Grammer 06
Seating, systems, and beyond

ANNUAL REPORT

Today more than ever, innovation is a crucial factor in attaining lasting success. Innovation plays a key role in determining the competitive position of a company and thus its market value. At Grammer, we aim for everyone to be on board as we march into the future. To achieve this, we work toward a balance of interests: Our corporate philosophy focuses on customers, investors, and employees alike. We also act with responsibility vis-à-vis the people who live and work near Grammer locations. The many facets of this balance of interests are discussed in the Feature section of this Annual Report.

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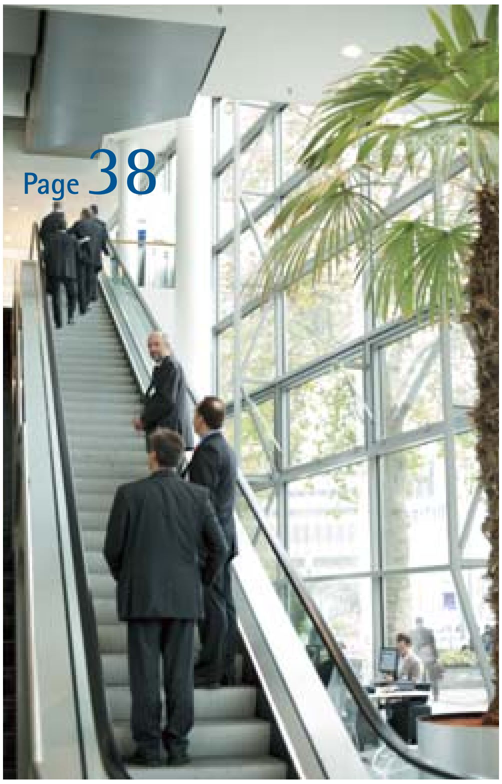


Dear Shareholders, Employees, and Friends of Grammer,

Our enterprise is aimed at achieving profitable growth. Based on this strategic orientation, Grammer enjoyed a successful year in 2006 with increases in both sales and earnings. Group sales increased by EUR 21 million to more than EUR 880 million thanks to contributions from all three of our business segments. Both sales growth and cost optimizations had a positive impact on our return on sales and our earnings trend. Operating profits increased 19% to nearly EUR 39 million, and the EBIT margin rose 4.4% despite increasingly difficult sector conditions such as rising materials costs, a weak U.S. dollar, and devaluations of Eastern European currencies.

We believe that Grammer shareholders should participate in the good business performance of our Company. For this reason, we have again proposed a dividend of EUR 1.00 per share to the Annual Shareholders' Meeting. Based on the annual closing price of Grammer stock, this translates into a dividend yield of 3.9%.

Global expansion

In fiscal 2006, we focused on advancing internationalization with an emphasis on three strategic areas: regional expansion, international customer projects, and product innovations. Using our traditional markets as a base, we are tapping new potential in promising, up-and-coming economies. We invest in the growth markets of tomorrow with the goal of ensuring the long-term success of the Grammer Group. Our expansion strategies do not only involve entering new markets for the purpose of acquiring customers, however. We also follow our existing customers when they set up new operations.

High supplier standards

Our close association with our suppliers makes a key contribution to the innovative strength of the Grammer Group in its worldwide activities. In dealing with our own customers, we place the same high standards on ourselves that we expect from our suppliers – a quality for which we have received repeated awards. For instance, our GRA-MAG 2006 joint venture was honored as a Diamond Supplier by U.S. truck manufacturer International Truck and Engine Corporation, and Grammer do Brazil received the Volkswagen Truck & Bus Suppliers Award from VW Brazil for the third time.

China: our Asian hub

At the end of May 2006, we inaugurated two new plants in the industrial cities of Tianjin and Changchun in China, which is now the world's third-largest automotive market in the world. At both of these locations, Grammer manufactures armrests and headrests for Audi and VW models, and starting in 2007 we will produce center consoles for the VW Passat. We also started production of headrests, door armrests, and center console elements for the BMW 5-series in China in 2006. Moreover, we phased out our South China Seating Systems location in Xiamen and integrated these activities into the Tianjin plant. Our Seating Systems division supplies the entire Asian market from the former Middle Kingdom. For instance, some 40% of the driver seats we manufacture in China are now supplied to Japan and Korea.

The Board of Management

Peter Nagel (60)
Member of the Board of Management since 1989 up to June 30, 2007
Seating Systems Division

Hartmut Müller (44)
Member of the Board of Management since February 1, 2007
Seating Systems Division

Uwe Wöhner (48)
Member of the Board of Management since 2001
Automotive Division
Labor Relations Director

Alois Ponnath (49)
Member of the Board of Management since 2000
Spokesman of the Board of Management since 2006
Central Services

We have included a brief profile of our Chinese location in Tianjin in this annual report. This city of long-established traditions is not only a production site for Grammer, but also the headquarters for all corporate activities on the Asian continent.

Commitment to our domestic locations

Although we are constantly expanding our international presence, we are not neglecting our commitment to our employees in Germany. On March 1, 2006, Grammer signed an agreement with union and employee representatives concerning a plan to optimize personnel costs. The plan entails implementing more flexible working hours, conducting an analysis of administrative and employee functions, and general savings in wage costs. This agreement will result in total cost savings of approximately EUR 40 million by the end of 2010. We will use these savings to invest in new metal processing technologies at our Haselmühl location to enhance the competitive position of this seating plant. >

New customers and projects

Our strategic orientation is aimed at using our established product groups to grow in new markets. In 2006, the good performance of Automotive, our largest business segment, stemmed largely from the strong growth of premium class vehicles. Some 50% of all passenger vehicles manufactured in Germany belong to this category. Our long-standing premium vehicle customers include BMW, Mercedes-Benz, and certain VW models.

We also made good progress in gaining new customers such as Nissan and Mazda. Added to this were new contracts for projects involving U.S. and Chinese models from Ford and General Motors, which also includes Lincoln and Hummer. In addition, General Motors awarded us a contract to develop a center console for GM vehicles in the U.S. and Chinese markets, including mid-sized Buick, Opel, Saab, and Saturn models.

Once again, our Driver Seats segment made the greatest leap in sales and earnings, driven by strong demand for trucks and the stable offroad business, with which we are reinforcing our market leadership in Europe. Every fifth truck and more than one-half of all agricultural machines, construction site machinery, and forklifts in Europe are equipped with Grammer seats. In the U.S., we expanded our market activities in 2006 by adding tractor seats and construction machinery seats to our promising aftermarket business, and increased our reaction time by localizing production.

In the Passenger Seats segment, we pressed ahead with the restructuring measures initiated in the reporting year to achieve an increase in earnings of more than 19%. In the train seat business, Grammer's market share reached approximately 17% in Europe. Our investments in new products and enhanced marketing strategies helped to further improve order levels. We also made advances in improving our cost situation, and are continuing to implement cost optimization measures in the current fiscal year.

Growing by means of innovations

"Seating, systems, and beyond" – The title of this annual report refers to Grammer's systematic expansion of its range of products and competencies. We have always placed great value on innovations. We view our leading-edge technologies and concepts as a key strategic means of advancing the development of the Company. Our new ideas ensure continued growth and secure our technological lead. These ideas have resulted in numerous examples of forward-looking components and systems that establish our claim to technological leadership

Research and development at Grammer have now expanded beyond our domestic borders. In 2006, we opened a development center in Shanghai. This set the stage for additional R&D activities in the Automotive segment in the Asian market.

Groundbreaking car interiors

In the passenger car industry, more than half of all installed parts – or more than two-thirds of all value added – come from parts supply companies. Grammer's groundbreaking innovations in this sector include crash-active headrests, which are increasingly becoming a standard feature for premium vehicles, as well as KiSi®, an integrated child safety seat that is making a major contribution to protecting small passengers.

A standard VW Passat, fitted out by the Grammer Automotive segment as a "concept car," demonstrates the innovative car interior features for added safety and comfort that can be expected in the near future. The concept car incorporates findings in ergonomics research on active sitting along with height-adjustable door armrests and sensor-controlled headrests.

New concept for truck driver cabs

Innovations to secure our technology leadership are also the focus of our Seating Systems division. In the offroad business, for example, our modular, ergonomic Primo driver seat is attracting great attention, as is our highly innovative, electronically controlled active seat for tractors and construction machinery. These seats already fulfill the EU vibration directive, which will not become mandatory until 2011.

In the truck area, we are currently developing a new generation of driver seats. In addition, we presented our innovative MoTIS concept in the fall of 2006 at the IAA commercial vehicles trade fair, together with renowned partners With this “modular truck interior system” Grammer is expanding its product spectrum to include complete truck driver cabs. MoTIS integrates full-fledged living and working areas to enable truckers to make efficient use of their breaks and rest periods without having to rely on highway rest stops. In the coming years, this innovative solution will bring clear advantages in long-distance travel for drivers and transport companies alike.

Seats for all kinds of trains

Our Passenger Seats segment, which is taking on an increasing international orientation, also features numerous innovations. Grammer developments in this segment are also receiving high acclaim on the market. In the train business, for example, in which we have been successfully operating since 1982, we now offer a seat to match every type of train. In September 2006, we presented a new IC 3000 platform for intercity use at the Innotrans trade fair in Berlin. IC 3000 seats are designed as modular system, just like the seats for local and regional transport. Grammer has been exclusively equipping Germany’s high-speed ICE trains since they began running more than 15 years ago. Internationally, our passenger seats are on board in other sprinters too: the Chinese Transrapid, the Saudi Arabian ICE, and the Spanish AVE trains.

Significant value potential

The encouraging development of our Company has also been noted by the equities markets. Grammer stock registered a price increase of approximately 30% in 2006, and was also one of the highest dividend payers in the S-DAX. In view of Grammer’s considerable value potential, the U.K. investment fund EQMC in November 2006 decided to make a long-term commitment to Grammer and acquired 10% of the shares in our Company. The Supervisory Board and Board of Management see this investment as a vote of confidence in the Company as well as a contribution to the sustained independence of the Grammer Group.

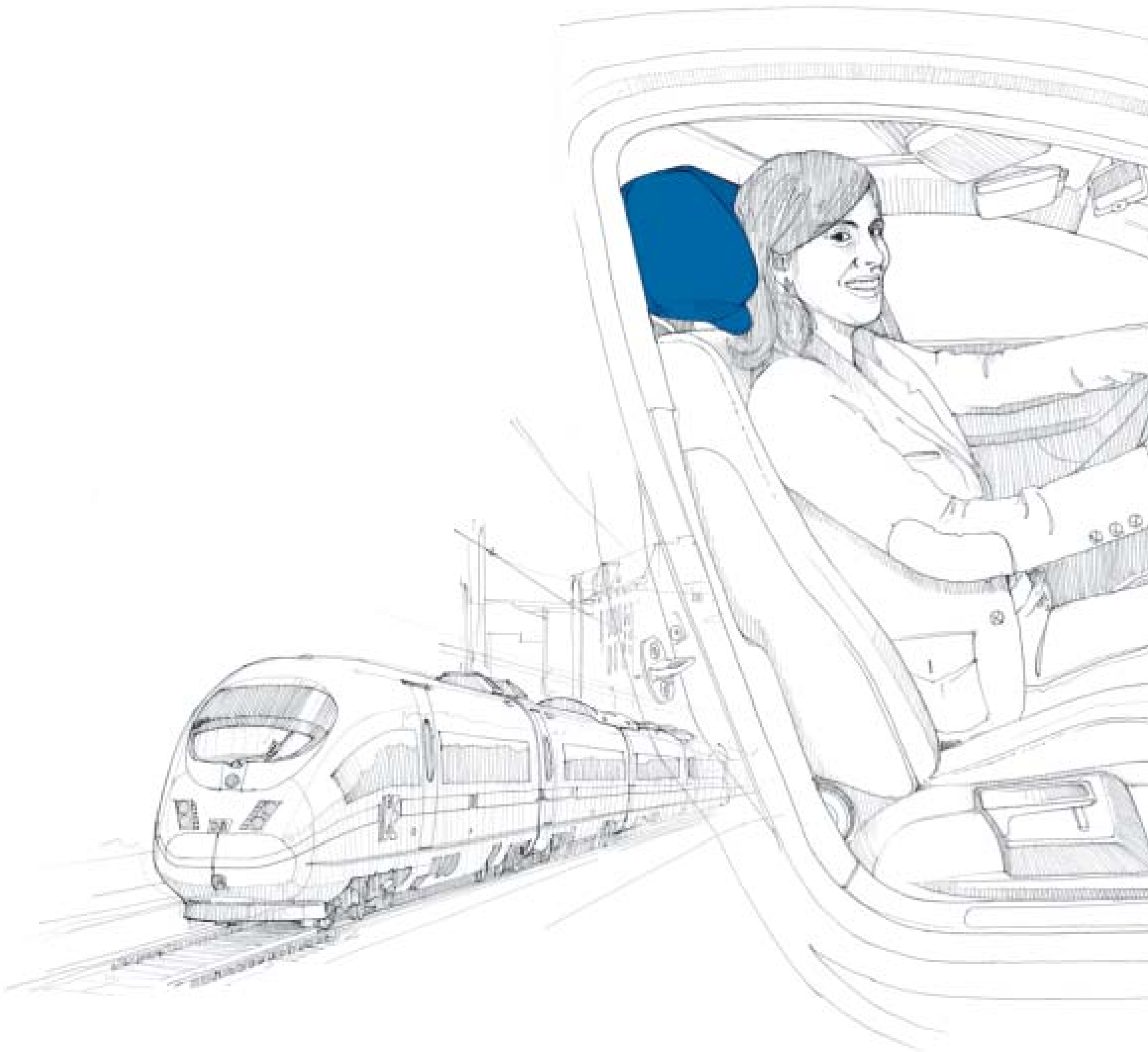
In 2007, we will place equal emphasis on continuing to optimize our global production network and implementing additional measures to increase efficiency. We expect these efforts to pay off in increases of up to 5% in Group sales and net income in the current year.

We would like to thank our customers and shareholders for the confidence they have placed in Grammer AG as well as our employees for their dedicated commitment. In 2007, Grammer will continue actively pursuing activities aimed at mastering future challenges as well.

Grammer AG
The Board of Management

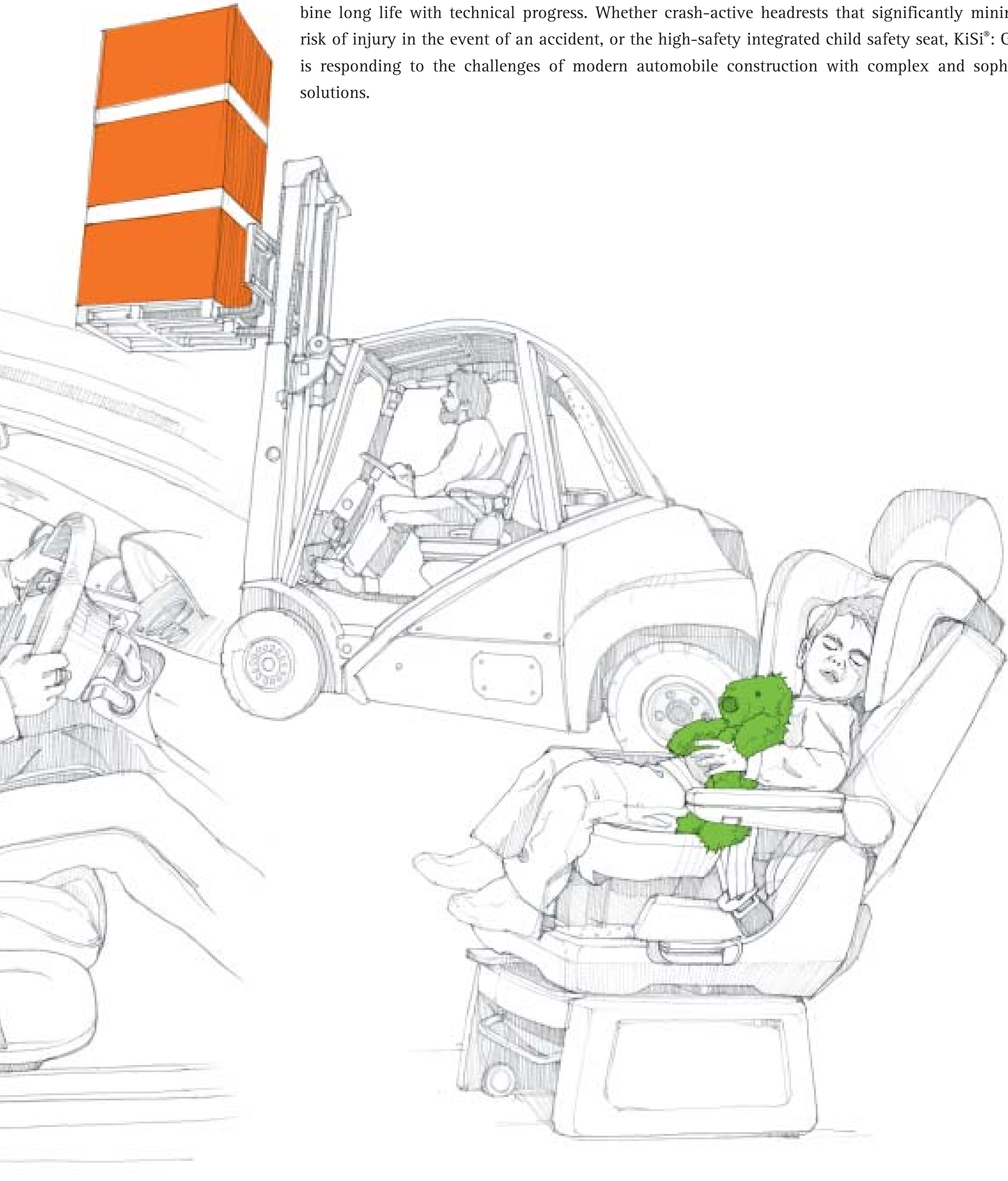
Innovation creates value

The times are changing, and what people want is changing too. To be successful, companies today must be able to respond to evolving demand. Right from the start, Grammar has focused on developing modern, groundbreaking products with the goal of using new ideas to continue growing and to secure a technological lead. This policy has made the Company a trendsetter in the automotive sector. Grammer's customers benefit from the progress made by the Company. They can count on Grammer to pursue new developments with great dedication with the goal of making vehicles even safer and more comfortable.



Automotive – proven solutions

The true quality of innovations is seen where it matters – in everyday life. Cars in Germany drive an average of 12,000 kilometers per year. At an average lifespan of eight years per vehicle, this means that each automotive component must endure great stress. After all, cars are required to provide a high degree of comfort and safety every day. This is why engineers at Grammer develop products that combine long life with technical progress. Whether crash-active headrests that significantly minimize the risk of injury in the event of an accident, or the high-safety integrated child safety seat, KiSi®: Grammer is responding to the challenges of modern automobile construction with complex and sophisticated solutions.

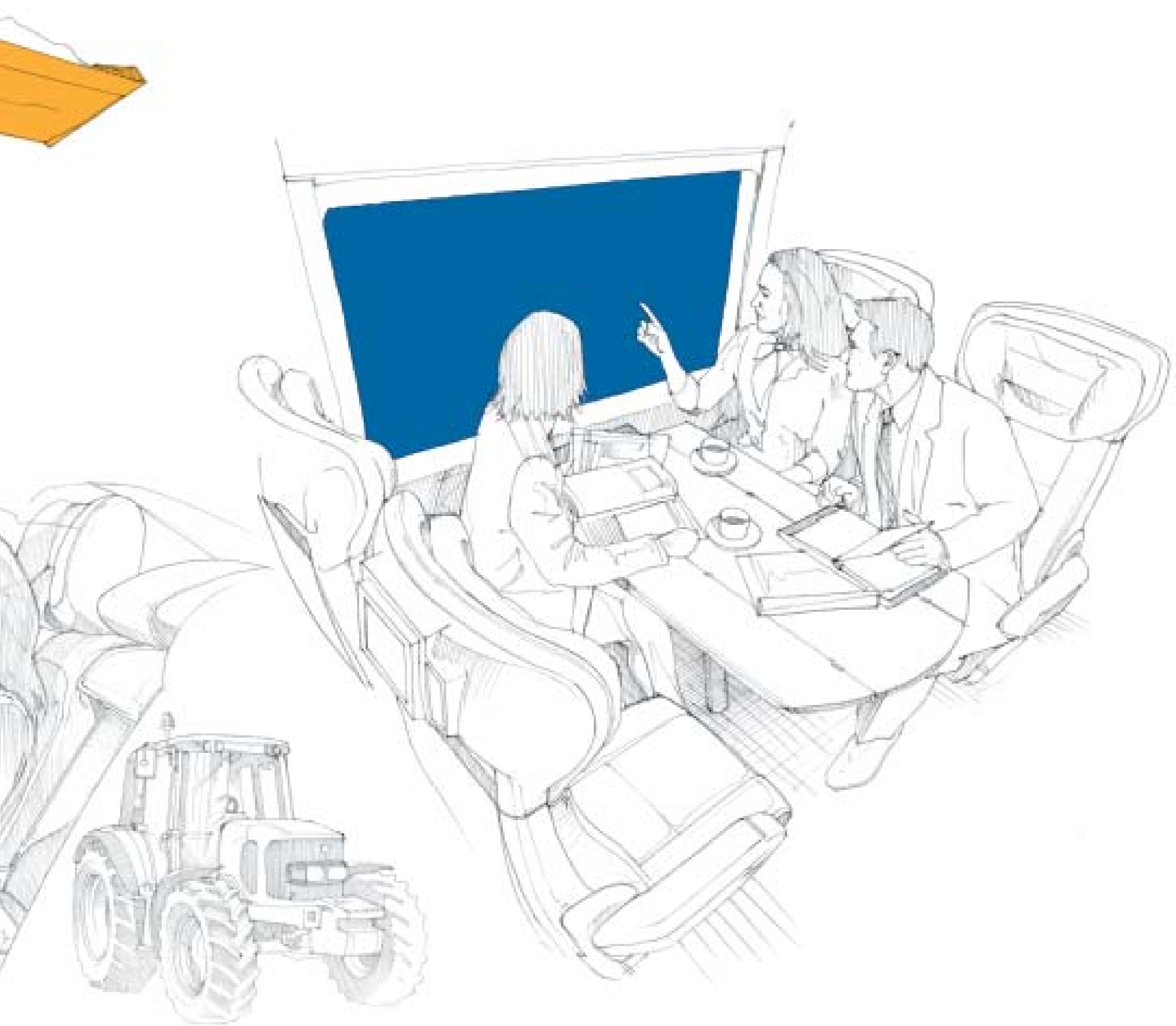


Drivers Seats – a tradition of progress

"If there's a way to do it better … find it." This is how Thomas Alva Edison, U.S. inventor and entrepreneur, describes his maxim of never remaining satisfied with existing conditions, but always reaching for more. This motto is also a part of Grammer's success story. The history of Grammer began more than 50 years ago with the production of cushions for tractor seats. Today, the Grammer Group develops and manufactures complex seating systems for trucks and off-road vehicles. And not only that: Grammer and other creative partners have presented a totally new concept for truck driver cabs in the form of the MoTIS study. The Company is thus continuing on its path of using innovations to be on the leading edge. Just as Thomas Edison said.

Passenger Seats – up-to-date travel

Travel involves setting off for new destinations. Millions of people are on the road every day, both professionally and privately. It's not only important that they reach their destination, but also how they get there. Comfort and safety are key criteria in modern mobility. Grammer has been setting standards for years with its wide range of passenger seats, including seats for trains. To offer maximum seating comfort, all new models incorporate progressive scientific findings from the field of ergonomics.



The wheel of innovation is turning ...

Whether single components or complete systems are called for – the parts supply industry is assuming a greater role in automobile production. Today, more than half of all parts used in automobile construction are not made by the car manufacturer itself, and this trend is on the rise. The growing importance of the parts supply industry means that the value of its innovative powers is also increasing.

Innovative travel:
Grammer concepts for car interiors are setting standards for comfort and safety.

Automobile production is a complicated matter: Customers want attractive models with an elegant design and powerful features. However, they also want a safe and comfortable vehicle incorporating the latest technology. Finally, the car should be economical, affordable, and have low fuel consumption. In response to these stringent demands, the automotive sector is increasingly turning its attention toward new innovations.

This is where the parts supply industry comes into play. In Germany, this industry is already considered one of the most innovative sectors – around one-fifth of all engineers work as automotive parts designers. According to current surveys, the parts supply industry accounts for approximately 70% of the added value of an automobile. This includes not only the manufacture of parts and components, but also research and development. Experts predict that in 2010, parts supply companies will perform approximately half of the development work involved in a new vehicle model. Thus innovations are not only a requirement for winning contracts in the present. They also give suppliers specific competitive advantages for the future by creating unique selling points and advantageous positioning in the automotive market.

Using innovations to generate business advantages

For the reasons described above, Grammer sees innovations as a strategic means for advancing the development of the Company. Uwe Wöhner, head of the Automotive division and Board of Management member, states, “The parts supply industry has become a true innovation driver, one that the automotive sector can no longer do without. Our goal is to improve Grammer’s already successful position in this area even further.

We have good chances: Our innovative features for passenger car interiors have especially good market potential, given that the interior is usually what makes the difference when deciding which car to buy.

Up until now, Grammer has concentrated all of its research and development activities on the German market. Now, however, we are expanding beyond domestic borders. In 2006, Grammer was awarded a contract from General Motors to develop a center console for models for the U.S. and Chinese markets. We are implementing this project in our new development center in Shanghai – the Company’s first development project outside of Germany. With this project, Grammer is documenting its world-class, high-quality standards along with its ambition to use innovations to succeed in the future as well.

An intelligent headrest

Crash-active headrests are among Grammer’s most important innovations in the automotive sector. In a head-on collision, these headrests minimize the danger of cervical spine damage by extending the cushioning by several centimeters within milliseconds. This decreases the distance between the passenger’s head and the headrest, which effectively lessens the impact of the collision. The module uses safety sensors that are already integrated into the vehicle so that few additional costs are incurred. In addition, the modules’ compact structure makes them suitable for nearly all vehicle models.

Grammer broke new ground with this innovation, which is now conquering the market and has been added as a standard feature in the Mercedes E-Class and BMW 7-Series. What is now offered predominantly by premium manufactures as an innovative safety feature could soon be a standard feature in most passenger vehicles, just like ABS or airbags.

The greatest safety for the smallest passengers

Another example of innovation at Grammer is the integrated KiSi® car seat. This child safety seat also makes a crucial contribution to protecting its occupants, since small children are particularly susceptible to injury in the case of accidents. Child safety seats help prevent injury. However, they must be correctly installed and optimally adjusted to the size of the child. KiSi®, which is integrated into the back seat, makes it impossible to install the child safety seat improperly. The seat also “grows” along with its passenger thanks to an adjustable height mechanism offered as a standard feature. Volkswagen customers who order KiSi® appreciate its advantages. For manufacturers, KiSi® is a good argument when talking to safety-conscious families.

All in one – the Concept Car

Grammer innovations are not just progressive, stand-alone systems. They make the vehicle safer and more comfortable on the whole. To demonstrate the technical possibilities, Grammer has equipped a standard VW Passat with all of its new developments. The result is called the Concept Car. This model car provides a look at the car interior of the near future. The innovations integrated into the Concept Car represent a major step for Grammer on its way to technological leadership.

"The commercial vehicle industry has done its homework"

In these times of global goods exchange, trucks are more important then ever. What challenges will the future bring, and how does the commercial vehicles sector plan to meet these challenges? To find out, we spoke with Professor Bernd Gottschalk.

Professor Gottschalk, today more than 70% of all goods in Europe is transported via the highway network. What makes trucks especially suited for the transport of goods?

Trucks are able to meet the demands of modern economies better than any other means of overland transport. They are not bound to timetables or routes, and can make deliveries directly to industrial production lines or goods receipt departments. Trucks are flexible in terms of schedules, and are able to transport even small shipments economically.

No other mode of transport is able to cover ground as quickly and effectively as commercial vehicles can. Goods are delivered right to the end consumer virtually 100% of the time – after all, consumers can hardly be expected to pick up their groceries at the nearest train station or harbor instead of at the supermarket. There's no question about it: Trucks are indispensable when it comes to supplying goods door to door.

Why are trucks accorded so much importance in comparison with transport by rail, sea, or air?

Air and sea transport is of course the method of choice for long-distance overseas transport. However, shipments transported via inland waterways or rail must often undergo complicated bundling processes, which leads to additional costs and time delays. And intra-European rail transport still suffers from problems arising from the tradition of national boundaries. Trucks, however, can cross national frontiers with no problems, as opposed to freight trains, which may encounter difficulties with varying rail widths or technical standards. Incidentally, rail freight operators in Europe have had unlimited access to the railway network only since the start of 2007 – more than a decade after the resolution to liberalize road transportation!

> "No other mode of transport is able to cover ground as quickly and effectively as commercial vehicles can. Goods are delivered right to the end consumer virtually 100% of the time."

The European Union plans to push expansion of railway networks and waterways. Do you believe that this is the right approach?

There's no question that all types of carriers are needed. For this reason, it's still necessary to invest in different transport modes and the related infrastructures. However, funds should be disbursed in line with the realities of the transportation market, with road transportation being allocated a share that reflects its importance. The answer cannot be to simply neglect making investments in road infrastructures in the hopes that this will induce a shift to other modes of transport. Roads are significantly underrepresented in priority projects to expand trans-European transportation networks. Not only is this regrettable, it is also cause for concern with respect to the future viability of Germany as a production location. Political action is called for in this regard.

Number one in transport

- More than 2.5 million trucks were registered in Germany in 2006.
- Each year, German trucks haul freight within Germany with a total weight of more than 2.6 billion tons.
- Trucks transport 72% of all goods shipped by road, rail, or waterways.
- The road network of the Federal Republic of Germany comprises 230,000 kilometers, 12,400 kilometers of which are highways. This makes it one of the most dense road networks in the world.

“We can expect goods traffic in the EU to continue rising.”

The European Union is growing to encompass Eastern European countries. What does this mean for intra-European goods transport? And how do you expect truck traffic to develop over the next five to ten years or so?

We can expect goods traffic in the EU to continue rising. The EU Commission anticipates an average increase of some 2% per year up until 2020. The shares of the individual transport modes in relation to total goods traffic will remain essentially unchanged. However, the growth in overall traffic will bring employment opportunities in the transport and logistics sector – especially in Germany with its central location in the midst of Europe.

The share of trucks in goods transport will continue to increase, especially in the new EU member states in Central and Eastern Europe. However, this is not due to poor transportation planning that has neglected other modes of transport in favor of road transport, as is sometimes claimed. Rather, this reflects the necessary consequences of the process of transforming infrastructures and logistics requirements to meet Western European standards. In 2000, approximately half of all goods were transported by truck in the new member states. This figure can be expected to rise to 70% in the next few years. In Europe as a whole, truck traffic is expected to increase approximately in proportion with overall growth in traffic, with the higher volume mainly consisting of cross-border traffic.

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"There is hardly any sector in which innovations occur as rapidly as here. Commercial vehicles development partners make a crucial contribution to the innovation process."

What challenges will evolve from the rapid increase in goods traffic?

The initial challenge will certainly involve the infrastructure. Investments in road infrastructures must keep step with demand. This has not been the case in Europe in recent years, especially in Germany. Policymakers need to take action here. With tax revenues of more than EUR 50 billion from German road traffic – a mere one-third of which is reinvested in roads – a lack of resources is no excuse.

The second challenge is being met by the commercial vehicle industry, which is continuously working on innovations to make future goods traffic as safe and environmentally friendly as possible, for instance by developing new commercial vehicles concepts.

The third challenge is to improve links between the various types of carriers, including optimizing interfaces and increasing efficiency. The growth in goods traffic will only be manageable if all transport modes are used as optimally as possible in accordance with their relevant benefits.

Are any approaches to meeting these challenges currently under discussion? If so, are there any solutions that you feel should be given priority?

At the 2006 International Motor Show (IAA) in Hanover, the German commercial vehicles industry presented the EuroCombi, a concept designed to significantly improve goods transport efficiency by increasing freight volumes and/or weight. Several German states have already started testing this approach. The goal is to transport more goods while reducing the amount of traffic. Two EuroCombis can transport the same volume of goods as three traditional trucks, which reduces pollutant emissions and fuel usage along with the need for drivers.

Efficiency gains can also be achieved by increasing the use of telematics systems, which lower operating costs while optimizing fleet utilization. However, there is still no way to around the fact that investments in infrastructures must be increased.

The current situation affects truck drivers in particular. Time and cost pressure, accidents due to fatigue: The romanticized trucker image has suffered somewhat. How can job conditions be improved for drivers?

The commercial vehicle sector has done its homework. It has been working for years to create the best possible job conditions for drivers. Ventilation, heating, and air conditioning systems have been improved along with ergonomically optimized seats and better cab suspension. Modern driver assistance systems such as lane keeping systems, braking assistance, innovative mirror systems, and obstacle avoidance assistance help drivers perform their jobs and make a significant contribution to traffic safety. Another important task is to decrease road congestion by improving the infrastructure. And finally, the drivers themselves can help by adhering to prescribed maximum driving times and requirements for rest periods.

How do innovations in the German parts supply industry affect all of this?

There is hardly any sector in which innovations occur as rapidly as here. Commercial vehicles development partners make a crucial contribution to the innovation process. Parts suppliers for commercial vehicles employ approximately 86,000 persons; added to this are the more than 36,000 employees in the trailer and superstructure segments. This puts the share of parts suppliers at more than 60% of total employees in the commercial vehicle industry. Whether security equipment such as the driver assistance systems mentioned or new emission technologies, commercial vehicles are leading the way in many areas. This technological "pole position" has been achieved by manufacturers and suppliers together. And they will also work together to defend this leading position against the competition.

More than 200,000 people are currently employed in the commercial vehicles industry in Germany. What steps need to be taken to ensure that this major economic sector will remain successful in the long term?

The commercial vehicle industry has proven to be a strong employment driver in Germany, with the number of employees rising by approximately 10% in the past ten years. Approximately every fourth employee in the automotive industry works in the commercial vehicles sector. If those persons whose jobs depend indirectly on commercial vehicles are added to this figure, it can be said that trucks create jobs for 2.5 million people in Germany.

To ensure that the advantages of this mode of transport can continue to unfold in the future as well, no more fiscal impediments should be imposed on trucks. Making transportation more expensive – by means of highway tolls, for example – does not diminish road traffic, but merely adds to fiscal coffers. An objective assessment of the economic, ecological, and logistical aspects of modern commercial vehicles shows that there is no need to fear for the future of the 18-wheelers.

Prof. Dr. Bernd Gottschalk studied economics in Hamburg, Saarbrücken and Stanford. Between 1972 and 1996, he worked in various divisions of Daimler Benz AG, most recently as a member of the management board. Subsequently, Dr. Gottschalk spent 10 years as President of the German Automotive Industry Association (VDA). Dr. Gottschalk is currently President of the International Organization of Motor Vehicles Manufacturers (OICA) and Vice President of the Federation of German Industries (BDI). Since 1999, he has been an honorary professor at Zwickau College in western Saxony.

> "Commercial vehicles are leading the way in many areas. This technological 'pole position' has been achieved by manufacturers and suppliers together."

"Our intention was to extend the comfort and quality of life of the RV sector to trucks as well."

Prof. Johann Tomforde, Managing Director of hymer idc Innovations- und Design-Center GmbH KG

"With MoTIS, we are expanding our expertise to the area of truck interiors."

Peter Nagel, head of the Seating Systems division of Grammer AG until June 2007

MoTIS – at home on the road

More traffic, increasing time pressure, growing safety risks: Truck drivers are currently faced with ever greater demands. In response to these rising challenges, Grammer, along with renowned industry partners, has developed a new concept. In focus: cabs in which truck drivers can feel at home, no matter where they are in the world.

Wednesday night, 10:00 p.m.: Peter Fritz has been on the road for almost 9 hours; his daily driving allowance is nearly up. The trucker has to stop for the day. He's ready to eat, have a shower, and get some sleep. He drives into the next highway rest stop. However, as is so often the case, all of the parking spaces are taken. Nothing is available at the second or third rest areas either. This situation is repeated daily on Europe's highways.

More than 1.2 million trucks are on the road today in Germany alone. Highway rest stops only have 35,000 truck parking spaces to offer. The relation of trucks to parking spaces will become even more unbalanced in the years to come due to the rapid increase in long-distance truck traffic. What is the solution for these and other urgent questions faced by drivers and freight forwarding companies?

The "human drivestyle" concept

The MoTIS consortium offered an answer to this question at the 2006 IAA Commercial Vehicles trade fair in Hanover in the form of the MoTIS concept study. The "modular truck interior system" is in principle a truck driver's cab, but it differs fundamentally from its counterparts. With MoTIS, truckers have a nearly fully equipped home when they're on the road. For the first time, full-fledged living and working areas have been integrated into 18-wheelers. For example, a complete kitchen module can be installed – with freezer, ceramic stovetop, oven, and microwave. The bed is comfortable and offers excellent support for a restful night. The concept also includes a separate bathroom, including a modern corner shower. And don't forget the office in the front section of the driver's cab, equipped with numerous storage compartments and a pull-out laptop surface.

Quality of life as a safety factor

Compact and functional during the drive, MoTIS offers a home-like atmosphere during breaks. No part of the elaborate construction is superfluous. The system is designed for the sole purpose of relieving the strain on the driver and thus ensuring greater road safety, since long, irregularly structured working days are extremely hard on drivers.

MoTIS enables truckers to make efficient use of their breaks and rest periods without being dependent on highway rest areas. This means that drivers are well-rested when they're on the road, lowering the risk of accidents.

Freight forwarding companies also benefit

The MoTIS concept offers not only numerous advantages for drivers, but also for truck owners. Truckers are able to use alternative parking spaces, which reduces long and costly waiting times. The freight reaches its destination on time. Moreover, valuable loads are always under supervision, since the driver remains in the truck. This benefit is especially appreciated in countries with high crime rates.

MoTIS also addresses the needs of truck manufacturers, freight forwarding companies, and logistics companies. Target group studies have shown that there is already great interest in this development in the market. The variable construction principle is especially advantageous: MoTIS can be installed in the vehicles either at the factory or afterwards.

Grammer is leading the way in implementation

These innovative driver's cabs were developed by a strong team: A total of nine companies brought their expertise to bear in carrying out this complex project. The group was led by Grammer, and hymer idc, an innovation and design center in Pforzheimer, developed and designed the overall concept.

MoTIS represents another major step forward for Grammer's truck business. For one thing, Grammer supplies all driver and passenger seats for this promising system. In addition, Grammer's role in initializing and coordinating the project is helping the Company to expand its range of competencies to include complete truck interiors. The truck business is already one of the growth drivers of the internationally operating vehicle supplier. Innovations such as MoTIS will ensure that this remains so in the future.

For additional information on the MoTIS concept study, please see www.motis.org.

The one who travels,

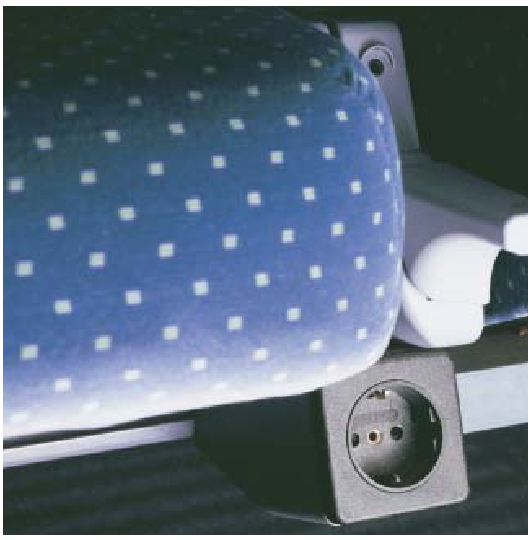
... has something to tell. What tales could an armchair on a train tell of the dozens of passengers it has accompanied on their journeys day in, day out. Why wonder? Why not let a seat on the ICE tell you for itself of its adventures across Germany!

07:29 a.m., Cologne – Stuttgart

"Chilling in the train." That's how Karina Meyer, a mechanical engineering student, describes her weekend trips home from college. She spends most of the ride reading. And when she's had enough of her novel, she just relaxes. She makes herself comfortable, reclines my seat and puts her feet up on my footrest. Then she plumps my soft pillow, closes her eyes, and dreams of the cute guy she met in math class.

06:27 p.m., Nuremberg – München

The Lieb family was shopping. Laura is happy; she was allowed to pick out a new book. Her father is reading it to her. Later, she listens to the children's radio via my audio connection while her mother orders cake from the service personnel. Laura obviously liked the cake – it's all over her mouth and hands. There's no avoiding crumbs landing on my seat. But that doesn't matter. The spots can be removed easily.



11:35 a.m., Cologne – Frankfurt

Today is his first divisional conference. I've seldom seen Heinz Kohl, a frequent guest of mine, so excited. He pulls his laptop nervously out of its leather carrying case. Should he go through the figures one last time? He puts the laptop on the table and plugs it in. That's right – what matters is the equipment, for us seats too! He boots up and starts typing rapidly. His face relaxes, and then he closes the laptop. He still has a few undisturbed minutes left.

01:36 p.m., Hanover – Kiel

Now I'm in the very front of the train, serving as the seat for locomotive driver Matthias Schmidt. As far as ergonomics go, I have just as much to offer as my colleagues in first class. An aching back is unknown to Matthias. He is comfortable and can give his full attention to what's important – bringing his passengers safely to their destination.

Klaus Peter Busch makes himself comfortable. No wonder – I offer the ideal place to browse through a magazine or two. What's he reading? Oh, the train magazine. I've heard there's an article about me in there ...

10:58 a.m., Leipzig – Berlin

Eva and Kai Uhl are going to visit Grandma. Uncle Peter's supposed to be watching the children, but he's fallen asleep behind his paper, and the kids are all over the place. But we seats are a sturdy bunch. Later, Kai turns the television on. No sign of boredom here!

11:30 p.m., It's quitting time, fortunately just for the day.

Modern all the way

If you decide to go by train, there's a good chance that you'll be traveling on a Grammer seat. The company boarded the train business in 1982. Today it has established its reputation as a manufacturer of high-quality innovative passenger seating systems. The full-line product portfolio extends to models and systems for every type of train and route. Whether you're going shopping with the underground, taking the Intercity to meet a business partner or going on vacation with the ICE, you'll find an appropriate seat type from Grammer.

Round trip to the sun

A new era dawned for rail travel in Germany when the Deutsche Bahn inaugurated scheduled service with the Intercity Express (ICE) in June of 1991. Seating by Grammer has been on board right from the start. Grammer, located in Amberg, is the exclusive supplier of seating systems for Germany's faster train.

It's been a few years since then and the third generation of ICE is already plying the rails. But even today, the first-generation trains are still transporting thousands of passengers reliably – day after day. The 59 trains of the ICE 1 fleet have covered some 400 million kilometers since they were placed into service, a stretch of nearly three times the distance from the earth to the sun. Talk about wear and tear!

Non-stop use on the rapid trains eventually did lead to signs of wear. Moreover, the interiors, which stem from the 80s, no longer reflected today's design and engineering trends. Therefore, the Deutsche Bahn decided to give the ageing trains a thorough makeover.

New seats for the flagship

Grammer will deliver some 42,000 by 2008. There are 197 leather armchairs in the First Class and up to 506 velour armchairs in the Second Class on every train. One train after the other is being refurbished at the ICE works in Nuremberg which poses a great logistical challenge because nothing can interfere with the Deutsche Bahn's tightly organized schedules.

What can passengers expect when they board the newly refurbished track stars in white? Well for one thing, a new dimension in comfort. Multiple settings make it possible to adjust the seatback, the headrest or the footrest individually. Tray tables and a series of outlets let you transform the compartment into a rolling office at the flick of the wrist. There's entertainment, too with audio and video interfaces available. High-quality materials and superior workmanship round off the picture of exclusivity.

The dominant color in the dining cars of the ICE-1 fleet is red, reminiscent of the flair of American diners. Eight tables for two and eight tables for four will allow passengers to dine in style.

High-tech for international high-speed trains

If you're traveling outside of Germany, there's no need to do without the standard you are accustomed to. Whether you're taking the Chinese Transrapid, the Saudi-Arabian ICE or the Spanish AVE, they all feature Grammer seats on their high-speed trains. Seats made by Grammer have been on board the 350-kilometer-per-hour AVE Velaro trains plying the 625-kilometer route between Madrid and Barcelona since 2006, for example.

The Fascination of speed

- The Japanese Shinkansen is considered the world's first high-speed train. It began operating during the 1964 summer Olympics and hit 210 kph.
- The French TGV (train à grande vitesse) has been running since 1981. In 1990 it established a world record at 515.3 kph!
- Germany inaugurated ICE service on May 29, 1991. ICE trains are the backbone of long-distance service and can hit up to 300 kph on the stretch from Cologne to Frankfurt.
- Britain's High-Speed-Train (HST) is the world's fastest diesel.

Well-protected against spraypaint and knives

You'll find Grammer not only in all kinds of high-speed trains but also in reliable local and regional rail services. The new IC 3000 platform will make intercity travel a pleasure. It was unveiled in September of 2006 at the Innotrans in Berlin, one of the biggest railroad trade shows. What's special about the IC 3000 seat is its modular construction. Rail operators can configure the system to best suit their needs.

Grammer also offers modular seats for local and regional trains such as the Deutsche Bahn's double-decker cars. Local transport, especially underground and metropolitan trains, place extreme demands on seating materials. The constant turnover of passengers and increased vandalism take their toll. That's why Grammer has come up with a special design that can really take it. It can withstand nearly any attack from a knife, scissors or other sharp object with hardly a trace. Should a seat be indeed damaged, it can be replaced easily, thus reducing downtime and cutting costs.

Focus on safety

Safety gets top priority at Grammer. As in the automobile industry, every model has to submit to extensive tests in our own competence center before it goes into production. The seats are subjected to extreme heat and extreme cold and have to undergo crash simulations. The latter, by the way, is an absolute must for exporting to Great Britain. Of course, each seat also meets all national fire regulations.

Besides safety, the environmental impact of our products plays a role as well. Every component we use must be recyclable. Grammer is also using more and more lightweight materials in an effort to reduce the train's weight, thereby cutting fuel costs.

A perfect fit every time

Grammer seats are designed ultimately for the people who use them. Maximum comfort and intuitive operation are therefore major design principles. For years, Grammer has closely cooperated with leading scientists researching the human spine. They come together to discuss their latest findings at the "Ergomechanics" congresses that we hold regularly in Amberg. These findings then flow directly into our product development. A case in point is our D3000 Ergomechanics train seats and the Intercity Ergomechanics that contain spine- supporting seatbacks. After all, the passenger shouldn't fit the seat; the seat should fit the passenger.

Purchasing à la carte

In business, the same principles often apply as in cooking: To produce excellent results, you need first-class ingredients. Or to put it another way, the quality of the supplies always determines the quality of the finished products. This is why effective supplier management is an essential part of corporate success.

Constructive dialog, close cooperation, and joint research and development are all essential ingredients for achieving marketable innovations within a company. These approaches also benefit communication with production partners and suppliers. For this reason, supplier management at Grammer is much more than just processing orders and payments.

As early as 2004, Grammer established an integrated system in order to steadily increase supplier performance with long-term effect. This system is intended to guarantee the best possible goods and services procurement, and focuses on quality control along with finding ways to cut costs and create innovative solutions to optimize processes. To achieve innovations, processes and workflows must be continually improved. Grammer aims to manufacture the best products possible and achieve the highest possible degree of delivery reliability for the Company's customers.

Partners in improving competitive position

At Grammer, procurement activities have a fixed premise: Suppliers should not only be sources of parts and components, but also active partners in product development. This makes it possible to optimize process workflows and eliminate sources of errors. Martin Austermann, head of corporate purchasing at Grammer, describes the procedure: “We ask our suppliers to contribute ideas for innovations and to cooperate with Grammer in developing competitive advantages.” The goal is to work together with all supplier firms to take advantage of all available potential, a process that will ultimately benefit both sides.

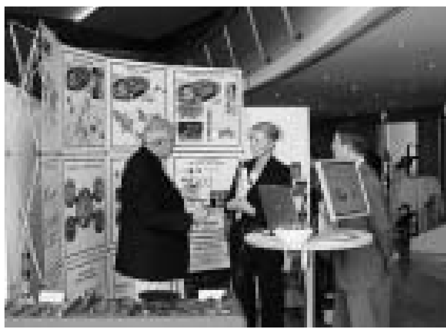
One example of successful cooperation is the increased application of information technology. With the help of optimized data exchange and digital networking, purchasing processes can be made even more effective than before.

Forum for progress

In order promote interaction with suppliers and developers as well as production and logistics experts, Grammer initiated the International Supplier Conference. The Conference took place for the second time in Amberg on May 15-16, 2006. This year's motto was “Innovation,” a fitting topic. The goal of the Conference is to create a personal communication platform for representatives of the Grammer Group's global network of companies and suppliers. The agenda included a display of ground-breaking new developments along with numerous lectures and discussion panels.

“At Grammer, we regard our suppliers as partners. Together, we can be sure to achieve our goals.”

Martin Austermann, head of corporate purchasing



"Grammer's Supplier Award is evidence of our good relationship with our suppliers."

Dr. Andreas Rinsdorf, managing director of Mubea Tellerfedern und Spannelemente GmbH

Recipe for joint success

Grammer also presented its 2006 Supplier Award at the supplier conference. A total of five companies received awards for outstanding achievements in quality, cost management, logistics, and innovation.

The Mubea Group was one of the prizewinners. This company is the world market leader in the development and manufacture of springs and lightweight products. Since 1994, the Mubea Group has been supplying Grammer with metal frames for headrests. Thanks to the close cooperation between the two companies, it was possible to reduce the weight of the frames from 3 to 5 kilos to the current 1.2 to 2 kilos per vehicle.

This weight savings helps reduce vehicle fuel consumption, which benefits car owners. Dr. Andreas Rinsdorf, Managing Director of Mubea Tellerfedern und Spannelemente GmbH explains the innovation involved: "The frames are no longer made of solid metal, but of thin-walled tubes in combination with lightweight construction methods.

Major awards for Grammer achievements

The high standards that Grammer places on its suppliers are fulfilled by the Company as well. The Grammer Group has been selected for awards in the parts supply industry multiple times. For instance, Grammer do Brasil Ltda. received the "Volkswagen Truck & Bus Suppliers Award" for the third time in a row in 2006. Grammer's Brazilian subsidiary has been the exclusive supplier of truck and bus seats for VW for nearly 10 years. The product range extends from compact passenger seats to complex driver seat systems, for example for the new heavy-duty truck constellation developed especially for the South American market. The award from VW was given in recognition of the development and quality of Grammer products. Criteria such as delivery reliability and scope of service were also considered.

Grammer received another prize from U.S. truck manufacturer International Truck and Engine Corporation, which recognized the Company as a "Diamond Supplier" for 2006. As with the "Volkswagen Truck & Bus Suppliers Award," this accolade honors Grammer's high level of commitment, excellent products, and outstanding service.

Recipient of multiple awards: The team at Grammer do Brasil is a reliable partner for VW in South America's largest country.

Great achievements are the products of many minds

In the team sport of rowing, it's important that everyone in the boat work together effectively. If all team members give their best effort in harmony with the others, the group will succeed. The development of complex products is similar. Here as well, what counts is working together to advance innovations.

It started with an idea – drivers of forklift trucks and construction equipment should not have to dispense with optimum seating comfort, even in their cramped working quarters. This was the start of a new, innovative drivers' seat. The preliminary design developed into a forward-looking concept, and from this concept came a product: the Primo. As with all great achievements, the Primo – known in-house as MSG 65 – was the result of intensive teamwork. A group of engineers and product developers worked together for many years to make this ambitious project a reality.

Thorough advance testing

During the conception phase, Grammer engineers conducted surveys of all key customers in Germany, Japan, France, and the U.S. "It quickly became apparent that what we needed was to develop a product to suit extremely varying needs. We had to construct a seat that would meet a variety of market and customer demands while maintaining Grammer's high standards," recalls Richard Ott, product developer and head of the Primo project team. For this reason, extensive surveys were carried out in all target markets to determine customer needs, and benchmark studies were also conducted. The ideas and requirements stated in the survey were taken into consideration right from the start of the design phase. This enabled Grammer to bring a seat to series production that is geared toward market demands and customer wishes alike.

"It's important to think beyond the boundaries of your own department." Josef Kohl, Engineer and Developer (Preliminary Development) *(far left)*

"Joint development work has expanded our horizons. We've learned to appreciate other points of view and have benefited from alternative approaches in our own areas."
Rudolf Kastner, Engineer and Developer (New Product Development) *(above left)*

"Experience, creativity, and vision are key qualifications for work on a development team." Richard Ott, Mechanical Engineering Technician and Developer (Preliminary Development) *(above right)*

Efficiency through close cooperation

The development process was characterized by close cooperation between all participating engineers from the various departments. "We wanted to get the Primo on the market quickly. To save time, we developed the individual components of the seats in parallel. Whether wiring elements or suspension elements – each engineer was responsible for one component," explains engineer Siegfried Baier.

The group of developers worked closely together to make sure that the individual parts would fit together seamlessly. "Teamwork and interlocking communications were the key to our success," according to Rudolf Kastner, who designed the cushioned sections. Regular meetings of all team members ensured that everyone was kept up to date. If a certain team member was having trouble making progress, joint brainstorming proved to be an excellent method for finding a solution, with everyone contributing their specific expertise.

"This achievement resulted from the productive interaction of all concerned."

Nick Haller, Mechanical Engineering Technician and Designer (New Product Development) *(below)*

"An interdisciplinary method is indispensable to creating good products."

Holger Raum, Engineer and Designer (New Product Development) *(below left)*

A seat to top all others

The engineers were clear on one thing from the start: The new seat should incorporate state-of-the-art technical and ergonomic features. They also wanted to design the final product such that it could be offered at a competitive price. "Our formula was maximum function at minimum expense," stated product developer Holger Raum to sum up the high standards.

The Primo is in fact a seat boasting numerous unique innovative features. One of these is the asymmetrical backrest, which offers the driver extensive freedom of movement and optimum support when driving in reverse – a frequent operation for forklift trucks and construction machinery. Back-friendly seating is one of the Primo's main characteristics. This seat is the only one in its class to feature lumbar support for lower back protection.

One of our most significant innovations is the low profile air suspension seat, available as MSG 75 and designed to reduce jolts and shakes for optimum driver comfort. Since this seat is used for compact vehicles, the suspension system must take up as little space as possible. "We have designed the lowest profile full suspension system currently on the market," summarizes engineer Josef Kohl.

In order to create a technological lead that will last into the future, the development team at Grammer did not only consider today's requirements. They also took into account the challenges of tomorrow. Design engineer Nick Haller states: "Grammer's Primo seat already fulfills EU Directive 2002/44/EC on the exposure of workers to vibration risks, which will not become mandatory until 2011." These and other technological advances made in developing the Primo are protected by international patents. Year after year, Grammer registers numerous patents developed in connection with other projects too – in 2006, for instance, for designing an innovative inclination adjusting mechanism for vehicle seats.

"When developing a new product, the major tasks require intensive and creative cooperation with other divisions."

Wolfgang Beier, Mechanical Engineering Technician and Designer (New Product Development) *(above right)*

"The positive response from our customers shows that this was the right way to go."

Siegfried Bayer, Technical Business Administrator, Project Head (not pictured)

A team effort

When asked to sum up the project, the opinion of the Grammer employees involved is unanimous. "It was a long and sometimes complicated process," says Richard Ott, "but the final product shows that it was worth it." Wolfgang Beier adds: "The Primo is the result of good teamwork. Each one of us contributed to its success." Just like in team sports.

Training today assures success tomorrow

Innovations call for motivated, qualified employees. These employees help the company to move forward each day. Farsighted training for good junior employees ensures that the company will continue advancing.

To guarantee the success of training, outside factors such as demographic transformation must also be considered. Birthrates are falling, and people are living longer. This is changing the age structure of the population in Germany and many other industrial nations.

From the point of view of companies, these changes especially affect human resources. Employees, especially qualified employees, will be scarce in the future. Today, there are still nearly 42 million people of working age in Germany. According to projections, this figure could drop to under 30 million by 2050 – a decline of nearly 30%. The number of qualified workers is also decreasing. Current estimates forecast that the number of men and women with college degrees or certification as a master craftsman could decline by nearly one-fifth in this time frame.

How to solve this urgent problem

Although the demographic shift is still in the initial stages, the first negative effects are already being felt. In spite of the high unemployment rate, it can already be difficult to find qualified employees, especially outside of the major urban centers.

What can companies do to meet this challenge? Grammer's approach is to pursue a far-sighted personnel policy consisting primarily of promoting talent from the Companies own ranks, a traditional strength of Grammer. For more than 40 years, specialist training has been an integral part of human resource development at Grammer.

Training pays off all over the world

The advantage of this strategy is clear: Grammer ties qualified employees to the Company at an early stage in their careers, and these employees help improve Grammer's competitive position over time. Whether in Mexico, the Czech Republic, Italy, or China: Future specialists are needed everywhere. As Grammer is growing internationally, junior staff training takes place all over the world. The entire Company benefits from this cultural variety.

Grammer adheres to global standards in its international training programs. This makes it possible to guarantee uniform quality levels for all products, regardless of production location. Our training programs have also been integrated into the corporate-wide "20 keys" program to additionally promote ongoing improvements.

20 steps to success

Originally developed by Iwao Kobayashi in Japan, the "20 keys" method focuses on improving production processes and thus ultimately increasing profits. The special feature of this method is its orientation toward people as the main impetus behind all forward progress in a company. Comprehensive employee training is one of the most important of the 20 keys. >

"The first-class training I am receiving is laying the foundation for my future career advancement. In addition, dealing with my colleagues has improved my selfconfidence tremendously."

Andreas Weiß,
Industrial mechanic apprentice in Kümmersbruck

"Grammer offers excellent perspectives."

Sonja Ludwig,
Technical drawing apprentice in Kümmersbruck

The program involves all employees, from the board of management to company trainees. It stimulates employees to work towards greater achievements, leads to better identification with the company, and furthers the process of change. Finally, "20 keys" increases the motivation of all participants, which is another major reason for Grammer's high level of quality worldwide.

Productive employees immediately after training

Right from the start, trainees familiarize themselves with internal mechanisms and processes and acquire in-depth knowledge of products and corporate philosophy. This is a successful strategy, as confirmed by the trainees themselves. "I benefit from learning about development and production as a whole, and not just about certain elements. This also enables us to work well as a team right from the start," says Bruno Folgari Carboni, a future product engineer in Brazil.

Using the knowledge acquired, junior staff can make a direct contribution to the success of the company immediately after completing training. This is not necessarily a given for employees hired from external sources. Such employees must first undergo an extensive and cost-intensive process of learning about company processes before they can make an effective contribution. In addition, there is a certain risk that employees trained outside of the company will not be given the right jobs to match their abilities. Company-trained employees, on the other hand, are able to demonstrate their capabilities and talents during their training.

“I now work and think much more team-oriented than before. That has affected my private life too.”

Matthias Groher,
Industrial business management trainee

And what do the trainees themselves say? Many appreciate the quality of instruction at Grammer, especially the high proportion of practical training and the quality of the teachers. Emel Torbali, for example, is a young trainee in the human resources department in Bursa, Turkey: “I was very happy to have been offered a position at Grammer after finishing school! My friends envy this opportunity to work in a company that offers such good training.” Andreas Weiss, a future industrial mechanic in Kümmersbruck, agrees: “The first- class training I am receiving is laying the foundation for my future career advancement. In addition, dealing with my colleagues has improved my self-confidence tremendously. I am an integral part of the team, and the work I do is appreciated.

Attracting high school students to Grammer

As with college graduates, Grammer does not wait for applications from high school graduates, but approaches potential candidates proactively. One method is the job fairs organized by Grammer employees at schools. The Company introduces its products – for example via live video stream – and informs prospective applicants of job opportunities and the variety of professions that can be learned at Grammer. Interested students can get to know the Company from the inside on project days to gain a more comprehensive impression.

Young people who are starting their careers at Grammer get together at the “forum,” a training and continuing education center in Haselmühl near Amberg. This center is an important source of inspiration for trainees, and acts as a network for all activities in the area of personnel development.

One of many examples

Matthias Groher also began his career at the “forum.” Since September 2006, he has been in training to become an industrial business management assistant. His current job is in personnel administration. “My duties include handling employee concerns and the related administrative tasks,” he says. “After this, I will work in the sales, purchasing, marketing, accounting, and logistics departments.

He is enjoying his training, in part thanks for the many aspects of business he is becoming acquainted with. “Price negotiations, customer service, and marketing. Drafting budgets, procuring materials, and don’t forget planning and organization! As you see, a wide spectrum.” When asked whether his time at Grammer has changed him personally as well, Matthias Groher responds: “I now work and think much more team-oriented than before. That has affected my private life too.” Would he recommend starting a training program at Grammer? “Definitely!”

When talking among themselves, the young trainees frequently mention their good future prospects. “Grammer offers excellent perspectives,” explains Sonja Ludwig. She is learning technical drawing in Kümmersbruck. Erick Binder, a collegue in Atibaia, Brazil, agrees: “I want to stay with Grammer even after I’ve completed training, because this is a company that doesn’t just think about now, but has a vision for the future.”

1 1992: In the office **2** 1984: First speech addressing the works meeting **3** 1994: Receiving the Quality Award from customer Massey-Ferguson **4** 2001: Inauguration of the Competence Center **5** 1997: Agritechnika, Hanover **6** 1994: “FIZ-Meile BZW”/Munich; First Forklift Symposium **7** 1993: Truck Grand Prix, Nürburgring **8** 2006: Introducing MoTIS at the IAA Hanover
9 2006: Plant inauguration in China **10** 1989: First meeting with global executives

Full speed ahead

Full of enthusiasm, with a new vision always in the making, but also tough and unafraid to act: Peter Nagel has been helping Grammer achieve new goals day after day for nearly a quarter of a century. His success has been considerable. He has acquired numerous key customers, established new production facilities all over the world, and initiated innovations that have given the Company a technological edge. Peter Nagel will be leaving the Company in June 2007. However, he's certainly not headed for retirement.

Peter Nagel's career at Grammer began in 1983, when he was "discovered" by Georg Grammer during a visit to Tokyo. Impressed by Peter Nagel's talents and skills, the founder of Grammer brought the adventurous engineer back to Amberg. Peter Nagel was shortly appointed Managing Director, and he and his team were chiefly responsible for sales. He has always been involved in several projects at once with great enthusiasm, and his duties have expanded rapidly along with the recognition he has earned for his accomplishments.

In 1989, Grammer went public and Peter Nagel became a member of the Board of Management. He has been a Board member ever since, for a whole 18 years! Whether components for passenger cars or trucks, bus, and train seats: Peter Nagel has been the impetus behind much of that which has given Grammer its excellent reputation.

Pioneer and passionate salesman

Peter Nagel, who hails from the Rhineland area of Germany and is celebrating his 60th birthday in 2007, is always looking ahead. Innovation and progress is his forte. His motto for employees and all others: "Go ahead and take care of the tomorrow's issues, and everything else will fall into place."

Peter Nagel's penchant for all things new has benefited Grammer products as well as helping to establish the current corporate divisions. In what was most likely his greatest professional coup, he won the first contract to supply seats for the new ICE trains at the end of the 1980s in Munich.

Grammer thereupon established a brand new segment – the train business. Peter Nagel also played a crucial role in initiating the Automotive business at Grammer, which is today the Company's largest division.

In addition to sales activities, Peter Nagel has been involved in the "ergomechanics" Conference dealing with spine research and the innovative advancement of the Seating Systems division, both of which are fields of particular interest to him. As a forward-looking realist, Peter Nagel has made a substantial contribution to the Company's leading-edge position in these areas too.

Around the world for Grammer

Peter Nagel travels all over the world, just like his mentor, Georg Grammer. Having a notably cosmopolitan touch himself, Peter Nagel has played a major role in the internationalization of the Company. He has traveled to countries all over the globe on Grammer's behalf, and accepted seats on executive bodies on three continents.

An eye to the future

And what about Peter Nagel, the person? He has remained true to himself despite his successes: No-nonsense and down-to-earth, but with a real human touch. The people he has worked with testify to this. "His team stands behind him 100%." "A team maker whose technical knowledge is top class." "There's a lot more to him behind the hard exterior." "We can tell that he's proud of what we do." And: "He's leaving everything in tip-top shape." All of these words of appreciation can be heard frequently.

Beyond his professional life, Peter Nagel's passion extends to fast cars and motorcycle racing. His driving style is a sign of his ambition: He likes to drive fast to reach distant destinations quickly. It's nevertheless questionable if he'll have more time for motor sports in the future. As co-initiator of the MoTIS design study, he will most likely continue helping to shape the future of Grammer.

Hartmut Müller takes the wheel

Since February 1, 2007, Hartmut Müller, 44, has held the position of Board of Management member responsible for the Seating Systems division. Mr. Müller began his career as a mechanical engineer at a subsidiary of Continental AG, where he occupied various positions until becoming a member of management in 1994. He gathered international experience in France and by managing a worldwide product market segment. From 2002 to 2006, Mr. Müller was General Manager for Northern and Eastern Europe in the Climate Control division of the French automotive parts supplier, Valeo. Mr. Müller will utilize his many years of experience to further develop the growth strategy of the Seating Systems division and to increase the division's international orientation.

The Renaissance of Dividend Securities

For years, they were not given much attention on the fast-paced stock exchange floor. Today, however many investors are rediscovering the appeal of dividend securities. Both institutional and private investors have for some time now been taking advantage of the opportunity to combine the upward price potential of stocks with the yields offered by dividends – an investment strategy with many advantages.

Price gains or dividends? The strict distinction between performance stocks on the one hand and dividend payers on the other is disintegration. An either-or situation is turning into an opportunity to enjoy the advantages of both worlds. It's no wonder, for a closer look shows that dividends and price potential can in fact go together.

Dividends push up yields

History has shown that the prices of high-dividend stocks fluctuate less than stocks from companies that pay few or no dividends over long periods of time. Low price fluctuation significantly reduces the investment risk for shareholders. Since regular dividends supply substantial added income, dividend payers make up a large part of the total returns of long-term investments in particular. Profits from share transactions only make up approximately half of the payout, as studies have shown.

Safety net for difficult times

The return to dividend stocks began when the stock market bubble burst at the start of the milleneum. This is an indication of an addition strength of this investment form: In times of market uncertainty, dividend stocks are a way to protect your investment. As opposed to non-dividend payers, they provide income that can compensate for possible price declines.

Always looking at the overall picture

Dividend yield alone should not be the only investment criterion, however. There are a number of other factors to consider when deciding which stocks to include in a portfolio. Experts advise investors to always take other factors into account along with dividend yield and to inform themselves in detail of the company's business situation and future perspectives. After all, these factors affect not only share price. They also decide whether a company will be able to pay dividends to its shareholders on a sustained basis.

Record dividend payouts

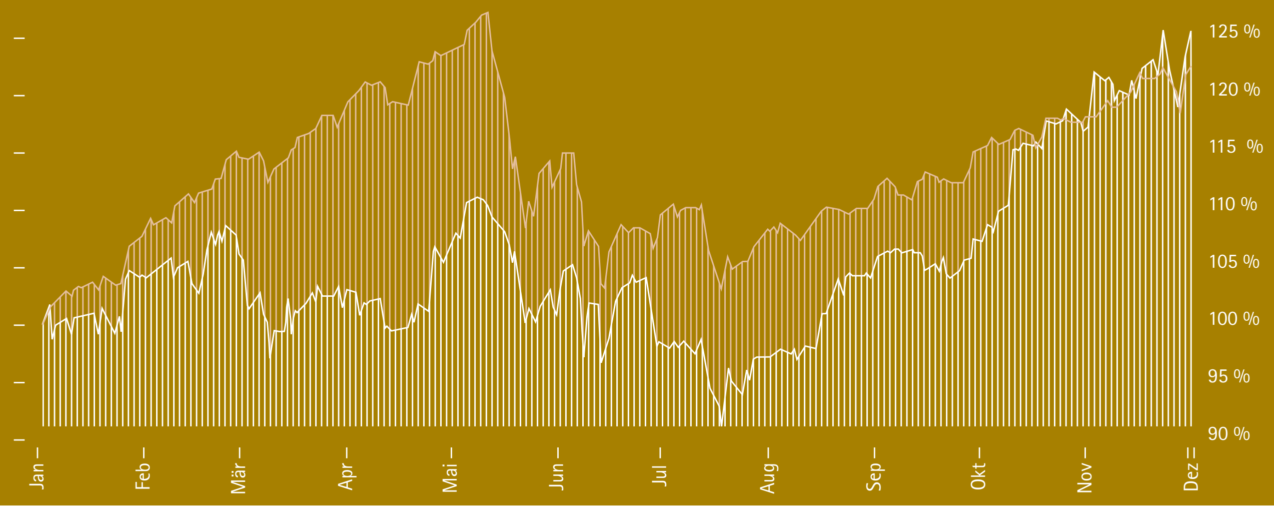
Many companies have recognized this new current of thought and are offering their shareholders good dividends. This trend is also evident in the DAX: Germany's 30 largest blue chips will pay dividends totaling more than EUR 22 billion for fiscal 2006 – a record in the history of the index. According to the Hamburg weekly "Die Zeit," this is a positive sign because "companies that pass on a good part of their earnings to shareholders show a high level of capital discipline."

Grammer also wants to position its stock as a solid dividend payer, a goal in which the corporate philosophy plays a crucial role. "Grammer places great value on a balance of interests," explains Alois Ponnath, CFO and Spokesman for the Board of Management. "For this reason alone, it's important to us to pursue a shareholder-friendly dividend policy."

Last year, the company paid a dividend of EUR 1.00 per share, which is equivalent to a return in excess of 5% based on the year-end closing price for the previous year. This makes Grammer stock one of the highest dividend payers in the SDAX, in addition to the share price increase of approximately 30%! For fiscal 2006, it will be recommended to the Annual Shareholders' Meeting to again pay a dividend of EUR 1.00 per share. This computes into an attractive yield of 3.9% on the basis on the year-end closing price.

A balanced relationship is of prime importance

From the Company's point of view, there are two sides to paying dividends: Shareholders' interests in earning a return on their shares are offset by the necessity to keep financial resources available to enable additional growth. Money paid out in dividends might later be lacking when it comes time to make investments. To avoid this problem, experts suggest calculating dividend payments very carefully. Grammer agrees with this view: On the basis of the dividend proposal to be made to the 2007 Annual Shareholders' Meeting, the Company's dividend ratio would equal just over half of the distributable



profits. “With this ratio, our investments in the future are secured,” according to Alois Ponnath.

Market experts do not expect the renaissance enjoyed by dividend securities to abate in the near future. They say that when chosen carefully, dividend stocks are a type of investment that is able to produce real long-term value growth. As the investor journal “Euro am Sonntag” commented, “On an international comparison, Germany still has room to expand when it comes to dividend policy.”

Stock chart: Grammer stock and SDAX

Grammer AG no-par-value bearer shares

SDax Performance Index

Performance of Grammer stock vs. the SDAX from January 1 to December 31, 2006

How high should dividends be, and what are the future prospects for stocks with high dividend payments? These and other questions were posed to Dr. Jens Ehrhardt, founder and CEO of Dr. Jens Ehrhardt Kapital AG

Dr. Ehrhardt, the ratio of dividend payout to earnings varies from company to company. What is an appropriate dividend ratio, in your opinion?

One rule of thumb is that companies should not appropriate more than half of their profits for dividend payouts. Exceptions can be made, however, for instance in cases where the management wants to maintain an aspect of dividend continuity over a certain period of time. There are other accepted special cases, such as when a company wants to distribute special dividends to its shareholders.

Numerous analysts and fund managers believe that the topic of dividends could develop into a major point of discussion on stock exchanges in the medium term. How do you see this?

From a long-term perspective, dividend ratios are certainly an important component of the overall return on equities investments. However, the attractiveness of a dividend ratio also depends, of course, on yield trends on the bond markets in addition to the earnings situation and dividend distribution policy of the company in question.

Of all the investment alternatives, investing in equities still offers the best risk-reward profile at present. Attractive, sustainable dividend yields can optimize returns in this investment category even more. For this reason, I believe that dividend yields will continue to be a topic of discussion in the financial community in the medium to long term. This is, incidentally, an interesting development in light of the fact that at the turn of the millennium, hardly any investors took this subject seriously.

Established in 1974, **Dr. Jens Ehrhardt Kapital AG** is now one of the leading independent asset management firms in the German-speaking world. In 2003, the company set up the “DJE – Dividende & Substanz P” fund, which invests heavily in good dividend payers.

Facts, facts, and more facts
A typical day in investor relations

Presentations, roadshows, analyst conferences, one-on-ones and much more – good IR work involves many aspects. What they have in common are the basic goals: providing up-to-date facts, transparent reporting, and trustworthy information. How is investor relations work carried out in the field? A report from the German Equity Forum.






"Investor relations means keeping in contact with all capital market players simultaneously."

Alois Ponnath, CFO and Spokesman for the Board of Management of Grammer AG




Shortly before 10:00 a.m. on a cloudy autumn day. Alois Ponnath and Alexander Mitsch are hurrying into the entrance hall of the Frankfurt Congress Center. Despite the large crowd, the two men stand out. That may be because of the headrest that Alexander Mitsch, Head of Investor Relations and Public Relations at Grammer, is carrying under his arm. With its dark red leather upholstery, the headrest is a spot of color in the sea of dark suits.

The two managers are greeted again and again before they even reach the registration desk. It's no wonder. Alois Ponnath and Alexander Mitsch head up Investor Relations at Grammer. They are acquainted with many of the more than 4,000 analysts, investment fund managers, journalists, and bankers attending the German Equity Forum. The Equity Forum is the largest event of its kind in Germany. The scene is accordingly lively. Visitors are streaming towards escalators, conference rooms, and information stands.

Demonstrating opportunities, describing potential, awakening interest

Alois Ponnath and Alexander Mitsch are heading up to the first floor, to the "London" conference room. Grammer's presentation starts promptly at 10:30. Nearly all of the rows of seats are occupied – not all of the 350 companies holding presentations encounter such a high level of interest. After a brief greeting by the moderator, an associate director of UniCredit, Alois Ponnath gets right to the point: Why does it make sense to invest in Grammer? Like all speakers, Mr. Ponnath only has 40 minutes to convince his audience of the advantages of Grammer.

The CFO begins his presentation: Charts show the corporate structure, product portfolio, and key figures. Mr. Ponnath holds the presentation in English – the financial community is international, and Grammer stock has long been of interest outside of Germany.

Some arguments are easy to grasp

While Mr. Ponnath is talking about innovations and market opportunities, the headrest is passed from hand to hand through the auditorium – visible evidence of the CFO's arguments. It's unusual to bring products along to the Equity Forum; Grammer's crash-active headrest may be the only one. The attention the headrest attracts is accordingly high. Everyone gives the Grammer product with its progressive technology more than just a cursory glance.

The last chart – the questions begin. The members of the audience want to know more about ROCE, Grammer's market position in Europe, and the Company's customer structure in the automotive segment. In the meantime, the next company is already waiting outside the open door of the "London" room. As they walk back toward the foyer, Alois Ponnath and Alexander Mitsch are still answering questions. The greet acquaintances, make new contacts, and hand out business cards.

Discussions on all levels

A quick cup of coffee and Alois Ponnath and Alexander Mitsch are on their way again. One floor higher, they have exchanged the conference room for an office, the large audience for a dialog partner. One-on-one talks are now on the agenda. The situation is familiar. These types of discussions have a clear structure, both here at the Equity Forum and elsewhere at roadshows. The crash-active headrest demonstrates what Alois Ponnath means when he talks about innovative strength.

Mission on an international playing field

Investor relations mainly seems to involve questions and answer sessions. "Sharing information and holding discussions are the foundation of investor relations work, for analysts and journalists as well as institutional or private investors," confirms Alois Ponnath. For him, IR is a job for top management. Maintaining international contacts are a part of his work. Just yesterday, the two Grammer executives presented their company in Paris, and Copenhagen is on the agenda for next week.

At around 4:00 p.m., Alois Ponnath and Alexander Mitsch are back in the entry hall with their headrest in hand – again moving at a fast pace. Now they're heading for Amberg, to a desk at Grammer headquarters. Was the visit to the Equity Forum worth it? "Absolutely," says Alexander Mitsch.

Meeting point for the financial scene

The German Equity Forum is Europe's biggest equity capital financing platform for mid-sized firms. It is held twice annually in Frankfurt/Main. The Equity Forum, which celebrated its 10-year anniversary in 2006, is organized by Deutsche Börse AG and KfW Mittelstandsbank.

Sound figures are what's important

It's not easy to select the right stock from among the vast array of available equities. Stock analysts can offer valuable advice. But how do they actually compile their reports in the stock market jungle? We asked Nathan Kohlhoff, analyst at Unicredit Markets and Investment Banking (HVB).

Mr. Kohlhoff, financial analyses are usually quite complex and very detailed. What sources of information do analysts use in their research?

We analysts obtain our information from a variety of sources to help us come up with a coherent, plausible assessment. In addition to the figures published by the companies themselves, we include information from competitors in our calculations for comparison purposes. We also evaluate reports from news agencies, data from industry associations and statistics offices, and articles in the business and trade press.

One thing always applies, however: Analysts must adhere to strict requirements when evaluating companies. While we are allowed to draw a conclusion on the basis of information gained from various sources, we may not use information that is not available to the public which has a direct bearing on share price.

Analyses of stocks and companies are regarded as an important source of information for investors. Which criteria do analysts utilize in preparing their evaluations?

We have a number of tools to choose from. These can vary greatly depending on the sector and the analyst's preferences. Generally, analysts compare the key figures of a company – which we call multipliers – with those of other companies with similar profiles. For Grammer, this means that comparisons are made with other automotive parts supply companies.

At the Unicredit Group, we often combine this approach with an analysis of economic profit. The goal is to find out whether a company is able to cover its capital costs. You can also put it this way: We look to see whether the company creates value for its investors or not.

Grammer has rising operating profit, low capital costs, a high return on capital employed (ROCE), and positive cash flow. How important are these figures for the company valuation?

All of these figures are in fact extremely important for determining fair enterprise value. The crucial factor, however, is the extent to which these levels can be maintained and improved upon. We always consider the future development of a company in our assessment.

To what extent do the analyses go beyond the hard figures to include so-called soft factors, such as product quality?

Soft factor are certainly significant indicators. Product quality is just one factor. Others involve management competence and market position, including pricing possibilities, cost leadership and entry barriers. Innovative power and shareholder structure are of course also brought into the equation.

Which criteria must be fulfilled before you give a "buy" recommendation?

Rating criteria can vary considerably from analyst institute to institute. Unicredit Markets and Investment Banking defines its criteria very precisely. A "buy" recommendation is only given if the share price potential of the stock exceeds the equity capital costs of the company. To determine the price potential, we calculate the difference between the target price and the current price of the stock.

Are there certain features that all outperformers have in common?

The term "outperformer" indicates that a stock is performing significantly better than others. Whether or not a stock turns into an outperformer depends in part on the price trend of comparable stocks. The performance of the stock itself is affected by numerous factors, some of which are beyond the influence of the company. Although there's no set rule of thumb, in our experience those companies that generate increasing value or rising profits often become outperformers.

Private investors often assess equities in accordance with different criteria than institutional investors. Are there any fundamental aspects that private investors should always consider?

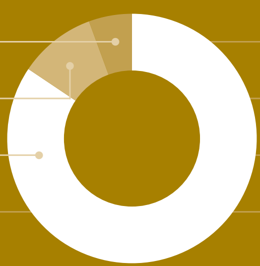
Most of the time – though not always – institutional investors assess a stock based on its price growth relative to a benchmark index. Private investors, on the other hand, tend to look more at the price gain in absolute terms. Private investors often have different investment targets and, as a result, different risk tolerance levels, as do institutional investors. However, private and institutional investors alike should aim for a diversified investment portfolio in order to achieve an acceptable risk-reward profile.

Nathan Kohlhoff, chartered financial analyst, is a stock analyst in the field of automobiles and parts at Unicredit Markets and Investment Banking (HVB). Born in Atlanta, Georgia (USA), Mr. Kohlhoff came to Germany in 1999 as a Fulbright scholar. After completing a training program in investment banking, he worked as an automotive analyst at Bankgesellschaft Berlin AG. Since August 2006, Mr. Kohlhoff has been analyzing stocks in the automobile and parts supply industry for the Unicredit Group.

Key figures for Grammer stock

Shareholder structure of Grammer AG as of December 31, 2006

in percent



Axxion	5.6*
EQMC	10.0*
Freefloat	84.4
	100.0

* According to information from the investment fund company

	2006	2005
Annual high (EUR)	26.49	29.39
Annual low (EUR)	17.70	16.00
Year-end closing price (EUR)	25.79	19.67
Price-earnings ratio	12	12
Number of shares (Dec. 31)	10,495,159	10,495,159
Market capitalization in EUR million (Dec. 31)	270.7	206.4
Dividend (EUR)	1.00*	1.00
Dividend yield in relation to year-end closing price*	3.9%*	5.1%

* Based on the dividend proposed to the 2007 Annual Shareholders' Meeting

1:0 for the Youth Soccer Cup

The 2006 Soccer World Cup proved it again: People of all ages and nationalities are fascinated by the game of soccer. We at Grammer have known this for years. The Grammer Youth Soccer Cup is among the highlights of our regional event calendar.

The goalkeeper throws the ball into play. A defender takes control of the ball and darts to the right. Two opposing players try to gain possession, but No. 9 evades them with a skillful heel lift. She quickly passes the ball to the next team member, who shoots it straight up through the middle, where a striker is ready to put the ball into the net. But the opposing goaltender knocks him off his feet with a body blow. The referee blows his whistle – penalty shot! The crowd goes wild!

The fans cheering on the teams have a special relationship to the players. They are the brothers and sisters, mothers and fathers of the athletes on the field. They are applauding the ball artists, who average four years of age and are the youngest participants in Grammer's 2007 Youth Soccer Cup.

Working with young people in a fun-filled environment

The Grammer Youth Soccer Cup is more than a sports competition aimed at winning trophies. The original idea was to create a sporting event in which children and youths of all ages could participate. The goal was to make a valuable contribution to youth promotion in Grammer's local community. The project began in 2003, and has become more attractive and popular each year.

Why use sports events to promote the development of young people? Not only are sports extremely popular, they also teach important values such as team spirit and fair play. "Soccer is able to bring people together and awake their enthusiasm more than nearly any other type of sport. The Grammer Youth Soccer Cup offers a unique platform for this in our region and beyond," comments Axel von Bauer. He is the Vice President of Supply Chain Management at Grammer AG, President of the FC Rieden soccer club, and also Chairman of Vilstal e.V., a youth promotion group. Mr. von Bauer thus represents both of the initiators of the Youth Cup – Grammer and Vilstal.

Full house – on the field and in the stands

The soccer cup is held at Kreuther Ostbayerhalle. Artificial turf was installed at the stadium in 2007. Grammer helped sponsor the new playing surface, which contributed right from the start to improving the quality of the event and attracting additional high-quality participants.

The games are played on two small playing fields simultaneously. This year's Grammer Cup was held from January 12 to 14 with a total of 96 teams participating – more than ever before. The participants included youth teams from the region along with players from prominent professional soccer teams such as FC Bayern München and 1st FC Nürnberg. More than 2,000 spectators attended the matches.

Taking on social responsibility: By promoting youth sports in our region, Grammer is making an active contribution to sustainable local development.

Proceeds support a good cause

The adversaries on the field traditionally include two teams from Jura-Werstätten e.V. Amberg Sulzbach. This association provides jobs for some 400 physically or mentally handicapped people. This is what's special about the Grammer Soccer Cup: We never lose sight of our social responsibility. Part of the proceeds goes to youth associations in the region in the form of equipment donations. Balls and matching uniforms help support youth groups, even after the final whistle has blown in the last match.

Grammer employees closely involved

The soccer cup is important to Grammer employees too. This is partly due to the two exhibition games involving numerous colleagues. Employees at the Immenstetten and Haselmühl locations play against each other, and selected management members compete against regional politicians. The soccer cup offers all employees the opportunity to identify with "their" team.

The conclusion at the end of the three-day event: The public is just as enthusiastic as the players. The Youth Soccer Cup is a significant part of Grammer's social commitment as well as additional evidence of to the importance of community involvement.

Grammer locations

The World of Grammer

A total of 28 locations in 17 countries: Grammer's worldwide production, distribution, and logistics network represents one of our major strengths. The Company's presence on three continents ensures the greatest possible customer proximity, and our global network provides substantial cost benefits. However, international activities mean international responsibilities. Part Three of our series of articles reporting on Grammer locations discusses our commitment in the areas in which Grammer has put down roots. This time, we focus on Most and Tianjin.

Grammer companies

GRAMMER AG
Amberg, Germany

Grammer Automotive GmbH
Amberg, Langenfeld, Germany

Grammer System GmbH
Amberg, Emden, Zwickau, Germany

Grammer Automotive Metall GmbH
Ebermannsdorf, Germany

Grammer Wackersdorf GmbH
Wackersdorf, Germany

Grammer Automotive Slovenija d.o.o.
Slovenij Gradec, Slovenia

Grammer Industries Inc.
Piedmont, SC, USA

Grammer Kaliningrad GmbH
Kaliningrad, Russia

Grammer CZ s.r.o.
Most, Tachov, Dolni Kralovice, Horazdovice, Czech Republic

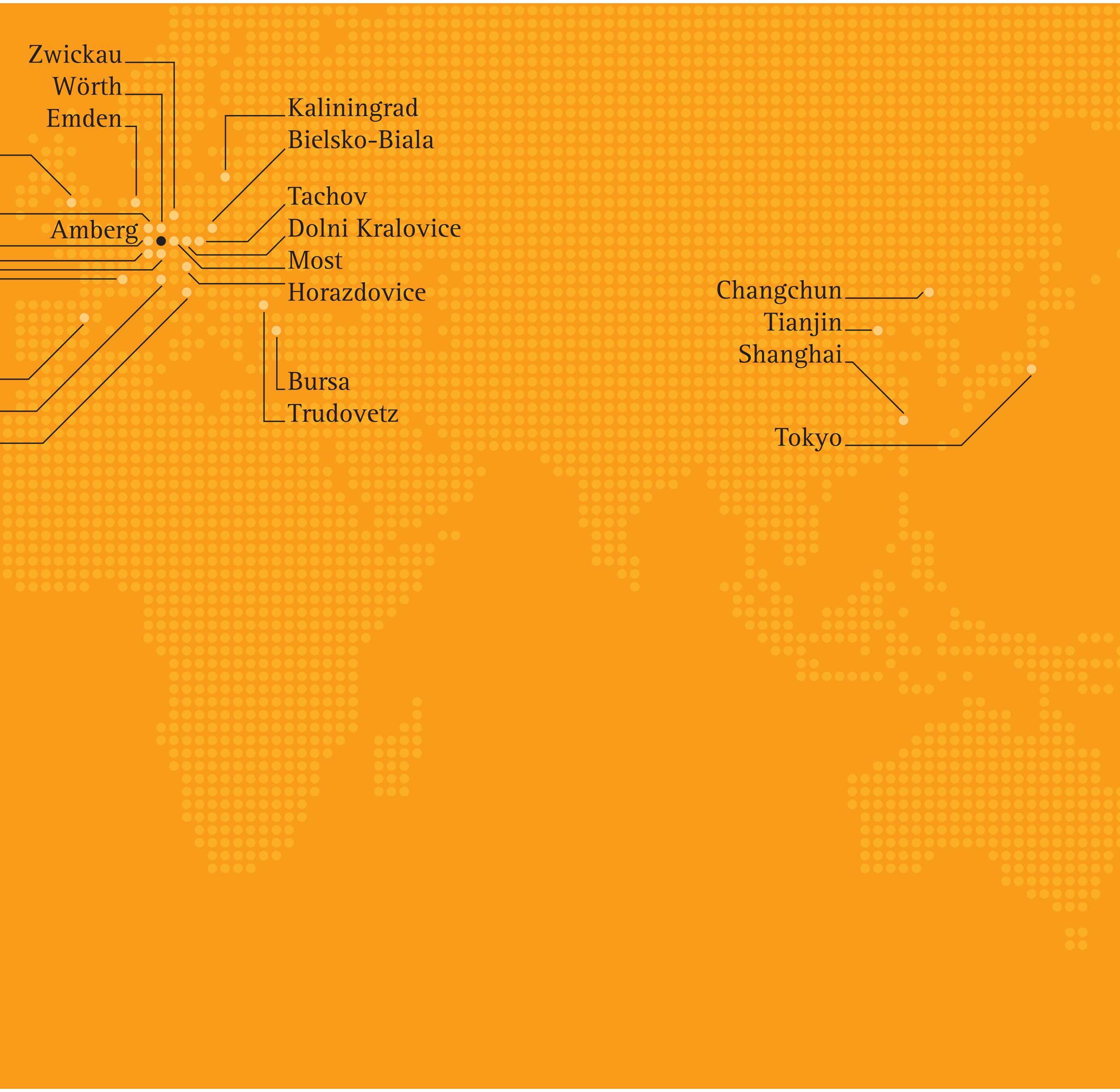
Grammer Automotive Española S.A.
Olérdola, Spain

Grammer Automotive Polska SP. Z.o.o.
Bielsko-Biala, Poland

Grammer Automotive Puebla, S.A. de C.V.
Tetla, Mexico

GrammPlast GmbH
Amberg, Zwickau, Germany

Grammer Mexicana, S.A. de C.V.
Querétaro, Mexico



Grammer
Koltuk Sistemleri Sanayi
ve Ticaret A.S.
Bursa, Turkey

GRA-MAG Truck
Interior Systems LLC
Novi, MI, USA

Grammer
Japan Ltd.
Tokyo, Japan

Grammer
do Brasil Ltda.
Atibaia, Brasil

Grammer Inc.
Hudson, USA

Grammer France SARL
Limonest, France

Grammer
Argentina S.A.
San Martin, Argentina

Grammer
Seating Systems Ltd.
Bloxwich, United Kingdom

Grammer S.r.l.
Monsano, Italy

Grammer Interior
(Tianjin) Co. Ltd.
Tianjin, China

Grammer Interior
(Changchun) Co. Ltd.
Changchun, China

Grammer Wörth GmbH
Wörth, Germany

Grammer AD
Trudovetz, Bulgaria

"Most has always been an industrial city. In the past, we lived mainly from mining. Now, however, more and more production and service operations are coming to Most."

From Most

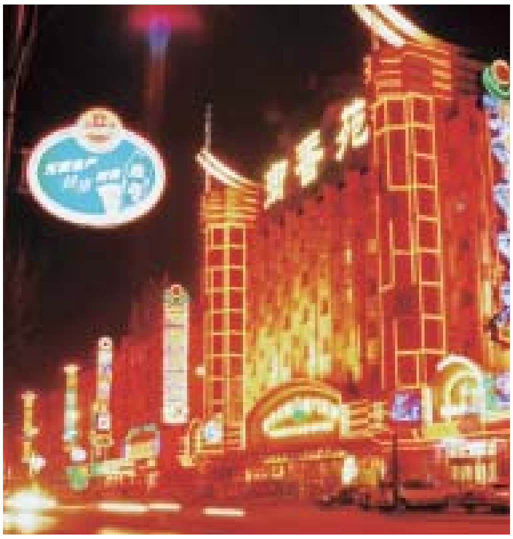
"Tianjin's long tradition as a trading center is particularly visible at the city's ancient markets."

to Tianjin

Magnificent Buddhist temples, French chateaus, and Bavarian villas – all of these can be found in the Chinese city of Tianjin. In the Czech Republic, the town of Most presents a different picture: Coal mining and industry dominate the scene here. Grammer has established itself in both of these worlds. The Grammer Group has found a home in China's major commercial metropolis as well as the Czech mining town.

“There is evidence everywhere that the Czech Republic is now part of the European Union. Here in Most, we benefit in particular from our proximity to Germany.”

"It's impressive to see how much Tianjin has changed in recent years. Economic momentum is evident everywhere. But we also place great importance on maintaining our traditions."



"Many of us are very attached to our hometowns. That's why good jobs for the people here in the region are extremely important."

Traveling through the Ore mountains toward the town of Most, with its 68,000 inhabitants, Hněvín Castle is visible from afar, high atop the imposing castle mountain. A closer look, however, shows that only little remains of the original building; the majority of the complex has been reconstructed – just like the city the castle overlooks.

Shaped by coal and steel

Most is a traditional town that has been marked by industrial progress. The historic inner city was completely demolished in the 1960s to make room for expanding coal mines. It was rebuilt two kilometers to the south as an urban area consisting of prefabricated large-panel structures. Few historic buildings survived the move.

Today, coal mining is a thing of the past. The city is now dominated by heavy industry. In recent years, however, more and more companies in the service sector have been coming to Most. Many of the former mining areas have been recultivated. Apple trees and grape vines now cover much of these areas – perhaps the nicest part of the city's structural transformation.

Think globally, act locally

In 1996, Grammer opened its Most location, where it employs more than 450 workers. Each day, these employees manufacture some 27,000 headrests, 8,000 guide components, and 4,500 seat covers. The finished parts are delivered from the factory to automakers and system suppliers in Germany and Eastern Europe.

Grammer's corporate policy calls for steadily developing close-knit, local procurement networks. The plant in Most, for example, cooperates "wall to wall" with a foam supplier. Contact with trustworthy, regional suppliers saves warehouse space, reduces costs for transferring supplies to and from storage areas, and increases delivery reliability. By cooperating with local sourcing networks, Grammer is also securing a number of additional jobs in and around the city of Most.

Health and safety first!

A major plus for many employees in Most is Grammer's corporate policy relating to work safety and health. The Company has implemented a prevention system with the goal of identifying and eliminating possible sources of risk at an early stage. All employees are integrated into this system. This lowers the number of accidents and sick days while improving productivity.

These high standards do not apply only to Most, but to all of our worldwide locations. Grammer's prevention system has been established internationally to promote job satisfaction, productivity, and employee health at all of the Company's locations. The system is checked regularly by means of local audits, for example, to determine its effectiveness. Teams have been set up to continually assess methods for improving occupational safety and health protection, and their findings are conveyed to Grammer factories all over the world.

Europe meets China

We now move several thousand kilometers to the east, to the ancient Middle Kingdom. Here lies the city of Tianjin, not far from Peking. This time-honored city is an industrial center, transportation hub, and cultural center in one. Tianjin is a city of contradictions. Pagoda roofs alongside modern office complexes, businessmen toting cell phones alongside traditionally attired street hawkers. Along the Hai He River, buildings from a wide variety of epochs and cultures can be seen – testimony to Tianjin's long tradition as a center of trade.

Nearly 10.5 million people live in the Tianjin urban area. Over many centuries, Tianjin has developed from a fishing village to a modern trading center boasting one of China's largest harbors. The city belongs to one of the wealthiest regions in the country, which is why it has been attracting international investors for years.

Foreign companies are located at the Tianjin Economic and Technological Development Area, or TEDA for short. This special economic zone, which itself is the size of a small city, hosts factories and office complexes along with residential buildings and its own soccer stadium. More foreign companies are currenty located at TEDA than in the boomtown of Shanghai. In addition to telecommunications and chemicals companies, one of the main sectors represented here is the automotive sector, which includes Grammer.

>

"Foreign visitors are often surprised at the size and economic power of Tianjin. Our city holds up to comparison with the Western metropolises."

Most and Tianjin: Two cities in transformation, whose residents are approaching the future with optimism.

Leading the way in emerging markets

For Grammer, Tianjin represents a major step toward the goal of participating in one of the world's most dynamic economies with its core products. Our commitment in Tianjin began in 2004 with the opening of a plant solely for the manufacture of automotive parts. One year later, Seating Systems production was relocated from Xiamen to Tianjin. The concentration of production at a single location will enable numerous synergy effects. In May 2006, Grammer's new offices in Tianjin were dedicated in a colorful ceremony. This location now operates as the headquarters for all Asian activities of the Grammer Group. Tianjin represents the third stronghold of the Grammer Group in the People's Republic of China in addition to the production facilities in Changchun and the development center in Shanghai.

Approximately 250 Grammer employees from both corporate divisions work in Tianjin manufacturing armrests, headrests and other products in an area totaling 11,600 square meters. This production facility serves customers such as BMW, Volkswagen, and Audi, for which China is already the third-largest foreign market. Although Grammer's Seating Systems products are manufactured primarily for Chinese customers, 40% of the produced goods are supplied to neighboring Far East countries. Other buyers include Mercedes-Benz, MAN, Volvo, Bombardier, and Siemens.

Jobs at Grammer are popular

Although Grammer is one of the smaller companies located at TEDA, the Company is well-known and jobs at Grammer are sought after. The low level of personnel fluctuation shows how much Grammer employees appreciate their jobs. Grammer has one of the lowest personnel fluctuation rates in the region.

There are certainly a number of reasons for this high degree of company loyalty. One major reason is that Grammer aims for long-term employment relationships and offers relatively secure jobs. This is not always the case in the new China. Nearly 60 million Chinese – some 42% of all employees – lost their jobs in the course of privatization of state operations. Since the state had taken responsibility for social security in its role as employer, employees lost these benefits when their companies were privatized. For this reason, particularly high importance is placed on having a steady job in China.

Another attractive aspect of Grammer is the advanced training opportunities offered by the Company, an advantage that is still rather unusual in China. Though the range of training programs Grammer plans to offer is not yet complete, advanced training opportunities are being expanded step by step. Both the Company and the employees are already benefiting: Grammer obtains well-trained, motivated employees as a building block for expanding its position, and the employees receive training that meets Grammer's high standards.

Cultural exchange brings added impetus

Most and Tianjin are only two examples of Grammer's global network. Over the years, Grammer has grown to become a global player. Today, with its 29 locations, the Company is active in many different international cultures. This has made it necessary to unite a variety of mentalities at the various locations as well as within the Group itself. The entire Company, at all worldwide locations, benefits from this diversity. Balancing these interests thus forms the foundation of our corporate culture and makes a crucial contribution to Grammer's success.

Financial Discussion and Analysis

Dear Shareholders and Friends of the Company,

Grammer AG can look back on a successful year in fiscal 2006. Our Company performed well in an environment of general economic prosperity. Total sales and earnings increased, which will allow the Company to pay attractive dividends to shareholders once again.

The Supervisory Board took due care in fulfilling all of the responsibilities incumbent upon it under the law and the Company's Articles of Incorporation in the year under review. We reviewed the financial situation and the business development of Grammer AG and the Grammer Group on a regular and comprehensive basis. The Board of Management kept us informed of the financial position and financial performance of both the product areas and the Group in detailed monthly reports and at five scheduled meetings and one special session. We monitored the management of business by the Board of Management on the basis of oral and written reports, and accordingly charged the Board of Management with submitting regular, comprehensive reports on the situation of the Company at our meetings and reporting on the Company's most important strategic projects and measures. In addition, the Standing Committee and the Finance Committee met to discuss Company strategy and the Risk Report.

We discussed significant business events with the Board of Management promptly and frankly, and consistently supported the Board of Management by offering guidance. As Chairman of the Supervisory Board, I held individual discussions with the members of the Board of Management on a regular basis in order to discuss questions related to the strategic alignment of the Company, its current position, the business trend, and risk management outside of the Supervisory Board meetings as well.

Committees

A total of three committees supported the work of the Supervisory Board in the year under review. The Standing Committee met once, primarily to discuss Company strategy. The Finance Committee met twice, among other things to discuss the financial statements and consolidated financial statements of Grammer AG, to commission the independent auditor pursuant to the Articles of Incorporation, and to discuss the Risk Report. The Personnel Committee met six times. Topics of discussion included the appointment of a successor for Mr. Peter Nagel, member of the Board of Management of Grammer AG, and preparations for an efficiency review of the Supervisory Board. Another focus of discussions was the appropriate remuneration for the Board of Management.

The committees are currently comprised as follows:

- Standing Committee
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss
  Dr. Klaus Probst
- Finance Committee
  Udo Fechtner
  Wolfram Hatz (Chairman)
  Tanja Jacquemin
  Dr. Bernhard Wankerl
- Personnel Committee
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss
  Georg Liebler

Focuses of deliberations by the Supervisory Board

In the course of the fiscal year, the Supervisory Board met on a regular basis to discuss the current business trend, the employment situation, strategy, and the financial position of Grammer AG and the Group as a whole.

At the Supervisory Board meeting of March 29, which was also attended by the auditors, we approved the 2005 financial statements of Grammer AG and the Grammer Group and drafted the resolution for the appropriation of profits for fiscal 2005.

The meeting of April 26 focused on elucidating Company targets and basic values. We also discussed the status of risk management.

At the meeting of June 27, the Supervisory Board made preparations for the Annual Shareholders' Meeting of Grammer AG. Moreover, we authorized a promissory note in the amount of EUR 50 million as follow-up financing for an expiring corporate bond.

After conclusion of the Annual Shareholders' Meeting on June 28, the Supervisory Board held a special session to consult on appointing a successor for Mr. Peter Nagel.

On September 27, the Supervisory Board held a meeting in the Czech city of Tachoy. Topics of discussion included presentation of the Company's strategy for the years from 2007 to 2009 by the Board of Management and the results of the efficiency review of the Supervisory Board by the Supervisory Board Chairman. The MoTIS (Modular Truck Interior System) concept was also on the agenda, with the Supervisory Board approving establishment of a joint venture to continue these activities.

At the Supervisory Board meeting on December 7, the Board of Management presented the budget for fiscal 2007. We also held intensive discussion on the topics of innovation and corporate governance. Moreover, we discussed and resolved on improvement measures resulting from the review of Supervisory Board efficiency in September and revised the Declaration of Compliance.

In addition, we adopted three circular resolutions in 2006, dealing among things with increasing the promissory note resolved at the meeting of June 27 to EUR 70 million.

Approval of the financial statements

The Annual Shareholders' Meeting of June 28, 2006 appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Munich, to audit the financial statements for the year under review. At its meeting on September 26, 2006, the Finance Committee approved the engagement to audit the separate and consolidated financial statements for 2006.

Ernst & Young audited the annual financial statements of Grammer AG, which were prepared in accordance with the German Commercial Code (HGB), and the financial statements of the Grammer Group, which were prepared in accordance with IFRS, as well as the two management reports. The auditors issued an unqualified audit opinion for both financial statements and established that the management reports of Grammer AG and the Group accurately depict the situation of the Company as well as the risks and opportunities of future development.

The reports and accounting records from the auditor were presented to us in due time and were reviewed in detail by us. Ernst & Young reported on its key audit findings at the relevant meetings of the Finance Committee and the accounts review meeting of the Supervisory Board. The Supervisory Board raised no objections based on its own review of the financial statements, the consolidated financial statements, and the management reports. We therefore concurred with the audit findings of Ernst & Young and approved the financial statements prepared by the Board of Management. The financial statements have thus been duly adopted. We concur with the proposal of the Board of Management on the appropriation of profits and payment of a dividend of EUR 1.00 per share.

Corporate Governance

The Supervisory Board of Grammer AG expressly supports the furtherance of higher corporate governance standards in the Company. For this reason, we proposed to the 2006 Annual Shareholders' Meeting to comply with the recommendation of the German Corporate Governance Code to include a performance-related component in Supervisory Board remuneration.

At the Supervisory Board meeting of December 7, 2006, the Supervisory Board and the Board of Management submitted a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) stating that Grammer AG adheres to the revised version of the German Corporate Governance Code as of June 12, 2006 with two exceptions. The full Declaration of Compliance is printed in this Annual Report and may also be viewed on the Company's website.

Disclosures required under Section 171 (2) of the German Stock Corporation Act

The capital of Grammer AG is divided into 10,495,159 shares of EUR 2.56 each. The Company has authorized capital of EUR 13.4 million that must be utilized on or before August 25, 2011.

The Board of Management is not aware of any restrictions on voting rights or the transfer of shares.

According to its own report, our largest single shareholder is Electra QMC Europe Development Capital Fund plc. This company exceeded the reporting threshold of 10% pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) in the fourth quarter of 2006. In September 2006, Axxion S.A. reported a share of 5.55% in the Company, thus exceeding the 5% threshold.

The Company has no shareholders with special rights, nor do we offer any employee profit participation plans.

Appointment and dismissal of members of the Board of Management is governed in accordance with statutory provisions (Section 84 of the Stock Corporation Act) and the provisions of Section 8 et seq. of the Company's Articles of Incorporation.

The 2006 Annual Shareholders' Meeting authorized the Board of Management to purchase Company shares pursuant to Section 71 (1) No. 8 of the Stock Corporation Act. This authorization may be made use of in the period from August 16, 2006 to December 1, 2007. Company shares may be purchased in a volume of up to 10% of the share capital, i.e., up to 1,049,515 shares.

No significant agreements have been entered into regarding a change of control following a takeover bid or compensation for members of the Board of Management or employees in the event of a takeover.

Changes in the Supervisory Board and Board of Management

On June 28, 2006, the Annual Shareholders' Meeting elected Dr. Klaus Probst, CEO of LEONI AG, to represent the shareholders in the Supervisory Board. Dr. Probst had been appointed to the Supervisory Board on February 17, 2006 after Dr. Wolfgang Theis resigned his post on November 22, 2005.

Mr. Heinz-Jürgen Otto, CEO of Grammer AG, left the Board of Management by mutual consent effective March 31, 2006. The Supervisory Board decided not to appoint a new CEO, but to have the Company managed by three Board of Management members with equal powers. Mr. Otto's areas of responsibility were distributed among the remaining members of the Board of Management, and Mr. Alois Ponnath was appointed Spokesman.

Supervisory Board deliberations also involved Mr. Peter Nagel's contract, which was set to expire on December 31, 2006. The contract was extended for six months (until June 30, 2007), partly on the basis of Mr. Nagel's request and partly to ensure a smooth transition for his successor. Mr. Nagel has been a member of the Company for 24 years, most recently as Board of Management member responsible for the Seating Systems division. Mr. Nagel plans to resign from active business life upon reaching his 60th birthday. However, he will continue to be available to the company until the end of 2007 in an advisory capacity for the MoTIS project. We would like to express our sincere thanks to Mr. Nagel for the achievements he has accomplished from his positions of responsibility that have helped to shape the Company.

On February 1, 2007, the Supervisory Board appointed Mr. Hartmut Müller to the Board of Mangement as Mr. Nagel's successor. Previously, Mr. Müller was employed by the French Valeo Group as General Manager for North and Eastern Europe, Climate Control. Mr. Müller will be assuming full responsibility for the Seating Systems division as of July 1, 2007.

At the last Supervisory Board meeting of 2006, the contract with Mr. Alois Ponnath, Spokesman for the Board of Management and Chief Financial Officer of Grammer AG, was on the agenda given that Mr. Ponnath's contract was set to expire on October 30, 2007. The contract was extended until December 2012.

We would like to thank the members of the Board of Management, all employees, and the employee representatives for their achievements as well as their high level of dedication, which made a crucial contribution to the success of the Company in the past fiscal year.

Amberg, March 2007
On behalf of the Supervisory Board:

Dr. Bernd Blankenstein
Chairman

Group Management Report

- Group sales improved to EUR 881.0 million
- Cumulative EBIT increased by 19.2%
- Product innovations expand market potentials
- Further growth expected for 2007

Corporate structure and business activity

The Grammer Group is a specialist in the development and production of components and systems for automobile interiors as well as driver and passenger seats. In addition to the parent Grammer AG based in Amberg, the Group includes 21 additional fully consolidated companies. As the Grammer Group, we are represented in 17 countries worldwide.

Business divisions

Our Automotive division delivers seating components such as headrests and armrests, center consoles as well as integrated child seats to well-known automakers and system suppliers to the motor vehicle industry. The Driver Seats segment operates both as an OEM and aftermarket supplier. In this area, we supply manufacturers of trucks and offroad vehicles, including agricultural, forestry and construction machines as well as forklifts. The Passenger Seats segment supplies original equipment manufacturers as well as bus and train operators.

Corporate management

The Group's internal, globally oriented management system primarily bases its activities on the key financial parameters of revenue, operating earnings before interest and taxes (EBIT) and return on capital employed (ROCE). Being the most important ratio for Grammer, ROCE indicates the return on capital invested and the efficiency with which we employ it.

Economic environment

Global economy surges upward

The global economy was again very robust in 2006 and grew at a rate of 3.9% despite the still high petroleum price level. In the U.S., growth momentum tapered off slightly, primarily caused by softening private consumer demand due to higher energy prices. All the same, the gross domestic product of the United States increased 3.3%. China continued to be an important global growth driver; in the year under review, the country's economic output grew by 10.6%. Economic development was also positive in the other emerging countries of Southeast Asia.

In the European Union, gross domestic product (GDP) improved 2.8%. Of the economically most powerful member states, the United Kingdom (+2.6%) and France (+2.4%) contributed most significantly.

Germany once again demonstrated that it is an important engine of European economic growth. With GDP growth of 2.4%, the Federal Republic contributed substantially to the positive overall trend. As in previous years, the 10.2% growth in exports buttressed the German upswing. In addition, increased investments in Germany had a positive impact. However private consumer spending again increased only slightly, also being influenced by pre-emptive effects due to the rise in the value-added tax, which took effect at the start of 2007.

Gains for German manufacturers in the passenger car market

As the world's largest passenger car market, the U.S. went into reverse in 2006. Sales of light vehicles declined 3% and light trucks 6%. German manufacturers were able to grow contrary to the trend, with 14% of their total exports destined for the United States. They sold 921,000 passenger cars in the U.S. in 2006, 6% more than in 2005. The growth in light trucks including SUVs and minivans even reached 10%. The German manufacturers' market share in the U.S. increased to 9.8%. German auto makers also profited from strong growth rates in the Chinese market.

Data from the European Automobile Manufacturers Association (ACEA) showed that the Western European automobile market grew modestly by 0.7% in 2006. Development in the classic volume markets was uneven: While France, the UK and Spain declined, sales in Italy and Germany were up. The primary favorites were German vehicles with BMW (+4.5%), Mercedes-Benz (+4.1%) and VW (+7.6%) showing the strongest increases in new vehicle registrations.

According to Germany's Federal Bureau of Motor Vehicles and Drivers, 3.47 million new vehicles were registered in the Federal Republic. The 3.8% rise from 2005 was considerably impacted by the exceptionally strong registration months of November and December. The sales figures showed that the German manufacturers were the top performers in the home market as well. Audi (+5.5%), Porsche (+5.6%) and VW (+10.8%) showed the strongest gains. The share of domestic brands in total new vehicle registrations in Germany was 64.0%. Exports continued to be the mainstay for the German automotive industry; almost 3.9 million passenger cars were exported in 2006, 2.5% more than in the record year 2005.

Continued growth of the truck segment of the Driver Seats market

The truck market continued to expand in Western Europe. In the category of vehicles above 3.5 tons, ACEA figures showed that new registrations were up 2.9%. New registrations of trucks above 16 tons were up 3.9%.

The truck economy in Germany was just as robust as in 2005. IAA Commercial Vehicles, the leading commercial vehicles fair in Hanover, Germany, as well as increased orders resulting from the introduction of the Euro 4 emissions standard at the beginning of October spurred growth. Almost 250,000 new trucks were registered in Germany, reflecting an 11.9% increase over 2005. Exports kept pace and exceeded the 2005 record; exports of trucks smaller than 6 tons increased 1% while vehicles larger than 6 tons were up 2%.

Based on figures provided by Germany's Federal Bureau of Motor Vehicles and Drivers, 33,962 agricultural and forestry traction machines were registered in Germany, up by more than 5,700 from 2005. Surveys by the German Engineering Association (VDMA) showed that sales of harvesting machines such as combine harvesters were down. The market volume in the most important European agricultural engineering market, France, declined by 5%. Sales figures in Italy, Spain and the United Kingdom were also restrained.

The German construction machinery industry experienced growth in 2006. Manufacturers increased their sales in Germany by approximately 27% in the first six months alone. Information from the German Association of Construction Machinery, Construction Equipment and Industrial Machinery Companies (bbi) also showed a generally positive development in the industrial trucks business.

Passenger seats market: Situation for trains and buses strained

The Passenger Seats segment operated in a persistently difficult market environment. Upward trends were noticed in the bus and rail unit; however, it is still not possible to speak of a fundamental turnaround.

The market for buses in Germany improved slightly with 5,710 new vehicle registrations. However, surveys by the ACEA showed that registration figures in Western Europe persisted at the 2005 level.

Developments in the rail industry varied. According to data provided by the German Rail Industry Association (VDB), revenues declined by 2.5% to EUR 4.0 billion in the first six months of the year under review. On the other hand, incoming orders increased from EUR 3.5 billion to EUR 5.1 billion.

Management's analysis of the economic environment

Grammer benefited from the good overall economic development and from the positive trends in the passenger car and driver seat segments in the year under review. In addition, noticeable pre-emption effects in 2005 resulted from the discussion relating to the value-added tax increase in 2006. The favorable overall conditions supported business development and sales.

Business trend

Automotive: Innovations create competitive advantages

Business development in the Automotive segment was pleasing in the year under review. Especially our production for BMW and the brands of the Volkswagen Group (in particular Audi, Škoda und VW) was at a high level. The models providing the greatest impetus were established high-volume ones like the BMW 3 Series and the VW Passat. The E Class model enhancements had a favorable impact on our production for Mercedes-Benz as of mid-year; production for the C Class, which will be phased out in 2007, declined in line with the model cycle. Overall, we benefited from our involvement in the premium segment, which experienced exceptionally high growth rates within the good market environment. Nowadays, every second passenger car produced in Germany belongs to this upmarket segment.

Production of headrests and seat covers for the new BMW X5 started in Mexico and the U.S. in the third quarter. Compared with the predecessor model, the order size has increased for Grammer since in contrast to the previous version, the new X5 is also available with a third row of seats.

The trend of our business in China was also positive. Grammer produces interior components for Audi's A4 and A6 models and Audi increased sales of these models in China by almost 40%.

With the objective of further consolidating our market position in the automotive industry, we are increasing our efforts to acquire additional customers and projects. In the year under review, Grammer succeeded in attracting new customers such as Nissan and Mazda. On the project side, Grammer generated orders for the production of headrests and armrests for American and Chinese brands of Ford and General Motors – including the Lincoln and Hummer. This is one example of the success of our strategy of growing in new markets with established product groups.

Besides additional markets and customers, new products are also an element of our growth strategy in the automotive segment. The development and production of complex center console systems is of particular importance in this area. Having already been established in this line of business, Grammer was able to position itself as a tier 1 supplier. In 2006, we received an order from General Motors for developing the center console for the Chinese and U.S. models of the Epsilon platform on which the mid-size models of the GM brands Buick, Opel, Saab and Saturn are based.

Of particular significance for the further strategic development of the Grammer Group are our involvement in the Asian market and the expansion of our local presence. In Tianjin and Changchun, we produce interior components for Volkswagen and General Motors, the two most significant passenger car manufacturers in China.

In our largest division, Automotive, we plan to increasingly broaden our creation of added value and we are stepping up the research and development work to do so. Innovations like the crash-active headrest or the integrated child safety seat KiSi® bring us unique selling propositions and thus competitive advantages. The center console of the GM Epsilon platform is the first system we have developed outside of Germany in the new Grammer Development Center in Shanghai. In doing so, we utilize the entire value-added chain in China and also confirm our consistently high quality standards worldwide.

Driver Seats: Good capacity utilization both in the trucks and offroad segment

As in 2005, the Driver Seats segment again propelled the growth of Grammer AG. The production of truck seats in particular benefited from a high level of orders due to the favorable market environment.

While development in the agricultural machinery segment was restrained, growth in construction machinery and industrial trucks provided further impetus. In the offroad market, we are the manufacturer with the broadest product range of innovative driver seat systems. This is one of the reasons that we were able to further consolidate our European market leadership in this area.

We have further expanded our presence in the U.S., where we are also an established OEM supplier of offroad seats. In the future, this market will offer high sales potentials because a new market segment is arising in addition to the existing landscape and turf applications.

We supply the Asian market with seats for offroad vehicles from our new Chinese location in Tianjin. Particularly in China, there is high demand for agricultural capital goods. In order to take advantage of the growth potential, we have stepped up our sales activities in this region. The Chinese construction industry is currently experiencing a boom which is very promising for Grammer.

The demand of Asian manufacturers for vibration-active driver seats stimulated sales. In offroad vehicles, these seats enable reduced vehicle vibrations, which is a requirement for export into the European Union. The seats are produced in China; just under one-third are supplied to customers in Japan and South Korea.

Passenger Seats: Market situation influences performance

In the year under review, we moved ahead with the reorganization of the Passenger Seats segment. Investments in new products and optimized marketing strategies produced an improved order situation, especially in the Rail business unit. Business development in the Rail unit was satisfactory. High backlogs of orders with longer terms and the implementation of projects postponed in the previous year provided support. For example, in addition to equipping all ICE trains, in the future we will also provide seating systems for all double-decker rail coaches of Deutsche Bahn.

The launch of the IC 3000 seat system for Intercity transportation rounded out our product line of train seats in 2006. The platform follows a modular design; depending on the area of application, customers can order an optimally customized seating system.

We were also able to improve the development of the Bus business unit, the restructuring of which is proceeding extremely well. For example, we realized noticeably higher sales to customers in the United Kingdom. In the regionally organized bus market, growth is only possible by gaining new market shares. In the second half, we began comprehensive initiatives to this end.

Sales and earnings

Group: Total sales increased once again

Against the backdrop of the overall economic and industry-specific developments, we increased the sales of the Grammer Group in 2006 to EUR 881.0 million (2005: EUR 859.3 million). We exceeded the Group sales of the previous year by EUR 21.7 million and accordingly more strongly than initially expected.

The development of sales varied by geographic area. In Europe, sales rose to EUR 687.2 million (2005: EUR 659.5 million) stimulated by positive demand for truck seats and high-end automotive components. Outside of Germany, sales temporarily declined as expected to EUR 107.6 million (2005: EUR 156.1 million). This was due both to the weaker U.S. dollar and various model changes in the automotive segment. We registered pleasing business development in the Asian region which is included in the geographic segment Far East/rest of world. In this region, sales climbed from EUR 43.8 million to EUR 86.2 million, corroborating the strategic significance of our involvement in this growth market.

Earnings of the Grammer Group significantly improved

Primarily due to our initiatives to increase earnings, we were able to considerably improve net income as planned. At EUR 127.0 million, gross profit rose by EUR 17.9 million year-on-year. Earnings before interest and taxes (EBIT) reached EUR 38.9 million (2005: EUR 32.6 million). Compared to 2005, this reflects a strong gain of 19.2%. The EBIT margin increased from 3.8% to 4.4%.

Expenses further optimized

The cost-cutting measures we initiated have shown definite results. Year-on-year, the cost of sales increased by only EUR 3.8 million to EUR 754.0 million. We were thus able to deal effectively with higher costs due to increased prices for commodities and energy as well as higher logistics expenses.

Among other things, the increased logistics costs resulted from the expansion of production in China and the ramp-ups outside of Germany caused by the model change in the automotive business. In the case of ramp-ups, the complete cost and resources efficiency is not apparent from the start.

Personnel costs rose by EUR 13.4 million to EUR 214.2 million. New hires, primarily at the locations in China and outside of Germany and collective bargaining developments contributed to this rise. Not least, the weakness of the euro made production costs in the emerging countries and in particular in the countries joining the EU more expensive.

The intensification of our market-oriented measures caused selling expenses to rise by 9.1% to EUR 32.4 million (2005: EUR 29.7 million). In addition to the further internationalization of our business, our presence at trade shows such as IAA Commercial Vehicles and the promotion of new product concepts such as MoTIS and our Concept Car contributed to these increases. In addition, expenses for our sales support activities increased.

The higher administrative expenses were strongly influenced by the exchange rate gains and losses arising from assessments, which are included in this item. In contrast to the previous year, foreign exchange losses predominated in the year under review due to the strong euro. Accordingly, expenses rose to EUR 64.1 million (2005: EUR 57.7 million).

Other operating income

Other operating income declined to EUR 8.4 million (2005: 10.9 million). Proceeds from the sale of property, plant and equipment, sales of scrap metal and costs passed on to suppliers fell short of the 2005 level.

Financial expenses

Reallocations – in particular in connection with the repayment of our corporate bond and improved conditions – enabled us, despite a higher volume, to maintain interest expense at EUR 8.2 million (2005: EUR 8.3 million) at the previous year's level. Interest income from securities and current financial assets also increased by EUR 0.2 million to EUR 1.3 million. The surplus is more than adequate to safeguard the further strategic development and the stock buyback program without a significant cost increase.

Taxes

Income taxes also rose, reaching EUR 10.7 million after EUR 8.7 million in 2005. At 33.4% (2005: 34.2%) the tax rate was slightly below that of the previous year.

Income

Income before taxes improved noticeably, rising 26.0% to EUR 32.0 million (2005: EUR 25.4 million). Net income of EUR 21.3 million was 26.8% higher than the 2005 figure of EUR 16.8 million.

Earnings per share increased from EUR 1.59 to EUR 2.09, reflecting 31.5% growth. Including treasury stock in the calculation causes earnings per share to increase by 27.0% from EUR 1.59 to EUR 2.02.

Dividend proposal

The dividend of the Grammer Group is determined by the distribution by the parent company Grammer AG. Considering the profit brought forward of EUR 15.0 million, Grammer AG reports distributable profits of EUR 25.7 million for fiscal year 2006. As in the previous two years, the Board of Management will propose to the Supervisory Board and the Annual Shareholders' Meeting to pay a dividend of EUR 1.00 and carry forward the remaining amount of EUR 15.6 million. This would result in a total distribution of EUR 10.2 million. The dividend yield would come to 3.9%, referring to the share price at year-end 2006.

The proposed dividend takes into consideration that the Company holds 330,050 shares of treasury stock that are not eligible for dividends. Should the number of common shares entitled to dividends change before the Annual Shareholders' Meeting, the proposal for appropriation of accumulated profits will be adjusted accordingly.

Segment sales and earnings

Automotive: Significant impacts of production shifts

The numerous product phase-outs and ramp-ups, such as for the BMW X5, impacted the sales and earnings development of the Automotive segment. Production shifts are always associated with reduced production volumes and non-recurring start-up costs. Therefore as had been forecasted, the segment's sales increased only slightly to EUR 574.8 million (2005: EUR 569.5 million). Year-on-year, this reflects an increase of EUR 5.3 million. The share of Group sales came to 65.3% (2005: 66.3%). At EUR 22.7 million, the division's earnings before interest and taxes (EBIT) came close to the 2005 level of EUR 22.9 million.

Driver Seats: Sustained upward momentum

As in the previous years, the strong business development of the Driver Seats segment was also reflected in sales and earnings. In the period under review, the segment's sales came to EUR 266.3 million (2005: EUR 258.3 million), EUR 8.0 million more than in 2005. The increase in EBIT was even more striking, rising 27.3% to EUR 18.2 million (2005: EUR 14.3 million).

Passenger Seats: Restructuring pays off

The fact that sales revenue in the Passenger Seat segment rose more than expected, by 19.3%, to EUR 45.2 million (2005: EUR 37.9 million) is primarily due to the advantageous business development in the Rail unit. Earnings before interest and taxes (EBIT) of the segment totaled EUR – 1.4 million after EUR – 2.7 million in 2005. The primary reason for the modest improvement was extensive expenses for new products that will not be reflected in segment income until 2007.

Financial position

Financial position continues to be very solid

We improved the financial position and available liquidity of the Grammer Group further. We replaced our EUR 42.0 million corporate bond by a long-term promissory note loan of EUR 70.0 million with a significantly more favorable interest rate. The loan ensures that adequate liquid funds will be available, opens up additional latitude for growth and supports our stock buyback program. This is also reflected in the cash flows from financing activities. The expansion of business activities also caused a rise in cash and cash equivalents as the payment flows in the individual countries are subject to varying volatility. The expansion in China and the projects in the U.S. also made it impossible to repeat the cash flow from operating activities of the previous year. The cash flow development from investments remained at the 2005 level, since a continuous development is aimed for.

In addition, a banking group brought together by Grammer made short-term lines of credit totaling EUR 90.0 million available. This credit facility has been firmly committed for three years and is used for daily drawing.

Asset position

On December 31, 2006, the total assets of the Grammer Group reached EUR 476.6 million (2005: EUR 429.7 million), reflecting a 10.9% increase over the reporting date for the previous year.

Intangible assets slightly higher than in 2005

Non-current assets totaled EUR 193.8 million (2005: EUR 190.2 million). Property, plant and equipment reached EUR 130.4 million (2005: EUR 130.4 million), intangible assets EUR 43.2 million (2005: EUR 39.5 million), which is due to the capitalization of the development costs of our product and development offensive.

Current assets significantly higher

On December 31, 2006, current assets totaled EUR 282.8 million (2005: EUR 239.6 million). The 18.0% increase is mainly attributable to the increase in other receivables and assets to EUR 51.6 million (2005: EUR 32.6 million) due to the expansion of business. Financial assets also rose from EUR 0.1 million to EUR 12.1 million. The inventories of the Grammer Group increased by EUR 5.2 million to EUR 85.4 million (2005: EUR 80.2 million). Income tax assets also rose to EUR 4.1 million (2005: EUR 2.7 million). At EUR 18.3 million (2005: EUR 18.0 million) cash and cash equivalents remained at roughly the 2005 level.

Almost no change in equity

Equity amounted to EUR 174.8 million (2005: EUR 173.8 million). The EUR 21.3 million in net profit for 2006 clearly covered the dividend payment in the year under review. In addition, this item also reflects the impact of the stock buyback program. Reflecting the increase in total assets, the equity-to-assets ratio thus comes to 36.7% (2005: 40.4%).

Changes in liabilities

Non-current liabilities of EUR 143.5 million (2005: EUR 71.0 million) were recognized. The rise is mainly the result of non-current liabilities to banks of EUR 73.1 million (2005: EUR 4.7 million). The increase reflects our promissory note loan of EUR 70.0 million. Provisions for pensions and similar obligations reached EUR 49.1 million (2005: EUR 46.6 million), deferred taxes EUR 17.3 million (2005: EUR 13.3 million)

We reduced current liabilities to EUR 158.3 million (2005: EUR 185.0 million). This item was affected by the repayment of our corporate bond which expired in 2006. Trade accounts payable amounted to EUR 91.5 million (2005: EUR 76.3 million), which is attributable to the expansion of business activities. Other liabilities were recognized at EUR 37.6 million (2005: EUR 36.5 million). Current bank liabilities rose to EUR 14.1 million (2005: EUR 8.4 million).

Acquisition of own shares initiated

On August 16, 2006, the Board of Management decided to make use of the authorization of the 2006 Annual Shareholders' Meeting to acquire own shares under Section 71 I (8) German Stock Corporation Act (AktG). From August 16, 2006 to December 1, 2007, Grammer AG can acquire up to 10% of its share capital, i.e., up to 1,049,515 treasury shares. The share buyback is for the purposes set out in the resolution adopted by the Annual Shareholders' Meeting. These include the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares.

Bayerische Hypo- und Vereinsbank AG has the responsibility of carrying out the buyback. It will make its decisions concerning the timing of the stock purchase independently and freely. The repurchase of the shares under this Management Board resolution will be in compliance with the safe harbor rules of Sections 14 II, 20 a III of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

By December 31, 2006, we had acquired 330,050 shares. The purchase took place on the stock exchange at the purchase price specified in the resolution of the Annual Shareholders' Meeting and was published on our website. The Board of Management has not yet proposed how the shares will be utilized.

Capital structure

After the stock buyback, the capital of Grammer AG is also divided into 10,495,159 common shares. Subscribed capital of EUR 13.4 million exists, which is limited in time to August 25, 2011.

A large portion of the stock of Grammer AG is free float. According to information provided by Electra QMC Europe Development Capital Fund plc, it is the largest single shareholder; the company exceeded the reporting threshold, of 10%, pursuant to Section 21 (1) German Securities Trading Act during the fourth quarter of 2006. Axxion S.A. reported in September 2006 that it held a share of 5.55%, thus exceeding the 5% threshold.

Opinion on the company's economic situation

Based on the net assets, financial position and results of operations, we assess the economic situation of the Grammer Group as positive. In our core business areas, we have a good to very good market position; customers have responded very well to our innovative products.

Capital expenditure

With capital expenditure of EUR 32.1 million (2005: EUR 33.2 million), the Grammer Group's investment in property, plant and equipment and intangible assets was nearly as high as in the previous year. Capital expenditure came to EUR 16.6 million (2005: EUR 17.9 million) in the Automotive segment, EUR 10.9 million (2005: EUR 12.1 million) in the Driver Seats segment and EUR 3.2 million (2005: EUR 0.9 million) in the Passenger Seats segment. Central Services invested EUR 1.4 million (2005: 2.2 million).

We obtained upgrades and expansion licenses for the utilization of our SAP system and expanded the necessary infrastructure. To increase the energy efficiency of our plant in Haselmühl as well as for environmental protection, we are investing approximately EUR 4.2 million in an innovative model heat network in 2006 and in the following years. The objective of the project carried out in cooperation with the regional "Energy Technology Network" is to construct, test and optimize an integrated, networked thermal closed circuit concept. This will enable us to reduce energy consumption, develop new energy-saving production methods and efficiently utilize waste heat and recycling possibilities.

With the objective of stepping up our metal prefabrication, we invested approximately EUR 1.8 million in new modular production units of the metals chain. These investments will be used in the development of technology, efficiency improvements and site optimization. They also demonstrate the Company's commitment to Germany's economic competitiveness.

In Changchun, we expanded our location for our customers BMW and VW and installed a foaming line for approximately EUR 1.0 million. We purchased cutters and welding robots for the plant in Tianjin, which increases the value added in China.

Human resources

Workforce expanded once again

On December 31, 2006, the Grammer Group had a total of 8,925 employees (2005: 8,331), 594 more than the year before. 5,831 (2005: 5,215) persons were employed in the Automotive division, 2,726 (2005: 2,760) in the Driver Seats segment and 224 (2005: 226) in the Passenger Seats segment. Central Services had 144 (2005: 130) employees. On average, 8,610 persons (2005: 8,197) worked for the Grammer Group, 2,695 (2005: 2,673) in Germany. We hired new employees primarily at locations of the Automotive segment in China and Mexico. In addition, we expanded our workforce in Turkey in order to expand our production capacity for truck seats in that country.

Agreement on workforce reduction program

As of March 1, 2006, we entered into an agreement with the labor negotiators and employee representatives of Grammer AG on a program to reduce personnel costs at certain German locations. The measures adopted included more flexible working hours, implementation of a job function analysis among the administrative and salaried staff as well as general wage cost savings. The objective of these measures, together with the related investments, is to safeguard employment at the German locations of Grammer AG. The measures implemented will run until December 31, 2010 and will make total savings of approximately EUR 40.0 million possible.

Employee training and development, human resources

Employee development is an essential component for ensuring the success of our Company. Grammer therefore offers a large number of different training and development programs for employees of all divisions and levels. The focus is on a development program with three modules which is specifically geared to employees with high potential, mid-level and upper management All training programs are oriented to the Company's mission and strategy.

In addition, Grammer strives to identify and select qualified junior employees awarding internships, supporting theses and dissertations or participating in recruiting events at universities. We have had a close collaborative association with the University of Applied Sciences in Amberg-Weiden for many years. Two students from this institution were again awarded the Georg Grammer prize which brings with it numerous opportunities for additional training.

Changes in the Board of Management

On his own initiative and by mutual agreement, Heinz-Jürgen Otto – Chairman of the Board of Management of Grammer AG since 2003 – left the Company on March 31, 2006. The Supervisory Board did not appoint a new chairman but instead assigned Alois Ponnath the office of Spokesman for the Board of Management in addition to his duties as CFO.

Changes in the Supervisory Board

During the 2006 Annual Shareholders' Meeting, the shareholders of Grammer AG elected Dr. Klaus Probst as a member of the Supervisory Board. Dr. Probst, Chairman of the Board of Management of LEONI AG, assumed the office as a shareholders' representative, replacing Dr. Wolfgang Theis who resigned on November 22, 2005.

Remuneration system for members of the Board of Management and Supervisory Board

The annual remuneration of the Board of Management is broken down into a fixed non-performance-related component, a performance-related component and retirement benefits. The performance-related component is calculated based on revenue and earnings figures of the consolidated financial statements of Grammer AG as well as the return on capital employed (ROCE). It is defined as 30% of the fixed component as a base amount if 100% of the goals are achieved. The revenue component is obtained from the percentage increase in sales compared to the previous fiscal year. The earnings component is determined as EBIT yield or net income yield in relation to revenue and as return on capital employed. If the targets set by the Supervisory Board are overfulfilled, the performance-related component is limited to 60% of the fixed component. Long-term incentive components such as stock option plans or the granting of treasury stock are not a component of the Board of Management remuneration. The retirement benefits are modeled on the pension commitments to the employees.

For each full year of membership on the Supervisory Board, its members receive a fixed remuneration amounting to EUR 10,000.00 for an individual member, EUR 20,000.00 for the Chairman and EUR 15,000.00 for the Deputy Chairman. In addition, the members of the Supervisory Board received variable remuneration of EUR 200.00 for each 0.1 percentage point that the ROCE in the Grammer Group exceeds 8%. The maximum variable remuneration in the fiscal year is EUR 6,000.00 for each Supervisory Board member.

Corporate Governance

The Declaration of Compliance with the German Corporate Governance Code was updated on December 7, 2006 and harmonized with the new version of the Code of June 12, 2006. Pursuant to Section 161 of the Stock Corporation Act, the Board of Management and Supervisory Board declare that Directives of Grammer AG on the management of the Company correspond in principle with the recommendations of the Code and will continue to do so in the future. The complete declaration is reproduced in the 2006 Annual Report and is also available on the Company's website at www.grammer.com/corporate_governance.

Research and development

Grammer AG's good market position in the individual business areas is based on technological leadership and a broadly based and innovative product portfolio resulting from it. For this reason, research and development (R&D) is an essential component of our business philosophy. In the year under review, we therefore employed EUR 50.8 million (2005: EUR 53.3 million) for R&D, corresponding to 5.8% of total sales.

Intensive research and development is of great importance in the automotive sector in particular. Cost pressure by manufacturers and growing demands by consumers make it necessary for the motor vehicle supplier industry to devote increasingly greater attention to the development of components and systems. Today suppliers contribute significantly more than two-thirds of the value added of an automobile – and the trend is rising. Our investments in research and development have the purpose of not only generating orders in the present but also ensuring Grammer AG a promising market position in the future. Innovative passenger car interior features such as height-adjustable door armrests or crash-active headrests bring the Company valuable unique selling points.

In the Seating Systems division, which includes the Driver Seats and Passenger Seats segments, we can also open up market advantages through the results of our research and development activity. The driver seats of the Primo series, which are used in forklifts and compact construction vehicles, already meet the EU Vibration Directive which will become binding in 2011. The modular design of the Primo series makes it possible to configure seats individually according to customer requirements, thus ensuring additional market strength.

Another innovation is a driver seat for high-end offroad vehicles in which an innovative spring system is integrated. The installed Electronic Active Control (EAC) provides significantly increased driving comfort. Fendt, the world's third largest manufacturer of agricultural machinery, has used the system in its high-performance tractors since June.

In order to develop additional sales potentials in the truck segment in the next few years, we are currently developing a new generation of truck driver seats.

Based on our efforts to focus competence on the truck interior as well, we and our partners introduced the interior concept MoTIS at the IAA Commercial Vehicles show in 2006. This concept offers new solutions oriented to the driver's needs – from cab interior fixtures to showers.

In the year under review, our tour bus seat "Gran Turismo" received the internationally renowned "iF product design award 2006." Among other things, the prize recognizes ergonomics, design quality and the seat's 20% weight savings.

Opportunity and risk management

Risk concept

Business activity is always associated with opportunities, but also risks. We identify and analyze business opportunities Group-wide. The same applies to risks. Effective risk management is of high significance, particularly for international groups like Grammer. For this reason, we have developed a globally applicable risk concept. Among other things, it contains the following principles:

- We define events that have significant negative impacts on the net assets, financial position and results of operations of the Grammer Group as risks.
- Grammer acts with these possible risks in mind. They must be identified early and monitored during our activities. At the same time, we quickly attempt to eliminate their impact on the company or to limit them as much as possible.
- Active risk management is a permanent obligation of each person holding responsibility.

At the present time, we are revising and realigning our risk management system. In the future, it is to be understood more clearly as a part of value-oriented corporate management and integrated even more effectively in the existing planning, reporting and control instruments. This is based on a further development of the risk concept. Risks are now understood to be possible positive or negative deviations from a target planned in a state of uncertainty. As a consequence, we are redefining the individual processes of risk management. The realignment has also brought a change of responsibilities within the Company. Risk management was formerly a function of Internal Control; since January 1, 2007, it has been the responsibility of Group Controlling.

Risk policy principles

Grammer has risk policy principles which are based on the risk concept. The goal is to identify risks more quickly, analyze them more precisely and control them more effectively.

- To counteract potential damages, risks must be kept as low as possible or completely avoided. We deliberately enter into risks only if they are calculable and – considering the objective of increasing corporate value – are unavoidable.
- All employees of the Grammer Group are required to identify and minimize risks in their area of responsibility.
- Every employee must promptly report dangers and risks occurring during operations to the responsible person.
- The Internal Control operating department provides a supporting function. Through centralized risk management, it assists the responsible persons in identifying and managing risks. For this purpose, Internal Control maintains an IT-supported risk management system. It manages risks and records the measures initiated for minimizing risk. Through this process, opportunities and risks of the entire corporate portfolio – products, business units and business activities – are identified, analyzed and actively controlled.

We differentiate between three risk categories:

- We define operating risks as events with an extent of loss ≥ EUR 0.5 million.
- We consider an extent of loss ≥ EUR 2 million as a strategic risk.
- Events with an extent of loss ≥ EUR 5 million are considered risks that would endanger the continued existence of Grammer AG.

Identification of opportunities and risks

In regular management discussions, the levels of management of the divisions and Central Services focus on opportunities and risks and evaluate how actions are managed. New opportunities and risks are taken up and integrated in action management. We constantly subject new projects to standardized risk observation, the scope of which is oriented to value limits. The Board of Management also bases investment decisions on this risk observation. The annual audit plan of the Grammer audit department is also aligned with risk policy principles. If new or important knowledge arises from the audit plan, the Board of Management will also include it in risk management after review.

In this way, we obtain an integrated overview of the opportunities and risks for the Grammer Group. These include projects such as the development of new markets (China, for example) or the further development of energy and commodity prices.

Environment-related and industry-related risks

The motor vehicle supplier industry is confronted by constantly rising cost pressure from the manufacturers who expect far-reaching price adjustments. In addition, the suppliers assume additional business risks through increased development expenditures. In addition to stepping up our research and development activities, we respond to this with extensive process optimizations such as building up global production networks. In so doing, we improve our logistics processes through the use of RFID technology.

To reduce risks relating to competition, we constantly work on improving our market position in all divisions. We also rely on a product portfolio that is as attractive as possible. To improve this further, we are moving forward with technical innovations and the diversification of our product range.

In this connection, there exists the risk of product piracy by other manufacturers. We counter the unauthorized imitation and distribution of original Grammer developments (especially in the seats segment) with products that are technologically advanced. In addition, our product range is directed to as broad a customer base as possible.

High product quality is especially important for consolidating our market position. In order to safeguard this on a permanent basis, we follow Standard TS 16949 in our work in almost all production locations worldwide. The objective is to identify and eliminate sources of error early and avoid slack times and duplicate work.

Procurement risks

To secure the supply of raw materials, Grammer concludes outline agreements with terms of up to one year. Agreements concerning product life are also concluded on an individual basis. In order to compensate for specific additional uncertainties of the commodity markets, Grammer also enters into hedging transactions for aluminum and petroleum. This is to be expanded to other exchange-traded commodities as required. Commodity derivatives that are actively managed for the deliveries and needed quantities are used for hedging.

Grammer counters possible risks due to supplier default or quality problems caused by such default through regular supplier audits and a dual source strategy. We are in continuous close contact with our suppliers and avoid dependencies to the extent possible.

Financial risks

Our Group Finance centrally detects interest rate, currency, liquidity and debtor default risks. We reduce such risks through the use of strategic treasury management, the effectiveness of which we review on a regular basis.

To minimize the impact of rising interest rates on corporate results, we employ repayments as well as interest rate swaps for hedging. At the current time, no interest rate risks exist.

Currency risks for the Grammer Group mainly arise from deliveries and services in the currencies USD, GBP and CZK. We minimize these risks through suitable hedging strategies that are regularly discussed and established in a currency committee.

To hedge liquidity, we increased the promissory note loan and additionally retained fixed-interest short-term lines of credit and locked them in for three years. Grammer has an adequate number of medium- and long-term loan commitments to safeguard the planned growth.

Due to our customer structure, our debtor default risks are limited. Nonetheless, we monitor them using active receivables management and customer liquidity monitoring.

Legal risks

A system of intensive contract review, contract management and systematic archiving protects against legal risks. Sufficient insurance coverage has been taken out for “normal” risks and risks to the Company’s ability to continue as a going concern.

Personnel risks

To be able to take advantage of opportunities on a sustained basis, Grammer depends on qualified specialists and executives. In addition to extensive recruiting activities (targeted at university graduates and others), we promote multi-faceted employee training and development activities for employees on all levels and areas.

Ecological risks

Grammer regularly performs ecoaudits in which we provide a comprehensive report of our activities of relevance to the environment. On this basis, we minimize ecological risks. In addition, we continue to certify our production sites according to environmental certification standard ISO 14001; to date, two-thirds of our global locations have been certified.

Assessment of overall risk

We have intensively examined the current risk of the Grammer Group and have found that the Company has taken adequate precautions. Currently existing risks do not exert a significant influence on the future net assets, financial position and results of operations. In our opinion, no risks have been identified that are likely to jeopardize the Company's ability to continue as a going concern.

Supplementary report

Change in the Board of Management

Peter Nagel, Member of the Board of Management responsible for Seating Systems of Grammer AG, will voluntarily resign his position on June 30, 2007. After twenty-four years as Managing Director and Member of the Board of Management, Mr. Nagel will resign from active business life upon reaching his sixtieth birthday. However, he will continue to be available to the Company until the end of December 2007 as a consultant for the MoTIS project.

Hartmut Müller was appointed to succeed him on the Board of Management as of February 1, 2007. Mr. Müller will take over complete responsibility for the Seating Systems division on July 1, 2007. Previously, Hartmut Müller was General Manager North and Eastern Europe, Climate Control, for the Valeo Group.

No other significant situations had arisen by the date of authorization for publication of the consolidated financial statements by the Board of Management.

Outlook

Slightly restrained growth of the global economy

For 2007, the German Council of Economic Experts expects global economic output to increase by 3.4%. The somewhat lower growth rate than in 2006 takes into account a slight cooling of the Japanese and U.S. economies. Growth of the gross domestic product is expected is expected to slow down slightly to 2.5% in the United States. China could keep up its growth momentum and achieve 10.2% GDP growth in 2007.

Gross domestic product is forecast to grow by 2.5% in the European Union, which has been expanded to 27 member states. This development could also be the consequence of lower economic growth in Germany. Forecasts assume that GDP in Germany will range just below 2% in the current fiscal year.

Industry and business development, Automotive: Global environment continues to be very promising

Experts predict that the global automobile market will continue to grow in 2007. The VDA expects the U.S. passenger car market to decline 2 to 3% to 16.2 million vehicles in the current year. However, the industry association is of the view that the German manufacturers will be able to further increase their market share. In fact, BMW, Mercedes-Benz and Volkswagen have started the year with increases. Experts predict that the Chinese automobile market will grow 8 to 10% in 2007.

In Germany, the rise in the value-added tax and the reduced commuter allowance could give rise to uncertainty. In January, the GfK consumer climate index, which registers consumers' inclination to buy, recorded a definite slump. Nonetheless, the VDA expects new registrations of passenger cars to be in the order of magnitude of approximately 3.4 million in 2007. The industry association sees exports staying at the 2006 level even with declining exports to Western Europe and the U.S.

In addition to the market trend in Germany, several new product ramp-ups will impact the business development of the Automotive segment in the first half of 2007. These include production starts for the next generation of the Mercedes-Benz C Class and the Škoda Fabia. This will be followed in the second half, for example, by the production start for the new Audi A4. Despite this, we anticipate positive sales and earnings development in 2007. In order to generate sales growth extending beyond the current fiscal year, we will continue to intensify our project developments.

Industry and business development, Driver Seats: Outlook continues to be favorable

In contrast to the recent boom years, leading analysts expect the German truck market to be rather restrained in the medium term. According to estimates of the German Motor Vehicle Manufacturers Association, the market volume could, however, stay at a relatively high level in 2007.

The global agricultural engineering markets are expected to be largely stable in 2007. While industry development in Western Europe will probably be at the previous year's level, growth can be expected in Eastern Europe. Industry experts predict stable market performance for North America. The German Engineering Association (VDMA) has an optimistic view of the construction machinery market.

We expect that the Driver Seats segment will be able to maintain its high sales level in the current year and possibly expand it slightly. In September, we expect a significant impetus from Agritechnica, the leading agribusiness fair, which will make up for the anticipated buyer restraint leading up to it. For the medium and long term, the current development of a new generation of truck seats and the upcoming model change by the truck manufacturers should have a positive impact on our companies in the Driver Seats segment.

Industry and business development, Passenger Seats: Increased volume of orders

The trend of incoming orders in the Passenger Seats segment must be seen as satisfactory for 2007. The first stages of the updated product portfolio will be launched on the market. At the same time, we are moving forward with the segment's innovation activities. In the Rail unit, we assume that no additional delays will arise in our customers' projects and deliveries of existing orders will be requested according to plan. The growth-related high number of ramp-ups will, however, make it necessary for us to have additional capacity. In the Bus business unit, we are striving to develop additional market shares. To that end, we are currently reviewing all options. We see the optimization of development and the increasing internationalization of the business as good opportunities for increasing the volume of orders in the Passenger Seats segment even beyond 2007.

Business development in the Group

The significant medium and long-range structural changes in the Company continue to include improvements of our global production network. The complete package of efficiency measures initiated by the Board of Management will also be continued in 2007. In addition, we increasingly rely on international growth to develop potential for sales.

Capital expenditure

For the operating budget, Grammer plans a slight increase in capital expenditure to approximately EUR 35 million. Consistent with our objective of stimulating the Company's growth, more than 55% of the capital expenditure is to be invested in markets and products. To further improve our innovative power and cost situation, nearly 40% was budgeted for productivity and streamlining and the replacement of existing plants. Through this innovation offensive, we intend to lay the foundation for increased earnings in the future.

Research and development

In the Automotive segment, we are systematically proceeding with the enhancement of our current product range. We are intensely pursuing our expansion into new vehicle series as well as our goal of increasing the production of complete component systems. In Driver Seats, the development of the new ECHO truck seat generation is a top priority. Additional developments are planned to support the MoTIS concept.

Human resources

Continued optimizations and the resulting changes represent important steps for safeguarding existing jobs. In 2007, cost developments in Germany and growth in the Far East and overseas areas will continue to determine the change in the number of employees. Increased sales in the growth regions will lead to a further increase in the number of employees.

Opportunities and risks

The further economic development (in particular in the industries in which we are active) will open up both opportunities and risks for the business activity of the Grammer Group. The impacts of the current global discussion concerning carbon dioxide, connected with a change in the taxation of motor vehicles in Germany, cannot presently be foreseen.

External factors will continue to substantially influence the earnings trend. Steel prices have increased further since 2006. In addition, we expect the markets for petroleum-based products will continue to be very volatile. Also, we do not expect the boom in commodities prices with high price premiums, especially for alloys and aluminum, to subside as a risk. Similarly, risks exist due to fluctuating currency parities, in particular due to possible fluctuations of the price of the U.S. dollar. Moreover, appreciation trends in the individual low-cost countries reduce their attractiveness as locations.

Sales and earnings development of the Grammer Group

Consistent with planning, Grammer expects sales to increase in the next few years. In 2007, we expect to be able to exceed slightly the Group sales of 2006. We also expect a moderate improvement of net income in the current year compared to 2006. However, a prerequisite for this is a reasonable outcome of collective negotiations as well as currency and purchase price developments that can also sustainably influence developments in the following year.

Summary statement concerning the Board of Management's forecast

Against the backdrop of a continued encouraging economic environment and in view of the stable business situation in the first months of 2007, we predict that the further development of the Grammer Group will be positive even beyond 2007. We see conditions being favorable for continued growth and a positive earnings position for the Company in 2008 as well.

Amberg, March 2, 2007

Grammer AG
The Board of Management

Consolidated Income Statement *for the fiscal year ended December 31, 2006*

		2006	2005
	Note	EUR '000s	EUR '000s
Revenue	(5)	880,950	859,298
Cost of sales	(6)	– 753,956	– 750,179
Gross profit		**126,994**	**109,119**
Selling expenses	(6)	– 32,389	– 29,702
Administrative expenses	(6)	– 64,099	– 57,726
Other operating income	(6)	8,355	10,917
Profit from operations		**38,861**	**32,608**
Financial income	(6)	1,340	1,090
Financial expenses	(6)	– 8,198	– 8,258
Earnings before taxes		**32,003**	**25,440**
Income tax expenses	(7)	– 10,692	– 8,690
Net income		**21,311**	**16,750**
Of which attributable to:			
Equity holders of the parent		21,248	16,681
Minority interests		63	69
		21,311	**16,750**
Earnings per share Basic/diluted, on the basis of net income for the period attributable to ordinary shareholders of the parent company	(8)	EUR 2.09	EUR 1.59

Consolidated Balance Sheet *as of December 31, 2006*

Assets		2006	2005
	Note	EUR '000s	EUR '000s
Non-current assets			
Property, plant and equipment	(10)	130,384	130,352
Intangible assets	(11)	43,201	39,502
Other investments	(12)	476	483
Other financial assets	(13)	4,903	6,131
Deferred tax assets	(7)	14,805	13,690
		193,769	**190,158**
Current assets			
Inventories	(14)	85,400	80,221
Trade accounts receivable	(15)	111,332	105,827
Other receivables and assets	(15)	51,607	32,616
Financial assets	(16)	12,053	145
Income tax assets		4,067	2,748
Cash and short-term deposits	(17)	18,333	18,029
		282,792	**239,586**
Total assets		**476,561**	**429,744**

Equity and liabilities		2006	2005
	Note	EUR '000s	EUR '000s
Equity attributable to equity holders of the parent			
Subscribed capital	(18)	26,868	26,868
Capital reserve	(18)	58,237	58,237
Treasury shares	(18)	– 7,441	0
Retained earnings	(18)	90,158	79,410
Other reserves	(18)	6,470	8,741
Equity before minority interests		**174,292**	**173,256**
Minority interests	(18)	468	495
Total equity		**174,760**	**173,751**
Non-current liabilities			
Non-current liabilities to banks	(20)	73,132	4,736
Other non-current liabilities	(20)	3,940	6,356
Retirement benefit obligations	(19)	49,073	46,583
Deferred tax liabilities	(7)	17,332	13,341
		143,477	**71,016**
Current liabilities			
Bond	(20)	0	42,000
Current liabilities to banks	(20)	14,128	8,435
Trade accounts payable	(20)	91,531	76,305
Financial liabilities	(26)	63	2,201
Other current liabilities	(20)	37,560	36,532
Income tax liabilities	(20)	5,775	7,436
Provisions	(21)	9,267	12,068
		158,324	**184,977**
Total liabilities		**301,801**	**255,993**
Total equity and liabilities		**476,561**	**429,744**

Consolidated Statement of Changes in Equity *for the fiscal year ended December 31, 2006*

	Subscribed capital (18)	Capital reserve (18)	Retained earnings (18)	Treasury shares (18)	Other reserves (18)	Total	Minority interests (18)	Group equity (18)
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Balance as of Jan. 1, 2005	**26,868**	**58,237**	**74,606**	**0**	**3,727**	**163,438**	**471**	**163,909**
Dividend	0	0	– 10,512	0	0	– 10,512	0	– 10,512
Net income for the year	0	0	16,681	0	0	16,681	69	16,750
Subsequent measurement IAS 39	0	0	0	0	– 297	– 297	0	– 297
Currency translation	0	0	0	0	4,674	4,674	– 45	4,629
Changes in the scope of consolidation	0	0	– 1,365	0	0	– 1,365	0	– 1,365
Change in net investments IAS 21/39	0	0	0	0	637	637	0	637
Balance as of Dec. 31, 2005/ Jan. 1, 2006	**26,868**	**58,237**	**79,410**	**0**	**8,741**	**173,256**	**495**	**173,751**
Dividend	0	0	– 10,500	0	0	– 10,500	0	– 10,500
Net income for the year	0	0	21,248	0	0	21,248	63	21,311
Subsequent measurement IAS 39	0	0	0	0	202	202	0	202
Currency translation	0	0	0	0	– 1,953	– 1,953	– 20	– 1,973
Treasury shares/ other	0	0	0	– 7,441	0	– 7,441	– 70	– 7,511
Change in net investments IAS 21/39	0	0	0	0	– 520	– 520	0	– 520
Balance as of Dec. 31, 2006	**26,868**	**58,237**	**90,158**	**– 7,441**	**6,470**	**174,292**	**468**	**174,760**

Consolidated Cash Flow Statement *for the fiscal year ended December 31, 2006*

(Note 22)	2006	2005
	EUR '000s	EUR '000s
1. Cash flow from operating activities		
Net income	21,311	16,750
Non-cash items:		
Depreciation and impairment of property, plant and equipment	21,947	22,494
Amortization and impairment of intangible assets	1,715	1,652
Changes in provisions and pension provisions	2,020	2,850
Other non-cash changes	– 656	– 1,410
Changes in working capital		
Increase in trade accounts receivable and other receivables	– 24,496	– 4,545
Increase in inventories	– 5,180	– 7,494
Increase in other assets	– 2,434	1,019
Increase in payables and other liabilities	25,108	28,521
Gains from the disposal of assets	– 826	– 275
Income taxes paid	– 8,816	– 2,681
Cash flow from operating activities	**29,693**	**56,881**
2. Cash flow from investing activities		
Additions		
Purchase of property, plant and equipment	– 26,677	– 31,582
Purchase of intangible assets	– 5,377	– 1,388
Purchase of investments	– 300	– 2,900
Disposals		
Disposals of property, plant and equipment	3,901	4,607
Disposals of intangible assets	4	286
Disposals of investments	1,046	3,905
Interest received	1,340	1,090
Cash flow from investing activities	**– 26,063**	**– 25,982**
3. Cash flow from financing activities		
Dividend payments	– 10,500	– 10,512
Purchase of treasury shares	– 7,441	0
Repayment of bond	– 42,000	– 13,000
Changes in non-current liabilities to banks	70,435	– 2,794
Changes in lease liabilities	– 1,023	– 967
Interest paid	– 4,910	– 5,622
Cash flow from financing activities	**4,561**	**– 32,895**
4. Cash and cash equivalents at end of period		
Net change in cash and cash equivalents (sub-total of items 1–3)	8,191	– 1,996
Effects of exchange rate differences	– 538	1,114
Cash and cash equivalents at January 1	9,594	10,476
Cash and cash equivalents at December 31	**17,247**	**9,594**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	18,333	18,029
Securities	11,003	0
Current account liabilities to banks	– 12,089	– 8,435
Cash and cash equivalents at December 31	**17,247**	**9,594**

Notes to the consolidated financial statements *for the fiscal year ended December 31, 2006*

1 Information about the Grammer Group

The consolidated financial statements of Grammer AG (the "Company") for the fiscal year ended December 31, 2006 were authorized for issue on March 2, 2007 by resolution of the Board of Management. Grammer AG is a stock corporation incorporated under German law. The Company was created by means of a reorganization of Grammer GmbH (a private limited company) into a joint stock corporation (Aktiengesellschaft) and is registered in the commercial register of the Amberg Local Court (HRB 1182) under the name "Grammer Aktiengesellschaft." The Company's registered office and business address is Georg-Grammer-Str. 2 in 92224 Amberg, Germany. The shares of the Company have been traded on the Frankfurt and Munich stock exchanges since 1996.

International Securities Identification Number (ISIN): DE0005895403
German securities identification number (WKN): 589540
Common code: 006754821
Ticker symbol: GMM

Grammer AG has been listed in the S-DAX of the Frankfurt Stock Exchange since August 2005.

With regard to its core products, the Grammer Group is a leading company in the development and production of components and systems for automobile interiors as well as driver and passenger seats for offroad vehicles, trucks, buses and trains. As of December 31, 2006, the Company employed 8,925 persons (excluding trainees and including 144 employees in Central Services) at 28 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at Central Services of the Grammer Group in Amberg.

The Grammer Group has divided its activities into the Automotive, Driver Seats and Passenger Seats segments. The main activities of the Group are described in Note 5.

2 Accounting policies

2.1 Basis of preparation

According to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 concerning the application of international accounting standards (Official Journal EC No. L 243 p. 1), Grammer AG was required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the first time for fiscal year 2005; the opening IFRS consolidated balance sheet was prepared for the period beginning January 1, 2004 (date of transition to IFRS pursuant to IFRS 1). Acquisitions of companies carried out before January 1, 2004 continued to be accounted for using the consolidation procedure pursuant to Section 301 (1) Sentence 2 No. 1 of the German Commercial Code (HGB), i.e. the book value method: The carrying amounts of the shares were offset against the pro-rata share in equity of the consolidated subsidiaries at the time of acquisition or initial consolidation (IFRS 1). The pro-rata consolidated joint venture was accounted for using the same principles.

The consolidated financial statements are generally prepared using the cost method, with the exception of derivative financial instruments and financial investments held for sale, which were measured at fair value. The carrying amounts of the assets and liabilities recognized in the balance sheet which represent hedged items in connection with fair value hedges are adjusted to reflect changes in the fair value that can be attributed to the hedged risks. The consolidated financial statements are prepared in euros. Unless otherwise specified, all amounts are rounded to the nearest thousand (EUR thousand).

Declaration of compliance with IFRS

The consolidated financial statements of Grammer AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Principles of consolidation

The consolidated financial statements include the financial statements of Grammer AG and the consolidated subsidiaries as of December 31 of each fiscal year. The financial statements of the subsidiaries are prepared in accordance with uniform Group accounting policies also applied for the financial statements of the parent company. The reporting date of the financial statements of the companies included in the consolidated financial statements corresponds to the balance sheet date of the consolidated financial statements.

Any intragroup balances, transactions, income, expenses, and profits or losses resulting from intragroup transactions that are included in the carrying amount of the assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group effectively obtains control of the company concerned. The subsidiary is no longer included in the consolidated financial statements as soon as the parent effectively looses control over the company concerned.

Differences arising from the accounting for business combinations are allocated to assets and liabilities to the extent that their fair values differ from the carrying amounts at the time of initial consolidation. Any remaining excess of the cost of the business combination over the Group's interest in the company's net fair value is recognized as goodwill.

Goodwill is tested for impairment annually (IAS 36) and is no longer amortized.

The Group's interest in Grammer AD was increased by another 1.96% to 88.35% in fiscal year 2006. The acquisition of minority interests is accounted for under the "parent-entity-extension" method, with any difference between the cost of acquisition and the carrying amount of the interest in net assets acquired recognized as goodwill. Due to an excess of net assets acquired over the cost of acquisition (negative goodwill), the difference of EUR 33.6 thousand was recognized in other operating income.

Minority interests represent the share of net income and net assets not attributable to the Group. They are reported separately in the consolidated balance sheet and the consolidated income statement. In the consolidated balance sheet, minority interests are reported in equity separately from equity attributable to equity holders of the parent. Minority interests comprise the portion of the net income for the period and the net assets of Grammer do Brasil Ltda., Brazil, Grammer Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey, Grammer AD, Bulgaria, and Grammer Seating (Xiamen) Ltd., China, which relate to shares which are not held by the Group itself. Minority interests are presented in the consolidated income statement separately from the net income attributable to the parent and in the consolidated balance sheet within equity, separately from the equity attributable to the parent.

In accordance with IAS 12, deferred taxes were recognized for consolidation adjustments recognized in the income statement.

Scope of consolidation

Apart from Grammer AG, four domestic and 17 foreign companies are included in the consolidated financial statements. These companies are directly or indirectly controlled by Grammer AG in accordance with IAS 27. Moreover, a jointly controlled company as defined in IAS 31 is accounted for by proportionate consolidation. The Group holds 50% of the voting rights in this joint venture.

2.2 Estimates

In preparing the consolidated financial statements, assumptions and estimates have to be made to a certain degree which have an impact on the measurement and the recognition of reported assets and liabilities, income and expenses, and contingent liabilities of the reporting period. Assumptions and estimates mainly relate to assessing the value of intangible assets, determining uniform economic useful lives for property, plant and equipment throughout the Group, assessing the collectibility of receivables, and undertaking recognition and measurement of provisions. The assumptions and estimates are based on presumptions which reflect the currently available information. In particular, the circumstances prevailing at the time of preparation of the consolidated financial statements as well as the anticipated realistic development of the global and sector-specific environment were used as the basis for forecasting the future business trend. Developments which differ from these assumptions and are beyond the control of management may cause actual results to differ from the originally forecast estimates. If actual developments differ from forecast developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Impairment of goodwill

The key assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date that entail a considerable risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year are explained below.

Impairment of goodwill

The Group tests goodwill for impairment at least once annually. This requires an estimate to be made of the value in use of the cash-generating units to which the goodwill has been attributed. In order to estimate the value in use, the Group must estimate the expected future cash flows from that cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. As of December 31, 2006, the carrying amount of the goodwill amounted to EUR 33.950 thousand (2005: EUR 33.950 thousand). Further details are included in Note 11.

Development costs

Development costs are capitalized in accordance with the accounting policies set out in Note 2.3. For the purpose of calculating the amounts to be capitalized, assumptions and estimates were made concerning the expected future cash flows from assets, the applicable discount rates, and the period in which the expected future cash flows generated by such assets will flow to the Company.

Long-term construction contracts

Construction contracts are recognized following the percentage-of-completion method as described in Note 2.3. The stage of completion is estimated on the basis of expected contract costs and contract revenue. The calculation involves assumptions related to contract term and execution as well as development efficiency. Uncertainties are greater at the beginning of construction contracts due to the development of design and function.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be actually utilized. Significant management judgements are required to determine the amount of deferred tax assets on the basis of the expected timing and amount of the future taxable profit as well as the future tax planning strategies. Further details are provided in Note 7.

Pensions and other post-employment benefits

The expense from defined post-employment benefit plans is determined on the basis of actuarial calculations. Actuarial valuation is performed on the basis of assumptions related to discount rates, expected return on plan assets, future salary increases, mortality rates, and future pension increases. In line with the long-term objectives of these plans, such estimations are subject to material uncertainties. As of December 31, 2006, the provisions for pensions and similar obligations amounted to EUR 49,073 thousand (2005: EUR 46,583 thousand). Further details are included in Note 18.

2.3 Summary of significant accounting policies

Interest in a joint venture

The Group holds an interest in a joint venture. A joint venture is defined as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. The Group recognizes its interest in the joint venture using proportionate consolidation. The Group summarizes its share of the assets, liabilities, income, and expenses of the joint venture in the respective items in the consolidated financial statements. The financial statements of the joint venture are prepared in accordance with uniform Group accounting policies for the same fiscal year as the financial statements of the parent company.

When the Group contributes or sells assets to the joint venture, recognition of any portion of a gain or loss from the transaction reflects the substance of the transaction. When the Group purchases assets from a joint venture, the Group does not recognize its share of the profits of the joint venture until it resells the assets to an independent party.

The joint venture is included in the consolidated financial statements using proportionate consolidation up to the date on which the Group ceases to have joint control over the joint venture.

Currency translation

In the separate financial statements of Grammer AG and its subsidiaries included in consolidation, transactions in foreign currencies are translated at the exchange rate applicable on the date of initial recognition of the transaction. Any resulting differences are recognized as gains or losses.

Financial statements prepared in foreign currencies and transactions in foreign currencies are translated in accordance with the functional currency concept as set out in IAS 21. Accordingly, the functional currency is the currency of the primary economic environment in which the entity operates; its activities and financial structure are to be presented in the consolidated financial statements as they present themselves in that currency. Transactions in foreign currencies are translated into the functional currency at historical rates. Monetary items are translated at the closing rate. Any resulting translation differences are recognized in profit or loss. An exception is made for translation differences from loans or credits in foreign currencies, insofar as they have been recognized directly in equity to hedge net investments that are included in net income for the period only after their disposal. Any deferred taxes resulting from these translation differences are also recognized directly in equity. The financial statements of Group entities whose functional currency is not the presentation currency of the Group (EUR) are translated using the modified closing rate method. In the consolidated financial statements, the assets and liabilities of foreign Group entities are translated into euros from the local currency at the middle rates on the balance sheet date.

Income statement items are translated to euros at the average exchange rate for the year. The net income for the year so determined is taken to the consolidated balance sheet. Any translation differences are recorded in equity with no effect on income.

The following exchange rates were applied to major currencies outside the euro zone that are of relevance to the Group:

		Average rate 2006 (2005)	Closing rate 2006 (2005)
Argentina	ARS	0,259 (0,273)	0,247 (0,278)
Brazil	BRL	0,365 (0,332)	0,355 (0,363)
Bulgaria	BGN	0,511 (0,511)	0,511 (0,511)
Canada	CAD	0,704 (0,665)	0,654 (0,726)
China	CNY	0,100 (0,098)	0,097 (0,105)
Czech Republic	CZK	0,035 (0,034)	0,036 (0,034)
Great Britain	GBP	1,466 (1,460)	1,489 (1,456)
India	INR	0,018 (0,018)	0,017 (0,019)
Japan	JPY	0,007 (0,007)	0,006 (0,007)
Mexico	MXN	0,073 (0,074)	0,070 (0,079)
Poland	PLN	0,256 (0,248)	0,260 (0,258)
Russia	RUB	0,029 (0,028)	0,029 (0,029)
Slovenia	SIT	0,004 (0,004)	0,004 (0,004)
Switzerland	CHF	0,635 (0,646)	0,622 (0,643)
Turkey	TRL	0,560 (0,600)	0,533 (0,627)
USA	USD	0,797 (0,803)	0,759 (0,845)

Property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation and accumulated impairment losses (IAS 16). The useful lives assumed correspond to the period over which the asset is expected to be available for use. Residual values have been included in the calculation of the depreciation amounts to the extent material.

Cost is recognized on the basis of attributable direct costs plus any allocable material and production overheads, including depreciation. Repair costs and interest on borrowed funds are recognized as current expenses.

Property, plant and equipment is depreciated pro rata temporis over the expected useful life using the straight-line method. Low-value assets under EUR 500 are fully depreciated in the year of addition.

Impairment losses on property, plant and equipment are recognized in accordance with IAS 36 when the carrying amount exceeds the value in use or the fair value less costs to sell of the asset. Should the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to the amount of the asset's original cost less any accumulated depreciation.

Leases involving the Group as lessee are classified as operating leases or finance leases in accordance with IAS 17. Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time of the conclusion thereof and requires a judgment as to whether the performance of the contractual arrangement depends on the use of a specific asset and whether the arrangement conveys the right to use the asset. With regard to leased items of property, plant and equipment, the requirements of finance leases in accordance with IAS 17 are met when all significant risks and opportunities of ownership have been transferred to the respective Group entity (economic ownership). In such case, the respective items of property, plant and equipment are capitalized at the lower of fair value or present value of the minimum lease payments and depreciated using the straight-line method over the shorter of the asset's economic life or the lease term. The obligation arising from the lease is recognized on the balance sheet as a liability and reduced by the amount of lease payments made.

Lease or rent payments under operating leases involving subsidiaries as lessees are recognized as an expense directly in profit or loss.

Items of property, plant and equipment that are held for sale are initially recognized at their fair value less costs to sell up to the amount of cost less depreciation in accordance with IFRS 5.

An item of property, plant and equipment is derecognized upon disposal or when an economic benefit can no longer be expected from the continued use or sale of the asset. Any resulting gains or losses are established on the basis of the difference between the net sales proceeds and the carrying amount of the asset and are recognized as income in profit or loss in the period of derecognition.

The residual carrying amounts of the assets, their useful lives and the depreciation methods applied are reviewed at the end of each fiscal year and, if needed, adjusted.

Major inspection or overhaul costs are recognized as replacement costs in the carrying amount of the asset if the respective requirements are met.

Goodwill

Goodwill arising from a business combination is initially measured at cost as defined by the excess amount of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment cost. Goodwill is tested at least annually for impairment or if there is any indication that an asset may be impaired.

To establish if goodwill is impaired, it is necessary to allocate the goodwill acquired by the business combination from the day of acquisition to each of the cash-generating units or groups of cash-generating units of the consolidated Group that benefit from synergies of the business combination. This is carried out irrespective of any previous allocation of other Group assets or liabilities to these units or groups of units. Each unit or group of unit that has been allocated goodwill,

- represents the lowest level within the Group at which goodwill is monitored for purposes of internal management; and
- is not larger than a segment that is based on the Group's primary or secondary segment reporting as defined in IAS 14 "Segment Reporting."

The impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that refers to the goodwill. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is below its carrying amount, an impairment loss is recognized. In cases where the goodwill refers to only a portion of the cash-generating unit (or group of cash-generating units) and a portion of this unit is sold, the goodwill attributable to the sold portion of the unit is included as part of the carrying amount of the unit in establishing the result of the sale of the unit. Any goodwill sold in such a way is established in accordance with the ratio of the portion of the unit sold to the remaining portion of the cash-generating unit.

Intangible assets

Intangible assets acquired for a consideration are capitalized at cost at the time of addition. They are amortized over their useful life (software: 3 to 6 years) on a straight-line basis (IAS 38). Research costs are recognized as current expenses in accordance with IAS 38.

Development costs are capitalized at cost if it is probable that the production of the assets will result in an economic benefit for the Grammer Group. The Company provides evidence of any economic benefit generated from the asset, the availability of resources to complete the asset, and the ability to reliably determine the expenditures associated with the intangible asset during its development. If the requirements for capitalization are not met, the development costs are recognized as expenses in profit or loss in the year they are incurred. Development costs include all directly attributable costs as well as a reasonable share of development-related overhead costs. No finance costs are capitalized.

Development costs for internally-generated patents were measured at cost at the time of the transition to IFRS on January 1, 2004. In accordance with the requirements set out in IAS 38, the amount recognized on the balance sheet was limited to the expected ability to generate cash flows within the respective cash-generating unit. Amortization is carried out on a straight-line basis over the expected economic life of the relevant patent (1 to 19 years).

The amount of development costs capitalized is tested annually for impairment if the asset has not yet been used, or if there has been any indication of impairment during the year.

Intangible assets with finite useful lifes are amortized over their useful lifes and tested for impairment as soon as there is any indication that the intangible asset might be impaired. The amortization period and amortization method of intangible assets with a finite useful life are reviewed at least at the end of each fiscal year. If the expected useful life of the asset or the expected amortization method has changed, a different amortization period or amortization method is chosen. Any such changes are treated as a change in an accounting estimate.

Intangible assets with indefinite useful lives are tested for impairment at least once annually for each asset or on the level of the cash-generating unit. These intangible assets are not amortized. The useful life of an intangible asset with an indefinite useful life is tested annually to establish if an indefinite useful life is still to be assumed. Should this not be the case, the asset is deemed to have a finite life and a change in an accounting estimate from indefinite to finite is recognized prospectively.

Amortization and impairment for the year under review have been allocated to the respective functional areas.

Gains and losses from the derecognition of intangible assets are established as the difference between the net sales proceeds and the carrying amount of the asset. They are recognized as profit or loss in the period in which the asset is derecognized.

Impairment of assets

As of each balance sheet date, the Group reviews if there are any indications that an asset might be impaired. If there is any such indication or if an annual impairment test for an asset is required, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value less costs to sell of the asset or cash-generating unit and its value in use. The recoverable amount must be established for each asset individually, unless an asset does not generate any cash flows that are largely independent from those of other assets or groups of assets. Should the carrying amount of an asset exceed its recoverable amount, the asset is deemed impaired and is written down to its recoverable amount. In order to establish the value in use, the estimated future cash flows are discounted to their present value, taking into account a discount rate before taxes reflecting current market expectations on interest effect and the specific risks related to the asset. Impairment costs of continued operations are recognized in those cost categories that reflect the function of the impaired asset.

As of each balance sheet date, the Group reviews if there is any indication that an impairment loss recognized in previous periods might no longer be existent or may have decreased. If there is any such indication, the recoverable amount is estimated. An impairment loss recognized in prior periods should be reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. This increased carrying amount, however, may not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment been recognized for the asset in previous years. Any such reversal of an impairment loss must be recognized immediately in the profit or loss for the period, except if the asset is recognized at the revalued amount. In this case, the reversal of the impairment loss is treated as an increase in value as a result of a revaluation. Following the reversal of an impairment loss, the depreciation or amortization charge for the asset must be adjusted in future periods to allocate the asset's revised carrying amount, less its residual carrying amount (if any), on a systematic basis over its remaining useful life.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or an equity instrument of another entity. Financial instruments arising from a regular way purchase or sale are recognized on the trade date, i.e. the date on which the Company commits itself to purchase or sell an asset.

Financial assets within the meaning of IAS 39 are classified as financial assets that are measured at fair value through profit or loss, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets. Financial assets are initially recognized at their fair value. In the case of financial investments that are not measured at their fair value through profit or loss, transaction costs directly attributable to the purchase of the financial asset are also included.

Primary financial instruments

Financial assets classified as held for trading purposes are included in the category of financial assets measured at fair value through profit or loss. Financial assets are classified as "held for trading" if they have been purchased for the purpose of selling them in the near future. Gains or losses arising from financial assets held for trading are recognized in profit or loss. If no market price exists, the market value of the financial assets available for sale is established by way of appropriate valuation approaches such as discounted cash flow, taking into account the market data available on the balance sheet date.

Loans and receivables and liabilities as well as financial investments held to maturity are recognized at amortized cost if they are not connected with hedging instruments. In particular, these include

- loans;
- trade receivables and trade payables;
- other current receivables and assets and liabilities;
- current and non-current financial liabilities.

Amortized cost of a financial asset or liability refers to the amount that

- was used to measure a financial asset or liability in initial recognition;
- less any repayments; and
- any write-downs for impairment or uncollectibility;
- plus or minus the accumulated distribution of any difference between the initial amount and the amount due on repayment, which is distributed over the term of the financial asset or liability using the effective interest method.

Reasonable valuation allowances have been made to cover discernible individual risks and general credit risks. There are no significant deviations between amortized cost and the principal amount or nominal amount for current receivables and liabilities.

Available-for-sale assets

Available-for-sale assets are non-derivative financial assets classified as available for sale. Following initial recognition, available-for-sale financial assets are measured at fair value, with unrealized gains or losses recognized directly in equity. Upon disposal of investments, any gains or losses previously recognized directly in equity are transferred to the income statement. Interest received or paid from investments are reported in interest income or interest expense, as appropriate.

Derivative financial instruments

The Grammer Group makes use of derivative financial instruments to hedge balance sheet items and future cash flows. The primary hedging instruments used are swaps, forward transactions, and options. In hedge accounting, a designated hedging relationship must exist between the hedged item and the hedging instrument. Accounting for changes in the fair value of hedging instruments depends on the type of hedging relationship. When hedging against changes in value of balance sheet items (fair value hedges), both the hedging instrument as well as the hedged portion of the hedged item are recognized at fair value. Any changes in measurement are recognized as profit or loss.

In the case of future cash flow hedges, the hedging instruments are also measured at fair value. Any changes in measurement are initially recognized outside income in a special reserve and are only recognized as profit or loss when the cash flows are realized. The ineffective portion of the hedge is immediately recognized as profit or loss. Derivatives used by the Grammer Group to hedge interest rates, currencies or prices under normal economic standards, but that do not meet the strict criteria of IAS 39, are classified as financial assets or liabilities at fair value through profit or loss. Any external hedging instruments that are based on internal transactions and eliminated in the consolidated accounts are likewise classified under this category.

The loan to the joint venture GRA-MAG is regarded as a net investment in an independent company in accordance with IAS 21/39. Any changes in value due to changes in exchange rates are recognized with no effect on profit or loss.

Inventories

Inventories are valued at cost under strict application of the lower-of-cost-and-market principle. Costs of purchase are measured in the Group using a moving average rate and an adequate portion of the costs associated with the procurement of goods. In addition to directly attributable costs, the costs of conversion include reasonable portions of manufacturing and materials overheads as well as depreciation. Administrative expenses are included insofar as they relate to production. General and administrative costs and interest on borrowed funds have not been capitalized. Generally, similar inventory items that are not classified individually are measured at the moving average rate. Due to the elimination of intercompany profits, the cost of inventories from intercompany deliveries was accounted for by discounts on the internal transfer prices using the retail method. If, in response to decreased prices on the market, the net realizable value on the balance sheet date is lower than the inventory cost, the inventories are measured at their net realizable value.

Trade accounts receivable and other receivables

Trade accounts receivable, most of which have terms of 30-90 days, are recognized at the initial amounts due less bad debt allowances. Bad debt allowances are created as soon as there is an objective and substantial indication that the Group may not be able to collect the receivables. Trade receivables are derecognized as soon as they have become uncollectible.

Construction contracts

Construction contracts are recognized following the percentage-of-completion method in accordance with IAS 11. The recognizable degree of completion is determined by the ratio of contract costs incurred up to the balance sheet date to the estimated total contract costs (cost-to-cost approach). The projects are recognized on the balance sheet under "other receivables and assets" insofar as the accumulated services rendered exceed the advance payments received. Any expected project losses are recognized as provisions.

Other receivables and assets

Other receivables and assets are recognized at amortized cost. Adequate valuation allowances have been made to cover discernible individual risks and general credit risks.

Cash and cash equivalents

Cash and short-term deposits, as reported in the balance sheet, include cash in hand, bank balances and short-term deposits with original terms to maturity of less than three months.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash and short-term deposits, as defined above, plus bank overdrafts used.

Interest-bearing loans

In the initial recognition of loans these are measured at the fair value of the consideration received less transaction costs incurred.

Following initial recognition, interest-bearing loans are measured at amortized cost using the effective interest rate method.

Any gains and losses resulting from the derecognition or amortization of these liabilities are recognized in income for the period.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or portion of a financial asset or portion of a group of similar financial assets) is derecognized when one of the following three requirements is met:

- The contractual rights to the cash flows from a financial asset have expired.
- The Group retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation pursuant to IAS 39.19 (pass-through arrangement) to pay those cash flows without delay to a third party.
- The Group has transferred its contractual rights to the cash flows from a financial asset and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the financial asset.

If the Group transfers its contractual rights to the cash flows from a financial asset, and neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and also retains the control of the transferred financial asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement in the financial asset.

When the continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the initial carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to repay. When the continuing involvement takes the form of a written or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. In case of a written put option (including a cash-settled option or similar provision) on a financial asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or has expired. An exchange of an existing financial liability for another financial liability from the same lender with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amounts is recognized in profit or loss for the period.

Impairment of financial assets

The Group assesses as of each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

If there is no objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss insofar as the carrying amount of the asset does not exceed amortized cost at the date the impairment is reversed.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the accounting loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is recognized directly in equity. Reversals of impairment of equity instruments held for sale are not recognized in income for the period. Reversals of impairment of debt instruments are recognized as profit or loss if the increase in fair value of the instrument is objectively the result of an event that occurred after the recognition of the impairment loss in profit or loss.

Treasury shares

The purchase of treasury shares through the stock repurchase program is not recognized in income in accordance with IAS 32.33. The shares purchased are deducted from equity.

Other provisions

In accordance with IAS 37, provisions are recognized insofar as the Group, as a result of a past event, has a present obligation vis à vis third parties that will probably cause an outflow of resources and a reliable estimate can be made of the amount of the obligation.

Where the Group expects at least a partial reimbursement of a provision carried as a liability (e.g. in the case of an insurance policy), the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The expense relating to the provision is presented in the income statement net of the amount recognized for the reimbursement. Where the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the risks specific to the liability. When discounting, the increase in the amount of a provision reflecting the time value of money is recognized as interest expense. Provisions for warranty costs are recognized as of the date of the sale of the respective product. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation.

Restructuring costs are recognized when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the divisions affected by the restructuring.

Provisions for pensions and other employee benefits

The actuarial valuation of pension provisions is based on the projected unit credit method in respect of defined benefit plans in accordance with IAS 19. This valuation method is based not only on pension payments and vested benefits known as of the balance sheet date, but also reflects future salary and pension increases. The interest component included in the pension expenses is shown in the financial result as interest expenses.

Actuarial gains or losses result from changes in the number of beneficiaries and differences between actual trends (e.g. salary or pension increases) compared to the assumptions on which the calculations were based. In accordance with the option set forth in IAS 19, this amount is allocated over the expected average remaining working lives of the employees and recognized as appropriate in the balance sheet and income statement if the unrecognized actuarial gains or losses at the beginning of the fiscal year exceed 10% of the greater of the defined benefit obligation or the fair value of any plan assets at the beginning of the fiscal year.

The other post-employment benefits for employees are measured in accordance with IAS 19.

Recognition of income and expense

Revenue from sales and other operating income is principally recognized when the service has been rendered or the goods have been delivered, i.e. when the risk has been transferred to the customer. In case of long-term construction contracts (e.g. customer development contracts), however, revenue is recognized in accordance with the stage of completion as of the balance sheet date (percentage of completion method). The percentage of completion is determined by the ratio of the accumulated contract costs as of the balance sheet date to the estimated total contract costs. Accordingly, income from percentage of completion is recognized as revenue.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is immediately recognized in full as an expense in the period this became apparent.

Interest income and expense are recognized in the period they arise.

Income from dividends are recognized as of the effective date.

Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company complies with the conditions attached to them. Grants related to income are recognized as income on a systematic basis over the periods necessary to match with the related costs. Government grants related to assets are presented in the balance sheet by setting up the grant as deferred income that is depreciated on a systematic basis over the useful life of the asset through profit or loss.

Taxes

Current tax liabilities and current tax assets

Current tax assets and liabilities for current and prior periods are measured at the expected amount of tax reimbursements or tax payments. The amount is based on the tax rates and tax laws wthat are applicable or have been enacted as of the balance sheet date.

Deferred taxes

Deferred taxes are recognized using the balance sheet liability method for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities are recognized for all taxable temporary differences, with the following exceptions:

- Deferred tax liabilities from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination that at the time of the transaction had no influence on net income for the period as reported in the financial statements nor on the taxable income are not recognized.
- Deferred tax liabilities arising from taxable temporary differences in connection with investments in subsidiaries, associates and interests in joint ventures are not recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses carried forward and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The following exceptions apply:

- Deferred tax assets from deductible temporary differences arising from the initial recognition of an asset or liability as the result of a transaction other than a business combination that at the time of the transaction had no influence on net income nor on the taxable income are not recognized.
- Deferred tax assets arising from taxable temporary differences in connection with investments in subsidiaries, associates and interests in joint ventures are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income against which the temporary differences can be utilized.

As of each balance sheet date, the carrying amount of deferred tax assets is reassessed and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the deferred tax asset can be at least partially utilized. Unrecognized tax assets are reassessed as of each balance sheet date and recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred taxes and liabilities are measured at the tax rates expected to apply to the period when the asset is realized or the liability settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income taxes referring to items that are recognized directly in equity are recognized directly in equity without effect on profit or loss.

Deferred tax assets and liabilities are netted if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes refer to income taxes of the same taxable entity levied by the same tax authority.

Value added tax

Sales revenues, expenses and assets are recorded net of value added tax. The following exceptions apply:

- Value added tax from the purchase of goods or services that cannot be claimed back from the tax authorities is recognized as part of the costs of conversion of the asset or as part of expenses.
- Receivables and liabilities are recognized including value added tax.

The value added tax reimbursed by the tax authority or paid to the tax authority is recognized as a receivable or liability on the balance sheet.

2.4 Application of IFRS standards

The accounting policies applied generally correspond to the policies applied in previous years, with the following exceptions:

The Group applied the following new and revised standards in the year under review:

- Amendment to IAS 19, Employee Benefits
- Amendment to IAS 21, Effects of Changes in Foreign Exchange Rates
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
- IFRIC 6, Liabilities from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The application of these new or revised standards had no effect on the consolidated financial statements, but required additional disclosures to be made in the notes.

IAS Amendments, IFRSs and IFRIC Interpretations not yet in force

The Group did not apply the following standards and IFRIC interpretations that have already been published because they are only required to be applied for future periods:

- Amendment to IAS 1, Presentation of Financial Statements
- IFRS 7, Financial Instruments: Disclosures
- IFRIC 7, Applying the Restatement Approach under IAS 29
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of Embedded Derivatives

IFRS 7 and the relevant amendments to IAS 1 will become mandatory as of January 1, 2007. The new regulations stipulate a more detailed presentation of financial instruments in the notes. The Group is currently evaluating the effects of these changes on its financial position and performance.

The Group does not expect the application of the amendments to IAS 1 and the application of IFRS 7, IFRIC 7, IFRIC 8, and IFRIC 9 to have any consequences on the Group's financial position and performance or on its consolidated financial statements in the period of first-time application.

3 Interest in a joint venture

Grammer AG holds a 50% share in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC). GRA-MAG LLC is a joint venture in the USA in the Drivers Seat segment.

The Group's share in the assets, liabilities, income and expenses of the joint venture as of December 31, 2006 and December 31, 2005 were as follows:

	2006	2005
	EUR '000s	EUR '000s
Current assets	1,826	1,611
Non-current assets	393	572
	2,219	**2,183**
Current liabilities	– 855	– 685
Non-current liabilities	– 7,34	– 8,209
	– 8,203	**– 8,894**
Income	6,459	4,949
Expenses	– 6,512	– 4,868

4 Segment reporting

The Group's primary segment reporting format is by business segment, since the risks and rewards of the Group as well as the management and financial structure are influenced by differences between the product segments. The Group's secondary segment reporting format is by geographical segment. The Group's segments are organized and managed independently, based on the nature of the products and services. Each segment represents a strategic business segment whose product range and markets differ from those of other segments.

The **Automotive segment**, which is the largest segment within the Grammer Group, achieved 65.3% of total Group sales in fiscal 2006 (2005: 66.2%). Grammer is active in this segment as a supplier to the automotive industry, developing and producing head rests, arm rests, center console systems, integrated child seats, seat covers and side cushions. The Group sells these products primarily to automakers in the upmarket and premium segments and to their tier 1 suppliers.

The **Driver Seats segment** contributed 29.6% (2005: 29.4%) of total Group sales in fiscal 2006. Here, Grammer is active as a supplier to the truck industry, developing and producing driver and passenger seats for trucks as well as driver seats for offroad vehicles (agricultural machines, construction vehicles and fork lifts). The Group sells these products to truck manufacturers and as OEM equipment for the aftermarket. The Driver Seats segment is divided into the subsegments of Trucks and Offroad (agricultural machines, construction vehicles and fork lifts).

The **Passenger Seats segment** generated 5.1% (2005: 4.4%) of total Group sales in fiscal 2006. Grammer is active as a supplier to the bus and railway industry in this segment, developing and producing driver and passenger seats. The Group sells these products to manufacturers of buses and rail vehicles as well as railway companies. The Passenger Seats segment is divided into the subsegments of Bus and Railway.

In addition to these three segments, the Central Services segment at the Company's headquarters carries out Group-wide functions in financial controlling, corporate communications, procurement, finance, internal control (data protection, risk management, auditing), IT, human resources, accounting and legal affairs.

Transfer prices between the Group's business segments are based on market prices established at arm's length. Segment income, expenses and net income include transfers between business segments. These transfers are eliminated upon consolidation.

The geographical segments of the Group are defined by the location of the Group's assets. Sales to external customers listed in the geographical segments have been allocated on the basis of the geographic location of the business.

Business segments

The following tables include information on income and earnings as well as selected information on assets and liabilities of the Group's business segments for the fiscal years ending December 31, 2006 and 2005.

					Continuing divisions
Fiscal year as of December 31, 2006	Driver Seats	Passenger Seats	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	260,963	45,206	574,777	3	880,950
Revenue from transactions with other segments	5,320	16	20	– 5,355	0
Total revenue	**266,283**	**45,222**	**574,797**	**– 5,352**	**880,950**
Earnings					
Segment earnings	**18,220**	**– 1,407**	**22,651**		**39,463**
Non-allocable expenses					– 602
Profit from operations					38,861
Financial result					– 6,858
Tax expense					– 10,692
Earnings					**21,311**
Assets and liabilities					
Segment assets	122,152	23,203	279,264		424,619
Non-allocable assets					51,942
Total assets					**476,561**
Segment liabilities	– 73,074	– 11,870	– 102,253		– 187,197
Non-allocable liabilities					– 114,604
Total liabilities					**– 301,801**
Other segment information					
Capital expenditure: Property, plant and equipment	8,843	2,432	15,031	454	26,760
Capital expenditure: Intangible assets	2,063	790	1,560	964	5,377
Depreciation/impairment of property, plant and equipment	– 8,174	– 1,285	– 11,788	– 700	– 21,947
Amortization/impairment of intangible assets	– 491	– 201	– 519	– 504	– 1,715
Non-cash items					
Additions to pension provisions	1,803	– 345	622	410	2,490

					Continuing divisions
Fiscal year as of December 31, 2005	Driver Seats	Passenger Seats	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	252,904	37,880	568,459	55	859,298
Revenue from transactions with other segments	5,366	8	993	– 6,367	0
Total revenue	**258,270**	**37,888**	**569,452**	**– 6,312**	**859,298**
Earnings					
Segment earnings	**14,256**	**– 2,736**	**22,866**		**34,386**
Non-allocable expenses				– 1,777	– 1,777
Profit from operations					32,608
Financial result					– 7,168
Tax expense					– 8,690
Earnings					**16,750**
Assets and liabilities					
Segment assets	125,523	18,451	247,742		391,716
Non-allocable assets					38,028
Total assets					**429,744**
Segment liabilities	– 71,199	– 10,693	– 88,069		– 169,961
Non-allocable liabilities					– 86,032
Total liabilities					**– 255,993**
Other segment information					
Capital expenditure: Property, plant and equipment	11,915	931	17,412	1,596	31,854
Capital expenditure: Intangible assets	210	6	526	646	1,388
Depreciation/impairment of property, plant and equipment	– 8,279	– 1,332	– 11,901	– 983	– 22,495
Amortization/impairment of intangible assets	– 425	– 245	– 493	– 489	– 1,652

Geographical segments

The following tables include information on revenues, expenses and selected assets of the Group's geographical segments for the fiscal years ending December 31, 2006 and 2005.

Fiscal year as of December 31, 2006	Europe	Americas	Far East/ Rest of world	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	687,238	107,554	86,158		880,950
Revenue from transactions with other segments	28,826	0	0	– 28,826	0
Segment revenue	**716,064**	**107,554**	**86,158**	**– 28,826**	**880,950**
Other segment information					
Segment assets	311,685	62,125	48,114		421,924
Non-allocable assets					54,637
Total assets					**476,561**
Capital expenditure: Property, plant and equipment	16,660	5,012	5,088		26,760
Capital expenditure: Intangible assets	4,599	594	184		5,377

Fiscal year as of December 31, 2005	Europe	Americas	Far East/ Rest of world	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	659,450	156,054	43,794		859,298
Revenue from transactions with other segments	17,697	0	0	– 17,697	0
Segment revenue	**677,147**	**156,054**	**43,794**	**– 17,697**	**859,298**
Other segment information					
Segment assets	294,141	52,293	44,692		391,126
Non-allocable assets					38,618
Total assets					**429,744**
Capital expenditure: Property, plant and equipment	20,515	4,146	7,193		31,854
Capital expenditure: Intangible assets	1,213	53	122		1,388

5 Revenue structure of the Grammer Group

The Grammer Group generates revenues primarily from the sale and delivery of its products to customers. Please refer to the segment report for an overview of the revenue structure.

Total Group revenue of EUR 880,950 thousand (2005: EUR 859,298 thousand) includes contract revenue of EUR 27,627 thousand (2005: EUR 22,958 thousand) recognized under the percentage-of-completion method of accounting. These revenues refer to development activities as well as operating funds that must be expensed and financed by the Grammer Group before a product reaches serial production and achieves sales. These primarily relate to the Automotive segment, although the first percentage-of-completion revenues have now also arisen in the Driver Seats segment.

6 Other income and expenses

6.1 Other income

Other operating income primarily includes income from the reversal of provisions and valuation allowances amounting to EUR 1,141 thousand (2005: EUR 708 thousand) and proceeds from the sale of scrap metal and materials handling costs of EUR 2,371 thousand (2005: EUR 2,452 thousand). This item also includes government grants of EUR 325 thousand (2005: EUR 302 thousand), income from offsetting costs of approximately EUR 501 thousand (2005: EUR 1,000 thousand) and proceeds from the sale of property, plant and equipment of EUR 1,170 thousand (2005: 1,446 thousand).

6.2 Financial result

	2006	2005
	EUR '000s	EUR '000s
Interest income	**1.340**	**1.090**
Other interest expense and similar charges	– 4,740	– 5,401
Interest cost of pension provisions	– 2,412	– 2,265
Changes from fair value measurement of interest rate swaps	– 876	– 371
Interest element of lease payments	– 170	– 221
Finance costs	**– 8,198**	**– 8,258**
Financial result	**– 6,858**	**– 7,168**

Financial income mainly relates to temporary surplus cash invested as part of active cash management. Temporary differences in interest rate swaps must be recognized in income according to IAS 39, which leads to unrealized gains and losses within the financial result.

The financial result also contains the interest element of pension contributions and the interest element of lease payments in accordance with IAS 17.

6.3 Amortization, depreciation, and impairment; foreign exchange differences; and cost of inventories included in the consolidated income statement

Cost of sales

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise. This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses as well as expenses for allocations to warranty provisions. The cost of sales also contains non-capitalized research and development costs in the amount of EUR 46,120 thousand (2005: EUR 45,132 thousand) as well as amortization of development costs. Expenses for developing and expanding plant locations in preparation for upcoming series production (“industrialization costs”) are also included in the cost of sales insofar as these expenses cannot be deferred. Development in the Driver Seats and Passenger Seats segments is usually “design to market,” meaning that these costs are also recognized under cost of sales. The costs of inventories, which are recognized as an expense in cost of sales amount to EUR 707,836 thousand (2005: EUR 705,047 thousand).

Selling Expenses

Selling expenses involve all sales-related costs and primarily refer to costs incurred by the sales, advertising and marketing departments as well as all overheads allocable to these departments or activities. Freight, commissions, and forwarding charges are also included in selling expenses.

Administrative Expenses

Administrative expenses include all administrative expenditures which cannot be assigned directly to other functions, including expenditures for general administration, management and other staff departments. This item also includes income from exchange rate movements in the amount of EUR 13,618 thousand (2005: EUR 17,139 thousand) and mainly relates to foreign exchange gains between the origination and settlement of foreign currency receivables and liabilities as well as foreign exchange gains resulting from measurement at the closing rate. Foreign exchange losses amounting to EUR 14,525 thousand (2005: EUR 11,445 thousand) are also recognized under administrative expenses.

Amortization of intangible assets and depreciation of property, plant and equipment

Amortization of intangible assets amounted to EUR 1,715 thousand (2005: EUR 1,652 thousand) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 359 thousand (2005: EUR 318 thousand) for capitalized development costs included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 21,947 thousand (2005: EUR 22,495 thousand).

As in 2005, no impairment losses were incurred in fiscal year 2006.

Depreciation and amortization as well as write-downs for impairment are recognized in the income statement under cost of sales, selling expenses and general administrative expenses.

6.4 Personnel expenses

	2006	2005
	EUR '000s	EUR '000s
Wages and salaries	172,738	162,943
Social security contributions		
thereof for pensions: EUR 1,873 thousand (2005: EUR 2,586 thousand)	41,498	37,887
	214,236	**200,830**

7 Income taxes

The main components of income tax expense in fiscal 2006 and 2005 are as follows:

	2006	2005
	EUR '000s	EUR '000s
Consolidated Income Statement		
Current tax		
Current tax expense – domestic	– 4,399	– 2,619
Current tax expense – foreign	– 3,574	– 6,760
Total current tax expense	**– 7,973**	**– 9,379**
Deferred tax		
Deferred tax expense/income – domestic	– 3,580	– 650
Deferred tax expense/income – foreign	861	1,339
Deferred tax expense/income	**– 2,719**	**689**
Tax expense reported in the consolidated income statement	**– 10,692**	**– 8,690**
Statement of Changes in Equity		
Deferred taxes relating to items charged or credited directly to equity		
Revaluation of hedging instruments – cash flow hedges	– 157	– 258

The reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2006 and 2005 is as follows:

	2006	2005
	EUR '000s	EUR '000s
Earnings before taxes – relating to continuing operations	**32,003**	**25,440**
Income tax expense at the rate of 39% applicable in Germany – 2005: 40%	– 12,481	– 10,176
Income from tax legislation changes/tax rate changes	614	0
Tax-exempt government grants	64	121
Non-deductible expenses	– 708	– 461
Effect of different foreign tax rates	1,993	1,687
Miscellaneous	– 174	139
Income tax expense at the effective tax rate of 33% applicable in Germany – 2005: 34%	**– 10,692**	**– 8,690**

Deferred tax

The deferred tax was made up of the following as of the reporting date:

	2006	2005	Change
	EUR '000s	EUR '000s	EUR '000s
Balance sheet			
Deferred tax liabilities			
Property, plant and equipment	– 7,317	– 6,742	– 575
Intangible assets	– 2,465	– 1,669	– 796
Goodwill	– 2,754	– 1,850	– 904
Finance leases	– 594	– 569	– 25
Financial assets	– 411	– 449	38
Receivables	– 3,611	– 1,707	– 1,904
Miscellaneous	– 180	– 355	175
	– 17,332	**– 13,341**	
Deferred tax assets			
Pension provisions	5,367	5,062	305
Other provisions	2,026	1,179	847
Tax losses carried forward	5,154	3,610	1,544
Financial assets	1,264	957	307
Miscellaneous	994	2,882	– 1,888
	14,805	**13,690**	**– 2,876**
Recognized in equity			157
Expense as per income statement			**– 2,719**

The statutory corporate income tax rate was 25% in Germany in the 2005 and 2006 assessment periods, plus a solidarity surcharge of 5.5%. Taking into account the varying assessment rates for the municipal trade tax, this results in a tax burden of approximately 39%. To make the presentation more accurate, deferred taxes were measured at 39%, while a lump sum of 40% was used in 2005. The tax rates applied to foreign companies varied between 15% and 41%.

In 2006, tax losses were carried forward from previous years in the amount of EUR 4,824 thousand (2005: EUR 67 thousand).

Loss carryforwards of EUR 7,060 thousand (2005: EUR 5,991 thousand) were assessed as non-recoverable. These losses mainly related to tax results of Mexican, North American and Chinese subsidiaries.

After taking into account non-recoverable loss carryforwards, deferred tax assets on loss carryforwards remained in the amount of EUR 5,154 thousand as of December 31, 2006 (December 31, 2005: EUR 3,610 thousand). The tax losses carried forward may be carried forward or even carried back in individual cases in periods of 10 to 20 years.

8 Earnings per share

Basic earnings per share are calculated by dividing the net income/net loss for the period by the average number of common shares outstanding during the fiscal year less the treasury stock acquired through buyback.

In addition to basic earnings per share, diluted earnings per share must also be stated in the case of potential common shares (financial instruments and other contracts entitling the holders to subscribe to common shares, such as convertible bonds and options). Since the Grammer Group has not issued any such financial instruments or entered into any such contracts, basic and undiluted earnings per share are identical.

	2006	2005
Weighted average number of common shares for calculating basic/diluted earnings per share	10,165,109	10,495,159
Result in EUR '000s	21,248	16,681
Basic/diluted earnings per share	2.09	1.59

No transactions involving common shares or potential common shares occurred in the period between the reporting date and preparation of the consolidated financial statements.

9 Dividends paid/dividends proposed

	2006	2005
	EUR '000s	EUR '000s
Dividends resolved and distributed during the fiscal year:		
on common shares:		
Final dividend for 2005: EUR 1 (2004: EUR 1)	**10,495**	**10,495**
Dividends proposed for approval by the Shareholders' Meeting (not recognized as a liability as of December 31)		
on common shares:		
Final dividend for 2006: EUR 1 (2005: EUR 1)	**10,165**	**10,495**

The proposed dividend takes into consideration that the Company holds 330,050 shares of treasury stock that are not ranking for dividends. Should the number of common shares entitled to dividend payments change before the Annual Shareholders' Meeting, the Board of Management will present the Annual Shareholders' Meeting a correspondingly adjusted proposal for appropriation of accumulated profits.

10 Property, plant and equipment

Cost	Land and buildings EUR '000s	Manufacturing plant and equipment EUR '000s	Other plant and equipment EUR '000s	Advance payments and plants under construction EUR '000s	Finance leases EUR '000s	Total EUR '000s
As of Jan. 1, 2006	72,768	120,235	123,011	4,387	5,936	326,337
Additions	743	11,837	10,185	3,911	84	26,760
Disposals	– 192	– 3,803	– 3,652	– 1,398	– 34	– 9,079
Effect of exchange rate differences	– 171	– 3,457	– 713	– 160	44	– 4,457
Reclassifications	1,054	– 4,035	4,643	– 1,835	90	– 83
As of Dec. 31, 2006	**74,202**	**120,777**	**133,474**	**4,905**	**6,120**	**339,478**

Depreciation and impairment	Land and buildings EUR '000s	Manufacturing plant and equipment EUR '000s	Other plant and equipment EUR '000s	Advance payments and plants under construction EUR '000s	Finance leases EUR '000s	Total EUR '000s
As of Jan. 1, 2006	27,462	75,676	91,445	0	1,402	195,985
Additions less current depreciation	2,199	8,495	10,631	0	622	21,947
Disposals	– 165	– 2,338	– 3,480	0	– 20	– 6,003
Effects of exchange rate changes	– 68	– 2,257	– 494	0	16	– 2,803
Write-ups	0	0	0	0	0	0
Reclassifications	275	– 1,516	1,193	0	16	– 32
As of Dec. 31, 2006	**29,703**	**78,060**	**99,295**	**0**	**2,036**	**209,094**
Carrying amount on Jan. 1, 2006	**45,306**	**44,559**	**31,566**	**4,387**	**4,534**	**130,352**
Carrying amount on Dec. 31, 2006	**44,499**	**42,717**	**34,179**	**4,905**	**4,084**	**130,384**

Cost	Land and buildings EUR '000s	Manufacturing plant and equipment EUR '000s	Other plant and equipment EUR '000s	Advance payments and plants under construction EUR '000s	Finance leases EUR '000s	Total EUR '000s
As of Jan. 1, 2005	68,722	105,206	110,247	2,986	5,658	292,819
Additions	3,512	12,601	11,393	4,075	273	31,854
Disposals	– 510	– 3,408	– 3,569	– 285	– 18	– 7,790
Effect of exchange rate differences	1,795	6,088	1,538	10	23	9,454
Reclassifications	– 751	– 252	3,402	– 2,399	0	0
As of Dec. 31, 2005	**72,768**	**120,235**	**123,011**	**4,387**	**5,936**	**326,337**

Depreciation and impairment	Land and buildings EUR '000s	Manufacturing plant and equipment EUR '000s	Other plant and equipment EUR '000s	Advance payments and plants under construction EUR '000s	Finance leases EUR '000s	Total EUR '000s
As of Jan. 1, 2005	25,451	64,664	82,031	0	872	173,018
Additions less current depreciation	2,294	9,304	10,361	0	536	22,495
Disposals	– 212	– 1,803	– 3,043	0	– 13	– 5,071
Effect of exchange rate differences	621	3,962	994	0	7	5,584
Reclassifications	– 692	– 451	1,102	0	0	– 41
As of Dec. 31, 2005	**27,462**	**75,676**	**91,445**	**0**	**1,402**	**195,985**
Carrying amount on Jan. 1, 2005	**43,271**	**40,542**	**28,216**	**2,986**	**4,786**	**119,801**
Carrying amount on Dec. 31, 2005	**45,306**	**44,559**	**31,566**	**4,387**	**4,534**	**130,352**

Liabilities to banks in the amount of EUR 2,000 thousand (2005: EUR 2,889 thousand) are secured by mortgages. Other non-current assets (manufacturing plant and equipment) were assigned to secure a loan with an outstanding balance of EUR 1,278 thousand (2005: EUR 1,790 thousand).

Depreciation is essentially based on the following useful economic lives:

Buildings and fixtures	10 to 40 years
Land improvements	5 to 40 years
Manufacturing plant and equipment	5 to 25 years
Other plant and equipment	2 to 15 years
Leased assets (finance leases)	3 to 12 years

Land is not depreciated.

We have entered into various finance and operating leases for manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between 3 and 12 years. Most of the leases do not provide for renewal or purchase options, with the exception of some buildings and equipment.

The leased assets, which are recognized as belonging to Grammer due to their commercial content as specified in IAS 17, are composed of the following:

	Plant	Equipment	Motor vehicles	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost				
As of Jan. 1, 2005	5,225	84	349	5,658
Additions	9	23	241	273
Disposals	0	0	– 18	– 18
Exchange differences	3	4	16	23
As of Dec. 31. 2005	5,237	111	588	5,936
Depreciation and impairment				
As of Jan. 1, 2005	777	17	78	872
Additions	441	8	87	536
Disposals	0	0	– 13	– 13
Exchange differences	0	1	7	7
As of Dec. 31, 2005	1,218	26	159	1,402
Carrying amount on Dec. 31, 2005/as of Jan. 1, 2006	**4,019**	**85**	**429**	**4,535**
Cost				
As of Jan. 1, 2006	5,237	111	588	5,936
Additions	0	0	84	84
Disposals	0	0	– 34	– 34
Reclassifications	0	0	90	90
Exchange differences	0	0	44	44
As of Dec. 31, 2006	5,237	111	772	6,120
Depreciation and impairment				
As of Jan. 1, 2006	1,218	26	159	1,402
Additions	436	14	172	622
Disposals	0	0	– 20	– 20
Reclassifications	0	0	16	16
Exchange differences	0	0	16	16
As of Dec. 31, 2006	1,654	40	343	2,036
Carrying amount on Dec. 31, 2006	**3,583**	**71**	**430**	**4,084**

Under the finance leases, the following payments (including guaranteed residual values) are due in subsequent periods:

	Up to 1 year	Between 1 and 5 years	More than 5 years
	EUR '000s	EUR '000s	EUR '000s
2005			
Lease payments	1,189	2,204	0
less interest cost on a discounted basis	– 163	– 90	0
Present values	1,026	2,114	0
2006			
Lease payments	2,240	101	0
less interest cost on a discounted basis	– 84	– 11	0
Present values (as stated in the balance sheet)	2,156	90	0

The following minimum lease payments will be due in the future for assets leased under **operating leases:**

	Up to 1 year	Between 1 and 5 years	More than 5 years
	EUR '000s	EUR '000s	EUR '000s
2005			
Lease payments	8.788	27.689	0
2006			
Lease payments	10.943	28.936	8.074

Property, plant and equipment held for sale

No property, plant and equipment was held for sale in 2006. Property, plant and equipment held for sale consisted of the following in 2005:

	EUR '000s
Carrying amount on Dec. 31, 2004/as of Jan. 1, 2005	**1,953**
Cost	
As of Jan. 1, 2005	3,741
Disposals	– 3,741
As of Dec. 31, 2005	0
Depreciation and impairment	
As of Jan. 1, 2005	1,788
Disposals	– 1,788
As of Dec. 31, 2005	0
Carrying amount on Dec. 31, 2005	**0**
Carrying amount on Dec. 31, 2006	**0**

The gains and losses were reported in other income in 2005.

11 Intangible assets

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
As of Jan. 1, 2006	17,698	46,101	3,871	5	67,675
Additions	2,424	0	2,914	39	5,377
Disposals	– 4,777	0	0	– 5	– 4,782
Effect of exchange rate differences	– 6	0	0	0	– 6
Reclassifications	83	0	0	0	83
As of Dec. 31, 2006	**15,422**	**46,101**	**6,785**	**39**	**68,347**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Amortization and impairment	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
As of Jan. 1, 2006	15,384	12,151	638	0	28,173
Additions less current amortization	1,356	0	359	0	1,715
Disposals	– 4,777	0	0	0	– 4,777
Effect of exchange rate differences	3	0	0	0	3
Reclassifications	32	0	0	0	32
As of Dec. 31, 2006	**11,998**	**12,151**	**997**	**0**	**25,146**
Carrying amount on Jan. 1, 2006	**2,314**	**33,950**	**3,233**	**5**	**39,502**
Carrying amount on Dec. 31, 2006	**3,424**	**33,950**	**5,788**	**39**	**43,201**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
As of Jan. 1, 2005	17,318	46,101	3,871	0	67,290
Additions	1,383	0	0	5	1,388
Disposals	– 1,150	0	0	0	– 1,150
Effect of exchange rate differences	147	0	0	0	147
As of Dec. 31, 2005	**17,698**	**46,101**	**3,871**	**5**	**67,675**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Amortization and impairment	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
As of Jan. 1, 2005	14,801	12,151	320	0	27,272
Additions less current amortization	1, 334	0	318	0	1,652
Disposals	(878)	0	0	0	(878)
Effect of exchange rate differences	127	0	0	0	127
As of Dec. 31, 2005	**15,384**	**12,151**	**638**	**0**	**28,173**
Carrying amount on Jan. 1, 2005	**2,517**	**33,950**	**3,551**	**0**	**40,018**
Carrying amount on Dec. 31, 2005	**2,314**	**33,950**	**3,233**	**5**	**39,502**

Computer software is amortized under the straight-line method over an expected useful life of 3 to 6 years.

Capitalized development costs relate to internally generated patents and are amortized on a straight-line basis over an expected useful life of 1 to 19 years. Total research and development costs amounted to EUR 46,120 thousand in 2006 (2005: EUR 45,132 thousand). Of these costs, an amount of EUR 2,372 thousand (2005: EUR 0 thousand) met the criteria for capitalization stipulated in IAS 38.

Goodwill from business combinations was allocated to cash-generating units (CGUs) as follows:

The Driver Seats, Passenger Seats and Automotive product segments represent the primary economic basis of the Grammer Group. For purposes of impairment testing, goodwill was allocated to cash-generating units (CGUs) as follows:

	Product segment	Dec. 31, 2006 Carrying amount of goodwill	Dec. 31, 2005 Carrying amount of goodwill
CGU I	Driver Seats	2,669	2,669
CGU II	Passenger Seats	1,889	1,889
CGU III	Automotive	29,392	29,392

The recoverable amount of cash-generating unit III (Automotive) was determined on the basis of the present value of estimated future cash flows. Estimated future cash flows are forecast for a three-year period using budgets authorized by Company management and the prevailing discount rate of 11.6%. Cash flows after this three-year period are extrapolated without taking growth rates into account.
No impairment losses were recognized since the recoverable amounts of the individual cash-generating units exceeded the respective carrying amounts.

12 Other investments

Subsidiaries with suspended or low-level operations that are insignificant to a true and fair view of the financial position and financial performance of the Grammer Group were not included in the consolidated financial statements. Total equity contributed by these subsidiaries amounted to 0.3% of Group equity (2005: 0.3%). The Grammer Group measures investments in associates that are not included in the consolidated financial statements at cost. These investments relate to the companies Grammer Argentina S.A., Buenos Aires, Argentina (EUR 339 thousand; 100%), Grammer Kaliningrad, Kaliningrad, Russia (EUR 78 thousand; 97%) and Grammer France SARL, Limonest, France (EUR 11 thousand; 100%) as well as domestic companies GrammPlast GmbH, Amberg, Germany (EUR 30 thousand; 60%) and Grammer Wörth GmbH, Wörth, Germany (EUR 25 thousand; 100%). As of the reporting date, no impairment losses had been recognized based on a lower fair value.

13 Other financial assets (non-current)

	2006	2005
	EUR '000s	EUR '000s
Loans to joint ventures	3,614	4,095
Securities	1,157	1,881
Miscellaneous	132	155
	4,903	**6,131**

Loans to joint ventures include one loan in a currency other than Group currencies at a fair value at the time of its extension of EUR 5,121 thousand (2005: EUR 5,189 thousand) and was measured at the fair value on the reporting date of EUR 3,614 thousand (2005: EUR 4,095 thousand). The loan serves the purpose of hedging the Group's currency risk arising from the investment in GRA-MAG. The associated exchange rate fluctuations were recognized directly in equity. The securities are considered to be assets available for sale.

14 Inventories

	2006	2005
	EUR '000s	EUR '000s
Raw materials and supplies	49,577	47,735
Work in progress	10,980	9,438
Finished goods and services	18,209	16,587
Advance payments	6,634	6,461
Total inventories	**85,400**	**80,221**

All inventories are stated at cost. No significant impairment losses were recognized based on a lower fair value.

15 Trade accounts receivable, other receivables and assets (current)

The fair values of trade accounts receivable correspond to their carrying amounts. Some of the trade accounts receivable in foreign currencies were hedged by means of currency forwards. No restrictions on ownership or disposition existed. Impairment losses were recognized in individual cases based on careful reviews of collectibility; however, they are overall of no significance.

Other receivables and assets

	Dec. 31, 2006	Dec. 31, 2005
	EUR '000s	EUR '000s
Receivables from construction contracts	35,113	19,014
Other assets	12,667	10,257
Prepaid expenses	3,827	3,345
	51,607	**32,616**

Receivables due from associates primarily relate to trade receivables.

Other assets mainly include pass-through tax claims such as value-added taxes in the amount of EUR 6,301 (2005: EUR 6,149 thousand) thousand, receivables due from employees of EUR 229 thousand (2005: EUR 134 thousand) and receivables due from creditors with debit balances of EUR 300 thousand (2005: EUR 666 thousand).

No significant restrictions on ownership or disposition existed for the other receivables and assets reported, and no impairment losses were recognized. Most of the above-mentioned receivables are non-interest bearing.

16 Current financial assets

Current financial assets include fixed-interest securities totaling EUR 11,003 thousand (2005: EUR 0 thousand) as well as positive fair values of derivative financial instruments in the amount of EUR 1,050 thousand (2005: EUR 145 thousand). The carrying amounts correspond to the fair values on the reporting date.

17 Cash and short-term deposits

The company has bank balances at different banks in various currencies.

The bank balances have variable interest rates and can be withdrawn on demand. Short-term deposits are made for various terms of between one day and three months depending on the Group's current payment requirements. The deposits accrue interest at the current interest rates for demand deposits. The fair value of cash and cash equivalents corresponds to the carrying value.

18 Subscribed capital and reserves

As of December 31, 2005 and December 31, 2006, subscribed capital of the Grammer Group amounted to EUR 26,868 thousand divided into 10,495,159 common shares, each with a par value of EUR 2.56. On the reporting date, the Group had subscribed capital of EUR 13,434 thousand that may be used for the issue of new common bearer shares on one or more occasions prior to August 25, 2011.

The capital reserve amounted to EUR 58,237 thousand as of December 31, 2006 (December 31, 2005: EUR 58,237 thousand). The capital reserve includes share premiums from the capital increase in 1996 as well as the capital increase in 2001.

The legal reserve of Grammer AG amounted to EUR 1,183 thousand as of December 31, 2005 and December 31, 2006.

Retained earnings reflect income earned in the past by the companies included in the consolidated financial statements, provided such income was not paid out as dividends. In addition, retained earnings contain the adjustments from the initial conversion from HGB to IFRS. Retained earnings increased 13.5% over the previous year to EUR 90,158 thousand. In fiscal 2006, retained earnings increased by the amount of net income of EUR 21.3 million and decreased by dividend payments for 2005 amounting to EUR 10.5 million. Retained earnings were reduced by the offsettable value of the repurchase of treasury stock from the stock buyback program of EUR 7.4 million.

Other reserves mainly comprise adjustments arising from the translation of the financial statements of foreign subsidiaries, the effects of the subsequent measurement of financial instruments in equity, and net investments in foreign operations in accordance with IAS 21 as well as the related deferred taxes. Other reserves declined from EUR 8,741 thousand to EUR 6,470 thousand.

Grammer AG distributes dividends pursuant to Section 58 (2) of the German Stock Corporation Act (AktG) in accordance with the accumulated profits in the financial statements of Grammer AG. Based on the accumulated profits reported in the financial statements of Grammer AG under German commercial law (HGB), distributable profits amount to EUR 25,717 thousand. The Board of Management and the Supervisory Board of Grammer AG will propose to the Annual Shareholders' Meeting of Grammer AG to pay a dividend of EUR 1 per common share, or a total of EUR 10,165 thousand, and to carry forward the rest of the distributable profit of EUR 15,552. The above proposal for appropriation of accumulated profits takes into consideration that the Company holds 330,050 shares of treasury stock that are not ranking for dividends. The number of common shares entitled to dividend payments may change before the Annual Shareholders' Meeting. In such case, the Annual Shareholders' Meeting will present a correspondingly adjusted proposal for appropriation of accumulated profits.

Acquisition of treasury shares

On August 16, 2006, the Board of Management of Grammer AG decided to make use of the authorization of the Annual Shareholders' Meeting of June 28, 2006 to acquire treasury shares under Section 71 I (8) of the German Stock Corporation Act (AktG). From August 16, 2006 to December 1, 2007, the Company may acquire up to 10% of its share capital, i.e., up to 1,049,515 treasury shares. The share repurchase is for the purposes set out in the resolution adopted in the Annual Shareholders' Meeting to provide for both the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares. Bayerische Hypo- und Vereinsbank AG will carry out the share repurchase. It will make its decisions concerning the timing of the stock purchase independent of and free from the influence of Grammer AG. The repurchase of the shares under this Management Board resolution will comply with the safe harbour rules of Sections 14 II, 20 a III of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC)

No. 2273/2003 of December 22, 2003. The 330,050 shares will be purchased on the stock exchange at the acquisition price specified in the resolution of the Annual Shareholders' Meeting and the transaction will be published on the Company's website. The Board of Management has not yet made a proposal regarding utilization of the shares.

As of December 31, 2006, Grammer AG held 330,050 treasury shares. The amount of share capital attributable to them is EUR 844,928.00 and represents 3.1448 % of the share capital.

The following table shows the acquisitions at the respective purchase prices including transaction costs broken down by weeks.

	Shares acquired	Amount of share capital attributable	Proportion of the share capital	Purchase price per share	Cost
Week		EUR	%	EUR	EUR
34	27,520	70,451.20	0.2622	20,4099	561,680.45
35	19,975	51,136.00	0.1903	20,8554	416,586.62
36	20,475	52,416.00	0.1951	21,1613	433,277.41
37	20,475	52,416.00	0.1951	21,0737	431,484.22
38	20,475	52,416.00	0.1951	20,9031	427,990.97
39	20,475	52,416.00	0.1951	21,0088	430,155.18
40	16,380	41,932.80	0.1560	21,5929	353,691.70
41	20,475	52,416.00	0.1951	22,6201	463,146.55
42	20,475	52,416.00	0.1951	23,0759	472,479.05
43	20,475	52,416.00	0.1951	23,4521	480,181.75
44	20,475	52,416.00	0.1951	23,4665	480,476.59
45	20,475	52,416.00	0.1951	23,9850	491,092.88
46	20,475	52,416.00	0.1951	24,0375	492,167.81
47	20,475	52,416.00	0.1951	24,5950	503,582.63
48	20,475	52,416.00	0.1951	24,2722	496,973.30
49	20,475	52,416.00	0.1951	24,7347	506,442.98
	330,050	**844,928.00**	**3.1448**	**22,5463**	**7,441,410.09**

As of December 31, 2006, 10,165,109 common shares (2005: 10,495,159) were in circulation.

Minority interests

Minority interests in equity relate primarily to shareholders in Grammer Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey, Grammer Seating (Xiamen) Ltd, China, and Grammer AD, Bulgaria.

19 Pensions and other post-employment benefits

Pension provisions are recognized for retirement, disability and dependent survivor benefit plans. Benefits paid by the Group vary in accordance with the legal, tax, and economic frameworks in the relevant countries and generally depend on the length of employment and the remuneration paid to the employee.

The Group's occupational pension scheme is based on defined benefit obligations.

These estimates are made in accordance with the projected unit credit method pursuant to IAS 19 (Employee Benefits). Future benefit obligations are measured on the basis of benefit entitlements earned on a pro-rated basis as of the reporting date. When measuring the obligations, assumptions regarding the relevant factors affecting the amount of the benefit are made. It is necessary to make actuarial calculations under all benefit systems.

The calculation of the defined benefit obligation (DBO) for pension commitments is essentially based on the following actuarial assumptions:

	2006	2005
	%	%
Interest rate	4.5	4.4
Salary trend	1.75 p.a.	1.50 p.a.
Salary trend for individual commitments	1.75 p.a.	1.50 p.a.
Inflation rate	1.50 p.a.	1.50 p.a.

The calculation of the defined benefit obligation for other benefits (post-employment benefits) is essentially based on the following actuarial assumptions:

	2006	2005
	%	%
Interest rate	4.00–5.49	4.00
Salary trend	3.0–4.5 p.a.	3.0–4.5 p.a.
Inflation rate	3.0–10.0 p.a.	2.0 p.a.

Mortality and disability rates are generally calculated on the basis of the 2005G Heubeck mortality tables or similar foreign mortality tables. The probability of fluctuation was computed specifically for the Group.

The pension commitments recognized in the balance sheet contain the net liability. No plan assets exist to cover future pension obligations.

In fiscal 2006, pensions of EUR 1,825 thousand (2005: EUR 958 thousand) were paid on pension commitments. A total of EUR 0 thousand (2005: EUR 108 thousand) was paid out for other employee benefits (post-employment benefits).

The following amounts were recognized in the income statement:

	Pension plan	Other benefits
	EUR '000s	EUR '000s
Benefits earned in 2005	1,561	1,025
Interest expense in 2005	2,265	0
Actuarial gains/losses recognized in 2005	0	0
Total	**3,826**	**1,025**
Benefits earned in 2006	1,724	115
Interest expense in 2006	2,278	25
Actuarial gains/losses recognized in 2006	173	0
Total	**4,175**	**140**

The above amounts are generally contained in the personnel expenses of the functional divisions; the interest expense for the respective obligation is reported in the financial result.

The obligations recognized in the balance sheet (deficits) based on employee benefits pursuant to IAS 19 are calculated as follows:

	Pension plan	Other benefits
	EUR '000s	EUR '000s
DBO as of December 31, 2005	52,533	1,025
Unrecognized actuarial losses (–)	– 6,975	0
Provisions as of December 31 , 2005	**45,558**	**1,025**
DBO as of December 31, 2006	54,396	1,165
Unrecognized actuarial losses (–)	– 6,488	0
Provisions as of December 31 , 2006	**47,908**	**1,165**

Accordingly, the change in DBO appears as follows:

		Pension plan	Other benefits
		EUR '000s	EUR '000s
	As of Jan. 1, 2005	46,245	0
+	Benefits earned in 2005	1,561	1,025
+	Interest expense in 2005	2,265	0
–	Actual payments in 2005	– 1,065	0
	Actuarial losses	3,527	0
	As of: Dec. 31, 2005/Jan. 1, 2006	**52,533**	**1,025**
+	Benefits earned in 2006	1,724	115
+	Interest expense in 2006	2,278	25
–	Actual payments in 2006	– 1,825	0
	Actuarial gains/losses	– 314	0
	Total	**54,396**	**1,165**

The change of the assumptions and the changes anticipated according to plan are as follows:

	2006	2005
	EUR '000s	EUR '000s
Anticipated DBO as of December 31 of the particular year	54,710	52,586
Current value of the DBO as of December 31 of the particular year	54,396	52,533
Overfunded/underfunded, thereof	– 314	– 53
experienced-based and occurred structural changes	241	53
changes of the assumptions	73	0

20 Liabilities

Terms of current and non-current liabilities are shown in the following overview:

2006				Remaining term
	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Non-current liabilities				
Non-current liabilities to banks	73,132	0	3,502	69,630
Other non-current liabilities, thereof				
Long-term lease obligations	90	0	90	0
Tax liabilities	105	0	105	0
Miscellaneous non-current liabilities	3,745		10	3,755
	77,072	**0**	**3,707**	**73,385**
Current liabilities				
Bond	0	0	0	0
Current liabilities to banks	14,128	14,128	0	0
Trade accounts payable, thereof				
Advances on orders received	1,663	1,663	0	0
Trade payables	89,868	89,868	0	0
Other current liabilities, thereof				
Short-term lease liabilities	2,156	2,156	0	0
Miscellaneous current liabilities	35,404	35,404	0	0
Financial liabilities	63	63	0	0
Tax liabilities	5,775	5,775	0	0
	149,057	**149,057**	**0**	**0**

2005				Remaining term
	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Non-current liabilities				
Non-current liabilities to banks	4,736	0	4,736	0
Other non-current liabilities, thereof				
Long-term lease obligations	2,114	0	2,114	0
Tax liabilities	112	0	112	0
Miscellaneous non-current liabilities	4,130		22	4,108
	11,092	**0**	**6,984**	**4,108**
Current liabilities				
Bond	42,000	42,000	0	0
Current liabilities to banks	8,435	8,435	0	0
Trade accounts payable, thereof				
Advances on orders received	1,493	1,493	0	0
Trade payables	74,812	74,812	0	0
Other current liabilities, thereof				
Short-term lease liabilities	1,026	1,026	0	0
Miscellaneous current liabilities	35,506	35,506	0	0
Financial liabilities	2,201	2,201	0	0
Tax liabilities	7,436	7,436	0	0
	172,909	**172,909**	**0**	**0**

Non-current liabilities to banks relate to a long-term promissory note and the long-term portion of various loans in euros with interest rates of between 3.5% and 4.84% per annum. The last payments are due on these loans in 2009.

In an agreement dated August 22, Grammer AG raised a promissory note with a total principal amount of EUR 70 million at an interest rate of 4.82%. Among other things, this promissory note replaces the bond to be repaid. The promissory note was disbursed in two tranches of approximately EUR 30 million on August 28, 2006 and of approximately EUR 40 million on October 18. It has a term running until August 28, 2013 and must be repaid at the principal amount.

The other loans have a term running until 2009 and are due for repayment on a quarterly basis. Except for EUR 1.0 million which is tied to EURIBOR, the loans are fixed interest loans.

Liabilities to banks in the amount of EUR 2,000 thousand (2005: EUR 2,889 thousand) are secured by mortgages. Moreover, non-current assets valued at EUR 1,278 thousand were assigned to one lender as security for a loan (outstanding balance on December 31, 2005: EUR 1,790 thousand).

Other **current liabilities** include:

	Dec. 31, 2006 EUR '000s	Dec. 31, 2005 EUR '000s
Liabilities to employees for outstanding vacation time, overtime, compensation time, etc.	12,493	11,463
Other tax liabilities (VAT, wage taxes, etc.)	5,333	6,001
Social security obligations	2,030	4,671

Income tax liabilities mainly include income taxes for fiscal 2006.

21 Provisions

	Market related provisions EUR '000s	Restructuring EUR '000s	Other provisions EUR '000s	Total EUR '000s
As of Jan. 1, 2005	7,720	4,678	1,740	14,138
Additions	4,650	0	2,961	7,611
Utilization	– 3,403	– 3,914	– 1,765	– 9,082
Reversal	– 219	– 324	– 165	– 708
Effect of exchange rate differences	93	0	17	110
As of Dec. 31, 2005	**8,840**	**440**	**2,788**	**12,068**
Current provisions in 2005	8,840	440	2,788	12,068
Non-current provisions in 2005	0	0	0	0
As of Jan. 1, 2006	8,840	440	2,788	12,068
Additions	2,461	0	612	3,073
Utilization	– 3,791	– 320	– 79	– 4,190
Reversal	– 1,170	– 120	– 24	– 1,314
Effect of exchange rate differences	– 370	0	0	– 370
As of Dec. 31, 2006	**5,970**	**0**	**3,297**	**9,267**
Current provisions in 2006	5,970	0	3,297	9,267
Non-current provisions in 2006	0	0	0	0

Market related provisions contain provisions covering all risks from the sale of parts and products, including development costs. These primarily relate to warranty claims calculated on the basis of previous claims and estimated future claims. This item also includes provisions for rebates, bonuses, etc. that must be granted based on legal or constructive obligations and are payable after the reporting date but were caused by sales prior to the reporting date.

Provisions for **restructuring** include restructuring obligations and changes relating to personnel, production processes and operating facilities.

Other provisions refer to obligations related to personnel and social benefits such as partial retirement schemes and anniversary bonuses as well as a number of identifiable specific risks and contingent liabilities, for instance provisions for litigation costs, which are recognized at their probable amounts.

22 Cash flow statement

Cash flows are separated into cash inflows and outflows from operating activities, investing activities and financing activities in the cash flow statement, regardless of their classification in the balance sheet. To improve the clarity of the information, a more detailed classification was chosen in fiscal 2006 than in the previous year and the previous year's items were broken down accordingly. Cash flow from operating activities is derived indirectly from net income, which is adjusted to include non-cash expenses (primarily depreciation, amortization and impairment) and income. Cash flow from operating activities is calculated under consideration of the change in working capital. Investing activities comprise payments for property, plant and equipment and investments in property, plant and equipment and financial assets, but not additions to capitalized development costs. Financing activities include cash outflows for dividend payments and repayments of loans as well as changes in other financial liabilities. At the Grammer Group, cash and cash equivalents consist of cash and short-term money market funds less current account liabilities to banks.

23 Legal disputes

As protection against legal risks, we work with a system of intensive contract review, contract management and systematic archiving. Sufficient insurance coverage has been taken out for "normal" risks and risks to the Company's ability to continue as a going concern. There were no significant legal disputes in 2006.

24 Contingent liabilities

	Dec. 31, 2006	Dec. 31, 2005
	EUR '000s	EUR '000s
Guarantees	1,647	1,152

Guarantees have been issued for all leased business premises and as contract guarantees to ensure against breaches of contract.

25 Related party disclosures

The consolidated financial statements include the financial statements of Grammer AG as parent and the following subsidiaries:

Name of subsidiary	Registered office	Equity interest
		%
1. Fully consolidated subsidiaries		
1. Grammer do Brasil Ltda.	Atibaia, Brazil	99.99
2. Grammer Seating Systems Ltd.	Bloxwich, England	100.00
3. Grammer Mexicana S.A. de C.V.	Queretaro, Mexico	100.00
4. Grammer Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	99.25
5. Grammer Inc.	Hudson, WI, USA	100.00
6. Grammer Wackersdorf GmbH	Wackersdorf, Germany	100.00
7. Grammer CZ s.r.o.	Most, Czech Republic	100.00
8. Grammer S.r.l.	Monsano, Italy	100.00
9. Grammer Japan Ltd.	Tokyo, Japan	100.00
10. Grammer AD	Trudovetz, Bulgaria	88.35
11. Grammer Automotive GmbH	Amberg, Germany	100.00
12. Grammer System GmbH	Amberg, Germany	100.00
13. Grammer Automotive Metall GmbH	Amberg, Germany	100.00
14. Grammer Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	100.00
15. Grammer Automotive Espanola S.A.	Olérdola, Spain	100.00
16. Grammer Industries Inc.	Piedmont, SC, USA	100.00
17. Grammer Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00
18. Grammer Automotive Polska Sp. Z.o.o.	Bielsko-Biala, Poland	100.00
19. Grammer Seating (Xiamen) Ltd.	Xiamen, China	100.00
20. Grammer Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00
21. Grammer Interior (Changchun) Co. Ltd.	Changchun, China	100.00
2. Proportionately-consolidated companies		
1. GRA-MAG Truck Interior Systems LLC	Novi, MI, USA	50.00

Grammer System GmbH and Grammer Wackersdorf GmbH make use of the exemption as stipulated in Section 264 (3) of the German Commercial Code (HGB).

Conditions for related party transactions

Sales to and purchases by related parties are conducted under market conditions. Outstanding amounts at the end of the fiscal year are unsecured, non-interest bearing and are settled by cash payment. No guarantees exist for receivables or liabilities due from related parties. The Group did not recognize any impairment losses for accounts receivable from related parties as of December 31, 2006 (2005: 0). An impairment test is performed annually by reviewing the financial position of the related party and the market in which the related party operates.

The following table specifies the total amounts of transactions between related parties for the relevant fiscal year:

		Sales to related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
		EUR '000s	EUR '000s	EUR '000s	EUR '000s
Jointly-controlled entities in which the parent is a venturer:					
GRA-MAG Truck Interior Systems LLC	2006	209	0	7,457	0
	2005	337	0	8,349	0

GRA-MAG Truck Interior System LLC Limited

The Group has a 50% stake in GRA-MAG Truck Interior Systems LLC (2005: 50%). GRA-MAG had 26 employees as of December 31, 2006 (2005: 26).

Disclosures on associates not included in the consolidated financial statements

Grammplast, Grammer Kaliningrad and Grammer Wörth are associates with sales of EUR 6,029 thousand (2005: EUR 5,913 thousand). These sales are recognized as Group expenditures. The above companies make payments solely to the Group and the companies have no or only insignificant external sales.

Disclosures on the Board of Management/Supervisory Board

No companies in the Grammer Group entered into any significant transactions with members of the Board of Management or the Supervisory Board of Grammer AG or with any companies on whose management or supervisory boards such persons are represented. This also applies to family members of such persons.

26 Financial instruments

Hedging policy and derivative financial instruments

Within the scope of operating and financing activities, the Grammer Group is exposed in particular to foreign exchange and interest rate fluctuations. The Group's policy is designed to avoid or limit these risks by entering into hedging transactions. The objectives, principles, tasks, and authorities of the finance function are set out in the Group-internal guidelines having binding effect and taking into account the principle of separation of functions. Hedging transactions are coordinated centrally and carried out by Corporate Treasury.

Currency risks

The Company enters into currency forwards in order to hedge foreign currency risk. These transactions relate to exchange rate hedges for the material foreign currency cash flows within the scope of operating activities and are designed to guarantee matching currencies within the scope of financing activities. The Grammer Group hedges proposed revenue and purchases of material in foreign currency over a term of up to 15 months by means of currency forwards. In fiscal 2006, hedging transactions were entered into in order to hedge USD, GBP and CZK exposure. The currency forwards are designated partly as fair value hedges and partly as cash flow hedges. Their market values as of December 31, 2006 amounted to EUR 1,042 thousand (2005: EUR -669 thousand) bzw. EUR –14 thousand.

As of December 31, currency forwards existed which were designated as cash flow hedges and were used to hedge expected future payments in CZK for firm commitments related to trade accounts payable as well as wages and salaries. An amount of EUR 284 thousand in cash flow hedges was recognized in equity and EUR 82 thousand was withdrawn from reserves and recognized in profit or loss.

Interest rate risks

Interest rate risks, i.e. possible fluctuations in the value of a financial instrument due to changes in market interest rates, mainly result from medium-term and long-term receivables and liabilities. Depending on the market situation, the Group enters into interest rate swaps and interest rate caps. These transactions are designated as fair value hedges. As of December 31, 2006, the positive market values of these transactions amounted to EUR 272 thousand, and the negative market values amounted to EUR 264 thousand (2005: EUR 1,387 thousand).

The promissory note with a principal amount of EUR 70.0 million is a fixed interest loan and is not subject to interest rate risks. EUR 1.0 million of the remaining loans are variable interest loans.

The repayment of the remaining loans breaks down as follows:

	Less than 1 year	Between 2 and 3 years	Between 4 and 5 years	More than 5 years
	TEUR	TEUR	TEUR	TEUR
Remaining loans	2,039	3,132	0	0
Promissory note	0	0	0	70,000

Commodity risks

Commodity futures contracts were entered into for hedging price risks related to purchases of commodities. Depending on the market situation, forward transactions were concluded in Brent oil and aluminum (alloy) for hedging expected purchases of plastics and metals. Their market values as of December 31, 2006 amounted to EUR -49 thousand (2005: EUR 0 thousand).

Notional amounts of derivative financial instruments

	Maturity 1 to 5 years	Maturity more than 5 years	Notional amounts Total
	EUR '000s	EUR '000s	EUR '000s
2005			
Interest rate swaps	36,444	10,000	46,444
Interest rate caps	2,250	0	2,250
Currency forwards	35,210	0	35,210
2006			
Interest rate swaps	16,000	10,000	26,000
Interest rate caps	1,500	0	1,500
Currency forwards	33,409	0	33,409
Commodity futures contracts	2,501	0	2,501

The market value of derivates is calculated on the basis of market data on the reporting date and suitable valuation methods. Derivatives were discounted on the basis of the following EUR interest rates as of December 31, 2005 and 2006:

	Interest rate Credit	Interest rate Debit
	%	%
2005		
Interest rate for 4 years	2.42–2.58	3.22–3.97
Interest rate for 5 years	2.42–2.58	3.27–4.02
Interest rate for 7 years	2.42–2.58	3.36–4.11
Interest rate for 10 years	2.42–2.58	3.49–4.24
2006		
Interest rate for 4 years	3.55–3.65	4.18–4.93
Interest rate for 5 years	3.55–3.65	4.18–4.93
Interest rate for 7 years	3.55–3.65	4.20–4.95
Interest rate for 10 years	3.55–3.65	4.25–5.00

Liquidity risk

The supply of liquidity is guaranteed at any time by a liquidity forecast (12 months rolling) focused on ensuring a stable planning horizon as well as by unused lines of credit existing within the Grammer Group.

Credit risk

The credit risk relating to financial assets involves the risk of counterparties failing to discharge their obligations. The maximum amount of this risk is therefore the positive fair values due from the party in question. The risk relating to primary financial instruments is covered by making valuation adjustments for defaults. Since derivative financial transactions are only concluded with top-rated banks and limits are set for each counterparty as part of risk management, the actual risk of default is negligible.

Fair value

The following table shows the carrying amounts and fair values of all of the Group's financial instruments recognized in the financial statements.

	Carrying amount		Fair value	
	2006	2005	2006	2005
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Financial assets				
Cash	18,333	18,029	18,333	18,029
Financial assets (non-current)	4,903	6,131	4,903	6,131
Financial assets (current)	12,053	145	12,053	145
Financial liabilities				
Bank overdrafts	14,128	8,435	14,128	8,435
Interest-bearing loans:				
Liabilities from finance leases and hire purchase contracts				
Fixed-interest bonds	0	42,000	0	42,000
Fixed-interest promissory note	69,630		69,630	
Financial liabilities	63	2,201	63	2,201

The fair value of derivative financial instruments and loans was calculated by discounting expected future cash flows using prevailing market interest rates. The fair value of other financial assets was calculated using market rates.

27 Events after the balance sheet date

Following events had occurred as of March 26, 2006 (date of release for publication).

Change in the Board of Management

Peter Nagel, Member of the Board of Management responsible for Seating Systems of Grammer AG, will be leaving the Company at his own request as of June 30, 2007. After 24 years as Managing Director and Member of the Board of Management, Mr. Nagel will resign from active business life upon reaching his 60th birthday. However, he will continue to be available to the Company until the end of December 2007 as a consultant for the MoTIS project (Modular Truck Interior System). Hartmut Müller has been appointed to succeed him on the Board of Management as of February 1, 2007. Mr. Müller will take over full responsibility for the Seating Systems division as of July 1, 2007. Previously, Hartmut Müller was General Manager North and Eastern Europe, Climate Control, for the Valeo Group.

28 Other disclosures

Headcount

Headcount of the Grammer Group was as follows on an annual average:

	2006	2005
Wage-earning employees	6,612	6,273
Salaried employees	1,998	1,924
Total	**8,610**	**8,197**

The Group had the following headcount on the December 31 reporting date, broken down by segment:

	2006	2005
Driver Seats	2,726	2,760
Passenger Seats	224	226
Automotive	5,831	5,215
Central Services	144	130
Total	**8,925**	**8,331**

Auditors' fees as defined by Section 314 (1) No. 9 of the German Commercial Code

Fees in the fiscal year recognized as expenses for the auditor of the consolidated financial statements amounted to EUR 260 thousand (2005: EUR 210 thousand) for the audit, EUR 0 thousand (2005: EUR 104 thousand) for other audit and assessment services, EUR 8 thousand (2005: EUR 25 thousand) for tax consulting services and EUR 11 thousand (2005: EUR 1 thousand) for other services.

Remuneration paid to the Board of Management and the Supervisory Board

	2006	2005
	EUR '000s	EUR '000s
Total remuneration paid to the Board of Management amounted to	2,568	2,156
The Supervisory Board received total remuneration of	225	138

The variable portion of total remuneration paid to the Board of Management was EUR 414 thousand (2005: EUR 876 thousand). The variable portion of total remuneration paid to the Supervisory Board was EUR 14 thousand (2005: EUR 0 thousand).

The Company paid EUR 174 thousand (2005: EUR 206 thousand) to former members of management/the Board of Management and their survivors.

Pension obligations to former members of management/the Board of Management or their survivors amounted to EUR 2,348 thousand in accordance with IAS 19 (2005: EUR 2,659 thousand).

In addition, current service cost for allocations to pension provisions arose for active members of the Board of Management in the amount of EUR 86 thousand (2005: EUR 100 thousand). Of that amount, EUR 25 thousand was attributable to Mr. Ponnath, EUR 32 thousand to Mr. Nagel, and EUR 29 thousand to Mr. Wöhner.

Individual remuneration of the members of the Board of Management was as follows in fiscal year 2006:

	Non-performance-related components	Performance-related components	Components providing long-term incentive	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Alois Ponnath	325	125	0	450
Peter Nagel	294	143	0	437
Uwe Wöhner	321	146	0	467
Heinz-Jürgen Otto (until Mar. 31, 2006)	1,214	0	0	1,214
	2,154	**414**	**0**	**2,568**

Pursuant to Section 285 Sentence 1 No. 9a) Sentence 3 of the German Commercial Code, the performance-related components include partial incentive compensation amounts for fiscal 2005 that previously were not included in financial statements. They are divided into amounts of EUR 15 thousand for Mr. Ponnath, EUR 16 thousand for Mr. Nagel, and EUR 23 thousand for Mr. Wöhner.

Of the remuneration stated for Mr. Otto, EUR 1,100 thousand is attributable to the period after the end of his activity on the Board of Management as of March 31, 2006.

Individual remuneration for the members of the Supervisory Board was as follows:

	Fixed remuneration	Performance-based remuneration	Total
	EUR '000s	EUR '000s	EUR '000s
Dr. Bernd Blankenstein	32.0	1.2	33.2
Jürgen Ganss	24.0	1.2	25.2
Wolfram Hatz	16.5	1.2	17.7
Dr. Rolf-Dieter Kempis	14.0	1.2	15.2
Georg Liebler	18.0	1.2	19.2
Dr. Klaus Probst	12.7	1.1	13.8
Dr. Bernhard Wankerl	15.5	1.2	16.7
Udo Fechtner	20.5	1.2	21.7
Tanja Jacquemin	15.5	1.2	16.7
Anton Kirschbauer	14.0	1.2	15.2
Monika Kugler-Fleischmann	14.0	1.2	15.2
Horst Übelacker	14.0	1.2	15.2
	210.7	**14.3**	**225.0**

29 Corporate Governance

Declaration of Compliance in accordance with Section 161 of the Stock Corporation Act on the implementation of the Corporate Governance Code at Grammer AG

On December 7, 2006, Grammer updated its Declaration of Compliance with the German Corporate Governance Code. The Board of Management and Supervisory Board hereby declare pursuant to Section 161 of the Stock Corporation Act that Directives of Grammer AG on the Management of the Company correspond in principle with the recommendations of the Code and will continue to do so in the future. The Declaration is permanently available to the public on our website at www.grammer.com/corporate_governance and has also been included in this financial report.

Corporate bodies

Supervisory Board

Dr.-Ing. Bernd Blankenstein, Aachen
Chairman

Mr. Jürgen Ganss, Schwabach
Deputy Chairman/Employee Representative

Dipl.-Betriebswirt (FH) Wolfram Hatz jun., Ruhstorf

Dr. Rolf-Dieter Kempis, Waldenburg

Mr. Georg Liebler, Möglingen

Dr. Klaus Probst, Heroldsberg
(as of February 17, 2006)

Dr. Bernhard Wankerl, Schwandorf

Mr. Udo Fechtner, Kümmersbruck
Employee representative

Mrs. Tanja Jacquemin, Frankfurt am Main
Employee representative

Mr. Anton Kirschbauer, Ursulapoppenricht
Employee representative

Mrs. Monika Kugler-Fleischmann, Hahnbach
Employee representative

Mr. Horst Übelacker, Hohenburg
Employee representative

Board of Management

Herr Dipl.-Kfm. Alois Ponnath, Kümmersbruck
Spokesman for the Executive Board as of April 1, 2006

Mr. Dipl.-Ing. Peter Nagel, Amberg

Mr. Dipl.-Ing. Uwe Wöhner, Amberg

Mr. Dipl.-Ing. Heinz-Jürgen Otto, Ebermannsdorf
(Chairman of the Board of Management until his resignation on March 31, 2006)

Positions and other offices held by members of the Supervisory Board

Mr. Dr.-Ing. Bernd Blankenstein, Engineer, former Chairman of the Board of Directors of Grammer AG
- Member of the Supervisory Board of Aksys GmbH, Worms
- Member of the Advisory Board of Stabilus GmbH, Koblenz
- Member of the Advisory Board of Berger Safety Textiles GmbH, Maulburg (until December 8, 2006)

Mr. Jürgen Ganss, First Representative of the IG Metall metalworkers' union
- Deputy Chairman of the Supervisory Board of Luitpoldhütte AG, Amberg

Mr. Dipl.-Bw. (FH) Wolfram Hatz Jr., Independent Businessman, Executive Director of Motorenfabrik Hatz GmbH & Co. KG as well as of Hatz Holding GmbH, Ruhstorf a.d. Rott
- Member of the Advisory Board of Dresdner Bank AG, Frankfurt a.M.

Mr. Dr. Rolf-Dieter Kempis, Engineer
- No further offices

Mr. Georg Liebler, former Member of the Board of Management of Kolbenschmidt Pierburg AG, Düsseldorf
- Member of the Advisory Board of E.G.O. Elektrogeräte AG, Zug, Switzerland
- Member of the Board of Directors of E.G.O. Elektro-Gerätebau GmbH, Oberderdingen
- Member of the Board of Directors of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
- Member of the Supervisory Board of Golfclub Monrepos AG, Ludwigsburg

Mr. Dr. Klaus Probst, Engineer, Chairman of the Board of Management of Leoni AG
- Member of the Advisory Board of Lux-Haus GmbH & Co. KG
- Member of the Supervisory Board of Zapp AG, Ratingen (as of June 22, 2006)

Dr. Bernhard Wankerl, Attorney
- No further offices

Mr. Udo Fechtner, Toolmaker
- No further offices

Mrs. Tanja Jacquemin, Political Secretary
- No further offices

Mr. Anton Kirschbauer, Technician
- No further offices

Mrs. Monika Kugler-Fleischmann, Women's Clothing Tailor
- No further offices

Mr. Horst Übelacker, Division Manager, Global Operations
- No further offices

Positions and other offices (as defined by Section 285 of the German Commercial Code) held by members of the Board of Management

Mr. Dipl.-Kfm. Alois Ponnath, Spokesman for the Board of Management (as of April 1, 2006), Division Central Services
- Member of the Board of Directors of Grammer srl, Monsano, Italy
- Member of the Supervisory Board of Grammer AD, Trudovec, Bulgaria
- Member of the Board of Administration of Grammer Automotive Puebla S.A. de C.V., Puebla, Mexico
- Member of the Board of Directors of Grammer Mexicana S.A. de C.V., Querétaro, Mexico
- Deputy Chairman of the Board of Directors of Grammer Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa, Turkey
- Member of the Board of Directors of Grammer Interior (Tianjin) Co. Ltd., Tianjin, China
- Member of the Board of Directors of Grammer Interior (Changchun) Co. Ltd., Changchun, China

Mr. Dipl.-Ing. Peter Nagel, Member of the Board of Management, Division Seating Systems
- President of the Board of Directors of Grammer srl, Monsano, Italy
- President (Board Member) of GRA-MAG Truck Interior Systems, Novi, MI, USA
- Chairman of the Supervisory Board of Grammer AD, Trudovec, Bulgaria
- Member of the Board of Directors of Grammer Industries Inc., Piedmont, SC, USA
- President of the Board of Directors of Grammer Inc., Hudson, WI, USA
- Chairman of the Board of Directors of Grammer Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa, Turkey
- Member of the Board of Directors of Grammer Interior (Tianjin) Co. Ltd., Tianjin, China
- Member of the Board of Directors of Grammer Interior (Changchun) Co. Ltd., Changchun, China

Mr. Dipl.-Ing. Uwe Wöhner, Employee Relations Director, Division Automotive
- Member of the Advisory Board of the German Automobile Association (VDA), Germany
- President of the Board of Directors of Grammer Automotive Española S.A., Olèrdola, Spain
- President of the Board of Directors of Grammer Mexicana S.A. de C.V., Querétaro, Mexico
- Chairman of the Board of Directors of Grammer Automotive Puebla S.A. de C.V., Puebla, Mexico
- Deputy Chairman of the Supervisory Board of Grammer AD, Trudovec, Bulgaria
- Chairman of the Board of Directors of Grammer Industries Inc., Piedmont, SC, USA (as of May 1, 2006)
- Chairman of the Board of Directors of Grammer Interior (Tianjin) Co. Ltd., Tianjin, China
- Chairman of the Board of Directors of Grammer Interior (Changchun) Co. Ltd., Changchun, China

Mr. Dipl.-Ing. Heinz-Jürgen Otto, Chief Executive of Board of Management until March 31, 2006
- Member of the Board of Directors of Grammer Automotive Española S.A., Olèrdola, Spain (until March 31, 2006)
- Member of the Board of Directors of Grammer Industries Inc., Piedmont, SC, USA (until March 31, 2006)
- Member of the Board of Directors of Grammer Interior (Tianjin) Co. Ltd., Tianjin, China (until March 31, 2006)
- Member of the Board of Directors of Grammer Interior (Changchun) Co. Ltd., Changchun, China (until March 31, 2006)

Auditors' Report

We have audited the consolidated financial statements prepared by Grammer Aktiengesellschaft, Amberg, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) are the responsibility of the parent company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, March 14, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schuberth	Helgert
Wirtschaftsprüfer	Wirtschaftsprüfer

Corporate Governance at Grammer AG

At Grammer AG, we attach great importance to the principles of transparent and responsible corporate governance and control. The shareholders' confidence in Group strategy and hence in corporate governance and control depends on their application. For this reason, Grammer AG's guidelines already essentially comply with the recommendations of the German Corporate Governance Code. Furthermore, we also follow the suggestions of the Code.

Declaration of Compliance with the Corporate Governance Code

On December 7, 2006, the Board of Management and Supervisory Board of Grammer AG issued the following Declaration of Compliance and made it – as well as the Declarations of Compliance of previous years – continuously accessible to the shareholders on the website of Grammer AG.

The Board of Management and the Supervisory Board of Grammer AG hereby declare in accordance with Section 161 of the German Stock Corporation Act (AktG) that they are in compliance with and have in the past complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 12, 2006, with the following exceptions:

1. The members of the Supervisory Board, the Board of Management and directors of the Grammer Group are covered by directors & officers liability insurance ("D&O insurance"), though without a deductible (Code item 3.8).

2. Grammer AG has neither a stock option plan nor a comparable system of remuneration oriented toward the long-term success of the company and providing a long-term incentive and involving an element of risk (Code item 4.2.3.).

Explanatory note to 1.: It is the opinion of Grammer AG that a deductible in the D&O insurance is not adequate to further improve the sense of responsibility of the members of the Board of Management and Supervisory Board in fulfilling their responsibilities.

Explanatory note to 2.: In addition to fixed components, the current system of remuneration for the Board of Management also contains variable components that are primarily geared to the success of the Company. It thus partially covers the recommendation of the Corporate Governance Code. The Board of Management has not so far adopted to introduce a stock option plan.

Cooperation between the Board of Management and the Supervisory Board

As a company registered under German law, Grammer AG is subject to the German Corporate Governance Code. The German Stock Corporation Act provides for a system of corporate management and control that stipulates a board of management and a separate supervisory board, both of which have distinct competences.

The Board of Management and Supervisory Board of Grammer AG cooperate closely in controlling and monitoring the Company on a basis of mutual trust. At least once a year – most recently at the Supervisory Board meeting of December 7, 2006 – they meet to ensure that the principles of the Corporate Governance Code are being observed.

The Board of Management informs the Supervisory Board in a comprehensive and timely manner on business developments in the Group, including risk management, through written reports and at the regular meetings. An extraordinary meeting of the Supervisory Board may also be convened to discuss significant events.

Decisions by the Board of Management that require the consent of the Supervisory Board are set out in the rules of procedure.

The Board of Management and Supervisory Board are committed to acting in the corporate interests of Grammer AG. In the past fiscal year, no conflicts of interest of members of the Board of Management and Supervisory Board occurred that required immediate disclosure to the Supervisory Board.

Board of Management

The Board of Management of Grammer AG consisted of four members until March 31, 2006. As of April 1, 2006, after the resignation of Mr. Heinz-Jürgen Otto, the number of members was reduced to three. The appointment of Hartmut Müller as of February 1, 2007 will temporarily increase the number of members of the Board of Management to four – until the planned resignation of Peter Nagel on June 30, 2007. The Board of Management is the managing body of the Company, conducting all of its business and sharing responsibility for the Company's development. The allocation of tasks and cooperation is arranged by way of rules of procedure.

Supervisory Board

In compliance with the German Co-Determination Act and the Company's Articles of Incorporation, the Supervisory Board of Grammer AG consists of twelve members, six elected by the shareholders and six by the employees.

The Board has a sufficient number of independent members with no business or personal relations with the Company or its Board of Management. The period of office of the Supervisory Board is five years.

The Supervisory Board advises and supervises the Board of Management in the management of the Company. It is involved in strategy and planning and in all matters of fundamental importance to the Company.

The Supervisory Board of Grammer AG has established rules of procedure for its work. Three committees exist which are made up of four Supervisory Board members each. They are the standing committee, the finance committee and the staff committee. Pursuant to Section 5.6 of the German Corporate Governance Code, the Supervisory Board examines the efficiency of its activities on a regular basis. For further information on the activities of the Supervisory Board and its committees and on the cooperation between the Supervisory Board and the Board of Management, please refer to the report by the Supervisory Board. This report also lists the names of committee members.

Remuneration of the Board of Management and Supervisory Board

An important component of corporate governance at Grammer AG is reasonable remuneration for the management of the Company. In addition to the fixed amount, the members of the Board of Management are therefore offered performance-related components as pay incentives designed to ensure sustainable growth in corporate value. In determining the fixed amounts, the Supervisory Board takes account not only of the financial situation of the Grammer Group but also the tasks and responsibilities of each individual member of the Board of Management. The performance of each member and of the board as a whole are reviewed on a regular basis. Pay adjustments are based on both aspects. The remuneration of the Supervisory Board also contains a variable, performance-related component. Please refer to page 68 of the Management Report for details of the remuneration system for the Board of Management and Supervisory Board.

Directors' Dealings

Pursuant to Section 15a of the German Securities Trading Act (WpHG), the members of the Board of Management and Supervisory Board and certain other employees having management responsibility must report to our company any acquisition and sale of Grammer shares and financial instruments that refer to the Grammer share. This requirement also applies to persons who are closely related to the groups of persons referenced above. Grammer received no such reports in the year under review.

As of December 31, 2006, the members of the Board of Management and the Supervisory Board, directly or indirectly, held less than 1 percent of the Company's shares – including the shareholdings of persons closely related to a member of the Board of Management or Supervisory Board as defined by Section 15a (1) sentence 2 of the German Securities Trading Act (WpHG).

Shareholders and the Annual Shareholders' Meeting

The shareholders of Grammer AG exercise their rights of co-determination and control at the Annual Shareholders' Meeting, which resolves on all matters in which it has legal competence with binding effect for the Company and for all shareholders. Each no-par-value share entitles its holder to one vote at the Annual Shareholders' Meeting.

All shareholders who provide notification in due time are entitled to participate in the Annual Shareholders' Meeting. Shareholders who cannot attend personally may vote through a proxy of their choice or through a representative voting in accordance with their instructions.

We publish the invitation to the Annual Shareholders' Meeting and the reports and information required for the adoption of resolutions in accordance with the relevant provisions of the German Stock Corporation Act and make them available on the website of Grammer AG (www.grammer.com).

Transparency

The Board of Management and Supervisory Board work continuously to increase the Company's transparency. The principle of providing all target groups simultaneously with the same information has high priority at Grammer AG.

In addition to institutional investors, private investors can also keep up to date with current developments in the Group via the Internet. We publish information on current developments, such as for example the acquisition of treasury stock in 2006, on our website at www.grammer.com. The website also contains all declarations of compliance with the Corporate Governance Code, in-depth information on the Board of Management and the Annual Shareholders' Meeting, annual reports and quarterly reports, a financial calendar of all significant events and publications, ad hoc announcements, directors' dealings, the annual document required by Section 10 German Securities Trading Act as well as further information for investors (e.g. roadshow presentations).

Accounts and Auditing the Financial Statements

Grammer AG prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The financial statements of Grammer AG are prepared in accordance with the German Commercial Code (HGB).

The consolidated financial statements and the financial statements of Grammer AG were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, the auditors appointed by the Annual Shareholders' Meeting. The audits were conducted in accordance with the auditing regulations based on the generally accepted German standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW).

They also included risk management and observance of the reporting requirements on corporate governance in accordance with Section 161 of the German Stock Corporation Act. It was contractually agreed with the auditors that they should inform the Supervisory Board without delay of any grounds for disqualification or impartiality and any facts or events of importance occurring during the audit. There was no occasion for such measures.

Risk Management

Among the principles of good corporate governance is the responsible handling of business risks.
The Board of Management of Grammer AG and the management of the Grammer Group have extensive Group-wide and specific company reporting and monitoring systems at their disposal permitting the identification, assessment and monitoring of these risks. These systems are subject to continuous development and adaptation to changing circumstances and are verified by the independent auditors. Detailed information about risk management at Grammer AG is provided in the Management Report.

Grammer Aktiengesellschaft, Income Statement* *for the year ending December 31, 2006*

	2006	2005
	EUR '000s	EUR '000s
Sales	408,874	407,316
Increase (2005: decrease) in finished goods and work in progress	7,343	– 4,311
Other own work capitalized	779	851
Other operating income	4,074	9,850
Material costs	249,481	249,900
Personnel expenses	118,607	116,497
Depreciation and amortization	10,757	11,370
Other operating expenses	46,200	45,327
Income from investments	23,556	24,381
Write-downs on financial assets and short-term securities	3,226	0
Interest result	– 827	– 1,581
Profit from ordinary activities	**15,528**	**13,412**
Income taxes	4,572	2,502
Other taxes	272	307
Net profit for the year	**10,684**	**10,603**

* Financial statements in accordance with HGB

Grammer Aktiengesellschaft, Balance Sheet* *as of December 31, 2006*

Assets	Dec. 31, 2006	Dec. 31, 2005
	EUR '000s	EUR '000s
A. Fixed assets		
Intangible assets	1,994	1,616
Tangible assets	43,111	42,129
Financial assets	95,007	85,985
	140,112	**129,730**
B. Current assets		
Inventories	39,852	33,270
Receivables and other assets	98,374	104,536
Securities	18,444	0
Cheques, cash on hand, and bank balances	3,039	3,070
	159,709	**140,876**
C. Prepaid expenses	**438**	**739**
	300,259	**271,345**

* Financial statements in accordance with HGB

Liabilities	Dec. 31, 2006	Dec. 31, 2005
	EUR '000s	EUR '000s
A. Equity		
Subscribed capital	26,868	26,868
Capital reserve	58,236	58,236
Revenue reserves	9,098	9,098
Unappropriated retained earnings	25,717	25,528
	119,919	**119,730**
B. Provisions		
Pension provisions	33,303	31,356
Other provisions	20,020	19,393
	53,323	**50,749**
C. Liabilities		
Liabilities to banks	75,329	8,085
Trade accounts payable	29,337	25,352
Other liabilities	22,351	67,429
	127,017	**100,866**
	300,259	**271,345**

* Financial statements in accordance with HGB

Key Financial Indicators: Five-Year Overview

(in EUR million)	IFRS accounting				HGB accounting	
	2006	2005	2004		2003	2002
Group sales	**881.0**	**859.3**	**824.9**		**786.5**	**778.5**
Automotive segment	574.8	569.5	540.3		539.5	531.7
Driver Seats segment	266.3	258.3	238.9		200.9	197.5
Passenger Seats segment	45.2	37.9	47.5		46.8	49.3
Income Statement						
Gross income	127.0	109.1	117.2	Gross profit	335.9	346.7
EBIT	38.9	32.6	40.1		30.9	42.5
EBIT return	4.4 %	3.8 %	4.9 %		3.9 %	5.5 %
Financial result	– 6.9	– 7.2	– 8.4		– 6.4	– 10.0
Earnings before taxes	32.0	25.4	31.8	Profit from ordinary activities	24.5	32.5
Taxes	– 10.7	– 8.7	– 10.5		– 9.2	– 8.4
Net income	21.3	16.8	21.3	Net profit	10.4	23.4
Balance Sheet						
Total assets	476.6	429.7	413.7		356.8	369.4
Non-current assets	193.8	190.2	179.3			
				Fixed assets	144.8	156.0
Current assets	282.8	239.6	234.4			
				Current assets	211.1	212.0
Equity	174.8	173.8	163.9		130.2	128.0
Equity-to-assets ratio	37 %	40 %	40 %		36 %	35 %
Net financial debt	57.9	37.0	50.3		73.6	99.1
Cash flow						
Capital expenditure	32.1	33.0	25.5		21.0	22.5
Depreciation/amortization	23.7	24.1	26.6		30.5	30.4
Cash flow from operating activities	30.9	56.9	51.1		51.9	50.3
Employees (annual average)	**8,610**	**8,197**	**7,707**		**7,369**	**7,302**
thereof in Germany	2,695	2,673	2,582		2,561	2,467
thereof outside Germany	5,915	5,524	5,125		4,808	4,835
Personnel expense	214.2	200.8	190.2		181.8	175.9
Key share data						
Share price at year-end (Xetra, in EUR)	25.79	19.67	24.8		19.29	14.23
Market capitalization (in EUR million)	270.7	206.44	260.28		202.45	149.35
Dividend (in EUR)	1	1	1		0	0.3
Earnings per share (in EUR)	2.09	1.59	2.02		1.00	2.22

Information for Shareholders

Key events in 2007

Annual Press Conference	March 30, 2007, Frankfurt
Analyst Conference on the 2006 Financials	March 30, 2007, Frankfurt
Annual Shareholders' Meeting 2007	June 28, 2007, 9:00 a.m., ACC – Amberger Congress Centrum, Amberg
Report on the First 3 Months 2007	May 11, 2007
Report on the First 6 Months 2007	August 14, 2007
Report on the First 9 Months 2007	November 15, 2007

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