

Interim Report as at September 30, 2003



Key Grammer Group financials

(figures in EUR millions)	Sept. 30, 2002	Sept. 30, 2003	Change in %
Sales	587.5	594.2	+1.1
- Inside Germany	339.3	324.1	- 4.5
- Outside Germany	248.2	270.1	+ 8.8
Sales by division:			
- Automotive	402.0	404.9	+0.7
- Driver Seats	149.4	154.7	+3.6
- Passenger seats	36.1	35.2	-2.5
EBITDA	51.7	43.7	-15.5
EBIT	30.1	22.6	-24.9
Earnings from ordinary activities	22.1	17.5	-20.8
Net income for the period	16.1	8.0	-50.3
DVFA earnings	18.1	10.1	-44.2
DVFA earnings per share (in EUR)	1.72	0.96	-44.2
Investments in tangible and intangible assets	18.9	12.6	-33.3
Amortization/depreciation	21.6	21.1	-2.3
Cash flow (operating)	39.2	30.8	-21.4
Payroll (as at Sept. 30)	7,340	7,405	+0.9
Personnel expense	130.4	137.3	+5.3
Personnel expense as a ratio of total output (in %)	21.7	23.0	

Weakness persists in international auto industry

The first nine months of 2003 saw as good as no revival in Grammer Group's most important markets. In the year to date, according to information from the VDA (German Association of the Automotive Industry), the **automobile industry** in West Europe has posted sales of 11 million cars, down 1.5% on the year-before period. The number of new vehicle registrations in Germany dropped by 0.3% and in France by 7.2%, whereas they rose in the other large sales markets, namely 0.5% in Great Britain, 1.1% in Italy and 1.8% in Spain. Between January and September, 12.65 million or approx. 2% fewer cars and light trucks were sold in the United States. However, the 6% fall in passenger car sales contrasted with a 3% increase in light trucks sales, which include the sport and cross utility vehicles so popular in the United States. On the Asian car market, 6.1 million passenger cars were sold in the first eight months, 10% more than in the same period the prior year. Specifically, the Chinese market continues to boom, with sales of passenger cars increasing by 69% to nearly 1.6 million.

In the period under review, carmakers in Germany were not only faced with fewer new registrations on the home front, but also a 2% reduction in exports, and they thus cut back production by 2%. In the third quarter, demand, particularly in the premium sector, weakened significantly.

In the **utility vehicle industry** the number of new registrations in Germany dwindled 2%, whereas in the first nine months exports by German manufacturers climbed 3%. Thus, according to VDA production rollout by German utility vehicle manufactures remained on a par with the previous year. However, in the period under review, production of heavy trucks increased 4% while the production of light trucks weighing up to six tons slipped 1%. In the United States, a total of 3% fewer trucks were sold in the first nine months with a drop of 7% seen in the 15-ton-plus segment. In Asia, by contrast, the picture was gratifying: In the first eight months of 2003 the total number of more utility vehicles sold was 8% up on the year. The Central and East European markets developed very positively and contributed to the global utility vehicle economy.

In the tractor segment, manufacturers not only felt the bite of the generally sluggish economy, but also of the extremely dry summer in Europe, which led to a considerable shortfall in both income and harvests for farmers. In the first eight months, demand dropped over 8% compared with the year-before period. As a result, manufacturers curbed production and reduced their high inventories. The market segment for high-lift stackers and construction machinery stabilized at a low level.

In the first half of 2003, according to data from the German Association of the Rail Industry, the German **rail industry** managed to boost sales by almost 16%. Growth was predominantly buttressed by exports as well as the vehicle business. In the **bus segment**, by contrast, the ongoing downslide persists, influenced by the restrained propensity of both the tourism industry and transport operators to invest. In addition, the political situation in the Middle East as well as the SARS epidemic impacted negatively.

Grammer sales at EUR 594.2 million

In the first nine months of 2003, in this difficult environment Grammer AG posted Group sales of EUR 594.2 million, or 1.1% growth on to the figure of EUR 587.5 million in the year-before period. Subdivided into sales inside and outside of Germany, business volume within Germany fell almost 5% to EUR 324.1 million while the volume outside Germany increased some 9% to EUR 270.1 million. The prior year's figures have been adjusted to render them comparable after a change in Group invoicing. On this adjusted base, the share of foreign sales in total Group volume increased from 42.2% to 45.5%.

Business trends by segment

In the month under review, business volume in Automotive, the largest Grammer division, climbed moderately from EUR 402.0 million to EUR 404.9 million, which amounts to an unchanged proportion of 68% of the total Group volume. The first nine months were considerably influenced by the kick-off of BMW's new 5 series, which is fitted with our innovative polyurethane surface coverings, rear armrests and headrests. However, the start-up curve of this BMW model was flatter than planned with the result that sales have not yet reached the level anticipated. Also introduced were the Jaguar XJ series and the VW models Touran and Golf V in which our headrests feature. In particular, the new Golf model got off to a good start while the demand in the premium sector remained below expectations in the third quarter.

The Seating Systems division also saw a slight increase in sales from EUR 185.5 million to EUR 189.9 million. In the sub-segment Driver Seats, we profited especially from the favorable truck business in Europe and succeeded in raising sales almost 4% to EUR 154.7 million. By contrast, the demand in the tractor segment declined sharply. Our European customers, in particular, had to absorb the restrained willingness to invest and adjusted production in part in the summer months. In the third quarter, the demand for seats in the other offroad segments stabilized at a low level.

The small Passenger Seats sub-division succumbed to a sales contraction of approx. 3% to EUR 35.2 million, attributable to the ongoing decline in business with busses. The very weak tourism industry and the tense financial situation in the public sector especially strained on our important sales markets of Great Britain and Hong Kong. By contrast, in the first three quarters our rail seats segment scored growth although we remain slightly below the planned level due to the postponement of projects by operating companies.

Innovation and Process Drive

We introduced a broad-based innovation and process drive in 2003 in order to counter the difficult market conditions and adjust our structures accordingly. It focuses on stabilizing fundamental corporate processes and expanding our R&D reach.

By the end of September we had already achieved our first success with the program: We initiated extensive reorganization measures in our facilities in Italy, designed to tackle the sluggishness in the bus business. By developing a new product concept and rendering manufacturing structures more open, in the long term we will be in a position to respond more flexibly to fluctuations in capacity and to improve our market position. Likewise, in Turkey, we are in the process of optimizing all processes in order to shore up our market share in the bus sector and improve profitability. As regards our operations in Mexico, we have merged Grammer Mexicana, S.A. de C.V., and Grammer Industrial, S.A. de C.V., both based in Queretaro.

By intensifying our development emphasis we are adhering to our priority of advancing existing core competences and expanding our product spectrum in all three product divisions. Amongst other things, in the period under review we presented "Gran Turismo", our new high-comfort bus passenger seat. Thanks to the modular composition of its features and the integration of the latest ergonomic insights, this passenger seat delivers superlative comfort and optimal functionality. In the Offroad segment, at the Agritechnica 2003 show we presented a new seat for high-powered tractors, the "Maximo Evolution". This premium seat includes features which to date have only been offered in premium automobiles. Furthermore, at that international trade fair we also showcased a new seat for compact tractors, the "Compacto", as well as a new scissor-spring suspension system. This new development is predestined to absorb the extreme loads to which harvesting machines and large tractors are often exposed.

Increased payroll inside Germany

As at Sept. 30 2003, 7,405 staff were employed by the Grammer Group, 65 more than a year earlier. New hirings were only seen within Germany in the Sales, Development, Quality Control and Logistics sections. The payroll in Germany on the reporting date had risen by 84 to 2,579. By contrast, the number of personnel employed outside Germany decreased by 19 to 4,826 as a result of restructuring measures at our facilities for seating systems in Italy and Mexico. The majority of staff, or 4,682 persons, as against 4,582 the previous year, were members of the Automotive division. The payroll for the Driver and Passenger Seats divisions are 2,326 people (compared with 2,325 the year before) and 273 (compared with 320 in the year-before period) respectively, while 124 staff work in the central corporate sections, as compared with a last-year figure of 113.

Group profits under pressure

In particular in Q3 various factors impaired earnings. In the Automotive division, weaker demand in the premium segment, start-up costs for new models, and exchange-rate trends combined to make themselves felt. In the Driver Seats division, for one the sluggish tractor business affected yields and we were unable to offset this with a higher share of products sold to the truck industry. Moreover, for utility vehicles additional guarantee and warranty costs were passed onto Grammer. Not to mention the fact that the ongoing, intense pressure on prices on the part of vehicle manufacturers impacted negatively on Group earnings in the first nine months.

In the period under review, structural alterations in the Driver and Passenger Seats division, made to adjust our capacities to the market weaknesses in partial segments, as well as extensive development projects led to higher outlays in the period under review. Amongst others, personnel expenses rose 5% to 137.3 million. Cost of materials increased 1% to EUR 348.6 million. The decisive factor here was the new product kick-offs in the Automotive division and the shift in product mix in the Driver Seats division. Other operating expenses fell from EUR 74.5 million to EUR 68.3 million.

On balance, in the first nine months, the Group EBIT came to EUR 22.6 million, some 25% down on the 2002 figure of EUR 30.1 million. Earnings from ordinary activities fell less, namely by approx. 21% to EUR 17.5 million from EUR 22.1 million for the year-before period, as financial income improved further. Overall, the interest load decreased on the year, from EUR 8.0 million to EUR 5.0 million. As at September 30, 2003 the Grammer Group recorded net income of EUR 8.0 million, compared with the Sept. 30, 2002 figure of EUR 16.1 million. This includes the extraordinary expenses of EUR 1.2 million associated with the restructuring measures in Mexico. The tax load rose from EUR 6.2 million for Q1-3, 2002 to EUR 8.3 million, as no more loss carryforwards could be charged. DVFA earnings came to EUR 10.1 million, resulting in earnings per share of 0.96 EUR as against 1.72 EUR 12 months before.

Investments lowered as scheduled

Through the end of September 2003, the Grammer Group committed a total of EUR 12.6 million to tangible and intangible assets, compared with EUR 18.9 million one year earlier and investments were thus down 33% on a y-o-y basis. We are opting for rental solutions above all as regards real property and buildings, and this reduces investments in fixed assets. Therefore the focus was mainly on replacement and the scheduled purchase of tools and machinery for model start-ups as well as for new development work. Amortization and depreciation was about 2% down on the year at EUR 21.1 million.

In the first nine months, more than half of the Group investments were dedicated to the Automotive division, with a figure of EUR 7.3 million, as against EUR 10.6 million one year earlier. The Driver Seats segment attracted EUR 3.7 million, compared with EUR 6.5 million 12 months before, and EUR 1.0 million

injected into the Passenger Seats segment, whereas the figure was EUR 1.1 million as at Sept. 30, 2002. The outlays were financed from cash flow: Group cash flow from operating activities came to EUR 30.8 million, down from EUR 39.2 million in the year-before period.

Balance sheet: active working capital management

Thanks to active working capital management, we have succeeded in improving the structure of the Grammer Group balance sheet and thus deliberately pressed ahead with lowering the Grammer AG debt load. Despite the rise in business volume, the Group balance sheet total as at Sept. 30, 2003 has fallen on the year from EUR 390.5 million to EUR 381.2 million. On the assets side, fixed assets fell almost 9% to EUR 146.3 million, in particular as a result of the lower investments. By contrast, current assets increased 2%, with inventories climbing from EUR 80.1 million to EUR 85.5 million and cash and equivalents surging from EUR 3.3 million to EUR 6.6 million while receivables and other assets dwindled 3% to EUR 140.5 million.

Shareholder's capital as at Sept. 30, 2003 ran at EUR 132.2 million, or 6% up on the figure one year earlier. In this way, the equity-assets ratio has been improved further from 31.9% to 34.7%. As regards the bond, we have exploited favorable conditions and repaid a part sum of EUR 5 million. Group-wide liabilities have been pruned by 12% to EUR 189.2 million, with bank liabilities slice EUR 31 million to EUR 41.2 million; by contrast, trade payables rose EUR 12.5 million to EUR 66.4 million.

Outlook: no enduring recovery through the end of the year

Since the economy does not look set to pick up emphatically by year-end 2003, Group sales for the year as a whole will probably be slightly up on the year, compared with EUR 778.5 million the previous year. This will impact on our earnings from operations. Then there are higher accruals for warranties, meaning that for the year as a whole EBIT will fall from EUR 42.5 million last year to about EUR 30 million.

The main topic in the fourth quarter will continue to be our Innovation and Process Drive, by means of which we wish to consistently boost our efficiency and strengthen our market position. In the Automotive Division we intend by the end of the year to have caught up the production backlog for the new 5-series BMW, and the order book is also looking good for Golf V, where production has just started. In addition, in December production of the completely newly developed child seat for the VW Multivan Bus will start, which will reach an annual sales volume of EUR 8 million, and the contract runs for six years. The new Passat, for which we are currently busy readying an innovative mid-console for manufacturing, will probably go into production as of November 2004. We are supplying side cushions, headrests and child seats for the model, and the total volume for the duration of the 7.5-year project will be some EUR 600 million.

In the Seating Systems division, the products presented at the Fall trade fairs have not yet contributed to 2003 sales volume, as they will not be brought to market until 2004. In the long term, the new models will shore up our position and improve our profit margin. The restructuring measures at the passenger seats facilities in Italy and Turkey as well as the restructuring in Mexico will all have a favorable impact on earnings as of the coming year.

In 2004, we will launch a wide-ranging cost-cutting agenda we are currently devising. The goal: to create leaner structures and processes in order to emphatically boost the Grammer Group's earnings power. The measures will already make a mild contribution to profits in 2004 and will fully come to bear in 2005.

Amberg, November 2003

Grammer AG

The Management Board

Grammer Consolidated Income Statement
For the period Jan. 1 thru Sept. 30, 2003

<i>Figures in EUR thousands</i>	<i>Jan. 1 – Sept. 30, 02</i>	<i>Jan. 1 – Sept. 30, 2003</i>
Sales revenues	587,494	594,230
Changes inventory	-1,827	-8,767
Own output capitalized	492	523
Other operating income	15,851	11,945
Total output	602,010	597,931
Cost of materials	-345,411	-348,601
Gross profit	256,599	249,330
Personnel expense	-130,396	-137,298
Amortization/depreciation	-21,598	-21,129
Other operating expense	-74,473	-68,329
Interest expense	-8,000	-5,026
Earnings from ordinary activities	22,132	17,548
Extraordinary income/loss	154	-1,175
Taxes on income	-5,844	-7,843
Other taxes	-361	-495
Income for the period	16,081	8,035

Grammer Consolidated Balance Sheet as at Sept. 30, 2003 (short version)

(Figures in EUR thousands)

ASSETS	Sept. 30, 02	Sept. 30, 03	LIABILITIES	Sept. 30, 02	Sept. 30, 03
A. FIXED ASSETS	160,469	146,309	A. SHAREHOLDERS'		
- of which intangible as-	41,067	36,995	CAPITAL	124,569	132,231
sets	111,122	101,098	B. ACCRUALS	50,099	58,501
- of which tangible assets	8,280	8,216	C. LIABILITIES	214,858	189,249
- of which financial assets			- of which bonds	60,000	55,000
B. CURRENT ASSETS	228,350	232,640	- of which due to banks	72,192	41,248
- of which inventories	80,128	85,536	- of which trade payables	53,929	66,448
- of which receivables					
and other assets	144,874	140,467			
- of which liquid assets	3,347	6,637			
C. PREPAID EXPENSES	2,077	2,215	D. PREPAID INCOME	951	1,219
D. Deferred tax assets	-419	36			
BALANCE SHEET TOTAL	390,477	381,200	BALANCE SHEET TOTAL	390,477	381,200

Grammer Group Cash flow Statement as at Sept. 30, 2003

<i>(Figures in EUR thousands)</i>	Sept. 30, 02	Sept. 30, 03
1. Operating activities		
Income for the period	16,081	8,035
Amortization/depreciation on fixed assets	21,598	21,129
Allocations to fixed assets	0	171
Increase in pension accrual	1,519	1,505
Write-back of deferred tooling costs	0	0
Write-back of discount	0	0
Cash flow	39,198	30,840
Change in fixed assets through disposals	3,527	1,358
Change in inventories	6,614	3,433
Changes in receivables	-26,791	-19,488
Change in other assets	-2,689	-4,186
Change in accruals	4,335	5,340
Change in other liabilities	-7,362	9,056
Cash flow from operating activities	16,832	26,353
2. Investing activities		
Payments for investments in fixed assets	-19,516	-12,669
Cash flow for investing activities	-19,516	-12,669
3. Financing activities		
Payments by partners	0	0
Change in item for exchange-rate differences	3,565	-937
Change in revenue reserve not impacting on income	-1,742	-728
Change in minority interests	267	681
Dividend payment	0	-3,178
Change in long-term bank liabilities	-3,162	-7,913
Cash flow for financing activities	-1,072	-12,075
4. Cash and cash equivalents		
Changes in cash and cash equivalents	-3,756	1,609
Cash and cash equivalents at the beginning of the period	-43,625	-20,806
Cash and cash equivalents at the end of the period	-47,381	-19,197
5. Composition of cash and cash equivalents		
Liquid funds	3,347	6,637
Current liabilities due to banks	-50,728	-25,834
Cash and cash equivalents at the end of the period	-47,381	-19,197

For further information please contact:

Grammer AG
Postfach 1454
92204 Amberg
Germany
www.grammer.com
E-Mail: investor-relations@grammer.com

Alois Ponnath
CFO
Tel.: +49-9621-880-364
Fax: +49-9621-880-680