GRAMMER QUALITY

Annual Report 2007

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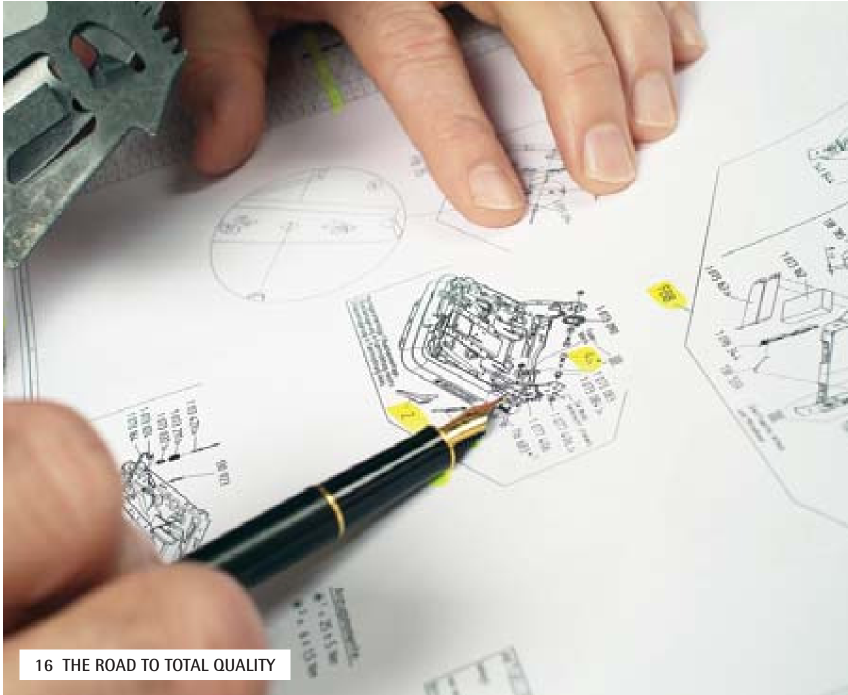
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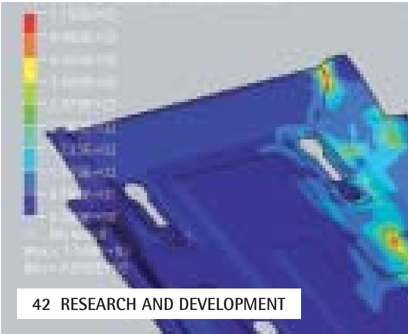
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QUALITY IS THE DRIVING FORCE BEHIND THE COMPANY'S SUCCESS!

2007 saw Grammer AG consolidate its leading market position once again. At the same time, the Group initiated a large-scale quality offensive. Dr. Kempis, how do these complement one another? A company enjoying success on the market must be able to demonstrate quality.

Of course, quality is nothing new to us. Quite the contrary. Grammer has established solid expertise in the field of technical quality management. For a long time, we have had tried-and-tested systems in this field which guarantee reliable quality standards. With our quality offensive, we are integrating these strengths into our corporate culture to an even greater degree. An additional dimension is thus opening up: we are establishing the awareness for quality in the thoughts and actions of each individual employee.

What do you want to achieve in concrete terms?

The objective is to achieve the status of Operative Excellence by 2010. This will represent a milestone but is not the end of the matter. This is because striving for total quality is not a process which comes to a successful close at any given point. There is always scope for improvements all around. In this respect, quality remains an essential point for Grammer in the long term.

Do you regard the quality offensive as a part of the growth strategy?

Absolutely. It has been demonstrated that quality is an extremely effective factor in growth. Companies which operate in accordance with the excellence model are definitely more successful. They generate higher sales, achieve better earnings and do well on the stock market. Last but not least, the increase in productivity associated with it also safeguards jobs.

The customer will be the judge of whether quality is a persuasive factor. However, his expectations are rising all the time. What is Grammer doing to comply with these wishes?

Quality is already produced within the company. This does not mean that we operate in a limited and exclusively internal field. The decisive factor is that quality is defined from the customer's perspective and is integrated into all the relevant areas of the process chain. From this point of view we want to achive results which correspond to the customer's wishes in every respect – in terms of both products and services. In order to do justice to this, we focus on customer contact. Market requirements are determined methodically; experience gained from past projects is integrated systematically. Last but not least, we also look at working in partnership with our suppliers.

Any company is only as good as its employees. This has been proven to be true time and time again. What contribution do the employees of Grammer make in terms of quality?

Top performance is always based on idealism, passion and professional ability. But this alone does not guarantee success: in the long term, employees are only highly motivated if they are integrated as partners. It surely goes without saying that they can act in a responsible manner and their suggestions are followed up. The greater the degree to which employees are integrated, the more sustained the success of the company.

Dr. Rolf-Dieter Kempis
(born in 1953)
Chairman of the Board of Management
since August 1, 2007
Automotive Division
Employee Relations Director
Internal Control

FROM METHODOLOGICAL EXPERTISE TO A QUALITY CULTURE

Grammer strives towards total quality – in all divisions and in all locations worldwide. Mr. Müller, as the initiator of the 2008 quality offensive, you are playing a major role in this project. How do you want to achieve this ambitious goal?

Grammer has further developed the Company's quality strategy. In so doing, it freed the concept of quality from its narrow focus on the product and established a comprehensive total quality management. More than ever before, we are dealing with processes and organizational procedures.

In concrete terms, we developed a comprehensive action plan in 2007 in order to enhance quality in the Company as a whole in the long term. Implementation of this package is in full swing. As a result, we are already in a position to utilize additional areas of potential today and achieve discernible improvements in all divisions.

In both divisions - Seating Systems and Automotive - Grammer is working with new structures. What exactly has changed?

Our quality management system is based on a holistic approach: all participants are encouraged to act in a responsible manner. At the same time, the significance of product, process and system audits increases. Systematic GPQ meetings were also introduced for the first time – they allow problems to be recognized directly and removed for good. The participants in the meetings come from different fields of activity. For example, the potential offered by different disciplines is combined, and this often allows very innovative solutions to be developed.

Grammer has already been working with programs such as 20 Keys or FMEA for a very long time. What innovative concepts aimed at quality assurance characterize the new strategy?

Going beyond established techniques, the spotlight is firmly trained on technical improvements and global integration of innovative procedures. Here, Grammer is moving along the path towards zero-defect production by using trend-setting Poka-Yoke approaches such as "Pick by light". The primary goal is to implement technical check-systems in the production process.

What quality standards does Grammer use in its cooperation with suppliers?

Our Group generates around two thirds of its value added via supplier companies. The Company's own high quality requirements apply to these partners in equal measure. We make our suppliers even more keenly aware of their duties by involving them early and closely e.g. in the product development process or the problem-solving process.

In your opinion, what are the main advantages of the Group-wide quality strategy?

All our measures result in optimized work procedures, more streamlined processes and lower costs. Better products at a high quality level ensure reliability and greater customer satisfaction. Combined with the quality concept ingrained in the corporate culture, a perfect foundation is thus laid for successful total quality management.

But we never allow ourselves to rest on our laurels but continue working towards achieving our quality goals. Because quality is a promise to the customers which we have to live up to every day. And only if we succeed at this, we can increase the Company's growth, margins and liquidity in the long term.

Hartmut Müller
(born in 1963)
Member of the Board of Management
since February 1, 2007
Seating Systems Division
Quality
Purchasing/SCM
Operations Performance Management
R&D

TRANSPARENCY AND SECURITY ARE QUALITY FEATURES

Mr. Ponnath, total quality – this standard applies throughout the entire corporate group at Grammer. What implications does this have for the Central Service activities?
Just like in the production, there is a large number of processes in administration which have to be designed in an optimum manner. The ideal administrative environment creates scope for operating activities. Such an environment generates a suitable financial framework and ensures that the necessary administrative processes place very little strain on core business. In addition, administrative best practice processes can be of direct benefit to the total quality approach in business activities. A very good example of this is supplier selection in procurement.

As CFO, you are in charge of Finance and Controlling of the Grammer Group. What relevance does total quality have in this regard?
Best quality brings several advantages here. In addition to ensuring a solid financial basis to support the growth strategy, being able to see the relevant financial figures at any time is very important. From an internal perspective, it allows the Company to be monitored effectively and controlled in a suitable manner at all times. With regard to external groups, it encourages fast reporting, and hence the timely provision of reports to shareholders and the public at large.

Key word: fast closing. How does a global player succeed in obtaining the required figures on time?
The IT structure plays a decisive role here. Wherever we are in the world, we work with the same system and combine all data together on a uniform platform. This creates both a homogeneous data basis as well as an integrated data flow. Apart from determining the actual situation, this also ensures the accuracy of our planning processes: sales planning, personnel requirements or plant development can be combined together and adjusted very accurately to meet the challenges of the future by means of coordination which meets market needs.

So, looking beyond transparency, security issues also have to be considered.
Quality-based accounting always generates a high degree of security, even when viewed from the most varied of perspectives. It is very important here to ensure that compliance can be used as a means of risk provisioning, as well as internal financial controlling. In addition, it presents many further advantages such as equipping the companies with the required equity or providing protection against exchange rate risks as part of effective risk management. Last but not least, total quality can also be of benefit to profitability in the administrative area, for example by means of systematic receivables management, precise contract review or patent protection.

What measures do you want to use in order to promote the goal of comprehensive total quality management?
In particular, we would like to accelerate data availability. In doing so, our main priority is to perfect the process whereby we identify the Company's situation and provide information for economically relevant decisions at an even faster rate. Even if we have made some achievements, there still remains a lot to do. For there is always room for improvement.

Alois Ponnath
(born in 1958)
Member of the Board of Management
since December 12, 2000
Central Services
Investor Relations
Corporate Communications
Strategy and Corporate Development

PROGRESS IS THE HALLMARK OF OUR TIME. PROCEDURES ARE BECOMING MORE AND MORE SOPHISTICATED, TECHNOLOGIES MORE AND MORE PERFECT WITH EACH PASSING DAY. BUT WITHOUT **HUMAN BEINGS**, NOTHING IS POSSIBLE. THEY STILL PLAY THE MAIN ROLE.

"Quality results from technology and mentality – so claims a doctrine from the field of quality science. However, experts advise that this order be reversed and that mentality be mentioned first. Why? Even if all quality assurance tools and techniques are combined together, this will not automatically give rise to total quality. Because one further fundamental element is required for this: mentality.

If people do not treat quality as the strongest impulse generator and fail to live it as such, but instead take it rationally in terms of tools; if people give orders to others rather than convincing them; if the employees are not fully-involved participants but mere observers of what is going on, then total quality management is no more than a distant dream."

Prof. Dr.-Ing. Gerd Kamiske, Founding Member of the Deutsche Gesellschaft für Qualitätswissenschaft and Honorary Member of the Deutsche Gesellschaft für Qualität.

QUALITY HAS MANY FACES

Quality is the word on everyone's lips. But the term frequently means very different things to very different people. The gourmet chef will rhapsodize over exquisite ingredients out of which he can concoct menus which do full justice to his craftsmanship. The print shop will emphasize its quality-enhancing machinery. And the flying tradesman will use well-known brand quality for publicity purposes. With all these different view points, the question arises: What exactly is meant by quality?

A clear, unambiguous definition has yet to be found. If we look at its original linguistic meaning, quality simply describes specific characteristics or features. Standard ISO 9000 describes quality, rather clumsily, as the "degree to which a set of inherent features meets requirements" – in the case of goods or services. And according to W. Edwards Deming, the American quality expert, the goal of quality is to meet the customer's requirements, both now and in the future.

At any rate, the following is always true: ultimately, it is the customer, and the customer alone who decides what constitutes good quality. After all, he will only make a purchase if he likes what he sees. Quality consciousness is an inherent quality in human beings, both now and in the past. As soon as humans started manufacturing goods in order to do business or to sell them, the quality of the products played a major role. However, the concept of quality changed radically over time. This is particularly noticeable in the automotive industry. As recently as the sixties, it was not uncommon for repair work to be a constant necessity; it was not taken for granted that a car should be reliable and enjoy a long life.

The times, they are a-changing Nowadays, the requirements are stricter. Even defect-free technology and smooth driving is no longer anything to write home about. Why? Because these two features are now considered to be basic requirements. The customer of today wants more. Not only does he want to get from A to B with his car, he also wants to enjoy the driving experience. And more brownie points are required to achieve this, i.e. innovative design, perfect processing, a distinct brand image and comprehensive service. The factor of advice plays a decisive role, for example during purchasing, maintenance and repair work, or in the after-sales service on the hotline. This complete package, consisting of product quality and support services, gives rise to the perception of quality, and not just in the automotive industry.

Other countries, other ideas of quality It is very difficult to identify people's subjective evaluation of the concept of quality by means of market research. Because just as everyone has his own personal expectations and preferences, so too does everyone has his own personal concept of quality. While one person may attach importance to a product's wide range of functions, someone else may well prefer easy operability.

And it's not just a question of different people having different ideas. Cultural differences also have to be taken into consideration. For example, customers from Germany, Russia, China, Mexico and Japan will all have very different ideas of what constitutes good quality.

Japan – at the cutting edge of quality management The Land of the Rising Sun has a particularly intense relationship with quality. Patiently striving towards absolute perfection and unconditional subordination of one's own interests to the common goal are treated as fundamental principles of society. The expectations for products and services are accordingly high. So it should come as no surprise that Japanese cars are regularly top of the class.

During the seventies, Japanese automotive companies gained considerable global market shares within a very short time frame. Where did this sudden success come from? While factories in the western world focused on sorting out faulty parts, Japanese companies got rid of these parts right at the very start of the process. Special quality managers encouraged the

Through quality, we do more than generate material values. Society as a whole benefits from what we do.

Grammer Hudson, USA

Quality starts in the head. If you do not imprint this on your mind, you will not achieve your goal.

Grammer Querétaro, Mexico

A company which is known for its outstanding quality will have loyal customers, satisfied employees and happy share-holders.

Grammer Atibaia, Brazil

Working effectively and constantly optimizing procedures, processes and systems – this is quality.

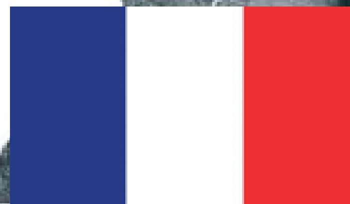
Grammer San Martin, Argentina

For me, quality means fulfilling customer requirements fully and completely.

Grammer Amberg, Germany

Whoever tries to complete his jobs perfectly every day, this person will create quality.

Grammer Olèrdola, Spain



The constant desire to do things better.

Grammer Limonest, France

When a product is absolutely free from defects, both in design and function, then it has quality.

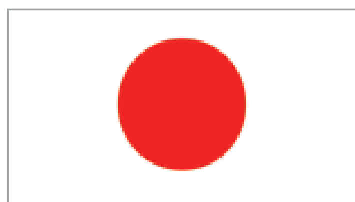
Grammer Kaliningrad, Russia

When large numbers of orders come in, but not large numbers of complaints – that is quality!

Grammer Bursa, Turkey

Quality means the art of making customers happy not only with the product but with the company as a whole.

Grammer Tianjin, China



A sign of quality is when a specific procedure is completed within the planned time. And it is free from defects.

Grammer Tsuruma, Japan

Japanese workers to feel a sense of responsibility for quality themselves. Every member of the company was required to make suggestions for improvements. With the result that processes were constantly optimized and the rejection rate moved closer to zero with the passing of time.

This way of thinking found its way into Germany and many other western countries as well. Since then, Japanese methods have become a fixed element in international business culture.

Russia – preference for foreign goods In the land of the bear, domestic products mostly have a poor reputation. According to one saying, "Just as the Moskwitsch 2141 car will never be good, a Volkswagen cannot be bad." Among foreign vehicles, the newest ones are the ones which enjoy the highest demand. Because even more so than in Germany, Russian customers presume that the latest products always feature state-of-the-art technology. The price also acts as a quality indicator for many people.

China – quality during the development phase In the Middle Kingdom, quality is defined as "as good as necessary". Basic functions decide whether a product will impress the public or not. This means that customer requirements are nowhere near as strict as in western industrialized countries.

But we can be sure of one thing. In dynamic newly industrializing countries, customer requirements and demands will change extremely quickly. This is also true of China. Insider report that the quality requirements are already increasing and that more and more Chinese citizens are willing to pay a higher price for quality.

Mexico – homing in on high standards In Mexico, product quality enjoys a particularly high level of prestige. And this enjoys full support of the government. For a long time, the government has encouraged the implementation of international quality guidelines in factories and public administration bodies. Even the production facilities for the international automotive industry are forcing the use of western standards to a greater and greater extent. In keeping with this, domestic companies are doing an awful lot in order to meet customer expectations. For example, technical managers receive comprehensive further training so that they can then align production practices in their companies with international quality standards. This sets in motion a process which over time influences the entire economy in this Latin American country which is an example to all others.

Expectations must be fulfilled everywhere We can thus see that quality plays a role everywhere – the only difference is in how quality is actually interpreted. Careful analyses of the country-specific customer requirements are therefore a fundamental condition for companies active on the world stage. Because without a knowledge of the market, it is impossible to adapt one's products to different expectations and thus become known globally for outstanding quality.

GPQ – THE ROAD TO TOTAL QUALITY

Ambitious quality specifications, perfect quality management, reliable quality monitoring. Is this enough to do justice to the most demanding of demands? Grammer does not think so and has developed a philosophy which places quality management on a completely new level. Grammer Produces Quality (GPQ for short) turns the aspiration towards quality into a common Group-wide task.

In the past, the quality of products was what mattered most. Quality was an issue for specialists, clear-cut and assigned to individual departments as an activity field. These times are now past. The new principle encompasses both processes and work procedures. And it consistently involves the employees. The core idea is "Quality in everybody's mind". This means that GPQ is not just one more tool; rather, it is a quality philosophy which encompasses the entire corporate culture.

"Nobody knows the processes in a working area better than the people working there", declares Anton Riedl, head of Quality Management at Grammer AG. "They are familiar with these processes in practice, they have a wide range of experience in this area and are in a perfect position to discover areas of potential. By consistently incorporating the employees, we can open up a previously unused reservoir of wide-ranging opportunities for optimization, almost bottom-up as it were."

Change in basic attitude In practice, GPQ means a small revolution. More so than ever before, the personal commitment of each individual is required as well as internal conviction and the desire to make continuous improvements. In addition, a high degree of honesty and courage is asked for as some faults must also be immediately disclosed for the purpose of open discussion.

Like every change in the basic attitude of human beings, GPQ cannot be achieved merely by proclaiming a new era. Rather, there are numerous individual instruments which can be combined to create this change. For practical purposes, Grammer believes in three instruments in particular: daily GPQ meetings, training programs and best practice.

Discipline and consistency Quality as a joint challenge – ultimately, this requires a great degree of discipline and discernible consistency. Binding specifications define the framework of the new system. They specify the required standards, lay down definitive deadlines and determine the parameters for monitoring success. In line with this, measuring procedures and efficiency analyses are fixed elements in GPQ.

GPQ meetings: quality hits the headlines Grammer has been working successfully with GPQ in the production of driver and passenger seats since 2007. In 2008, the Automotive division will follow with various pilot plants, including the Grammer AG production plant in Amberg, as well as Zwickau in Thuringia and Tachov in the Czech Republic. Whether the spotlight is on development, production or logistics – brief employee meetings are now held in the GPQ Areas every day. Their goal is to identify and remove weak spots accurately and systematically.

The meetings focus on finding the causes of defects as well as on consistently using optimization potential which has been discovered. The team includes employees from various levels in the hierarchy. In addition to employees from the division in question, colleagues from adjacent fields such as Industrial Engineering or Research and Development are often present as well.

Training: quality consciousness for everyone Anyone who wants to enhance quality across the entire company must provide employees with the appropriate training. Global on-the-job training is therefore a core point in implementing GPQ. The training system takes all levels in the hierarchy into consideration. This means that top management is as heavily involved as the various employees on site. In addition, there are training courses for GPQ specialists who disseminate their expertise in day-to-day business in their role as plant trainers. In this way, a communication process which stretches into the farthest corners of the Company is set in motion.

TRAINING: HIGH REQUIREMENTS FOR AUDITORS

Audit training also forms part of on-the-job training. And the measuring rod for this is placed high up. Only someone who has been working as a foreman, technician or engineer for five years can become a quality management auditor. In addition, he must have at least two years' experience in the quality department. The training program involves 40 seminar hours. During this time, the participants learn how to perform audits and follow-up work. And a lot more besides. They also study the theoretical basis of quality management and acquire information about bodies of standards and statistical methods for defect detection. The practical part deals with the implementation of quality elements in production processes. Whoever gets past this stage, initially takes part in four audits as a trainee. Only then can the auditor perform a project on his own for the first time. He must continue to prove his skills and re-qualify every three years.

Sharing good ideas with others Sharing experiences, benefiting from each other – tried-and-tested innovations are systematically shared with all sites. This means that processes can be optimized and costs reduced across the globe. However, GPQ does not just encourage best practice sharing in the grand style. It also promotes continuous, daily exchange of experience. IT-based communication platforms are set up for this purpose. The advantage: Grammer employees can exchange their specialist knowledge and learn from each other, not just in their own plant but throughout the entire world. Knowledge gained, relevant wisdom and new experiences are

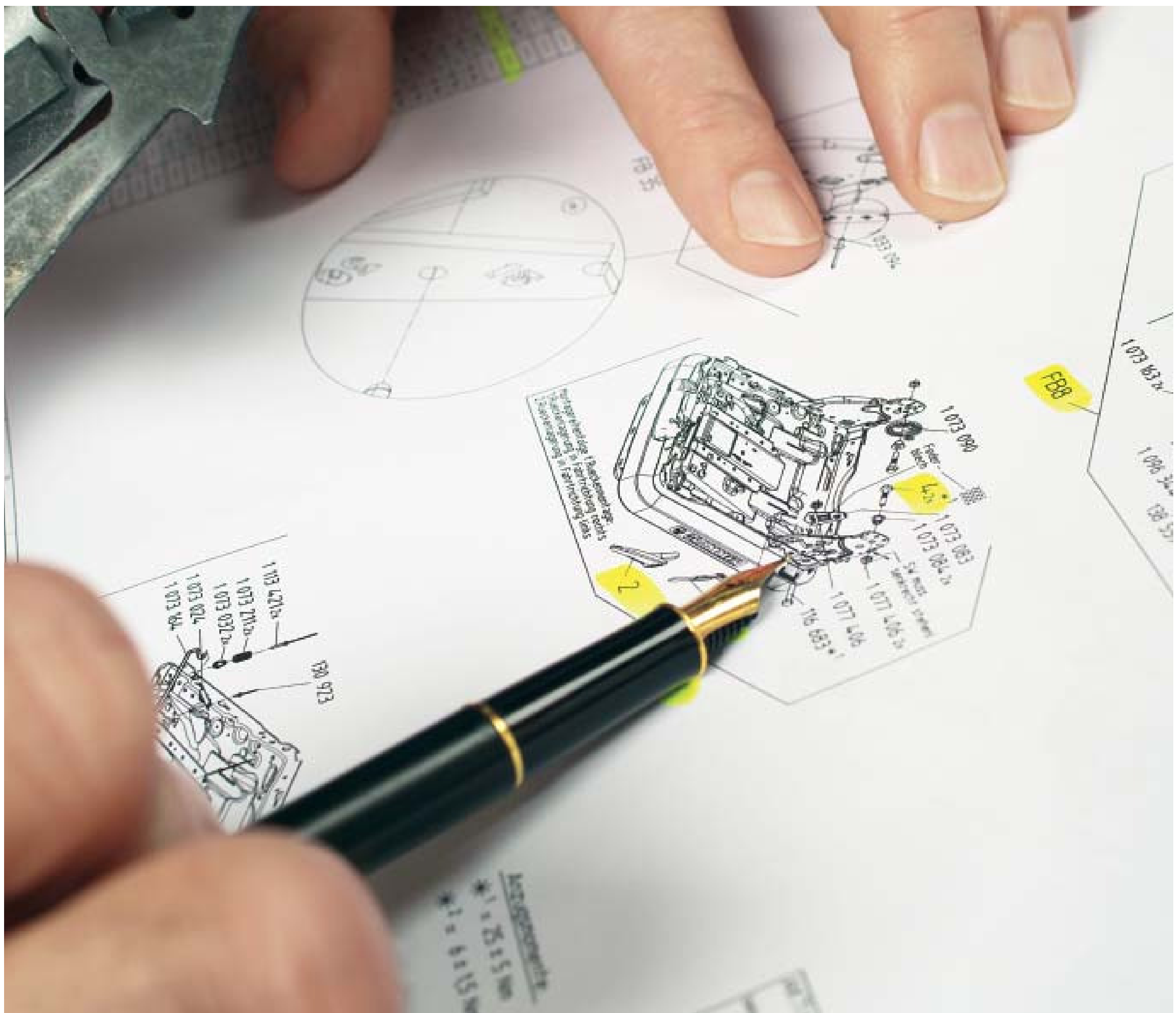
available to everyone, and complicated solutions need not be developed more than once.

GPQ bears fruit Although the process of anchoring the new philosophy is in its infancy, considerable progress has already been achieved, both in the various process chains as well as in the entire site network. Anton Riedl: “Initial experience has already shown that GPQ does more than just remove weaknesses in day-to-day work. The new philosophy gives our optimization activities more dynamism and more continuity in general.”

By adopting a fundamental approach, GPQ also supports the existing Grammer quality programs. Which means that the Company-wide “20 Keys” program benefits in at least eight of its total of 20 components.

BEST PRACTICE: DIGITAL LIMIT SAMPLES INSTEAD OF OVERFILLED MODEL TABLES

In the past, components on model tables were compared against sample parts. The Grammer plant in Immenstetten has developed a solution for monitoring standards. The employees now check the quality features by computer, using digital limit samples and measuring procedures. Customers and suppliers are incorporated into the data transmission network. The advantages: any changes can not only be coordinated reliably and cost-effectively but can also be performed more quickly. The new procedure can be applied to all product lines.



MISTAKES AS OPPORTUNITIES

Humans will never reach a condition where they are fully free from mistakes. But this does not have to be a disadvantage. After all, detecting mistakes always offers an opportunity for making improvements. Grammer employees report on their experiences, opinions and attitudes on this issue.

Humans are not perfect – mistakes can happen at any time. What are the most common causes in your opinion?

Georg Flor I think there are many causes at work here. For example, mistakes occur when specifications are not clear enough or when employees are insufficiently trained. Ultimately, many work processes are so complex that mistakes are inevitable.

Birgitt Raith The time factor also plays an important role. When things are hectic and people are working under stress, the probability of carelessness is simply higher.

How important is the open discussion culture at Grammer in dealing with mistakes in a positive manner?

Enrique Martinez It is very important as it allows weak spots to be identified immediately and tackled without delay.

Zheng Zhaowu As everyone can express his opinion freely, problems are examined from several perspectives and can thus be rectified even more quickly. Thanks to the trusting atmosphere, employees are more willing to admit to their own mistakes and work to prevent them from occurring again.

How are mistakes detected and rectified effectively in your division?

Zheng Zhaowu In Tianjin, we are already working with GPQ. The Production employees check their work themselves every day on the basis of specifications and feedback from the nearest production chain station. Deviations are reported to the supervisor immediately. He then stops the irregularity and initiates steps in order to analyze and solve the problem. If possible, corrective and preventive measures are then taken without delay or addressed for further analysis within one working day.

Enrique Martinez In my field of responsibility, it is also important to work beyond the confines of our own Company. For example, suppliers are informed immediately if something is wrong with their deliveries. In order to ensure that everything runs smoothly, we also develop suggestions for improvements aimed at the suppliers.

Birgitt Raith In my division, faults in purchases are detected and evaluated by means of collective cards as early as the development stage. However, it is often difficult for those in charge to deal with mistakes systematically. In order to improve this, we will soon start using the GPQ methods.

Treating mistakes in a positive manner does not mean constantly to allow oneself to make mistakes. How can possible mistakes be minimized or prevented outright?

Georg Flor Systematic implementation of FMEA as well as compliance with the rules of play are a very good point here.

Birgitt Raith We prevent faults from occurring by drawing on our experience, by preparing feasibility studies and accepting new technologies in a positive manner. In addition, we get experts from R&D and Production involved at a very early stage, ideally as soon as the first 3D- or design data from the customer are available.

Hans Hollederer Bundled specialist expertise can prevent a large number of possible problems. Interdisciplinary discussions represent a necessary project tool in this regard. Strengthening the knowledge of our employees is an absolute necessity.

Zheng Zhaowu An exchange of experience is important. In addition, we monitor all work processes attentively and systematically, and not only in Tianjin. This means that even smallest symptoms which could lead to major mistakes can be detected.

Can dealing with mistakes quickly and professionally increase corporate success?

Enrique Martinez Absolutely. The customer is satisfied if he sees that we are taking him seriously and committing ourselves to the value-added chain with utmost care.

Georg Flor Preventing mistakes must have utmost priority and be part of the corporate culture.

Birgitt Raith This creates a very constructive atmosphere in relation to the customer as well. It strengthens our credibility and increases the customer's confidence in us. And it allows Grammer to prove that we identify with our products.

Zheng Zhaowu Ultimately, professional defect processing does more than just promote quality. It also optimizes work efficiency, saves time and paves the way for potential progress. All these factors increase our competitive edge.

Nobody is perfect. Therefore, one more brief question to finish off: How do you handle mistakes yourself?

Zheng Zhaowu First of all, I try to look my mistakes courageously in the eye and neither to ignore them nor to run away from them. I then analyze the causes so that I do not make the same mistake again.

Birgitt Raith I'm a perfectionist. Which is why I get all the more annoyed by mistakes. So I try to detect them at an early stage and rectify them.

Georg Flor If I make a mistake, I do not enjoy admitting I have made one. But I have learned that admitting my mistakes is the best path forward. Both for me and for those around me and our shared objectives.

Zheng Zhaowu works as Supervisor Foaming in the Grammer plant in Tianjin, China.

Georg Flor is in charge of the international plant structure in his responsibility as Head of Operations in the Seating Systems division.

Hans Hollederer is in charge of technical procurement for the Rail business unit in Haselmühl.

Enrique Martinez (SQA & quality product engineer) deals with quality assurance for supplier parts in Querétaro, Mexico.

Birgitt Raith is in charge of development of covers for seats, side cushions, headrests and armrests in the Competence Center Grammer Automotive Immenstetten.

LEARNING BY DOING – EVERY DAY!

Daily practice in the Haselmühl plant. In the production area, a GPQ team meets in order to discuss possible quality deviations and initiate corrections straightaway. In addition to the head of department and the quality manager, colleagues from the production area are also present. In this instance, everything revolves around the driver seats and their components.

08:02

Minor irregularities in the suspension of a driver's seat are on the agenda today. The part in question is thoroughly analyzed and evaluated from different perspectives. The focus is placed on practical experience.

The causes have been identified. Together, the participants work out what tiggered the causes. Even though it is still early, everyone is highly concentrated. Everyone's ideas are recorded in meticulous detail.

08:10

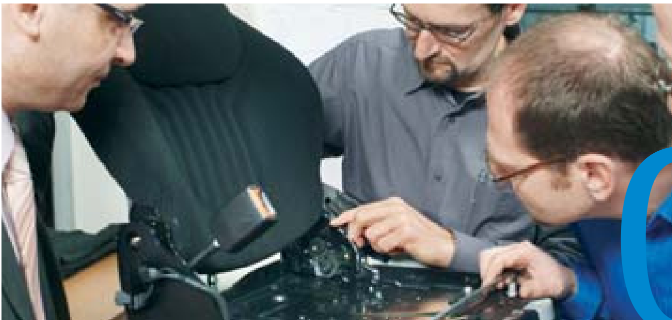
Whoever strives towards perfect production processes must act with particular caution and care. The secret to success is detecting potential defects as quickly as possible and rectifying them so they never occur again. This is why daily GPQ meetings are an important element in the comprehensive quality offensive for Grammer.

Whether it is Kümmersbruck in Germany or Bursa in Turkey, the working day for all plants in the Seating Systems division follows a standard ritual: the participants in the quality round within the division gather in Incoming goods inspection, Pre-production, Production and Logistics.

Take Production, for example. The team consisting of employees, foremen, quality supervisors and production managers gets together. If necessary, colleagues from Research and Development or from Industrial Engineering are also present. The small group consists of a maximum of ten participants. In Grammer's experience, this is the perfect team size for working together effectively.

08:22

The main findings from the meeting are recorded on the flipchart. This prevents any information from going missing. The solution which is developed is reliably documented and can still be reproduced at any time after the meeting.



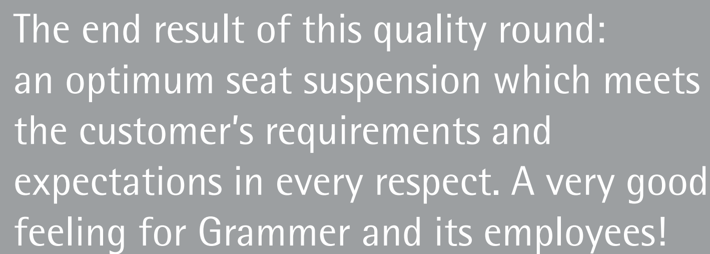
08:15

Now is the time to develop solutions to rectify the problem. It is here that the on-site quality analysis proves its worth, as the feasibility and effects of ideas or solutions can be checked immediately.

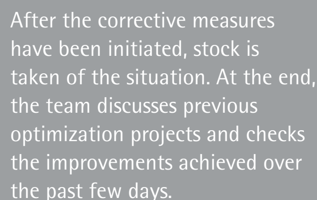
Rapid, direct solutions The only topic dealt with in the meetings (which last no more than half an hour) is internally detected quality deviations or feedback from customers. The product or part in question in which such a deviation was detected is normally placed in a prominent position on the table. Right beside it is a similar part, but one which is free of defects. This makes it easier to make comparisons with the defect part, and highlights deviations directly. The participants work together in determining the cause of the defect.

Each person brings with him the knowledge typical to his area of specialization as well as his own specific experience. This makes it possible to consider faults from a wide range of perspectives, to bring together individual ideas and to link the most varied of approaches. When the cause has been discovered, the participants immediately think about and discuss possible solutions.

No bureaucracy, no time loss The points and potential solutions discussed here are recorded briefly and concisely on a flipchart. This unbureaucratic method does away with long official channels and filling-in of forms. Theory and reports recorded in writing are relegated to the background. This saves time and offers people the advantage of being able to act very quickly.



The end result of this quality round: an optimum seat suspension which meets the customer's requirements and expectations in every respect. A very good feeling for Grammer and its employees!



After the corrective measures have been initiated, stock is taken of the situation. At the end, the team discusses previous optimization projects and checks the improvements achieved over the past few days.

08:25

A greater sense of individual responsibility During the meeting, a professional expert is appointed – either an employee from the group or a colleague from another corporate division. His role is to develop concrete corrective measures on the basis of all the findings gathered in the quality round as soon as possible. This guarantees that the improvement process starts immediately.

Practice has shown that allocating personal responsibility is particularly effective at enhancing the efficiency with which solutions are optimized, because everybody knows exactly what he is responsible for. But this is not the only advantage. Major improvements are also made to the processing time. This is the reason why the internal specifications state that no more than three days may pass between the quality round and implementation of the solution.

Constant monitoring of progress After rectification of the defect has been successfully launched, the quality round checks what progress has been made with the projects from previous weeks. The key question is: What improvements did we make yesterday? The results are checked, open questions discussed and further steps to be taken are specified in detail. This is normally the best part of the meeting for the participants as they can nearly always tick off the quality issues from the previous days as successfully completed.

NEARLY EVERYTHING THAT A GLOBAL GROUP SUCH AS GRAMMER DOES INCLUDES INNU-MERABLE PROCESSES. MANY SMALL-TOOTHED WHEELS INTERACT WITH EACH OTHER IN ORDER TO DELIVER PERFECT RESULTS.

"In motor sports, the victor stands alone on the rostrum when the race is over. But his or her success would not be possible without a combined team performance. Because as a driver, I cannot achieve victory all on my own; the entire team is always required for this. The team includes technicians, engineers and all other team members. They all work very well together and always pull together. Just take a pit stop as an example: every maneuver of the mechanics must sit perfectly here and work in harmony with every other maneuver so that not a single second is lost. But naturally, team work begins long before the actual race itself. It starts when the vehicle enters development and continues with preparation for the race. And it does not stop when the vehicle crosses the finish line. In every season and race phase, all employees work together in a highly concentrated manner and in harmony, in true team spirit."

Ellen Lohr, the most successful female touring car pilot of the 1990s. To date, she is the only woman to win a race in the German Touring Car Championship (DTM). In 2004, she switched to off-road sport and since then has regularly participated in the legendary Dakar Rally.

TEAMWORK …

Tires squeak, engines rev up, cars dash by – at the German Touring Car Championship, everything happens as quick as a flash.

Particularly in the pit, where a stop lasts on average only seven seconds. In no time at all, tires are changed, vehicles fueled and the transmission reset. But this can only happen with a very well trained team. The mechanics in the pits are extremely well prepared, everyone has his own job, every tool and every component is in a standard place. The engineers monitor the car while it is speeding around the course. All performance data comes together in the control center, and the drivers receive their information from here via on-board radio. And base all their skillful racing maneuvers on this information. In this way, the pilots achieve unbelievable peak performances time and time again.

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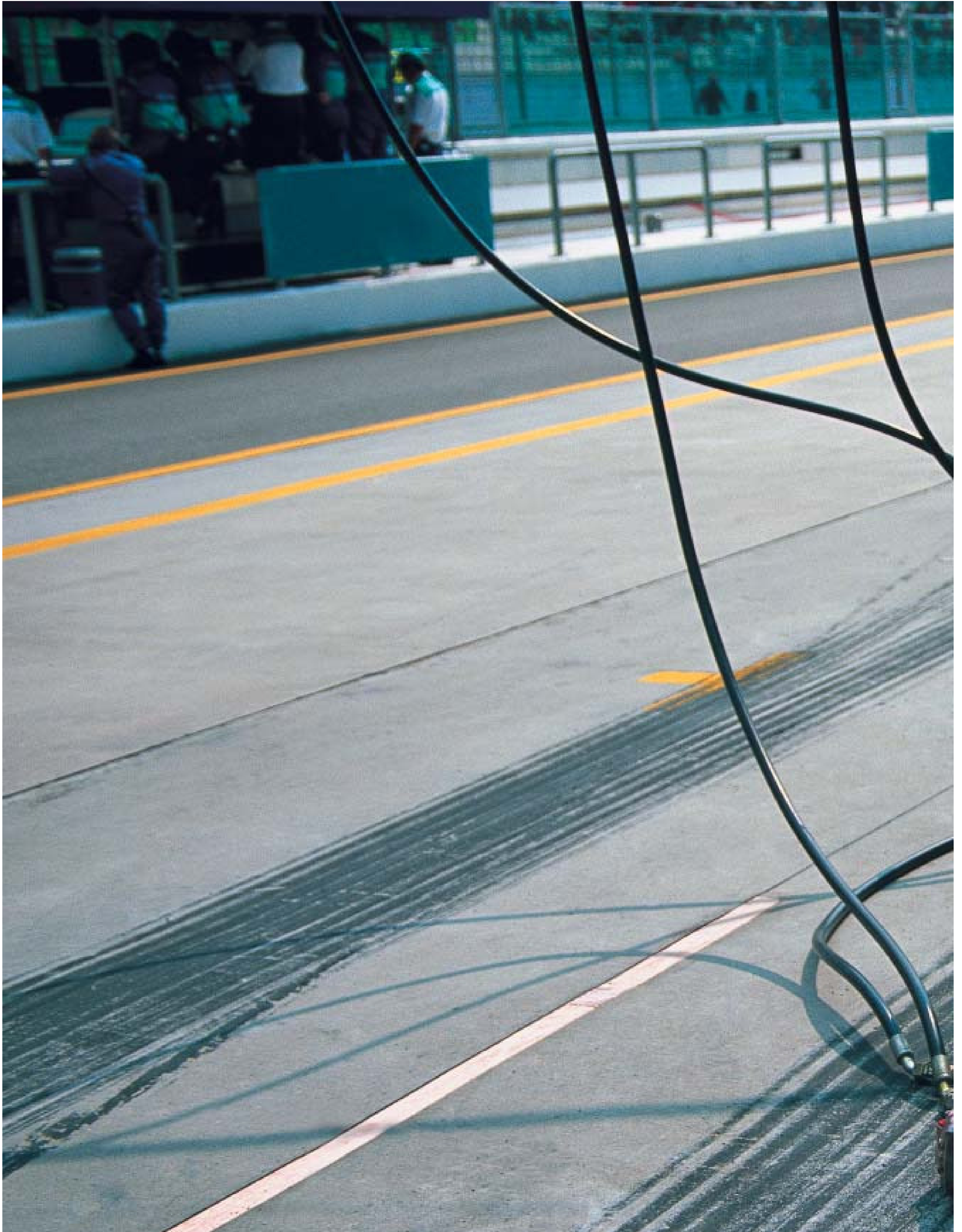


...FOR SUCCESS

The situation is not very different in a company. Just like in the DTM, interaction between many components is extremely important. Teams work hand in hand because they know that every product is only as good as the sum of its parts. Specialists from Development, Production and Quality combine their expertise. They test every process and optimize processes, systems and technologies. Thanks to constant further development, one progress story follows another. And in this way, the Company conquers the pole position. And moves further and further forward in the race to be first. Coordinating everything, monitoring everything and constantly improving everything is a demanding task. But one which is worth it – because every time we overtake someone, it pays off and we're the first to cross the finish line!

JÖRG PRIGL (MERCEDES-BENZ)

ROBERT MEIER (GRAMMER AG)

PARTNERSHIP AT THE HIGHEST LEVEL

Successful partnership in the automotive industry is characterized by absolute reliability and first-class product quality. This is not enough for Grammer: close personal contact and trusting teamwork are two further factors which are necessary. The successful partnership with Mercedes-Benz follows precisely these basic principles – and this is nothing new. The supplier has been providing the Stuttgart-based premium manufacturer with components and systems for the various model series since 1988. In this joint interview, Jörg Prigl from Mercedes-Benz and Robert Meier, Customer Manager at Grammer AG explain how the partnership is organized.

Mr. Prigl, what does the term "quality" mean to you as Program Manager at Mercedes-Benz?

Jörg Prigl Quality is the relationship between the nature of the components and what is required from them. To me, the quality of our products means meeting the requirements of our customer in terms of both function and design. We do not compromise on quality, and this is what customers of Mercedes expect.

In the current customer satisfaction study by the US market research company J.D. Power, Mercedes is again well up the rankings.

Jörg Prigl The quality of our vehicles – and the resulting satisfaction of our customers – is our number one priority! In this respect, studies such as the one by J.D. Power, represent a neutral and independent indicator of what we have achieved. They are also an important tool to introduce amendments, if necessary.

Mr. Meier, for the Grammer Group also the focus is on maximum quality and absolute customer satisfaction. How can this requirement be guaranteed across the board at the various production sites around the world?

Robert Meier One particular guarantee for optimum quality at all sites is our own standardized quality management system. This has been an intensive part of our daily life for years and it is always being improved. We have defined in the system within the Grammer World uniform standards and requirements which make it easier for the plants to speak the same "quality language".

The Grammer World includes numerous plants outside Germany. They manufacture in an international network with complex logistical structures. What challenges are there in order to be able to fulfill customer expectations just in time?

Robert Meier In this respect, it is quite clear to me that permanent proximity to customers is a central challenge. Not simply as a phrase which is used a lot today, but as a lived and active relationship with the customer at all levels. This not only makes demands on sales but also means that all employees contribute. Our logisticians work closely together with our partners' production managers – such as Mercedes for example. Project managers and those employees responsible for quality at both Grammer and our customers' coordinate on a regular basis.

As a result, actively fostering relationships with our customers is in the blood of every single one of our employees. "Just in time" is never a problem for this reason.

How can the information flow of the supply chain between Mercedes and its suppliers be represented in practice?

Jörg Prigl Reliable and efficient procurement and supply logistics can only be guaranteed by means of close partnership. In support of this, we and our suppliers use various systems. One of their functions is to exchange up-to-date information regarding the delivery status.

Robert Meier I would just like to add something regarding the previously mentioned proximity to customers. In 2006, we set up a permanently staffed office on site next to the Daimler plant in Sindelfingen. The purpose was twofold: it provides a meeting place for customers, and the office is equipped with flexible workstations for project employees, engineers and sales staff to coordinate and communicate quickly with managers at Mercedes. In addition, we have implemented various regular meetings at many different levels. This enables active discussion and subsequent implementation of topics at short notice.

Our many years of relation with Mercedes naturally creates a certain degree of trust which often results in customers being actively involved in ideas for change at a very early stage.

A product can only be as good as its individual components. What quality expectations does Mercedes have of its suppliers? And how are these monitored?

Jörg Prigl We demand and expect from our supply companies that their commitment mirrors the uncompromising approach to and belief in quality across the entire value-added chain in place at Mercedes-Benz. This objective can only be achieved in close partnership and intensive interchange between the companies during product development and manufacture.

This cooperation is accompanied by regular audits of the development costs and manufacturing quality, not least also by close personal coordination of our engineers in development and manufacture. Our partnership with our suppliers thus begins at an early stage in the development process in order to create the basic conditions and requirements, both for robust products and stable processes.

And how does Mercedes position itself to secure universal standards within the company?

Jörg Prigl Throughout product development, we have installed processes to ensure the high Mercedes-Benz standard of quality. Digital processes provide support in securing functional requirements. In addition, one important instrument in meeting the standards is rigorous remedying of defects. The universal use of quality management methods including FMEA, Six Sigma and testing the degree of maturity contribute to this.

Another important aspect is the reduction and thus management of product complexity. The rigorous implementation of our modular strategy plays a very important part in this – and we are convinced it is also in the interests of our partners in the supply industry.

For first-class products which are a joint manufacturing effort between several plants and companies, quality must be implemented through the entire process. How is this possible in a complex supply chain?

Robert Meier Undoubtedly an interesting question. We encounter this requirement in every project. Within Grammer, therefore, a good deal of scope and uniform standards are assigned especially to process planning. This means the process steps are already in place at an early stage of the project and are monitored more quickly and easily on an ongoing basis. This active control at a high level enables us to keep a permanent eye on the supply chain which in some cases extends over different plants. In this way, we can correct in good time any deviations which emerge.

Even though partnership such as that between Mercedes-Benz and Grammer produces high quality standards, improvements are possible. How can shared procedures and processes be made even better?

Jörg Prigl A requirement for outstanding quality is a properly agreed continuous process of improvement between us and our suppliers. To this end, various data from complaints, warranty cases and market studies are included in the product development process and production.

In addition, Mercedes-Benz expects its suppliers to react quickly and have a functioning management of their own supply process.

Supply process is the key word. Grammer also relies on external suppliers. The highest quality requirements apply to these as well – how do they secure this at all times?

Robert Meier For Grammer, safeguarding and ongoing optimization of the quality of our own suppliers is of course a very important topic. We therefore attach considerable importance to the early integration of our suppliers in product development, perform regular audits and develop improvement strategies together with our partners.

In addition to this comprehensive cooperation, we also install internal processes to operate at the highest level along the entire value-added chain. For example, by optimizing global supplier development, we focus increasingly on core suppliers and permanent development partners or promote continuous project management in production and quality planning.

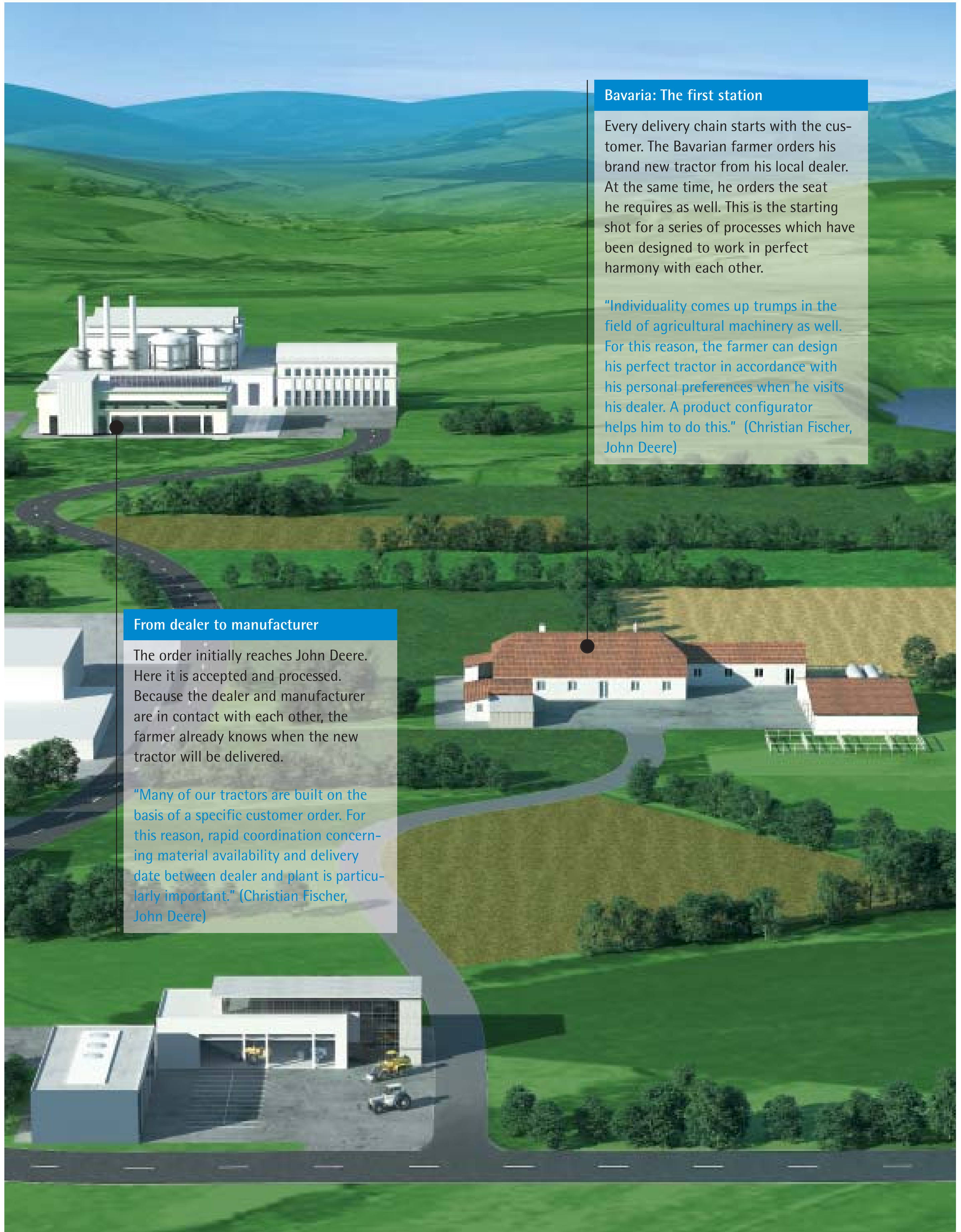
That is a comprehensive packet of measures from Grammer. How can the partnership with customers and also its own suppliers be made even better in future, if that's possible at all?

Robert Meier In my opinion, the key to optimization is intensive and active communication. On the one hand listening intensively, and on the other, clear formulation. This is often much more effective than trying to force procedures into schematic processes. Which brings me back again to proximity to customers: If every employee is made aware of his part in customer responsibility and is actively involved with this on a day-to-day basis, then company-wide procedures also function successfully and can always be improved.

Mr. Prigl and Mr. Meier, many thanks for this interesting discussion and all the best for your partnership in the future!

Jörg Prigl is Head of A/B Class Program Management and smart at Mercedes Benz Cars based in Sindelfingen.

Robert Meier is Head of the Daimler Business Unit at Grammer AG.



Bavaria: The first station

Every delivery chain starts with the customer. The Bavarian farmer orders his brand new tractor from his local dealer. At the same time, he orders the seat he requires as well. This is the starting shot for a series of processes which have been designed to work in perfect harmony with each other.

"Individuality comes up trumps in the field of agricultural machinery as well. For this reason, the farmer can design his perfect tractor in accordance with his personal preferences when he visits his dealer. A product configurator helps him to do this." (Christian Fischer, John Deere)

From dealer to manufacturer

The order initially reaches John Deere. Here it is accepted and processed. Because the dealer and manufacturer are in contact with each other, the farmer already knows when the new tractor will be delivered.

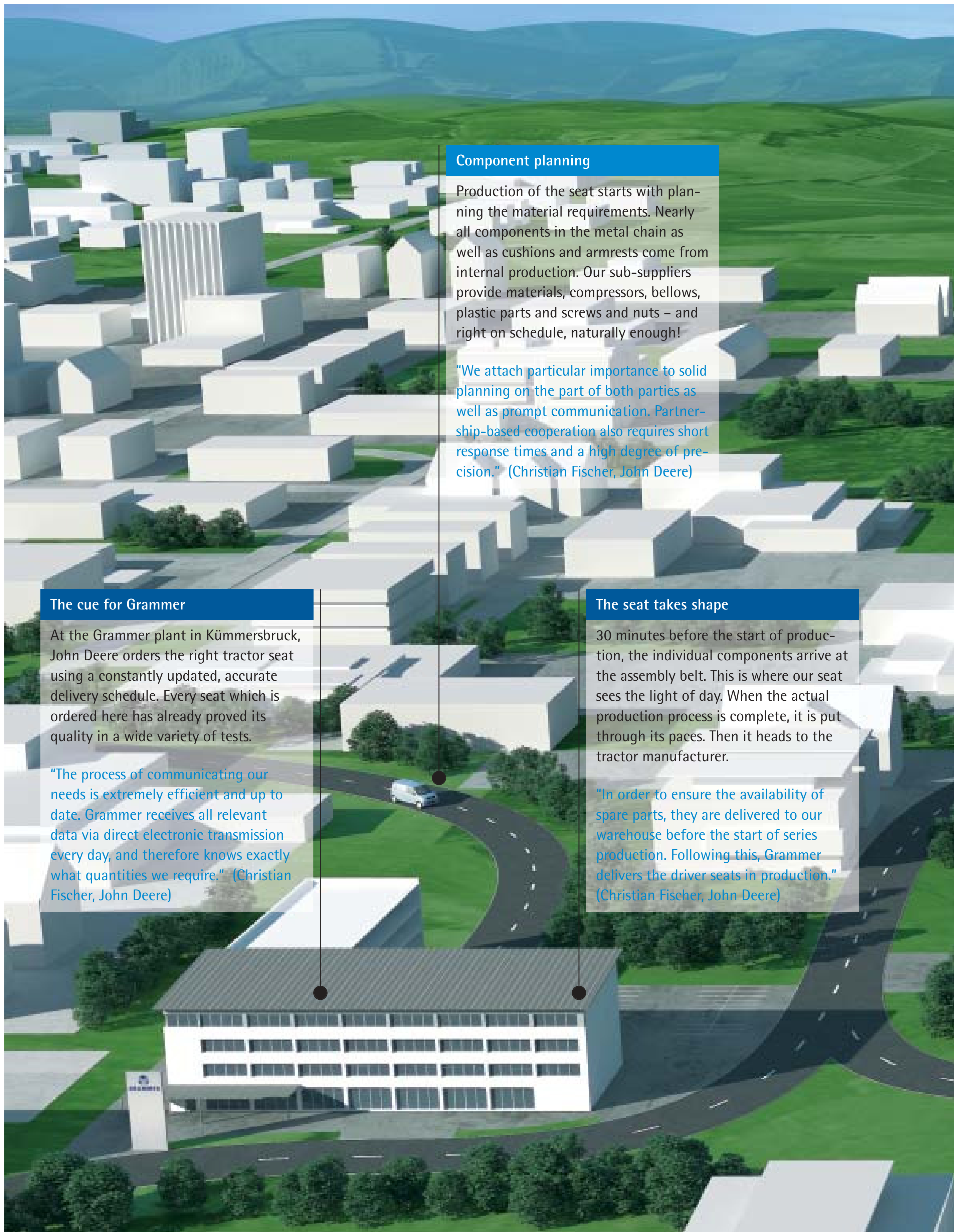
"Many of our tractors are built on the basis of a specific customer order. For this reason, rapid coordination concerning material availability and delivery date between dealer and plant is particularly important." (Christian Fischer, John Deere)

THE WAY TO THE CUSTOMER

Somewhere in Bavaria: A farmer plows the dark earth of a field as he sits at ease in his comfortable tractor seat. Which is hardly surprising as the seat was manufactured by Grammer. But how does the product end up in this modern agricultural machine? And what roads does it pass through before being used for work in the field?

One thing is certain: Before the farmer can take his seat, the seat passes through many stations – because as a partner to a major technical agricultural producer such as John Deere, Grammer is part of complex delivery chains. Grammer has enjoyed a close partnership with the manufacturer for a long time. Christian Fischer, SCM manager at John Deere, mentions the reasons for this successful cooperation: "What counts for both us as well as Grammer is reliability, know-how and cost awareness. Which is why the procedures and processes in the delivery chain operate extraordinarily well!"

But what exact form does cooperation between Grammer and the agricultural technology expert take? A typical example taken from practice and with a commentary by Christian Fischer, can answer this question.



Component planning

Production of the seat starts with planning the material requirements. Nearly all components in the metal chain as well as cushions and armrests come from internal production. Our sub-suppliers provide materials, compressors, bellows, plastic parts and screws and nuts – and right on schedule, naturally enough!

"We attach particular importance to solid planning on the part of both parties as well as prompt communication. Partnership-based cooperation also requires short response times and a high degree of precision." (Christian Fischer, John Deere)

The cue for Grammer

At the Grammer plant in Kümmersbruck, John Deere orders the right tractor seat using a constantly updated, accurate delivery schedule. Every seat which is ordered here has already proved its quality in a wide variety of tests.

"The process of communicating our needs is extremely efficient and up to date. Grammer receives all relevant data via direct electronic transmission every day, and therefore knows exactly what quantities we require." (Christian Fischer, John Deere)

The seat takes shape

30 minutes before the start of production, the individual components arrive at the assembly belt. This is where our seat sees the light of day. When the actual production process is complete, it is put through its paces. Then it heads to the tractor manufacturer.

"In order to ensure the availability of spare parts, they are delivered to our warehouse before the start of series production. Following this, Grammer delivers the driver seats in production." (Christian Fischer, John Deere)

The moment of truth

Where the delivery chain began, there too it will end. The farmer receives his new tractor on the agreed date, fitted with the seat he required from Grammer. Starting now, both of these will prove their worth with each passing working day.

"This marks the end of the production process but also marks a new beginning for the customer. It will be a very long time before he forgets his first ride in his new tractor." (Christian Fischer, John Deere)

Getting under way with the tractor

The agricultural machinery manufacturer receives the seat. Its shape and design match the order perfectly, and it arrives on schedule. No sooner has it arrived than it is assembled on the tractor which has been ordered. The stage is now set for the farmer to feel very proud – he has all the features which he requires.

"From our perspective, the established procedures and processes between Grammer and John Deere work very well. The joint, target-cost-oriented development of innovative products represents one of the challenges for the future." (Christian Fischer, John Deere)

On the road again

But there is no time to catch breath. Now it's time to head to Bavaria! Safely stowed away in the low loader or in special freight cars, the tractor and seat get under way to the next point in the delivery chain, the trading partner's premises.

"Behind every successful product lies a systematic development process. Which means that series production of seats for John Deere does not start until numerous preliminary stages have already been mastered. These stages range from prototypes and production run parts, test series and pilot constructions right through to audits and initial samples." (Christian Fischer, John Deere)

TWO COMPANIES, ONE GOAL

"We want to make it better!" This slogan has been part of the CLAAS culture for almost 100 years. But this is not the only reason why CLAAS is a leading example in innovative agricultural technology. Grammer is an important partner to this manufacturer of agricultural machinery. Dr. Hermann Garbers from CLAAS provides information about the role of the supply industry for his company.

CLAAS has occupied a leading position in the German agricultural machinery ranking for many years now. And not without good reason: high-quality products and ultra-modern technology are the hallmarks of this company. Dr. Garbers, what importance does the CLAAS Group attach to quality?

Dr. Hermann Garbers We want to meet customer expectations reliably; we even want to exceed customer expectations. This requires a process of continuous improvement. Our declared goal is systematic, continuous expansion of our high quality standards – along the entire delivery chain.

As a manufacturer of agricultural machinery with an international sphere of influence, CLAAS works closely together with different supply companies. What do you attach particular importance to?

Dr. Hermann Garbers The innovative nature, reliability and quality of our products or services depend in no small way on the expertise and capability of our suppliers. When selecting our suppliers, we ensure that they fit in with our product strategy very well. Their willingness to check delivery chain processes on an ongoing basis and optimize them at any time is also of importance to us.

To what extent are suppliers involved in preparatory product planning?

Dr. Hermann Garbers We enter development partnerships with suppliers which exhibit a particularly high degree of innovative strength and motivation. As part of this partnership, we develop future-oriented system solutions for our products together. A reliable, trusting relationship in this area is an indispensable basis for working together successfully.

Within global supply chains, a constant information flow is highly important. How do you reach agreement with your partners on issues such as supply demand and up-to-date planning data?

Dr. Hermann Garbers The more efficiently we can provide information about our needs, and the more up-to-date this information is, the better we can fulfill customer requirements. All in all, we offer our suppliers various communication channels, of which paper, fax and e-mail are becoming increasingly obsolete options.

So, what other communication channels can be used?

Dr. Hermann Garbers With more than 150 suppliers, we work on the basis of Web-EDI, i.e. Internet-based electronic data exchange or conventional EDI. By regularly sending cyclically revised annual plans, monthly and weekly demands as well as daily demands (stating precise quantities) and sequences, we allow our suppliers to optimize their internal planning. This makes it possible to respond to customer requirements together even more accurately. In addition to the order and supply data, we also provide our suppliers with technical information in electronic form. We use our internal drawing exchange portal for this purpose.

Even the field of agricultural machine technology is displaying a trend towards individuality. How does CLAAS guarantee a high degree of flexibility?

Dr. Hermann Garbers Flexibility is a decisive competitive argument. We now build more than 70% of our tractors and harvesting machines in response to a concrete order from a customer. When placing their order, our customers can choose between different seat designs.

At our production site in Harsewinkel, the required flexibility is achieved by means of an on-site consignment warehouse. Different driver seats are held in temporary storage here until we need them for a specific customer order. In this way, we can respond to short-term fluctuations in demand reliably. Our assembly lines deliver the finished goods in strict sequence. This gives us the flexibility to respond to changes in customer requirements right up to just before completion of the end product.

And how does the brand new agricultural machine find its way to the customer?

Dr. Hermann Garbers Following assembly, the CLAAS products are delivered directly to trade partners and importers. Because of their large size, only special equipment can be used for this purpose, i.e. low loaders or special carriages when long distances are involved. When the tractor or harvesting machine is then handed over to its new owner and he sits on the comfortable seat for the first time, this never ceases to be a special, exciting moment.

Dr. Garbers, thank you very much for your very informative conversation and we wish you continued success!

Dr. Hermann Garbers is Managing Director Technology and Quality of the CLAAS Group.

QUALITY IS PLANNABLE

On average, industrial companies spend 6% of their sales on quality measures worldwide. The major part of this enormous amount comprises costs which are incurred testing or repairing products. Only a small part is used for preventive quality measures. In this way, around 70% of quality weaknesses can be detected and reliably eliminated with anticipatory analysis in the preliminary stages.

Studies demonstrate that the sooner quality aspects are taken into consideration the better. Analyzing, assessing and eliminating possible risks in the development phase saves substantial costs. The most important preventive measures include FMEA, failure mode and effects analysis. As a development tool to accompany planning, this quality engineering method has proved its worth in numerous high-tech industries. For example, the VDA developed its own industry-specific guidelines for the use of FMEA in the automotive industry.

Standards for Group-wide optimization

Grammer is also working with FMEA. The system is firmly integrated into the areas of design and planning as an efficient method of achieving higher quality standards: Each new development is rigorously examined for flaws at a very early stage. To this end, Grammer has introduced an internal standard which ensures Group-wide standardization of FMEA.

At the heart of the system are bindingly stipulated standards which enable special FMEA teams to critically scrutinize the product design, its detailing and implementation. In order to assess the optimization potential as thoroughly as possible, all the characteristics of the subsequent product and its manufacturing process are examined in the test facility. Three questions in particular are posed in this process: What defects could theoretically occur? How great is the likelihood that a specific defect may occur? And how likely is it that this defect will be noticed immediately if it does occur?

The teams work out effective avoidance strategies using the knowledge acquired; critical points are rigorously eliminated in both the designed product and the development processes intended for it. The result is a product development suitable for production which is based on a quality-driven manufacturing process right from the outset. In practice, this means smooth production starts, functional series production and, above all, better products.

Perfectly simple: Perfection with Poka Yoke

Japan is home to many of the world's quality assurance strategies. And even though one or the other of them has already become a genuine classic, they are as effective today as they have always been. No wonder then that many of these strategies are truly amazing: the smallest of instruments can achieve the greatest of effects.

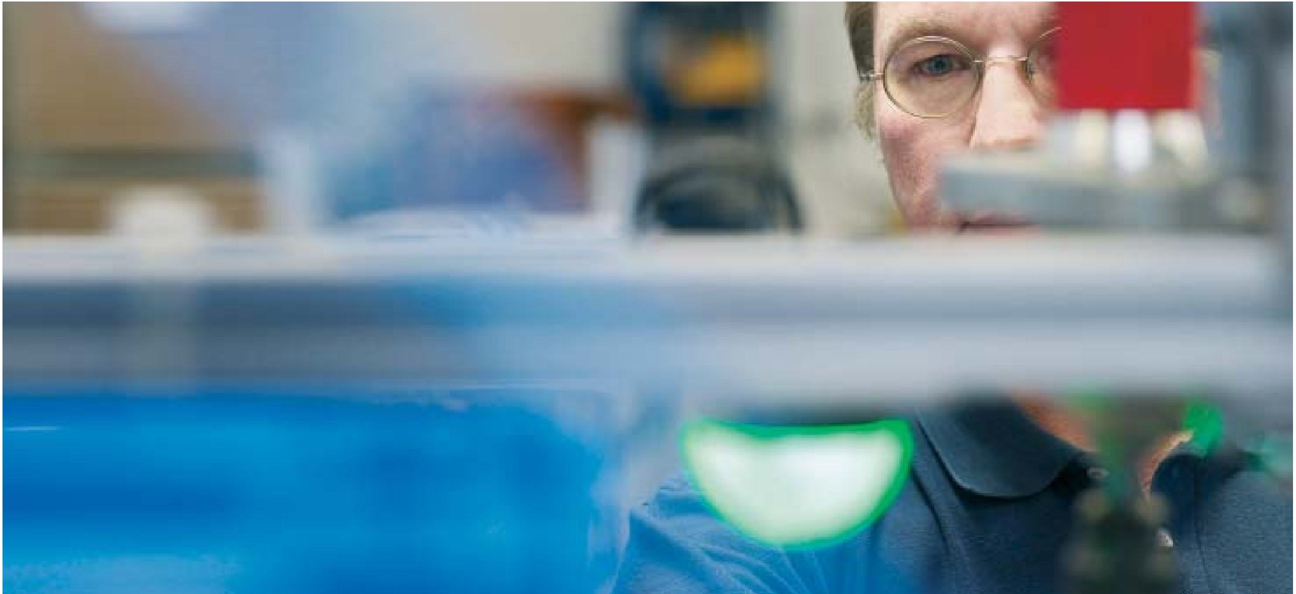
Defect-free working – the Japanese term for this is "Poka Yoke". People cannot achieve this ambitious goal reliably but machines can. For this reason, technology must be used in such a way that the human can do absolutely nothing wrong. This is the core idea behind Poka Yoke.

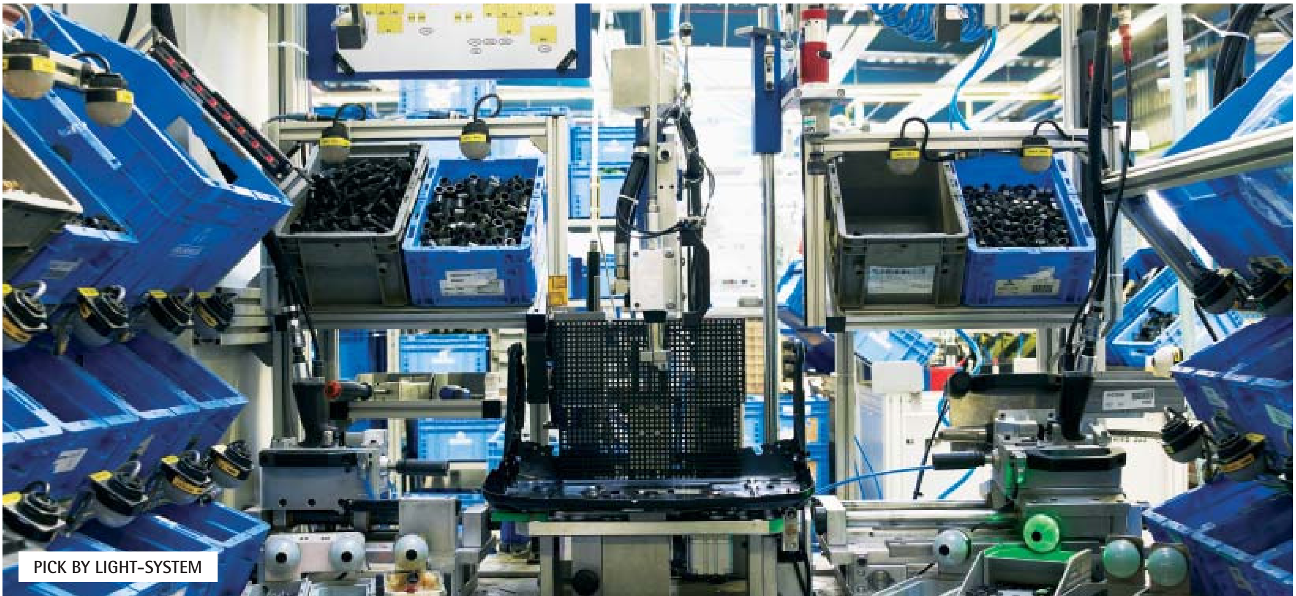
The internationally acknowledged Poka Yoke principle can be applied both to products and processes and is a common feature of everyday life. For example, a telephone plug can only be plugged in correctly because the plug and socket are shaped in such a way that they only fit together in one particular way. Or the ATM: bank notes do not come out until the cash card has been removed. So it is impossible to leave the card behind.

Grammer uses Poka Yoke in both divisions, Automotive and Seating Systems. A typical example of its advantages is the seat plate assembly in the Haselmühl plant. In this plant, 200 different seat plate types are built, different components are needed for each type, and these have to be installed in a specified sequence.

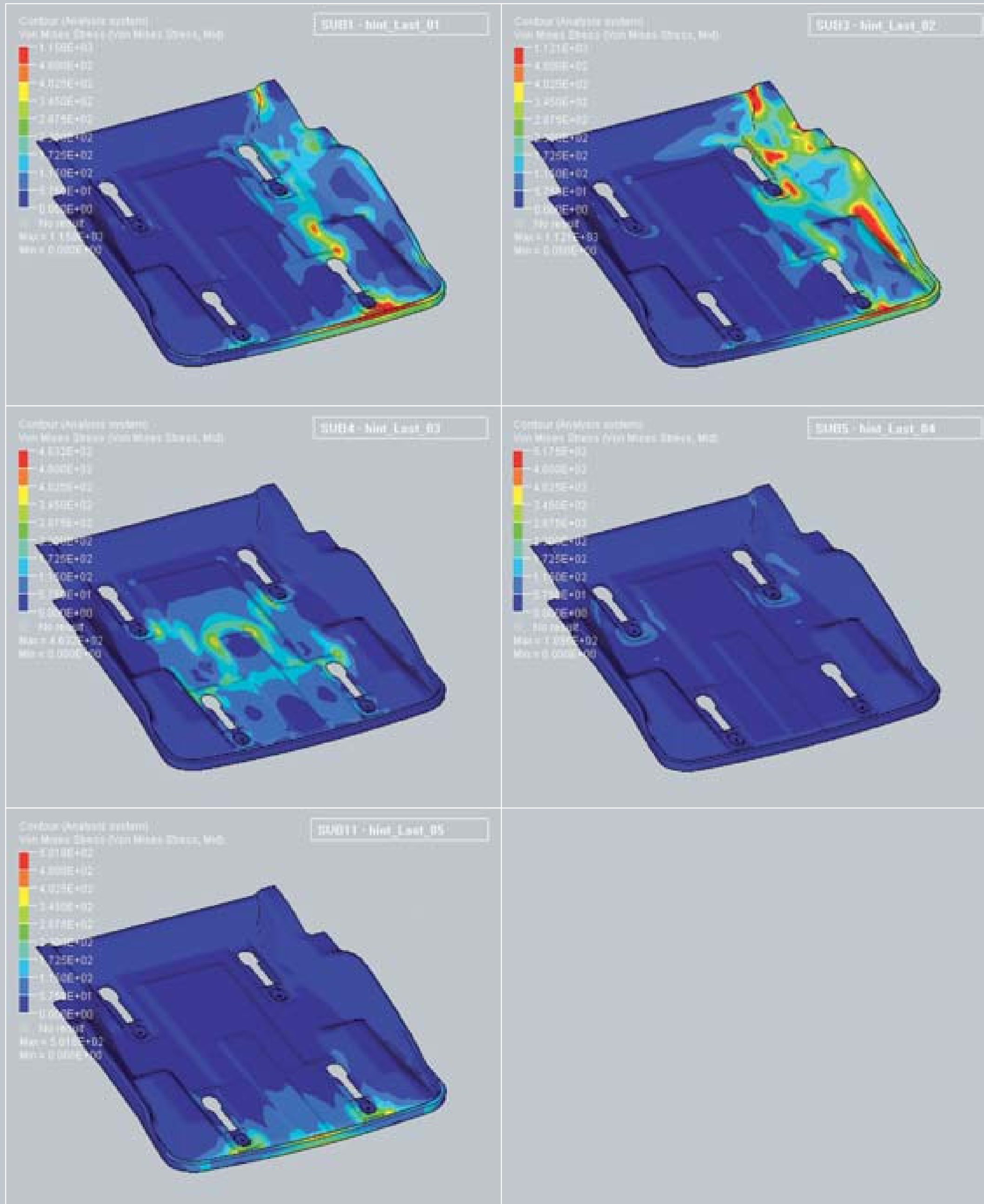
"Pick by light", a Poka Yoke procedure, ensures that nothing goes wrong. The control system works with signals. At every step in the assembly process, a lamp lights up above the parts box with the element to be used next. Light sensors check that the correct part is removed. Sensors check whether the employee is installing the correct module in the correct place. When assembly of the next seat model starts, a monitor displays the parts boxes to be exchanged.

"Pick by light" is based on an IT system which controls the production procedures. It uses central databases in which the assembly processes for all seat variants have been saved. The technical information is automatically sent to the workstations. This ensures that the correct part is always inserted at the correct time in the correct position.





PICK BY LIGHT-SYSTEM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R&D PROCESSES – FOR STATE-OF-THE-ART PRODUCTS

Key elements of the product quality are established during the development process. It is at this stage that specialists from Research and Development design all the features which the product will one day contain. They thus determine the level of quality which can be achieved later on during series production. No wonder then that considerable importance is attached to ensuring and optimizing product quality throughout the entire development process, even in times of ever shorter development times and increasing complexity.

When developing new products, Grammer follows a quality philosophy which sets the benchmark. In the field of seating systems and automotive, the top-class product quality offers impressive proof of this. And this is no recent development. "When the new product is ready for start of production, this is when it becomes clear whether the work performed by Research and Development has been successful", explains Frank Himmelhuber, Vice President of R&D. "In this regard, our work procedures have proven their effectiveness on numerous occasions in the past, and done so impressively. The development of the MSG 95 Varemo or MSG 65/75 seat platforms is just one example of this."

Specifications, standards and fixed rules In order to ensure top quality for the products to be produced at production level later on, the development process combines various approaches. One of these involves systematic supplier management. Because only if the suppliers meet all quality specifications can the end product meet the required standard.

The comprehensive test series are an important element here. They are performed at nearly every stage in the development. The firmly defined Grammer standards form the binding basis for these tests. And this body of rules is a formidable work: covering more than 50 pages, the specifications are broken down and described in detail – for every product type.

Far-sighted development The actual development process follows a standardized process. The first step is answering what may appear to be a simple question: What sort of product do we want to develop? This sounds easy but in practice demands a strictly systematic mode of action. Because even at this early stage, Grammer includes every single component in its deliberations, thereby preventing unpleasant surprises later on. "Only far-sighted planning can guarantee that the end product completely meets our vision of what it should be", declares Frank Himmelhuber. "For this reason, we initially gather together our own ideals, collect information from the customer and market and perform benchmarks with other products. With all this information in the background, we can then define the product exactly."

Concepts for practice When the definition has been specified, the actual concept development starts. Even at this early stage, the question as to whether all product requirements can be met is clarified. If the answer is positive, a model (known as the concept sample) is created. Optically, this model is very similar to the product which will later be created, but no original components or assembly procedures are used to produce it.

At this point, the Grammer Competence Center Haselmühl enters the arena. The product undergoes numerous tests here for the first time, and must prove its quality on a long-term basis. At this phase, functional tests are of particular importance. They ensure that the product will actually be assembled in its planned form. Subsequent product costs as well as economic feasibility are also subjected to examination.

Detailed work for optimum results As soon as the entire concept has been created, it is worked out in precise detail. The quality of the subsequent product takes center stage here as well. By way of example: the Grammer experts attach every single welding seam in precise detail or reduce the material until the product has an optimum weight. Work which takes a lot of time and effort, but which pays off in the end. Only in this way is it possible to create a pilot product nearly all of whose parts are original parts. In the competence center, this pilot product has to undergo hard tests – in continuous operation. Only if it can withstand continuous strain and stress is it a candidate for start of production.

Harder than reality If all tests are passed with flying colors, the prototype is developed and it too undergoes numerous tests. The focus is now placed on material load tests. The prototype must also rise to the challenge of continuous operation under difficult climatic conditions without making any errors. Only in this way can the performance limits of the product be demonstrated accurately – even if the extreme loads in the laboratory are unlikely to be encountered in reality.

The last step is the sample production. This consists of a series of prototypes which are manufactured under production conditions. If everything goes according to plan, the long months of development work bear fruit and the final product can enter production.

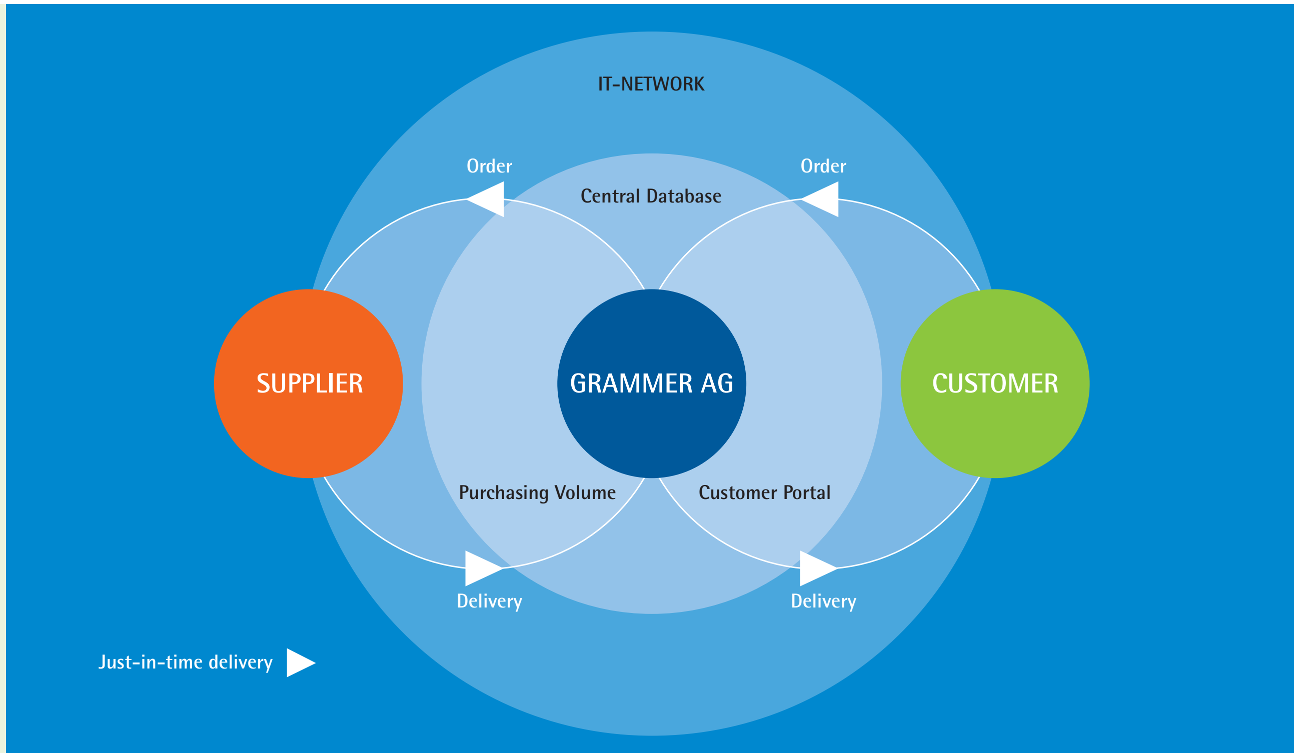
COMPLEX PROCESSES REQUIRE REGULATORY STRUCTURES. WELL-THOUGHT-OUT SYSTEMS PROVIDE FOR TARGETED ACTIONS AND SMOOTH INTERACTION. RIGHT AT THE FORE-FRONT: INFORMATION TECHNOLOGY.

"IT systems are tools for added value. From development through to production, they support corporate processes in which added value is created. Many processes are automated today for quality reasons. For example, because they must be reproducible. Or because it is not sensible for people to carry them out.

IT systems prove their strengths even if production systems change: effects can be examined in advance with virtual tools and then data from planning systems integrated into IT systems on the production premises. This reduces defects and saves on project planning time. Information technology thus ensures universal and high-quality processes – both now and in the future."

Dr. Olaf Sauer, Head of the Control Systems division at Fraunhofer IITB, Karlsruhe.

CREATING BUSINESS PROCESSES SYSTEMATICALLY



Whether they are technical, electronic or theoretical in form, systems are a fundamental component in our lives. They give structure and order to complex processes. In global groups, comprehensive IT architectures are of decisive importance. In the network of global sites, they control different processes and coordinate these perfectly with each other. Which is how individual parts give rise to a homogenous whole.

There are many reasons for the success of a company. One of the most important is the systematic alignment of business processes with customer needs. In a company such as Grammer, it is particularly important that the international production sites work smoothly together. Close networking with partners is also required, because in its capacity as supplier, Grammer forms part of a global supply chain whose members work together flexibly and must react to special customer requirements or short-term changes quickly. Efficient IT structures are indispensable in meeting these challenges.

In practice, comprehensive IT systems frequently break down due to missing links and the uncontrolled growth of the programs used. The typical effects of this are slow response times, reactions or throughput times. In addition, it is generally not easy to display a reliable information flow along the entire delivery chain. In day-to-day working life, this means unnecessarily complex and tedious processes as well as high maintenance outlay and time-consuming work for IT. Not to mention the effects on quality!

The solution: harmonization of IT In order to optimize supply chain management fundamentally and adapt internal processes even more accurately to customer requirements, Grammer has restructured its IT, by implementing a uniform SAP platform throughout the entire Company. The various dependencies now work on the same technical basis and use identical applications. Better networking within the delivery chain is facilitated by two corporate portals, one for customers and one for suppliers. The basis for both portals is formed by a web-based, central interface which can be accessed both internally and externally.

Thanks to the consistent databases, work procedures and processes can be illustrated more transparently. Because they are completely processed digitally, work procedures can be shown and controlled without requiring a change in medium. This brings cost benefits, saves time and brings greater security with regard to quality.

The success which it has achieved proves that Grammer is right: VW gave an award to the Company as one of its best suppliers. In so doing, VW not only mentioned the very high product quality but also drew attention to the exemplary nature of the processes.

Technical outlay is minimized Within the Grammer Group, centralization paves the way for enormous benefits. For example, employees can have a comprehensive overview of relevant information and data by working on the same technical basis.

This allows them to monitor exactly how far a product has developed and it applies not only to individual production phases but also to upstream procurement stations as well as subsequent stages in the process such as quality tests, product tests or delivery procedures en route to the customer.

The considerably improved information flow is complemented by a long-term reduced workload. No data have to be entered into the system more than once. They are then available, in up-to-date format, via the central database at any time and at any site where they are required.

Information on schedule – for all partners Most notably, the central IT base simplifies cooperation beyond the four walls of the Company itself. It generates a homogenous network which includes Grammer suppliers and customers. All of us together, we can act like a unique, virtual company.

Efficient communication management enhances the security of supply for all partners – from the supplier, via Grammer to the end customers. And there are fewer products in storage throughout the entire supply chain. For the companies involved, this means lower costs, higher liquidity and hence an increased competitive edge.

The way forward Optimization of the supply chain via IT has already made considerable progress. However, further milestones are planned for the future. In order to measure strategic progress and check it factually on a regular basis, IT undergoes annual benchmarking under the supervision of the auditing company, Ernst & Young.

From an operating perspective, it is planned to connect the plants in Shanghai (China), Atibaia (Brazil), San Martin (Argentina) and Aleksinac (Serbia) to the central SAP system, as these plants have already been implemented ahead of schedule, is the "Pick by light" assembly concept.

Grammer provides support for all this, achieving fundamental goals and rising to the challenges of the future by means of quicker overall processes, comprehensive networking, higher value added and greater competitive strength.

"The strategic goal was to create a continuous, uniform IT platform for all sites."
Wolfgang Enders, Vice President Grammer IT

For example, if an automotive manufacturer makes additions to his order, information related to this is immediately made available to all relevant partners in the supply chain. This means that involved Grammer suppliers immediately have the key figures of relevance to their production quantities at their disposal. This also provides directly transparent information about the availability of material or components. Not only does this guarantee rapid response times, it also means that changes to the manner of cooperation can be made with immediate effect.

not yet been integrated. By 2009, all 42 Grammer sites then have identical applications. It is also planned to accelerate the internal penetration of IT solutions in order to enhance process efficiency in product start-ups, for example. In line with this, the Seating Systems division wants to use SAP solutions in order to streamline the new start-up process, thereby further improving its cost structures. The expansion of production-related IT is also to be further promoted. One example of this, which has

THE DECISIONS IN THE COMPANY ARE ALWAYS MADE BY HUMANS. IN SO DOING, THEY SET NUMEROUS PROCE-DURES AND VARIOUS +PROCESSES IN MOTION. THESE ARE CONTROLLED BY +SYSTEMS. ALL PARTS CONNECT TO A SINGLE WHOLE=QUALITY.

GRAMMER PRODUCTS

Land Rover center console Special service elements are absolutely essential in the luxurious Range Rover. The idea of the Grammer designers: a center back seat which can be folded down to act as a console. This allows the passengers in the rear of the Premium-SUV to benefit from optimum user friendliness. In addition to two cup holders and a spacious deposit area, the center console even offers an integrated storage compartment. And if there are three rear-seat passengers, the console can easily be transformed back into a comfortable center seat with headrest.

Crash-active headrest The best possible comfort and all-round protection are the hallmarks of Grammer. The crash-active headrest can think for itself in hazardous situations by protecting the passenger's head from a hard rebound in the event of accidents. The airbag's control unit gives the signal for this. The headrest then automatically moves forward. It offers optimum support for the neck and head in only 55 milliseconds. This minimizes the risk of injury. In everyday use, the headrest offers the usual comfortable, ergonomic seat posture.

VibroControl Commercial agricultural vehicles have to travel along very tough, rough roads. Even their drivers have to withstand high degrees of strain and stress, in particular the vibrations of the heavy machines. Grammer can now make a major contribution to health in the mobile workplace in the form of VibroControl. This compact measuring device can be used anywhere and everywhere. It continuously records vibrations to which the drivers are exposed. It draws the driver's attention to possible hazards by means of optical and acoustic signals. This allows the driver to take countermeasures at an early stage if limit values are exceeded.

Maximo Evolution active The addition of the Maximo Evolution active to the Grammer Maximo model series represents a milestone in ergonomics and suspension comfort. Its electronically controlled spring system leads to an average 40% reduction in vibrations compared to conventional low-frequency spring systems. It even reduces maximum acceleration by up to 75%! Thanks to active seat air conditioning which carries body moisture away, the driver will no longer end up sitting in front of the steering wheel, bathed in his own sweat. On cold days, the seat heating ensures pleasant temperatures.

Premium The lounge chair made from high-quality leather offers rail passengers comfort of the highest degree. Thanks to ergomechanics®, the contour of the backrest adjusts to the three different sitting positions. All the system's control elements are placed in an ergonomically optimum position. The particularly deep headrest effectively creates the dividing line between the premium seat and the aisle, thereby ensuring maximum privacy. The seat comes with a laptop-friendly table including a cup holder. The table can be adjusted to meet individual requirements, and lowered into the side paneling, if necessary.

Kingman The “King of the Road” from the successful Route 66 seat generation cannot fail to impress with its sophisticated ergonomics and maximum safety. Its integrated headrest and the 3-point belt offer all-round safety in the truck cockpit. Its exclusive features include optimized shock absorbers, pneumatic springs and the 100-mm height adjustment. The Kingman comfort also boasts an ergonomically shaped neck cushion, seat cushion depth adjustment and seat heating. Armrests in comfort design are also available on request. And last but not least, the Kingman features groundbreaking user friendliness.

VW Passat center console The center console is one of the most important components in a car’s interior. It ensures that the passengers can relax, work and communicate with each other. In order to fulfill these duties, a console features much high-tech. In its capacity as a Tier-1 supplier, system leader Grammer has created a solution with an elegant design for the VW Passat. Thanks to its intelligent design, the console offers considerable space and freedom. Grammer Automotive received the coveted “Volkswagen Group Award” in recognition of this. This award is granted annually to outstanding suppliers.

Porsche Cayenne headrest Pure luxury is the hallmark of Porsche. This also applies to the Cayenne, the quickest and strongest production SUV. Safety and comfort – the requirements are demanding. The headrests are particularly important when the vehicle is driving at high speeds or in races. Not only do the Grammer headrests have an elegant appearance, they also form part of the passenger protection features in the premium limousine with their top-class features. In addition, they meet special demands with regards to ergonomics, comfort and support, thereby ensuring perfect driving pleasure.

FIVE-YEAR OVERVIEW

(EUR million)	according to IFRS					acc. to HGB
	2007	2006	2005	2004		2003
Group revenue	**998.1**	**881.0**	**859.3**	**824.9**		**786.5**
Automotive revenue	657.7	574.8	569.5	540.3		539.5
Seating Systems revenue	363.3	311.5	296.2	286.4		247.7
Income statement						
Gross profit	126.7	127.0	109.1	117.2	Gross profit	335.9
EBIT	32.1	38.9	32.6	40.1		30.9
EBIT margin	3.2%	4.4%	3.8%	4.9%		3.9%
Financial result	– 9.3	– 6.9	– 7.2	– 8.4		– 6.4
Earnings before taxes	22.8	32.0	25.4	31.8	Profit from ordinary activities	24.5
Taxes	– 5.3	– 10.7	– 8.7	– 10.5		– 9.2
Earnings after taxes	17.6	21.3	16.8	21.3	Net income	10.4
Balance sheet						
Total assets	497.5	476.6	429.7	413.7		356.8
Noncurrent assets	201.6	193.8	190.2	179.3		
					Fixed assets	144.8
Current assets	296.0	282.8	239.6	234.4		
					Current assets	211.1
Equity	184.7	174.8	173.8	163.9		130.2
Equity ratio	37%	37%	40%	40%		36%
Net financial debt	69.9	57.9	37.0	50.3		73.6
Cash flow statement						
Capital expenditure	34.6	32.1	33.0	25.5		21.0
Depreciation and amortization	23.5	23.7	24.1	26.6		30.5
Cash flow from operating activities	38.6	30.9	56.9	51.1		51.9
Employees (annual average)	**9,326**	**8,610**	**8,197**	**7,707**		**7,369**
thereof in Germany	2,754	2,695	2,673	2,582		2,561
thereof outside Germany	6,572	5,915	5,524	5,125		4,808
Personnel expenses	232.0	214.2	200.8	190.2		181.8
Key share data						
Share price at year-end (XETRA, in EUR)	16.02	25.79	19.67	24.80		19.29
Market capitalization (in EUR million)	168.1	270.7	206.4	260.3		202.5
Dividend (in EUR)	1.00	1.00	1.00	1.00		0
Earnings per share (in EUR)	1.72	2.09	1.59	2.02		1.00

IMPRINT

Publication Credits

Published by
Grammer AG
P.O. Box 14 54
D-92204 Amberg

Date of publication
March 31, 2008

Concept, artwork and layout
Kuhn, Kammann & Kuhn AG, Cologne

Text
Blackpoint communications gmbh, Hagen

English translation
EVS Translation GmbH, Cologne

Photographs/Illustrations
Claudia Kempf, Düsseldorf
Corbis
Oliver Hasselluhn, Hamburg
Marc Hillesheim, Cologne
MB Design, Stuttgart
CLAAS Archive
John Deere Archive
Grammer Archive

Lithography
Klischee Union GmbH, Cologne
ORT Medienverband GmbH, Krefeld

Typesetting
Zerres GmbH, Leverkusen

Printed by
Frischmann Druck & Medien GmbH & Co. KG,
Amberg

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This Annual Report is published in
German (original) and English.

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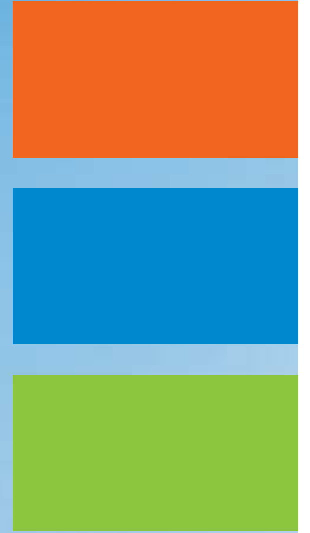

GRAMMER

GRAMMER FACTS

Annual Report 2007

OPPORTUNITIES FOR GROWTH (03)

How Grammer builds up muscle for the future. Chairman of the Board of Management, Dr. Rolf-Dieter Kempis, provides the details.

FACTS ADDING VALUE (12)

How our financial situation shaped up in 2007.
Grammer's Management Report will put you in the picture.

KNOWLEDGE LEADS THE FIELD (42)

What additional information you should have.
The Notes will answer any questions regarding the Financial Statements.

GRAMMER

KEY FIGURES

according to IFRS	2007	2006
	EUR million	EUR million
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Balance sheet		
Total assets	497.5	476.6
Equity	184.7	174.8
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Net financial debt	69.9	57.9
Gearing	38%	33%
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Market capitalization (in EUR million)	168.1	270.7
Dividend (in EUR)	1.00	1.00
Dividend yield (share price at year-end)	6.2%	3.9%
Earnings per share (in EUR)	1.72	2.09

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 2008

Grammer AG
The Management Board

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LETTER TO SHAREHOLDERS

Dear Shareholders,
Employees and Friends of Grammer,

Fiscal 2007 brought Grammer a rapid growth spurt. The sharp increase in revenues of 13% increased consolidated revenues to EUR 998.1 million, meaning that we have come very close to our target revenues figure of EUR 1 billion.

Both segments contributed to this positive growth. In both the Automotive segment and the Seating Systems segment we benefited from the excellent position in the market and the good reputation of Grammer products. The Seating Systems segment also continued to be boosted by the strong truck market and firm demand for off-road vehicles.

Promoting profitable growth

The sharp revenues surge underlines the huge potential our Group enjoys. There is no doubt that Grammer is growing rapidly and the Company is well placed. However, we should not blind us to the fact that there is still a fair amount to do in the Group – and here I am focusing quite specifically on earnings.

Last year, the operating profit fell to EUR 32.1 million, with which we cannot be satisfied. The fact is that conditions on our markets are adverse in parts. Rising commodity prices, the weak dollar, markedly higher costs in the Czech Republic and Poland – all these are challenges that we have to master. However, the Group's poor revenues are also attributable to internal factors. We have to acknowledge this.

Weaknesses in the Automotive segment are a material cause of the fall in earnings. While we generate two thirds of consolidated revenues in this segment, in many areas margins have failed to achieve the targets we have set. As you know, the market in which we operate here is highly competitive. This squeezes prices and puts pressure on margins. It is precisely this situation that we must pit ourselves against.

Streamlining our organization and operations

We have established the initial foundations for this – in two respects: on the one hand, we are adapting our cost structures and on the other hand we are adopting initiatives, which will boost earnings systematically and efficiently. We have taken additional measures in both directions in the year under review, which are profound. These include measures to optimize the global production network but also improvements to our internal structures and processes.

For example, the Automotive segment has been fundamentally reorganized. The entire segment is now divided into business units, which is the structure that has proved itself so impressively in the Seating Systems segment. The division into individual units allows us to network sales, development, design engineering and production more closely. At the same time, clear responsibilities have been created. This involves assigning greater responsibility to the management level below the Board of Management and by responsibility we mean, in particular, responsibility for net income. This, combined with transparency and clear targets, will create effective factors for success.

However, we do not aim to improve our profitability solely through restructuring measures and a stringent policy of cost cutting. At the same time, it is a matter of exploiting market opportunities more effectively and more extensively than previously. In this connection, Grammer is focusing even more closely on international markets. At the same time, we are retaining a sense of proportion and opening up new markets with both existing and new customers.

A prudent approach to opening up future markets
The example of Brazil shows the successes that a strategy of internationalization can bring. In 2007, we succeeded in acquiring a large-scale order for truck seats in this promising South American market. Or our involvement in China, where our production plants in Tianjin and Changchun are posting impressive progress.

In 2007, Grammer was able to benefit strongly from its involvement in Asia in both segments. In particular, its activities in the fast-growing emerging countries there generated sizeable results. We are vigorously continuing our policy of putting our geographical expansion on a broad base. Our presence in up-and-coming regions opens up additional sales opportunities for our segments. At the same time, Grammer is securing an appropriate place in rapidly expanding markets offering great potential in future.

Against the background of the many measures taken to optimize the Company's performance, I am confident that I will be able to report good progress to you at this point next year. The preconditions are favorable. Above and beyond setting the Company's future strategy, Grammer has many plus points, which will support our endeavors with regard to profitable expansion. The degree of innovation that characterizes our products is certainly one of the most important of these. It is not without reason that Grammer is regarded as a technological leader and we repeatedly both defend and confirm this title.

A pioneer in marketable innovations
For our Company, innovative products are a silver bullet to higher earnings. In the Automotive segment, for example, we generate easily a sixth of segment revenues with high quality innovative products. Developing these products requires investment; however, these expenses are well worthwhile, as it is trend-setting innovations offering substantial margins that are so appealing to our customers. They give us a market edge. They distinguish Grammer more clearly from its competitors. And they prepare the route by which we will escape cost pressures.

The crash-active headrest is a prime example. It took some time before we could convince the market of this innovation. Today, we manufacture it for Mercedes-Benz's high volume C Class models, for BMW's 5 and 6 Series models and for the Bavarian premium brand's X3 and X5 models. And I am convinced that this is just the start. We have also made substantial progress in establishing ourselves as a system provider: in addition to center consoles for the VW Passat, Grammer now supplies consoles for Range Rover.

A sound financial base is just as important as the ability to innovate. We are a rock-solid company, as our balance sheet figures confirm yet again. Take the equity ratio alone – at a good 37%, it is well above average.

Outlook for 2008
Which projects will light our fire in the current fiscal year? We shall continue to press ahead with innovations in line with their significance. This includes strengthening Preliminary Development in the Automotive segment, which will allow Grammer to position itself even more clearly as a technically innovative system supplier. We are pursuing a dual-track policy with regard to the Automotive portfolio: we are strengthening core products and at the same time we are working towards new vehicle series.

In the Automotive segment and, most notably, in the Seating Systems segment, we are pressing ahead with internationalizing our business. We are focusing on the NAFTA markets and the countries in Asia that offer attractive opportunities. It is likely that these regions will enjoy the fastest revenues growth in the current fiscal year.

We are also expecting our business to expand in Europe. In addition to major customer projects, impetus from greater value added is likely to have an effect here. Viewed overall, we are confident that we shall be able to exceed the 2007 figure for consolidated revenues slightly in the current year.

And earnings? We shall continue our optimization program with the requisite intensity here. Each weakness identified will be picked up and tackled without delay. Our primary goal is profitable growth – and so we will do everything to promote earnings in addition to revenues.

Dividend continuity
Since resuming dividend payments two years ago, Grammer has ranked as one of the highest dividend payers in German indices. As in the past, we should like our shareholders to participate commensurately in the Company's growth. The Board of Management and Supervisory Board will again recommend payment of a dividend of EUR 1.00 per share to the Annual Shareholders' Meeting. This would equate to a dividend yield of 6.2% based on the 2007 year-end closing price.

In the name of my Board of Management colleagues, I should like to thank our customers and shareholders for the confidence they show in Grammer. I should also like to express our heartfelt thanks to our employees since without their commitment in many countries around the globe, our Company's success would be impossible.

Yours sincerely,

Dr. Rolf-Dieter Kempis
Chairman of the Board of Management of Grammer AG

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders and Friends of the Company,

In fiscal 2007, Grammer AG succeeded in continuing the expansionary course that it has pursued in recent years. The sharp increase in sales underlines the Company's tremendous potential. Grammer is well placed with its strategy of boosting sales and earnings.

During the reporting year, the Supervisory Board took due care in fulfilling all the responsibilities incumbent upon it under the law and the Company's Articles of Incorporation. We reviewed the financial situation and the business development of Grammer AG and the Grammer Group. The Board of Management kept us informed of the financial position and financial performance of both the product areas and the Group in detailed monthly reports and at four scheduled meetings and one special session. We monitored the management of business by the Board of Management on the basis of oral and written reports and accordingly charged the Board of Management with submitting regular, comprehensive reports on the situation of the Company at our meetings and reporting on the Company's most important strategic projects and measures. In addition, the Strategy Committee and the Finance Committee met to discuss Company strategy and the Risk Report.

We discussed significant business events with the Board of Management promptly and frankly, and consistently supported the Board of Management by offering guidance. As Chairman of the Supervisory Board, I held individual discussions with the members of the Board of Management on a regular basis in order to discuss questions related to the strategic alignment of the Company, its current position, the business trend, and risk management outside of the Supervisory Board meetings as well.

Committees

The names of two committees were changed on September 27, 2007: the former Personnel Committee is now known as the Standing Committee, and the previous Standing Committee has been renamed as the Strategy Committee. There has been no change to the composition of the two committees. The Nomination Committee was established for the first time on the same date.

Three of the four committees met to support the work of the Supervisory Board in the reporting year. The Strategy Committee met once to debate future corporate strategy. The members of the Finance Committee met three times in the course of the year, among other things to discuss the financial statements and consolidated financial statements of Grammer AG and the Group, to commission the independent auditor pursuant to the Articles of Incorporation and to discuss the Risk Report. The Standing Committee (previously the Personnel Committee) met on four occasions and discussed organizational changes to central functions as well as the Company's general situation. The organization of the Company's management was another important issue. The Nomination Committee did not meet in the year under review.

The committees are currently comprised as follows:

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

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

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

- Nomination Committee:
  Dr. Bernd Blankenstein
  Wolfram Hatz
  Dr. Klaus Probst

Focuses of deliberations by the Supervisory Board

In the year under review, the Supervisory Board met on a regular basis to discuss strategy, the current business trend, the financial position and the employment situation of both Grammer AG and the Group.

At its first meeting of the year on March 29, which was also attended by the auditor, the Supervisory Board discussed the presentation of the annual financial statements of the Grammer Group and Grammer AG as well as the resolution for the appropriation of profits for fiscal 2006. In addition, the Supervisory Board approved the proposed resolutions for the Annual Shareholders' Meeting on June 28 and discussed questions relating to the establishment of a company to develop a stitching capability in Serbia.

At the meeting of June 27, preparations were made for the Annual Shareholders' Meeting. External consultants also presented an interim report on the strategy process in the Automotive segment.

The special session of the Supervisory Board on July 24 was triggered by and focused on the shortfall in earnings, particularly in the Automotive Division. In consequence, the Supervisory Board decided to reorganize its management: Dr. Rolf-Dieter Kempis was appointed as the new Chairman of the Board of Management as of August 1, 2007 with the aim of streamlining the organization to achieve leaner management processes. Until his appointment, Dr. Kempis was a member of the Supervisory Board of Grammer AG, from which he resigned accordingly on July 24, 2007.

As a consequence of the organizational changes to the Board of Management, Mr. Uwe Wöhner, Member of the Board of Management with responsibility for the Automotive Division left the Company by mutual agreement on September 27, 2007. Herewith Dr. Kempis assumed direct responsibility for the Automotive Division and the role of Employee Relations Director at the same time.

During the meeting on September 27, the Board of Management presented the Company's strategy for the period from 2008 to 2010. The Nomination Committee was also established and the Supervisory Board's rules of procedure adapted to the current amendments to the German Corporate Governance Code. Members also amended the schedule of responsibilities in the Board of Management's rules of procedure.

The final meeting of the year took place on December 7. Among other things, it concentrated on the presentation of the budget for 2008. The reorganization of the Automotive Division was also the subject of intense discussion, and the revised version of the Declaration of Compliance with the German Corporate Governance Code was submitted.

In addition, we adopted a circular resolution on the sale of Grammer s.r.l. by way of a management buyout and in consequence the divestiture of the European headquarters for the production of bus passenger seats in the year under review.

Approval of the financial statements

The Annual Shareholders' Meeting on June 28, 2007 appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, to audit the financial statements for the year under review. At its meeting on September 29, 2007, the Finance Committee approved the engagement to audit the separate and consolidated financial statements for 2007.

Ernst & Young audited the annual financial statements of Grammer AG, which were prepared in accordance with the German Commercial Code (HGB), and the financial statements of the Grammer Group, which were prepared in accordance with IFRS, as well as the two management reports. The auditor issued an unqualified audit opinion for both financial statements and established that the management reports of Grammer AG and the Group accurately depict the situation of the companies as well as the risks and opportunities of future development.

The reports and accounting records from the auditor were presented to us in due time and were reviewed in detail by us. Ernst & Young reported on its key audit findings at the relevant meetings of the Finance Committee and the accounts review meeting of the Supervisory Board. The Supervisory Board raised no objections based on its own review of the financial statements, the consolidated financial statements and the management reports. We therefore concurred with the audit findings of Ernst & Young and approved the financial statements prepared by the Board of Management. The financial statements have thus been duly adopted. We concur with the proposal of the Board of Management on the appropriation of profits and payment of a dividend of EUR 1.00 per share eligible for a dividend for fiscal 2007.

Corporate Governance

In fiscal 2007, the Supervisory Board again concentrated on the issue of Corporate Governance. Within Grammer AG and the Group, we are emphatic in our backing for the development of higher Corporate Governance standards.

At the Supervisory Board meeting on December 7, 2007, the Supervisory Board and the Board of Management submitted a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) stating that Grammer AG adheres to the revised version of the German Corporate Governance Code as of June 14, 2007 with two limited exceptions. The full Declaration of Compliance is printed in this Annual Report and may also be viewed on the Company's website. The Directives on the management of the Company now correspond in principle with the recommendations of the Code and will continue to do so in future.

Further changes in the Board of Management

In addition to the above mentioned changes to management responsibilities, the Supervisory Board appointed Mr. Hartmut Müller to the Board of Management as of February 1, 2007. As the successor to Mr. Peter Nagel, Mr. Müller assumed overall responsibility for the Seating segment as of July 1, 2007.

On reaching his 60th birthday, Mr. Nagel left the Board of Management of Grammer AG at his own request on June 30. He continued to support the Company until the end of fiscal 2007 as a consultant for the MoTIS project.

Changes in the Supervisory Board

Dr.-Ing. Peter M. Stehle was appointed to the Supervisory Board as Dr. Kempis's successor by the Amberg Local Court on September 19.

The Supervisory Board would like to thank the members of the Board of Management, all employees and the employee representatives for their achievements in fiscal 2007. It was their extraordinary dedication, in particular, that made the year under review a success.

Amberg, March 2008
On behalf of the Supervisory Board:

Dr. Bernd Blankenstein
Chairman

GROUP MANAGEMENT REPORT

- **Group revenues up 13.3 %**
- **Growth and optimization strategy remains in place for 2008**

Corporate Structure and Business Activity

The Grammer Group is a specialist in the development and production of components and systems for automobile interiors and driver and passenger seats. In addition to the parent Grammer AG based in Amberg, the Group includes 21 additional fully consolidated companies. As the Grammer Group, we are represented in 17 countries worldwide.

Business divisions

Our Automotive division supplies seating components such as seat covers, headrests, armrests, center consoles and integrated child seats to major automakers and automotive system suppliers. In our Seating Systems division we operate both as OEM and aftermarket supplier for complete seat units and seating systems. We supply manufacturers of trucks and offroad vehicles, including agricultural, forestry and construction machines and forklifts. Other customer groups we supply include rail transport OEMs, rail operators and bus manufacturers.

Corporate management

The Group's global internal management system is based on the key financial parameters of revenues, operating earnings before interest and taxes (EBIT), working capital, gearing and return on capital employed (ROCE). ROCE, the most important ratio for Grammer, measures the return on capital invested and the efficiency with which we employ capital.

General Economic Conditions

Global economy expands

Economic expansion continued unabated in 2007. The global economy expanded 3.7% despite a financial markets crisis and rising oil prices. The main drivers were again the emerging economies, including China first and foremost. Together these posted an 11.7% increase in economic output. The US in contrast experienced noticeable economic slowing. This was due in part to declining gross capital expenditure, particularly in the area of private housing construction. Another factor was restrained private consumption in the wake of the subprime mortgage crisis. US gross domestic product (GDP) increased 2.1% year-on-year.

The European Union also prospered economically with gross domestic product (GDP) up 2.9% of the economically most powerful member states, United Kingdom (+ 3.0%) and Spain (+ 3.7%) in particular were the main drivers.

Germany's contribution was again substantial with 2.5% GDP growth, fueled again largely by exports, which were up 8.3%. Rising defense spending buoyed the domestic economy. Consumer spending came in behind last year's figure by 0.1%, mainly an effect of the value-added tax increase.

European auto market with slight growth

In the US, the world's largest auto market, car sales declined somewhat in 2007. Sales of light vehicles fell 3.0 % to 16.1 million vehicles. The light truck market, including sport utility vehicles and minivans, declined by roughly 2.0 %. However, German carmakers continued to grow counter to the trend, whose total US market share increased to over 10.0 %. German-brand light vehicle sales increased 3.0 % to 948,000, while German light truck sales were up 14.0 %.

China was again the fastest growing automobile market, with 5.0 million passenger vehicles sold in 2007, up 22.0 % year-on-year. German automakers also benefited from this strong demand.

According to the car manufacturer association ACEA, new car registrations in Europe totaled roughly 16.0 million for 2007, total European sales thus rising 1.1 % year-on-year. The traditionally high-volume markets France (+ 3.2 %), the UK (+ 2.5 %) and Italy (+ 7.1 %) posted the biggest gains. These were offset somewhat by declining sales in Spain (– 1.2 %) and Germany (– 9.2 %).

German car sales totaled 3.15 million last year according to the Federal Bureau of Motor Vehicles and Drivers (KBA). Significantly down from last year's level, this figure reflects the effect of the VAT tax hike, concerns about global warming and general inflation. The percentage of German makes out of total new vehicles registered in Germany was 64.1%, as in 2006. Only Porsche (+ 1.0 %) and smart (+ 5.6 %) posted higher sales. Volume-oriented manufacturers Opel (– 14.7 %) and Ford (– 12.3 %) lost market share; premium brands Mercedes (– 4.4 %), Audi (– 5.0 %) and BMW (– 4.2 %) also suffered slight declines. VW sales fell 11.7 %, though the company remains the clear market leader with 19.3 % market share.

German carmakers set another export record, the fifth in a row, exporting 4.3 million vehicles in 2007; up another 11% versus last year. BMW (+ 2.8 %), Audi (+ 2.8 %) and Mercedes-Benz (+ 0.3 %) were the main winners in the European market. VW sold 4.1 % less vehicles in Europe than in the previous year.

Truck market sales volume up sharply

Truck sales in the United States were negatively impacted by new emissions regulations. The new laws drove up prices, leading to decreased spending by trucking firms.

The truck market in Western Europe benefited from rising sales. New vehicle registrations were up 1.5 % versus 2006 in the over 3.5 t category according to the ACEA. Initial registrations of over 16 t trucks were up 2.7 % year-on-year. With the exception of the UK, Ireland and the Netherlands, all European countries increased heavy truck registrations.

The German truck market again grew at a double-digit rate. According to the Federal Bureau of Motor Vehicles and Drivers, 275,000 new trucks were registered, a 10.1 % increase versus the previous year. Export records were set in both the 6 t and under (+ 24 %) and the over 6 t vehicle classes (+ 11 %).

The number of agricultural and forestry tractor units registered in 2007 was up versus the previous year. The 34,521 initial registrations represent a 1.6% increase. According to the German Machinery and Plant Manufacturing Association (VDMA), new registrations of harvesting equipment, such as combines, in Germany were down slightly. Tractor sales in Europe were modest, higher numbers in France and the UK being offset by declines in Spain, Italy and Germany.

The German construction equipment industry had a good year in 2007, with exports up 13.6% in the first six months of the year. According to data from the Federal Association of Construction and Industrial Machine Manufacturers (bbi), forklift sales were largely positive.

Rail transport industry posts record revenues

Business was strong for rail technology makers. According to the German Rail Industry Association (VDB), revenues rose 7.5% in the first half of the year to EUR 4.3 billion. Incoming orders fell 17.6% during the same period to a level of EUR 4.2 billion, which is still high. International orders were vibrant.

Bus seat market difficult

Bus markets remained a difficult environment. Sales were modest, but small bus sales took off in the Middle East and Turkey (+36.4%), due chiefly to a sustained catch-up effect and overall export dynamics.

Management's analysis of the economic environment

In our markets, we again benefitted from a generally favorable economic environment in 2007. The impact of the weak German auto market was absorbed by higher sales in Europe and the Asian emerging market nations. Grammer's Seating Systems division prospered from the robust truck market, continued offroad demand and strong markets in Turkey and Asia.

Business Development

Automotive: Strengthening position as systems provider

Automotive orders were solid during the year under review, partly the result of model changes. The new Mercedes-Benz C Class was among the new high-volume models to go into production in 2007, for which Grammer provides crash-active headrests. Production also began for crash-active headrests for the BMW 5 and 6 Series and X3 and X5 models. We also successfully landed a center console development contract from a premium German manufacturer. Increased activity in this product area strengthens our position as a major system developer and supplier.

Our involvement in Asia is proceeding well. One year after the opening ceremony for our production locations in Tianjin and Changchun, China, we were able to add BMW and Audi to our customer portfolio. These two brands are both quite successful in the Chinese market. Audi sales in China increased roughly 25% last year to around 102,000 vehicles sold.

We thus continue to pursue expansion at our new Asian locations. The focus is on the Shanghai plant, future production site for center consoles for the General Motors Epsilon platform, and establishing a distribution location in Japan to enhance contacts with Asian carmakers.

To strengthen earnings in the Automotive segment on a sustained basis, we took additional measures to improve profitability and cost efficiency. In addition to initiatives for improving processes and structures, these also concern optimization of the global production network. Grammer has thus been investing in projects including building of a new production site in Serbia.

Modest new car demand in Germany somewhat dampened growth momentum seen elsewhere. Also, a number of Eastern European currencies appreciated in the third quarter. This in combination with rising wage and infrastructure costs made a number of our production locations substantially more expensive. Considerable commodity price increases and sustained weakness in the US dollar were additional negative factors.

Seating Systems

Strong showing for Truck and Offroad segments

As in the preceding years, Seating Systems was a key growth driver for the Grammer Group, with consistent order flow keeping business strong. This reflected both the favorable economic situation and our excellent position in the offroad and truck segments. Grammer benefits especially from technologically innovative offroad products. In 2007, we consolidated our position as market leader in Western Europe and gained ground in numerous countries including particularly Brazil and China.

In the truck segment, we expanded our lead in the South American market. Increased international sales activities led to a new production order for truck seats in Brazil. Sales in Europe and the Middle East were up substantially.

While agricultural equipment sales were modest, construction and forklift sales increased. Grammer's presence at the international construction equipment trade show Bauma was fruitful.

Several site optimizations were conducted during the period under review, such as modernization of the production chain at the Haselmühl plant in the metals business. Our Hudson plant in the US has been progressively built up into a stand-alone development, distribution and production center for the American offroad market as a key part of our systematic expansion efforts in the US.

Bus and rail realignment continues

Substantial progress was made in the restructuring of the bus and rail business units during the past fiscal year. After carefully reviewing all strategic options, at mid-year Grammer elected to dispose of its European tour and city bus passenger seat business. Thus Grammer s.r.l. was sold for EUR 7.4 million in a management buyout. This move paved the way for a heightened focus on our target markets and core competencies. However, Grammer will continue to cooperate with the Italian firm on the driver seat business. Because this deal was completed in June, revenues and earnings figures for Grammer s.r.l. for the first half of 2007 are included in the consolidated financial statements. The bus seat business in the Middle East and Turkey and bus driver seat business are unaffected by this move, the latter in particular being a core, growth business.

As part of restructuring, process capability for the rail business unit has been optimized and stabilized. This has allowed us to supply much larger projects and significantly increase business in 2007. Product ramp-ups predominantly concerned new international orders such as passenger seat production for the Sprinter Light Train made by Reiziger (the Dutch state railway). Grammer is also making seats for a new-model regional train for the Deutsche Bahn and has received an option order from our customer Bombardier with whom we are listed as platform supplier.

Sales and Earnings

Group: Total revenues up sharply

In this particular macroeconomic and industry environment, the Grammer Group posted total revenues of EUR 998.1 million for 2007 (2006: EUR 881.0 million). This represents an EUR 117.1 million increase versus 2006.

Sales rose across all regions. In Europe, revenues rose by EUR 64.9 million to EUR 752.1 million, a significant increase carried by both corporate divisions. Sales outside Europe experienced above-average growth. Grammer generated revenue of EUR 151.8 million internationally, up 41% year-on-year. Business was also good in Asia, revenue in the Far East/Rest of World geographic segment rising to EUR 94.2 million (2006: EUR 86.2 million). This illustrates once again the strategic importance of our involvement in this dynamic market environment.

Earnings impacted by automotive industry developments

Gross profit stayed at EUR 126.7 million for 2007 (2006: EUR 127.0 million), while operating EBIT came in lower year-on-year at EUR 32.1 million (2006: EUR 38.9 million). This decline was primarily due to lower profits from operations in the Automotive business. EBIT margin fell to 3.2% (2006: 4.4%).

Difficult cost situation

Cost of sales increased by EUR 117.3 million to EUR 871.3 million primarily due to increasing revenues. The moderate 1.7% rise in cost of sales occurred before a backdrop of powerful price pressure and currency volatility. Medium-range supply agreements in place, such as for steel or oil-based products, however, helped buffer these effects.

Personnel expenses increased EUR 17.8 million to a total EUR 232.0 million (2006: EUR 214.2 million) in connection with sales-related hiring and wage agreements. Personnel expenses were 1.1% lower year-on-year, however, as a percentage of revenues. Initial indications are thus being seen of the effectiveness of production cost optimization measures implemented.

Selling costs were held nearly unchanged during the year under review, slightly lower in fact year-on-year at EUR 32.0 million.

Administrative expenses rose to EUR 72.2 million (2006: EUR 64.1 million). Initially, the expansion of operating activities in the USA as well as China led to an increase in administrative costs. In addition, effort was also made to step up the establishment of low-cost locations, also with the help of external consulting services. Furthermore, severance payments also negatively impacted this item. In 2007, a restructuring program aimed at reducing administrative and structure costs was launched to improve the cost structures. However, the increase is also impacted particularly by exchange gains and losses resulting from valuations included in this item. The euro exchange rate and international nature of our business led to a EUR 3.1 million increase in foreign exchange losses, while gains were nearly unchanged at last year's level.

Other operating income

Other operating income totaled EUR 9.6 million (2006: EUR 8.4 million). This rise was attributable to increased proceeds from sale of property, plant and equipment and scrap metal as well as passing costs on to suppliers.

Financial expenses

Financial expenses rose again in step with increasing business activity and a range of valuation effects. It was not possible to keep interest expense steady at last year's level EUR 11.7 million (2006: EUR 8.2 million) due to valuation changes in Company shares and foreign-denominated debt. Interest income from securities and current financial assets also increased by EUR 1.2 million to EUR 2.5 million.

Taxes

Income taxes fell to EUR 5.3 million (2006: EUR 10.7 million). Tax legislation changes abroad and in Germany resulted in a significant relief for deferred taxes. The decline in profit from operations in Germany caused a decline in tax expenses.

At 23.2% the tax rate was substantially below that for the previous year (2006: 33.4%).

Income

Profit from ordinary activities for the Grammer Group fell to EUR 22.8 million for the year under review, coming after EUR 32.0 million for the previous year. Net income after interest and income taxes for the Grammer Group came in at EUR 17.6 million (2006: EUR 21.3 million), reflecting in large part lower income taxes.

Earnings per share came to EUR 1.72 (2006: EUR 2.09), down 17.7%. This figure was EUR 1.67 factoring in treasury shares (2006: 2.02).

Dividend Proposal

The Grammer Group reported accumulated profits of EUR 66.2 million for fiscal year 2007. Dividend distributions are made based on Grammer AG earnings. Grammer AG reported accumulated profits of EUR 21.8 million for fiscal year 2007, factoring in EUR 25.7 million of profits carried forward, EUR 6.3 million deposited to other reserves and EUR 2.2 million in stock buyback reserves reclassified to other retained earnings not affecting balances. The Board of Management will be proposing to shareholders and the Supervisory Board distribution of a EUR 1.00/share dividend, the remaining balance of EUR 11.7 million to be carried forward. This takes into consideration that the Company holds 330,050 treasury shares not entitled to dividends. The Board of Management will adjust its proposal for appropriation of profits accordingly if the number of dividend-paying shares should change before the Annual Shareholders' Meeting.

Segment Revenues and Earnings

In fiscal year 2007, the Group modified its segment reporting having realigned its internal organizational and management structure at the start of the fiscal year. Complete seating systems were developed and produced in both the passenger seat and driver seat segments. Products and services, production process and earnings are no longer substantially different for the rail and bus business units. Combining production and integrating management and reporting structures for the driver and passenger seats within the Seating Systems segment thus makes sense.

Automotive: Sales up significantly
In the Automotive business, we produce interior components for prominent car manufacturers and system suppliers to the motor vehicle industry. Sales in this segment derive primarily from serial products from the Group and project business. Sales for this division came to EUR 657.7 million (2006: EUR 574.8 million) for 2007, a 14.4% increase, equal to 65.9% of Group revenues. Earnings before interest and taxes (EBIT) reached EUR 10.7 million (2006: EUR 22.7 million), down significantly year-on-year. Product-related difficulties at ramp-ups, particularly in the USA, as well as implementing digitalized start-ups of projects taken on at short notice, led to considerable additional charges in this segment.

Seating Systems: Revenues and earnings considerably higher
The Seating Systems division benefited from strong order flow. Offroad and truck seat revenues increased. Focusing on technologically innovative products while maintaining a varied product portfolio is a key advantage for us in this area. Total revenues for the segment came to EUR 363.3 million, an increase of EUR 51.8 million versus 2006. EBIT rose sharply to EUR 24.1 million (2006: EUR 16.8 million). Restructuring measures within the bus and rail business units are showing a positive effect in terms of revenues which were up considerably year-on-year to EUR 55.5 million (2006: EUR 45.2 million). Operating EBT came to EUR –0.8 million (2006: EUR –1.4 million).

Financial Situation

Financials remain solid
Increasing revenues involved an increase in financing activity. The Grammer Group nonetheless succeeded in maintaining liquidity almost at the previous year's level. Non-current and current liabilities to banks increased slightly to EUR 92.9 million (2006: EUR 87.3 million), EUR 70.0 million of which is financed long-term via a promissory note loan.

Cash flow from operating activities improved despite expenditure in China and projects in the US, increasing substantially versus the previous year. Cash flow from investments was slightly higher than last year, as revenues growth and more added value required increasing investment. Cash flow from financing activities showed a major change due to rolling over the bond issue into a long-term promissory note adapted to the new requirements and additional liquidity being provided last year.

As in the previous year, a banking consortium assembled by Grammer provided over EUR 90.0 million in current lines of credit. The credit lines are granted for a three-year period and may be drawn on daily. This ensures the liquidity necessary for the Grammer Group's long-term growth strategy.

Asset Position

As of the balance sheet date, Grammer Group assets totaled EUR 497.5 million (2006: EUR 476.6 million), a 4.4% year-on-year increase.

Fixed assets somewhat higher than 2006
Noncurrent assets totaled EUR 201.6 million (2006: EUR 193.8 million). Property, plant and equipment was nearly unchanged at EUR 131.0 million (2006: EUR 130.4 million). Intangible assets totaled EUR 44.6 million (2006: EUR 43.2 million).

Current assets increase significantly
Year-on-year current assets rose to EUR 296.0 million (2006: EUR 282.8 million), mainly due to increased revenues and related business activity. Inventories increased EUR 9.7 million year-on-year to EUR 95.1 million. Receivables were up from EUR 111.3 million to EUR 116.8 million on higher revenues. Other current financial assets declined year-on-year by EUR 9.3 million to EUR 38.6 million, while other current assets increased by EUR 1.8 million. Current assets reflect significantly increasing business activity on the whole and internationalization of the flow of goods and payments, which in combination with current customer receivables led to cash and short-term deposits increasing to EUR 22.9 million by year-end (2006: EUR 18.3 million).

Moderate rise in equity
As of December 31, 2007 equity was up slightly to EUR 184.7 million (2006: EUR 174.8 million), equity thus equaling 91.6% of noncurrent assets. The equity ratio likewise rose moderately to 37.1%.

Change in liabilities
Noncurrent liabilities totaled EUR 140.9 million (2006: EUR 143.5 million), a decrease partly due to a reduction in noncurrent liabilities to banks to EUR 70.4 million (2006: EUR 73.1 million). Pension obligations totaled EUR 50.9 million, remaining roughly at the previous year's level. Deferred tax liabilities declined to EUR 15.6 million (2006: EUR 17.3 million).

Current liabilities were carried in the amount of EUR 172.0 million (2006: EUR 158.3 million). This increase was primarily the result of rising current liabilities to banks in the amount of EUR 22.4 million (2006: EUR 14.1 million). Trade payables totaled EUR 89.8 million (2006: EUR 89.9 million); other current liabilities EUR 44.0 million (2006: EUR 36.6 million). Other current financial liabilities declined year-on-year to EUR 2.1 million (2006: EUR 2.7 million).

Capitalization Issues

Capital structure
Grammer AG subscribed capital totaled EUR 26,867,607.04, representing 10,495,159 common bearer shares. No special rights accrue to shareholders, employee or otherwise. Pursuant to Section 5 (3) of the Company Articles of Incorporation, the Board of Management is authorized as per Section 202 German Stock Corporation Act to increase share capital by a maximum of EUR 13.4 million through one or more issuances of common bearer shares through August 25, 2011, subject to Supervisory Board approval. The Board of Management is additionally authorized to exclude shareholder subscription rights subject to Supervisory Board approval. The Board of Management is also authorized to exclude subscription rights for a maximum amount of EUR 2,686,760.7 (10% of share capital) when the offering price of new shares is not significantly below the market price of shares already trading in the secondary market, the final offering price to be determined shortly before placement of the offering, subject to Supervisory Board approval. Shares purchased pursuant to shareholder resolution and sold while such authorization is in force in line with Section 71 (1) no. 8 sentence 5, German Stock Corporation Act, in conjunction with Section 186 (3) sentence 4, German Stock Corporation Act, apply towards the above 10% limit. The Board of Management is furthermore authorized to determine offering price, share class rights and other share offering terms, subject to Supervisory Board approval. According to disclosures received by Grammer AG by the statement date in line with Section 21 (1) German Securities Trading Act, the companies listed below directly or indirectly hold over 5% of Grammer AG shares. Axxion S.A. headquartered in Munsbach/Luxemburg holds 5.548% and Electra QMC Europe Development Capital Funds plc of Dublin/Ireland holds 10.001% of Grammer AG shares.

Acquisition of own shares
Pursuant to a 2006 shareholder resolution, the Grammer AG Board of Management is authorized to repurchase company stock into treasury as per Section 71 I (8), German Stock Corporation Act. This authorization expired December 1, 2007, having been rescinded by shareholder resolution on June 28, 2007 and replaced by a resolution authorizing the Board of Management to repurchase Company shares into treasury until December 1, 2008. The Grammer AG Board of Management did not exercise either authorization during the year under review. Grammer holds a total 330,050 treasury shares, all of which were acquired in fiscal year 2006. The amount of share capital attributable to them is EUR 844,928.00 and represents 3.1448% of the share capital. These 330,050 treasury shares are non-voting and non-dividend-paying.

Opinion on the Company's economic situation
Based on the above discussion of net assets, financial position and results of operations, we view the economic situation of the Grammer Group as positive. In our core business units, 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.

Investments

Grammer Group investments totaled EUR 34.6 million (2006: EUR 32.1 million). We invested EUR 14.9 million (2006: EUR 16.6 million) in the Automotive division, mainly on new production facilities for pending customer projects and expansion of the Immenstetten site.

Investments in the Seating Systems segment totaled EUR 18.1 million (2006: EUR 14.1 million). We spent roughly EUR 4.2 million for an innovative model heat network to increase energy efficiency and environmental protection at our Haselmühl plant. The objective of the project carried out in cooperation with the regional Energy Technology Network is to construct, test and optimize an integrated, networked thermal closed circuit concept. This will enable us to reduce energy consumption, develop new energy-saving production methods and efficiently utilize waste heat and recycling possibilities. During the year under review, tremendous progress was made with this project, and already quite remarkable savings have been achieved.

Site accessibility and portions of several facilities have been reconfigured to optimize flow of materials and logistics. Another major area of investment was again establishing modular metal production units and new production equipment, to which EUR 1.3 million was devoted. Made to enhance efficiency as site optimization, these investments underscore our commitment to Germany as a corporate location.

In addition, roughly EUR 0.6 million was invested in development in the interest of furthering innovation and the creation of new product generations, which is already reflected in equipment and machinery investment. Investments were made in the area of property, plant and equipment for the expansion and optimization of several existing facilities.

An amount of EUR 1.6 million was invested in Central Services (2006: EUR 1.4 million). We purchased additional upgrades and expansion licenses for our SAP system, expanding the necessary hardware as well. In addition, we optimized our CAD software including integration issues.

Employees

Workforce continues to expand
The number of Grammer Group employees increased 6.7% year-on-year to a total of 9,527 as of December 31, 2007 (2006: 8,925). Of this total, 6,216 worked in Automotive (2006: 5,831) 3,153 in Seating Systems (2006: 2,950) and 158 (2006: 144) in Central Services. The average number of employees for the year was 9,326.

Successes seen in personnel cost reduction program
Progress was made in the personnel cost reduction program initiated in 2006 at locations in Germany. More flexible working hours have been introduced and broad savings obtained on wage costs as part of these efforts geared to securing jobs at Grammer AG sites. Implementation of this extensive package of measures and follow-up measures should be complete by the end of 2010.

Employee training and development, human resources
Employee training and development is key to our business success. Having personnel who contribute new ideas, knowledge and skills makes it possible for us to meet established standards and become more competitive. That is why Grammer offers a range of employee initiatives across all areas and levels of our corporation. Our development program is organized into three hierarchical levels, a General Management Program focused on strategic skill-building at top management level, a Management Development Program primarily for plant and department managers, and the GO!2002 program designed for cultivating next-generation managerial talent. The content of each of these three development concepts is oriented around the philosophy, goals and strategy of Grammer AG.

Staff training and qualification is another major element of our personnel policy, as our employees are the motor for our future growth. In 2007, we again hired motivated trainees in all divisions, individuals interested in a promising future in the attractive jobs of tomorrow. We also provided internships and offered thesis/dissertation research opportunities in a real-world environment, and attended university recruiting events in order to access highly qualified young talent. Our close and long-standing partnership with Amberg-Weiden University of Applied Sciences is an example of productive collaboration with academia.

Supervisory Board and Board of Management
Board of Management members' appointments and de-appointments are made in accordance with Section 84 German Stock Corporation Act. No contrary or additional provisions are outlined in the Company Articles of Incorporation.

Change in the Board of Management
Board of Management member Peter Nagel in charge of Seating Systems at Grammer AG voluntarily resigned and retired effective June 30, 2007. His retirement comes after twenty-four years with the Company in managerial roles including tenure on the Board of Management, having withdrawn from active involvement in business operations upon reaching age 60. He remained on board as a consultant for the MoTIS project (Modular Truck Interior System) until the end of December 2007. Hartmut Müller has been appointed to succeed him on the Board of Management as of February 1, 2007. Mr. Müller will take over full responsibility for the Seating Systems division as of July 1, 2007.

On July 24, 2007, the Grammer AG Supervisory Board appointed Dr. Rolf-Dieter Kempis as the new Chairman of the Board of Management for a term of two years. Dr. Kempis was previously a member of the Supervisory Board and stepped down from this position following his appointment. Dr. Kempis's Board of Management term commenced August 1, 2007. Former Board of Management Spokesman Alois Ponnath remains CFO.

Uwe Wöhner, former head of Automotive and Director of Labor Relations, left the Company on September 27, 2007, terminating with mutual consent. The Supervisory Board subsequently appointed Dr. Rolf-Dieter Kempis segment head and new Director of Labor Relations.

Remuneration system for members of the Board of Management and Supervisory Board

Board of Management remuneration packages consist of target compensation, equal to fixed salary plus performance incentives at 100% goal obtainment, and retirement benefits, which are structured similarly as employee pension benefits. Fixed salary is the non-performance-related component. The performance-related component is defined as 30.0% of target compensation and determined based on revenues and earnings reported on the Grammer AG consolidated financial statements and return on capital employed (ROCE). The sales bonus component is based on the year-on-year percentage increase in revenues. The earnings component is determined as EBIT yield or net income yield in relation to revenue and as return on capital employed. If the targets set by the Supervisory Board are overfulfilled, the performance-related component is limited to 60.0% of the fixed component. Long-term incentive components such as stock option plans or the granting of treasury stock are not a component of the Board of Management remuneration.

Supervisory Board members receive a fixed fee for each full fiscal year of Supervisory Board membership. Each member receives the amount of EUR 10,000.00. The Chairman of the Supervisory Board receives double this amount, and the Deputy Chairman of the Supervisory Board receives 1.5 times this amount. In addition, the members of the Supervisory Board receive variable remuneration of EUR 200.00 for each 0.1 percentage point by which Grammer Group ROCE exceeds 8.0%. Maximum variable compensation per fiscal year is EUR 6,000.00 for Supervisory Board members. ROCE is calculated using data from the audited Grammer AG consolidated financial statements as follows: profit from operations less tax expense divided by the sum of equity plus at-interest debt, pension and financial obligations.

Supervisory Board members also receive an attendance fee of EUR 1,000.00 plus expense reimbursements per Supervisory Board meeting and committee meeting personally attended. The chairman of a committee receives an additional EUR 1,000.00 attendance fee per committee meeting. Long-term incentive components such as stock option or ownership plans are not part of Supervisory Board remuneration.

Corporate Governance

The Declaration of Compliance with the German Corporate Governance Code was updated on December 7, 2007 and harmonized with the new version of the Code dated June 14, 2007. Pursuant to Section 161 of the Stock Corporation Act, the Board of Management and Supervisory Board declare that the Directives of Grammer AG on the management of the Company correspond in principle with the recommendations of the Code and will continue to do so in the future. The full declaration appears in the 2007 Annual Report and is posted on the Company website under www.grammer.com/corporate_governance for public review.

Research and Development

Research and development is critical for Grammer AG to maintain its successful market position in future. It takes technological superiority to generate innovative products, and by thus broadening our product range we can unlock market potential and remain competitive going forward.

Investment in research and development is particularly key in the automotive sector. Development of new automotive components and systems is increasingly being shifted over to supplier firms. Our Automotive division is thus increasingly positioning itself as a proactive development partner to prominent manufacturers. Technological superiority and top-flight solutions afford us crucial advantages in the marketplace. Not only is intensive research and development the cornerstone of our current business success, it also forms the basis for our future growth. New and innovative products will enable us to continue meeting the most sophisticated customer requirements going forward.

Our systematic research and development efforts have resulted in the creation of pioneering car interior components such as height-adjustable door armrests and sensor-controlled crash-active headrests. This sophisticated system is already successful in the market, being used with such models as the Mercedes-Benz C and E Classes. BMW also deploys crash-active headrests for its 5, 6 and 7 Series vehicles. This security feature protects vehicle occupants from whiplash neck injuries in the event of accident.

Intensive research and development is likewise critical for the Seating Systems division. A series of awards tell the story of our success, including a silver medal for an electronically active, regulated seat and cab spring system prototype shown at the 2007 Agritechnica fair, awarded by the German Agricultural Society (DLG).

Opportunity and Risk Management

Risk concept

Grammer's objective is to capitalize on long-term business opportunities while effectively containing risk. Effective opportunity and risk management is key for achieving our business potential both now and in future. Our international alignment gives rise to specific opportunities and risks that must be approached in a controlled fashion and are addressed through the following principles of Group risk policy:

- Risk awareness for us means constant effort to identify risks associated with our actions at an early stage, to monitor these and to minimize the potential impact thereof on the firm to the greatest possible extent.
- Risk management defines risk as events having a substantial potential negative impact on Group net assets, financial position and earnings (going concern risks). These must be minimized to the extent they cannot be eliminated.
- Risk management is a permanent responsibility for the individuals charged with this task.
- The risk management department supports those with responsibility in identifying and addressing risks (central risk management).

The risk management department maintains an IT-supported risk management system for central risk management and implementing necessary risk reduction measures. We will continue to expand and optimize our risk management practices through further validation systems.

Risk policy principles

The Grammer Group employs a Group risk policy for concrete risk identification, analysis and management involving the following risk management principles:

- All Company employees are called upon to be aware of and minimize risks within their area of responsibility.
- All employees are required to report dangers and risks arising in the course of business to the responsible managers.
- Events involving potential losses of ≥ EUR 2 million are considered strategic risks.
- Operational risk involving potential losses of ≥ EUR 0.5 million are additionally tracked by the system.

Identification of opportunities and risks

Grammer corporate and central services managers meet regularly to obtain information on and identify risks. Existing risks and evaluation of response management are the main focus at these meetings. Newly identified risks are also addressed and adopted as part of response management.

In this manner, we obtain a complete overview of all opportunities and risks facing the Grammer Group. These include projects to open up new markets and changing energy and commodity prices.

Environment-related and industry-related risks

Competitive risks exist, for example, in sustained cost pressure exerted by vehicle manufacturers upon supplier firms. Redoubled research and development efforts and extensive process optimizations are part of our response.

We strive to improve our market position across all business units in order to reduce competitive risks. Grammer thus relies on technological innovation and further development of existing products. The objective is to become technology leader or consolidate our position as technology leader through intensified research and development on our core products to generate competitive advantages.

Of equal importance is upholding our high internal quality standards by identifying and eliminating potential sources of errors, duplicate work and slack times.

Procurement risks

To compensate for specific commodity market risks, Grammer enters into hedging transactions for aluminum and petroleum. This practice may be extended to other exchange-traded commodities as required. Commodity derivatives that are actively managed for the necessary deliveries and quantities are used for hedging.

Grammer addresses risks associated with supplier default or quality problems caused by such default through regular supplier audits, a dual-source strategy and intensive supplier development efforts. This keeps us in continuous close contact with our suppliers and avoids dependencies to the greatest possible extent.

Financial risks

Group Finance provides central tracking of interest rate, currency, liquidity and debtor default risks. We utilize strategic treasury management to reduce such risks, the effectiveness of which we review on a regular basis.

Grammer has to manage currency risks primarily in the US dollar area. Furthermore, the establishment of production locations also results in currency risks in Czech koruna, Turkish lira, Polish zloty and Mexican peso. These result from both trade receivables and procurement.

We effect hedging transactions to cover a portion of projected currency risk.

To ensure adequate liquidity, we took out a sufficiently long-term promissory note loan and are retaining fixed-interest short-term lines of credit for a guaranteed three-year period. Our customer structure serves to limit debtor default risks, complemented by active receivables management and customer liquidity monitoring.

Legal risks

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

Personnel risks

Grammer relies on highly qualified staff and managerial personnel to be able to effectively capitalize on business opportunities. Extensive employee training and continuing education on all levels Company-wide are thus top priority. We also are committed to attracting motivated new talent by attending numerous recruiting events.

Ecological risks

To manage ecological risks, Grammer regularly performs eco-audits in which we provide a comprehensive report of our activities of relevance to the environment. In addition, we continue to certify our production sites according to environmental certification standard ISO 14001.

Assessment of overall risk

Having reviewed the current risk situation in detail, we find that Grammer has taken appropriate preventive measures. The risks described are due to operating activities. In cases of a very unfavorable development with various negative factors occurring at the same time, they can result in a negative impact on future net assets, financial position and results of operations.

At this time, no going-concern risks are identifiable.

Supplementary Report

Change in shareholder structure

On January 15, 2008 the Austrian Polytec Group disclosed having bought 1,006,009 Grammer AG shares, equal to 9.6% of voting rights.

No other events of any significance occurred after the balance sheet date of the consolidated financial statements.

Outlook

Global economy losing a little momentum
The German Council of Economic Experts projects 3.3 % global GDP growth for 2008. This year-on-year decline in the growth rate is in part attributable to slowing growth in the US and Japan. The Council of Economic Experts forecasts 2.0 % GDP growth for the US. Asia and especially China will be the primary drivers of global economic growth, the latter being projected to post a hefty 10.0 %. The Council projects 2.3 % economic growth for the European Union. Germany appears headed for modest economic expansion. Projections are for 1.9 % growth for the current fiscal year.

Automotive: German market poised for modest rebound
The global automotive market is set for further growth in 2008 according to leading economic analysts. The VDA forecasts declining sales of roughly 15.7 million units for the US auto market this year (– 2 %). The industry association expects German brands to continue to prosper in the world's largest automobile market. Experts project dramatic growth for the Chinese market ranging between 15 and 20 %.

High mobility costs and slowing economic growth in Germany may dampen consumer spending. Falling unemployment and increasing household income in consequence are positive counterbalancing factors. The strength of the GfK consumer climate index in January points toward stabilizing private consumption. The VDA projects a slight rise in new car registrations overall to 3.2 million units, and exports to remain at a high level. Production volume is forecast to remain at last year's level.

Several components for global model ramp-ups of prominent German premium manufacturers developed by Grammer AG and flowing into production will be of key importance to our Automotive business in 2008, in addition to the strength of the domestic market. Grammer expects favorable results from the successful launch of new products, boosting revenues and earnings after ramp-up. Sales may decline slightly during model transition phases.

Seating Systems market outlook favorable
Looking at commercial vehicles, the German Motor Vehicle Manufacturers Association (VDIK) projects a slight decline for the truck market. The VDMA anticipates a favorable climate for international agricultural engineering markets. Projections for the construction equipment sales are again optimistic, with robust construction activity in such key markets as Europe, Russia and India.

We thus expect driver seats to be a growth driver for Grammer this fiscal year, generating significant earnings.

Rail business volume for 2008 is expected to come in lower than the previous year's level. Earnings will be impacted in particular by intensive continuing operational optimization efforts. Bus seat sales in Turkey and the Middle East are projected to remain strong too, so both areas will likely contribute to earnings.

Business development in the Group

Optimizing production and streamlining administration remain areas of medium- to long-range structural change within our organization. Operational restructuring of the rail business will impact Seating Systems in 2008. Modernization of the product portfolio as part of these efforts is leading up to a market launch, but we intend to continue to pursue innovation within the segment.

Investments

A slight increase in growth-oriented investment activity is planned for 2008, centering in the NAFTA and Asian markets. Additional expenditure is also planned in Europe in 2008 in connection with customer projects and efforts to increase added value.

Research and development

In the Automotive division, we continue to develop our product portfolio, focusing on expanding into new vehicle series and strengthening our core businesses. Pre-development efforts are intensifying in order to better differentiate ourselves from competitors as a technologically innovative systems supplier. In the Seating Systems division, efforts center on the new Echo truck seat platform. We will continue pursuing geographically market-specific development, rounding out the product range on both the upper and lower ends as part of targeted expansion in the NAFTA markets and Asia.

Employees

The change in the number of employees was due mainly to cost considerations in Germany and expansion in the Far East and other international markets. Internal restructuring continues both in production and administration. This will involve significant layoffs within the Group across all functions and areas in alignment with revenues and earnings. The Group thus anticipates the number of employees to decline substantially.

Opportunities and risks

The economic situation presents both opportunities and risks.

The Grammer Group's business is closely tied to macroeconomic and industry conditions that are by nature external. Steel and metal alloy prices on global markets continue to pose a risk. Rising oil prices may also have an impact on plastic and foam components. The US dollar exchange rate and union wage demands may present further problems. The Board of Management will continue to vigorously implement the package of efficiency and other measures introduced to counter these risks.

Sales and earnings

The Grammer Group estimates 2008 revenues to slightly exceed last year's level, the trend remaining up over the next several years. Results will depend on production costs in Germany and market and purchasing prices. Non-European markets are expected to grow the most.

For 2008, we estimate earnings to come in slightly above last year's level, assuming union wage negotiations proceed reasonably and purchasing prices and exchange rates remain under control. Restructuring costs could also weigh on earnings, efforts Grammer will continue to pursue aggressively.

In the Automotive segment, we will continue with customer-specific product development to fuel both domestic and international revenues. Increasing customer globalization will be a major issue, as product groups may be withdrawn from Germany and transferred abroad. Establishing newly integrated production and successful operational startup with serial ramp-up will strongly impact Grammer Group results.

The Seating Systems division is off to a strong start for the year in terms of orders. The outlook for the rest of the year is favorable; we expect revenues to come in slightly ahead of 2007. For the Offroad and Truck business units, we see revenues stabilizing at a high level. Rail revenues are anticipated to decline year-on-year in view of the project situation; bus revenues should be receiving a boost from the Middle East.

Summary statement concerning the Board of Management's forecast

In view of the stable business situation in the first months of 2008 and in the context of the positive economic environment, we are confident of continued success for the Grammer Group going forward. Conditions are good for further profitable growth in 2008 and 2009.

Amberg, March 14, 2008

Grammer AG
The Board of Management

GRAMMER SHARE

A turbulent year on markets – featuring highs and lows

2007 was a rollercoaster year on stock markets and investors' nerves often suffered accordingly. Global equities markets trended upwards, at least until Summer 2007. The first weeks looked very promising – an excellent economic outlook and the robust state of the global economy provided positive signals. International stock markets suffered their first setback in February, as the impact of sharp falls in share prices in China rippled outwards. However, capital markets in Europe and the USA recovered relatively quickly, allowing international indices to register new highs in the first six months.

In the second half of the year, international stock markets appeared far more jittery. The shift in sentiment was triggered, in particular, by the American credit and real estate sector, where the problems became more and more visible from July. The so-called subprime crisis led to a few of the US mortgage banks involved becoming insolvent. In Germany too, the impact on those banks involved was substantial. In addition, high oil prices, rising inflation rates and fears of a recession in the USA caused prices to fall. In response, the Federal Reserve cut interest rates for the first time in mid-September, which caused equities markets to rebound temporarily. The Dow Jones recorded an all-time high, European and Asian markets also firmed once more. Subsequently, prices fell slightly at first but two further cuts in US interest rates then stabilized stock markets until the year-end.

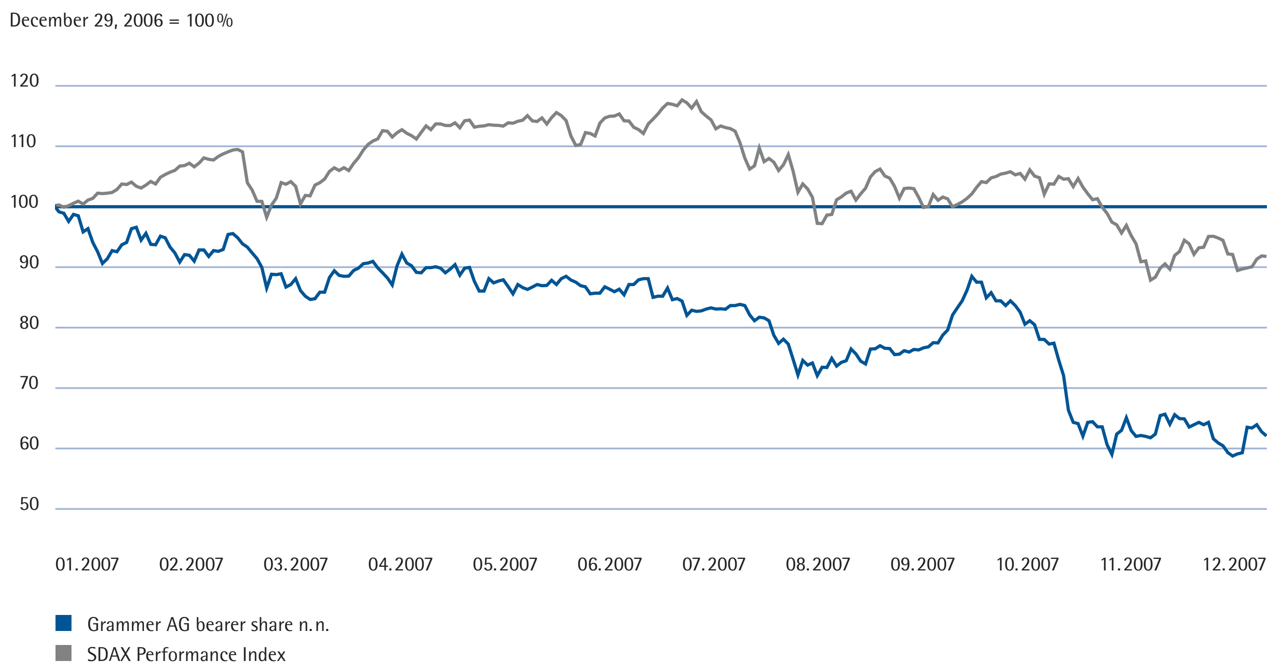
The DAX index of leading shares reached a new high in 2007
Despite the difficult environment, the German share index moved upwards in 2007 for the sixth year in succession. Starting from the previous year's close of 6,597 points, it gained just under 6% in the first two months. Softening markets in China caused the barometer for German blue chips to fall briefly at the end of February, but the index recovered relatively quickly and recorded an all-time high of 8,106 points in July. To some extent, the DAX survived the debilitating factors in the second half unscathed. It closed the year on 8,067 points and was consequently only slightly down on the record level reached in the summer. In terms of the year as a whole, this equates to an increase of approximately 22%.

The SDAX and Grammer shares lose ground
The SDAX was not able to match the performance of the German index of leading shares. The segment of the market in which Grammer shares are listed closed 2006 on 5,567 points. Having peaked at 6,659 in July, the SDAX subsequently weakened significantly and closed the year on 5,192 points, which equates to an overall fall of approximately 7%.

2007 was also a disappointing year for the Grammer share. Having closed the previous year at EUR 25.79, our share hit its annual high of EUR 25.87 on the first day's trading in 2007. As a consequence of the slide in prices caused by market forces in February 2007, the Grammer share largely trended sideways until the end of September. The brief rally in October was ended by the publication of revised net income figures. The Grammer share price was unable to recover from this lower level in subsequent weeks and closed 2007 at EUR 16.02.

In 2008, the Grammer share has succeeded in distancing itself markedly from the general negative market trend and achieved an increase in price of over 14% on the 2007 closing price at the end of February, when it was quoted at EUR 18.33.

Grammer AG and SDAX Performance Index – 2007 Market Trend



Dividend yield remains very attractive

For fiscal 2006, the Annual Shareholders' Meeting on June 28, 2007 resolved payment of a dividend of EUR 1.00 per share. Based on the 2006 closing price, this equates to a dividend yield of 3.9 %. Given that the Company has 10,165,109 common shares entitled to receive dividends, a total of EUR 10.2 million was distributed to shareholders.

The Board of Management and Supervisory Board will also propose payment of a dividend of EUR 1.00 per share for fiscal 2007 to the Annual Shareholders' Meeting on May 28, 2008. Based on the 2007 closing price, this would equate to a dividend yield of 6.2 %. This figure makes Grammer one of the companies offering the highest dividend in the German index.

Financial communication beefed up again

Grammer AG places great emphasis on close contact with institutional and private investors as well as analysts. Accordingly, we have beefed up our investor relations activities in 2007. The premises for financial communication are a high level of credibility, transparent information and open dialogue with all target groups.

The quality and effectiveness of our investor relations was again confirmed through good appraisals in 2007. For example, Grammer AG's Annual Report achieved a top ten place in the annual ranking of SDAX companies prepared by the German business magazine 'manager magazin'.

During the year, we provided regular reports on the Group's performance through press releases and quarterly reports. In addition, we again gave analysts and journalists the opportunity to obtain personal comments from the Board of Management on relevant issues through telephone conferences.

Roadshows at important financial centers

Management and the Investor Relations Team also held many roadshows in 2007. Besides Germany and the United Kingdom, these were concentrated in financial centers in Switzerland and Italy. We also held many individual discussions with institutional investors and analysts. Not least, we participated in the German Equity Forum in November in Frankfurt, which is the largest platform for raising equity finance for SMEs in Europe.

A comprehensive website

We report on issues related to the share for private investors, in particular, on our website. Investors can find in-depth information as well as details of the Group's strategy and its financial results at www.grammer.com/investor_relations. It also includes a calendar showing the dates of relevant conferences, meetings and publications. We also offer the option of downloading recordings of our telephone conferences as a digital audio stream. We shall optimize our website further in 2008 to respond to all the requests for information as effectively as possible.

We shall intensify our investor relations still further in the current year. We aim to communicate the appeal of our Company to as many analysts and investors as possible through numerous roadshows, conferences and one-on-one meetings and consequently increase coverage of the Grammer share.

Shareholder structure remains unchanged in 2007

Our major shareholders and their stakes in Grammer AG remained unchanged in 2007. EQMC held a stake of 10.0% and Axxion one of 5.6%. Accordingly, the free float remains at a good 84%. There has been a slight change to the shareholder structure in the current year: in January 2008, the Austrian Polytec Group reported that it had acquired approximately 10% of the shares.

	2007	2006
Annual high	25.87 EUR	25.95 EUR
Annual low	15.16 EUR	18.20 EUR
Share price at year-end	16.02 EUR	25.79 EUR
Number of shares	10,495,159	10,495,159
Market capitalization (in EUR million) as of December 31	168.1	270.7
Earnings per share	1.72 EUR	2.09 EUR
Price/earnings ratio	9	12
Dividend	1.00 EUR*	1.00 EUR
Dividend yield based on the share price at year-end	6.2%*	3.9%

* Based on the dividend proposed to the Annual Shareholders' Meeting 2008

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the fiscal year ended December 31, 2007

		2007	2006
	Note	EUR '000s	EUR '000s
Revenue	6	998,065	880,950
Cost of sales	7	– 871,325	– 753,956
Gross profit		**126,740**	**126,994**
Selling expenses	7	– 32,028	– 32,389
Administrative expenses	7	– 72,175	– 64,099
Other operating income	7	9,576	8,355
Profit from operations		**32,113**	**38,861**
Financial income	7	2,480	1,340
Financial expenses	7	– 11,745	– 8,198
Profit before income taxes		**22,848**	**32,003**
Income tax expenses	8	– 5,293	– 10,692
Net income for the period		**17,555**	**21,311**
Of which attributable to:			
Equity holders of the parent		17,514	21,248
Minority interests		41	63
		17,555	**21,311**
Earnings per share			
Basic/diluted, on the basis of net income for the period attributable to ordinary shareholders of the parent company	9	1.72 EUR	2.09 EUR

Consolidated Balance Sheet for the fiscal year ended December 31, 2007

Assets		2007	2006
	Note	EUR '000s	EUR '000s
Non-current assets			
Property, plant and equipment	11	131,043	130,384
Intangible assets	12	44,593	43,201
Other financial assets*	15	9,362	5,379
Deferred tax assets	8	16,567	14,805
		201,565	**193,769**
Current assets			
Inventories	13	95,128	85,400
Trade accounts receivable	14	116,822	111,332
Other current financial assets*	15	38,582	47,857
Income tax assets		4,928	4,067
Cash and short-term deposits	17	22,904	18,333
Other current assets*	16	17,606	15,803
		295,970	**282,792**
Total assets		**497,535**	**476,561**

Equity and liabilities		2007	2006
	Notes	EUR '000s	EUR '000s
Equity attributable to equity holders of the parent			
Subscribed capital	18	26,868	26,868
Capital reserve	18	58,237	58,237
Treasury shares	18	– 7,441	– 7,441
Retained earnings*	18	106,551	96,628
Equity before minority interests		**184,215**	**174,292**
Minority interests	18	493	468
Total equity		**184,708**	**174,760**
Non-current liabilities			
Non-current financial liabilities	20	70,433	73,132
Other financial liabilities*	23	3,769	3,825
Other liabilities*	24	193	115
Retirement benefit obligations	19	50,903	49,073
Deferred tax liabilities	8	15,564	17,332
		140,862	**143,477**
Current liabilities			
Current financial liabilities	20	22,413	14,128
Trade accounts payable*	22	89,783	89,868
Other current financial liabilities*	23	2,104	2,692
Other liabilities*	24	43,960	36,594
Income tax liabilities	24	7,420	5,775
Provisions	21	6,285	9,267
		171,965	**158,324**
Total liabilities		**312,827**	**301,801**
Total equity and liabilities		**497,535**	**476,561**

In 2007, for reasons of transparency, the items marked with * were adjusted in the balance sheet structure and these changes to the 2006 values are explained in the Notes under 2.3.

Consolidated Statement of Changes in Equity for the fiscal year ended December 31, 2007

Note 18	Subscribed capital	Capital reserve	Retained earnings	Treasury shares	Other reserves	Total	Minority interests	Group equity
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Balance as of January 1, 2006	**26,868**	**58,237**	**79,410**	**0**	**8,741**	**173,256**	**495**	**173,751**
Dividend	0	0	– 10,500	0	0	– 10,500	0	– 10,500
Net income for the period	0	0	21,248	0	0	21,248	63	21,311
Subsequent measurement (IAS 39)	0	0	0	0	202	202	0	202
Currency translation	0	0	0	0	– 1,953	– 1,953	– 20	– 1,973
Treasury shares/other	0	0	0	– 7,441	0	– 7,441	– 70	– 7,511
Change in net investments IAS 21/39	0	0	0	0	– 520	– 520	0	– 520
Balance as of December 31, 2006/ January 1, 2007	**26,868**	**58,237**	**90,158**	**– 7,441**	**6,470**	**174,292**	**468**	**174,760**
Dividend	0	0	– 10,170	0	0	– 10,170	0	– 10,170
Net income for the period	0	0	17,514	0	0	17,514	41	17,555
Subsequent measurement (IAS 39)	0	0	0	0	– 287	– 287	0	– 287
Currency translation	0	0	0	0	4,408	4,408	– 16	4,392
Treasury shares/other	0	0	0	0	0	0	0	0
Change in net investments IAS 21/39	0	0	0	0	– 1,542	– 1,542	0	– 1,542
Balance 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, 2007

Note 25	2007	2006
	EUR '000s	EUR '000s
1. Cash flow from operating activities		
Earnings before taxes	22,848	32,003
Non-cash items:		
Depreciation and impairment of property, plant and equipment	21,481	21,947
Amortization and impairment of intangible assets	1,986	1,715
Changes in provisions and pension provisions	– 1,275	2,020
Other non-cash changes	1,784	– 656
Changes in working capital		
Increase in trade accounts receivable and other receivables	– 9,046	– 24,496
Increase in inventories	– 9,728	– 5,180
Increase in other assets	– 2,623	– 2,434
Increase in trade accounts payable and other liabilities	16,951	14,416
Gains from the disposal of assets	2,999	– 826
Income taxes paid	– 6,852	– 8,816
Cash flow from operating activities	**38,525**	**29,693**
2. Cash flow from investing activities		
Acquisitions		
Acquisition of property, plant and equipment	– 29,763	– 26,677
Acquisition of intangible assets	– 4,857	– 5,377
Acquisition of investments	– 4,443	– 300
Disposals		
Disposal of property, plant and equipment	4,995	3,901
Disposal of intangible assets	1,433	4
Disposal of investments	490	1,046
Interest received	2,480	1,340
Government grants received	300	0
Cash flow from investing activities	**– 29,365**	**– 26,063**
3. Cash flow from financing activities		
Dividend payments	– 10,170	– 10,500
Purchase of treasury shares	0	– 7,441
Repayment of bond	0	– 42,000
Changes in non-current liabilities to banks	– 2,699	70,435
Changes in current liabilities to banks*	– 3,320	7,089
Changes in lease liabilities	– 1,956	– 1,023
Interest paid	– 9,200	– 4,910
Cash flow from financing activities	**– 20,705**	**11,650**
4. Cash and cash equivalents at end of period		
Net change in cash and cash equivalents (sub-total of items 1 – 3)*	– 11,545	15,280
Effects of exchange rate differences	96	– 538
Cash and cash equivalents at January 1*	26,954	12,212
Cash and cash equivalents at December 31	**15,505**	**26,954**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	22,904	18,333
Securities	0	11,003
Current account liabilities*	– 7,399	– 2,382
Cash and cash equivalents at December 31*	**15,505**	**26,954**

The items marked with * were adjusted in the cash flow statement structure and these charges are explained in the Notes under 25.

Notes to the Consolidated Financial Statements for the fiscal year ended December 31, 2007

1 Information about the Grammer Group

The consolidated financial statements of Grammer AG (the "Company") for the fiscal year ended December 31, 2007 were authorized for issue on March 7, 2008 by resolution of the Board of Management. 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, the Grammer Group is a leading company in the development and production of components and systems for automobile interiors as well as driver and passenger seats for offroad vehicles, trucks, buses and trains. As of December 31, 2007, the Company employed 9,527 persons (excluding trainees and including 158 employees in Central Services) at 28 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at Central Services of the Grammer Group in Amberg.

The Grammer Group has divided its activities into the Automotive and Seating Systems segments. The main activities of the Group are described in Note 5.

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 of 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 compliance 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 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 the 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 of the cost of the business combination over the Group's interest in the company's net fair value 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 0.28 % to 88.63 % in fiscal year 2007. 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 in net assets acquired 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 6.6 thousand was recognized in other operating income. The Group sold Grammer s.r.l. in June 2007 (Note 4).

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 ve 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 basis of consolidation includes four domestic and sixteen foreign companies that are directly or indirectly controlled by Grammer AG in accordance with 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 collectibility of receivables and undertaking recognition and measurement of provisions. The assumptions and estimates are based on presumptions which reflect 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 which 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.

Uncertainties on estimation
The key assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date that entail a 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 that cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. As of December 31, 2007, the carrying amount of goodwill amounted to EUR 32,591 thousand (2006: EUR 33,950 thousand). Further details are included in Note 12.

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 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 tax assets
Deferred tax assets are recognized for all unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be actually utilized. Significant management judgments are required to determine the amount of deferred 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 8.

Pensions 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, 2007, the provisions for pensions and similar obligations amounted to EUR 50,903 thousand (2006: EUR 49,073 thousand). Further details are included in Note 19.

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

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 2007 (2006)	Closing rate 2007 (2006)
Argentina	ARS	0.234 (0.259)	0.216 (0.247)
Brazil	BRL	0.375 (0.365)	0.382 (0.355)
Bulgaria	BGN	0.511 (0.511)	0.511 (0.511)
Canada	CAD	0.681 (0.704)	0.693 (0.654)
China	CNY	0.096 (0.100)	0.093 (0.097)
Czech Republic	CZK	0.036 (0.035)	0.038 (0.036)
India	INR	0.018 (0.018)	0.017 (0.017)
Japan	JPY	0.006 (0.007)	0.006 (0.006)
Mexico	MXN	0.067 (0.073)	0.062 (0.070)
Poland	PLN	0.264 (0.256)	0.278 (0.260)
Russia	RUB	0.029 (0.029)	0.028 (0.029)
Slovenia	EUR (SIT)	(0.004)	(0.004)
Switzerland	CHF	0.609 (0.635)	0.604 (0.622)
Turkey	TRY	0.559 (0.560)	0.584 (0.533)
United Kingdom	GBP	1.459 (1.466)	1.361 (1.489)
USA	USD	0.729 (0.797)	0.680 (0.759)

Property, plant and equipment

Property, plant and equipment is 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 attributable direct 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 is 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 asset. 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 lessees 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.

Lease or rent payments under operating leases involving subsidiaries as lessees are recognized as an expense directly in profit or loss.

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

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 met.

Goodwill

Goodwill arising from a business combination is initially measured at cost as defined by the excess amount of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities acquired. 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 segment reporting as defined in IAS 14 "Segment Reporting".

The impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that refers 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-gerating unit.

Intangible assets

Intangible assets acquired for 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 the 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 development costs capitalized 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 the derecognition of intangible assets are established 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.

Impairment of nonfinancial 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 its residual carrying amount (if any), 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 shown separately, if there is a right of set-off regarding the amounts at the present date and a set-off on a net basis is intended. 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.

Financial instruments are initially recognized at fair value. The fair value of financial investments is determined by the market price listed on the balance sheet date if they are traded on organized markets. If no market price is available in the absence of an active market, the market value is established by way of appropriate valuation approaches such as discounted cash flow, taking into account the market data available on the balance sheet date. When calculating the carrying amount, account is taken of transaction costs directly attributable to the acquisition or issue, if the financial instruments are not measured at their fair value through profit or loss.

When measured subsequently, the financial instruments are allocated to one of the measurement categories listed in IAS 39. The designation in the assessment category takes place at its initial recognition. If redesignation is needed and permissible, this will be effected at the end of the fiscal year.

Financial assets within the meaning of IAS 39 are classified as financial assets that are measured at fair value through profit or loss, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets.

Financial assets measured at fair value through profit or loss

Financial assets classified as held for trading purposes are included in the category of financial assets measured at fair value through profit or loss. Financial assets are classified as "held for trading" if they have been purchased for the purpose of selling them in the near future.

Derivatives, including embedded derivatives recognized separately, are also classified as "held for trading" with the exception of those derivatives that relate to a financial guarantee or 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.

Gains or losses arising from financial assets held for trading are recognized in profit or loss.

Original financial assets were not classified as "held for trading" in either fiscal year 2007 or in the previous, year neither was use made of the option of designating financial assets as assets to be recognized at fair value through profit or loss when they were recognized initially.

Loans and receivables

Trade accounts receivables, loans and other receivables with fixed or definable payments, which are not listed in an active market, are categorized as "loans and receivables". Following initial recognition, these are recognized at amortized cost using the effective interest rate method less possible impairment losses, apart from current receivables where the interest effect would be immaterial. Gains and losses are recognized as profit or loss in the period if they are derecognized or written down or are reduced through amortization.

Held-to-maturity financial investments
Nonderivative financial instruments with fixed or definable payments as well as a fixed term where the Group has the clear intention and ability to hold them 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. Gains and losses are recognized as profit or loss in the period if they are derecognized or written down and are reduced through amortization.

Financial instruments of this category were present in the group neither on balance-sheet date nor in the previous year.

Available-for-sale assets
Available-for-sale assets are nonderivative financial assets, which are classified as available-for-sale and are not placed 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. If, in the case of financial investments in equity instruments, there is no price listed on an active market and their fair value cannot be reliably established, they are valued at cost and in the event of a permanent impairment, they are written down to the present value of the future cash flow. Upon disposal of financial assets of this kind, any gains or losses previously recognized in equity are transferred to the income statement.

Financial liabilities measured at fair value through profit or loss
Financial liabilities, which 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.

This category includes financial liabilities "held for trading", which were designated as measured at fair value through profit or loss. Derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such, are also classed as "held for trading".

No original financial liabilities were classified as "held for trading" in either fiscal year 2007 or in the previous year and no use was made of the option of designating financial liabilities as liabilities to be recognized at fair value through profit or loss when they were recognized initially.

Other financial liabilities
All financial liabilities that do not fall into the category financial liabilities recognized at fair value through profit or loss and are not derivative financial instruments, 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.

Derivative financial instruments
The Grammer Group makes use of derivative financial instruments to hedge balance sheet items and future cash flows. The primary hedging instruments used are swaps, forward transactions and options. In hedge accounting, a designated hedging relationship must exist between the hedged item and the hedging instrument. Accounting for changes in the fair value of hedging instruments depends on the type of hedging relationship. When hedging against changes in value of balance sheet items (fair value hedges), both the hedging instrument as well as the hedged portion of the hedged item are recognized at fair value. Any changes in measurement are recognized as profit or loss.

In the case of future cash flow hedges, the hedging instruments are also measured at fair value. Any changes in measurement are initially recognized outside income in a special reserve and are only recognized as profit or loss when the cash flows are realized. The ineffective portion of the hedge is immediately recognized as profit or loss. Derivatives used by the Grammer Group to hedge interest rates, currencies or prices under normal economic standards, but that do not meet the strict criteria of IAS 39, are classified as financial assets or 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 from the financial asset have changed adversely.

Financial assets carried at amortized cost
If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost 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), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss.

The Group first assesses 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 or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is recognized in profit or loss insofar as the carrying amount of the asset does not exceed amortized cost at the date the impairment is reversed.

Trade accounts receivable are to be written down accordingly using an impairment account following objective assessment and substantial indication that not all amounts due will be received in accordance with the originally agreed invoice terms. If a receivable is classed as uncollectible, it is to be derecognized.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is recognized directly in equity. 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 in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

Financial assets are derecognized when one of the following three requirements is met:

- 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 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.

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 an extinguishment of the original 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 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 bank overdrafts used.

Treasury shares
The purchase of treasury shares through the stock repurchase program is not recognized in income in accordance with IAS 32.33. The 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 probably cause an outflow of resources and a reliable estimate can be made of 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 expense

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 are recognized in the period they arise.

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 income 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 systematic basis over the useful life of the asset through profit or loss.

Taxes

Current tax liabilities and current tax assets

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.

Deferred taxes

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

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

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

- Deferred 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 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 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 tax asset can be at least partially utilized. Unrecognized 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 tax asset to be recovered.

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

Changes to the balance sheet structure to the previous year
The following items of the balance sheet structure were changed and the previous year figures correspondingly adjusted in line with IFRS 7 and to increase transparency:

Reclassifications to increase transparency

	2007	2006
	EUR '000s	EUR '000s
Other investments	1,027	476
Other financial assets	8,335	4,903
Other financial assets	**9,362**	**5,379**
Other receivables and assets	55,164	51,607
plus financial assets	1,024	12,053
minus other assets	– 17,606	– 15,803
Other current financial assets	**38,582**	**47,857**
Retained earnings	97,503	90,158
plus other reserves	9,049	6,470
Retained earnings	**106,552**	**96,628**
Other liabilities	3,962	3,940
minus other liabilities	– 193	– 115
Other financial liabilities	**3,769**	**3,825**
Trade accounts payable	90,186	91,531
minus other current liabilities	– 403	– 1,663
Trade accounts payable	**89,783**	**89,868**
Financial obligations	1,072	63
plus other current financial liabilities	1,032	2,629
Other current financial liabilities	**2,104**	**2,692**
Other current liabilities	44,589	37,560
minus other current financial liabilities	– 1,032	– 2,629
plus other current liabilities	403	1,663
Other current liabilities	**43,960**	**36,594**

2.4 Application of IFRS standards

The accounting policies applied generally correspond to the policies applied in previous years, with the following exceptions:

The Group applied the following new and revised standards in the year under review:

- IFRS 7 – Financial Instruments: Disclosures
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment
- IFRIC 11/IFRS 2 – Group and Treasury Share Transactions

The application of these new or revised standards had no effect on the Group's financial position and performance, but required additional disclosures to be made in the Notes and changes to the accounting methods in a few cases.

IFRS 7 Financial Instruments: Disclosures

In the current fiscal year, the Group applied IFRS 7 Financial Instruments: Disclosures and the corresponding changes in the IAS 1 Presentation of Financial Statements. This standard requires disclosures which allow users of financial statements to assess the significance of financial instruments for the Group's performance and earning power as well as the type and extent of the risks resulting from these financial instruments. The resultant new disclosures relate to the entire financial statements. Application had no effect on the Group's net assets, financial position and performance. The relevant comparative data were adjusted.

IFRIC 8 Scope of IFRS 2

This interpretation requires the application of IFRS 2 for all transactions where a company cannot specifically identify some or all goods or services received. Application had no effect on the Group's financial position and performance, since there were no transactions with unspecified services or deliveries or equity instruments granted by the Company.

IFRIC 9 Reassessment of Embedded Derivatives

Pursuant to IFRIC 9, a company must always assess a contract for a structured instrument to see whether it is an embedded derivative at the time the deal is concluded. Since the Group has no embedded derivatives to be separated from the underlying agreement, the interpretation had no effect on the Group's financial position or performance.

IFRIC 10 Interim Financial Reporting and Impairment

The Group applied the IFRIC interpretation for the first time as of January 1, 2007. It states that an impairment charge for goodwill recognized in interim financial statements, for equity instruments held or financial assets recognized at cost cannot be reversed in subsequent financial statements. Since the Group has not reported any recognized impairment charges in this way in the past, this interpretation had no effect on the Group's financial position and performance.

IFRIC 11/IFRS 2 Group and Treasury Share Transactions

As the entities included in the consolidated financial statements do not provide share-based remuneration in the scope of the interpretation, this interpretation has no effect on the Group's net assets, financial position and performance.

IAS Amendments, IFRS and IFRIC Interpretations not yet in force

The Group did not apply the following standards and IFRIC interpretations that have already been published because they are only required to be applied for future periods:

- IAS 1 – Changes – Presentation of Financial Statements (not endorsed)
- IFRS 2 – Changes – Share-based Payment (not endorsed)
- IFRS 3 – Revision – Business Combinations (not endorsed)
- IAS 23 – Revision – Borrowing Costs (not endorsed)
- IAS 27 – Changes – Group and Separate Financial Statements in Line with IFRS (not endorsed)
- IAS 32 – Changes – Financial Instruments (not endorsed)
- IFRS 8 – Business Segments (endorsed)
- IFRIC 12 – Service Concession Arrangements (not endorsed)
- IFRIC 13 – Customer Loyalty Programs (not endorsed)
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (not endorsed)

Changes to IAS 1 Presentation of Financial Statements

Application of changes to IAS 1 Presentation of Financial Statements will become mandatory for the fiscal years after January 1, 2009. The standard will influence the manner of the Group's publishing of financial information, but not the recognition and measurement of assets and liabilities in the consolidated financial statements.

Changes to IFRS 2 Share-based Payment

The changes to IFRS 2 are only to be applied for the fiscal years which begin on or after January 1, 2009. The change first clarifies that the term vesting conditions solely refers to service and performance conditions. The rules are also applied to account for early termination of share-based payment plans in cases where termination is made by employees. The transition conditions provide for a retrospective application of the new rule.

Revision of IFRS 3 Business Combinations

The changed IFRS 3 standard is only to be applied for the fiscal years which begin on or after July 1, 2009. The main changes affect particularly the introduction of an option in the measurement of minority holdings and the revaluation recognized in income for successive acquisitions. As the Group intends to apply the purchased goodwill method for future business combinations, the revaluation will not have an effect. The revaluation in the context of successive company acquisitions and the mandatory accounting of contingent acquisition-related costs at the time of acquisition tend to lead to higher goodwill.

Revision of IAS 23 Borrowing Costs

IAS 23 will be mandatory as of January 1, 2009. The Group will apply this prospectively in line with the transitional provisions. Accordingly, borrowing costs on qualified assets will be capitalized from January 1, 2009. This will not result in any changes for previous borrowing costs and borrowing costs accruing until then, which were recognized and expensed immediately.

Changes to IAS 27 Group and Separate Financial Statements in line with IFRS

The changed IAS 27 standard is only to be applied for the fiscal years which begin on or after July 1, 2009. The Group has not applied the standard in advance. The changes primarily affect the accounting of holdings without controlling character (minority holdings) that will fully contribute to the losses of the Company in future and transactions that lead to loss of control at a subsidiary and whose effects have to be recognized in income. On the other hand, effects from disposal of holdings which do not lead to a loss of control are to be recognized directly to equity. The transition conditions which require a retrospective application of the changes made provide for a prospective application of the items listed above. Hence, there are no changes for assets and liabilities resulting from such transactions before the initial application of the new standard. Because for the first application in the Group in the fiscal year, neither the named transactions nor a negative amount from the minority holdings are expected, applying this standard does not have an effect on the consolidated financial statements.

Changes to IAS 32 Financial Instruments

The changed IAS 32 standard is only to be applied for the fiscal years which begin on or after January 1, 2009. The change affects the classification of cancelable partner contributions as equity or liability. In line with the prior regulation, in some cases companies were forced to report company capital as financial liabilities due to legal cancellation rights. In future, these partner contributions should generally be classified as equity, as long as an indemnity is agreed upon at fair value and the contributions made are represented as the most subordinate claim on the net assets of the company. Due to the legal form of the parent company and the relevant legal and corporate provisions, the new regulation will not affect the classification, measurement and reporting of partner contributions in the consolidated financial statements in the future.

IFRS 8 Business Segments

Application of IFRS 8 will become mandatory for the first time for fiscal years after January 1, 2009. The Group has refrained from an early application of IFRS 8 and continues to apply IAS 14 Segment Reporting. The new regulations stipulate a more detailed presentation of segment information in the notes. Since the standard relates to disclosure requirements, its application is currently not expected to have any effect on the Group's financial position and performance in fiscal year 2009.

IFRIC 12 Service Concession Arrangements

The IFRIC 12 interpretation is first to be applied for the fiscal years which begin on or after January 1, 2008. The consolidated companies in the consolidated financial statements are not franchisees in line with IFRIC 12. This interpretation thus has no effect on the Group.

IFRIC 13 Customer Loyalty Programs

The IFRIC 13 interpretation is to be applied for the first time for the fiscal years which begin on or after January 1, 2008. As the Group currently does not provide any customer loyalty programs, this interpretation has no effect on the Group.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The IFRIC 14 interpretation is to be applied for the first time for the fiscal years which begin on or after January 1, 2008. As the Group currently does not have any assets deployed specially for the purposes of financing and hedging of retirement benefits, no effect to the consolidated financial statements is expected as a result of this interpretation.

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 Drivers Seat segment.

The Group's share in the assets, liabilities, income and expenses of the joint venture as of December 31, 2007 and December 31, 2006 was as follows:

	2007	2006
	EUR '000s	EUR '000s
Current assets	1,546	1,826
Noncurrent assets	331	393
	1,877	**2,219**
Current liabilities	– 814	– 855
Noncurrent liabilities	– 6,848	– 7,348
	– 7,662	**– 8,203**
Income	4,562	6,459
Expenses	– 5,010	– 6,512

4 Sale of Grammer s.r.l.

Grammer s.r.l. was sold on June 26, 2007 by means of an MBO. Grammer s.r.l. had been part of the Grammer Group since 1996. With the disposal of the Italian company, Grammer AG also sold its European headquarters for the production of bus passenger seats. In economic terms, the sale was effective on January 1, 2007 and final consolidation took place on June 26, 2007. The Company has not given up the "Passenger Seats" segment. For Grammer, the Bus Passenger Seats unit formed part of the smallest of its segments, "Passenger Seats", together with the Rail unit, which was not impacted by the sale. For the Grammer Group, the operations of Grammer s.r.l. did not represent a special or material segment, nor does the Group plan to dispose of the entire segment, particularly since Grammer still manufactures and sells passenger seats via other subsidiaries. Furthermore, the new company will still be supplied with bus seats, meaning that some of the business will remain within the Group.

The transaction can be broken down as follows:

Consolidated Net Income from the Sale of Grammer s.r.l.

	2007
	EUR '000s
Sales proceeds	**7,400**
less assets of Grammer s.r.l	– 10,313
of which noncurrent assets	2,700
plus provisions and liabilities of Grammer s.r.l.	4,425
of which provisions (including pension provisions)	1,654
less goodwill disposed of	– 1,359
Consolidated net income from the sale of Grammer s.r.l.	**153**

In the context of the disposal of Grammer s.r.l., an agreed selling price of EUR 7,400 thousand was received. At the same time, cash amounting to EUR 3,464 thousand and current account liabilities of EUR 0 thousand was lost from the cash and cash equivalents.

5 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 Segment**, which is the largest segment within the Grammer Group, achieved 65.0 % (2006: 65.3 %) of total Group sales in fiscal 2007. 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.

Having reorganized its internal organization and management structure at the beginning of the fiscal year, the Group also adjusted its segment reporting in fiscal 2007. The Passenger Seats segment developed and manufactured complete seating systems in the same way as the Driver Seats segment. In the Bus and Train segments there were no longer any significant differences in the structure of products and services, the type of production process and earnings development. The merger of production, integration in areas of managerial responsibility and reporting structure in the Driver Seats segment and the fact that sales always fell significantly short of the 10% threshold with regard to revenues, segment assets and liabilities, the Group now feels it necessary to adjust segment reporting.

As a result, the **Seating Systems** segment contributed 35,0% (2006: 34.7%) of total Group sales in fiscal 2007. Here, Grammer is active as a supplier to the truck industry, developing and producing driver and passenger seats for trucks as well as driver seats for offroad vehicles (agricultural machines, construction vehicles and fork lifts). The Group sells these products to truck manufacturers and as OEM equipment for the aftermarket. The Group also develops and produces driver and passenger seats, which are sold to manufacturers of buses and rail vehicles as well as rail companies. The Seating Systems segment is now divided into the subsegments of Trucks and Offroad (agricultural machines, construction vehicles and fork lifts) as well as Bus and Railway.

The former **Passenger Seats** segment generated 5.6% (2006: 5.1%) of total Group sales in fiscal 2007.

In addition to these two segments, the Central Services segment at the Company's headquarters carries out groupwide 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, expenses and net income 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, 2007 and 2006.

Segment Reporting New Structure

				Continuing divisions
Fiscal year as of December 31, 2007	Seating Systems	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue				
Revenue from sales to external customers	349,266	648,794	5	998,065
Revenue from transactions with other segments	14,018	8,872	– 22,890	0
Total revenue	**363,284**	**657,666**	**– 22,885**	**998,065**
Earnings				
Segment earnings	**24,067**	**10,732**		**34,799**
Non-allocable expenses				– 2,686
Profit from operations				32,113
Net finance costs				– 9,265
Income tax expense				– 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				
Additions to pension provisions	848	594	387	1,829

Segment Reporting New Structure

				Continuing divisions
Fiscal year as of December 31, 2006	Seating Systems	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue				
Revenue from sales to external customers	306,170	574,777	3	880,950
Revenue from transactions with other segments	5,335	20	– 5,355	0
Total revenue	**311,505**	**574,797**	**– 5,352**	**880,950**
Earnings				
Segment earnings	**16,813**	**22,651**		**39,463**
Non-allocable expenses				– 602
Profit from operations				38,861
Net finance costs				– 6,858
Income tax expense				– 10,692
Earnings				21,311
Assets and liabilities				
Segment assets	145,355	279,264		424,619
Non-allocable assets				51,942
Total assets				**476,561**
Segment liabilities	– 84,944	– 102,253		– 187,197
Non-allocable liabilities				– 114,604
Total liabilities				**– 301,801**
Other segment information				
Capital expenditure				
Property, plant and equipment	11,275	15,031	454	26,760
Intangible assets	2,853	1,560	964	5,377
Depreciation/impairment of property, plant and equipment	– 9,459	– 11,788	– 700	– 21,947
Amortization/impairment of intangible assets	– 692	– 519	– 504	– 1,715
Non-cash items				
Additions to pension provisions	1,458	622	410	2,490

Comparable Structure according to Previous Year's Segment Reporting

					Continuing divisions
Fiscal year as of December 31, 2007	Driver Seats	Passenger Seats	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	293,841	55,425	648,794	5	998,065
Revenue from transactions with other segments	13,983	35	8,872	– 22,890	0
Total revenue	**307,824**	**55,460**	**657,666**	**– 22,885**	**998,065**
Earnings					
Segment earnings	**24,857**	**– 790**	**10,732**		**34,799**
Non-allocable expenses					– 2,686
Profit from operations					32,113
Net finance costs					– 9,265
Income tax expense					– 5,293
Earnings					**17,555**
Assets and liabilities					
Segment assets	146,609	20,342	284,401		451,352
Non-allocable assets					46,183
Total assets					**497,535**
Segment liabilities	– 87,978	– 8,274	– 99,347		– 195,599
Non-allocable liabilities					– 117,228
Total liabilities					**– 312,827**
Other segment information					
Capital expenditure:					
Property, plant and equipment	13,701	1,874	13,702	486	29,763
Intangible assets	2,528	12	1,174	1,142	4,856
Depreciation/impairment of property, plant and equipment	– 7,983	– 1,047	– 11,762	– 689	– 21,481
Amortization/impairment of intangible assets	– 698	– 105	– 625	– 558	– 1,986
Non-cash items					
Additions to pension provisions	2,100	– 1,252	594	387	1,829

Comparable Structure according to Previous Year's Segment Reporting

					Continuing divisions
Fiscal year as of December 31, 2006	Driver Seats	Passenger Seats	Automotive	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	260,963	45,206	574,777	3	880,950
Revenue from transactions with other segments	5,320	16	20	– 5,355	0
Total revenue	**266,283**	**45,222**	**574,797**	**– 5,352**	**880,950**
Earnings					
Segment earnings	**18,220**	**– 1,407**	**22,651**		**39,463**
Non-allocable expenses					– 602
Profit from operations					38,861
Net finance costs					– 6,858
Income tax expense					– 10,692
Earnings					**21,311**
Assets and liabilities					
Segment assets	122,152	23,203	279,264		424,619
Non-allocable assets					51,942
Total assets					**476,561**
Segment liabilities	– 73,074	– 11,870	– 102,253		– 187,197
Non-allocable liabilities					– 114,604
Total liabilities					**– 301,801**
Other segment information					
Capital expenditure:					
Property, plant and equipment	8,843	2,432	15,031	454	26,760
Intangible assets	2,063	790	1,560	964	5,377
Depreciation/impairment of property, plant and equipment	– 8,174	– 1,285	– 11,788	– 700	– 21,947
Amortization/impairment of intangible assets	– 491	– 201	– 519	– 504	– 1,715
Non-cash items					
Additions to pension provisions	1,803	– 345	622	410	2,490

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, 2007 and 2006.

Fiscal year as of December 31, 2007	Europe	Americas	Far East/ Rest of world	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	752,072	151,777	94,216	0	998,065
Revenue from transactions 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

Fiscal year as of December 31, 2006	Europe	Americas	Far East/ Rest of world	Central Services/ elimination	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Revenue					
Revenue from sales to external customers	687,238	107,554	86,158	0	880,950
Revenue from transactions with other segments	28,826	0	0	– 28,826	0
Segment revenue	**716,064**	**107,554**	**86,158**	**– 28,826**	**880,950**
Other segment information					
Segment assets	311,685	62,125	48,114		421,924
Non-allocable assets					54,637
Total assets					**476,561**
Capital expenditure:					
Property, plant and equipment	16,660	5,012	5,088		26,760
Intangible assets	4,599	594	184		5,377

6 Revenue Structure of the Grammer Group

The 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.

Total Group revenue of EUR 998,065 thousand (2006: EUR 880,950 thousand) includes contract revenue of EUR 21,529 thousand (2006: EUR 27,627 thousand) recognized under the percentage-of-completion method of accounting. The expenditure incurred corresponded to revenues. These revenues refer to development activities as well as operating funds that must be expensed and financed by the Grammer Group before a product reaches serial production and achieves sales. These primarily relate to the Automotive segment, although percentage-of-completion revenues have now also arisen in the Seating Systems segment.

7 Other Income and Expenses

7.1 Other income

Other operating income primarily includes income from the reversal of provisions and valuation allowances amounting to EUR 333 thousand (2006: EUR 1,141 thousand) and proceeds from the sale of scrap metal and materials handling costs of EUR 3,168 thousand (2006: EUR 2,371 thousand). This item also contains government grants of EUR 300 thousand (2006: EUR 325 thousand), income from offsetting costs of approximately EUR 1,244 thousand (2006: EUR 501 thousand) and proceeds from the sale of property, plant and equipment of EUR 323 thousand (2006: EUR 1,170 thousand).

7.2 Net finance costs

	2007	2006
	EUR '000s	EUR '000s
Interest income		
Interest income from credit balances with banks	1,325	979
Available-for-sale financial assets	75	11
Income from financial investments	1,080	350
Total financial income	**2,480**	**1,340**
Loans and overdrafts	– 8,872	– 4,740
Interest cost of pension provisions	– 2,440	– 2,412
Changes from fair value measurement of interest rate swaps	– 330	– 876
Interest element of lease payments	– 103	– 170
Finance costs	**– 11,745**	**– 8,198**
Net finance costs	**– 9,265**	**– 6,858**

Financial income mainly relates to temporary surplus cash invested as part of active cash management. Temporary differences in interest rate swaps, which do not fulfill the preconditions 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.

7.3 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 noncapitalized research and development costs in the amount of EUR 50,249 thousand (2006: EUR 46,120 thousand) 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 813,732 thousand (2006: EUR 707,836 thousand).

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 13,834 thousand (2006: EUR 13,618 thousand) 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 closing date. Foreign exchange losses amounting to EUR 17,638 thousand (2006: EUR 14,525 thousand) are also recognized under administrative expenses.

Amortization of intangible assets and depreciation of property, plant and equipment
Amortization of intangible assets amounted to EUR 1,986 thousand (2006: EUR 1,715 thousand) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 633 thousand (2006: EUR 359 thousand) for capitalized development costs included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 21,481 thousand (2006: EUR 21,947 thousand).

As in 2006, no impairment losses were incurred in fiscal year 2007.

Depreciation and amortization as well as write-downs for impairment are recognized in the income statement under cost of sales, selling expenses and general administrative expenses.

7.4 Personnel expenses

	2007	2006
	EUR '000s	EUR '000s
Wages and salaries	188,899	172,738
Social security contributions thereof for pensions: EUR 2,822 thousand (2006: EUR 1,873 thousand)	43,123	41,498
	232,022	**214,236**

8 Income Taxes

The main components of income tax expense in fiscal 2007 and 2006 are as follows:

	2007	2006
	EUR '000s	EUR '000s
Consolidated Income Statement		
Current tax		
Current tax expense – domestic	– 4,740	– 4,399
Current tax expense – foreign	– 4,297	– 3,574
Total current tax expense	**– 9,037**	**– 7,973**
Deferred tax		
Deferred tax expense/income – domestic	355	– 3,580
Deferred tax expense/income – foreign	3,389	861
Deferred tax expense/income	**3,744**	**– 2,719**
Income tax expenses reported in the consolidated income statement	**– 5,293**	**– 10,692**
Statement of Changes in Equity		
Deferred taxes relating to items charged or credited directly to equity		
Revaluation of hedging instruments – cash flow hedges	– 214	– 157

The reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2007 and 2006 is as follows:

	2007	2006
	EUR '000s	EUR '000s
Earnings before taxes (relating to continuing operations)	**22,848**	**32,003**
Income tax expense at the rate of 39% applicable in Germany (2006: 39%)	– 8,911	– 12,481
Adjustments to actual income tax incurred in the previous year	489	0
Adjustments to deferred income tax incurred in the previous year	– 509	0
Tax reduction due to loss carryforwards used	1,280	0
Income from tax legislation changes/tax rate changes	2,608	614
Tax-exempt government grants	16	64
Non-deductible expenses	– 2,102	– 708
Effect of different foreign tax rates	2,082	1,993
Others, net	– 246	– 174
Income tax expense at the effective tax rate of 23% (2006: 33%)	**– 5,293**	**– 10,692**

Deferred tax

The deferred tax was made up of the following as of the reporting date:

	2007	2006	
	EUR '000s	EUR '000s	EUR '000s
	Consolidated Balance Sheet	Consolidated Balance Sheet	Change
Deferred tax liabilities			
Property, plant and equipment	– 5,601	– 7,317	1,716
Intangible assets	– 2,499	– 2,465	– 34
Goodwill	– 2,515	– 2,754	239
Finance leases	– 58	– 594	536
Other assets	– 289	– 411	122
Receivables	– 4,090	– 3,611	– 479
Others	– 512	– 180	– 332
	– 15,564	**– 17,332**	
Deferred tax assets			
Pension provisions	4,459	5,367	– 908
Other provisions	1,890	2,026	– 136
Tax losses carried forward	7,672	5,154	2,518
Financial assets	1,174	1,264	– 90
Others	1,372	994	378
	16,567	**14,805**	**3,530**
Recognized in equity			214
Expense as per income statement			**3,744**

The statutory corporate income tax rate was 25% in Germany in the 2007 and 2006 assessment periods, plus a solidarity surcharge of 5.5%. Taking into account the varying assessment rates for the municipal trade tax, this results in a tax burden of approximately 39%. The above mentioned tax rate will decrease to approximately 31% from 2008 as a consequence of the reform of German corporate income tax. In essence, this is attributable to the reduction in the corporate income tax rate from 25% to 15%. Account has already been taken of the reduction in the tax rate in establishing the German companies' deferred tax assets and liabilities. The tax rates applied to foreign companies varied between 15% and 41%.

An assessment of the probability of measurement differences being reversed and the recoverability of loss carryforwards, which have led to deferred tax assets, is required to assess the value of deferred tax assets. Based on past experience and anticipated income levels, the assumption is that the corresponding benefits can be realized. The Group assumes that it will have sufficient income on which tax will be payable for the loss carryforwards to be recovered.

In 2007, tax losses were carried forward from previous years in the amount of EUR 3,282 thousand (2006: EUR 4,824 thousand).

Loss carryforwards of EUR 7,961 thousand (2006: EUR 7,060) were assessed as non-recoverable. These losses mainly related to tax results of Mexican, American and Chinese subsidiaries.

After taking into account non-recoverable loss carryforwards, deferred tax assets remained in the amount of EUR 7,672 thousand as of December 31, 2007 (December 31, 2006: EUR 5,154 thousand). The tax losses carried forward may be carried forward or even carried back in individual cases in periods of 10 to 20 years.

The payment of dividends to shareholders by Grammer AG had no impact on income tax in either 2007 or 2006.

9 Earnings per Share

Basic earnings per share are calculated by dividing the net income/net loss for the period by the average number of common shares outstanding during the fiscal year less the treasury stock 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). As the Grammer Group has not issued any such financial instruments or entered into any such contracts, its basic and diluted earnings per share are identical.

	2007	2006
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)	17,514	21,248
Basic/diluted earnings per share	1.72	2.09

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 the preparation of the consolidated financial statements.

10 Dividends Paid/Dividends Proposed

	2007	2006
Dividends resolved and distributed during the fiscal year:		
Dividends on common shares:		
Final dividend for 2006: EUR 1 (2005: EUR 1)	**10,165**	**10,495**
Dividends proposed for approval by the Shareholders' Meeting (not recognized as a liability as of December 31):		
Dividends on common shares:		
Final dividend for 2007: EUR 1 (2006: EUR 1)	**10,165**	**10,165**

The proposed dividend takes into consideration that the Company holds 330,050 shares of treasury stock that are not eligible for dividends. Should the number of common shares entitled to dividend payments change before the Annual Shareholders' Meeting, the Board of Management will present the Annual Shareholders' Meeting a correspondingly adjusted proposal for appropriation of accumulated profits.

11 Property, Plant and Equipment

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost						
As of Jan. 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 Dec. 31, 2007	**75,121**	**128,136**	**134,827**	**7,769**	**1,070**	**346,923**

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Depreciation and impairment						
As of Jan. 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
Effects of exchange rate changes	269	1,279	0	0	24	1,572
Reclassifications	0	– 130	130	0	0	0
As of Dec. 31, 2007	**31,562**	**83,118**	**100,782**	**0**	**418**	**215,880**
Carrying amount on Jan. 1, 2007	**44,499**	**42,717**	**34,179**	**4,905**	**4,084**	**130,384**
Carrying amount on Dec. 31, 2007	**43,559**	**45,018**	**34,045**	**7,769**	**652**	**131,043**

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost						
As of Jan. 1, 2006	72,768	120,235	123,011	4,387	5,936	326,337
Additions	743	11,837	10,185	3,911	84	26,760
Disposals	– 192	– 3,803	– 3,652	– 1,398	– 34	– 9,079
Effect of exchange rate differences	– 171	– 3,457	– 713	– 160	44	– 4,457
Reclassifications	1,054	– 4,035	4,643	– 1,835	90	– 83
As of Dec. 31, 2006	**74,202**	**120,777**	**133,474**	**4,905**	**6,120**	**339,478**

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plants under construction	Finance leasing	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Depreciation and impairment						
As of Jan. 1, 2006	27,462	75,676	91,445	0	1,402	195,985
Additions less current depreciation	2,199	8,495	10,631	0	622	21,947
Disposals	– 165	– 2,338	– 3,480	0	– 20	– 6,003
Effect of exchange rate differences	– 68	– 2,257	– 494	0	16	– 2,803
Write-ups	0	0	0	0	0	0
Reclassifications	275	– 1,516	1,193	0	16	– 32
As of Dec. 31, 2006	**29,703**	**78,060**	**99,295**	**0**	**2,036**	**209,094**
Carrying amount on Jan. 1, 2006	**45,306**	**44,559**	**31,566**	**4,387**	**4,534**	**130,352**
Carrying amount on Dec. 31, 2006	**44,499**	**42,717**	**34,179**	**4,905**	**4,084**	**130,384**

Depreciation is essentially based 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 leases) 3 – 12 years

Land is not depreciated.

We have entered into various **finance and operating leases** for 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 some buildings and equipment. For the buildings, these relate largely to the usual optional renewal options which provide for a renegotiation for continued use after expiry.

The leased assets, which are recognized as belonging to Grammer due to their commercial content as specified in IAS 17, are composed of the following:

	Plant	Equipment	Motor vehicles	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost				
As of Jan. 1, 2006	5,237	111	588	5,936
Additions	0	0	84	84
Disposals	0	0	– 34	– 34
Reclassifications	0	0	90	90
Exchange differences	0	0	44	44
As of Dec. 31, 2006	5,237	111	772	6,120
Depreciation and impairment				
As of Jan. 1, 2006	1,218	26	159	1,402
Additions	436	14	172	622
Disposals	0	0	– 20	– 20
Reclassifications	0	0	16	16
Exchange differences	0	0	16	16
As of Dec. 31, 2006	1,654	40	343	2,036
Carrying amount on Dec. 31, 2006/as of Jan. 1, 2007	**3,583**	**71**	**430**	**4,084**
Cost				
As of Jan. 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
Exchange differences	0	0	36	36
As of Dec. 31, 2007	0	129	941	1,070
Depreciation and impairment				
As of Jan. 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
Exchange differences	0	0	23	23
As of Dec. 31, 2007	0	61	357	418
Carrying amount on Dec. 31, 2007	**0**	**68**	**584**	**652**

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

	Up to 1 year	1 to 5 years	more than 5 years
	EUR '000s	EUR '000s	EUR '000s
2006			
Lease payments	2,240	101	0
Less interest cost on a discounted basis	– 84	– 11	0
Present values	2,156	90	0
2007			
Lease payments	142	181	0
Less interest cost on a discounted basis	8	24	0
Present values (as stated in the balance sheet)	134	157	0

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

	Up to 1 year	1 to 5 years	more than 5 years
	EUR '000s	EUR '000s	EUR '000s
2006			
Lease payments	10,943	28,936	8,074
2007			
Lease payments	10,323	28,419	10,086

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

12 Intangible Assets

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost					
As of Jan. 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
Effect of exchange rate differences	– 27	0	0	0	– 27
As of Dec. 31, 2007	**16,520**	**43,738**	**9,607**	**43**	**69,908**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Depreciation and impairment					
As of Jan. 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
Effect of exchange rate differences	18	0	0	0	18
As of Dec. 31, 2007	**12,538**	**11,147**	**1,630**	**0**	**25,315**
Carrying amount on Jan. 1, 2007	**3,424**	**33,950**	**5,788**	**39**	**43,201**
Carrying amount on Dec. 31, 2007	**3,982**	**32,591**	**7,977**	**43**	**44,593**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Cost					
As of January 1, 2006	17,698	46,101	3,871	5	67,675
Additions	2,424	0	2,914	39	5,377
Disposals	– 4,777	0	0	– 5	– 4,782
Effect of exchange rate differences	– 6	0	0	0	– 6
Reclassifications	83	0	0	0	83
As of Dec. 31, 2006	**15,422**	**46,101**	**6,785**	**39**	**68,347**

	Licenses and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Depreciation and impairment					
As of Jan. 1, 2006	15,384	12,151	638	0	28,173
Additions less current amortization	1,356	0	359	0	1,715
Disposals	– 4,777	0	0	0	– 4,777
Effect of exchange rate differences	3	0	0	0	3
Reclassifications	32	0	0	0	32
As of Dec. 31, 2006	**11,998**	**12,151**	**997**	**0**	**25,146**
Carrying amount on Jan. 1, 2006	**2,314**	**33,950**	**3,233**	**5**	**39,502**
Carrying amount on Dec. 31, 2006	**3,424**	**33,950**	**5,788**	**39**	**43,201**

Computer software is amortized under 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 50,249 thousand in 2007 (2006: EUR 46,120 thousand). Of these costs, an amount of EUR 2,822 thousand (2006: EUR 2,372 thousand) met the criteria for capitalization stipulated in IAS 38.

Goodwill

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

The Seating Systems and Automotive product segments represent the primary economic basis of the Grammer Group. For purposes of impairment testing, goodwill was allocated to the cash-generating units (CGUs) as follows:

	Cash-generating unit	Dec. 31, 2007 Carrying amount of goodwill	Dec. 31, 2006 Carrying amount of goodwill
CGU I	Seating Systems	3,199	4,558
CGU II	Automotive	29,392	29,392

In the fiscal year, 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 of 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 9% determined on the basis of the WACC approach. Cash flows after this three-year period are extrapolated taking a growth rate of 1% into account. 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 of 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 9% determined on the basis of the WACC approach. Cash flows after this three-year period are extrapolated taking a growth rate of 1% into account. 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 units, namely "Seating Systems" and "Automotive", the underlying assumptions are subject to estimation uncertainty:

- profit from operations,
- discount rates,
- trends in commodity prices,
- changes in exchange rates,
- market share in the reporting period.

Profit from operations

Profits from operations are derived from the planning process covering several years carried out by the Company, which is based on planned figures for sales and expenses. Current figures, modified by future changes, are used to forecast manufacturing costs. This resulted in an average gross margin escalation factor of 1.3% for the "Seating Systems" cash generating unit over the next three years and an average factor of 1% for "Automotive".

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 15-year German government bonds was taken into account in determining appropriate discount rates for the cash-generating units.

Trends in commodity prices

Estimates are based on indices of prices published in countries from which commodities are purchased as well as data relating to specific commodities. Forecast data are then used if they are publicly accessible, otherwise actual trends in commodity prices in the past 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 consolidate its position internationally.

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

13 Inventories

	2007	2006
	EUR '000s	EUR '000s
Raw materials and supplies	56,672	49,577
Work in progress	9,934	10,980
Finished goods and services	23,384	18,209
Advance payments	5,138	6,634
Total inventories	**95,128**	**85,400**

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

14 Trade Accounts Receivable

Trade accounts receivable

	2007	2006
	EUR '000s	EUR '000s
Trade accounts receivable	**116,822**	**111,332**

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 – 120 days. Some trade accounts receivable in foreign currency were hedged by means of currency forwards. There were no restrictions on ownership or disposition.

As of December 31, 2007, losses of EUR 5,388 thousand (2006: EUR 2,433 thousand) were recognized on trade account receivables. Details are given in the table below:

	Specific bad depts allowance	Portfolio-based allowance	Total
	EUR '000s	EUR '000s	EUR '000s
Trade accounts receivable			
As of Jan. 1, 2006	360	0	360
Additions	695	1,541	2,236
Utilization	– 163	0	– 163
As of Dec. 31, 2006	**892**	**1,541**	**2,433**
Additions	4,246	540	4,786
Utilization	– 658	– 1,065	– 1,723
Write-backs	– 108	0	– 108
As of Dec. 31, 2007	**4,372**	**1,016**	**5,388**

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

	Total receivables	not due	overdue 0 – 30 days	30 – 60 days	60 – 90 days	91 – 180 days	> 180 days
2007							
Trade accounts receivable	116,822	76,944	30,162	5,466	3,578	1,252	436
Receivables from construction contracts	32,866	32,866					
Others	11,137	11,137					
2006							
Trade accounts receivable	111,332	79,328	24,007	5,068	3,891	155	424
Receivables from construction contracts	35,113	35,113					
Others	4,433	4,433					

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.

15 Other Financial Assets

	2007 EUR '000s	2006 EUR '000s
Noncurrent		
Loans to joint ventures	5,640	3,693
Securities	1,886	1,157
Participating interests	1,031	480
Others	805	49
	9,362	**5,379**
Current		
Receivables from construction contracts	32,866	35,113
Other receivables	4,692	691
Securities	0	11,003
Derivative financial instruments	1,024	1,050
	38,582	**47,857**

Loans to joint ventures include one loan in a currency other than Group currencies at a fair value at the time of its extension of EUR 5,121 thousand, which was measured at the fair value on the reporting date of EUR 3,237 thousand (2006: EUR 3,614 thousand). Repayment of this loan is currently neither planned nor likely so that, in essence, it constitutes part of the net investment in this joint venture. The associated exchange rate fluctuations were recognized directly in equity.

Current securities were liquid funds that were temporarily invested in money market funds.

Receivables from construction contracts contain the asset-side balance relating to construction contract customers determined using the percentage-of-completion method.

Derivative financial instruments contain the positive fair values from interest rate swaps and currency forwards.

16 Other Current Assets

	2007	2006
	EUR '000s	EUR '000s
Other assets	15,356	11,976
Prepaid expenses	2,250	3,827
	17,606	**15,803**

Other assets mainly include pass-through tax claims such as value-added tax in the amount of EUR 10,296 thousand (2006: EUR 6,301 thousand), receivables due from employees of EUR 88 thousand (2006: EUR 229 thousand) and receivables due from creditors with debit balances of EUR 820 thousand (2006: EUR 300 thousand).

No significant restrictions on ownership or disposition existed for the other current assets reported and no losses were recognized.

17 Cash and Short-term Deposits

The Group has bank balances at different banks in various currencies.

	2007	2006
	EUR '000s	EUR '000s
Cash and short-term deposits	**22,904**	**18,333**

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 are made up as follows as of December 31:

	2007	2006
	EUR '000s	EUR '000s
Cash and short-term deposits	22,904	18,333
Other financial assets (Available-for-sale financial assets)	0	11,003
	22,904	**29,336**
Current account liabilities to banks	– 7,399	– 2,382
	15,505	**26,954**

18 Subscribed Capital and Reserves

As of December 31, 2006 and December 31, 2007, subscribed capital of the 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, the Group had authorized capital of EUR 13,434 thousand that may be used for the issue of new common bearer shares on one or more occasions prior to August 25, 2011.

The capital reserve amounted to EUR 58,237 thousand as of December 31, 2007 (December 31, 2006: EUR 58,237 thousand). The capital reserve includes share premiums from the capital increase in 1996 as well as the capital increase in 2001.

The legal reserve of Grammer AG amounted to EUR 1,183 thousand as of December 31, 2007 and December 31, 2006, and is not available for the payment of dividends.

Retained earnings reflect income earned in the past by the companies included in the consolidated financial statements, provided such income was not paid out as dividends. Retained earnings increased 8.15% over the previous year to EUR 97,502 thousand (2006: EUR 90,158 thousand). In fiscal 2007, retained earnings increased by the amount of net income of EUR 17.6 million and decreased by dividend payments for 2006 amounting to EUR 10.2 million.

Other reserves mainly comprise adjustments arising from the translation of the financial statements of foreign subsidiaries, the effects of the subsequent measurement of financial instruments in equity, and net investments in foreign operations in accordance with IAS 21 as well as the related deferred taxes. Other reserves increased from EUR 6,470 thousand to EUR 9,049 thousand.

Grammer AG distributes dividends pursuant to Section 58 (2) of the German Stock Corporation Act (AktG) in accordance with the accumulated profits in the financial statements of Grammer AG. Based on the accumulated profits reported in the financial statements of Grammer AG under German commercial law (HGB), distributable profits amount to EUR 21,841 thousand. The Board of Management and the Supervisory Board of Grammer AG will propose to the Annual Shareholders' Meeting of Grammer AG to pay a dividend of EUR 1.00 per common share, or a total of EUR 10,165 thousand and to carry forward the rest of the distributable profit of EUR 11,676 thousand, of which EUR 6,289 thousand is to be allocated to retained earnings. The proposed resolution on the appropriation of net retained profit takes into account the fact that the Company holds 330,050 treasury shares for which no dividends are payable. The number of common shares entitled to dividend payments may change before the Annual Shareholders' Meeting. In such case, the Annual Shareholders' Meeting will present a correspondingly adjusted proposal for appropriation of accumulated profits.

Treasury shares

As of December 31, 2007, Grammer AG held 330,050 treasury shares, which were all acquired in the previous year. The amount of share capital attributable to them is EUR 844,928 and represents 3.1448% of the share capital.

Acquisition of treasury shares

On August 16, 2006, the Board of Management of Grammer AG decided to make use of the authorization of the Annual Shareholders' Meeting of June 28, 2006 to acquire treasury shares under Section 71 I (8) of the German Stock Corporation Act (AktG). The Company may acquire up to 10% of its share capital, i.e. up to 1,049,515 treasury shares. The share repurchase is for the purposes set out in the resolution adopted in the Annual Shareholders' 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 Shareholders' Meeting on June 28, 2007. At the same time, the Annual Shareholders' Meeting authorized the Board of Management to acquire treasury shares up to December 1, 2008. The repurchase of the shares under this Board of Management resolution will comply with the safe harbor rules of Sections 14 II, 20a III of the German Securities Trading Act (WpHG) in conjunction with the Commission Regulation (EC) No. 2273/2003 of December 22, 2003. The 330,050 shares were purchased on the stock exchange at the acquisition price specified in the resolution of the Annual Shareholders' Meeting and the transaction was published on the Company's website. The Board of Management has not yet proposed how the shares will be utilized.

The following table shows the acquisition at the respective purchase prices including transaction costs broken down by weeks:

	Shares acquired	Amount of the share capital attributable	Proportion of the share capital	Purchase price per share	Cost
Week	Number	EUR	%	EUR	EUR
34	27,520	70,451.20	0.2622	20.4099	561,680.45
35	19,975	51,136.00	0.1903	20.8554	416,586.62
36	20,475	52,416.00	0.1951	21.1613	433,277.41
37	20,475	52,416.00	0.1951	21.0737	431,484.22
38	20,475	52,416.00	0.1951	20.9031	427,990.97
39	20,475	52,416.00	0.1951	21.0088	430,155.18
40	16,380	41,932.80	0.1560	21.5929	353,691.70
41	20,475	52,416.00	0.1951	22.6201	463,146.55
42	20,475	52,416.00	0.1951	23.0759	472,479.05
43	20,475	52,416.00	0.1951	23.4521	480,181.75
44	20,475	52,416.00	0.1951	23.4665	480,476.59
45	20,475	52.416,00	0.1951	23.9850	491,092.88
46	20,475	52.416,00	0.1951	24.0375	492,167.81
47	20,475	52.416,00	0.1951	24.5950	503,582.63
48	20,475	52,416.00	0.1951	24.2722	496,973.30
49	20,475	52,416.00	0.1951	24.7347	506,442.98
	330,050	**844,928.00**	**3.1448**	**22.5463**	**7,441,410.09**

As of December 31, 2007, 10,165,109 common shares (2006: 10,165,109) were in circulation.

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

19 Pensions and Other Post-employment Benefits, Subscribed Capital and Reserves

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 essentially based on the following actuarial assumptions:

	2007	2006
	%	%
Interest rate	5.25	4.50
Salary trend	2.0 p. a.	1.75 p. a.
Salary trend for individual commitments	2.0 p. a.	1.75 p. a.
Inflation rate	2.0 p. a.	1.50 p. a.

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

	2007	2006
	%	%
Interest rate	5.0 – 6.5	4.0 – 5.49
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 generally calculated on the basis of the 2005 G Heubeck mortality tables or similar 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 2007, pensions of EUR 1,180 thousand (2006: EUR 1,825 thousand) were paid on pension commitments. A total of EUR 233 thousand (2006: EUR 0 thousand) was paid out for other employee benefits (post-employment benefits).

The following amounts were recognized in the income statement:

	Pension plan	Miscellaneous benefits
	EUR '000s	EUR '000s
Benefits earned in 2007	1,650	410
Interest expense in 2007	2,364	76
Actuarial gains/losses recognized in 2007	94	0
Total	**4,108**	**486**

	Pension plan	Miscellaneous benefits
	EUR '000s	EUR '000s
Benefits earned in 2006	1,724	115
Interest expense in 2006	2,278	25
Actuarial gains/losses recognized in 2006	173	0
Total	**4,175**	**140**

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

	Pension plan	Miscellaneous benefits
	EUR '000s	EUR '000s
DBO 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**

	Pension plan	Miscellaneous benefits
	EUR '000s	EUR '000s
DBO as of December 31, 2006	54,396	1,165
Unrecognized actuarial losses (–)	– 6,488	0
Provisions as of December 31, 2006	**47,908**	**1,165**

Accordingly, the change in DBO appears as follows:

	Pension plan	Miscellaneous benefits
	EUR '000s	EUR '000s
As of Jan. 1, 2006	52,533	1,025
+ Benefits earned in 2006	1,724	115
+ Interest expense in 2006	2,278	25
– Actual payments in 2006	– 1,825	0
Actuarial losses	– 314	0
As of Dec. 31, 2006/Jan. 1, 2007	**54,396**	**1,165**
+ Benefits earned in 2007	1,650	410
+ Interest expense in 2007	2,364	76
– Actual payments in 2007	– 1,180	– 233
Disposals from liabilities 2007	– 1,311	0
Actuarial gains/losses	– 2,795	0
Total	**53,124**	**1,418**

The change of the assumptions and the changes anticipated according to plan are as follows:

	2007	2006
	EUR '000s	EUR '000s
Anticipated DBO as of December 31 of the particular year	55,919	54,710
Current value of the DBO as of December 31 of the particular year	53,124	54,396
Overfunded/underfunded thereof:	– 2,795	– 314
Experience-based and occurred structural changes	1,033	– 241
Changes of the assumptions	– 3,828	– 73

20 Financial Liabilities

Interest-bearing liabilities	Due date	Annual percentage rate	2007	2006
		%	EUR '000s	EUR '000s
Current				
Overdrafts	Due on demand	EONIA	7,299	2,382
Current loans				
EUR loan	Dec. 31, 2008	3.90	1,987	2,039
CNY loan	Dec. 16, 2008	6.56	2,328	2,429
CNY loan	Apr. 18, 2008	5.58	931	972
CNY loan	Jul. 18, 2008	5.91	922	962
CNY loan	Jan. 8, 2008	6.30	5,121	5,344
CNY loan	Sep. 12, 2008	6.32	1,862	0
CNY loan	Apr. 11, 2008	5.91	1,863	0
			22,413	**14,128**
Noncurrent				
Debenture bond	Aug. 28, 2013	4.84	69,685	69,630
Loans				
Loan	Mar. 25, 2009	4.01	208	1,077
Loan	Jun. 30, 2009	3.85	240	743
Loan	Mar. 31, 2009	3.50	300	929
Loan	Mar. 31, 2009	5.72	0	753
			70,433	**73,132**

Bank overdrafts

The overdrafts are due on demand and interest is charged at EONIA.

Current loans

Current loans are denominated in Chinese currency. They are to be repaid after one year and are not collateralized.

Debenture bond

Interest is charged on the debenture bond, which has a total principal amount of EUR 70 million, at a fixed rate of 4.842%. It is repayable on maturity.

Noncurrent loans

The other loans have a term running until 2009 and are due for repayment on a quarterly basis. In 2007, noncurrent loans were repaid prematurely by subsidiaries.

Liabilities to banks in the amount of EUR 1,111 thousand (2006: EUR 2,000 thousand) are secured by mortgages. Moreover, noncurrent assets were assigned to one lender as security for a loan (outstanding balance on December 31, 2007: EUR 767 thousand, on December 31, 2006: EUR 1,278 thousand).

21 Provisions

	Market-related provisions	Restructuring	Other provisions	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
As of Jan. 1, 2006	8,840	440	2,788	12,068
Additions	2,461	0	612	3,073
Utilization	– 3,791	– 320	– 79	– 4,190
Reversal	– 1,170	– 120	– 24	– 1,314
Effect of exchange rate differences	– 370	0	0	– 370
As of Dec. 31, 2006	**5,970**	**0**	**3,297**	**9,267**
Current provisions in 2006	5,970	0	3,297	9,267
Noncurrent provisions in 2006	0	0	0	0
As of Jan. 1, 2007	5,970	0	3,297	9,267
Additions	425	0	602	1,027
Utilization	– 3,134	0	– 327	– 3,461
Reversal	– 624	0	– 23	– 647
Effect of exchange rate differences	112	0	– 13	99
As of Dec. 31, 2007	**2,749**	**0**	**3,536**	**6,285**
Current provisions in 2007	2,749	0	3,536	6,285
Noncurrent provisions in 2007	0	0	0	0

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

Provisions for **restructuring** include restructuring obligations and changes relating to personnel, production processes and operating facilities.

Other provisions refer to obligations related to personnel and social benefits such as partial retirement schemes and anniversary bonuses as well as a number of identifiable specific risks and contingent liabilities, for instance provisions for litigation costs, which are recognized at their probable amounts.

22 Trade Accounts Payable

	2007	2006
	EUR '000s	EUR '000s
Current trade accounts payable	**89,783**	**89,868**

Trade accounts payable are non-interest-bearing and are due, as a rule, between 30 – 90 days. Trade accounts payable are subject to the customary retention of title by suppliers.

23 Other Financial Liabilities

Other financial liabilities comprise:

	2007	2006
	EUR '000s	EUR '000s
Current		
Derivative financial instruments	1,072	63
Liabilities from leases	134	2,156
Liabilities to associates	898	473
Other financial liabilities (current)	**2,104**	**2,692**
Noncurrent		
Liabilities from leases	157	90
Liabilities to companies where a participating interest is held	3,612	3,735
Other financial liabilities (noncurrent)	**3,769**	**3,825**

24 Other Noncurrent Liabilities

	2007	2006
	EUR '000s	EUR '000s
Current		
Social security obligations	1,788	2,030
Tax liabilities	7,724	5,229
Prepayments received	404	1,663
Other noncurrent liabilities	31,168	26,577
Prepaid expenses	2,876	1,095
Other current liabilities	**43,960**	**36,594**
Noncurrent		
Tax liabilities	176	105
Miscellaneous other	17	10
Other liabilities (noncurrent)	**193**	**115**
Total other liabilities	**44,153**	**36,709**

Social security obligations are largely obligations to social security agencies.

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

In essence, tax liabilities contain income taxes for fiscal 2007.

25 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 the Grammer Group, cash and cash equivalents consists of cash and short-term money market funds, less current account liabilities to banks. Cash and cash equivalents was adjusted in the previous year to enable a comparison, because current revolving financing due in China was no longer included in the current account liabilities.

26 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.

27 Contingent Liabilities

	2007	2006
	EUR '000s	EUR '000s
Guarantees	**2,749**	**1,647**

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

28 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
		%
1. Fully consolidated subsidiaries		
1. Grammer do Brasil Ltda.	Atibaia, Brazil	99.99
2. Grammer Seating Systems Ltd.	Bloxwich, U.K.	100.00
3. Grammer Mexicana S.A. de C.V.	Querétaro, Mexico	100.00
4. Grammer Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	99.25
5. Grammer Inc.	Hudson, USA	100.00
6. Grammer Wackersdorf GmbH	Wackersdorf, Germany	100.00
7. Grammer CZ s.r.o.	Most, Czech Republic	100.00
8. Grammer Japan Ltd.	Tokio, Japan	100.00
9. Grammer AD	Trudovetz, Bulgaria	88.63
10. Grammer Automotive GmbH	Amberg, Germany	100.00
11. Grammer System GmbH	Amberg, Germany	100.00
12. Grammer Automotive Metall GmbH	Amberg, Germany	100.00
13. Grammer Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	100.00
14. Grammer Automotive Espanola S.A.	Olèrdola, Spain	100.00
15. Grammer Industries Inc.	Piedmont SC, USA	100.00
16. Grammer Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00
17. Grammer Automotive Polska Sp. Z.o.o.	Bielsko - Biala, Poland	100.00
18. Grammer Seating (Xiamen) Ltd.	Xiamen, China	100.00
19. Grammer Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00
20. Grammer Interior (Changchun) Co. Ltd.	Changchun, China	100.00
2. Proportionately consolidated companies		
1. GRAMAG Truck Interior Systems LLC	Novi, USA	50.00

Grammer System GmbH, Grammer Wackersdorf GmbH and Grammer Automotive Metall GmbH make use of the exemption as stipulated in Section 264 (3) of the German Commercial Code (HGB).

Conditions for related party transactions

Sales to and purchases by related parties are conducted under market conditions. 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, 2007 (2006: 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 relevant fiscal year:

Related parties		Sales to related parties	Purchases from related parties	Amounts due from related parties	Total
		EUR '000s	EUR '000s	EUR '000s	EUR '000s
Jointly-controlled entities in which the parent is a venturer:					
GRAMAG Truck Interior Systems LLC	2007	541	0	7,143	0
	2006	209	0	7,457	0

GRAMAG Truck Interior System LLC Limited

The Group has a 50% stake in GRAMAG Truck Interior Systems LLC (2006: 50%).

GRAMAG had 38 employees as of December 31, 2007 (2006: 26).

Disclosures on the Board of Management/Supervisory Board

No companies in the Grammer Group entered into any significant transactions with members of the Board of Management 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.

29 Additional Information on Financial Instruments

Fair value

The following table provides a comprehensive overview of the significance of financial instruments for the Group and offers additional information on balance sheet items that contain financial instruments. The following table shows the carrying amounts of all categories of financial assets and liabilities:

	2007	2006
	Carrying amount	Carrying amount
Financial assets		
Cash and cash equivalents	22,904	18,333
Available-for-sale financial assets	2,918	12,640
Loans and receivables	160,824	150,877
Financial assets held for trading	1,024	577
Derivatives with a hedge relationship	0	473
	187,670	**182,900**
Financial liabilities		
Financial liabilities at amortized cost	187,429	183,580
Financial liabilities held for trading	688	63
Derivatives with a hedge relationship	384	0
	188,501	**183,643**

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

	Assessment-category acc. to IAS 39	Book value Dec. 31, 2007	Assessment of balance sheet according to IAS 39				Assessment of balance sheet acc. to IAS 17	Fair value Dec. 31, 2007
			Amortized cost	Purchase cost	Fair value recognized in equity	Fair value recognized in profit or loss		
Assets								
Cash and cash equivalents	LaR	22,904	22,904					22,904
Trade accounts receivable	LaR	116,822	116,822					116,822
Other financial assets								
Loans and receivables	LaR	44,002	44,002					44,002
Financial assets available for sale	AfS	2,918		1,032	1,886			2,918
Financial assets held for trading	HfT	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 noninterest-bearing liabilities	FLAC	4,510	4,510					4,510
Liabilities from finance leases	n.a.	291					291	291
Financial assets held for trading	HfT	688				688		688
Derivatives with a hedge relationship	n.a.	384			384			384

	Assess-ment-category acc. to IAS 39	Book value Dec. 31, 2006	Assessment of balance sheet according to IAS 39				Assess-ment of balance sheet acc. to IAS 17	Fair value Dec. 31, 2006
			Amortized cost	Purchase cost	Fair value recognized in equity	Fair value recognized in profit or loss		
Assets								
Cash and cash equivalents	LaR	18,333	18,333					18,333
Trade accounts receivable	LaR	111,332	111,332					111,332
Other financial assets								
Loans and receivables	LaR	39,545	39,545					39,545
Financial assets available for sale	AfS	12,640		480	12,160			12,640
Financial assets held for trading	HfT	577				577		577
Derivatives with a hedge relationship	n.a.	473			473			473
Liabilities								
Trade accounts payable	FLAC	89,867	89,867					89,867
Liabilities to banks	FLAC	17,630	17,630					19,737
Debenture bond	FLAC	69,630	69,630					70,900
Other financial liabilities								
Other noninterest-bearing liabilities	FLAC	4,207	4,207					4,207
Liabilities from finance leases	n.a.	2,246					2,246	2,246
Financial assets held for trading	HfT	63				63		63

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

	Net income 2007	2006
Loans and receivables	– 6,077	– 3,862
Available-for-sale	– 258	
Other	0	0
	– 6,335	**– 3,862**

Because of the short terms of cash and cash equivalents, trade accounts receivable and other current receivables, it is assumed that the carrying values equate to their fair values.

The fair value of other noncurrent receivables with remaining terms of over one year equate to the present value of the payments associated with the assets taking account of the interest rate parameters applicable at the time.

Trade accounts payable and other liabilities usually have short remaining terms. The figures reported therefore approximate to fair values.

The fair values of liabilities to banks are determined as the present values of the payments associated with the liabilities calculated on the basis of the respective yield curves.

30 Risk Management and Financial Derivatives

The original financial liabilities used in the Group encompass promissory notes, 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 instrument. 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.

In its internal guidelines in 2007 and 2006, the Group has ruled out trading in derivatives and will endeavor to keep to this policy in future.

Fluctuations in market prices may result in significant risks to cash flow and profits. Changes in foreign exchange rates and interest rates will impact on both operating activity and financing and investing activities. All presentations of the potential economic effects are estimates and are based on the assumptions of the relevant sensitivity analysis and method. The actual effects on the consolidated income statement may differ markedly from these because of actual developments in the market. Nevertheless, the Group has developed strategies and processes to manage individual risks, which are described below:

Interest rate risks

The Group pursues the strategy of structuring its noncurrent 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 with the aim of ensuring that short-term risks are subject to as little fluctuation as possible.

On the reporting date, the nominal amounts of these interest rate derivatives amounted to EUR 25.6 million (2006: EUR 27.5 million) They have a remaining maturity of up to eight years. As all derivatives were concluded with first-class corporate banks, the counterparty credit risk is rated as very low.

The Group carries all interest rate derivatives employed as part of this strategy at market value. The positive market value totaling EUR 436 thousand (2006: EUR 8 thousand) is recognized under the Other current financial assets item, the negative market value amounting to EUR 98 thousand (2006: EUR 0 thousand) is under the Other current financial liabilities item. The Group recognizes changes in the market value as profit or loss in the financial result. Net income of EUR 330 thousand is thus recognized in the financial result.

To optimize interest expense and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. If it is not limited by country-specific regulations, Group Treasury will make finance available to all divisions and associates in the form of loans.

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

	Increase/ reduction in basis points	Impact on net income before tax
2007	– 100	– 684
	+ 100	+ 600
2006	– 100	– 917
	+ 100	+ 735

Currency risks

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 Directives, currency forwards are concluded to hedge specific foreign currency inflows and outflows amounting to 70% – 80% of exposure. In this connection, the Group largely follows a groupwide portfolio approach, which consists of combining groupwide 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 783 thousand (2006: EUR 12,898 thousand) 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 minus EUR 577 thousand (2006: minus EUR 210 thousand).

In 2006, currency hedges for fixed obligations as well as expected foreign currency transactions in the operating area arose which meet the conditions for hedge accounting (cash flow hedge). The hedging affected the Czech koruna. As of December 31, 2006, the total amount of unrealized losses from forward currency transactions transferred to the reserves from hedging transactions was EUR 284 thousand. The cash flow from underlying transactions took place in fiscal 2007. The changes in market value recognized in equity with no impact on profit or loss were recognized in profit or loss via the currency result in the income statement when the underlying transaction took place.

All currency forwards are provided and monitored by Group Treasury.

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

	Change in the price of the USD	Impact on net income before taxes
2007	+ 5%	359
	– 5%	– 359
2006	+ 5%	372
	– 5%	– 372

Raw materials price risk

Commodity futures contracts were entered into for hedging price risks related to purchases of commodities. The hedging relationship to hedge the cash flows of expected future purchases was categorized as highly effective. The Group recognized an unrealized loss of EUR 384 thousand from these contracts in equity. The Group will reclassify the costs of the sale in the course of the fiscal year when the hedged delivery takes place.

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 Directives envisage that transactions will only be entered into with creditworthy third parties and, if appropriate, collateral will be obtained to reduce the risks of non-fulfillment. 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 subjected to a creditworthiness check on a regular basis. 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 amounting to EUR 90.0 million (2006: EUR 90.0 million) with banks and additional facilities and by constantly monitoring forecast and actual cash flows and by 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 overdrafts, loans, debentures, factoring, finance leases and hire purchase agreements. In addition, internal Directives stipulate a safety cushion of EUR 50 million by which medium-term loan commitments should exceed net financial liabilities.

As of December 31, 2007, the Group has unutilized lines of credit in the amount of EUR 68,700 thousand (2006: EUR 77,700 thousand), for which all the conditions required for utilization had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from original financial liabilities and the derivative financial instruments with negative fair values:

	Carrying amount			Cash flow
		2008	2009 – 2011	2012 and thereafter
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
2007				
Original 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
Liabilities under finance leases	291	142	181	0
Trade accounts payable	89,783	89,783	0	0
Other financial liabilities	4,510	890	3,612	0
Derivative financial liabilities	1,072	1,072	0	0
		118,094	**14,718**	**76,778**

	Carrying amount			Cash Flow
		2007	2008 – 2010	2011 and thereafter
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
2006				
Original financial liabilities				
Debenture bond	69,630	3,389	10,168	80,168
Bank loans	15,248	2,873	14,545	0
Overdrafts	2,382	2,382	0	0
Other financial debts	2,246	2,240	101	0
Trade accounts payable	89,867	89,867	0	0
Other financial liabilities	4,208	440	3,768	0
Derivative financial liabilities	63	63	0	0
		101,254	**28,582**	**80,168**

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 prevailing on the reporting date. Financial liabilities repayable on demand are always allocated to the earliest maturity. Variable interest payments under financial instruments were established on the basis of the interest rates last fixed before the balance sheet date.

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 capital structure in line with this objective and, taking account of economic framework conditions, adapts it to the objective.

The Group uses the net gearing figure, which equates to the ratio of net financial liabilities to equity to monitor its capital structure. Net financial liabilities encompass non-current and current liabilities to banks as well as liabilities under finance leases less cash, securities and current deposits. Equity comprises the equity attributable to the parent company's shareholders.

According to internal guidelines, the gearing figure defined in this way must remain below 50%.

	2007	2006
	EUR '000s	EUR '000s
Noncurrent liabilities to banks	70,433	73,132
Current liabilities to banks	22,413	14,128
Liabilities from finance leases	291	2,246
Less cash and securities	– 22,904	– 29,336
Net financial liabilities	**70,233**	**60,170**
Equity before minority interests	184,215	174,292
	113,982	**114,122**
	38%	**35%**

31 Events after the Balance Sheet Date

Following events had occurred as of March 23, 2007 (date of release for publication):

Changes to the shareholder structure
On January 15, 2008, the Austrian Polytec Group disclosed that it had acquired 1,006,009 shares in Grammer AG, which equates to 9.59% of the voting rights.

32 Other Information

Headcount
Headcount of the Grammer Group was as follows on an annual average:

	2007	2006
Laboring employees	7,151	6,612
Salaried employees	2,175	1,998
Total	**9,326**	**8,610**

The Group had the following headcount on the December 31 reporting date, broken down by segment:

	2007	2006
Seating Systems	3,153	2,950
Automotive	6,216	5,831
Central Services	158	144
Total	**9,527**	**8,925**

Auditor's fees as defined by Section 314 (1) No. 9 of the German Commercial Code
Fees in the fiscal year recognized as expenses for the auditor of the consolidated financial statements amounted to EUR 295 thousand (2006: EUR 260 thousand) for the audit, EUR 0 thousand (2006: 0) for other audit and assessment services, EUR 9 thousand (2006: EUR 8 thousand) for tax consulting services and EUR 12 thousand (2006: EUR 11 thousand) for other services.

Changes to the Board of Management
On reaching his 60th birthday, Peter Nagel, Member of the Board of Management and responsible for the Seating Systems division, left the Board at his own request on June 30, 2007. He had helped to shape Grammer AG as a Managing Director and Member of the Board over a period of 24 years and continued to support the Company until the year-end of 2007 as a consultant for the MoTIS project (Modular Truck Interior System). Hartmut Müller has been appointed to succeed him on the Board of Management as of February 1, 2007. Mr. Müller will take over full responsibility for the Seating Systems division as of July 1, 2007. Previously, Hartmut Müller was General Manager North and Eastern Europe, Climate Control, for the Valeo Group.

The Supervisory Board of Grammer AG appointed Dr. Rolf-Dieter Kempis as the new Chairman of the Company's Board of Management on July 24, 2007. Until this date, Dr. Kempis was a member of the Supervisory Board; he immediately resigned his office there. He took over as Chairman of the Board of Management on August 1, 2007. Alois Ponnath, who previously occupied this role, will be the member of the Board of Management responsible for finance from now on.

On September 27, 2007 Uwe Wöhner, who had been responsible for the Automotive division and also acted as Employee Relations Director, left the Company by mutual agreement. The Supervisory Board appointed Dr. Rolf-Dieter Kempis, the new Chairman of the Board of Management, to take on both of these directorships.

Remuneration paid to the Board of Management and the Supervisory Board

	2007	2006
	EUR '000s	EUR '000s
Total remuneration paid to the Board of Management amounted to	1,764	2,568
The Supervisory Board received total remuneration of	239	225

The variable portion of total remuneration paid to the Board of Management was EUR 428 thousand (2006: EUR 414 thousand). The variable portion of total remuneration paid to the Supervisory Board was EUR 9.5 thousand (2006: EUR 14 thousand).

Individual remuneration of the members of the Board of Management was as follows in fiscal year 2007:

	Non-performance-related components	Performance-related components	Components providing long-term incentive	Total
	EUR '000s	EUR '000s	EUR '000s	EUR '000s
Dr. Rolf-Dieter Kempis (as of August 1, 2007)	192	91	0	283
Alois Ponnath	366	81	0	447
Peter Nagel (until June 30, 2007)	160	98	0	258
Uwe Wöhner (until September 27, 2007)	273	0	0	273
Hartmut Müller (as of February 1, 2007)	345	158	0	503
	1,336	**428**	**0**	**1,764**

The Company paid EUR 293 thousand (2006: EUR 174 thousand) to former members of management/the Board of Management and their survivors. In 2007, EUR 950 thousand (2006: EUR 1,100 thousand) was awarded in severance payments to members of the Board of Management who left prematurely.

EUR 3,584 thousand (2006: EUR 2,348 thousand) was provided for pension obligations to former members of management/the Board of Management or their survivors in accordance with IAS 19.

In addition, current service cost for allocations to pension provisions arose for active members of the Board of Management in the amount of EUR 52 thousand (2006: EUR 86 thousand). Of that figure, EUR 24 thousand was attributable to Mr. Ponnath and EUR 28 thousand to Mr. Müller.

Individual remuneration for the members of the Supervisory Board was as follows:

	Fixed remuneration	Performance-based remuneration	Total
	EUR '000s	EUR '000s	EUR '000s
Dr. Bernd Blankenstein	35.0	0.8	35.8
Jürgen Ganss	25.0	0.8	25.8
Wolfram Hatz	21.0	0.8	21.8
Dr. Rolf-Dieter Kempis	8.6	0.8	9.4
Georg Liebler	19.0	0.8	19.8
Dr. Klaus Probst	16.0	0.7	16.7
Dr. Peter Stehle	3.9	0.0	3.9
Dr. Bernhard Wankerl	18.0	0.8	18.8
Udo Fechtner	23.0	0.8	23.8
Tanja Jacquemin	15.0	0.8	15.8
Anton Kirschbauer	15.0	0.8	15.8
Monika Kugler-Fleischmann	15.0	0.8	15.8
Horst Übelacker	15.0	0.8	15.8
	229.5	**9.5**	**239**

33 Corporate Governance

Declaration of Compliance in accordance with Section 161 of the Stock Corporation Act on the implementation of the Corporate Governance Code at Grammer AG
On December 7, 2007, Grammer updated its Declaration of Compliance with the German Corporate Governance Code. The Board of Management and Supervisory Board hereby declare pursuant to Section 161 of the Stock Corporation Act that Directives of Grammer AG on the Management of the Company correspond in principle with the recommendations of the Code and will continue to do so in the future. The Declaration is permanently available to the public on our website at www.grammer.com/corporate_governance and has also been included in this financial report.

Corporate bodies

Supervisory Board:

Dr.-Ing. Bernd Blankenstein, Aachen
Chairman

Mr. Jürgen Ganss, Schwabach
Deputy Chairman/Employee representative

Dipl.-Betriebswirt (FH) Wolfram Hatz Jr., Ruhstorf

Dr. Rolf-Dieter Kempis, Waldenburg
(until July 24, 2007)

Mr. Georg Liebler, Möglingen

Dr. Klaus Probst, Heroldsberg

Dr. Bernhard Wankerl, Schwandorf

Dr. Peter Stehle, Bad Homburg
(as of September 19, 2007)

Mr. Udo Fechtner, Kümmersbruck
Employee representative

Mrs. Tanja Jacquemin, Frankfurt am Main
Employee representative

Mr. Anton Kirschbauer, Ursulapoppenricht
Employee representative

Mrs. Monika Kugler-Fleischmann, Hahnbach
Employee representative

Mr. Horst Übelacker, Hohenburg
Employee representative

Board of Management:

Dr. Rolf-Dieter Kempis, Waldenburg, as of August 1, 2007
Chairman of the Board of Management

Dipl.-Kfm. Alois Ponnath, Kümmersbruck

M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Bad Vilbel,
as of February 1, 2007

Dipl.-Ing. Peter Nagel, Amberg,
until June 30, 2007, retired

Dipl.-Ing. Uwe Wöhner, Amberg,
until September 27, 2007, termination agreement

Positions and other offices held by members of the Supervisory Board:

Dr.-Ing. Bernd Blankenstein, Engineer, former Chairman of the Board of Directors of Grammer AG

- Member of the Supervisory Board of Aksys GmbH, Worms
- Member of the Advisory Board of Stabilus GmbH, Koblenz
- Member of the Advisory Board of KTP Palettentechnik GmbH, Bous

Mr. Jürgen Ganss, First Representative of the IG Metall metalworkers' union

- Deputy Chairman of the Supervisory Board of Luitpoldhütte AG, Amberg

Dipl.-Betriebswirt (FH) Wolfram Hatz Jr., 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

Dr. Rolf-Dieter Kempis, Engineer (Member of the Supervisory Board until July 24, 2007)

- No further offices

Mr. Georg Liebler, former Member of the Board of Management of Kolbenschmidt Pierburg AG

- Member of the Advisory Board of E.G.O. Elektrogeräte AG, Zug/Switzerland
- 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 Board of Management of Leoni AG
- Member of the Advisory Board of Lux-Haus GmbH & Co. KG, Georgensgmünd
- Member of the Supervisory Board of Zapp AG, Ratingen

Dr. Peter Stehle, Executive Director of SYN GmbH
(Member of the Supervisory Board as of September 19, 2007)
- Member of the Supervisory Board of Edscha AG, Remscheid
- Member of the Advisory Board of Marquardt GmbH, Rietheim-Weilheim
- 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

Dr. Bernhard Wankerl, Attorney
- No further offices

Mr. Udo Fechtner, Toolmaker
- No further offices

Mrs. Tanja Jacquemin, Political Secretary
- No further offices

Mr. Anton Kirschbauer, Technician
- No further offices

Mrs. Monika Kugler-Fleischmann, Women's Clothing Tailor
- No further offices

Mr. Horst Übelacker, Division Manager, Global Operations
- No further offices

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

Dr. Rolf-Dieter Kempis, Chief Executive of Board of Management, Employee Relations Director (as of August 1, 2007)

- President of the Board of Directors of Grammer Automotive Española S.A., Olèrdola/Spain (as of November 14, 2007)

Dipl.-Kfm. Alois Ponnath, Member of the Board of Management, Central Services Division

- Member of the Board of Directors of Grammer srl, Monsano/Italy (until June 18, 2007)
- 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
- Member of the Board of Directors of Grammer Mexicana S.A. de C.V., Querétaro/Mexico
- 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 (as of September 26, 2007)
- Member of the Board of Directors of Grammer Seating (Xiamen) Co. Ltd., Xiamen/China (as of September 26, 2007)
- Member of the Board of Directors GRAMAG Truck Interior Systems, Novi/USA (as of June 27, 2007)

M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Member of the Board of Management, Seating Systems Division (as of February 1, 2007)

- Member of the Board of Directors of GRAMAG Truck Interior Systems, Novi/USA (as of February 16, 2007)
- Chairman of the Supervisory Board of Grammer AD, Trudovec/Bulgaria (as of August 10, 2007)
- Member of the Board of Directors of Grammer Industries Inc., Piedmont/USA (as of May 1, 2007)
- Chairman of the Board of Directors of Grammer Inc., Hudson/USA (as of May 1, 2007)
- Chairman of the Board of Directors of Grammer Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa/Turkey (as of May 12, 2007)
- Member of the Board of Directors of Grammer Interior (Shanghai) Co. Ltd., Shanghai/China (as of September 26, 2007)
- Chairman of the Board of Directors of Grammer Seating (Xiamen) Co. Ltd., Xiamen/China (as of June 11, 2007)

Dipl.-Ing. Peter Nagel, Member of the Board of Management, Seating Systems Division (until June 30, 2007)

- President of the Board of Directors of Grammer s.r.l., Monsano/Italy (until June 18, 2007)
- Member of the Board of Directors of GRAMAG Truck Interior Systems, Novi/USA (until June 27, 2007)
- Chairman of the Supervisory Board of Grammer AD, Trudovec/Bulgaria (until August 10, 2007)
- Member of the Board of Directors of Grammer Industries Inc., Piedmont/USA (until May 1, 2007)
- Chairman of the Board of Directors of Grammer Inc., Hudson/USA (until May 1, 2007)
- Chairman of the Board of Directors of Grammer Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa/Turkey (until July 12, 2007)
- 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
- Chairman of the Board of Directors of Grammer Seating (Xiamen) Co. Ltd., Xiamen/China (until June 11, 2007)

Dipl.-Ing. Uwe Wöhner, Employee Relations Director, Automotive Division (until September 27, 2007)

- Member of the Advisory Board of the German Automobile Association (VDA), Germany
- President of the Board of Directors of Grammer Automotive Española S.A., Olèrdola/Spain (until September 27, 2007)
- President of the Board of Directors of Grammer Mexicana S.A. de C.V., Querétaro/Mexico (until September 27, 2007)
- Chairman of the Board of Directors of Grammer Automotive Puebla S.A. de C.V., Puebla/Mexico (until September 27, 2007)
- Deputy Chairman of the Supervisory Board of Grammer AD, Trudovec/Bulgaria (until September 27, 2007)
- Chairman of the Board of Directors of Grammer Industries Inc., Piedmont/USA (until September 27, 2007)
- Chairman of the Board of Directors of Grammer Interior (Tianjin) Co. Ltd., Tianjin/China (until September 27, 2007)
- Chairman of the Board of Directors of Grammer Interior (Changchun) Co. Ltd., Changchun/China (until September 27, 2007)
- Member of the Board of Directors of Grammer Seating (Xiamen) Co. Ltd., Xiamen/China
- Legal Representative of Grammer Interior (Shanghai) Co. Ltd., Shanghai/China (as of September 26, 2007)

Auditors' Report

We have audited the consolidated financial statements prepared by Grammer Aktiengesellschaft, Amberg, comprising the balance sheet, the income statement, the statement of 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, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law 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 an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements 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 statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable 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 of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, March 14, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schuberth	Helgert
Wirtschaftsprüfer	Wirtschaftsprüfer

CORPORATE GOVERNANCE

Corporate Governance at Grammer AG

Responsible company management is a fundamental tenet at Grammer AG. The consistency in applying corresponding guidelines and reliable control from the Supervisory Board strengthens shareholders' trust in the strategies aligned for the future and the company management. Hence, Grammer complies with almost all recommendations of the German Corporate Governance Code and also adopts its proposals.

Declaration of Compliance with the Corporate Governance Code

On December 7, the Board of Management and the Supervisory Board of Grammer AG issued the following Declaration of Compliance – accessible to shareholders on the Internet homepage on an ongoing basis – similar to declarations in previous years.

In line with Section 161 of the German Stock Corporation Act, the Board of Management and the Supervisory Board of Grammer AG declare that the recommendations of the German Corporate Governance Code by the Government Commission (version dated June 14, 2007) will be and have been complied with, except for the following:

1. Members of the Supervisory Board, Board of Management and directors of the Grammer Group are covered by a directors & officers liability insurance (so-called "D&O insurance"), but without a deductible (Code Item 3.8).
2. Grammer AG has neither a stock option plan nor a comparable system of remuneration oriented toward the long-term success of the company with a long-term incentive and an element of risk (Code item 4.2.3).

Explanatory note to 1: Grammer AG believes that a deductible in the D&O insurance is not appropriate to increase further the sense of responsibility for the members of the Board of Management and Supervisory Board in fulfilling their tasks.

Explanatory note to 2: In addition to fixed components, the current system of remuneration for the Board of Management also contains variable components primarily geared toward the success of the Company. Hence, it partly complies with the recommendation of the Corporate Governance Code. The Board of Management has not resolved to introduce a stock option plan.

Cooperation between the Board of Management and the Supervisory Board

As a company registered under German law, Grammer AG is subject to the German Corporate Governance Code. A key characteristic of the German Stock Corporation Act is the dual management system with the board of management and the supervisory board. Both bodies have distinct competencies.

The Board of Management and the Supervisory Board of Grammer AG work extremely intensively together in a manner characterized by full trust. At least once a year, they meet to ensure that the principles of the Corporate Governance Code are being observed. This took place most recently at the Supervisory Board meeting on December 7, 2007.

The Management Board informs the Supervisory Board promptly and comprehensively in writing at the regular meetings. Here the main points are business development, the Group's position and risk management. Significant events are discussed at extraordinary Supervisory Board meetings when required.

Decisions by the Board of Management that require the consent of the Supervisory Board are set out in the rules of procedure for the Board of Management.

The Board of Management and Supervisory Board of Grammer AG are committed to act in the interest of the Company. The Supervisory Board is to be informed immediately if conflicts of interest arise on the part of members of the Board of Management and the Supervisory Board. This did not occur in the past fiscal year.

Board of Management
At the beginning of 2007, the Board of Management of Grammer AG consisted of three members. As of February 1 of the reporting year, Mr. Hartmut Müller was appointed to assume subsequently responsibility for the Seating Systems division as a successor of Mr. Peter Nagel. The number of members in the Board of Management thus increased to four. Upon reaching sixty years of age, Mr. Nagel resigned from the Board of Management on June 30 at his own request. In the following month, the Board of Management operated as a three-member board. As of August 1, Dr. Rolf-Dieter Kempis was appointed to the Board of Management as Chairman of the Board of Management of Grammer AG, thus increasing the number of members to four. On September 27, Mr. Uwe Wöhner left the Company. Since then, the Board of Management is, as before, composed of three members.

The Board of Management is the managing body of the Company, conducting all of its business and assuming responsibility for the Company's development. The allocation of tasks as well as cooperation is arranged by way of rules of procedure.

Supervisory Board
In line with the law and the Company's Articles of Incorporation, the Supervisory Board of Grammer AG consists of twelve members. The shareholders elect six Supervisory Board members and the employees another six. Dr. Kempis resigned his Supervisory Board mandate before his appointment to the Board of Management. By resolution of the Amberg Local Court on September 19, Dr. Peter M. Stehle was appointed as successor to Dr. Kempis as a Supervisory Board member.

A sufficient number of Supervisory Board members are independent from the Company and do not have any business or personal relationship with the Company or its Board of Management. A five-year period of office applies for each Supervisory Board member.

In the management of the Company, the Board of Management is advised and monitored by the Supervisory Board. The Supervisory Board is involved in strategy and planning as well as all matters of significant importance for the Company.

The Supervisory Board of Grammer AG has established rules of procedure for its work. Its members convene regularly in four committees: Strategy Committee (four members), Finance Committee (four members), Standing Committee (four members) and Nomination Committee (three members). In line with Item 5.6 of the German Corporate Governance Code, the Supervisory Board examines its efficiency on a regular basis. The Supervisory Board report provides detailed information regarding board activity and its cooperation with the Board of Management. Further information regarding the changes in committee structure, issues discussed and members of the individual committees is also found in the report.

Remuneration of the Board of Management and Supervisory Board
Appropriate remuneration for the management of the Company is a key issue in our corporate governance. The remuneration of the members of the Board of Management thus contains performance-related components in addition to fixed remuneration. This serves as an incentive to increase enterprise value on a sustained basis. The fixed amounts depend on the economic situation of the Company and to a significant degree, on the tasks and responsibilities of the respective members of the Board of Management. In the context of a regular assessment, the Supervisory Board reviews the performance of the individual members as well as the entire board. Both aspects are taken into account for possible adjustments. The remuneration of the Supervisory Board also contains a flexible component which is aligned to company success. Details on the remuneration system for the Board of Management and the Supervisory Board is on page 24 of the Management Report.

Directors' Dealings

In line with Section 15a of the German Securities Trading Act (WpHG), the members of the Board of Management and Supervisory Board as well as specific employees with management responsibility are bound to report any acquisition and sale of Grammer shares and financial instruments related to the Grammer share. Persons closely related to the group of people mentioned are also bound by this obligation. The following transactions were reported to Grammer AG in the reporting year.

Date	Transaction	Amount	Price in EUR	Person
October 30, 2007	Share purchase	1,700	17.20	Dr. Rolf-Dieter Kempis
October 31, 2007	Share purchase	150	16.83	Dr. Rolf-Dieter Kempis
October 31, 2007	Share purchase	43	16.91	Dr. Rolf-Dieter Kempis
October 31, 2007	Share purchase	128	16.84	Dr. Rolf-Dieter Kempis
October 31, 2007	Share purchase	879	16.89	Dr. Rolf-Dieter Kempis
November 1, 2007	Share purchase	300	16.35	Josef Trettenbach
November 6, 2007	Share purchase	550	16.62	Barbara Zanzinger
November 7, 2007	Share purchase	411	16.76	Dr. Rolf-Dieter Kempis
November 7, 2007	Share purchase	149	16.70	Dr. Rolf-Dieter Kempis
November 7, 2007	Share purchase	1,415	16.75	Dr. Rolf-Dieter Kempis
November 7, 2007	Share purchase	1,025	16.90	Dr. Rolf-Dieter Kempis
December 3, 2007	Share purchase	1,700	16.40	Dr. Rolf-Dieter Kempis

As of the balance sheet date (December 31, 2007), members of the Board of Management and the Supervisory Board held, directly or indirectly, less than 1.0% of the shares of the Company. The shareholdings of persons closely related to a member of the Board of Management or Supervisory Board as defined in Section 15a (1) Sentence 2 of the German Securities Trading Act were also included in the calculation.

Shareholders and the Annual Shareholders' Meeting

The shareholders of Grammer AG exercise their rights of co-determination and control at the Annual Shareholders' Meeting every year. The Annual Shareholders' Meeting resolves on all matters specified by the law with binding effect for the shareholders and the Company. Each share grants one vote.

Every shareholder who registers on time has the right to participate in the Annual Shareholders' Meeting. Absent shareholders may vote through a proxy or a voting representative bound by instructions.

The invitation to the Annual Shareholders' Meeting as well as reports and information required for the adoption of resolutions are published in line with provisions of the German Stock Corporation Act. This information is also available on our website www.grammer.com.

Transparency has absolute priority

Our Company rigorously adheres to the principle of providing identical information to all target groups at the same time. Therefore, the Board of Management and the Supervisory Board constantly advocate a further increase of transparency.

On our website www.grammer.com, institutional as well as private investors can intensively and directly inform themselves on all relevant issues. In addition to current notifications, we also publish all declarations of compliance with the Corporate Governance Code, information to the Board of Management and Annual Shareholders' Meeting as well as the annual financial statements and quarterly reports. The Internet presence contains a financial calendar with all important dates and publications, ad-hoc notifications as well as directors' dealings. The annual document in line with Section 10 of the German Securities Trading Act and detailed information for investors, such as roadshow presentations, are also included.

Accounts and audit

Grammer prepares the consolidated financial statements in line with provisions of the International Financial Reporting Standards (IFRS). The financial statements of Grammer AG are prepared in line with the German Commercial Code (HGB).

The auditor elected by the Annual Shareholders' Meeting – Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft – audited the consolidated financial statements as well as the annual financial statements of Grammer AG. Both audits were conducted in adherence to all German auditing regulations as well as in accordance with generally accepted standards for audits as promulgated by the Institute of Public Auditors in Germany.

Risk management and adherence to the reporting requirements on corporate governance in line with Section 161 of the German Stock Corporation Act were also part of the audit. The Supervisory Board is informed without delay about any grounds for disqualification or impartiality as well as any important facts or events realized during the audit, as was contractually agreed upon with the auditor. No occasion required such measures.

Risk management

The responsible handling of business risks is a fundamental part of good corporate governance. Hence, the Board of Management and the management have comprehensive reporting and monitoring systems (Group-wide as well as company specific) at their disposal. With these instruments, possible risks are recognized, analyzed and managed. Continuous further development of these systems – adjusting them to changes in general conditions and the audit by the auditor – is an important element of risk management. Additional details regarding this topic are to be found in the Management Report.

Grammer AG – Income Statement* for the year ending December 31, 2007

	2007	2006
	EUR '000s	EUR '000s
Sales	480,839	408,874
Decrease (2006: increase) in finished goods and work in progress	– 529	7,343
Other own work capitalized	816	779
Other operating income	4,622	4,074
Material costs	289,045	249,481
Personnel expenses	126,535	118,607
Depreciation and amortization	10,882	10,757
Other operating expenses	55,762	46,200
Income from investments	19,326	23,556
Write-downs on financial assets and short-term securities	6,696	3,226
Interest result	814	– 827
Profit from ordinary activities	**16,968**	**15,528**
Income taxes	4,103	4,572
Other taxes	286	272
Net profit for the year	**12,579**	**10,684**

* Financial statements in accordance with HGB

Grammer AG – Balance Sheet* as of December 31, 2007

Assets	Dec. 31, 2007	Dec. 31, 2006
	EUR '000s	EUR '000s
A. Fixed assets		
Intangible assets	2,711	1,994
Tangible assets	43,844	43,111
Financial assets	90,885	95,007
	137,440	**140,112**
B. Current assets		
Inventories	43,039	39,852
Receivables and other assets	124,128	98,374
Securities	5,288	18,444
Cheques, cash on hand and bank balances	2,343	3,039
	174,798	**159,709**
C. Prepaid expenses	**350**	**438**
Total assets	**312,588**	**300,259**

* Financial statements in accordance with HGB

Liabilities	Dec. 31, 2007	Dec. 31, 2006
	EUR '000s	EUR '000s
A. Equity		
Subscribed capital	26,868	26,868
Capital reserve	58,236	58,236
Revenue reserves	15,388	9,098
Unappropriated retained earnings	21,841	25,717
	122,333	**119,919**
B. Provisions		
Pension provisions	35,919	33,303
Other provisions	24,183	20,020
	60,102	**53,323**
C. Liabilities		
Liabilities to banks	78,255	75,329
Trade accounts payable	27,560	29,337
Other liabilities	24,338	22,351
	130,153	**127,017**
Total liabilities	**312,588**	**300,259**

* Financial statements in accordance with HGB

FIVE-YEAR OVERVIEW

(EUR million)	according to IFRS					acc. to HGB
	2007	2006	2005	2004		2003
Group revenue	**998.1**	**881.0**	**859.3**	**824.9**		**786.5**
Automotive revenue	657.7	574.8	569.5	540.3		539.5
Seating Systems revenue	363.3	311.5	296.2	286.4		247.7
Income statement						
Gross profit	126.7	127.0	109.1	117.2	Gross profit	335.9
EBIT	32.1	38.9	32.6	40.1		30.9
EBIT margin	3.2%	4.4%	3.8%	4.9%		3.9%
Financial result	– 9.3	– 6.9	– 7.2	– 8.4		– 6.4
Earnings before taxes	22.8	32.0	25.4	31.8	Profit from ordinary activities	24.5
Taxes	– 5.3	– 10.7	– 8.7	– 10.5		– 9.2
Earnings after taxes	17.6	21.3	16.8	21.3	Net income	10.4
Balance sheet						
Total assets	497.5	476.6	429.7	413.7		356.8
Noncurrent assets	201.6	193.8	190.2	179.3		
					Fixed assets	144.8
Current assets	296.0	282.8	239.6	234.4		
					Current assets	211.1
Equity	184.7	174.8	173.8	163.9		130.2
Equity ratio	37%	37%	40%	40%		36%
Net financial debt	69.9	57.9	37.0	50.3		73.6
Cash flow statement						
Capital expenditure	34.6	32.1	33.0	25.5		21.0
Depreciation and amortization	23.5	23.7	24.1	26.6		30.5
Cash flow from operating activities	38.6	30.9	56.9	51.1		51.9
Employees (annual average)	**9,326**	**8,610**	**8,197**	**7,707**		**7,369**
thereof in Germany	2,754	2,695	2,673	2,582		2,561
thereof outside Germany	6,572	5,915	5,524	5,125		4,808
Personnel expenses	232.0	214.2	200.8	190.2		181.8
Key share data						
Share price at year-end (XETRA, in EUR)	16.02	25.79	19.67	24.80		19.29
Market capitalization (in EUR million)	168.1	270.7	206.4	260.3		202.5
Dividend (in EUR)	1.00	1.00	1.00	1.00		0
Earnings per share (in EUR)	1.72	2.09	1.59	2.02		1.00

INFORMATION FOR SHAREHOLDERS

Financial Calendar 2008

News Conference for analysts and members of the press, Annual Results 2007:	March 31, 2008
Interim Report, First Quarter 2008:	May 8, 2008
Annual Shareholders' Meeting 2008:	May 28, 2008
Location:	ACC (Amberg Congress Center), 92224 Amberg
Interim Report, Second Quarter and Half-Year 2008:	August 12, 2008
Interim Report, Third Quarter 2008:	November 11, 2008

Publication Credits

Published by
Grammer AG
P.O. Box 14 54
D-92204 Amberg

Date of publication
March 31, 2008

Concept, artwork and layout
Kuhn, Kammann & Kuhn AG, Cologne

Text
Blackpoint communications gmbh, Hagen

English translation
EVS Translation GmbH, Cologne

Lithography
Klischee Union GmbH, Cologne
ORT Medienverband GmbH, Krefeld

Typesetting
Zerres GmbH, Leverkusen

Printed by
Frischmann Druck & Medien GmbH & Co. KG, Amberg

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This Annual Report is published in German (original) and English.

Published by

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