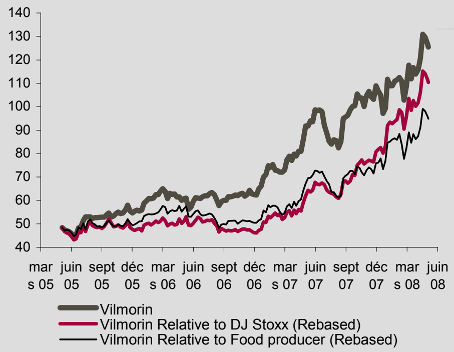
ODDO MIDCAP LYON
DIVISION OF ODDO ET CIE
2, RUE GROLEE
69002 LYON- FRANCE

Equity Research - France / Europe

PRICE (02/06/2008) **125.50 EUR**

DJ Stoxx	1 340
Food producer	1 606
Reuters:	VILM.PA
Bloomberg:	RIN FP



Multiples

	06/07	06/08e	06/09e	06/10e
P/E	17.0	28.9	27.7	25.3
Net. yield (%)	2.4%	1.5%	1.6%	1.8%
FCF yield (%)	2.2%	3.4%	2.3%	3.0%
P/Book value	1.5	2.6	2.4	2.3
EV/Sales	1.4	2.3	2.1	2.0
EV/EBITDA	8.4	10.6	9.8	9.2
EV/EBIT(recur)	16.4	18.5	17.0	15.9

Per share data

EUR	06/07	06/08e	06/09e	06/10e
EPS (AANP)	4.09	4.35	4.54	4.95
% Change	2.3%	6.1%	4.4%	9.1%
EPS (ANP)	4.09	4.50	4.86	5.31
% Change	-10.6%	9.8%	8.1%	9.1%
Dividend	1.66	1.84	2.04	2.28
Book value	45.43	48.27	51.28	54.55

Income statement

(EUR m)	06/07	06/08e	06/09e	06/10e
Sales	938.4	902.0	961.8	1 000
% Change	88.7%	-3.9%	6.6%	3.9%
Op. profit (recur.)	80.5	111.0	120.3	127.0
% Change	42.8%	37.8%	8.4%	5.5%
Op. profit (EBIT)	95.0	111.0	120.3	127.0
Attr. net profit	54.8	60.2	65.1	71.0
Adj. attr. NP	54.8	58.2	65.1	71.0

Financial data

	06/07	06/08e	06/09e	06/10e
ROCE bef. Tax	12.1%	10.0%	10.5%	10.8%
ROCE after Tax	9.4%	7.4%	7.8%	8.0%
ROE	11.8%	9.3%	9.8%	10.0%
FCF	20.5	57.9	38.3	50.9
Net debt	345	332	318	295
Gearing	48.9%	44.3%	40.0%	34.9%
Net Debt/EBITDA	2.2	1.7	1.5	1.3
EBITDA/interest	8.0	7.8	8.7	9.9

Performance	1 mo	3 mos	12 mos
Absolute perf.	8.5%	12.6%	36.6%
Perf./country	1.14	1.34	1.61
Perf./DJ sector	1.05	1.21	1.32

Liquidity

Market Cap.	1 681
EV	2 043
No. of shares (m)	13.4
Avg. volume /d	458
Groupe	69.0%
Free Float	31.0%

Vilmorin

Food products - France

Buy (1)

Target price raised 135.00 vs 116.50 EUR

In the big league

Recent news from Vilmorin (Q3 sales, withdrawal from home gardening segment, Hazera visit) and its rivals supports our stance on the share. Vilmorin is expected to post record performances this year with an operating margin forecast at 12.3% vs 9.9%, i.e. a gain of 240bp. The group is well placed to benefit from: 1) sources of growth in Asia (especially China, 15% of the global market); 2) the inevitable build up in genetically modified seeds (development of its own characteristics); and 3) M&A in this sector. ***We confirm our Buy (1) recommendation with a new target price of € 135 (vs € 116.5) which is based on conservative assumptions. Vilmorin is one of our stock picks for H1 2008.***

Hazera: a strategic subsidiary

A visit to Hazera, the Israeli subsidiary, gave us a first-hand look at the group's successful international expansion. Hazera offers complementary savoir-faire, particularly for R&D. This visit also helped us better understand Vilmorin's gradual consolidation strategy for new acquisitions (initial stake purchased 10 years ago). **Hazera is a jewel in the group's crown, with a leading position on the tomato seed market (15 to 20% market share).**

Change in scope: a boost for earnings

As expected, Q3 sales were excellent, rising +15% (+17.5% on a comparable basis). This performance prompted us to adjust our operating profit estimates by +3% for the year ending June 30, 2008 and we now forecast **an operating margin of 12.3% on operating profit of € 111m vs € 95m in reported OP and almost € 80m stripping out home gardening, i.e. growth of 39%.** This would be a record performance, thus proving that consolidating the field crop seed business was a smart and successful move.

Numerous sources of growth

For the coming years, there are numerous sources of growth. Vilmorin is operating on an enduringly buoyant market supported by strong demand for agricultural produce. Vilmorin is currently number four worldwide, and number two for vegetable and ornamental seeds. Vilmorin should benefit from growth in a new market to be explored, i.e. **Asia** (present in Japan, India and more recently China), with plant species complementary to those already within the group. In addition, given momentum in the US market, **the group should benefit over the next ten years from a ramp up in genetically modified organisms (GMO)**, a market posting double-digit growth with more than 100 million planted hectares. **Sector M&A is expected to continue** with a predator role for Vilmorin creating value as it has done in the past (such as with CHM).

Buy (1) recommendation confirmed – New TP € 135 (vs € 116.5)

We reiterate our positive stance on Vilmorin, which has turned in a remarkable performance thus far this year (240bp increase in operating margin). A peer comparison and DCF model justify **a target price of € 135** despite very conservative assumptions in our discounted cash flow approach (WACC: 7.4%, perpetual growth: 4.5% with 8.7% CAGR for EPS over the past 15 years, normalised margin: 12.5% i.e. excessively conservative). **As a reminder, Vilmorin is one of our stock picks for H1 08.**

How we differ from the consensus

- This year, our estimates are slightly higher than management's, which are usually conservative.
- But for the coming years, our assumptions are very conservative since FY 2007/08 will be a demanding comparison base.

Next event: ext event: publication of FY 2007-08 sales on 5 August (after market close)

Jean-François Granjon
+33 (0)4 72 68 27 05
jfgranjon@oddo.fr

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CONTACT INFO

ODDO SECURITIES CORP. MEMBER: NASD/SIPC (U.S. INVESTORS)
A WHOLLY OWNED SUBSIDIARY OF ODDO ET CIE
PATRICK ODDOUX PRESIDENT, ODDO SECURITIES CORP. (NEW YORK), poddoux@oddony.com
150 EAST 52ND STREET
NEW YORK, NEW YORK 10022
212-481-4002

Contents

Stockmarket Recommendations

Our stockmarket recommandations reflect the **ABSOLUTE** change expected in the share price from a twelve month perspective (in local currencies).

BUY (1) : expected increase of more than 15%
ADD (2) : expected increase of 0-15%
REDUCE (3) : expected decrease of 0-15%
SELL (4) : expected decrease of more than 15%

Business and rank

Vilmorin is **number four worldwide** on a seed market estimated at $ 30bn for commercial seeds (worth $ 20bn for producers). **Vilmorin is number two worldwide for vegetable and ornamental seeds, number one in Europe for cereals and number two in Europe for corn**. In the US, Vilmorin ranks fourth in its JV with German group KWS which enjoys a 6% market share.

Vilmorin is currently pulling out of the home gardening segment, which is considered not strategic, and bolstering its presence in seeds for professionals.

Characteristics

Revenue drivers	Capital intensity
• Global demand for agricultural products – Rise in vegetable consumption, especially in Asia • Pricing power thanks to the product mix • Leading position	• Weight of R&D (14% of sales) for perfecting new varieties • Investment in biotechnologies (25% of total budget) • Structurally heavy weight of WCR particularly for vegetable seeds
Margin drivers	**Cash flow**
• Changing mix for greater yields • Increase in arable lands	• Controlled investments • Well-managed WCR

SWOT analysis

Strengths	Weaknesses
• High quality research and genetic portfolio • International presence • JV in the US • Organisation model compared with competitors	• High R&D budget vs rivals • Presence in Asia remains limited
Opportunities	**Threats**
• Potential in Asia • Sector M&A	• Increasingly expensive acquisition prices • Rising cost prices • Lack of available targets Volatility of commodity prices

TARGETS SHOULD BE EASILY REACHED

Q3 review

Company guidance upgraded: operating margin of 12%

As expected, Q3 sales were very strong and resulted in management upgrading its guidance for the full year. We have marginally adjusted our sales estimates and lifted our operating profit forecast by 3%.

As a reminder, nine-month sales came to € 660.4m (€ 643.4m in our estimates) up +14.7% or +16.7% on a comparable basis (constant scope and forex). This performance confirmed the half-year trend with sales (€ 279.7m) up +14% or +15.5% on a comparable basis.

In Q3 alone, sales came to € 380.5m (€ 363.7m in our estimates) up +15.1% or +17.5% on a comparable basis.

NINE-MONTH SALES / Q3 SALES

(€m)	Reported	Oddo Midcap estimates	Previous period	% change	% ch. LFL
9mo. sales	**660.4**	**643.4**	**568.5**	**+14.7%**	**+16.7%**
o/w Vegetable & ornamental	276.6	267.6	255.7	+5.1%	+4.7%
o/w Field crop	383.8	375.9	312.8	+22.7%	+27.1%
Q3 sales	**380.5**	**363.7**	**327.8**	**+15.1%**	**+17.5%**
o/w Vegetable & ornamental	121.7	112.9	109.6	+8.2%	+5.5%
o/w Field crop	258.8	250.9	218.2	+18.6%	+22.3%

SOURCE: COMPANY DATA – ODDO MIDCAP ESTIMATES

The group's professional vegetable and ornamental seed division posted growth of +5.5% for the quarter, an acceleration vs the first half whereas the third quarter usually represents one-third of full-year sales (including the home gardening segment). Vilmorin's main divisions made positive contributions, including the Japanese subsidiary excluding the wholesale business. Note that Hazera, the Israeli subsidiary, posted above-average growth at around +7%.

In field crop seeds, this was a key quarter owing to the seasonal nature of this business. As a reminder, the lion's share of consolidated sales generated in the US is booked in the second half, and specifically in Q3 which just ended (usually more than 70% of full-year sales are booked in Q3).

The same is true for sales in Europe. European sales benefited from wheat and barley campaigns in the group's second quarter (Q4 in the calendar year), the corn campaign (sunflower in Europe and soy in the US) takes place during the group's third and fourth quarters (Q1 and Q2 in the calendar year).

Field crop sales rose +18.6% for the quarter (+22.3% on a comparable basis) vs +22.7% at the end of the first nine months of the year.

Vilmorin turned in excellent performances both in Europe and the US for ultimately different reasons.

In Europe (+19% on a comparable basis for the first nine months), Vilmorin benefited from several factors such as: 1/ an excellent campaign for corn, wheat and sunflowers (this had been the case for canola in Q1); 2/ **a volume effect with the elimination of fallow land** (cultivated fields have increased more than 5% in Europe); and 3) **a sizeable price effect** (at least +10% for the sale of corn sachets) breaking with the previous years. All of this took place against a backdrop of gains in market share.

In the US, the quarter was also crucial, especially since the group should have suffered from an unfavourable comparison base with farmers choosing other crops to the detriment of corn. In the end, nine-month sales rose +7% (+20% on a comparable basis including the forex impact) i.e. an excellent performance against a backdrop of fewer corn fields (-7 to 8% for the spring campaign, +12% for soy).

This was possible thanks to several factors:

- the group's solid resilience;
- gains in market share;
- and more importantly, a rising market valuation for higher value added seeds, i.e. the growing share of GMO.

The latter represents more than 80% of corn seed sales at the US subsidiary AgReliant vs 80% a year previously and 73% for the entire market. Although the percentage of corn fields has declined, demand for stacked varieties with at least three traits has remained robust. Note that in the US, which represents more than 50% of the global GMO market, more than one-third of GM crop fields are sown with stacked varieties containing at least two traits.

- **Volume (>5%) and price (>10%) effects – Market share gains**
- **Success of conventional seeds and further gains in market share for GM seeds in the US result in strong value creation**

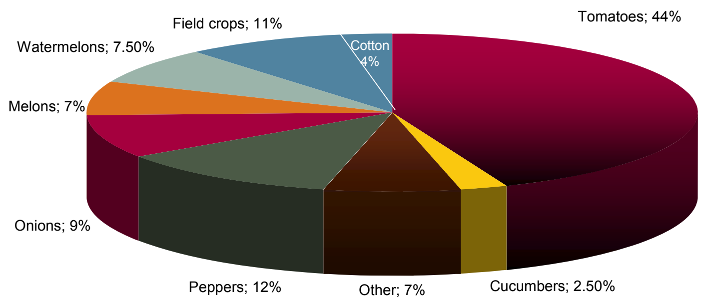
Hazera: one of the group's strengths

After organising a visit to US subsidiary AgReliant last year, this year Vilmorin took us to visit the management of Israeli subsidiary Hazera, 100% consolidated by Vilmorin since 2006[1].

Hazera: 15 to 20% market share

Hazera is clearly a benchmark in the tomato seed segment, especially for the fresh vegetable market. Hazera generated sales of € 59m in 2007, i.e. 16% of sales in the professional vegetable seed segment and operates in 60 countries (mostly around the Mediterranean). 44% of sales comes from tomato species, the group's key product, 12% from peppers, 9% onions, 11% field crops (of which 4% from cotton) to name only the main species. In the past, tomato species accounted for more than 60% of sales, but the simultaneous build up of other species accounts for the lower relative weight now. Hazera has clearly confirmed its prominent role in this domain.

BREAKDOWN OF 2007 SALES BY SPECIES



SOURCE: COMPANY

Hazera's growth has mostly come out of dynamic internal R&D as well as partnerships with renowned Israeli universities, which benefit from government grants. Hazera's R&D represents more than 15% of this subsidiary's sales and makes a sizeable contribution to the group's research (acting as a bridge between the various laboratories and research centres). Hazera has thus perfected numerous new species, targeting amongst others slow ripening species (longer shelf life, heat resistance, etc.).

Note that **Vilmorin just signed an agreement[2] with Israeli biotech group Evogene**. This agreement grants Vilmorin operating licences to use genes discovered by Evogene to increase tomato seed yield. These genes help boost yields by around 20%, which is a significant advance. This new agreement (the terms of which have not been disclosed) is perfectly in line with the strategy to create partnerships with local experts, thus further bolstering Hazera's leadership on the tomato market.

The bulk of Hazera's sales are exports, with large markets in Spain, Turkey, Mexico and also China. On the fresh vegetable market (as opposed to tomatoes sold for industrial food production), **Hazera enjoys a 15 to 20% market share worldwide.**

[1] 12.5% stake purchased in 1998, takeover at 55% in 2003 then 100% as of 2006
[2] As of May 28, 2008

The initial link-up in 1998 and the 100% consolidation since 2006 resulted in a gradual integration of teams and savoir-faire. Vilmorin thus bolstered its presence on one of the main fruit and vegetable markets that is growing and profitable, and heightened its R&D potential, as Hazera is complementary to the group's other research centres, and enjoys a privileged relationship with Israeli researchers (Hebrew University, etc.).

Hazera's **sales have grown +7% on average** over the past four years i.e. outstripping Vilmorin's average (close to +5%) and the market (+2-3%).

Vilmorin's gradual takeover of Hazera reflects both: 1/ management's strategy to target long-lasting operating relationships with all teams working closely together (including research labs since the genetic portfolio is at the heart of this business); and 2/ the specific domestic structure, since Hazera had previously been owned by a kibbutz.

Vilmorin intends to duplicate this strategy in other countries, such as with the most recent acquisition in China (LPHT) in order to take into account the specific requirements of each region concerned (this was also the case in Japan).

- **Hazera should fully participate in the group's international expansion with its R&D as a strong driver**
- **Growth trend higher than the group's average and a strategy to expand abroad (ex: China with a CAGR of +20% between now and 2012).**

The sector climate remains extremely buoyant and propitious to M&A

Since Vilmorin's consolidation of its field crop seeds business, the competitive landscape has concentrated around the main agrichemicals companies. Ten key players corner 60% of the seed market: **Monsanto** being the world leader (field crop and vegetable & ornamental seeds with Seminis), **Dupont-Pioneer** (field crop seeds), **Syngenta** (vegetable & ornamental and field crop seeds), **Vilmorin**, etc. For the most part, these are agrichemical groups but there are also pure players such as Vilmorin, **KWS and Japanese companies Sakata and Takii.**

Recent publications from rivals bode well for Vilmorin's growth, for both quarterly top-line figures and for continued sector consolidation.

Quarterly publications augur well

Monsanto was the first to report an excellent start to the year, with Q2 sales (Q1 in the calendar year) up +39% to $ 2.5bn. All of Monsanto's divisions made a positive contribution to this performance, from field crop seeds (corn, +46% and soy +22%) to vegetable &ornamental seeds (+18%). Continued robust demand for GMO (triple trait) seeds (particularly seeds which combine several resistance genes thanks to the stacking technique) - which boost the product mix – drove this performance. Monsanto also improved its gross margin 100bp in this quarter alone (67.1% vs 66.2%). Given the rise in share of "stacked seeds" (triple-stack), Monsanto expects its earnings to double by 2012, i.e. average annual growth of +15%.

Congruent publications

Syngenta also turned in an outstanding performance for its seeds division with Q1 sales up +20% (+13% at constant forex). Field crop seeds grew +11% (corn and soy). As a reminder, during the comparable quarter Vilmorin posted growth of +18% (+22% at constant forex) in field crop seeds, reflecting, as previously stated, gains in market share. Syngenta's vegetable & ornamental seed business, which grew +30%, benefited from the acquisitions of Fisher and Israeli group Zeraim Gedera. Finally, Syngenta's vegetable activity, up 30%, benefits, among other factors from the acquisition of the Israeli group Zeraim Gedera.

Dupont (solely present in the field crop seeds market via Pioneer) reported a stellar quarter too, with sales in this division rising +18% and earnings increasing +21%. This performance reflects solid demand as well as a substantial price effect of +15%.

KWS' performance was no less impressive over the first nine months of the year for field crop seeds (excluding beets) with sales growing +25% for corn and +27% for cereals (wheat, canola, etc.). These trends have been confirmed for the full year ending June 30, 2008.

KWS' management upgraded its full-year guidance. It now targets +9% consolidated sales growth vs flat figures in H1 (+15% for corn), and +10% growth in operating profit vs flat previously. In addition, KWS expects the corn division's contribution to operating profit to increase around 60%. These trends are in line overall with our expectations for Vilmorin's field crop seeds division.

Q1/H1 SALES PERFORMANCES

(%)	Publication	% change
Monsanto	Q2 sales	**+39%**
Dupont/Pioneer	Q1 sales	**+18%**
Syngenta	Q1 sales	**+20%**
Vilmorin	Q3 sales	**+19%***
KWS	9mo. sales	**+25%****

SOURCE: ODDO MIDCAP ESTIMATES - * FIELD CROP - ** EXCLUDING BEETS

A sector arousing interest once again

Besides these satisfactory performances, there is plenty of momentum in the sector with ongoing mergers and acquisitions.

A recent notable example is **Monsanto's takeover of Dutch player De Ruiter for 5x sales and 15x EBITDA** (see our breaking news from April 1, 2008). De Ruiter is a major vegetable & ornamental seed producer, working mostly in greenhouses, with a strong presence in tomatoes. Since the company specialises in greenhouse seeds (a market estimated at € 600m) and just a few species (such as tomatoes, melons, cucumbers, peppers), margins are high: gross margin comes to 80% (usually 50 to 60% for seed producers in general but variable depending on the species and type of seed, conventional or genetically engineered) and an EBIT margin of more than 20%.

Sector concentration is resulting in high acquisition multiples

Monsanto has thus bolstered its presence on the seed market after acquiring Seminis in 2005 by focusing on:

- A positioning in open field seeds as well as greenhouse seeds which have higher margins;
- Access to a market posting stronger growth. The greenhouse seed market is growing +8 to +10% i.e. more than double standard market growth.

For its vegetable & ornamental seed division, Monsanto is targeting average growth of +10% for the next five years.

The target's high quality and interest from other possible predators justified such a high valuation, as Monsanto expects this acquisition to enhance earnings in two years.

Nevertheless, other recent deals have also consistently showed high multiples. As a reminder, **Syngenta's acquisition of Zeraim Gedera** (July 2007) took place at 3.6x sales and 13.3x EBITDA, and **Monsanto's purchase of Delta & Pine** (August 2006) came to 3.3x sales and 14.9x EBIT.

Thus, transactions are currently taking place at an average of between 2 and 3x sales and around 14-15x EBIT.

- **The market is boosted by a buoyant agricultural climate and durable inflation for agricultural produce**
- **Sector concentration continues to the benefit of agrichemicals companies and pure players with climbing acquisition valuations**

Adjusting our earnings estimates

Adjusting our earnings estimates

Vilmorin just announced the disposal of its home gardening seed business (see our May 22 flash) with the imminent sale of its French (Oxadis) and Polish (CNOS Vilmorin) activities for € 60m and advanced negotiations for the sale of its German assets (Flora Frey).

Following the publication of Q3 sales, we had inched up our operating profit estimate by +3% (FY 2007/08) while nevertheless maintaining rather conservative assumptions for the coming years.

When Q3 sales were reported, management confirmed its guidance for the vegetable and ornamental seed division but upgraded its guidance for the field crop seeds division.

Full-year sales close to € 900m

Our earnings forecast is higher than management's guidance

For **professional vegetable garden and ornamental seeds** (an estimated 42% of full-year sales), management is guiding for growth of +5%. As a reminder, at the end of the first nine months of the year, growth came to +5.1% or +4.7% on a comparable basis. The full-year guidance is therefore perfectly consistent since the fourth quarter usually represents slightly more than 25% of this division's full-year sales.

We forecast full-year sales of € 381m vs € 365m, up +4.4% i.e. Q4 growth limited to less than 3% i.e. a conservative level.

For **field crop seeds**, management upgraded its full-year sales growth guidance to more than 15% (the same guidance as KWS for its corn business) vs previous guidance of between +8 and +10%. Previously, our forecast was for full-year growth of +19%, **which we have inched up to +21%** i.e. sales of € 521m vs € 431.6m for the previous year, compared to +22.7% at the nine-month mark. As of February, we integrated stronger growth. This has been confirmed given the European climate amongst others and also an increase in value confirmed in the US despite the impact of farmers choosing other crops and forex.

SALES FORECASTS

(%)	2006/07	2007/08 E	2008/09 E	2009/10 E
Vegetable & ornamental	**364.9**	**381.1**	**393.8**	**410.9**
% ch.	+4.8%	+4.4%	+3.3%	+4.4%
Field crop seeds	**431.6**	**520.9**	**568.0**	**588.6**
% ch.	+1.6%	+20.7%	+9.0%	+3.6%
o/w Europe	322.1	408.6	450.5	464.0
% ch.	-2.7%	+26.8%	+10.2%	+3.0%
o/w US	109.5	112.3	117.5	124.6
% ch.	+16.5%	+2.5%	+4.6%	+6.0%
Consolidated	**804.8***	**902.0**	**961.8**	**999.5**
% ch.	+1.7%	+12.1%	+6.6%	+3.9%
Vegetable & ornamental, nine months	**263.1**	**276.6**		
Field crop, nine months	**312.8**	**383.8**		
o/w Europe	233.5	298.8		
o/w US	79.3	85.0		
Consolidated, nine months	**575.9**	**660.4**		
% ch.		+14.6%		

SOURCE: ODDO MIDCAP ESTIMATES - * EXCLUDING HOME GARDENING ON A BASE ADJUSTED FOR INTRA-GROUP SALES

Note that these estimates integrate weaker growth in Q4 (+9.5%) in order to account for the phenomenon of building up inventory in anticipation of orders, with earlier deliveries than in previous quarters, and also possible product returns.

As for trends in the years thereafter, we have started off with cautious assumptions based on average market growth. However, we have taken into account a continued price effect for field crop seeds in 2008/09 but at a lower level. We also made less favourable €/$ assumptions ($ 1.55 vs $ 1.47).

Operating margin expected to exceed 12%

A record operating margin of more than 12%

When interim results were announced, we considered management's guidance as overly conservative, calling for an operating margin of between 10.5 and 11% (vs 9.9% the year previously stripping out home gardening and 9.2% adjusted for exceptionals). At that time, we had forecast an operating margin of 12% on operating profit of € 108m.

We now **forecast operating profit of € 111m, i.e. an almost 3% upgrade, with an operating margin of 12.3% i.e. a 240bp improvement**. This is a sizeable annual increase that would be a record for the group.

Several factors are expected to drive this growth:

- Interim results showed considerable improvement despite a rather unfavourable seasonal effect (as a reminder, less than one-third of sales are generated in the first half of the year). While vegetable & ornamental seeds were in line, field crop seeds posted a sharp improvement in profitability (interim losses reduced € 10m on just an additional € 30m in sales);
- Vilmorin is experiencing **a sizeable price effect with hikes of around +10%** for field crop seeds, especially corn;
- **Product mix** also made a favourable contribution with higher yields in both vegetable & ornamental (86% in 2006/07) and field crop (66%);
- **The share of royalties**, the short circuit remuneration method for wheat in Europe, is expected to increase by the end of the year (+5% to € 27m at the nine-month mark) which should help boost margins. **We forecast royalties of € 53m vs € 41m last year, that is, +29% of which the lion's share booked in the fourth quarter.**

EBIT AND OPERATING MARGIN

(€m)	2006/07*	2007/08 E	2008/09 E	2009/10 E
EBIT	**79.8**	**111.0**	**120.3**	**127.0**
% ch.		+39.0%	+8.3%	+5.5%
Operating margin	**9.9%**	**12.3%**	**12.5%**	**12.7%**
o/w Vegetable & ornamental	54.0**	58.1	60.5	65.0
Operating margin	14.8%	15.3%	15.4%	15.8%
o/w Field crop seeds	29.5	52.8	59.9	62.0
Operating margin	6.8%	10.1%	10.5%	10.5%

SOURCE: ODDO MIDCAP ESTIMATES - * EXCLUDING HOME GARDENING - ** EXCLUDING ADJUSTMENT FOR THE DECONSOLIDATION OF HOME GARDENING

These assumptions seem achievable to us in light of the H1 performances, as they reflect reasonable H2 margins.

In line for vegetable & ornamental – ahead for field crop

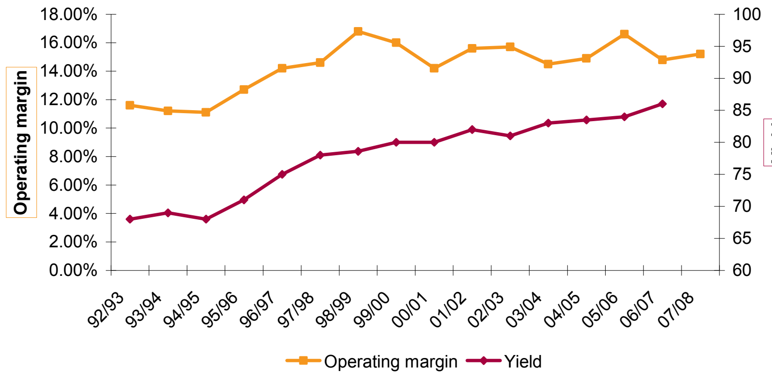
EBIT AND OPERATING MARGIN

(%)	2006/07	2007/08 E
H1 margin	**-7.6%**	**-3.5%**
H2 margin	**17.6%**	**19.4%**
H1 vegetable & ornamental	4.4%	4.9%
H2 vegetable & ornamental	22.1%	22.3%
H1 field crop	-29.5%	-15.5%
H2 field crop	16.9%	18.2%

SOURCE: ODDO MIDCAP ESTIMATES

The 15% operating margin target for vegetable and ornamental seeds is in line with expectations. This level was reached several times in the past and should improve thanks to continuing growth in yields.

PROFESSIONAL VEGETABLE & ORNAMENTAL SEED MARGIN AND YIELD



For field crop seeds, the operating margin target of 8 to 9% (set when assets were consolidated two years ago) has already been met or exceeded owing to the market upturn in cereals and corn. **This performance was achieved with a yield of just 66%; thus, there is real room for improvement** with the ramp up of hybrid species (such as wheat) and the build up in GMO with a growing share of stacked varieties (currently 37% in the US).

For the following years, we have made rather conservative assumptions with **for the operating margin, a gain of 20bp in 2008-09 and in 2009-10**. This is partly justified by the expected increase in cost price borne by the group owing to price hikes expected to be passed by large-scale farmers over the 2008/09 season, factoring in a more gradual shift in the mix. Moreover, uncertainty continues to cloud the completion of production plans.

- **Our earnings estimates notched up 2 to 3%**
- **Our short/medium-term assumptions remain conservative against a buoyant backdrop**

BOLSTERED CONVICTION– NEW TP € 135

Review of key sources of growth

Our current forecasts for 2007/08 are slightly higher than management's guidance. However, for the following two years, we have made conservative assumptions.

Vilmorin should benefit from numerous sources of growth in the short and medium term:

Withdrawal from home gardening segment

The main French subsidiary, Oxadis (number 1 in France) and Polish subsidiary CNOS Vilmorin (number 2) were sold to French company Plan SAS, a private horticultural and seed group with sales of € 47m. This deal is expected to be made based on **an overall enterprise value of € 60m between now and June 30, 2008.** First, Vilmorin should sell the going concern to Oxadis along with the brands specifically focused on home gardeners (Vita, France Graines, etc.) while the professional seed brands (Vilmorin, Clause, Tézier, etc.) will remain the property of Vilmorin and will be subject to operating licence contracts.

The overall amount of the disposal is estimated at € 70-80m with € 45-50m in cash => favourable mix effect > 50bp

The amount of the sale (EV of € 60m) corresponds overall to our expectations i.e. 0.6x sales (c. € 100-105m) and 7-7.5x EBIT.

As for the German subsidiary (Flora Frey, number 1 in Germany, € 14m in sales), negotiations look to be accelerating. The big news is that this deal could be wrapped up between now and June 30, whereas recently (during the Israel site visit in early May), the timing was expected to be December 2008.

There have been several offers for the UK subsidiary (Sutton Seeds, number 2 in the UK, € 25m in sales) and a deal is still expected to be made before the end of the calendar year.

For this sale, we would highlight:

- **Timing should be respected after all** with the deal wrapping up before the end of the fiscal year finishing June 30. The disposal of Oxadis represents more than 70% of this branch's total sales;
- **The overall amount of the sale, estimated at € 70-80m,** is just slightly below our expectations (€ 90m) but should nevertheless **bring in cash to the tune of € 45-50m;**
- It should have **a favourable mix effect that we estimate at a minimum of 50bp** (based on an adjusted home gardening margin of around 6%);
- The impact on the P&L should be neutral overall owing to the capital gain from the sale of Oxadis and despite the risk of additional provisions for the sale of Flora Frey.

Stepping up R&D

This move should help the group refocus on the professional market with greater resources budgeted for R&D. This is true for both conventional seeds as well as genetically engineered seeds.

With a budget of around €100m, R&D represents close to 14% of consolidated sales. After accounting for partnerships, € 150m is habitually spent on R&D. Note that around 25% of these budgets are dedicated to biotechnology.

R&D: less dependence on the world leader and enhancement of Vilmorin's own portfolio

One of the group's sources of growth is a stepped up presence on the genetically engineered seed market, in order to limit dependence on Monsanto, the sole player currently benefiting fully from triple trait GMO amongst others (triple trait seeds post growth 50% higher than single trait GM seeds). In addition, Vilmorin intends to narrow the gap to **Monsanto which is already developing new generation seeds that have not just three but eight traits** (new generation of seeds with new resistances, such as to drought).

Vilmorin's expanded presence on the genetically engineered trait segment should result in several advantages:

- A revaluation of the group's own genetic portfolio with **higher yields in field crop seeds thus resulting in wider margins;**
- **Less dependence on Monsanto**. Currently, Vilmorin, like other players in this sector, is forced to buy part of the genetic stock from Monsanto in order to develop its own species in exchange for royalty payments. This represents a sizeable cost estimated at **$ 130m (€ 85m)** split 50/50 in the JV with KWS, which means 4 to 5% of consolidated sales. This would be a potential source of long-term savings, partly offset by expected possible increases in the R&D budget (15% vs <14%?).

Continuing to expand abroad and in Asia

Strategic stake in China

The group's presence abroad remains a recurring theme. Asia is obviously the priority. The purchase of a stake in Chinese company LPHT thus represents a real interest.

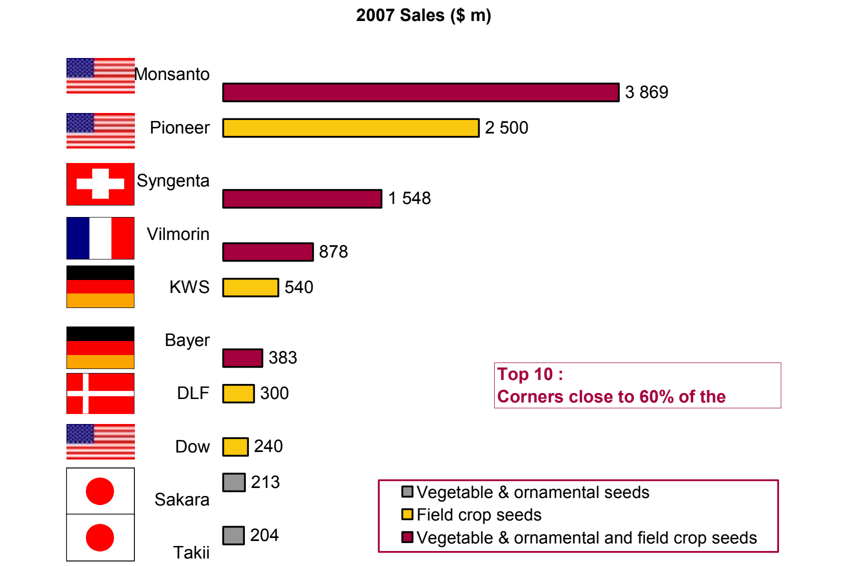
Vilmorin established a strategic alliance with Chinese group Hunan Xindaxin Co. Ldt, the reference shareholder of Yuanlongping High-Tech Agriculture (LPHT). Through a JV 46.5% owned by Vilmorin, the latter ended up with **a more than 10% stake in LPHT which is also listed on the stock market.**

This seed company thus gives Vilmorin access to the enormous Chinese market, specifically in the hybrid rice market. China represents 15% of the global seed market, number 1 for rice and number 2 for corn and wheat. This partnership is likely to develop gradually as it did in the Japan deals (Mikado and Kyowa) and further out will give Vilmorin access to new, complementary technologies. This development should also unlock synergies with the group's other units that are already expanding their commercial operations (see Hazera's strategy).

For the time being, the impact on P&L is marginal, the idea being to gain entry alongside the other players (Monsanto, Syngenta, etc.).

M&A continues

VARIOUS PLAYERS



SOURCE: VILMORIN

The market is undergoing further consolidation, with agrichemicals groups dominating along with dual expertise in vegetable & ornamental and field crop seeds, thus validating the move to consolidate Limagrain's assets within Vilmorin in 2006.

M&A momentum continues thanks to:

- The presence of **small-sized family companies** specialised in specific market segments (like De Ruiter);
- Agrichemicals group developing **seed businesses that are diluted** within their other activities (Bayer, Dow, etc.);
- Specialised players that for the time being remain fiercely independent (Sakata and Takii in Japan)

Not to mention numerous other companies, for example in China, which could see their capital structure evolve as the country opens up to foreign investors.

Vilmorin has the means and several alternatives

Against this backdrop, Vilmorin clearly has a role of predator. The JV with KWS in the US could lead to a merger between the two groups (an oft-mentioned possibility). As a reminder, Vilmorin enjoys a healthy financial structure and could tap into € **450-500m in additional debt** to finance a major deal. However, Vilmorin would not necessarily be interested in all of KWS' businesses (such as beets) and would focus on those with the most potential (two-thirds of KWS' activities).

Note that Vilmorin has issued € 150m in OCEANE bonds, with the extension clause fully exercised on the basis of a 4.5% rate (see Equity Flash dated 29 May 2008). The issue was carried out at a 20% premium to the reference price of € 129.97, i.e., € 155.96. The bond issue matures on 1 July , 2015. Theoretical potential dilution comes to around 7%.

One of the obstacles to an M&A strategy could be the high transaction multiples currently seen on the market. However, we would highlight that Vilmorin could, as it did in the past in Asia or in Israel with Hazera, gradually build up stakes in its targets. This strategy has the advantages of diluting the acquisition cost (or even generating acquisition badwill such as with the majority takeover of Hazera for € 9m) and integrating the teams over time (such as with Hazera and Kyowa/Mikado).

- **Numerous sources of growth in the medium term:**
- **A pure player on the professional seed market**
- **The key to this business: R&D, a real entry barrier, ensures FCF generation for the future**
- **New areas to explore: Asia**
- **Sector M&A continues to the benefit of the bigger players**

New target price € 135 (vs € 116.5)

Our positive stance on Vilmorin is supported by the group's performance, its development strategy combining organic and external growth, and a structurally sound market currently experiencing accelerating growth. We therefore have a **Buy (1) recommendation,** maintained despite the excellent share price performance since the beginning of the year (+57% since the low hit in January). In addition, given our revised forecast, higher peer share prices and an intact outlook for the medium term, **we are raising our target price to € 135 (vs € 116.5 previously).**

Peer comparison

Our peer sample is made up of Vilmorin's main rivals. These are primarily agrichemical groups (**Monsanto, Dupont, Syngenta, Bayer, Dow and KWS)**. Ever since Vilmorin consolidated its field crop seeds business, and, moreover, with the withdrawal of the Consumers division, the parallel is more easily drawn, although the comparison is biased by these companies' non-seed activities (agrichemicals).

A target price close to € 125

However, we find that the mix between these companies is relatively balanced. While Monsanto clearly has high multiples, they are justified by its robust sales, high margins (23.9% in 2007/08 with a goal of increasing 100bp each year) and leading position (for GM crops, amongst others) with ample means for making acquisitions. On the other hand, our sample also includes chemicals groups (Dupont, Bayer, Dow) that have more "reasonable" multiples (P/E of 12-14x, EV/EBIT of 10x).

COMPARABLES

	----------P/E----------			----Mkt cap/Sales----			-------EV/Sales-------			-------V/EBITDA------			---------EV/OP---------		
	07/08	08/09	09/10	07/08	08/09	09/10	07/08	08/09	09/10	07/08	08/09	09/10	07/08	08/09	09/10
Average	20,4	19,0	17,7	2,35	2,22	2,12	2,48	2,34	2,22	11,7	10,9	10,3	15,7	14,2	13,7
Vilmorin	28,9	27,7	25,3	1,86	1,75	1,68	2,23	2,08	1,98	10,4	9,6	9,0	18,1	16,6	15,6
Premium/Discount	29%	31%	30%	-26%	-27%	-26%	-11%	-13%	-12%	-12%	-14%	-15%	14%	16%	12%

SOURCE: ODDO MIDCAP ESTIMATES – REFERENCE PRICE € 125.5

Comparing these groups' operating margins indicates a sharp disparity between Monsanto and the other stocks. **Monsanto posts an operating margin of nearly 24% while our sample's average is 14.5% and Vilmorin is estimated at almost 12%**. Vilmorin's margin is closer to chemical companies like Bayer (11.3%) and Dow (9.2%) or seed group KWS (11%).

Vilmorin's margin looks low compared to the sample. However, we would point out that **the vegetable and ornamental seed business on its own posts margins of close to 15%.** Moreover, the recently consolidated field crop seeds business has seen a sharp recovery in its margin to 10% (vs 7-7.5% the previous year), and it is expected to rise gradually as yields increase.

OPERATING MARGIN

(%)	2007/08 E	2008/09 E
Monsanto	**23.9%**	**24.8%**
Dupont*	14.5%	14.5%
Syngenta*	16.8%	17.8%
Vilmorin	**12.3%**	**12.5%**
KWS	11.0%	11.5%
Bayer*	11.3%	13.6%
Dow*	9.2%	8.8%

SOURCE: ODDO MIDCAP ESTIMATES - * THIS IS THE AVERAGE OF TWO YEARS OWING TO A DELAYED CLOSING DATE

This approach indicates a target price close to € 125.

Discounting FCF

This model corresponds well to the profile of a company that has to invest massively over the long term to perfect new varieties of plants. **As a reminder, depending on the technique used, development takes between seven and ten years.** We have made quite conservative assumptions:

A target price of € 140

- Our model is based on rather linear sales growth with **annual growth of +5%.** After 2010, we integrate annual improvement of 10bp in the operating margin, **topping out at 13%. We use a normalised margin to perpetuity of 12.5%** which is especially cautious. In addition, we retain a perpetual growth rate of 4.5%, which is probably higher than the average but conservative in light of the group's earnings growth over the long term. **As a reminder, over the past 15 years, EPS CAGR came to +8.7%.**

- Based on capex of around € 105m we also assumed homogenous growth of around +4-5% each year. The group is capable of generating average FCF before financing costs of € 70-75m. **The FCF yield comes to c. 4.5%.**

- As for the discount rate, we use a risk-free rate of 4.5%, a market premium of 5% and a beta of 1. Thus, **the WACC comes to 7.4%.** This relatively low level is justified by the lack of any major risks and more importantly, the extremely high entry barriers.

DCF valuation (€ m)	June 08	June 09	June 10	June 11	June 12	June 13	June 14	June 15	June 16	June 17
Sales	902.0	961.8	999.5	1 049.5	1 102.0	1 157.0	1 214.9	1 275.6	1 339.4	1 406.4
% ch.		6.6%	3.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
EBITDA	193.4	207.9	220.0	232.0	244.8	258.1	271.1	284.6	298.8	313.8
% ch.		7.5%	5.9%	5.5%	5.5%	5.5%	5.0%	5.0%	5.0%	5.0%
% of sales	21.4%	21.6%	22.0%	22.1%	22.2%	22.3%	22.3%	22.3%	22.3%	22.3%
Depreciation	82.4	87.5	93.1	97.7	102.6	107.7	113.1	118.8	124.7	130.9
% of sales	9.1%	9.1%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
EBIT	**111.0**	**120.3**	**127.0**	**134.3**	**142.2**	**150.4**	**157.9**	**165.8**	**174.1**	**182.8**
% ch.		**8.4%**	**5.5%**	**5.8%**	**5.8%**	**5.8%**	**5.0%**	**5.0%**	**5.0%**	**5.0%**
Operating margin	**12.3%**	**12.5%**	**12.7%**	**12.8%**	**12.9%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**
Taxes	-22.4	-25.1	-27.2	-34.9	-38.4	-42.1	-45.8	-49.8	-52.2	-54.8
NOPAT	88.5	95.2	99.7	99.4	103.8	108.3	112.1	116.1	121.9	128.0
Operating cash-flow	171.0	182.8	192.8	197.1	206.4	216.0	225.3	234.9	246.6	258.9
Change in WCR	14.7	-10.7	-4.7	-4.9	-5.2	-5.4	-5.7	-6.0	-6.3	-6.6
Capex	-105.0	-110.0	-115.0	-120.8	-126.8	-133.1	-139.8	-146.8	-154.1	-161.8
Free CF	**80.7**	**62.1**	**73.1**	**71.5**	**74.4**	**77.5**	**79.8**	**82.1**	**86.2**	**90.5**
Average	77.8									
FCF Yield	4.7%	3.6%	4.2%	4.1%	4.3%	4.5%	4.6%	4.7%	5.0%	5.2%
WACC	7.4%									
DCF	**77.9**	**55.8**	**61.2**	**56.7**	**55.9**	**55.1**	**53.7**	**52.4**	**52.8**	**53.2**
Growth to perpetuity	4.5%									
Risk-free rate	4.5%									
Market premium	5.0%									
Beta	1.0									
Cost of equity	9.5%									
Cost of debt	5.0%									
Cost of net debt	3.0%									
WACC	7.4%									
Sum of discounted CF	574.6									
Discounted terminal value	1 745.9									
Total	2 320.5									
Net debt	345.3									
Minority interests	97.2									
Other provisions	0.0									
Equity value	**1 878.0**									
Per share	**140.2**									

Our DCF model indicates a target price of € 140. We made conservative assumptions which do not take into account:

- An acceleration in growth stemming from a price effect (as in 2007/08);
- A substantial improvement in margins stemming from the growing share of genetically modified seeds (impact from 2014);
- New acquisitions that would create value.

- **A new target price of € 135 (vs € 116.5)**
- **Numerous catalysts that would lift our TP:**

  1/ continued price effect,

  2/ ramp up of GMO,

  3/ new acquisitions,

  4/ strategic valuation of genetic portfolio

Vilmorin

Per share data	06/03	06/04	06/05	06/06	06/07	06/08e	06/09e	06/10e
Fully-diluted EPS bef. GW and non rec.items (AANP)	2.89	3.34	3.38	4.00	4.09	4.35	4.54	4.95
% change	36.7%	15.7%	1.1%	18.6%	2.3%	6.1%	4.4%	9.1%
Fully-diluted EPS (ANP)	2.43	3.16	3.38	4.58	4.09	4.50	4.86	5.31
% change	16.0%	30.3%	6.8%	35.6%	-10.6%	9.8%	8.1%	9.1%
Dividends	1.27	1.53	1.62	1.62	1.66	1.84	2.04	2.28
Cash flow per share	3.19	3.97	7.49	9.01	9.05	11.07	11.08	11.89
Book value per share	27.98	29.09	31.42	33.74	45.43	48.27	51.28	54.55
No. of outstanding shares (m)	9.567	9.567	9.567	9.567	13.392	13.392	13.392	13.392
Fully-diluted no. of shares (m)	9.567	9.567	9.567	9.567	13.392	13.392	14.350	14.350

Income statement (EUR m)	06/03	06/04	06/05	06/06	06/07	06/08e	06/09e	06/10e
Sales	429.8	488.3	489.4	497.3	938.4	902.0	961.8	999.5
% change	-0.1%	13.6%	0.2%	1.6%	88.7%	-3.9%	6.6%	3.9%
EBITDA	51.8	56.4	81.5	94.1	158.1	193.4	207.9	220.0
as a % of sales	12.1%	11.6%	16.7%	18.9%	16.9%	21.4%	21.6%	22.0%
Underlying operating profit	46.3	50.7	46.5	56.4	80.5	111.0	120.3	127.0
% change	13.2%	9.6%	-8.3%	21.3%	42.8%	37.8%	8.4%	5.5%
as a % of sales	10.8%	10.4%	9.5%	11.3%	8.6%	12.3%	12.5%	12.7%
operating profit (EBIT)	45.8	49.0	43.7	55.5	95.0	111.0	120.3	127.0
as a % of sales	10.7%	10.0%	8.9%	11.2%	10.1%	12.3%	12.5%	12.7%
Net financial income/expense	-5.3	-2.7	2.0	-3.7	-19.8	-24.7	-23.8	-22.2
Earning before Tax	40.5	46.3	45.7	51.8	75.2	86.2	96.5	104.8
% change	27.0%	14.4%	-1.4%	13.3%	45.2%	14.6%	11.9%	8.6%
Income tax	-12.1	-15.8	-11.8	-9.7	-17.2	-22.4	-25.1	-27.2
Equity-accounted income	-0.1	1.1	0.9	1.6	-0.7	0.0	0.0	0.0
Minority interests	-1.2	-1.4	-2.5	-5.4	-2.5	-5.6	-6.3	-6.5
Attr. Net Profit (ANP)	23.2	30.2	32.3	43.8	54.8	60.2	65.1	71.0
Adjusted Attr. Net Profit (EUR m) (AANP)	27.6	31.9	32.3	38.3	54.8	58.2	65.1	71.0
% change	36.7%	15.7%	1.1%	18.6%	43.2%	6.1%	11.8%	9.1%

Cash flow statement (EUR m)	06/03	06/04	06/05	06/06	06/07	06/08e	06/09e	06/10e
Flows from operating activities	12	32	54	75	124	163	148	166
o.w. WCR	-18	-6	-18	-11	3	15	-11	-5
Capital expenditures	-16	-8	-33	-33	-104	-105	-110	-115
Free cash flow	-4	25	21	42	21	58	38	51
investments (net)	0	-26	-4	17	-29	-22	0	0
Flows from investing activities	-16	-33	-37	-16	-132	-127	-110	-115
Dividends	-10	-12	-15	-15	-22	-22	-25	-27
New shareholders' equity	0	0	0	0	241	0	0	0
Flows from financing activities	-10	-12	-15	-15	220	-22	-25	-27
Other Flows	7.3	24.8	-12.9	-34.0	-487.4	-0.1	0.2	0.0
Change in net cash	-7	11	-11	10	-276	13	14	24

Balance sheet (EUR m)	06/03	06/04	06/05	06/06	06/07	06/08e	06/09e	06/10e
Intangible assets	91	117	173	173	661	661	661	661
Tangible fixed assets	55	67	84	91	128	173	196	218
Financial fixed assets	40	20	24	24	54	54	54	54
Working capital req. (WCR)	197	203	173	184	251	236	247	252
Total assets	384	408	453	471	1 094	1 125	1 158	1 184
Shareholders' equity	268	278	301	323	608	646	687	730
Minority interests	19	38	41	48	97	103	109	116
Provisions	17	23	33	31	44	44	44	44
Net debt	80	69	79	69	345	332	318	295
Total liabilities & shareholders' equity	384	408	453	471	1 094	1 125	1 158	1 184

Profitability	06/03	06/04	06/05	06/06	06/07	06/08e	06/09e	06/10e
FCF yield	-1.5%	7.2%	4.6%	7.9%	2.2%	3.4%	2.3%	3.0%
ROCE (before tax)	12.3%	12.8%	10.2%	12.0%	12.1%	10.0%	10.5%	10.8%
ROCE (after tax)	8.7%	8.6%	7.5%	9.8%	9.4%	7.4%	7.8%	8.0%
ROE	10.4%	11.7%	11.2%	12.3%	11.8%	9.3%	9.8%	10.0%
Net Debt / EBITDA	1.5	1.2	1.0	0.7	2.2	1.7	1.5	1.3
EBITDA / interest coverage	9.8	20.9	ns	25.4	8.0	7.8	8.7	9.9