Quartalsbericht per 30. Juni 2004
Interim Report June 30, 2004

Key Grammer Group financials

(in EUR million)	June 30, 2003	June 30, 2004	Change
Sales	400.6	424.5	+ 6 %
- inside Germany	223.1	225.3	+ 1 %
- outside Germany	177.5	199.2	+ 12 %
Total output	402.2	432.3	+ 8 %
Sales by segment:			
- Automotive	270.2	275.7	+ 2 %
- Driver Seats	106.5	123.4	+ 16 %
- Passenger Seats	23.9	25.9	+ 8 %
EBIT	16.2	27.7	+ 71 %
Earnings from ordinary activities	12.7	24.7	+ 95 %
Net income for the period	6.2	16.5	+ 166 %
DVFA EPS (in EUR)	0.59	1.69	+ 186 %
Investments in tangible and intangible assets	6.6	9.9	+ 50 %
Depreciation/amortization	13.3	12.7	- 5 %
Cash flow from operating activities	20.8	30.0	+ 44 %
Payroll (as at June 30)	7,480	7,651	+ 2 %
Personnel expense	91.6	95.3	+ 4 %
Personnel expense as a % of total output	22.8 %	22.0 %	

Trends in the international automobile markets

In H1 2004, the key international automobile sales markets predominantly tended favorable: In the period under review, in West Europe 3% more new car registrations were reported than in the first six months of 2003. Growth was recorded in almost all countries, and of the major markets decreases were seen only in Germany (-1.3%) and France (-0.1%). Spain donned the role of growth engine, scoring an increase of almost 15%. The new member states who joined the EU on May 1, 2004, have booked a rise of a total 6% thus far this year, with sales in part noticeably faltering in June. In the United States, first-half 2004 saw a total 2% increase in sales of Light Vehicles (automobiles and light trucks).

In Germany, weak domestic demand, which according to the VDA trade association was the result of a lack of macro-economic growth stimuli, a poor consumer climate, and the ongoing uncertainty among consumers, compared with appreciably better exports. In H1, some 7% more automobiles were exported than in the year-before period. This dynamic performance led to car production in Germany rising 5%.

Utility vehicle on an upswing

Following difficult years and marked restructuring, the utility vehicle industry is on a clear roll. Worldwide, unit sales in the first five months of the year were 8% up, and in fact in many key countries double-digit growth was reported: Unit sales of light trucks soared 30% in North America, while those of heavy transporters jumped 40%. In West Europe, in H1 2004 8% more utility vehicles were sold in the sub-6 t category and 5% in the heavy-truck segment. Over the same period, the surge in China was 20%.

In Germany, in particular the growth in unit sales of utility vehicles in the 6t-plus category was above average. New registrations in this category in Germany topped the volume for the year-before period by 15%, and exports leaped 14%. German trucks are increasingly the preferred choice in the new EU member states, in Turkey and in the OPEC countries. Thus, the production of utility vehicles in the 6t-plus class rocketed 21% in the first half, hitting record high. In the transporter segment, new registrations were up 7%, and production during the first six months was on par with the same period the year before. Here, it was above all agricultural utility vehicles that scored strong growth, but a slight rebound in the European construction machinery market was also discernible. The materials handling segment (stackers/fork-lifts) tended steady to slightly positive.

Demand in the international bus market stayed at its low level. In the rail segment, projects postponed in 2003 were in part relaized, but on balance the performance of this market was likewise restrained.

Consolidated sales up 6%

Against this background, the Grammer Group booked consolidated sales of EUR 424.5 million, which translates into a gratifying 6% increase on the first-half 2003 figure of EUR 400.6 million. The lion's share of the H1 growth was generated outside Germany, with the sales volume rising more than 12% from EUR 177.5 million to EUR 199.2 million. In other words, sales outside Germany now account for almost 47% of total consolidated sales, as against 44% one year earlier, which has contributed to broadening our international market position and reduced reliance to the German market. That said, sales inside Germany were also slightly up, with sales rising 1% from EUR 223.1 million to EUR 225.3 million.

Sales up in all segments

The strong demand for trucks played a large part in the sales increase in the first six months of 2004. Above all our German clients significantly boosted the number of driver seats they called down from us. In the offroad segment, and specifically the agricultural machinery sub-segment, unit sales were likewise well up on the year. There was demand especially for premium vehicles. Retail business was above average, too, as a result of the countless new models we fielded, developed in 2003 as part of our Innovation and Process Drive. On balance, **Driver Seats** segment business volume increased by an appreciable 16 % from EUR 106.6 million to EUR 123.4 million.

In the first-half we launched among other things our PRIMO driver seat for fork-lifts and small construction machines. Moreover, we have expanded our successful ACTIMO seat series for construction, harvesting and forestry machines as well as the COMPACTO range for small tractors and construction machines. Series manufacture of the MAXIMO EVOLUTION, the new Grammer seat for powerful tractors with which we will further augment our position in the premium market, will commence in September. Furthermore, in the driver seat segment we are pressing ahead with our two-year program for reducing variant numbers and simplifying parts, an agenda designed in the long term to lower complexity costs in manufacturing.

In the **Automotive** division, our largest segment accounting for 65% of consolidated sales, business volume rose 2% on the prior-year half-year from EUR 270.2 million to EUR 275.7 million, although Q1 2004 had actually seen a slight decline. Unit sales for high-volume vehicles remained difficult, while unit sales for the high-end automobile models increased. The touring model for the new BMW 5 series went into production in H1 2004, for which among other things we supply our PU skin, an innovative polyurethane surface coating. Moreover, production has likewise commenced for the new BMW 1 series, for which we are providing several components from the Czech Republic and Germany. The vehicle will go on public show in September. Skoda's Superb and Octavia models, and the Audi A6 models have gone into series production, and our new sales and development office in the United States has taken its first order – we opened it in 2003, close to Detroit, in order to be better able to penetrate the North American automotive market. The order is for headrests for Chrysler's Pacifica model, and we will be supplying them from our works in Mexico.

In the **Passenger Seats** segment, in October, when the ribbon will be cut for our new, downscaled factory, we will complete restructuring of our Italian subsidiary, where the focus has been on boosting flexibility. The plant will be manufacturing the new GRAN TURISMO bus passenger seat line, which will go into series production at the beginning of 2005. In the rail sub-segment, Deutsche Bahn AG orders put back from 2003 were realized, and we also made deliveries for the Spanish high-speed AVE train – both projects helped boost sales by 8%. Moreover, we have taken a new redesign order from the Italian state railways and have already started work filling it. On aggregate, the segment booked first-half sales of EUR 25.9 million, up from EUR 23.9 million one year earlier.

Earnings: profits rise faster than sales

In the first half, Grammer consolidated profits increased far faster than sales. This favorable profits trend is the result primarily of the good earnings generated by our companies inside and outside Germany and by our "Grammer Offensive 2004+", an agenda designed to cut costs and boost efficiency initiated as early as second-half 2003. It features a series of wide-ranging individual measures, including optimization of Grammer's production, development and sales activities, enhancing both product quality and the balance-sheet structure, and re-assessing pricing within the Group. The most decisive impact achieved in the first six months of 2004 stemmed from reductions in administrative costs, increased purchasing efficiency, and SCM optimization.

Grammer consolidated personnel expense increased slower than total output in H1 2004, although the new concept for the facility for metal frame production at Grammer Automotive Metall GmbH in Amberg, devised during the period under review, will first help cut costs in the second half of this year and in 2005. Since the beginning of July, staff at this subsidiary have been working a 39-hour week and in return have been guaranteed their jobs for the next seven years. We are currently realizing our plan of pooling manufacturing at a single joint factory near to Amberg. Group-wide personnel expense in the period under review climbed 4% from EUR 91.6 million to EUR 95.3 million as a result of wage agreements and sales. Personnel expense thus came to 22.0% of total output, which amounted to EUR 432.3 million (up from EUR 402.2 million for the year-before period), down from 22.8% one year earlier. Despite the high prices for steel and crude oil, the Group likewise succeeded in reducing material costs as a percentage of total output, which fell from 58.3% in H1 2003 to 58.0%. Other operating expenses dwindled from EUR 46.5 million to EUR 45.9 million, and thus decreased from 11.6% to 10.6% of total output.

All in all, in the period under review we posted EBIT of EUR 27.7 million, as against EUR 16.2 million one year earlier, which spells an increase of 71%. The return on EBIT climbed from 4.0% to 6.5%. Earnings from ordinary activities rose even further, rocketing by almost 95% from EUR 12.7 million to EUR 24.7 million thanks to the renewed improvement in net financial loss. Thanks to reduced liabilities and the attendant lower interest expense, the loss came to EUR 3.0 million as compared with EUR 3.5 million one year before.

Net income after taxes came to EUR 16.5 million, up from EUR 6.2 million, even though the tax load rose, owing to the increase in profits, from EUR 5.9 million to EUR 8.2 million. Consolidated income calculated by the DVFA method totaled EUR 17.7 million, which translates into EPS of EUR 1.69, up from EUR 0.59 one year earlier.

Further improvement in capitalization

Compared with June 30, 2003, Grammer's consolidated balance sheet total rose 1% from EUR 383.6 million to EUR 388.2 million, exclusively as a result of increases in current assets. The latter grew 5% from EUR 232.2 million to EUR 243.8 million, whereas fixed assets fell 5% from EUR 148.9 million to EUR 141.5 million.

Consolidated shareholders' equity rose over 9% on the year-before period from EUR 134.7 million to EUR 147.4 million, meaning that the equity-assets ratio improved from 35.1% to 38.0%. The increase in accruals from EUR 56.9 million to EUR 70.4 million essentially related to taxes. Moreover, as at year-end 2003 accruals were set up for guarantees, warranties and restructuring in the segments. We again succeeded in significantly cutting liabilities, which fell for the Group by 11% from EUR 190.8 million to EUR 169.8 million. We primarily pruned liabilities due to banks, which fell on June 30, 2003 by almost 28% from EUR 36.0 million to EUR 26.1 million. The Grammer Group's improved financial situation can be attributed first and foremost to the higher net income, active working capital management and our rigorous policy of scaling back debt: For the last four years we have exclusively committed free cash flow for debt repayments and the dividend disbursement, a policy that has led to a consistent reduction in debt load.

Cash flow from operating activities climbs to EUR 30.0 million

The cash flow statement shows first-half 2004 cash flow of EUR 30.0 million, 44% up on the year-before period figure of EUR 20.8 million. Operating activities resulted in an inflow of EUR 14.6 million as against EUR 12.9 million one year before, whereas the outflow for investing activities rose from EUR

6.7 million to EUR 9.9 million. In H1 2004, EUR 5.2 million was committed for financing activities, compared with an outflow of only EUR 0.1 million one year earlier – this reflects the redemption of non-current bank liabilities totaling EUR 6.0 million. Consolidated cash and cash equivalents improved from a net outflow of 14.7 million as at June 30, 2003 to an outflow of only EUR 0.2 million.

Investments in new product start-ups

Thanks to the increased cash flow we again succeeded in completely financing investments in tangible and intangible assets from own funds, which rose from EUR 6.6 million to EUR 9.9 million as at June 30, 2004, or by 50% on the figure one year earlier. This is primarily the result of countless new product start-ups: the lion's share of commitments in H1 2004 went for new machines and plant as well as tooling. In addition, we have further expanded our Immenstetten Competence Center, where we are busy advancing our development expertise. Depreciation and amortization ran at EUR 12.7 million or some 5% down on the H1 2003 figure of EUR 13.3 million.

In the first six months of the year, almost 60% of Group capital expenditure was dedicated to the Automotive segment, or EUR 5.9 million, compared with EUR 3.2 million one year earlier. Alongside the kick-off of production of components for the new BMW 1 series, at our Mexican hub we have established back-foamed technology in connection with a VW order. EUR 2.7 million was invested in the Driver Seats segment (as against EUR 2.5 one year before) and EUR 0.9 million was committed to the Passenger Seats segment, as compared with EUR 0.7 million in H1 2003. A total of EUR 0.4 million was invested in our central divisions, up from EUR 0.2 million as at H1 2003.

Employees: slight increase on the year

As at June 30 2004, the Grammer Group payroll came to 7,651, 2% more than one year earlier. While staffing levels inside Germany fell some 2% from 2,584 to 2,542, the number of Grammer employees outside Germany rose more than 4% from 4,896 to 5,109. The new hiring related primarily to our factories in Turkey and Mexico. Production capacity at our Turkish subsidiary was significantly increased specifically to cater for the strong demand for truck seats, and the rise in staffing levels in Mexico reflects the new VW order, which we started processing in the six months under review.

Divided by segment, there were payroll increases in the Driver Seats and Automotive divisions, where as at the end of Q2, the figures were 2,540 and 4,735 respectively, as against 2,408 and 4,632 persons one year earlier. By contrast, staffing levels in the Passenger Seats segment fell from 314 to 252. The Grammer central divisions had 124 employees as at June 30, 2004, compared with 120 one year before.

Outlook: slight increase in sales and far faster growth in EBIT expected for 2004 as a whole

The VDA trade associations anticipates that for 2004 as a whole, the figure for new automobile registrations in Germany will stagnate, primarily owing to the ongoing uncertainty among car buyers, and high unemployment levels, which prompt weaker consumer spending. The manufacturers set their hopes in favorable macroeconomic stimuli and new car models. High capacity utilization is secured by ongoing strong exports, which should reach as many as 3.7 million cars by year-end.

The favorable H1 trend in the utility vehicle sector would appear to be developing into an enduring upturn. German manufacturers report good capacity utilization through the end of year, with orders from inside Germany up 36% by the middle of the year and those from outside Germany up 34% at the same point in time. Accordingly, unit sales are expected to rise some 13% for the 6t-plus category for the year as a whole, spelling an end to the downturn and stagnation of the last four years. From today’s viewpoint it is unclear whether the positive trend for agricultural machinery will continue unabated in the second half. Moreover, the ongoing high oil price and supply bottlenecks in the steel industry could adversely affect demand and production volumes in the second half.

The Grammer Group is targeting a slight increase in sales for 2004 as a whole, primarily generated by numerous product innovations. In the second half, we are focusing above all on the start-up of series production of our MAXIMO EVOLUTION and the steady launch of our central console for the new VW Passat. In addition, our products are involved in a further 30 new car models going to market. In the Passenger Seats division, we are concentrating on manufacturing our GRAN TURISMO bus seat.

Thanks to the models introduced in 2004 we will presumably be able to counteract the ongoing fierce price squeeze and competitive pressures and offset the costs of development projects and product start-ups. We therefore expect that for 2004 as a whole we will see Grammer consolidated EBIT rise faster than sales and from today’s viewpoint will therefore achieve a return similar to that recorded in the years before 2003. This will be fostered above all by the considerable favorable impact of our "Grammer Offensive 2004+". The full impact of the package will, however, first be felt in 2005. Furthermore, we intend to counteract the pressure on costs in the industry in the long term by consistently reviewing and improving Group processes.

The negotiations on reducing personnel costs at Grammer AG for 2004 were successfully closed out in early July. The Board of Management and the Company’s Works Council as well as the IG Metall trade union have agreed initially to keep the number of jobs stable and postpone the wage increases planned under the terms of the regional collective bargaining agreements. In this way, we will be able to reduce Group personnel expense in the long term and sharpen our international competitive edge.

We also expect an ongoing good performance by our subsidiaries outside Germany. Alongside the successful restructuring in Brazil, where operations already returned to profit in 2003, in the current year we will also complete steps taken to optimize production processes at our Italian passenger seat facility in Monsano. The fusion of two subsidiaries in Mexico is likewise proving to have a beneficial effect. We are at present busy expanding our Grammer Inc. driver seat company in the United States to comprise a full-fledged production plant, whereas hitherto we supplied the States with almost complete seats from outside. In the Automotive segment we are planning to erect a production facility in China, in order to better serve our local clients there and also tap the favorable production opportunities in that growth region. By pressing ahead with the ongoing advancement of our facilities outside Germany and deliberately penetrating new regional markets, we are reducing our exposure to regional business cycles and ensuring Grammer is a global partner for our clients.

Amberg, August 2004
The Board of Management

Grammer Consolidated Income Statement

For the period Jan. 1 – June 30, 2004

(Figures in EUR thousands)	*Jan. 1 – June 30, 2003*	*Jan. 1 – June 30, 2004*
Sales revenues	400,603	424,515
Changes in inventory	-6,985	-933
Own output capitalized	351	431
Other operating income	8,261	8,326
Total output	**402,230**	**432,339**
Cost of materials	-234,578	-250,670
Gross profit	**167,652**	**181,669**
Personnel expense	-91,610	-95,327
Depreciation/amortization	-13,347	-12,742
Other operating expense	-46,526	-45,914
Financial loss	-3,512	-2,992
Earnings from ordinary activities	**12,657**	**24,694**
Extraordinary income/loss	-504	6
Taxes on income	-5,701	-7,917
Other taxes	-207	-282
Income for the period	**6,245**	**16,501**

Grammer Consolidated Balance Sheet as at June 30, 2004 (abbreviated)

(Figures in EUR thousands)

ASSETS	**June 30, 2003**	**June 30, 2004**	**LIABILITIES**	**June 30, 2003**	**June 30, 2004**
A. FIXED ASSETS	148.9	141.5	A. SHAREHOLDERS' CAPITAL	134.7	147.4
of which intangible assets	38.5	34.7			
of which tangible assets	102.1	99.0	B. ACCRUALS	56.9	70.4
of which financial assets	8.3	7.8			
B. CURRENT ASSETS	232.2	243.8	C. LIABILITIES	190.8	169.8
of which inventories	87.9	90.7	of which bond	60.0	55.0
of which receivables and other assets	139.5	138.5	of which due to banks	36.0	26.1
of which liquid funds	4.5	12.9	of which trade payables	61.8	49.1
Deferred tax assets	0.3	1.7	of which other liabilities	33.0	39.6
C. PREPAID EXPENSES	2.4	2.9	D. PREPAID INCOME	1.1	0.6
Balance sheet total	**383.6**	**388.2**	**Balance sheet total**	**383.6**	**388.2**

Grammer Consolidated Cash Flow Statement

(Figures in EUR thousands)	*June 30, 2003*	*June 30, 2004*
1. Operating activities		
Net income for the period	6,245	16,502
Depreciation/amortization on fixed assets	13,347	12,742
Allocations to fixed assets	0	0
Increase in pension accrual	1,176	738
Write-back of deferred tooling costs	0	0
Write-back of discount	0	0
Cash flow	20,768	29,982
Change in fixed assets through disposals	-605	446
Change in inventories	1,020	-5,908
Change in receivables	-15,430	-23,487
Change in other assets	-7,677	-218
Change in accruals	4,098	11,362
Changes in other liabilities	10,734	2,411
Cash flow from operating activities	12,908	14,588
2. Investing activities		
Payments for investments in fixed assets	-6,689	-9,907
Cash flow for investing activities	-6,689	-9,907
3. Financing activities		
Payments from partners	0	0
Change in item for exchange-rate differences	1,426	324
Change in revenue reserve not impacting on income	-1	428
Change in minority interests	0	0
Dividend payment	0	0
Change in long-term bank liabilities	-1,529	-6,001
Cash flow for financing activities	-104	-5,249
4. Cash and cash equivalents		
Changes in cash and cash equivalents	6,115	-568
Cash and cash equivalents as at Jan. 1	-20,806	402
Cash and cash equivalents as at June 30	-14,691	-166
5. Composition of cash and cash equivalents		
Liquid funds	4,543	12,948
Current liabilities due to banks	-19,234	-13,114
Cash and cash equivalents as at June 30	-14,691	-166

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