Interim Report as at March 31, 2004

Key Grammer Group financials

(figures in EUR million)	Jan. 1 – March 31, 2003	Jan. 1 – March 31, 2004	Change
Sales	202.9	207.5	+ 2 %
- Germany	111.5	112.2	+ 1 %
- Other countries	91.4	95.3	+ 4 %
Sales by segments:			
- Automotive	136.1	134.8	- 1 %
- Driver Seats	54.2	61.1	+ 13 %
- Passenger Seats	12.5	11.9	- 5 %
EBIT	10.6	13.8	+ 30 %
Earnings from ordinary activities	8.9	12.4	+ 39 %
Net income for the period	5.6	7.6	+ 36 %
DVFA earnings	5.6	8.2	+ 46 %
DVFA earnings per share (in EUR)	0.53	0.78	+ 46 %
Investments in tangible and intangible assets	3.2	5.8	+ 81 %
Amortization/depreciation	6.7	6.3	- 6 %
Cash flow from operating activities	12.9	14.0	+ 9 %
Payroll (as at March 31)	7,476	7,446	0 %
Personnel expense	44.8	47.2	+ 5 %
Personnel expense as a ratio of total output	21.6 %	22.3 %	
Balance sheet total	389.3	386.5	- 1 %
Shareholders' capital	133.6	139.5	+ 4 %
Equity-assets ratio	34.3 %	36.1 %	

International vehicle industry

Given rising order receipts, carmakers world-wide are discerning first signs of an economic upturn. In West Europe, in Q1 2004 new automobile registrations rose approx. 3% to 3.9 million according to figures from the European manufacturers association ACEA. Following a hesitant start, the increase was as much as 7% for March alone on the back of countless new models introduced, with clear growth being reported from all major markets with the exception of Italy. In Germany, new registrations in March climbed 8%, although in the wake of a weak January and February the first quarter closed slightly down by 1%. Unit sales of passenger cars and light trucks over the first three months rose some 4% in the US market, while the increase came to 9% in Japan, where as of January minivans (previously classified as light trucks) have been classified as automobiles. The Japanese market was stimulated by the improved economy and the launch of new models.

Business with utility vehicles has picked up as a consequence of the greater propensity among companies to invest: In West Europe, new transporter registrations in the first quarter climbed almost 7%, while the figure for 3.5-16t vehicles rose 1.5% and the 16t-plus bracket increased 3%. Since the beginning of 2004, on the year some 12% more heavy utility vehicles have been sold in Germany, while the increase was 7% for light utility vehicles. Unit sales for busses were up 2.5% in West Europe, while they faltered about 1% in Germany.

Conditions remain tense in the German rail industry. The financial state of the public sector means that at present no infrastructural or redesign measures can be implemented. Above all, passenger levels have dwindled in long-distance rail travel, as they have in the former growth market for local and regional transport. By contrast, pent-up demand outside Germany as a result of various project postponements is gradually being unleashed.

Group sales up moderately

Grammer consolidated sales rose from January through March 2004 from EUR 202.9m one year earlier to EUR 207.5m, and by a good 2% on the year-before quarter, an increase primarily generated outside Germany. In particular thanks to brisk driver seat business the sales volume rose more than 4 % from EUR 91.4m to EUR 95.3m. The share of consolidated sales outside Germany came to almost 46%, up from 45%. Inside Germany, business volume rose slightly from EUR 111.5m to EUR 112.2m.

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Sales by segments

In the Automotive product division, in the quarter under review Grammer concentrated on setting up its new facilities in Zwickau and Emden. Both complexes are connected with the VW order for its new Passat, which we will be supplying as of November 2004 with a complex central console system and additional interior components. In Emden we are erecting a thoroughbred assembly plant, while the Zwickau works in Saxony will also handle plastic injection molding, lacquering and ultrasonic welding. In the first three months, the Touring model in the new BMW 5 series rolled off the lines. Among other things, we outfit these vehicles with our innovative polyurethane surface treatment – a so-called PU skin. Sales in the Grammer Group's largest segment came to EUR 134.8m and were thus 1% down on the prior-year quarter. In line with trends in the industry, the high number of orders called in March did not completely offset a very weak January and February. In particular, the situation as regards unit sales for high-volume vehicles remained tough, while on balance unit sales of the high-end models picked up.

In the Driver Seats product division, business volume rose in the first quarter by a considerable 13% to EUR 61.1m, primarily owing to the strong increase in demand for truck seats. The agricultural machinery sector likewise tended very positive. Parallel to the Automotive segment, orders called for premium models were disproportionately high.

The Passenger Seats product division booked sales in Q1 2004 of EUR 11.9m, down from EUR 12.5m one year before. A sharp climb in the number of orders called in March did not make up for the two first months, when moreover projects were also postponed. We have moved restructuring of our Italian plant forward and the process is now almost complete – the reorganization focuses above all on enhancing flexibility. There, we will also be developing our new GRAN TURISMO bus passenger seat line, which will go into series production in the fall 2004.

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Grammer Offensive 2004+ scores initial successes

In order to reduce Grammer Group costs in the long term and enhance efficiency throughout the corporation, at the beginning of the year we launched our Grammer Offensive 2004+, a wide-ranging agenda that features a whole host of individual measures, extending from optimization of world-wide production, development and sales activities via enhancing product quality and the balance sheet structure through to pricing.

The Grammer Offensive 2004+ measures scheduled for the beginning of the year, such as improvements in logistical workflow, savings in administrative costs, and augmenting purchasing efficiency have already borne first fruit.

Key progress was also made as regards the future reduction in personnel expense, which is a key element in the Grammer Offensive 2004+. In this context, together with employee representatives we devised a new plant concept for metal frame production at Grammer Automotive Metall GmbH, which is currently located in Langenfeld in North Rhine Westphalia and in the main works in Bavaria. In the course of the year, production will be pooled at a single facility in the Amberg-Sulzbach district, enabling us to keep existing jobs in Germany while also reducing costs. The concept called for concessions on both the employee and employer sides, thus preventing the section being relocated to the Czech Republic. We expect this to impact positively on the Income Statement before the year is out.

In Q1 2004, payroll costs rose again by over 5% from EUR 44.8m to EUR 47.2m. The key reason: first and foremost the new hirings in early 2003 as well as increases in collective wage agreements in the various states. As a percentage of Group total output, which came to EUR 211.3m (prior year: EUR 207.5m), personnel expense in the period under review rose from 21.6% to 22.3%, while cost of materials dwindled from 58.4% to 57.9%. We succeeded in slashing other operating expenses by over 10% from EUR 24.2m one year earlier to EUR 21.7m and thus, as a proportion of total output, from 11.7% to 10.3%.

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Favorable earnings trend

On balance, Group EBIT surged over 30% on the period from EUR 10.6m to EUR 13.8m, and the EBIT return on sales thus jumped from 5.2% to 6.7%. The renewed reduction in net financial loss from EUR 1.7m to EUR 1.4m can be attributed to the considerable reduction in liabilities and related lower interest bill. As a result, Group earnings from ordinary activities climbed even faster, soaring more than 39% from EUR 8.9m to EUR 12.4m. After-tax profits for the period ran at EUR 7.6m, up from EUR 5.6m in the year-before quarter, despite the tax load having increased from EUR 3.2m to EUR 4.9m.

Calculated according to the DVFA/SG formula, profits leaped from EUR 5.6m to EUR 8.2m, as under this system they are adjusted for amortization on goodwill. The attendant EPS rose from EUR 0.53 to EUR 0.78.

Investments: significantly higher

In the first three months of the year, we appreciably boosted investments in tangible and intangible assets from EUR 3.2m to EUR 5.8m. Commitments for the Automotive product division totaled EUR 4.0m (prior year: 1.8m), a figure that amounts to more than two-thirds of Group investments. The capital expenditure was primarily on new machinery and plant for the new series start-ups in 2004. A total of EUR 1.4m (previous year: EUR 1.1m) was committed to the Driver Seats segment and EUR 0.1m (prior year: EUR 0.2m) to the Passenger Seats product division. One focus here was on tooling for newly-developed products, which we have moved forward as part of our innovation and process drive. A total of EUR 0.3m (prior year: EUR 0.2m) was committed to central sections.

In Q1 2004, Group-wide investments were again fully financed from own funds. The cash flow from operating activities posted in the cash flow statement increased on the year-before quarter by almost 9%, rising from EUR 12.9m to EUR 14.0m. Amortization and depreciation on intangible and tangible assets fell 6 % from EUR 6.7m to EUR 6.3m.

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Balance sheet: liabilities trimmed further

Despite the growth in sales, the Grammer consolidated balance sheet total slipped just under 1% on the prior-year period to EUR 386.5m (Q1 2003: EUR 389.3m). On the assets side, fixed assets fell some 6% from EUR 152.3m to EUR 143.0m, while current assets increased from EUR 234.7m to EUR 241.7m. On the liabilities side, shareholders' capital rose more than 4% from EUR 133.6m to EUR 139.5m, meaning that the equity-assets ratio for the Group improved from 34.3% to 36.1%. The rise in accruals from EUR 55.5m to EUR 67.6m relates essentially to taxes, guarantees and restructuring.

We have further pruned Grammer Group debt by means of active working capital management. Since we exclusively use cash flow to repay debt, liabilities fell from EUR 199.3m to EUR 178.7m or by more than 10%. Above all, we slashed liabilities due to banks by some 29% from EUR 51.7m to EUR 36.6m.

New credit line agreed

In order to further optimize our financing structure, in early 2004 we made use of the improvement in key Grammer Group figures and repaid the syndicated credit taken up in 1999 as well as the attendant collateral pooling contract. The new credit line is for EUR 60m and lowers our handling costs, as the number of syndicate banks has been more than halved and the line runs for three years.

Payroll: slight y-o-y decrease

As at March 31, 2004 the number of Grammer Group employees came to 7,446, or 30 less than one year earlier. Staffing levels were reduced in the Automotive and Passenger Seats segments, where at the end of the quarter the figures were 4,587 (prior year: 4,632) and 248 (prior year: 314) respectively. By contrast, employment in the Driver Seats product division rose from 2,408 to 2,486 and in the central sections it eased up from 122 to 125.

While Group staffing levels inside Germany remained almost exactly the same at 2,546 (prior year: 2,545), the figure outside Germany fell by 31 to 4,900 persons. Improved workflow process and optimized production structures, for example in our plant in Italy, led to staffing level adjustments. In Mexico, in 2003 two subsidiaries were merged and relocated to a single facility, which likewise led to payroll reductions.

Outlook: slight increase in sales and faster rise in earnings expected

Grammer is targeting a light increase in consolidated sales for 2004. The basis: countless product innovations that will be sold as of 2004.

In the Driver Seats segment we very successfully presented our new PRIMO seat for fork-lifts and small construction machines at the "bauma" trade fair in April. We also expect that our COMPACTO, ACTIMO and MAXIMO EVOLUTION models, the latter being our new premium seat for powerful tractors, will stimulate business. In the United States, we are currently expanding our Grammer Inc. subsidiary so that it will become a full-fledged production facility. Whereas at present, we supply almost complete seats to the United States, in this way we will be generating a larger portion of value added in that country and thus better offsetting fluctuations in the euro/US dollar exchange rate. Moreover, we are pressing ahead with development activities in the Driver Seats segment, and continuing the two-year program to reduce variant numbers and simplify parts, as this will lower manufacturing complexity costs in the long term.

The large series start-up in the Automotive product division will occur in the final quarter with production start-up for the new VW Passat. In this context, great importance is attached to the sure and successful turn-key of the new Zwickau and Emden plants. Moreover, our products are incorporated into the new 1-series BMW, that will start production in the second quarter and go to market in the fall. Furthermore, we are planning to set up an Automotive hub in the growth market of China, enabling us to better serve customers locally and also exploit the favorable opportunities for production in that region.

In the Passenger Seats segment, we will be focusing on the market launch of our new GRAN TURISMO bus seat. Sales are scheduled to start in September, coinciding with completion of the ongoing restructuring of our Italian works, where the seat is made. Capacity in the rail segment will be well utilized during the year. Among other things, we are supplying additional passenger seats for Spain's AVE high-speed train. Moreover, we have booked a new order from Italy that will start production before the year is out.

We envisage Group EBIT for 2004 rising faster than the increase in sales. Alongside the new product launches, this will be fuelled by greater process accuracy as well as the first impact of the Grammer Offensive 2004+, which is the central issue on the Grammer Group agenda this year. The numerous activities are being flanked by consistent management of all measures, enabling us to document the progress, responsibilities and benchmarks for the Offensive. However, while we are reducing expenses, the pressure on prices and the fierce competition persists, and costs for development projects and new product launches remain high. An additional risk as regards Group earnings is the trend for steel and crude oil prices, which have risen very sharply. We have used contracts to more or less secure our purchasing prices for this year, but in the medium term the increases will lead to an additional costs squeeze.

In order to further reduce Group payroll costs, the Board of Management is currently negotiating with Grammer AG employee representatives and the trades unions and employer associations to establish a program to reduce personnel expense. Here, we first of all wish to exploit the flexibility of collective wage agreements and, similar to the approach at Grammer Metall GmbH, jointly find a solution. We expect this to spawn significant savings as of 2005, when the Grammer Offensive 2004+ also fully comes to bear.

In 2004, the ROCE, the yardstick for the value of our activities, will again lie clearly above capital costs. Furthermore, our long-term goals include expanding our leading market position in many areas. We aspire to engage in constructive, trusting cooperation with our business partners and attach greater importance to improving profitability than to pure sales growth.

Amberg, May 2004
Grammer AG
The Board of Management

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Income Statement

Grammer Group (figures in EUR thousands)	*Jan. 1 – March 31, 2003*	*Jan. 1 – March 31, 2004*
Sales revenues	202,850	207,479
Changes in inventory	1,741	245
Own output capitalized	75	236
Other operating income	2,830	3,344
Total output	**207,496**	**211,304**
Cost of materials	121,134	122,301
Gross profit	**86,362**	**89,003**
Personnel expense	44,814	47,157
Amortization/depreciation	6,748	6,281
Other operating expense	24,241	21,722
Financial loss	- 1,673	- 1,401
Earnings from ordinary activities	**8,886**	**12,442**
Extraordinary income/loss	- 113	36
Taxes on income	3,100	4,714
Other taxes	83	149
Income for the period	**5,590**	**7,615**

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Consolidated Balance Sheet (abbreviated)

ASSETS	March 31, 2003 (EUR 000)	March 31, 2004 (EUR 000)	LIABILITIES	March 31, 2003 (EUR 000)	March 31, 2004 (EUR 000)
A. FIXED ASSETS	152,296	142,977	A. SHAREHOLDERS' CAPITAL	133,570	139,509
- of which intangible assets					
- of which tangible assets	39,566	35,512	B. ACCRUALS	55,461	67,560
- of which financial assets	104,370	99,712			
	8,359	7,753	C. LIABILITIES	199,291	178,741
B. CURRENT ASSETS	234,748	241,670	- of which due to banks		
- of which inventories	89,944	91,150	- of which trade payables	51,716	36,604
- of which receivables and					
other assets				55,603	57,020
	140,696	141,902			
C. PREPAID EXPENSES			D. PREPAID INCOME		
	2,289	1,830		1,011	667
BALANCE SHEET TOTAL	**389,333**	**386,477**	**BALANCE SHEET TOTAL**	**389,333**	**386,477**

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Cash Flow Statement

Grammer Group (in EUR thousands)	*March 31, 2003*	*March 31, 2004*
1. Operating activities		
Net income for the period	5,590	7,615
Amortization/depreciation on fixed assets	6,748	6,281
Allocations to fixed assets	0	0
Increase in pension accrual	683	89
Write-back of deferred tooling costs	0	0
Write-back of discount	-120	0
Cash flow	**12,901**	**13,985**
Change in fixed assets through disposals	112	1,372
Change in inventories	-975	-6,382
Change in receivables	-20,349	-21,629
Change in other assets	-2,956	-4,414
Change in accruals	3,120	9,160
Change in other liabilities	3,422	927
Cash flow for operating activities	**-4,725**	**-6,981**
2. Investing activities		
Payments for investments in fixed assets	-3,180	-5,802
Cash flow for investing activities	**-3,180**	**-5,802**
3. Financing activities		
Payments from partners	0	0
Change in item for exchange-rate differences	-52	1,681
Change in revenue reserve not impacting on income	-5	0
Change in minority interests	0	0
Dividend payment	0	0
Change in long-term bank liabilities	-1,038	-708
Cash flow for/from financing activities	**-1,095**	**973**
4. Cash and cash equivalents		
Changes in cash and cash equivalents	-9,000	-11,810
Cash and cash equivalents as at Jan. 1	-20,806	402
Cash and cash equivalents as at March 31	**-29,806**	**-11,408**
5. Composition of cash and cash equivalents		
Liquid funds	4,623	6,885
Current liabilities due to banks	-34,429	-18,293
Cash and cash equivalents as at March 31	**-29,806**	**-11,408**

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