,996	1,537
non tax-deductible expenses	2,128	2,043
accounting for associates at equity	-1,040	-794
revaluation of deferred taxes based on future tax rates	98	-14
other consolidation influences	2,869	1,323
other	-1,708	-3,690
Effective tax charge	**49,770**	**31,704**
Effective tax rate in %	38.1	36.7

The tax loss carryforwards at Group level in the amount of €21.3 million (previous year: €15.7 million) may be carried forward to at least fiscal 2009. Due to lack of recoverability, a valuation allowance has been created for €4.3 million (previous year: €4.2 million) of loss carryforwards and €6.1 million (previous year: €7.8 million) of other deferred tax assets. The loss carryforwards relate to foreign companies.

17 | EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of CLAAS KGaA mbH by the average number of shares. As CLAAS does not issue potential shares such as options or convertible bonds that would dilute earnings per share, basic and diluted earnings per share are identical.

		2006	2005
Net income attributable to the shareholders of CLAAS KGaA mbH	(€ '000)	80,217	54,072
Number of shares as of September 30	(in thousands)	3,000	3,000
Earnings per share	(€)	26.74	18.02
Dividends per share	(€)	3.47	2.60

The proposed final dividend for fiscal year 2006 is €3.47 per share.

18 | INTANGIBLE ASSETS

	Concessions, industrial and similar rights and assets, and licenses in such rights € '000	Goodwill € '000	Capitalized development costs € '000	**Total € '000**
Historical cost as of October 1, 2004	**21,306**	**62,754**	**109,553**	**193,613**
Currency translation	-1	–	20	19
Additions	2,556	–	26,252	28,808
Disposals	487	–	757	1,244
Reclassifications	27	–	–	27
Balance as of September 30, 2005	**23,401**	**62,754**	**135,068**	**221,223**
Currency translation	-19	–	-27	-46
Changes in scope of consolidation	8,862	10,897	–	19,759
Additions	3,994	–	34,380	38,374
Disposals	2,271	44	–	2,315
Reclassifications	197	-11	–	186
Balance as of September 30, 2006	**34,164**	**73,596**	**169,421**	**277,181**
Amortization/impairment as of October 1, 2004	**13,532**	**13,722**	**46,516**	**73,770**
Currency translation	–	–	19	19
Additions (amortization)	2,460	–	12,565	15,025
Additions (impairment)	473	3,694	6,357	10,524
Disposals	412	–	757	1,169
Balance as of September 30, 2005	**16,053**	**17,416**	**64,700**	**98,169**
Currency translation	-15	–	-22	-37
Changes in scope of consolidation	-28	–	–	-28
Additions (amortization)	4,597	–	13,063	17,660
Additions (impairment)	–	10,515	7,008	17,523
Write-ups	–	–	43	43
Disposals	1,619	44	–	1,663
Reclassifications	-5	–	–	-5
Balance as of September 30, 2006	**18,983**	**27,887**	**84,706**	**131,576**
Net carrying amount as of September 30, 2005	**7,348**	**45,338**	**70,368**	**123,054**
Net carrying amount as of September 30, 2006	**15,181**	**45,709**	**84,715**	**145,605**

Intangible assets are capitalized at cost when future economic benefits for the Group will probably result from their use, they can be reliably measured, and further capitalization criteria as set out in IAS 38 are met. If such assets have a finite useful life, they are amortized over their expected economic life on a straight-line basis. In other cases, annual impairment tests are performed in order to evaluate their recoverability.

The additions to intangible assets in the amount of €38.4 million primarily result from capitalized development costs. The proportion of capitalized development costs to total research and development costs (before capitalization) increased from 33.3% to 34.6% due to new development projects. As a result, the amount of capitalized development costs also increased to €84.7 million (previous year: €70.4 million). In contrast to this, research costs, amortization of capitalized development costs, and development costs that cannot be capitalized are expensed as incurred in the income statement under research and development expenses. In the year under review, research and development expenses amounted to €85.0 million (previous year: €71.5 million).

DEVELOPMENT COSTS

	2006 € '000	2005 € '000	%
Research and development costs (total)	99,357	78,856	+26.0
thereof: Capitalized development costs	34,380	26,252	+31.0
Amortization of capitalized development costs	20,028	18,922	+5.8
Research and development costs recognized in the income statement	**85,005**	**71,526**	**+18.8**
R&D capitalization rate (in %)*	34.6	33.3	

* Proportion of capitalized development costs to total research and development costs (before capitalization)

Depending on the product group, the amortization period for capitalized development costs ranges from six to ten years. Concessions, industrial and similar rights and assets, and licenses in such rights are amortized over a period corresponding to the expected useful life, which ranges between three and ten years on average.

The existing goodwill was subjected to an annual impairment test in the fiscal year. This led to total impairment losses on the goodwill of the individual cash-generating units in the amount of €10.5 million (previous year: €3.7 million). The impairment loss, which was recognized in the income statement, is allocable to the Agricultural Engineering segment and was reported as other operating expenses.

For development costs, impairment tests are performed on a case-by-case basis, i.e. when an indication of impairment exists. In some cases, the required impairment test led to impairment losses totaling €7.0 million (previous year: €6.4 million). These impairment losses relate to development projects in the Agricultural Engineering segment. The relevant impairment losses were recognized in the income statement as research and development costs.

The impairment losses resulted from reduced cash flow forecasts in view of current circumstances and future market expectations, which led to correspondingly lower values in use.

19 | PROPERTY, PLANT AND EQUIPMENT

Total depreciation of €48.0 million (previous year: €43.2 million) was recorded on property, plant and equipment in fiscal year 2006, thereof €5.5 million (previous year: €2.2 million) as a result of impairment. For property, plant and equipment, impairment tests are performed on a case-by-case basis, i.e. when an indication of impairment exists. Impairment on buildings in the Agricultural Engineering segment amounted to €5.0 million (previous year: €0 million). The impairment test for technical equipment and machinery in the Production Engineering segment led to an impairment loss of €0.5 million (previous year: €1.5 million). This impairment loss was recognized in the income statement under cost of sales.

The Group's credit lines are secured by mortgages. The carrying amount of secured assets equals €99.1 million (previous year: €99.1 million).

As of September 30, 2006, contractual obligations to purchase items of property, plant and equipment amounted to €8.4 million (previous year: €6.2 million).

PROPERTY, PLANT AND EQUIPMENT

	Land, land rights and buildings including buildings on third-party land € '000	Technical equipment and machinery € '000	Other equipment, operating and office equipment € '000	Payments on account and assets under construction € '000	Finance lease € '000	**Total € '000**
Historical cost as of October 1, 2004	**187,135**	**267,012**	**159,522**	**12,369**	**5,940**	**631,978**
Currency translation	434	120	126	71	–	751
Additions	3,187	15,267	13,325	9,745	349	41,873
Disposals	3,536	20,181	14,540	23	2,036	40,316
Reclassifications	530	8,243	1,294	-10,093	–	-26
Balance as of September 30, 2005	**187,750**	**270,461**	**159,727**	**12,069**	**4,253**	**634,260**
Currency translation	-1,203	-1,048	-388	127	–	-2,512
Changes in scope of consolidation	9,560	–	-422	–	–	9,138
Additions	3,934	12,821	12,398	16,571	185	45,909
Disposals	673	13,502	7,843	155	1,449	23,622
Reclassifications	5,073	2,014	3,610	-10,883	–	-186
Balance as of September 30, 2006	**204,441**	**270,746**	**167,082**	**17,729**	**2,989**	**662,987**
Depreciation/impairment as of October 1, 2004	**63,658**	**192,162**	**123,006**	**–**	**4,089**	**382,915**
Currency translation	92	93	83	–	–	268
Additions (depreciation)	5,367	23,652	11,555	–	427	41,001
Additions (impairment)	–	1,500	703	–	–	2,203
Write-ups	28	–	–	–	–	28
Disposals	724	19,530	13,917	–	1,815	35,986
Balance as of September 30, 2005	**68,365**	**197,877**	**121,430**	**–**	**2,701**	**390,373**
Currency translation	-199	-491	-238	–	–	-928
Changes in scope of consolidation	–	–	-421	–	–	-421
Additions (depreciation)	6,312	23,070	12,746	–	389	42,517
Additions (impairment)	5,013	500	–	–	–	5,513
Write-ups	13	26	–	–	–	39
Disposals	624	13,216	7,267	–	617	21,724
Reclassifications	–	8	-3	–	–	5
Balance as of September 30, 2006	**78,854**	**207,722**	**126,247**	**–**	**2,473**	**415,296**
Net carrying amount as of September 30, 2005	**119,385**	**72,584**	**38,297**	**12,069**	**1,552**	**243,887**
Net carrying amount as of September 30, 2006	**125,587**	**63,024**	**40,835**	**17,729**	**516**	**247,691**

20 | INVESTMENTS ACCOUNTED FOR AT EQUITY AND OTHER INVESTMENTS

	Investments in associates € '000	Other investments € '000	**Total € '000**
Historical cost as of October 1, 2004	**29,412**	**2,725**	**32,137**
Currency translation	35	2	37
Additions	14,037	553	14,590
Disposals	15,623	1,376	16,999
Balance as of September 30, 2005	**27,861**	**1,904**	**29,765**
Currency translation	55	–	55
Additions	5,827	112	5,939
Disposals	6,326	752	7,078
Balance as of September 30, 2006	**27,417**	**1,264**	**28,681**
Impairment as of October 1, 2004	**4,582**	**820**	**5,402**
Disposals	4,134	815	4,949
Balance as of September 30, 2005	**448**	**5**	**453**
Additions (impairment)	140	–	140
Balance as of September 30, 2006	**588**	**5**	**593**
Net carrying amount as of September 30, 2005	**27,413**	**1,899**	**29,312**
Net carrying amount as of September 30, 2006	**26,829**	**1,259**	**28,088**

Additions to investments in associates also include the proportionate net income of companies accounted for at equity. Dividends received by associates are presented in the consolidated financial statements as disposals.

21 | TRADE RECEIVABLES AND OTHER ACCOUNTS RECEIVABLE AND FINANCIAL ASSETS

TRADE RECEIVABLES

The fair value of trade receivables is in principle identical to their carrying amount. In the year under review, this was €187.7 million (previous year: €248.3 million).

The average credit term for goods sold is 45 days. No interest is charged for the time to maturity. Afterwards, up to 9.95% is charged on any overdue amounts.

OTHER RECEIVABLES AND FINANCIAL ASSETS (CURRENT AND NON-CURRENT)

Other receivables and financial assets are analyzed as follows:

	Sept. 30, 2006			Sept. 30, 2005		
	Due		**Total**	Due		**Total**
	within 1 year € '000	after 1 year € '000	**Sept. 30, 2006 € '000**	within 1 year € '000	after 1 year € '000	**Sept. 30, 2005 € '000**
Non-current securities	–	37,955	37,955	–	37,230	37,230
Other borrowings	–	644	644	–	627	627
Receivables from investments	8,682	–	8,682	4,166	–	4,166
POC receivables	40,287	–	40,287	29,495	–	29,495
Derivatives	2,040	35	2,075	8,678	3	8,681
Prepaid expenses	5,352	–	5,352	6,415	–	6,415
Other assets	82,329	465	82,794	34,382	887	35,269
Total	**138,690**	**39,099**	**177,789**	**83,136**	**38,747**	**121,883**

The fair value of other receivables and financial assets is in principle identical to their carrying amount. In the year under review, this was €177.8 million (previous year: €121.9 million).

Receivables from long-term construction contracts accounted for using the POC method are calculated as follows:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Contract costs incurred	137,027	86,963
Recognized profits less recognized losses	694	14,928
Capitalized receivables from customers	**137,721**	**101,891**

The payments on account received from customers for construction contracts amounted to €97.4 million (previous year: €72.4 million).

22 | INVENTORIES

Inventories are as follows:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Raw materials, consumables and supplies	68,031	46,351
Work in progress	49,566	37,656
Finished goods and merchandise	272,941	254,007
Payments made on account	6,177	10,910
Payments received on account	-56,775	-53,930
Total	**339,940**	**294,994**

Materials costs of €1,458.8 million (previous year: €1,360.0 million) were recognized in the income statement as cost of sales. Impairment of inventories in the amount of €0.5 million (previous year: €2.9 million) was recognized in income. This amount was partially offset by write-ups in the amount of €0.2 million (previous year: €0 million).

23 | SECURITIES

The current securities held by CLAAS are classified as either "held to maturity" or "available for sale" (securities that are neither part of the trading portfolio nor held to maturity).

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Available-for-sale securities	128,289	242,169
Held-to-maturity securities	295	297
Total	**128,584**	**242,466**

Securities classified as "available for sale" are stated at quoted market prices (where available). Unrealized gains in the amount of €1.2 million (previous year: €2.6 million) from available-for-sale securities are excluded from earnings and reported as a separate component of equity after taking into account the deferred taxes. Securities designated as "held to maturity" are reported at amortized cost, which approximately corresponds to fair value. The amortized cost of held-to-maturity securities corresponds to the original acquisition costs.

24 | CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of checks, cash on hand, and bank balances as well as money market funds that fulfill the strict criteria for classification as cash equivalents.

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Cash and cash equivalents	307,367	258,273
Total	**307,367**	**258,273**

The fair values of these assets are in principle identical to their carrying amounts. Cash and cash equivalents include proceeds from trade receivables sold in the amount of €26.2 million (previous year: €7.7 million) under the ABS program that are not freely disposable and are to be transferred to other contracting parties (cash held in trust).

25 | EQUITY/CHANGES IN EQUITY

Amounts reported as subscribed capital and capital reserves in the consolidated financial statements correspond to the amounts in the separate financial statements of CLAAS KGaA mbH. Subscribed capital of CLAAS is composed of 3 million no-par-value shares.

The general partner without capital contribution is Helmut Claas GmbH. All direct and indirect shareholders of the limited partnership, CLAAS KGaA mbH, are members of the Claas family.

Equity includes subordinated perpetual securities in the nominal amount of €80 million. CLAAS reported an equity value of €78.6 million for this equity instrument, net of issuance costs.

The statement of changes in equity is presented on page 63 of this report. Total income for the period pursuant to IAS 1.96 amounted to €80.1 million (previous year: €45.1 million) for the shareholders of CLAAS KGaA mbH and €0.7 million (previous year: €0.7 million) for minority interests.

26 | FINANCIAL LIABILITIES

Current and non-current financial liabilities are broken down as follows:

	Sept. 30, 2006			Sept. 30, 2005		
	Due		**Total**	Due		**Total**
	within 1 year € '000	after 1 year € '000	**Sept. 30, 2006 € '000**	within 1 year € '000	after 1 year € '000	**Sept. 30, 2005 € '000**
Bonds	–	157,866	157,866	100,000	165,989	265,989
Liabilities to insurance companies	1,756	4,500	6,256	3,801	6,256	10,057
Liabilities to banks	41,753	36,344	78,097	16,056	31,886	47,942
Shareholder loans	20,574	23,443	44,017	17,334	21,834	39,168
Liabilities arising from present ownership interests	–	29,884	29,884	–	–	–
Lease payables	262	346	608	637	876	1,513
Total	**64,345**	**252,383**	**316,728**	**137,828**	**226,841**	**364,669**

A Eurobond issued on the international capital markets at the beginning of 1999 was repaid on schedule in March 2006. A bond in the amount of USD 200 million issued in December 2002 is still outstanding.

The shareholder loans refer primarily to liabilities to shareholders in the limited partnership.

The call and put options for the remaining 20% of the shares in RENAULT Agriculture may not be exercised until January 1, 2010. In terms of economic benefits, these shares represent a present ownership interest, meaning that they are reported at market value under liabilities.

The market values and principal amounts of the bonds and the loans granted by banks and insurance companies are as follows:

	Sept. 30, 2006		Sept. 30, 2005	
	Principal amount € million	**Market value € million**	**Principal amount € million**	**Market value € million**
Bonds	157.9	156.5	266.0	269.1
Loans from banks and insurance companies (including difference in market value)	34.5	36.0	25.4	26.7
Loans from banks and insurance companies (not including difference in market value)	49.8	49.8	32.6	32.6
Total	**242.2**	**242.3**	**324.0**	**328.4**

The bond that matures between 2010 and 2014 carries an interest rate of 5.76% p.a., while the loans from banks and insurance companies have interest rates of 1.0% to 8.3% p.a. and will mature between 2006 and 2012.

Liabilities to insurance companies in the amount of €6.3 million (previous year: €10.1 million) and liabilities to banks in the amount of €24.5 million (previous year: €25.3 million) are secured by mortgages. In addition, the CLAAS Group has other collateral assignments for liabilities to banks in the amount of €29.4 million (previous year: €5.4 million).

SILENT PARTNERSHIP

The silent partnership of the employee participation company, CLAAS Mitarbeiterbeteiligungs-Gesellschaft mbH (CMG), is compensated in relation to net income and is considered subordinated in the event of liability. Pursuant to IFRS, repayable capital transferred is classified as a financial liability.

In return for its subordinated capital contribution, CMG receives compensation that is based on the net income of the CLAAS Group. CMG also shares in Group losses. A total of €7.6 million of the silent partnership can be terminated as of September 30, 2007; additional termination rights of €5.1 million apply between 2008 and 2011.

27 | TRADE PAYABLES AND OTHER LIABILITIES

TRADE PAYABLES

The fair value of trade payables is in principle identical to their carrying amounts. In the year under review, this was €121.0 million (previous year: €100.7 million).

OTHER LIABILITIES (CURRENT AND NON-CURRENT)

	Sept. 30, 2006			Sept. 30, 2005		
	Due		**Total**	Due		**Total**
	within 1 year € '000	after 1 year € '000	**Sept. 30, 06 € '000**	within 1 year € '000	after 1 year € '000	**Sept. 30, 06 € '000**
Liabilities from bills of exchange accepted and drawn	31,299	–	31,299	20,371	–	20,371
Payments received on account	1,957	–	1,957	11,600	–	11,600
Liabilities to investments	2,786	–	2,786	347	–	347
Derivatives	2,855	60,808	63,663	8,927	62,734	71,661
Other liabilities	61,178	1,485	62,663	66,938	1,885	68,823
Total	**100,075**	**62,293**	**162,368**	**108,183**	**64,619**	**172,802**

28 | PENSION PROVISIONS AND SIMILAR OBLIGATIONS

CLAAS maintains several defined benefit pension plans: three fund-financed plans in Germany, two funded plans in France, and one in the UK.

Under the defined benefit pension plans implemented at CLAAS, the Company undertakes to comply with its pension obligations towards active and former employees. The pension provision that covers benefit obligations under defined benefit schemes also includes pension fund obligations and is reduced by the amount of the fund assets. Fund surpluses, if any, are capitalized as other assets, while fund deficits are shown as a liability under pension provisions. Pension provisions are recorded for obligations from vested rights and current benefits on behalf of eligible active and former employees and their surviving dependants. Obligations relate primarily to retirement pensions, which are paid in part as basic and in part as supplementary benefits. Pension obligations are normally based on the employees' length of service and remuneration levels.

Pension obligations are calculated using actuarial valuation methods in accordance with the projected unit credit method. This method not only takes into account pensions and accrued vested rights known at the balance sheet date, but also anticipated future salary and pension increases. The valuation cut-off date for obligations under the benefit plans in Germany is June 30. The cut-off date for the pension obligations under the fund-financed plan in the UK is April 6. The plan assets are measured as of September 30. The cut-off date for the other plans is also September 30. The net cumulative unrecognized actuarial gains or losses as of the end of the previous reporting period that exceed the greater of 10% of the present value of the defined benefit obligation (before deducting plan assets) or 10% of the fair value of any plan assets are divided by the expected average remaining working lives of the employees participating in the plan (the "corridor approach").

In the year under review, calculations were based on a discount rate of 4.8% (previous year: 4.8%), future salary increases of 3.0% (previous year: 3.0%) and pension increases of 1.5% (previous year: 1.5%). These assumptions relate to employees working in Germany, for whom the predominant part of the pension obligation exists. Different country-specific assumptions must be used for employees engaged in other countries. The anticipated fund return is 7.2% (previous year: 6.9%).

Fund-financed plans exist, to a limited extent, for a company in Germany. These are covered by insurance policies. The total share of these plans is less than 5% of funded pension obligations.

With regard to the obligations of the British subsidiary, CLAAS Holdings Ltd., which are financed through an investment fund, the company's investment guidelines are adhered to when investing plan assets. An excess of fund assets over defined benefit obligations is to be maintained permanently, and unnecessary fluctuations in contributions to plan assets avoided. With respect to investment strategy, the focus is on sufficient diversification in order to distribute investment risk over a variety of markets and securities categories. Plan assets are managed by a trust association – which consists of CLAAS Holdings Ltd. employees – under a trust agreement. The trust association has delegated operational investment decisions to a fund manager. All strategic investment decisions are made by the trust association independently of the employer. Plan assets are divided into equity portfolios and bond portfolios. The distribution of assets is kept within specific investment ranges with respect to type of investment and geographical market. In the year under review and in the previous year, the main focus of investment was on UK securities.

The equity portfolio currently makes up 77.8% of plan assets. The bond portfolio comprises 19.1% of plan assets. The owner-occupied property valued at €1.1 million accounts for 2.7%. The fund also holds a small amount of cash and cash equivalents (0.4 %).

The expected return on plan assets, which relates primarily to the funded plan in the UK, is calculated separately depending on investment category. The current dividend yield of the FTSE All Share Index plus the inflation rate and the long-term real dividend growth rate is used for the equity portfolio (7.9%). Return targets for the bond portfolio are based on a discount factor amounting to 4.4%, which is established by an index of corporate bonds quoted in pounds sterling with AA ratings and terms of at least 15 years. A short-term money market interest rate is used for cash and cash equivalents (4.8%).

Pension obligations recognized in the balance sheet developed as follows:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Present value of funded benefit obligations	48,272	41,722
less fair value of plan assets	-43,962	-38,423
Funded status	**4,310**	**3,299**
Present value of unfunded benefit obligations	162,330	157,310
Unrecognized past service (cost)/return	5,225	5,642
Unrecognized actuarial (losses)/gains	-13,795	-13,539
Unrecognized amount due to asset ceiling as defined in IAS 19	1	–
Net pension liability recognized in the balance sheet	**158,071**	**152,712**
thereof: Provisions for pensions	158,071	152,712
thereof: Other assets	–	–

Plan assets developed as follows:

	Fiscal year	
	2006 € '000	2005 € '000
Fair value of plan assets as of October 1	**38,423**	**32,309**
Actual return/(loss) on plan assets	3,607	5,973
Employer contributions	886	714
Employee contributions	443	545
Actual pension payments	-1,286	-867
Currency translation	309	204
Other	1,580	-455
Fair value of plan assets as of September 30	**43,962**	**38,423**

Pension provisions are derived from pension obligations and the deficit in funded pension obligations:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Provisions for unfunded benefit obligations	154,827	150,075
Deficit related to funded benefit obligations	3,244	2,637
Other financial assets	–	–
Net pension liability recognized in the balance sheet	**158,071**	**152,712**

Pension costs for funded and unfunded plans are analyzed as follows:

	2006 € '000	2005 € '000
Current service cost	6,985	5,521
Interest cost	9,595	9,380
Recognized past service cost/(return)	-418	-209
Recognized actuarial losses/(gains)	135	23
Losses/(gains) from plan curtailments	-201	–
Expected return on plan assets	-2,637	-2,182
Employee contributions by means of deferred compensation	–	200
Other pension expenses	228	–
Pension expense	**13,687**	**12,733**

The current service cost accrued in fiscal year 2006 and the interest cost for the service cost of the previous year relate to both funded and unfunded plans.

Funded and unfunded benefit obligations developed as follows:

	2006 € '000	2005 € '000
Benefit obligations as of October 1	**199,032**	**178,078**
Current service cost	6,985	5,521
Interest cost	9,595	9,380
Actuarial losses/(gains)	706	19,836
Losses/(gains) from plan curtailments	-201	–
Actual pension payments	-10,005	-8,457
Currency translation	337	193
Other	4,153	-5,519
Benefit obligations as of September 30	**210,602**	**199,032**

29 | INCOME TAX PROVISIONS AND OTHER PROVISIONS

Income tax provisions and other provisions developed as follows in fiscal 2006:

		Other provisions				
	Income tax provisions € '000	Employee benefits € '000	Obligations arising from sales € '000	Miscellaneous € '000	Total other provisions € '000	**Total € '000**
Balance as of October 1, 2005	**20,584**	**98,392**	**145,569**	**48,847**	**292,808**	**313,392**
Changes in scope of consolidation	-1,320	-135	-8	63	-80	-1,400
Utilization	15,841	69,888	96,551	14,981	181,420	197,261
Reversals	741	3,731	18,630	14,739	37,100	37,841
Additions	18,900	83,980	122,990	13,847	220,817	239,717
Interest	–	–	155	113	268	268
Currency translation	-267	-112	-1,023	-36	-1,171	-1,438
Other changes	132	396	-142	72	326	458
Balance as of September 30, 2006	**21,447**	**108,902**	**152,360**	**33,186**	**294,448**	**315,895**
thereof: Non-current	–	19,008	14,931	4,858	38,797	38,797
thereof: Current	21,447	89,894	137,429	28,328	255,651	277,098

A total of €1.6 million of the reversals is reported as functional costs.

Employee benefits mainly comprise provisions for part-time retirement programs, outstanding vacation time, anniversaries, and annual bonuses. Obligations arising from sales primarily relate to provisions for warranty claims, sales bonuses and rebates, and other sales-generating measures.

The provisions for obligations arising from sales include provisions for payments based on warranty claims. The provision requirement for special inspections is calculated centrally in accordance with uniform principles. The computation takes into account parameters such as build programs, unit numbers, and costs of materials and assembly per machine. Provisions for warranties are calculated on historical basis as a percentage rates of sales.

30 | CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

The maturities of commitments from rental and lease agreements are as follows:

Minimum lease payments	Finance lease Nominal amount € '000	Operating lease Nominal amount € '000
due within 1 year	290	17,090
due within 1 to 5 years	374	19,091
due within more than 5 years	11	6,409
Total	**675**	**42,590**
Interest	**66**	
Present value of the lease obligations	**609**	

Rental and lease expenses amounted to €12.6 million in fiscal year 2006 (previous year: €12.5 million). Lease payments received under non-cancelable sublease agreements amounted to €15.4 million as of the reporting date, and future minimum lease payments to €20.2 million.

Finance lease and operating lease commitments arise predominantly from lease programs under which CLAAS agricultural machines have been leased from CLAAS Leasing GmbH and subleased to end customers.

No provisions were recognized for the following contingent liabilities stated at their nominal amounts, since the likelihood of risk is considered low:

	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000
Bill commitments	19,129	23,021
Liabilities from guarantees	7,326	13,239
Total	**26,455**	**36,260**

As of September 30, 2006, other financial commitments amounted to €0.9 million (previous year: €2.3 million).

31 | FINANCING COMMITMENTS AVAILABLE TO CLAAS

Financing commitments as of the reporting date are as follows:

	< 1 year		1-5 years		> 5 years		Total	
	Balance as of Sept. 30, 2006 € million	Balance as of Sept. 30, 2005 € million	**Balance as of Sept. 30, 2006 € million**	Balance as of Sept. 30, 2005 € million	**Balance as of Sept. 30, 2006 € million**	Balance as of Sept. 30, 2005 € million	**Balance as of Sept. 30, 2006 € million**	Balance as of Sept. 30, 2005 € million
Bonds	–	100.0	31.6	–	126.3	166.0	157.9	266.0
Syndicated loans	–	–	250.0	250.0	–	–	250.0	250.0
Credit facilities from banks and insurance companies	292.0	298.8	45.7	31.8	14.8	10.1	352.5	340.7
Total	**292.0**	**398.8**	**327.3**	**281.8**	**141.1**	**176.1**	**760.4**	**856.7**

32 | CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows comprises cash flows from operating activities, investing activities, and financing activities. Effects of changes in the scope of consolidation have been eliminated; their impact on cash and cash equivalents is shown separately, as is the influence of exchange rate fluctuations on cash and cash equivalents. Cash flow from operating activities includes dividends received in the amount of €6.3 million (previous year: €1.7 million); non-cash profit contributions from the application of the equity method were eliminated.

Non-cash additions to non-current assets were made in the amount of €29.5 million (previous year: €0.3 million) and refer mainly to non-cash additions from the purchase price allocation related to increasing the stake in Renault Agriculture S.A.S. Vélizy, France. Interest paid was €28.8 million (previous year: €27.8 million), and interest received amounted to €7.2 million (previous year: €8.9 million). Income tax payments amounted to €34.0 million (previous year: €29.7 million). These transactions are reported under cash flow from operating activities.

33 | EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES

	2006	2005
Wage earners	4,023	3,984
Salary earners	3,740	3,733
Trainees	404	405
Total	**8,167**	**8,122**

The personnel expenses reported in the income statement under functional costs amounted to €455.7 million (previous year: €433.1 million).

34 | DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

As a result of its business activities, the CLAAS Group is exposed to exchange rate and interest rate risks. Systematic currency and interest rate management is adopted in order to limit these risks. All of the usual financial instruments, including derivatives, are used as part of this process. Currency risks basically involve the US dollar, the Hungarian forint, and the British pound. Forward exchange transactions and currency options are entered into in order to mitigate or eliminate exchange rate risks relating to receivables and payables denominated in foreign currencies, taking into account netting. Interest swaps and interest options serve to hedge the interest risk of asset and liability positions.

All transactions are concluded exclusively on the basis of existing underlying transactions or specifically planned transactions and are renewed on a rolling basis as required.

The notional amount of the hedging transactions constitutes the aggregate of all underlying buying and selling amounts. The level of the notional amount allows conclusions to be drawn as to the extent to which derivatives are used, but does not reflect the Group's exposure from the use of derivatives. The notional amounts of the derivatives are reported before netting and include interest and currency positions offset by counter-trades with a notional amount of €6.6 million (previous year: €434.8 million).

CLAAS pursues strict risk management. Accordingly, derivative financial instruments may not be used for speculative purposes, but only to hedge risks related to the operating business. The execution, control and recording of transactions is strictly segregated in terms of physical and organizational function. Levels of discretion in trading in terms of both amount and content are defined in internal guidelines. In the finance department, risk positions are continuously evaluated by means of audited software.

All business partners are either German or international banks of top credit quality. Since the management and the supervisory bodies of CLAAS attach great importance to systematic risk management, a comprehensive monitoring system that meets the requirements of the German Act on Control and Transparency in the Corporate Sector (KonTraG) has been implemented. In this context, the efficiency of the hedging instruments used and the reliability of the internal control systems are regularly checked by means of internal and external reviews.

For the purposes of hedge accounting, some of the derivatives are classified as cash flow hedges to hedge against variable future cash flows from long-term liabilities and future sales denominated in foreign currency.

Hedge effectiveness has been proven with respect to the cash flow hedge against variable future cash flows from long-term liabilities. Changes in the fair value of these derivatives are recorded in equity. Reclassification to the income statement was undertaken in the amount in which the underlying transaction was recognized as a gain/loss in the period under review. The reclassification occurred in the same account in the income statement in which the underlying transaction was recorded.

The following table includes both derivatives for which the application of hedge accounting according to IAS 39 was waived as well as those to which hedge accounting was applied. The derivative financial instruments are recognized at the following fair values (fair values and carrying values are thus equivalent):

FOREIGN CURRENCY HEDGES

	Notional amount		Remaining term > 1 year		Fair value of assets		Fair value of liabilities	
	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000
Forward exchange transactions	280,268	309,818	15,700	39,154	998	1,578	2,667	6,032
Foreign currency options	135,044	79,586	–	–	1,072	603	404	222
Other currency hedging instruments	200,000	200,000	200,000	200,000	–	–	59,233	58,780
Total	**615,312**	**589,404**	**215,700**	**239,154**	**2,070**	**2,181**	**62,304**	**65,034**

INTEREST RATE HEDGES

	Notional amount		Remaining term > 1 year		Fair value of assets		Fair value of liabilities	
	Sept. 30, 2006 € '000	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000	**Sept. 30, 2006 € '000**	Sept. 30, 2005 € '000
Interest rate options	–	251,129	–	–	–	519	–	1,316
Interest rate swaps	52,000	362,000	12,000	62,000	5	5,981	1,359	5,311
Other interest rate hedging instruments	–	–	–	–	–	–	–	–
Total	**52,000**	**613,129**	**12,000**	**62,000**	**5**	**6,500**	**1,359**	**6,627**
Total hedging	**667,312**	**1,202,533**	**227,700**	**301,154**	**2,075**	**8,681**	**63,663**	**71,661**

35 | ASSET-BACKED SECURITIES

During fiscal 2006, CLAAS sold trade receivables up to a maximum of €284.7 million (previous year: €114 million) on a revolving basis in connection with ABS programs. Due to seasonal fluctuations, the volume of receivables sold varies during the course of the year. At the end of the period under review, the volume of the receivables sold amounted to €157.5 million (previous year: €34.2 million). The receivables sold under the ABS program in the USA and Europe are derecognized in accordance with IAS 39.18b, since CLAAS assumes a contractual obligation to pay the cash flows received ("pass-through arrangement").

Within the scope of the ABS transaction, CLAAS performs bookkeeping, receivables collection, and dunning services and receives a service fee in the amount of €0.2 million from one of the special-purpose entities (previous year: €0 million).

The partially retained risks lead to a continuing involvement in accordance with IAS 39 and hence to a proportional derecognition of the receivables. The assets resulting from the continuing involvement of the CLAAS Group amounted to €10.0 million as of September 30, 2006 (previous year: €3.9 million).

36 | SEGMENT REPORTING

INFORMATION BY BUSINESS SEGMENT

	CLAAS Agricultural Engineering		CLAAS Industrial Engineering		CLAAS Production Engineering		Eliminations		CLAAS Group	
	2006 € million	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million
External sales	2,164	1,998	34	29	153	148	–	–	2,351	2,175
Internal sales	6	6	104	102	2	3	-112	-111	–	–
Total net sales	**2,170**	**2,004**	**138**	**131**	**155**	**151**	**-112**	**-111**	**2,351**	**2,175**
Operating profit (EBIT)	153	108	5	6	4	4	–	–	162	118
Profit/loss from investments accounted for at equity	4	3	–	–	–	–	–	–	4	3
Interest income	12	13	–	–	–	–	–	–	12	13
Depreciation/amortization/impairment	75	60	5	5	3	4	–	–	83	69
Non-cash income/expenses	14	52	1	–	-5	-1	–	–	10	51
Segment assets	1,482	1,506	45	45	147	143	-76	-82	1,598	1,612
Goodwill*	25	24	–	–	21	21	–	–	46	45
Investments accounted for at equity	27	27	–	–	–	–	–	–	27	27
Capital expenditure for property, plant and equipment and intangible assets	79	65	4	4	1	2	–	–	84	71
Segment liabilities	995	1,035	36	35	103	102	-39	-45	1,095	1,127

* Goodwill for the Agricultural Engineering segment was reduced by accumulated impairments in the amount of €27.9 million (previous year: €17.4 million).

INFORMATION BY GEOGRAPHICAL SEGMENT

	Germany		Rest of Western Europe		Central and Eastern Europe		Other countries		Eliminations		CLAAS Group	
	2006 € million	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million	**2006 € million**	2005 € million
External sales	557	541	1,077	1,075	357	275	360	284	–	–	2,351	2,175
Segment assets	1,400	1,412	683	494	71	53	161	158	-717	-505	1,598	1,612
Capital expenditure for property, plant and equipment and intangible assets	49	36	30	27	3	7	2	1	–	–	84	71

CLAAS defines its primary segments by areas of business. The definition of business segments and geographical segments is based on the internal reporting system.

The Agricultural Engineering segment is the Company's primary business segment. CLAAS is the European market leader in its core products: combine harvesters and foragers. The Company also holds significant market shares in balers and forage harvest machinery, especially in Western Europe. The tractor business was added to the Agricultural Engineering segment in 2003.

CLAAS' Industrial Engineering segment is the system supplier for drive technology and hydraulics within the CLAAS Group. Third-party business chiefly involves components for construction machinery and utility vehicles.

The Production Engineering segment is headed by CLAAS Fertigungstechnik GmbH. This company has specific expertise in special-purpose mechanical engineering and tool making and in the development and manufacturing of complete transfer and production lines. Since the acquisition of BRÖTJE-Automation, business activity in this segment has been extended to the aviation and aerospace industry.

Internal sales reflect the level of sales between the Group companies and are accounted for at arm's length.

The increase in net sales from €2,175.3 million to €2,351.0 million is due to growth in Western Europe, particularly Germany and Scandinavia, as well as in Eastern Europe and non-European countries.

Reconciliation of operating profit, defined as EBIT at CLAAS, with net income for the year is as follows:

	2006 € '000	2005 € '000
Operating profit (EBIT)	**161,858**	**118,016**
less income taxes	49,770	31,704
less interest expense	27,616	27,964
less CMG compensation	3,539	3,613
Net income	**80,933**	**54,735**

37 | RELATED PARTY DISCLOSURES

Related parties within the meaning of IAS 24 ("Related Party Disclosures") generally are: the members of the Supervisory Board and the Shareholders' Committee, the members of the Claas families, the members of the Executive Board of CLAAS KGaA mbH and the companies associated with the CLAAS Group, and companies controlled or significantly influenced by related parties.

The significant relationships of the members of the Supervisory Board and the Shareholders' Committee as well as of the members of the Claas families with the CLAAS Group are as follows:

	Members of the Supervisory Board/Shareholders' Committee		Members of the Claas families – if not members of the Supervisory Board/ Shareholders' Committee	
Type of transaction	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000
Supervisory Board and Shareholders' Committee remuneration	365	348	–	–
Services	275	340	–	–
Credits granted to CLAAS	26,616	22,501	17,401	16,613

Total sales to related companies amounted to €93.8 million (previous year: €98.3million). Purchases from related companies amounted to €121.2 million (previous year: €118.9 million). In addition, the CLAAS Group received services from related companies in the amount of €19.3 million (previous year: €22.8 million) and rendered services in the amount of €2.7 million (previous year: €0.3 million).

The following remuneration was paid to members of the Executive Board:

	2006 € '000
Current remuneration, including fixed and variable components	5,032
Provisions for retirement benefits	305

Retirement benefits were paid to former members of the Executive Board in the amount of €0.4 million (previous year: €0.4 million). Obligations for current pensions and vested rights of former Executive Board members amounted to €5.6 million (previous year: 6.4 million).

38 | AUDITORS' FEES AND SERVICES

The fees for the auditors of the consolidated financial statements, Deloitte & Touche GmbH, Düsseldorf, that were recognized as an expense in the fiscal year are broken down as follows:

	2006 € '000
Audit fees	658
Audit-related services	7
Tax consulting fees	145
Other fees	92
Total expenses	**902**

Audit fees include all fees for auditing the financial statements of CLAAS KGaA and the consolidated financial statements as well as the financial statements of the subsidiaries. Other fees mainly comprise project-related consulting services.

39 | EVENTS AFTER THE BALANCE SHEET DATE

There were no events or developments after the close of the fiscal year that would have significantly changed the presentation or amounts reported of individual assets or liabilities as of September 30, 2006.

40 | MATERIAL DIFFERENCES BETWEEN GERMAN GAAP (HGB) AND IFRS

Material differences in recognition and measurement between German GAAP (HGB) and IFRS are described below.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Under German law, intangible assets not acquired for a consideration cannot be capitalized. Under IFRS, however, internally generated intangible assets can be capitalized under certain conditions. At CLAAS, development costs are capitalized if economic benefits are likely to flow to the CLAAS Group based on manufacture of the products developed. The HGB prohibits recognition of internally generated intangible assets.

Under IFRS, acquired intangible assets are amortized over their estimated useful life, if such a useful life can be determined. If the useful life of an acquired intangible asset cannot be determined, an impairment test is performed annually (or more frequently if there are indications of permanent impairment) rather than applying amortization. The same applies to goodwill. By contrast, HGB requires amortization of intangible assets, including goodwill, as well as depreciation of property, plant and equipment.

According to HGB principles, intangible assets and items of property, plant and equipment are predominantly depreciated using the diminishing balance method, with depreciation normally being applied in the same amount in the financial statements and the tax accounts. The useful life of an asset is generally based on depreciation tables established by the fiscal authorities. For IFRS financial statements, the depreciation method that best reflects the anticipated wear and tear of the asset concerned should be applied. For this reason, it is customary to use straight-line depreciation; tax depreciation is not applicable. Contrary to HGB accounting, depreciation for assets subject to wear and tear is based on a useful life that may differ from the useful life provided in the fiscal depreciation tables.

LEASES

Under both IFRS and HGB, leased items are to be accounted for by the economic owner. Differences between IFRS and HGB exist with regard to the criteria for determining economic ownership. International practice stipulates that the item is to be reported by the party that bears the opportunities and risks related to the item. The specific criteria to be used in determining opportunities and risks vary from those used in HGB accounting.

DEFERRED TAXES

In accordance with German accounting principles, tax assets and liabilities are only deferred in the case of temporary differences between income under HGB and income for tax purposes; quasi-permanent differences may not be deferred. The netting of deferred tax assets and deferred tax liabilities is allowed.

Under IFRS, deferred taxes are recognized for temporary differences between the values recorded in the financial statements and the tax accounts. Furthermore, deferred tax assets are recorded for anticipated tax reductions from losses carried forward. Deferred tax assets and deferred tax liabilities are openly netted in the case of identical maturities, identical tax types, and identical tax jurisdictions.

ACCOUNTS RECEIVABLE/OTHER ASSETS/DERIVATIVES

Under HGB, a general bad debt charge is made against receivables in accordance with the prudence concept. Under IFRS, receivables are accounted for at face value. When measuring the receivables, no components based on the prudence concept may be taken into account. Discernible risks are taken into account by adequate valuation allowances. At CLAAS, an excess of pension assets over pension commitments is capitalized under other assets in compliance with IFRS. Under HGB, derivatives are not capitalized, with the exception of premiums paid. Under IFRS, derivatives are capitalized at their fair values. In accordance with HGB, derivatives with a negative market value are recorded as liabilities, unless there is a hedging relationship with a corresponding hedged item. Under IFRS, derivatives with a negative market value are recorded as liabilities in their full amount.

INVESTMENTS AND SECURITIES

Under HGB, securities are recorded at the lower of acquisition cost or market value as of the balance sheet date. Any reductions in fair value are recognized in income.

Under IFRS, securities are classified in the following three categories: “held-to-maturity” securities, which should generally be valued at amortized cost; “available-for-sale” securities; and securities that are intended to be sold shortly (“held for trading”), which are stated at their fair value as of the balance sheet date. The resulting unrealized gains and losses are to be reported in equity with no impact on income after considering deferred taxes in the case of available-for-sale securities, or taken to income in the case of securities held for trading.

INVENTORIES

Whereas under German law, inventories may be valued at prime cost or at full cost (in compliance with tax regulations), under IFRS, inventories are measured at production-related full cost, i.e. any allocable overheads are capitalized.

The percentage of completion method (POC) is applied under IFRS when reporting long-term construction contracts if certain prerequisites have been met. Work in progress is reported as POC receivables depending on the stage of completion.

CASH AND CASH EQUIVALENTS

In contrast to HGB, cash and cash equivalents under IFRS also include securities with a remaining term of up to 90 days as of the date of acquisition.

EQUITY

Allocation to equity or external capital in accordance with HGB depends primarily on such factors as profit-related compensation, participation in losses, and subordinated treatment in the case of bankruptcy. In accordance with these criteria, the silent partnership of CLAAS is classified as equity in accordance with the HGB, and the subordinated perpetual securities as debt capital.

Under IFRS, however, the ability to repay the capital transferred is the decisive factor for reporting items under equity, meaning that the silent partnership must be classified as a financial liability under IFRS. Subordinated perpetual securities are classified as equity due to their indefinite terms.

PENSION PROVISIONS

In accordance with HGB, pension provisions are normally measured in accordance with the entry age normal method. Probable fluctuations are taken into account on a lump-sum basis. It is not permitted to take salary and pension increases into account. The discount rate may be based on tax provisions.

Under IFRS, pension provisions are measured using the projected unit credit method. Official fluctuation probabilities as well as salary and pension increases are taken into account. The discount rate is equivalent to the applicable capital market interest rate for first-ranking, fixed-interest corporate bonds.

OTHER PROVISIONS

HGB provides options allowing for provisions for future expenses based on internal commitments.

Under IFRS, requirements for creating provisions are more restrictive. There are no options for creating a liability in this respect, and a relatively high degree of probability must exist before a liability may be recorded. Provisions for future expenses are not allowed.

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements of CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, the notes to the financial statements, and the Group management report for the fiscal year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) are the responsibility of the Company's management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and the Group management report.

We conducted our audit of the consolidated financial statements pursuant to Section 317 of the German Commercial Code and generally accepted German standards for the audit of financial statements as promulgated by the "Institut der Wirtschaftsprüfer." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any misstatements or violations that would have a material effect on the presentation of a true and fair view of the financial position and financial performance conveyed by the consolidated financial statements in accordance with generally accepted accounting principles and by the Group management report. Knowledge of the business activities and economic and legal environment of the Group and expectations of possible misstatements are taken into account in determining audit procedures. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and Group management report as well as the effectiveness of the internal control system relating to the accounting system. The audit also involves assessing the financial statements of the companies included in the consolidated financial statements as well as the definition of the group of consolidated companies, the accounting and consolidation principles used, and significant estimates made by the legal representatives as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Based on our audit, it is our opinion that the consolidated financial statements of CLAAS Kommanditgesellschaft auf Aktien mbH, Harsewinkel, comply with IFRS as adopted by the EU and the additional requirements of German commercial law as set forth in Section 315a Sec. 1 of the German Commercial Code and provide a true and fair view of the financial position and financial performance of the Group in consideration of the aforementioned provisions. The Group management report is consistent with the consolidated financial statements and, taken as a whole, provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, November 20, 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Schlereth)
Wirtschaftsprüfer
(German Public Auditor)

(Kalvelage)
Wirtschaftsprüfer
(German Public Auditor)

MANAGEMENT STATEMENT ON THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements and the Group management report have been prepared by the management of CLAAS KGaA mbH. The accuracy and completeness of the information contained in the financial statements and the Group management report are the responsibility of the Company's management. The consolidated financial statements for the fiscal year ended September 30, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Directive 83/349/EEC. Previous year figures were determined in accordance with the same principles. The consolidated financial statements are supplemented by the Group management report and the notes in accordance with Section 315a of the German Commercial Code (HGB).

Systems of internal control, uniform Group accounting policies and continuous employee training ensure that the consolidated financial statements and the Group management report are prepared in compliance with generally accepted accounting principles and comply with statutory requirements. Compliance with the guidelines set forth in the risk management manual, which are applicable to the Group as a whole, as well as the reliability and effectiveness of the control systems are examined by our internal auditing unit on an ongoing basis. After careful examination of the current risk position, we have discovered no specific risks that could threaten the continued existence of the CLAAS Group.

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, has audited the consolidated financial statements and the Group management report and has issued the unqualified auditors' opinion presented below.

Harsewinkel, November 20, 2006

Rüdiger A. Günther Dr. Theo Freye Dr. Hermann Garbers Thomas Klatt

Lothar Kriszun Guy Povie Hans-Bernd Veltmaat

CLAAS KOMMANDITGESELLSCHAFT AUF AKTIEN MBH, HARSEWINKEL/GERMANY

STRUCTURE OF CLAAS KGAA MBH

PERSONALLY LIABLE PARTNER
Helmut Claas GmbH

SHAREHOLDERS

Helmut Claas
Günther Claas
Reinhold Claas

KGAA SHAREHOLDERS

Family Helmut Claas
Family Günther Claas
Family Reinhold Claas

SHAREHOLDERS' COMMITTEE

Helmut Claas, Harsewinkel
Chairman

Cathrina Claas, Zurich
Deputy Chairman

SUPERVISORY BOARD

Helmut Claas, Harsewinkel,
Chairman
Guntram Schneider, Münster*
Deputy Chairman
Cathrina Claas, Zurich
Oliver Claas, Bohmte
Reinhold Claas, Harsewinkel
Günther Groß, Harsewinkel* (until 09/2006)
Claus Helbig, Munich (until 04/2006)
Michael Köhler, Paderborn*
Nicola Leibinger-Kammüller,
Ditzingen (since 10/2006)
Günter Linke, Harsewinkel* (since 10/2006)
Gerd Peskes, Düsseldorf
Konrad Siegers, Harsewinkel*
Heinrich Strotjohann, Harsewinkel*
Carmelo Zanghi, Paderborn*

* Employee representatives

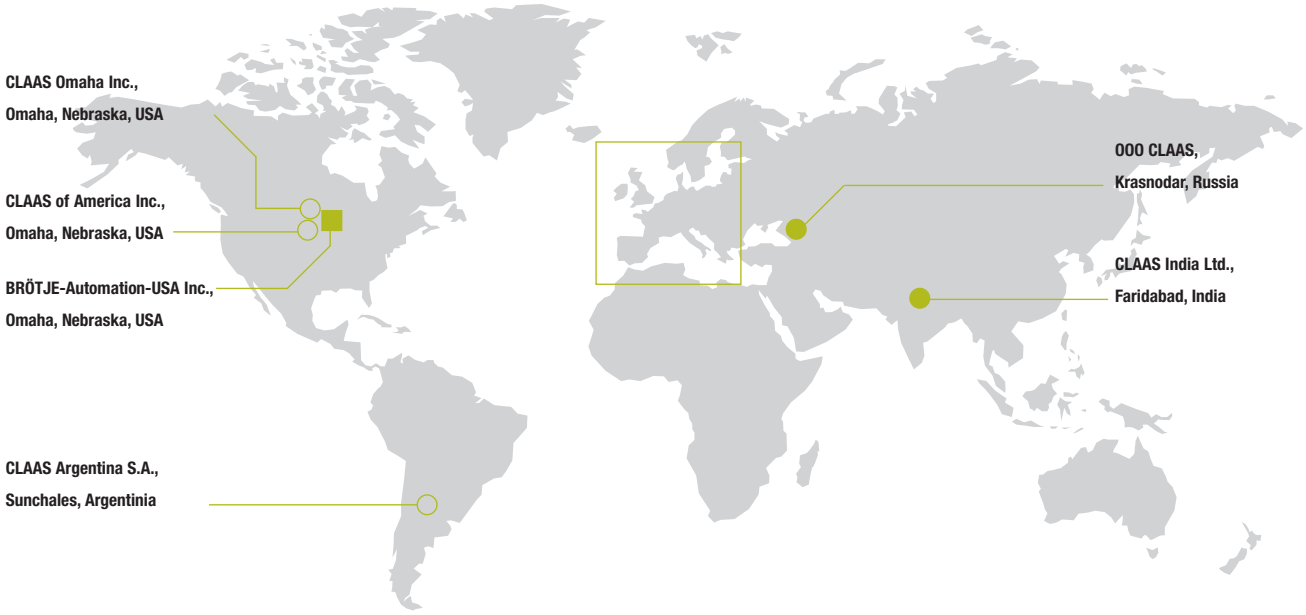
GROUP EXECUTIVE BOARD

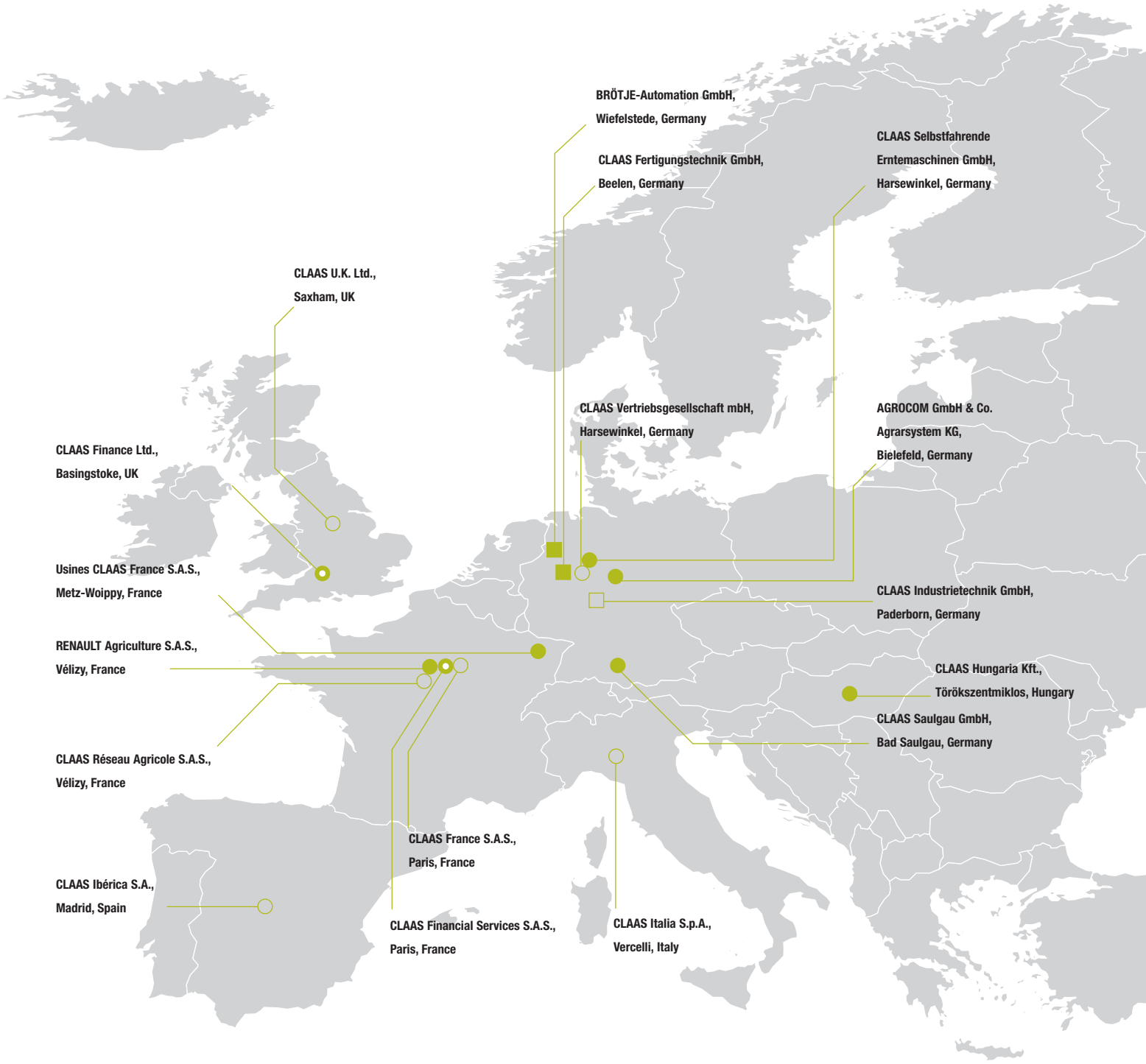
Rüdiger A. Günther**
Theo Freye**
Hermann Garbers**
Thomas Klatt**
Lothar Kriszun
Rolf Meuther
Jan-Hendrik Mohr
Guy Povie
Hans-Bernd Veltmaat**

** Executive Board of Helmut Claas GmbH

AUTHORIZED COMPANY REPRESENTATIVES

Gerd Hartwig
Stefan Belda





AGRICULTURAL ENGINEERING ■ **PRODUCTION ENGINEERING** □ **INDUSTRIAL ENGINEERING** as of September 30, 2006

- Product companies
- Sales companies
- Finance companies

SEVEN-YEAR OVERVIEW

FINANCIAL PERFORMANCE		2006	2005	2004	2003*	2002*	2001*	2000*
Net sales	€ million	2,351.0	2,175.3	1,928.4	1,496.3	1,265.5	1,147.9	1,072.5
Foreign sales in percent	%	76.3	75.1	76.8	69.2	64.9	68.9	66.6
Income before taxes	€ million	130.7	86.4	36.1	22.6	55.8	36.1	26.2
Net income	€ million	**80.9**	**54.7**	**21.9**	**17.9**	**32.5**	**14.3**	**11.7**
FINANCIAL POSITION								
Non-current assets	€ million	**488.7**	**473.9**	**472.2**	**438.1**	**306.8**	**247.5**	**221.0**
Intangible assets	€ million	145.6	123.1	119.8	55.8	20.0	6.8	3.5
Property, plant, and equipment	€ million	247.7	243.9	249.1	252.3	192.8	155.5	138.7
Non-current financial assets	€ million	95.4	106.9	103.3	130.0	94.0	85.2	78.8
Current assets	€ million	**1,109.5**	**1,137.8**	**973.7**	**974.7**	**712.8**	**683.9**	**638.6**
Inventories	€ million	339.9	295.0	280.6	337.6	207.1	168.5	181.2
Current financial assets	€ million	333.6	342.1	312.5	292.3	205.0	181.3	172.6
Liquid assets	€ million	436.0	500.7	380.6	344.8	300.7	334.1	284.8
Equity	€ million	**502.8**	**484.9**	**374.4**	**292.5**	**292.2**	**268.8**	**263.5**
Funds similar to equity**	€ million				**106.3**	**58.3**	**56.3**	**55.5**
Liabilities	€ million	**1,095.4**	**1,126.8**	**1,071.5**	**1,014.0**	**669.1**	**606.3**	**540.6**
Non-current liabilities	€ million	532.6	499.2	569.6	502.5	309.7	301.9	299.9
Current liabilities	€ million	562.8	627.6	501.9	511.5	359.4	304.4	240.7
Total assets	€ million	**1,598.2**	**1,611.7**	**1,445.9**	**1,412.8**	**1,019.6**	**931.4**	**859.6**
KEY PERFORMANCE INDICATORS								
Return on sales	%	5.6	4.0	1.9	1.5	4.4	3.2	2.4
EBIT	€ million	161.9	118.0	70.4	53.2	84.0	66.7	54.0
EBITDA	€ million	245.0	186.7	142.4	90.9	111.9	111.5	82.5
Return on equity	%	16.1	11.3	5.8	6.1	11.1	5.3	4.4
Return on assets	%	10.1	7.3	4.9	3.8	8.2	7.2	6.3
Cash flow (DVFA/SG)***	€ million	171.0	130.7	94.2	51.2	67.4	67.7	39.6
Equity-to-assets ratio	%	31.5	30.1	25.9	20.7	28.7	28.9	30.7
Cash ratio	%	77.5	79.8	75.8	67.4	83.7	109.7	118.3
Equity and non-current liabilities to non-current assets	%	211.9	207.7	199.9	205.7	215.2	253.3	280.0
Working capital	€ million	413.8	443.9	368.1	415.9	303.5	251.8	274.0
EMPLOYEES								
Employees as of the reporting date (including trainees)		8,191	8,134	8,127	8,391	6,114	5,488	5,558
Personnel expenses	€ million	455.7	433.1	416.8	352.3	291.7	277.3	269.7

* Figures for 2000 through 2003 in accordance with U.S. GAAP.
** Under U.S. GAAP participation certificates, the silent partnership and minority interest are funds similar to equity.
*** Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V./Schmalenbach-Gesellschaft (German association of financial analysts).

Return on sales (%) = $\frac{\text{Income before taxes}}{\text{Sales}}$ x 100

EBIT = Net income + income taxes + interest expense + profit transferred under a partial profit transfer agreement (CMG) + compensation for participating certificates

EBITDA = EBIT +/- depreciation/write-ups of intangible and tangible assets

Return on equity (%) = $\frac{\text{Net income}}{\text{Equity}}$ x 100

Return on assets (%) = $\frac{\text{EBIT}}{\text{Total assets}}$ x 100

Cashflow nach DVFA/SG = Net income + depreciation/amortization of non-current assets +/- change in pension provisions and other non-current provisions +/- other non-cash income and expenses

Equity-to-assets ratio (%) = $\frac{\text{Equity}}{\text{Total assets}}$ x 100

Liquid assets = Cash and cash equivalents + marketable securities

Cash ratio (%) = $\frac{\text{Liquid assets}}{\text{Current liabilities}}$ x 100

Quick ratio (%) = $\frac{\text{Liquid assets + trade receivables + income tax assets + other receivables and current financial assets - current derivative assets - prepaid expenses + non-current receivables from investments + other non-current assets}}{\text{Current liabilities}}$ x 100

Equity and non-current liabilities to non-current assets (%) = $\frac{\text{Equity + non-current liabilities}}{\text{Non-current assets}}$ x 100

Equity and non-current liabilities to non-current assets and inventory (%) = $\frac{\text{Equity + non-current liabilities}}{\text{Non-current assets + 0.5 x inventories}}$ x 100

Working capital = Inventories - advance payments received +/- trade accounts receivable/payable accounts receivable/payable to investments +/- notes receivable/payable

Inventory turnover (%) = $\frac{\text{Average inventory}}{\text{Sales}}$ x 100

Receivables turnover (%) = $\frac{\text{Average trade receivables}}{\text{Sales}}$ x 100

Days sales outstanding = Receivables turnover x 365

The key performance indicators for the fiscal years 2004 to 2006 are presented in accordance with IFRS. The figures for fiscal years 2000 through 2003 are based on U.S. GAAP.

CONTACT

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This report is available in German and English. Both versions may be downloaded on the Internet at www.claas.com

CONCEPT, DESIGN & REALIZATION

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Hamburg, Germany

ENGLISH TRANSLATION

Gehlert GmbH
Legal and Financial Translations
Frankfurt, Germany