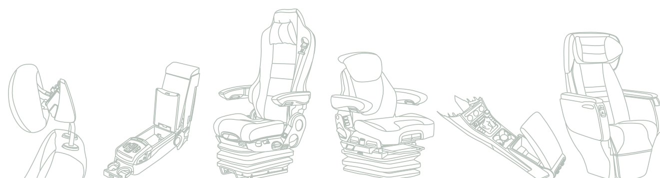
Charting the Way

Annual Report 2009



Key figures[1)]

in EUR m	2009	2008	+/– %
Group revenue	727.4	1,007.0	–27.8
Automotive revenue	495.5	637.6	–22.3
Seating Systems revenue	247.1	390.0	–36.6
Income statement			
EBITDA	2.6	55.4	–95.3
EBITDA margin (in %)	0.4	5.5	–5.1%-points
EBIT	–23.9	32.0	–174.7
EBIT margin (in %)	-3.3	3.2	–6.5%-points
Profit/loss (–) before tax	–31.5	19.6	–260.7
Net profit/loss (–)	–28.2	14.1	–300.0
Statement of financial position			
Total assets	500.4	481.0	4.0
Equity	151.0	173.0	–12.7
Equity ratio (in %)	30	36	–6%-points
Net financial debt	106.2	80.2	32,4
Gearing (in %)	70	46	+24%-points
Investments	32.7	39.9	–18.0
Depreciation and amortization	26.5	23.4	13.2
Employees (December 31)	7,224	8,908	–18.9
Key share data			
Share price (Xetra closing price, in EUR)	6.05	6.90	–12.3
Number of shares	10,495,159	10,495,159	–
Market capitalization (in EUR m, December 31)	63.5	72.4	–12.3
Dividend (in EUR)	0.00	0.00	–
Earnings per share (in EUR)	–2.77	1.38	–300.7

1) according to IFRS

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Company profile

GRAMMER AG, Amberg, Germany is specialized in the development and production of components and systems for automotive interiors, as well as driver and passenger seats for offroad vehicles, trucks, busses and trains. With roughly 7,200 employees, GRAMMER has facilities worldwide and is a leading global player in the automotive and seating segments.

GRAMMER Locations

Increasing market dynamics, utilization of cost advantages, tapping new sales potential, and the heightened international involvement of our customers and suppliers are the primary drivers of our global presence. Meanwhile, in addition to our main location in Amberg, Germany, we can be found around the world on four continents with 23 companies and more than 30 production and distribution sites in 17 countries.

AMERICA △	ASIA △	EUROPE △	
Argentina	China	Bulgaria	Russia
Brazil	Japan	Germany	Serbia
Mexico	Turkey	Great Britain	Slovenia
USA		France	Spain
		Poland	Czech Republic

Our divisions

Seating Systems

Around the world, GRAMMER Seating Systems develops and produces driver and passenger seats for agricultural and construction vehicles, forklifts, trucks, busses and trains. Following the "Design for use" philosophy, GRAMMER Seating Systems products are made to be ergonomic, user-friendly, comfortable and safe. With our innovate systems, GRAMMER is the global leader in seats for off-road vehicles, and is among the top producers of truck, bus and train seats.

Key business segments

- Offroad
  Driver seats for commercial vehicles
  (tractors, construction machinery, forklifts)

- Truck & Bus
  Driver seats for trucks and busses

- Railway
  Passenger seats for trains

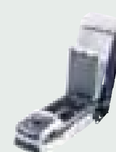
Automotive

Our Automotive division supplies headrests, armrests, center consoles and integrated child safety seats to well-known carmakers and system suppliers for the automotive industry. Our interior components are distinguished by their comfort, design and safety. Because of our competitive and high-quality products, leading carmakers and automotive system suppliers prize GRAMMER Automotive as a source of new ideas and a driving force for innovation in the area of automotive interior components.

Key business segments

- Headrests

- Armrests



- Center consoles

Strategy

Seating

- Utilization of growth potential in the Offroad segment in the United States and Asia with localized products
- Secure the dominant market position in the Offroad segment in Europe and South America
- Increase in market position in Europe and the United States through the latest generation of truck seats, "Echo"

Key figures

in EUR m

	2009	2008
Revenue	247.1	390.0
EBIT	–9.9	31.0
EBIT margin (in %)	–4.0	8.0
Investments	9.5	13.7
Employees at year-end	2,556	3,114

Automotive

- Targeted market expansion with defined customers in Europe, Asia, and NAFTA with complete product range
- Further expansion of center console business and strengthening of our positioning as a Tier 1 supplier
- Operational excellence achieved by optimizing product technologies and value chains

Key figures

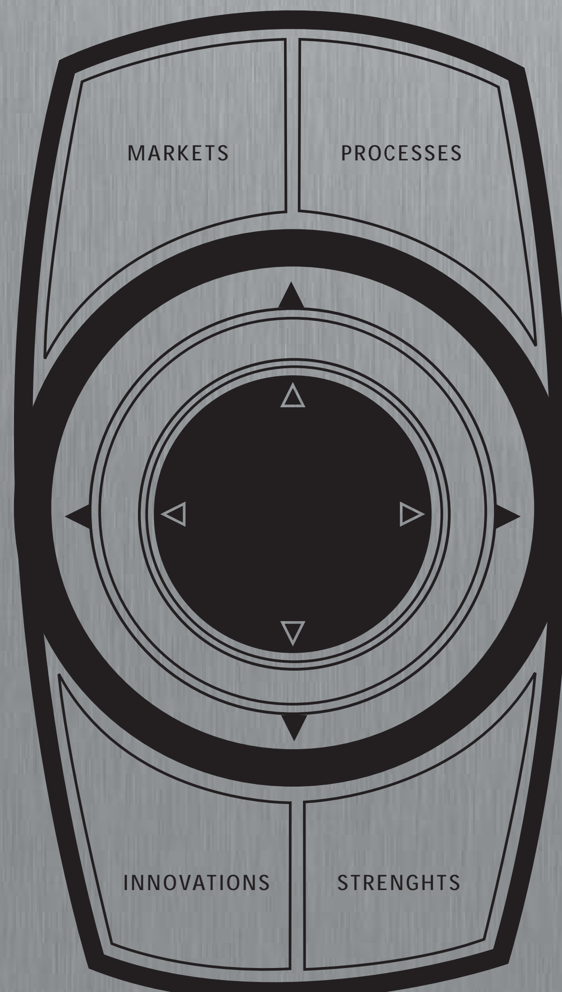
in EUR m

	2009	2008
Revenue	495.5	637.6
EBIT	–3.9	3.1
EBIT margin (in %)	–0.8	0.5
Investments	22.4	24.9
Employees at year-end	4,479	5,631

2009 was by no means an easy year for business. But crises like the one we have just experienced always hold opportunities as well. They offer the possibility of renewal, the opportunity to depart from well-trodden paths and to set out in new directions.

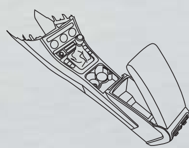
During the last year many necessary changes have been implemented within GRAMMER Group to adapt the Company to the new order situation, to cut fix costs and to strengthen the competitiveness significantly. After a year with deep cuts, now the time has come to look ahead and to actively pave the way for a successful future for both business divisions. We will reposition ourselves by enhancing our strengths, and will aim for new markets by revising our processes and pushing ahead with innovations.

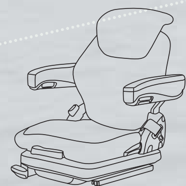
CHARTING THE WAY △



TARGET ▷

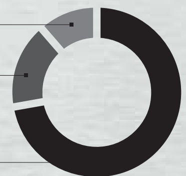
TAPPING INTO NEW MARKETS





When it comes to tapping into new markets, flexibility is required. To be successful in global competition, it is necessary to find new regions, markets and partners and in particular to adapt our products to the local demands. In order to successfully market new products, a company has to track down market niches and adapt existing know-how.

Revenue by regions 2009



- ▷ Broader positioning in the center console segment
- ▷ Expansion of service and replacement parts business (agricultural machinery)
- ▷ Strengthen offroad position in Asia and the United States

DIVISION △ **BACKGROUND △** **FACTS △**

Tokyo, Japan 35° 41' 22,16" N 139° 41' 30,14" E
Tianjin, China 39° 7' 15,15" N 117° 12' 54,11" E
Changchun, China 43° 49' 1,50" N 125° 19' 24,71" E
Shanghai, China 31° 13' 50,55" N 121° 28' 22,50" E

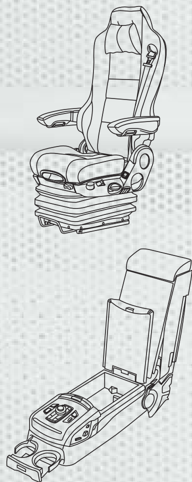
Lean Management System

Standard Plant Organization

GRAMMER Business System

TARGET ▷

OPTIMIZING PROCESSES



The cornerstone was laid for the standardization and optimization of the production processes across the entire GRAMMER Group as early as 2008. In the past year, the GRAMMER Business System (GBS) and the Production System were modified fundamentally and introduced systematically at all production sites and in all organizational units worldwide. Thanks to these efforts, our organization has become leaner, our processes have become significantly more efficient, and the fixed costs have been reduced considerably.

GBS-ABCs – The most important GRAMMER Business System definitions

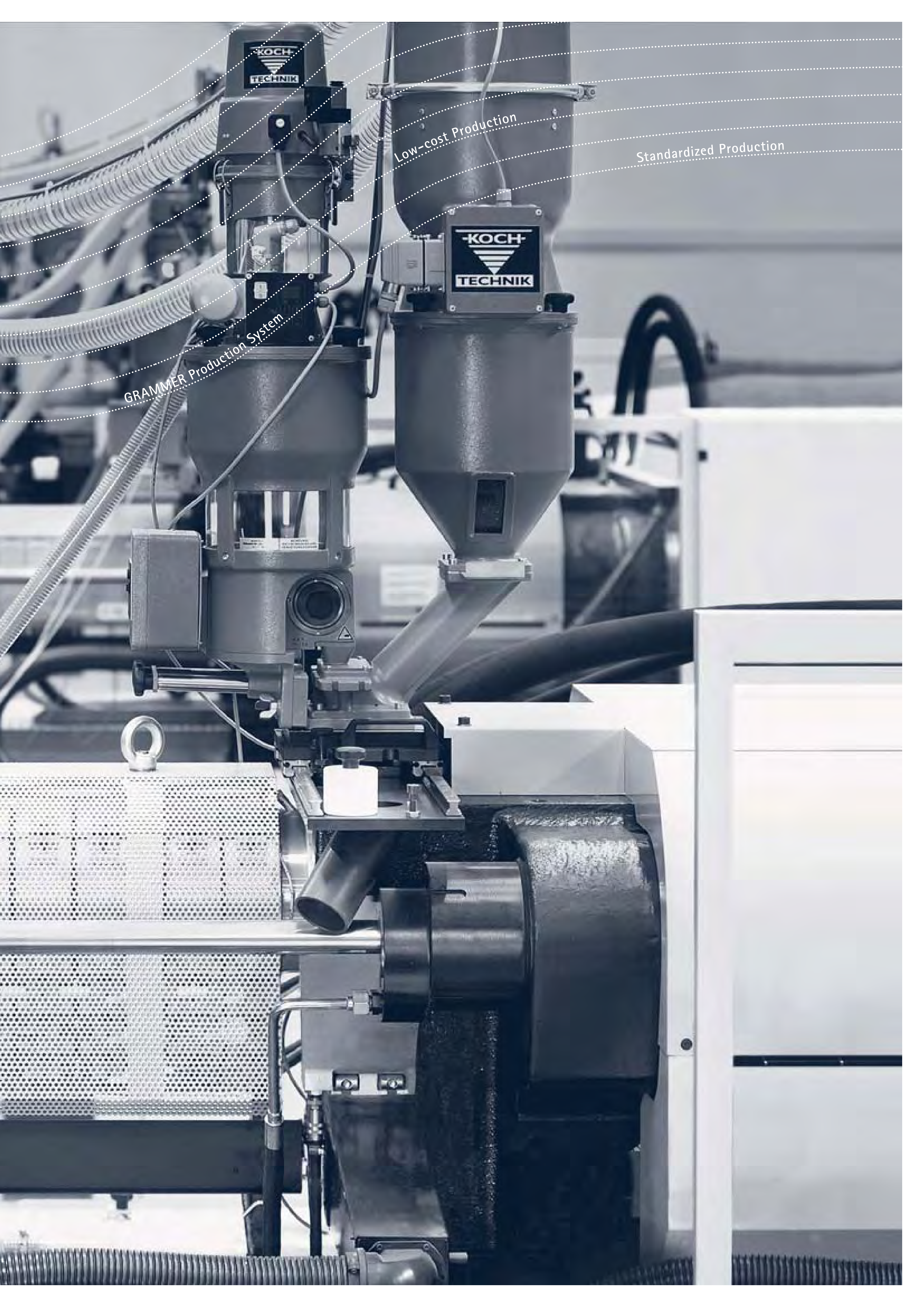
▷ GBS (GRAMMER Business System) defines and describes the organizational structure and the accompanying processes in GRAMMER Group

▷ GPS (GRAMMER Production System) defines and describes the standard processes at the GRAMMER production sites

▷ PDS (Product Development System) defines and describes the standard processes for the development and launch of new products

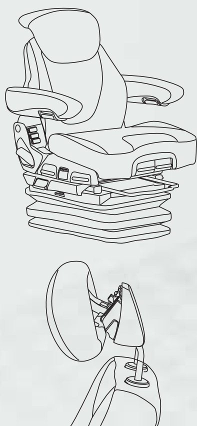
▷ LMS (Lean Manufacturing System) – The goal of the Lean Manufacturing System is to precisely coordinate all of the activities that add value with one another and to avoid any kind of waste

DIVISION △ BACKGROUND △ FACTS △


KOCH
TECHNIK
Low-cost Production
Standardized Production
KOCH
TECHNIK
GRAMMER Production System

TARGET ▷

IDENTIFYING STRENGTHS



It is especially important in difficult economic times to reflect on our strengths. In addition to a broad customer base, the factors of success for both divisions are primarily the quality and innovative power of their products and the technological advantage over the competition. Knowing what the success of a company is built on, is key for overcoming challenges now and in the future.

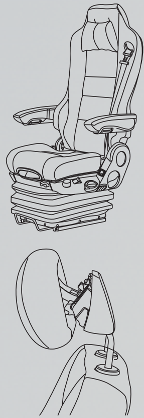
- ▷ Strong brand image, well-known for innovation, design, quality and ergonomics
- ▷ Only global player for suspended driver and passenger seats in the commercial vehicle segment
- ▷ Dominant market position in Europe and South America in the Offroad seating segment
- ▷ Market leader for passenger seating on long-distance trains (sole supplier for all ICE generations)
- ▷ Technology leader for high-end headrests with patented functions (CAK, X-adjustment)
- ▷ Global R&D network across Europe, Asia and NAFTA
- ▷ Broad customer base and extensive product portfolio

DIVISION △ BACKGROUND △ FACTS △

Technological Advantage
Broad Customer Base
Innovative Power
Quality
Experience

TARGET ▷

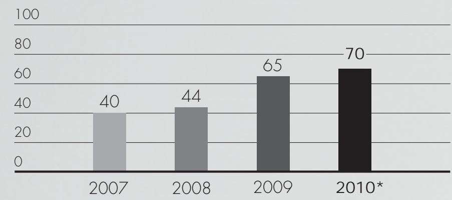
FOSTERING INNOVATIONS



Products from GRAMMER AG are distinguished by their advanced technologies, the standard for which is always the end customer's need for comfort and safety. Our engineers in research and development draw their motivation from the desire to always accomplish more than is expected and to remain one step ahead of the competition.

Percentage of investments in new products as a part of total investment (in %)

* projected



The percentage of investments for new products was purposefully increased over the last few years. Our investments in innovation and growth are the basis for GRAMMER Group's future development.

DIVISION △ BACKGROUND △ FACTS △

Creativity

Innovation Strategy

Utilize Synergies

Competitive Advantage
Define the Future
Technology Roadmap

“We always think one step ahead”

In September 2009, Volkhart Meyder (Dipl.-Ing.) took over the newly created position “Strategic Product Development – Automotive and Seating Systems” at GRAMMER AG. He is responsible for developing a Group-wide innovation strategy across all product segments as well as creating a technology road map to define the future GRAMMER product range. In this interview, Meyder provides an insight into research and development at GRAMMER AG, and describes the product development process from idea to prototype.

Can you explain the work that Strategic Product Development is supposed to accomplish?

Meyder I have a note on my bulletin board. It contains the question that the Executive Board has directed to me: What will the GRAMMER product of the future look like? My job is to find an answer to this question! All kidding aside, I have one very important message right upfront – which is that we at GRAMMER will no longer be thinking in terms of product divisions, separated into Seating and Automotive, but rather in terms of products and markets. Ultimately we have eliminated the separation in order to allow our best people to work in both segments. This is important for all further considerations, because this is the logic we must pursue going forward. When the product groups have been defined, we will conduct a comprehensive market, competition and product analysis. Additionally, the influence of the regions has to be taken into account. This will be a very extensive analysis, but it is also necessary in order to work in a targeted way. Another task is tending to our existing product portfolio. For example we have to deeply analyze the different life cycle of our different products in the specific markets. Then we must consider which innovation cycles are important for GRAMMER. This too will be separated by product group and region.

That sounds like a great deal of organizational work – where does the innovation come in?

Meyder You’re right, but we will do our best even during this analysis phase to improve our innovativeness on the operational side. To this end, the two product development departments, which have worked largely separately up to now, will be unified to form a powerful group, conducting regular project and innovation roundtables. All of this will be integrated into an “Innovation Landscape” that brings together information from inside the company and out, filters it and – if it is promising – develops the information into project and product recommendations. The idea is to create a system for innovation management with a framework of rules that leaves enough freedom for creative solutions.

What will the GRAMMER product of the future look like?

Meyder That is naturally something for which there is no one easy answer. Ultimately, we are not talking only about individual products, but rather about our overall strategic orientation. The GRAMMER Group strategy lays out a clear vision for every product group. In the Offroad segment, for example, the focus is on innovation leadership and trend setting. This mean that we need to constantly generate new ideas for products that the market does not know today, but wants to have tomorrow. For center consoles, GRAMMER aims to further advance development in this product group. But, this can only be accomplished if we are able to offer the market, in this case OEMs, interesting alternatives. And, if we can provide these products with unique features, things that only GRAMMER can offer, that would be perfect. In any case, we are looking at two completely different markets with different needs and solutions. This also makes clear why a thorough analysis and period of market observation are necessary at this point.

Can you foresee at this point which innovations might be of interest for GRAMMER?

Meyder Looking first at the Automotive segment, we see that, beside the major topic “drive concepts”, there are very interesting fields in which we can seek our opportunities. For example, the area of “light-weight construction”, coupled with new alternatives for the layout of structural components, which would have an immediate effect on the design of interior components. Additionally, some components in the vehicle interior contribute directly to passenger safety. This means that there is a relationship with the vehicle’s safety features. An interesting trend is underway here, which

DIPL.-ING. VOLKHART MEYDER (55)

Head of Strategic Product Development –
Automotive and Seating Systems

Volkhart Meyder (Dipl.-Ing.) has been with GRAMMER Group since 2001. His first position was Vice President of the Seating Systems, where he was also responsible for the international product development of "Seats", among other things. In 2005, he took over as Head of the Offroad segment.

"We are focusing on the status and historical development of our own potential, in order that we can ultimately generate competitive advantages on the basis of genuinely unique selling points."

must be examined carefully and could hold out great promise for GRAMMER. In the area of Seating, there is still much untapped potential for innovation at GRAMMER, such as the topic of interaction between seats and cabin, or light-weight construction in the Railway segment.

But there is also plenty of maneuvering room left in the existing product portfolio. GRAMMER is known for covering all aspects of the high-end product segment, especially in Offroad. We are well positioned in everything that is very complex and sophisticated, on a global scale. But, the most attractive markets right now, like China, India and even the US, are mass markets that do not always focus exclusively on high-end products. Here, GRAMMER can make improvements by aligning product configurations with the markets and developing mid-range products from the high-end templates. Another special product group is the Turf segment, which has strengthened especially in the United States. Generally speaking, the target group here comprises semi-professional and professional landscapers. In this market, everyone has their own little tractor. The customers are no longer willing to sit on hard plastic – they want a bit more comfort. At present, we do not have a way to directly supply this market, making it one that we can penetrate by downsizing, if you will, to fit the needs of the segment – but with a "dash of innovation".

How long will it take before GRAMMER introduces a new product to the market?

Meyder That is a very difficult question, because we have to differentiate between wholly new development themes and projects that we can market as part of our existing range. One thing, however, is clear: It is much easier to win projects if you have established a reputation for innovation. My goal is to introduce new topics at GRAMMER over the next two years, but also to make a contribution to improving the already existing development programs. My wish is for GRAMMER to take its place in the front row when it comes to new product development – together with other known and respected companies.

How will you cooperate with the operating segments "R&D" and "Operations"?

Meyder I see Strategic Product Development as an information provider, as well – and this is even more important in my eyes - as a channel for conveying information between areas and segments, including the product segments. Thus, the new Strategic Product Development function serves not only as a driver of innovation, but to a certain extent also takes on functions traditionally attributed to product management, from providing information, to planning to testing and coordination.

Last question: What is most important to you in your new function?

Meyder Especially now that we are at the end of a crisis, my team and I want to help turn the sights of the company to the future. GRAMMER is an excellent company. This can be seen even just in the way we are working together to overcome the crisis. We hope that the new function will contribute to bringing the product areas even closer together. In cooperation with the various functional areas and business divisions, we intend to provide the thrust for innovation that can be developed into marketable products. As rapidly as possible!

Thank you!

Automotive: In addition to their design, their high-quality look and feel, and their finish, GRAMMER center consoles are also distinguished by a high level of functionality and numerous multi-media controls.

Automotive

Our Automotive division supplies headrests, armrests, center consoles and integrated child safety seats to well-known carmakers and systems suppliers for the automotive industry. Our interior components are distinguished by their comfort, design and safety. Because of our competitive and high quality products, leading carmakers and systems producers prize GRAMMER Automotive as a source of new ideas and a driving force for innovation in the area of automotive interior styling.

Center consoles

Since entering the center console product segment in 2005, we have been able to establish ourselves as an innovative and reliable Tier-1-supplier for automotive interiors. We received the coveted "Volkswagen Group Award" in the category of "Development Competence" for our center console for the VW Passat.

We have systematically expanded our development, production, and supply chain capacities. In addition to the facility in Zwickau, we also built a site in Schmölln and investments have been specifically targeted to value chains and manufacturing technologies. Our engineers in the GRAMMER R&D network are busy developing new solutions around the clock at our three development centers in Amberg (Germany), Troy (USA), and Shanghai (China). Customized logistics strategies are coordinated with the customer to ensure the enormous variety of versions for the various models and ranges of equipment. GRAMMER's perfectly harmonized procurement, manufacturing, and logistics planning enables us to supply interior systems just-in-time or just-in-sequence to customers around the world.

Center consoles from GRAMMER harmonize ideally with the interior design.

After the successful product launch of the center console for the General Motors Epsilon II Platform in China in the summer of 2009, GRAMMER also scored another international success with the General Motors center console for the 2010 model of the Buick LaCrosse in the US. Thanks to the business developments of the last few years, the number of vehicle models equipped with GRAMMER center consoles will almost double by 2012 – both in the premium class as well as in volume vehicles.

"The center console is becoming the most significant driving force for growth for our Automotive division."

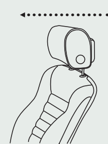
Dr. Rolf-Dieter Kempis

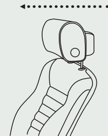
Headrests

Headrests play a crucial role in providing optimum protection for a vehicle's passengers. The optimum positioning of the headrest is key in reducing the dreaded whiplash that occurs as the result of rear-end collisions. Next to design, form, and material, GRAMMER also focuses intensely on this aspect. The shifting of the headrest from the "comfort position" during normal driving into a "safety position" when a crash occurs allows the headrest to meet the demands for both comfort and safety with equal success. The actively controlled system that operates during a rear-end collision – the so-called crash-active headrest – was developed by GRAMMER AG together with BMW and first went into serial production in 2001.

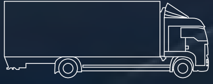
In the next generation of active headrests developed by GRAMMER, the crash-active module is housed completely inside the headrest and is triggered by compression springs when a rear-end collision occurs.

Headrests with X-Adjustment





Due to the more solid structure of driver and front-seat passenger seats, the most recent developments are now focused on optimizing passive systems. The new, horizontally adjustable headrest from GRAMMER is positioned sideways by a simple manual or electronic adjustment to more closely and precisely fit the head of the passenger, thereby reducing the overextension of the head during a rear-end collision.



Seating Systems: In the commercial vehicle segment, GRAMMER AG is focusing its attention on the development of more efficient seat suspension and optimum ease of control.

Seating Systems

Around the world, GRAMMER Seating Systems develops and produces driver and passenger seats for agricultural and construction vehicles, forklifts, trucks, busses and trains. Following the "design for use" philosophy, GRAMMER Seating Systems products are made to be ergonomic, user-friendly, comfortable and safe. With our innovate systems, GRAMMER is the global leader in seats for offroad vehicles, and is among the top producers of truck and train seats.

Offroad

In the Offroad segment, the extreme operating conditions place the highest of demands on both vehicle and driver. As the principle interface between man and machine, the driver's seat has a decisive influence on the work environment. It is precisely vehicles that have no suspension or are only partially equipped with suspension such as tractors, forklifts, or construction equipment that require robust, vibration-absorbing seat suspension. That's why as an innovation leader and trend-setter for seating systems, we are focusing on the topics of biomechanics, vibration comfort, user-friendly operation, and seat temperature control.

GRAMMER brought the first driver's seat with air suspension to the market back in 1981, and we have been setting standards for ergonomics, comfort, and safety ever since thanks to our many years of experience and the close, cooperative relationships we share with our customers and scientific institutions.

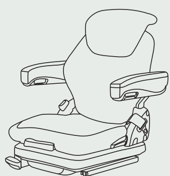
One example of the innovative power of GRAMMER's engineers is the Maximo seat series for agricultural machinery. More than one million seats from this series have been sold since the market launch in 1998. In the last ten years, this revolutionary seating system has been improved on a regular basis and the suspension comfort further increased. Today, depending on the way it will be used, the user can choose from among a wide range of equipment versions, from the entry-level model with air suspension, all the way up to the "Maximo Evolution Active", which has active suspension, electronic weight adjustment, and active seat temperature control and ventilation.

When it comes to the topic of vibration reduction, however, we are no longer limiting ourselves to just the seat. Our engineers are working together with customers and scientists on the integration of vehicle cabs, driver seats, and vehicle control systems. This creates an overall system the components of which are attuned to one another – a system that harmonizes vibration absorption and vehicle control while also providing the driver with maximum seat comfort.

"In the Seating Systems segment, we want to take the strengths we've developed regionally and increasingly put them into practice globally, and we also want to intensify our focus on growth markets such as Russia and Asia."

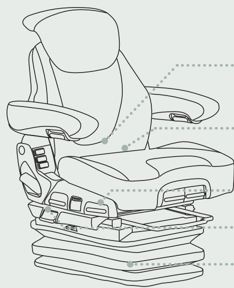
Dipl.-Ing. Volkhart Meyder

The "Turf" Market of the Future



In addition to constantly providing new, innovative seating systems, we also intend to simultaneously expand our global presence. We will be reinforcing our globalization strategy with customized products for the local markets, with particular emphasis in the new "Turf" market segment in the US. The "Turf" product group includes smaller tractors for semi-professional and professional gardening as well as landscape and park maintenance. For the medium term, we plan to tap into this market with products specifically adapted for the needs of the end clients in this segment.

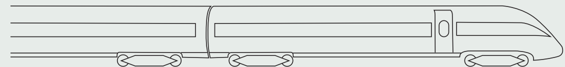
Maximo Evolution Active



Right now, the Maximo Evolution Active is the most comfortable seat for tractors. It is the first seat in the world with active suspension that can also be retrofitted via a simple plug & play system. The seat's technical features allow it to adapt to the driver's requirements as needed, and its considerable vibration reduction also provides exemplary health benefits.

75 %
vibration reduction

Premium train seats



The award-winning premium train seats from GRAMMER set standards in design and comfort, while the "design for use" principle has been put into practice with the best workmanship and the most robust materials: Passengers understand intuitively how to adjust the seat, and the controls are ergonomically positioned. The trademark "ergomechanics® inside" shows that the latest scientific knowledge from the fields of seat ergonomics and biomechanics and more has gone into the development.

Railway

GRAMMER has been developing driver and passenger seats in the railway segment for more than 20 years. The product range covers the full spectrum of rail applications, and is known for ergonomic comfort, quality and design.

For example, as the sole supplier of passenger seats for all three ICE generations, GRAMMER provides for incomparable traveling comfort in the German high-speed train network. But Germany isn't the only place that passengers value this incredible seating comfort. GRAMMER passenger seats are used in long-distance and regional trains, metros, and high-speed trains in many countries all over the world.

By establishing an independent operating unit for railway business in the past year, GRAMMER has taken into account the ever-increasing internationalization in the Railway segment and the project nature of the business. GRAMMER Railway Interior GmbH will be consolidated as a wholly owned subsidiary of GRAMMER Group.

With the higher flexibility of an independent operating unit, we have created the prerequisite condition for successfully taking advantage of the future growth and earnings potential in the Railway segment.

Truck & Bus

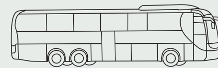
For professional truck and bus drivers, the driver's seat is one of the critical factors for comfort and safety in their mobile workplace. Only optimum seat comfort can increase the ability to concentrate and perform while promoting good health. GRAMMER AG develops driver seats by applying cutting edge knowledge of ergonomics and biomechanics, which decisively improves the work environment by providing seat ergonomics that have been optimized to the fullest extent possible. Our many years of expertise concerning the ergonomics, functionality, comfort, and design of driver seats is specifically tailored for the needs of professional drivers. The special features of GRAMMER driver seats from the MSG 90.6 series were certified in 2008 for the first time for the commercial vehicle segment by the Nuremberg Landesgewerbeanstalt (State Trade Institute) in collaboration with the Ergonomie Institut München GmbH (Munich Ergonomics Institute).

Customers have also acknowledged the quality of our work: Our Brazilian subsidiary GRAMMER Do Brasil won the Volkswagen Group's 2008 Best Supplier award in the category "Product Quality, Quality Efficiency".

In the truck and bus seat product segment, GRAMMER also continuously enhances the ergonomics, design, and seat comfort. This is the story of our new generation MSG 115 commercial vehicle seats, through which we have a significant technological advantage over our competitors in the commercial vehicles segment. The comfort offered by the suspension system as well as the seat weight has been further optimized. Furthermore a greater stability and – as a passive safety measure – improved crashworthiness was achieved. The modular concept of the Echo series, a shock-cushioning seat of the next generation, consists of a standardized seat structure with the upper section tailored specifically to each customer.

We believe this revolutionary generation of seats will help us significantly improve our market position in Europe and the US, which in addition to the dominant market position in the important South American market and the successful market launch in the Russian growth market, will secure GRAMMER's future growth.

Safety-tested



High-comfort bus driver seats from GRAMMER such as the Linea and Tourea product lines with their seat ergonomics improve the work environment over the long term. They have been certified and awarded the "Ergonomics Approved" mark by an independent institute, the Nuremburg Landesgewerbeanstalt (State Trade Institute), in collaboration with the Ergonomie Institut München (Munich Ergonomics Institute).

Interview with the Executive Board

After a year of revamping the company, the GRAMMER AG Executive Board explains the steps that were taken in order to position the company for the future. In lieu of the usual foreword from the Executive Board, the board members discuss GRAMMER AG's goals and strategy.

Dr. Rolf-Dieter Kempis, CEO

DR. ROLF-DIETER KEMPIS	***HARTMUT MÜLLER***	***ALOIS PONNATH***
Chief Executive Officer	Chief Operating Officer	Chief Financial Officer
Area of Responsibility Automotive HR Director Internal Control	**Area of Responsibility** Seating Systems Purchasing/SCM Operations Performance Management R&D Quality Strategic Product Development	**Area of Responsibility** Central Services Investor Relations Marketing/Communications Strategy/Business Development

THE EXECUTIVE BOARD △

"When we look into the future now – thanks to the restructuring, a complete new cost and management situation at the company, very attractive new projects, together with the adjusted structures - I therefore see not only revenue growth ahead but also an improvement in earnings."

Alois Ponnath, CFO

How would you evaluate the 2009 fiscal year now that it is over?

Ponnath It was certainly a very difficult year with many challenges and deep cuts, but it was positive overall for the future positioning of GRAMMER. In 2008 we responded relatively quickly and put together the necessary steps early on. As for the restructuring, we have come very far, both at the production sites as well as with overheads. We introduced a new internal structure in the company for the future orientation of GRAMMER AG. I think now in the first six months of 2010 we still have a bit of homework to do, but we will be in a good starting position as long as we continue to work consistently toward our goals. While it was a hard year for GRAMMER from that perspective, it was by no means a lost year.

Müller I always say that people mature in these types of situations, and this absolutely holds true for GRAMMER as well. The economic crisis is an extreme challenge for many companies, and GRAMMER is no exception. But it was already necessary for us to reorganize back in 2008 and to add a few new things to an existing system. In my opinion, the measures we had taken in 2008 already bolstered us for 2009. So we were able to build on that basis.

So, would you say that you are going to emerge from the crisis strengthened for the future?

Müller For GRAMMER, this question can be answered with a very clear yes. We have evolved significantly, above all as this concerns operational issues; for example, the quality of our deliveries to customers has improved by more than 60 percent – while at the same time the internal costs incurred have decreased. We have also been able to reduce our production costs and deviations considerably, which was achieved primarily by introducing standardized processes and by adjusting the degree of value added. We have streamlined our production network and locations were closed. What is important to note at this point is that we have given the highest priority to pushing ahead with our innovations so that we will remain an interesting partner for our customers both during and after the crisis. We have anchored this with a department that was specifically established in our organizational structure for just this purpose. GRAMMER is thus standing on a very solid foundation for the next few years.

Ponnath 2010 will be another difficult year. When you look at the figures for new registrations in 2009, the market is relatively saturated, and for 2010 this means that demand will remain uncertain. But while others may yet end up being forced to take action, we have already adapted to the changing conditions around us.

What specific steps have you taken to counter the effects of the crisis?

Kempis We began to restructure our Automotive division in 2008. You could tell by looking at the earnings situation that this division was hit the hardest. Which is why we undertook very significant adjustments with regard to organizational structure and production performance at the production sites.

Müller In the past year we then transferred these optimizations over to our "system world", in other words, the GRAMMER Business System (GBS) and the GRAMMER Production System (GPS) were modified significantly. The advantage is that thanks to the corresponding preparation – for example training – we can expedite implementation of the systematic changeover for all production sites and integrated organizational units. The complete rollout will be finished in 2010.

Ponnath Additionally, we were able to free up capital relatively quickly in order to finance the restructurings and adjustments, and as we did so we never departed from our positive financial position, which in turn laid the foundation for us to continue to have a solid balance sheet structure. Our conservative and efficient economization over the last few years thus paid off enormously in the crisis.

Has GRAMMER profited from consolidation of manufacturers and suppliers in the wake of the crisis?

Kempis No, quite the opposite, competition has actually become tougher. This is true both for our customers, because they also have problems and have to restructure, as well as for the competitors and their own suppliers. Although a great deal of companies are fighting for survival at the moment, there are still too few competitors leaving the market in the wake of the crisis in order for us to say that the market has purged itself. Bankruptcy law provides as much protection from this happening as do the manufacturers themselves, who support their suppliers because they are dependent on them.

Alois Ponnath, CFO

Müller Everyone is trying to position themselves during the crisis as well as possible vis-à-vis their competitors and customers. Everyone is making an effort to increase market share and quotas; they are really playing hardball with the proposals sent to customers, who then get to make a fresh decision on what is the best solution in terms of quality, price, and logistical solutions. This "natural process" is influenced by the different types of stimulus programs in the various countries. In France, for example, companies receive direct financing assistance from government funds. In the United States, Chapter 11 bankruptcy regulations are significantly better suited for reorganizing and continuing the operations of a company than the bankruptcy procedure in Germany.

So at the moment, would you say there's more of a distortion of competition occurring?

Ponnath If you'd like to put it in those terms, yes. The government has shouldered quite a lot of the burdens and bolstered weak companies. That means the companies that went into the crisis with a solid structure have to mitigate the consequences of the crisis on their own. And the banks aren't any help in this situation, either.

Is it true that GRAMMER wasn't really able to take advantage of the "scrap bonus" in Germany?

Müller Yes, and that's also shown again by the latest analyses. The scrap bonus assisted almost exclusively manufacturers of small- and compact vehicles. GRAMMER does not really have a strong presence in these market segments. But when the bonus ends in 2010, companies that had profited from it in 2009 will of course be losing an advantage they had been granted. For GRAMMER, this effect means that there is no new risk and therefore also no additional need to make adjustments.

The title of this year's GRAMMER AG Annual Report is "Charting the Way". What ways are you paving for the coming years?

Kempis We are continuing with the company's organizational development – along with strengthening the production segments – by rigorously introducing responsibility for results below the executive level. In addition to this responsibility for profit, we will also be improving the interaction of the segments and to this end have dissolved the traditional separation between the Automotive and Seating divisions. This will release additional synergies in the company, giving us a more powerful structure.

How have you changed the internal structure?

Kempis Previously we worked in lines of business that in the Automotive division were tailored exclusively to customers, and in the Seating division were tailored to the market. There was a clear division, for instance with development. Now we've bundled generally applicable areas of expertise, since fundamentally it doesn't matter much whether you're manufacturing headrests, armrests, or even a complete truck seat. What's more important are the functional core skills and activities, and the product development methods. We have a high standard of quality, which in order to be achieved must be approached methodically. Last year we defined these methods extensively in all areas. In addition, we installed a new, higher-ranking department that deals exclusively with strategic product development and enhancement.

Ponnath Because a seat in Asia looks different from a seat in the United States or Europe, it is important that our products are adapted to the specific markets worldwide. Consequently, we have decided

Hartmut Müller, COO

to turn our attention to the products and the markets. This means that in future we will be focusing even more intensely on the particular product and market correlation and will be targeting our internal resources specifically to these. Doing so will make us leaner and more powerful.

And the center console business segment will become a driver for growth in the Automotive division?

Müller Over the last few years, very successful products have been developed in this area in cooperation with the customers. The resulting business development successes will provide GRAMMER AG a good basis on which to expand over the next several years.

Kempis The center console segment emerged from this, because not only does it deal with a significantly more complex product with a very large amount of work devoted to assembly, it also takes up a larger amount of space than the other automotive products. We intend to take this business segment – a new pillar in the automotive sector – and concentrate on it strategically, because it should and will grow.

Can you ascertain where this success came from?

Müller We have a very competent development department with integrated, state-of-the-art testing capabilities. Over the last few years, we have continued to evolve, primarily in the area of analysis and simulation technology, which in turn has supported the efficient creation of tools and prototypes. Additionally, we have consistently invested in establishing and rounding out the degree of value added, which means plastics have developed into a core technology. We have also become more appealing to our customers due to our investments in China and in the NAFTA area.

Ponnath If you look at the vehicles with GRAMMER center consoles, it becomes clear that above all surface finish, touch and function play an important role. In this area, GRAMMER's production of armrests and headrests alone has shown we possess key areas of expertise, which have enabled us to come across very well in the market. In all three areas, plastic is also an overarching subject, as are foams and finishes. And whenever function, assembly, or added value is called for, GRAMMER has strengths in those areas, too. We started with the VW Passat. Then came the GM Epsilon II Platform. In the meantime, we have been able to successfully add numerous other models to our business portfolio.

Several months after the crisis began to impact the Automotive division, the Offroad segment experienced a strong decline in demand at the beginning of Q2 2009. Do you believe there will be opportunities in the near future to counter this?

Kempis Not really, since we still have a market share of 80 percent in Europe. That means we can only grow to a marginal degree. Instead, we need to adapt to a lower volume in the Offroad segment and take advantage of the opportunities that exist for us in new product segments and in the Asian and American regions. In the past we were repeatedly made to realize that exporting from Europe to Asia or the United States doesn't work for various reasons. This means that GRAMMER's future opportunities lie in purchasing and producing locally.

Müller Product developments and new features can't be synchronized with this type of drastic decline in revenue. A certain development period is required, which is why there is no adequate measure for countering the catastrophic collapse of the markets. Instead, we have to continue to use the tool of short-time work, but over

the medium term we will also have to adapt structurally to demand that has changed, which can no longer be balanced out with short-time work. Additionally, we have to work on leaner structures at our factories and improve our quality performance significantly, and to this aim we have already set up the appropriate programs. This also includes intensive talks with our suppliers in order to better meet our customers' expectations.

Are there other plans for the next few years?

Müller The Group's new direction at the beginning of this year requires that we work intensively on the implementation of a large number of individual measures, such as spinning off the Railway segment, and transitioning the main production site in Haselmühl to independence. After assigning responsibilities for revenue and results from the different products or market segments, it will also be necessary to adjust the corporate structure accordingly, in order to make the operational management of the individual areas clearer and more transparent. This structure will put us in a position to target our resources very specifically and at the same time to focus on product and market correlation. On the product and production side, GRAMMER will be selectively reinforcing itself over the next few years, be this through expanding and increasing the core areas of expertise in production, or by rounding out our product range. There will be a trend toward strategically focusing on complex, development-intensive products in order to establish ourselves more strongly than at present as a direct partner for car manufacturers. This applies both for the Far East and the North American regions, where from our perspective there will be a higher percentage of growth.

Mr. Ponnath, in view of the current lending restraint of the banks, what funds are available to GRAMMER AG over the short and medium term?

Ponnath At the moment banks are extremely risk-averse because they have had to implement large adjustments and will have to fulfill much stricter equity capital requirements in the future. At the same time, companies' credit ratings are dropping. This is the dilemma in which we find ourselves; the banks are being very selective in choosing credit risks, and are asking a high price in return. However, in March of this year after extended negotiations with the banks, we arrived at an agreement for replacement financing, and thanks to the participation of KfW we now have a three-year line of credit of 110 million euros. This means we have taken a big step forward and now have sufficient funds to be able to implement the strategic topics and objectives over the next three years - even if the terms for doing so are rather expensive. But this financial strength will give our shareholders, our suppliers, and our customers confidence.

GRAMMER AG's share price suffered a great deal during the crisis. What are the main forces that can push the share price back up to a reasonable level?

Kempis From an operations perspective, we are actually satisfied at the moment despite the losses, but only because we were able to significantly contain the downward momentum and have structured ourselves to be considerably leaner in the future. Nevertheless, we need to once again turn a profit and earn money so that we have significantly better prospects in the future, and so that the shareholders will again have more confidence in GRAMMER stock than they have at the moment. The performance of our share since mid of February shows us that we are on the right track to regain the trust of shareholders.

Ponnath At the beginning of 2009, GRAMMER's share price was initially caught up in the automotive industry's undertow, especially that of the suppliers. But in the future we will see not only revenue growth but also an improvement in earnings; this is because we've restructured – we've ironed out our structures and now have a completely new cost and management situation at the company. With the upcoming, very attractive new projects ahead of us, we are anticipating annual growth over the next few years of between 5 and 10 percent. Together with the adjusted structures, I am therefore not only expecting to see revenue growth ahead but also a sustainable improvement in earnings and margin over the medium term. When the financial market recognizes this potential, the shareholders and maybe even the share price will profit from this as well. But for the short term, we still have a difficult year ahead of us in 2010.

And what would you like to have the shareholders remember for 2010 and the coming years?

Kempis I can only draw the shareholders' attention to the fact that we have restructured the company, and that this will allow us to choose the right path even over rough terrain. That we have laid the foundation for success in the future, and that I ask the shareholders' for their trust – that they continue to remain loyal to the company. I think that the shareprice increase of the last weeks underlines that also our shareholders acknowledge our efforts.

What are you expecting for 2010 and beyond?

Kempis You've seen it in all the forecasts: 2010 will be a year in which the economy still won't pick up much. We are anticipating a moderate increase in revenues, but we are nevertheless planning to see a positive result. In the next two to three years we should once again approach the order level of 2007/2008, which will of course have been accomplished due to our adjusted corporate structures. We see this as an extreme challenge for the entire organizational structure, but also as the basis for a positive trend in earnings.

Müller Because of weak earnings in the Automotive division and in particular due to the drastic decline in orders, we were forced to implement deep cuts across all areas of GRAMMER Group over the last two years in order to ensure that the company would survive and to enhance its competitiveness for the period after the crisis. Thanks to the experience of Dr. Kempis and the dedication of both management and the employees, we adapted GRAMMER Group quickly and successfully to the altered situation. In the future we intend to focus specifically on our strengths as well as the products and markets in order to be in a position to better satisfy the desires of our customers for innovative solutions.

Dr. Kempis, you will be stepping down from your post as Chairman of the Executive Board at the end of July this year. What advice do you have for your successor Mr. Müller?

Kempis Nothing much that would be new. The advice that I can give him is to continue resolutely with what we have already accomplished together in the last two and a half years. And since we have always worked as a team, following this advice is no big change for him or the company, and I'm certain that Mr. Müller will do it.

Thank you!

Corporate Governance

For the Executive and Supervisory Boards of GRAMMER AG, responsible management in line with the interests of the company, our customers and the shareholders, is of paramount importance. In order to strengthen confidence in our company, our objective is to provide the public with transparent and comprehensive information about our strategies and the goals we pursue through their implementation. With the reliable advisory support of the Supervisory Board, our management practices are consistently oriented on the recommendations and proposals of the German Corporate Governance Code.

Corporate Governance Statement

Declaration of Compliance

On December 3, 2009, the Executive and Supervisory Boards of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act on compliance with the German Corporate Governance Code.

In accordance with section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive and Supervisory Boards of GRAMMER AG hereby affirm their past and future compliance with the recommendations of the German Corporate Governance Code, in the version dated June 18, 2009 and published in the electronic Federal Gazette on August 5, 2009, with the following exceptions:

1. Members of the Supervisory Board, Executive Board and Managing Directors of GRAMMER Group are covered by directors & officers liability insurance ("D&O insurance"), but currently without a deductible (CG Code item 3.8.).

   Explanation: GRAMMER AG will implement the deductable for members of the Executive Board as called for in section 93 (2) sentence 3 AktG beginning July 1, 2010. In accordance with the resolution of the Supervisory Board, the company will also arrange a deductable on D&O insurance for members of the Supervisory Board in July 1, 2010. This will total 10 percent of the amount of the claim, up to a maximum of 1.5 times the annual fixed salary (excl. VAT) of the Supervisory Board.

2. The variable remuneration components arranged with the members of the Executive Board have no multi-year calculation base. The contracts with members of the Executive Board contain no express provisions excluding subsequent amendment of performance targets or benchmark parameters for the variable components. There are no provisions stipulating that payments to a member of the Executive Board, following early termination of Executive Board membership without cause, including additional services, may not exceed the equivalent of two annual salaries (severance cap) and shall not be paid for a period exceeding the remaining term of the employment contract (CG Code item 4.2.3.).

   Explanation: The Supervisory Board will include provisions in new Executive Board contracts that take into account the recommendations of the Corporate Governance Code.

This declaration along with all Declarations of Compliance issued in previous years – are permanently available on the GRAMMER AG website under www.grammer.com/corporate_governance.

Code of Conduct

The Code of Conduct – available under www.grammer.com/verhaltenskodex/ – in effect within GRAMMER Group is a binding guideline for the legal and responsible conduct of all employees worldwide. In addition to the code, more specific rules have been defined and Web-based training offered to support employees with compliance and implementation of the conduct rules. The company insures that all employees have access to specialist-support for questions pertaining to the Code of Conduct. This Code Team assists in the rectification of violations of the code, and works to pursue instances of improper conduct.

Work of the Executive and Supervisory Boards

As a stock corporation under German law, GRAMMER AG has a dual management system comprising the Executive Board and Supervisory Board, each of which has distinct competencies. In the context of management and monitoring of the Company, the Executive and Supervisory Boards of GRAMMER AG work together in a close and trusting relationship. Whereas the Executive Board is primarily responsible for management of the Company, the Supervisory Board chiefly performs a monitoring function.

The Executive Board members share joint responsibility as the body in charge of Company operations. Rules of Procedure govern their individual responsibilities and internal cooperation. In accordance with the applicable Rules of Procedure, certain decisions by the Executive Board require the approval of the Supervisory Board.

At regular meetings, the Executive Board provides the Supervisory Board with prompt and comprehensive information in writing about current business developments and management issues. The focus of these meetings is on the ongoing business and economic situation of the Company as well as risk management. Any significant events are discussed at extraordinary Supervisory Board meetings.

The Executive and Supervisory Board of GRAMMER AG are obliged to act in the interest of the Company. The Supervisory Board must be informed immediately in the event of conflicts of interest between members of the Executive and Supervisory Board. No such conflicts of interest arose in 2009.

Additionally, the Executive and Supervisory Boards meet at least once a year to ensure that the principles of the Corporate Governance Code are being observed. The last such discussion took place at the Supervisory Board meeting on December 3, 2009.

Management Board
The Executive Board of GRAMMER AG comprises three members: Dr. Rolf-Dieter Kempis, Chairman of the GRAMMER AG Executive Board, Hartmut Müller and Alois Ponnath.

The Executive Board members share joint responsibility as the body in charge of Company operations. Rules of Procedure govern their individual responsibilities and internal cooperation.

Supervisory Board
The twelve members of the GRAMMER AG Supervisory Board in accordance with German law and the Company's Articles of Association include six shareholders and six employees. The Board constitutes an adequate number of members, all of whom are independent persons having no business or personal relationships with the company or the Executive Board.

The Executive Board is advised and monitored by the Supervisory Board. The Supervisory Board is involved in strategy and planning, as well as in all issues that are of key importance to the company.

In accordance with item 5.6 of the German Corporate Governance Code, the Supervisory Board performs regular examinations of efficiency.

The Supervisory Board of GRAMMER AG performs its duties in accordance with its own Rules of Procedure.

The Supervisory Board report on page 27 provides detailed information on the activities of the Board as well as its cooperation with the Executive Board.

Supervisory Board committees
The Supervisory Board has formed four committees: the Strategy Committee (four members), the Audit Committee (four members), the Standing Committee (four members) and the Nominating Committee.

The work of the committees is based on the Rules of Procedure of the Supervisory Board. The Audit Committee has its own Rule of Procedure, and meets at least once each quarter. The remaining committees meet as needed.

Remuneration of the Board
An important element of corporate governance at GRAMMER AG is the reasonable remuneration of the Executive and Supervisory Board members. Executive Board remuneration comprises a fixed component as well as variable components based on performance, which are designed as an incentive to generate long-term growth in the value of the company. The fixed components are oriented on the economic situation of the company, and in particular on the individual duties and area of responsibility with which the Executive Board member is charged.

A regular assessment by the Supervisory Board with respect to the personal performance of Executive Board members as well as that of the Board as a whole is taken into account for any salary adjustments. The remuneration of the Supervisory Board also contains a variable component based on Company performance. An outline of the remuneration systems for the Executive and Supervisory Boards is available in the Management Report on page 42.

Directors' Dealings
Members of the Executive and Supervisory Boards, along with certain employees with management duties, are obliged in accordance with section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), to disclose the purchase and sale of GRAMMER shares or financial instruments relating to them. This obligation also applies to persons closely associated with the above group. In the reporting year, the following transactions were disclosed to GRAMMER AG:

Directors' Dealings

Date	Notifying Party	Purchase/place of transaction	Quantity	Price in EUR	Total volume in EUR
March 4, 2009	Dr. Rolf-Dieter Kempis[1]	Purchase/Xetra	2,917[3]	2.70	7,875.90
March 4, 2009	Dr. Rolf-Dieter Kempis	Purchase/Xetra	4,083[3]	2.75	11,228.25
March 3, 2009	Josef Trettenbach[2]	Purchase/Over the counter	1,500[3]	2.80	4,200.00
March 2, 2009	Josef Trettenbach	Purchase/Over the counter	700[3]	2.84	1,988.00
February 27, 2009	Dr. Rolf-Dieter Kempis	Purchase/Xetra	2,804[3]	3.50	9,814.00
February 26, 2009	Dr. Rolf-Dieter Kempis	Purchase/Xetra	593[3]	3.50	2,075.50
February 25, 2009	Dr. Rolf-Dieter Kempis	Purchase/Xetra	1,603[3]	3.50	5,610.50

[1] CEO
[2] VP Group Accounting/Group Controlling
[3] WKN 589540, ISIN DE0005895403

On the balance sheet date, December 31, 2009 members of the Executive Board and the Supervisory Board directly or indirectly held less than 1.0 percent of the Company's shares. This also takes into account shares owned by persons closely associated with members of the Executive and/or Supervisory Board within the meaning of section 15a (1) sentence 2 WpHG.

Shareholders and Annual General Meeting

The shareholders of GRAMMER AG exercise their rights of co-determination and control in the context of the Annual General Meeting. All matters required by law are voted on by the Annual General Meeting, with binding effect for the shareholders and the Company; each share accords one vote.

All shareholders submitting timely registration have a right to attend the Annual General Meeting. Absent shareholders may exercise their voting rights by proxy through an authorized representative with full power of attorney or a voting representative subject to shareholder instructions.

The invitation to the Annual General Meeting, as well as reports and information necessary as background for voting, are published by GRAMMER AG in accordance with the Stock Corporation Act. This information is also available on the Company website www.grammer.com.

Comprehensive and transparent communication

As a matter of principle, GRAMMER reports about the company and current developments equally and at the same time to all relevant target groups. The Executive and Supervisory Boards are committed to the continuing improvement of communication, in order to ensure comprehensive and transparent information of the public.

At the website www.grammer.com, both institutional and private investors have direct access to in-depth coverage of relevant topics. In addition to current press releases, all Declarations of Compliance with the German Corporate Governance Code, information about the Executive Board and Annual General Meeting are published here as well as annual and quarterly reports. The Internet site also provides information on all important dates and publications, ad hoc notifications and transactions subject to disclosure requirements (director's dealings). The Annual Document in accordance with section 10 of the German Securities Prospectus Act (Wertpapierprospektgesetz – WpPG) as well as other information of interest to investors, such as roadshow presentations, are also included.

Accounting and auditing

GRAMMER prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The annual accounts of GRAMMER AG are prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB).

The auditing firm appointed by the Annual General Meeting – Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg – audited both the consolidated financial statements and the annual accounts of GRAMMER AG. Both audits were performed in compliance with all German accounting rules and taking into account the Generally Accepted Standards in Germany for the Audit of Financial Statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW).

The audit also covered risk management and compliance with corporate governance reporting requirements under section 161 of the Stock Corporation Act. It was contractually agreed that the auditor would immediately notify the Supervisory Board as to any grounds for disqualification or conflicts of interest, as well as any key findings and occurrences during the audit. No such notification needed to be made.

Risk Management

A responsible approach to business risks is a fundamental element of good corporate governance. Group-wide and company-specific management accounting and control systems ensure that the Executive Board and management of GRAMMER AG are able to readily and comprehensively identify, assess and manage risks. The Audit Committee regularly reviews monitoring of accounting processes and reporting, the efficacy of the internal control system, the risk management system and the internal audit system.

Details on risk management are available in the Management Report on pages 43 – 45.

Report of the Supervisory Board

Dear shareholders and friends of GRAMMER AG!

Fiscal year 2009 was a year indelibly marked by the global financial and economic crisis. For GRAMMER AG, the effects were substantial: Demand in the Automotive division had already dropped at the end of 2008 and did not immediately recover last year. Unfortunately, this was followed in the spring of 2009 by a significant decline in the Seating Systems division as well. However, the situation did at least stabilize in the Automotive division during the second half of the year. The improvement in results shows that the operational adjustments and restructuring efforts are taking effect and were implemented in time.

During the year under review, the Supervisory Board diligently fulfilled the duties incumbent upon it under the law and the Company's Articles of Association. We kept ourselves completely informed on a regular basis with respect to the economic situation and development of GRAMMER AG and GRAMMER Group. The Executive Board kept the Supervisory Board up to date on the Company's financial position and earnings performance for both the product divisions and GRAMMER Group as a whole at four regular Supervisory Board Meetings and two special sessions, as well as through detailed monthly reports. The management of business by the Executive Board was monitored on the basis of regular oral and written reports. The Executive Board was charged with the task of regularly presenting a comprehensive report at the meetings on the state of the Company and key strategic projects and planned initiatives.

During the year under review, the Supervisory Board consistently supported the Executive Board by providing counsel, and all significant business events were discussed in detail together. Additionally, the Strategy Committee and the Audit Committee (formerly the Finance Committee) met to discuss the Company strategy and Risk Report. In my function as Chairman of the Supervisory Board, I met individually with members of the Executive Board outside the context of the Supervisory Board Meetings to discuss the strategic direction of the Company, the current situation, business development and risk management issues.

Focuses of the Supervisory Board

The Supervisory Board held a total of six meetings during the year under review. During these meetings, financial and employment developments for both GRAMMER AG and GRAMMER Group were discussed in addition to strategy and the current business situation.

A special session of the Supervisory Board was held on March 6, 2009, at which a report by the Executive Board regarding the Company's current liquidity situation was reviewed. Furthermore, the options for the future membership of the Executive Board following the departure of CEO Dr. Rolf-Dieter Kempis were also discussed.

During the first regular Supervisory Board Meeting on March 27, 2009, GRAMMER AG's consolidated financial statements and financial statements for fiscal year 2008 were approved by the Supervisory Board. The figures had been discussed in detail beforehand in the presence of the auditor. Additionally, the Board resolved to recommend to the Annual General Meeting of GRAMMER AG that no dividends be distributed for fiscal year 2008. Instead, the Board decided to recommend that from the net profit on the balance sheet of EUR 10.3 million, a sum of EUR 7 million be allocated to other revenue reserves, and that the remaining amount be carried forward. In addition to conferring about further resolutions to be proposed at the 2008 Annual General Meeting, the Supervisory Board also decided to forego 10 percent of its salary payments in light of the economic situation in fiscal year 2009. A performance evaluation of the GRAMMER AG Executive Board was also undertaken.

One key agenda item for the Supervisory Board Meeting on May 27, 2009 related to the preparations for the Annual General Meeting to be held the next day in Amberg. Furthermore, Executive Board member Hartmut Müller was appointed as successor to CEO Dr. Kempis following Dr. Kempis' departure on July 31, 2010.

At the third regular meeting of the Supervisory Board held on September 22, 2009, the Executive Board presented the strategy for GRAMMER Group for the years 2010 through 2014. In addition to the business models, the challenges in the Business Unit Truck, Business Unit Daimler, Business Unit BMW, Service & Parts, and R&D were discussed. The state of competition in the market was also covered. Moreover, a report was given on the future of the Immenstetten location, and an overview was provided of the current production program, projected unit volumes, production capacity requirements, the associated utilization of existing technologies at the production site, and the transfer scenario. And finally, the Supervisory Board discussed a report on the implementation of Germany's Accounting Law Modernization Act (BilMoG).

At the second special meeting of the Supervisory Board on November 6, 2009, the restructuring measures planned by the GRAMMER AG Executive Board were discussed and subsequently approved by the Supervisory Board. Additionally, the Board conferred regarding the future strategic direction and organizational structure of GRAMMER Group. The organizational structure existing at the time and the way information flows within GRAMMER Group were analyzed, the current product groups were evaluated using target criteria and the existing product groups were reevaluated or clustered. This resulted in a new orientation at the level of the product segments with product-market segments and a break from the previous customer-oriented classification. We are convinced that this strengthens GRAMMER Group as it focuses on core business and market development. The Executive Board was instructed to continue carrying out the plan in 2010.

In the last regular meeting of the year held on December 3, 2009 the Supervisory Board dealt once again with the Company's business and financial situation. Orders in the individual product segments were discussed in particular. It was apparent that the situation was still tense in the Seating Systems division. By contrast, the Automotive division appeared to have begun to recover from its low point, as evidenced by the slight rise in revenue figures in the third quarter of 2009. Together with the Executive Board, the Supervisory Board adopted the budget for the new 2010 fiscal year and advised the Executive Board to take all measures necessary to ensure budgetary compliance. Furthermore, along with the Declaration of Compliance with the German Corporate Governance Code, which is to be revised every year, the Supervisory Board members adopted a resolution in favor of a deductible in D&O insurance.

Work of the Committees

Three of the four Committees met in 2009 to support the GRAMMER AG Supervisory Board in its work.

On October 1, 2009 the Strategy Committee conferred regarding the future strategic direction and organizational structure of GRAMMER Group. Additionally, the program discussed at the Supervisory Board meeting held on September 22, 2009 aimed at restructuring and capacity adjustment was once again reviewed as it related to workforce reductions at the Haselmühl location.

On two occasions, the Standing Committee discussed the human resources situation and motivation at the Amberg location. Furthermore, the Committee also dealt with the future organization of management and management structure within the GRAMMER AG Executive Board. This included a discussion on filling the seat of Chief Executive Officer by appointing Executive Board member Hartmut Müller.

The Nominating Committee did not meet during the year under review.

The Audit Committee held a total of four meetings in the year under review, discussing in detail the financial statements of GRAMMER AG and the consolidated financial statements for 2008, as well as the financial statements for the first three quarters 2009. Other topics included a discussion of the risk report and the recommendation and appointment of the auditor for fiscal year 2010.

There were some changes in the membership of the committees in comparison to the previous year. The following Supervisory Board members held seats on the committees:

- Strategy Committee:
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss, until June 30, 2009
  Joachim Bender, starting September 22, 2009
  Dr. Klaus Probst

- Standing Committee:
  Dr. Bernd Blankenstein (Chairman)
  Udo Fechtner
  Jürgen Ganss, until June 30, 2009
  Joachim Bender, starting September 22, 2009
  Georg Liebler

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

- Nominating Committee:
  Dr. Bernd Blankenstein (Chairman)
  Wolfram Hatz
  Dr. Klaus Probst

Approval of the Annual Financial Statements

At the Annual General Meeting held on May 28, 2009, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, was appointed as the auditor for the year under review. The Audit Committee (formerly the Finance Committee) engaged the auditor for the 2009 financial statements and consolidated financial statements at its meeting on November 6, 2009. Ernst & Young audited the GRAMMER AG annual financial statements, prepared in accordance with the German Commercial Code (HGB), and the consolidated financial statements of GRAMMER Group, prepared in accordance with IFRS, as well as both Management Reports. The auditor issued an unqualified opinion in both cases. It was determined that the Management Reports for GRAMMER AG and GRAMMER Group truly and fairly represent the situation of the Company, as well as the opportunities and risks with regard to future development. We received the reports and financial statement documents from the auditor in good time and examined them thoroughly. During corresponding meetings of the Audit Committee and the Supervisory Board's meeting to review the financial statements in March 2010, Ernst & Young reported on the key results of the audit. After thorough examination of the annual financial statements and consolidated financial statements as well as the Management Reports, the Supervisory Board raised no objections in this regard. Therefore at its balance sheet meeting in March 2010, the Supervisory Board endorsed the audit results by Ernst & Young and officially approved the annual financial statements prepared by the Executive Board. Thus the financial statements have been duly adopted.

Corporate Governance

At the Supervisory Board's December meeting, the Declaration of Compliance with the German Corporate Governance Code was revised. The members of the Supervisory Board adopted a resolution in favor of a deductible in the D&O insurance so that the deviation from the Code prior to this would not continue in future.

Changes to the Executive Board and Supervisory Board

After Horst Übelacker left the GRAMMER AG Supervisory Board, Astrid Frankzky was appointed by the Amberg Local Court to the Board as the representative for executive management.

Jürgen Ganss and Anton Kirschbauer, employee representatives on the Supervisory Board, resigned their seats on June 30 and June 22, 2009, respectively. Joachim Bender and Anton Kohl were appointed by the court as their successors.

The appointment of Dr. Rolf-Dieter Kempis as CEO and Personnel Director was extended to July 31, 2010. Executive Board member Hartmut Müller was appointed as CEO effective August 1, 2010.

This year the Supervisory Board extends its thanks to the members of the Executive Board, the employees, and employee representatives of GRAMMER AG for their motivation and commitment in this difficult year of business.

Amberg, March 2010

On behalf of the Supervisory Board:

Dr. Bernd Blankenstein
Chairman

GRAMMER Share

A rollercoaster year for the markets

Stock market indices worldwide experienced a series of ups and downs over the course of last year. The aftermath of the worst financial and economic crisis since 1929, along with significant uncertainty among many investors weighed down share prices throughout the globe. Prices fell of a cliff, particularly in the first quarter of 2009. Germany's benchmark DAX index, which tracks the 30 most important listed companies in Germany, closed 2008 at 4,810 points. It then went on to lose 25 percent of its value by March 2009. At times, the continuous downward trend pushed the index below the 3,600 mark. Beginning in mid-March, however, prices began to rise again. By the end of the year, the DAX gathered substantial momentum, climbing to reach the important level of 6,000 points. On the final trading day of 2009, the benchmark index closed at 5,987 point – an increase of 24 percent on the year. Similar performance was seen by the German index for small caps, the SDAX, which reached 3,549 points by the end of 2009 after closing 2008 at 2,801 points. This represents a gain of 26 percent by the SDAX.

From the second quarter on, GRAMMER share makes up for lost ground

The influence of the financial and economic crisis, as well as the negative development of valuations in the industry, were not without their impact on the GRAMMER share. The first quarter brought particularly drastic price declines, when the share reached a low of EUR 2.53, after a close of EUR 6.90 on December 30, 2008. This equates to a drop of more than 60 percent. Over the course of the year, however, the GRAMMER share was able to regain strength, and had already climbed back to EUR 5.90 by the end of the second quarter. The share price peaked in August 2009 at EUR 7.24, and ended a very turbulent trading year on December 30, 2009 at a price of EUR 6.05. Thus, the GRAMMER share gave up 12 percent over the course of the year.

After the publication of 2009 preliminary results and the successful closing of banking negotiations to secure a new mid-term credit facility, the GRAMMER share could increase its value by more than 40 percent since mid of February 2010 and trending above EUR 8 temporarily. On March 19, 2010 the share closed at EUR 7.96.

GRAMMER Share

On December 31, 2009, the share capital of GRAMMER AG totaled approximately 26.9 million euros, divided into 10,495,159 bearer shares. Of these, the Company holds a total of 330,050. The GRAMMER share is listed in the SDAX, and trades on Franfurt and Munich stock exchanges, via the electronic trading system Xetra, as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges.

Key Figures GRAMMER share

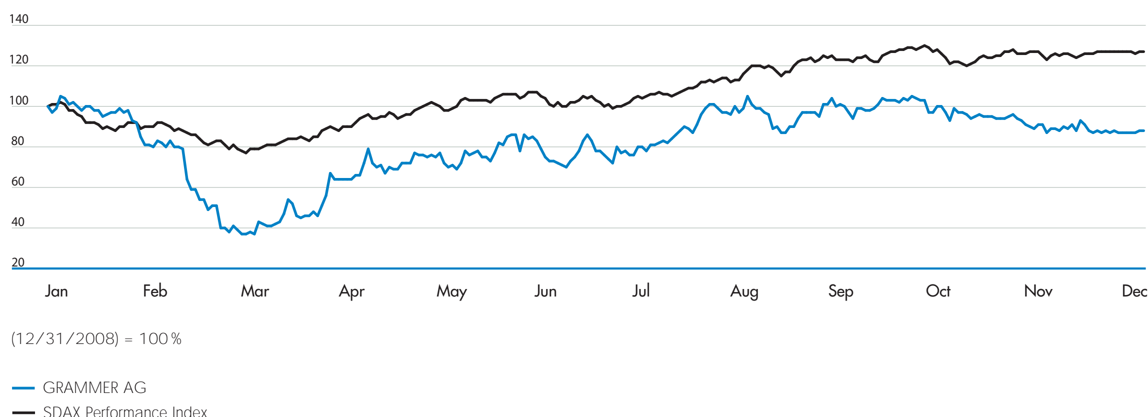
	2009	2008
Share price at year-end (in EUR, Xetra)	6.05	6.90
Annual high (in EUR)	7.24	19.00
Annual low (in EUR)	2.53	6.44
Number of shares (12/31)	10,495,159	10,495,159
Market capitalization (in EUR m) (12/31)	63.5	72.4
Earnings per share (in EUR)	–2.77	1.38
Dividend (in EUR)	0,00	0,00

Dividend

As proposed by the Executive Board and the Supervisory Board, the Annual General Meeting on May 28, 2009 resolved not to pay a dividend for 2008, in order to further strengthen the equity base of the Company in time of crises.

Due to the statutorily mandated assumption of loss utilization, the net loss of GRAMMER AG on December 31, 2009 will be carried forward.

GRAMMER AG and SDAX Performance Index – 2009 price trend (in %)



Investor Relations

Our financial communication is based on an open dialogue and transparent communication with all stakeholder groups – especially in times of crisis and uncertainty. We supply our stakeholders with news about the company at our yearly press and analyst conference, as well as at the Annual General Meeting in Amberg, which serves as an important platform for the exchange of views and information with our investors. We also keep the capital market in the know about the development of the Group via quarterly, semi-annual and annual reports. In addition to the many one-on-ones with analysts and investors, GRAMMER once again presented itself to numerous investment professionals in 2009, for instance at the German Investment Conference held in Munich by UniCredit Group in September or in November at Deutsche Börse's German Equity Forum in Frankfurt.

All financial reports, press releases, presentations, audio recordings of the quarterly telephone conferences and other important information about the share are always available in the Investor Relations section of the GRAMMER AG website.

Shareholder structure

Electra QMC Europe Development Capital Funds plc remains the largest shareholder of GRAMMER AG (10.001 percent of shares, notification in accordance with section 21 (1) of the German Securities Trading Act (WpHG) dated November 24, 2006). Austria's Polytec Group continues to hold 9.59 percent of our shares (notifications in accordance with section 21 (1) WpHG dated January 15, 2008 and sections 21 (1), 22 (1) sentence 1 WpHG dated April 17 and 28, 2008). Furthermore, Axxion S.A. 5.5475 percent (section 21 (1) WpHG notification dated September 14, 2005) is among our shareholders. On October 5, 2009, we received the notification in accordance with section 21 (1) and (2) WpHG that Wynnefield Capital (USA) holds 4.05 percent of our shares in GRAMMER AG.

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Group Management Report

- Group revenue reaches EUR 0.7 billion despite financial crisis.
- Decisive adaptation to the conditions resulting from the economic crisis in 2009.
- Constant improvement over the course of a difficult year.

Company Structure and Operations

GRAMMER Group is a specialist in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, trains, offroad and commercial vehicles. In addition to the parent company, GRAMMER AG, based in Amberg, the Group includes 22 other fully consolidated companies. GRAMMER Group is represented in 17 countries worldwide.

Business divisions

The Automotive division supplies premium automakers and automotive system suppliers with products such as seating components, including seat covers, headrests and armrests, center consoles and integrated child safety seats. In the Seating Systems division, the Company operates as both OEM and aftermarket supplier for complete seat units and seating systems. We supply manufacturers of trucks and offroad vehicles – including agricultural, forestry and construction equipment and forklifts. Other customer groups we supply include rail transport OEMs, rail operators and bus manufacturers.

Corporate management

GRAMMER's value-oriented corporate management system is primarily oriented towards the key management indicators revenue, earnings before interest and taxes (EBIT), working capital, gearing and return on capital employed (ROCE). The latter indicator plays an important role for GRAMMER in measuring the efficiency with which the Company's capital is being employed.

Overall Economic Conditions and Developments

At the end of 2008 and long into 2009, the global economy experienced one of the most serious recessions in the post-war era. Many nations worldwide faced a great challenge in the battle against the economic crisis, which intensified dramatically after the bankruptcy of Lehmann Brothers in September 2008. As a result of the financial market crisis, economic output and stock market indexes around the world slumped and in some cases reached historic lows. In the summer of 2009, however, a slight calming began to take hold since, thanks to massive intervention efforts by governments and central banks, the global economy was recovering more quickly than had been anticipated by many experts. Since that point, the tension in the financial markets has eased somewhat.

Nevertheless, despite massive government assistance measures, banks have continued to apply very strict lending policies, which has had a negative impact on companies' readiness to invest and financing options.

As a result of the financial and economic crisis, an overall decline of 2.6% is anticipated in the United States' gross domestic product (GDP) for 2009 in comparison to the previous year. In the meantime, however, an end to the recession does appear to be emerging.

China was a driver of growth in crisis year 2009: The People's Republic managed an increase in GDP of 8.7% in 2009 as compared to 9.0% in 2008. While Japan recorded a drop of 5.0% for the year, it nevertheless achieved an increase of 4.6% in the fourth quarter in comparison to the figures from the prior-year quarter. This growth can be attributed primarily to the government's stimulus program.

Russia and many countries in Eastern Europe and the Middle East were hit especially hard by the global financial and economic crisis. Decreased commodity prices aggravated the already tense economic situation in these countries, in some cases dramatically.

The crisis is leaving a definite mark on the Eurozone as well. The severe recession, which had already begun in 2008, initially continued in the first six months of 2009. A slight economic recovery then followed starting in the second half of the year. However, according to Eurostat, GDP in the Eurozone also decreased in the fourth quarter by 2.1% in comparison to the same quarter of the previous year. An overall decline of 4% is expected for 2009.

Of the industrial nations, Germany has been the hardest hit by the crisis due to its strong dependence on exports. The country experienced the most serious recession since directly after WWII and was forced to cope with a slowdown in growth that manifested as a 5% drop in GDP in 2009. However, the situation stabilized moderately during the year. According to the autumn forecasts by the economic institutes, in a year-over-year comparison, GDP fell by 6.4% in the first quarter, by 7.1% in the second quarter, by 4.9% in the third quarter, and by only 1.7% in the fourth quarter.

Automotive industry strongly influenced by government assistance measures

Thanks to incentive systems, the global automotive market developed better in 2009 than had been expected at the beginning of the year. Following the initial forecast of a plunge of up to 20%, the decline recorded at the end of the year was only 3%.

Passenger car business in the Asian market was the primary reason that the decline did not turn out higher. In 2009, development in the Chinese market proved to be very dynamic and, as a result, there was a 47 % increase by the end of 2009, amounting to 8.4 million vehicles. The chief reason for this was the reduction in sales tax for small cars with engine displacements of up to 1.6 liters. According to the German Association of the Automotive Industry (VDA), the Indian market also saw a double-digit increase in registrations, which were up 17 %.

By contrast, the financial and economic crisis strongly shook the US automotive industry in 2009. New registrations totaled only 4.8 million vehicles in the first six months. Here as well, the government responded with subsidies, introducing the "Cash for Clunkers" program. As a result, sales of new vehicles initially rose quickly. Once the bonus expired, however, the number of newly registered vehicles plunged again rapidly. Looking at the entire year, the United States experienced a decline of 21 % to 10.4 million vehicles.

While barely 3 million vehicles were registered in Russia in 2008, there were only 1.5 million new registrations in 2009. This equates to a decline of nearly 50 %.

According to the ACEA (Association des Constructeurs Européens d'Automobiles), a total of 14.5 million vehicles were registered for the first time in 2009 in Europe. In comparison to 2008, the decline – at 1.6 % – was moderate.

In Western Europe, the number of new registrations remained at prior-year levels. The total number of new vehicles on the road so far this year is 13.6 million. Nevertheless, many countries saw considerable declines: Ireland – 62 %, Finland – 35 %, Portugal – 25 %, and many others. Only Germany saw a major increase of 23 %.

The new EU countries were also hit hard by the financial and economic crisis. 59 % fewer vehicles were registered in Romania from January through December 2009. In the Baltic nations, the figure for new registrations fell by as much as 71 %. But there were also individual countries in which new vehicle registrations rose. These include the Czech Republic with a 13 % increase and Slovakia with a 7 % increase.

In Germany, 2009 got off to a weak start. The figures for new registrations declined in January by 14.2%. But the government acted quickly and introduced its own clunker program, the "scrap bonus", and new registration figures rose again immediately. As quickly as February, an increase of 21.5% was recorded. Thanks to these support measures, the automotive industry in Germany ended 2009 on a positive note. Altogether, 3.8 million vehicles were registered for the first time in Germany in 2009. Thanks to the scrap bonus, this corresponds to an increase of 23.2% over the previous year. The bonus also resulted in a shift in the segment structure, since the trend is generally moving toward small and compact vehicles. The 65.7 % rise in the small vehicle segment came primarily at the expense of vehicle sales in the upper-mid and luxury class segments.

Despite higher new registration figures in Germany, production figures in 2009 were on downward trend. For the year as a whole, production in Germany decreased by 10 % to 5.0 million vehicles; only the introduction of the scrap bonus prevented an even worse slump. In Europe, however, new vehicle production fell by 18 % according to the VDA.

Among manufacturers, VW was able to expand its leading position in 2009 and record year-over-year growth of 30.9 % in Germany. Opel and Ford also continued to make gains in Germany, profiting from the scrap bonus. Lada saw the highest growth rates with 105.3 %. By contrast, the premium brands Mercedes, BMW, and Audi decreased in comparison to the previous year.

Collapse in global commercial vehicle markets, only China on a reverse trend

For the commercial vehicle sector, 2009 was an extremely black year. The financial and economic crisis exacted an unimagined toll in this area, and almost every international market saw a double-digit drop in sales.

In the United States, the market had already been in a decline since 2007: Although 371,000 vehicles were registered for the first time in 2007, a decrease of 20 % followed in 2008, with only 298,000 new registrations. In 2009, only 200,000 truck sales meant there was an even greater decrease of 33 %, with nearly 100,000 fewer trucks being sold.

Nevertheless, China defied the global downward trend and was able to record an increase of 44 % by the end of the year. According to the VDA, this equates to a total of 5.3 million newly registered commercial vehicles in 2009. In December alone, China managed an increase of 105 %.

Over the last 12 months, sales in the sector also suffered a steep drop in Western Europe. All European markets saw a decline, and 29 % fewer commercial vehicles were registered in Western Europe between January and December 2009. In France, the largest European market, sales likewise plunged by 20 % in 2009. However, an increase of 10 % was recorded here once more in December.

In the new EU countries, demand for commercial vehicles fell dramatically. The decline measured 54%, falling to only 139,000 new registrations.

In Germany as well, the commercial vehicle sector was not able to escape the downward trend. In 2009 a total of 242,200 commercial vehicles were registered for the first time, which is equivalent to a decrease of 28 % in comparison to the previous year. For commercial vehicles over 6 tons, the decline was even larger and in the end went as high as 38 %. German commercial vehicle manufacturers also slowed down production in 2009. At 245,000 units, 52 % fewer commercial vehicles were produced.

Strong deterioration in agricultural machinery segment
The agricultural machinery segment has likewise been enormously impacted by the global financial and economic crisis, even though it was still experiencing high growth rates the year before. The causes for the sales crisis have been huge price pressures, especially for milk, the banks' tight lending policies and the lack of orders from the Eastern European markets. In 2009, total revenue for the German agricultural industry fell by 25 % to EUR 5.64 billion. After the first quarter, revenues were still at the same level as in the previous year due to order backlogs from 2008, however, this was followed by a massive decline in the agricultural machinery segment starting in the spring. According to the German Engineering Federation (VDMA), the second quarter saw a decline of 27 %, followed in the third quarter by a decline of 35 %, and in the fourth quarter the market experienced another severe tumble of 41 %. At – 31 %, export business in Germany also experienced a strong downward trend. Another considerable drop in demand for German agricultural machinery took place in the Eastern European countries. Exports to Russia in particular plummeted by 60 %.

The drop-off in the German tractor market was relatively light in comparison. According to the VDMA, a total of 29,465 vehicles were registered in Germany from January through December 2009, which corresponds to a moderate decline of 5.7 %.

Material handling
According to estimates, the forklift market worldwide experienced a decline of 45 % in comparison to the previous year. A decline of 32 % is being assumed for the Asian markets for 2009. At – 77 %, Eastern Europe saw the steepest drop in this segment. Sales figures in North America and Western Europe also dropped sharply, with a decrease of 44 %.

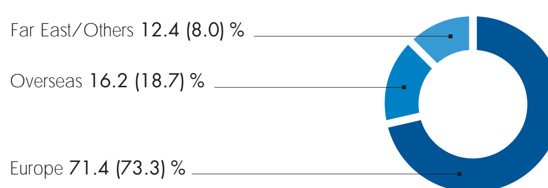
Revenue in the construction equipment industry cut nearly in half
The construction industry around the world is in crisis. In 2009, this sector grew only in China and India. Overall revenue in the construction and building materials equipment industry fell by 45 %. At – 50 %, incoming orders also experienced a sharp drop.

Crisis also reaches the rail industry
In 2008 the rail industry remained spared from the crisis for the most part, but the sector was no longer able to escape the downward trend in 2009 as a result of a decline in transportation services. Revenue for companies in the rail industry rose in the first six months by 11.4 % to 4.9 EUR billion, and the export rate for rail equipment manufacturers simultaneously rose to 59 %. This was juxtaposed, however, with a decline in incoming orders of 23 % in the first six months of 2009. The primary reason for this is the 44 % decrease in demand from abroad.

Group Business Performance sees Recession-related Decline
In the reporting year, GRAMMER Group business was weighed down considerably by the global drop in demand. Incoming orders and revenue fell by nearly 28 % due to the extremely weak markets. The drop in demand that had begun at the end of 2008 continued in the first half of the year and did not see any stabilization until the third quarter. This meant that after a profit in the previous year, GRAMMER Group had to accept a large loss, as did most companies worldwide. This negative outcome was shaped by significant costs for capacity adjustment and restructuring as well as highly volatile, uncertain markets. Nevertheless, by undertaking steps early, rapidly, and resolutely to re-align with the changed market conditions over the course of the fiscal year, GRAMMER Group was able to improve operations and return to profitability once again in the fourth quarter.

Total Group revenue of EUR 0.7 billion
Even considering the macroeconomic and industry-specific conditions, GRAMMER Group brought in total revenue of EUR 727.4 million in 2009 (2008: 1,007.0). After steep drops of up to 50 % during the first six months in the individual business segments, sales held steady at a low level, and the first signs of a trend toward recovery were seen in the fourth quarter due to market and production starts.

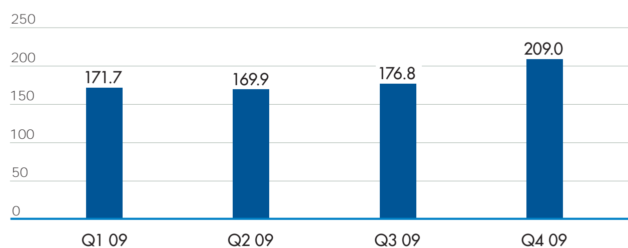
Revenue by regions (previous year in brackets)



in EUR m	2009	2008
Europe	519.3	738.4
Overseas	118.2	187.9
Far East/Others	89.9	80.7
Total	727.4	1,007.0

Performance in the regions was varied throughout the year: In Europe under the effects of the crisis, revenue fell by EUR 219.1 million to EUR 519.3 million, essentially caused by the steep drops during the early quarters. Revenue declined at an above-average rate overseas as well, influenced by the heavy recession-related slump in economic output in the United States. Here GRAMMER still generated EUR 118.2 million, which equates to a year-over-year decline of 37.1 %. By contrast, our business in the Asian region developed positively. Revenue in the countries belonging geographically to the Far East/Others region rose to EUR 89.9 million (2008: 80.7). This serves to once again underline the strategic importance of our involvement in this dynamic market region.

Group revenue by quarters (in EUR m)



in EUR m

	2009	2008
Q1	171.7	267.4
Q2	169.9	280.4
Q3	176.8	239.6
Q4	209.0	219.6
Total	727.4	1,007.0

Automotive

Automotive division marked by the financial crisis

We experienced fluctuating order volumes in the Automotive division during the year under review. The impact of the financial crisis was felt very strongly, above all in the first and second quarters. Government stabilization measures were able to reduce the effects, so that orders stabilized at a low level. From the middle of the third quarter on, development, orders and new production starts as well as increased registrations of German premium automakers also had a positive effect on GRAMMER. The slump was mitigated thanks to the strategic expansion of our product base. In the fourth quarter, revenues were higher year-over-year, which in view of the considerably lower level is at least a positive signal.

Another positive aspect in this year of crisis was the company's involvement in Asia, as our Chinese production sites in Tianjin and Changchun developed better than planned. After the opening of the site in Shanghai and the development of a center console for the General Motors Epsilon II Platform, further milestones were successfully mastered in the emerging Asian market with the successfully launched series production. And so in addition to positive economic developments, the expansion of our product range also strengthened movement toward recovery.

As we pass through this crisis, we are putting additional measures into place to improve profitability and cost efficiency, so that we can continue to strengthen the earnings situation in the Automotive division over the long term. In addition to initiatives aimed at enhancing processes and structures, these also involve optimizing the worldwide production network. The closure of a production site in the Czech Republic and USA and the establishment of our plant in Serbia are an expression of our clear operations strategy. The increase in worker productivity likewise progressed on schedule, allowing the consolidations and closures that had already begun to be concluded as planned in the fourth quarter.

Seating Systems

Truck and offroad segments suffer sharp, abrupt decline

In contrast to previous years, the Seating Systems division has developed from an engine of growth for GRAMMER Group to a problem case. The dynamic business development of previous years was curbed by a subdued first quarter and a sudden breakdown in the order situation in the second quarter. Despite a strong market position in the offroad and truck segments, a drop of 36.6% could not be avoided owing to the economic situation. Especially in the offroad segment, despite technically innovative products, the plunge of 50% in the second quarter due to the market situation in Europe in particular was very steep and very abrupt. Nevertheless, we were able to hold on to our leadership in the Western Europe market in 2009 and expand our position in numerous countries, especially Brazil and China.

We solidified our lead in the South American truck market, which made gains in 2009 despite the crisis. A combination of favorable economic conditions and our strong market position had a positive effect on revenue and earnings in Brazil. By contrast, due to weak markets sales fell considerably in Europe and the Middle East compared to 2008.

The agricultural machinery segment performed very weakly, falling sharply in particular in the second quarter, which was precisely the opposite of the usual developments in the market seen in preceding years. Instead of this being the strongest quarter for revenue as in the previous year, there was in some cases a drop-off in revenue by up to 50%. Full year results were similarly mixed in the construction machinery segment, while the forklift segment made it through with less significant losses in sales. Earnings performance for these product groups throughout the year was not very satisfactory due to the steep drops.

Spurred on by the crisis, we implemented various site optimization measures and capacity adjustments during the year under review. With programs for production optimization based on the principles of lean management, key components of production were restructured. Steps to augment metal production in China will make it possible to supply the entire Group with seats and seating components from this Asian plant in the future. Despite the crisis, our US unit is gradually being built into an independent development, distribution, and production center to supply the American offroad market. These efforts are aimed at taking timely advantage of the trend toward recovery in this, the largest market for offroad products. The related localization is thus a crucial element in the systematic implementation of our plans to further develop the US market.

Restructuring of railway segment continued

As part of restructuring, the Railway unit further optimized and stabilized its process capabilities. Despite a drop in revenue due to

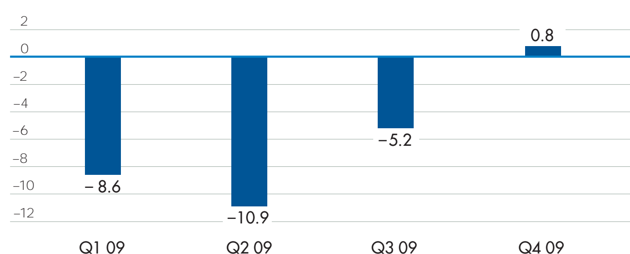
the postponement of various infrastructure measures in rail transportation, we held steadfast to the new direction. The development of additional platforms and increased acquisition of international projects were as much in focus as was the restructuring of production.

In terms of putting newly acquired orders into production, project delays by customers resulted in further revenue postponements. New international orders from outside Germany were responsible for the majority of production launches.

Earnings Situation

Earnings situation shaped by financial crisis
Gross profit in 2009 fell sharply to EUR 76.0 million (2008: 129.8). At EUR – 23.9 million, (2008: 32.0), EBIT was significantly lower than in the previous year, pulled down by the decline in revenue and the necessary capacity adjustments and restructuring measures. The decline was caused above all by a steeply dropping operating profit in the Seating Systems division, whereas in the Automotive division losses were lighter in relation to the drop. We were not able to generate a positive EBIT margin as in the previous year (+ 3.2 %).

Group EBIT by quarters (in EUR m)



in EUR m

	2009	2008
Q1	–8.6	8.2
Q2	–10.9	13.7
Q3	–5.2	1.7
Q4	0.8	8.4
Total	–23.9	32.0

Costs dominated by difficult environment
Costs of sales decreased by 25.7% to EUR 651.5 million (2008: 877.2). The decrease is primarily attributable to the decline in sales and the, in part, massive drops in production. Having triggered lower utilization of capacity, this resulted in proportionally higher personnel costs and miscellaneous restructuring expenses. Characterized by an environment with volatile, short-term demand and the sharply deteriorating business situation in the Seating Systems division at the beginning of the second quarter, the development of costs was nevertheless managed satisfactorily. The development of markets and currencies was dominated by the rapidly changing environment, which has placed constant demands on our ability to adapt.

Personnel expenses decreased by EUR 39.6 million to a total of EUR 199.1 million (2008: 238.7). In addition to the declines related to sales and capacity adjustments, the restructuring measures also had an impact. Due to response times such as termination notice periods for employment contracts, cost cuts could not keep pace with revenue declines. Despite strong pressures to make adjustments, the ratio of personnel expenses to revenue at 27.4 % was held just above the level of the previous year (23.7) thanks to the anticipatory introduction and resolute implementation of personnel optimization measures via workforce reduction.

In the year under review, sales expenses decreased considerably to EUR 27.0 million (2008: 34.2). This is primarily attributable to the prompt savings measures, and rearrangements and consolidation of functions to enhance efficiency.

Administrative expenses rose to EUR 83.5 million (2008: 71.7). The increases in costs can be attributed both to the restructuring and workforce reduction measures, which came to approx. EUR 15.1 million, and to the rearrangements of functionalities through the consolidation into central functions to produce synergies. Due to the volatility of the international financial markets and the related development of the Euro, exchange rate gains came to EUR 11.3 million (2008: 39.2) and exchange rate losses came to EUR 14.9 million (2008: 31.6).

Overall, currency volatility triggered by the financial crisis additionally weighed down earnings in a manner that was difficult to manage.

Other operating income
Other operating income came to EUR 10.6 million (2008: 8.0). The increase was attributable to adjustments and sales from fixed assets and scrap charges as well as costs passed on to suppliers.

Financial expenses
Despite the difficulty of continuing business operations in a volatile environment and loss financing, financial expenses decreased due to various valuation factors. These allowed us to hold financial expenses to EUR 12.9 million, below the level of the previous year (2008: 14.8). Financial income from securities and short-term investment of financial assets rose to EUR 5.3 million, which was higher than the previous year (2008: 2.5), primarily resulting from changes in the measurement of financial assets.

Taxes
The income tax situation, comprising current tax and deferred tax, was significantly better year-over-year, with net tax income of EUR 3.3 million after a net tax expenditure of EUR 5.4 million in 2008. The current tax expenditure of EUR 7.5 million resulted from a slightly lower tax burden abroad and a moderate increase in Germany due to taxes carried over from previous years. Tax advantages

from the expected loss utilization, especially in Germany, were accounted for through recognition of a deferred tax asset, resulting in total deferred tax income of EUR 10.8 million (2008: 1.6).

Earnings

GRAMMER Group's earnings before interest and taxes (EBIT) for the year under review was EUR – 23.9 million (2008: 32.0). Earnings after interest and taxes came to EUR – 28.2 million (2008: 14.1), which was primarily due to higher expenses from structural adjustments and the steep drop in revenue.

Earnings per share came to EUR – 2.77 (2008: 1.38), which resulted exclusively from the loss. Including the company's own shares in the calculation results EPS of EUR – 2.69 (2008: 1.34).

Appropriation of Net Loss

The company distributes dividends based on net profit in the financial statements of GRAMMER AG, which are prepared according to the German Commercial Code. GRAMMER AG posted a net loss of EUR – 19.8 million as of December 31, 2009. This took into account profit of EUR 10.3 million carried forward, the allocation of EUR 7.3 million to other revenue reserves, as well as the withdrawal of EUR 0.3 million from the reserve for own shares transferred to other revenue reserves. Due to the statutorily mandated assumption of loss utilization, the net loss as of December 31, 2009 will be carried forward. No dividend was paid in the reporting year. In the context of dividend decisions, it must be noted that the company holds 330,050 non-dividend paying own shares.

Divisional Revenues and Earnings

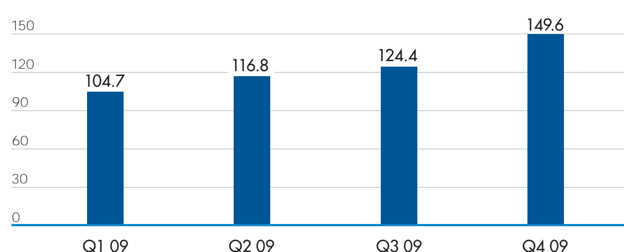
Automotive: significant loss in revenue due to the financial crisis

In the Automotive division, we produce interior components for premium auto manufacturers and automotive system suppliers. The division primarily generates its revenue through serial products from the Group and project business. The division's 2009 revenue totaled EUR 495.5 million (2008: 637.6), a decrease of 22.3 %. Thus, the Automotive division accounts for 66.7 % of Group revenue. Earnings before interest and taxes (EBIT) totaled EUR – 3.9 million, which is well below the prior-year level (2008: 3.1). We were unable to fully compensate for the effects of the 22.3 % decrease in revenue. Capacity-related residual costs and measures implemented by the company to adjust to the situation led to significantly higher expenses. During the course of the year, however, these measures resulted in gradual improvement of this negative earnings figure, and the division's contribution was ultimately positive again at the end of the third quarter.

Revenues and earnings down sharply in the Seating Systems division

After enjoying a record year in 2008, the Seating Systems division experienced a sharp and abrupt drop in business after the first quarter. Revenue declined substantially in the offroad segment as well as truck seat business. The market in Europe ground to a halt, and this development could not be balanced out by the outstanding performance of the emerging markets in China and Brazil. In total, the division's revenue reached only EUR 247.1 million (2008: 390.0), which was 36.6 % less than in 2008. Consequently, the division's EBIT also slid considerably to EUR – 9.9 million (2008: 31.0).

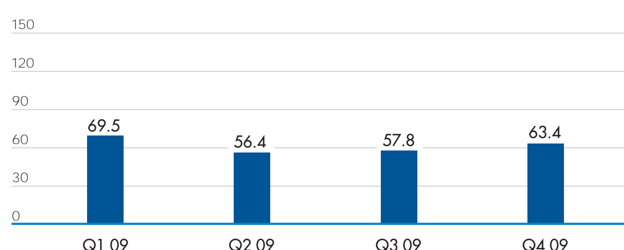
Automotive revenue by quarters (in EUR m)



in EUR m

	2009	2008
Q1	104.7	174.0
Q2	116.8	177.2
Q3	124.4	149.6
Q4	149.6	136.8
Total	495.5	637.6

Seating Systems revenue by quarters (in EUR m)



in EUR m

	2009	2008
Q1	69.5	102.0
Q2	56.4	108.4
Q3	57.8	93.6
Q4	63.4	86.0
Total	247.1	390.0

Financial Position

On solid footing despite the crisis
Revenue performance was linked to stepped-up refinancing activities required to fund losses. Due to massive pressure to adjust to the situation, GRAMMER Group did not manage to keep available liquidity (cash and unused credit facilities) at the level of the prior year. Current and non-current liabilities to banks rose to EUR 122.3 million (2008: 93.5), of which EUR 70.0 million is financed by the long-term debenture bond.

Cash flow from operating activities declined due to pressures resulting from economic developments and restructuring. Nonetheless, we will continue to expand our center console business activities in Germany and further pursue projects in the United States and China since these growth-generating projects will stabilize future revenue. Cash flow from investments was slightly higher year-over-year, as the increase in added value and aforementioned projects aimed at expanding the company's business were accompanied by a step up in investment. Moreover, we continued to establish the low-cost site in Serbia and to undertake all measures aimed at boosting operating productivity by applying lean management principles. Cash flow from financing activities rose minimally, as additional liquidity was made available to adjust to new requirements.

Furthermore, as in 2008, a banking consortium set up by GRAMMER provided short-term credit lines totaling EUR 90.0 million. Based on current negotiations, the credit facility is expected to be increased to EUR 110.0 million and approved for three years. The facility will be drawn down in short-term tranches. Therefore, the long-term debenture bond and the credit lines, which will be increased in the future, ensure that sufficient financial resources are available.

Net Assets

On the balance sheet date December 31, 2009, the total assets of GRAMMER Group amounted to EUR 500.4 million (2008: 481.0). Total assets therefore rose in 2009 by 4.0% over the previous year.

Non-current assets somewhat higher than 2008
Non-current assets totaled EUR 228.0 million in the year under review (2008: 216.7). The build-up of production in Mexico and Schmölln for the purpose of further developing the consoles product segment led to a rise in property, plant and equipment to EUR 141.9 million (2008: 138.1). Intangible assets amounted to EUR 49.8 million (2008: 49.5).

Current assets rise
Compared to the end of last year, current assets grew to EUR 272.4 million (2008: 264.3). This increase was influenced by the growth in revenue in the fourth quarter compared to the prior-year quarter and project development for our customers. Thanks to our working capital management activities, inventories at least were down considerably from the prior-year figure (by EUR 13.6 million) at EUR 77.2 million. Due to revenue developments, accounts receivable rose from EUR 88.2 million to EUR 109.4 million. Other current financial assets grew compared to the previous year by EUR 10.1 million to EUR 56.0 million as a result of the continued development of customer projects, whereas other current assets dropped by EUR 8.1 million to EUR 11.8 million. On the whole, current assets climbed due to the increases from expanded operations in the fourth quarter and further internationalization of goods and cash flows. At the end of the year, cash and short-term deposits amounted to EUR 16.1 million (2008: 13.3).

Decline in equity
Due to losses, equity as of December 31, 2009 was down to EUR 151.0 million (2008: 173.0), thus equaling 66.2% of non-current assets and the equity ratio was 30.2%, which are solid figures in view of the most serious global economic crisis in more than 50 years.

Changes in liabilities
Non-current liabilities totaled EUR 155.5 million (2008: 148.2). This increase resulted from higher retirement benefit obligations of EUR 57.3 million (2008: 54.5) and higher other financial liabilities of EUR 8.1 million (2008: 4.2). Non-current liabilities to banks were nearly unchanged at EUR 69.8 million (2008: 69.7).

Current liabilities rose substantially to EUR 193.9 million (2008: 159.8). Current liabilities to banks grew from EUR 23.8 million to EUR 52.5 million due to the negative trend in earnings. Trade accounts payable amounted to EUR 86.2 million, which was approximately the same level as last year. Other current liabilities were valued at EUR 43.0 million (2008: 35.8). Other current financial liabilities decreased year-over-year, to EUR 2.5 million (2008: 8.5).

Capital

Financial structure
The subscribed capital of GRAMMER AG totals EUR 26,867,607.04 divided into 10,495,159 bearer shares. Shares accord the bearer no special rights and there are no employee shares. Pursuant to section 5 (3) of the Articles of Association, the Executive Board is authorized, subject to approval by the Supervisory Board, in accordance with section 202 AktG to increase share capital by a maximum of EUR 13.4 million through one or more issuances of bearer shares through August 25, 2011. The Executive Board is further authorized, in each case subject to the approval of the Supervisory Board, to decide on exclusion of shareholders' statutory subscription rights. In addition, the Executive Board is authorized, upon approval by the Supervisory Board, to exclude the subscription rights for an amount up to EUR 2,686,760.70 (10.0% of share capital) if the issue price of new shares is not significantly lower than the market price of shares already trading in the secondary market when the final issue price is determined, which should occur as closely in time to the placement of the shares as possible. Shares purchased pursuant to a shareholder resolution and sold while such resolution is in force in accordance with section 71 (1) no. 8 sentence 5 AktG in conjunction with section 186 (3) sentence 4 AktG apply toward the above 10.0% limit. The Executive Board is furthermore authorized, subject to Supervisory Board approval, to determine the issue price, share rights and other terms of the offering. By resolution of the Annual General Meeting on May 28, 2009, EUR 7.0 million of the

net profit as of December 31, 2008 was transferred to retained earnings in fiscal 2009. In addition, the Annual General Meeting on May 28, 2009 also resolved to authorize acquisition of the company's own shares amounting to no more than 10% of the share capital up to May 27, 2014, provided that the German Act to Implement the Shareholders' Rights Directive (ARUG) enters into force and, alternatively, to authorize acquisition of the company's own shares amounting to no more than 10% of the share capital up to November 27, 2010 in the event that ARUG does not enter into force in time or at all, or in case ARUG should enter into force with content that does not cover the resolution according to ARUG, and to authorize the issuance of profit-participation rights with or without option or conversion obligations and/or bonds with warrants and/or convertible bonds and to exclude subscription rights, in addition to simultaneously creating contingent capital and amending the Articles of Association. These resolutions by the Annual General Meeting were challenged with a total of three actions for the declaration of nullity/actions to set aside the resolutions. Since no final and absolute decision has been handed down by the courts as yet, application was not made to register the amendments to the Articles of Association required for these resolutions.

According to notifications received on or before the balance sheet date by GRAMMER AG in accordance with sections 21 et seq. of the German Securities Trading Act (WpHG), the companies listed below directly or indirectly hold shares of more than 5% in GRAMMER AG:

Axxion S.A. headquartered in Munsbach/Luxembourg holds 5.5475% and Electra QMC Europe Development Capital Funds plc in Dublin/Ireland owns a 10.001% share in GRAMMER AG. POLYTEC Invest GmbH headquartered in Geretsried/Germany, according to the notification received by GRAMMER AG, holds 9.59%. These shares are fully attributable to POLYTEC Holding AG pursuant to section 22 (1) sentence 1 no. 1 WpHG. In October 2009, GRAMMER AG received notification that the share of voting rights held by Wynnefield Partners Small Cap Value L.P. totals 4.05%.

Own shares

Pursuant to a 2006 resolution of the Annual General Meeting, the Executive Board of GRAMMER AG is authorized to purchase own shares in accordance with section 71 (1) no. 8 AktG. This authorization, which expired on December 1, 2007, was replaced by a new authorization to purchase own shares expiring on December 1, 2008 resolved by the Annual General Meeting on June 28, 2007. GRAMMER holds a total of 330,050 own shares, all of which were acquired in fiscal year 2006. These shares have a total value of EUR 884,928.00 and represent 3.1448% of share capital. The 330,050 own shares are non-voting and accord no dividend rights.

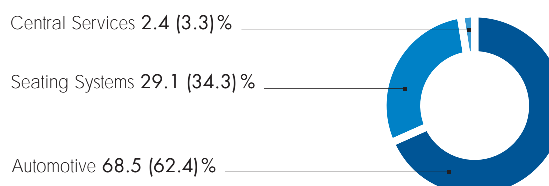
Opinion on the company's economic situation

Based on the above discussion of net assets, financial position and earnings, we view the economic situation of GRAMMER Group as positive. In our business segments, 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. Thanks to current projects and product launches, we view the Group's revenue and earnings performance in a positive light. Nonetheless, the effects on the economic stability of the company as a result of the financial crisis and the significant declines in revenue cannot be foreseen.

Investments

Investments by GRAMMER Group in the year under review totaled EUR 32.7 million (2008: 39.9). In the Automotive division, we invested EUR 22.4 million (2008: 24.9), mainly on new production facilities for pending customer projects and expansion of the sites in Shanghai, Serbia and Schmölln, which will contribute to optimizing our cost structure as low-cost locations for sewing operations featuring integrated production with a high degree of automation. Moreover, construction was begun on the production facilities for integrated center console production, which requires a greater intensity of investment.

Investments by segments (previous year in brackets)



in EUR m

	2009	2008
Automotive	22.4	24.9
Seating Systems	9.5	13.7
Central Services	0.8	1.3
Total	32.7	39.9

Investments in the Seating Systems division totaled EUR 9.5 million (2008: 13.7).

The switch to applying lean management principles to the production process and the early stages of establishment of the new Echo platform required several million euros of investments in Germany and Europe. For the offroad segment, we once again made major investments in tools, optimization of our foaming equipment, and in further setting up modular production units using a lean production approach. These investments serve to enhance efficiency and optimize the sites. They also demonstrate the company's commitment to production in Germany.

A total of EUR 0.8 million (2008: 1.3) was invested the central service departments. We acquired further upgrades and additional licenses for our SAP system. Moreover, we invested in optimizing, integrating and networking our CAD software.

Employees

Further decline in the number of employees

As compared to December 31, 2008, the number of employees last year sank by 18.9 %. On the balance sheet date, December 31, 2009, a total of 7,224 people (2008: 8,908) were employed within GRAMMER Group. This included 4,479 (2008: 5,631) employees in the Automotive division, 2,556 (2008: 3,114) in the Seating Systems division and 189 (2008: 163) in the central service departments. The average number of employees during the year was 7,474.

Personnel cost reduction program successful

The plunge in orders that first swept the automotive markets at the start of the fiscal year and then the seating markets in the second quarter made it necessary for the company to adjust human resources policy to the new situation. Reducing working time balances and outstanding vacation entitlements and cutting the number of contract and temporary employees helped to only somewhat mitigate underutilization of capacity. An attempt was initially made to control the situation through heavy use of short-time work and similar initiatives at most sites, but structural factors soon made layoffs necessary. A package of socially acceptable layoff measures was implemented at GRAMMER AG in the second quarter of 2009 to help the company come through the crisis and for purposes of long-term revenue adjustment. With the aim of ensuring profitability to protect jobs long term at the GRAMMER AG locations, measures were implemented to lower fixed costs and personnel capacity was adjusted in line with the decline in revenue. As a result of the sales drop within the Offroad segment the necessary extensive package of measures negotiated with the works council and parties to the collective bargaining agreement and its expansion will be fully implemented starting February 2010. Far-reaching measures to adjust capacity were implemented in other countries as well. For instance, one site in the Czech Republic was shuttered and the workforce laid off. A production facility was closed in the United States as well, and consolidation streamlined the structure of the company in Mexico. After adjustments in the initial months of the year, additional personnel was added in the emerging markets of China and Brazil due to the extraordinary economic situation, whereas the workforce in Turkey was reduced substantially due to market performance in Europe. In the central service departments, the increase in the number of employees was due to personnel shifts and restructuring of division functions to central service functions.

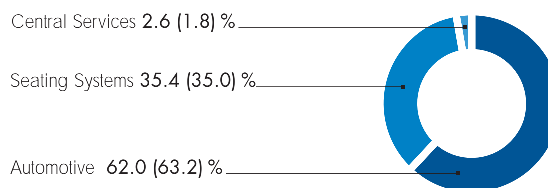
Training, professional development, human resources

Despite the crisis, employee development is a key factor in achieving and improving company success.

Employees with new ideas, expanded knowledge and additional competencies play a decisive role in maintaining established standards and building on competitive strengths. For this reason GRAMMER offers numerous initiatives for employees of all areas and levels. Our professional development program is based on a three-level structure: The "General Management Program" focuses on strategic training for top management; the "Management Development Program" is aimed primarily at plant and department supervisors; the "GO!2008" program is designed for promotion of young talent. All three professional development concepts are oriented on the mission statement, targets and strategy of GRAMMER Group.

The Group also plays an important role in training in its regions, and the number of trainees prepared by the Group exceeds the number needed for GRAMMER's own business purposes. The training program in the company's own training center with its own instructors at the Amberg site, for example, is a key element of GRAMMER AG's human resources policy. If the job situation allows, we are pleased to hire these trainees to work in our company. In 2009 as well, we engaged motivated trainees in all divisions, in order to maintain a qualified pool of resources in fields that are becoming more important as technology progresses. We also hosted internships and offered students and postgraduates the possibility to complete their thesis or dissertation while gaining practical experience within our company. Highly qualified up-and-coming professionals are also attracted through university recruiting events. One example of our successful activities in the university domain is the long-standing close working relationship with the Amberg-Weiden University of Applied Sciences.

Employees by segments (previous year in brackets)



In figures (as of December 31)

	2009	2008
Automotive	4,479	5,631
Seating Systems	2,556	3,114
Central Services	189	163
Total	7,224	8,908

Supervisory and Executive Boards

The rules for appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG. No deviating or additional provisions are contained in the Articles of Association. With effect from February 19, 2009, the Amberg Local Court appointed Astrid Franzky to the Supervisory Board as executive management representative. The Supervisory Board members Anton Kirschbauer and Jürgen Ganss, both employee representatives, stepped down with effect from June 22, 2009 and June 30, 2009 respectively. The Amberg Local Court appointed Anton Kohl and Joachim Bender to the Supervisory Board of GRAMMER AG as employee representatives with effect from August 21, 2009 and July 1, 2009 respectively. Joachim Bender was named Deputy Chairman by the Supervisory Board.

Principles of the remuneration system

The annual remuneration of the Executive Board constitutes the following three elements: non-performance-related compensation, a performance-related component and retirement benefits structured in the same manner as pension commitments to employees. The non-performance-related compensation comprises a fixed salary. The performance-related component is calculated based on the revenue and earnings figures in the GRAMMER AG financial statements, as well as return on capital employed (ROCE). This component may total up to 30.0% of the fixed salary provided that 100% of targets are met. The revenue-based component of performance-related remuneration is derived from the percentage revenue increase over the previous fiscal year. The earnings-based component is based on EBIT or annual ROCE in relation to revenue. If the targets set by the Supervisory Board are exceeded, the performance-related component may total up to a maximum of 60.0% of the fixed salary. Remuneration of the Executive Board contains no components with long-term incentive effect, such as stock option or stock award programs.

For their membership in the Supervisory Board, each member receives a fixed salary amounting to EUR 10,000.00 per member per fiscal year. The Chairman of the Supervisory Board receives double and the Deputy Chairman one-and-a-half times this amount. Furthermore, the members of the Supervisory Board receive a variable remuneration component of EUR 200.00 for each 0.1 percentage point of GRAMMER Group ROCE in excess of 8.0%. The maximum amount of variable remuneration per Supervisory Board member is EUR 6,000.00 per fiscal year. The ROCE figure is based on the information in the audited consolidated financial statements of GRAMMER AG, and is calculated as follows: operating profit minus income tax expenses divided by the sum of equity including interest-bearing debt, retirement benefit obligations and financial obligations.

Members of the Supervisory Board also receive a meeting fee of EUR 1,000.00 per personally attended Board or committee meeting, plus reimbursed expenses. The Chairman of a committee receives a further EUR 1,000.00 per committee meeting. There are no components with long-term incentive effect, such as stock option or stock award programs contained in the remuneration of the Supervisory Board.

Corporate Governance

The Corporate Governance Statement pursuant to section 289 a of the German Commercial Code (HGB) along with the Declaration of Conformity with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG)) are reproduced in the 2009 Annual Report starting on page 24 and are permanently available on the Company website under www.grammer.com/corporate_governance.

Research and Development

Research and development is a central focus for GRAMMER Group, as an important factor for successful positioning in the market now and in the future. Technological advancement generates innovative products and a broad product range. It allows us to tap into new market potentials and ensure long-term competitiveness.

Especially in the Automotive division, investment in R&D is of crucial importance. The responsibility for developing new automobile components and systems, or improving on existing ones, is increasingly shifting to system suppliers. Consequently, the Automotive division continues to strengthen its position as a development partner and innovation driver for major manufacturers. In this context, technological advancement and first-rate solutions ensure important market advantages. But intensive research and development is not only the basis for our success today – it also provides the foundation for a winning future: New, innovative products enable us to meet even the most demanding of customer expectations over the long haul.

The development of central consoles and their components was stepped up as the focus of our research and development efforts, which also reflects the focus of our customer projects. In addition, we also pressed ahead with high-priority projects to develop surfaces and coverings, since these technical solutions can also be integrated into products in the center console and armrest market segments.

In the Seating Systems division, we concentrated on developing innovative suspension systems for truck seats and we continued to work on cutting-edge solutions that will take our seat products to the next level and ensure their cost leadership. We also forged ahead with reinforcement of the ergonomic aspects of our product

series in order to protect the health of our end users. Moreover, we also stepped up projects to make specific products more homogeneous for the relevant regions, which will strengthen our market position in the long run. This also challenges other market participants worldwide to follow our lead, or at least develop adequate solutions.

Opportunities and Risk Management

Risk policies and principles

Business always entails opportunities, as well as risks. Especially given the international orientation of GRAMMER Group, opportunities and risks arise, which must be managed. Listed below are some of the principles contained in the GRAMMER Group risk strategy:

- Opportunities and risks in the context of risk management for GRAMMER encompass any positive or negative deviations from a plan or target defined in circumstances of uncertainty.

- Risk management thus contributes to value-based management within GRAMMER Group. Value-based means that the company deliberately enters into risks only when there is potential to enhance the value of the company by taking advantage of favorable business opportunities.

- GRAMMER must avoid any activities possibly entailing risks that could jeopardize the further existence of the company.

- Core operational risks, and in particular those originating in the market, are carried by GRAMMER itself. The company also bears risks arising from development of new products, whereas the company seeks to transfer other risks (in particular, financial and liability risks) to third parties.

- Risk management within GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value enhancing measures are deemed to be ongoing and Group-wide duties by GRAMMER management.

- All employees of the company are called upon to identify and minimize risks within their area of responsibility. All employees must immediately report to their relevant supervisors any threats and opportunities emerging in the course of business.

Risk management process

The risk management process ensures early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage risk, and risk monitoring and control. As part of a continual monitoring process, risks with an estimated unintended loss potential of EUR 0.5 million or more are reported to central risk management. Every division and central administrative department has a risk officer in charge of this. In regular meetings with the various management levels of the divisions and central service departments, opportunities and risks are discussed along with measures to manage risk. A Group-wide reporting system assures that decision-makers regularly receive comprehensive information on the risk situation of the company, as well as the status of the measures implemented.

Central risk management is contained within the Group Finance department, and operates an IT-based risk management system, in which risks are centrally managed and appropriate measures for risk mitigation are initiated. The phases of the risk management process are optimally supported by this recognized software solution.

In this way, we maintain a systematic and updated overview of the key opportunities and risks for GRAMMER Group. These include: strategic risks, market risks, financial risks and legal risks, as well as risks stemming from the areas of IT, human resources and production.

Market and sector-specific risks

As a company with worldwide operations, GRAMMER AG is affected by business conditions in its home market as well as markets across the globe. We counter these risks with a number of different measures while closely and continually monitoring developments in the markets and especially our industries. We adjust our production and capacity accordingly when necessary. The sector-specific revenue risks in the wake of the worldwide financial and economic crisis have not been without effect on the economic situation of GRAMMER Group. In addition to weak demand in the Automotive division, GRAMMER Group has taken a significant hit in particular from the plunge in revenue in the Seating Systems division, the extent of which could not have been foreseen. In the interest of effective risk management, GRAMMER Group took action immediately and promptly adjusted production and cost structures in line with the new revenue situation. We can generally expect to continue to face sector-specific revenue risks in the future. However, we have identified signs of a recovery in the Automotive division in particular, and the order books in the Seating Systems division also appear to be stabilizing at a low level. In recent months, economic

data and indicators have hinted at a trend toward recovery and stabilization of the macroeconomic environment. Nonetheless, because there can be no certainty about the extent to which a recovery will be broad based and sustained, and no reliable opinions concerning the scope of the effects of a recovery on the markets and products relevant to GRAMMER exist, this development entails risks that could affect our net assets, financial situation and earnings. If a recovery proved to be only temporary, or if the downturn were to continue after a short upturn propped up by political measures, the possibility that this development could further adversely affect our net assets, financial situation and earnings, or our ability to obtain credit, cannot be ruled out.

The crisis has also resulted in competitive risks relating to sustained cost pressures by automobile manufacturers on companies in the supplier industry, as well as deteriorating order volumes. In response, we are forcing through diverse process optimization measures, in addition to intensified research and development.

Our goal is to improve our market position in all business areas, as a way to reduce these competitive risks. Consequently, GRAMMER is focusing on technical innovation and advancement of existing products. Through an increase of R&D activities, we intend to establish ourselves (or strengthen our position) as the technology leader with respect to our core products, in order to generate competitive advantages in the marketplace.

Great emphasis is also placed on maintaining high quality standards within the Group, with early identification and elimination of potential sources of error, as well as prevention of redundant work and idle capacities.

Procurement risks
GRAMMER aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price performance of steel and petroleum-based foam and plastic products. GRAMMER continually monitors the commodities markets relevant to the company's business. To the extent possible and necessary, cost risks are mitigated by entering into long-term supply contracts.

Risks arising from non-delivery by suppliers are countered by GRAMMER with a dual-sourcing strategy as part of an emergency plan featuring close monitoring of potentially critical suppliers along with a rapid reaction to the situation with implementation of defined emergency and risk management measures. In order to protect our value chain in light of the current financial and economic crisis, we are placing particular emphasis on evaluation of our suppliers' financial strength. We foster ongoing intensive contact with our suppliers and avoid dependencies where possible.

In order to address risks arising from quality problems attributable to suppliers, GRAMMER pursues focused supplier relations and regular supplier audits. An IT-based supplier assessment program allows us to analyze each supplier's quality and performance in the supply process on an ongoing basis.

Financial risks
Group finance centrally tracks interest, currency and liquidity risks. Strategic treasury management, the effectiveness of which is reviewed regularly, is used to mitigate these risks.

The primary currency risks for GRAMMER originate from trade payables/receivables and procurement costs denominated in Czech koruna, US dollars, Mexican pesos and Chinese yuan. On the one hand, GRAMMER Group counters currency risks through "natural hedging," or increasing purchasing volumes in foreign currency regions or increasing production at home. On the other hand, currency risks are also selectively hedged via the financial market.

Interest rate risks are minimized by obtaining long-term funding and through the use of derivatives.

In the light of the current restrictive credit policies among banks, ensuring adequate liquidity reserves is a high priority. GRAMMER Group's financing is safeguarded by a long-term debenture bond as well as adequate short-term lines of credit at a guaranteed rate of interest. Liquidity risks are monitored on an ongoing basis and continually documented by way of rolling planning for financing requirements across the Group. Additionally, investments are selectively concluded via leasing and rental agreements.

Our customer structure serves to limit debtor default risks, which are controlled through active receivables management by Controlling/Accounting.

Legal risks
To guard against legal risks, we employ a system of intensive contract review and contract management, as well as systematic documentation and archiving. We have sufficient insurance for "normal risks" and going-concern risks.

Human resource risks
GRAMMER relies on highly qualified staff and management personnel to effectively capitalize on business opportunities and build on its competitive advantage. For this reason, focused, demand-led employee training and continuing education programs for as many employees as possible at all levels and in all areas of the company are a top priority, particularly during difficult times. In addition, we participate in recruiting events and job fairs held at schools and universities to generate interest in GRAMMER among motivated, up-and-coming professionals and specialists.

IT and information risks
The security, protection and integrity of our data and IT infrastructure are indispensable for the smooth operation of our business. Legal requirements and regulations stipulate that technical and organizational measures be taken to protect our data centers and ensure highly available and secure data transfer.

In order to meet these requirements, GRAMMER operates a redundant system with the mission-critical components of the IT infrastructure installed in two data centers. The electricity supply is guaranteed, even in emergencies, thanks to separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Sites with highly time-critical manufacturing operations (just in time, just in sequence) are additionally equipped with an expanded high-availability solution. Emergency plans document the process for restoring the operating capability of mission-critical IT systems, and GRAMMER is also protected by suitable security systems against attacks from the outside.

An IT security organization spanning the Group was set up to ensure IT security.

GRAMMER Group's IT services department's Systems & Security team, the data protection officers and the risk management team form the Security Incidence Team, which aims to coordinate activities to improve IT security.

Ecological risks
GRAMMER's environmental management system is based on the ISO 14001 standard. Our environmental management system comprises environmental standards applicable worldwide (e.g., officers, environmental programs and targets). The implementation of and compliance with these standards is monitored by regular audits to minimize ecological risks. We also continue to pursue certification of our production sites in accordance with environmental certification standard ISO 14001.

Assessment of overall risk
Upon detailed review of the current risk situation, we have determined that GRAMMER Group has implemented adequate preventive measures. The risks that currently exist have no material impact on the future net assets, financial situation and earnings of the company. At this time, we see no risks that could jeopardize the further existence of the company. Due to currently contradictory forecasts, no definitive assessment can be made of the development of risks arising from the financial crisis since the possible scenarios feature both opportunities and risks.

Features of the Internal Control System

The parent company GRAMMER AG is a capital market-oriented corporation within the meaning of section 264 d HGB. For this reason, section 315 (2) no. 5 HGB stipulates that a description must be provided of the key features of the internal control and risk management system as they relate to the Group's accounting process, which also comprises the accounting processes of the companies included in the consolidated financial statements.

There is no legal definition of "the internal control and risk management system as it relates to the Group's accounting process". We believe the internal control and risk management system to be a comprehensive system and base our definitions of the accounting-related internal control system and risk management system on those of the Düsseldorf-based Institute of Public Auditors in Germany (IDW). Correspondingly, an internal control system comprises the principles, processes and measures introduced in the company by management and aimed at the organizational implementation of decisions made by management:

- to ensure the effectiveness and viability of the company's business activities (this also includes the protection of assets, including prevention and discovery of asset misappropriation);
- to ensure the propriety and reliability of internal and external accounting; and
- to comply with the legal regulations applicable to the company.

As described above, the risk management system includes, in their entirety, all organizational rules and measures which are intended to identify risks and control the risks inherent in business activities.

In the context of the Group's accounting process, the structures and processes outlined as follows are implemented in the internal control system in the Group.

GRAMMER Group's Executive Board is assigned overall responsibility for the internal control and risk management system as it relates to the consolidated accounting process in the Group. All of the companies included in the consolidated financial statements and strategic divisions are linked into this system by way of defined management and reporting structures. The principles, the operational and organizational structure and the processes involved in the Group accounting-related internal control and risk management system are documented for the entire Group in a manual, Group directives and operating procedures that are adapted at regular intervals to current external and internal developments.

As they relate to the Group's accounting process, we deem the key features of the internal control and risk management system to be those that can materially affect the Group's financial reporting and the overall presentation of the consolidated financial statements, including the group management report. These include the following elements in particular:

- identification of the key risk and control areas relevant to the Group's accounting process;
- monitoring controls for supervising the accounting process and Group accounting process and their results at the level of the Group Executive Board, at the level of the strategic divisions and at the level of the companies included in the consolidated financial statements;

- preventive control measures in the financial and accounting systems of the Group, the companies included in the consolidated financial statements and the strategic divisions and in operational, performance-related business processes that generate material information for the preparation of the consolidated financial statements, including the Group management report, plus a division of functions and pre-defined approval processes in relevant departments;

- measures that ensure proper IT-based processing of information and data relating to Group accounting;

- measures for monitoring the internal control and risk management system as it relates to Group accounting.

Outlook

Economic recovery expected in 2010
In 2010, the global economy will recover only slowly from this deep recession. Nonetheless, many institutes have revised their forecasts upward, and the outlook for the current year has become more optimistic than just a few months ago. The International Monetary Fund (IMF) expects 2010 to bring worldwide growth of 3.9 %. The caveat here is that the upturn will take place primarily in the developing and emerging economies, whereas the industrialized nations will see only minimal growth. According to the IMF, growth in the emerging economies will be driven chiefly by domestic demand. Global trade is also expected to grow by 4.3 % in 2010.

The IMF believes that the US economy will expand again in 2010 and forecasts growth of up to 2.7 %.

In Asia, China continues to be seen as the engine of growth in 2010. China's strong GDP figures speak for themselves, with growth of 10 % anticipated.

Economic recovery could also continue this year in the Eurozone. Whereas GDP was down considerably by 3.9 % in 2009, forecasts indicate that this figure could increase slightly again in 2010, by 0.7 %.

The German economy is also expected to make gains again according to forecasts. The German government's council of economic advisers, known as the Council of Wise Men predicts growth in Germany of 1.6 % over the course of the year, mainly as a result of the revitalization of global trade, which picked up again in recent months. Germany is therefore expected to grow more rapidly than Western Europe as a whole, which is expected to expand by only 0.7 %. In contrast, the German labor market situation is likely to deteriorate. The federal government and experts predict that the ranks of the unemployed will total up to 4.1 million people.

The increase in the unemployment rate causes the income of private households to decline, thereby reducing domestic demand. The national debt, which exploded in 2009, is another factor adversely affecting Germany's economy.

Automotive industry expects sideways movement
Although a slight revival of passenger vehicle markets is becoming apparent around the world in 2010, the automotive industry will have to continue to navigate choppy waters this year. Industry expert Ferdinand Dudenhöffer expects vehicle registrations to increase by 4 % worldwide, although most countries expect a sideways movement. According to Dudenhöffer, growth will be seen primarily in the Chinese, US and Russian markets.

After the number of new vehicle registrations in the United States stabilized in the later months of 2009, sales are expected to pick up in 2010. CSM, a company specializing in automotive industry forecasts, estimates growth of 13.5 % to 11.8 million vehicles in the current year.

Growth in new registrations is also anticipated in Asia. The strong Chinese market in particular will likely expand by 10 % to 9.2 million new vehicle registrations.

According to forecasts by the German Association of the Automotive Industry (VDA), the Russian market will also grow by double digits in 2010. Sales there could climb by 11% to 1.6 million vehicles.

New vehicle registrations in Western Europe will decline this year after numerous incentives expired or will expire. In 2009, many purchases were brought forward in order to take advantage of government-sponsored incentive programs. The VDA therefore expects only approximately 12.1 million new vehicle registrations in 2010, a decrease of 12 %.

A minor increase is anticipated in Eastern Europe this year. CSM believes that slight growth of 4.6 % to 3.4 million vehicles sold is possible. In contrast, this figure declined sharply in 2009 by 42.4 %.

For Germany, the VDA estimates that the number of new registrations will fall by up to 26 % to 2.8 million vehicles. This would be nearly one million fewer vehicles sold than in 2009, the largest drop in sales among the Western European countries. The decrease is chiefly due to the artificial boost given to the market by the German scrap bonus program in 2009. Sales were already down by 4.3 % in January 2010. A study by PwC indicates that a shift in the segment structure is also on its way in 2010: Although the small and compact car segments experienced a boom in 2009, these segments could see shrinking figures in 2010. The premium car manufacturers, such as Audi, Mercedes and BMW, could benefit from the recovery of export markets.

Passenger vehicle production will also decline across Europe once again in 2010. After falling 18 % in 2009, the VDA expects another drop of 3 % to 14.615 million vehicles manufactured in 2010. Germany is also likely to see a decline of 2 % to 4.85 million vehicles produced.

Commercial vehicle sector expects stabilization

The economic slump had a profound effect on the commercial vehicle industry in 2009. For the current year, truck manufacturers expect minimal growth and only a slight recovery.

Registrations will increase by 10 % in the United States and 5% in China, according to the VDA. Western Europe should also experience moderate growth of 2 % in 2010 in the VDA's estimation. The new EU member states offer the greatest hope with growth forecast at 16 %.

In Germany, the VDA believes that the number of new commercial vehicle registrations will edge upward, increasing slightly by 2 % to 246,000 vehicles. In particular, the segment of trucks up to six tons is expected to grow by 3 %. However, new registrations of trucks over six tons will likely decline by 2 % in 2010.

In January 2010, 13 % fewer commercial vehicles were registered in Germany than the year before. Above all, the number of heavy commercial vehicles was down significantly, by 37 %, from the prior-year figure. The production figures of German manufacturers are therefore only anticipated to increase moderately. The forecast is for growth of 8 %.

New domestic orders already climbed by 8 % in January of this year. The commercial vehicles segment therefore appears to have bottomed out.

No optimism in agricultural machinery segment

The forecasts for the agricultural machinery sector worldwide in 2010 are not very optimistic. The VDMA does not expect export markets to revive before 2011.

Since agricultural income was down in Western Europe in the past year, the VDMA does not expect an increase in sales. Demand is also expected to drop again in Germany. According to the VDA, a decline of 10 % is anticipated for the agricultural machinery sector. No turnaround is on the horizon for the tractor segment either. In January, the number of new tractors registered was down by as much as 34.1 % as compared to the same month in the previous year.

Material handling market faces a difficult year

The manufacturers of industrial trucks do not expect demand worldwide to improve before the second half of 2010.

Slight recovery for construction machinery sector in 2010

The market for construction machinery in the United States could slowly recover in 2010 due to the economic stimulus packages passed in 2009. According to a forecast by Standard & Poor's, sales could increase by 8.4 % in the United States.

Railway

Delayed awarding of contracts and sharp declines in freight traffic are likely to continue to be hallmarks of 2010, and for this reason, no major bump in sales is on the horizon for this year. However, the global market for railway technologies will continue to grow, according to experts. A study by management consultants SCI Verkehr indicates that worldwide growth in railway technologies could amount to 4 % annually.

Business Development Forecast

The global financial and economic crisis hit GRAMMER Group hard and caused the first losses since 2000. In addition to the sharp economic downturn, our business is adversely affected by extraordinary effects arising from job cuts and structural measures. The Group reacted promptly to these signs of crisis, introducing both operational and structural measures.

Developments in recent quarters showed positive signs, and the aimed-for break-even was reached in the fourth quarter. Due to a stabilizing market environment and various product launches the Company expects for 2010 a moderate increase in sales, which is still fragile despite the emerging recovery and negative factors continually put a damper on growth. The Group has not escaped the vortex of weaker markets, but new product launches could generate positive performance despite a stagnating market. The growth of GRAMMER Group depends on how production costs develop at the company's sites, particularly in Germany, and on the adjustment underway to align the workforce to the low level of sales as well as on market and procurement price performance. In the Automotive division, projects are being developed that will generate revenue domestically and at international production facilities. The deciding factor will be the extent to which customers further drive these developments and meet deadlines for their model launches.

Due to the uncertain market developments as a result of the financial crisis, the Seating Systems division faces greater uncertainties in revenue performance, and the stability of revenue will decrease. For the year as a whole, we expect revenue to hover around the same low level as in 2009.

Among the medium to long-term structural changes within the company are a continuation of measures to optimize production according to the lean management philosophy and to optimize processes in the administrative areas. In addition, 2010 will be marked by the implementation of the further adjustments already underway to align the number of employees and fixed cost structures to the lower level of revenue due to the financial crisis. Positive effects stem from the development of global market prices for steel and alloys, as well as the drop in oil prices, which is reflected in the price of plastic and foam components, sometimes even anti-cyclically. Implementation of the package of efficiency measures introduced by the Executive Board will continue undiminished in 2010. In longer term planning, we anticipate further improvement of the macroeconomic climate and sustained economic growth. As soon as the economic recovery is on more stable footing, we expect further improvements in earnings thanks to a solid foundation being created by the measures introduced and implemented.

Investment

We plan to step up investment slightly again in the current year. In order to continue driving growth of the company, further investments will be made in NAFTA and Asian markets. The focus, however, will be on Europe, given the growth in 2010 from the expansion of center console production and pending larger-scale customer projects in the truck seat segment. Furthermore, the switch to lean production methods will continue to be stepped up to optimize costs.

Research and development

In the Automotive division, we intend to upgrade the current product portfolio. The emphasis of this will be on expansion to include new vehicle series and strengthening of our core business. Pre-development will be further intensified, in order to better differentiate GRAMMER from the competition as a technologically innovative systems supplier. The Seating Systems division will continue to focus on the new Echo truck seat platform and its homologation in other markets. We will also push ahead forcefully with development of our active controlled seat and cabin suspension systems as well as other suspension packages for the low-end offroad segment. Moreover, we will round out the product range at both ends by focusing on development of local market-specific applications. This will entail targeted expansion of activities in both the NAFTA markets and in Asia.

Employees

Changes in the number of employees will be determined primarily by market conditions and cost considerations in Europe and Germany, as well as company expansion in the Far East and other international markets.

The other negotiated measures will additionally be implemented at GRAMMER AG, both in the production and the administrative units. This will mean additional workforce reductions at all levels and in all areas of the Group, in alignment with revenue and earnings performance. The Group thus anticipates a slight decline in the number of employees.

Opportunities and risks

The economic situation going forward presents opportunities as well as risks. GRAMMER Group's business performance is closely tied to macroeconomic and industry-specific conditions, and is thus largely determined by external factors. Due to sometimes contradictory forecasts, future economic performance can currently only be assessed with difficulty. Downturns could occur in 2010 despite the revival of the economy in the fourth quarter of 2009. It is scarcely possible to estimate the default risks of OEMs and other customers because of the still-restrictive terms for extending credit that remain prevalent, particularly in the automotive industry. Other risks arise from extreme volatility in currency and commodity markets. There are measures in place to hedge against these, including the package of efficiency measures introduced by the Executive Board, implementation of which has continued undiminished and is being pushed forward further. The main source of opportunity in the current economic environment comes from our cost-cutting and overhead cost adjustment programs, which will be systematically implemented throughout 2010. Our earnings expectations for 2010 are well over the level of the previous fiscal year, since capacity adjustment measures have largely been completed or have been announced for the first half-year. However, this assumes workforce adjustments in line with revenue and moderate conditions in collective bargaining agreements as well as positive purchasing prices and exchange rate movements, as risks arising from the markets are very difficult to quantify.

Summary statement concerning the forecast of the Executive Board

In view of the business situation in the initial months of 2010, and in light of the improving economic environment, our outlook on the performance of GRAMMER Group is still cautious. On the whole, the beginning of 2010 promises to be rather difficult. Assuming a stabilization and subsequent positive trend in the economic situation, however, we also see a foundation in place for continued growth after 2010, a successful turnaround in 2010 with slightly positive earnings and then strong profitability once again.

Events Subsequent to the Reporting Date

In 2009, GRAMMER AG's Railway unit was restructured and transferred to an independent GmbH (German private limited company) on January 1, 2010, which is a wholly owned subsidiary of GRAMMER AG. The new company aims to strengthen the focus on the core railway business and promote the independent strategic development of markets. The projects awarded by the company's mostly public-sector clients require flexible, streamlined structures that can nonetheless meet very specific, highly technical requirements.

Furthermore, in verbal proceedings on February 22, 2010, Nuremberg-Fürth Regional Court dismissed in full all of the pending actions regarding agenda items 7 through 13 on the resolutions of the Annual General Meeting on May 28, 2009. The written opinion of the court is not yet available, and the decision is therefore not yet final and non-appealable.

As of March 12, 2010, GRAMMER AG secured medium-term financing and, along with KfW, signed a syndicated loan package totaling EUR 110 million with a term of three years for short-term drawdowns. Signing these agreements contributed materially to the stability of the Group's financial position and provided a solid framework for medium-term financing that effectively supports our future operational and strategic development.

Amberg, March 19, 2010

GRAMMER AG
The Executive Board

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Consolidated Statement of Income for the fiscal year ended December 31, 2009

EUR k

	Notes	2009	2008
Revenue	5	727,442	1,006,961
Cost of sales	7	–651,463	–877,175
Gross profit		**75,979**	**129,786**
Selling expenses	7	–27,001	–34,153
Administrative expenses	7	–83,498	–71,651
Other operating income	7	10,600	7,971
Operating profit/loss (–)		**–23,920**	**31,953**
Financial income	7	5,334	2,468
Financial expenses	7	–12,949	–14,846
Profit/loss (–) before income tax		**–31,535**	**19,575**
Income taxes	8	3,322	–5,446
Net profit/loss (–)		**–28,213**	**14,129**
Of which attributable to:			
Shareholders of the parent company		–28,201	14,055
Non-controlling interests		–12	74
		–28,213	**14,129**
Earnings/loss (–) per share			
Basic/diluted earnings/loss (–) per share in EUR	9	–2.77	1.38

Group Statement of Comprehensive Income for the fiscal year ended December 31, 2009

EUR k

	2009	2008
Net profit/loss (–)	–28,213	14,129
Gains/Loss (–) from currency translation for foreign subsidiaries		
Gains/Loss (–) arising in the current period	5,410	–7,599
Less transfers recognized in the Income Statement	0	0
Tax expense (–)/Tax income	0	0
Gains/Loss (–) from currency translation by foreign subsidiaries (after tax)	5,410	–7,599
Gains/Loss (–) from Cash flow hedges		
Gains/Loss (–) arising in the current period	–111	–1,916
Less transfers recognized in the Income Statement	3,041	–742
Tax expense (–)/Tax income	–646	646
Gains/Loss (–) from Cash flow hedges (after tax)	2,284	–2,012
Gains/Loss (–) from net investments in foreign operations		
Gains/Loss (–) arising in the current period	–1,322	–6,405
Less transfers recognized in the Income Statement	–9	0
Tax expense (–)/Tax income	–92	342
Gains/Loss (–) from net investments in foreign operations	–1,423	–6,063
Sum of income and expenses recognized directly in equity (after tax)	6,271	–15,674
Sum of income and expenses recognized in equity	–21,942	–1,545
Of which attributable to:		
Shareholders of the parent company	–21,930	–1,589
Non-controlling interests	–12	44

Consolidated Statement of Financial Position for the fiscal year ended December 31, 2009

ASSETS

EUR k

	Notes	2009	2008
Non-current assets			
Property, plant and equipment	11	141,879	138,132
Intangible assets	12	49,836	49,526
Other financial assets	15	4,596	8,043
Deferred income tax assets	8.1	31,643	21,044
		227,954	216,745
Current assets			
Inventories	13	77,223	90,836
Trade accounts receivable	14	109,445	88,195
Other current financial assets	15	56,031	45,893
Property, plant and equipment held for sale	11.1	30	0
Income tax assets		1,709	6,113
Cash and short-term deposits	17	16,126	13,330
Other current assets	16	11,835	19,894
		272,399	264,261
Total assets		500,353	481,006

EQUITY AND LIABILITIES

EUR k

	Notes	2009	2008
Equity			
Subscribed capital	18	26,868	26,868
Capital reserve	18	58,237	58,237
Own shares	18	–7,441	–7,441
Retained earnings	18	73,186	101,387
Accumulated other income	18	–324	–6,595
Equity attributable to shareholders of the parent company		150,526	172,456
Non-controlling interests	18	465	526
Total equity		150,991	172,982
Non-current liabilities			
Non-current financial liabilities	20	69,797	69,741
Other financial liabilities	23	8,078	4,159
Other liabilities	24	1,428	1,200
Retirement benefit obligations	19	57,260	54,450
Deferred income tax liabilities	8	18,893	18,634
		155,456	148,184
Current liabilities			
Current financial liabilities	20	52,500	23,785
Trade accounts payable	22	86,193	81,051
Other current financial liabilities	23	2,461	8,535
Other current liabilities	24	42,988	35,826
Current income tax liabilities	24	1,904	3,008
Provisions	21	7,860	7,635
		193,906	159,840
Total liabilities		349,362	308,024
Total equity and liabilities		500,353	481,006

Consolidated Statement of Changes in Equity for the fiscal year ended December 31, 2009

Notes 18

EUR k

					Accumulated other income					
	Subscribed capital	Capital reserve	Revenue reserve	Own shares	Cash Flow Hedges	Currency translation	Net investments in foreign subsidiaries	Total	Non-controlling interests	Group equity
As of January 1, 2009	26,868	58,237	101,387	–7,441	–2,284	2,907	–7,218	172,456	526	172,982
Net profit/loss (–) for the period	0	0	–28,201	0	0	0	0	–28,201	–12	–28,213
Other profit/loss for the period	0	0	0	0	2,284	5,410	–1,423	6,271	0	6,271
Total net profit/loss (–)	0	0	–28,201	0	2,284	5,410	–1,423	–21,930	–12	–21,942
Dividends	0	0	0	0	0	0	0	0	0	0
Own shares	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	–49	–49
As of December 31, 2009	26,868	58,237	73,186	–7,441	0	8,317	–8,641	150,526	465	150,991

for the fiscal year ended December 31, 2008

EUR k

					Accumulated other income					
	Subscribed capital	Capital reserve	Revenue reserve	Own shares	Cash Flow Hedges	Currency translation	Net investments in foreign subsidiaries	Total	Non-controlling interests	Group equity
As of January 1, 2008	26,868	58,237	97,502	–7,441	–272	10,476	–1,155	184,215	493	184,708
Net profit/loss (–) for the period	0	0	14,055	0	0	0	0	14,055	74	14,129
Other profit/loss for the period	0	0	0	0	–2,012	–7,569	–6,063	–15,644	–30	–15,674
Total net profit/loss (–)	0	0	14,055	0	–2,012	–7,569	–6,063	–1,589	44	–1,545
Dividends	0	0	–10,170	0	0	0	0	–10,170	0	–10,170
Own shares	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	–11	–11
As of December 31, 2008	26,868	58,237	101,387	–7,441	–2,284	2,907	–7,218	172,456	526	172,982

Consolidated Statement of Cash Flow for the fiscal year ended December 31, 2009

Notes 25

EUR k	2009	2008
1. Cash flow from operating activities		
Profit/loss (–) before income tax	–31,535	19,575
Non-Cash items:		
Depreciation and impairment of property, plant and equipment	23,483	20,959
Amortization and impairment of intangible assets	3,058	2,454
Changes in provisions and pension provisions	2,190	3,554
Other non-cash changes	4,631	–13,266
Changes in net working capital		
Decrease/Increase (–) in trade accounts receivable and other receivables	–23,329	18,003
Decrease/Increase (–) in inventories	13,613	4,292
Decrease/Increase (–) in other assets	–6,225	–5,662
Decrease (–)/Increase in accounts payable and other liabilities	20,426	–289
Gains/Losses from disposal of assets	–425	91
Income taxes paid	–4,192	–8,910
Cash flow from operating activities	**1,695**	**40,801**
2. Cash flow from investing activities		
Purchases		
Purchase of property, plant and equipment	–29,300	–32,440
Purchase of intangible assets	–3,378	–7,464
Purchase of investments	–3,814	–3,639
Disposals		
Disposal of property, plant and equipment	4,215	1,240
Disposal of intangible assets	11	12
Disposal of investments	7,368	4,869
Interest received	5,334	2,468
Government grants received	801	303
Cash flow from investing activities	**–18,763**	**–34,651**
3. Cash flow from financing activities		
Dividend payments	0	–10,170
Purchase of own shares	0	0
Repayment of bond	0	0
Changes in non-current liabilities to banks	56	–2,731
Changes in current liabilities to banks	4,377	–1,836
Changes in lease liabilities	4,061	–108
Interest paid	–11,928	–7,645
Cash flow from financing activities	**–3,434**	**–22,490**
4. Cash and cash equivalents at end of period		
Net changes in cash and cash equivalents (sub-total of items 1 – 3)	–20,502	–16,340
Effects of exchange rate differences	–1,040	1,571
Cash and cash equivalents as of January 1	736	15,505
Cash and cash equivalents as of December 31	**–20,806**	**736**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	16,126	13,330
Securities	0	0
Bank overdrafts	–36,932	–12,594
Cash and cash equivalents as of December 31	**–20,806**	**736**

Notes to the Consolidated Financial Statements for the Fiscal Year ended December 31, 2009

1 Information about GRAMMER and Basis of Reporting

Information about GRAMMER Group

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, GRAMMER Group is a leader in the development and production of components and systems for automotive interiors as well as driver and passenger seats for commercial vehicles (trucks and offroad) busses and trains. As of December 31, 2009, the Company employed 7,224 persons (excluding trainees and including 189 employees in Central Services) at 29 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at GRAMMER Group Central Services in Amberg.

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

General

These consolidated financial statements were prepared in accordance with section 315 a (1) HGB in conjunction with the International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB), as applicable in accordance with Regulation no. 1606/2002 of the European Parliament and the Council in the European Union (EU).

The consolidated financial statements and the Group management report of GRAMMER AG (the "Company") for the fiscal year ending December 31, 2009 were prepared in accordance with section 315 a (1) HGB and were approved by the Executive Board for submission to the Supervisory Board on March 19, 2010.

A separate list of Group shareholdings within the meaning of section 313 (4) HGB will be submitted to the operator of the electronic Federal Gazette.

2 Accounting Policies

2.1 Basis of preparation

According to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 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 prepared using the historical cost principal, except where application of other methods of measurement are mandatory. The Consolidated Financial Statements were prepared in Euro (EUR). Unless otherwise indicated, all values are rounded to the nearest thousand (EUR k). The balance sheet is broken down by maturities. Net income is presented in two separate statements: an income statement and a statement of comprehensive income. The income statement was prepared using the cost of sales method.

Declaration of conformity 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 unrealized 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.

Identifiable assets, liabilities and contingent liabilities acquired in the context of a business combination are initially recognized at their fair value on the acquisition date. Non-controlling interests are recognized in accordance with the proportion of identifiable assets, liabilities and contingent liabilities held by the respective shareholder at fair value.

Goodwill arising from a business combination is defined as the excess of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled enterprise at the acquisition date. Goodwill is recognized as an asset and tested annually for impairment, or whenever there is any indication events that could result in an asset being impaired. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or the jointly controlled entity respectively. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-controlling interests refer to the share of results of operations and net assets not attributable to the Group. Any profit or loss from this share is accordingly recognized in the income statement separate from the share of results of operations attributable to the shareholders of the parent company. Recognition in the balance sheet is directly in equity, separate from the equity attributable to the shareholders of the parent company. Acquisition of non-controlling interests is accounted for using the parent entity extension method. Goodwill is recognized as the excess of purchase price over book value of the acquired net assets.

The Group's interest in GRAMMER AD was increased by another 0.74 % to 89.58 % in fiscal year 2009. Shares in GRAMMER A.S. were also acquired, bringing the total interest held to 99.40 % (2008: 99.25). Due to our already controlling interests, the two changes did not result in changes to the Group structure and were recognized as equity transactions.

Losses are accounted for under non-controlling interests until their balance reached zero. Losses in excess of this are attributed to the parent company, except in cases where the non-controlling interests assumed an obligation to compensate for losses.

In the event of loss of control, the Group accounts for the remaining interest in the amount of the relevant share in net assets at the point of loss of control.

Scope of consolidation

In addition to GRAMMER AG, the scope of consolidation includes five domestic and seventeen foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of 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. In the current fiscal year, GRAMMER Mexicana with registered office in Queretaro (Mexico) was merged with GRAMMER Automotive Puebla with registered office in Puebla (Mexico) for administrative purposes and the newly formed GRAMMER Railway Interior was consolidated for the first time.

2.2 Estimates and discretionary scope

In some cases, reporting in accordance with IFRS requires the application of estimate and premise-intensive accounting principles, which entail complex and subjective assessments and estimates based on information that is intrinsically uncertain and subject to change. For instance, 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 recoverablility of receivables and undertaking recognition and measurement of provisions. The assumptions and estimates are based on presumptions reflecting the currently available information. These may contain assumptions that the management could not have reasonably deemed otherwise. 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 that differ from these assumptions and are beyond the control of management may cause actual results to differ from the originally forecast estimates. As a precaution, the Group notes that future events often deviate from forecasts, and that estimates are routinely subject to revision. If actual developments differ from forecast developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Estimation uncertainties

The cardinal assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date, which entail 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 the cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. The cash flows are extrapolated from budgets for the subsequent three years, which relates to the estimates of the management as to the realizable value. The realizable value depends largely on the discount rate applied for discounted cash flow measurement, as well as the expected future cash flows and rate of growth used as the basis for extrapolation. As of December 31, 2009, the carrying amount of goodwill amounted to EUR 32,591 thousand (2008: 32,591). Further details are included in Note 12.1.

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.

Revenue recognition upon completion

A portion of business in the Group relates to customer development contracts. These construction contracts are recognized in accordance with the stage of completion as of the balance sheet date (percentage-of-completion-method) as described in Note 2.3. This method entails a measured estimate of the stage of completion. For estimation of the stage of completion, the Group must approximate the total contract costs, the costs to complete, the total contract revenue, the contract risks and other assumptions. The management continually reviews these assumptions in the context of such construction contracts and adjusts them as necessary. The calculation also 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.

Provisions

Determination of provisions for warranties, litigation or restructuring is largely characterized by estimates and assumptions. For warranty estimates, a significant number of assumptions are made relating technical disruptions, costs and possible claims, which rely to a considerable degree on assessments of operational management. These may change over the course of time as more specific information becomes available. The Group is confronted with various litigations and regulatory processes in different countries. These can result in civil sanctions or monetary fines for the Group. The Group recognizes provisions for such litigation costs if it is probable that an obligation will arise from them that is likely to result in future payments. To this extent, the creation of provisions is based largely on management discretion.

Deferred income tax assets

Deferred income tax assets are recognized for all unused income tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused income tax losses can be actually utilized. Significant management judgments are required to determine the amount of deferred income 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 8.1.

Pension 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, 2009, the provisions for pension and similar obligations amounted to EUR 57,260 thousand (2008: 54,450). 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
The consolidated financial statements are prepared in Euros, the functional currency of the Group. It is the currency of the primary economic environment in which GRAMMER Group conducts business. Every company within the Group determines its own functional currency. The items included in the financial statements of the companies are measured on the basis of the relevant functional currency.

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		Closing rate	
		2009	2008	2009	2008
Argentina	ARS	0.193	0.214	0.183	0.206
Brazil	BRL	0.359	0.375	0.398	0.304
Bulgaria	BGN	0.511	0.511	0.511	0.511
China	CNY	0.105	0.098	0.102	0.104
United Kingdom	GBP	1.119	1.257	1.126	1.042
India	INR	0.015	0.016	0.015	0.015
Japan	JPY	0.008	0.007	0.008	0.008
Canada	CAD	0.629	0.644	0.661	0.583
Mexico	MXN	0.053	0.061	0.053	0.052
Poland	PLN	0.231	0.283	0.244	0.239
Russia	RUB	0.023	0.027	0.023	0.024
Switzerland	CHF	0.664	0.632	0.674	0.673
Serbia	RSD	0.011	0.012	0.010	0.011
Czech Republic	CZK	0.038	0.040	0.038	0.038
Turkey	TRY	0.462	0.528	0.464	0.465
USA	USD	0.718	0.682	0.694	0.715

Property, plant and equipment

Property, plant and equipment are carried at cost less straight-line depreciation and accumulated impairment losses (IAS 16). If the cost of certain components are significant in proportion to the overall cost of the item of property, plant and equipment, the Group recognizes these separately and depreciates them individually. 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 directly attributable costs plus any allocable material and production overheads, including depreciation, and borrowing costs for long-term construction projects or similar manufacturing processes, provided they qualify for recognition. Repair costs and interest on borrowed funds are recognized as current expenses.

Property, plant and equipment are 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 assets. 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 lessee 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.

Any lease or rent payments under operating leases involving subsidiaries as lessee are recognized as an expense directly in profit or loss.

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

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 satisfied.

Borrowing cost

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition, construction or production costs of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs include interest and other costs, that a company incurs in connection with borrowing. The Group capitalizes borrowing costs relating all qualified assets for which construction commenced on or after January 1, 2009. The Group continues to recognize borrowing costs in connection with construction projects begun prior to January 1, 2009 as expenses.

Business combinations and goodwill

Business combinations in fiscal years beginning after July 1, 2009

Business combinations are accounted for using the purchase method. Costs for acquisition of a company are measured as the aggregate of the acquisition-date fair value of the consideration transferred and the amount of any non-controlling interest. In the context of any business combination, the Group values non-controlling interests in the acquired company either at fair value or as the relevant share of the identifiable net assets of the acquired company. Costs incurred in relation to the business combination are recognized as expense. When the Group acquires a company, it determines the suitable classification and designation of the financial assets and assumed debts in accordance with the contractual conditions, the economic situation and the conditions prevailing at the time of acquisition. This includes a separation of the embedded derivatives in the relevant agreements.

In the case of successive business combinations, the share of equity in the target company previously held by the acquiring entity is revalued to fair value at the time of acquisition and the resulting gain or loss recognized in the income statement. The agreed contingent consideration is measured at fair value at the time of the business combination. Subsequent changes to the fair value of a contingent consideration representing an asset or liability are either recognized in profit and loss or other income in accordance with IAS 39. If a contingent consideration is equity, the original amount is not re-measured and subsequent settlement is taken directly to equity.

Goodwill arising from a business combination is initially measured at cost, defined as the excess of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and debt acquired. If the acquisition cost is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement. Following initial recognition, goodwill is measured at cost less any accumulated impairment cost. 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 that will benefit from the business combination. This is carried out irrespective of any previous allocation of other Group assets or liabilities to these units. If goodwill has been attributed to a cash-generating unit 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 from sale of the unit. The value of any goodwill sold in this manner is determined on the basis of the ratio of value of the business segment sold to the unsold portion of the cash-generating unit.

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 as defined in IFRS 8 "Segment Reporting".

Impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that relates 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 from 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-generating unit.

Business combinations in fiscal years beginning prior to July 1, 2009
Based on the methods applied for accounting of company acquisitions in the past, the following applied in deviation from the above requirements: Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition were included in initial cost. The non-controlling interest (formerly "minority interest") were measured as the relevant share of the identifiable net assets of the acquired company. In the case of successive business combinations, individual investment transactions were accounted for separately. Additionally acquired shares did not have an effect on the amount of goodwill from the previous investment transactions.

When the Group acquired a company, a revaluation of any embedded derivatives accounted for separately by the target company took place only if the business combination resulted in major changes to the host instrument, which resulted in a significant change to the payment flows which would otherwise have resulted from the instrument.

Intangible assets
Intangible assets acquired against payment of 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 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 capitalized development costs 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 derecognition of intangible assets are calculated 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.

Patents and licenses

Patents may be either internally generated or acquired and are recognized at cost. The patents are issued by the competent government authority for a minimum of ten years, with an option for extension at the end of this period. Licenses for the use of intellectual property are issued for individual use for a period of one to ten years. The licenses generally include an option for extension, subject to the proviso that the Group satisfies the licensing conditions. There is little or no cost for an extension. Patents and license are amortized on a straight-line basis over their respective useful life.

Research and development costs

Research costs are recognized as an expense in the period in which they are incurred. Development costs for individual projects are only capitalized as immaterial assets if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for internal use or sale;
- the intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of resources for purposes of completing the asset and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, development costs are accounted for using the cost model, i.e. at acquisition cost less any accumulated depreciation and any accumulated impairment losses. Depreciation commences with completion of the development phase when the asset is available for use, and continues over the period during which future benefit can be expected.

Impairment of non–financial assets

The Group assesses on each balance sheet date whether there are any indications that the value of an asset could 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 any residual carrying amount, 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 recognized separately. They are offset, and the net amount recognized in the consolidated balance sheet, only when a current legal right exists to offset the amounts against one another and the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial instruments are recognized as soon as the Group becomes a counterparty to the financial instrument. In the case of regular way 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.

If contracts to buy or sell non-financial items fall under the scope of IAS 39, they are accounted for in accordance with provisions of this standard.

Initial recognition of financial assets

Financial assets within the meaning of IAS 39 are classified as financial assets measured at fair value through profit or loss, as loans and receivables, as held to maturity investments, as available-for-sale financial assets or as derivatives designated as hedging instruments and effective as such. The Group determines classification of its financial assets upon initial recognition.

Upon initial recognition, financial assets are measured at fair value. In the case of investments not classified as at fair value through profit or loss, transaction costs directly attributable to acquisition of the assets are also taken into account.

The Group's financial assets include cash and short-term deposits, trade receivables, receivables from outstanding loans and other receivables as well as quoted and unquoted financial instruments and derivatives.

Subsequent recognition of financial assets

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include financial assets classified as held for trading and those designated measured at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they have been purchased for the purpose of selling in the near future.

Derivatives, including embedded derivatives recognized separately, are also classified as held for trading with the exception of those derivatives that are designated as a hedging instrument and are effective as such. If instruments contain embedded derivatives, the derivatives are accounted for separately from the host instrument when the economic attributes and risks of the embedded derivative are not closely connected to the economic attributes and risks of the host instrument. The Group establishes whether embedded derivatives are to be accounted for separately from the host instrument 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.

Financial assets measured at fair value through profit or loss are recognized at fair value and the resultant gains and losses are recognized in the income statement.

No primary financial assets were classified as held for trading in either the reporting year or the previous year; no use was made of the option to initially designate financial assets as assets to be recognized at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, these are recognized at amortized cost using the effective interest rate method less possible impairment losses. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

Held to maturity financial investments
Non-derivative financial instruments with fixed or definable payments as well as a fixed term, which the Group clearly intends and has ability to hold 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 method. Gains and losses are recognized as profit or loss in the period if they are derecognized or written down and are reduced through amortization.

No financial instruments of this category were present in the Group either on the balance sheet date or in the previous year.

Available-for-sale assets
Available-for-sale assets are non-derivative financial assets that are classified as available-for-sale and are not included 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. Upon disposal of such financial assets, any gains or losses previously recognized in equity are transferred to the income statement, as is the accumulated loss previously recognized in equity in the event of impairment. If the fair value of an equity instrument traded on the stock market cannot be reliably determined, the equities are measured at cost, less any previous impairment loss.

Initial recognition of financial liabilities
Financial liabilities within the meaning of IAS 39 are classified either as financial liabilities recognized at fair value through profit or loss, as other liabilities or as derivatives that are designated as hedging instruments and effective as such.

The Group determines classification of its financial assets upon initial recognition.

Upon initial recognition, financial liabilities are measured at fair value. In the case of loans, directly attributable transaction costs are also taken into account.

The Group's financial liabilities include trade payables and other liabilities, bank overdrafts, loans, bonds and derivatives.

Subsequent recognition of financial liabilities

Financial liabilities measured at fair value through profit or loss
This category includes financial liabilities held for trading as well as financial liabilities designated as measured at fair value through profit or loss upon initial recognition.

Derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such, are also classified as held for trading.

Financial liabilities that 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.

No primary financial liabilities were classified as held for trading in either the reporting year or the previous year; no use was made of the option to initially designate financial liabilities as liabilities to be recognized at fair value through profit or loss.

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

Fair value of financial instruments
The fair value of financial instruments traded on an organized financial market is determined as the market price (bid price) applicable on the balance sheet date. The fair value of financial instruments for which there is no active market is determined through application of valuation methods. Valuation methods include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other pricing models.

Amortized cost of financial instruments

The amortized cost of financial instruments is calculated using the effective interest rate method, net of any impairment, principle repayment or amortization. The calculation takes into account all discounts or premiums paid for acquisition of the instruments as well as transaction costs, and includes fees that constitute an integral part of the effective interest rate.

Derivatives and hedge accounting

The Group makes use of derivatives, such as currency forwards, interest rate swaps and commodity futures to hedge against interest rate, exchange rate and other price risks. These derivatives are recognized at fair value at the time of agreement and revalued for recognition at fair value in subsequent periods. Derivatives are accounted for as financial assets if their fair value is positive, and as financial liabilities if their fair value is negative. Gains or losses from changes during the fiscal year in the fair value of derivatives that do not satisfy the requirements for recognition as hedging transactions, as well as any ineffective portion of an effective hedging instrument are recognized immediately in profit or loss.

The Group uses derivatives to hedge future cash flows from pending and planned transactions (cash flow hedges).

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and a description of how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows. Such hedges are expected to be highly effective in offsetting risks from changes in cash flows. They are assessed on an ongoing basis to determine whether they have actually been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedges that satisfy the strict criteria for recognition as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss from a hedging instrument is recognized directly in equity, whereas the ineffective portion is recognized directly in profit or loss. The amount included under equity is transferred to the income statement in the period in which the hedged transaction affects net income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction is no longer expected to occur, or the firm commitment no longer applies, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs or the firm commitment is settled.

Derivatives employed by GRAMMER Group in accordance with accepted criteria of interest rate, currency or price hedging, which nonetheless fail to satisfy the strict criteria set out in IAS 39, are classified as financial assets and financial 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 have changed adversely.

Financial assets carried at amortized cost

With respect to amounts carried at amortized cost from trade account receivables, an initial assessment is made to determine 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 then recognized or continues to be recognized are not included in a collective assessment of impairment. If there are objective indications that an impairment loss 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).

The carrying amount of trade receivables is reduced through use of an allowance account and the loss recognized in the income statement. No separate allowance account is used for any other financial assets.

If a receivable is classed as uncollectible, it is to be derecognized along with any related impairments when all pledged security has been called and liquidated. If, in a subsequent period, the amount of the impairment loss increases or decreases as the result of an event occurring after the impairment was recognized, the previously recognized impairment loss is accounted for in the income statement through and an upward or downward adjustment of the allowance account.

If a derecognized receivable is reclassified as collectable as the result of an event occurring after derecognition, the relevant impairment loss is reversed and the amount recognized in profit or loss.

Available-for-sale financial assets

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

Derecognition of financial assets

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

- 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 material 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.

Derecognition of 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 a derecognition of the primary 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 measured 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 administrative costs and interest on borrowed capital are not capitalised. 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 (PoC-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. These are recognized at amortized cost.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash and short-term deposits, as defined above, plus presently drawn overdraft facilities.

Own shares

If the Group acquires own shares, these are carried at cost and deducted from equity. The purchase, sale, issue or cancellation of

own shares is recognized directly in equity. Any differences between the carrying amount and the consideration paid are recognized in 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 likely cause an outflow of resources and a reliable estimate can be made with respect to 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 expenses

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. Any sales allowances such as discounts, rebates, customer bonuses etc. are deducted from revenues.

In the case of long-term construction contracts (e.g. customer development contracts), revenue is recognized in accordance with the stage of completion as of the balance sheet date. 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. If income from a construction contract cannot be estimated reliably, probable revenues are recognized in the amount of expenses incurred.

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

Interest income and expense are recognized in the period they arise. Interest income and expense is recognized in the income statement as part of the financial result.

Dividends

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 expenses 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 straight-line basis over the expected useful life of the asset.

Taxes

Current tax assets and current tax liabilities

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.

Actual taxes referring to items that are recognized directly in equity are recognized directly in equity without effect on profit or loss.

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

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

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

- 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.

2.4 Application of IFRS standards

2.4.1 Changes of accounting polices
The accounting policies applied generally correspond to the policies applied in the previous year, with the following exceptions:

As of January 1, 2009, the following new and revised IFRS standards were applied by the Group:

- IFRS 2 Share-based payment: vesting conditions and cancellations entered into force on January 1, 2009

- IFRS 7 Financial instruments: disclosure entered into force on January 1, 2009

- IFRS 8 Operating segments entered into force on January 1, 2009

- IAS 1 Presentation of financial statements entered into force on January 1, 2009

- IAS 23 Borrowing costs (revised) entered into force on January 1, 2009

- IAS 32 Financial instruments: disclosure and IAS 1 Presentation of financial statements: puttable financial instruments and obligations arising on liquidation entered into force on January 1, 2009

Any changes to the net assets, financial situation or result of operations of the Group resulting from application of a new or revised standard or interpretation are described below:

IFRS 2 Share-based payment: vesting conditions and cancellations
In January 2008, the IASB published an amendment of IFRS 2, more closely specifying vesting conditions and accounting treatment of cancelled rights. The Group makes no share-based payments and thus there were no changes to the net assets, financial situation or results of operations of the Group as a result of the amendment.

IFRS 7 Financial instruments: disclosure
The amended standard introduces additional provisions on the calculation of fair value and liquidity risk. The amendment requires a quantitative analysis of the fair value measurement on the basis of a three-level hierarchy for every class of financial instrument recognized at fair value. Moreover, level three now requires disclosure of changes in fair value at the start and end of the period as well as information on significant transfers between level one and two of the fair value hierarchy. With the changes, the requirements for recognition of liquidity risks from transactions relating to derivatives and assets employed for purposes of liquidity management are also specified. Information on measurement of fair value is provided in Note 29. The information on liquidity risk has not changed significantly as a result of the amendment; it is provided in Note 29.

IFRS 8 Operating segments
Upon entry into force, IFRS 8 replaces IAS 14 Segment reporting. In the opinion of the Group, the operating segments identified in accordance with IFRS 8 correspond to the segments under IAS 14. Information in accordance with IFRS 8, including adjusted comparative information, is provided in Note 5.

IAS 1 Presentation of financial statements
The revised standard requires separate presentation of changes in equity resulting from transactions with owners in their capacity as owners and other changes in equity. The statement of changes in equity thus depicts only transactions with owners, while other changes in equity are recognized as an aggregate in the form of a reconciliation for individual items of equity. The standard also introduces a statement of comprehensive income, which includes all income and expense items from the income statement as well as all components of income taken directly to equity, either in a single statement or two related statements. The Group decided to present two separate statements.

IAS 23 Borrowing costs
The revised version of IAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Previously, the Group recognized all borrowing costs in the income statement in the period incurred. In line with the transitional provisions of the IAS 23 amendment, the Group applied the standard prospectively. Accordingly, borrowing costs attributable to a qualifying asset are capitalized if their acquisition, construction or production began on or after the entry into force of the standard on January 1, 2009.

IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation
The changes to the standard allow limited use of exemptions allowing classification of puttable financial instruments as equity if certain criteria are satisfied. Application of this amendment did not have any effect on the Group's net assets, financial situation and results of operations.

2.4.2 EU endorsement given
The IASB and IFRIC published the following standards and interpretations which have been adopted in EU law in the context of the comitology procedure, but were not yet legally binding in fiscal year 2009. The Group has opted not to apply these standards and interpretations early.

- IAS 27 Consolidated and separate financial statements (revised 2008)

- Amendment to IAS 32 regarding the classification of rights issues

- Amendment to IAS 39 regarding exposures qualifying for hedge accounting

- IFRS 3 Business combinations (revised 2008)

- Changes to IFRS 5 in the context of improvements to IFRS 2008

- IFRIC 12 Service concession arrangements

- IFRIC 15 Agreements for the construction of real estate

- IFRIC 16 Hedges of a net investment in a foreign operation

- IFRIC 17 Distributions of non-cash assets to owners

- IFRIC 18 Transfers of assets from customers

IAS 27 Consolidated and separate financial statements
The revised version of IAS 27 was published in January 2008 and is applicable for the first time in annual periods beginning on or after July 1, 2009. The standard states that changes in an ownership interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Therefore, in such circumstances, neither goodwill nor profit or loss can occur. If control of a subsidiary is lost, any investment retained is restated at fair value taken into account in calculating the gain or loss from disposal. Losses incurred by the subsidiary are allocated to the owners of the parent company and the non-controlling interests (formerly "minority interests") even if this leads to a negative balance for the non-controlling interest. The transitional provisions provide for prospective application in this case. Consequently, there are no changes for assets and liabilities arising from such transactions prior to initial application of the new standard.

Amendment to IAS 32 regarding the classification of rights issues
The revised version of IAS 32 was published in October 2009 and is applicable for the first time in annual periods beginning on or after February 1, 2010. This amendment includes a redefinition of financial liabilities so that certain rights can be classified as equity instruments. This applies if a fixed number of rights are issued pro rata to all existing owners of the same class of non-derivative equity instruments at a fixed price in any currency.

Amendment to IAS 39 regarding exposures qualifying for hedge accounting
The revised version of IAS 39 was published in July 2008 and is applicable retroactively for the first time in annual periods beginning on or after July 1, 2009. The standard defines that only a portion of the changes in fair value or the cash flow fluctuations of a financial instrument can be designated as a hedged item. This also includes designation of inflation risks as hedged risks or portions thereof in certain cases. The Group determined that the changes will have no effect on the net assts, financial situation and results of operations of the Group, since it has not entered into any such transactions.

IFRS 3 Business combination
The revised version of IFRS 3 was published in January 2008 and is applicable for the first time in annual periods beginning on or after July 1, 2009. The standard underwent a comprehensive revision in the context of the IASB and FASB convergence project. The material changes relate largely to the introduction of an option in the context of measuring non-controlling interests (formerly "minority interests"), which may be recognized either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets of the acquired company. Also of note is the remeasurement of income from previously held interest upon acquisition of control (successive acquisition), an obligation at the time of acquisition to transfer contingent consideration if specified future events occur and recognition of transaction costs in the income statement. These new rules will have an effect on the measurement of goodwill, the results in the reporting period in which the business combination takes place and on future results. The transitional provisions provide for prospective application of the new rules. There are no changes for assets and liabilities arising from business combinations prior to initial application of the new standard.

Changes to IFRS 5 in the context of improvements to IFRS 2008
The changes in the context of the 2008 improvement project were published in May 2008 and – with the exception of IFRS 5 (applicable beginning July 1, 2009) – are applicable for the first time in annual periods beginning on or after January 1, 2009. The changes to IFRS 5 specify that an entity that all the assets and liabilities that are part of a sale plan involving loss of control of a subsidiary are to be classified as held for sale regardless of whether a non-controlling interest is retained in the former subsidiary after the sale.

IFRIC 12 Service concession arrangements
The revised version of IFRIC 12 was published in November 2006 and is applicable for the first time in annual periods beginning on or after January 1, 2008. The interpretation was adopted into EU law in March 2009, with the determination that it is applicable at the latest with the start of the first annual period after June 30, 2009. The interpretation covers accounting treatment of obligations assumed and rights obtained under service concession agreements in the financial statements of the operator.

IFRIC 15 Agreements for the construction of real estate
The revised version of IFRIC 15 was published in July 2008 and is applicable for the first time in annual periods beginning on or after January 1, 2009. The interpretation was adopted into EU law in July 2009, with the determination that it is applicable at the latest with the start of the first annual period after December 31, 2009. The interpretation provides guidelines on the timing and scope of recognition of revenue from real estate construction.

IFRIC 16 Hedges of a net investment in a foreign operation
The revised version of IFRIC 16 was published in July 2008 and is applicable for the first time in annual periods beginning on or after October 1, 2008. The interpretation was adopted into EU law in June 2009, with the determination that it is applicable at the latest

with the start of the first annual period after June 30, 2009. IFRIC 16 provides guidelines for the identification of foreign currency risks that can be hedged against in the context of hedges of a net investment, for determination of the Group companies can hold the instruments for hedging of the net investment and for calculation of foreign currency gains or losses, which are to be transferred from equity to the income statement upon disposal of the hedged foreign operation. This interpretation is to be applied prospectively.

IFRIC 17 Distributions of non-cash assets to owners
The revised version of IFRIC 17 was published in November 2008 and is applicable for the first time in annual periods beginning on or after July 1, 2009. The interpretation provides guidelines for accounting and measurement of obligations to distribute non-cash assets to owners. In particular, it addresses the timing of recognition of a liability, measurement of the liability and relevant assets as well as timing of derecognition of these assets and liabilities. This interpretation is to be applied prospectively.

IFRIC 18 Transfers of assets from customers
The revised version of IFRIC 18 was published in January 2009 and is applicable for the first time in annual periods beginning on or after July 1, 2009. The interpretation provides guidelines for accounting of agreements under which a company receives an item of property, plant, and equipment or cash that the company must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. It specifically addresses requirements for recognition of customer contributions and the timing and scope of recognition of revenue from such transactions. This interpretation is to be applied prospectively.

EU endorsement pending
The IASB and IFRIC published the following standards and interpretations which were not yet legally binding in fiscal year 2009. These standards have not yet been endorsed by the EU and were not applied by the Group.

- Amendment to IFRS 2 regarding group cash-settled share-based payment
- Improvements to IFRS 2009
- IFRS 9 Financial instruments: classification and measurement
- Amendment to IFRS 1 regarding limited exemption from comparative IFRS 7 disclosures for first-time adopters
- IAS 24 Related party disclosures (revised 2009)
- Amendment to IFRIC 14 regarding prepayments of a minimum funding requirement
- IFRIC 19 Extinguishing financial liabilities with equity instruments

Amendment to IFRS 2 regarding group cash-settled share-based payment
The revised version of IFRS 2 was published in June 2009 and is applicable for the first time in annual periods beginning on or after January 1, 2010. With the amendment to IFRS 2, the definition of share-based payment and the scope of applicability of IFRS 2 were changed and additional guidelines for accounting of group share-based payment were introduced. To this end, the standard sets forth that goods or services received by a company are to be accounted for based on the rules for share-based payment if they were received as a consideration for its equity instruments or if the company incurs no obligation to settle for cash. In all other cases, the arrangement is deemed cash-settled share-based payment. These principles apply irrespective of any intragroup agreements for reimbursement. In the context of the amendment, the provisions of IFRIC 8 (Scope of IFRS 2) and IFRIC 11 (Group and Treasury share transactions) were implemented in IFRS 2 and the interpretations repealed.

Improvements to IFRS 2009
The IFRS Taxonomy 2009 was released in April 2009, and relates to changes in various IFRS standards. Timing of application and transitional provisions are provided individually for each standard. To the extent not otherwise stated below, individual rules are to be applied for the first time in the annual period beginning on or after January 1, 2010. The Group has not previously applied the following amendments:

- IFRS 2 Share-based payment: It was clarified that the introduction of a business unit upon founding of a joint venture or merging of jointly controlled companies is not within the scope of IFRS 2. Initial application is intended for annual periods beginning on or after July 1, 2009.
- IFRS 5 Non-current assets held for sale and discontinued operations: It was clarified that non-current assets and disposal groups classified as held for sale as well as discontinued operations are subject exclusively to the disclosure requirements of IFRS 5. The disclosure requirements of other IFRS standards are only applicable if the relevant standards or interpretations expressly refer to assets in accordance with IFRS 5 and discontinued operations.

- IFRS 8 Operating segments: It is clarified that segment assets and liabilities are only reportable if these assets and liabilities are regularly reported to the company's chief operating decision maker.

- IAS 1 Presentation of financial statements: The assets and liabilities classified as held for trading in accordance with IAS 39 (Financial instruments: recognition and measurement) may not be automatically classified as current in the balance sheet.

- IAS 7 Statement of cash flows: It was determined that expenditures resulting in a recognised asset may be designated as cash flows from investing.

- IAS 17 Leases: The specific guidelines for classification of leases for land an buildings were repealed. The general guidelines apply in the future.

- IAS 18 Revenue: The IASB has drafted further guidelines for determination as to whether a company is acting as a principle or agent. For this amendment to the annex of IAS 18, which is not a part of the standard, no timing of application has been defined, so that it entered into force upon release.

- IAS 36 Impairment of assets: It was clarified that a cash-generating unit to which goodwill has been allocated in the context of a business combination may not be larger than an operating segment under IFRS 8 before aggregation in accordance with the relevant criteria.

- IAS 38 Intangible assets: If an intangible assets acquired in the context of a business combination is only identifiable together with another intangible asset, the acquirer may report the group of immaterial assets as a single asset, provided the members of the asset group have an identical useful life. It is also clarified that the methods cited in the standard for calculation of fair value of intangible assets acquired in the context of a business combination are only presented as examples. Companies are free to apply other methods. These changes are applicable for the first time in the annual period beginning on or after July 1, 2009.

- IAS 39 Financial Instruments: recognition and measurement: A prepayment option is deemed to be closely related to the host instrument if the exercise price of the prepayment option is measured in such a way that the counterparty receives the approximate cash value of the lost interest for the remaining maturity of the instrument. It is also clarified that the exception for contracts between the buyer and seller for future purchase or sale of a company applies only to binding forward contracts, but not for derivatives, in the context of which further measures are required. The third new addition to the standard requires that if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any gain or loss on the hedging instrument that was previously recognised directly in equity is ‚recycled' into profit or loss in the same period(s) in which the financial asset or liability affects profit or loss.

- IFRIC 9 Reassessment of embedded derivatives: IFRIC 9 does not apply to possible revaluation of embedded derivatives in contracts acquired in combinations of entities or businesses under common control or in the formation of a joint venture. This change is applicable for the first time in the annual period beginning on or after July 1, 2009.

- IFRIC 16 Hedges of a net investment in a foreign operation: Any company within the Group may hold a hedging instrument provided the requirements for designation, documentation and effectiveness under IAS 39 are satisfied. This change is applicable for the first time in the annual period beginning on or after July 1, 2009.

IFRS 9 Financial instruments: classification and measurement
IFRS 9 was published in November 2009 and is applicable for the first time in annual periods beginning on or after January 1, 2013. This standard was developed by the IASB as the first part of its comprehensive project to replace the provisions of accounting treatment of financial instruments. It contains new rules for classification and measurement of financial assets. According to the standard, all financial assets, regardless of their characteristics and taking account of the business model or models, are to be measured either at amortised cost or at fair value at fair value through profit or loss. All equity investments are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss. There is an option for the company at initial recognition to elect for measurement at fair value through other comprehensive income. In this case, only dividend income is recognised in profit or loss.

Amendment to IFRS 1 regarding limited exemption from comparative IFRS 7 disclosures for first-time adopters
The revised version of IFRS 1 was published in January 2010 and is applicable for the first time in annual periods beginning on or after July 1, 2010. The new rules allow first-time adopters of IFRS to make use of the transitional provisions for the improved disclosures under IFRS 7, which were published in March 2009.

IAS 24 Related party disclosures
The revised version of IAS 24 was published in November 2009 and is applicable for the fist time in annual periods beginning on or after January 1, 2011. The revision changes the definition of related parties and exempts state-controlled entities from the requirement to report on transactions with the state and other entities controlled by the same state. The standard is to be applied retroactively.

Amendment to IFRIC 14 regarding prepayments of a minimum funding requirement
The revised version of IFRIC 14 was published in November 2009 and is applicable for the fist time in annual periods beginning on or after January 1, 2011. Application of the IFRIC 14 interpretation, published in July 2007, which is designed to limit a defined benefit asset to its recoverable amount had some unintended consequence for companies in certain countries. The change is supposed to allow companies to recognize an asset for prepayments of a minimum funding requirement.

IFRIC 19 Extinguishing financial liabilities with equity instruments
The revised version of IFRIC 19 was published in November 2009 and is applicable for the first time in annual periods beginning on or after July 1, 2010. This interpretation clarifies that the issue of shares or other equity instruments to creditors to settle a financial liability is to be treated as a consideration paid to extinguish the financial liability. The equity interests are measured at their fair value or based on the fair value of the financial liability extinguished, depending on which can be more reliably measured. Any difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is included in profit or loss for the period.

The Group is unable to apply the following new rules, which will therefore have no effect on the net assets, financial situation or results of operations of the Group:

- IFRS 1 First-time adoption of international financial reporting standards (revised 2008).
- Amendment to IFRS 1 regarding further exemptions for first-time adopters.
- Amendment to IFRS 1 regarding limited exemption from comparative IFRS 7 disclosures for first-time adopters.
- Amendment to IFRS 2 regarding group cash-settled share-based payment.
- Amendment to IFRIC 14 regarding prepayments of a minimum funding requirement.

3 Interest in a Joint Venture

GRAMMER AG holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC). GRA-MAG LLC is a jointly controlled entity in the United States, which is active in the Segment Seating division.

The share of the assets, liabilities, income, and expenses of the jointly controlled entity attributable to the Group as of December 31, 2009 and December 31, 2008 based on proportionate consolidation in the consolidated financial statements is as follows:

EUR k	2009	2008
Current assets	2,251	1,847
Non-current assets	194	257
	2,445	**2,104**
Current liabilities	−1,523	−1,163
Non-current liabilities	−7,505	−7,481
	−9,028	**−8,644**
Income	4,957	4,393
Expenses	−5,364	−4,771

As of December 31, 2009 and December 31, 2008, no share of contingent liabilities or capital commitments was attributable to the Group.

4 Restructuring Expenses

In 2009, the Group carried out various restructuring and relocation measures which resulted in the closing and consolidation of production sites, primarily in the Automotive division. These expenses included costs in the form of losses from asset disposals, termination of employees or other closure or relocation costs. Additionally, the Group undertook major capacity adjustment measures accounted for as direct employment termination indemnities and personnel costs in all areas. These expenses totaled roughly EUR 15.1 million.

5 Segment Reporting

The segments described below cover the internal reporting and organizational structure of GRAMMER Group. Determination of the Company's key management indicators is based on the data contained in the IFRS consolidated financial statements. For the purpose of management, the Group is organized into operating segments by relevant products and services, comprising the following two reportable segments:

The Automotive division, which is the largest segment within GRAMMER Group, achieved 66.7% (2008: 62.0) of total Group revenue in fiscal year 2009. 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.

The Seating Systems division accordingly generated 33.3 % of Group revenue in the reporting year (2008: 38.0). In this segment, GRAMMER is active as a supplier to the commercial vehicles industry, developing and manufacturing driver and passenger seats for offroad vehicles (agricultural machinery, construction machinery and forklifts) and markets these to commercial vehicle manufacturers or as an aftermarket supplier The division also develops and produces driver and passenger seats for bus and railway vehicle manufacturers and railway operators. The Seating System division now encompasses the business units Truck, Bus and Offroad (agricultural machinery, construction machinery and forklifts) as well as the Railway unit.

Profit before tax generated by the operating segments is monitored separately by the management, in order to make decisions on resource allocation and determine the earnings strength of the units. Segment performance is assessed on the basis of profit before tax and is assessed in the consolidated financial statements on the basis of profit before tax. Group financing (including financing income and expenses) as well as income taxes are managed uniformly and autonomously within the Group and not allocated to the individual segments. Similarly, expenses for the central service departments are not broken down by segment. The Central Services segment carries out group-wide functions in financial controlling, corporate communications, procurement, finance, internal control investor relations, IT, human resources, accounting and legal affairs.

Transfer prices between the Group's operating segments are based on market prices established at arm's length. Segment income, segment expenses and segment earnings include transfers between business segments. These transfers are eliminated upon consolidation.

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, 2009 and 2008.

Fiscal year as of December 31, 2009

EUR k	Seating Systems	Automotive	Central Services/ Reconcilation	GRAMMER Group
Revenue to external customers	233,553	493,889	0	727,442
Inter-segment revenue	13,582	1,567	–15,149[1]	0
Total revenue	247,135	495,456	–15,149	727,442
Segment earnings (Operating profit)	–9,892	–3,864	–10,164	–23,920
Financial income				5,334
Financial expenses				–12,949
Profit/loss (–) before income tax				–31,535
Income taxes				3,322
Net profit/loss (–)				–28,213
Assets and liabilities				
Segment assets	138,602	309,854	51,897	500,353
Segment liabilities	–94,505	–99,015	–155,842	–349,362
Other segment information				
Investments				
Property, plant and equipment	7,652	21,140	508	29,300
Intangible assets	1,856	1,277	246	3,379
Depreciation/impairment of property, plant and equipment	–9,052	–13,862	–569	–23,483
Amortization/impairment of intangible assets	–1,248	–1,087	–723	–3,058
Non-cash items				
Changes in pension provisions	1,676	694	440	2,810

1) Sales to and income from other segments are strictly at arm's length.

Fiscal year as of December 31, 2008

EUR k	Seating Systems	Automotive	Central Services/ Reconcilation	GRAMMER Group
Revenue to external customers	374,915	632,038	8	1,006,961
Inter-segment revenue	15,113	5,578	–20,691 [1]	0
Total revenue	390,028	637,616	–20,683	1,006,961
Segment earnings (Operating profit)	31,034	3,074	–2,155	31,953
Financial income				2,468
Financial expenses				–14,846
Profit/loss (–) before income tax				19,575
Income tax expenses				–5,446
Net profit/loss (–)				14,129
Assets and liabilities				
Segment assets	159,731	272,006	49,269	481,006
Segment liabilities	–89,129	–87,128	–131,767	–308,024
Other segment information				
Investments				
Property, plant and equipment	11,192	20,693	555	32,440
Intangible assets	2,478	4,223	763	7,464
Depreciation/impairment of property, plant and equipment	–8,585	–11,737	–637	–20,959
Amortization/impairment of intangible assets	–1,106	–645	–703	–2,454
Non-cash items				
Changes in pension provisions	2,282	859	406	3,547

1) Sales to and income from other segments are strictly at arm's length.

Reconciliation

EUR k	2009	2008
Segment earnings (Operating profit)	–13,756	34.108
Central Services	–9,367	–4,911
Elimination	–797	2,756
Group earnings (Operating profit)	–23,920	31,953
Financial result	–7,615	–12,378
Profit/loss (–) before income tax	–31,535	19,575

The item Central Services reflects areas centrally administrated by the Group headquarters. Transactions between the segments are eliminated in the reconciliation.

Informations about geographical segments

The following tables include information on externally generated revenues and non-current assets of the Group's geographical segments for the fiscal years ending December 31, 2009 and 2008. The geographical breakdown is based on the region of registration of the companies.

Fiscal year as of December 31, 2009

EUR k

Registration of the companies	Europe[1]	Americas	Far East/ Rest of world	Group
Revenue	519,311	118,235	89,896	727,442
Non-current assets (= Property, plant and equipment and intangible assets)	153,392	18,289	20,033	191,714

Fiscal year as of December 31, 2008

EUR k

Registration of the companies	Europe[1]	Americas	Far East/ Rest of world	Group
Revenue	738,380	187,935	80,646	1,006,961
Non-current assets (= Property, plant and equipment and intangible assets)	149,859	16,040	21,759	187,658

1) EU member states after expansion of January 1, 2007

6 Revenue Structure of the Group

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 of the operating and reportable segments.

Revenue of EUR 727,442 thousand (2008: 1,006,961) includes contract revenue of EUR 39,117 thousand (2008: 30,833) determined using the PoC method. The expenditure incurred corresponded to revenues relating to development activities as well as operating funds that must be expensed and financed by GRAMMER Group until the product reaches serial production and generates revenues. These primarily relate to the Automotive division, as percentage-of-completion revenues are of only marginal relevance to the Seating Systems division.

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 1,370 thousand (2008: 849) and proceeds from the sale of scrap metal and materials handling costs of EUR 2,095 thousand (2008: 2,750). This item also contains government grants of EUR 233 thousand (2008: 303), income from offsetting costs of approximately EUR 1,234 thousand (2008: 1,123) and income from the sale and write-ups of property, plant and equipment of EUR 1,222 thousand (2008: 128). The government grants were issued for the acquisition of certain items of property, plant and equipment.

The conditions for these grants were satisfied in full and no other uncertainties exist in relation to them.

7.2 Financial result

EUR k

	2009	2008
Interest income from balances with banks	1,080	1,461
Available-for-sale financial assets	143	86
Other loans	263	400
Financial assets and liabilities measured at fair value through profit or loss	3,848	521
Total financial income	**5,334**	**2,468**
Loans and overdraft	–8,322	–6,527
Interest cost of pension provisions	–3,161	–2,849
Net loss from financial assets and liabilities measured at fair value through profit or loss	–1,322	–5,454
Interest element of lease payment	–144	–16
Total financial expenses	**–12,949**	**–14,846**
Financial result	**–7,615**	**–12,378**

Financial income relates mainly to temporary surplus cash invested in the context of active cash management. Changes in the fair value of interest rate swaps that do not satisfy the requirements 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.

Financial income includes interest income in the amount of EUR 1,486 thousand (2008: 1,947) calculated using the effective interest rate method. Financial expenses cover corresponding interest expenses totaling EUR 8,322 thousand (2008: 6,527).

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 non-capitalized research and development costs in the amount of EUR 30,038 thousand (2008: 39,240) 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 Seating System segment 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 615,592 thousand (2008: 832,121).

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 central departments. Other administrative expenses also includes income from exchange rate movements in the amount of EUR 11,335 thousand (2008: 39,222) 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 balance sheet date. Foreign exchange losses amounting to EUR 14,858 thousand (2008: 31,648) are also recognized under other administrative expenses.

Amortization of intangible assets and depreciation of property, plant and equipment

Amortization of intangible assets totaled EUR 3,058 thousand (2008: 2,454) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 1,194 thousand (2008: 819) for capitalized development costs included in cost of sales.

Depreciation of property, plant and equipment amounted to EUR 23,483 thousand (2008: 20,959).

As in 2008, no impairment losses were incurred in fiscal year 2009.

Depreciation, amortization and other write-downs are recognized in the income statement under cost of sales, selling expenses and administrative expenses.

7.4 Personnel expenses

EUR k

	2009	2008
Wages and salaries	164,307	194,598
Social security contributions of which for pensions EUR 2,439 thousand (2008: 2,681)	34,830	44,120
	199,137	238,718

8 Income Taxes

The key constituents of income taxes for fiscal 2009 and 2008 are as follows:

EUR k

	2009	2008
Consolidated Statement of Income		
Current tax		
Current tax expenses – Germany	–3,588	–1,928
Current tax expenses – abroad	–3,898	–5,164
Total current tax expenses	**–7,486**	**–7,092**
Deferred tax		
Deferred tax expenses/income – Germany	11,690	–1,445
Deferred tax expenses/income – abroad	–882	3,091
Deferred tax expenses/income	**10,808**	**1,646**
Income tax expenses reported in the consolidated Statement of Income	**3,322**	**–5,446**
Statement of Changes in Equity		
Deferred taxes relating to items changed or credited directly to equity		
Revaluation of hedging instruments – cash flow hedges	468	239

Reconciliation between income taxes and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2009 and 2008 is as follows:

EUR k

	2009	2008
Earnings before income taxes (relating to continuing operations)	**–31,535**	**19,575**
Income taxes at the rate of 30 % (2008: 30)	9,461	–5,873
Income from tax legislation/tax rate changes	51	12
Adjustments to current income tax incurred in the previous year	–1,401	28
Adjustments to deferred income tax incurred in the previous year	–783	689
Tax reduction due to losses carried forward	1,317	504
Tax exempt government grants	–41	8
Non-deductible expenses	–2,505	–1,096
Other tax effects	–43	–295
Effect of lower foreign tax rates	–2,734	577
Income taxes at the effective tax rate of 10.5% (2008: 28)	**3,322**	**–5,446**

8.1 Deferred income taxes

Deferred income tax comprised the following as of the reporting date:

EUR k

	2009 Consolidated Statement of Financial Position	2008 Consolidated Statement of Financial Position	Change
Deferred tax liabilities			
Property, plant and equipment	–5,092	–5,639	547
Intangible assets	–3,469	–3,001	–468
Goodwill	–3,414	–2,965	–449
Finance lease	–212	–64	–148
Other assets	–35	–78	43
Receivables	–6,299	–6,463	164
Others	–372	–424	52
	–18,893	**–18,634**	
Deferred tax assets			
Pension provisions	4,720	4,549	171
Other provisions	1,078	2,751	–1,673
Tax losses carried forward	20,630	10,293	10,337
Financial assets	0	92	–92
Others	5,215	3,359	1,856
	31,643	**21,044**	
			10,340
Recognized in equity			**468**
Income as per consolidated Statement of Income			**10,808**

The statutory rate of corporate income tax in Germany was 15% for the 2008 and 2009 assessment periods, plus a solidarity of 5.5%. This, together with trade tax on profits with different rates of assessment, which is not deductible as a business expense in Germany, results in a net tax burden of approximately 30% for 2008 and 2009. With regards to a more detailed presentation, deferred taxes were assessed with a rate of 30%.

For calculation of deferred tax assets and liabilities, the tax rates applicable at the point of utilization of the asset or fulfillment of the liability are used. Deferred tax assets and liabilities were assessed based on the overall tax rate of 30% (2008: 30). The local income tax rates for foreign entities varied between 10% and 45%.

Deferred tax assets are only recognized if the management deems their recoverability to be probable. Relevant value adjustments are based on all known positive and negative factors relating to future taxable income. The estimates made can change over time. Assessment of the value of deferred tax assets is based on the probability of measurement differences being reversed and the recoverability of loss carry-forwards that led to their creation. Based on past experience and anticipated income levels, it is assumed that the corresponding benefits can be realized.

Loss carry-forwards of EUR 18,015 thousand (2008: 14,235) were assumed to be non-recoverable. These relate mainly to tax results of the Mexican, US and Chinese subsidiaries. For the remaining tax loss carry-forwards, the Group assumes that it will have sufficient taxable income for recovery, as the losses are attributable primarily to expenses from restructuring and capacity adjustment as a result of the financial crisis. The tax losses carried forward may be carried forward, or in some cases carried back, for periods of 10 to 20 years.

In 2009, tax loss carry-forwards from previous years were realized in the amount of EUR 1,237 thousand (2008: 1,681).

9 Earnings per Share

Basic earnings per share are calculated by dividing consolidated net income/net loss by the nominal number of shares outstanding during the fiscal year, less the own shares 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). Since GRAMMER Group has not issued any such financial instruments or entered into any such contracts, its basic and diluted earnings per share are identical.

	2009	2008
Weighted average number of no-par value shares used to calculate basic/diluted earnings per share	10,165,109	10,165,109
Consolidated net profit/loss (–) (in EUR thousand)	–28,201	14,055
Basic/dilutes earnings per share in EUR	–2.77	1.38

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 preparation of the consolidated financial statements.

10 Dividends paid and proposed

Dividends resolved and distributed during the fiscal year

Dividends on common shares:

EUR k	2009	2008
Final dividend for 2008: 0 EUR (2007: EUR 1)	0	10,165

Dividends proposed for approval by the Annual General Meeting (not recognized as a liability as of December 31)

Dividends on common shares:

EUR k	2009	2008
Final dividend for 2009: 0 EUR (2008: EUR 0)	0	0

Due to the statutorily mandated assumption of loss utilization, GRAMMER AG's net loss as of December 31, 2009 will be carried forward. No dividend was paid in the reporting year. For further details, please refer to Note 18.

11 Property, Plant and Equipment

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plant under construction	Finance leasing	Total
Cost						
As of January 1, 2009	80,642	131,106	140,866	9,154	1,061	362,829
Additions	473	11,489	9,707	1,896	5,735	29,300
Disposals	–702	–11,616	–4,169	–754	–42	–17,283
Effects of exchange rate differences	757	3,245	498	–58	1	4,443
Reclassifications	4,234	708	2,347	–7,289	0	0
As of December 31, 2009	85,404	134,932	149,249	2,949	6,755	379,289
Depreciation and impairment						
As of January 1, 2009	33,525	85,598	105,041	0	533	224,697
Additions	3,817	9,040	9,378	0	1,248	23,483
Disposals	–386	–8,807	–3,231	0	–27	–12,451
Write-ups	0	–1,042	0	0	0	–1,042
Effects of exchange rate differences	509	1,998	214	0	2	2,723
Reclassifications	0	–11	11	0	0	0
As of December 31, 2009	37,465	86,776	111,413	0	1,756	237,410
Carrying amount on January 1, 2009	47,117	45,508	35,825	9,154	528	138,132
Carrying amount on December 31, 2009	47,939	48,156	37,836	2,949	4,999	141,879
Cost						
As of January 1, 2008	75,121	128,136	134,827	7,769	1,070	346,923
Additions	5,481	11,192	11,466	4,234	67	32,440
Disposals	–17	–3,250	–4,139	0	–68	–7,474
Effects of exchange rate differences	–1,383	–5,835	–1,854	20	–8	–9,060
Reclassifications	1,440	863	566	–2,869	0	0
As of December 31, 2008	80,642	131,106	140,866	9,154	1,061	362,829
Depreciation and impairment						
As of January 1, 2008	31,562	83,118	100,782	0	418	215,880
Additions	2,582	9,067	9,123	0	187	20,959
Disposals	–11	–2,202	–3,784	0	–58	–6,055
Write-ups	–2	–73	–13	0	0	–88
Effects of exchange rate differences	–606	–4,273	–1,106	0	–14	–5,999
Reclassifications	0	–39	39	0	0	0
As of December 31, 2008	33,525	85,598	105,041	0	533	224,697
Carrying amount on January 1, 2008	43,559	45,018	34,045	7,769	652	131,043
Carrying amount on December 31, 2008	47,117	45,508	35,825	9,154	528	138,132

Depreciation is based generally 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 leasing)	3–12 years

Land is not depreciated.

The Company has entered into various finance and operating leases for buildings, 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 buildings and limited items of equipment. For the buildings, these relate largely to customary renewal options, which provide for a renegotiation for continued use after expiry.

The leased assets to be recognized by the Company under IAS 17 are as follows.

Leased assets

EUR k

	Manufacturing plant and equipment	Other plant and equipment	Motor vehicles	Total
Cost				
As of January 1, 2009	0	169	892	1,061
Addition	5,735	0	0	5,735
Disposal	0	0	–42	–42
Reclassifications	0	0	0	0
Effect of exchange rate differences	1	0	0	1
As of December 31, 2009	5,736	169	850	6,755
Depreciation and impairment				
As of January 1, 2009	0	81	452	533
Addition	1,092	24	132	1,248
Disposal	0	0	–27	–27
Reclassifications	0	0	0	0
Effect of exchange rate differences	2	0	0	2
As of December 31, 2009	1,094	105	557	1,756
Carrying amount on January 1, 2009	0	88	440	528
Carrying amount on December 31, 2009	4,642	64	293	4,999
Cost				
As of January 1, 2008	0	129	941	1,070
Addition	0	31	36	67
Disposal	0	0	–68	–68
Reclassifications	0	0	0	0
Effect of exchange rate differences	0	9	–17	–8
As of December 31, 2008	0	169	892	1,061
Depreciation and impairment				
As of January 1, 2008	0	61	357	418
Addition	0	14	173	187
Disposal	0	0	–58	–58
Reclassifications	0	0	0	0
Effect of exchange rate differences	0	6	–20	–14
As of December 31, 2008	0	81	452	533
Carrying amount on January 1, 2008	0	68	584	652
Carrying amount on December 31, 2008	0	88	440	528

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

EUR k	Up to 1 year	1 to 5 years	more than 5 years
2009			
Lease payments	367	4,256	0
Less interest cost on a discounted basis	–3	–377	0
Present value (Statement of financial position)	364	3,879	0
2008			
Lease payments	103	108	0
Less interest cost on a discounted basis	–7	–21	0
Present value (Statement of financial position)	96	87	0

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

EUR k	Up to 1 year	1 to 5 years	more than 5 years
2009			
Lease payments	12,762	25,205	9,867
2008			
Lease payments	12,947	28,104	6,098

11.1 Property, plant and equipment held for sale

In the fiscal year, the amount of property, plant and equipment held for sale totaled EUR 30 thousand (2008: 0). These were items of property, plant and equipment held for normal use and of have no material effect on accounting.

12 Intangible Assets

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2009	19,788	43,738	13,521	0	77,047
Additions	1,242	0	2,137	0	3,379
Disposals	–264	0	0	0	–264
Effects of exchange rate differences	92	0	–33	0	59
Reclassifications	0	0	0	0	0
As of December 31, 2009	20,858	43,738	15,625	0	80,221
Amortization and impairment					
As of January 1, 2009	13,924	11,147	2,450	0	27,521
Additions	1,864	0	1,194	0	3,058
Disposals	–253	0	0	0	–253
Write-ups	0	0	0	0	0
Effects of exchange rate differences	69	0	–10	0	59
Reclassifications	0	0	0	0	0
As of December 31, 2009	15,604	11,147	3,634	0	30,385
Carrying amount on January 1, 2009	5,864	32,591	11,071	0	49,526
Carrying amount on December 31, 2009	5,254	32,591	11,991	0	49,836
Cost					
As of January 1, 2008	16,520	43,738	9,607	43	69,908
Additions	3,550	0	3,914	0	7,464
Disposals	–144	0	0	0	–144
Effects of exchange rate differences	–181	0	0	0	–181
Reclassifications	43	0	0	–43	0
As of December 31, 2008	19,788	43,738	13,521	0	77,047
Amortization and impairment					
As of January 1, 2008	12,538	11,147	1,630	0	25,315
Additions	1,635	0	819	0	2,454
Disposals	–131	0	0	0	–131
Write-ups	0	0	0	0	0
Effects of exchange rate differences	–118	0	1	0	–117
Reclassifications	0	0	0	0	0
As of December 31, 2008	13,924	11,147	2,450	0	27,521
Carrying amount on January 1, 2008	3,982	32,591	7,977	43	44,593
Carrying amount on December 31, 2008	5,864	32,591	11,071	0	49,526

Computer software is amortized using 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 32,175 thousand in 2009 (2008: 43,154), of which EUR 2,137 thousand (2008: 3,914) satisfied the criteria for capitalization under IAS 38.

12.1 Goodwill

The Seating Systems and Automotive product segments represent the primary economic basis of GRAMMER Group and reflect the internal management structure of the Group. The products segments Seating Systems and Automotive are the reportable operational segments and the cash-generating units (CGUs) of GRAMMER Group.

For purposes of impairment testing in accordance with IAS 36, goodwill acquired in the past and recognized in Group accounting is allocated to the CGUs.

GRAMMER AG tests goodwill for impairment at least once annually in accordance with the process outlined in section 2.3. The fundamental assumptions on which the determination of the recoverable amount attributable to the CGUs as of December 31, 2009 include the sustainable (net) growth rate of the relevant positive cash flows and the discount factor.

These are presented in the following table:

Basis of calculation

The recoverable amount from the cash-generating units is determined on the basis of the present value of estimated future cash flows less costs to sell.

Estimated cash flows are forecast for a three-year period using budgets authorized by Company management and take into account past performance, current operating profit, best management forecasts of future performance as well as market expectations and market assumptions.

Total cost of capital is determined using the capital asset pricing model assuming a risk-free interest rate of 4.25 % and a risk premium for general market risk of 5 %. For determination of operative and leverage risks, individual beta factors are derived from a group of comparable companies (peer group) and used for measurement of the positive cash flows attributable to the CGU. Cost of capital is estimated taking into account the future financing conditions of GRAMMER AG and adjusted in line with market expectations. The cost of capital determined in this way reflects the time value of money and the specific risks of the CGU for which the estimated future cash flows were not adjusted.

Cash flows after this three-year period are extrapolated based on a growth rate of 1 %.

EUR k

	Cash-generating unit	2009 Goodwill	2008 Goodwill	2009 Growth rate	2008 Growth rate	2009 Discount factor	2008 Discount factor
CGU I	Seating Systems	3,199	3,199	1 %	1 %	9.5 %	8.5 %
CGU II	Automotive	29,392	29,392	1 %	1 %	9.5 %	8.5 %
	Total	32,591	32,591				

Based on the impairment tests carried out on December 31, 2009, 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 divisions "Seating Systems" and "Automotive", the underlying assumptions are subject to estimation uncertainty, with respect to:

- Operating profit
- Commodity price trends
- Market share in the reporting period

Operating profit
Operating profit is derived from multi-year planning based on projected figures for revenues and expenses. Current figures, modified by future changes, are used to forecast manufacturing costs. Sales planning is based on information from GRAMMER Group customers as well as market forecasts from various information services.

Commodity price trends
Estimates are based on published price indices in countries from which commodities are purchased as well as data relating to specific commodities. Forecast data is used if it is publicly accessible – otherwise actual past trends in commodity prices 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 forecast period. The Company's management expects that the Seating Systems segment will solidify its market share during the period covered by the budget and that the Automotive segment will improve its position internationally.

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

In regard to the Automotive CGU, the recoverable amount exceeds the carrying amount by EUR 37,010 thousand. Potential changes to the basic assumptions could lead to the carrying amount exceeding the recoverable value. This could be caused by material changes to the following parameters:

- Strong changes in revenues - The Company management is projecting moderately rising revenues, which takes account of the current declines and upcoming business expansion through new projects and product lines in various markets. If revenue growth should fall to near 0% p.a. in the planning period, the relevant profits would decline to such an extent that the fair value of this CGU would equal its carrying amount.

- A reduction of the terminal value growth rate (net growth rate) to 0%, with all other parameters remaining unchanged, would lead to a roughly 7% reduction in the recoverable value. A positive difference would persist between the recoverable amount and the carrying amount of CGU II.

- An increase of the underlying discount factor of approx. 1.5%-points would mathematically reduce the excess of recoverable amount to carrying amount to zero.

Market-based view
For the assessment as to whether indications exist that goodwill has been impaired, the Group also takes into account the relationship between market capitalization and the carrying amount of the shareholders' equity of GRAMMER Group.

As of December 31, 2009, GRAMMER AG's market capitalization was well below the carrying value of Group equity, which could be an indication of impairment of goodwill or other assets.

Market cap	Equity	Fixed assets	Gearing
63,496	150,991	191,715	0.7

For the CGUs themselves, no market price is available. Allocation of the Companies total market capitalization to the CGUs Seating Systems and Automotive is thus only possible with the use of arbitrary allocation models.

The market capitalization of GRAMMER AG on December 31, 2009 results from the closing price for the GRAMMER AG share on this date and is based largely on trading (supply and demand) of individual shares or small blocks of shares in GRAMMER AG. Pricing does not take into account any control premiums for the determination of a market price for the totality of shares in GRAMMER AG. Moreover, the minority share in GRAMMER AG traded in the open markets theoretically corresponds to the arm's length transaction price between knowledgeable, willing parties only if there is no information gap and price determination is not subject to negative market conditions that skew the significance of fundamental data.

The management of GRAMMER AG is of the opinion that market capitalization at the reporting date cannot be a material basis for the present valuation considerations. Accordingly, the management based the measurements under IAS 36 on the conventional valuation methods taking into account cash flow projections.

13 Inventories

EUR k

	2009	2008
Raw materials and supplies	49,475	52,568
Work in progress	7,305	9,428
Finished goods and services	17,047	20,101
Advance payments	3,396	8,739
Total inventories	77,223	90,836

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

14 Trade Accounts Receivable

EUR k

	2009	2008
Trade accounts receivable	109,445	88,195

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 – 120 days. There are no restrictions on ownership or disposition.

As of December 31, 2009, write-downs of EUR 1,705 thousand (2008: 6,585) were taken on trade accounts receivable. Details are given in the table below:

Trade accounts receivable

EUR k

	Specific bad debt allowance	Portfolio-based allowance	Total
As of January 1, 2009	5,092	1,493	6,585
Additions	631	0	631
Utilization	–3,986	–470	–4,456
Write-backs	–701	–300	–1,001
Changes in exchange rates	–50	–4	–54
As of December 31, 2009	986	719	1,705
As of January 1, 2008	4,372	1,016	5,388
Additions	3,191	450	3,641
Utilization	–2,216	0	–2,216
Write-backs	–344	0	–344
Changes in exchange rates	89	27	116
As of December 31, 2008	5,092	1,493	6,585

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

EUR k

	Total	Neither past due nor impaired	Non-impaired and past due in the following periods				
			up to 30 days	31 – 60 days	61 – 90 days	91 – 180 days	more than 181 days
2009							
Trade accounts receivable	109,445	84,150	15,730	5,531	1,468	1,743	823
Receivables from construction contracts	55,004	55,004	0	0	0	0	0
Other financial receivables	5,096	5,096	0	0	0	0	0
2008							
Trade accounts receivable	88,195	64,406	16,743	2,320	2,276	1,281	1,116
Receivables from construction contracts	44,930	44,930	0	0	0	0	0
Other financial receivables	7,879	7,879	0	0	0	0	0

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

EUR k

	2009	2008
Non-current		
Outstanding loans	3,393	3,474
Securities	0	688
Participating interests	527	439
Others	676	3,442
	4,596	**8,043**
Current		
Receivables from construction contracts	55,004	44,930
Other receivables	1,027	963
	56,031	**45,893**

Outstanding loans primarily comprise one loan to a joint venture in a currency other than Group currencies at a fair value on the origination date of EUR 5,121 thousand, which was measured at fair value on the reporting date to total EUR 3,307 thousand (2008: 3,408). Repayment of this loan is currently neither planned nor likely, so that it constitutes part of the net investment in this joint venture. The associated exchange rate fluctuations were recognized directly in equity. Other financial assets in the current fiscal year include loans made to third parties and employees in the amount of EUR 676 thousand (2008: 1,442), after offsetting of plan assets for early retirement entitlements.

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

Receivables from affiliated companies result primarily from trade receivables with a term of 30 – 90 days.

16 Other Current Assets

EUR k

	2009	2008
Other assets	9,607	17,572
Prepaid expenses	2,228	2,322
	11,835	**19,894**

Other assets mainly include pass-through taxes such as value-added tax and income tax receivables in the amount of EUR 6,222 thousand (2008: 12,081), security deposits of EUR 1,399 thousand (2008: 1,360), receivables due from employees of EUR 115 thousand (2008: 304) and receivables due from creditors with debit balances of EUR 361 thousand (2008: 848).

No material restrictions on ownership or disposition existed for the other receivables and assets reported and no impairment losses were recognized.

17 Cash and Short-term Deposits

EUR k	2009	2008
Cash and short-term deposits	16,126	13,330

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

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 liquidity requirements. The deposits accrue interest at the current interest rates for demand deposits.

For the purposes of the consolidated statement of cash flow, holdings of cash and cash equivalents as of December 31 are as follows:

EUR k	2009	2008
Cash and short-term deposits	16,126	13,330
Bank overdrafts	–36,932	–12,594
	–20,806	736

18 Subscribed Capital and Reserves

Subscribed capital
As of December 31, 2009 and December 31, 2008, subscribed capital of GRAMMER Group amounted to EUR 26,868 thousand divided into 10,495,159 no-par value shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend and may exercise one vote for each share at the Annual General Meeting.

Capital reserve
The capital reserve amounted to EUR 58,237 thousand as of December 31, 2009 and 2008. The capital reserve includes share premiums from the capital increases in 1996 and 2001.

Revenue reserves
The statutory reserve of GRAMMER AG totaled EUR 1,183 thousand on both December 31, 2009 and 2008, and is not available for the payment of dividends.

Revenue reserves reflect income earned in the past by the companies included in consolidation, provided such income was not paid out as dividends. Revenue reserves fell from EUR 101,387 thousand to EUR 73,186 thousand as a result of the loss for the year.

Accumulated other income
Accumulated other income mainly comprise differences arising from the translation of the financial statements of foreign subsidiaries through equity and the effects of cash flow hedges, as well as adjustments from net investments in accordance with IAS 21 and the related deferred taxes.

Dividends
The company distributes dividends in accordance with section 58 (2) AktG based on net profit in the financial statements of GRAMMER AG, which are prepared according to the German Commercial Code. GRAMMER AG posted a net loss of EUR – 19.8 million as of December 31, 2009. This took into account profit of EUR 10.3 million carried forward, the allocation of EUR 7.3 million to other revenue reserves, as well as the withdrawal of EUR 0.3 million from the reserve for own shares transferred to other revenue reserves. Due to the statutorily mandated assumption of loss utilization, the net loss as of December 31, 2009 will be carried forward. No dividend was paid in the reporting year. In the context of dividend decisions, it must be noted that the Company holds 330,050 non-dividend paying own shares.

Own shares
As of December 31, 2009, GRAMMER AG holds a total of 330,050 own shares, all of which were acquired in fiscal year 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 884,928 and represent 3.1448 % of share capital.

Acquisition of own shares
On August 16, 2006, the Executive Board of GRAMMER AG decided to make use of the authorization of the Annual General Meeting of June 28, 2006 to acquire own shares in accordance with section 71 I (8) AktG. The Company may acquire up to 10 % of its share capital, i.e. up to 1,049,515 own shares. The share repurchase is for the purposes set out in the resolution adopted in the Annual General 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 General Meeting 2006 and at the same time, the Annual General Meeting 2007 authorized the Executive Board to acquire own shares up to December 1, 2008. The repurchase of the shares under this Executive Board resolution complies with the safe harbor rules of sections 14 (2), 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the acquisition price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's web-site. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2009, 10,165,109 common shares (2008: 10,165,109) were in circulation.

Non-controlling interests

Non-controlling interests in equity relate primarily to share holdings in GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey and GRAMMER AD, Bulgaria.

Authorizations

The 2006 Annual General Meeting authorized the Executive Board, subject to approval by the Supervisory Board, to increase share capital up to a total of 13,433,803.52 EUR through one or more issuances of bearer shares for a period of five years after entry of the change to the Articles of Association in the commercial register through August 25, 2011. The entry of the change was carried out on August 25, 2006. In addition, the Annual General Meeting on May 28, 2009 also resolved to authorize acquisition of the company's own shares amounting to no more than 10% of the share capital up to May 27, 2014, provided that the German Act to Implement the Shareholders' Rights Directive (ARUG) enters into force and, alternatively, to authorize acquisition of the company's own shares amounting to no more than 10% of the share capital up to November 27, 2010 in the event that ARUG does not enter into force in time or at all, or in case ARUG should enter into force with content that does not cover the resolution according to ARUG, and to authorize the issuance of profit-participation rights with or without option or conversion obligations and/or bonds with warrants and/or convertible bonds and to exclude subscription rights, in addition to simultaneously creating contingent capital and amending the Articles of Association. These resolutions by the Annual General Meeting were challenged with a total of three actions for the declaration of nullity/actions to set aside the resolutions. To the extent that amendments to the Articles of Association were carried out on the basis of the ARUG, these were not submitted by the Company for entry into the commercial register as a result of these challenges.

19 Pension and Other Post-employment Benefits

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 based primarily on the following actuarial assumptions:

%	2009	2008
Interest rate	5.25	5.60
Salary trend	2.00	2.75
Income trend for individual commitments	2.00	2.75
Inflation rate	1.90	1.90

%	2009	2008
Interest rate	5.00 – 6.26	5.00 – 5.71
Salary trend	2.00 – 4.50	3.00 – 4.50
Inflation rate	1.90 – 10.00	3.00 – 10.00

Mortality and disability are calculated on the basis of the 2005 G Heubeck mortality tables or comparable 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 year 2009, annuities in the amount of EUR 1,363 thousand (2008: 1,266) were paid on pension commitments. A total of EUR 606 thousand (2008: 173) was paid out for other employee benefits (post-employment benefits).

The following amounts were recognized in the income statement:

EUR k

2009	Pension plan	Miscellaneous benefits
Benefits earned in 2009	1,560	163
Interest expenses in 2009	3,083	78
Actuarial gains/losses recognized in 2009	0	0
Total 2009	4,643	241

EUR k

2008	Pension plan	Miscellaneous benefits
Benefits earned in 2008	1,751	385
Interest expenses in 2008	2,754	95
Actuarial gains/losses recognized in 2008	1	0
Total 2008	4,506	480

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

EUR k

	Pension plan	Miscellaneous benefits
DBO as of December 31, 2009	58,399	1,311
Unrecognized actuarial losses (–)	–2,450	0
Provisions as of December 31, 2009	55,949	1,311

EUR k

	Pension plan	Miscellaneous benefits
DBO as of December 31, 2008	55,714	1,725
Unrecognized actuarial losses (–)	–2,990	0
Provisions as of December 31, 2008	52,724	1,725

Accordingly, the change in DBO appears as follows:

EUR k

	Pension plan	Miscellaneous benefits
As of January 1, 2009	55,714	1,725
+ Benefits earned in 2009	1,560	163
+ Interest expenses in 2009	3,083	78
– Actual payments in 2009	–1,363	–606
– Disposals from liabilities 2009	–56	–49
Actuarial gains/losses 2009	–539	0
As of December 31, 2009	58,399	1,311
As of January 1, 2008	53,124	1,418
+ Benefits earned in 2008	1,751	385
+ Interest expenses in 2008	2,754	95
– Actual payments in 2008	–1,266	–173
– Disposal from liabilities 2008	0	0
Actuarial gains/losses 2008	–649	0
As of December 31, 2008	55,714	1,725

The change of the assumptions and the scheduled changes are as follows:

EUR k

	2009	2008
Expected DBO as of December of the relevant year	58,940	56,362
Current value of the DBO as of December 31 of the relevant year	58,399	55,714
Excessfunding/Underfunding	–541	–648
of which from		
necessary and implemented structural adjustments	–878	62
changes in assumptions	337	–710

20 Financial Liabilities

Interest-bearing liabilities

EUR k

	Current	Non-current	Total
2009			
Overdrafts	36,932	0	36,932
Loans			15,568
EUR loan	2,350	0	2,350
CNY loan	13,218	0	13,218
Debenture bond		69,797	69,797
Total Financial Liabilities	52,500	69,797	122,297

EUR k

	Current	Non-current	Total
2008			
Overdrafts	12,594	0	12,594
Loans			11,191
EUR loan	784	0	784
CNY loan	10,407	0	10,407
Debenture bond	0	69,741	69,741
Total Financial Liabilities	23,785	69,741	93,526

Overdrafts

Overdrafts are amounts drawn on existing lines of credit, on which interest is generally charged on the basis of a money market rate plus a fixed credit margin.

Current loans

Current loans denominated in Chinese currency feature tranches maturing between April and November 2010. Loans denominated in Euro are redeemable in January and May 2010, and prolonged annually on a revolving basis.

Debenture bond

Interest is charged on the debenture bond, which has a total principal amount of EUR 70 million, at a fixed rate of 4.8 %. It is not due for redemption until the end of August 2013.

The loans from the previous year secured by mortgages (EUR 222 thousand) or by fixed assets pledged as collateral were fully repaid according as planned the reporting year.

21 Provisions

EUR k

	Market related provisions	Obligations relating to personnel	Other provisions	Total
As of January 1, 2009	2,847	4,312	476	7,635
Additions	4,585	804	86	5,475
Utilization	–1,245	–3,763[1)]	–117	–5,125
Reversal	–286	0	–83	–369
Effects of exchange rate differences	246	0	–2	244
As of December 31, 2009	6,147	1,353	360	7,860
Current provisions 2009	6,147	1,353	360	7,860
Non-current provisions 2009	0	0	0	0
As of January 1, 2008	2,749	3,446	90	6,285
Additions	1,235	1,033	401	2,669
Utilization	–496	–167	0	–663
Reversal	–505	0	0	–505
Effects of exchange rate differences	–136	0	–15	–151
As of December 31, 2008	2,847	4,312	476	7,635
Current provisions 2008	2,847	4,312	476	7,635
Non-current provisions 2008	0	0	0	0

1) In fiscal year 2009, the allocated plan assets and obligations from early retirement entitlements were netted in accordance with IAS 19.

Market-related provision relate to all risks from the sale of parts and products, including development. These primarily comprise warranty claims calculated on the basis of previous claims and estimated future claims. These encompass Group liability for the proper functioning of the products sold and obligations to compensate buyers for damages and costs caused by use of the products. 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 caused by sales prior to the reporting date.

Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses. In fiscal year 2009, the allocated plan assets and obligations from early retirement entitlements were netted in the amount of EUR 3,479 thousand in accordance with IAS 19.

Other provisions refer 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

EUR k

	2009	2008
Trade accounts payable	86,193	81,051

Trade accounts payable include outstanding payment obligations for goods and services of the Group. Outstanding invoices and liabilities for deliveries received are recognized in accordance with their characteristics under trade accounts payable. The prior-year amount was revised accordingly. Generally, trade accounts receivable are non-interest-bearing and have a term of 30 – 90 days. The average period for payment of supplier invoices is 45 days. Customary retention of title by suppliers applies in relation to trade receivables.

23 Other Financial Liabilities

EUR k	2009	2008
Current		
Derivate financial instruments	1,682	7,862
Liabilities from leases	364	96
Liabilities to associated companies	415	577
Other financial liabilities (current)	2,461	8,535
Non-current		
Liabilities from leases	3,879	87
Liabilities to participations	4,199	4,072
Other financial liabilites (non-current)	8,078	4,159

24 Other Liabilities

EUR k	2009	2008
Current		
Social security obligations	1,829	1,835
Tax liabilities	5,123	4,672
Prepayments received	2,639	210
Other liabilities	30,024	27,095
Deferred income	3,373	2,014
Other current liabilities	42,988	35,826
Non-current		
Tax liabilities	545	174
Miscellaneous other	883	1,026
Other liabilities (non-current)	1,428	1,200
Total other liabilities	44,416	37,026

Social security obligations are largely obligations to social security agencies.

Other liabilities mainly comprise liabilities to employees from outstanding annual leave, overtime, flex-time or similar benefits, as well as obligations under redundancy plans. The item also includes liabilities relating to value-added tax for outstanding invoices and current expenses.

Tax liabilities principally comprise income taxes for fiscal year 2009.

25 Statement of Cash Flow

The Statement of cash flow 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 profit/loss before income 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 GRAMMER Group, cash and cash equivalents consists of cash and short-term money market funds, less current account liabilities to banks.

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

EUR k	2009	2008
Guarantees	935	3,304

Guarantees have been issued primarily for rented 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 in % 2009	Equity interest in % 2008
1. Fully consolidated subsidiaries			
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	99.99	99.99
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	100.00	100.00
3. GRAMMER Mexicana S.A. de C.V.	Queretaro, Mexico	1)	100.00
4. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	99.40	99.25
5. GRAMMER Inc.	Hudson, USA	100.00	100.00
6. GRAMMER Wackersdorf GmbH	Wackersdorf, Germany	100.00	100.00
7. GRAMMER CZ s.r.o.	Most, Czech Republic	100.00	100.00
8. GRAMMER Japan Ltd.	Tokio, Japan	100.00	100.00
9. GRAMMER AD	Trudovetz, Bulgaria	89.58	88.84
10. GRAMMER Automotive GmbH	Amberg, Germany	100.00	100.00
11. GRAMMER System GmbH	Amberg, Germany	100.00	100.00
12. GRAMMER Automotive Metall GmbH	Amberg, Germany	100.00	100.00
13. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Solvenia	100.00	100.00
14. GRAMMER Automotive Espanola S.A.	Olérdola, Spain	100.00	100.00
15. GRAMMER Industries Inc.	Piedmont SC, USA	100.00	100.00
16. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00	100.00
17. GRAMMER Automotive Polska sp. z.o.o.	Bielsko - Biala, Poland	100.00	100.00
18. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	100.00	100.00
19. GRAMMER Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00	100.00
20. GRAMMER Interior (Changchun) Co. Ltd.	Changchun, China	100.00	100.00
21. GRAMMER Interior (Shanghai) Co. Ltd.	Shanghai, China	100.00	100.00
22. GRAMMER System d.o.o. Serbien	Aleksinac, Serbia	100.00	100.00
23. GRAMMER Railway Interior GmbH	Amberg, Germany	100.00	2)
2. Proportionately consolidated companies			
1. GRA-MAG Truck Interior Systems LLC	Novi, USA	50.00	50.00

1) Merger of GRAMMER Mexicana S.A. de C.V. with GRAMMER Automotive Puebla S.A. de C.V.
2) First-time consolidation of the company in September 2009

GRAMMER System GmbH, GRAMMER Wackersdorf GmbH and GRAMMER Automotive Metall GmbH make use of the exemption under section 264 (3) of the German Commercial Code (HGB).

Conditions for related party transactions

Sales to and purchases by related parties are conducted at arm's length. 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, 2009 (2008: 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 reporting year:

EUR k

Related parties		Sales to related parties	Purchase from related parties	Receivables from related parties	Liabilities to related parties
Jointly-controlled entities in which the parent is a venturer: GRA-MAG Truck Interior Systems LLC	2009	56	0	8,063	0
	2008	272	0	7,949	0

GRA-MAG Truck Interior Systems LLC Limited

GRAMMER Group holds an interest of 50 % in GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2008: 50 %). GRA-MAG had 29 employees as of December 31, 2009 (2008: 46).

Disclosures relating to the Executive Board/Supervisory Board

No companies in GRAMMER Group entered into any significant transactions with members of the Executive Board 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

The following table shows the market prices and carrying amounts of financial assets and liabilities.

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/09	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value 12/31/09
			Amortized cost	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	16,126	16,126					16,126
Trade accounts receivable	LaR	109,445	109,445					109,445
Other financial assets								
Loans and receivables	LaR	5,096	5,096					5,096
Receivables from construction contracts	LaR	55,004	55,004					55,004
Financial assets available-for-sale	AfS	527		527				527
Financial asets held-for-trading	FAHfT	0						0
Liabilities								
Trade accounts payable	FLAC	86,193	86,193					86,193
Liabilities to banks	FLAC	52,500	52,500					52,500
Debenture bond	FLAC	69,797	69,767					63,899
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	4,614	4,614					4,614
Liabilities from finance leases	n.a.	4,243					4,243	4,243
Financial liabilities held-for-trading	FLHfT	1,682				1,682		1,682
Derivatives with hedge relationship	n.a.	0						0
Of which aggregated by valuation category in acc. with IAS 39								
Loans and receivables	LaR	185,671	185,671					185,671
Financial assets available-for-sale	AfS	527		527				527
Financial assets held-for-trading	FAHfT	0						0
Financial liabilties measured at amortized costs	FLAC	213,104	213,104					207,206
Financial liabilities held-for-trading	FLHfT	1,682				1,682		1,682

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/08	Balance sheet measures acc.to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value 12/31/08
			Amortized cost	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	13,330	13,330					13,330
Trade accounts receivable	LaR	88,195	88,195					88,195
Other financial assets								
Loans and receivables	LaR	7,878	7,878					7,878
Receivables from construction contracts	LaR	44,929	44,929					44,929
Financial assets available-for-sale	AfS	1,127		439	688			1,127
Financial asets held-for-trading	FAHfT	0						0
Liabilities								
Trade accounts payable	FLAC	81,051	81,051					81,051
Liabilities to banks	FLAC	23,785	23,785					23,798
Debenture bond	FLAC	69,741	69,741					72,975
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	4,649	4,649					4,649
Liabilities from finance leases	n. a.	183					183	183
Financial liabilities held-for-trading	FLHfT	4,799				4,799		4,799
Derivatives with hedge relationship	n. a.	3,063			3,063			3,063
Of which aggregated by valuation category in acc. with IAS 39								
Loans and receivables	LaR	154,332	154,332					154,332
Financial assets available-for-sale	AfS	1,127		439	688			1,127
Financial assets held-for-trading	FAHfT	0						0
Financial liabilties measured at amortized costs	FLAC	179,226	179,226					182,473
Financial liabilities held-for-trading	FLHfT	4,799				4,799		4,799

Because of the short term-nature of cash and short-term deposits, trade accounts receivable and other current receivables, it is assumed that the carrying amounts equate to their fair values.

The fair value of other non-current receivables with remaining terms of over one year equate to the present value of the payments associated with the assets taking account of the prevailing interest rate parameters.

Trade accounts payable and other liabilities usually have short residual maturities. The figures reported therefore approximate fair values.

The fair values of liabilities to banks, debenture bond and other non-current financial liabilities are determined as the present values of the payments associated with the liabilities calculated on the basis of the respective yield curves.

The table below shows a change in our financial instruments measured at fair value in the three levels of the fair value hierarchy:

EUR k

2009	Carrying amount	Level 1	Level 2	Level 3
Financial liabilities recognized at fair value				
Financial liabilities held-for-trading				
Interest rate swaps	1,682		1,682	

The levels of the fair value hierarchy reflect the level of judgment involved in estimating fair values. The hierarchy is broken down into three levels as follows:

Level 1: Quoted (non-adjusted) prices in active markets for identical assets or liabilities.

Level 2: Valuation of assets or liabilities is based on direct or indirect market observables, which are not quoted prices in accordance with level 1.

Level 3: Valuation techniques are based upon inputs that are not observable in the market.

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

EUR k

	Net income 2009	Net income 2008
Loans and receivables	5,115	11,075
Financial assets available-for-sale	0	86
Financial assets and liabilities held-for-trading	541	–5,656
Financial liabilities measured at amortized costs	–4,205	–1,930
	1,451	3,575

Net income from loans and receivables include currency gains or expenses, changes to value adjustments recognized as income, gains or expenses from derecognition of receivables and reversals of previously impaired receivables.

Net income from available-for-sale financial instruments includes write-downs and gains or expenses from derecognition.

Net income from financial instruments held for trading include changes in the market value of unhedged derivatives, including interest income and expenses.

The net income from financial liabilities recognized at fair value through profit or loss include primarily currency gains and expenses.

30 Financial Derivatives and Risk Management

The primary financial liabilities used in the Group encompass debenture bonds, 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.

Derivatives financial instruments

The Group also has derivative financial instruments primarily to hedge interest rate and currency risks resulting from Group's operating activity and its sources of finance. In some cases, the Group also hedges against commodity price risks using forward commodity transactions. These derivatives are used for the hedging of existing transactions, and serve to reduce currency, interest rate and commodity price risks.

At the balance sheet date, the Company maintained currency forwards with a total volume of EUR 0 thousand (2008: 24,349). As of December 31, 2008, hedging instruments in the amount of EUR 3,063 thousand with negative fair values satisfied the requirements for hedge accounting (cash flow hedge). The hedges related to Czech Koruna and Polish Zloty. The total amount of unrealized income and expenses recognized directly in equity in fiscal year 2009 was EUR 0 thousand (2008: – 2,012). As the result of hedged transactions being settled during the reporting year, an expense of EUR 3,041 thousand (2008: – 742) was transferred to profit and loss and the corresponding foreign exchange gains and expenses recognized as administrative expenses.

The Group also hedges long and short-term interest rate risks through the use of interest rate swaps. These hedges aim to ensure that especially short-term risks from changes of market interest rates are subject to as little fluctuation as possible. The nominal amounts of these interest rate derivatives on the reporting date amounted to EUR 30,357 thousand (2008: 33,683). They have a remaining maturity of up to four years. The negative market value of EUR 1,682 thousand (2008: 1,111) is reported under "other current financial liabilities". The Company recognizes changes in the market value as profit or loss in the financial result. Accordingly, a net loss of EUR 571 thousand (2008: 1,449) is recognized in the financial result in fiscal year 2009. With these interest rate swaps, the underlying obligation is economically hedged without satisfaction of the requirements for hedge accounting.

Commodity forwards for hedging of price risks in raw materials procurement, which were reported at a negative fair value of EUR 2,497 thousand in the previous year, were settled in the current fiscal year.

Financial risks

The Group is subject to market, credit and liquidity risks, as well as the currency and interest rate risks described above. Consequently, the Executive Board has implemented a risk management system, which is monitored by the Supervisory Board. The risk management system is integrated in the area of responsibility of the Chief Financial Officer, while the Executive Board bears ultimate responsibility at the highest level. The rules are designed to promote responsible treatment of risks and prudent actions among all Group employees. Management of risk is the responsibility of the Company management. Together with experts for financial risk, the management of the Company prepares a suitable framework for management of financial risks. This framework ensures that the activities of the Company that entail financial risk are carried out with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk.

All derivative transactions entered into for purposes of risk management are managed by expert teams that have the necessary knowledge and experience, and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management. In its internal guidelines the Group ruled out trading in derivatives in 2009 and 2008, and does not intend to change this in the future.

Credit risk

Credit risk is defined as the risk of the Group suffering a loss (default risk) because a counterparty fails to fulfill its obligations. The Group guidelines set forth that transactions will only be entered into with creditworthy third parties to reduce the risks of non-performance. As a result of the financial crisis, management of default risk has grown in importance. The risks arises from product deliveries to major customers, especially in the Automotive sector, is subject to particular monitoring due to risks from trade receivables. If no rating information is available, the Group uses other available financial information and its own records to asses major customers. Customers, who wish to conclude credit-based transactions for the first time, are also regularly subjected to a creditworthiness check. 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, because major transactions are balanced as a result of short-term maturity structure and broad customer groups.

Market risk

Market risk refers to the risk that the fair value and future cashflows from a financial instrument may fluctuate. Market risk encompasses the following three types of risk: exchange rate risk, interest rate risk and other price risks, such as share price risk. Instruments subject to market risk include interest-bearing loans, deposits, available-for-sale financial assets and derivatives. The sensitivity analyses in the sections below relate to the situations as of December 31, 2009 and 2008. The sensitivity analyses were prepared on the basis of the hedging transactions existing on December 31, 2009, subject to the assumption of constant figures for net gearing, the ratio of fixed to variable interest rates on liabilities and derivatives and the proportion of financial instruments denominated in foreign currencies. The analyses do not account for any effects of changes in market variables on the carrying amounts of pension obligations and other post-employment benefits, provisions and non-financial assets and liabilities of foreign operations.

Fluctuations in the market price can result in significant cash flow and earnings risks for the Company. Changes in the exchange rates and interest rates applicable to foreign currencies impact ongoing operations as well as financing and investment activities. All depictions of the potential financial effects are approximations and are based on the assumptions of the relevant sensitivity analyses and method. The actual effects on the income of the Group may deviate considerably as a result of actual market developments.

Commodity price risk

Procurement prices, especially for commodities such as steel and oil are subject to significant fluctuations depending on the market situation. These cannot always be passed on to customers, which results in commodity price risks. To hedge against these risks, the Company endeavors to conclude long-term supply contracts and consolidate volumes as a way to limit volatility. Commodity futures contracts, to be recognized as derivatives under IAS 39, are also entered into to hedge price risks related to purchases of commodities.

Currency risk

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 guidelines, currency forwards are concluded to hedge specific foreign currency inflows and outflows amounting to 70% – 80% of the exposure. In this context, the Group largely follows a group-wide portfolio approach, which consists of combining group-wide 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.

The sensitivity analysis of changes in currency is based on the following assumptions:

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.

- Changes in interest rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.

- Derivatives for the purpose of currency hedging that are designated as hedging instruments in the context of cash flow hedges have an effect on equity and are taken account of in the sensitivity analysis.

- Currency derivatives that are not designated as hedging instruments in the context of cash flow hedges have an effect on period income and are taken account of accordingly in the sensitivity analysis.

- For the determination of sensitivity to exchange rate risks, a change in the exchange rate of +/– 10 percentage points on the reporting date (2008: 10) is assumed. All other variables remain constant.

The following table shows the sensitivity of consolidated net income before tax and equity to a reasonably possible change in the exchange rates:

EUR k

	Changes in the price of the USD	Impact on profit before tax	Impact on equity
2009	+10%	6,185	–1,075
	–10%	–6,185	1,075
2008	+10%	6,157	–1,101
	–10%	–6,162	1,101

	Changes in the price of the TRY	Impact on profit before tax	Impact on equity
2009	+10%	–546	0
	–10%	546	0
2008	+10%	–370	0
	–10%	252	0

	Changes in the price of the CZK	Impact on profit before tax	Impact on equity
2009	+10%	799	0
	–10%	–799	0
2008	+10%	649	2,098
	–10%	–649	–1,716

	Changes in the price of the PLN	Impact on profit before tax	Impact on equity
2009	+10%	–378	0
	–10%	378	0
2008	+10%	–282	558
	–10%	282	–457

	Changes in the price of the MXN	Impact on profit before tax	Impact on equity
2009	+10%	1,306	1,291
	–10%	–1,306	–1,291
2008	+10%	821	1,291
	–10%	–821	–1,291

Interest rate risk

The Group pursues the strategy of structuring its non-current 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 also subject to as little fluctuation as possible. To accomplish this, the Company enters into interest rate swaps, under which the Group exchanges amounts at fixed intervals with the swap counterparty based on the difference between fixed interest and variable interest on a predefined nominal amount. These interest rate swaps were used to hedge the underlying commitments. On December 31, 2009, with respect to financial liabilities, roughly 57.1% of the Group's debt capital had fixed rates of interest 2008: 74.6.

To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent that this is not limited by country-specific regulations, Group Treasury makes financing available to all divisions and associated companies in the form of loans.

The interest rate sensitivity analysis is based on the following assumptions:

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risk and thus not included in the sensitivity analysis.

- Variable rate primary financial instruments, the payments from which are not designated as underlyings for cash flow hedges against interest rate risks, have an effect on period income and are taken account of in the sensitivity analysis.

- Interest rate derivatives not designated as hedging instruments in the context of a cash flow hedge have an effect on period income and are thus taken account of in the sensitivity analysis.

- The interest rate risk from currency derivatives is deemed insignificant, and thus not included in the sensitivity analysis.

- For determination of the sensitivity of interest rate derivatives, a parallel shift of the yield curve by +/– 50 basis points (2008: 100) is assumed. As a result of the current low-interest rate environment, a minimal 0% basic rate of interest is assumed for shorter maturities.

The following table shows the sensitivity of consolidated profit before tax to a reasonably possible change in interest rates: All other parameters remain constant.

EUR k

	Increase/ reduction in basis points	Impact on profit before tax
2009	–50	–338
	+50	73
2008	–100	–1,045
	+100	990

Liquidity risk

The Group manages liquidity risks by holding appropriate reserves, lines of credit in the amount of EUR 116.0 million (2008: 107.9) with banks and through constant monitoring of forecast and actual cash flows and 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 overdraft facilities, loans, bonds, factoring, finance leases and closed-end leasing agreements. In addition, internal guidelines stipulate a safety margin of EUR 50 million between medium-term loan commitments and net financial liabilities.

As of December 31, 2009, the Group had unutilized lines of credit in the amount of EUR 63,524 thousand (2008: 84,066), for which all the conditions required for utilization had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR k

	Carrying amount	Cash flow		
		2010	2011 – 2013	2014 and thereafter
2009				
Current and non-current financial liabilities				
Debenture bond	69,797	3,389	80,168	0
Bank loans	15,568	17,063	0	0
Overdrafts	36,932	36,932	0	0
Trade accounts payable	86,193	86,193	0	0
Current and non-current other financial liabilities				
Liabilities from finance leases	4,243	1,541	2,967	44
Other original financial liabilities	4,614	415	4,199	0
Derivates	**1,682**			
Interest rate derivates	1,682	884	1,089	0
		146,417	**88,423**	**44**

EUR k	Carrying amount	Cash flow		
		2009	2010 – 2012	2013 and thereafter
2008				
Current and non-current financial liabilities				
Debenture bond	69,741	3,389	10,168	73,389
Bank loans	11,191	11,450	0	0
Overdrafts	12,594	12,594	0	0
Trade accounts payable	81,051	81,051	0	0
Current and non-current other financial liabilities				
Liabilities from finance leases	183	164	88	0
Other original financial liabilities	4,649	577	4,072	0
Derivates	**7,862**			
Interest rate derivates	1,111	194	824	173
Exchange rate derivates	4,254			
Payments received		–42,421		
Payments outgoing		46,127		
Commodities forwards	2,497	2,497		
		115,622	**15,152**	**73,562**

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 on the reporting date. Financial liabilities repayable on demand are always allocated to the earliest maturity band. Variable interest payments under primary financial instruments were established on the basis of the interest rates last fixed before the balance sheet date. In the case of interest rate derivatives, the net payments are recorded based on calculation of payment flows on the variable side using the relevant forward interest rates. For currency derivatives, gross settlement is used. In this case, both the relevant payments and receipts are presented.

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

To monitor its financial structure, the Group uses net gearing, which is also a key financial parameter used by third parties to determine the ratio of net financial liabilities to equity. Net financial liabilities include current and non-current liabilities to banks as well as liabilities from finance leasing, less cash and equivalents, securities and short-term deposits. Equity comprises the equity attributable to the parent company's shareholders. In the period under review, the Company was able to maintain the conditions set out by third parties for retention of financing.

As a result of the crisis, the internal debt corridor has been redefined.

The Group targets a safety buffer of 20% for a gearing of one as defined below.

EUR k	2009	2008
Non-current liabilites to banks	69,797	69,741
Current liabilities to banks	52,500	23,785
Liabilities from finance lease	4,243	183
Cash and securities	–16,126	–13,330
Net financial liabilities	**110,414**	**80,379**
Equity before minority interests	150,526	172,456
	40,112 73%	**92,077** 47%

31 Events after the Balance Sheet Date

The following events occurred up to March 19, 2010 (date of release for submission to the Supervisory Board):

In 2009, GRAMMER AG's Railway unit was restructured and transferred on January 1, 2010 to an independent GmbH (German private limited company), which is a wholly owned subsidiary of GRAMMER AG. The new company aims to strengthen the focus on the core railway business and promote the independent strategic development of markets. The projects awarded by the mostly public-sector clients require flexible, streamlined structures that can nonetheless meet very specific, highly technical requirements.

As of March 12, 2010, GRAMMER AG secured medium-term financing and, with participation by KfW, signed a syndicated loan package totaling EUR 110 million with a term of three years for short-term drawdowns. Signing these agreements contributed materially to the stability of the financial position of GRAMMER AG and provided a solid framework for medium-term financing that effectively supports future operational and strategic development.

32 Other Information

Employees

On average, GRAMMER Group had the following numbers of employees in the year under review:

	2009	2008
Wage-earning employees	5,533	7,298
Salaried employees	1,941	2,195
Total	7,474	9,493

The individual Group divisions had the following numbers of employees on the December 31 balance sheet date:

	2009	2008
Seating Systems	2,556	3,114
Automotive	4,479	5,631
Central Services	189	163
Total	7,224	8,908

Auditor's fees within the meaning of section 314 (1) No. 9 of the German Commercial Code

Fees for the auditor of the consolidated financial statements recognized as expenses in the reporting year amounted to EUR 345 thousand (2008: 381) for the audit, EUR 0 thousand (2008: 0) for other audit and assessment services, EUR 21 thousand (2008: 137) for tax consulting services and EUR 25 thousand (2008: 2) for other services.

Executive Board and Supervisory Board remuneration

EUR k

	2009	2008
Total remuneration paid to the Executive Board amounted to	1,336	1,784
The Supervisory Board received total remuneration of	218	235

The variable portion of total remuneration paid to the Executive Board amounted to EUR 116 thousand (2008: 549). The variable portion of total remuneration paid to the Supervisory Board was EUR 4.8 thousand (2008: 4.7).

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2009:

EUR k

	Non-performance-related components	Performance-related components	Components providing long-term incentives	Total
Dr. Rolf-Dieter Kempis	460	40	0	500
Alois Ponnath	368	24	0	392
Hartmut Müller	392	52	0	444
	1,220	116	0	1,336

The Company paid EUR 257 thousand (2008: 259) to former members of management/the Executive Board and their surviving dependents.

EUR 3,491 thousand (2008: 3,640) was earmarked for pension obligations to former members of management/the Executive Board or their surviving dependents in accordance with IAS 19.

Moreover, current service cost for allocations to pension provisions arose for active members of the Executive Board in the amount of EUR 52.8 thousand (2008: 53.5). Of this, EUR 24.9 thousand was attributable to Alois Ponnath and EUR 27.9 thousand to Hartmut Müller.

Individual remuneration paid to the members of the Supervisory Board was as follows:

EUR k

	Fixed remuneration	Performance based remuneration in fiscal year 2008	Total
Dr.-Ing. Bernd Blankenstein	29.1	0.4	29.5
Jürgen Ganss (Member until 06/30/2009)	11.5	0.4	11.9
Joachim Bender (Member as of 07/01/2009)	10.4	0.0	10.4
Dipl.-Betriebswirt (FH) Wolfram Hatz	20.8	0.4	21.2
Dipl.-Betriebswirt (FH) Georg Liebler	16.4	0.4	16.8
Dr.-Ing. Klaus Probst	15.4	0.4	15.8
Dr.-Ing. Peter Stehle	14.5	0.4	14.9
Dr. Bernhard Wankerl	18.1	0.4	18.5
Udo Fechtner	20.9	0.4	21.3
Astrid Franzky (Member as of 02/19/2009)	13.5	0.0	13.5
Tanja Jacquemin	17.2	0.4	17.6
Anton Kirschbauer (Member until 06/22/2009)	5.2	0.4	5.6
Anton Kohl (Member as of 08/21/2009)	6.0	0.0	6.0
Monika Kugler-Fleischmann	14.5	0.4	14.9
Horst Übelacker (Member until 12/31/2008)	0.0	0.4	0.4
	213.5	4.8	218.3

33 Corporate Governance

The Corporate Governance Statement pursuant to section 289a of the German Commercial Code (HGB) along with the Declaration of Conformity with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG) are reproduced in the 2009 Annual Report and are permanently available on the company website under www.grammer.com/corporate_governance.

Boards

Executive Board

▷ Dr.-Ing. Rolf-Dieter Kempis, Waldenburg
Chairman of the Executive Board

▷ Dipl.-Kfm. Alois Ponnath, Kümmersbruck

▷ M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Darmstadt

Supervisory Board

▷ **Dr.-Ing. Bernd Blankenstein, Aachen**
Chairman

▷ **Joachim Bender, Sulzbach-Rosenberg**
Deputy Chairman/Employee Representative (as of 07/01/2009)

▷ **Jürgen Ganss, Schwabach**
Deputy Chairman/Employee Representative (until 06/30/2009)

▷ **Dipl.-Betriebswirt (FH) Wolfram Hatz, Ruhstorf**

▷ **Dipl.-Betriebswirt Georg Liebler, Möglingen**

▷ **Dr.-Ing. Klaus Probst, Heroldsberg**

▷ **Dr.-Ing. Peter Stehle, Bad Homburg**

▷ **Dr. Bernhard Wankerl, Schwandorf**

▷ **Udo Fechtner, Kümmersbruck**
Employee Representative

▷ **Dipl.-Kauffrau Astrid Franzky, Kümmersbruck**
Employee Representative (as of 02/19/2009)

▷ **Dipl.-Kauffrau Tanja Jacquemin, Frankfurt a. M.**
Employee Representative

▷ **Anton Kirschbauer, Ursulapoppenricht**
Employee Representative (until 06/22/2009)

▷ **Anton Kohl, Hahnbach**
Employee Representative (as of 08/21/2009)

▷ **Monika Kugler-Fleischmann, Hahnbach**
Employee Representative

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

Executive Board:

▷ **Dr.-Ing. Rolf-Dieter Kempis**
Chairman of the Executive Board
Segment Automotive
Personnel director
- Chairman of the Board of Directors of GRAMMER Automotive Española S.A., Olèrdola/Spain
- Chairman 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., Queretaro/Mexico (until 11/30/2009)
- Chairman of the Board of Directors of GRAMMER Industries Inc., Piedmont/USA
- Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China
- Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China
- Member of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China

▷ **Dipl.-Kfm. Alois Ponnath**
Member of the Executive Board
Central Services Division
- Member of the Supervisory Board of GRAMMER AD, Trudovec/Bulgaria
- 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
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, Novi/USA

▷ **M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller**
Member of the Executive Board
Segment Seating Systems
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, Novi/USA
- Chairman of the Supervisory Board of GRAMMER AD, Trudovec/Bulgaria
- Member of the Board of Directors of GRAMMER Industries Inc., Piedmont/USA
- Chairman of the Board of Directors of GRAMMER Inc., Hudson/USA
- 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 (Shanghai) Co. Ltd., Shanghai/China
- Chairman of the Board of Directors of GRAMMER Seating (Xiamen) Co. Ltd., Xiamen/China
- Member of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China
- Chairman of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico
- Chairman of the Board of Directors of GRAMMER Mexicana S.A. de C.V., Queretaro/Mexico (until 11/30/2009)
- Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern

Supervisory Board:

▷ **Dr.-Ing. Bernd Blankenstein**
Engineer
Chairman of the Supervisory Board
former Chairman of the Executive Board of GRAMMER AG
- Member of the Advisory Board of KTP Palettentechnik GmbH, Bous

▷ **Joachim Bender**
First Representative of IG Metall
(Member of the Supervisory Board as of 07/01/2009)
- Deputy Chairman of the Supervisory Board of Kennametal GmbH, Fürth

▷ **Jürgen Ganss**
First Representative of IG Metall
(Member of the Supervisory Board until 06/30/2009)
- Deputy Chairman of the Supervisory Board of Luitpoldhütte AG, Amberg (until 06/30/2009)

▷ **Dipl.-Betriebswirt (FH) Wolfram Hatz**
Independent Businessman
Executive Director of Motorenfabrik Hatz GmbH & Co. KG as well as of Hatz Holding GmbH
- Member of the Advisory Board of Commerzbank AG, Frankfurt am Main

▷ **Dipl.-Betriebswirt Georg Liebler**
former Member of the Management Board 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

▷ **Dr.-Ing. Klaus Probst**
Engineer
Chairman of the Executive Board of Leoni AG
- Member of the Advisory Board of Lux-Haus GmbH & Co. KG, Georgensgmünd
- Member of the Supervisory Board of Zapp AG, Ratingen
- Member of the Advisory Board of Deutsche Bank AG München, region South

▷ **Dr.-Ing. Peter Stehle**
Engineer
Managing Director of SYN GmbH
- 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
- Member of the Board of Directors of Stulz GmbH, Hamburg

▷ **Dr. Bernhard Wankerl**
Attorney
- no further offices

▷ **Udo Fechtner**
Toolmaker
- no further offices

▷ **Dipl.-Kauffrau Astrid Franzky**
Head of Controlling
(Member of the Supervisory Board as of 02/19/2009)
- no further offices

▷ **Dipl.-Kauffrau Tanja Jacquemin**
Political Secretary
- no further offices

▷ **Anton Kirschbauer**
Technician
(Member of the Supervisory Board until 06/22/2009)
- no further offices

▷ **Anton Kohl**
Foreman
(Member of the Supervisory Board as of 08/21/2009)
- no further offices

▷ **Monika Kugler-Fleischmann**
Women's Clothing Tailor
- no further offices

Auditors' Report

We issued the following opinion with respect to the Consolidated Financial Statements and the Consolidated Management Report:

"We have audited the consolidated financial statements prepared by GRAMMER Aktiengesellschaft, Amberg, comprising the income statement, the statement of comprehensive income, the statement of financial positions, 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, 2009. 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 internalcontrol 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 19, 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth
Wirtschaftsprüfer

Helgert
Wirtschaftsprüfer

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 2010

GRAMMER AG
Executive Board

GRAMMER AG – Income Statement [1)] for the fiscal year ending December 31, 2009

EUR k	2009	2008
Revenue	328,903	487,551
Increase (2008: Decrease) in finished goods and work in progress	8,406	–2,850
Other own work capitalized	1,737	603
	339,046	**485,304**
Other operating income	14,832	13,280
Material costs	223,229	306,338
Personnel expenses	112,383	125,478
Depreciation and amortization	9,372	10,205
Other operating expenses	45,277	59,494
	–36,383	**–2,931**
Earnings from participations	14,909	7,446
of which from affiliated companies EUR k 14,909 (2008: 7,446)		
Income from profit and loss transfer agreements	5,473	9,400
of which from affiliated companies EUR k 5,473 (2008: 9,400)		
Income from other investments and long-term loans	3,886	2,372
of which from affiliated companies EUR k 2,911 (2008: 2,251)		
Other interest and earnings	722	3,013
of which from affiliated companies EUR k 493 (2008: 2,441)		
Amortisation of financial assets and investments classified as current assets	2,059	6,273
Interest and other expenses	6,732	7,469
of which to affiliated companies EUR k 115 (2008: 138)		
Result from ordinary activities	–20,184	5,558
Income taxes	2,736	1,878
Other taxes	231	262
Net loss (2008: net profit)	–23,151	3,418
Retained profits carried forward	10,334	21,841
Releases from the reserve for own shares	280	3,010
Allocation to other revenue reserves	–7,280	–3,010
Allocation to other revenue reserves acc. § 58 (2) a AktG	0	–4,760
Dividend payout	**0**	**–10,165**
Net loss (2008: net profit)	**–19,817**	**10,334**

1) Financial statements in accordance with HGB

GRAMMER AG – Balance Sheet [1)] for the fiscal year ended December 31, 2009

ASSETS

EUR k

	2009	2008
A. Fixed assets		
I. Intangible assets	3,435	4,403
II. Property, plant and equipment	37,686	41,829
III. Financial assets	116,409	119,627
	157,530	**165,859**
B. Current assets		
I. Inventories	43,382	38,827
II. Receivables and other assets	112,645	103,212
III. Securities	1,997	2,277
IV. Cash on hand and bank balances	33	390
	158,057	**144,706**
C. Deferred items	356	446
Total assets	**315,943**	**311,011**

EQUITY AND LIABILITIES

EUR k

	2009	2008
A. Equity		
I. Subscribed captial	26,868	26,868
II. Capital reserve	58,236	58,236
III. Revenue reserves	27,147	20,147
IV. Net loss (2008: net profit)	–19,817	10,334
	92,434	**115,585**
B. Provisions		
1. Pension provisions	40,451	38,340
2. Provisions for taxation	1,632	0
3. Other provisions	29,278	24,864
	71,361	**63,204**
C. Liabilities		
1. Liabilities to banks	113,904	81,970
2. Prepayments received	2,436	0
3. Trade accounts payable	11,878	26,771
4. Other liabilities	23,930	23,481
	152,148	**132,222**
Total equity and liabilities	**315,943**	**311,011**

1) Financial statements in accordance with HGB

GRAMMER Group Five-year Overview [1)]

in EUR m

	2009	2008	2007	2006	2005
Group revenue	727.4	1,007.0	998.1	881.0	859.3
Automotive revenue	495.5	637.6	657.7	574.8	569.5
Seating Systems revenue	247.1	390.0	363.3	311.5	296.2
Income statement					
Gross profit	76.0	129.8	126.7	127.0	109.1
EBIT	–23.9	32.0	32.1	38.9	32.6
EBIT margin (in %)	–3.3	3.2	3.2	4.4	3.8
Financial result	–7.6	–12.4	–9.3	–6.9	–7.2
Profit/loss (–) before tax	–31.5	19.6	22.8	32.0	25.4
Income taxes	3.3	–5.4	–5.3	–10.7	–8.7
Net profit/loss (–)	–28.2	14.1	17.6	21.3	16.8
Balance sheet					
Total assets	500.4	481.0	497.5	476.6	429.7
Non-current assets	228.0	216.7	201.6	193.8	190.2
Current assets	272.4	264.3	296.0	282.8	239.6
Equity	151.0	173.0	184.7	174.8	173.8
Equity ratio (in %)	30	36	37	37	40
Net financial debt	106.2	80.2	69.9	57,9	37.0
Cash flow statement					
Capital expenditure	32.7	39.9	34.6	32.1	33.0
Depreciation and amortization	26.5	23.4	23.5	23.7	24.1
Cash flow from operating activities	1.7	40.8	38.6	30.9	56.9
Employees					
annual average	7,474	9,493	9,326	8,610	8,197
thereof in Germany	2,354	2,682	2,754	2,695	2,673
therof outside Germany	5,120	6,811	6,572	5,915	5,524
Personnel expenses	199.1	238.7	232.0	214.2	200.8
Key share data					
Share price at year-end (XETRA, in EUR)	6.05	6.90	16.02	25.79	19.67
Market capitalization at year-end (in EUR m)	63.5	72.4	168.1	270.7	206.4
Dividend (in EUR)	0.00	0.00	1.00	1.00	1.00
Earnings per share (in EUR)	–2.77	1.38	1.72	2.09	1.59

1) according to IFRS

Financial Calender and Trade Fair Dates 2010

Important dates for shareholders and analysts

Event	Date
Annual Report 2009	03/31/2010
News conference for analysts and members of the press, Annual Results 2009	03/31/2010
Interim Report, first quarter 2010	05/11/2010
Annual General Meeting 2010 Location: ACC (Amberger Congress Centrum), 92224 Amberg	05/19/2010
Interim Report, second quarter and half-year 2010	08/10/2010
Interim Report, third quarter 2010	11/09/2010

Trade fair dates

Trade fair	Dates
Bauma, Munich	04/19 – 04/25/2010
Interboot, Friedrichshafen	09/18 – 09/26/2010
Innotrans, Berlin	09/21 – 09/24/2010
IAA Commercial Vehicles, Hannover	09/23 – 09/30/2010
IZB, Wolfsburg	10/06 – 10/08/2010
GIE Expo, Louisville, USA	10/28 – 10/30/2010
BAUMA China, Shanghai	11/23 – 11/26/2010

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