Moving Forward

Annual Report 2010

GRAMMER

Key figures[1)]

in EUR m	2010	2009	+/– %
Group revenue	929.7	727.4	27.8
Automotive revenue	610.2	495.5	23.1
Seating Systems revenue	341.9	247.1	38.4
Income statement			
EBITDA	59.2	2.6	–
EBITDA-margin (in %)	6.4	0.4	6.0%–points
EBIT	32.9	–23.9	–
EBIT-margin (in %)	3.5	–3.3	6.8%–points
Profit/loss (–) before income taxes	20.6	–31.5	–
Net profit/loss (–)	16.3	–28.2	–
Statement of financial position			
Total assets	559.4	500.4	11.8
Equity	173.1	151.0	14.6
Equity ratio (in %)	31	30	1%–point
Net financial debt	113.8	106.2	7.2
Gearing (in %)	66	70	–4%–points
Investments	38.1	32.7	16.5
Depreciation and amortization	26.3	26.5	–0.8
Employees (December 31)	7,955	7,224	10.1
Key share data			
Share price (Xetra closing price, in EUR)	18.30	6.05	202.5
Number of shares	10,495,159	10,495,159	–
Market capitalization (in EUR m)	192.1	63.5	202.5
Dividend (in EUR)	0.00	0.00	–
Earnings per share (in EUR)	1.60	–2.77	–

[1)] according to IFRS

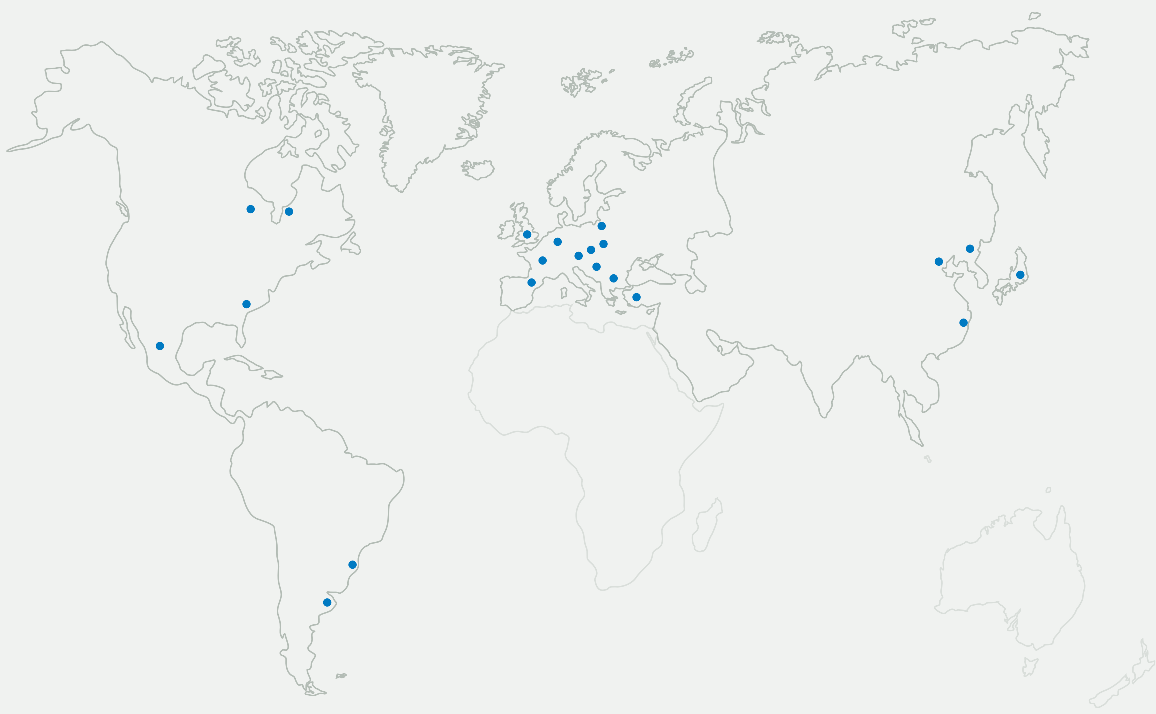
Content

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 8,000 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

Argentina
Brazil
Mexico
USA

Europe

Bulgaria
Germany
Great Britain
France
Poland
Russia
Serbia
Slovenia
Spain
Czech Republic

Asia

China
Japan
Turkey

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 offroad vehicles, and is among the top producers of truck, bus and train seats.

Key business segments

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

- Truck & Bus
  Driver seats for trucks and busses

- Railway
  Passenger seats for trains

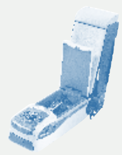
Automotive

Our Automotive division supplies headrests, armrests, center consoles and integrated child safety seats to well-known carmakers and 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 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.

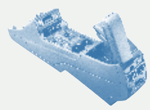
Key business segments

- Headrests

- Armrests



- Center consoles



Strategy

Seating Systems

- Expansion of technology leadership for innovative seating systems
- Utilization of growth potential in the Asian and North American offroad markets
- Strengthening of worldwide market position through market/customer-oriented solutions for offroad and truck seats

Key figures Seating Systems

in EUR m

	2010	2009
Revenue	341.9	247.1
EBIT	17.6	−9.9
EBIT-margin (in %)	5.1	−4.0
Investments	15.8	9.5
Employees (December 31)	2,744	2,556

Automotive

- Targeted market development with selected customers in Europe, Asia and NAFTA with a complete product range
- Expansion of our position as first tier supplier for interior components
- Cost leadership in the headrest segment and operational excellence in all processes through optimization of production technologies and value chains

Key figures Automotive

in EUR m

	2010	2009
Revenue	610.2	495.5
EBIT	21.4	−3.9
EBIT-margin (in %)	3.5	−0.8
Investments	22.0	22.4
Employees (December 31)	5,034	4,479

GRAMMER AG, is a leader in the development and manufacturing of components and systems for automotive interiors, as well as driver and passenger seats for offroad vehicles (agricultural and construction machines, forklifts), trucks, busses and trains.

Over the coming years, both divisions of GRAMMER will grow, especially in the growth markets of Asia, as well as the North America region. The Seating Systems division will benefit from new products it develops specifically for the needs of these markets.

In the Automotive division, we will strengthen our position as a first tier supplier of interior components and establish the Company even more as a direct partner for automakers. Bringing together all of our research and development activities at one place in Amberg will allow us to more efficiently and rapidly introduce new products to the market.

Our structural adjustments, process optimizations and new products will allow us to be a reliable partner and a leading name in the automotive and commercial vehicle industries.

MOVING FORWARD

America	Europe	Asia

From left to right
Manfred Pretscher
Member of the Executive Board since August 2010
Purchasing/SCM, Operations, Operations Performance Management, Human Resources

Hartmut Müller
Chief Executive Officer since August 2010
Member of the Executive Board since 2007
Strategic Product Planning, Internal Control, R&D, Legal, IT

Alois Ponnath
Member of the Executive Board since 2000
Central Services, Investor Relations, Communications & Marketing,
Quality Management & Systems

Executive Board Interview

The economic motor has turned over, and is running smoothly, especially in Germany. How do you view the current conditions and what will this mean for business?

Hartmut Müller Looking at the rapid recovery of the economy, last year was amazing. Markets recovered worldwide much more quickly than anticipated. We were taken unawares by it as well. But, we were able to leverage the recovery to the benefit of growth. Perhaps it was the fact that we reacted so much more quickly than the competition with measures to adjust capacities.

After the drop-off in 2009, the automotive industry worldwide rapidly regained momentum, driven primarily by China and the US. Both production and sales of cars grew in the double digits in the two regions – in China by more than 30 percent. Premium carmakers in Germany are celebrating record sales, and we are benefitting from their export success. We also see an improvement in the area of commercial vehicles. In Europe, more than one-third more trucks were produced last year. In South America, the increase reached as high as 50 percent.

There are, however, some uncertainties connected with the economic recovery. Currencies are very volatile in financial markets, where irrationality still prevails in some cases. Commodity markets are being driven once again by speculators. Demand is high and reaching untenable levels.

The effects of the horrible disaster in Japan on global economic development cannot yet be foreseen. However we are going to prepare our plants worldwide for potential production adjustments of our customers.

What are the guiding ideas and concepts for GRAMMER AG after the crisis?

Hartmut Müller In this difficult phase the GRAMMER employees worked together very early to transform us into an appropriate and future-proof structure. We aligned the quality and dimensions of our structures with the prevailing situation and the needs of our customers. More importantly: We have sharpened our focus on strategic growth and development of innovative products for new markets.

Last year, for instance, numerous new center consoles went into production. Finally, we were able to put the products we have developed into cars on the road - there were some rough spots, but in all it went better than expected. We are leaner, faster and smarter than one year ago. We have the right products in the right markets. And, we have the will and the confidence in our ability to create value for our customers.

The facts and achievements are impressive: Two upward guidance revisions, an increase of more than 200 percent in the share price and the rapid return to profitability. How would you rate this past fiscal year?

Alois Ponnath We began at the end of 2008 with measures to cut costs and renew our structures. And, we succeeded. Then, the markets were unexpectedly quick to recover, and revenues rose significantly on top of what we had already achieved – especially in Asia and the US, but also in Germany. This applies to the commercial vehicles market, where we have put in a lot of effort, as well as automotive business. Our new console projects brought in revenues throughout the year and contributed substantially to performance. This ultimately resulted in a significant improvement in earnings even slightly higher than in 2008. Last year, we were also successful in extending the Group's funding for three additional years. All of this has given the share price a boost. In order to keep this trend alive in the future, we must maintain close watch over our costs, the risks from currency volatility and the development of commodity prices.

Last year the Company very quickly transitioned back to solid growth. What did you do differently than the competition?

Hartmut Müller Already at the end of 2008, we launched a project to increase profitability through a package of measures which marked the start of a transformation. That gave us a decisive advantage over other companies just in time for us to pull through in better shape than many competitors. We transitioned to a lean philosophy at all plants, which we used to optimize our value chain. We closed plants in the US and Czech Republic. Roughly one-quarter of our personnel had to be cut throughout all of GRAMMER Group. We also instated short-time work in Germany, in order to hold on to our well qualified employees for as long as possible.
We received no benefit, however, from the German government's "environmental bonus" or any other government stimulus.
GRAMMER's solid financial foundations made it possible to quickly initiate and rapidly implement all of the necessary measures. These measures then helped the entire Group to achieve a turnaround at the end of 2009.

Hartmut Müller
Chief Executive Officer

The rapid growth of the past several months was not without its impacts on working capital. What is your plan in order to remedy this situation and improve cash flow?

Alois Ponnath Improving cash flow is one of our top priorities. Profits were very pleasing in the past fiscal year throughout the entire of GRAMMER Group. Now, it is time for cash flows to catch up. Over the past several months, we have made significant strides with respect to working capital and net debt. Now, we must determine what is driving inventories? Where is there potential for optimization of accounts receivable or how can we involve suppliers in project financing? After all, it is operational processes that generate cash, and thus define capital tie-up. It is not until the money is in the bank that revenue has been realized - this is the attitude we must uphold in all of our activities.

Europe is your most important market – but as market leader in several areas, your growth limited. This is why you have broadened your focus to include regions outside of Europe. Where do you see the greatest chances and how will you go about taking hold of them?

Manfred Pretscher For the foreseeable future, Asia will remain one of the driving forces behind the global economy. In 2010, China once again exhibited double-digit economic growth. Production and sales of cars there each increased by 30 percent to 11 million vehicles, a hefty number. And, China is also playing a dominant role when it comes to commercial vehicles, as more than half of all commercial vehicles worldwide are produced and sold in China. Projections for this year are positive as well. Asia has been an important region for GRAMMER over the last decade or more. Happily, there is still a lot for us to do in this market, and with three production sites in China, we now have a strong foothold in the region. This goes for both the automotive and the offroad sector. Our aim is double-digit annual growth throughout the Asian market. Incidentally – there will be a much greater importance of the railway business over the coming years in Asia. As one of the leading manufacturers of train seats, we aim to participate in this growth.

In the US, European premium brands are benefiting from the recovery, along with domestic carmakers like Ford, Chrysler and General Motors. And commercial vehicles manufacturers such as John Deere, Caterpillar or AGCO Group are also exhibiting significant growth. How do you intend to increase market share in the US?

Alois Ponnath Markets in the USA have seen a significant downturn – first in the truck market, then in the automotive segment. Last year, however, the North American market made a strong comeback. Many experts believe that the US will regain its former strength fairly soon. The Big Three automakers have emerged from the crisis to launch some promising new models. In particular, Chrysler and GM are marketing vehicles using our innovative consoles and headrests. For truck seat business, our new seat generation is opening up immense opportunities to gain market share, given that the market, starting from a low level, has performed well. From our plants in Mexico and the sales and engineering offices in Troy, Michigan and Greenville, South Carolina, we are able to serve the entire North American automotive market. For the truck market, we work together with our long-standing partner Magna via the joint venture "GRA-MAG". And, our location in Hudson, Wisconsin, serves the North American offroad market. Especially in this important segment, GRAMMER intends to penetrate new markets and increase our presence via new, individualized products and customer solutions. And, depending on what the order situation and customer structure in the various segments demand, we are ready to build new plants in the US to ensure proximity to our end markets. In other words, we expect the NAFTA region – where we have been represented for years with production, R&D and distribution – will once again become a strong growth market for GRAMMER.

In Europe, you are the market leader when it comes to innovative seating systems for offroad vehicles, and you are gaining market share in automotive business. What is your outlook for the European market?

Hartmut Müller Traditionally, GRAMMER has had its strongest footing in Europe. At present, this region is responsible for more than half of our revenues. With our suspended offroad seats, we are a technology leader and trend-setter for seating systems.

A position we intend to expand upon with innovative new products. Moreover, our major customers in automotive business are located nearby. Our aim is to strengthen our position as a global player for interiors, and establish a position as a tier 1 supplier for interior components, which means a direct link between GRAMMER and carmakers. But, the future promises to bring stronger revenue growth in other regions. This is why we set up a central unit for Strategic Product Planning in 2010, which is responsible for adapting our products for different markets.

GRAMMER generates more than 50 percent of its revenues outside of Germany. What steps do you take to offset currency risks?

Alois Ponnath As a global supplier, we are exposed to exchange rate fluctuations, which we address proactively. At present, exchange rates are volatile, with the dollar, for instance, experiencing tremendous rises and falls. This situation holds out chances as well as risks. In order to protect GRAMMER against these risks long term, we endeavor to ensure "natural" hedging wherever possible. In other words, we produce in the regions we supply. This keeps income and expenditure largely in the same currency. For other exchange rate risks, we make targeted use of standard hedging instruments.

GRAMMER is working to establish itself as a product innovator, which is why you are going to consolidate research and development activities for the Automotive and Seating Systems divisions. What are the resulting advantages and synergies?

Hartmut Müller The new Innovation Center will have all R&D activities for the Automotive and Seating Systems divisions under one roof. Basic research and pre-development take place in Amberg. Adaptation of products for specific markets is then carried out locally. We are working on new materials, such as hybrid materials, as well as innovative production processes like laser beam welding or gas assisted injection molding. But that is not all: The Innovation Center is more than a home for testing, prototype production and tool making, it is also the headquarters for sales and project functions. Interdisciplinary teams can more efficiently develop product ideas and successfully market them.

Last year, for the first time, you added a special seat for powerboats to the product range. What attracts you to this market?

Manfred Pretscher Our aim is to broaden the product portfolio and reinforce our leading role in technology with innovative quality products. The Avento is our first full-suspension seat for sport and powerboats, as well as a prime example of how we can leverage our core competency in suspension systems technology and apply it to other attractive niche markets. Don't forget as well that GRAMMER received the coveted iF Design Award for the Avento's design. Thus, more than merely strengthening our technology leadership in suspension seating, we are also generating design innovations that satisfy the sophisticated demands of our customers.

Competition is increasing your industry and among automotive suppliers in general. Efficient processes, optimum resource utilization and product quality are increasingly important. From where do you approach this?

Manfred Pretscher We will continue to focus on costs – by establishing lean processes, not only in production, but throughout the entire value chain, beginning from R&D. Introduction of our product development system, a multi-phase model with defined quality gates, last year is one initial success of our refocus on the development process. Another way in which we can efficiently channel our resources is product standardization in R&D. This means, we don't have to reinvent the wheel (or headrest) every time. We can innovate on the basis of standardized components. We are also working to take over cost leadership in the area of headrests, a market where competitive pressures are intensifying. Headrests, after all, are a so-called "me too" product, which can be manufactured by suppliers throughout the world. In order to achieve our goal of cost leadership in this segment, we will optimize wage structures by increasing work with our sewing centers in low-cost regions. With the help of product standardization, a modular system, we will accomplish the goal of cost leadership. And, with respect to quality, you are absolutely right: Quality is key to gaining market share. Following introduction of the GPQ System, a continuous improvement process, we are on the right track. We will systematically develop and utilize this tool to meet our quality goals.

Alois Ponnath
Chief Financial Officer

Alois Ponnath Quality is the central topic for every supplier, because it is the key to customer satisfaction. Already in the development phase, we must ask: Can I realistically manufacture the newly developed product in the necessary quality? And, we must reliably remedy defects occurring in the process. This year, our focus is on preventative measures to avoid functional or safety defects and improve comfort features like seams and surfaces. That is why we are working to continuously advance our quality standards and tools. Since it depends on so many factors, everyone at the Company is responsible for ensuring quality.

The GRAMMER share was among the winners in the financial market in 2010. What kind of potential do you see for the share this year?

Alois Ponnath Our share tripled in value over the course of 2010. We anticipate that the GRAMMER share will remain attractive for the financial market. Our future plans include growth and further revenue and earnings gains - both absolute and in terms of the profit margin. As I see it, these are what drives the share price, and will continue to do so as long as the market environment remains normal.

Can shareholders expect to participate again through a dividend in the success of the Company?

Alois Ponnath This year we are continuing to focus on consolidating liabilities this year, in order to improve our credit rating. One of the reasons that GRAMMER made it through the crisis in such good shape was our solid balance sheet, with an equity ratio of more than 35 percent and gearing of less than 50 percent. Those are key factors for success, which we must reach again. That will be out priority over the next year or two. Still, we intend to begin paying dividends again, so that our shareholders benefit even more from our success.

Further consolidation in the automotive industry is expected in the wake of the crisis. Do you expect to see a significant change in the field of suppliers and manufacturers?

Manfred Pretscher The car industry is transforming, and will remain so for some time to come. For example, US-based supplier Johnson Controls, at the end of last year, showed that consolidation is possible even in a recovery. During the crisis, many supplier companies met with financial difficulties, and more than a few entered bankruptcy. The difficulties have not all been overcome. Small and medium-sized companies, in particular, are having problems funding growth. There will be shifts in this market. In the suspended seat segment, for instance, the takeover of Recaro Group by Johnson Controls has proofed that. We are watching developments closely, and align our strategy with the competitive landscape as necessary.

Growth and expansion are your focus this year. Are there any acquisitions in the pipeline?

Hartmut Müller We develop innovative products and have need of new capabilities. For instance, in the areas of light-weight construction, electronics and surface design. We must determine whether it is best to create these capabilities by ourselves, enter into development and project-specific partnerships, outsource functions or, in some cases, identify acquisition targets. The decision will change from case to case. But, there is little chance of us coming out as a major consolidator.

We are far more focused on strengthening GRAMMER's core competencies and systematically adjusting the value chain. This includes investments in plastic injection, metal processing and foam technology. For instance, we are experiencing strong growth in center consoles and will consequently expand our injection molding – which is the production process we use – activities. The same goes for metal processing in connection with the market launch of our new truck seat generation.

Electronics will also become increasingly important, both in the Automotive division and for our suspended seats.

We are well positioned for the most part in our regions, and will be able to handle growth plans largely with our existing capacities. We are always on the lookout, however, for ways to optimize our production footprint and product portfolio. This is especially true for the growth markets in Asia and, as already mentioned by Mr. Ponnath, in the NAFTA region.

Manfred Pretscher
Board Member

Mr. Pretscher, you took over responsibility in the summer of 2010 for procurement and operations management as a member of the Executive Board and for human resource matters as Personnel Director. What changes have you made and what are you plans going forward?

Manfred Pretscher There are going to be some major changes in our supplier pool, with respect to both the number of suppliers and their locations. Our goal is to further reduce the overall number of suppliers, in order to obtain better volume pricing and lower fixed costs for supplier management. At the same time, we will increase the number of suppliers in low-cost countries for the supply volumes we deem sensible.

Inventory reduction is an important topic that we will address. This will have a positive effect in cash flow, as Mr. Ponnath just indicated. I see further optimization potentials at many of our locations. We are currently in a process of transferring the best practice standards from our successful plants to locations throughout the entire Group. Keeping our German locations competitive, especially the Haselmühl plant near Amberg, we have implemented the first phase in a process to make working hours more flexible, in cooperation with the works council.

Since the start of the year, this has allowed us to better react to fluctuations in customer demand. I intend to do more with respect to flexible working hours in the future. And, in order to remain an attractive employer for qualified individuals, we as a Company must also offer solutions that allow a better balance between family and private time and work. For this reason and others, the Executive Board has set concrete targets for bringing more females into the ranks of middle and upper management. Workplace ergonomics is also something we will improve. It is an important topic, especially in light of the discussion about raising the retirement age to 67 in Germany. We value the experience of our older employees, and intend to do all we can to keep them - as well as our younger employees – as healthy as possible.

What do you see as the greatest challenge for the Company in the coming months and years?

Hartmut Müller We made it through the crisis alright. But, cost pressures and competition, especially in our industry, has not decreased since then. That is a fact of life that we have to get used to. Our internal processes must be further adapted to account for the ever increasing speed of commodity and currency markets. During the crisis, we set many goals, relating to the overall structure of the Company, our products, processes and market developments. Now, we face the considerable challenge of implementing these ambitious projects as a smaller team. The operating units must become more efficient, which is why we will push forward with optimizing our regional footprint. In addition to operating profit, we aim to improve both liquidity and the equity ratio. Furthermore, we must begin to sort out our financing structure as the debenture bond matures and the line of credit expires in 2013. Simultaneously, we must continue to align our structures with increasing globalization and the related challenges. From a social standpoint, we are committed to maintaining a balance of highly qualified employees in Germany and production capacities in low cost countries. Despite growing competitive pressures and expanding globalization, we cannot lose sight of our social responsibility and ethical principles.

What is your strategy for 2011 and beyond?

Hartmut Müller At the start of last year, we still expected that it would be 2013 before we would see revenues in the billions. We are more optimistic now – because with revenues of more than 900 million euros it won't be long now before we reach. But, more important than the mere size of the Company is that our product range is strong in comparison to our competition. We are less concerned with the volume of revenue than with the bottom-line result. We have tightened up our structures, simplified our processes and generated significant cost savings, which we are reinvesting in product development. Despite the pressure to make short-term adjustments, we also made long-term structural changes to GRAMMER Group. GRAMMER has a dynamic business model. By this, I mean our guideposts to achieve excellent performance over the coming years. These include a portfolio of strong product segments, processes that generate revenues at a low cost and the ability to organically achieve growth of 5 to 10 percent annually. We are all in this together, and we will work together to master all of the numerous tasks and challenges ahead, as well as remain a reliable partner and attractive Company for our customers, employees, suppliers and shareholders.

Thank you very much for the interview.

Market leader Offroad Seating Systems in Europe – with innovation and customer proximity

2030
544 million vehicles*

+ 65 %

Opportunities

The number of vehicles on Europe's roads will grow by an average of 2.5 % over the coming years. This means an increase of 65 % by 2030.

Demands

The European market is a demanding one! High technical standards, safety and comfort are number one priorities for our customers in Europe.

* Number of vehicles (incl. commercial vehicles) Europe
Source: Management Engineers, FHDW, 2010


2020
421 million vehicles*
2015
370 million vehicles*

Growth in America – GRAMMER is there

+ 31 %

Opportunities

In North America, the number of vehicles will increase 31 % by 2030. That equates to growth of 1.4 % over the coming years.

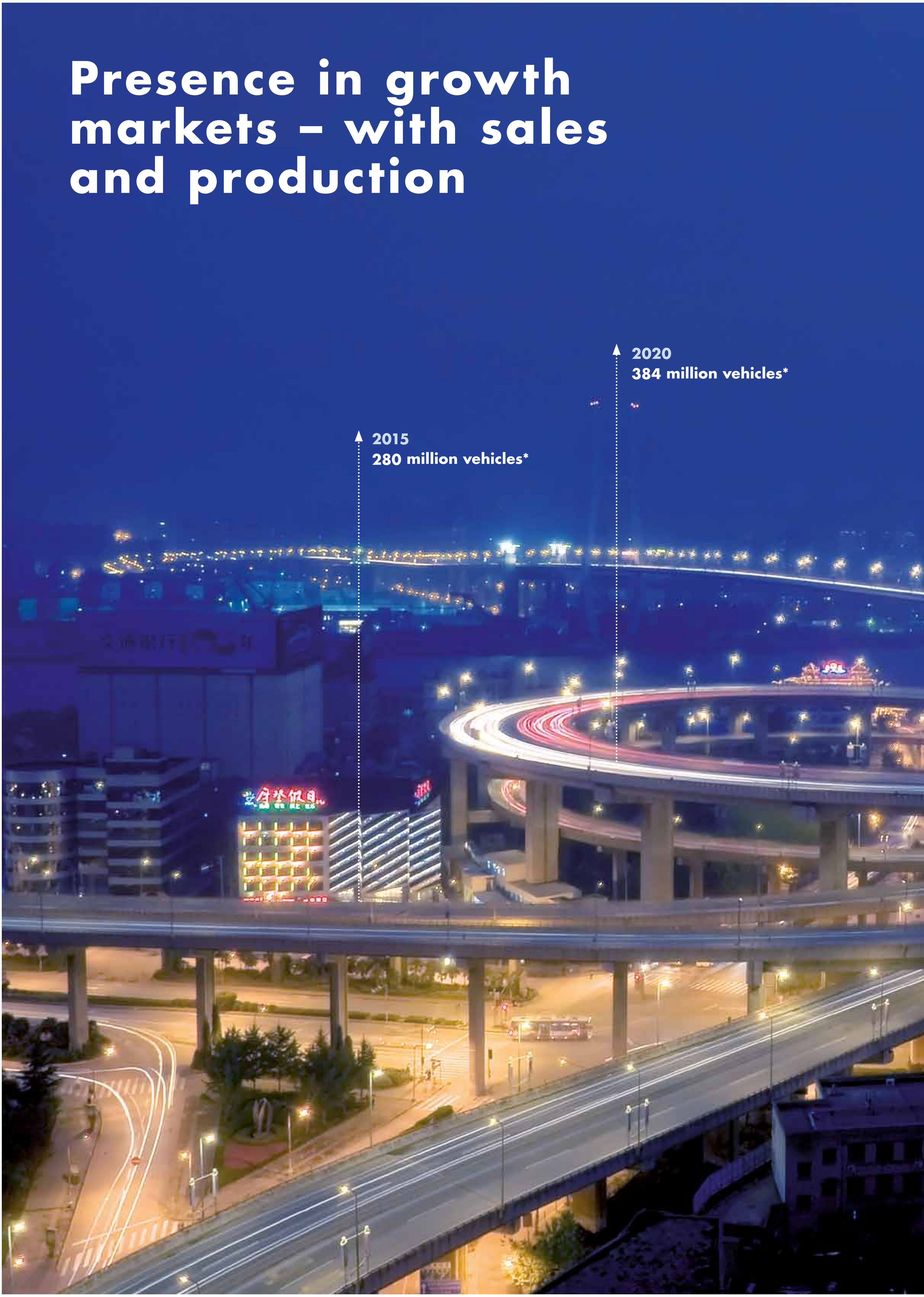
Demands

Comfort is key for success in America, and particular American tastes are evident in product demands.

* Number of vehicles (incl. commercial vehicles) Europe
Source: Management Engineers, FHDW, 2010

2030
456 million vehicles*
2020
397 million vehicles*
2015
370 million vehicles*

Presence in growth markets – with sales and production



2030
720 million vehicles*

+ 244 %

Opportunities

The number of vehicles – cars, trucks and commercial vehicles – in Asia is set to grow by roughly 244 % over the next 20 years.

Demands

The Asian market is very cost sensitive and competitively intense. Product standards are lower, but there is a growing trend towards more comfort and safety.

* Number of vehicles (incl. commercial vehicles) Europe
Source: Management Engineers, FHDW, 2010

Targeted development of growth opportunities in all regions

The global economy is undergoing far-reaching changes. Not long ago, Asia and Latin America were considered to be suppliers of raw materials and low-cost production for industrialized countries. Now, these places are rapidly gaining greater influence in world trade. At the front of the race to catch up are the heavyweights of Asia, the Middle East and South America. These countries are becoming ever more important as distribution markets for the companies. But, the traditional industrial powers of Europe and North America continue to play an important role in global trade, and will remain the primary drivers of our global economy. Which begs the question: What will the world look like in the future? One thing is for sure – globalization necessitates mobility and trade, as well as transport of goods and people. The route is clear for suppliers, carmakers and commercial vehicles manufacturers who started out early enough to move forward into the right direction.

The forecasts are compelling, and offer companies from highly developed countries many opportunities – while presenting major challenges. In years to come, China will replace the United States as the world's most powerful economy. Today's emerging markets, such as India or Brazil are also gaining in importance due to a number of factors, not least of which is demographic change. The populations of emerging countries are growing steadily, and developed countries only slowly. In 40 years, there will be one billion more people living in Asia – the same goes for Africa. The population explosion in these countries presents a tremendous challenge for the international community: Overcrowded cities, environmental pollution, insufficient medical care and educational opportunities, growing criminality and food shortages are already ubiquitous. The corporate sector must also face up to its responsibilities, despite increasing international competition and the trend toward production in low-wage countries, to provide fair and stable employment and take an environmentally sound approach to production and sourcing.

Asia is not merely experiencing population growth. Gross domestic product (GDP) in the region is expected by some to grow by nearly 50 percent over the next 15 years. And Asia is steadfastly increasing in importance for Germany as well. Soon, China will surpass the US when it comes to buying „Made in Germany" products. That will make the world's most populous country Germany's number one market. There are also several other emerging market countries exhibiting serious growth, such as Turkey, Mexico, Indonesia, Thailand, Malaysia or Brazil. Anywhere where the economy is booming will need more vehicles. The primary drivers of the worldwide car market, in addition to the traditional car markets of Europe and the US, will be the BRICs: Brazil, Russia, India and China. The automotive markets will grow at a faster pace there than in the established markets.

Nearly every country in the world is experiencing growing demand for mobility. As populations and economies grow, more roads will be built, especially in the emerging world. The rail network is becoming ever tighter around the globe. In China, in the Arab world, but also in the United States, heavy investments are being made in expansion of rail infrastructure, both regional and long-distance passenger transport, will gain steadily in importance as the years progress.

Automotive – Optimized for the market

It is not only their exceeding quality and safety standards that make GRAMMER automotive interior components so impressive – innovative solutions for comfort and elegant design also set our products apart within the automotive industry.

Automotive market: Between climate protection and growing mobility

More mobility means more cars. While highly industrialized countries are likely to see the current vehicle fleet replaced by hybrids or electric vehicles for environmental reasons, growth in the BRICs and other regions is impressively gaining pace. The number of new vehicles on the streets of the world will double in the coming two decades from one to nearly two billion.

North America is presently the world's largest car market, and will continue to offer innovative companies opportunities for growth – if for no other reason than the growing importance of new energy-efficient motor concepts. The United States leads the world in cars per thousand inhabitants, at 776; the country remains an important growth driver in the international auto market. In less than ten years, China will double the number of cars on its streets per capita to 52 vehicles per thousand. That translates to nearly 35 million new vehicles. And this emergence of demand is not limited to China – other people-rich markets are also running to catch up. In as few as three years, nearly one-third of all cars will be sold in the BRIC countries. Europe will not profit as substantially from the worldwide automotive boom. The expiration of government stimulus programs in 2010 led to a decline in sales overall. The small car sector was the biggest loser of market share. German premium brands, on the other hand, experienced strong growth, fuelled in part by high levels of demand in Asia and the US. And German automakers are not going to lose their attractiveness anytime soon. On the contrary: Innovative solutions "Made in Germany" in drive systems, design, comfort and safety mean our cars will continue to be at the forefront worldwide.

This growth in the number of vehicles, however, also brings with it some problems. Governments and the companies are called upon to find solutions to combat air pollution and better manage metropolitan gridlock and disposal of old cars.

The global automotive market, however, remains one of the most important worldwide, despite the immense challenges ahead and intense global competition. As the crisis recedes, prospects for the automotive and supplier industry are positive on the whole, provided companies are able to recognize coming trends and adjust their strategies early on.

Demand growing worldwide for commercial vehicles

When it comes to commercial vehicles, China is already the world's largest market. Demand is growing for more than cars throughout the developing regions of the globe. In India, demand for replacement vehicles and large infrastructure projects are driving truck sales. Russia has pent-up demand after the market tanked in 2009 as a result of the financial and economic crisis - which is why we expect the recovery to take hold there somewhat later than elsewhere.

The US market for commercial vehicles promises sizeable growth rates over the coming years. This will be rooted in government

Seating Systems – Optimized for the market

Our products often undergo years of development and numerous test phases, because rising mobility and increasing speeds call for maximum safety and comfort.

infrastructure initiatives, growing investment by freight firms and increasing over-the-road transport. South America is also investing and transporting goods. In Brazil, for instance, there is a continual rise in demand for commercial vehicles – via exports and due to investments in infrastructure for the Soccer World Cup in 2014 and the Summer Olympic Games in 2016.

As a market for commercial vehicles, Europe also remains interesting despite the strong growth forecasts in the world's growth regions. Over the past few months, the commercial vehicle segment throughout Europe has attained to very high levels. Demand was especially high for heavy commercial vehicles. The European market for commercial vehicles offers companies like GRAMMER extraordinary opportunities. Standards for commercial vehicles in emerging markets are relatively low, especially when it comes to comfort and safety. In Europe, on the other hand, the market demands high-quality vehicles for on and offroad applications, which must be available around the clock and comply with high standards of safety and comfort. GRAMMMER's ability to develop and produce top quality products at competitive prices is one reason for the outstanding market position of the Company in this segment.

But, what do these global changes mean for the commercial vehicle industry? Foremost, it means new distribution markets and offers manufacturers and suppliers enormous potential for low-cost development, procurement and production. But, these markets will also generate new competitors. Companies are sprouting up constantly in the emerging world, to supply the local market - but, they are growing beyond local boundaries. Emerging market competition will increase in volume markets. But, Japan, Europe and the US are still the source for high quality vehicles. Technical innovation, premium product quality, highest standards of comfort and safety and brand image are hard to copy. As competition increases, there will be further consolidation in the automotive and commercial vehicle industries. In other words, OEMs and suppliers who intend to remain successful must be very vigilant in order to offer the right products in the right markets. Supplier companies play a major role in innovation and development of products for cars, trucks and other commercial vehicles, because it is their research and development activities that lie at the beginning of the value chain. Together with the OEMs, they shape technical advancements from feasibility study to market launch.

Global strategies – local solutions

In the future, manufacturers and suppliers must base their product portfolios on a differentiated market matrix if they are to meet the demands of their different customers. This is precisely the approach GRAMMER is taking – developing global strategies and implementing them with local solutions. Various markets – defined geographically and by target group – require separate technical solutions and products at a reasonable price. This goes for cars and for commercial vehicles. North America, for instance, is characterized by very broad distances. Many truckers are owner operators of their vehicles. Thus, they put a great deal of emphasis on comfort and optimum working conditions. In virtually every country, GRAMMER can find unmet demand that is interesting for the Company. The wealth of parks and golf courses in the United States opens up a lucrative market for riding mowers and compact tractors used in gardening and professional landscaping. In Europe, the strict emission regulations and safety standards are what fuel demand for technical features – as well as the necessity to purchase new vehicles. Moreover, rules for workplace health and safety, such as EU "Whole Body Vibration" standards, which are meant to limit the impact of unhealthy vibrations on vehicle operators, play an important role in buying decisions – and thus in the development of vehicles and equipment.

The level of technical demand in emerging markets is much lower, and simpler materials and components can be used there. In these regions, the number one criterion remains the low price. But, a trend is growing – albeit slowly – towards greater demand for comfort and safety in these countries as well. OEMs and suppliers have to acknowledge these regional differences and account or them in their product and development strategies.

If it is to recognize the different requirements in different markets and ensure early reaction to them, GRAMMER confronts numerous issues, all of which must be analyzed and used to create an innovation road map for individual markets and product segments: What standards can be defined for our products in the various markets and regions? What are the different existing products be modified to align with customer and market demands? What are the requirements for a given region? What are the different expectations of our customers and their end consumers? In order to find the right answers, steps have been taken by GRAMMER like creation of the Strategic Product Development function in 2009, which explores solutions to precisely these questions - How does a GRAMMER product look like in a certain market or region?

Further synergies in product development are expected from the merging of research and development activities for both divisions, Automotive and Seating Systems. Products, processes, workflows and material inputs are developed at our new Research Center for all business lines, and adapted to specific conditions as needed by the local R&D centers in China, Turkey, Brazil and the US. One aim is to optimally identify regional or customer-specific needs and make competitive offers alongside local suppliers. Another is to keep pace internationally with the global players in the industry.

The outlook is promising for the car and commercial vehicle market. By offering the right products to regional markets and customers, GRAMMER will profit from this trend and tap into enormous growth potential.

product design award 2011

reddot design award
honourable mention 2011

Design by GRAMMER

The Avento is the first GRAMMER seat developed specially for powerboats. Last year, it was introduced to the public at various trade fairs. The seat has already received the IF design award and a honourable mention as part of the red dot design award 2011, two of the most coveted awards for innovative product design.

Corporate Governance Report and Statement in accordance with section 289a of the German Commercial Code

Compliance Statement

The Executive and Supervisory Board of GRAMMER AG delivered the following compliance statement according to section 161 of the German Stock Corporation Act (Aktiengesetzt – AktG) on compliance with the German Corporate Governance Code on December 9, 2010:

> In accordance with section 161 of the German Stock Corporation Act, the Executive and Supervisory Boards of GRAMMER AG hereby affirm their past and future compliance with the recommendations of the Government Commission on the German Corporate Governance Code, in the version dated May 26, 2010 and published in the electronic Federal Gazette on July 2, 2010, with the following exception:
>
> 1. Section 4.2.3. of the German Corporate Governance Code
>
> In July 2010, the Supervisory Board decided to restructure the compensation system for the Executive Board of GRAMMER AG in accordance with the requirements of the German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung - VorstAG) and the German Corporate Governance Code and to use the restructured compensation system for both newly-concluded employment contracts with Executive Board members and for renewals of contracts with existing Executive Board members.
>
> Except for the recommendation pursuant to section 4.2.3 subsection 4, the employment contract entered into with the Chief Executive Officer, Hartmut Müller, is in compliance with the Code. The employment contract entered into with Alois Ponnath has not yet been adjusted to comply with the new compensation system and does therefore not yet comply with the requirements set forth in section 4.2.3 (2) sentence 2 and 3 and subsection (4) of the Code. The employment contract entered into with Manfred Pretscher who was newly appointed to the Company's Executive Board with effect from August 1, 2010, complies with the requirements of the Code in all respects.

On March 28, 2011, the Executive and Supervisory Boards of GRAMMER AG issued the following statement in accordance with section 161 of the German Stock Corporation Act on the Company's compliance with the Code:

Updated Declaration of Compliance in accordance with section 161 AktG relating to compliance with the German Corporate Governance Code at GRAMMER AG.

The remuneration system for all members of the Executive Board is now in compliance with the recommendations of the German Corporate Governance Code. As a result of non-compliance with the recommendations under item 4.2.3 of the Corporate Governance Code with respect to two members of the Board, the Executive and Supervisory Boards provided an explanation of the deviation from item 4.2.3 in the previous Declaration of Compliance of December 9, 2010.

GRAMMER AG complies without exception with all of the recommendations of the German Corporate Governance Code (the "Code") in the version dated May 26, 2010, as published in the electronic Federal Gazette on July 2, 2010.

GRAMMER AG also assures its future compliance with the recommendations of the German Corporate Governance Code, with the following new exceptions:

The Executive and Supervisory Boards of GRAMMER AG resolved on March 28, 2011 to recommend at the Annual General Meeting 2011 that the remuneration for members of the Supervisory Board be restructured as of fiscal year 2011 and - in deviation from the recommendation under section 5.4.6 paragraph 2 of the German Corporate Governance Code - to withdraw the variable remuneration component for service on the Supervisory Board.

The Executive and Supervisory Boards of GRAMMER AG are of the opinion that payment of a commensurate fixed salary and elimination of the variable component for members of the Supervisory Board will underscore the independence of the Supervisory Board and serve better to prevent potential conflicts of interest in regard to its decisions, and that a salary based purely on membership in the Supervisory Board is better suited to the monitoring function of the members.

The Company was able to update its compliance statement on March 28, 2011 as all employment contracts with Executive Board members have meanwhile been adjusted to conform with the provisions of the Code. As it is intended that the compensation of the Supervisory Board shall be converted to a fully fixed system with no variable portion a futures deviation from the Code will be declared.

On a voluntary basis GRAMMER AG also complies with the recommendations of the Code with the following exceptions:

- It is not yet possible to watch the Annual General Meeting of GRAMMER AG by using modern communication media (such as the internet).

- The compensation paid to the members of the Company's Supervisory Board includes a variable component based on ROCE (return on capital employed). The period on which calculation of the variable compensation is based is the relevant fiscal year. The compensation paid to the Supervisory Board does not include any long-term component based on the Company's performance.

This statement – along with all Compliance Statements issued in previous years – are continuously available on the GRAMMER AG website under www.grammer.com/corporate_governance.

Relevant information on corporate governance practices adopted beyond applicable legal requirements

The Code of Conduct in effect within GRAMMER Group is a binding guideline for the legal and responsible conduct of all employees worldwide. This Code of Conduct contains provisions which govern the entrepreneurial actions of GRAMMER and sets high ethical standards. Alongside the Code of Conduct, GRAMMER AG has adopted more specific and explanatory provisions, and the Company offers web-based training programs designed to help employees to comply with and implement the rules of conduct. The Company also ensures that all employees have access to specialist-support for questions pertaining to the Code of Conduct. These specialists, the so-called "Code Team", assist in the detection of violations of the code of conduct, and work to pursue instances of improper conduct.

Description of the work processes of the Executive and Supervisory Boards and of the membership and work processes of the Supervisory Board Committees

As a stock corporation under German law, GRAMMER AG has a dual management system comprising the Executive Board and the Supervisory Board, each of which has defined 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. GRAMMER AG is managed by its Executive Board on the basis of provisions of law and the Rules of Procedure adopted by the Supervisory Board. The Executive Board is advised and monitored by the Supervisory Board. The Supervisory Board appoints the members of the Executive Board, and material business transactions conducted by the Executive Board require its approval.

The Supervisory Board

The twelve members of the GRAMMER AG Supervisory Board mandated by with German law and the Company's Articles of Association include six members elected by the Company's shareholders and six members elected by its employees. All of the members of the Supervisory Board elected by the Annual General Meeting are independent persons having no business or personal relationships with the Company or the Executive Board.

All employee representatives on the Supervisory Board and the Supervisory Board members elected by the Company's shareholders, namely Dr. Bernd Blankenstein, Wolfram Hatz, Georg Liebler and Dr. Bernhard Wankerl, have been elected for the period ending when the 2015 Annual General Meeting is closed. One of the employee representatives will resign from the Supervisory Board with effect from the end of day on March 31, 2011 because of his resignation from the company. This Supervisory Board member is expected to be replaced by a court-appointed successor. The term of office of the current Chairman of the Supervisory Board, Dr. Klaus Probst, will end when the 2011 Ordinary Annual General Meeting is closed. Following a recommendation by the Nomination Committee, the Supervisory Board has resolved to propose his re-election at the Annual General Meeting. In addition, if Dr. Klaus Probst is re-elected to the Supervisory Board he will also be proposed for re-election as its Chairman. The term of office of Dr. Peter Stehle will end when the 2013 Ordinary Annual General Meeting is closed.

The Supervisory Board advises and monitors the management of the Company by the Executive Board. The Supervisory Board is involved in strategy and planning, as well as in all issues that are of key importance to the Company.

The Supervisory Board of GRAMMER AG performs its duties in accordance with its own Rules of Procedure. The Supervisory Board Report provides detailed information on the activities of the Board as well as its cooperation with the Executive Board.

The Supervisory Board appoints and dismisses the members of the Executive Board. When filling vacant Executive Board positions, the Supervisory Board pays attention to the professional skills, international experience and management skills as well as diversity and, in particular, appropriate representation of women. Therefore, when appointing the next new member to the Executive Board, the Supervisory Board will include and appropriately consider qualified female candidates in the selection process.

The members of the Supervisory Board of GRAMMER AG are obliged to act in the interest of the Company. Any conflicts of interest involving members of the Supervisory Board shall be disclosed to the Supervisory Board. No conflicts of interest involving members of the Supervisory Board arose in fiscal year 2010.

Examination of the efficiency of the Supervisory Board's activities

The Supervisory Board performs a self-assessment of the efficiency of its activities in regular intervals. The results of the examination of the efficiency of the Supervisory Board's activities carried out in September 2010 in accordance with the rules and regulations of the Code were discussed at two meetings (held in September 2010 and December 2010), and measures to improve the efficiency of the Supervisory Board's activities were adopted.

Objectives of the Supervisory Board with regard to its composition

During the past fiscal year, the Supervisory Board discussed the changes to the Code and continued to observe its further development. At its meetings held on September 23, 2010 and December 9, 2010, the Supervisory Board thoroughly discussed the objectives with regard to its composition and adopted the following resolutions:

- Composition of the Supervisory Board shall be such that, overall, its members possess the knowledge, skills and professional experience required to duly perform its tasks. To make sure of that, in 2011 the Supervisory Board will develop and adopt job specifications for Supervisory Board members.

- As an organization doing business internationally GRAMMER Group needs a Supervisory Board that comprises a sufficient number of members with international experience, gathered, for instance, during many years of working abroad or by managing a company doing business internationally. At its meeting in September 2010, the Supervisory Board reviewed this aspect and concluded that it comprises a sufficient number of members with international experience. Also, it set itself the goal of insuring the necessary level of international expertise within the Supervisory Board when nominating new members in the future.

- The Supervisory Board seeks to ensure appropriate representation of women among its members. Since the last election of Supervisory Board members by employee representatives in 2010 only one woman has been among the employee representatives sitting on the Supervisory Board, compared to three before the last election. The Supervisory Board of GRAMMER AG pursues the goal to increase the number to at least two women on its Supervisory Board no later than by the next election of Supervisory Board members in 2015. One of these two women will be proposed as a candidate by the Company's shareholder representatives. The Nomination Committee will take into account this goal when proposing candidates for election to the Supervisory Board in 2015.

- The age limit set by the Supervisory Board was reviewed in 2010 and reduced to 70 years from formerly 75 years age at the time of election or re-election. This new age limit applies to all future elections.

In addition, the Supervisory Board has taken several measures to support pro-active attendance of necessary education and training programs.

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 (three members).

The work of the committees is governed by the Rules of Procedure of the Supervisory Board. The Audit Committee has its own rules of procedure. The Audit Committee will meet at least once per quarter, and the remaining committees meets when necessary.

Membership of the Supervisory Board and of its committees is described on page 23. Compensation of the members of the Supervisory Board is explained on page 37.

The Executive Board

The Executive Board of GRAMMER AG is made up of three members, namely Hartmut Müller, the Chief Executive Officer of GRAMMER AG, Alois Ponnath and Manfred Pretscher. The Executive Board is the corporate body that has joint responsibility for managing the activities of the Company. 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 verbally and in writing about current business developments and management issues. The focus of these meetings is on strategy, the ongoing business and economic situation of the Company and the Goup as well as risk management.

The members of the Executive Board of GRAMMER AG are obliged to act in the interest of the Company. Any conflicts of interest involving members of the Executive Board shall be disclosed immediately to the Supervisory Board and to the remaining members of the Executive Board. No conflicts of interest involving members of the Executive Board arose in fiscal year 2010.

The Executive Board had already decided in August of 2010 to achieve a 15 percent quota of women in top management and 20 percent in middle management by 2015, and presented a corresponding strategy for doing so.

Composition of the Executive Board is described on page 102. Compensation paid to Executive Board members and a description of the compensation system can be found in the compensation report on page 37.

Ownership of Shares

Members of the Executive and Supervisory Boards, along with certain employees with management duties, are required 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 requirement also applies to persons closely associated with the above group. In the reporting year, the following transactions were disclosed to GRAMMER AG:

- An over-the-counter sale of 500 GRAMMER shares at a price of EUR 18.817 per share (transaction size: EUR 9,408.50) on October 28, 2010 by Josef Trettenbach, holder of a general power of attorney (Prokurist) of GRAMMER AG and Vice President of Accounting and Controlling.

- An on-exchange sale of 2,700 GRAMMER shares at a price of EUR 18.70 per share (transaction size: EUR 50,490.00) on October 29, 2010 by Josef Trettenbach, holder of a general power of attorney (Prokurist) of GRAMMER AG and Vice President of Accounting and Controlling.

As of the December 31, 2010 cut-off date, GRAMMER shares directly and indirectly owned by members of the Executive and Supervisory Boards of the Company in aggregate accounted for less than 1.0 percent of the shares issued by the Company. 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.

Relationships with our shareholders and investors

Relationships with our shareholders

The shareholders of GRAMMER AG exercise their rights of co-determination and control in the context of the Annual General Meeting. All matters which are required by law are voted on during the Annual General Meeting, with binding effect for the shareholders and the Company; each common share accords one vote. The tasks assigned to the Annual General Meeting by law include, but are not limited to, deciding on the appropriation of net income, approval of the actions of the members of the Executive and Supervisory Boards, appointment of the auditors, election of the members of the Supervisory Board and decisions about amendments to the Articles of Association. The Annual General Meeting also serves as a platform for the shareholders to speak with members of the Executive and Supervisory Boards.

After timely registration and presentation of evidence of their share ownership, all shareholders have the right to attend, and exercise their voting rights at the Annual General Meeting. Shareholders who are unable to attend the meeting may exercise their voting rights by granting a power of attorney or through a proxy who will be bound by instructions received from that the shareholders. In addition, for the first time in connection with the 2011 Ordinary Annual General Meeting GRAMMER AG will allow its shareholders to exercise their voting rights through postal voting.

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

Investor Relations

As a matter of principle, GRAMMER reports about the Company and current developments equally and simultaneously 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 Statements 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 (directors' 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 AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and its individual accounts in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB).

The auditing firm appointed by the Annual General Meeting – Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, 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 Auditing promulgated and those 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 notifications were needed. The auditor issued an unqualified audit opinion on both the stand alone and the consolidated financial statements.

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 detailed in the Management Report on pages 38 ff.

Report of the Supervisory Board

Dear Shareholders and Friends of GRAMMER AG!

In this report, the Supervisory Board provides information on its activities during fiscal year 2010. Its consultations with the Executive Board focused on the company's new structure, the impact of the global financial and economic crisis on GRAMMER AG and the company's strategic development up to 2015.

In fiscal year 2010, the Supervisory Board fulfilled its duties with utmost care pursuant to the Articles of Association and the law. The Supervisory Board regularly discussed fundamental and strategic issues concerning corporate planning, business policy, business development, the risk situation and risk management with the Executive Board. The Executive Board regularly made comprehensive and prompt oral and written reports to the Supervisory Board with regard to all events of material importance and concerning the development of the company's key financial and non-financial figures. The Supervisory Board was consulted promptly and intensively with respect to all decisions of significance for the company. Collaboration with the Executive Board was characterized by an open exchange of information. The Executive Board notified us immediately of important events that were of material importance for the evaluation of the position and performance, as well as management of the company. In the case of particularly urgent processes, the Executive Board consulted the Supervisory Board Chairman even before the regular meetings.

Numerous topics and business transactions requiring approval were discussed and decided on at individual Supervisory Board meetings. There were five meetings in total, four of which were held in Amberg, and one in Schmölln, where two GRAMMER factories are located. The committee chairs reported regularly to the full Supervisory Board concerning the content and recommendations of the committee meetings held beforehand. It was not necessary to call any special Supervisory Board meetings during the past fiscal year.

Focal points of the Supervisory Board's activities

During the 2010 reporting year, the Supervisory Board addressed GRAMMER AG's business situation, finances, employment situation and strategy in depth. Special attention was paid to the impact of the financial and economic crisis as well as to the current earnings situation, including the risk situation and risk management. The state of the company and its economic and financial situation were discussed in detail at every one of the regular Supervisory Board meetings. The filling of seats on the Executive Board and the Group's reorganization required special attention. When business development varied from the plans and goals drawn up, the Executive Board also provided detailed explanations in writing or verbally. During the 2010 reporting year, this concerned among other things the company's guidance, which was raised twice.

At the meeting held on March 26, 2010 to review the financial statements, the Supervisory Board addressed the financial statements and management reports for GRAMMER AG and for the Group as of December 31, 2009. During this meeting, the Supervisory Board discussed the agenda for the Annual General Meeting and decided on the resolution proposals to be submitted for the Annual General Meeting, including among others the proposals by the Nominating Committee for the election of four shareholder representatives to the Supervisory Board. The Supervisory Board discussed and approved the control and profit transfer agreement with GRAMMER Railway Interior GmbH. Additionally, the Executive Board presented the risk report for the first quarter of 2010 and provided information on the review of the effectiveness of the internal control system. As in the previous year, the Supervisory Board decided to continue the ten percent reduction of its members' salaries. All 12 Supervisory Board members and two auditors participated in the meeting.

During the second meeting held on May 18, 2010, Mr. Manfred Pretscher was appointed to the Executive Board effective August 1, 2010 and named as the Personnel Director. Mr. Manfred Pretscher has been with the company since July 1, 2008 and prior to being appointed to the Executive Board was Vice President of the Truck and Rail product market segment. In addition, the Executive Board presented the plan for the future reorganization of the activities in Research & Development. The Supervisory Board said farewell to its departing members, Ms. Astrid Franzky and Ms. Monika Kugler-Fleischmann. All 12 Supervisory Board members participated in the meeting.

An organizational meeting of the Supervisory Board was held following the Annual General Meeting in Amberg on May 19, 2010. All 12 Supervisory Board members participated in the meeting. Those newly elected members to the Supervisory Board who are employee representatives, Mr. Frank Himmelhuber and Mr. Wolfgang Rösl, participated in a GRAMMER AG Supervisory Board meeting for the first time. Dr. Klaus Probst was elected as the Supervisory Board Chairman and Mr. Joachim Bender was elected as the Deputy Chair. Members were also appointed to the Supervisory Board's committees.

The main topics of the fourth regular Supervisory Board meeting on September 23, 2010 were the company's strategy until 2015, the Supervisory Board's efficiency review, the changes to the German Corporate Governance Code ("GCGC")and business development during the first eight months of the fiscal year. The impact of the amended GCGC on the company was discussed in detail together with the Executive Board, in particular with regard to the diversity among the Executive and Supervisory Boards as required in the GCGC. The meeting was held in Schmölln, which provided an opportunity to visit both GRAMMER System GmbH factories and to hold discussions with management. All 12 Supervisory Board members participated in the meeting.

The key topics of the fifth and last regular meeting held on December 9, 2010, in which all 12 members of the Supervisory Board participated, were the budget of GRAMMER Group for 2011 and the Declaration of Compliance with the GCGC. The Supervisory Board and the Executive Board jointly approved the budget for the new 2011 fiscal year.

In fiscal year 2010, the Supervisory Board also adopted two resolutions by way of a vote circulated in writing. The subject of the resolution dated January 25, 2010 was the approval of the creation of mortgages (real property liens) as collateral under the consortium loan agreement. The topics of the second resolution adopted by vote circulated on July 12, 2010 were the overhaul of the Executive Board's compensation system and in particular, the compensation of Manfred Pretscher and Hartmut Müller, who assumed the position as Executive Board Chairman as of August 1, 2010. All of the Executive Board contracts were adapted to the new compensation system during fiscal year 2010.

Supervisory Board Committees

There were four GRAMMER AG Supervisory Board committees in fiscal year 2010. The committee members were newly appointed at the Supervisory Board meeting on May 19, 2010.

In fiscal year 2010, the Supervisory Board committees were composed of the following:

- Strategy Committee:
  Joachim Bender
  Dr. Bernd Blankenstein (Chairman until May 19, 2010)
  Udo Fechtner
  Dr. Klaus Probst (Chairman starting March 4, 2011)

- Standing Committee:
  Joachim Bender
  Dr. Bernd Blankenstein (Chairman until May 19, 2010)
  (Committee Member until May 19, 2010)
  Udo Fechtner
  Georg Liebler
  Dr. Klaus Probst (Chairman starting March 4, 2011),
  (Committee Member starting May 19, 2010)

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

- Nominating Committee:
  Dr. Bernd Blankenstein (until May 19, 2010)
  Wolfram Hatz
  Dr. Klaus Probst
  Dr. Bernhard Wankerl (starting May 19, 2010)

The Audit Committee met four times: Topics were the audit of the single-entity and consolidated annual financial statements for 2009, the risk report and its respective updating and the interim financial reports in fiscal year 2010. Following a thorough analysis, the Audit Committee recommended to the Supervisory Board that it once again recommend to the Annual General Meeting on May 19, 2010 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as the auditor for the financial statements of the company and of the Group for fiscal year 2010.

On March 26, 2010, the Nominating Committee met prior to the Supervisory Board meeting and submitted proposals to the Supervisory Board with regard to the election of new shareholder representatives at the Annual General Meeting on May 19, 2010.

The Standing Committee met twice during fiscal year 2010. On the first occasion it addressed the membership of the Executive Board as of August 1, 2010 and recommended to the Supervisory Board that Manfred Pretscher be appointed to the Executive Board. On the second occasion, the future compensation system of the GRAMMER AG Executive Board was discussed.

The Strategy Committee did not hold any meetings during fiscal year 2010.

Annual and Consolidated Financial Statements

At the Annual General Meeting held on May 19, 2010, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, was appointed as the auditor for the reporting year. At its meeting of November 5, 2010, the Audit Committee engaged the auditor for the 2010 single-entity financial statements and the consolidated financial statements. The auditor submitted the Statement of Auditor's Independence as required by the GCGC and disclosed the auditing and consulting fees charged during the fiscal year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft 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 the Management Reports for both GRAMMER AG and the Group. The auditor issued an unqualified opinion in both cases. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the Management Reports for GRAMMER AG and the Group truly and fairly represent the situation of the company and of the Group, as well as the opportunities and risks with regard to future development. The reports and financial statement documents were provided to the Supervisory Board by the auditor in a timely manner and were examined thoroughly. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the key results of the audit during the corresponding meeting of the Audit Committee dealing with the annual and consolidated financial statements, a separate discussion with the Audit Committee Chairman and at the Supervisory Board meeting held on March 28, 2011 to review the financial statements. 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. The Supervisory Board thus endorsed the audit results by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and then approved the annual financial statements for GRAMMER AG and the Group. The GRAMMER AG annual financial statements have therefore been officially approved.

Corporate Governance

During the past fiscal year, the Supervisory Board discussed the changes to the GCGC and continued to observe its further development. The diversity recommendations by the government committee concern the diversity on the Supervisory Board, the Executive Board and at the higher levels of management; in particular, the percentage of qualified women on the supervisory boards of German companies is to increase in the interest of achieving quality, contemporary corporate management, and special attention is to be paid to the internationality of those holding the seats. The implementation of the GCGC was discussed intensely at the fourth and fifth Supervisory Board meetings and various measures were resolved. The Executive Board had already decided in August of 2010 to achieve a 15 percent quota of women in top management and 20 percent in middle management by 2015, and presented a corresponding strategy for doing so. In accordance with the Supervisory Board resolution of December 9, 2010, a female shareholder representative is to be elected to the Supervisory Board no later than by 2015 in order to achieve more diversity on the Supervisory Board. That is the point in time at which the majority of the shareholder representatives' terms will expire. A woman is currently on the Supervisory Board as an employee representative; it is the Supervisory Board's goal at a minimum not to fall below this quota. Additionally, the age limit for the Supervisory Board set in the Rules of Procedure was reviewed during the December meeting, and it was resolved to amend the Rules of Procedure at that point in the text as follows: On the date of election or reelection, the age limit shall be seventy years of age (previously: seventy-five). On the topic of continuing education for the Supervisory Board, the employee representatives reported on the training programs offered for union members; further steps were established to provide the Supervisory Board members with support for the required training and continuing education measures they are responsible for on their own. During its meeting on September 23, 2010, the Supervisory Board performed the efficiency review required by the GCGC and adopted improvement measures.

On December 9, 2010, the Executive Board and the Supervisory Board provided an updated Declaration of Compliance, which was made permanently and publicly accessible on the company's website.

No conflicts of interest arose with regard to Supervisory Board members in association with their activities as members of the GRAMMER AG Supervisory Board.

Membership of the Executive and Supervisory Boards

The membership of the Supervisory Board changed during the reporting year. Dr. Klaus Probst assumed the post of Supervisory Board Chairman as of May 19, 2010. The post had previously been held by Dr. Bernd Blankenstein, who remains on the Supervisory Board as a regular member. The employee representatives Ms. Astrid Franzky and Ms. Monika Kugler-Fleischmann were not re-elected to the Supervisory Board. Mr. Frank Himmelhuber and Mr. Wolfgang Rösl were elected in their place as of May 19, 2010.

As previously announced in the last report, Dr. Rolf-Dieter Kempis departed from the Executive Board as of the end of the day on July 31, 2010.

In the summer of 2007, Dr. Rolf-Dieter Kempis had left his seat on the Supervisory Board to become a member of the GRAMMER AG Executive Board. As the Chief Executive Officer, Dr. Rolf-Dieter Kempis led GRAMMER Group through the financial and economic crisis, and together with his fellow Board members was heavily involved in the company's new structural alignment. We would like to thank him for his exceptionally dedicated work for the company. Mr. Hartmut Müller had already been appointed in 2009 as the Executive Board Chairman effective as of August 1, 2010. Mr. Manfred Pretscher was appointed to the Executive Board and as Personnel Director effective as of August 1, 2010.

The Supervisory Board would like to express not only its thanks to the members of the Executive Board, all of the employees and the employee representatives of GRAMMER AG but also its appreciation for their personal commitment and the work they performed during fiscal year 2010.

Amberg, March 2011

On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER Share

- With an increase of 202 percent, GRAMMER is the strongest share in the SDAX
- Share price rises from EUR 6.05 to EUR 18.30

German indexes close the year higher

Following crisis year 2009, equity markets in 2010 were largely back to their previous levels of confidence. At the start of the year, the environment was still strongly characterized by uncertainty, and markets were erratic. By the end, however, the DAX, SDAX and Prime Automobile Performance Index had seen above-average growth. Germany's benchmark DAX index even crossed over the 7,000 mark for a time in December. On December 31, 2010, it closed at 6,914 points. Compared to the closing in 2009, this represents an increase of 957 points, or 16 percent. In all, DAX performance was considerably better than that of other European indexes. The SDAX closed 46 percent higher on the last trading day of 2010, at 5,174. Prime Automobile Performance, the relevant sector index for GRAMMER, improved by 56 percent in the reporting period, to 849 points.

GRAMMER strongest share in the SDAX

Car manufacturers and suppliers were among the winners on the stock market in 2010. And, GRAMMER was at the top of this trend. In 2010, it was the strongest share in the SDAX. Starting at EUR 6.05 at the beginning of the year, a dynamic upward trend broke through in March. This is attributable to an extension and 20 percent increase in our working capital facility and the two forecast improvements over the course of 2010. A peak share price of EUR 19.49 was reached on October 20, 2010. Performance was strongest in the summer months, based on speculations bet on consolidation in the industry and positive analysts' recommendations. Ultimately, on December 31, 2010, GRAMMER's share closed at EUR 18.30, which represents performance of 202 percent. In 2009, average annual daily trading volume was roughly 17,000. This situation changed radically in 2010, when daily volume averaged 66,000 shares. The better valuation of the share also improved the ranking of GRAMMER in the SDAX, putting the company into the middle of the field here.

GRAMMER share

On December 31, 2010, the share capital of GRAMMER AG totaled approximately EUR 26.9 million, divided into 10,495,159 bearer shares. 330,050 own shares held by the company. The GRAMMER share is listed in the SDAX, and trades on the Frankfurt 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

	2010	2009
Share price at year-end (in EUR, Xetra)	18.30	6.05
Annual high (in EUR)	19.49	7.24
Annual low (in EUR)	5.45	2.53
Number of shares (12/31)	10,495,159	10,495,159
Market capitalization (in EUR m) (12/31)	192.10	63.5
Earnings per share (in EUR)	1.60	–2.77
Dividend (in EUR)	0	0

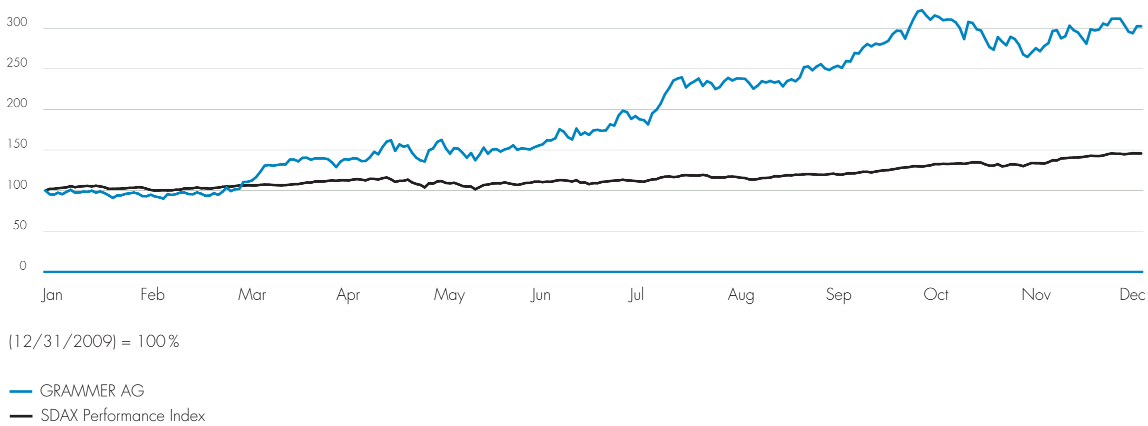
Focus on strengthening the equity base

In line with the recommendation of the Executive Board and Supervisory Board, the Annual General Meeting resolved on May 19, 2010 not to pay a dividend for the fiscal year 2009. Based on the legally mandated assumption of loss utilization, GRAMMER AG's net loss as of December 31, 2009 will be carried forward.

For fiscal year 2010, GRAMMER Group is reporting a profit of EUR 16.3 million. Dividend payments, however, are determined by the results of GRAMMER AG, which posted a net loss of EUR –26.0 million as of December 31, 2010. This takes into account the loss of EUR 19.8 million carried forward, the allocation of EUR 2.0 million to other revenue reserves, as well as the with drawal of EUR 2.0 million from the reserve for own shares transferred to other revenue reserves. Due to the legally mandated assumption of loss utilization, the net loss as of December 31, 2010 will be carried forward.

For fiscal year 2010, the focus will be on strengthening the company's financial base and reducing debt. The Company benefitted during the crisis from the solid balance sheet and high equity ratio. The next objective is to reattain pre-crisis levels. GRAMMER is committed to once again regularly paying an attractive dividend, so that our shareholders profit from the success of the company.

GRAMMER AG and SDAX Performance Index – 2010 price trend (in %)



Further intensification of investor relations

An open dialogue as well as transparent, prompt capital market communication with all target groups are the basis of our financial communication efforts. In numerous discussions, we inform investors, analysts and journalists about the strategic direction of the group, ongoing developments in business and the GRAMMER business model. We publish quarterly reports and press releases to keep the capital market informed, as well as opening up the company to shareholders at the Annual General Meeting in Amberg. Dialogue with international investor groups is also very important for us. To reach them, we have held road shows in the UK, Switzerland, France and Scandinavia, where we spoke about the opportunities and potentials of the GRAMMER share. We have also conducted numerous road shows within Germany and met with national and international investors at capital market conferences.

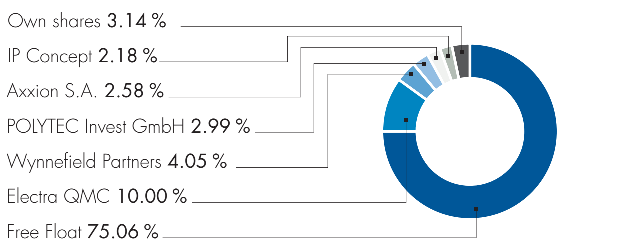
Increased investor interest in GRAMMER was demonstrated in 2010, both in media reports and in research by banks and independent analysts. Six analysts regularly cover the GRAMMER share. At present three of them are recommending the share as a buy, and three as a hold.

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

In September 2010, GRAMMER AG received notification that IPConcept Fund Management S.A./Luxembourg holds 2.18 percent of voting rights in the company, instead of the previous 3.20 percent. Also in September, GRAMMER AG was notified that POLYTEC Invest GmbH, with registered office in Geretsried, holds 2.99 percent of voting rights, down from 4.95 percent. Until August it held 9.59 percent of voting rights. These shares are fully attributable to POLYTEC Holding AG pursuant to section 22 (1) sentence 1 no. 1 WpHG. In October 2010, GRAMMER was informed that Munsbach/Luxemburg-based Axxion S.A. holds 2.58 percent of voting rights in the company; this investor previously held 4.69 percent. Electra QMC Europe Development Capital Funds plc in Dublin/Ireland continues to hold 10.001 percent of shares in GRAMMER AG, which are attributable to Nmas Agencia de Valores S.A. with registered office in Madrid/Spain according to its notification. The voting rights percentage held by Wynnefield Partners Small Cap Value L.P. remains at 4.05 percent.

Shareholder structure



Group Management Report Index

Group Management Report

- Group revenue reaches EUR 0.9 billion.
- Turnaround achieved in 2010.
- Earnings return to pre-crisis levels.

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 and offroad 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 machines 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 key performance indicators play an important role for GRAMMER in measuring the efficiency with which the Company's capital is being employed.

Overall economic conditions and developments

Global economy set to grow

In 2010, the global economy recovered far more rapidly from the financial and economic crisis than was expected of the beginning of the year. The decline in economic output in 2009 was followed by 5.0 % growth last year. Driving the recovery are various economic stimulus programs, as well as the substantial pickup in international trade – though this trend lost some vigor in the second half of the year.

The United States' economy overcame the crisis and increased GDP by 2.8 %. Private consumption, however – a key motor of growth within the US – is still languishing under high unemployment, which reached 9.4 % in December. There have as yet been no signs of significant and sustainable recovery in the job market. The American economy is also facing persistent weakness in the real estate market.

The predominant force behind worldwide expansion in the year under review was Asia. China grew its economy by 10.3 % in 2010. In fact, the state actually implemented measures to cool off economic output.

Strong exports also helped the economy of Japan to raise GDP by 4.3 %. A strengthening yen, however, slowed export business and overall growth as the year progressed.

India is likewise growing, generating 9.7 % GDP growth last year.

In the Eurozone, economic activity stabilized in 2010, with growth at a moderate 1.8 %. The picture in Europe is largely mixed, with countries affected by the sovereign debt crisis showing little or no growth.

Germany, on the other hand, contributed greatly to the region's positive growth numbers. Last year, the German economy grew more rapidly than it has since reunification. Germany benefited from the solid recovery of global trade and high rates of growth in emerging markets. Exports increased in 2010 by 14.2 % in price adjusted terms. This was largely to thank for the nearly 3.6 % increase in GDP. But, Germany's growth did not result exclusively from foreign trade – it was also fuelled by domestic demand. Domestically, demand growth was driven largely by construction investments, consumptions spending by households and the public sector institutions as well as the commercial investment.

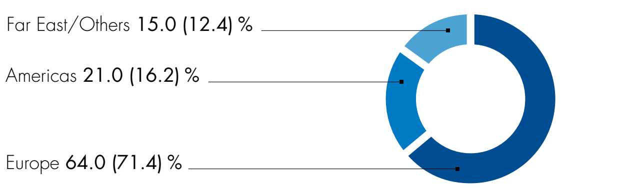
Group sees very positive development in 2010

In the reporting year, GRAMMER Group's business was borne to a significant improvement by the global upturn. New orders and revenue were up 28 % as a result of high demand in our markets. The modest improvement in demand that started in 2009 continued at a smarter pace in the first half of 2010, and endured at a high level in the latter half. The Group thus achieved a turnaround from the substantial losses of the previous year, generating a considerable profit in the year under review. This positive result is attributable both to revenue gains and fixed-cost reductions within the Group. Our systematic implementation of steps to re-align costs and structures with the new demand environment allowed GRAMMER Group to operate profitably from the first quarter of the reporting year.

Group revenue reaches EUR 0.9 billion

Based on these macroeconomic and industry-specific conditions in 2010, GRAMMER Group was able to realize total revenue of EUR 929.7 million (2009: 727.4). The high rates of growth during the first six months approaching 30 % in the individual business segments were maintained at a high level over the remainder of the year. The positive market conditions and new production starts gave further indications of recovery in fourth quarter of 2010 as compared to the same quarter one year prior.

Revenue by regions (previous year in brackets)

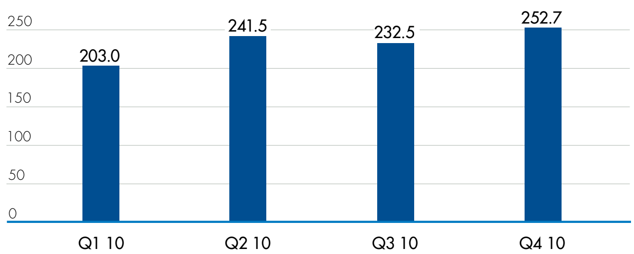


in EUR m

	2010	2009
Europe	595.2	519.3
Americas	195.2	118.2
Far East/Others	139.3	89.9
Total	929.7	727.4

Full-year results in the different regions were divergent. In Europe, revenue climbed by EUR 75.9 million after the crisis to EUR 595.2 million (2009: 519.3), weighed down by weakness of the Seating Systems division going into the first quarter. The Americas region saw revenue increase as a result of new production starts and the strong recovery of the market following the end of a particularly severe recession in the US, where GRAMMER took in EUR 195.2 million (2009: 118.2). This equates to a 65.1 % improvement over the previous year. Business in Asia continued to see very positive development. Revenue in geographic segment Far East/ROW rose by more than 50 % to EUR 139.3 million (2009: 89.9). 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

	2010	2009
Q1	203.0	171.7
Q2	241.5	169.9
Q3	232.5	176.8
Q4	252.7	209.0
Total year	929.7	727.4

Car markets gaining momentum worldwide

Global demand for cars recovered considerably more rapidly in 2010 than expected early on in the year. Growth was propelled chiefly by markets in Brazil, Russia, India, China and the US. According to the German Automobile Manufacturers Association (VDA), more than 61.7 million vehicles were sold in 2010, a rise of 12 % over crisis-year 2009.

The US auto market also continued its robust growth between January and December 2010 as compared to the weak year in 2009. Sales of light vehicles increased by around 11 % year-over-year to 11.6 million vehicles. The automobile segment improved by 4 % to 5.6 million and the light trucks segment by a full 18 % to 5.9 million vehicles. Germany manufacturers also benefited from the dynamic performance of the market. With 667,800 cars sold, they improved sales in this segment by 12 %. German light truck sales were up 28 %.

The number of new vehicle registrations in Brazil increased by 11 % to 3.3 million in the reporting year.

The strongest region for car sales, however, was Asia, with China leading the way. In 2010, a total of 11.3 million new vehicles hit the roads of the world's most populous country. In a year-over-year comparison, this equates to an increase of 34 %. This increase in demand also benefited German manufacturers. Roughly 20 % of new vehicles sold carried a German nametag.

The Japanese market also reported higher numbers of new vehicle registrations as a result of government stimulus. A total of 4.2 million additional vehicles, or 7 % more than last year, were registered in 2010.

In India, the market remained very dynamic with an increase of 31 % reaching 2.4 million new cars. German carmakers benefited enormously from the trend, tripling their sales numbers.

The Russian market added roughly 1.9 million new cars in 2010. The number of vehicle registrations was thus 30 % higher year over year.

Europe saw around 13.4 million cars newly registered in 2010 according to the European Automobile Manufacturers' Association – ACEA. This represents a decline in Europe-wide new vehicle registrations of 5.5 % versus 2009. In the volume markets, only Spain plus 3.1 % and the UK 1.8 % ended the year higher. Negative growth was reported in Germany, where new vehicle volumes declined 23.4 %, Italy, minus 9.2 % and France, minus 2.2 %. Although vehicle registration numbers in the new EU countries were lower in 2010, this region saw a stabilization, so that the decline was limited to 3.2 %.

In Germany, Europe's largest single market, new car demand sank by 23.4 % year-over-year to 2.92 million vehicles. This substantial decline was to be expected, given the appreciable pickup the prior year as a result of the scrap incentive. Compared to 2008, the year before introduction of the scrap incentive program, new vehicle registrations last year were down only 5.7 %. The scrap incentive in 2009 meant that demand was focused on smaller, lower cost vehicles. In 2010, on the other hand, there was a substantial increase in 4x4 and SUV sales, which climbed 20.6 %. Sales were also up in sports cars (+ 22.1 %) and upper or mid-size vehicles (+ 12.2 %). Higher demand for premium and luxury cars has also been benefiting OEMs (original equipment manufacturers), and thus indirectly benefiting suppliers as well. The small car segment on the other hard lost market share, with sales down by 42 %.

Although the total number of new cars was down in Germany, car production figures in the country were up on strong foreign demand. In total, roughly 5.6 million new cars were manufactured last year. This represents an increase of 12 % as compared to 2009. Car exports in the reporting year were 24 % higher year-over-year at 4.2 million units.

Automotive division benefiting from export strength

The Automotive division was characterized by an exceptionally good order situation in the year under review. Already in the first quarter, revenue gains were in the double digits as compared to the previous year. As the economy stabilized, backlogs increased and the full-year outlook improved rapidly. From the middle of the third quarter, development orders and new production starts as well as increased registrations also had a positive effect on German premium automakers. GRAMMER was also able to avoid the typical fourth-quarter drop-off through strategic broadening of the product base in center console business.

Revenues in all Group regions increased, returning to previous high levels. Thus, once again, our involvement in Asia has paid off, as our Chinese production sites in Tianjin and Changchun developed better than planned. After the opening of the site in Shanghai and local development of a center console for the General Motors Epsilon II Platform in 2009, further milestones were successfully reached in the growing Asian market with the successful launch of series production. In addition to positive economic developments, the expansion of our product range has also strengthened GRAMMER's growth momentum. After the marked decline in 2009, revenue performance in the NAFTA countries improved rapidly (+59 %), which can be largely attributed to the expansion of our customer base and product range.

To sustainably strengthen the earnings situation of the Automotive division, we continue to implement measures to improve profitability and cost efficiency. In addition to initiatives aimed at enhancing processes and structures, these involve optimization of the worldwide production network. Closure of the plant in Immenstetten, near Amberg, and expansion of our facilities in Schmölln and Zwickau are two examples of this clear operational strategy.

Commercial vehicles market sees steep increase in sales

The commercial vehicles industry profited in 2010 from the upswing of the global economy, recovering from the preceding slump. Growth in this market was particularly strong in the second half of the year.

In the US, the number of new commercial vehicle registrations was up 9 % year-over-year, to 218,000 units. The increase in the heavy trucks segment totaled 13 %, or 107,000 units.

The commercial vehicles market in Brazil ended 2010 with 40 %, reaching 186,000 newly registered vehicles. Sales here are being driven by government programs, including tax incentives.

Back in 2009, the Chinese commercial vehicles market took on 44 % more vehicles, to 5.3 million new registrations. This dynamic trend continued in 2010. The growth rate last year reached 29 %, with a total of 6.8 million new vehicles being registered. The absolute increase is roughly in line with the number of 2010 new commercial vehicle registrations in Europe, making the Chinese commercial vehicles market the largest and most important worldwide.

The Indian market grew by 45 % in the reporting year to 653,000 vehicles. Here, medium and heavy commercial vehicles saw the most significant increases. The growth in medium and heavy vehicles reached 58 % by year's end.

According to ACEA (Association des Constructeurs Européens d´Automobiles), a total of 1.8 million new commercial vehicles went into service between January and December 2010 in Europe. This corresponds to an increase of 8.0 %. The European market started the year in negative territory, but new order volumes were already pointing to a stabilization. From March onwards, the markets began to grow. For the year as a whole, especially the high-volume markets like France (plus 9.9 %), Italy (plus 5.4 %), Spain (plus 8.8 %), Germany (plus 16.5 %) and the UK (plus 15.4 %) reported expansion.

The German truck market experienced double-digit growth. In 2010, a total of 282,160 commercial vehicles were registered in Germany, an increase of 17 %. In the class up to 6 t, the rise reached 16 %. Registrations of vehicles over 6 t rose by as much as 20 %. High rates of foreign demand resulted in a substantial increase in exports, which expanded 53 % to 242,470 units. The bulk of demand was for heavy vehicles over 6 t, where export volumes increased 67 %. Thus, German commercial vehicle manufacturers increased production in 2010 after significantly diminished volumes in 2009. At 354,580 units, 45 % more commercial vehicles were produced in the reporting year.

Recovery on track in agricultural machinery
After substantial impact by the financial and economic crisis on the German agricultural machinery industry in 2009, developments were satisfactory in 2010. Revenues in the industry grew by 2% to EUR 5.77 billion. In Germany, 28,587 tractors were registered in 2010. This represents a decline of 3% as compared to the previous year. On the strength of foreign demand, however, production of tractors increased, so that 15% more, or 53,450 units, left the production lines in the reporting year.

Positive developments in material handling
Production and sales of vehicles for material handling, which dropped off in 2008 and fell further in 2009, saw dramatic year-over-year increases in 2010 greatly affected by the improving global economic environment.

Construction machinery
For 2010, the construction machines industry calculates an increase of roughly 15% over the previous year. New orders were generated primarily overseas, and are up more than 50% year-over-year. This growth was driven primarily by the Asian and Latin American markets.

Rail industry
Revenues in the German rail industry grew 12.2% in the first half of 2010 to EUR 5.5 billion. Demand for railway vehicles increased by 11.4% in the first half. This can be growth attributed to increases of 30% in demand abroad. Domestic orders for trains and locomotives, on the other hand, were down 13.6% year-over-year in the first half.

Seating Systems
Strong performance in the truck and offroad segments
In contrast to 2009, the Seating Systems division regained its status as an engine of growth for GRAMMER Group in the reporting year. This year's dynamic business development started with a subdued first quarter and a sudden improvement of the order situation in the second quarter. Given the Company's strong market position in the offroad and truck segments, the economic situation was leveraged to generate revenue growth of 38.4%. Thus, we were also able to strengthen our leadership within the Western Europe market in 2010 and expand our position in numerous countries, especially Brazil and China.

In the offroad product segment, sales of seats for agricultural machinery started off the year very weak, but improved rapidly, especially in the second quarter, and remained strong throughout the second half year, which is precisely the opposite of the usual developments seen in previous years. Full year results were similarly positive in the construction machinery product segment, and the forklift product segment made up ground with increased revenues. Because of the strong growth, earnings performance for these product groups finished the year with very satisfying results.

In truck business, we increased our lead in the South American market in 2010. A combination of favorable economic conditions and our strong market position had a strongly positive effect on revenue and earnings. As the economy expanded, sales also improved considerably in Europe and the Middle East.

In the first quarter of the year under review, further capacity measures were implemented at the Haselmühl plant in Amberg as a reaction to the massive crisis in 2009. With programs for production optimization based on the principles of lean management, key components of production were restructured.

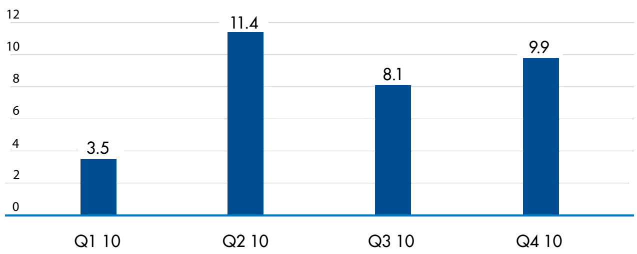
Following steps to augment metal production in China, the entire Group is being supplied with seats and seating components from the Asian plant in Tianjin. In the US, we continued gradual progression of the region to an independent product development, distribution, and production center to supply the American offroad market, and were able to take 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 penetrate the US market and eliminate foreign exchange risks through local production and distribution.

Restructuring of railway segment continued
As part of restructuring, the railway unit further optimized and stabilized its process capabilities. The Company continued to reorder production and focus on project business. A further focus was on development of additional platforms and increased acquisition of international projects. 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

Earnings lifted by rising economic tide
In 2010, GRAMMER Group achieved a turnaround and greatly improved its earnings situation. Accordingly, gross profit rose in 2010 to EUR 119.6 million (2009: 76.0), an increase of 57.4%. Despite the residual burden from capacity adjustments for the social plan in Haselmühl which was agreed in December 2009 and completed at the start of the year, earnings before interest and taxes (EBIT) rose by EUR 56.8 million, and ended the year substantially higher at EUR 32.9 million (2009: -23.9). This improvement pertained across all segments. Even the Seating Systems division, which suffered considerable declines in the previous year, returned to profitability, nearly recapturing its old strength. EBIT yield was again positive, at 3.5%, which is even higher than the level before the crisis.

Consolidated EBIT by quarters (in EUR m)



in EUR m

	2010	2009
Q1	3.5	–8.6
Q2	11.4	–10.9
Q3	8.1	–5.2
Q4	9.9	0.8
Total year	32.9	–23.9

Costs dominated by difficult environment

Costs of sales increased by 24.4% to EUR 810.2 million (2009: 651.5). This increase is disproportionately low as compared to revenue, and attributable largely to the revenue increase and in places massive expansion of production. The still low levels of capacity utilization in the offroad segment at the start of the year initially led to proportionately higher personnel costs and costs for capacity measures in the first quarter. Characterized by an environment with volatile, short-term demand and the rapid improvement in the Seating Systems division at the beginning of the second quarter, the Company was able to satisfactorily manage costs. The development of markets and currencies was dominated by the rapidly changing environment, which has placed constant demands on our ability to adapt.

Personnel costs rose by 9.3 million euros to a total of 208.4 million (2009: 199.1). In addition to the revenue improvements and capacity adjustments, the restructuring measures also began to take hold. The ratio of personnel expenses to revenue at 22.4% was clearly lower than the prior year (27.4) and the average of previous years thanks to the anticipatory introduction and consistent implementation of personnel optimization measures in 2009 and at the beginning of 2010.

In the year under review, sales expenses were down slightly at EUR 26.5 million (2009: 27.0). This is primarily attributable to the measures taken to cut costs and increase efficiency.

Administrative expenses declined to EUR 68.9 million (2009: 83.5). Despite higher revenues and expanded business activities in growth regions, cost developments pleasingly remained lower year over year. Due to the volatility of the international financial markets and the related development of the euro, exchange rate gains rose to EUR 20.9 million (2009: 11.3) and exchange rate losses to EUR 16.1 million (2009: 14.9).

Other operating income

Other operating income came to EUR 8.7 million (2009: 10.6). The decline was attributable to lower disposals from fixed assets and scrap charges as well as a decrease in costs passed on to suppliers.

Financial expenses

Financial expenses were higher in an environment of increased financing costs and financing of prior-year losses. Expenses were slightly higher as a result of new financing conditions that are less favorable for companies in the wake of the financial crisis. Thus, with EUR 14.9 million, we were not able to hold financial expenses, to the level of the previous year (2009: 11.8). Financial income from securities and short-term investment of financial assets declined to EUR 1.4 million (2009: 5.3), primarily resulting from changes in the measurement of financial assets.

Other financial income turned positive as a result of foreign exchange valuations at EUR 1.1 million, compared to the loss of EUR –1.1 million in the previous year.

Taxes

As expected, with a tax expenses of EUR 4.2 million was significantly higher than in 2009, which saw a tax income of EUR 3.3 million due to the recognition of certain tax loss carryforwards. On the domestic front in particular, weaker operating profit components reduced income tax expenses dramatically, whereas income tax expenses abroad rose slightly in some cases. Due to the changes regarding deferred tax assets in Germany, tax income materialized from the anticipated loss utilization, which had a positive impact on the tax rate.

Profit

GRAMMER Group's operating profit for the year under review was EUR 32.9 million (2009: –23.9), which impressively underlines the turnaround after restructuring. Net profit after interest and taxes came to EUR 16.3 million (2009: –28.2), due to operating profit and primarily to diminished tax expenses as a result of loss utilization.

Earnings per share are calculated based on net income, and totaled EUR 1.60 (2009: –2.77). Including own shares in the calculation yields a result of EUR 1.55 per share (2009: –2.69).

Appropriation of profit

Appropriation of profit by GRAMMER Group is based on net profit in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. As of December 31, 2010, GRAMMER AG posted a net profit of EUR 26.0 million. This takes into account the loss of EUR 19.8 million carried forward, the allocation of EUR 2.0 million to other revenue reserves, as well as the withdrawal of EUR 2.0 million from the reserve for treasury shares transferred to other revenue reserves. Due to the legally mandated assumption of loss utilization, the net loss as of December 31, 2010 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 own shares without dividend entitlement.

Divisional revenues and earnings

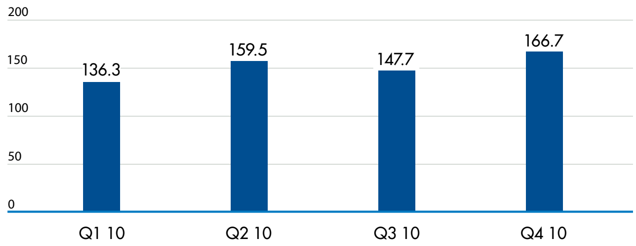
Automotive: economic recovery sparks significant improvement in revenue

In the Automotive division, we produce interior components for premium auto manufacturers and automotive system suppliers. The division primarily generates its revenue through serial production and project business. In 2010, the division saw revenue of EUR 610.2 million (2009: 495.5), an increase of 23.1 % year over year. This accounted for 64.1 % of Group revenue. Earnings before interest and taxes (EBIT) totaled EUR 21.4 million, representing a clear recovery over the prior year (2009: –3.9). The effects of the revenue gains, as well as the capacity and optimization measures implemented, resulted in an impressive turnaround. Profitability was increased even in comparison to the strong revenues result in 2008. Start-up costs and capacity adjustments to implement the necessary expansions for new products led in partially to higher expenditures.

Revenue and earnings up substantially in the Seating Systems division

Revenue performance in the Seating Systems division continued to lag in the first quarter of 2010. In the offroad segment, revenue increased only slowly. As the second quarter commenced, the markets and order entry suddenly regained momentum. In truck seat business, order volumes were strong throughout the year. The European market grew continuously as the economy improved in 2010, and the vigor of the markets of China and Brazil continued unabated. In all, the division's revenue improved to EUR 341.9 million (2009: 247.1), which is 38.4 % more than in 2009. Operating profit in the segment, after a slow start, significantly improved. Despite the personal measures in first quarter at the Haselmühl location, GRAMMER AG generated EBIT of EUR 17.6 million in Seating Systems (2009: –9.9).

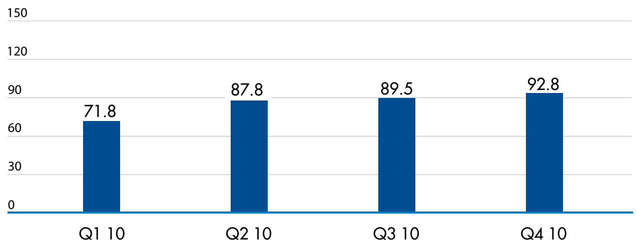
Automotive revenue by quarters (in EUR m)



in EUR m

	2010	2009
Q1	136.3	104.7
Q2	159.5	116.8
Q3	147.7	124.4
Q4	166.7	149.6
Total year	610.2	495.5

Seating Systems revenue by quarters (in EUR m)



in EUR m

	2010	2009
Q1	71.8	69.5
Q2	87.8	56.4
Q3	89.5	57.8
Q4	92.8	63.4
Total year	341.9	247.1

Financial position

GRAMMER on solid footing after the financial crisis and the Company's growth
The Company's revenue performance led to increased financing needs with respect to its current assets and, also related to the necessary investment, GRAMMER Group could not maintain 2009 levels of available liquidity (cash and unused credit facilities). Current and non-current bank liabilities rose to EUR 131.0 million (2009: 122.3), of which EUR 70.0 million is financed by the long-term debenture bond and EUR 28.0 million by a KfW (Federal Bank of Reconstruction and Development) loan which is part of the syndicated loan agreement.

In addition, after completion of negotiations, a bank syndicate put together by GRAMMER provided a credit line in the amount of EUR 82.0 million which has been committed for a period of three years and will be drawn down in short-term tranches. The long-term debenture bond and the KfW loan as well as the raised future credit lines give GRAMMER Group access to sufficient funds to finance its long-term growth strategy.

Cash flow from operating activities increased due to operating results and measures designed to optimize the Company's cost structure. The funds generated were used to finance the Company's increased business volume as well as its redundancy plans and financial expenses. The focus was on expanding the center console business activities in Germany and on pursuing projects in the US 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 the aforementioned projects aimed at expanding the Company's business were accompanied by a step-up in the use of production ressouces. Moreover, the Company continued to establish its truck seat production in the Czech Republic and to undertake additional measures aimed at boosting operating productivity by applying lean management principles. Cash flow from financing activities rose, as additional liquidity was made available to adjust to new requirements.

Net assets

On the balance sheet date, December 31, 2010, the total assets of GRAMMER Group amounted to EUR 559.4 million (2009: 500.4). Thus, as a result of increased business activities, the Company's total assets rose by 11.8% year-over-year.

Non-current assets significantly higher than in 2009
Non-current assets totaled EUR 245.9 million (2009: 228.0). The establishment of production facilities for further development of the console product segment in Mexico and Schmölln and for truck seats in the Czech Republic led to a rise in property, plant and equipment to EUR 153.4 million (2009: 141.9). Intangible assets amounted to EUR 50.2 million and were thus slightly higher than in the prior year (49.8). An increase has also been recorded in deferred tax assets. Owing to strong earnings performance of the companies concerned and an improved market outlook, it now appears that certain losses carried forward – whose utilization was deemed uncertain during the crisis – can now actually seen as realisable.

Higher current assets due to increased business activities
Compared to the end of last year, current assets rose to EUR 313.5 million (2009: 272.4). This increase was primarily due to business performance and significantly higher revenue. At EUR 88.9 million, inventories were EUR 11.7 million higher than in the prior year. However, this increase was less than proportionate thanks to our working capital management activities. As a result of strong revenue, in the 4th quarter receivables increased to EUR 138.3 million from EUR 109.4 million. Due to the realization of revenue from customer projects, other current financial assets decreased year-over-year by EUR 5.5 million to EUR 50.5 million while other current assets rose slightly by EUR 4.9 million to EUR 16.7 million. Overall, current assets increased as a result of group-wide revenue growth and, in particular, high revenue in the last quarter and growing internationalization of our business activities. At year-end, available liquidity totaled EUR 17.2 million (2009: 16.1).

Equity on the rise again
Thanks to earnings, equity rose to EUR 173.1 million (2009: 151.0) as of December 31, 2010, thus equaling 70.4% of non-current assets. The equity ratio increased slightly to 31% (2009: 30).

Changes in liabilities
Non-current liabilities amounted to EUR 189.8 million (2009: 155.5). As a result of refinancing using the KfW loan, non-current financial liabilities increased by EUR 28.1 million to EUR 97.9 million (2009: 69.8). Thus, short-term financing was converted into long-term financing, making the financial position of GRAMMER Group more secure and more stable. In addition, pension liabilities increased to EUR 61.1 million (2009: 57.3), and trade accounts payable in the amount of EUR 4.9 million were categorized as long-term in nature and recorded accordingly.

Current liabilities rose somewhat to EUR 196.5 million (2009: 193.9). In spite of significant investment, current financial liabilities declined to EUR 33.1 million from EUR 52.5 million owing to the new financing structure and a moderate increase in net financial liabilities. Trade accounts payable amounted to EUR 92.1 million and were up on the prior year's level. Current liabilities rose to EUR 54.5 million (2009: 43.0), mainly as a result of business performance. Income tax liabilities rose to EUR 5.0 million (2009: 1.9) because of earnings performance primarily in China and Brazil. Other current financial liabilities increased year-over-year to EUR 3.5 million (2009: 2.5).

Capital

Capital structure
The subscribed capital of GRAMMER AG totals EUR 26,867,607.04, divided into 10,495,159 no-par value bearer shares. These 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 no-par value bearer shares through August 25, 2011. The Executive Board is further authorized, in each case subject to the approval by 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 under authorization by the Annual General Meeting and re-sold during the life of such authorization in accordance with section 71 (1) no. 8 sentence 5 AktG in conjunction with section 186 (3) sentence 4 AktG will be counted towards the above 10% limit. The Executive Board is furthermore authorized, subject to Supervisory Board approval, to determine the issue price, share rights and other terms of the share 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, and issuance of participatory rights with or without option-exercise or conversion requirement and/or warrant-linked bonds and/or convertible bonds as well as exclusion of subscription rights. At the same time, it resolved to authorize the creation of authorized but unissued capital and amendments to the Articles of Association. These resolutions were again presented as confirming and/or new resolutions and adopted by the Annual General Meeting on May 19, 2010. Re-adoption of the resolutions was necessary as, at the time the 2010 Annual General Meeting was called, a total of three actions for the declaration of nullity/actions to set aside the resolutions adopted by the 2009 Annual General Meeting had not yet been finally and absolutely decided. In 2010 all actions were dismissed finally and absolutely.

According to notifications received on or before the balance sheet date by GRAMMER AG in accordance with section 21 et seq. of the German Securities Trading Act (WpHG), the companies listed below directly or indirectly hold shares of more than 3% in GRAMMER AG: Electra QMC Europe Development Capital Funds plc in Dublin, Ireland, owns a 10.001 share in GRAMMER AG, and GRAMMER AG received notification from Nmas Agencia de Valores S.A. which has its registered office in Madrid, Spain, that this shareholding is fully attributable to them. 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%. Ownership of the remaining voting rights is detailed in the notes to the consolidated financial statements.

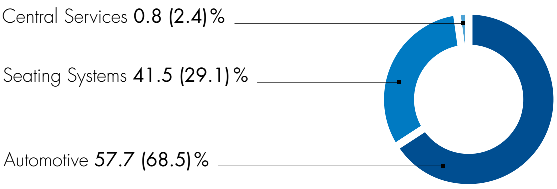
Own shares
Pursuant to a 2006 resolution of the Annual General Meeting, the Executive Board is authorized to repurchase Company shares into treasury in accordance with section 71 (1) no. 8 AktG. This authorization, which expired on December 1, 2007, was replaced by a new authorization to purchase own shares expiring on December 1, 2008 resolved by the Annual General Meeting on June 28, 2007. The Annual General Meeting on May 28, 2009 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. This authorization was confirmed by the 2010 Annual General Meeting as a confirming and/or new resolution. Neither in the prior year nor in the year under review did the Executive Board of GRAMMER AG make use of the authorization to acquire own shares. GRAMMER holds a total of 330,050 own shares, all of which were acquired in fiscal 2006. These shares have a total value of EUR 844,928.00 and represent 3.1448% of share capital. The 330,050 own shares are non-voting and accord no dividend rights.

Appraisal on the Company's economic situation
Based on the above discussion of earnings, financial position and net assets, we view the economic situation of GRAMMER Group as positive. In our business segments, our market position are either good or very good, and our innovative products enjoy a high degree of acceptance in the marketplace. Thanks to current projects and product launches, we view the Group's revenue and earnings performance also over the long-term as positive. However, the impact of developments in, and the volatility of, raw material markets need to be monitored very carefully as these may strongly impact the Company's economic stability. Moreover, developments in international currency and financial markets may significantly influence the Company's performance.

Investments

Capital expenditure by GRAMMER Group in the year under review totaled EUR 38.1 million (2009: 32.7). In its Automotive segment, the Company invested EUR 22.0 million, almost as much as in the prior year (2009: 22.4). The focus was mainly on new production facilities for pending customer projects and further expansion of the sites in Serbia, Mexico, Shanghai and Schmölln, which will contribute to optimizing our cost structure as low pay scale locations for sewing operations featuring integrated production with a high degree of automation. Integrated center console production, which requires a greater intensity of investment, is necessary because of the orders received, and it is the basis of our future growth potential. In addition, the Company continues to carry out lean optimizations which are designed to increase efficiency at it's production facilities.

Investments by segments (previous year in brackets)



in EUR m

	2010	2009
Automotive	22.0	22.4
Seating Systems	15.8	9.5
Central Services	0.3	0.8
Total	38.1	32.7

Capital investment in the Seating Systems division totaled EUR 15.8 million (2009: 9.5). Establishment of truck seat production in the Czech Republic for the new Echo platform required substantial investment in Czech Republic and Germany. Investments were also made in expansion of production in Brazil for the booming South American market and in supply independence for the region, as well as in the continued transition to lean management and production at all plants. For the offroad segment, we once again made major investments in tools and in further introduction of modular production units. These investments serve to enhance efficiency and optimize production sites. They also demonstrate the commitment of the Company to innovative products and production methods.

A total of EUR 0.3 million (2009: 0.8) was invested the Central Services division. We also acquired further upgrades and additional licenses for our SAP system. Moreover, we invested in optimizing, integrating and networking our CAD software.

Employees

Increase in workforce numbers

As compared to the previous year, the number of employees increased by 10.1 %, a underproportional rise compared to revenue growth. On the balance sheet date, December 31, 2010, a total of 7,955 people were employed within the GRAMMER Group (2009: 7,224). This included 5,034 (2009: 4,479) employees in the Automotive division, 2,744 (2009: 2,556) in the Seating Systems division and 177 (2009: 189) in Central Services. The rise was attributable primarily to hiring of production workers and employees in low-wage countries. The average number of employees during the year was 7,745 (2009: 7,474).

Reduced personnel costs bolster turnaround

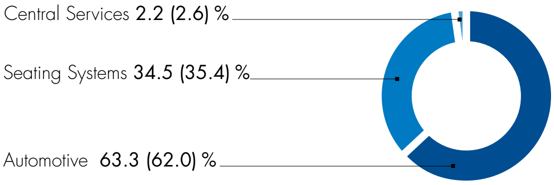
After the difficult year in 2009, cost cutting in Germany continued in Human Resources, as the seating markets in Europe remained weak. In the first quarter of 2010, a package of measures for socially responsible personnel reductions was implemented by GRAMMER AG at the Haselmühl plant. The aim was long-term protection of jobs at this location through improved profitability. The extensive package of measures negotiated with the works council and parties to the collective bargaining agreement, and its further integration for the Immenstetten plant near Amberg, were set to be fully implemented by the end of 2010. Given the increase in revenues from the Automotive division, however, the plan was postponed. Although the decision was made in December 2010 to shut down operation of the Immenstetten plant in accordance with the Supervisory Board resolution in September 2009, implementation of the closure will not be completed until 2011. Given the recovery of the economy, it has become necessary to recommence hiring at other GRAMMER Group locations, particularly in China and other low-cost countries, as a result of improved sales and new production launches. For instance, in the Czech Republic, truck seat production was started and new personnel added. In Serbia and Bulgaria, our sewing capacity was expanded in response to persistent demand in Automotive business. Hiring in the markets China and Brazil has already occured in the first few months of the year as a result of the flourishing economies there.

Training, professional development, human resources

Employee development is key to achieving and improving success in business. 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 at the Company's own training center with its own instructors in Amberg, for example, is a key element of GRAMMER AG's human resource policy. We gladly hire these trainees to work in our Company as the job situation allows. In 2010, we continued to employ motivated trainees in all divisions, in order to maintain a qualified pool of resources in fields that are becoming more important for the future. 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 or cooperation with Bildungswerk der bayerischen Wirtschaft e. V. 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)

	2010	2009
Automotive	5,034	4,479
Seating Systems	2,744	2,556
Central Services	177	189
Total	7,955	7,224

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. In 2010, the following changes were made in the Executive Board: On August 01, 2010, Mr. Hartmut Müller was appointed Chairman of the Executive Board, after Dr. Rolf-Dieter Kempis stepped down as planned. The successor of Mr. Müller as Executive Board member responsible for the Seating Systems division, as of August 01, 2010, is Mr. Manfred Pretscher, who was previously already in charge of all truck and rail business in the segment.

Multiple changes also occurred in the Supervisory Board in the reporting year: Dr. Klaus Probst was elected as Chairman of the Supervisory Board in May 19, 2010, as the previous Chairman Dr. Bernd Blankenstein withdrew his name from balloting. After the Supervisory Board elections by employees, Mr. Frank Himmelhuber followed Ms. Astrid Franzky, effective May 19, 2010, as executive management representative to the Supervisory Board. As employee representative, Mr. Wolfgang Rösl was named to the Supervisory Board as of May 19, 2010, replacing Ms. Monika Kugler-Fleischmann.

Principles of the remuneration system

The system of remuneration for members of the Executive Board was amended in fiscal year 2010. Until July 31, 2010, annual Executive Board compensation comprised a fixed salary and a performance-related component and retirement benefits structured in the same manner as pension benefits to employees. The performance-related component was calculated based on the revenue and earnings figures in the GRAMMER AG financial statements, as well as return on capital employed (ROCE). This component could total up to 30 % of the fixed salary, provided that 100 % of targets were met. The revenue-based component of performance-related remuneration derived from the percentage revenue increase over the previous fiscal year. The earnings-based component was based on EBIT or annual earnings to sales ratio in relation to revenue. If the targets set by the Supervisory Board were exceeded, the performance-related component could total up to a maximum of 60 % of the fixed salary.

Beginning August 01, 2010, Executive Board remuneration was altered to comprise the following: The members continue to receive a fixed salary (70 %) and performance-related remuneration (30 %), as well as retirement benefits structured in the same manner as pension benfits to employees. Under the new structure, the performance-related component is divided into two elements: one short-term the other long-term. The short-term bonus comprises 45 % of the performance-related remuneration, one-third of which is based on revenue and two-thirds on return on sales. The long-term bonus is calculated entirely on the basis of increases in the Company's enterprise value (ROCE minus WACC (Weighted Average Cost of Capital)). To ensure stable performance, the increase in enterprise value is calculated over the preceding three years, i. e. it is not finalized until three years have elapsed. An advance on this bonus entitlement is paid to ensure income consistency, the amount and the timing is decided by the Chairman of the Supervisory Board. Remuneration of the Executive Board contains no components with long-term incentive effect, such as stock option or stock award programs. Furthermore, in the event of extraordinary earnings or losses in the relevant fiscal year, the Supervisory Board may decide to implement a compensation adjustment at the end of the year, as a bonus or penalty comprising 10 % of the fixed salary.

For their service on 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 variable remuneration 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 2010 Annual Report starting on page 18 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 ensures long-term competitiveness.

Especially in the automotive sector, investment in R&D is of crucial importance. The responsibility for developing new automotive 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 for GRAMMER. 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 focus of R&D activities is on advances in center consoles and their components, which reflects the focus of our customer projects. We also pressed ahead with major projects to develop surfaces and coverings, since technical solutions in this area can 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 continue to work on cutting-edge solutions that will take our seat products to the next level and ensure their cost leadership. Our R&D activities also once again generated numerous patents for our products and components in 2010. We furthered the reinforcement of the ergonomic aspects of our product lines in order to protect the health of our end users. One example of this is our suspended powerboat seat, which received the coveted 'iF product design award', and innovatively contributes to health and safety in recreational and hobby applications. Moreover, we stepped up projects to homogenize products specifically for the relevant regions, which will strengthen our market position in the long run. This also challenges other market participants to follow our lead, or at least develop tolerable 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 tracked. The phases of the risk management process are optimally supported by this recognized software solution.

In this way, we maintain an 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 – especially in our industries. We adjust our production and capacity accordingly when necessary. In the interest of effective risk management, GRAMMER Group has always taken action immediately in reaction to the financial crisis and any indications of slowing revenues, and promptly adjusted production and cost structures to align with the new revenue situation. We can generally expect to face sector-specific revenue risks in the future. Since the recovery, there are signs in the Automotive division in particular that growth will continue – if at a slower pace. Order books in the Seating Systems division also appear to be stabilizing at a good 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 the favorable economic performance will be checked by political complications and ongoing weakness in EU countries like Greece, Spain, Italy or Portugal, and since no reliable opinions concerning the scope of the effects of the recovery on the markets and products relevant to GRAMMER exist, risks remain that could affect our net assets, financial situation and earnings.

As markets consolidate, there are competitive risks to consider, and cost pressures on car and truck makers are still being passed on to the supplier industry. A lack of follow-on orders in Europe could also be a risk factor. In response, we are putting a heavy emphasis on research and development, in addition to numerous process optimization measures to offset the risk and increase cost efficiency.

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 strengthen our position as 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 defects, as well as to reduce of redundant work and idle capacities.

Procurement risks
GRAMMER aims to minimize planning risks resulting from fluctuations in raw material prices as much as possible. Particularly important in this regard are the market price developments of steel and oil-based foam and plastic products. GRAMMER continually monitors the markets for these commodities. As far as possible and logical, cost risks are hedged through long-term supply contracts. These, however, are currently difficult to impose in the market given the enormity of demand and prevailing volatility in steel, foam and plastics.

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 through implementation of defined emergency and risk management measures. In order to protect our value chain, we pay close attention to our suppliers' financial strength. We foster ongoing intensive contact with our suppliers and minimize 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 to manage originate from sales of goods and services and procurement costs denominated in Czech koruna, US dollars, Mexican pesos and Chinese yuan. GRAMMER Group has a two fold approach to currency risks: One is "natural hedging," which means increasing purchasing volumes in foreign currency regions or increasing production at home. On the other hand, currency risks are selectively hedged via the financial market.

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

In light of the current restrictive credit policies among banks, ensuring adequate liquidity reserves is a high priority. GRAMMER Group's financing is ensured by a long-term debenture bond, a long-term loan from KfW 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 monitored by way of a rolling Group-wide financial plan. 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. GRAMMER has sufficient insurance for "normal risks" and going-concern risks.

Human resource risks
GRAMMER continues to rely on highly qualified staff and management personnel to effectively capitalize on business opportunities and build on our competitive advantage. For this reason, focused, demand driven 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. We also participate in recruiting events and job fairs 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 transfers.

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 assured, even in emergencies, by separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Sites with highly time-critical integrated manufacturing (just in time, just in sequence) are additionally equipped with an expanded high-availability solution. Contingency plans document the process for restoring the operating capability of mission-critical IT systems, and GRAMMER is protected by suitable security systems against attacks from the outside.

A Group-wide IT security organization is also in place to ensure IT security.

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

Ecological risks
GRAMMER works with an environmental management system on the basis of ISO 14001. This system defines worldwide standards (e.g., officers, environmental programs and targets), implementation of and compliance with which are monitored through regular audits to minimize ecological risks. We also continue to pursue certification of our production sites in accordance with ISO 14001.

Opportunities: Strong growth gives wings to the economy
Building on our range of high-quality products and our worldwide competitiveness, GRAMMER Group is likely to see further chances for growth if the economy remains stable and the commodity sector does not substantially further deteriorate. Following the major restructuring measures at all Group companies, and as a result of the additional steps to be taken in 2011, there may be favorable opportunities to expand within our existing, highly competitive markets. Through the new focus on product and market relations, rapid decision-making and lean structures, we find ourselves better positioned in the market and vis-à-vis our customers. The rationalization measures have improved our cost structures, so that our competitive position improved even in highly competitive markets, which opens up additional opportunities for growth.

With respect to our markets in China, we see a range of chances for our products in all product segments, as local OEM exporters are increasingly partnering with GRAMMER and demand for high-quality products is increasing for the local market. In the NAFTA markets, we also see further potential for our entire product portfolio. With stabilization of OEMs in the US and increasing direct local production by European OEMs in the country, our worldwide supply and production capabilities could provide a competitive advantage for GRAMMER.

In Europe, given the focus on innovation and further expansion of competencies, we are increasing depth of added value, which will allow better market positioning of the Company following completion of the structural optimizations in Germany. Moreover, complementary partners from other specialized industries are opening up new directions for growth and value-chain positions that will increase the attractiveness of our product range and contribute further to solid growth.

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, chances can bring additional risk-mitigating expansion. Due to current contradictory and volatile forecasts, no definitive assessment can be made as to the development of risks arising from commodity prices, 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 documented 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 they relate to the Group's accounting processes". We believe the internal control and risk management system to be a comprehensive system, and we base our definitions of the accounting-related internal control and risk management system on those of the Institute of Public Auditors in Germany (IDW), Düsseldorf. Accordingly, an internal control system is understood to comprise the principles, processes and measures introduced in the Company by its management that aim for organizational implementation of decisions made by management

- to ensure the effectiveness and viability of the Company's business activities (this also includes the safeguarding of assets, including prevention and detection of damage to assets);
- 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 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 bears 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 handbook, Group directives and operating procedures that are amended at regular intervals to reflect 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, including segregation of duties 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

Global economic growth to continue at a slower pace
According to forecasts by leading research institutes, the global economy will continue to grow in 2011. The IMF (International Monetary Fund), however, is expecting this expansion of 4.4 %, indicating a slower pace of growth compared to 2010. The dynamic rate of growth is expected to cool, stimulus programs expire and governments are forced to consolidate their budgets. Industrialized countries will experience only moderate growth, while expansion in developing and emerging markets is expected to be robust. A key factor will be the development of commodity markets.

In the United States, GDP is forecast to rise by 3.0 %. Growth in the US is largely dependent on the state of the job market.

China will once again lead the world in economic growth. Experts are forecasting a 9.6 % increase in Chinese GDP for 2011. This growth will be fuelled by domestic demand, whereas exports are likely to decline from 2010 levels.

India also looks set to continue growing in 2011, with a forecast increase of 8.4 % in GDP.

Economic growth in the Eurozone is expected to reach 1.5 % in 2011, roughly on par with the previous year. Momentum is being slowed by cuts in public sector spending given the high rates of debt in some EU countries. Experts are anticipating moderate growth of 1.6 % in France, 0.6 % in Spain and 1.0 % in Italy.

After going through the severe financial and economic crisis, Germany's economy regained much of its vigor in 2010, and is set to continue growing in 2011. The country's GDP is expected to rise by 2.2 %. Thus, in 2011 as well, growth in Germany is likely to outpace the rest of the Eurozone. The employment market is also poised to improve, with less than three million jobless expected on average for the year.

Outlook Automotive

Automotive industry sees growth in store
Global car markets will continue to recover in 2011, as a result of booming global trade and rising exports. Especially in the USA, China and India, growth is expected to be strong. According to industry expert Ferdinand Dudenhöffer, the number of new cars on roads worldwide will rise by 6.3 %. And, there is a growing trend toward environmentally friendly cars.

There is enormous growth potential especially in the American market. Forecasts are calling for double-digit growth of around 11 %, to 12.8 million new cars.

The Chinese market is also expected to contribute substantially to growth. Here, sales of more than 12.5 million vehicles are projected. This corresponds to an increase of 11 %. Uncertainties remain, however, as government incentives end for small cars and the Chinese government carries out plans to regulate car ownership in reaction to insufficient infrastructure, air pollution and overpopulated Chinese cities.

India will also see strong growth in 2011. Last year already, this market grew by 31 %, and forecasters are expecting 2.8 million new vehicle registrations in 2011. This would mean a further 17 % growth.

The Russian auto market is also expected to continue its recovery in 2011, with growth of 14 % to 2.18 million vehicles.

Western Europe will see vehicle registration numbers hold steady this year. This means roughly 12.96 million new vehicles.

For the EU, the German Automobile Manufacturers Association (VDA) anticipates an increase in newly registered vehicles of 10 %.

The organization expects the number of new vehicle registrations in Germany to grow by 6 % to 3.1 million. Thus, the industry has overcome the crisis considerably more rapidly than generally anticipated. Domestic demand in the country will continue to increase this year, after a slump in 2010 due to purchases being made in 2009 to take advantage of incentives. Production numbers are also expected to increase. Experts forecast 5.82 million vehicles produced, or 5 % more than 2010.

Outlook Seating Systems

Commercial vehicles industry with positiv outlook
The worldwide market for commercial vehicles is widely expected to continue expanding in 2011.

In the United States, the number of new vehicle registrations is set to increase by 29 % to 280,000 units.

In China and India as well, 2011 is expected to be a year of growth, with 2 % more vehicles in China and 12 % in India.

In Western Europe, VDA is forecasting an increase of 6 % to 1.8 million newly registered commercial vehicles. Growth in the area of heavy vehicles over 6t looks set to be particularly strong. Here, the number of vehicles is expected to rise 18 % to 243,000.

A good deal of promise is also being hoped for in the new EU countries, where experts foresee an increase of 28 % to 156,000.

In Germany, the number of new commercial vehicles is expected to reach roughly 306,000. This represents an increase of 8 % as compared to 2010. For heavy trucks over 6 t, the rise could be as high as 15 %, or 85,000 units. Production numbers are also expected to continue their trend, rising by around 11 % in 2011.

Agricultural machinery industry forecasting growth
The forecasts for the agricultural machinery sector in Germany in 2011 are very optimistic. The German Engineering Federation (VDMA) is anticipating the market to grow by about 10%, to EUR 6.4 million as a result of order backlogs and higher farm incomes. In all, investments in the agricultural sector are expected to be in line with last year. But experts are expecting a shift in the focus on investment toward machines and equipment. Growth is also expected in the other countries of the European Union given that incomes of farmers increased by 12% in 2010.

Construction industry continues to grow
China took over as the world's largest market for construction machines and materials handling equipment in 2010. With strong growing, stable economy and government development programs favoring the construction sector, both segments are expected to grow in 2011.

Worldwide construction is increasing by roughly 4% annually, which is also fuelling demand for construction machines. The main drivers of this trend are Asia and Latin America.

Construction continues to grow in Europe as well. In the area of construction machines in Germany, demand is expected to increase by 10% in 2011.

Railway
As a result of the economic recovery, growing demand for alternative means of travel by a growing population and the related investments being made in emerging markets, 2% to 2.5% annual growth in the rail transport industry is expected.

Business development forecast

The global financial and economic crisis hit GRAMMER Group hard in 2009 and caused the first losses since 2000. The Group reacted quickly to these signs of crisis and implemented structural and operational measures that contributed to an impressive turnaround in 2010.

Looking back to the final quarters of 2010, signs continue to look positive, and the Company has returned to and increased its profitability earlier than planned. Based on the latest estimates, GRAMMER is planning on stable growth and moderate sales growth over the coming years. Overall economic growth will continue at a slower pace than mid-2010, and the Eurozone could face persistent negative effects from financially weaker countries like Greece. The Group could not escape the pull of weaker markets, but new product launches may generate positive performance despite weaker markets. The further growth of GRAMMER Group depends on the development of production costs at the Company's locations, particularly in Germany, as well as on market and sourcing prices. In the Automotive division, projects are being developed and further business has been acquiered in all product segments that will generate revenue domestically and at international production sites. The key factor here will be the extent to which customers can successfully drive these developments and hold to deadlines for their model launches. Merger and acquisition activities will also have to be carefully observed, as market opportunities or risks could result depending on the behavior of the OEMs.

Given the stable growth of the market worldwide, Seating Systems will have to count on heavy competition, as well as increasing globalization as emerging markets continue their rise. As a result of new launches, truck seat production will increase marginally, but also become more complex. As the year progresses, we expect revenue to hold steady at a level slightly higher than 2010.

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 administrative processes. The year 2011 will also be characterized by implementation of the plan to close the Immenstetten plant and developing of production structures for truck seats and center consoles. The cost situation will be more challenging as global market prices for steel and alloys rise along with rising 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 unabated in 2011. Over the long term, we expect a stable moderate improvement in environment overall business, as well as continued gradual economic growth – though inflationary tendencies could present a threat to expansion. Provided markets continue their stable development, we expect further improvements in earnings for which a solid foundation has been laid through the measures introduced and implemented.

Investment
With respect to capital expenditures, we expect them to be in line with last year. In order to continue driving growth of the Company, further investments will be made in NAFTA and Asian markets. Another focus will be Europe, given increases in 2011 from the expansion of center console production and implementation of larger-scale customer projects in the truck seat segment, as well as optimization of our R&D capacities. Furthermore, the intensification of lean production methods will continue to optimize costs.

Research and Development
In the Automotive division, we intend to upgrade the current product portfolio and deepen the value chain. 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 promotion in other markets. We will also push ahead forcefully with development of our entry-level suspension packages and new production and plant technologies in the 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. Comprehensive product range enhancements, which will propel both divisions forward, in new technological fields and developments have been identified, and will be taken advantage of in 2011 and beyond.

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 planned measures will also be implemented at GRAMMER AG's Immenstetten plant. As a result of the current economic situation, the Group will make minor additions to its staff among production workers in the relevant functions and areas to align with the revenue and order situation. The Group thus anticipates a slight increase 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. Future economic performance is currently expected to be positive given the development of the economy. Risks are increasing with respect to the development of commodity markets. Impacts from environmental catastrophes and demand growth as a result of the economic upturn are resulting in sometimes extreme volatility. Currency exchange rates, especially the development of the euro, are also a potential problem as a result of the weak financial state of some Eurozone countries as well as the, in several cases, extreme high level of their domestic debt. To hedge against these risks, implementation of measures, including the packages of efficiency measures introduced by the Executive Board, has continued unabated and is being pushed forward further, along with an expansion of market and customer analysis. The broadening and intensification of our existing global orientation will be carried on throughout 2011, in order to increase our presence in emerging markets. Potential opportunities in this economic environment result chiefly from the expected moderate rise in revenue in 2011 and further into the future, as well as our cost cutting and fixed cost consolidation program, which we systematically implemented in 2010 and will fully complete in 2011. With respect to operating profit in 2011 and the ensuing years, we expect a slight percentage increase over the level in 2010. This depends, however, on the achievement of reasonable collective bargaining conditions and moderate development of procurement prices and exchange rates, as risks from these markets, over which we have no influence, are highly incalculable. Inflation and its slowing impact on the economy are two further potential sources of risk.

Summary statement concerning the forecast of the Executive Board

In view of the business situation in the initial months of 2011, and in light of the stable economic environment, our outlook on the performance of GRAMMER Group is positive. On the whole, business should continue to improve in the beginning of 2011. A leveling off of growth is expected near the end of the year. Assuming stabilization and further improvement of the economic environment, and provided commodity price changes are moderate, we will continue to grow in 2011 and in the years thereafter. We also expect slightly higher operating profit in 2011 and beyond, as well as a clearly positive net earnings situation.

Events subsequent to the reporting date

In 2010, GRAMMER AG's Haselmühl plant was restructured and its operations transferred to an independent GmbH (German private limited company) on January 1, 2011, which is a wholly owned subsidiary of GRAMMER AG. With the new GmbH, there is a shift of focus toward production and diversification of produced components and finished goods. In addition to deepening of the value chain, expanding our technical competencies will also serve to protect jobs at the location. On January 15, the second phase of the GRAMMER AG redundancy plan was concluded with the staff/works council, which governs the personnel measures in the context of the Immenstetten closure. The effects of the earthquake in Japan on global economic growth cannot yet be foreseen and could pose potential risks for the development of the Company.

Amberg, March 17, 2011

GRAMMER AG
The Executive Board

Consolidated Financial Statements Index

Consolidated Statement of Income for the fiscal year ended December 31, 2010

EUR k

	Note	2010	2009
Revenue	6	929,705	727,442
Cost of sales	7.3	−810,155	−651,463
Gross profit		**119,550**	**75,979**
Selling expenses	7.3	−26,468	−27,001
Administrative expenses	7.3	−68,885	−83,498
Other operating income	7.1	8,670	10,600
Operating profit/loss (–)		**32,867**	**−23,920**
Financial income	7.2	1,429	5,334
Financial expenses	7.2	−14,870	−11,826
Other financial result	7.2	1,126	−1,123
Profit/loss (–) before income tax		**20,552**	**−31,535**
Income taxes	8	−4,231	3,322
Net profit/loss (–)		**16,321**	**−28,213**
Of which attributable to:			
Shareholders of the parent company		16,302	−28,201
Non-controlling interests		19	−12
		16,321	**−28,213**
Earnings/loss (–) per share			
Basic/diluted earnings/loss (–) per share in EUR	9	1.60	−2.77

Consolidated Statement of Comprehensive Income for the fiscal year ended December 31, 2010

EUR k	2010	2009
Net profit/loss (–)	16,321	–28,213
Gains/Losses (–) from currency translation for foreign subsidiaries		
Gains/Losses (–) arising in the current period	1,944	5,410
Less transfers recognized in the Income Statement	0	0
Tax expense (–)/Tax income	0	0
Gains/Losses (–) from currency translation by foreign subsidiaries (after tax)	1,944	5,410
Gains/Losses (–) from Cash flow hedges		
Gains/Losses (–) arising in the current period	0	–111
Less transfers recognized in the Income Statement	0	3,041
Tax expense (–)/Tax income	0	–646
Gains/Losses (–) from Cash flow hedges (after tax)	0	2,284
Gains/Losses (–) from net investments in foreign operations		
Gains/Losses (–) arising in the current period	3,870	–1,322
Less transfers recognized in the Income Statement	0	–9
Tax expense (–)/Tax income	0	–92
Gains/Losses (–) from net investments in foreign operations (after tax)	3,870	–1,423
Sum of other comprehensive income	5,814	6,271
Sum of other comprehensive income	22,135	–21,942
Of which attributable to:		
Shareholders of the parent company	22,112	–21,930
Non-controlling interests	23	–12

Consolidated Statement of Financial Position for the fiscal year ended December 31, 2010

ASSETS

EUR k

	Note	2010	2009
Non-current assets			
Property, plant and equipment	11	153,379	141,879
Intangible assets	12	50,249	49,836
Other financial assets	15	4,867	4,596
Deferred income tax assets	8.1	37,419	31,643
		245,914	227,954
Current assets			
Inventories	13	88,888	77,223
Trade accounts receivable	14	138,294	109,445
Other current financial assets	15	50,483	56,031
Property, plant and equipment held for sale	11.1	0	30
Income tax assets		1,996	1,709
Cash and short-term deposits	17	17,170	16,126
Other current assets	16	16,656	11,835
		313,487	272,399
Total assets		559,401	500,353

EQUITY AND LIABILITIES

EUR k

	Note	2010	2009
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	89,488	73,186
Accumulated other comprehensive income	18	5,486	–324
Equity attributable to shareholders of the parent company		172,638	150,526
Non-controlling interests	18	463	465
Total equity		173,101	150,991
Non-current liabilities			
Non-current financial liabilities	20	97,852	69,797
Trade accounts payable	22	4,890	0
Other financial liabilities	23	6,169	8,078
Other liabilities	24	2,360	1,428
Retirement benefit obligations	19	61,078	57,260
Deferred income tax liabilities	8.1	17,430	18,893
		189,779	155,456
Current liabilities			
Current financial liabilities	20	33,149	52,500
Current trade accounts payable	22	92,115	86,193
Other current financial liabilities	23	3,459	2,461
Other current liabilities	24	54,502	42,988
Current income tax liabilities	24	5,004	1,904
Provisions	21	8,292	7,860
		196,521	193,906
Total liabilities		386,300	349,362
Total equity and liabilities		559,401	500,353

Consolidated Statement of Changes in Equity for the fiscal year ended December 31, 2010

Note 18

EUR k

					Accumulated other comprehensive 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, 2010	26,868	58,237	73,186	−7,441	0	8,317	−8,641	150,526	465	150,991
Net profit/loss (–) for the period	0	0	16,302	0	0	0	0	16,302	19	16,321
Other profit/loss for the period	0	0	0	0	0	1,940	3,870	5,810	4	5,814
Total net profit/loss (–)	0	0	16,302	0	0	1,940	3,870	22,112	23	22,135
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	−25	−25
As of December 31, 2010	26,868	58,237	89,488	−7,441	0	10,257	−4,771	172,638	463	173,101

for the fiscal year ended December 31, 2009

EUR k

					Accumulated other comprehensive 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

Consolidated Statement of Cash Flow for the fiscal year ended December 31, 2010

Note 25

EUR k

	2010	2009
1. Cash flow from operating activities		
Profit/loss (–) before income tax	20,552	–31,535
Non-Cash items:		
Depreciation of property, plant and equipment	23,075	23,483
Amortization of intangible assets	3,219	3,058
Changes in provisions and pension provisions	5,887	2,190
Other non-cash changes	1,848	4,631
Changes in net working capital		
Decrease/Increase (–) in trade accounts receivable and other receivables	–28,122	–23,329
Decrease/Increase (–) in inventories	–11,665	13,613
Decrease/Increase (–) in other assets	–6,033	–6,225
Decrease (–)/Increase in accounts payable and other liabilities	37,288	20,426
Gains/Losses from disposal of assets	–490	–425
Income taxes paid	–7,530	–4,192
Cash flow from operating activities	**38,029**	**1,695**
2. Cash flow from investing activities		
Purchases		
Purchase of property, plant and equipment	–34,551	–29,300
Purchase of intangible assets	–3,579	–3,378
Purchase of investments	–276	–3,814
Disposals		
Disposal of property, plant and equipment	4,672	4,215
Disposal of intangible assets	177	11
Disposal of investments	65	7,368
Interest received	1,429	5,334
Government grants received	1,165	801
Cash flow from investing activities	**–30,898**	**–18,763**
3. Cash flow from financing activities		
Changes in non-current liabilities to banks	28,055	56
Changes in current liabilities to banks	16,802	4,377
Changes in lease liabilities	–1,602	4,061
Interest paid	–11,470	–11,928
Cash flow from financing activities	**31,785**	**–3,434**
4. Cash and cash equivalents at end of period		
Net changes in cash and cash equivalents (sub-total of items 1–3)	38,916	–20,502
Effects of exchange rate differences	–1,719	–1,040
Cash and cash equivalents as of January 1	–20,806	736
Cash and cash equivalents as of December 31	**16,391**	**–20,806**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	17,170	16,126
Securities	0	0
Bank overdrafts	–779	–36,932
Cash and cash equivalents as of December 31	**16,391**	**–20,806**

Notes to the Consolidated Financial Statements for the Fiscal Year ended December 31, 2010

1 Information about GRAMMER and Basis of Reporting

Information about GRAMMER Group

GRAMMER AG is a public listed company 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 Amberg 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 included 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, 2010, the Company employed 7,955 persons (excluding trainees and including 177 employees in Central Services) at 27 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 (German Commercial Code) 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, 2010 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 18, 2011.

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 the fiscal year 2005; the opening IFRS consolidated balance sheet was prepared for the period beginning January 1, 2004 (date of first adoption 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 commercially 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 as 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, revenues, expenses and unrealized profits or losses resulting from intragroup transactions that are included in the carrying amount of the assets are eliminated in full.

Principles of consolidation effective January 1, 2010
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.

Any change to participation in a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

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. Minority 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 present or events have occurred which suggest that an asset has been 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.

Losses at subsidiaries are attributed to the non-controlling interests, even if this results in a negative balance.

In the event of loss of control, the Group accounts for the remaining interest as follows: Assets and liabilities of the subsidiary, including goodwill, are derecognized, as is the carrying amount of the non-controlling interest in a former subsidiary and the cumulative exchange differences recognized in equity. The fair value of the considerations received and receivable is determined and resulting profit or loss recognized in the income statement. The amount attributable to accumulated other comprehensive income, depending on the applicable IFRS rules, is recognized under revenue reserves or via the income statement.

Principles of consolidation prior to January 1, 2010
The following items were accounted for on the basis of the previous principles of consolidation:

Acquisition of non-controlling interests prior to January 1, 2010 is accounted for using the parent entity extension method. The excess of purchase price over book value of the acquired net assets is recognized as goodwill.

Losses for non-controlling interests are recorded to their carrying value until their balances reach 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. Attribution of losses arising prior to January 1, 2010 between the non-controlling interest and the owners of the parent company is unchanged.

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.

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, revenues 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 uniform Group accounting policies for the same fiscal year as financial statements of the parent company. When the Group contributes or sells assets to the joint venture, recognition of 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 in the transaction until it resells the assets to an independent party.

The joint venture is included in the consolidated financial state using proportionate consolidation up to the date on which the Group ceases to have joint control over the joint venture.

Scope of consolidation

In addition to GRAMMER AG, the scope of consolidation includes five domestic and 17 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 fiscal year, GRAMMER Automotive GmbH, with registered office in Amberg (Germany) was merged for administrative purposes with GRAMMER AG effective May 1, 2010, and the newly formed GRAMMER Technical Components GmbH 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 involving circumstances which are 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, revenues 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 sectorspecific environment were used as the basis for forecasting the future business trends. 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 expected 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 based on the financial planning for the subsequent three years, which relates to the estimates of the management as to the realizable amounts. The realizable amounts depend 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, 2010, the carrying amount of goodwill amounted to EUR 32,591 thousand (2009: 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 for contract business

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. 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 defects, 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 judgement.

Taxes

As a result of the significant international orientation of our business relationships and the complexity of existing contractual agreements, discrepancies may exist between actual developments and the assumptions made or to be changed in the future, which could necessitate changes to reported tax expenses or income. Uncertainties also stem from the official interpretation of complex tax rules, amendments to tax laws and their periods of effectiveness as well as the amount and timing of future taxable results. Based on reasonable estimates, the Group recognizes provisions for potential effects from tax audits in countries where we operate. The amount of such provisions is based on various factors, such as experience in previous tax audits and different official interpretations of tax rules by the authorities. The probability of resulting litigation and payments of tax liabilities on the basis of such litigation is deemed to be minimal, so that no contingent liabilities were recognized is this regard.

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 nature of these plans, such estimations are subject to material uncertainties. As of December 31, 2010, the provisions for pension and similar obligations amounted to EUR 61,078 thousand (2009: 57,260). Further details are included in Note 19.

2.3 Summary of significant accounting policies

Currency translation

The consolidated financial statements are prepared in Euros, the functional currency of the Group. 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 profit and loss.

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	
		2010	2009	2010	2009
Brazil	BRL	0.429	0.359	0.451	0.398
China	CNY	0.111	0.105	0.113	0.102
United Kingdom	GBP	1.166	1.119	1.162	1.126
Japan	JPY	0.009	0.008	0.009	0.008
Mexico	MXN	0.059	0.053	0.060	0.053
Poland	PLN	0.249	0.231	0.252	0.244
Czech Republic	CZK	0.039	0.038	0.040	0.038
Turkey	TRY	0.498	0.462	0.483	0.464
USA	USD	0.754	0.718	0.748	0.694

Non-current assets held for sale and discontinued operations
Non-current asset qualifying as held for sale are recognized at the lower of the carrying amount and fair value less disposal costs. An asset is classified as held for sale if the relevant carrying amount is realizable primarily through disposal rather than use of the asset. This is only assumed to be the case if disposal of the asset is deemed highly probable and the asset is immediately available for sale in its present condition. This must be preceded by a management decision to sell the asset and the sale should be completed, or expected to be so, within a year from the date of the classification.

In the income statement for the period, and the preceding period, the total income and expense for discontinued operations is presented separately from the income and expense for continuing operations, and separately recognized as post-tax profit/loss from the discontinued operations. This also applies if the Group continues to hold a non-controlling interest in the former subsidiary after disposal.

Assets classified as held for sale are not depreciated.

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.

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.

Leases
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 principal portion 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.

Borrowing cost

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying for which a substantial amount of time is required assets 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

Business combinations in fiscal years beginning after July 1, 2010

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 comprehensive income in accordance with IAS 39. If a contingent consideration is equity, the original amount is not remeasured and subsequent settlement is taken directly to equity.

Business combinations in fiscal years beginning prior to July 1, 2010

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.

Goodwill

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 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.

Impairment testing is carried out at the level of segments, which are cash-generating units or groups of cash-generating units, and represent the lowest level at which goodwill is monitored for internal management purposes.

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. 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.

Intangible assets
Intangible assets acquired against payment of a consideration are capitalized at cost at the time of purchase. They are amortized over their useful life (software: 3 to 6 years) on a straight-line basis (IAS 38).

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 determined. 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 cashgenerating 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 for the year has 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.

All development costs for internally generated patents were measured at cost at the time of transition to IFRS on January 1, 2004. Balance sheet recognition under the IAS 38 criteria is limited to expected ability to generate cash flows within the respective cash-generating unit. Amortization is carried out on a straight-line basis over the expected useful life of the relevant patents (1 year to 19 years).

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.

Capitalized development costs are tested for impairment once annually if the asset has not yet been used or if there are indications for impairment during the year.

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 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.

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

Subsequent measurement of financial assets depends on their classification.

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 according to IAS 39 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 (AfS) financial assets include debt and equity securities. Available-for-sale equity instruments are those that are not classified as held for trading or as financial assets at fair value through profit or loss. Debt instruments in this category are those held for an indefinite period and which can be sold in reaction to liquidity demands or changes in market conditions.

Following initial recognition, available-for-sale financial assets are measured at fair value in subsequent periods. Unrealized gains or losses are recognized as other comprehensive income directly to equity for available-for-sale financial assets. In the event of derecognition of such assets, the cumulative gain or loss is recognized in other operating income. In the event of impairment, the cumulative loss is recognized under financial expenses in the income statement and eliminated from the equity reserve for available-for-sale financial instruments.

Derecognition of financial assets
A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognized if meets one of the following conditions:

The contractual rights to the cash flows from the financial asset have expired.

The Group has transferred its contractual rights to the cash flows from a financial asset or has undertaken a contractual obligation to immediately transfer cash flows to a third party pursuant to IAS 39.19 (pass-through arrangement) 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.

If the Group has transferred its contractual rights to the cash flows from a financial asset or entered into a pass-through arrangement and 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, the Group recognizes an asset in the amount of the continuing participation.

In such cases, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured an a basis that reflects the rights and obligations that the entity has retained.

If the continuing participation takes the form of guaranteeing the transferred asset, the extent of the continuing participation is the lower of the original carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to repay.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the expected future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment can exist if there are signs that the obligor or group of obligors face significant financial difficulties, default or delinquency on interest or principle payments, if there are indications that bankruptcy or other financial reorganization are probable and if observable data indicates that there is a measurable decrease in the expected future cash flows, such as changes in arrears or economic conditions that point to default.

Impairment of 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

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity instruments held for sale, a significant and persistent reduction in the fair value of the instrument to below its historical cost would constitute objective evidence. The criterion "significant" is assessed on the basis of the original cost of the financial asset and the criterion "persistent" is based on the time period during which the fair value was lower than historical cost. If there are indications of impairment, the cumulative loss – calculated as the difference between historical cost and fair value less any earlier impairment loss on the instrument recognized in the income statement – is eliminated from accumulated other comprehensive income and recognized via the income statement. Impairment of equity instruments are not reversed in the income statement; any subsequent rise in fair value is directly recognized under other profit/loss.

When calculating impairment of debt instruments classified as available for sale, the same criteria are applied as for financial asset carried at amortized cost. If there are indications of impairment, the cumulative loss – calculated as the difference between historical cost and fair value less any earlier impairment loss on the instrument recognized in the income statement.

Future interest income continues to be calculated based on the impaired book value of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This interest income is recognized under financial income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Initial valuation 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.

Loans
Subsequent to initial recognition, interest-bearing loans are measured at amortized cost using the effective interest rate method. Gains and losses are recognized as profit or loss when the liabilities are derecognized or as part of amortization using the effective interest rate method. Amortized cost is calculated taking into account any premium or discount upon acquisition, as well as fees or costs, which represent an integral component of the effective interest rate. Amortization using the effective interest rate method is recognized in the income statement under financial expenses.

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 amortization.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation specified in the contract is discharged, 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.

Offsetting of financial instruments
Financial assets and liabilities are offset, and the net amount recognized in the balance sheet, only when a current legal right exists, e.g. contractually, 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.

Presentation of financial assets and financial liabilities on a net basis when doing so reflects expected future cash flows from settling two or more separate financial instruments.

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 and independent parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other pricing models.

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).

For purposes of hedge accounting, hedging instruments are classified as follows:

- As a fair value hedge, if it is a hedge against a change in fair value of a recognized asset or liability or an unrecognized firm commitment (excluding currency risks);

- As a cash flow hedge, if it is a hedge against cash flow fluctuations attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or the currency risk of an unrecognized firm commitment;

- As a hedge of a net investment in a foreign operation.

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:

Fair value hedges
Changes in the fair value of the derivative are recognized under the financial result in profit and loss. Changes to the fair value of the hedged item, which can be attributed to the hedged risk, are included as part of the carrying amount of the hedged transaction and also recognized under the financial result in profit and loss.

For fair value hedges relating to hedged items at amortized cost, adjustment of the carrying amount is amortized over the remaining period to maturity. Amortization following the effective interest method may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized directly in the income statement. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss for the period.

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.

Cash flow hedges
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.

Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as for cash flow hedges. Gains or

losses from the hedging instrument that are attributable to the effective portion of the hedging instrument are recognized in other comprehensive income, whereas any gains or losses from the ineffective portion are recognized in profit or loss. Upon disposal of a foreign operation, the cumulative value of any gains or losses previously recognized in equity is transferred to the income statement. The Group makes use of a loan to hedge against currency risks in relation to investments in foreign subsidiaries.

Inventories

Inventories are measured at cost under application of the lower-of-cost-and-market principle. Costs of purchases are measured in the Group using a moving average price and reasonable allocation of 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. 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, as reported in the balance sheet, includes 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, less 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.

Provisions against warranty claims for costs relating to warranties are recognized at the time of sale of the relevant products or performance of the relevant services. The amount of initial recognition is on the basis of past experience. The original estimate of costs in relation to warranties is reviewed annually.

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 employment 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 benefits 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 beneftciaries 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 is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount can be reliably determined. These amounts are measured at the fair value of the consideration received or receivable, taking into account the contractual conditions governing payment and similar factors and net of any taxes or other charges. Upon comprehensive review, the Group has determined that it acts as principal for all its revenue-generating transactions.

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. For all financial instruments measured at amortized cost and interest-bearing available-for-sale financial assets, interest income and expenses are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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 related asset.

To the extent that loans or other incentives from governments or their executive agencies are provided at an interest rate below the prevailing market rate, the resulting benefit is recognized as a further government grant.

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 either to other comprehensive income or 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 Application of revised and new accounting standards

The accounting policies applied generally correspond to those applied in the previous year, except for the new and revised standards and interpretations listed below that went into effect on January 1, 2010:

- IFRS 2 Share-based payment – Intra-group share-based compensation with cash settlement came into effect on January 1, 2010;

- IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised), including amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39 came into effect on July 1, 2009;

- IAS 39 Financial instruments: recognition and measurement – eligible hedged items came into effect on July 1, 2009;

- IFRIC 17 Distributions of non-cash dividends to owners, came into effect on July 1, 2009;

- Improvements to IFRS 2008 (May 2008),

- Improvements to IFRS 2009 (May 2009).

Application of these standards and interpretations are explained in more detail below:

IFRS 2 Share-based payment
In June 2009, the IASB published an amendment to IFRS 2 regarding the scope of application and accounting rules for share-based payments with cash settlement within the Group. The Group applied the amended standard with effect from January 1, 2010. This has not affected the Group's net assets, financial situation and results of operations.

IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised)
IFRS 3 (revised) introduces major changes with respect to accounting for business combinations. This affects the measurement of non-controlling interests, accounting for transaction costs, initial recognition and subsequent measurement of contingent considerations and successive acquisitions. These changes will have an impact on the valuation of goodwill, profit/loss for the period in which the business combination occurs and future earnings. IAS 27 (revised) specifies that a change in the amount of an investment in a subsidiary that does not lead to a loss of control is to be accounted for as an equity transaction with owners. Thus, no goodwill and no gains/losses can result from such a transaction. Moreover, the rules for attribution of losses to the owners of the parent company and the non-controlling interests have changed, as well as the accounting rules for transactions that result in a loss of control. The new rules under IFRS 3 and IAS 27 affect the acquisition and loss of control over a subsidiary, as well as transactions with non-controlling interests on or after January 1, 2010. These changes to accounting methods are applied prospectively and had no material effect on the consolidated financial statements.

IAS 39 Financial instruments: recognition and measurement – eligible hedged items
It is clarified that a portion of the change in fair value or cash flow changes from a financial instrument can be also designated as a hedged item. This also applies to designation of inflation risks, or a portion thereof in certain cases, as hedged items. The Group has determined that this will not impact the net assets, financial situation and results of operations of the Group, because it has not entered into any such transactions.

IFRIC 17 Distributions of non-cash dividends to owners
This interpretation contains guidelines for accounting of arrangements under which a company distributes non-cash assets to owners from retained earnings or as dividends. This interpretation has no effect on the presentation of the Group's net assets, financial situation and results of operations, because it does not distribute non-cash assets.

Improvements to IFRS 2008 and 2009
In May 2008 and April 2009, the IASB published two collections of amendments to various IFRSs, with the primary goal of eliminating inconsistencies and clarifying wording. The collection of amendments specifies separate transitional rules for each IFRS. Application of the following amendments led to changes in accounting methods, but did not impact the net assets, financial situation and results of operations of the Group.

Published in May 2008
IFRS 5 Non-current assets held for sale and discontinued operations: It is clarified that, when classifying a subsidiary as held for sale, all assets and liabilities are to be classified as held for sale. This applies even if the company continues to hold a non-controlling interest in the former subsidiary after the disposal. The change is applied prospectively and has no effect on the Group's net assets, financial situation and results of operations.

Published in April 2009
IFRS 5 Non-current assets held for sale and discontinued operations: It is clarified that for non-current assets and disposal groups classified as held for sale, and discontinued operations, only the disclosure requirements under IFRS 5 apply. The disclosure requirements in other IFRSs are only applicable if the relevant standards or interpretations expressly require disclosure for assets and discontinued operations in accordance with IFRS 5. This clarification led to no changes in the consolidated financial statements.

IFRS 8 Operating segments: It is clarified that information on segment assets and liabilities need be presented only if regularly reported internally. Given that the chief operating decision maker of the Group does not monitor the development of segment assets and liabilities, the Group no longer discloses this information.

IAS 7 Statement of cash flows: It was determined that only such information that leads to recognition of an asset are classifiable as cash flows from investing. This change did not have any effect on presentation of the cash flow statement.

IAS 36 Impairment of assets: The amendment clarifies that a cash-generating unit, to which goodwill acquired in the context of a business combination is attributed, may not be larger than an operating segment within the meaning of IFRS 8 prior to aggregation in accordance with the criteria named therein. The change has no effect on the financial statements.

The remaining amendments listed below under the Improvements to IFRS had no impact on accounting methods and presentation of the net assets, financial situation and results of operations of the Group:

Published in April 2009
- IFRS 2 Share-based payment
- IAS 1 Presentation of financial statements
- IAS 17 Leases
- IAS 34 Interim financial reporting
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 16 Hedges of a net investment in a foreign operation

2.4.2 Changes to standards and new standards for application of accounting methods

The IASB published the standards and interpretations listed below, which have already been integrated into EU law as part of the comitology procedures, but application of which was not yet mandatory in fiscal year 2010. The Group does not opt for early adoption of these standards and interpretations.

IAS 24 Related party disclosures

The revised standard IAS 24 was published in November 2009 and is applicable for the first time in the fiscal year starting on or after January 1, 2011. It redefines related parties to simplify identification of dealings with related parties and to partially exempt companies having related party dealings with public-sector entities from obligations to disclose information about transactions with the public-sector entity and its related parties. The standard is to be applied retrospectively. This regulation is not expected to affect the Group's net assets, financial situation and results of operations.

Amendment of IAS 32 – Classification of rights issues

The amendment of IAS 32 was published in October 2009 and is applicable for the first time in the fiscal year starting on or after February 1, 2010. The definition of a financial liability was changed to permit classification of some rights issues (as well as some options and warrants) as equity if the company offers these rights to all existing owners of the same class of its non-derivative financial instruments in order to acquire a set number of the company's own equity instruments at a set price in a currency to be determined at will. The standard is to be applied retroactively. This regulation is not expected to affect the Group's net assets, financial situation and results of operations.

Amendment to IFRIC 14 – Prepayments of a minimum funding requirement

The amendment of IAS 14 was published in November 2009 and is applicable for the first time in the fiscal year starting on or after January 1, 2011. Application of the IFRIC 14 interpretation, published in July 2007, is meant to limit recognition of an asset in relation to a defined benefit plan to the recoverable amount, which had unintended consequences for companies in certain countries. The change is supposed to allow companies to recognize an asset for prepayments on minimum funding requirements. The amendment is to be applied retroactively. This interpretation is not expected to affect the Group's net assets, financial situation and results of operations.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The interpretation of IAS 19 was published in November 2009 and is applicable for the first time in the fiscal year starting on or after July 1, 2010. This interpretation clarifies that, when issuing equity instruments to creditors for the purposes of extinguishing a financial liability, such equity instruments are 'consideration paid' in accordance with IAS 39.41. The issued equity instruments are carried at fair value. If this cannot be reliably determined, they are measured at the fair value of the extinguished liability. Any gains or losses are directly recognized in the income statement. The amendment is to be applied retroactively. This interpretation is not expected to affect the Group's net assets, financial situation and results of operations.

EU endorsement pending

The IASB published the standards and interpretations listed below, application of which was not yet mandatory in fiscal year 2010. These standards and interpretations have not yet been endorsed by the EU and are not applied by the Group.

Amendment of IFRS 7 – Transfers of financial assets

The amendment of IAS 7 was published in October 2010 and is applicable for the first time in the fiscal year starting on or after July 1, 2011. It sets forth comprehensive new qualitative and quantitative disclosures on transfers of financial assets that are not derecognized and about the continuing involvement in relation to the extinguished financial assets at the balance sheet date.

IFRS 9 Financial instruments: classification and measurement

The initial part of phase I of in the process of drafting IFRS 9 Financial instruments was published in November 2009 and is applicable for the first time in the fiscal year starting on or after January 1, 2013. The standard contains amendments relating to classification and measurement of financial assets. According to it, debt instruments, depending on their specific characteristics and taking into account the business model, are to be accounted for either at amortized cost or at fair value through profit or loss. Equity instruments are always accounted for at fair value. Fluctuations in the value of equity instruments, however, may be recognized under other comprehensive income, given the instrument-specific option that can be exercised at the time of acquisition of the instrument. In this case, for equity instruments, only certain dividend income would be recognized as income. An exception to the rule are financial assets held for trading, which must be recognized at fair value through profit or loss. In October 2010, the IASB completed the second part of phase I of the project. Thus, requirements in relation to financial liabilities were added to the standard, which sets forth that the existing classification and measurement rules continue to apply for financial liabilities, with the following exceptions: Effects from the change of the company's credit risk under financial liabilities classified as at fair value through profit or loss must be recognized directly in equity and derivative liabilities may no longer be recognized at historical cost. The timeframe for application remains unchanged (January 1, 2013). Companies may, however, apply the provisions of the 2009 version early and separately from the rules governing financial liabilities. Early adoption of the rules for financial liabilities is also permitted, but only in conjunction with the 2009 version. The standard is to be applied retroactively.

Amendment of IAS 12 – Deferred taxes: realization of deferred tax assets
The amendment of IAS 12 was published in December 2010 and is applicable for the first time in the fiscal year starting on or after January 1, 2012. The change sets forth that deferred tax assets and liabilities in relation to certain assets should be measured under the assumption that the carrying value of the asset will be realized in full through disposal.

Improvements to IFRS 2010
Improvements to IFRS 2010 is a collection of amendments to various IFRSs published in May 2010. The time of application and transitional rules are defined separately for each standard. If nothing to the contrary is stated below, the amendments will apply for the first time in the fiscal year starting on or after January 1, 2011. The Group does not yet apply the following changes:

IFRS 3 Business combinations
- Transitional provisions for contingent considerations in relation to business combinations that occurred prior to entry into force of the revised IFRS: The amendment clarifies that the changes to IFRS 7 Financial instruments: Disclosures, IAS 32 Financial instruments: Presentation and IAS 39 Financial instruments: Recognition and measurement, which eliminate the prohibition of contingent considerations from the scope of application, do not apply for contingent considerations resulting from business combinations concluded prior to application of IFRS 3 (revised 2008). This amendment will apply for the first time in fiscal years starting on or after July 1, 2010.

- Measurement of non-controlling interests: The change limits the scope of measurement options, so that only the share of the non-controlling interest that conveys a current ownership right and a right of the holder to a portion of the net assets of the company in the event of liquidation may be measured either at fair value or at the value of the proportion of identifiable net assets of the target company under the current ownership right. Other shares of the non-controlling interest are measured at fair value at the time of acquisition, if no other measurement criterion is set forth in another IFRS (e.g. IFRS 2). This applies for the first time in fiscal years starting on or after July 1, 2010.

- Unreplaced and voluntarily replaced share-based payment awards: According to this change, a company (in the context of a business combination) is obliged to disclose replacement of share-based payment awards (both voluntary and non-voluntary), i.e. to present a breakdown of the consideration paid and the expense incurred from the business combination. If the company replaces the share-based payment commitments of the target company, which fall void as a result of the business combination, it recognizes this as an expense incurred after conclusion of the business combination. The amendment also clarifies accounting rules for share-based payment transactions that the acquiring company does not replace with its own share-based payment commitments: If these are vested, they represent non-controlling interests and are recognized at market value. If they are not yet vested, they are measured at market value as if they were awarded at the time of the business combination, and apportioned between non-controlling interests and expenses incurred after conclusion of the business combination. This amendment will apply for the first time in fiscal years starting on or after July 1, 2010. The standard sets forth prospective application from the time of initial application of IFRS 3 (2008).

IFRS 7 Financial instruments: Disclosures
The change sets forth the links between quantitative and qualitative disclosures, as well as the type and size of risks from financial instruments, and contains primarily changes in relation to the quantitative information on default risk. The change is to be applied retroactively.

IAS 1 Presentation of financial statements
The change clarifies that the disclosures of other comprehensive income for individual components of equity must be made either in the statement of changes in equity or in the notes. The change is to be applied retroactively.

IAS 27 Consolidated and separate financial statements
The change clarifies that the changes to IAS 21 Effects of changes in foreign exchange rates, IAS 28 Investments in associates and IAS 31 Interests in joint ventures as a consequence of the changes to IAS 27 are to be applied prospectively for fiscal years starting on or after July 1, 2009, or at an early time, provided a decision has been made for early adoption of IAS 27. This applies for the first time in fiscal years starting on or after July 1, 2010. The standard is to be applied retroactively.

IAS 34 Interim financial reporting

The amendment contains guidelines for application of the disclosure principles in IAS 34 and expands the list of events and transactions to be disclosed, in particular the following: circumstances that are likely to influence the fair value of financial instruments and their classification, reconciliation of financial instruments between various hierarchy levels for determination of fair value, changes to the classification of financial assets, changes to contingent liabilities and contingent assets. The change is to be applied retroactively.

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 Seating Systems division.

The share of the assets, liabilities, income, and expenses of the jointly controlled entity attributable to the Group as of December 31, 2010 and December 31, 2009 based on proportionate consolidation in the consolidated financial statements is as follows:

EUR k

	2010	2009
Current assets	2,936	2,251
Non-current assets	144	194
	3,080	**2,445**
Current liabilities	–2,412	–1,523
Non-current liabilities	–8,478	–7,505
	–10,890	**–9,028**
Income	7,875	4,957
Expenses	–8,368	–5,364

As of December 31, 2010 and December 31, 2009, no share of contingent liabilities or capital commitments was attributable to the Group.

4 Restructuring Expenses

In 2010, the Group carried out various restructuring and relocation measures which were comprised primarily of implementation of the redundancy plan at GRAMMER AG's Haselmühl plant based on the decision made in 2009. These expenses included costs from termination of employment and other closure or relocation costs. The Group also undertook adjustments of costs for measures to implement to redundancy plan in relation to closure of GRAMMER AG's Immenstetten plant, which are accounted for as direct severance payments for termination of employment and personnel expenses within the Group. These expenses totaled roughly EUR 3.7 million.

5 Segment Reporting

The segments described below reflect 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 product segments by relevant products and services, comprising the following two reportable segments:

The Automotive division, which is the largest segment within GRAMMER Group, achieved 64.1 % (2009: 66.7 %) of total Group revenue in fiscal year 2010. 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 upper and premium segments and to their Tier 1 suppliers.

The Seating Systems division accordingly generated 35.9 % of Group revenue in the reporting year (2009: 33.3). 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 product 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, product development, operations, 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, 2010 and 2009.

Fiscal year as of December 31, 2010

EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	320,938	608,767	0	929,705
Inter-segment revenue	20,942	1,446	−22,388	0
Total revenue	341,880	610,213	−22,388	929,705
Segment earnings (Operating profit)	17,590	21,353	−6,076	32,867
Financial income				1,429
Financial expenses				−14,870
Other financial result				1,126
Profit/loss (–) before income taxes				20,552
Income taxes				−4,231
Net profit/loss (–)				16,321
Other segment information				
Investments:				
Property, plant and equipment	15,494	18,815	242	34,551
Intangible assets	318	3,166	95	3,579
Depreciation of property, plant and equipment	−9,472	−13,031	−572	−23,075
Amortization of intangible assets	−1,136	−1,452	−631	−3,219
Non-cash items				
Changes in pension provisions	−15	2,040	1,793	3,818

Fiscal year as of December 31, 2009

EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	233,553	493,889	0	727,442
Inter-segment revenue	13,582	1,567	−15,149	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				−11,826
Other financial result				−1,123
Profit/loss (−) before income taxes				−31,535
Income taxes				3,322
Net profit/loss (−)				−28,213
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 of property, plant and equipment	−9,052	−13,862	−569	−23,483
Amortization of intangible assets	−1,248	−1,087	−723	−3,058
Non-cash items				
Changes in pension provisions	1,676	694	440	2,810

Reconciliation

EUR k	2010	2009
Segment earnings (Operating profit)	38,943	−13,756
Central Services	−7,502	−9,367
Elimination	1,426	−797
Group earnings (Operating profit)	32,867	−23,920
Financial result	−12,315	−7,615
Profit/loss (−) before income taxes	20,552	−31,535

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

Information 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, 2010 and 2009. The geographical breakdown is based on the region of registration of the companies.

Fiscal year as of December 31, 2010

EUR k Registration of the companies	Europe[1]	Americas	Far East/ Rest of world	Group
Revenue	595,245	195,197	139,263	**929,705**
Non-current assets (= Property, plant and equipment and intangible assets)	162,516	20,625	20,487	**203,628**

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**

[1] EU member states

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 929,705 thousand (2009: 727,442) includes contract revenue of EUR 23,099 thousand (2009: 39,117) related to development contracts. The expenditure incurred corresponded to revenues relating to development activities as well as working capital that must be engaged 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 1,019 thousand (2009: 1,370) and proceeds from the sale of scrap metal and materials handling costs of EUR 3,823 thousand (2009: 2,095). This item also contains government grants of EUR 452 thousand (2009: 233), income from offsetting costs of approximately EUR 245 thousand (2009: 1,234) and income from the sale and write-ups of property, plant and equipment of EUR 1,070 thousand (2009: 1,222). 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	2010	2009
Financial income		
Interest income from bank balances	963	1,080
Available-for-sale financial assets	5	143
Other loans	294	263
Financial assets and liabilities measured at fair value through profit or loss	167	3,848
Total financial income	**1,429**	**5,334**
Financial expenses		
Loans and overdraft	–10,280	–7,199
Available-for-sale financial assets	-72	0
Interest cost of pension provisions	–3,124	–3,161
Net loss from financial assets and liabilities measured at fair value through profit or loss	–1,217	–1,322
Interest element of lease payments	–177	–144
Total financial expenses	**–14,870**	**–11,826**
Other financial result	**1,126**	**–1,123**
Financial result	**–12,315**	**–7,615**

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.

Financial income includes interest income in the amount of EUR 1,262 thousand (2009: 1,486) calculated using the effective interest rate method.

Financial expenses include interest expenses for loans and overdrafts totaling EUR 10,280 thousand (2009: 7,199), the increase of which is attributable to higher market rates for corporate borrowing after the financial crisis and of which EUR 9,009 thousand (2009: 6,316) were determined using the effective interest rate method. The financial result also contains the interest component of pension expense and the interest component of lease payments in accordance with IAS 17.

To improve the transparency of financial result disclosures the other financial result line was added and comparative figures conformed. Other financial result primarily relates to gains or losses from measurement of borrowing and loans in foreign currency terms.

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 sold. This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. The set up of reserves for warranty purposes is included by this item as well. The cost of sales also includes non-capitalized research and development costs in the amount of EUR 32,445 thousand (2009: 30,038) 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 Systems segment is generally performed on a "design to market" basis, with the corresponding costs included here accordingly. The costs of inventories, which are recognized as an expense in cost of sales amount to EUR 772,691 thousand (2009: 615,592).

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 expenses which cannot be assigned directly to other functions, including general administration, management and central departments. Other administrative expenses also includes income from exchange rate movements in the amount of EUR 20,910 thousand (2009: 11,335) 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 16,119 thousand (2009: 14,858) are also recognized under other administrative expenses.

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

Amortization of intangible assets totaled EUR 3,219 thousand (2009: 3,058) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 1,299 thousand (2009: 1,194) for capitalized development costs included in cost of sales.

Depreciation of property, plant and equipment amounted to EUR 23,075 thousand (2009: 23,483).

As in 2009, no impairment losses were incurred in fiscal year 2010.

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	2010	2009
Wages and salaries	169,119	164,307
Social security contributions of which for pensions EUR 3,265 thousand (2009: 2,439)	39,290	34,830
	208,409	199,137

8 Income Taxes

The key components of income taxes for fiscal 2010 and 2009 are as follows:

EUR k	2010	2009
Consolidated Statement of Income		
Current tax		
Current tax expenses – Germany	–1,128	–3,588
Current tax expenses – abroad	–9,622	–3,898
Total current tax expenses	**–10,750**	**–7,486**
Deferred tax		
Deferred tax income/expenses (–) Germany	5,662	11,690
Deferred tax income/expenses (–) abroad	857	–882
Deferred tax income/expenses (–)	**6,519**	**10,808**
Tax income/expenses (–) reported in the consolidated Statement of Income	**–4,231**	**3,322**

Reconciliation between income taxes and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2010 and 2009 is as follows:

EUR k	2010	2009
Earnings before income taxes (relating to continuing operations)	**20,552**	**–31,535**
Income taxes at the rate of 30% (2009: 30%)	–6,166	9,461
Income from tax legislation/tax rate changes/minimum tax	–1,650	51
Adjustments to current income tax incurred in the previous year	–584	–1,401
Adjustments to deferred income tax incurred in the previous year	–615	–783
Tax reduction due to losses carried forward	5,878	1,317
Tax exempt government grants	217	–41
Non-deductible expenses	–1,582	–2,505
Other tax effects	–235	–43
Effect of lower foreign tax rates	506	–2,734
Income taxes at the effective tax rate of 20.6% (2009: 10.5)	**–4,231**	**3,322**

8.1 Deferred income taxes

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

EUR k

	2010 Consolidated Statement of Financial Position	2009 Consolidated Statement of Financial Position	Change
Deferred tax liabilities			
Property, plant and equipment	–5,063	–5,092	29
Intangible assets	–3,250	–3,469	219
Goodwill	–3,864	–3,414	–450
Finance lease	–431	–212	–219
Other assets	0	–35	35
Receivables	–3,929	–6,299	2,370
Others	–893	–372	–521
	–17,430	**–18,893**	**1,463**
Deferred tax assets			
Pension provisions	5,343	4,720	623
Other provisions	870	1,078	–208
Tax losses carried forward	24,170	20,630	3,540
Financial assets	0	0	0
Others	7,036	5,215	1,821
	37,419	**31,643**	**5,776**

The statutory rate of corporate income tax in Germany was 15 % for the 2009 and 2010 assessment periods, plus a solidarity surtax of 5.5 %. This, together with municipal 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 2009 and 2010.

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 % (2009: 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 4,956 thousand (2009: 18,015) were assumed to be non-recoverable. These relate mainly to tax results of the Mexican and US subsidiaries. The positive development of the economy and the turnaround achieved after the crisis also mean a better utilization of loss carry-forwards, and 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 and to a part with no expiry.

In 2010, tax loss carry-forwards from previous years were realized in the amount of EUR 14,729 thousand (2009: 1,237).

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.

	2010	2009
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)	16,302	–28,201
Basic/dilutes earnings per share in EUR	1.60	–2.77

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

Due to the statutorily mandated assumption of loss utilization, GRAMMER AG's net loss as of December 31, 2010 will be carried forward. No dividend was paid in the reporting year or for the prior 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, 2010	85,404	134,932	149,249	2,949	6,755	379,289
Additions	601	12,537	11,389	10,024	0	34,551
Disposals	–1,873	–7,255	–16,775	–88	–246	–26,237
Effects of exchange rate differences	1,066	4,878	2,372	138	135	8,589
Reclassifications	268	1,080	1,877	–3,225	0	0
As of December 31, 2010	85,466	146,172	148,112	9,798	6,644	396,192
Depreciation						
As of January 1, 2010	37,465	86,776	111,413	0	1,756	237,410
Additions	2,984	9,118	9,593	0	1,380	23,075
Disposals	–1,790	–7,043	–13,005	0	–212	–22,050
Write-ups	–5	0	0	0	0	–5
Effects of exchange rate differences	594	2,608	1,133	0	48	4,383
Reclassifications	–34	–153	187	0	0	0
As of December 31, 2010	39,214	91,306	109,321	0	2,972	242,813
Carrying amount on January 1, 2010	47,939	48,156	37,836	2,949	4,999	141,879
Carrying amount on December 31, 2010	46,252	54,866	38,791	9,798	3,672	153,379

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						
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

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, 2010	5,736	169	850	6,755
Addition	0	0	0	0
Disposal	0	–52	–194	–246
Effect of exchange rate differences	67	24	44	135
Reclassifications	0	0	0	0
As of December 31, 2010	5,803	141	700	6,644
Depreciation				
As of January 1, 2010	1,094	105	557	1,756
Addition	1,252	17	111	1,380
Disposal	0	–51	–161	–212
Effect of exchange rate differences	1	16	31	48
Reclassifications	0	0	0	0
As of December 31, 2010	2,347	87	538	2,972
Carrying amount on January 1, 2010	4,642	64	293	4,999
Carrying amount on December 31, 2010	3,456	54	162	3,672
Cost				
As of January 1, 2009	0	169	892	1,061
Addition	5,735	0	0	5,735
Disposal	0	0	–42	–42
Effect of exchange rate differences	1	0	0	1
Reclassifications	0	0	0	0
As of December 31, 2009	5,736	169	850	6,755
Depreciation				
As of January 1, 2009	0	81	452	533
Addition	1,092	24	132	1,248
Disposal	0	0	–27	–27
Effect of exchange rate differences	2	0	0	2
Reclassifications	0	0	0	0
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

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
2010			
Lease payments	1,494	1,364	0
Less interest cost on a discounted basis	–108	–108	0
Present value (Statement of financial position)	**1,386**	**1,256**	**0**
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**

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
2010			
Lease payments	13,982	26,937	9,000
2009			
Lease payments	12,762	25,205	9,867

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 0 thousand (2009: 30). These were items of property, plant and equipment held for normal use and are not significant.

12 Intangible Assets

EUR k

	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2010	20,858	43,738	15,625	0	80,221
Additions	3,017	0	554	8	3,579
Disposals	−275	0	0	0	−275
Effects of exchange rate differences	292	0	161	0	453
Reclassifications	8	0	0	−8	0
As of December 31, 2010	23,900	43,738	16,340	0	83,978
Amortization					
As of January 1, 2010	15,604	11,147	3,634	0	30,385
Additions	1,920	0	1,299	0	3,219
Disposals	−98	0	0	0	−98
Write-ups	0	0	0	0	0
Effects of exchange rate differences	183	0	40	0	223
Reclassifications	0	0	0	0	0
As of December 31, 2010	17,609	11,147	4,973	0	33,729
Carrying amount on January 1, 2010	5,254	32,591	11,991	0	49,836
Carrying amount on December 31, 2010	6,291	32,591	11,367	0	50,249
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					
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

Concessions and industrial sights are comprised primarily of Computer software, and 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 32,999 thousand in 2010 (2009: 32,175), of which EUR 554 thousand (2009: 2,137) 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, 2010 include the sustainable (net) growth rate of the relevant positive cash flows and the discount factor. These are presented in the following table:

EUR k

	Cash-generating unit	2010 Goodwill	2009 Goodwill	2010 Growth rate	2009 Growth rate	2010 Discount factor	2009 Discount factor
CGU I	Seating Systems	3,199	3,199	1%	1%	11%	9.5%
CGU II	Automotive	29,392	29,392	1%	1%	11%	9.5%
	Total	32,591	32,591				

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 financial planning 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 3.25 % 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 borrowing 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 %.

Based on the impairment tests carried out on December 31, 2010, 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 37,003 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:

- Revenue – The Company management is projecting moderately rising revenues, which takes account of the current market conditions 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 economic 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 17.6 % 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. 1.8 %-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, 2010, GRAMMER AG's market capitalization was higher than the carrying value of Group equity, so that, unlike in the previous year, there was no indication of impairment of goodwill or other assets. Nonetheless, as in the previous year, the individual steps of impairment testing are explained.

EUR k

Market cap	Equity	Fixed assets	Gearing
192,061	173,101	245,914	66%

For the individual CGUs themselves, no market price is available. Allocation of the Group 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, 2010 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 despite the excess of market cap over equity, 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

	2010	2009
Raw materials and supplies	56,784	49,475
Work in progress	6,840	7,305
Finished goods and services	17,415	17,047
Advance payments	7,849	3,396
Total inventories	**88,888**	**77,223**

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

14 Trade Accounts Receivable

EUR k

	2010	2009
Trade accounts receivable	138,294	109,445

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 – 120 days. In the context of the syndicated loan agreement, collateral has been ceded via blanket assignment in the amount of EUR 8,091 thousand as of the balance sheet date.

As of December 31, 2010 write-downs of EUR 2,695 thousand (2009: 1,705) were taken on trade accounts receivable. Details are given in the table below:

Trade accounts receivable

EUR k

	Specific bad debt allowances	Portfolio-based allowances	Total
As of January 1, 2010	986	719	1,705
Additions	742	565	1,307
Utilization	–267	–8	–275
Write-backs	–76	0	–76
Changes in exchange rates	34	0	34
As of December 31, 2010	1,419	1,276	2,695
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

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
2010							
Trade accounts receivable	**138,294**	113,273	19,541	2,822	574	1,550	534
Receivables from construction contracts	**48,338**	48,338	0	0	0	0	0
Other financial receivables	**6,420**	6,420	0	0	0	0	0
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

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.

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.

15 Other Financial Assets

EUR k

	2010	2009
Non-current		
Outstanding loans	3,663	3,393
Securities	16	0
Participating interests	576	527
Others	612	676
	4,867	**4,596**
Current		
Receivables from construction contracts	48,338	55,004
Other receivables	2,145	1,027
	50,483	**56,031**

Outstanding loans primarily comprise one loan to a joint venture in a currency other than Group currency at a fair value on the origination date of EUR 5,121 thousand (2009: 5,121), which was measured at fair value on the reporting date to total EUR 3,565 thousand (2009: 3,307). 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 612 thousand (2009: 676), after offsetting of plan assets for early retirement entitlements.

16 Other Current Assets

EUR k

	2010	2009
Other assets	12,756	9,607
Prepaid expenses	3,900	2,228
	16,656	**11,835**

Other assets mainly include pass-through taxes such as value-added tax in the amount of EUR 7,580 thousand (2009: 6,222), investment grants receivable totaling 1,982 thousand (2009: 882), temporary security deposits of EUR 908 thousand (2009: 1,399), receivables due from employees of EUR 279 thousand (2009: 115) and receivables due from creditors with debit balances of EUR 312 thousand (2009: 361).

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

17 Cash and Short-term Deposits

EUR k

	2010	2009
Cash and short-term deposits	**17,170**	**16,126**

The Group has bank balances at various 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	2010	2009
Cash and short-term deposits	17,170	16,126
Bank overdrafts	–779	–36,932
	16,391	**–20,806**

18 Subscribed Capital and Reserves

Subscribed capital

As of December 31, 2010 and December 31, 2009, 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 declared 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, 2010 and 2009. The capital reserve includes from the capital increases through paid-in surplus in 1996 and 2001.

Retained earnings

The statutory reserve of GRAMMER AG totaled EUR 1,183 thousand on both December 31, 2010 and 2009, and is not available for the payment of dividends.

Revenue reserves further reflect income earned in the past by the companies included in consolidation, provided such income was not paid out as dividends. Revenue reserves increased from EUR 73,186 thousand to EUR 89,488 thousand as a result of the profit for the year.

Accumulated other comprehensive income

Accumulated other comprehensive income mainly comprise differences arising from the currency translation of the financial statements of foreign subsidiaries through equity 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 retained earnings in the financial statements of GRAMMER AG, which are prepared according to the German Commercial Code. As of December 31, 2010, GRAMMER AG posted an accumulated net loss of EUR -26.0 million. This takes into account the loss of EUR 19.8 million carried forward, the allocation of EUR 2.0 million to other revenue reserves, as well as the withdrawal of EUR 2.0 million from the reserve for own shares transferred to other revenue reserves. Due to the legally mandated assumption of loss utilization, the net loss as of December 31, 2010 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, 2010, 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 844,928 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. The repurchase of the shares under this Executive Board resolution complies with the safe harbour 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, 2010, 10,165,109 common shares (2009: 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

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 retained earnings as of December 31, 2008 was transferred to statutory revenue reserves 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, 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. This resolution was proposed to the Annual General Meeting on May 19, 2010 for a renewed confirming resolution and the authorization granted by the Annual General Meeting. The renewed resolution was necessary given that, at the time of convocation of the Annual General Meeting 2010, three actions for the declaration to nullify/actions to set aside the resolutions of the 2009 Annual General Meeting had not yet received final and incontestable judgement. In 2010 all actions were dismissed finally and absolutely.

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 factors 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:

Measurement parameters DBO

%

	2010	2009
Interest rate	5.25	5.25
Salary trend	2.20	2.00
Income trend for individual commitments	2.20	2.00
Inflation rate	1.90	1.90

Measurement parameters other benefits

%

	2010	2009
Interest rate	4.66 – 5.25	5.00 – 6.26
Salary trend	2.20 – 4.66	2.00 – 4.50
Inflation rate	1.90 – 10.00	1.90 – 10.00

Mortality and disability are calculated on the basis of the 2005 G Heubeck tables or comparable foreign mortality tables. The probability of fluctuation was computed specifically for the Group.

The pension commitments recognized in the balance sheet reflect the net liability. No plan assets exist to cover future pension obligations.

In fiscal year 2010, annuities in the amount of EUR 1,433 thousand (2009: 1,363) were paid on pension commitments. A total of EUR 54 thousand (2009: 606) was paid out for other employee benefits (post-employment benefits).

The following amounts were recognized in the income statement:

EUR k

2010	Pension plan	Miscellaneous benefits
Benefits earned in 2010	1,469	661
Interest expenses in 2010	3,032	92
Actuarial gains/losses recognized in 2010	25	0
Total 2010	4,526	753

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

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, 2010	62,429	2,066
Unamortised actuarial losses (–)	–3,417	0
Provisions as of December 31, 2010	59,012	2,066

EUR k

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

Accordingly, the change in DBO appears as follows:

EUR k

	Pension Plan	Miscellaneous benefits
As of January 1, 2010	58,399	1,311
+ Benefits earned in 2010	1,469	661
+ Interest expenses in 2010	3,032	92
– Actual payments in 2010	–1,433	–54
– Disposals from liabilities 2010	–19	0
Exchange rate	2	56
Actuarial gains (–)/losses (+) 2010	979	0
As of December 31, 2010	62,429	2,066
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

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

EUR k

	2010	2009
Expected DBO as of December of the relevant year	61,450	58,940
Current value of the DBO as of December 31 of the relevant year	62,429	58,399
Overfunding/Underfunding	979	–541
of which from		
necessary and implemented structural adjustments	219	–878
changes in assumptions	760	337

20 Financial Liabilities

Interest-bearing liabilities

EUR k

	Current	Non-current	Total
2010			
Overdrafts	779	0	779
Loans	32,370	0	32,370
EUR loan	30,103	0	30,103
CNY loan	2,267	0	2,267
Debenture bond	0	97,852	97,852
Total Financial Liabilities	33,149	97,852	131,001

EUR k

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

Overdrafts

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

Current loans

Loans denominated in EUR relate largely to fixed amounts drawn on the syndicated loan agreement, which, unlike in previous years, specifies that fixed amounts be drawn for 3 to 6 months. These amounts are due for repayment in March 2011 and will be repaid on a revolving basis taking into account the amount of funding deemed necessary. The current loans denominated in Chinese currency feature tranches maturing in January 2011, which will also be prolonged on a revolving basis taking into account the amount of funding deemed necessary for one year.

Non-current financial liabilities

Long-term financial liabilities comprise a debenture bond with a fixed interest rate of 4.8 % and a total nominal value of EUR 70.0 million, which does not mature before the end of August 2013, as well as a KfW development loan embedded in the syndicated loan totaling EUR 28.0 million, which does not fall due until the end of March 2013 and has a fixed interest rate of 7.7 %.

The syndicated loan is secured by mortgages and collateral pledged or assigned from fixed and current assets.

21 Provisions

EUR k

	Market related provisions	Obligations relating to personnel	Other provisions	Total
As of January 1, 2010	6,147	1,353	360	7,860
Additions	5,789	328	77	6,194
Utilization	−4,001	−955	−40	−4,996
Releases	−833	−110	0	−943
Effects of exchange rate differences	175	0	2	177
As of December 31, 2010	7,277	616	399	8,292
Current provisions 2010	7,277	616	399	8,292
Non-current provisions 2010	0	0	0	0
As of January 1, 2009	2,847	4,312	476	7,635
Additions	4,585	804	86	5,475
Utilization	−1,245	−3,763	−117	−5,125
Releases	−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

Market-related provisions 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 2010, the allocated plan assets and obligations from early retirement entitlements were netted in the amount of EUR 3,552 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

	2010	2009
Non-current trade accounts payable	4,890	0
Current trade accounts payable	92,115	86,193
Trade accounts payable	97,005	86,193

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 14 – 90 days. The average period for payment of supplier invoices is 30 days. Customary retention of title by suppliers applies in relation to trade receivables.

23 Other Financial Liabilities

EUR k	2010	2009
Current		
Liabilities from derivatives	1,490	1,682
Liabilities from leases	1,386	364
Liabilities to associated companies	583	415
Other financial liabilities (current)	3,459	2,461
Non-current		
Liabilities from leases	1,256	3,879
Liabilities to associated companies	4,913	4,199
Other financial liabilities (non-current)	6,169	8,078

24 Other Liabilities

EUR k	2010	2009
Current		
Social security obligations	2,251	1,829
Tax liabilities	3,620	5,123
Prepayments received	6,956	2,639
Other liabilities	36,635	30,024
Deferred income	5,040	3,373
Other current liabilities	54,502	42,988
Non-current		
Tax liabilities	1,520	545
Miscellaneous other liabilities	840	883
Other liabilities (non-current)	2,360	1,428
Total other liabilities	56,862	44,416

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 unpaid liabilities for payroll income taxes and similar items for fiscal year 2010.

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 and amortization) 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	2010	2009
Guarantees	32	935

Guarantees have been issued primarily for rented business premises and as performance bonds.

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 % 2010	2009
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 Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	99.40	99.40
4. GRAMMER Inc.	Hudson (WI), USA	100.00	100.00
5. GRAMMER Wackersdorf GmbH	Wackersdorf, Germany	100.00	100.00
6. GRAMMER CZ s.r.o.	Tachov, Czech Republic	100.00	100.00
7. GRAMMER Japan Ltd.	Tokyo, Japan	100.00	100.00
8. GRAMMER AD	Trudovetz, Bulgaria	90.21	89.58
9. GRAMMER Automotive GmbH	Amberg, Germany	[1]	100.00
10. GRAMMER System GmbH	Amberg, Germany	100.00	100.00
11. GRAMMER Automotive Metall GmbH	Amberg, Germany	100.00	100.00
12. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	100.00	100.00
13. GRAMMER Automotive Española S.A.	Olérdola, Spain	100.00	100.00
14. GRAMMER Industries Inc.	Greenville (SC), USA	100.00	100.00
15. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00	100.00
16. GRAMMER Automotive Polska sp. z.o.o.	Bielsko-Biala, Poland	100.00	100.00
17. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	100.00	100.00
18. GRAMMER Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00	100.00
19. GRAMMER Interior (Changchun) Co. Ltd.	Changchun, China	100.00	100.00
20. GRAMMER Interior (Shanghai) Co. Ltd.	Shanghai, China	100.00	100.00
21. GRAMMER System d.o.o. Serbien	Aleksinac, Serbia	100.00	100.00
22. GRAMMER Railway Interior GmbH	Amberg, Germany	100.00	100.00
23. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	100.00	[2]
2. Proportionately consolidated companies			
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	50.00	50.00

[1] Merged with GRAMMER AG effective May 1, 2010.
[2] Launch of GRAMMER Technical Components GmbH effective September 1, 2010.

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, 2010 (2009: 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	Purchases 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	2010	720	0	9,821	0
	2009	56	0	8,063	0

GRA-MAG Truck Interior Systems LLC Limited

GRAMMER Group holds an insterest of 50 % in GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2009: 50 %). GRA-MAG had 48 employees as of December 31, 2010 (2009: 29).

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 12/31/10	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value 12/31/10
			Amortized costs	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	17,170	17,170					17,170
Trade accounts receivable	LaR	138,294	138,294					138,294
Other financial assets								
Loans and receivables	LaR	6,420	6,420					6,420
Receivables from construction contracts	LaR	48,338	48,338					48,338
Financial assets available-for-sale	AfS	592		592				592
Financial assets held-for-trading	FAHfT	0						0
Liabilities								
Trade accounts payable	FLAC	97,005	97,005					97,005
Current liabilities to banks	FLAC	33,149	33,149					33,149
Non-current liabilities to banks	FLAC	97,852	97,852					101,470
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	5,496	5,496					5,496
Liabilities from finance leases	n.a.	2,642					2,642	2,642
Financial liabilities held-for-trading	FLHfT	1,490				1,490		1,490
Derivatives with hedge relationship	n.a.	0						0
Of which aggregated by valuation category in acc. with IAS 39								
Loans and receivables	LaR	210,222	210,222					210,222
Financial assets available-for-sale	AfS	592		592				592
Financial assets held-for-trading	FAHfT	0						0
Financial liabilities measured at amortized costs	FLAC	233,502	233,502					232,141
Financial liabilities held-for-trading	FLHfT	1,490				1,490		1,490

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 costs	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 assets held-for-trading	FAHfT	0						**0**
Liabilities								
Trade accounts payable	FLAC	86,193	86,193					**86,193**
Current liabilities to banks	FLAC	52,500	52,500					**52,500**
Non-current liabilities to banks	FLAC	69,797	69,797					**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 liabilities measured at amortized costs	FLAC	213,104	213,104					**207,206**
Financial liabilities held-for-trading	FLHfT	1,682				1,682		**1,682**

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 and the risk premium applicable for GRAMMER.

The following table shows the our financial instruments at fair value in the three levels of the fair value hierarchy:

EUR k

2010	Carrying amount	Level 1	Level 2	Level 3
Financial liabilities recognized at fair value				
Financial liabilities held-for-trading				
Interest rate swaps	1,490		1,490	

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 2010	Net income 2009
Loans and receivables	–323	–5,115
Financial assets and liabilities held-for-trading	–1,141	–541
Financial liabilities measured at amortized costs	4,498	4,205
	3,034	–1,451

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 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.

The Group also has derivative financial instruments, used by the Group for risk management, 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 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.

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 chief executive officer 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 2010 and 2009, 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, are 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 cash-flows 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, 2010 and 2009. The sensitivity analyses were prepared on the basis of the hedging transactions existing on December 31, 2010, 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.

There were no commodity forwards for hedging of price risks in raw materials procurement reported at the balance sheet date in 2010 or 2009, an no such contracts were concluded in these periods.

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.

No currency forwards were reported at the balance sheet date in either 2010 or 2009, and no currency forward contracts were concluded in these periods.

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 foreign exchange 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 (2009: 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
2010	+10%	5,099	−1,159
	−10%	−5,093	1,158
2009	+10%	6,185	−1,075
	−10%	−6,185	1,075

	Changes in the price of the TRY	Impact on profit before tax	Impact on equity
2010	+10%	−445	0
	−10%	445	0
2009	+10%	−546	0
	−10%	546	0

	Changes in the price of the CZK	Impact on profit before tax	Impact on equity
2010	+10%	1,318	0
	−10%	−1,318	0
2009	+10%	799	0
	−10%	−799	0

	Changes in the price of the PLN	Impact on profit before tax	Impact on equity
2010	+10%	−304	0
	−10%	303	0
2009	+10%	−378	0
	−10%	378	0

	Changes in the price of the MXN	Impact on profit before tax	Impact on equity
2010	+10%	1,105	1,291
	−10%	−1,104	−1,291
2009	+10%	1,306	1,291
	−10%	−1,306	−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.

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 totaled EUR 29,643 thousand (2009: 30,357). They have a remaining maturity of up to three years. The negative market value of EUR 1,490 thousand (2009: 1,682) is reported under other current financial liabilities. The Company recognizes changes in the market value under the financial result in profit or loss. Accordingly, a net gain of EUR 192 thousand (2009: -571) is recognized in the financial result for fiscal year 2010. With these interest rate swaps, the underlying obligation is economically hedged without satisfaction of the requirements for hedge accounting.

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 (2009: 50) is assumed. The interest rate on deposits was reduced on interest-bearing current account balances to a minimal level of 0.001 %. As a result of the current low interest rate, a minimal basic rate of interest of 0.000001 % was assumed for derivative financial instruments and otherwise a minimal basic rate of 0,001 % applied.

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
2010	−50	−302
	+50	251
2009	−50	−338
	+50	73

Liquidity risk

The Group manages liquidity risks by holding appropriate reserves, lines of credit in the amount of EUR 119.1 million (2009: 116.0) 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, 2010, the Group had unutilized lines of credit in the amount of EUR 57,976 thousand (2009: 63,524), 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	Cashflow		
		2011	2012 – 2014	2015 and thereafter
2010				
Current and non-current financial liabilities				
Non-current financial liabilities	97,852	5,545	107,474	0
Current financial liabilities	32,370	32,887	0	0
Overdrafts	779	779	0	0
Trade accounts payable	**97,005**	**92,415**	**4,630**	**708**
Current and non-current other financial liabilities				
Liabilities form finance leases	2,642	1,494	1,364	0
Other original financial liabilities	5,496	583	99	4,814
Derivatives	**1,490**			
Interest rate derivates	1,490	734	782	0
		134,437	114,349	5,522

EUR k	Carrying amount	Cash flow		
		2010	2011 – 2013	2014 and thereafter
2009				
Current and non-current financial liabilities				
Non-current financial liabilities	69,797	3,389	80,168	0
Current financial liabilities	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 form finance leases	4,243	1,541	2,967	44
Other original financial liabilities	4,614	415	4,199	0
Derivatives	**1,682**			
Interest rate derivates	1,682	884	1,089	0
		146,417	**88,423**	**44**

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.

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 bank liabilities 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. The syndicated loan agreement also contains a covenant specifying net gearing (net financial liabilities to EBITDA) and net debt (EBITDA to net interest expenses).

In the period, the Company was able to maintain the conditions set out by third parties for retention of financing.

As a result of the financial 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	2010	2009
Non-current bank liabilites	97,852	69,797
Current bank liabilities	33,149	52,500
Liabilities from finance lease	2,642	4,243
Cash and securities	–17,170	–16,126
Net financial liabilities	**116,473**	**110,414**
Equity before minority interests	172,638	150,526
	56,165 **67%**	**40,112** **73%**

31 Events after the Balance Sheet Date

The following events occurred up to March 18, 2011 (date of release for submission to the Supervisory Board):

In 2010, GRAMMER AG's Haselmühl plant was restructured and its operations transferred to an independent GmbH (German private limited company) on January 1, 2011, which is a wholly owned subsidiary of GRAMMER AG. With the new GmbH, there is a shift of focus toward production and diversification of produced components and finished goods. In addition to deepening of the value chain, expanding our technical competencies will also serve to protect jobs at the location. Additionally, on January 15, the second phase of the GRAMMER AG redundancy plan was concluded with the works council, which governs the personnel measures in the context of the Immenstetten plant closure. The effects of the earthquake in Japan on global economic development and economic growth cannot yet be foreseen and could pose potential risks for the development of the Company.

32 Other Information

Employees

On average, GRAMMER Group had the following numbers of employees:

	2010	2009
Wage-earning employees	5,950	5,533
Salaried employees	1,795	1,941
Total	7,745	7,474

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

	2010	2009
Seating Systems	2,744	2,556
Automotive	5,034	4,479
Central Services	177	189
Total	7,955	7,224

Auditors' 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 295 thousand (2009: 345) for the audit, EUR 40 thousand (2009: 0) for other audit and assessment services, EUR 0 thousand (2009: 21) for tax consulting services and EUR 157 thousand (2009: 25) for other services.

Executive Board and Supervisory Board remuneration

EUR k

	2010	2009
Total remuneration paid to the Executive Board amounted to	1,495	1,336
The Supervisory Board received total remuneration of	201	218

Of the total Executive Board remuneration, EUR 286 thousand (2009: 116) are attributable to performance-related components. These, in turn, are affected by performance-related remuneration from the previous year totaling EUR -100 thousand (2009: +16).

Of the total Supervisory Board remuneration, EUR 0.0 thousand (2009: 4.8) are attributable to performance-related components.

Individual remuneration paid to the members of the Executive Board was as follows in the fiscal year 2010:

EUR k

	Non-performance-related components	Performance-related components	Components providing long-term incentives	Total
Dr. Rolf-Dieter Kempis until July 31, 2010	266	–53	0	213
Hartmut Müller	445	175	0	620
Alois Ponnath	368	117	0	485
Manfred Pretscher from August 1, 2010	130	47	0	177
	1,209	286	0	1,495

Dr. Kempis declined to accept payment of the performance-related components totaling EUR 100 thousand for 2009, in order to demonstrate solidarity with the Company during the financial and economic crisis. The provision recognized as a result contributed to earnings upon reversal and was deducted from the performance-related components for the reporting year as a negative contribution, since applicable law requires allocations from provisions to be disclosed as components of remuneration.

The Company paid EUR 258 thousand (2009: 257) to former members of management/the Executive Board and their surviving dependents.

EUR 3,482 thousand (2009: 3,491) in pension obligations to former members of management/Executive Board or their surviving dependents in accordance with IAS 19 were recorded.

Moreover, current service cost for allocations to pension provisions arose for active members of the Executive Board in the amount of EUR 57.4 thousand (2009: 52,8). Of this EUR 27 thousand was attributable to Alois Ponnath and EUR 30.4 thousand to Hartmut Müller.

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

EUR k

	Non performance related components	Seating fees	Total
Dr.-Ing. Bernd Blankenstein	12.5	8.1	20.6
Dr.-Ing. Klaus Probst	14.6	4.5	19.1
Joachim Bender	13.5	6.3	19.8
Udo Fechtner	9.0	9.9	18.9
Dipl.-Kauffrau Astrid Franzky	3.5	1.6	5.1
Dipl.-Betriebswirt (FH) Wolfram Hatz	9.0	11.7	20.7
Dipl.-Physiker Frank Himmelhuber	5.6	2.7	8.3
Dipl.-Kauffrau Tanja Jacquemin	9.0	7.2	16.2
Anton Kohl	9.0	4.5	13.5
Monika Kugler-Fleischmann	3.5	1.8	5.3
Dipl.-Betriebswirt (FH) Georg Liebler	9.0	6.3	15.3
Wolfgang Rösl	5.6	2.7	8.3
Dr.-Ing. Peter Stehle	9.0	4.5	13.5
Dr. Bernhard Wankerl	9.0	7.2	16.2
	121.8	**79.0**	**200.8**

In 2010, members of the Supervisory Board voluntarily declined 10 % of their fixed salaries. No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. In fiscal year 2010, the Supervisory Board was not paid any performance-based remuneration.

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 2010 Annual Report and are permanently available on the company website under www.grammer.com/corporate_governance.

Boards

Executive Board

▷ M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller, Darmstadt
Chief Executive Officer as of 08/01/2010

▷ Dr.-Ing. Rolf-Dieter Kempis, Waldenburg
Member and Chief Executive Officer until 07/31/2010

▷ Dipl.-Kaufmann Alois Ponnath, Kümmersbruck

▷ Dipl.–Ing. (FH) Manfred Pretscher, Meine
Member of the Board as of 08/01/2010

Supervisory Board

▷ **Dr.-Ing. Klaus Probst, Heroldsberg**
Chairman as of 05/19/2010

▷ **Dr.-Ing. Bernd Blankenstein, Aachen**
Chairman until 05/19/2010

▷ **Joachim Bender, Sulzbach-Rosenberg**
Deputy Chairman/Employee Representative

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

▷ **Dipl.-Betriebswirt (FH) Georg Liebler, Möglingen**

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

▷ **Dr. Bernhard Wankerl, Schwandorf**

▷ **Udo Fechtner, Kümmersbruck**
Employee Representative

▷ **Dipl.-Kauffrau Astrid Franzky, Kümmersbruck**
Employee Representative
Member of the Supervisory Board until 05/19/2010

▷ **Dipl.-Physiker Frank Himmelhuber, Kümmersbruck**
Employee Representative
Member of the Supervisory Board as of 05/19/2010

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

▷ **Anton Kohl, Hahnbach**
Employee Representative

▷ **Monika Kugler-Fleischmann, Hahnbach**
Employee Representative
Member of the Supervisory Board until 05/19/2010

▷ **Wolfgang Rösl, Sulzbach-Rosenberg**
Employee Representative
Member of the Supervisory Board as of 05/19/2010

Executive Board member professions and other offices within the meaning of section 285 (1) no. 10 HGB:

Executive Board:

▷ **M. Sc. BWL Dipl.-Ing. (FH) Hartmut Müller**
Chief Executive Officer (as of 08/01/2010)
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA
- Chairman of the Supervisory Board of GRAMMER AD, Trudovetz/Bulgaria
- Member and since 08/01/2010 Chairman of the Board of Directors of GRAMMER Industries Inc., Greenville (SC)/USA
- Chairman of the Board of Directors of GRAMMER Inc., Hudson (WI)/USA
- Chairman of the Board of Directors of GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Bursa/Turkey
- Chairman of the Board of Directors of GRAMMER Seating (Xiamen) Ltd., Xiamen/China (until 12/31/2010)
- Member of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (until 07/26/2010)
- Member of the Supervisory Board of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (since 07/27/2010)
- Chairman of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member of the Board of Directors and Chairman of the Board of Directors since 09/08/2010 GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico
- Chairman of the Board of Directors of GRAMMER Automotive Española S.A., Olèrdola/Spain (as of 10/27/2010)
- Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China
- Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern/Germany

▷ **Dr.-Ing. Rolf-Dieter Kempis**
Member and Chief Executive Officer (until 07/31/2010)
- Chairman of the Board of Directors of GRAMMER Automotive Española S.A., Olèrdola/Spain (until 10/26/2010)
- Chairman of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico (until 09/07/2010)
- Chairman of the Board of Directors of GRAMMER Industries Inc., Greenville (SC)/USA (until 07/31/2010)
- Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (until 07/26/2010)
- Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China (until 02/10/2010)
- Member of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Ltd., Xiamen/China (until 12/31/2010)

▷ **Dipl.-Kaufmann Alois Ponnath**
Member of the Executive Board
- Member of the Supervisory Board of GRAMMER AD, Trudovetz/Bulgaria
- Deputy Chairman of the Board of Directors of GRAMMER

Koltuk Sistemleri Sanayi ve Ticaret A.S., Bursa/Turkey
- Member of the Board of Directors of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member and Chairman of the Board of Directors (as of 07/27/2010) of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China
- Member and Chairman of the Board of Directors (as of 02/10/2010) of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Ltd., Xiamen/China
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA

▷ **Dipl.-Ing. (FH) Manfred Pretscher**
Member of the Executive Board (as of 08/01/2010)
- Member of the Board of Directors of GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Bursa/Turkey (since 07/20/2010)
- Member of the Board of Directors of GRAMMER Industries Inc., Greenville (SC)/USA (as of 08/01/2010)

Supervisory Board:

▷ **Dr.-Ing. Klaus Probst**
Engineer
Chief Executive Officer 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 Deutschen Bank AG, München (region south)

▷ **Dr.-Ing. Bernd Blankenstein**
Engineer, Retired
former Chief Executive Officer of GRAMMER AG
- Member of the Advisory Board of KTP Palettentechnik GmbH, Bous (until 08/17/2010)

▷ **Joachim Bender**
First Representative of IG Metall Amberg
- Deputy Chairman of the Supervisory Board of Kennametal GmbH, Fürth
- Deputy Chairman of the Supervisory Board of Kennametal Holding GmbH, Fürth
- Deputy Chairman of the Supervisory Board of Kennametal Hertel Europe Holding GmbH, Fürth

▷ **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 (FH) Georg Liebler**
Consultant, owner of Georg Liebler consulting services
former Member of the Excutive Board of Kolbenschmidt Pierburg AG
- Member of the Advisory Board of E.G.O. Elektrogeräte AG, Zug/Switzerland (until 06/30/2010)
- Member of the Advisory Board of E.G.O. Elektro-Gerätebau GmbH, Oberderdingen (until 06/30/2010)
- Member of the Advisory Board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen (until 06/30/2010)
- Member of the Supervisory Board of Golfclub Monrepos AG, Ludwigsburg

▷ **Dr.-Ing. Peter Stehle**
Engineer
Managing Director of SYN GmbH
- Member of the Supervisory Board of Norma GmbH, Maintal
- Member of the Supervisory Board of BOA GmbH, Stutensee (until 10/14/2010)
- Member of the Supervisory Board of Prym GmbH, Stolberg
- 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 Holding GmbH, Hamburg

▷ **Dr. Bernhard Wankerl**
Attorney, law firm Dr. Wankerl and colleagues
- no further offices

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

▷ **Dipl.-Kauffrau Astrid Franzky**
Head of Controlling
(Member of the Supervisory Board until 05/19/2010)
- no further offices

▷ **Dipl.-Physiker Frank Himmelhuber**
Head of Development
(Member of the Supervisory Board as of 05/19/2010)
- no further offices

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

▷ **Anton Kohl**
Foreman
- no further offices

▷ **Monika Kugler-Fleischmann**
Women's Clothing Tailor
(Member of the Supervisory Board until 05/19/2010)
- no further offices

▷ **Wolfgang Rösl**
Industrial Electrician
(Member of the Supervisory Board as of 05/19/2010)
- 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, 2010. 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 18, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth	Helgert
Wirtschaftsprüfer	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 2011

GRAMMER AG
Executive Board

GRAMMER AG – Income Statement [1)] for the fiscal year ending December 31, 2010

EUR k

	2010	2009
Revenue	413,193	328,903
Decrease (2009: increase) in finished goods and work in progress	−2,499	8,406
Other own work capitalized	898	1,737
	411,592	**339,046**
Other operating income	12,523	14,832
Material costs	269,604	223,229
Personnel expenses	100,938	112,383
Depreciation and amortization	9,110	9,372
Other operating expenses	47,070	45,277
	−2,607	**−36,383**
Earnings from participations	9,996	14,909
of which from affiliated companies EUR k 9,996 (2009: 14,909)		
Income from profit and loss transfer agreements	36	5,473
of which from affiliated companies EUR k 36 (2009: 5,473)		
Income from other investments and long-term loans	3,421	3,886
of which from affiliated companies EUR k 2,955 (2009: 2,911)		
Other interest and earnings	1,672	722
of which from affiliated companies EUR k 1,575 (2009: 493)		
Amortisation of financial assets and investments classified as current assets	21	2,059
Expenses from the transfer of losses	3,573	0
of which from affiliated companies EUR k 3.573 (2009: 0)		
Interest and other expenses	13,920	6,732
of which to affiliated companies EUR k 208 (2009: 115)		
Result from ordinary activities	−4,996	−20,184
Extraordinary income	16,176	0
Extraordinary expenses	16,591	0
Extraordinary result	−415	0
Income taxes	543	2,736
Other taxes	238	231
Net loss	−6,192	−23,151
Loss carry-forward (2009: Retained earnings)	−19,817	10,334
Releases from the reserve for own shares	1,997	280
Allocation to other revenue reserves	−1,997	−7,280
Net loss	**−26,009**	**−19,817**

[1)] Financial statements in accordance with HGB

GRAMMER AG – Balance Sheet [1)] for the fiscal year ended December 31, 2010

ASSETS

EUR k

	2010	2009
A. Fixed assets		
I. Intangible assets	7,431	3,435
II. Property, plant and equipment	37,922	37,686
III. Financial assets	131,733	116,409
	177,086	**157,530**
B. Current assets		
I. Inventories	42,563	43,382
II. Receivables and other assets	133,333	112,645
III. Securities	0	1,997
IV. Cash on hand and bank balances	57	33
	175,953	**158,057**
C. Deferred items	1,695	356
Total assets	**354,734**	**315,943**

EQUITY AND LIABILITIES

EUR k

	2010	2009
A. Equity		
I. Subscribed capital	26,868	26,868
Own shares	−845	0
Issued capital (conditional capital EUR k 13,434; 2009: 13,434)	26,023	26,868
II. Capital reserve	58,236	58,236
III. Revenue reserves	25,995	27,147
IV. Net loss	−26,009	−19,817
	84,245	**92,434**
B. Provisions		
1. Pension provisions	60,845	40,451
2. Provisions for taxation	2,214	1,632
3. Other provisions	25,924	29,278
	88,983	**71,361**
C. Liabilities		
1. Liabilities to banks	127,060	113,904
2. Prepayments received	6,679	2,436
3. Trade accounts payable	18,240	11,878
4. Liabilites to related parties	24,736	19,667
5. Other liabilities	4,791	4,263
	181,506	**152,148**
Total equity and liabilities	**354,734**	**315,943**

[1)] Financial statements in accordance with HGB

GRAMMER Group Five-year Overview [1)]

in EUR m	2010	2009	2008	2007	2006
Group revenue	**929.7**	**727.4**	**1,007.0**	**998.1**	**881.0**
Automotive revenue	610.2	495.5	637.6	657.7	574.8
Seating Systems revenue	341.9	247.1	390.0	363.3	311.5
Income statement					
Gross profit	119.6	76.0	129.8	126.7	127.0
EBIT	32.9	−23.9	32.0	32.1	38.9
EBIT margin (in %)	3.5	−3.3	3.2	3.2	4.4
Financial result	−12.3	−7.6	−12.4	−9.3	−6.9
Profit/loss (–) before tax	20.6	−31.5	19.6	22.8	32.0
Income taxes	−4.2	3.3	−5.4	−5.3	−10.7
Net profit/loss (–)	16.3	−28.2	14.1	17.6	21.3
Balance sheet					
Total assets	559.4	500.4	481.0	497.5	476.6
Non-current assets	245.9	228.0	216.7	201.6	193.8
Current assets	313.5	272.4	264.3	296.0	282.8
Equity	173.1	151.0	173.0	184.7	174.8
Equity ratio (in %)	31	30	36	37	37
Net financial debt	113.8	106.2	80.2	69.9	57.9
Cash flow statement					
Capital expenditure	38.1	32.7	39.9	34.6	32.1
Depreciation and amortization	26.3	26.5	23.4	23.5	23.7
Cash flow from operating activities	38.0	1.7	40.8	38.6	30.9
Employees					
Annual average	7,745	7,474	9,493	9,326	8,610
thereof in Germany	2,147	2,354	2,682	2,754	2,695
thereof outside Germany	5,598	5,120	6,811	6,572	5,915
Personnel expenses	208.4	199.1	238.7	232.0	214.2
Key share data					
Share price at year-end (XETRA, in EUR)	18.30	6.05	6.90	16.02	25.79
Market capitalization at year-end (in EUR m)	192.1	63.5	72.4	168.1	270.7
Dividend (in EUR)	0.00	0.00	0.00	1.00	1.00
Earnings per share (in EUR)	1.60	−2.77	1.38	1.72	2.09

[1)] according to IFRS

Financial Calender and Trade Fair Dates 2011

Important dates for shareholders and analysts

Annual Report 2010	03/30/2011
News conference for analysts and members of the press, Annual Results 2010	03/30/2011
Interim Report, first quarter 2011	05/11/2011
Annual General Meeting 2011 Location: ACC (Amberger Congress Centrum), 92224 Amberg	05/26/2011
Interim Report, second quarter and first half-year 2011	08/10/2011
German Investment Conference	09/27–09/29/2011
Interim Report, third quarter 2011	11/09/2011
German Equity Forum	11/21–11/23/2011

Important trade fair dates

Conexpo 2011, Las Vegas, USA	03/22 – 03/26/2011
Cemat 2011, Hannover	05/02 – 05/06/2011
Eurospine Meeting, Milano	10/19 – 10/21/2011
GIE Expo 2011, Louisville, USA	10/27 – 10/29/2011
Agritechnica 2011, Hannover	11/13 – 11/19/2011
Mets 2011, Amsterdam	11/15 – 11/17/2011

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