Annual Report 2008

Recognizing trends and making the most of them

Globalization

Mobility

Sustainability

GRAMMER

Key figures GRAMMER Group[1)]

in EUR m

	2008	2007	+/– %
Group revenues	1,007.0	998.1	+ 0.9
Automotive revenue	637.6	657.7	- 3.1
Seating Systems revenue	390.0	363.3	+7.4
Income statement			
EBITDA	55.4	55.6	- 0.4
EBITDA margin (in %)	5.5	5.6	- 0.1 % age point
EBIT	32.0	32.1	- 0.3
EBIT margin (in %)	3.2	3.2	-
Profit before tax	19.6	22.8	- 14.0
Profit after tax	14.1	17.6	- 19.9
Balance sheet			
Total assets	481.0	497.5	- 3.3
Equity	173.0	184.7	- 6.3
Equity ratio (in %)	36	37	- 1.0% age point
Net financial debt	80.2	69.9	- 14.7
Gearing (in %)	46	38	+ 8.0% age point
Capital expenditure	39.9	34.6	+15.3
Depreciation and amortization	23.4	23.5	- 0.4
Employees (at year-end)	8,908	9,527	- 6.5
Key share data			
Share price at year-end (XETRA, in EUR)	6.90	16.02	- 56.9
Number of shares	10,495,159	10,495,159	-
Market capitalization at year-end (in EUR m)	72.4	168.1	- 56.9
Dividend (in EUR)	0.00	1.00	-
Earnings per share (in EUR)	1.38	1.72	- 19.8

1) according to IFRS

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Our vision

Global market leader and trendsetter for offroad seating.
Leading global player for automotive interior components,
passenger seats and seating for commercial vehicles and trains.

Our mission

Strengthening our lead as an innovator. Producing products with superior quality, safety, ergonomics, comfort and value for our customers.

Our fundamental values

1. Balance of interests between employees, customers, shareholders and local communities of GRAMMER
2. Objective, open, clear and timely communication
3. Respect, transparency and trust
4. Head, heart, hand philosophy
5. Empowerment and employee fulfillment

GBS stands for the GRAMMER Business System, a strategic management tool implemented throughout the Group since the third quarter of 2008, which is designed to optimize the processes and workflows in all areas of operation.

Company profile

GRAMMER AG, Amberg, Germany is specialized in the development and production of components and systems for automotive interiors, as well as driver and passenger seats for offroad vehicles, trucks, busses and trains. With roughly 9,000 employees, GRAMMER has facilities worldwide and is a leading global player in the automotive and seating segments.

Our divisions

Seating Systems

Around the world, GRAMMER Seating Systems develops and produces driver and passenger seats for agricultural and construction vehicles, forklifts, trucks, busses and trains. Following the "Design for use" philosophy, GRAMMER Seating Systems products are made to be ergonomic, user-friendly, comfortable and safe. With our innovate systems, GRAMMER is the global leader in seats for offroad vehicles, and is among the top producers of truck, bus and train seats.

Key business segments

- Offroad
  Driver seats for commercial vehicles
  (tractors, construction machinery, forklifts)

- Truck & Bus
  Driver seats for trucks and busses

- Railway
  Train passenger seats

Key figures

in EUR m

	2008	2007
Revenue	390.0	363.3
EBIT	31.0	24.1
EBIT margin (in %)	8.0	6.6
Capital expenditure	13.7	18.1
Employees at year-end	3,114	3,153

Automotive

Our Automotive division supplies headrests, armrests, center consoles and integrated child safety seats to well-known carmakers and systems suppliers for the automotive industry. Our interior components are distinguished by their comfort, design and safety. Because of our competitive and high-quality products, leading carmakers and automotive system suppliers prize GRAMMER Automotive as a source of new ideas and a driving force for innovation in the area of automotive interior components.

Key business segments

- Headrests

- Armrests

- Center consoles

Key figures

in EUR m

	2008	2007
Revenue	637.6	657.7
EBIT	3.1	10.7
EBIT margin (in %)	0.5	1.6
Capital expenditure	24.9	14.9
Employees at year-end	5,631	6,216

Dear shareholders and business partners of GRAMMER, Dear employees and friends of the Company,

Although global economic conditions degraded, especially in the second half, the past fiscal year was a positive one on the whole for our Company: GRAMMER AG was able to meet its guidance for 2008, and for the first time generated revenues in excess of one billion euros – as compared to the previous year, an increase of nearly one percent. At roughly 32 million euros, operating profit (EBIT) also met expectations, remaining at the previous year's level despite one-time expenses.

This is particularly pleasing given that the Automotive division began experiencing significant order declines in the late summer of 2008, as did the Seating Systems, Truck segment at the end of the year. The worldwide economic downturn in the wake of the financial crisis has had a particular impact on our largest customers. Car manufacturers saw demand fall off substantially since late summer of 2008. Truck makers began reporting significant declines in production volumes near the end of the year, which have accelerated since the beginning of 2009. Revenue development in both divisions of GRAMMER AG has reflected this state of affairs. Whereas results in the Seating Systems division continued to improve in 2008, with a seven percent rise

from left to right

Hartmut Müller
Member of the Executive Board
Division Seating Systems
Quality
Purchasing/SCM
Operations Performance Management
R&D

Alois Ponnath
CFO
Central Services
Investor Relations
Marketing/Communications
Strategy/Corporate Development

Dr. Rolf-Dieter Kempis
CEO
Division Automotive
Human Resources/HR-Director
Internal Control

to 390 million euros, revenue in the Automotive division was down three percent year-over-year, to 638 million euros. This decline mirrors production cuts by German automakers in 2008, which were mild in comparison to the 18-percent drop-off experienced by the US automotive industry.

Especially in the Automotive division, 2008 results reflect costs for the broad restructuring program initiated in 2007. In addition to realignment of the business segments towards greater customer and market orientation, key elements of the restructuring included numerous measures aimed at improving efficiency and optimizing processes in production, realization of savings on material costs and a streamlining of the entire organization. The first positive effects of our collective efforts have already materialized. Personnel productivity has seen a disproportionately large increase as compared to revenues, and our guidance set out in early 2008 was met despite difficult market conditions, is attributable in no small part to the successful implementation of these measures. In the coming years as well, we will maintain the course on which we have set out, to increase transparency and efficiency in all areas through lean management and lean manufacturing. The strong performance by the Seating Systems division over the past year strengthens our resolve. As it has in previous years, this area proved once again in 2008 to be the motor of growth and key to the success of GRAMMER Group. Revenue and earnings were improved substantially over the previous year, and market leadership in the Offroad segment was further solidified.

We consistently pursued our goal in 2008 to push forward with an even greater international presence. With steps such as:

- set-up of the plant in Serbia to produce interior components,
- expansion of our Shanghai location into an Asian research and development center and production site for interior components,
- growth of center console business in North America and Asia,
- entry into the Russian truck market with the customer KAMAZ and
- enlargement of our manufacturing capacities for suspended seats in China,

we not only take advantage of local production advantages, but also achieve greater proximity to our customers – a crucial factor in the ability to penetrate new markets.

For the current fiscal year, however, we anticipate difficult conditions. Like the Automotive division, Seating Systems is now faced with a clearly negative trend. Although the number of new vehicle registrations in Germany increased significantly with introduction of the new scrap bonus in February 2009, it remains to be seen whether this will result in a sustained recovery of the market. The funding made available by the government is limited, and the stimulus package does not benefit every car manufacturer equally. Moreover, based on our current order situation, the initial effects seem to be exhausting themselves in inventory selloffs and in the small

and compact car segments. The markets have collapsed worldwide, recently even in the formerly lucrative emerging countries, for which reason the Executive Board must anticipate revenue declines of between 25 and 30 percent in the first half of the year. In light of this economic situation and the one-time costs that can be expected for related capacity adjustments, we assume operative results will be negative in the first half. Looking at the example of General Motors and Opel, it is clear that the impact of the financial crisis on the automotive industry is far from played out. Thus, any projections with respect to customer orders for the full year would be based on pure speculation at this point in time.

Our focus in these uncertain days is on the ability to react quickly to new situations, strengthening the long-term profitability of both divisions and preparing for the time after the crisis. This also means that, in addition to the steps already taken such as introduction of short-time work, reduction in the number of temporary workers and production relocations, further headcount measures, particular, will be unavoidable. When it comes to such difficult decisions, the Executive Board finds itself in a balancing act between its responsibility to protect the existence of the Company and faithfulness to the basic values of GRAMMER, which call upon them to act in the interest of the individual employees.

This is one of the reasons that the GRAMMER AG Executive Board will propose to the Annual General Meeting on May 28, 2009 that no dividend be paid for the past fiscal year. Despite the positive development in 2008 and the persistently solid financial situation of the Company – the equity ratio remains at a stable 36 percent – uncertainty over the further performance of the global economy and a substantial burden to be expected from structural measures dominate the outlook for 2009. The priority must therefore be on furnishing an adequate financial safety net for ongoing operations.

As the crisis progresses, however, we do not want to forget to emphasize the strengths of GRAMMER AG. With highly developed, innovative quality products, we have successfully grown from a small regional producer to a global player. GRAMMER built up its position over time by being among the first to recognize and capitalize upon new trends. This ability to adapt and grow has benefited the Company in terms of products, corporate culture and organization. This year's Annual Report highlights three current trends and how GRAMMER AG has incorporated them into its business. We intend to continue this success story in the future as well, through implementation of effective management tools. We target to further improve our position as world market leader and trend-setter for seating systems in the Offroad segment and remain a leading manufacturer of seats for trucks, trains and busses, as well as interior components for the automotive industry. Systematic realization of this vision has been supported since the third quarter of 2008 by the GRAMMER Business System (GBS). Standardized processes, workflows

and formats, implemented in all areas of the Company, throughout the production process and product development, in supply chain management and in research & development, are the pillars of GBS. At its foundations are our organizational structure, corporate culture and Total Quality Management system. Our vision, mission, values and guidelines are the roof of our GBS house. Thus, GBS is to become the most important instrument of strategic company development and planning for the GRAMMER Group.

The thanks of the Executive Board this year go out to our customers, with most of whom we have a long-standing relationship, and especially to our employees, who provide a solid foundation for our Company. After more than 50 years of success, let us now look hopefully to the future, working together to overcome any difficulties we may face in 2009. Finally, I thank our shareholders for their persistent trust.

Sincerely,

Dr. Rolf-Dieter Kempis
Chairman of the Executive Board of GRAMMER AG

Trend scouting means critically examining ourselves – our company, our products, our strategy – in light of the processes of change occurring in society, business and culture. From this we develop our own evolutionary path, which sets us apart from the competition and gives us a decisive edge.

Matthias Horx, Trend Scout

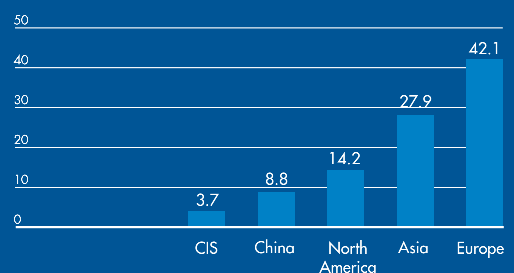
Globalization

International trade began with European colonialism, and has accelerated enormously in recent years. From 1950 to 2004, real global export volumes increased by 2,650 percent. Technological advancement, particularly in the areas of transportation and communication, as well as the increasing liberalization of global trade, have resulted in close linkages between business, politics and culture.

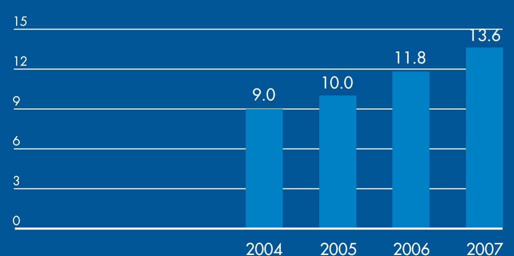
Global trade as a growth engine – opportunities and responsibilities

In business, globalization is based on the concept of the global distribution of labor, whereby a country can cover segments of the value chain according to its own strengths. The number of people involved in the global economy has tripled over the past 20 years to nearly three billion. One positive effect of globalization has been the loosening of the Western world's consumption monopoly. Nations that open the doors to global economic involvement normally exhibit stronger growth. The resulting complex of commercial activity offers companies plentiful opportunities to position themselves globally, to profit from the international transfer of knowledge and technology, and to conquer new markets. In this context, the number of transnational corporations has risen since the start of the nineteen eighties from about 17,000 to more than 70,000. Countries such as China, India and Russia have grabbed attention as production sites and new markets with enormous potential. However, worldwide industrialization has also presented companies with some completely new challenges. Globalism also means global responsibility: Fair prices, humane working conditions and protection of the environment and resources are key criteria that extend beyond national borders.

Share of global exports 2006[1] (in %)



Worldwide export of goods[2] (in USD trn)



1) reference: www.akademie-welthandel.de
2) reference: Bundeszentrale für politische Bildung, www.bpb.de

At more than 30 locations in 17 countries, roughly 9,000 employees develop and manufacture innovative products designed to meet the challenges of global competition.

In Asia GRAMMER AG is currently represented by four sites located in China and Japan.

Customer proximity worldwide
Increasing market dynamics, utilization of cost advantages, tapping new sales potential and the heightened international involvement of our customers and suppliers are the primary drivers of our global presence.

Since our early days as a regional provider of seat cushions, the GRAMMER Group has developed over the course of the last 50 years into a global player in the automotive and commercial vehicle industries. Today, we can be found on four continents with 23 companies and more than 30 production and distribution sites in 17 countries. Every day, roughly 9,000 employees develop and produce innovative and flexible solutions designed to meet the challenges of global competition – always in close proximity to our customers and with a particular focus on the highest standards of quality. Around the world, we work in all product and service segments along the entire value chain.

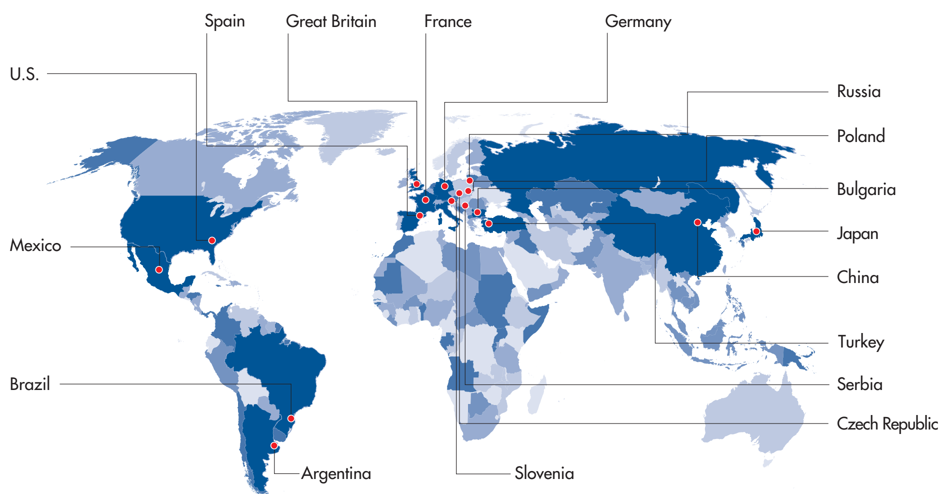
Through our proximity, we guarantee our customers production flexibility and just-in-time/just-in-sequence delivery, as well as optimum reliability. We are also able to fully exploit the advantages of our locations, such as lower production costs, strong technological know-how or a highly skilled local workforce. At the Shanghai location (which was expanded in fiscal year 2008), for example, our close proximity to customers is coupled with the advantage of low labor costs. At our development centers in Germany, China and the US, our engineers generate new ideas and thereby strengthen our position as a key trendsetter and innovation leader in all of our important core markets.

As a company operating around the world, we are aware of the responsibilities this entails: The GRAMMER AG Company Guidelines and Code of Conduct apply worldwide, whether in Germany, Brazil, China or elsewhere.

Milestones of our growing international engagement in 2008:

- Expansion of market leadership in the Offroad segment in Europe and Latin America
- Entering the Russian truck market with the customer KAMAZ
- Supplying passenger seats to Dubai Metro for all 295 cars on the system's first two lines
- Setting up a low-cost cut & sew location in Serbia to produce interior components for the automotive industry
- Enlargement of the Shanghai location to serve as a research and development center in Asia and a production site for interior components
- Growth of center console business in North America and Asia
- Expansion of our manufacturing capacities for suspended seats in China

GRAMMER Locations



Mobility

Our lives – professional and personal – are mobile. Within the last 100 years, business appointments, personal trips, overseas stays and relocation have rapidly raised the number of kilometers per year that each person travels. At the beginning of the last century, easily 90 percent of Europeans had never traveled more than 20 kilometers from their birthplace; today the average distance traveled daily by a person living in Europe is around twice that. Emerging countries, in particular, are now experiencing a rapid increase in traffic.

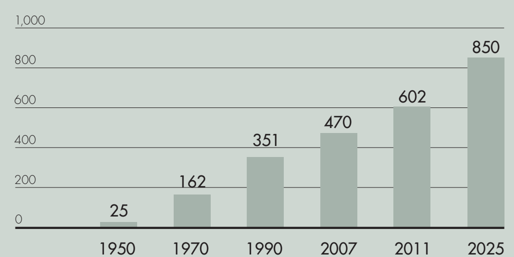
Individual transport vs. rail transport

Several trends are currently underway in Europe: Every citizen is on the move an average of 90 minutes per day. 31 percent of this represents recreational traffic, which is growing steadily. A rising number of households have at least one car, and it is being used more and more often as compared to public transportation. In Asia, by contrast, rail traffic is booming. The expansion of the transportation infrastructure in Asia parallels the region's economic growth, which can be clearly seen in the more than 4,000-kilometer annual increase in rail network. Nearly 60 percent of this growth is taking place in the People's Republic of China.

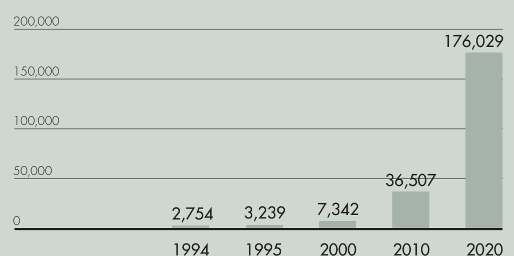
Safety and comfort

Mobility also has an impact on our everyday environment: In the working world, so called "third places" have developed as workplaces outside of the company. Moreover, home offices and WLAN hotspots make it possible to work from nearly anywhere. And it is impossible to imagine our mobile lives without our cell phones. In addition to the need for practical aids, the demands for travel safety and comfort have also risen. Given the growing demand for transportation worldwide, their development entails competition with respect to cost, comfort and safety. Airbags, ABS and passenger protection are examples of the increased safety focus in the car making industry.

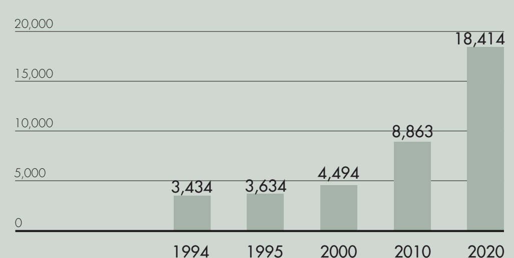
Germany: Development and forecast of traffic volumes[1]
(in billion km traveled)



China: Development and forecast of cars on the road[2] (in 1,000)

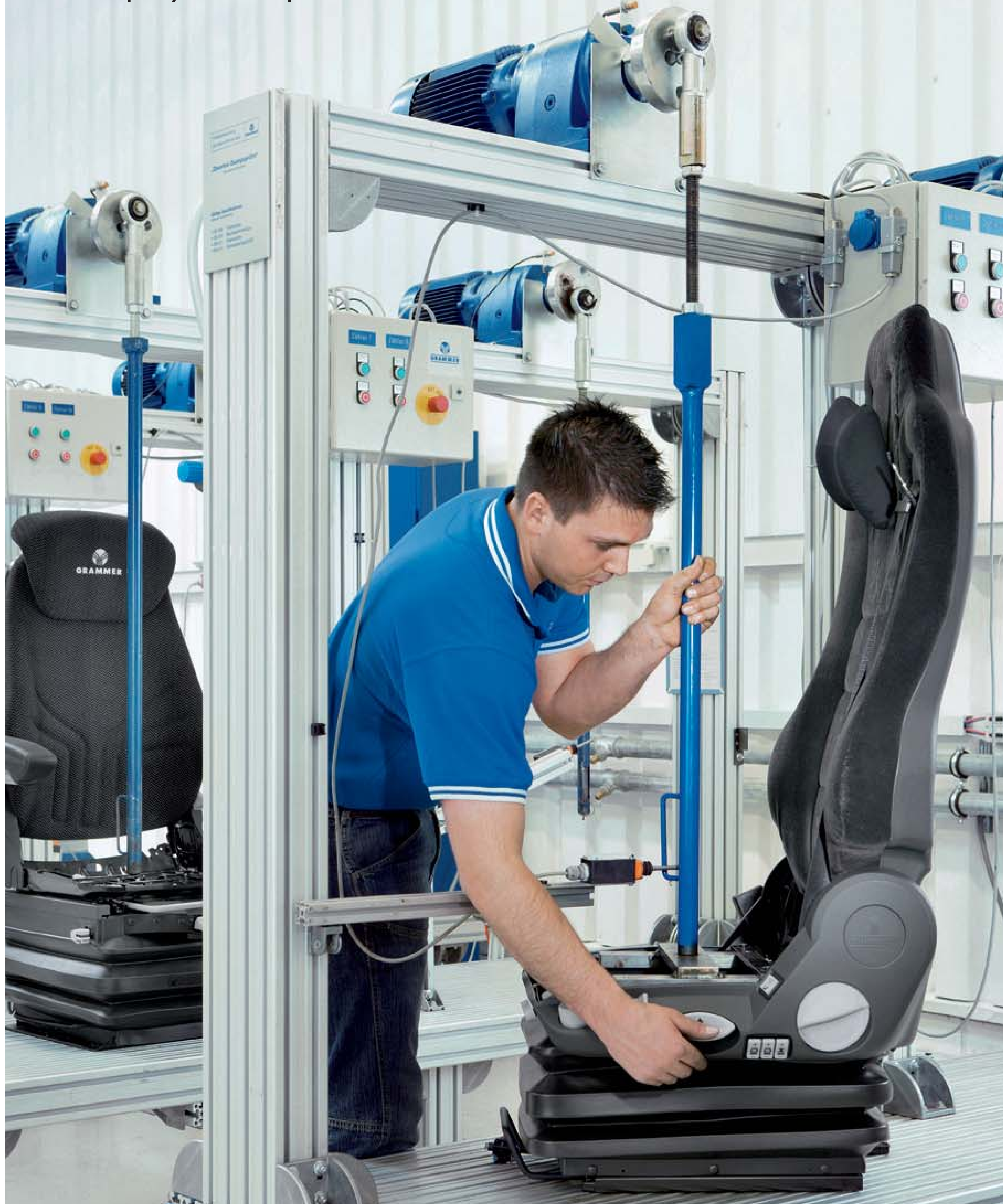


India: Development and forecast of cars on the road[3] (in 1,000)



1) reference: Verkehr in Zahlen, Deutsches Institut für Wirtschaftsforschung; DIW, BMVBW
2) reference: http://www.buergerimstaat.de; http://www.iea.org
3) reference: http://www.buergerimstaat.de; http://www.iea.org

In Seating Systems, seats for trucks, commercial vehicles, trains and busses often undergo many test phases during years of research and development. Knowledge gained, for instance, from the fields of ergonomics and biomechanics also plays an important role in this context.



Competence in research and development

Growing mobility at ever higher speeds makes maximum safety and comfort a necessity. Our developers are therefore in constant contact with our customers to design the optimum end product. We intensively examine and test materials and the functionality of each component, so that our broad product range is at the forefront in terms of safety and comfort. One of the most important innovations in the Automotive division at GRAMMER AG is the active head restraint system, a headrest which significantly reduces the risk of injury to the neck in the event of a rear collision. With its combination of active engineering and highly accurate sensors, this head restraint moves forward several centimeters within milliseconds of a crash and effectively lessens the impact to the head.

Our center consoles set the standard for comfort: Intelligently designed platform systems make them multifunctional. In addition to integrated cup holders and additional storage space, multimedia applications can be installed. Based on criteria like innovativeness, project-related and methodological competence, the center console developed by GRAMMER for the VW Passat has been recognized with the coveted "Volkswagen Group Award". This important step in establishing ourselves as a Tier-1 system supplier of center consoles came in fiscal year 2008, when we were able to win additional contracts for such models as the VW Touareg, Audi A6 and Daimler SLK, in addition to the GM Gamma & Epsilon platform in Asia and North America.

The "Kingman High Performance" truck seat offers sophisticated ergonomics and safety, provided by features like the integrated headrest, integrated 3-point safety belt and the "Design for use" concept.

Award winning design and ergonomics

Form follows function? Not at GRAMMER AG. For us, design and ergonomics share top priority with comfort and safety when it comes to product development. For passenger seats delivered to the Austrian National Railway, we won one of the most coveted prizes in design in 2008, the "reddot design award". Also in 2008, our MSG 90.6 series driver seats for trucks and busses were the first commercial vehicle seats to gain the "ergonomically tested" certificate from the Ergonomics Institute of Munich (EIM). The goal of the preceding three-year study was to determine the optimal design for an interface between driver and machine. In addition to equipment features such as adjustable headrests and integrated three-point safety belt, our "Comfort Line" seats offer pneumatic lumbar support and seat suspension, angle adjustment, horizontal vibration damping and adjustable shock absorbers. Perfect adaptation to the human form is particularly useful on long workdays for improving performance and maintaining the truck driver's health over the "long haul".

Especially in the commercial vehicle segment, GRAMMER regularly demonstrates its innovative leadership. The SeatCab Concept, developed by GRAMMER is trend setting in suspension technology. For the first time, the active controlled seat suspension and the cabin suspension "communicate" with each other, maximizing seating comfort for the driver. This visionary technology awarded the DLG silver medal at the last Agritechnica. The ergonomically perfected seating concept SynchroMechanics™ represents another product highlight launched at the CeMAT 2008 in Hannover. This system allows optimal seating comfort, especially in vehicles with minimum space, has been recognized with the MM Logistic Award in the category "Powered Industrial Trucks" - further proof that GRAMMER is a technology leader and trendsetter in offroad seating.

The Electronic Active Control suspension system in the "Maximo Evolution active" seat reduces vibrations by an average of 40 percent more than conventional low frequency suspension systems.

The active head restraint system CKRS® actively protects the head and reduces the risk of injury to the neck.

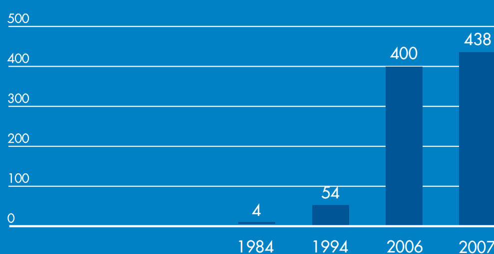
Sustainability

According to recent studies, environmental technologies will account for about 16 percent of total German economic output by 2030, quadrupling the present share to around 1 trillion euros. Even higher yielding "green" investments, such as solar funds, have long since left behind their niche status. Globalization, climate change and scarcer and more expensive raw materials have changed the awareness of social responsibility.

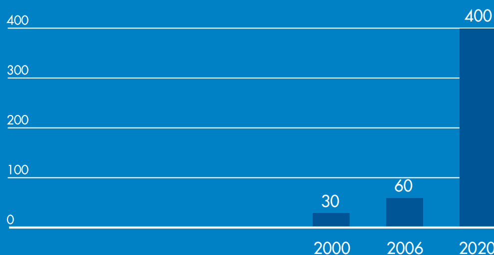
Ecology as an engine of growth
The sustainable use of resources already plays a major role in product development and manufacturing today. It is also in companies' own interest, as commodity shortage is becoming more and more of a competitive factor. Recognizing this as an opportunity and incorporating this recognition into innovative company strategies creates possibilities for increasing competitiveness. Moreover, a new commercial sector has grown up as a result of this trend towards sustainable development: With new technologies for the more efficient use of resources, especially in the areas of energy, waste disposal and water, as well as transportation, companies are profiting from this political and societal paradigm shift.

Sustainability has many facets
Aside from environmental considerations, companies face the task of managing growth in harmony with societal aspects. Topics such as social involvement, working conditions, educational opportunities and the equal treatment of women and minorities are becoming value drivers both internally and externally. Consumption habits are changing in favor of producers who act responsibly. This gives rise to many opportunities for companies to use sustainability as an overall growth factor.

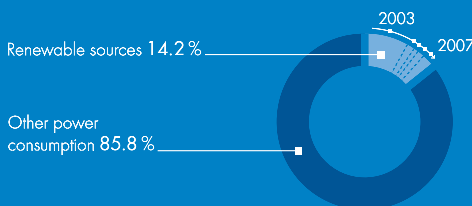
Sustainability-oriented investment funds in Europe[1] (number)



World market for renewable energies[2] (in USD bn)



Proportion of energy consumption comprising renewable sources[3]



1) references: www.zukunftsinstitut.de; Study "Finanzmärkte und Nachhaltigkeit", Catholic Theological Faculty, University of Vienna/Austria
2) references: www.zukunftsinstitut.de
3) references: EU-KOM, EWEA

By using regional biofuels for all of its energy needs, the Amberg production site reduces its carbon footprint by about 2,000 tons of CO_2 per year.

Investment in the future

Our company guidelines define active protection of the environment as an important goal. We do our part by developing, producing and selling seats, seating systems and automotive interior components using environmentally friendly production, as well as through hazard-free use and disposal of our products. We strive to use a minimum of energy and resources as in all of our production processes. We reduce emissions and waste as much as possible in all phases of the production process.

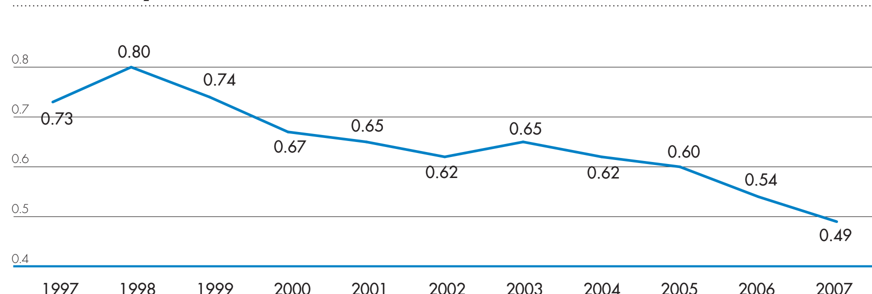
For example, GRAMMER has been working exclusively with CFC-free foams for many years in the production of seats and headrests. By using electrodeposition paint systems, powder coating and aqueous releasing agents, we minimize the emission of solvents into the environment. To save resources, separable and recyclable materials are used for both our products and our production processes.

One example for the way we apply this guiding idea at Grammar AG is the comprehensive energy supply project at the Haselmühl production site near Amberg. As part of a pilot project since 2007, in collaboration with the regional "Netzwerk Energietechnik" initiative and the Amberg-Weiden University of Applied Sciences, the energy supply for the entire site has gradually been converted to renewable energies. The newly erected combined heat and power plant burns locally procured biofuels and wood chips. The costs of the project, recognized with the Bavarian Energy Award in 2008, came to 4.3 million euros. A successful investment: CO_2 emissions at Haselmühl were reduced by approximately 40 percent.

In 2008, trainees at GRAMMER AG organized a day with Spongebob Squarepants for children in the Edelsfeld Kindergarten.

Diverse involvement

In addition to protecting the environment, sustainability to us means recognizing our social responsibility and creating a good balance between the interests of our shareholders, employees, customers and the society around us. Numerous initiatives at GRAMMER AG therefore support social and cultural projects, as well as educational facilities in the region of Oberpfalz and at many other locations around the world. These activities include everything from kindergarten events, to organizing the GRAMMER Soccer Cup, to donations for the promotion of education in developing countries.



1) In relation to energy saving

Corporate Governance

Corporate Governance at GRAMMER AG
For the Executive and Supervisory Boards of GRAMMER AG, responsible management in line with the interests of the Company, our customers and the shareholders, is of fundamental importance. In order to strengthen confidence in our Company, our objective is to provide the public with transparent and comprehensive information and report about our strategies and the goals we pursue through their implementation. In this context, with the reliable advisory support of the Supervisory Board, our management practices are consistently oriented on almost all recommendations and proposals of the German Corporate Governance Code.

Changes to the Corporate Governance Code
The changes to the Corporate Governance Code dated June 6, 2008, in particular the recommendation pertaining to a joint discussion of the semi-annual and quarterly reports by company supervisory and management boards under item 7.1.2, as well as that relating to the remuneration system under item 4.2.2, are taken into account in the work of the GRAMMER AG Executive and Supervisory Boards.

Declaration of conformity with the Corporate Governance Code
On December 9, 2008, the Executive and Supervisory Boards of GRAMMER AG issued the following Declaration of Conformity, which – along with the declarations issued in previous years – is permanently available to shareholders on the Company website www.grammer.com:

In accordance with section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive and Supervisory Boards of GRAMMER AG hereby affirm their past and future compliance with the recommendations of the German Corporate Governance Code, in the version dated June 6, 2008, with the following exceptions:

1. Members of the Supervisory Board, Executive Board and Managing Directors of the GRAMMER Group are covered by directors & officers liability insurance (D&O insurance), but without a deductible (item 3.8).

   Explanatory note: GRAMMER AG considers a deductible in the D&O insurance to be inappropriate as a way to further increase the sense of responsibility among members of the Executive and Supervisory Boards in the fulfillment of their duties.

2. GRAMMER AG has neither a stock option plan nor a comparable system of remuneration linked to business performance with long-term incentives and risk elements. The contracts with members of the Executive Board do not contain a provision stipulating that payments to a member following early termination of Executive Board membership without cause, including additional services, may not exceed the equivalent of two annual salaries (severance cap) and shall not be paid for a period exceeding the remaining term of the employment contract (item 4.2.3).

   Explanatory note: In addition to fixed components, the current system of remuneration for the Executive Board also contains variable components, based primarily on the success of the Company. Thus, it partly complies with the recommendation of the Corporate Governance Code. Up to now the Executive Board has made no resolution to introduce a stock option plan. The contracts with the Executive Board contain no severance cap and no provisions limiting the duration of severance payments to the remaining term of the employment contract. The Supervisory Board has consistently ensured that severance packages for departing members of the Executive Board do not exceed the equivalent of two annual salaries and that payments in no case continue for longer than the remaining term of the employment contract. The Supervisory Board will include a corresponding provision in new contracts for incoming Executive Board members.

Cooperation between the Executive and Supervisory Boards
As a stock corporation under German law, GRAMMER AG has a dual management system comprising the Executive Board and Supervisory Board, each of which has distinct competencies. In the context of management and monitoring of the Company, the Executive and Supervisory Boards of GRAMMER AG work together in a close and trusting relationship. Whereas the Executive Board is primarily responsible for management of the Company, the Supervisory Board chiefly performs a monitoring function. In accordance with the applicable Rules of Procedure, certain decisions by the Executive Board require the approval of the Supervisory Board.

At regular meetings, the Executive Board provides the Supervisory Board with prompt and comprehensive information in writing about current business developments and management issues. The focus of these meetings is on the ongoing business and economic situation of the Company as well as risk management. If necessary, any significant events are discussed at extraordinary Supervisory Board meetings.

The Executive and Supervisory Boards of GRAMMER AG are obliged to act in the interest of the Company. The Supervisory Board must be informed immediately in the event of conflicts of interest between members of the Executive and Supervisory Board. No such conflicts of interest arose in 2008.

Additionally, the Executive and Supervisory Boards meet at least once a year to ensure that the principles of the German Corporate Governance Code are being observed. The last such discussion took place at the Supervisory Board meeting on December 9, 2008.

Executive Board

The Executive Board of GRAMMER AG comprises three members: Dr. Rolf-Dieter Kempis is Chairman of the GRAMMER AG Executive Board, Personnel Director and responsible for the Automotive division as well as the central departments Human Resources and Internal Control. Hartmut Müller heads the Seating Systems division and is responsible for group functions. Alois Ponnath is in charge of the central administrative departments.

The Executive Board members share joint responsibility as the body in charge of Company operations. Rules of Procedure govern their individual responsibilities and internal cooperation.

Supervisory Board

The twelve members of the GRAMMER AG Supervisory Board in accordance with German law and the Company's Articles of Association include six members elected by the shareholders and six members elected by the employees. Thus, the board constitutes an adequate number of members, all of whom are independent persons having no business or personal relationships with the Company or the Executive Board. Each Supervisory Board member is appointed for a period of five years.

On December 31, 2008, Horst Übelacker left the Company and the Supervisory Board. With the decision by the Amberg Local Court dated February 11, 2009, Ms. Astrid Franzky was appointed as his successor. Dr. Peter M. Stehle, who had already been appointed as a member of the Supervisory Board with the decision by the Amberg Local Court dated September 19, 2007, was approved by the Annual General Meeting on May 28, 2008.

The Executive Board is advised and monitored by the Supervisory Board. The Supervisory Board is involved in strategy and planning, as well as in all issues that are of key importance to the Company.

The Supervisory Board of GRAMMER AG performs its duties in accordance with its own Rules of Procedure. The members meet regularly in three Committees: the Strategy Committee (four members), the Audit Committee (four members) and the Standing Committee (four members). The Nominating Committee (three members) convenes in the cases stipulated by the Corporate Governance Code. In accordance with item 5.6 of the German Corporate Governance Code, the Supervisory Board performs regular examinations of efficiency. The Supervisory Board report provides detailed information on the activities of the Board as well as its cooperation with the Executive Board. Moreover, the report contains information on changes in the structure of the Supervisory Board, the issues addressed by it and the members of the individual Committees.

Remuneration of the Executive and Supervisory Boards

An important element of corporate governance at GRAMMER AG is the reasonable remuneration of the Executive and Supervisory Board members. Executive Board remuneration comprises a fixed component as well as a variable component based on performance, designed as an incentive to generate long-term growth in the value of the Company. The fixed components are oriented on the economic situation of the Company, and in particular on the individual duties and area of responsibility with which the Executive Board member is charged.

A regular assessment by the Supervisory Board with respect to the personal performance of Executive Board members as well as that of the Board as a whole is taken into account for any salary adjustments. The remuneration of the Supervisory Board also contains a variable component based on Company performance. An outline of the remuneration systems for the Executive and Supervisory Boards is available in the Management Report on page 31.

Directors' dealings

Members of the Executive and Supervisory Boards, along with certain employees with management duties, are obliged in accordance with section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), to disclose the purchase and sale of GRAMMER shares or financial instruments relating to them. This obligation also applies to persons closely associated with the above group. In the reporting year, the following transactions were disclosed to GRAMMER AG:

Directors' dealings

Date	Notifying Party	Purchase/place of transaction	Quantity	Price in EUR	Total volume in EUR
03/14/2008	Dr. Rolf-Dieter Kempis[1]	Purchase/Xetra	556	17.23	9,579.88
03/17/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	1,150	16.90	19,435.00
03/17/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	614	17.20	10,560.80
03/27/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	7	16.01	112.07
03/28/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	350	16.45	5,757.50
03/31/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	110	16.45	1,809.50
04/02/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	2,650	16.45	43,592.50
04/10/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	1,000	16.30	16,300.00
05/30/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	527	16.70	8,800.90
06/04/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	3,300	16.71	55,143.00
06/13/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	804	15.99	12,855.96
07/02/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	370	15.51	5,738.70
07/03/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	4,630	15.51	71,811.30
07/07/2008	Dr. Bernd Blankenstein[2]	Purchase/Xetra	450	15.60	7,020.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	475	15.64	7,429.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Frankfurt Stock Exchange	500	15.64	7,820.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	575	15.65	8,998.75
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	166	15.73	2,611.18
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	500	15.74	7,870.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	514	15.75	8,095.50
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	1,000	15.78	15,780.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	107	15.88	1,699.16
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	450	15.90	7,155.00
07/07/2008	Dr. Bernd Blankenstein	Purchase/Xetra	263	15.94	4,192.22
08/21/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	217	14.70	3,189.90
08/21/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	193	14.81	2,858.33
08/21/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	1,300	14.82	19,266.00
08/21/2008	Dr. Rolf-Dieter Kempis	Purchase/Xetra	2,290	14.85	34,006.50
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	900	9.25	8,325.00
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	600	9.14	5,484.00
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	300	9.27	2,781.00
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	300	9.28	2,784.00
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	600	9.29	5,574.00
10/08/2008	Dr. Rolf-Dieter Kempis	Purchase/Tradegate	300	9.36	2,808.00
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	381	10.30	3,924.30
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	341	10.20	3,478.20
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	183	10.19	1,864.77
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	1,119	10.10	11,301.90
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	1,763	10.00	17,630.00
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	213	9.99	2,127.87
10/14/2008	Dr. Bernd Blankenstein	Purchase/Xetra	1,000	9.95	9,950.00

1) CEO
2) Chairman of the Supervisory Board

On the balance sheet date, December 31, 2008, members of the Executive Board and the Supervisory Board directly or indirectly held less than 1.0 percent of the Company's shares. This also takes into account shares owned by persons closely associated with members of the Executive and/or Supervisory Board within the meaning of section 15a (1) sentence 2 WpHG.

Shareholders and Annual General Meeting

The shareholders of GRAMMER AG exercise their rights of co-determination and control in the context of the Annual General Meeting. All matters required by law are voted on by the Annual General Meeting, with binding effect for the shareholders and the Company; each share accords one vote.

All shareholders submitting timely registration have a right to attend the Annual General Meeting. Absent shareholders may exercise their voting rights by proxy through an authorized representative with full power of attorney or a voting representative subject to shareholder instructions.

The invitation to the Annual General Meeting, as well as reports and information necessary as background for voting, are published by GRAMMER AG in accordance with the Stock Corporation Act. This information is also available on the Company website www.grammer.com.

Comprehensive and transparent communication

As a matter of principle, we report about our Company and current developments equally and at the same time to all relevant target groups. The Executive and Supervisory Boards are committed to the continuing improvement of communication, in order to ensure comprehensive and transparent information of the public.

On our website www.grammer.com, both institutional and private investors have direct access to in-depth coverage of relevant topics. In addition to current press releases, we publish all Declarations of Compliance with the German Corporate Governance Code, information about the Executive Board and Annual General Meeting as well as annual and quarterly reports. The internet site also provides information on all important dates and publications, ad hoc notifications and transactions subject to disclosure requirements (director's dealings). The Annual Document in accordance with section 10 of the German Securities Prospectus Act (Wertpapierprospektgesetz – WpPG) as well as other information of interest to investors, such as roadshow presentations, are also included.

Accounting and auditing

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

The auditing firm appointed by the Annual General Meeting – Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg – audited both the consolidated financial statements and the annual financial statements of GRAMMER AG. Both audits were performed in compliance with all German accounting rules and taking into account the Generally Accepted Standards in Germany for the Audit of Financial Statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW).

The audit also covered risk management and compliance with corporate governance reporting requirements under section 161 of the Stock Corporation Act. It was contractually agreed that the auditor would immediately notify the Supervisory Board as to any grounds for disqualification or conflicts of interest, as well as any key findings and occurrences during the audit. No such notification needed to be made.

Risk management

A responsible approach to business risks is a fundamental element of good corporate governance. Group-wide and Company-specific management accounting and controlling systems ensure that the Executive Board and management of GRAMMER AG are able to readily and comprehensively identify, assess and manage risks. Continual improvement of these systems, adjusting them to changing conditions and third-party audits are key components of risk management. Additional details on this topic are available in the Management Report on pages 32 and 33.

Report of the Supervisory Board

Dear shareholders and friends of GRAMMER AG

Despite the drastic economic downturn that started mid-year in the wake of the financial crisis, GRAMMER AG was once again able to increase sales in fiscal year 2008, and came very close to achieving the targets set under more favorable conditions. With the structural measures implemented throughout the Group, the groundwork has been laid to pull the Company out of the current economic morass.

The Supervisory Board diligently fulfilled the duties incumbent upon it under the law and the Company's Articles of Incorporation during the year under review. We informed ourselves regularly and comprehensively with respect to the economic situation and development of GRAMMER AG and the GRAMMER Group. At four regular meetings and one extraordinary meeting, as well as through detailed monthly reports, the Executive Board kept the Supervisory Board up-to-date on the Company's financial position and earnings performance – of both the product areas and the Group. The management of business by the Executive Board was monitored on the basis of regular oral and written reports. The Executive Board was charged with the task of regularly presenting a comprehensive report at the meetings on the state of the Company and key strategic projects and initiatives. Additionally, the Strategy Committee and the Audit Committee (formerly the Finance Committee) met to discuss the Company strategy and Risk Report.

The Supervisory Board discussed significant business occurrences with the Executive Board, and provided them with advisory support at all times. In my function as Chairman of the Supervisory Board, I met individually with members of the Executive Board outside of the Supervisory Board meeting context to discuss the strategic direction of the Company, its current situation, business development and risk management issues.

Focuses of the Supervisory Board

During the reporting year the Supervisory Board held a total of five meetings. The Board discussed the Company strategy and current business, financial and employment developments for both GRAMMER AG and the Group as a whole.

An extraordinary meeting of the Supervisory Board took place on February 22, 2008, at which the Executive Board made a special report to the Supervisory Board regarding the Group-wide restructuring program.

The first regular meeting took place on March 28, 2008. The consolidated financial statements and annual financial statements for GRAMMER AG were discussed in the presence of the auditor and approved by the Supervisory Board after a detailed discussion. Moreover, a decision was made regarding the appropriation of profits for fiscal year 2007 and resolutions were proposed for the Annual General Meeting at the end of May 2008.

Thorough preparations were then made for the Annual General Meeting at the subsequent meeting of the Supervisory Board on May 27, 2008. Additional topics at this meeting included a performance evaluation of the Executive Board and the beginning of the efficiency examination.

The third regular meeting of the Supervisory Board took place at GRAMMER Automotive Polska in Poland on September 24, 2008. During this meeting, the GRAMMER Business System, a comprehensive Group-wide strategy paper, was presented along with details regarding the strategic direction of the Company in the period from 2009 to 2011. Consideration was also given to the results of the examination of efficiency and the changes in the work of the Supervisory Board pursuant to the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

At the last meeting on December 9, 2008, the members of the Supervisory Board addressed the development of the global financial crisis and its potential impact on GRAMMER AG. The Executive Board provided the Supervisory Board with an overview of the Company situation in light of the first order declines in the Automotive and Truck segments as a result of the economic downturn. Performance in the Offroad and Railway units, however, remained stable. Furthermore, the Executive Board and Supervisor Board finalized the Group budget for 2009, with the proviso that it must be amended if economic conditions continued to deteriorate. The Supervisory Board must be informed in this regard. The Supervisory Board requested that the Executive Board take all necessary steps to ensure budget compliance. The Executive Board also informed the Supervisory Board with respect to the current liquidity situation of the Company, including information on past-due accounts, utilization of credit lines and cash flow.

A concept for restructuring of GRAMMER AG was also presented, and subsequently approved in a circular resolution by the Supervisory Board. A resolution was also made on changes discussed at the meeting on September 24, 2008 in accordance with German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

In anticipation of the BilMoG entering into effect, the responsibilities of the Supervisory Board were handed over to the Finance Committee. Specifically, this includes monitoring of accounting processes and the efficacy of the internal control system, the internal risk management system and the internal audit system, as well as the audit of the year-end financial reports, particularly regarding the independence of the auditor and the additional services provided by the auditor. The Finance Committee was renamed Audit Committee, with Wolfram Hatz continuing as Chairman. He was designated by the Supervisory Board as Financial Expert, an additional requirement of the BilMoG. Moreover, the Declaration of Compliance with the German Corporate Governance Codex was revised by the Supervisory Board during this meeting. Finally, Horst Übelacker was dismissed from membership in the Supervisory Board. He left the company as of December 31, 2008.

At the special session of the Supervisory Board on March 6, 2009, we greeted Ms. Astrid Franzky for the first time as the successor of Mr. Übelacker. With the decision dated February 11, 2009, Ms. Franzky was officially appointed to the Supervisory Board by the Amberg Local Court. The agenda of the special session focused on the 2009 forecast, the liquidity situation of the Company and the measures implemented and other alternatives to respond to the economic crisis.

Work of the Committees

Three of the four Committees met during the year under review to support the Supervisory Board in its work.

The Strategy committee met twice to discuss special restructuring measures. In addition to the appropriation of profits, other issues discussed at the meetings were the situation of the Company and the share acquisition by the new major shareholder.

The Standing Committee met a total of three times in 2008 and discussed the performance evaluation of the Executive Board, the future of the Immenstetten plant and the new management structures within the Executive Board.

An additional, joint meeting of the Strategy committee and Standing Committee was held in mid-September, again to discuss the Immenstetten site.

The Nominating Committee did not meet during the reporting year.

The Finance Committee met twice, discussing the annual financial statements of GRAMMER AG and of the consolidated financial statements at its meeting on March 27, 2008. At the Finance Committee meeting on September 22, 2008, the agenda covered the appointment of the auditor for the current fiscal year and the changes in the work of the Supervisory Board following implementation of the BilMoG.

There were no changes in the makeup of any of the Committees from the prior year to this one. They currently include the following members:

- Strategy Committee:
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss
  Dr. Klaus Probst

- Standing Committee:
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss
  Georg Liebler

- Audit Committee (formerly Finance Committee):
  Udo Fechtner
  Wolfram Hatz (Chairman)
  Tanja Jacquemin
  Dr. Bernhard Wankerl

- Nominating Committee:
  Dr. Bernd Blankenstein (Chairman)
  Wolfram Hatz
  Dr. Klaus Probst

Approval of the annual financial statements

As auditor for the year under review, the Annual General Meeting on May 28, 2008 appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg. At its meeting on September 22, 2008, the Finance (now Audit) Committee awarded the audit mandate for the 2008 single-entity and Group financial reports. Ernst & Young audited the annual financial statements of GRAMMER AG, prepared in accordance with the German Commercial Code (HGB), and the consolidated financial statements of GRAMMER Group, prepared in accordance with IFRS, as well as both Management Reports. The auditor issued an unqualified opinion in both cases. It was determined that the Management Reports of GRAMMER AG and of the Group truly and fairly represent the situation of the Company, as well as the opportunities and risks with regard to future development. We received the reports and annual accounting documents from the auditor in good time and thoroughly examined them. Ernst & Young presented a report on the key results of the audit at the relevant meeting of the Audit Committee and the balance sheet meeting of the Supervisory Board in March 2009. After thorough examination of the annual financial statements and consolidated financial statements, as well as the Management Reports, the Supervisory Board raised no objections to them. Thus, at its balance sheet meeting in March 2009, the Supervisory Board endorsed the audit results of Ernst & Young and officially approved the annual financial statements prepared by the Executive Board. Thus the financial statements have been duly adopted.

At the same meeting, the proposal by the Executive Board to the Annual General Meeting to transfer 7,000,000 euros from net retained profits totaling 10,333,993.74 euros for fiscal year 2008 to revenue reserves and carry forward the remaining 3,333,993.74 euros, was also approved.

Additionally, the Supervisory Board decided to extend the contract of Dr. Rolf-Dieter Kempis, which was set to expire on July 31, 2010, for a further year.

Corporate Governance

The Supervisory Board wishes to underline the importance of Corporate Governance throughout the Group. During the meeting of the Supervisory Board on December 9, 2008, a revised version of the Declaration of Compliance in accordance with section 161 AktG was presented by the Supervisory and Executive Boards; with two limited exceptions, GRAMMER AG follows the current version of the German Corporate Governance Code in the version dated June 6, 2008. The full version of the Code is included in this report and can also be viewed on the Company website. Our corporate governance guidelines now essentially correspond to the recommendations of the Code, and will do so in the future.

Changes to the Executive Board and Supervisory Board

In fiscal year 2008, there were no changes to the makeup of the Executive Board. On December 31, 2008, Horst Übelacker left the Supervisory Board. With the decision by the Amberg Local Court dated February 11, 2009, Astrid Franzky was appointed as his successor. Dr. Peter M. Stehle, who had already been appointed as a member of the Supervisory Board with the decision by the Amberg Local Court dated September 19, 2007, was approved by the Annual General Meeting on May 28, 2008.

The Supervisory Board extends its thanks to the members of the Executive Board, the employees and employee representatives of GRAMMER AG for their successful work.

Amberg, March 2009

On behalf of the Supervisory Board:

Dr. Bernd Blankenstein
Chairman of the Supervisory Board

Share

Trading year influenced by the financial market crisis

Financial markets in 2008 were dominated by the dramatic effects of the international financial market and economic crisis. Stock exchanges worldwide suffered continual declines from the beginning of 2008, which accelerated considerably in the fall of the year. At year end, Germany's benchmark DAX index closed at 4,810.20 points, equating to a 40 percent decline in just one year. The only other such dramatic deterioration in the history of the index was in 2002, when it fell 44 percent in the wake of the dot-com bust. In the current situation, smaller-cap shares have been hit harder than blue chips: the SDAX was down 46 percent on December 30, 2008, closing at 2,800.73 points.

Price declines especially in the second half

After a disappointing year on the financial markets in 2007, the GRAMMER share began to considerably outperform the German benchmarks by the summer of 2008. Compared to the 2007 close, the price for GRAMMER had risen four percent by the end of Q1 2008, to 16.65 euros. At the same point in time, the DAX and SDAX had already seen significant declines. After a moderate gain at the end of the second quarter, the share could no longer withstand the downward pressure facing international markets. On September 30, 2008, the price was already 20 percent lower, at 12.22 euros. As the downturn steepened in October and November, the price of the GRAMMER share deteriorated further and finished the year at 6.90 euros on December 30, 2008 – a decline of nearly 57 percent as compared to the 2007 close.

In the wake of the exceedingly negative news from the automotive industry, the GRAMMER share came under enormous selling pressure in the initial months of the current year. After hitting an interim high of 7.22 euros on January 6, 2009, shares in GRAMMER became caught in the vortex of generally negative conditions in the sector. Above average declines eventually saw the price reach 3.00 euros per share on March 19, 2009. The benchmark SDAX index lost 19.3 percent of its value in the same period.

GRAMMER share

On December 31, 2008, the share capital of GRAMMER AG totaled approximately 26.9 million euros, divided into 10,495,159 bearer shares. Of these, the Company holds a total of 330,050. The GRAMMER share is listed in the SDAX, and trades on the Frankfurt and Munich stock exchanges, via the electronic trading system Xetra, as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges.

Key figures GRAMMER share

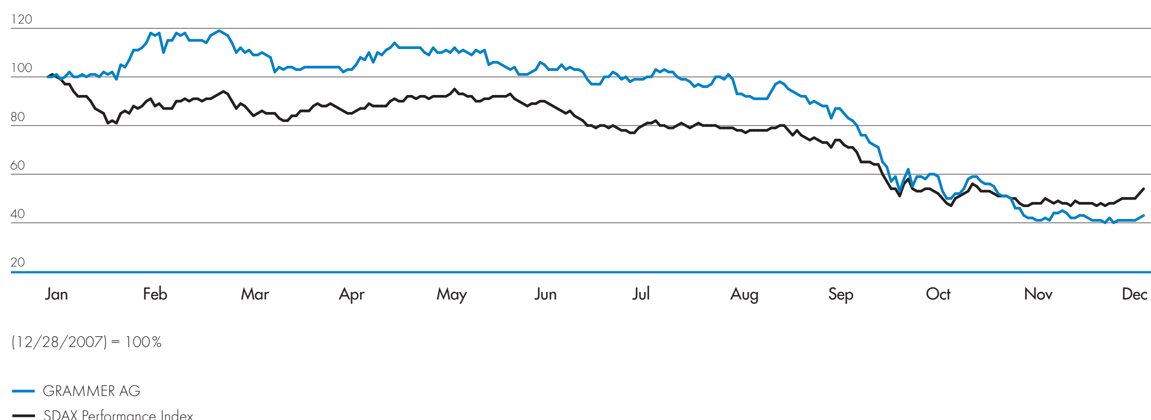
	2008	2007
Share price at year-end (in EUR, Xetra)	6.90	16.02
Annual high (in EUR)	19.00	25.87
Annual low (in EUR)	6.44	15.16
Number of shares (12/31)	10,495,159	10,495,159
Market capitalization (in EUR m) (12/31)	72.4	168.1
Earnings per share (in EUR)	1.38	1.72
Price/earnings ratio	5	9
Dividend (in EUR)	0.00[1]	1.00

1) Based on the dividend proposed to the Annual General Meeting 2009

Dividend

For fiscal year 2007, the Annual General Meeting resolved on May 28, 2008 to pay a dividend of 1.00 euro per share. Based on the year-end closing price in 2007, this equates to a dividend yield of 6.2 percent. On the basis of 10,165,109 shares carrying dividend rights, roughly 10.2 million euros were distributed to GRAMMER AG shareholders in 2008.

The Executive Board of the GRAMMER AG will propose to the Supervisory Board and the Annual General Meeting not to pay a dividend for the fiscal year 2008. Despite the overall good performance in the past fiscal year, the Executive Board deemed the dividend suspension to be necessary due to a considerable order decline, the expected financial burden associated with the necessary adjustment measures and the significant ongoing uncertainty with respect to the economic development. The Executive Board agrees that the financial situation of the GRAMMER Group should not be further burdened in this difficult environment.



Investor Relations

A trusting and open dialogue with all of the target groups, along with transparent information, form the basis for financial communication at GRAMMER.

Alongside the yearly analyst conference and press conference, the Annual General Meeting at the Company headquarters in Amberg, Germany, is the most important event for communication with investors, analysts and the press. Additionally, GRAMMER AG's Executive Board and Investor Relations team represent the Company to the financial community at numerous roadshows, in one-on-ones and at investment conferences, where they explain the Company's strategy and talk about the development of the business. All financial reports, press releases, presentations, audio recordings of the quarterly telephone conferences and other important information about the share are always available in the Investor Relations section of the GRAMMER AG website.

Shareholder structure

In January of the reporting year, Austrian-based Polytec Group announced the acquisition of approximately 9.6 percent of shares in GRAMMER AG (notifications in accordance with section 21 WpHG dated January 15 and April 10, 2008). Along with Electra QMC Europe Development Capital Funds plc (10.0 percent of shares, notification in accordance with section 21 WpHG dated November 23, 2006) and Axxion S.A. (5.6 percent, section 21 WpHG notification dated September 6, 2005), Polytec is thus now one of our largest shareholders.

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Group Management Report

- Group revenue reaches EUR 1.0 billion.
- Growth and optimization strategy continued in 2008.
- Financial crisis takes hold of the economy.

Corporate Structure and Operations

GRAMMER Group is specialized in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, trains, offroad and commercial vehicles. In addition to the parent company, GRAMMER AG, based in Amberg, the Group includes 22 other fully consolidated companies. GRAMMER Group is represented in 17 countries worldwide.

Business divisions

The Automotive division supplies premium automakers and automotive system suppliers with products such as seating components, including seat covers, headrests and armrests, center consoles and integrated child safety seats. In the Seating Systems division, the Company operates as both OEM and aftermarket supplier for complete seat units and seating systems. We supply manufacturers of trucks and offroad vehicles – including agricultural, forestry and construction machinery and forklifts. Other customer groups we supply include rail transport OEMs, rail operators and bus manufacturers.

Corporate management

GRAMMER's value-oriented corporate management system is primarily oriented towards the key management indicators revenue, earnings before interest and taxes (EBIT), working capital, gearing and return on capital employed (ROCE). The latter indicator plays an important role for GRAMMER in measuring the efficiency with which the Company's capital is being employed.

General Economic Conditions

Significant global economic downturn at year-end

After moderate growth and weakened optimism about the prospects for full year 2008 in the first half, the global economy quickly began to contract as the second six-month period began. The optimism of the first half year, which saw new records for sales, was increasingly overshadowed by bad news from the financial sector. Not even the steep drop at year-end in the oil price to USD 40 per barrel had a sustainable effect on consumption. After expansion of 4.7 % in 2007, the intensifying financial crisis in 2008 resulted in a substantial decline of global economic performance, and growth of only 3.4 %. The development in the fourth quarter 2008 in particular shows that the worldwide economic downturn was more dramatic than initially supposed. No major economy was left unscathed.

Calculations for the US show GDP growth of 1.3 % for full year 2008, a 0.7 %-point decrease as compared to 2007. A decrease of 1 % was reported in the fourth quarter alone. Presently, noticeably weaker growth in emerging countries such as Russia (6.2 %) and China (9 %), which enjoyed years of sometimes double-digit growth rates, indicate that they too are beginning to feel the effects of the downturn. Japan has also felt the bite of the recession, with economic output sinking 12.7 % in the fourth quarter 2008.

The impact of the crisis can seen clearly in Europe: Relative to the prior quarter, euro zone and EU GDP sank by 1.5 % in the fourth quarter 2008. The EU's full year 2008 GDP growth totaled only 0.9 %, alongside just 0.7 % for the euro zone.

In Germany, economic growth declined from 2.5 % in 2007 to 1.3 % in reporting year 2008. In the fourth quarter of 2008 alone, Germany's economic output fell by 2.1 % compared to the third quarter. According to the Federal Statistical Office, exports decreased by 12.2 % in November and 7.7 % in December 2008.

Automotive industry under the weight of the financial crisis in 2008

The international financial and economic crisis has drastically reduced demand for cars and trucks around the world since the middle of last year, which has been especially hard on the automotive and supplier industries. In no other industry are the global effects of the crisis as vivid as they are here. According to VDA statistics, approximately 62 million vehicles were sold worldwide in 2008, a decline of at least 5 % from 2007 levels. Production also decreased globally by about 5 % relative to 2007, to approx. 58 million units.

The dramatic repercussions for the automotive market are particularly clear in North America, where the Big Three – GM, Ford and Chrysler – are currently struggling to survive. With 13.2 million light vehicles sold – a decline of 18 % – 2008 was the weakest sales year for the US in more than 15 years. The greatest drop came for large vehicles such as SUVs, which fell 39 %. In the entire NAFTA region (US, Canada and Mexico), production sank by about 16 % in 2008, to fewer than 13 million vehicles.

Fending off the global trend, Brazil and Argentina recorded significant increases for full year 2008, in terms of both car unit sales and production. However, these nations have also faced negative growth rates since the fourth quarter 2008.

Considerable deceleration can also be seen in Asia's automotive sector. Auto sales in Japan fell by about 4 %. A 7 % rise in new vehicle registrations in China signifies the smallest increase since the turn of the millennium. Growth momentum slowed noticeably over the course of the year. With a total of 5.7 million units produced, China surpassed Germany in car production in 2008 and now ranks behind Japan and the US as the third largest producer.

Russia established itself as one of the world's most important sales markets last year, with growth of nearly 16 %, to just under 3 million cars. Joining China and India, Russia is expected to see among the highest growth rates in vehicle sales and production in the coming years.

In Europe, the number of new car registrations fell by around 8 %, to a total of 14.7 million cars – the greatest downturn in 15 years. According to ACEA, nearly 1 % fewer cars were registered in the new EU countries in 2008, though Poland (+ 9 %) and the Czech Republic (+ 8 %) enjoyed positive growth rates. By contrast, Romania and Hungary posted significant decreases of about 9 % each.

In Western Europe, the international financial and economic crisis had a considerable impact on car markets and, according to ACEA, resulted in cars sales declining by more than 8 %. Only four countries saw an increase: Finland, Portugal, Belgium and Switzerland. Among the established markets, Spain (– 28 %), Italy (– 13 %) and the UK (– 11 %) suffered the greatest losses, while declines France (– 1 %) and Germany (– 2 %) were comparatively smaller.

A total of 3.09 million cars were newly registered in Germany in 2008, compared to 3.15 million in 2007. Three factors played particularly important roles with respect to large vehicles: the high average gasoline and diesel prices, the CO_2 discussion and the economic downturn. The upper-midsize (– 19 %), sports car (– 14 %) and mini-van (– 13 %) segments suffered the greatest declines. By contrast, demand boomed in the small car segment, growing 18 %.

Among the carmakers, Volkswagen further solidified its top position with more than 615,000 newly registered cars, followed by Mercedes and BMW. As compared to 2007, VW achieved an increase of nearly 1 %. Other manufacturers that saw growth were Audi (+ 0.8 %), Mercedes (+ 0.1 %), Ford (+ 0.3 %) and especially Smart (+ 5.7 %). Overall, however, German automakers reported a year-over-year decline of 1.3 % in new vehicle registrations in 2008.

Germany's domestic car production shrank in 2008 by around 3 % relative to 2007. Abroad, however, German auto manufacturers bucked the trend with slight growth. The VW Group increased its worldwide production by around 2 % to about 6.4 million cars, which is nearly 10 % of global vehicle production according to VDA. Besides VW Group, only the Daimler Group (+ 3.8 %) was able to increase the number of cars it produced worldwide. BMW (– 6.6 %), Ford Germany (– 0.3 %), Porsche (– 9.7 %) and especially Opel (– 16.4 %) faced in some cases significant declines in worldwide production last year.

Commercial vehicle market is unable to escape worldwide turbulence

Intense fluctuation in truck markets

The US commercial vehicle market in 2008 plummeted 20 % from previous year levels. The hoped for recovery never arrived, and a total of 300,000 fewer medium and heavy trucks were sold. This enormous decline can be traced back to the weak US economy and tight credit markets.

Western Europe also saw demand in the commercial vehicles segment collapse in 2008, especially the Spanish market, which fell off by 30.7 %. The number of newly registered light trucks (up to six tons) sank by 12 % as compared to the previous year, with trucks over six tons falling 1 %. Only the over 16-tons segment remained relatively stabile, with around 271,000 new registrations.

In contrast to the general trend, new registration numbers were up in France and the UK. The UK saw an increase of 19.6 %, France 8.5 %.

Overall, weak demand meant that a total of 2.52 million commercial vehicles were registered in Europe in 2008 according to the ACEA, a decline of 9 % year-over-year. The 24 % decrease in the fourth quarter 2008 against the same quarter in 2007 was even more significant.

In Germany, the commercial vehicle market closed 2008 at the prior year's level with a total of 335,000 newly registered vehicles, in spite of the economic downturn. Here, the transporter segment rose slightly, to 231,000 vehicles. By contrast, heavy trucks posted a drop of around 2 %, to 98,200 vehicles. A considerable downtrend was especially visible in the second half of the year. December registrations in Germany sank to 23,470 vehicles – a 7 % drop year-over-year.

Strong growth in global demand for agricultural machinery in 2008

Overall, the global market for agricultural machinery grew strongly in 2008. Around the world, the agricultural machinery & equipment industry saw excellent results, with growth of roughly 15 % and sales totaling EUR 66 billion. In Western Europe, a total of 5 % more tractors were sold in 2008 than in the previous year. Expansion was particularly strong in France, at 16.1 %. In Germany, a total of 31,250 tractors were newly registered in 2008, an increase of nearly 10 % relative to 2007. The UK improved as well, with 8.6 % growth. Even Eastern Europe saw expansion in the agricultural equipment market, although it had already grown strongly over the past several years. The market in South America also continued its rapid development in 2008. In particular, higher volumes of renewable raw materials exports from Brazil and Argentina brought forth expanded production. This in turn drove substantially higher demand for agricultural machinery. Overall, the agricultural sector barely seemed affected by the financial crisis in 2008, as the market showed strong cyclical growth in the first six months.

Material handling market still intact overall in 2008

In the first half of 2008, the markets were characterized by dynamic growth and optimistic outlooks. Manufacturers benefited from strong exports to Asia and Eastern Europe, while the markets of Western Europe exhibited only low growth rates, and even negative growth in Southern Europe. The first impacts of the global financial crisis began to emerge in the second quarter, and a break down in the fourth quarter pushed markets for industrial trucks to an overall decline of 8.3 % year-over-year. North America, at 17 %, faced the strongest fall off, while volumes sank by 9 % in Europe and 3 % in Asia.

Growth ends for construction machinery

The global construction machinery industry continued to perform positively in the first three quarters of 2008. Thereafter, it fell victim to the general downturn and accordingly experienced hefty declines compared to 2007. The industry was also impacted by contraction in the construction markets of the US, Spain, the UK and France. Demand for construction machinery even saw major declines in China and Asia in the second half as a result of the global crisis. In the first half, China was still showing growth due to infrastructure projects and demand for mining vehicles. The extraordinary, six-year period of growth for the German construction machinery and materials industry has also come to an end, as sales numbers in fourth quarter 2008 collapsed practically overnight. Orders for the period October to December 2008 plummeted by a total of more than 30 % relative to the very high order volumes in the final quarter of 2007. Construction machinery manufacturers were hardest hit; full year revenue in the industry ended up just below the prior year's level in spite of the good first half.

Rail industry defies global crisis

In spite of the financial crisis and weak economy, the rail industry remains on the ascent. According to the German Railway Industry Association (VDB), 2008 revenue in the industry rose by 2.3 % year-over-year to EUR 4.4 billion in the first half of 2008. This revenue growth is due primarily to export business, which expanded by 8.7 %. With new orders increasing 45.2 % to EUR 6.1 billion, order books were well-filled by the middle of the year. Here again, international business representing a share of EUR 4.1 billion was mostly responsible for the positive momentum. Domestic demand also grew by 5.3 %.

Executive Board assessment of economic conditions

The development of the economic environment had a key impact on performance during the reporting year. Given the positive growth rates in the markets of every industry until the middle of the third quarter, with significant revenue growth in the relevant segments, the markets plummeted all the further in the wake of the financial crisis beginning in fourth quarter. In the Automotive division, the impact of the downturn in the markets of Europe and the US took a considerable toll on revenue and earnings performance and prevented the targeted turnaround. In Seating Systems, GRAMMER benefited particularly from the strong truck market in the first half, as well as a continuation of strong demand in the Offroad unit and a growth-oriented market environment in Asia and Latin America.

Business Development

Automotive division hit by financial crisis

We experienced declining order volumes in the Automotive division during the year under review. Unfavorable effects arose from model changeovers and the initial impacts of the financial crisis from the middle of the third quarter. Although the Group was able to win additional development orders for center consoles from German premium automakers and thus continues the strategic expansion of our product base, this will not result in a noticeable improvement to revenue until the following years.

Another positive aspect in this year of crisis was the Company's involvement in Asia, as our Chinese production sites in Tianjin and Changchun developed according to plan. Moreover, set up of the site in Shanghai and local development of a center console for the Epsilon platform of General Motors marked another successful milestone in the emerging Asian market. In this manner, we were able to expand our customer base in Asia to include another important OEM.

For long-term strengthening of the earnings situation in the Automotive division, we implemented additional measures to improve profitability and cost efficiency. In addition to initiatives aimed at enhancing processes and structures, these also involve optimizing the worldwide production network. Expansion of our plant in Serbia and steps to increase productivity continued as planned, but were overshadowed in the fourth quarter by the substantial decline in sales.

The positive growth effects from the first half were undermined in the fourth quarter by the moderate demand for new cars around the world. Additional burdens arose from the rapid appreciation of various Eastern European currencies. In conjunction with rising wage and infrastructure costs, this made some of our production sites significantly more expensive to operate. The considerable rise in raw material prices in the first half and strong volatility in currencies and commodity markets added to the difficulties.

Seating Systems

Strong performance in the Truck and Offroad segments

As in previous years, the Seating Systems division was the growth engine within GRAMMER Group. The dynamic business performance was characterized by a consistently positive order situation and a strong first half. This reflected the favorable overall economic situation, as well as our strong market position in the Offroad and Truck segment. In particular, GRAMMER benefited from technologically innovative products in the Offroad segment. We were able to strengthen our leadership within the Western Europe market in 2008 and expand our position in numerous countries, especially Brazil and China.

We also solidified our lead in the South American truck market. A combination of favorable economic conditions and our strong market position had a positive effect on revenue and earnings. Sales were also considerably stronger in Europe and the Middle East.

The agricultural machinery segment also performed very well, with the highest rates of growth as usual in the first half. Full year results were more mixed in the area of construction machinery, while forklifts shone with double-digit growth rates in the first half year. Earnings performance for these product groups finished the year with very satisfying results because of the strong first half.

During the reporting year, various plant optimization measures were also undertaken according to the principles of lean management. Moreover, the Company profited from optimizations carried out in the previous years, for example modernizing of the metal production line at the Haselmühl plant, enabling lower cost production and stronger volume growth. Steps to augment Chinese metal production will make it possible to supply the entire Group with seats and seating components from this Asian plant in the future. Our US unit is gradually being built into an independent development, distribution and production center to supply the American offroad market. The related localization is thus a crucial element in the systematic implementation of our plans to further develop the US market.

Railway segment restructuring continued

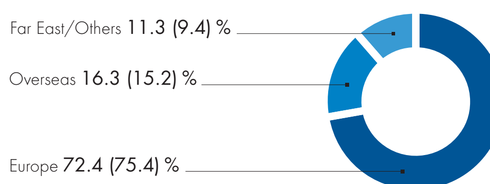
As part of restructuring, the Railway segment further optimized and stabilized its process capabilities. The focus was also on development of additional platforms and increased acquisition of international projects. In terms of implementing newly acquired orders into production, customer-side project delays resulted in postponed revenues and residual earnings effects in the coming year. Production launches were primarily based on new international orders from outside Germany. For instance, we now produce passenger seats for the regional transport train ÖBB RailJet and for the metro in Dubai.

Revenues and Earnings

Total Group revenue reaches EUR 1.0 billion

Despite macroeconomic and industry-specific conditions, GRAMMER Group achieved total revenue of EUR 1,007.0 million in 2008 (2007: EUR 998.1). Strong growth in the first half was largely offset in the fourth quarter by substantially decreasing revenues.

Revenue by regions (previous year in brackets)



in EUR m

	2008	2007
Europe	729.7	752.1
Overseas	163.7	151.8
Far East/Others	113.6	94.2
Total	1,007.0	998.1

Performance differed among the regions: In Europe, revenue declined by EUR 22.4 million to EUR 729.7 million, attributable mostly to the fourth quarter, whereas overseas revenue saw better than average growth. In these regions, GRAMMER generated EUR 163.7 million in revenue, which equates to an increase of 7.8 % year-over-year in spite of the recession-stricken US market. Business in Asia also developed positively. Revenue in the countries belonging to the Far East/Other region rose to EUR 113.6 million (2007: EUR 94.2). This serves to once again underline the strategic importance of our involvement in this dynamic market region.

Earnings performance impacted by developments in Automotive division
The Company was able to increase gross profit in 2008 to just over EUR 129.8 million (2007: 126.7). Despite the revenue weakness of the fourth quarter and the turbulence in currency and financial markets, earnings before interest and taxes (EBIT) at least reached previous year levels at EUR 32.0 million (2007: 32.1). The decline is due primarily to the weak operating profit in the Automotive division. The EBIT margin remained at 3.2 % (2007: 3.2).

Costs dominated by difficult environment
Cost of sales rose by EUR 5.9 million to EUR 877.2 million. The increase is primarily attributable to revenue growth and a slight rise in personnel costs. Characterized by an environment of strong upward price pressures until the middle of the year and a deteriorating economy from the middle of the third quarter cost management was marginally successful on the whole. The development of markets and currencies was dominated by the rapidly changing environment, which place constant demands on our ability to adapt. In the first half of the year, for instance, high production volumes and bottlenecks were the challenge, whereas falling sales-related production overcapacities were faced in the final quarter.

Personnel costs rose by EUR 6.7 million to a total of EUR 238.7 million (2007: 232.0). This was due to collective wage increases as well as workforce expansion and extra capacities due to sales volumes in the first half year. Despite substantial wage increases, the compensation ratio remained nearly at the prior year's level, due to personnel optimization measures. It rose 0.5 % age points, and thus comparatively much less than wages.

Selling expenses climbed moderately in the reporting year. At EUR 34.2 million, they were slightly above the level of 2007.

Administrative expenses declined slightly to EUR 71.7 million (2007: 72.2). Initially, the expansion of operations in the US and China triggered higher administrative costs. The cost optimization program begun in 2007 with the goal of lowering administrative and structural expenses continued undiminished. Due to the volatility on international financial markets and the related development of the euro, exchange rate gains increased to EUR 39.2 million (2007: 13.8). However, exchange rate losses of EUR 31.6 million (2007: 17.6) also increased quite significantly.

Other operating income
Other operating income came to EUR 8.0 million (2007: 9.6). The decrease was due to lower earnings from the sale of fixed assets and scrap sales, as well as fewer costs passed on to suppliers.

Financial expenses
Financial expenses rose again because of expanded operations and various valuation factors. We were therefore unable to maintain financial expenses, totaling EUR 14.8 million, at the level of 2007 (11.7). Financial income from securities and short-term investment of financial assets remained stable at EUR 2.5 million.

Taxes
Income taxes of EUR 5.4 million were slightly higher than 2007 (2007: 5.3). The decrease in the share of profit from operations and the corporate income tax reform under the Business Tax Reform Act resulted in a year-over-year decline in income tax expenses for the German companies, whereas taxes paid abroad increased slightly. The changes in deferred tax within Germany also resulted in a burden that pushed tax income down further. Consequently, the tax rate remained on a level with 2007 at 27.8 % (2007: 23.2).

Earnings

Operating profit of GRAMMER Group for the reporting year was EUR 32.0 million (2007: 32.1). Earnings after interest and taxes came to EUR 14.1 million (2007: 17.6), primarily caused by greater expenses from the financial result due to valuation losses.

Earnings per share came to EUR 1.38 (2007: 1.72), a decrease of 19.8 %. Including own shares in the calculation yields a result of EUR 1.34 per share (2007: 1.67).

Dividend Proposal

The GRAMMER Group posted net profit of EUR 60.9 million for fiscal year 2008. However it is the earnings of GRAMMER AG, which are decisive for a dividend payout.

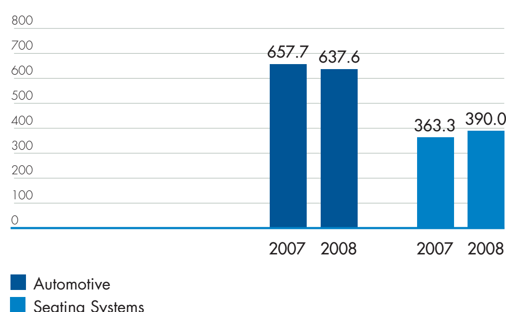
GRAMMER AG exhibited net profit of EUR 10.3 million on the balance sheet date December 31, 2008. This includes EUR 21.8 million carried forward, the dividend payout of EUR 10.2 million and the allocation of EUR 4.8 million to other revenue reserves according to section 58 (2a) of the Stock Corporation Act (AktG), as well as the neutral transfer of provisions for own shares totaling EUR 3.0 million to other revenue reserves. The Executive Board will propose to the Supervisory Board and the Annual General Meeting that no dividend be paid, as well as that EUR 7.0 million be transferred from net profit to other revenue reserves and that the remaining EUR 3.3 million be carried forward. When making a decision about the dividend, it must be borne in mind that the Company holds 330,050 own shares.

Divisional Revenues and Earnings

Automotive: Significant revenue decrease due to financial crisis
In the Automotive division, we produce interior components for premium auto manufacturers and automotive system suppliers. The division primarily generates its revenue through serial products from the Group and project business. Its 2008 revenue for the division totaled EUR 637.6 million (2007: 657.7), a decrease of 3.1 %. Thus, this division accounts for 63.3 % of Group revenue. EBIT was EUR 3.1 million, which is well below the prior year level (2007: 10.7). Product-related difficulties in US production at the start of the year and additional restructuring-related costs meant considerably higher costs in the division. The effects of the financial crisis also triggered capacity utilization problems and additional cost disadvantages from the middle of the third quarter onward.

Seating Systems: Revenue and earnings exceed 2007 significantly
The Seating Systems division benefited from the generally good order situation, particularly in the first half. Revenue increased in the Offroad segment as well as truck seat business. The Company profited here from our focus on technologically innovative products, in particular, without neglecting the breadth of the product portfolio. On the whole, the division achieved revenue of EUR 390.0 million, an increase of EUR 26.7 million on 2007. The division also generated a substantial increase in EBIT, to EUR 31.0 million (2007: 24.1).

Revenue by segments (in EUR m)



Financial Position

Company remains on solid footing
Revenue development resulted in increased in financing activities. Nonetheless, GRAMMER Group managed to keep available liquidity (cash and unused credit facilities) at about the level of the prior year. Current and non-current liabilities to banks rose slightly to EUR 93.5 million (2007: 92.9), of which EUR 70.0 million is financed by the long-term debenture bond.

Cash flow from operating activities was improved and came out higher than 2007 levels, in spite of expanding operations in China and the projects in the US. Cash flow from investments was slightly higher year-over-year, as the increase in added value was accompanied by a step up in investment. Moreover, work continued to build up low-cost sites in China and Serbia. Cash flow from financing activities rose minimally, as additional liquidity was made available to adjust to new requirements.

Furthermore, as in 2007, a banking consortium set up by GRAMMER provided short-term credit lines totaling EUR 90.0 million. The credit facility is also approved for 2009 and can be accessed daily. Therefore, the long-term debenture bond and the credit lines ensure that sufficient financial resources are available for GRAMMER Group, even with respect to the long-term growth strategy.

Net Assets Positions

On the balance sheet date, December 31, 2008, the total assets of the GRAMMER Group amounted to EUR 481.0 million (2007: 497.5). The Group thus fell short of the 2007 total by 3.3 %.

Non-current assets slightly higher than 2007
Non-current assets totaled EUR 216.7 million in the year under review (2007: 201.6). Building up of production in the lower cost locations China and Serbia led to a rise in property, plant and equipment EUR 138.1 million (2007: 131.0). Intangible assets amounted to EUR 49.5 million (2007: 44.6).

Current assets down significantly
Compared to the end of last year, current assets fell to EUR 264.3 million (2007: 296.0). This decrease was influenced both by the fourth-quarter revenue decline and the consistent implementation of working capital management. Inventories were EUR 4.3 million lower than in 2007, at EUR 90.8 million. Due parity to the sales developments, accounts receivable fell from EUR 116.8 million to EUR 88.2 million. Other current financial assets rose by EUR 7.3 million year-over-year, to EUR 45.9 million, while other current assets increased by EUR 2.3 million. On the whole, current assets were reduced by EUR 31.7 million, despite increases from expanded operations and further internationalization of goods and cash flows. Moreover, cash and short-term deposits were optimized through cash management at the end of the year to EUR 13.3 million (2007: 22.9).

Slight decline in equity
On the balance sheet date, December 31, 2008, equity was down slightly to EUR 173.0 million (2007: 184.7), thus equaling 79.8 % of non-current assets. The equity ratio was 36.0 %.

Changes in liabilities

Non-current liabilities amounted to EUR 148.2 million (2007: 140.9). This rise was caused by an increase in the amount of pension obligations to EUR 54.5 million (2007: 50.9) and higher deferred tax liabilities of EUR 18.6 million (2007: 15.6). Non-current liabilities to banks declined to EUR 69.7 million (2007: 70.4).

Current liabilities totaled EUR 159.8 million (2007: 172.0). The decrease is attributable to trade payables declining from EUR 89.8 million to EUR 76.5 million. Current liabilities to banks rose moderately from EUR 22.4 million to EUR 23.8 million. Other current liabilities were recognized at EUR 40.4 million (2007: 44.0). Other current financial liabilities rose year-over-year, to EUR 8.5 million (2007: 2.1).

Capital

Financial structure

The subscribed capital of GRAMMER AG totals EUR 26,867,607.04 divided into 10,495,159 bearer shares. Shares accord the bearer no special rights and there are no employee shares. Pursuant to section 5 (3) of the Articles of Association, the Executive Board is authorized, subject to approval by the Supervisory Board, in accordance with section 202 AktG to increase share capital by a maximum of EUR 13.4 million through one or more issuances of bearer shares through August 25, 2011. The Executive Board is further authorized, in each case subject to the approval of the Supervisory Board, to decide on exclusion of shareholders' statutory subscription rights. In addition, the Executive Board is authorized, upon approval by the Supervisory Board, to except the subscription rights for an amount up to EUR 2,686,760.70 (10.0 % of share capital) if the issue price of new shares is not significantly lower than the market price of shares already trading in the secondary market when the final issue price is determined, which should occur as closely in time to the placement of the shares as possible. Shares purchased pursuant to a shareholder resolution and sold while such resolution is in force in accordance with section 71 (1) no. 8 sentence 5 AktG in conjunction with section 186 (3) sentence 4 AktG apply toward the above 10.0 % limit. The Executive Board is furthermore authorized, subject to Supervisory Board approval, to determine the issue price, share rights and other terms of the offering. According to notifications received on or before the balance sheet date by GRAMMER AG in accordance with section 21 (1) of the German Securities Trading Act (WpHG), the companies listed below directly or indirectly hold more than 5.0 % of shares in GRAMMER AG: Axxion S.A. headquartered in Munsbach/Luxembourg holds 5.548 % and Electra QMC Europe Development Capital Funds plc in Dublin/Ireland owns 10.001 % of shares in GRAMMER AG. POLYTEC Invest GmbH headquartered in Geretsried/Germany, according to the notification received by GRAMMER AG, holds 9.59 %, thus continuing to exceed the 5.0 % threshold. POLYTEC Holding AG headquartered in Hörsching/Austria, notified GRAMMER AG that it continued to exceed the 5.0 % threshold and that the company holds 9.59 % of shares in GRAMMER AG, which is fully attributable to POLYTEC Holding AG via POLYTEC Invest GmbH pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Acquisition of own shares

Pursuant to a 2006 resolution of the Annual General Meeting, the Executive Board is authorized to purchase own shares in accordance with section 71 no. 8 AktG. This authorization expired on December 1, 2007, having been rescinded by the Annual General Meeting on June 28, 2007. At the same meeting, a resolution was passed authorizing the Executive Board to purchase own shares until December 1, 2008. In the year under review, the Executive Board of GRAMMER AG did not exercise its rights under either resolution. GRAMMER holds a total of 330,050 own shares, all of which were acquired in fiscal year 2006. These shares have a total value of EUR 844,928.00 and represent 3.1448 % of share capital. The 330,050 own shares are non-voting and accord no dividend rights.

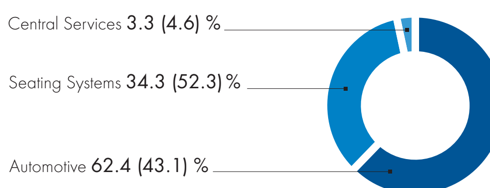
Opinion on the Company's economic situation

Based on the above discussion of net assets, financial position and earnings performance, we view the economic situation of GRAMMER Group as positive. In our business segments, our market position may be characterized as either good or very good, and our innovative products enjoy a great degree of acceptance in the marketplace. Nonetheless, the effects on the economic stability of the Company as a result of the financial crisis and the significant declines in revenue cannot be foreseen.

Investments

Investments by GRAMMER Group in the year under review totaled EUR 39.9 million (2007: 34.6). In the Automotive division, we invested EUR 24.9 million (2007: 14.9), mainly on new production facilities for pending customer projects and expansion of the sites in Shanghai, Serbia and Schmölln, which will contribute to optimizing our cost structure as low-cost locations for sewing operations featuring integrated production with a high degree of automation. Moreover, set-up was begun on the production facilities for integrated center console production, which require a greater intensity of investment.

Investments by segments (previous year in brackets)



in EUR m	2008	2007
Automotive	24.9	14.9
Seating Systems	13.7	18.1
Central Services	1.3	1.6
Total	**39.9**	**34.6**

Investment in the Seating Systems division totaled EUR 13.7 million (2007: 18.1).

The increase in truck production and the new Echo platform required several million euros in investment in both Turkey and Germany. For the Offroad segment, we once again made major investments in tooling, optimization of our foaming equipment, and in setting up modular production units for the metal production line. These investments serve to enhance efficiency and optimize the sites. They also demonstrate the Company's commitment to production in Germany.

A total of EUR 1.3 million (2007: 1.6) was invested the central service departments. We acquired further upgrades and additional licenses for our SAP system. Moreover, we invested in optimizing, integrating and networking our CAD software.

Employees

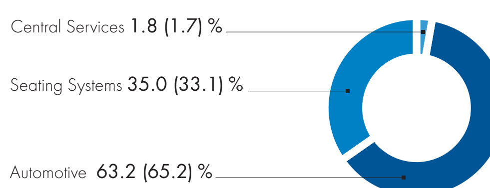
Further decline in the number of employees
As compared to 2007, the number of employees last year sank by 6.5 %. On the balance sheet date, December 31, 2008, a total of 8,908 people were employed within the GRAMMER Group (2007: 9,527). This included 5,631 employees in the Automotive division (2007: 6,216), 3,114 in the Seating Systems division (2007: 3,153) and 163 in the central service departments (2007: 158). The average number of employees during the year was 9,493.

Initial benefits from the personnel cost reduction program
The program begun in 2006 to reduce personnel costs at the Company's German locations continued to develop last year. With the aim of protecting jobs at the GRAMMER AG locations, measures were implemented, such as more flexible working hours and general wage cost savings. The extensive package of measures and its expansion are to be completed by the end of 2010.

Training, professional development, human resources
Employee development is a key to achieving and improving company success. Employees with new ideas, expanded knowledge and additional knowhow play a decisive role in maintaining established standards and building on competitive strengths. For this reason GRAMMER offers numerous initiatives for employees of all areas and levels. Our global professional development program is based on a three level structure: The General Management Program focuses on strategic training for top management; the Management Development Program is aimed primarily at plant and department supervisors; the GO!2002 program is designed for promotion of young talent. All three professional development concepts are oriented on the mission statement, targets and strategy of GRAMMER Group.

Our human resource policy centers equally on educational support for qualified young talents. They are the motor of our future success. In 2008 as well, we engaged motivated trainees in all divisions of the Company, to maintain a qualified pool of resources in fields that are becoming more important as technology progresses. We also hosted internships and offered students and postgraduates the possibility to complete their thesis or dissertation while gaining practical experience within our Company. Highly qualified junior staff is also attracted to the Company through university recruiting events. One example of our successful activities in the university domain is the long-standing close working relationship with the Amberg-Weiden University of Applied Sciences.

Employees by segments (previous year in brackets)



In figures (as of December 31)

	2008	2007
Central Services	163	158
Automotive	5,631	6,216
Seating Systems	3,114	3,153
Total	8,908	9,527

Supervisory and Executive Boards
The rules for appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG. No deviating or additional provisions are contained in the Articles of Association.

Changes to the Supervisory Board
On December 31, 2008, Horst Übelacker left the Supervisory Board. With effect from February 19, 2009, the Amberg Local Court appointed his successor Astrid Franzky to the Supervisory Board as executive managment representative.

Principles of remuneration for the Executive and Supervisory Boards

The annual remuneration of the Executive Board constitutes the following elements: Annual target compensation, comprising a fixed salary and a performance-related component for 100.0 % target achievement, as well as retirement benefits, structured in the same manner as pension commitments to employees. The performance-related component is calculated based on the revenue and earnings figures in the GRAMMER AG financial statements, as well as return on capital employed (ROCE). This component may comprise up to 30.0 % of annual target compensation. The revenue-based component of performance-related remuneration is derived from the percentage revenue increase over the previous fiscal year. The earnings-based component is based on EBIT or annual ROCE in relation to revenue. If the targets set by the Supervisory Board are exceeded, the performance-related component may total up to a maximum of 60.0 % of the fixed salary. Remuneration of the Executive Board contains no components with long-term incentive effect, such as stock option or stock award programs.

For each full year of membership in the Supervisory Board, each member receives a fixed salary. The amount received by each individual member is EUR 10,000.

The Chairman of the Supervisory Board receives twice this amount, the Deputy Chairman one and a half times. Furthermore, the members of the Supervisory Board receive a variable remuneration component of EUR 200 for each 0.1 % age point of GRAMMER Group ROCE in excess of 8,0 %. The maximum amount of variable remuneration per Supervisory Board member is EUR 6,000 per fiscal year. The figure ROCE is based on the information in the audited financial statements of GRAMMER AG, and is calculated as follows: Operating profit minus income tax expenses divided by the sum of equity including interest-bearing debt, pension obligations and financial obligations.

Members of the Supervisory Board also receive a meeting fee of EUR 1,000 per personally attended Board or committee meeting, plus reimbursed expenses. The Chairman of a committee receives a further EUR 1,000 per committee meeting. There are no components with long-term incentive effect, such as stock option or stock award programs contained in the remuneration of the Supervisory Board.

Corporate Governance

The Declaration of Conformity with the German Corporate Governance Code was updated on December 9, 2008 and adapted to the new version of the Code dated June 6, 2008. In accordance with section 161 of the Stock Corporation Act (AktG), the Executive Board and Supervisory Board affirm that the management guidelines of GRAMMER AG essentially correspond to the recommendations of the Code, and will do so in the future. The full declaration is published in the 2008 annual report and is permanently available on the Company website under www.grammer.com/corporate_governance.

Research and Development

Research and development is a central focus for the GRAMMER Group, as an important factor for successful positioning in the market now and in the future. Technological advancement generates innovative products and a broad product range. It allows us to tap into new market potentials and ensure long-term competitiveness.

Especially in the Automotive division, investment in R&D is of crucial importance. The responsibility for developing new automotive components and systems, or improving on existing ones, is increasingly shifting to the suppliers. Consequently, the Automotive division continues to strengthen its position as a development partner and innovation driver for major manufacturers. In this context, technological advancement and first-class solutions ensure important market advantages for GRAMMER. But intensive research and development is not only the basis for our success today – it also provides the foundation for a winning future: New, innovative products enable us to meet even the most demanding of customer expectations over the long haul.

In fiscal year 2008, GRAMMER Group registered a number of patents in the Automotive division that contribute to the safety of car passengers. The emphasis is on further development of active safety features, from the active head restraints system to active application of X-adjustment, as well as sensor-based triggering. This ensures an ideal alignment between customer benefits and innovative product design.

In the Seating Systems division, we continue to develop our own innovative solutions that contribute to the improvement of our seats. Realization of our goal to drive forward new developments in the area of ergomechanics, in order to protect the health of our end users, will serve to sustainably strengthen our market position. This also challenges other market participants to follow our lead, or at least develop adequate solutions. Our achievements include innovative mechanical seat suspension systems for heavy construction machinery, designed as an expansion of our product range in the heavy equipment market for use under difficult conditions with the well-being of the driver in mind. We have also developed suspension systems with automatic weight adjustment for use, for example in forklifts, as a way to improve operator comfort health in vehicles with several drivers by eliminating improper adjustments. With a combination of active seat and cabin suspensions, GRAMMER is pursuing new paths of innovation. Movements, vibrations and inertial effects are no longer stabilized only by active shock absorbing systems in the seat, but rather proactively addressed by advanced features of overall cabin construction. This comprehensive approach allows us to set new standards for ergonomics and minimization of vibrational effects on the driver's physiology.

Opportunity and Risk Management

Risk policies and principles
Business always entails opportunities, as well as risks. Especially given the international orientation of GRAMMER Group, opportunities and risks arise, which must be managed. Listed below are some of the principles contained in the GRAMMER Group risk strategy:

- Opportunities and risks in the context of risk management for GRAMMER encompass any positive or negative deviations from a plan or target defined in circumstances of uncertainty.

- Risk management thus contributes to value-based management within GRAMMER Group. Value-based means that the Company deliberately enters into risks only when there is potential to enhance the value of the Company by taking advantage of favorable business opportunities.

- GRAMMER must avoid any activities entailing risks that could jeopardize the further existence of the Company.

- Core operational risks, and in particular those originating in the market, are carried by GRAMMER itself. The Company also bears risks arising from development of new products, whereas the Company seeks to transfer other risks (in particular, financial and liability risks) to third parties.

- Risk management within GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value enhancing measures are deemed to be ongoing and Group-wide duties by GRAMMER management.

- All employees of the Company are called upon to identify and minimize risks within their area of responsibility. All employees must immediately report to their relevant supervisors any threats and opportunities emerging in the course of business.

Risk management process
The risk management process ensures early identification, analysis and assessment of risks, as well as coordinated implementation of measures to manage and monitor risk. As part of a contiuous monitoring process, risks with an estimated unplanned loss potential of EUR 0.5 million or more are reported to central risk management. Every division and central service department has a risk officer in charge of this. In regular meetings with the various management levels of the divisions and admin departments, opportunities and risks are discussed along with measures to manage risk. A Group-wide reporting system assures that decision-makers regularly receive comprehensive information on the risk situation of the Company, as well as the status of the measures implemented.

Central risk management is contained within the Group Finance department, and operates an IT-based risk management system, in which risks are centrally managed and appropriate measures for risk mitigation are initiated. The phases of the risk management process are optimally supported by this recognized software solution.

In this way, we maintain an overview of the key opportunities and risks for GRAMMER Group. These include: strategic risks, market risks, financial risks and legal risks, as well as risks stemming from the areas of IT, human resources and production.

Market and sector-specific risks
The sector-specific revenue risks in the wake of the worldwide financial and automotive market crisis have not been without effect on the economic situation of GRAMMER Group. Risks for GRAMMER Group resulted from sensibility to weak demand in the automotive sector at year-end, and initial signs of significant declines in order volumes in the area of commercial vehicles.

Based on indicators from the risk management system, GRAMMER Group immediately implemented a risk management approach, reacting with prompt adjustments of production and cost structures in all locations. Full utilization of all human resource management tools allowable by law in each country, for example short-time work in Germany, was rapidly initiated and will continue to represent a component of risk mitigation for an extended period.

The crisis has also resulted in competitive risks relating to sustained cost pressures by car manufacturers on companies in the supplier industry, as well as deteriorating order volumes. In response, we are forcing through various process optimization measures, in addition to intensified research and development.

Our goal is to improve our market position in all business areas, as a way to reduce these competitive risks. Consequently, GRAMMER is focusing on technical innovation and advancement of existing products. Through an increase of R&D activities, we intend to establish or strengthen our position as the technology leader with respect to our core products, in order to generate competitive advantages in the marketplace.

Great emphasis is also placed on maintaining high quality standards within the Group, with early identification and elimination of potential sources of error, as well as prevention of redundant work and idle capacities.

Procurement risks
In order to specifically balance out the most significant commodity market fluctuations, GRAMMER concludes targeted hedging transactions for tradable commodities, such as oil. Hedging is accomplished with commodity derivatives, which are actively managed with respect to the delivery dates and required volumes.

Risks arising from non-delivery by suppliers or quality problems attributable to them, are managed by GRAMMER through regular supplier audits, in addition to a dual-sourcing strategy and focused supplier relations. This fosters ongoing intensive contact with our suppliers, and enables us to avoid dependencies where possible. In order to protect our value chain in light of the current financial and automotive crisis, we are placing particular emphasis on evaluation of our suppliers' financial strength.

Financial risks

Group finance centrally tracks interest, currency, liquidity and debtor default risks. Strategic treasury management, the effectiveness of which is reviewed regularly, is used to mitigate these risks.

The primary currency risks for GRAMMER Group originate from trade payables/receivables and procurement costs denominated in US Dollars, Czech Koruna, Turkish Lira, Polish Zloty, Mexican Pesos and Japanese Yen. Additionally, there are outstanding loans as part of cash pool activities, in relation to which GRAMMER AG is pool manager as financing partner for the subsidiaries. The Company concludes hedging transactions for portions of projected currency risks.

In the light of the current restrictive credit policies among banks, ensuring adequate liquidity reserves is a high priority. GRAMMER Group financing is safeguarded by a long-term debenture bond, short-term loans in local currencies for credit markets subject to transfer restrictions, as well as adequate short-term lines of credit at a guaranteed rate of interest until the end of 2009. Additionally, investments are selectively concluded via leasing and rental agreements.

Our customer structure serves to limit debtor default risks, which are controlled through active receivables management. Default risk as a result of the financial crisis relate to large listed OEMs, the liquidity situation of which GRAMMER cannot fully assess, but with respect to whom we are contractually obligated to deliver products and services.

Legal risks

To guard against legal risks, we employ a system of intensive contract review and contract management, as well as systematic documentation and archiving. Normal risks and going-concern risks are sufficiently addressed.

Human resource risks

GRAMMER relies on highly qualified staff and management personnel to effectively capitalize on business opportunities. For this reason, extensive employee training and continuing education at all levels and in all areas of the Company are a top priority. We also conduct and take part in numerous recruiting events to attract motivated new talent.

Ecological risks

To manage ecological risks, the Company performs regular eco-audits, which provide a comprehensive assessment of environment-related activities. We also continue to pursue certification of our production sites in accordance with environmental certification standard ISO 14001.

Assessment of overall risk

Upon detailed review of the current risk situation, we have determined that GRAMMER Group has implemented adequate preventive measures. The risks from the fiscal year under review have no material impact on the future net assets, financial situation and earnings performance of the Company. At this time, we see no risks that could jeopardize the further existence of the Company. Given the uncertainty with respect to further developments, only a limited assessment can be made of future risks in connection with the financial crisis and any effects on the Company's net assets, financial situation and earnings performance.

Outlook

Deep global recession in 2009

Experts at the International Monetary Fund (IMF) are now forecasting the most significant economic downturn since World War II in 2009. Economic growth is projected to total 0.5 %, based on the fact that not all countries will be equally impacted by the crisis. The original IMF forecast as recently as November 2008 was for growth of 2.2 %.

While output among industrialized nations is expected to decline by an average of 2 %, Germany is projected to be especially hard hit, with a contraction of 2.5 % – a difference of 3.8 % as compared to 2008. The United States, on the other hand, despite its role in initiating the crisis, is expected to face only a 1.6 % decline. The forecast projects a 2 % reduction in economic output for the euro zone. The outlook for Russia, which still foresaw expansion of 3.5 % in November 2008, has now been corrected to reflect a 0.7 % decline in GDP. For their part, the emerging countries China and India are expected to continue growing at rates of 6.7 % and 5.1 % respectively.

At the earliest, the IMF expects to see first signs of light at the end of the tunnel towards the end of the current fiscal year. Assuming that the stimulus measures implemented globally, such as the EUR 397 billion spending package of the Chinese government, take hold and the US real estate market stabilizes, worldwide economic growth could hit 3 % in 2010. This would be achieved based on 5 % expansion in developing countries along with 1 % in the industrialized world.

The effects of the stimulus packages throughout the world and in Germany should help to stabilize the economy and hasten a recovery. Whether they will be able to bolster the American auto industry and have a long-term effect will not be clear for some months.

Automotive market faces significant downturn
The prevailing uncertainty as to the extent and duration of the financial and economic crisis will continue throughout 2009. According to market forecasting institute CSM, global car markets face further consolidation this year: Especially in the North American and European markets, double-digit declines are expected: In all, CSM is projecting a worldwide decline of roughly 8 % in new car registrations, with a lasting effect on both the domestic market and exports. There is potential for positive effects in Germany from the scrap bonus and other measures designed to motivate consumers. CSM is also expecting similar support for the US market, but the impact of these measures still remains unclear. Production volumes are expected to fall by approximately 30 % as compared to the previous year, as OEMs in nearly every country of production, except China, are massively cutting capacities.

In addition to foreign market developments, new model production by major German premium manufacturers, for whom we deliver components that are developed by GRAMMER and will be part in the manufacturing process, should be of particular importance for the performance of the Automotive division in 2009. According to the OEMs, launch of production for these models should begin as planned in the third quarter of 2009. GRAMMER expects the successful realization of the new products to have a positive effect on revenue and earnings when production begins. Moreover, output at the production sites in China and Serbia continues to soar, leading to further cost advantages. In the transitional phase between old and new models, however, there may be some slight decreases in revenue.

Upward trend in driver seats at an end
The international commercial vehicles market also continues to worsen. In Western Europe, the market is expected to decline by as much as 17 %. For Russia, China and Japan, the outlook is also for a significant decrease in new vehicle registrations in 2009. According to VDA, even South America, which has been a growth market, is expected to see a 20 % drop this year. For the German commercial vehicles market, 2009 will likely be characterized by a substantial contraction. The number of new vehicle registrations will decline by at least 10 % to just 300,000 units based on the VDA projections. The decrease will hit commercial vehicles larger than 6.5 tons harder than light commercial vehicles up to 3.5 tons. The downward trend that began at the end of last year continued unchanged in January 2009, with a drop of 29 %.

Limited investment capital will also lead to lower numbers of new registrations for agricultural machines in 2009, despite the expectations of individual customers for stable sales at the level seen in fiscal year 2008.

In the area of material handling, forecasts also clearly indicate weakness as a result of the crisis. Heavy declines by double-digit margins will see the market considerably weaker than it was in 2008. The crisis will continue for the next 12 to 18 months in the material handling segment. The bottom should be reached at the end of 2009.

The outlook for the construction machinery market this year also remains negative. Since the middle of last year, manufacturers have been battling with weak incoming orders. Adding to the burden are the large inventories sitting on dealer lots, so that sales convey no direct benefit for the manufacturer. No significant recovery of this market is expected before 2010. China alone seems to be experiencing some degree of positive growth as a result of the government's planned infrastructure spending packages.

We expect revenue and earnings in the driver seat segment to reflect the negative impact of the financial crisis in the current fiscal year.

Rail industry to remain stable in 2009
Numerous government stimulus and economic development programs will mean a relatively stable market for the rail industry in 2009. The German Railway Industry Association (VDB) anticipates revenues at a stable level of roughly EUR 10 billion. A study by UNIFE and Roland Berger Strategy Consultants indicates that the railway supplier industry can expect annual growth of 2.5 to 3 % in the coming years. We also expect the order trend in railway business to remain constant in 2009. Moreover, our intensive efforts to push forward with measures to optimize business processes will also have a positive effect on the cost situation.

Business Development Forecast

Group business performance
The effects of the financial crisis and the associated real economic downturn have already resulted in substantial double-digit declines in sales during the first months of fiscal year 2009, and forced GRAMMER Group to make adjustments to capacity, the workforce and costs. Among the medium to long-term structural changes within the Company are a continuation of measures to optimize production and streamline administrative areas to sustainably reduce fixed costs. Based on current order volumes, a major focus will be on new production as well as production improvements and automation in the Automotive division, alongside drastic capacity reductions in conventional production structures. In the Seating Systems division, cost cuts will be achieved with lean management measures, intensive concentration on remaining growth markets such as China and new market segments. Moreover, we will seek further advancement of the innovations in the segment and reintroduce improved versions of existing products to the market. The strategy to optimize costs in the Railway unit will also be continued and independent development pushed forward, in order to position the segment in a market characterized by internationalization and infrastructure measures.

Investments

We plan to step up investment slightly in the current year. In order to continue driving growth of the Company, further investments will be made in NAFTA and Asian markets. The focus, however, will be on Europe, given the expansion of center console production and large-scale customer projects planned for 2009. Expansion of integrated process chains and the transition to lean production will also be implemented to optimize costs.

Research and development

In the Automotive division, we intend to upgrade the current product portfolio. The emphasis of this will be on expansion to include new vehicle series and strengthening of our core business. Predevelopment will be further intensified, in order to better differentiate ourselves from the competition as a technologically innovative systems supplier. In the Seating Systems division, efforts will continue to center on the new Echo truck seat platform. We will also push ahead forcefully with development of our active controlled seat and cabin suspension systems as well as other suspension systems for the low-end Offroad segment. Moreover, we will perfect the product range at both ends by focusing on development of local market-specific applications. This will entail targeted expansion of activities in both the NAFTA markets and in Asia.

Employees

Changes in the number of employees will be determined primarily by market conditions and cost considerations in Europe and Germany, as well as Company expansion in the Far East and other international markets. Additionally, internal restructuring measures will be continued, in the areas of both production and administration. This will mean significant workforce reductions at all levels and in all areas, in alignment with revenue and earnings performance. The Group thus anticipates a substantial decline in the number of employees.

Opportunities and risks

The economic situation going forward presents fewer opportunities than risks. GRAMMER Group's business performance is closely tied to macroeconomic and industry-specific conditions, and is thus largely determined by external factors. It is currently difficult to assess the risks originating from the financial crisis, which could result in further deterioration despite government stimulus. In particular, the risks of default by OEMs and other customers are virtually impossible to quantify, although they could result in significant earnings and liquidity problems for the Company. Other risks arise from extreme volatility in currency and commodity markets. There are measures in place to hedge against these, including the package of efficiency measures introduced by the Executive Board, implementation of which has continued undiminished and is being pushed forward further. The main source of opportunity in the current economic environment comes from our cost-cutting and overhead cost adjustment programs, which will be systematically implemented throughout 2009. We expect earnings in 2009 to be substantially lower than the level achieved in the year under review, especially given that capacity adjustments will lead to one-time expenses. Given the incalculable risks within the markets, however, this also hinges upon workforce adjustments correlating to revenue performance as well as reasonable conditions under union wage agreements, and positive procurement price and currency exchange rate developments.

Summary statement of the Executive Board concerning the forecast

In view of the business situation in the initial months of 2009, and in light of the very poor economic environment, our outlook on the performance of GRAMMER Group is characterized by a great degree of uncertainty. On the whole, 2009 promises to be a very difficult year. Assuming a stabilization of the economic situation, however, we also see a foundation in place for continued growth after 2009, and a successful turnaround in 2010, which will return the Company to profitability.

Events Subsequent to the Reporting Date

Due to the development of Company sales and the markets in the initial months of 2009, and the resulting outlook for the full year, GRAMMER has found it necessary to open wage negotiations and talk terms for a suspension of employment protection provisions. Negotiations on workforce reduction in 2009 are being carried out at the same time for German locations and other countries.

Amberg, March 19, 2009

GRAMMER AG
Executive Board

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Consolidated Income Statement
for the Fiscal Year ended December 31, 2008

EUR k

	Note	2008	2007
Revenue	5	**1,006,961**	**998,065**
Cost of sales	6	- 877,175	- 871,325
Gross profit		**129,786**	**126,740**
Selling expenses	6	- 34,153	- 32,028
Administrative expenses	6	- 71,651	- 72,175
Other operating income	6	7,971	9,576
Operating profit		**31,953**	**32,113**
Financial income	6	2,468	2,480
Financial expenses	6	- 14,846	- 11,745
Profit before tax		**19,575**	**22,848**
Income tax expenses	7	- 5,446	- 5,293
Profit after tax		**14,129**	**17,555**
Of which attributable to:			
Shareholders of the parent company		14, 055	17,514
Minority interests		74	41
		14,129	**17,555**
Earnings per share			
Basic/diluted, on the basis of the profit after tax for the period attributable to ordinary shareholders of the parent company	8	1.38 EUR	1.72 EUR

Consolidated Balance Sheet for the Fiscal Year ended December 31, 2008

ASSETS

EUR k

	Note	2008	2007
Non-current assets			
Property, plant and equipment	10	138,132	131,043
Intangible assets	11	49,526	44,593
Other financial assets	14	8,043	9,362
Deferred income tax assets	7	21,044	16,567
		216,745	201,565
Current assets			
Inventories	12	90,836	95,128
Trade accounts receivable	13	88,195	116,822
Other current financial assets	14	45,893	38,582
Income tax assets		6,113	4,928
Cash and short-term deposits	16	13,330	22,904
Other current assets	15	19,894	17,606
		264,261	295,970
Total assets		481,006	497,535

EQUITY AND LIABILITIES

EUR k

	Note	2008	2007
Equity attributable to shareholders of the parent company			
Subscribed captial	17	26,868	26,868
Capital reserve	17	58,237	58,237
Own shares	17	-7,441	-7,441
Retained earnings	17	94,792	106,551
Equity before minority interests		172,456	184,215
Minority interests	17	526	493
Total equity		172,982	184,708
Non-current liabilities			
Non-current financial liabilities	19	69,741	70,433
Other financial liabilities	22	4,159	3,769
Other liabilities	23	1,200	193
Retirement benefit obligations	18	54,450	50,903
Deferred income tax liabilities	7	18,634	15,564
		148,184	140,862
Current liabilities			
Current financial liabilities	19	23,785	22,413
Trade accounts payable	21	76,476	89,783
Other current financial liabilities	22	8,535	2,104
Other liabilities	23	40,401	43,960
Current income tax liabilities	23	3,008	7,420
Provisions	20	7,635	6,285
		159,840	171, 965
Total liabilities		308,024	312,827
Total equity and liabilities		481,006	497,535

Consolidated Statement of Changes in Equity for the Fiscal Year ended December 31, 2008

Note 17

EUR k

	Subscribed captial	Capital reserve	Revenue reserve	Own shares	Other reserves	Total	Minority interests	Group equity
As of January 01, 2008	26,868	58,237	97,502	–7,441	9,049	184,215	493	184,708
Net losses from cash flow hedges	0	0	0	0	- 2,012	–2,012	0	–2,012
Currency translation	0	0	0	0	- 7,569	–7,569	- 30	–7,599
Net losses from hedging of a net investment	0	0	0	0	- 6,063	–6,063	0	–6,063
Sum of gains/losses recognized directly in equity	0	0	0	0	–15,644	–15,644	–30	–15,674
Net income for the period	0	0	14,055	0	0	14, 055	74	14,129
Total net income	0	0	14,055	0	–15,644	–1,589	44	–1,545
Dividends	0	0	- 10,170	0	0	–10,170	0	–10,170
Own shares	0	0	0	0	0	0	0	0
Purchase of minority interests	0	0	0	0	0	0	- 11	–11
As of December 31, 2008	26,868	58,237	101,387	–7,441	–6,595	172,456	526	172,982

For the fiscal year ended December 31, 2007

EUR k

	Subscribed captial	Capital reserve	Revenue reserve	Own shares	Other reserves	Total	Minority interests	Group equity
As of January 01, 2007	26,868	58,237	90,158	–7,441	6,470	174,292	468	174,760
Net losses from cash flow hedges	0	0	0	0	- 556	–556	0	–556
Currency translation	0	0	0	0	4,408	4,408	12	4,420
Net losses from hedging of a net investment	0	0	0	0	- 1,273	–1,273	0	–1,273
Sum of gains/losses recognized directly in equity	0	0	0	0	2,579	2,579	12	2,591
Net income for the period	0	0	17,514	0	0	17,514	41	17,555
Total net income	0	0	17,514	0	2,579	20,093	53	20,146
Dividends	0	0	- 10,170	0	0	–10,170	0	–10,170
Own shares	0	0	0	0	0	0	0	0
Purchase of minority interests	0	0	0	0	0	0	- 28	–28
As of December 31, 2007	26,868	58,237	97,502	–7,441	9,049	184,215	493	184,708

Consolidated Cash Flow Statement for the Fiscal Year ended December 31, 2008

Note 24

EUR k	2008	2007
1. Cash flow from operating activities		
Profit before tax	19,575	22,848
Non-cash items:		
Depreciation and impairment of property, plant and equipment	20,959	21,481
Amortization and impairment of intangible assets	2,454	1,986
Changes in provisions and pension provisions	3,554	- 1,275
Other non-cash changes	- 13,266	1,784
Changes in net working capital		
Decrease /Increase (–) in trade accounts receiveable and other receivables	18,003	- 9,046
Decrease/Increase (–) in inventories	4,292	- 9,728
Decrease/Increase (–) in other assets	- 5,662	- 2,623
Decrease (–)/Increase in accounts payable and other liabilities	- 289	16,951
Gains/Losses from disposal of assets	91	2,999
Income taxes paid	- 8,910	- 6,852
Cash flow from operating activities	**40,801**	**38,525**
2. Cash flow from investing activities		
Purchases		
Purchases of property, plant and equipment	- 32,440	- 29,763
Purchases of intangible assets	- 7,464	- 4,857
Purchases of investments	- 3,639	- 4,443
Disposals		
Disposal of property, plant and equipment	1,240	4,995
Disposal of intangible assets	12	1,433
Disposal of investments	4,869	490
Interest received	2,468	2,480
Government grants received	303	300
Cash flow from investing activities	**–34,651**	**–29,365**
3. Cash flow from financing activities		
Dividend payments	- 10,170	- 10,170
Purchase of own shares	0	0
Repayment of bond	0	0
Changes in non-current liabilities to banks	- 2,731	- 2,699
Changes in current liabibilities to banks	- 1,836	3,320
Changes in lease liabilities	- 108	- 1,956
Interest paid	- 7,645	- 9,200
Cash flow from financing activities	**–22,490**	**–20,705**
4. Cash and cash equivalents at end of period		
Net change in cash and cash equivalents (sub-total of items 1 – 3)	- 16,340	- 11,545
Effects of exchange rate differences	1,571	96
Cash and cash equivalents as of January 1	15,505	26,954
Cash and cash equivalents as of December 31	**736**	**15,505**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	13,330	22,904
Securities	0	0
Bank overdrafts	- 12,594	- 7,399
Cash and cash equivalents as of December 31	**736**	**15,505**

Notes to the Consolidated Financial Statements for the Fiscal Year ended December 31, 2008

1 Information about GRAMMER Group

The consolidated financial statements of GRAMMER AG (the "Company") for the fiscal year ended December 31, 2008 were released by the Executive Board for submission to the Supervisory Board on March 19, 2009. 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 SDAX of the Frankfurt Stock Exchange since August 2005.

With regard to its core products, GRAMMER Group is a leader in the development and production of components and systems for automotive interiors as well as driver and passenger seats for commercial vehicles (trucks and offroad) busses and trains. As of December 31, 2008, the Company employed 8,908 persons (excluding trainees and including 163 employees in Central Services) at 28 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at GRAMMER Group Central Services in Amberg.

GRAMMER Group has divided its activities into the Automotive and Seating Systems divisions. The main activities of the Group are described in Note 4.

2 Accounting Policies

2.1 Basis of preparation

According to Article 4 of Regulation (EC) No. 16062002 of the European Parliament and of the Council dated 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 conformity 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. If necessary, the financial statements of subsidiaries are adjusted to conform to the accounting policies applicable in the Group.

Any intragroup balances, transactions, income, expenses and unrealized 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 loses control over the company concerned. Net income from subsidiaries acquired or sold in the course of the year is recognized in the consolidated income statement in line with the actual acquisition or disposal date.

Differences arising from 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 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 0.21% to 88.84% in fiscal year 2008. 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 acquired in net assets recognized as goodwill. Due to an excess of net assets acquired over the cost of acquisition (passive difference in equity consolidation), the difference of EUR 5.2 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 net income for the period and the net assets of GRAMMER do Brasil Ltda., Brazil, GRAMMER Koltuk Sistemleri Sanayi ye Ticaret A.S., Turkey and GRAMMER AD, Bulgaria, 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 in the income statement.

Scope of consolidation

In addition to GRAMMER AG, the scope of consolidation includes four domestic and eighteen foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IAS 27. In addition, a joint venture within the meaning of IAS 31 is proportionately consolidated. GRAMMER AG holds 50% of the voting rights in this joint venture.

2.2 Estimates and discretionary scope

In preparing the consolidated financial statements, discretionary decisions, assumptions and estimates have to be made to a certain degree, which have an impact on the measurement and 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, assessing the recoverablility of receivables and undertaking recognition and measurement of provisions. The assumptions and estimates are based on presumptions reflecting 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 that 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.

Estimation uncertainties

The cardinal assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date, which entail 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 the cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. The cash flows are extrapolated from budgets for the subsequent three years. The realizable value depends largely on the discount rate applied for discounted cash flow measurement, as well as the expected future cash flows and rate of growth used as the basis for extrapolation. As of December 31, 2008, the carrying amount of goodwill amounted to EUR 32,591 thousand (2007: 32,591). 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. Capitalization of costs for the first time is based on the management's assessment that there is evidence that the development is technically and economically feasible. As a rule, this is the case if a product development project has achieved a specific stage of maturity in an existing project management model. 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 cash flows generated by such assets will flow to the Company.

Long-term construction contracts
Construction contracts are recognized following the percentage-of-completion (PoC) 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 income tax assets
Deferred income tax assets are recognized for all unused income tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused income tax losses can be actually utilized. Significant management judgments are required to determine the amount of deferred income 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.

Pension 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, 2008, the provisions for pension and similar obligations amounted to EUR 54,450 thousand (2007: 50,903). 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
The consolidated financial statements are prepared in euros, the functional currency of the Group. It is the currency of the primary economic environment in which GRAMMER Group conducts business. Every company within the Group determines its own functional currency. The items included in the financial statements of the companies are measured on the basis of the relevant functional currency. In the single-entity financial statements of GRAMMER AG and its consolidated subsidiaries, foreign currency transactions are translated at the exchange rate applicable on the date of initial recognition of the respective transaction. Any resulting gains or losses are recognized in income.

Financial statements prepared in foreign currencies and transactions denominated 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 companies whose functional currency differs from the reporting 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 companies are translated into euros from the respective local currency at the middle rate on the balance sheet date. Income statement items are translated into 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.

For currency translation purposes, the following exchange rates were applied for the major currencies outside the euro zone that are of relevance to the Group:

		Average rate		Closing rate	
		2008	2007	2008	2007
Argentina	ARS	0.214	0.234	0.206	0.216
Brazil	BRL	0.375	0.375	0.304	0.382
Bulgaria	BGN	0.511	0.511	0.511	0.511
China	CNY	0.098	0.096	0.104	0.093
United Kingdom	GBP	1.257	1.459	1.042	1.361
India	INR	0.016	0.018	0.015	0.017
Japan	JPY	0.007	0.006	0.008	0.006
Canada	CAD	0.644	0.681	0.583	0.693
Mexico	MXN	0.061	0.067	0.052	0.062
Poland	PLN	0.283	0.264	0.239	0.278
Russia	RUB	0.027	0.029	0.024	0.028
Switzerland	CHF	0.632	0.609	0.673	0.604
Serbia	RSD	0.012	0.013	0.011	0.013
Czech Republic	CZK	0.040	0.036	0.038	0.038
Turkey	TRY	0.528	0.559	0.465	0.584
USA	USD	0.682	0.729	0.715	0.680

Property, plant and equipment

Property, plant and equipment are 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 directly attributable 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 are depreciated pro rata temporis over the expected useful life using the straight-line method.

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 assets. 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.

Any lease or rent payments under operating leases involving subsidiaries as lessee are recognized as an expense directly in profit or loss.

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

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 satisfied.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. Costs for acquisition of a company are measured based on fair value of assets received and incurred or acquired debt at the date of exchange plus any costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired in the context of a business combination are initially recognized at their fair value on the acquisition date, irrespective of the scopes of any minority interest.

Goodwill arising from a business combination is initially measured at cost, defined as the excess of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities acquired. If the acquisition cost is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement. 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 units that has been allocated goodwill,

- represents the lowest level within the Group at which goodwill is monitored for the purposes of internal management; and

- is not larger than a segment that is based on the Group's primary or secondary reporting format as defined in IAS 14 "Segment Reporting".

Impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that relates 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 this manner is determined on the basis of the ratio of the business segment sold to the unsold portion of the cash-generating unit.

Intangible assets

Intangible assets acquired against payment of 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 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 expenditure 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 capitalized development costs 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 lives are amortized over their useful lives 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 derecognition of intangible assets are calculated 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.

Research and development costs
All research costs are recognized as an expense in the period incurred. Development costs for individual projects are only capitalized as immaterial assets if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for internal use or sale;
- the intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of resources for purposes of completing the asset and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, development costs are accounted for using the cost model, i.e. at acquisition cost less any accumulated depreciation and any accumulated impairment losses. Depreciation commences with completion of the development phase when the asset is available for use, and continues over the period during which future benefit can be expected.

Impairment of non-financial 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 any residual carrying amount, 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 recognized as financial assets or financial liabilities are recognized separately. Financial assets and liabilities are offset, and the net amount recognized in the consolidated balance sheet, only when a current legal right exists to offset the amounts against one another and the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial instruments are recognized as soon as the Group becomes a counterparty to the financial instrument. In the case of market purchases or sales as part of a contract, the conditions of which envisage delivery of the asset within a period, which is normally set by law or the conventions of the respective market, the settlement date, i.e. the date on which the asset is delivered to or by the Group, is the date on which the asset is first recognized or derecognized in the balance sheet.

If contracts to buy or sell non-financial items fall under the scope of IAS 39, they are accounted for in accordance with provisions of this standard.

Initial recognition of financial assets

Financial assets within the meaning of IAS 39 are classified as financial assets measured at fair value through profit or loss, as loans and receivables, as held to maturity investments, as available-for-sale financial assets or as derivatives designated as hedging instruments and effective as such. The Group determines classification of its financial liabilities upon initial recognition.

Upon initial recognition, financial assets are measured at fair value. In the case of investments not classified as at fair value through profit or loss, transaction costs directly attributable to acquisition of the assets are also taken into account.

The Group's financial assets include cash and short-term deposits, trade receivables, receivables from outstanding loans and other receivables as well as quoted and unquoted financial instruments and derivatives.

Subsequent recognition of financial assets

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include financial assets classified as held for trading and those designated measured at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they have been purchased for the purpose of selling in the near future.

Derivatives, including embedded derivatives recognized separately, are also classified as held for trading with the exception of those derivatives that are designated as a hedging instrument and are effective as such. If agreements contain embedded derivatives, the derivatives are accounted for separately from the underlying agreement when the economic attributes and risks of the embedded derivative are not closely connected to the economic attributes and risks of the underlying agreement. The Group establishes whether embedded derivatives are to be accounted for separately from the underlying agreement when it becomes a counterparty for the first time. A reassessment takes place only if there are major changes to the agreement terms, which result in a significant change to the payment flows.

Financial assets measured at fair value through profit or loss are recognized at fair value and the resultant gains and losses are recognized in the income statement.

No primary financial assets were classified as held for trading in either the reporting year or the previous year; no use was made of the option to initially designate financial assets as assets to be recognized at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, these are recognized at amortized cost using the effective interest rate method less possible impairment losses. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

Held to maturity financial investments
Non-derivative financial instruments with fixed or definable payments as well as a fixed term, which the Group clearly intends and has ability to hold to maturity are categorized as held to maturity financial investments. Following initial recognition, these held to maturity financial investments are measured at amortized cost using the effective interest rate method. Gains and losses are recognized as profit or loss in the period if they are derecognized or written down and are reduced through amortization.

No financial instruments of this category were present in the Group either on the balance sheet date or in the previous year.

Available-for-sale assets
Available-for-sale assets are non-derivative financial assets that are classified as available-for-sale and are not included in one of the above-mentioned categories. 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 such financial assets, any gains or losses previously recognized in equity are transferred to the income statement, as is the accumulated loss previously recognized in equity in the event of impairment. If the fair value of an equity instrument traded on the stock market cannot be determined, the equities are measured at cost, less any previous impairment loss.

Initial recognition of financial liabilities
Financial liabilities within the meaning of IAS 39 are classified either as financial liabilities recognized at fair value through profit or loss, as other liabilities or as derivatives that are designated as hedging instruments and effective as such.

The Group determines classification of its financial liabilities upon initial recognition. Upon initial recognition, financial liabilities are measured at fair value. In the case of loans, directly attributable transaction costs are also taken into account.

The Group's financial liabilities include trade payables and other liabilities, bank overdrafts, loans, bonds and derivatives.

Subsequent recognition of financial liabilities

Financial liabilities measured at fair value through profit or loss
This category includes financial liabilities held for trading as well as financial liabilities designated as measured at fair value through profit or loss upon initial recognition.

Derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such, are also classified as held for trading.

Financial liabilities that fall under the category "financial liabilities measured at fair value through profit or loss" are recognized at fair value in subsequent periods and the resultant gains and losses are recognized in the income statement.

No primary financial liabilities were classified as held for trading in either the reporting year or in the previous year; no use was made of the option to initially designate financial liabilities as liabilities to be recognized at fair value through profit or loss.

Other liabilities
All financial liabilities that do not fall into the category financial liabilities recognized at fair value through profit or loss and are not derivatives, are recognized at amortized cost using the effective interest rate method. In the case of current liabilities, the repayment amount or settlement amount equates to the amortized cost. Gains and losses are recognized as profit or loss when the liabilities are derecognized or as part of write-downs.

Fair value of financial instruments
The fair value of financial instruments traded on an organized financial market is determined as the market price (bid price) applicable on the balance sheet date. The fair value of financial instruments for which there is no active market is determined through application of valuation methods. Valuation methods include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other pricing models.

Amortized cost of financial instruments
The amortized cost of financial instruments is calculated using the effective interest rate method, net of any impairment, principle repayment or amortization. The calculation takes into account all discounts or premiums paid for acquisition of the instruments as well as transaction costs, and includes fees that constitute an integral part of the effective interest rate.

Derivatives and hedge accounting
The Group makes use of derivatives, such as currency forwards, interest rate swaps and commodity futures to hedge against interest rate, exchange rate and price risks. These derivatives are recognized at fair value at the time of agreement and revalued for recognition at fair value in subsequent periods. Derivatives are accounted for as financial assets if their fair value is positive, and as financial liabilities if their fair value is negative. Gains or losses from changes during the fiscal year in the fair value of derivatives that do not satisfy the requirements for recognition as hedging transactions, as well as any ineffective portion of an effective hedging instrument are recognized immediately in profit or loss.

The Group uses derivatives to hedge future cash flows from pending and planned transactions (cash flow hedges).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Company's risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and a description of how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows. Such hedges are expected to be highly effective in offsetting risks from changes in cash flows. They are assessed on an ongoing basis to determine whether they have actually been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedges that satisfy the strict criteria for recognition as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss from a hedging instrument is recognized directly in equity, whereas the ineffective portion is recognized directly in profit or loss. The amount included under equity is transferred to the income statement in the period in which the hedged transaction affects net income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction is no longer expected to occur, or the firm commitment no longer applies, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs or the firm commitment is settled.

Derivatives employed by GRAMMER Group in accordance with accepted criteria of interest rate, currency or price hedging, which nonetheless fail to satisfy the strict criteria set out in IAS 39, are classified as financial assets and financial liabilities at fair value through profit or loss.

Impairment of financial assets
Financial assets, with the exception of financial assets recognized at fair value through profit or loss, are assessed for any indications of impairment on each balance sheet date. Financial assets are written down if, as a result of one or more events which occurred following initial recognition of the asset, there is objective evidence that the expected future cash flows have changed adversely.

Financial assets carried at amortized cost
With respect to amounts carried at amortized cost from trade account receivables, an initial assessment is made to determine 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 then recognized or continues to be recognized are not included in a collective assessment of impairment. If there are objective indications that an impairment loss 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).

The carrying amount of trade receivables is reduced through use of an allowance account and the loss recognized in the income statement. No separate allowance account is used for any other financial assets. If a receivable is classed as uncollectible, it is to be derecognized along with any related impairments when all pledged security has been called and liquidated. If, in a subsequent period, the amount of the impairment loss increases or decreases as the result of an event occurring after the impairment was recognized, the previously recognized impairment loss is accounted for in the income statement through and an upward or downward adjustment of the allowance account.

If a derecognized receivable is reclassified as collectable as the result of an event occurring after derecognition, the relevant impairment loss is reversed and the amount recognized in profit or loss.

Available-for-sale financial assets
When an available-for-sale financial asset is impaired, an amount recognized in equity as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any previous impairment loss on that financial asset recognized in profit or loss, is recognized in the income statement. Reversals of impairment of equity instruments available-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.

Derecognition of financial assets
Financial assets are derecognized when one of the following three requirements is satisfied:

- the contractual rights to the cash flows from the financial asset have expired;
- the Group retains the contractual rights to receive back 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 material 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.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or has expired. An exchange of an existing financial liability from the same lender with substantially different terms or a subsequent modification of the terms of an existing financial liability is accounted for as a derecognition of the primary financial liability and recognition of the new financial liability. The difference between the carrying amounts is recognized in profit or loss for the period.

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 price 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. 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.

Construction contracts
Construction contracts are recognized following the percentage-of-completion method (PoC-method) in accordance with IAS 11. The recognizable degree of completion is determined by the ratio of the contract costs incurred up to the balance sheet date to the estimated total contract costs (cost-to-cost approach). The projects are included on the balance sheet under "other financial assets" insofar as the accumulated services rendered exceed the advance payments received. If net income from a construction contract cannot be reliably determined, revenues from the contract are only to be recognized in the amount of the contract costs incurred, which are probably collectible. Contract costs are recorded as expenditure in the period in which they are incurred. Any expected project losses are recognized as provisions.

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 presently drawn overdraft facilities.

Own shares
In accordance with IAS 32.33, the purchase of own shares through the stock repurchase program is not recognized in income. Own 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 likely cause an outflow of resources and a reliable estimate can be made with respect to 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 interests 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 in the GRAMMER Group 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 expenses
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
Interest income and expense are recognized in the period they arise. Interest income and expense is recognized in the income statement as part of the financial result.

Dividends
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 expenses 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 straight-line basis over the expected useful life of the asset.

Taxes

Current tax assets and current tax liabilities
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 that are applicable or have been enacted as of the balance sheet date.

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

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

- Deferred income tax liabilities from deductible temporary differences, which arise from the initial recognition of an asset or a 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 income 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 income 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 income tax asset can be at least partially utilized. Unrecognized income 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 income tax asset to be recovered.

Deferred income taxes and liabilities are measured at the income tax rates expected to apply to the period when the asset is realized or the liability settled, based on the income 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 income tax assets and liabilities are netted if the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income 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 recognized 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 and

- 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:

- IFRIC 14/IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

There were no changes to the net assets, financial situation or earnings performance of the Group resulting from application of this new or revised standard, as there were no events which came under the scope of this standard.

Moreover, the Group began early application of the following standards and interpretations as of January 1, 2008, though they hold no relevance for the Group.

- IFRIC 13 Customer loyalty programs

- IFRIC 14/IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

- IFRS 2 Share-based payment

IFRIC 13 Customer loyalty programs

The interpretation IFRIC 13 is first applicable for fiscal years beginning on or after July 1, 2008. According to this interpretation, loyalty award credits to be accounted for as a separate component of the sale with which they are granted. As the Group is not presently running a customer loyalty program, this interpretation has no impact on the Group.

IFRIC 14/IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

In the current fiscal year, the Group made use of IFRIC 14, which is applicable to fiscal years beginning on or after January 1, 2009. This interpretation provides general guidance on how to assess the limit under IAS 19 on the amount of the surplus that can be recognized as an asset. The Group has amended its accounting policies methods to reflect this interpretation. There were no resulting changes to the net assets, financial position or earnings performance of the Group, as there were no events which came under the application area of this change.

Changes in IFRS 2 Vesting conditions and cancellations

Mandatory application of IFRS 2 commences with fiscal years beginning after January 1, 2009. The Group applied this revision early starting on January 1, 2008. Thus, there were no changes to the net assets, financial situation or earnings performance of the Group, as there were no events which came under the application area of this change.

IAS amendments, IFRS and IFRIC interpretations that are not yet in force

The Group has not yet applied the following published standards and IFRIC interpretations, as they are not mandatory:

Amendments to IFRS 1 First-time adoption of international financial reporting standards and IAS 27 Consolidated and separate financial statements in accordance with IFRS (not yet endorsed)

The amendments to IFRS 1 allow companies to use deemed cost based on either fair value or the carrying amount under previous accounting rules in place of acquisition cost for investments in subsidiaries, joint ventures and associated companies in the initial IFRS balance sheet in accordance with IAS 27. The amendments to IAS 27 require that all dividends from subsidiaries, joint ventures and associates be presented as income in the separate financial statements. Both amendments will apply for the first time to fiscal years beginning on or after January 1, 2009. The amendment to IAS 27 may be applied prospectively. The new requirements affect only the single-entity financial statements of the parent company, and have no impact on the consolidated financial statements.

IFRS 3R Business combinations and IAS 27R Consolidated and separate financial statements in accordance with IFRS (not yet endorsed)

The revised standards were published in January 2008 and will apply for annual periods beginning on or after July 1, 2009. The standard introduces changes in accounting for business combinations taking place after this point in time with an effect on goodwill, earnings for the period in which the acquisition took place and future earnings. IAS 27R stipulates that a change in the amount of an investment in a subsidiary (without loss of control) is to be accounted for as an equity transaction. Thus, such transactions produce neither goodwill nor profit or loss. The rules on how to attribute losses to the parent company and shares without control were also amended, as were the accounting rules for transactions leading to a loss of control. Subsequent changes were made to IAS 7 Cash flow statements, IAS 12 Income taxes, IAS 21 The effects of changes in foreign exchange rates, IAS 28 Investments in associates and IAS 31 Interests in joint ventures. The revisions to IFRS 3R and IAS 27R will apply to future acquisitions, loss of control and transactions with minority interests. Earlier application is permissible. The Group does not intend to make use of this option.

Amendment to IAS 1 Presentation of financial statements

The application of the "Revised IAS 1 Presentation of financial statements" will be mandatory for fiscal years beginning on or after January 1, 2009. This standard prescribes the separate presentation of non-owner changes in equity and other changes in equity. The statement of changes in equity includes all details of business transactions with shareholders, while all other changes to equity are shown in a single item. Moreover, the standard introduces a method of representing in a single statement all changes in financial position, either in a single total or in two related items. The Group chose to refrain from early adoption of all changes to IAS 1 Presentation of financial statements. The standard will have an influence on the way the Group's financial information is published, but not on the recognition and valuation of assets and liabilities in the consolidated financial statements.

Revision IAS 23 Borrowing costs

The application of IAS 23 will be mandatory starting on January 1, 2009. In accordance with the transitional provisions, the Group will prospectively apply this standard. Borrowing costs will be recognized as qualifying assets starting on January 1, 2009. There are no changes to borrowing costs incurred already or up to that date, which are immediately recognized as expenses.

IFRS 8 Business segments
Mandatory application of IFRS 8 commences with fiscal years beginning after January 1, 2009. The Group chose not to adopt IFRS 8 early and continues to apply IAS 14 Segment reporting. The new regulations will increase the information on segments given in the notes. As the standard deals with disclosure requirements, its application in fiscal year 2009 is not expected to have an impact on the Company's net assets, financial situation and earnings performance.

IAS 32 Financial instruments: presentation and IAS 1 Presentation of financial statements – puttable financial instruments and obligations arising on liquidation
These amendments to IAS 32 and IAS 1 were published in February 2008 and are initially applicable to fiscal years beginning on or after January 1, 2009. The revisions lessen the scope of exceptions to the rule that allow designation of puttable financial instruments as equity as long as they meet certain criteria. The changes to the standard will not have an impact on the net assets, financial situation and profit of the Group, as the Group has issued no such instruments.

IAS 39 Financial instruments: Recognition and measurement – eligible hedged items
These amendments to IAS 39 were published in August 2008 and are initially applicable to fiscal years beginning on or after July 1, 2009. The amendment clarifies how the existing principles in IAS 39 underlying hedge accounting should be applied to designating a one-sided risk in a hedged item and inflation risks in a hedged item. It explains that it is only permissible to hedge a portion of the changes in fair value or cash flows of a financial instrument. The Group assumes that the amendment will not have an impact on the net assets, financial situation and earnings performance of the Group, as the Group currently has no such transactions.

Improvements to IFRS 2008
The Group has not yet adopted the following changes to the standards developed through the project titled Improvements to IFRS 2008 and assumes that they will not have any material effect on the financial statements:

IAS 1 Presentation of financial statements:
In accordance with IAS 39 Financial instruments: Recognition and measurement, assets and liabilities classified as held for sale are not always required to be presented as current assets/liabilities. The Group has adjusted its accounting policies accordingly and analyzed whether management's expectations regarding the period in which the financial assets and liabilities will be recognized differ from the classification of the instruments. No current financial instruments were reclassified as non-current financial instruments in the balance sheet as a result of this amendment.

IFRS 7 Financial instruments: Disclosures
Elimination of the reference to "total interest income" as a component of financing costs.

IAS 8 Accounting policies, changes in accounting estimates and errors:
It is clarified that only guidance issued as an integral part IFRS is mandatory in selecting accounting policies.

IAS 10 Events after the balance sheet date:
An explanation is provided that a dividend declared after the reporting period does not result in the recognition of a liability.

IAS 16 Property, plant and equipment:
The term "net selling price" was replaced by the expression "fair value less cost to sell". Assets held for rental that are routinely sold afterwards should be transferred to inventories when they cease to be rented and are held for sale.

IAS 18 Revenue:
The term "direct costs" is replaced by "transaction costs" as defined in IAS 39.

IAS 19 Employee benefits:
Revision of the definitions of "curtailments and negative past service cost", "return on plan assets" and "short-term" and "other long-term" employee benefits. Plan amendment that reduce benefits for future periods are accounted for as a curtailment. The reference to the recognition of contingent liabilities was stricken to ensure conformity with IAS 37.

IAS 20 Accounting for government grants and disclosure of government assistance:
Future loans bearing no or low interest are not exempted from the requirement to calculate the interest rate advantage. The difference between the amount received and the discounted amounted are accounted for as a government grant. Moreover, the wording of certain passages was revised to ensure consistency with other IFRS standards.

IAS 23 Borrowing costs:
The definition of borrowing costs was replaced with a reference to the guidance in IAS 39 on effective interest rate. The Group has adjusted its accounting policies accordingly, though this has not resulted in any changes to the net assets, financial situation and earning performance.

IAS 27 Consolidated and separate financial statements pursuant to IFRS:
If a parent company accounts for a subsidiary in its separate financial statements at fair value in accordance with IAS 39, it should continue to be measured in this way when the subsidiary is reclassified as held for sale.

IAS 28 Investments in associates:
If investments in associates are accounted for at fair value in accordance with IAS 39, only the IAS 28 disclosures are applicable, under which the type and extent of significant limitations on the ability of the associated company to transfer financial resources in the form of cash or loan repayments to the Company must be reported. This amendment does not impact the Group, as the Group does not account for its associates at fair value in accordance with IAS 39. An investment in an associate is treated as a separate asset for impairment testing. Therefore, an impairment loss is not allocated against any goodwill included in the equity-accounted investment. This amendment does not affect the Group, as this accounting policy was already applied.

IAS 29 Financial reporting in hyperinflationary economies:
Revision of the reference to measurement of assets and liabilities at historical cost so that property, plant and equipment are given only as examples, instead of giving the impression that the list is complete. Moreover, the wording of certain passages was revised to ensure consistency with other IFRS standards.

IAS 31 Interests in joint ventures:
If a joint venture is accounted for at fair value in accordance with IAS 39, the requirements of IAS 31 only apply under which the obligations of the partner company and the joint venture are to be disclosed, along with a summary of financial information on assets, liabilities, income and expenditures. This amendment does not impact the Group, as the Group does not account for its joint ventures at fair value in accordance with IAS 39.

IAS 34 Interim financial reporting:
If a company is subject to the application of IAS 33, then earnings per share are to be reported in the interim financial report.

IAS 36 Impairment of assets:
When a discounted cash flow model is used to estimate the "fair value less cost to sell", additional information regarding the discount rate is required in accordance the requirements of a discounted cash flow model used to estimate value in use. This amendment does not directly effect the consolidated financial statements, as the recoverable amount from the cash-generating units of the Group is currently measured on the basis of value in use.

IAS 38 Intangible assets:
Advertising or promotional expenditures can be recognized as expenses at the point when the Group has access to the goods or services. This amendment has no effect on the Group, as it does not carry out such promotional measures. The reference to the fact that there are few if any substantial reasons to justify any other depreciation method for intangible assets than the straight-line method was deleted. The Group reevaluated the useful life of its intangible assets and concluded that the straight-line method is still appropriate.

IAS 39 Financial instruments: Recognition and measurement
Derivatives may be designated as "at fair value through profit or loss" after initial recognition under certain circumstances, as this is not considered to be reclassifications under IAS 39. In IAS 39, the reference to the designation of hedging instruments at the "segment" level was removed. The revised effective interest rate calculated on cessation of fair value hedge accounting should be used for the revaluation of the hedged item.

IAS 40 Investment property:
Revision of the scope of application so that property under construction or development for future use as an investment property are classified as "investment property". If the fair value cannot be measured reliably, property under construction will be measured at costs of production until the fair value can be measured or the construction is complete. The conditions for voluntarily changing accounting policies now conform to IAS 8. It was clarified that the book value of leased investment property corresponds to the fair value plus any recognized liabilities.

IAS 41 Agriculture:
Removal of the reference to use of a pre-tax discount rate for measurement of fair value. Removal of the prohibition on taking into account cash flows from additional transformations when calculating the fair value. Moreover, the term "costs of goods sold" was replaced by "cost to sell".

Furthermore, application of the following interpretations was not yet mandatory:

IFRIC 12 Service concession arrangements:
(not yet endorsed)
In the current fiscal year, the Group made use of IFRIC 12, which is applicable to fiscal years beginning on or after January 1, 2008. This interpretation stipulates how service concession operators should account for their obligations and rights under service concession arrangements. As none of the Group's companies is involved in a service concession arrangement, this has no impact on the net assets, financial situation or earnings performance of the Group.

IFRIC 15 Agreements for the construction of real estate:
(not yet endorsed)
IFRIC Interpretation 15 was published in July 2008 and will initially apply for fiscal years beginning on or after January 1, 2009. This interpretation is to be applied retrospectively. It clarifies when and how revenue and associated expenses relating to the sale of real estate are to be recognized when a builder and buyer conclude an agreement prior to completion of the construction. Moreover, this interpretation gives guidelines regarding determination as to whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will have no effect on the consolidated financial statements, as the Group does not conducting any such business.

IFRIC 16 Hedges of a net investment in a foreign operation (not yet endorsed)
IFRIC 16 was published in July 2008 and applies for fiscal years beginning on or after October 1, 2008. This interpretation is to be applied prospectively. IFRIC 16 provides guidance on accounting for the hedge of a net investment. The interpretation provides guidance for identifying risks arising from foreign currency exposure which can be hedged within the scope of a hedge of a net investment, which entities within a group can hold a hedging instrument in a hedge of a net investment, and how an entity should determine the amounts to be reclassified from equity to profit and loss for both the hedging instrument and the hedged item when the entity disposes of the investment. The Group is currently examining which accounting policies should be used for reclassification upon sale of the net investment.

IFRIC 17 Distributions of non-cash assets to owners (not yet endorsed)
IFRIC 17 was published in November 2008 and will initially apply for fiscal years beginning on or after July 1, 2009. The interpretation provides guidelines for accounting and valuation of obligations to distribute non-cash assets to owners. The interpretation relates specifically to the point of measurement and recognition of such an obligation. Accordingly, such an obligation is to be recognized and measured at fair value when performance is no longer at the discretion of the company. The recognition of the obligation and any changes in the fair value of the relevant asset are in equity. An effect on profit or loss in the amount of the difference between the fair value and the carrying amount does not arise until ownership of the asset is transferred to the owner. This interpretation is to be applied prospectively. No impact on the financial statements is to be expected from this interpretation, as no plans exist within the Group to distribute non-cash assets.

IFRIC 18 Transfers of assets from customers (not yet endorsed)
IFRIC 18 was published in January 2009 and will initially apply for fiscal years beginning on or after July 1, 2009. This interpretation clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation related in particular to the recognition criteria for transfers from customers and the timing and scope of income realization from such transactions. This interpretation is to be applied prospectively. No impact on the financial statements is to be expected from this interpretation, as no such transactions are carried out within the Group.

3 Interest in a Joint Venture

GRAMMER AG holds a 50 % share in GRAMAG Truck Interior Systems LLC (GRAMAG LLC). GRAMAG LLC is a joint venture in the USA in the Seating Systems division.

The Group's share in the assets, liabilities, income and expenses of the joint venture as of December 31, 2008 and December 31, 2007 was as follows:

EUR k	2008	2007
Current assets	1,847	1,546
Non-current assets	257	331
	2,104	**1,877**
Current liabilities	-1,163	-814
Non-current liabilities	-7,481	-6,848
	-8,644	**-7,662**
Income	4,393	4,562
Expenses	-4,771	-5,010

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 division, which is the largest segment within the GRAMMER Group, achieved 63.3 % (2007: 65.9) of total Group sales in fiscal 2008. GRAMMER is active in this segment as a supplier to the automotive industry, developing and producing headrests, armrests, 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 Seating Systems division accordingly generated 38.7 % of Group revenue in the reporting year (2007: 36.4). In this segment, GRAMMER is active as a supplier to the commercial vehicles industry, developing and manufacturing driver and passenger seats for offroad vehicles (agricultural machinery, construction machines and forklifts) and markets these to commercial vehicle manufacturers or as an aftermarket supplier. The division also develops and produces driver and passenger seats for bus and railway vehicle manufacturers and railway operators. The Seating System division now encompasses the business units Truck and Offroad (agricultural machinery, construction machines and forklifts) as well as the Bus and Railway units.

In addition to these two divisions, 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, segment expenses and segment earnings 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, 2008 and 2007.

Fiscal year as of December 31, 2008

			Continuing divisions	
EUR k	Seating Systems	Automotive	Central Services/ Consolidation	Total
Revenue				
Revenue to external customers	374,915	632,038	8	1,006,961
Inter-segment revenue	15,113	5,578	- 20,691	0
Total revenue	390,028	637,616	−20,683	1,006,961
Segment earnings	31,034	3,074		34,108
Non-allocable expenses				−2,155
Operating profit				31,953
Net finance costs				−12,378
Income tax expenses				−5,446
Earnings				14,129
Assets and liabilities				
Segment assets	159,731	272,006		431,737
Non-allocable assets				49,269
Total assets				481,006
Segment liabilities	- 89,129	- 87,128		−176,257
Non-allocable liabilities				−131,767
Total liabilities				−308,024
Other segment information				
Capital expenditure:				
Property, plant and equipment	11,192	20,693	555	32,440
Intangible assets	2,478	4,223	763	7,464
Depreciation/impairment of property, plant and equipment	- 8,585	- 11,737	- 637	−20,959
Amortization/impairment of intangible assets	- 1,106	- 645	- 703	−2,454
Non-cash items				
Changes in pension provisions	2,282	859	406	3,547

Fiscal year as of December 31, 2007

			Continuing divisions	
EUR k	Seating Systems	Automotive	Central Services/ Consolidation	Total
Revenue				
Revenue to external customers	349,266	648,794	5	998,065
Inter-segment revenue	14,018	8,872	- 22,890	0
Total revenue	363,284	657,666	−22,885	998,065
Segment earnings	24,067	10,732		34,799
Non-allocable expenses				−2,686
Operating profit				32,113
Net finance costs				−9,265
Income tax expenses				−5,293
Earnings				17,555
Assets and liabilities				
Segment assets	166,951	284,401		451,352
Non-allocable assets				46,183
Total assets				497,535
Segment liabilities	- 96,252	- 99,347		−195,599
Non-allocable liabilities				−117,228
Total liabilities				−312,827
Other segment information				
Capital expenditure:				
Property, plant and equipment	15,575	13,702	486	29,763
Intangible assets	2,540	1,174	1,142	4,856
Depreciation/impairment of property, plant and equipment	- 9,030	- 11,762	- 689	−21,481
Amortization/impairment of intangible assets	- 803	- 625	- 558	−1,986
Non-cash items				
Changes in pension provisions	848	594	387	1,829

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, 2008 and 2007.

Fiscal year as of December 31, 2008

EUR k	Europe	Americas	Far East/ Rest of world	Central Services/ Consolidation	Total
Revenue					
Revenue from sales to external customer	729,675	163,717	113,569	0	1,006,961
Revenue from transaction with other segments	41,959	298	52,719	- 94,976	0
Segment revenue	771,634	164,015	166,288	−94,976	1,006,961
Other segment information					
Segment assets	298,234	67,261	67,409		432,904
Non-allocable assets					48,102
Total assets					481,006
Capital expenditure:					
Property, plant and equipment	20,427	5,031	6,982		32,440
Intangible assets	5,544	313	1,607		7,464

Fiscal year as of December 31, 2007

EUR k	Europe	Americas	Far East/ Rest of world	Central Services/ Consolidation	Total
Revenue					
Revenue from sales to external customer	752,072	151,777	94,216	0	998,065
Revenue form transaction with other segments	35,191	1,460	45,781	- 82,432	0
Segment revenue	787,263	153,237	139,997	−82,432	998,065
Other segment information					
Segment assets	316,146	71,108	55,496		442,750
Non-allocable assets					54,785
Total assets					497,535
Capital expenditure:					
Property, plant and equipment	22,334	3,645	3,784		29,763
Intangible assets	4,701	57	98		4,856

5 Revenue Structure of the Group

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

Revenue of EUR 1,006,961 thousand (2007: 998,065) includes contract revenue of EUR 30,833 thousand (2007: 21,529) determined using the PoC method. The expenditure incurred corresponded to revenues relating to development activities as well as operating funds that must be expensed and financed by GRAMMER Group until the product reaches serial production and generates revenues. These primarily relate to the Automotive division, as percentage-of-completion revenues are of only marginal relevance to the Seating Systems division.

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 849 thousand (2007: 333) and proceeds from the sale of scrap metal and materials handling costs of EUR 2,750 thousand (2007: 3,168). This item also contains government grants of EUR 303 thousand (2007: 300), income from offsetting costs of approximately EUR 1,123 thousand (2007: 1,244) and proceeds from the sale of property, plant and equipment of EUR 128 thousand (2007: 323). The conditions for these grants were satisfied in full and no other uncertainties exist in relation to them.

6.2 Financial result

EUR k

	2008	2007
Interest income from balances with banks	1,461	1,325
Available-for-sale financial assets	86	75
Other loans	400	381
Financial assets and liabilities measured at fair value through profit or loss	521	699
Total financial income	**2,468**	**2,480**
Loans and overdrafts	- 6,527	- 8,872
Interest cost of pension provisions	- 2,849	- 2,440
Net loss from financial assets and liabilities measured at fair value through profit or loss	- 5,454	- 330
Interest element of lease payment	- 16	- 103
Total financial expenses	**−14,846**	**−11,745**
Financial result	**−12,378**	**−9,265**

Financial income relates mainly to temporary surplus cash invested in the context of active cash management. Changes in the fair value of interest rate swaps that do not satisfy the requirements for hedge accounting must be recognized as income according to IAS 39, which leads to unrealized gains and losses within the financial result.

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

Financial income includes interest income in the amount of EUR 1,947 thousand (2007: 1,781), calculated using the effective interest rate method. Financial expenses cover corresponding interest expenses totaling EUR 6,527 thousand (2007: 8,872).

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. The expenditure required to set up reserves for warranty purposes is covered by this item as well. The cost of sales also includes non-capitalized research and development costs in the amount of EUR 39,240 thousand (2007: 50,249) as well as amortization of development costs. Expenses relating to the development and expansion of plant locations in preparation for forthcoming series production ("industrialization costs") are included in the cost of sales to the extent that these expenses cannot be deferred. Development in the Driver Seats and Passenger Seats segments is generally performed on a "design to market" basis, with the corresponding costs recognized accordingly. The costs of inventories, which are recognized as an expense in cost of sales amount to EUR 832,121 thousand (2007: 813,732).

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 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 expenditure which cannot be assigned directly to other functions, including expenditure for general administration, management and other staff departments. This item also includes income from exchange rate movements in the amount of EUR 39,222 thousand (2007: 13,834) 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 balance sheet date. Foreign exchange losses amounting to EUR 31,648 thousand (2007: 17,638) are also recognized under other administrative expenses.

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

Amortization of intangible assets totaled EUR 2,454 thousand (2007: 1,986) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 819 thousand (2007: 633) for capitalized development costs included in cost of sales.

Depreciation of property, plant and equipment amounted to EUR 20,959 thousand (2007: 21,481).

As in 2007, no impairment losses were incurred in fiscal year 2008.

Depreciation, amortization and other write-downs are recognized in the income statement under cost of sales, selling expenses and administrative expenses.

6.4 Personnel expenses

EUR k

	2008	2007
Wages and salaries	194,598	188,899
Social security contributions of which for pensions EUR 2,681 thousand (2007: 2,822)	44,120	43,123
	238,718	232,022

7 Taxes on Income

The key constituents of income tax expenses for fiscal 2008 and 2007 are as follows:

EUR k	2008	2007
Consolidated income statement		
Current tax		
Current tax expenses – Germany	–1,928	–4,740
Current tax expenses – abroad	–5,164	–4,297
Total current tax expenses	**–7,092**	**–9,037**
Deferred tax		
Deferred tax expenses/income – Germany	–1,445	355
Deferred tax expenses/income – abroad	3,091	3,389
Deferred tax expenses/income	**1,646**	**3,744**
Income tax expenses reported in the consolidated income statement	**–5,446**	**–5,293**
Statement of Changes in Equity		
Deferred taxes relating to items charged or credited directly to equity		
Revaluation of hedging instruments – cash flow hedges	239	214

Reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2008 and 2007 is as follows:

EUR k	2008	2007
Earnings before taxes (relating to continuing operations)	**19,575**	**22,848**
Income tax expenses at the rate of 30% in Germany (2007: 39%)	–5,873	–8,911
Adjustments to current income tax incurred in the previous year	28	489
Adjustments to deferred income tax incurred in the previous year	689	–509
Tax reduction due to losses carryforward	504	1,280
Income from tax legislation changes/tax rate changes	12	2,608
Tax-exempt government grants	8	16
Non-deductible expenses	–1,096	–2,102
Effect of different foreign tax rates	577	2,082
Others, net	–295	–246
Income tax expenses at the effective tax rat of 28% (2007: 23%)	**–5,446**	**–5,293**

Deferred income taxes

Deferred income tax comprised the following as of the reporting date:

EUR k

	2008 Consolidated Balance Sheet	2007 Consolidated Balance Sheet	Change
Deferred tax liabilities			
Property, plant and equipment	- 5,639	- 5,601	- 38
Intangible assets	- 3,001	- 2,499	- 502
Goodwill	- 2,965	- 2,515	- 450
Finance lease	- 64	- 58	- 6
Other assets	- 78	- 289	211
Receivables	- 6,463	- 4,090	- 2,373
Others	- 424	- 512	88
	–18,634	**–15,564**	
Deferred tax assests			
Pension provisions	4,549	4,459	90
Other provisions	2,751	1,890	861
Tax losses carried forward	10,293	7,672	2,621
Financial assets	92	1,174	- 1,082
Others	3,359	1,372	1,987
	21,044	**16,567**	
			1,407
Recognized in equity			**239**
Expenses as per income statement			**1, 646**

The statutory rate of corporate income tax in Germany was reduced from 25 % to 15 % for the 2008 assessment period. The trade tax rate was also dropped from 5 % to 3.5 %. The tax cut, however, now means that corporate income tax and trade tax are no longer deductible as a business expense. This results in a net tax burden of approximately 29.8 % for corporations. In 2007, corporate income tax was charges at the rate of 25 % plus a solidarity surcharge of 5.5 %, which corresponded (prior to 2008) to an average tax burden of 38.8 %.

The resulting tax burden for GRAMMER Group, taking into account the trade tax and the various tax rates applicable to the Group, is approximately 31 %. The lower tax rate was taken into account for calculation of the German entities deferred tax assets and liabilities. The local income tax rates for foreign entities varied between 15 % and 41 %.

Assessment of the value of deferred tax assets is based on the probability of measurement differences being reversed and the recoverability of loss carry-forwards that led to their creation. Based on past experience and anticipated income levels, it is assumed that the corresponding benefits can be realized. The Group assumes that it will have sufficient taxable income for recovery of the loss carry-forwards.

In 2008, tax losses carried forward from previous years in the amount of EUR 1,681 thousand (2007: 3,282) were recovered.

Loss carry-forwards of EUR 14,235 thousand (2007: 7,961) were assumed to be non-recoverable. These relate mainly to tax results of the Mexican, US and Chinese subsidiaries.

After taking into account non-recoverable loss carry-forwards, deferred tax assets in the amount of EUR 10,293 thousand remained as of December 31, 2008 (2007: 7,672). The tax losses carried forward may be carried forward, or in some cases carried back, for periods of 10 to 20 years.

The payment of dividends to shareholders by GRAMMER AG had no impact on income taxation either in 2008 or 2007.

8 Earnings per Share

Basic earnings per share are calculated by dividing consolidated net income/net loss by the nominal number of shares outstanding during the fiscal year, less the own shares acquired through buyback.

In addition to basic earnings per share, diluted earnings per share must be disclosed if a company has potential shares (i.e., financial instruments and other contracts entitling the holders to subscribe for no-par value shares of the company, such as convertible bonds and options). Since GRAMMER Group has not issued any such financial instruments or entered into any such contracts, its basic and diluted earnings per share are identical.

	2008	2007
Weighted average number of no-par value shares used to calculate basic/diluted earnings per share	10,165,109	10,165,109
Consolidated net income (in EUR thousand)	14,055	17,514
Basic/diluted earnings per share in EUR	1.38	1.72

No transactions involving no-par value shares or potential no-par value shares of the Group were effected in the period between the reporting date and preparation of the consolidated financial statements.

9 Dividends Paid and Proposed

Dividends resolved and distributed during the fiscal year:

Dividends on common shares:

EUR k	2008	2007
Final dividend for 2007: EUR 1 (2006: 1)	10,165	10,165

Dividends proposed for approval by the Annual General Meeting (not recognized as a liability as of December 31)

Dividends on common shares:

EUR k	2008	2007
Final dividend for 2008: EUR 0 (2007: 1)	0	10,165

The Executive Board proposes to the Annual General Meeting that no dividend be paid for fiscal year 2008. In relation to dividend payments, it must be taken into account that the Company holds 330,050 own shares that are not eligible for dividends.

10 Property, Plant and Equipment

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
Cost						
As of January 1, 2008	75,121	128,136	134,827	7,769	1,070	346,923
Additions	5,481	11,192	11,466	4,234	67	32,440
Disposals	- 17	- 3,250	- 4,139	0	- 68	- 7,474
Effect of exchange rate differences	- 1,383	- 5,835	- 1,854	20	- 8	- 9,060
Reclassifications	1,440	863	566	- 2,869	0	0
As of December 31, 2008	80,642	131,106	140,866	9,154	1,061	362,829

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
Depreciation and impairment						
As of January 1, 2008	31,562	83,118	100,782	0	418	215,880
Additions less current depreciation	2,582	9,067	9,123	0	187	20,959
Disposals	- 11	- 2,202	- 3,784	0	- 58	- 6,055
Write-ups	- 2	- 73	- 13	0	0	- 88
Effect of exchange rate differences	- 606	- 4,273	- 1,106	0	- 14	- 5,999
Reclassifications	0	- 39	39	0	0	0
As of December 31, 2008	33,525	85,598	105,041	0	533	224,697
Carrying amount on January 1, 2008	43,559	45,018	34,045	7,769	652	131,043
Carrying amount on December 31, 2008	47,117	45,508	35,825	9,154	528	138,132

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
Cost						
As of January 1, 2007	74,202	120,777	133,474	4,905	6,120	339,478
Additions	1,611	10,736	10,093	6,971	352	29,763
Disposals	- 3,009	- 5,213	- 9,684	- 919	- 5,438	- 24,263
Effect of exchange rate differences	776	1,175	- 47	5	36	1,945
Reclassifications	1,541	661	991	- 3,193	0	0
As of December 31, 2007	75,121	128,136	134,827	7,769	1,070	346,923

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
Depreciation and impairment						
As of January 1, 2007	29,703	78,060	99,295	0	2,036	209,094
Additions less current depreciation	2,462	8,569	9,910	0	540	21,481
Disposals	- 872	- 4,660	- 8,553	0	- 2,182	- 16,267
Write-ups	0	0	0	0	0	0
Effect of exchange rate differences	269	1,279	0	0	24	1,572
Reclassifications	0	- 130	130	0	0	0
As of December 31, 2007	31,562	83,118	100,782	0	418	215,880
Carrying amount on January 1, 2007	44,499	42,717	34,179	4,905	4,084	130,384
Carrying amount on December 31, 2007	43,559	45,018	34,045	7,769	652	131,043

Depreciation is based generally on the following useful economic lives:

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

Land is not depreciated.

The Company has entered into various finance and operating leases for buildings, 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 buildings and limited items of equipment. For the buildings, these relate largely to customary renewal options, which provide for a renegotiation for continued use after expiry.

The leased assets to be recognized by the Company under IAS 17 are as follows:

Leased assets

EUR k

	Plant	Equipment	Motor vehicles	Total
Cost				
As of January 1, 2008	0	129	941	1,070
Additions	0	31	36	67
Disposals	0	0	- 68	–68
Reclassifications	0	0	0	0
Effects of exchange rate differences	0	9	- 17	–8
As of December 31, 2008	0	169	892	1,061
Depreciation and impairment				
As of January 1, 2008	0	61	357	418
Additions	0	14	173	187
Disposals	0	0	- 58	–58
Reclassifications	0	0	0	0
Effects of exchange rate differences	0	6	- 20	–14
As of December 31, 2008	0	81	452	533
Carrying amount on December 31, 2008	0	88	440	528
Costs				
As of January 1, 2007	5,237	111	772	6,120
Additions	0	18	334	352
Disposals	- 5,237	0	- 267	–5,504
Reclassifications	0	0	66	66
Effects of exchange rate differences	0	0	36	36
As of December 31, 2007	0	129	941	1,070
Depreciation and impairment				
As of January 1, 2007	1,654	40	343	2,036
Additions	364	21	157	542
Disposals	- 2,018	0	- 166	–2,184
Reclassifications	0	0	0	0
Effects of exchange rate differences	0	0	23	23
As of December 31, 2007	0	61	357	418
Carrying amount on December 31, 2007/as of January 1, 2008	0	68	584	652

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

EUR k	Up to 1 year	1 to 5 years	more than 5 years
2007			
Lease payments	142	181	0
Less interest cost on a discounted basis	- 8	- 24	0
Present values (Balance Sheet)	134	157	0
2008			
Lease payments	103	108	0
Less interest cost on a discounted basis	- 7	- 21	0
Present values (Balance Sheet)	96	87	0

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

EUR k	Up to 1 year	1 to 5 years	more than 5 years
2007			
Lease payments	10,323	28,419	10,086
2008			
Lease payments	12,947	28,104	6,098

Property, plant and equipment held for sale

No property, plant and equipment was held for sale in the fiscal year.

11 Intangible Assets

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2008	16,520	43,738	9,607	43	69,908
Additions	3,550	0	3,914	0	7,464
Disposals	-144	0	0	0	–144
Effects of exchange rate differences	-181	0	0	0	–181
Reclassifications	43	0	0	-43	0
As of December 31, 2008	19,788	43,738	13,521	0	77,047

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Depreciation and impairment					
As of January 1, 2008	12,538	11,147	1,630	0	25,315
Additions less current amortization	1,635	0	819	0	2,454
Disposals	-131	0	0	0	–131
Effects of exchange rate differences	-118	0	1	0	–117
Reclassification	0	0	0	0	0
As of December 31, 2008	13,924	11,147	2,450	0	27,521
Carrying amount on January 1, 2008	3,982	32,591	7,977	43	44,593
Carrying amount on December 31, 2008	5,864	32,591	11,071	0	49,526

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2007	15,422	46,101	6,785	39	68,347
Additions	2,030	0	2,822	4	4,856
Disposals	-905	-2,363	0	0	–3,268
Effects of exchange rate differences	-27	0	0	0	–27
Reclassification	0	0	0	0	0
As of December 31, 2007	16,520	43,738	9,607	43	69,908

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Depreciation and impairment					
As of January 1, 2007	11,998	12,151	997	0	25,146
Additions less current amortization	1, 353	0	633	0	1,986
Disposals	-831	-1,004	0	0	–1,835
Effects of exchange rate differences	18	0	0	0	18
Reclassification	0	0	0	0	0
As of December 31, 2007	12,538	11,147	1,630	0	25,315
Carrying amount on January 1, 2007	3,424	33,950	5,788	39	43,201
Carrying amount on December 31, 2007	3,982	32,591	7,977	43	44,593

Computer software is amortized using 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 43,154 thousand in 2008 (2007: 50,249), of which EUR 3,914 thousand (2007: 2,822) satisfied the criteria for capitalization under IAS 38.

Goodwill

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

The Seating Systems and Automotive product segments represent the primary economic basis of GRAMMER Group. For purposes of impairment testing, goodwill was allocated to the CGUs as follows:

EUR k

	Cash-generating unit	December 31, 2008 Carrying amount of goodwill	December 31, 2007 Carrying amount of goodwill
CGU I	Seating Systems	3,199	3,199
CGU II	Automotive	29,392	29,392

In 2007, goodwill in the amount of EUR 1,359 thousand was lost from CGU I through the sale of GRAMMER s.r.l..

Automotive cash-generating unit:
The recoverable amount from Cash-Generating Unit II (Automotive) was determined on the basis of the present value of estimated future cash flows. Estimated cash flows are forecast for a three-year period using budgets authorized by Company management and the prevailing discount rate of approximately 8,5 % (2007: 9) determined on the basis of the WACC approach. Cash flows after this three-year period are extrapolated based on a growth rate of 1 %. No impairment losses were recognized since the recoverable amounts of the individual cash-generating units exceeded the respective carrying amounts.

Seating Systems cash-generating unit:
The recoverable amount from Cash-Generating Unit I (Seating Systems) 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 approximately 8,5 % (2007: 9) determined on the basis of the WACC approach. Cash flows after this three-year period are extrapolated based on a growth rate of 1 %. No impairment losses were recognized since the recoverable amounts of the individual cash-generating units exceeded the respective carrying amounts.

Basic assumptions for calculating economic value
In calculating the economic value of the two divisions "Seating Systems" and "Automotive", the underlying assumptions are subject to estimation uncertainty:

- operating profit
- discount rates
- commodity price trends
- market share in the reporting period

Operating profit
Profits from operations are derived from multi-year planning based on projected figures for revenues and expenses. Current figures, modified by future changes, are used to forecast manufacturing costs.

Discount rates
The discount rates reflect the estimates of the Company's management. They form the basis for benchmarks used to assess operating efficiency and to evaluate future capital expenditure projects. The yield on long-term German government bonds was taken as a basis to determine appropriate discount rates.

Commodity price trends
Estimates are based on published price indices in countries from which commodities are purchased as well as data relating to specific commodities. Forecast data is used if it is publicly accessible – otherwise actual past trends in commodity prices are used as an indicator for future price trends.

Assumptions regarding market share
These assumptions are important inasmuch as the Company's management assesses how the position of the cash-generating unit might change in comparison with its competitors in the period covered by the budget. The Company's management expects that the Seating Systems segment will expand its market share during the period covered by the budget and that the Automotive segment will improve its position internationally.

Sensitivity of the assumptions used

The Company's management is of the opinion that no change considered reasonably possible to one of the basic assumptions used in determining the economic value of the Seating Systems cash-generating unit could lead to the carrying amount of the cash-generating unit significantly exceeding its recoverable value.

In regard to the Automotive CGU, the changes considered reasonably possible to one of the basic assumptions could lead to the carrying amount of the cash-generating unit exceeding its recoverable value.

- Sales revenue – The Company management is projecting moderately rising revenues, which takes account of the current declines and upcoming business expansion. If revenues should fall to a greater extent than planned or remain lower for an extended period, the economic value of this CGU could fall below its carrying amount.

- Assumptions relating to valuation parameters – A change in the market-based valuation parameters, leading to an increase of the discount rate of approx. 2 percentage points, can result in the economic value of the CGU falling below its carrying amount.

12 Inventories

EUR k

	2008	2007
Raw materials and supplies	52,568	56,672
Work in progress	9,428	9,934
Finished goods and services	20,101	23,384
Advance payments	8,739	5,138
Total inventories	90,836	95,128

All inventories are carried at cost. There were no significant write-downs to the lower fair value.

13 Trade Accounts Receivable

EUR k

	2008	2007
Trade accounts receivable	88,195	116,822

Generally, trade accounts receivable are non-interest-bearing and have a term of 30–120 days. There are no restrictions on ownership or disposition.

As of December 31, 2008, write-downs of EUR 6,585 thousand (2007: 5,388) were taken on trade accounts receivable. Details are given in the table below.

Trade accounts receivable

EUR k

	Specific bad debt allowance	Portfolio-based allowance	Total
As of January 1, 2007	892	1,541	2,433
Additions	4,325	540	4,865
Utilization	- 651	- 1,065	–1,716
Write-backs	- 108	0	–108
Changes in exchange rates	- 86	0	–86
As of December 31, 2007/January 1, 2008	4,372	1,016	5,388
Additions	3,191	450	3,641
Utilization	- 2,216	0	–2,216
Write-backs	- 344	0	–344
Changes in exchange rates	89	27	116
As of December 31, 2008	5,092	1,493	6,585

The following table shows non-current and current financial receivables, which have neither been written down nor are overdue on the balance sheet date, as well as overdue receivables, which have not been written down.

EUR k

			overdue				
2008	Total	not due	0–30 days	30–60 days	60–90 days	90–180 days	> 180 days
Receiveables							
Trade accounts receivable	88,195	64,406	16,743	2,320	2,276	1,281	1,116
Receivables from construction contracts	44,930	44,930	0	0	0	0	0
Others	7,879	7,879	0	0	0	0	0
2007							
Receiveables							
Trade accounts receivable	116,822	76,944	30,162	5,466	3,578	1,252	436
Receivables from construction contracts	32,866	32,866	0	0	0	0	0
Others	11,137	11,137	0	0	0	0	0

The carrying amount of the receivables portfolio represents the maximum default risk. On the reporting date, there were no indications with regard to the receivables that had neither been written down nor were in default that the debtors would not be able to fulfill their obligations.

14 Other Financial Assets

EUR k

	2008	2007
Non-current		
Outstanding loans	3,474	5,640
Securities	688	1,886
Participating interests	439	1,031
Others	3,442	805
	8,043	**9,362**
Current		
Receivables from construction contracts	44,930	32,866
Other receivables	963	4,692
Derivatives	0	1,024
	45,893	**38,582**

Outstanding loans primarily comprise one loan to a joint venture in a currency other than Group currencies at a fair value on the origination date of EUR 5,121 thousand, which was measured at fair value on the reporting date to total EUR 3,408 thousand (2007: 3,237). Repayment of this loan is currently neither planned nor likely, so that it constitutes part of the net investment in this joint venture. The associated exchange rate fluctuations were recognized directly in equity. Other financial assets include an earmarked fixed-term deposit balance created in 2008 totaling EUR 2,000 thousand, as well as loans made to third parties and employees in the amount of EUR 1,442 thousand (2007: 805).
Receivables from construction contracts contain the asset-side balance relating to customers for contract work determined using the percentage-of-completion method.

Receivables from affiliated companies result primarily from trade receivables with a term of 30-90 days.

In the previous fiscal year, derivative financial instruments contained the positive fair values from interest rate swaps and currency forwards.

15 Other Current Assets

EUR k

	2008	2007
Other assets	17,572	15,356
Prepaid expenses	2,322	2,250
	19,894	**17,606**

Other assets mainly include pass-through taxes such as value-added tax and income tax receivables in the amount of EUR 12,081 thousand (2007: 10,296), security deposits of EUR 1,360 thousand (2007: 0), receivables due from employees of EUR 304 thousand (2007: 88) and receivables due from creditors with debit balances of EUR 848 thousand (2007: 820).

No material restrictions on ownership or disposition existed for the other receivables and assets reported and no impairment losses were recognized.

16 Cash and Short-term Deposits

EUR k

	2008	2007
Cash and short-term deposits	13,330	22,904

The Group 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.

For the purposes of the consolidated cash flow statement, holdings of cash and cash equivalents as of December 31, 2008 are as follows:

EUR k

	2008	2007
Cash and short-term deposits	13,330	22,904
Bank overdrafts	-12,594	-7,399
	736	15,505

17 Subscribed Capital and Reserves

As of December 31, 2008 and December 31, 2007, subscribed capital of GRAMMER Group amounted to EUR 26,868 thousand and is divided into 10,495,159 common shares, each with a par value of EUR 2.56. On the reporting date, authorized capital of EUR 13,434 thousand was available for one or more issues of new common bearer shares until August 25, 2011.

The capital reserve amounted to EUR 58,237 thousand (2007: 58,237) as of December 31, 2008. The capital reserve includes share premiums from the capital increases in 1996 and 2001.

The statutory reserve of GRAMMER AG totaled EUR 1,183 thousand on both December 31, 2008 and 2007, and is not available for the payment of dividends.

Revenue reserves reflect income earned in the past by the companies included in consolidation, provided such income was not paid out as dividends. Revenue reserves increased to EUR 101,387 thousand (2007: 97,502). In fiscal year 2008, revenue reserves increased by the amount of net income of EUR 14.1 million and decreased through dividend payments for 2007 in the amount of EUR 10.2 million.

As in the previous year, cost for acquisition of own shares totaled EUR 7,441 thousand and is offset in equity against revenue reserves.

Other reserves mainly comprise adjustments arising from the translation of the financial statements of foreign subsidiaries and the effects of the subsequent measurement of financial instruments in equity, as well as adjustments from net investments in accordance with IAS 21 and the related deferred taxes. Details are provided in the table below.

Development of other provisions

EUR k

	Unrealized gains/losses	Foreign exchange differences	Total
As of January 1, 2007	284	6,186	6,470
Currency translation adjustment for foreign subsidiaries	0	4,408	4,408
Gains/losses from cash flow hedges	-556	0	-556
Exchange differences arising on monetary items that form part of a net investment	0	-1,273	-1,273
As of December 31, 2007/ January 1, 2008	-272	9,321	9,049
Currency translation adjustment for foreign subsidiaries	0	-7,569	-7,569
Gains/losses from cash flow hedges	-2,012	0	-2,012
Exchange differences arising on monetary items that form part of a net investment	0	-6,063	-6,063
As of December 31, 2008	-2,284	-4,311	-6,595

Dividends

GRAMMER Group posted net profit of 60.9 million euros for fiscal year 2008. The Company distributes dividends in accordance with section 58 (2) of the German Stock Corporation Act (AktG) based on net profit in the financial statements of GRAMMER AG, which totaled EUR 10.3 million as of December 31, 2008. This takes into account EUR 21.8 million carried forward, the dividend payout of EUR 10.2 million and the allocation of EUR 4.8 million to other revenue reserves in accordance with section 58 (2a) AktG, as well as the neutral transfer from the reserve for own shares totaling EUR 3.0 million to other revenue reserves. The Executive Board and the Supervisory Board of GRAMMER AG will propose to the Annual General Meeting of GRAMMER AG that no dividend be paid, that EUR 7.0 million be allocated to revenue reserves and the remaining EUR 3.3 million carried forward. For resolutions on dividends, the fact that the Company holds 330,050 own shares must be taken into account.

Own shares

As of December 31, 2008, GRAMMER AG held 330,050 own shares, which were all acquired in 2006 at a total purchase price of EUR 7,441 thousand. The amount of share capital attributable to them is EUR 844,928 and represents 3.1448% of the share capital.

Acquisition of own shares

On August 16, 2006, the Executive Board of GRAMMER AG decided to make use of the authorization of the Annual General Meeting of June 28, 2006 to acquire own shares in accordance with section 71 I (8) AktG. The Company may acquire up to 10% of its share capital, i.e. up to 1,049,515 own shares. The share repurchase is for the purposes set out in the resolution adopted in the Annual General Meeting, which provides 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. This authorization was valid from August 16, 2006 until December 1, 2007 and was rescinded by the Annual General Meeting on June 28, 2007. At the same time, the Annual General Meeting authorized the Executive Board to acquire own shares up to December 1, 2008. The repurchase of the shares under this Executive Board resolution complies with the safe harbor rules of sections 14 II, 20a III of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the acquisition price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's website. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2008, 10,165,109 common shares (2007: 10,165,109) were in circulation.

Minority interests

Minority interests in equity relate primarily to share holdings in GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey and GRAMMER AD, Bulgaria.

18 Pension 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 based primarily on the following actuarial assumptions:

%	2008	2007
Interest rate	5.6	5.25
Salary trend	2.75 p.a.	2.0 p.a.
Income trend for individual commitments	2.75 p.a.	2.0 p.a.
Inflation rate	1.9 p.a.	2.0 p.a.

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

%	2008	2007
Interest rate	5.0 - 5.71	5.0 - 6.5
Salary trend	3.0 - 4.5 p.a.	3.0 - 4.5 p.a.
Inflation rate	3.0 - 10.0 p.a.	3.0 - 10.0 p.a.

Mortality and disability are calculated on the basis of the 2005 G Heubeck mortality tables or comparable 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 year 2008, annuities in the amount of EUR 1,266 thousand (2007: 1,180) were paid on pension commitments. A total of EUR 173 thousand (2007: 233) was paid out for other employee benefits (post-employment benefits).

The following amounts were recognized in the income statement:

EUR k

	Pension plan	Miscellaneous benefits
Benefits earned in 2008	1,751	385
Interest expenses in 2008	2,754	95
Actuarial gains/losses recognized in 2008	1	0
Total 2008	4,506	480

EUR k

	Pension plan	Miscellaneous benefits
Benefits earned in 2007	1,650	410
Interest expenses in 2007	2,364	76
Actuarial gains/losses recognized in 2007	94	0
Total 2007	4,108	486

The above amounts are 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 (underfunding) based on employee benefits pursuant to IAS 19 are calculated as follows:

EUR k

	Pension plan	Miscellaneous benefits
DBOs as of December 31, 2008	55,714	1,725
Unrecognized actuarial losses (-)	- 2,990	0
Provisions as of December 31, 2008	52,724	1,725

EUR k

	Pension plan	Miscellaneous benefits
DBOs as of December 31, 2007	53,124	1,418
Unrecognized actuarial losses (-)	- 3,639	0
Provisions as of December 31, 2007	49,485	1,418

Accordingly, the change in DBO appears as follows:

EUR k

	Pension plan	Miscellaneous benefits
As of January 1, 2007	54,396	1,165
+ Benefits earned in 2007	1,650	410
+ Interest expenses in 2007	2,364	76
- Actual payments in 2007	- 1,180	- 233
Disposals from liabilites 2007	- 1,311	0
Actuarial gains/losses	- 2,795	0
As of December 31, 2007/ January 1, 2008	53,124	1,418
+ Benefits earned in 2008	1,751	385
+ Interest expenses in 2008	2,754	95
- Actual payments in 2008	- 1,266	- 173
Disposals from liabilites 2008	0	0
Actuarial gains/losses	- 649	0
As of December 31, 2008	55,714	1,725

The change of the assumptions and the scheduled changes are as follows:

EUR k

	2008	2007
Expected DBO as of December 31 of the relevant year	56,362	55,919
Current value of the DBO as of December 31 of the relevant year	55,714	53,124
Excess funding/Underfunding	–648	–2,795
of which from		
historical adjustments	62	1,033
changes in assumptions	- 710	- 3,828

19 Financial Liabilities

Interest-bearing liabilities

EUR k

	Current	Non-current	Total
2008			
Overdrafts	12,594	0	12,594
Loans			11,191
EUR loan	784	0	784
CNY loan	10,407	0	10,407
Debenture bond	0	69,741	69,741
Total Financial Liabilities	23,785	69,741	93,526

EUR k

	Current	Non-current	Total
2007			
Overdrafts	7,399	0	7,399
Loans			15,762
EUR loan	1,987	748	2,735
CNY loan	13,027	0	13,027
Debenture bond	0	69,685	69,685
Total Financial Liabilities	22,413	70,433	92,846

Bank overdrafts

Overdrafts are due on demand and interest is generally charged at EONIA.

Current loans

Current loans denominated in Chinese currency feature tranches maturing between January and December 2009, which are to be repaid after one year. Loans denominated in euro are redeemable in March and June 2009.

Debenture bond

Interest is charged on the debenture bond, which has a total principal amount of EUR 70 million, at a fixed rate of 4.8 %. It is not due for redemption until the end of August 2013.

Non-current loans

Other loans have a term until 2009 and are due for repayment on a quarterly basis. In 2007, non-current loans were redeemed prematurely by subsidiaries.

Liabilities to banks in the amount of EUR 222 thousand (2007: 1,111) are secured by mortgages. Additionally, non-current assets were assigned to one lender as security for a loan (with an outstanding balance of EUR 256 thousand on December 31, 2008) (2007: 767).

20 Provisions

EUR k	Market-related provisions	Restructuring	Obligations relating to personnel	Other provisions	Total
As of January 1, 2007	5,970	0	3,191	106	9,267
Additions	425	0	412	190	1,027
Utilization	- 3,134	0	- 138	- 189	–3,461
Reversal	- 624	0	- 17	- 6	–647
Effect of exchange rate differences	112	0	- 2	- 11	99
As of December 31, 2007	2,749	0	3,446	90	6,285
Current provisions in 2007	2,749	0	3,446	90	6,285
Non-current provisions in 2007	0	0	0	0	0
As of January 1, 2008	2,749	0	3,446	90	6,285
Additions	1,235	0	1,033	401	2,669
Utilization	- 496	0	- 167	0	–663
Reversal	- 505	0	0	0	–505
Effect of exchange rate differences	- 136	0	0	- 15	–151
As of December 31, 2008	2,847	0	4,312	476	7,635
Current provisions in 2008	2,847	0	4,312	476	7,635
Non-current provisions in 2008	0	0	0	0	0

Market-related provisions relate to all risks from the sale of parts and products, including development. These primarily comprise 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 caused by sales prior to the reporting date.

Restructuring provisions cover restructuring obligations and changes relating to personnel, production processes and operating facilities.

Personnel provisions contain obligations related to personnel and social benefits such as partial retirement schemes and anniversary bonuses.

Other provisions refer a number of identifiable specific risks and contingent liabilities, for instance provisions for litigation costs, which are recognized at their probable amounts.

21 Trade Accounts Payable

EUR k	2008	2007
Trade acoounts payable	76,476	89,783

Trade accounts payable and other liabilities refer to outstanding payment obligations for goods and services and well as running costs. Trade payables are non-interest-bearing and generally have a term of 30 – 90 days. The average period for payment of supplier invoices is 45 days. Customary retention of title by suppliers applies in relation to trade receivables.

22 Other Financial Liabilities

EUR k	2008	2007
Current		
Derivative financial instruments	7,862	1,072
Liabilities from leases	96	134
Other liabilities	577	898
Other financial liabilities (current)	8,535	2,104
Non-current		
Liabilities from leases	87	157
Liabilities to associates	4,072	3,612
Other financial liabilities (non-current)	4,159	3,769

23 Other Liabilities

EUR k	2008	2007
Current		
Social security obligations	1,835	1,788
Tax liabilities	4,672	7,724
Prepayments received	210	404
Other liabilities	31,670	31,168
Deferred income	2,014	2,876
Other current liabilities	40,401	43,960
Non-current		
Tax liabilities	174	176
Miscellaneous other	1,026	17
Other liabilities (non-current)	1,200	193
Total other liabilities	41,601	44,153

Social security obligations are largely obligations to social security agencies.

Other liabilities mainly comprise liabilities to employees from outstanding annual leave, overtime, flex-time or similar. The item also includes liabilities relating to value-added tax and the procurement of goods.

Tax liabilities principally comprise income taxes for fiscal 2008.

24 Cash Flow Statement

The cash flow statement presents the Group's cash flow situation broken down into cash inflows and outflows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification of the respective items. Cash flow from operating activities is derived indirectly from net profit before taxes, 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 GRAMMER Group, cash and cash equivalents consists of cash and short-term money market funds, less current account liabilities to banks.

25 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 the fiscal year.

26 Contingent Liabilities

EUR k	2008	2007
Guarantees	3,304	2,749

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

27 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 in % 2008	2007
1. Fully consolidated subsidiaries			
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	99.99	99.99
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	100.00	100.00
3. GRAMMER Mexicana S.A. de C.V.	Queretaro, Mexico	100.00	100.00
4. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	99.25	99.25
5. GRAMMER Inc.	Hudson, USA	100.00	100.00
6. GRAMMER Wackersdorf GmbH	Wackersdorf, Germany	100.00	100.00
7. GRAMMER CZ s.r.o.	Most, Czech Republic	100.00	100.00
8. GRAMMER Japan Ltd.	Tokyo, Japan	100.00	100.00
9. GRAMMER AD	Trudovetz, Bulgaria	88.84	88.63
10. GRAMMER Automotive GmbH	Amberg, Germany	100.00	100.00
11. GRAMMER System GmbH	Amberg, Germany	100.00	100.00
12. GRAMMER Automotive Metall GmbH	Amberg, Germany	100.00	100.00
13. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	100.00	100.00
14. GRAMMER Automotive Espanola S.A.	Olèrdola, Spain	100.00	100.00
15. GRAMMER Industries Inc.	Piedmont SC, USA	100.00	100.00
16. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00	100.00
17. GRAMMER Automotive Polska Sp. Z.o.o.	Bielsko - Biala, Poland	100.00	100.00
18. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	100.00	100.00
19. GRAMMER Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00	100.00
20 GRAMMER Interior (Changchun) Co. Ltd.	Changchun, China	100.00	100.00
21. GRAMMER Interior (Shanghai) Co. Ltd.	Shanghai, China	100.00	
22. GRAMMER System d.o.o. Serbien	Aleksinac, Serbia	100.00	
2. Proportionately consolidated companies			
GRAMAG Truck Interior Systems LLC	Novi, USA	50.00	50.00

GRAMMER System GmbH, GRAMMER Wackersdorf GmbH and GRAMMER Automotive Metall GmbH make use of the exemption under section 264 (3) of the German Commercial Code (HGB).

Conditions for related party transactions

Sales to and purchases by related parties are conducted at arm's length. 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, 2008 (2007: 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 reporting year:

EUR k

Related parties		Sales to related parties	Purchase from related parties	Receivables from related parties	Liabilities to related parties
Jointly-controlled entities in which the parent is a venturer: GRAMAG Truck Interior Systems LLC	2008	272	0	7,949	0
	2007	541	0	7,143	0

GRAMAG Truck Interior System LLC Limited

The Group has a 50% stake in GRAMAG Truck Interior Systems LLC (2007: 50)

GRAMAG had 46 employees as of December 31, 2008 (2007: 38).

Disclosures relating to the Executive Board/Supervisory Board

No companies in GRAMMER Group entered into any significant transactions with members of the Executive Board 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.

28 Additional Information on Financial Instruments

The following table shows the market prices and carrying amounts of financial assets and liabilities:

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/08	Balance sheet measurement according to IAS 39				Balance sheet measurement acc. to IAS 17	Fair Value 12/31/08
			Amortized cost	Historical cost	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	13,330	13,330					13,330
Trade accounts receivable	LaR	88,195	88,195					88,195
Other financial assets								
Loans and receivables	LaR	7,878	7,878					7,878
Receivables from construction contracts	LaR	44,929	44,929					44,929
Financial assets available-for-sale	AfS	1,127		439	688			1,127
Financial assets held-for-trading	FAHfT	0						0
Liabilities								
Trade accounts payable	FLAC	76,476	76,476					76,476
Liabilities to banks	FLAC	23,785	23,785					23,798
Debenture bond	FLAC	69,741	69,741					72,975
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	4,649	4,649					4,649
Liabilities from finance leases	n. a.	183					183	183
Financial liabilities held-for-trading	FLHfT	4,799				4,799		4,799
Derivatives with hedge relationship	n. a.	3,063			3,063			3,063
Of which aggregated by valuation category in acc. with IAS 39:								
Loans and receivables	LaR	154,332	154,332					154,332
Financial assets available-for-sale	AfS	1,127		439	688			1,127
Financial assets held-for-trading	FAHfT	0						0
Financial liabilities measured at amortized costs	FLAC	174,651	174,651					177,898
Financial liabilities held-for-trading	FLHfT	4,799				4,799		4,799

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/07	Balance sheet measurement according to IAS 39				Balance sheet measurement acc. to IAS 17	Fair Value 12/31/07
			Amortized cost	Historical cost	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	22,904	22,904					**22,904**
Trade accounts receivable	LaR	116,822	116,822					**116,822**
Other financial assets								
Loans and receivables	LaR	11,136	11,136					**11,136**
Receivables form construction contracts	LaR	32,866	32,866					**32,866**
Financial assets available-for-sale	AfS	2,918		1,032	1,886			**2,918**
Financial assets held-for-trading	FAHfT	1,024				1,024		**1,024**
Liabilities								
Trade accounts payable	FLAC	89,783	89,783					**89,783**
Liabilities to banks	FLAC	23,160	23,160					**25,152**
Debenture bond	FLAC	69,685	69,685					**69,468**
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	4,510	4,510					**4,510**
Liabilities from finance leases	n. a.	291					291	**291**
Financial liabilities held-for-trading	FLHfT	688				688		**688**
Derivatives with hedge relationship	n. a.	384			384			**384**
Of which aggregated by valuation category in acc. with IAS 39:								
Loans and receivables	LaR	183,728	183,728					**183,728**
Financial assets available-for-sale	AfS	2,918		1,032	1,886			**2,918**
Financial assets held-for-trading	FAHfT	1,024				1,024		**1,024**
Financial liabilities measured at amortized costs	FLAC	187,138	187,138					**188,913**
Financial liabilities held-for-trading	FLHfT	688				688		**688**

Because of the short term-nature of cash and short-term deposits, trade accounts receivable and other current receivables, it is assumed that the carrying amounts equate to their fair values.

The fair value of other non-current receivables with remaining terms of over one year equate to the present value of the payments associated with the assets taking account of the prevailing interest rate parameters.

Trade accounts payable and other liabilities usually have short residual maturities. The figures reported therefore approximate fair values.

The fair values of liabilities to banks, debenture bond and other non-current financial liabilities are determined as the present values of the payments associated with the liabilities calculated on the basis of the respective yield curves.

The following table shows the gains and losses on financial instruments:

EUR k

	Net income 2008	Net income 2007
Loans and receivables	9,145	- 6,077
Available-for-sale financial instuments	86	- 258
Financial instuments held-for-trading	- 5,656	0
Others	0	0
	3,575	**–6,335**

29 Risk Management and Financial Derivatives

The primary financial liabilities used in the Group encompass debenture bonds, bank loans, overdrafts and finance leases as well as trade accounts payable. The main purpose of these financial liabilities is to finance operating activities. The Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

The Group also has derivative financial instruments. These include, in particular, interest rate swaps and currency forwards. The purpose of derivative financial instruments is to hedge interest rate and currency risks resulting from Group's operating activity and its sources of finance. The Group is subject to market, credit and liquidity risks. Management of these risks is the responsibility of the Company management. Together with experts for financial risk, the management of the Company prepares a suitable framework for management of financial risks. This framework ensures that the activities of the Company that entail financial risk are carried out with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk. All derivative transactions entered into for purposes of risk management are managed by expert teams that have the necessary knowledge and experience, and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management. In its internal guidelines the Group ruled out trading in derivatives in 2008 and 2007, and does not intend to change this in the future.

Market risk

Market risk refers to the risk that fluctuations in market prices may bring about changes in the cash flow from a financial instrument. Market risk encompasses the following three types of risk: exchange rate risk, interest rate risk and other price risks, such as share price risk. Instruments subject to market risk include interest-bearing loans, deposits, available-for-sale financial assets and derivatives. The sensitivity analyses in the sections below relate to the situations as of December 31, 2008 and 2007. The sensitivity analyses were prepared on the basis of the hedging transactions existing on December 31, 2008, subject to the assumption of constant figures for net gearing, the ratio of fixed to variable interest rates on liabilities and derivatives and the proportion of financial instruments denominated in foreign currencies. The analyses do not account for any effects of changes in market variables on the carrying amounts of pension obligations and other post-employment benefits, provisions and non-financial assets and liabilities of foreign operations.

Fluctuations in the market price can result in significant cash flow and earnings risks for the Company. Changes in the exchange rates and interest rates applicable to foreign currencies impact ongoing operations as well as financing and investment activities. All depictions of the potential financial effects are approximations and are based on the assumptions of the relevant sensitivity analyses and method. The actual effects on the income of the Group may deviate considerably as a result of actual market developments. Nonetheless, the Group has developed strategies and procedures to manage individual risks, which will be described below:

Interest rate risk

The Group pursues the strategy of structuring its non-current borrowings on a fixed-rate basis and consequently avoiding the risk of fluctuations in interest rates. For current loans, the market rates in force when the loan is concluded will apply, which means that the interest rate risk is limited to fluctuations in the market when the loan is drawn. For overdrafts, interest is agreed on a rollover basis.

Group Treasury hedges the majority of the resultant interest rate risk on a medium-term basis through the use of interest rate swaps and caps with the aim of ensuring that short-term risks are subject to as little fluctuation as possible. To accomplish this, the Company enters into interest rate swaps, under which the Group exchanges amounts based on the difference between fixed interest and variable interest on a pre-defined nominal amount. These interest rate swaps were used to hedge the underlying commitments. On December 31, 2008, roughly 74.6% of debt capital had fixed rates of interest (2007: 75.1).

The nominal amounts of these interest rate derivatives on the reporting date amounted to EUR 33,683 thousand (2007: 25,591). They have a remaining maturity of up to six years. Given that all derivatives were concluded with first-class commercial banks, counterparty risk is assessed as very low.

The Group carries all interest rate derivatives employed as part of this strategy at market value. The positive market value of EUR 0 thousand (2007: 436) is recognized under other current financial assets, the negative market value of EUR 1,111 thousand (2007: 98) under other current financial liabilities. The Company recognizes changes in the market value as profit or loss in the financial result. Accordingly, a net loss of EUR 1,449 thousand (2007: 330 net income) is recognized in the financial result.

To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent that this is not limited by country-specific regulations, Group Treasury makes financing available to all divisions and associated companies in the form of loans.

The interest rate sensitivity analysis is based on the following assumptions:

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risk and thus not included in the sensitivity analysis.
- Variable rate primary financial instruments, the payments from which are not designated as underlyings for cash flow hedges against interest rate risks, have an effect on period income and are taken account of in the sensitivity analysis.
- Interest rate derivatives not designated as hedging instruments in the context of a cash flow hedge have an effect on period income and are thus taken account of in the sensitivity analysis.
- The interest rate risk from currency derivatives is deemed insignificant, and thus not included in the sensitivity analysis.
- For determination of the sensitivity of interest rate derivatives, a parallel shift of the yield curve by +/– 100 basis points is assumed.

The following table shows the sensitivity of consolidated profit before taxes to a reasonably possible change in interest rates. All other parameters remain constant.

EUR k

	Increase/ reduction in basis points	Impact on profit before tax
2008	./. 100	- 1,045
	+ 100	990
2007	./. 100	- 684
	+ 100	600

Currency risk

As a consequence of its international focus and business activities, the Group is exposed to currency risks. Fluctuations in exchange rates on markets may lead to unforeseeable and unfavorable volatility in net income and cash flow. By transacting business in currencies other than the functional currencies of the respective Group companies, risks may arise from future payment flows. The risk is reduced by the requirement to invoice business transactions generally in the respective functional currency. In addition, where it is possible and cost-effective, commodities and services are purchased in the corresponding foreign currency and production takes place in local markets. The operating units are not permitted to raise or invest financial resources in foreign currencies for speculative purposes. Subject to the provisions of Group guidelines, currency forwards are concluded to hedge specific foreign currency inflows and outflows amounting to 70 % – 80 % of exposure. In this context, the Group largely follows a group-wide portfolio approach, which consists of combining group-wide risks centrally. A strategy of this kind does not fulfill the preconditions for hedge accounting as defined in IAS 39. Accordingly, the Group recognizes all these derivatives at market value in the consolidated balance sheet and shows them under other current financial assets or other current financial liabilities. On the reporting date, there were currency hedges with a volume of EUR 39,400 thousand (2007: 3,448) and a remaining term of up to 12 months. The changes in market values of the currency hedges in place on the balance sheet date, which were to be recognized as profit or loss in the income statement, amounted to EUR – 1,243 thousand (2007: EUR – 577).

Currency forwards in the amount of EUR 24,349 thousand (2007: 0) satisfy the requirements for hedge accounting (cash flow hedge) to hedge expected foreign currency transactions in the operating area. The hedge relates to Czech Koruna and Polish Zloty. As of December 31, 2008, the total amount of unrealized losses before tax from forward currency transactions transferred to the reserves from hedging transactions was EUR 3,063 thousand (2007: 0). The cash flow from the underlying transactions is expected in fiscal year 2009. The changes in market value recognized directly in equity will be reversed through the income statement when the underlying transaction takes place.

The sensitivity analysis of changes in currency is based on the following assumptions:

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.
- Changes in interest rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.
- Derivatives for the purpose of currency hedging that are designated as hedging instruments in the context of cash flow hedges have an effect on equity and are taken account of in the sensitivity analysis.
- Currency derivatives that are not designated as hedging instruments in the context of cash flow hedges have an effect on period income and are taken account of accordingly in the sensitivity analysis.
- For the determination of sensitivity to exchange rate risks, a change in the exchange rate of +/10 percentage points on the reporting date (2007: 5 percentage points) is assumed. All other variables remain constant.

The following table shows the sensitivity of consolidated net income before taxes and equity to a reasonably possible change in the exchange rate:

EUR k	Changes in the price of the USD	Impact on profit before tax	Impact on equity
2008	+10%	6,157	-1,101
	-10%	-6,162	1,101
2007	+5%	2,425	0
	-5%	-2,425	0

	Changes in the price of the TRY	Impact on profit before tax	
2008	+10%	-370	
	-10%	252	
2007	+5%	-518	
	-5%	518	

	Changes in the price of the CZK	Impact on profit before tax	Impact on equity
2008	+10%	649	2,098
	-10%	-649	-1,716
2007	+5%	609	
	-5%	-609	

	Changes in the price of the PLN	Impact on profit before tax	Impact on equity
2008	+10%	-282	558
	-10%	282	-457
2007	+5%	-84	
	-5%	84	

	Changes in the price of the MXN	Impact on profit before tax	Impact on equity
2008	+10%	821	1,291
	-10%	-821	-1,291
2007	+5%	571	206
	-5%	-571	-206

Commodity price risk

Commodity futures contracts, to be recognized as derivatives under IAS 39, were entered into to hedge price risks related to purchases of commodities. The contracts concluded in 2008 do not meet the requirements for hedge accounting. Consequently, the EUR 2,497 thousand change in market price was recognized under the financial result in the income statement. The contracts concluded in 2007 were designated to hedge the cash flows of expected future purchases. In 2007, the Group recognized an unrealized pre-tax loss of EUR 384 thousand in equity. When the hedged commodities were delivered, EUR 764 thousand were transferred to the cost of the sales.

Credit risk

Credit risk is defined as the risk of the Group suffering a loss because a counterparty fails to fulfill its obligations. The Group guidelines set forth that transactions will only be entered into with creditworthy third parties to reduce the risks of non-performance. If ratings are not available, the Group uses other financial information and its own trading records to assess major customers. Customers, who wish to conclude credit-based transactions for the first time, are also regularly subjected to a creditworthiness check. Receivables are monitored on an ongoing basis to ensure that the Group is not exposed to any material default risk. In the case of larger transactions, which are not conducted in the country of the respective operating unit, prior approval is to be obtained from Group Finance. There are no significant concentrations of default risks in the Group.

Liquidity risk

The Group manages liquidity risks by holding appropriate reserves, lines of credit in the amount of EUR 107.9 million (2007: 90.0) with banks and through constant monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The aim is to achieve a balance between covering the need for financial resources at all times and ensuring flexibility through the use of overdraft facilities, loans, bonds, factoring, finance leases and closed-end leasing agreements. In addition, internal guidelines stipulate a safety margin of EUR 50 million between medium-term loan commitments and net financial liabilities.

As of December 31, 2008, the Group had unutilized lines of credit in the amount of EUR 84,066 thousand (2007: 68,700), for which all the conditions required for utilization had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR k

	Carrying amount	Cash flow		
		2009	2010–2012	2013 and thereafter
2008				
Current and non-current financial liabilities				
Debenture bond	69,741	3,389	10,168	73,389
Bank loans	11,191	11,450	0	0
Overdrafts	12,594	12,594	0	0
Trade accounts payable	76,476	76,476	0	0
Current, non-current and other financial liabilities				
Liabilities under finance leases	183	164	88	0
Other original financial liabilities	4,649	577	4,072	0
Derivatives	7,862			
Interest rate derivatives	1,111	194	824	173
Exchange rate derivatives	4,254			
Payments received		- 42,421		
Payments outgoing		46,127		
Commodities forwards	2,497	2,497		
		111,047	15,152	73,562

EUR k

	Carrying amount	Cash flow		
		2008	2009–2011	2012 and thereafter
2007				
Current and non-current financial liabilities				
Debenture bond	69,685	3,389	10,168	76,778
Bank loans	15,761	15,419	757	0
Overdrafts	7,399	7,399	0	0
Trade accounts payable	89,783	89,783	0	0
Current, non-current and other financial liabilities				
Liabilities under fianance leases	291	142	181	0
Other primary financial liabilities	4,510	890	3,612	0
Derivatives	1,072			
Interest rate derivatives	98	7	97	0
Exchange rate derivatives	590		–	–
Payments received		-12,311		
Payments outgoing		12,901		
Commodities forwards	384	384		
		118,003	14,815	76,778

All instruments in the portfolio on the reporting date for which payments were already contractually agreed were included. Budget figures for future new liabilities are not included. Amounts in foreign currency are converted at the spot rate on the reporting date. Financial liabilities repayable on demand are always allocated to the earliest maturity band. Variable interest payments under primary financial instruments were established on the basis of the interest rates last fixed before the balance sheet date. In the case of interest rate derivatives, the net payments are recorded based on calculation of payment flows on the variable side using the relevant forward interest rates. For currency derivatives, gross settlement is used. In this case, both the relevant payments and receipts are presented.

Capital management

In its management of capital, the Group tries to ensure that it achieves both a good credit rating and an equity ratio that is sufficient to support its operating activity and to optimize its value approach. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

To monitor its financial structure, the Group uses net gearing, which is also a key financial parameter used by third parties to determine the ratio of net financial liabilities to equity. Net financial liabilities include current and non-current liabilities to banks as well as liabilities from finance leasing, less cash and equivalents, securities and short-term deposits. Equity comprises the equity attributable to the parent company's shareholders. In the period under review, the Company was able to maintain the conditions set out by third parties for retention of financing.

According to internal guidelines, the resulting gearing must remain below 50%.

EUR k

	2008	2007
Non-current liabilities to banks	69,741	70,433
Current liabilities to banks	23,785	22,413
Liabilities from finance lease	183	291
Cash and securities	-13,330	-22,904
Net financial liabilities	**80,379**	**70,233**
Equity before minority interests	172,456	184,215
	92,077 47%	113,982 38%

30 Events after the Balance Sheet Date

The following events occurred up to March 19, 2009 (date of release for submission to the Supervisory Board):

Effective February 19, 2009, Astrid Franzky was appointed to the Supervisory Board as executive-management representative, after Mr. Horst Übelacker stepped down from his Supervisory Board position as of December 31, 2008 as a result of his age-related departure from the Company.

31 Other Information

Workforce

On average, GRAMMER Group had the following numbers of employees in the year under review:

	2008	2007
Wage-earning employees	7,298	7,151
Salaried employees	2,195	2,175
Total	9,493	9,326

The individual Group divisions had the following numbers of employees on the December 31 balance sheet date:

	2008	2007
Seating Systems	3,114	3,153
Automotive	5,631	6,216
Central Services	163	158
Total	8,908	9,527

Auditor's fees within the meaning of section 314 (1) No. 9 of the German Commercial Code

Fees for the auditor of the consolidated financial statements recognized as expenses in the reporting year amounted to EUR 381 thousand (2007: 295) for the audit, EUR 0 thousand (2007: 0) for other audit and assessment services, EUR 137 thousand (2007: 9) for tax consulting services and EUR 2 thousand (2007: 12) for other services.

Executive Board and Supervisory Board remuneration

Executive Board and Supervisory Board remuneration

EUR k

	2008	2007
Total remuneration paid to the Executive Board amounted to	1,784	1,764
The Supervisory Board received total remuneration of	235	239

The variable portion of total remuneration paid to the Executive Board amounted to EUR 549 thousand (2007: 428). The variable portion of total remuneration paid to the Supervisory Board was EUR 4.7 thousand (2007: 9.5).

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2008:

EUR k

	Non-performance-related components	Performance related components	Components providing long-term incentives	Total
Dr. Rolf-Dieter Kempis	463	295	0	758
Alois Ponnath	368	106	0	474
Hartmut Müller	404	148	0	552
	1,235	549	0	1,784

The Company paid EUR 259 thousand (2007: 293) to former members of management/the Executive Board and their surviving dependents. In 2008, EUR 0 thousand (2007: 950.0) was awarded in severance payments to members of the Executive Board who left prematurely.

EUR 3,640 thousand (2007: 3,584) was earmarked for pension obligations to former members of management/the Executive Board or their surviving dependents in accordance with IAS 19.

Moreover, current service cost for allocations to pension provisions arose for active members of the Executive Board in the amount of EUR 53.5 thousand (2007: 52). Of this, EUR 24.5 thousand was attributable to Mr. Ponnath and EUR 29.0 thousand to Mr. Müller.

Individual remuneration paid to the members of the Supervisory Board was as follows:

EUR k	Fixed remuneration	Performance-based remuneration	Total
Dr. Bernd Blankenstein	36.0	0.4	36.4
Jürgen Ganss	26.0	0.4	26.4
Wolfram Hatz	19.0	0.4	19.4
Dr. Rolf-Dieter Kempis (Member until July 24, 2007)	0	0.2	0.2
Georg Liebler	18.0	0.4	18.4
Dr. Klaus Probst	18.0	0.4	18.4
Dr. Peter Stehle	15.0	0.1	15.1
Dr. Bernhard Wankerl	17.0	0.4	17.4
Udo Fechtner	23.0	0.4	23.4
Tanja Jacquemin	17.0	0.4	17.4
Anton Kirschbauer	15.0	0.4	15.4
Monika Kugler-Fleischmann	15.0	0.4	15.4
Horst Übelacker	11.0	0.4	11.4
	230.0	4.7	234.7

32 Corporate Governance

Declaration of Conformity in accordance with Section 161 of the Stock Corporation Act

The Declaration of Conformity with the German Corporate Governance Code was updated on December 9, 2008 and adapted to the new version of the Code dated June 6, 2008. In accordance with section 161 of the Stock Corporation Act (AktG), the Executive Board and Supervisory Board affirm that the management guidelines of GRAMMER AG essentially correspond to the recommendations of the Code, and will do so in the future. The declaration is permanently available to the public on our website under www.grammer.com/corporate_governance and is also included as part of in this report.

Boards and officers

Supervisory Board:

Dr.-Ing. Bernd Blankenstein, Aachen
- Chairman

Jürgen Ganss, Schwabach
- Deputy Chairman/Employee Representative

Dipl.-Betriebswirt (FH) Wolfram Hatz, Ruhstorf

Georg Liebler, Möglingen

Dr. Klaus Probst, Heroldsberg

Dr. Bernhard Wankerl, Schwandorf

Dr. Peter Stehle, Bad Homburg

Udo Fechtner, Kümmersbruck
- Employee Representative

Tanja Jacquemin, Frankfurt am Main
- Employee Representative

Anton Kirschbauer, Ursulapoppenricht
- Employee Representative

Monika Kugler-Fleischmann, Hahnbach
- Employee Representative

Horst Übelacker, Hohenburg
- Employee Representative; left Company 12/31/2008

Astrid Franzky, Kümmersbruck
- Employee Representative (as of 02/19/2009)

Executive Board:

Dr. Rolf-Dieter Kempis, Waldenburg
- Chairman of the Executive Board

Dipl.-Kfm. Alois Ponnath, Kümmersbruck

M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Bad Vilbel

Professions and other board memberships of Supervisory Board members:

Dr.-Ing. Bernd Blankenstein, Engineer, former Chairman of the Executive Board of GRAMMER AG
- Member of the Supervisory Board of Aksys GmbH, Worms (until 12/03/2008)
- Member of the Advisory Board of Stabilus GmbH, Koblenz (until 06/01/2008)
- Member of the Advisory Board of KTP Palettentechnik GmbH, Bous

Jürgen Ganss, First Representative of IG Metall
- Deputy Chairman of the Supervisory Board of Luitpoldhütte AG, Amberg

Dipl.-Bw. (FH) Wolfram Hatz, Independent Businessman, Executive Director of Motorenfabrik Hatz GmbH & Co. KG as well as of Hatz Holding GmbH
- Member of the Advisory Board of Dresdner Bank AG, Frankfurt am Main

Georg Liebler, former Member of the Management Board of Kolbenschmidt Pierburg AG
- Member of the Advisory Board of E.G.O. Elektrogeräte AG, Zug/Schweiz
- 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
- Member of the Advisory Board of CERTUSS GmbH, Krefeld

Dr. Klaus Probst, Engineer, Chairman of the Executive Board of Leoni AG
- Member of the Advisory Board of Lux-Haus GmbH & Co. KG, Georgensgmünd
- Member of the Supervisory Board of Zapp AG, Ratingen
- Member of the Advisory Board of Deutsche Bank AG München, region South (since 05/08/2008)

Dr. Peter Stehle, Managing Director of SYN GmbH,
(Member of the Supervisory Board since 09/19/2007)
- Member of the Supervisory Board of Edscha AG, Remscheid
- Member of the Advisory Board of Norma GmbH, Maintal
- Member of the Supervisory Board of BOA GmbH, Stutensee
- Member of the Supervisory Board of Prym GmbH, Stolberg
- Member of the Advisory Board of Ribe GmbH, Schwabach
- Member of the Advisory Board of Spheros GmbH, Stockdorf
- Member of the Advisory Board of Zeitfracht GmbH, Berlin
- Member of the Advisory Board of Stulz KG, Hamburg (since 09/15/2008)

Dr. Bernhard Wankerl, Attorney
- no further offices

Udo Fechtner, Toolmaker
- no further offices

Tanja Jacquemin, Political Secretary
- no further offices

Anton Kirschbauer, Technician
- no further offices

Monika Kugler-Fleischmann, Women´s Clothing Tailor
- no further offices

Horst Übelacker, Division Manager Global Operations
(Member of the Supervisory Board until 12/31/2008)
- no further offices

Astrid Franzky, Head of Controlling Seating
(Member of the Supervisory Board as of 02/19/2009)
- no further offices

Positions and other offices (as defined by Section 285 of the German Commercial Code) held by the Members of the Executive Board:

Dr. Rolf-Dieter Kempis, Chairman of the Executive Board, HR-Director
- Chairman of the Board of Directors of GRAMMER Automotive Española S.A., Olèrdola/Spain
- Chairman of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico (as of 06/03/2008)
- Member of the Board of Directors of GRAMMER Mexicana S.A. de C.V., Queretaro/Mexico (as of 06/03/2008)
- Chairman of the Board of Directors of GRAMMER Industries Inc., Piedmont/USA (as of 03/01/2008)
- Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (as of 04/21/2008)
- Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China (as of 05/28/2008)
- Member of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China (as of 06/23/2008)
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China (as of 01/10/2008)

Dipl.-Kfm. Alois Ponnath, Member of the Executive Board, Central Services Divsion
- Member of the Supervisory Board of GRAMMER AD, Trudovec/Bulgaria
- Member of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico (until 06/03/2008)
- Member of the Board of Directors of GRAMMER Mexicana S.A. de C.V., Queretaro/Mexico (until 06/03/2008)
- 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
- Member of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China
- Member of the Board of Directors of GRAMAG Truck Interior Systems LLC, Novi/USA

M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Member of the Executive Board, Seating Systems Division
- Member of the Board of Directors of GRAMAG Truck Interior Systems LLC, Novi/USA
- Chairman of the Supervisory Board of GRAMMER AD, Trudovec/Bulgaria
- Member of the Board of Directors of GRAMMER Industries Inc., Piedmont/USA
- Chairman of the Board of Directors of GRAMMER Inc., Hudson/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 (Shanghai) Co. Ltd., Shanghai/China
- Chairman of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China
- Member of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (as of 04/21/2008)
- Chairman of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China (as of 06/23/2008)
- Member of the Board of Management of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico (as of 06/03/2008)
- Chairman of the Board of Management of GRAMMER Mexicana S.A. de C.V., Queretaro/Mexico (as of 06/03/2008)
- Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern (as of 04/10/2008)
- Executive Director of PRC-PANTA RHEI-Consulting GmbH, Darmstadt (as of 03/17/2008)

Auditors' Report

We issued the following opinion with respect to the Consolidated Financial Statements and the Consolidated Management Report:

"We have audited the consolidated financial statements prepared by Grammer Aktiengesellschaft, Amberg, comprising the balance sheet, the income statement, the statementof 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, 2008. The preparation of the consolidated financial statements and theGroup management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commerciallaw 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 anopinion on the consolidated financial statements and on the Group management reportbased on our audit.

We conducted our audit of the consolidated financial statements in accordance withSection 317 HGB and German generally accepted standards for the audit of financialstatements as promulgated by the Institute of Public Auditors in Germany (IDW). Thosestandards require that we plan and perform the audit in such a way that misstatementsmaterially affecting the presentation of the net assets, financial position and results ofoperations in the consolidated financial statements in accordance with German principlesof proper accounting and in the Group management report are detected with reasonableassurance. Knowledge of the business activities and the economic and legal environment ofthe Group and expectations as to possible misstatements are taken into account in thedetermination of audit procedures. The effectiveness of the accountingrelated internalcontrol system and the evidence supporting the disclosures in the consolidated financialstatements 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 statementsof those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimatesmade by management, as well as evaluating the overall presentation of the consolidatedfinancial statements and Group management report.

We believe that our audit provides areasonable 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 ofGerman commercial law pursuant to Section 315a (1) HGB and give a true and fair view ofthe net assets, financial position and results of operations of the Group in accordance withthese requirements. The Group management report is consistent with the consolidatedfinancial statements and as a whole provides a suitable view of the Group's position andsuitably presents the opportunities and risks of future development."

Nuremberg, March 19, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schuberth	Helgert
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amberg, March 2009

GRAMMER AG
Executive Board

GRAMMER AG – Income Statement[1)] for the year ending December 31, 2008

EUR k

	2008	2007
Revenue	487,551	480,839
Decrease in finished goods and work in progress	- 2,850	- 529
Other own work capitalized	603	816
Other operating income	13,280	4,622
Material costs	306,338	289,045
Personnel expenses	125,478	126,535
Depreciation and amortization	10,205	10,882
Other operating expenses	59,494	55,762
Income from investments	16,846	19,326
Write-downs on financial assets and short-term securities	6,273	6,696
Interest result	- 2,084	814
Profit from ordinary activities	**5,558**	**16,968**
Income taxes	1,878	4,103
Other taxes	262	286
Profit after tax	**3,418**	**12,579**

1) Financial statements in accordance with HGB

GRAMMER AG – Balance Sheet[1] as of December 31, 2008

ASSETS

EUR k

	2008	2007
A. Fixed assets		
Intangible assets	4,403	2,711
Property, plant and equipment	41,829	43,844
Financial assets	119,627	90,885
	165,859	137,440
B. Current assets		
Inventories	38,827	43,039
Receivables and other assets	103,212	124,128
Securities	2,277	5,288
Cash on hand and bank balances	390	2,343
	144,706	174,798
C. Deferred expenses	446	350
Total assets	311,011	312,588

LIABILITIES

EUR k

	2008	2007
A. Equity		
Subscribed captial	26,868	26,868
Capital reserve	58,236	58,236
Revenue reserves	20,147	15,388
Unappropriate retained earnings	10,334	21,841
	115,585	122,333
B. Provisions		
Pension provisions	38,340	35,919
Other provisions	24,864	24,183
	63,204	60,102
C. Liabilities		
Liabilities to banks	81,970	78,255
Trade accounts payable	26,771	27,560
Other liabilities	23,481	24,338
	132,222	130,153
Total liabilities	311,011	312,588

1) Financial statements in accordance with HGB

Company timeline 2008

January

GRAMMER has a new major shareholder
The Austrian Polytec Group purchases roughly 10 percent of GRAMMER AG.

Formula al Ahram Fair in Egypt
Focus on Commercial Vehicles and Busses

8th International CAR Symposium
GRAMMER participates in the CAR Symposium organized by Prof. Ferdinand Dudenhöffer.

February

Car center console of the future
"Junior Expert Group" of the Amberg-Weiden University of Applied Sciences starts a project in collaboration with GRAMMER to further develop the center console.

March

Conexpo, Las Vegas, USA
Focus on Offroad and Construction Machinery

Equip Auto, Algeria
Focus on Offroad, Trucks and Busses

Annual Press and Analyst Conference in Frankfurt, Main
The GRAMMER Executive Board presents the fiscal year 2007.

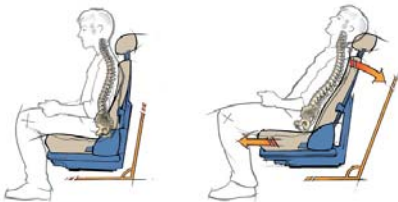
April

GRAMMER do Brazil has been recognized with the "Fiat Quality Award"
In 2008, GRAMMER was recognized by Case New Holland, a member of the Fiat Group, with the Fiat Quality Award.

Busworld, Turkey
Focus on Offroad, Trucks and Busses

May

CeMAT in Hannover
Focus on Offroad forklifts



Award for GRAMMER "SynchroMechanics"™
At the CeMAT, GRAMMER was awarded the "MM Logistics Award" in the category Industrial Trucks for its "SynchroMechanics"™.

Annual General Meeting in Amberg
AGM decides upon dividend of 1 euro per share.

GRAMMER European Spine Journal Award 2008
The GRAMMER European Spine Journal Award 2008 was presented to the Japanese research group of Masao Koda.

reddot design award
winner 2008

June

reddot design award

GRAMMER AG was presented with one of the most coveted design prizes in the world on June 23 at the Essen Opera House, for its premium train passenger seat.

July

Annual Zulieferer Innovativ congress, Ingolstadt

GRAMMER Automotive was again represented at the 2008 supplier congress in the Audi forum.

August

MIMS Moscow, Russia

Focus on Offroad, Trucks, Busses

September

InnoTrans, Berlin

Focus on Railway

German Investment Conference, Munich

GRAMMER AG presents
the 6M interim report and the current
positioning and strategy at UniCredit.

IAA Commercial Vehicles

Focus on Trucks

October

International Suppliers Exchange, Wolfsburg

Focus on Automotive

GIE Expo, Louisville, USA

Focus on Offroad turf

November

Bauma China, Shanghai

Focus on Offroad

German Equity Forum in Frankfurt

GRAMMER AG presents the 9M interim report and the current positioning and strategy.

December

Check presentation

Check presented to the Verein für krebskranke Kinder, an association for children with cancer. This donation was made as part of the Day for Open Education.

Five-year overview[1]

in EUR m

	2008	2007	2006	2005	2004
Group revenues	1,007.0	998.1	881.0	859.3	824.9
Automotive revenue	637.6	657.7	574.8	569.5	540.3
Seating Systems revenue	390.0	363.3	311.5	296.2	286.4
Income statement					
Gross profit	129.8	126.7	127.0	109.1	117.2
EBIT	32.0	32.1	38.9	32.6	40.1
EBIT margin (in %)	3.2	3.2	4.4	3.8	4.9
Financial result	- 12.4	- 9.3	- 6.9	- 7.2	- 8.4
Profit before tax	19.6	22.8	32.0	25.4	31.8
Taxes	- 5.4	- 5.3	- 10.7	- 8.7	- 10.5
Profit after tax	14.1	17.6	21.3	16.8	21.3
Balance sheet					
Total assets	481.0	497.5	476.6	429.7	413.7
Non-current assets	216.7	201.6	193.8	190.2	179.3
Current assets	264.3	296.0	282.8	239.6	234.4
Equity	173.0	184.7	174.8	173.8	163.9
Equity ratio (in %)	36	37	37	40	40
Net financial debt	80.2	69.9	57.9	37.0	50.3
Cash flow statement					
Capital expenditure	39.9	34.6	32.1	33.0	25.5
Depreciation and amortization	23.4	23.5	23.7	24.1	26.6
Cash flow from operating activities	40.8	38.6	30.9	56.9	51.1
Employees					
annual average	9,493	9,326	8,610	8,197	7,707
thereof in Germany	2,682	2,754	2,695	2,673	2,582
therof outside Germany	6,811	6,572	5,915	5,524	5,125
Personnel expenses	238.7	232.0	214.2	200.8	190.2
Key share data					
Share price at year-end (XETRA, in EUR)	6.90	16.02	25.79	19.67	24.80
Market capitalization at year-end (in EUR m)	72.4	168.1	270.7	206.4	260.3
Dividend (in EUR)	0.00	1.00	1.00	1.00	1.00
Earnings per share (in EUR)	1.38	1.72	2.09	1.59	2.02

1) according to IFRS

GRAMMER AG
P.O. Box 1454
D-92204 Amberg
Phone +49(0)9621 660
www.grammer.com