

Grammer 05 January until March

THE FIRST QUARTER 2005



GRAMMER

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About Grammer

With its core products, Grammer AG, Amberg, is the worldwide leader in the innovative development and production of component parts and systems for car interiors as well as driver and passenger seats. Grammer's largest segment, Automotive, supplies headrests, armrests and center consoles as well as integrated child seats to renowned car manufacturers and Tier 1 suppliers to the vehicle industry. The Seating Systems segment includes the Driver Seats segment and the two business divisions, Trucks and Offroad (tractors, construction machinery and forklifts). Grammer operates as an OEM and aftermarket supplier, providing passenger seats to original equipment manufacturers and operators of trains and busses. Grammer is represented all over the world with 8,000 employees in 19 consolidated companies in 17 countries.

Key Figures for the Group

	Mar. 31, 2005	Mar. 31, 2004
	in EUR million	in EUR million
Sales	197.2	208.7
Automotive	124.9	136.0
Seating Systems	75.1	73.0
Gross profit	33.1	37.2
Operating profit	9.3	13.7
Earnings before income tax	7.0	10.9
Profit after tax	5.1	6.7
Earnings per share in EUR (basic and fully diluted)	0.48	0.64
Employees (reporting date)	8,240	7,446
Total liabilities	425.0	429.9
Equity-to-assets ratio in %	40.3	34.5
Capital expenditure	10.3	5.8

Grammer AG applied International Financial Reporting Standards (IFRS) for the first time in this quarterly report.

Key Figures for Grammer Stock

	Mar. 31, 2005	Dez. 12, 2004
Share price (Xetra closing rate in EUR)	29.00	24.80
Number of shares	10,495,159	10,495,159
Market capitalization in EUR million	304	260
52-week high/low	29.75 / 19.53	28.10 / 18.00

Grammer shares are traded on the official segments of the Munich and Frankfurt stock exchanges via the Xetra electronic platform and in the OTC markets of the Stuttgart, Berlin and Hamburg stock exchanges. The shares are allocated to the General Standard segment.

Share prices continue to climb at start of year

In the first three months of 2005, Grammer shares continued their positive performance of the previous year. While the shares were still trading at EUR 24.80 at year-end 2004, the price had risen to EUR 29.00 by March 31.

This performance means that our shares clearly outperformed the CDAX Automotive on which they are listed: Grammer shares gained 17% while the benchmark index rose 5.6% in the reporting period. The share price declined again slightly in the following months. Currently, only a minor portion of Grammer shares are traded as free float. For this reason, the share price may also be impacted by factors outside of business operations.

Shares approach record level

The entire share price gain of 17% was achieved in the first nine weeks of the quarter: On March 21, our share price reached EUR 29.75, representing the highest level of the first three months and a 52-week high.

Investors focus on small-to-mid-sized companies

A number of factors contributed to the good first-quarter performance. Investors were reacting to Grammer Group's excellent business trend of the past year. In addition, market players were evidently expecting a sustained recovery in the passenger car market. At the end of 2004, passenger vehicle sales in Western Europe had surpassed the previous years' level by 2%. This was the first time in three years that an increase in unit sales had been achieved.

Moreover, investors showed great interest in small-to-mid-sized companies, especially in the first two months of the current year. The index for small cap stocks (SDAX), for instance, gained 13% in the reporting period, with the mid-cap index (MDAX) increasing a respectable 6%. By contrast, the German DAX, which includes the 30 biggest blue chips, rose only 2% from the start of the year until the end of March.

Investor interest in auto shares declined after new vehicle registrations fell behind the previous year's level in January and February of this year. In March, Grammer shares likewise experienced sideways movement.

IFRS will increase international orientation

Our shares are among those listed in the General Standard segment of the German stock exchange. At Grammer, financial communication goes beyond the level required in this segment with the goal of offering transparent, up-to-date information to the financial markets. For example, we prepare quarterly reports in addition to the annual financial statements and half-year reports. We publish our information in both German and English. Our reporting practices meet the higher requirements of the Prime Standard, thus offering current, comprehensive information on the company to foreign investors in particular.

We expect an increase in international interest based on the transition to International Financial Reporting Standards (IFRS), which we have been applying since the beginning of the year.

Grammer holds its ground in difficult market conditions

The performance of Grammer AG was influenced to a great extent by non-operational factors in the first three months of 2005. While the Driver Seats segment developed favorably, Grammer was impacted by rising production levels due to the introduction of new models for key automotive customers. At EUR 197.2 million, Group sales were 5.5% below the previous year's figure. Net income for the period amounted to EUR 5.1 million, reflecting the sharp price increases in raw materials and the currently sluggish German automotive sector, among other things.

First bright spot on the passenger car market in Europe

Even though the passenger car market in Western Europe had to absorb a drop in sales of 1.4% in the first four months of 2005 in comparison with the same period of the previous year, a slightly positive trend began to emerge in April. For the first time this year, in April 1.29 million (+1.3%) more passenger vehicles were registered than in the same month of the previous year. This is remarkable in light of sustained high oil prices and the still-slow economy.

A basic effect was responsible for the major decline of 22% in passenger car sales in the new EU countries between January and April: In the corresponding period in 2004, sales figures increased sharply based on the strong start in the first year of EU membership, thus ensuring a relatively high basis for comparison. However, the German Association of the Automotive Industry (VDA) is forecasting a noticeable rise in demand for the rest of the current year.

Passenger vehicle market in Germany looking up in April

Following a weak first quarter, the passenger car market in Germany showed the first signs of recovery in April. While the long winter contributed to lower new registrations in the first quarter, new passenger car registrations surpassed the previous year's figure for the first time this year in April. A total of 309,000 vehicles were sold, or 4% more than in April 2004. According to the VDA, this improvement is the result of the demand backlog that is slowly being filled as well as rising demand for new models. Manufacturers of German cars managed to increase sales by 7% in April. This figure was well over that of importers, who saw a decline of approx. 3%.

The export business is still a mainstay of the German automotive economy: In April, passenger car exports rose by nearly 11% to 345,400 vehicles in comparison with April of 2004. Strong exports compensated for the weak performance in February and March.

Utility vehicles: improvement in Germany, exports remain at high level

On the German market, 4% more utility vehicles were sold between January and April of this year than in the previous year's period. New registrations for vehicles up to 6t increased by 2%, while new registrations for vehicles over 6t increased even more by 7%.

However, foreign demand for German trucks has remained at a high level. German manufacturers exported 20% more utility vehicles in the first four months of 2005 than in the same period of the previous year. In contrast with the domestic market, exports of trucks up to 6t grew by 20% between January and April, while exports of heavy trucks over 6t declined slightly by 2%.

Group sales decline slightly

The business of Grammer Group was adversely affected by a number of non-operational factors in the first three months of 2005. These factors included product changes among key customers in the Automotive segment, sharp increases in the price of raw materials and low momentum in the automotive economy, particularly in Germany. On the other hand, the good order situation for utility vehicles had a positive effect.

In the first quarter of 2005, Grammer Group achieved sales of EUR 197.2 million. This corresponds to a decline of EUR 11.5 million, or 5.5%, in comparison with the previous year's period (EUR 208.7 million). The main reason for the decline in sales was the relatively weak trend in the Automotive segment. Sales revenues in this segment amounted to EUR 124.9 million, representing a decline of EUR 11.1 million, or 8.2%, in comparison with sales in the previous year (EUR 136.0 million). The decrease in sales in the Automotive segment was mainly due to the introduction of new VW Passat and BMW 3-series models.

Additional factors were the generally weak demand at the beginning of the year due to longer vacation at vehicle manufacturer plants and an overall weaker passenger vehicle economy. In contrast, the positive trend regarding Driver Seats experienced in 2004 continued into the first three months of fiscal year 2005. This segment achieved sales of EUR 67.4 million, representing an increase of EUR 6.3 million, or 10.3%, in comparison with the first three months of fiscal year 2004 (EUR 61.1 million). The order situation was positive in all business divisions of the segment. This applies even to the construction machinery product group, which had seen weak demand in recent years. In the Passenger Seat segment, the Grammer Group achieved sales of EUR 7.7 million in the first three months of 2005. This corresponds to a decline of EUR 4.2 million, or 35.3 %, in comparison with the previous year's period (EUR 11.9 million). The decrease was mainly due to postponements of orders in the Train business division and a continuing weak order situation in the Bus division.

Grammer's Italian subsidiary, Grammer S.r.l. was awarded a special distinction: The company received the silver medal of the Swedish Steel Prize for its new comfort passenger seat for tour buses, the Gran Turismo. The Swedish Steel Prize is the world's highest distinction for constructions made of high-strength steel. The jury in Stockholm especially appreciated that the Gran Turismo meets the increased standards for bus passenger safety due to its frame construction of modern, high-strength steel and the three-point safety belt. In comparison with traditional seats with safety belts, the Gran Turismo not only improved safety, but also reduced weight by over 15% in series production while keeping costs at the same level.

As of March 31, 2005, the Grammer Group had 8,240 employees (previous year: 7,446). The share of staff employed in Germany fell from 34.2% to 32.2%.

Improved financial result

In the first quarter, the cost of sales for the Group as a whole fell disproportionately to revenue by 4.3% to EUR 164 million (previous year: EUR 171.5 million). The main reason for this was that even though sales were considerably lower in comparison with the same period of the previous year due to the slow start of production of the new 3-series at BMW and the new VW Passat, full costs were incurred for personnel and property, plant and equipment. When introducing a new model, personnel and equipment must be fully available in the start-up and training phase.

Moreover, cost and resource efficiency with regard to supplier parts for the production of new models is not as high as for parts that have already been produced in series for a long time. The increase in the price of raw materials – particularly steel – also had a negative impact that could not be fully negated by increases in efficiency or passed on to customers.

Selling expenses of the Grammer Group rose by EUR 2.6 million, or 31.7%, in the first three months to EUR 10.8 million (previous year: EUR 8.2 million). This resulted from a disproportionate rise in freight costs in relation to sales – in part due to highway tolls – and increased expenses for order acquisition and order preparation. In addition, expenses for sales personnel increased based on new hirings and personnel transfers in 2004.

Administrative costs fell by EUR 2.2 million, or 13.3%, to EUR 14.4 million in the first quarter (previous year: EUR 16.6 million). This item includes share price losses, which were EUR 1.2 million less than in the previous year's period. Savings were also achieved in other operating expenses (e.g., insurance and rent).

At EUR 1.3 million, other operating income was approximately at the previous year's level (EUR 1.2 million).

The financial result improved by EUR 0.5 million, or 17.9%, to EUR –2.3 million in the first three months (previous year: EUR –2.8 million). This improvement resulted in part from the lower interest payments based on decreased debt and from the change in unrealized losses due to the valuation of interest rate swaps in accordance with IAS 39.

Sustained positive earnings trend regarding Driver Seats

In the first quarter of 2005, the Grammer Group generated earnings before income tax and interest of EUR 9.3 million, corresponding to a decline of EUR 4.4 million, or 31.9%, over the first three months of fiscal year 2004 (EUR 13.7 million). The decrease in earnings was primarily due to a worsening of in the Automotive segment to EUR 3.1 million (previous year: EUR 7.2 million). This decline of 4.1 EUR million was attributable above all to the fact that the lower sales revenues based on the introduction of new models were not compensated by a corresponding decrease in costs.

Other negative effects resulted from combining Grammer's metal bracket production at one location in connection with the "Grammer Offensive 2004+." The ensuing lack of capacity utilization led to additional costs. Further expenses resulted from setting up the automotive business in China. Earnings in the Passenger Seats segment also developed negatively, dropping from EUR 0.7 million to EUR –0.9 million, primarily due to weak sales. However, the positive trend seen in the Driver Seats segment in 2004 has continued in 2005. In this segment, the Grammer Group achieved earnings of EUR 7.6 million in the first three months of 2005. This corresponds to an increase of 38.2% over the first three months of fiscal year 2004 (EUR 5.5 million). This improvement, which was proportionately higher than revenues, was due above all to the cost reductions and efficiency increases brought about by the "Grammer Offensive 2004+."

Improvement in financial strength

Grammer Group was able to continue its success of the past year in terms of increasing financial power in the first three months of the new fiscal year as well. At EUR 6.8 million, the supply of cash and cash equivalents remained at the previous year's level (previous year: EUR 6.9 million). Equity grew 4.4% to EUR 171.1 million in comparison with December 31, 2004 in accordance with IFRS. Calculation of the equity-to-assets ratio on this basis resulted in a substantial improvement to 40.3% as of March 31, 2004 (previous year: 34.5%).

Non-current liabilities to banks decreased in comparison with the same period of the previous year, declining by EUR 9.6 million to EUR 8.7 million (previous year: EUR 18.3 million). A corporate bond was also repurchased in the amount of EUR 13 million with EUR 42 million remaining outstanding (previous year: EUR 55 million). Current liabilities to banks rose in comparison with the same period of the previous year, increasing EUR 8.5 million to EUR 26.8 million (previous year: EUR 18.3 million).

Outlook: Slight rise in sales and stable earnings

The passenger car markets in Germany and in Western Europe have been showing initial signs of recovery since April 2005. According to the Association of the German Automobile Industry (VDA), new registrations in these markets surpassed the previous year's figures for the first time in April. However, no significant, sustained activity in the automotive economy is expected for the remainder of 2005. In Germany, the VDA anticipates 3.25 million newly registered passenger cars for the year as a whole, which corresponds with the previous year's level. On the exports side – until now a driving force of the German automotive industry –

stagnating to slightly increasing automotive markets are expected for the EU member countries and the United States.

In the Automotive segment of Grammer Group, the low sales level of the first three months due to the introduction of new models for the BMW 3-series and the VW Passat has now improved. Production is being/will be scaled up as planned for the new models. We anticipate only slight sales growth for 2005 as a whole, however, due to a lack of momentum on the market. There are prospects for growth in East Asia, for example. In mid-March, Grammer Group received an order from the Chinese joint venture FAW/VW to supply armrests and headrests, among others for the Bora model. Production is to start at the Tianjin plant in July 2005. We are planning to establish another subsidiary in the direct vicinity of the FAW/VW plant in Changchun (China) in the course of fiscal year 2005.

In the utility vehicle area, there are increasing indications that the sector economy, which up to now has been quite dynamic, has already peaked and will either consolidate at a high level or continue to show a slight decline. This applies to the truck market in particular. Orders remain high for the agricultural machinery product group. However, the effects of the EU's new agricultural policy on the order situation cannot yet be determined. In our opinion, construction equipment and forklifts will see a slight increase in activity.

For the Passenger Seat segment, we anticipate the following: The bus business should experience a slight recovery based on the consolidations of previous years. At Deutsche Bahn AG, the ICE 1 fleet is being completely modernized. Grammer Group is manufacturing passenger seats for the redesign of all ICE 1 multiple units. The resulting order volume will lead to a normalization of the sales trend in the Passenger Seats segment over the course of the year. In addition, we are planning to enter the Eastern European market in this segment.

On the whole, we anticipate a slight increase in orders for the Driver Seats and Passenger Seats segments in comparison with the previous year.

Moreover, the Grammer Group is planning to further develop the US market. To this end, Grammer Inc. will be expanded into a production company.

Against the backdrop described and in view of the increases in the prices of crude oil and steel, we are expecting a challenging year in 2005. We are nevertheless optimistic that Grammer will stand its ground despite the difficult environment.

For the year as a whole, we anticipate a slight increase in total revenue over the previous year based on the successful launch of the new BMW 3-series and the new VW Passat due to the existing product mix and customer mix as well as the sustained high demand in the Driver Seats and Passenger Seats segments. Assuming that no additional negative trends will emerge on the raw materials and currency markets, the Company is forecasting stable earnings from operations based on the cost reduction measures implemented.

Amberg, May 2005

The Board of Management

Consolidated Income Statement (in accordance with IFRS)

	Q1 2005 (IFRS)	Q1 2004 (IFRS)
	EUR '000s	EUR '000s
Sales	197,235	208,702
Cost of sales	164,108	171,482
Gross profit	33,127	37,220
Selling expenses	10,755	8,184
Administrative expenses	14,380	16,554
Other operating income	1,312	1,187
Operating profit	9,304	13,669
Finance cost	-2,264	-2,790
Earnings before income tax	7,040	10,879
Income tax	1,982	4,198
Profit after tax	5,058	6,681
Profit distributable to shareholders	4,993	6,675
Basic and fully diluted earnings per share in EUR	0.48	0.64

Consolidated Balance Sheet as of March 31, 2005 (IFRS)

Assets	Mar. 31, 2005 (IFRS)	Mar. 31, 2004 (IFRS)
	EUR '000s	EUR '000s
Non-current assets		
Intangible assets	40,990	40,314
Tangible assets	121,144	122,387
Property, plant and equipment intended for sale	1,953	0
Investments in associates	1,964	1,146
Financial assets	4,114	6,380
Deferred tax claims	13,574	14,012
Current assets		
Inventories	78,124	74,285
Trade accounts receivable	116,636	119,323
Other receivables and assets	36,296	41,988
Financial assets	1,259	1,150
Income tax claims	2,124	2,024
Cash and cash equivalents	6,832	6,885
Total liabilities	425,011	429,893
Equity and liabilities	Mar. 31, 2005 (IFRS)	Mar. 31, 2004 (IFRS)
	EUR '000s	EUR '000s
Equity	171,100	148,276
Non-current liabilities		
Bonds	42,000	55,000
Non-current liabilities to banks	8,735	18,311
Other liabilities	7,517	4,441
Retirement benefit obligation	43,389	41,112
Deferred tax liabilities	14,184	18,079
Current liabilities		
Current liabilities to banks	26,777	18,293
Trade payables and advance payments received	54,369	61,420
Financial liabilities	2,058	2,157
Other liabilities	37,746	43,298
Income tax provisions	4,753	6,959
Income tax liabilities	0	0
Other provisions	12,383	12,547
Total liabilities	425,011	429,893

Financial Calendar

Second quarter of 2005	Quarterly report and press release	August 2005
Third quarter of 2005	Quarterly report and press release	November 2005
Financial statements 2005	Annual press conference	April 2006

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