GRAMMER INSIDE

Annual Report 2012

GRAMMER

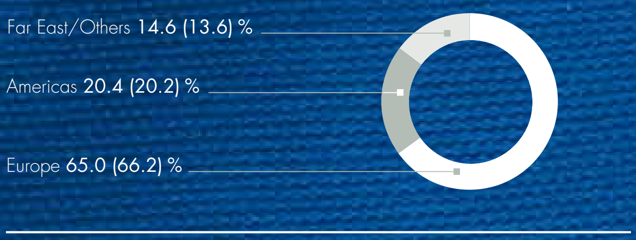
Key figures according to IFRS

in EUR m

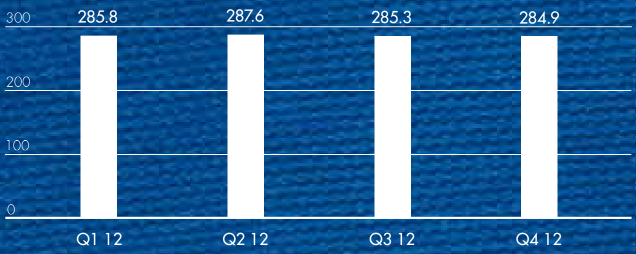
	2012	2011	+/– %
Group revenue	1,143.6	1,093.5	4.6
Automotive revenue	711.1	680.3	4.5
Seating Systems revenue	449.7	438.0	2.7
Income statement			
EBITDA	76.5	76.9	–0.5
EBITDA-margin (in %)	6.7	7.0	–0.3%-points
EBIT	47.3	49.4	–4.3
EBIT-margin (in %)	4.1	4.5	–0.4%-points
Profit/loss (–) before income taxes	36.0	34.3	5.0
Net profit/loss (–)	24.4	22.1	10.4
Statement of financial position			
Total assets	669.4	625.2	7.1
Equity	228.0	211.2	8.0
Equity ratio (in %)	34	34	0%-points
Net financial debt	76.3	92.1	–17.2
Gearing (in %)	33	44	–11%-points
Investments (without M&A)	39.4	37.6	4.8
Depreciation and amortization	29.3	27.5	6.5
Employees (December 31)	8,672	8,726	–0.6
Key share data			
Share price (Xetra closing price, in EUR)	16.02	13.02	23.0
Number of shares	11,544,674	11,544,674	0.0
Market capitalization (in EUR m)	184.9	150.3	23.0
Dividend (in EUR)	0.50*	0.40	25.0
Earnings per share (in EUR)	2.17	2.02	7.4

* Proposal

Revenue by regions (previous year in brackets)



Group revenue by quarters (in EUR m)



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 9,000 employees worldwide, GRAMMER is a leading global player in the automotive and seating segments.

GRAMMER worldwide

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. As a global player in the automotive and commercial vehicle segments, we have locations across 4 continents in 24 fully consolidated companies with more than 30 production, R&D and distribution centers in 18 countries – a local partner to all of our customers.

65 %

Europe

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

20 %

Americas

Argentina
Brazil
Mexico
USA

15 %

Far East/Others

China
Japan
Turkey

- GRAMMER locations
- GRAMMER locations with R&D activities
- GRAMMER joint ventures

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
Train driver seats

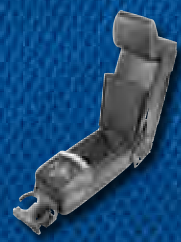
Automotive

Our Automotive division supplies headrests, armrests and center consoles 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

Seating Systems

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

in EUR m

	2012	2011
Revenue	449.7	438.0
EBIT	24.7	30.6
EBIT-margin (in %)	5.5	7.0
Investments	13.8	22.1
Employees (December 31)	3,140	3,377

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

in EUR m

	2012	2011
Revenue	711.1	680.3
EBIT	30.5	26.9
EBIT-margin (in %)	4.3	4.0
Investments	24.8	14.8
Employees (December 31)	5,279	5,148

GRAMMER Inside

Because they are positioned with their creative ideas and concepts at the beginning of the value chain, suppliers play a leading role in the innovation process. They directly accompany car and commercial vehicle manufacturers in technical advancements, from the initial pre-development studies to the final market launch of new products. With innovative ideas, superior quality and reliability, GRAMMER has established an outstanding reputation throughout the automotive and commercial vehicle industries. "GRAMMER Inside" stands for products of the highest quality, offering maximum safety as well as optimum ergonomics and comfort. But more than that, "GRAMMER Inside" means modern design, elegance and impressive functionality. No wonder a growing number of car and commercial vehicle manufacturers worldwide are putting their trust in "GRAMMER Inside".

Content

Hartmut Müller
Chief Executive Officer

Dear Sir or Madam,

It is my pleasure to report that, in 2012 – despite the difficult economic environment and unfavorable developments in some of our core markets – GRAMMER succeeded in continuing on the growth path established over the preceding two years.

On the Automotive side, a number of European manufacturers and their suppliers in the volume segment were hit particularly hard. The most severe declines were seen in Southern Europe and in France. In contrast to the European trend, markets in the US and China expanded.

Commercial vehicle markets were also characterized by substantial regional differences. Strong declines in Europe and China were matched by significant improvement in the US. Brazil entered into a critical situation, with the market undergoing a massive downturn in early 2012 as new emission standards were introduced, and thus far failing to recover.

Despite these difficult conditions, GRAMMER was able to continue its growth in 2012. Revenue was up 5 percent to EUR 1.14 billion – another new record in the history of the company. In terms of operating profit, GRAMMER also saw pleasing results, and in the end beat expectations slightly, despite planned one-time costs relating to new production starts and the unexpectedly drastic slowdown of Brazil's commercial vehicle market in 2012. Earnings before interest and taxes (EBIT) at EUR 47 million were down only slightly from the high prior-year level. Despite the above factors affecting operating profit, net profit climbed to EUR 24 million, which is an improvement even on last year's strong result. This year as well, we aim to have our shareholders participate in the success of the company, and we will recommend payment of a dividend in the amount of EUR 0.50 per share for fiscal year 2012 at this year's Annual General Meeting.

The good results achieved by GRAMMER last year are also the product of our strategic re-alignment initiated over the past several years.

Our focus is on high-quality, high-tech products that combine an elegant look and feel with optimum functionality, as well as maximum safety and comfort. The payoff from our focus of Automotive business on the premium segment showed clearly in 2012. Moreover, our broad global footing enabled us to more than compensate for the declines in European markets through growth in Asia and the US. We also benefited from the development of our key business segment center console to a primary growth driver within GRAMMER Group – thanks to numerous new projects.

In our second division Seating Systems, GRAMMER benefited from our outstanding position in the offroad market, as well as market share gains in the European and US truck segments. The takeover of EiA Electronics out of Belgium in 2011 bore first fruits, and we are working together with leading commercial vehicle manufacturers on new projects to integrate electronic components into our seating systems.

Last year also saw important successes in our strategic global expansion. At the end of the year, we started a joint venture for truck seats in China with a Chinese supplier, Jiangsu Yuhua. The joint project marks an important step in our growth strategy for the commercial vehicles segment, and opens up immense growth potential for GRAMMER in the world's largest truck market.

The focus of our acquisition of headrest manufacturer Nectec in the Czech Republic was on expanding and enhancing our technological competence. Nectec produces headrests, mainly for the premium passenger car segment, and has grown to be one of Europe's leading supplier. The match between our customer bases and the markets we serve will generate new growth opportunities for us.

In addition to the successful realization of strategic targets in terms of products and markets, over the past several years we have also optimized the organizational structures within GRAMMER Group. Through introduction of a product-oriented matrix-organization, the various units of the company are able to quickly, flexibly and independently react to conditions in their markets and regions. At the same time, the decentralization of our logistics and launch management into the plants has increased their operational independence, and considerably improves our reaction capabilities.

The continued growth of our company is supported by a solid financial foundation, with all key financial figures further improving in 2012. At 34 percent the equity ratio as of December 31, 2012 remained on a high level, while net gearing was reduced by 11 percentage points and now stands at only 33 percent. GRAMMER Group's solid financial structure is also reflected in the external rating assigned by a German rating agency, which gave GRAMMER an investment-grade rating in 2012.

The foundations for our further growth have been laid – although no broad economic recovery can be expected in the early part of the current fiscal year. For 2013 as a whole, however, we anticipate a stable development in our core markets.

The numerous new products now in production in all segments, along with our international presence are cause for optimism in the current fiscal year. Accordingly, once more in 2013, we see good opportunities for further growth and improvement of our market position. We have also secured the financial flexibility we need to make any necessary organic or strategic investment.

For me and my colleagues on the Executive Board, among our most important priorities is to see GRAMMER Group continue on this successful path to produce enduring value for our shareholders and stakeholders. We keep the capital market informed promptly and transparently about the developments affecting GRAMMER, to give our shareholders and potential investors a good basis for their investment decisions. This is why we were so greatly pleased when GRAMMER AG was recognized with the "BIRD" award by Börse Online for having the best Investor Relations work in Germany in 2012.

On behalf of the entire GRAMMER Executive Board – which is now once more complete after appointment of Volker Walprecht to the position of CFO – I would like to thank all of our customers, partners and shareholders for the confidence you have shown in the company. And, a special note of gratitude goes out to our employees and staff, whose dedication and drive continue to make GRAMMER a success.

Sincerely

Hartmut Müller
Chief Executive Officer of GRAMMER AG

Executive Board

from left to right

Manfred Pretscher
Member of the Executive Board since August 2010
Human Resources, Operations, Quality & Services, R&D, Strategic Product Planning, Projects

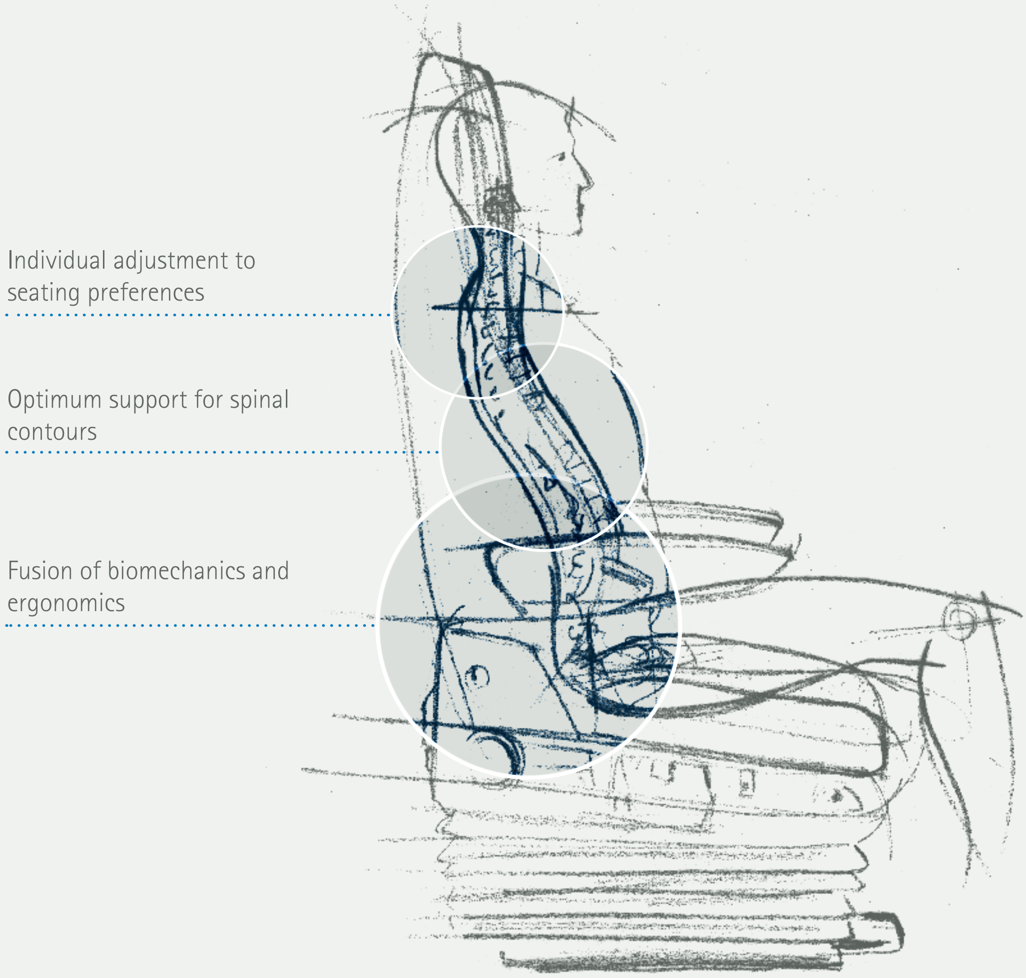
Hartmut Müller
Chief Executive Officer since August 2010
Member of the Executive Board since 2007
Internal Control, Legal, Investor Relations, Communications, Marketing, Corporate Develeopment

Volker Walprecht
Member of the Executive Board since October 2012
Finance, Accounting, Controlling, Purchasing, IT, Sales


GRAMMER
QUALITY INSIDE

Leading truck manufacturers rely on optimum ergonomics.

Ergonomics redefined



Smooth rolling down the highway – with the latest generation of suspended seats

The new truck seat generation MSG 115 from GRAMMER sets standards in ergonomics and comfort. Being seated for long periods takes a toll on the back. Muscles and tendons were subjected to repeated strain, leading to driver fatigue. Truck seats from GRAMMER offer maximum support without overly limiting freedom of movement, in order to keep drivers fit and alert. Our engineers incorporate their deep knowledge of biomechanics and ergonomics into the construction of every seat. We call this philosophy "Ergomechanics®". These advantages have already convinced a number of well-known truck manufactures. In order to satisfy every ergonomic demand on our seats, we maintain close contact with biomechanic and ergonomic experts and spine researchers – and every year we recognize outstanding work in the area of spine research with the GRAMMER European Spine Journal Award. This ensures that we are always on the cutting edge with development of our seating systems.

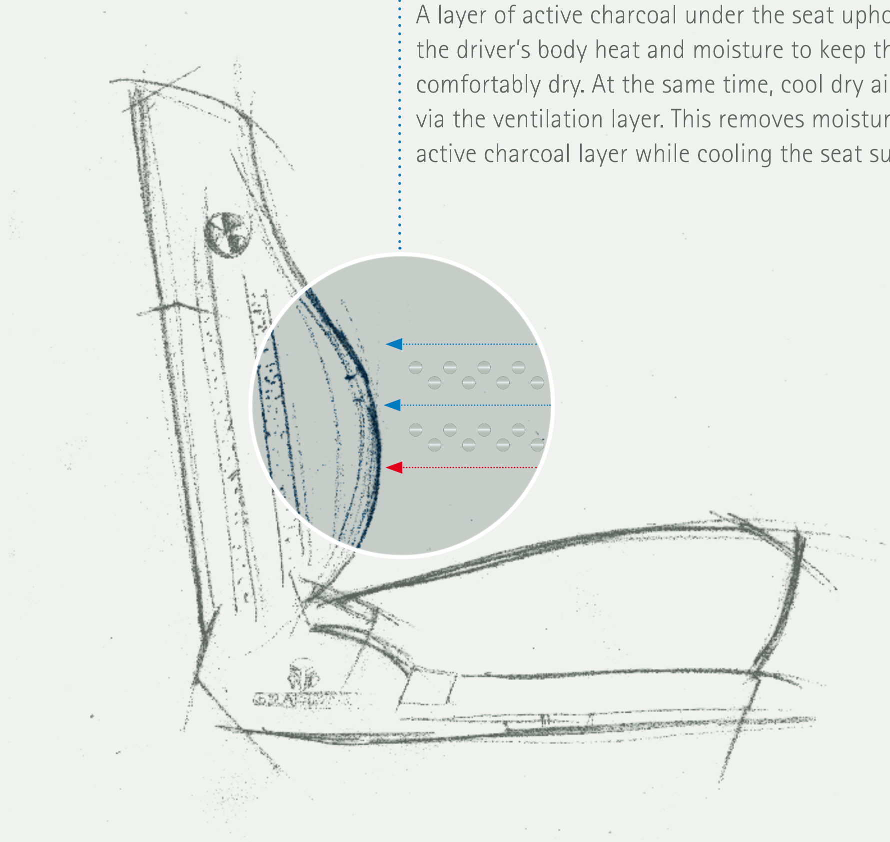
You're welcome.


MSG 115 suspended seat

A good seat should make the strenuous workday of a truck driver as safe and comfortable as possible. In addition to an optimum suspension system, truck seats must also be designed in accordance with the newest findings in the fields of ergonomics, biomechanics and accident research. The focus is on the best-possible protection of the driver in the event of a crash while offering maximum comfort under normal operating conditions. This makes for a worry-free driving experience.


GRAMMER
QUALITY INSIDE


Offroad
specialists rely on
maximum comfort.



Cool sitting

A layer of active charcoal under the seat upholstery absorbs the driver's body heat and moisture to keep the seat surface comfortably dry. At the same time, cool dry air is circulated via the ventilation layer. This removes moisture from the active charcoal layer while cooling the seat surface.

No more sweaty seats

In order to maximize the comfort for our drivers, GRAMMER has developed an active seat climate control system. It directs dampness and warmth away from the seat surface and produces an ideal microclimate. Another example of GRAMMER's technological leadership is the intelligent synergy between electronic and ergonomic components created – for instance – with a multifunctional armrest customized for any seat model. Together with our subsidiary GRAMMER EiA Electronics, we are the only seat manufacturer for commercial vehicles with the ability to offer our customers integrated, custom-designed solutions for optimum configuration of the driver workspace. They ensure maximum comfort for the driver to facilitate the best-possible use of the combined potential between human and machine. Time and time again – for more than half a century – our seating solutions have taken seating comfort to the next level. No wonder that all of the award-winning vehicles recognized by the agricultural technical writers at dlv (Deutscher Landwirtschaftsverlag) in 2011 are equipped nearly exclusively with seats from GRAMMER.

No big deal.

Maximo® Evolution Active with integrated GRAMMER EiA Electronics armrest

Rugged terrain, heat, cold, dust and hard work under extreme conditions are particularly tough on the drivers of agricultural and construction machines and other heavy equipment. With seating systems from GRAMMER, the driver's workday is more comfortable – no matter how tough the circumstances. Whether it is a low-frequency suspension, the innovative DDS® "Dynamic Damping System" or a seat with automatic weight adjustment – as the leader in the offroad market, GRAMMER provides innovative solutions for optimum suspension and seating comfort.


GRAMMER
QUALITY INSIDE


Leading carmakers rely on superior functionality.

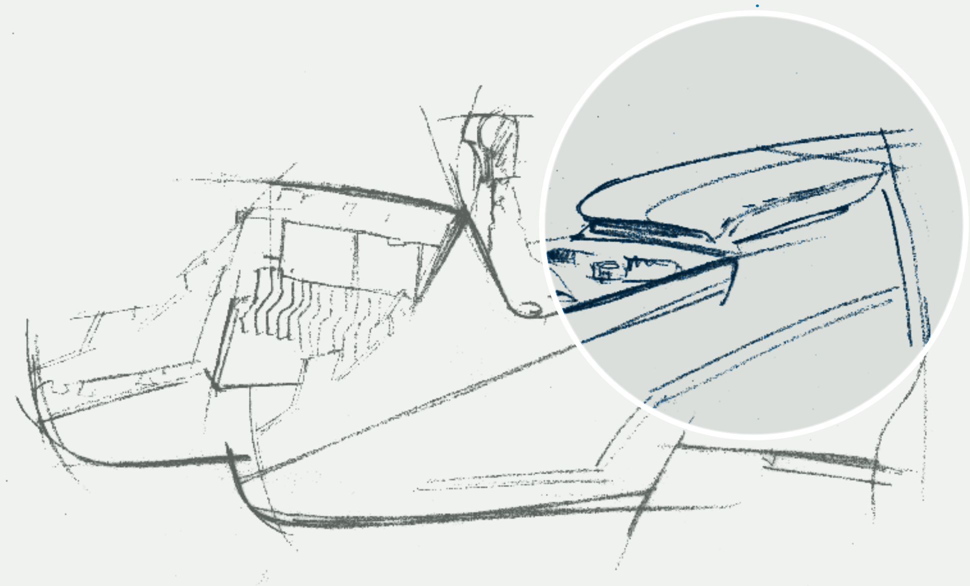
No problem.

GRAMMER center console

With know-how, innovative concepts and outstanding reliability, GRAMMER has systematically expanded the center console segment since entering the market in 2004. In the meantime, we could establish ourselves as a leading supplier and development partner in this segment. At three R&D Centers in Amberg (Germany), Troy (USA) and Shanghai (China), our engineers work on innovative console systems for numerous car manufacturers throughout the world.

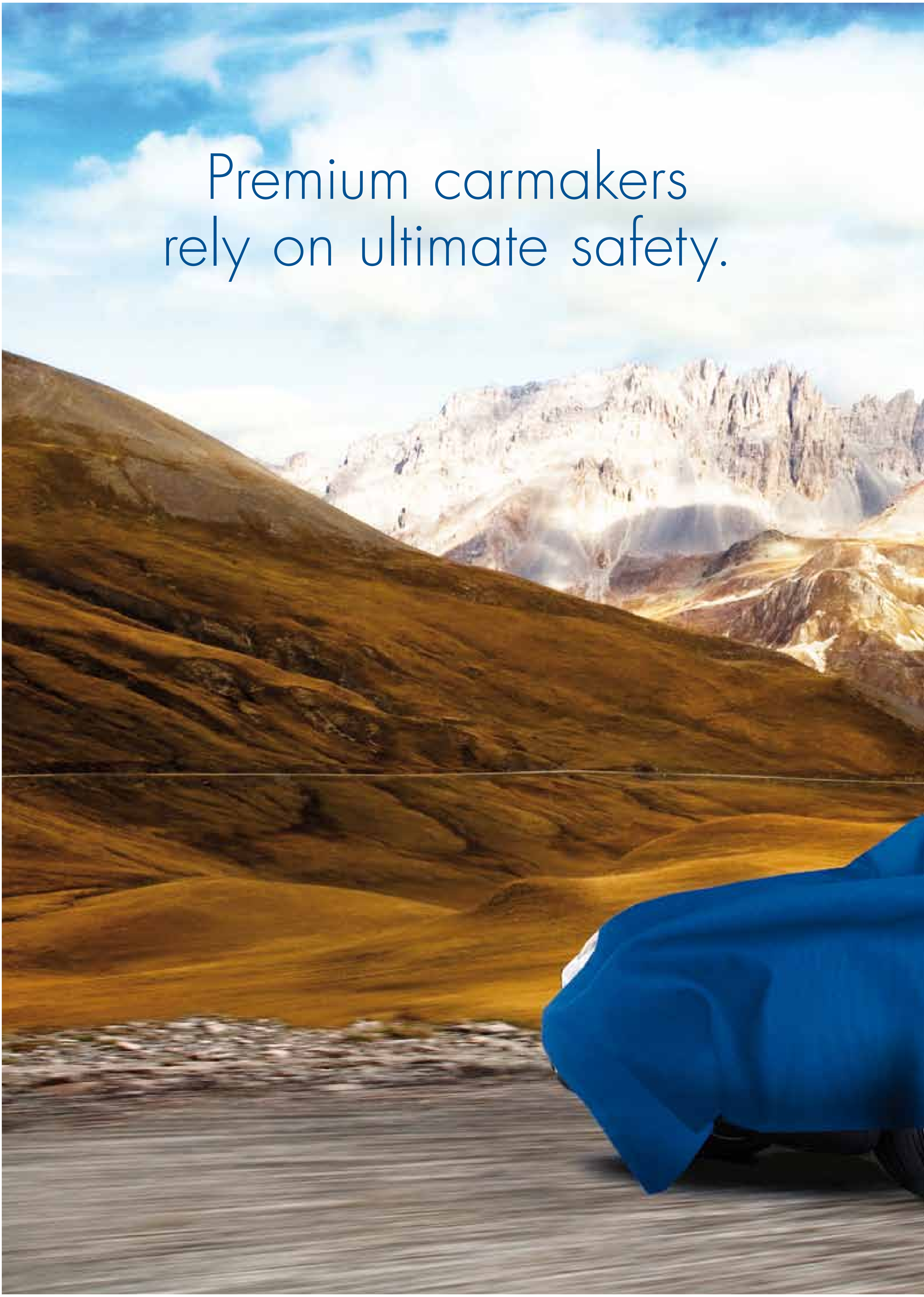
Innovative production process

GRAMMER center consoles are produced using state-of-the-art injection molding techniques such as thermoplastic injection molding or the mono-sandwich process. This significantly reduces the weight of our products, which contributes to a reduction in a vehicle's CO_2 emissions.



High-tech and functionality meet elegant design

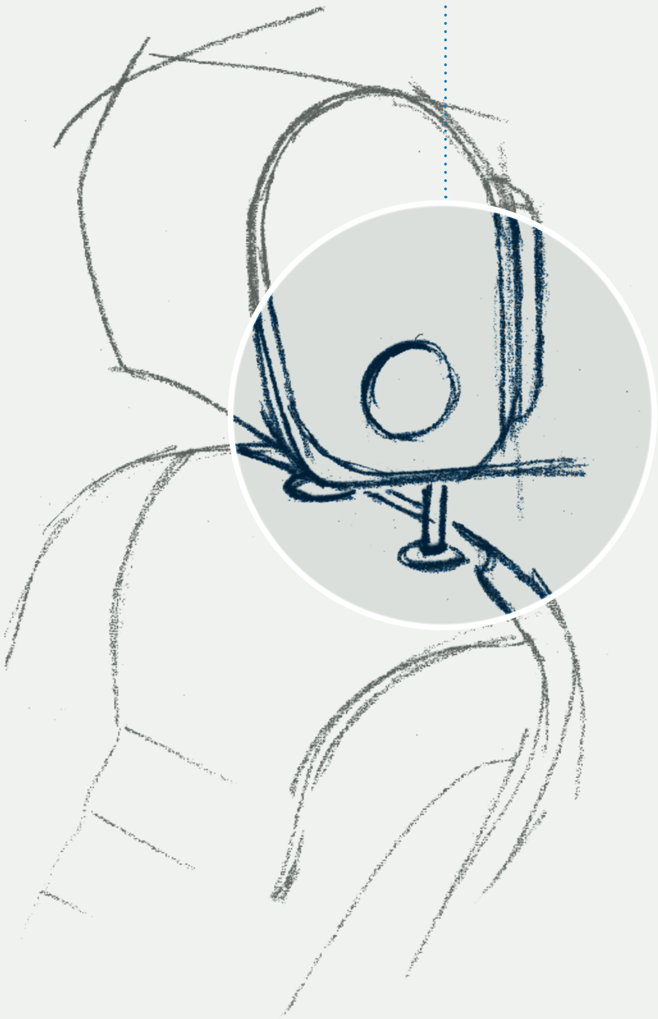
The center console has evolved over the past years from a simple storage compartment to one of the most important components of a car interior. In modern vehicles, it has become a base for multimedia and electronic switches and functional elements – and many are operated by a central control unit. Our technologically advanced center consoles are distinguished by their high degree of functionality. They ensure that vehicle passengers can relax, work and communicate during their time in the car. At the same time, they stand out with their elegant design, luxurious feel and high-end surface. The success speaks for itself: The center console segment has grown to be the driving force of GRAMMER Automotive. At present, we supply our center consoles for 14 midsize and premium class models. And, with the successful acquisition of numerous new projects, we will continue to see revenues in this segment increase worldwide over the coming years.


Premium carmakers
rely on ultimate safety.


GRAMMER
QUALITY INSIDE

Effective passenger protection

Headrests featuring four-way adjustment offer a combination of safety and comfort. The headrests can be adjusted vertically and horizontally, allowing optimum positioning in relation to the head of the passenger and effectively reducing the danger of whiplash in a rear end collision.



Highest safety standards

In a rear-end collision, our active head restraint systems are triggered to snap forward several centimeters within milliseconds to effectively reduce the risk of dreaded whiplash injuries. And, even our passive systems substantially increase car passenger safety: By way of a precision adjustment technology, they can be moved to ideally support the head – without interfering with driving. Many of the headrests can be repositioned along the front-to-back axis, as well as up and down. The results of our research on enhancing automotive passenger safety are integrated into all of our headrests: Numerous car models equipped with GRAMMER headrest systems regularly receive top marks in crash tests by respected national and international accident research institutions.

Our pleasure.

GRAMMER headrest system

GRAMMER produces a broad spectrum of active and passive headrest systems. They make a significant contribution to the protection of car passengers – combining optimum safety with maximum comfort. This drastically reduces the risk of injuries to the head and neck. Headrests from GRAMMER thus offer ultimate protection in the event of an accident.


GRAMMER
QUALITY INSIDE

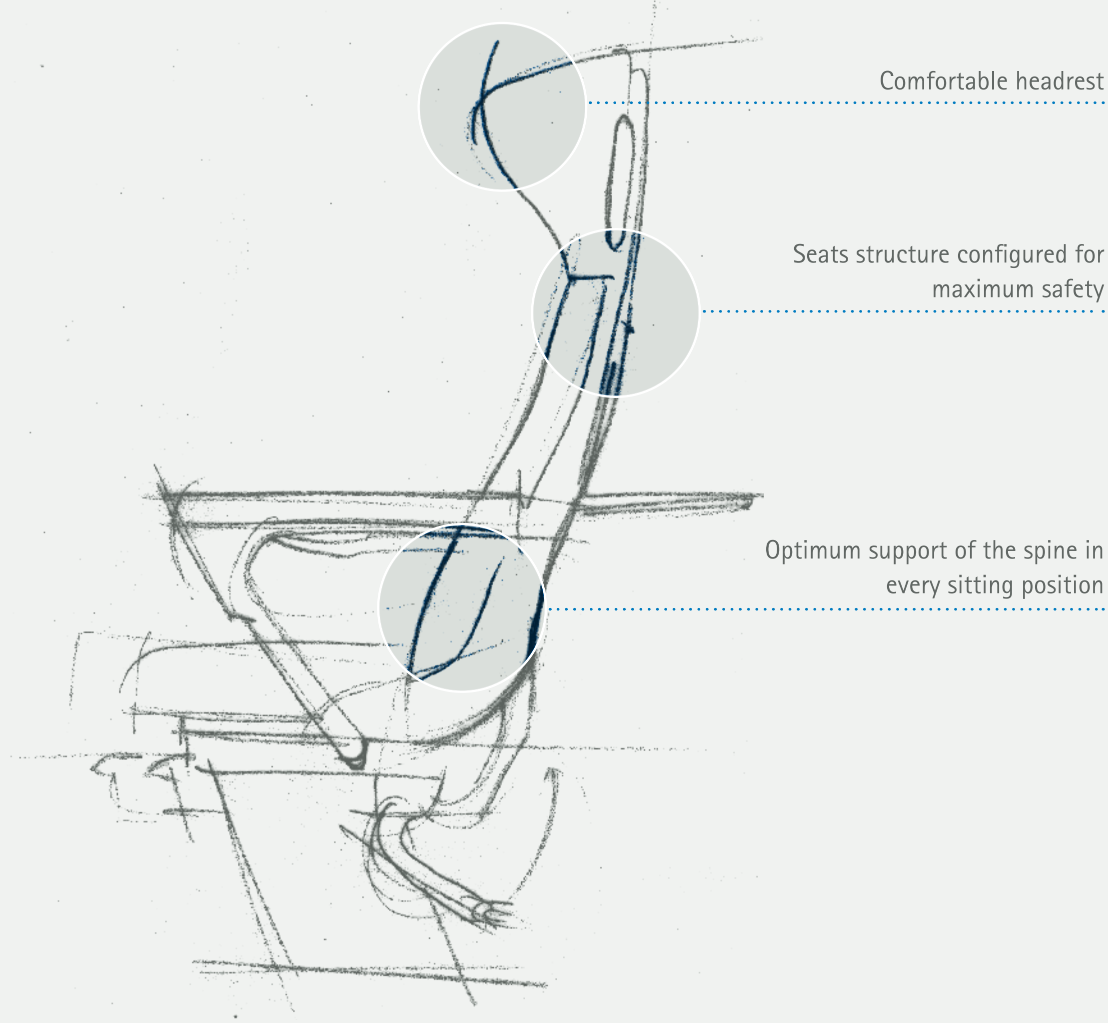

Established rail vehicle manufacturers rely on great variety.

Don’t mention it.

GRAMMER ICE passenger seat

GRAMMER represents variety on the rails and offers seating systems for train passengers and operators in all market segments: For short distance like subway and commuter rail routes, for regional and interregional rails services, all the way up to high-speed train services like Germany’s ICE or the Transrapid.

Travelling comfort



Eurostar and Deutsche Bahn go with GRAMMER

Deutsche Bahn is modernizing its Intercity fleet – and GRAMMER is an important part of the project. Over a period of three years, we will supply a total of 46,000 seats – 33 models for 1st class and another 41 models for 2nd class sections. This kind of variety is necessary given the sometimes extreme variations in the layouts of the 770 total coaches to be equipped. In order to successfully realize the "IC mod" project, we have set up a dedicated upholstery center at our Tachov plant in the Czech Republic. Foaming, sewing and upholstery work will be completed there reliably in a single production process. Final assembly and delivery will then be handled by our Railway unit near Amberg. And, GRAMMER seats will soon be offering a comfortable ride to passengers travelling through the Eurotunnel as well. To complement the existing fleet, ten new "Eurostar 320" high-speed trains will be added starting 2014/15 – with a total of almost 9,000 seats. These will be based on an innovative concept developed by GRAMMER exclusively for the high-speed rail market.

Focus on innovative strength and global presence

Need for mobility increases

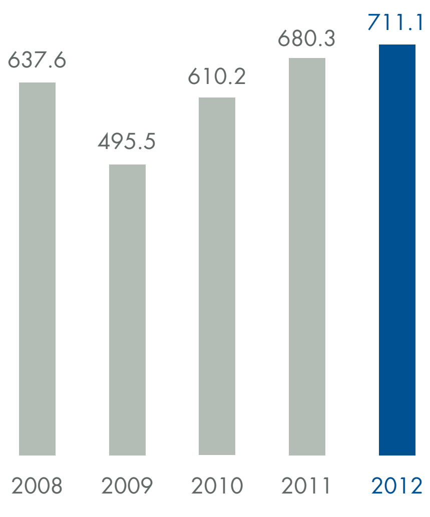
The vehicle supplier industry has a long history of intense competition and equally strong price pressure. Given our long-standing experience in the industry, we know how to act in this tough competitive environment and have aligned our corporate strategy accordingly. One of our main strategic aims is to avoid – wherever possible – dependence on individual regions, customers or models. The broader our footing around the world, the better our ability to compensate for weakness in a given region or market. At the same time, companies like ours, with a global presence, can find enormous potential for growth in the emerging markets of Asia – as well as North and South America.

GRAMMER has a solid international footing, which is a strength that paid off exceptionally well in 2012. For instance, we more than compensated for downward markets in Europe and Brazil through new product launches and considerable growth in China and the US. Our 9,000 employees are located across 18 different countries. Roughly 35% of our revenues – and counting – is generated outside of Europe.

Despite slow development in demand in some of our core markets in 2012, the outlook for the automotive and commercial vehicle industries is very positive on the whole. In nearly every region of the world, the drive for mobility is increasing, especially in the fast-growing emerging markets. The number of vehicles on the roads in the so-called BRICs (Brazil, Russia, India, China) will continue to grow rapidly, which is why we aim to increase our activities in these countries over the medium term and expand our local production capacities. In 2013, however, the focus will be on North America and China, for one because we already have a strong presence there and, secondly, because we have acquired numerous new projects that must now go into implementation. And later, the next step will be to successively penetrate the markets in India and Russia.

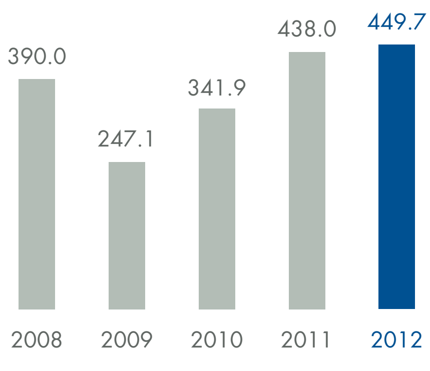
Revenue development segment Automotive

in EUR m



Revenue development segment Seating Systems

in EUR m



Local R&D capabilities

The increasing internationalization of our customer base opens up immense opportunities for GRAMMER in all of our core business segments and regions. Our global network allows us to adapt our products to specific customer demands and regional needs via our local R&D units. This capability sets GRAMMER apart from many small and mid-sized competitors and is an asset in competition for automotive "world platforms", i. e. vehicles that international carmakers produce with slight modifications in the world's three main regions: Europe, Asia and America.

With respect to Seating Systems, we see the greatest medium-term potential for growth in North America and especially Asia. Up to now, commercial vehicles and agricultural machines in countries like China or India are largely equipped with the most basic kinds of seats. But, as international players like John Deere or Daimler-Benz enter these markets, higher standards of seating comfort will begin to take over. In order to maintain our foothold in these future growth markets, we will have to gradually increase our presence there. In this context, the Chinese truck market will become extremely important for GRAMMER. No other country in the world produces and sells more commercial vehicles. Depending on the class of vehicle, China's global market share lies between 50 and 60%. China occupies a central role in our global strategy, which makes the JV founding of GRAMMER Seating (Jiangsu) Co. Ltd. in December 2012 an important step in the implementation of our growth strategy. This new joint venture gives GRAMMER an outstanding platform for realizing our ambitious growth targets in the Chinese truck market. Together with our partner, Yuhua, we will see a rapid entry into this key truck market, further strengthening the global positioning of GRAMMER Group.

In order to solidify our technological leadership, we invest constantly in new products and production processes. Car and truck manufacturers are increasingly integrating their suppliers at an early stage into the innovation process.

Focus on premium segment pays off

In the Automotive world we are regarded as a source of new ideas and driver of innovation when it comes to high-quality interior components. Our focus is on the premium segment. The majority of our customers are German premium manufacturers like Audi, BMW, Daimler and VW. Roughly 85% of our revenue from Automotive business in Europe is attributable to the numerous successful models of these four carmakers. Volume manufacturers – especially in Italy or Spain – make up only a small fraction of our customer base. Our largest single business segment is headrests, which generate approximately EUR 300 million in revenue annually. Here too, we have specialized in high-end headrests. Texture, seam lines and leather quality are just as important in this market as the special safety features of our headrests. Our active head restraint systems drastically reduce the risk of dreaded whiplash injuries in the event of an accident. Only a small handful of other companies anywhere in the world offer such a broad spectrum of headrest systems and modules.

Major customers

Automotive	Seating Systems
VW	Case New Holland
Daimler	John Deere
BMW	MAN/VW Scania
Audi	Daimler Truck
GM	AGCO/Fendt
Chrysler	Paccar Group
Jaguar	Kion
Seat	Ford Truck
Ford	Deutsche Bahn AG
Skoda	Claas

Produced entirely in Europe – efficiency through proximity

On 6,000 sq. meters of new production space at the GRAMMER truck seat plant in Tachov/Czech Republic, driver and passenger seats for well-known truck makers have been in production since the end of 2011. In total, more than EUR 10 million has been invested in buildings and production facilities at the site. The result is a highly modern production line for seating systems. By combining cutting edge manufacturing technologies and automated robots with qualified and experienced production staff, the newest generation of GRAMMER truck seats meets the most rigorous demands of our customers.

China JV Truck

In China, more than 1 million medium and heavy trucks are produced and sold each year – accounting for nearly 50 % of worldwide market volume. In order to realize our ambitious growth targets in China, GRAMMER AG has teamed up with Jiangsu Yuhua – an established Chinese supplier of components and systems for commercial vehicles and cars. In December 2012, a joint venture was launched for production and distribution of seats for trucks and buses in China. The new joint venture will give us rapid and lasting access to the world's largest market for commercial vehicles, and marks an important step in the implementation of our global growth strategy.

In order to make GRAMMER capable of covering an even wider range of products, the company acquired Czech Republic-based headrest specialist Nectec at the end of 2012. With the takeover and integration of Nectec, GRAMMER further expanded our strongest revenue-generating unit as we strengthen our leading position in the European headrest segment. Like GRAMMER, Nectec serves the premium segment and ideally complements the company in manufacturing locations and products.

When it comes to Seating Systems as well – the area of our business involving production of seats for trucks, forklifts, construction or agricultural machinery – we also strive consistently to drive innovation forward. Thanks to our technological leadership and our great experience gathered over the past 50 years, we continually improve on ergonomic design, making an important contribution to driver health and safety. Our extensive spectrum of products offers solutions for nearly any application, from simple static seats to mechanical or pneumatic suspension seats, to high-quality comfort seats with active electronic suspension and integrated multifunctional armrests. With the acquisition of EiA Electronics in 2011, we made an important advance, further strengthening our outstanding market position. This makes us the only manufacturer in the market with the capability to develop customized seating systems with multifunction armrests for our customers.

Another milestone for the Seating Systems division was the launch of production for our new truck seat generation MSG 115 last year. GRAMMER now supplies 100 % of suspended seats for all Daimler Actros and all DAF heavy truck models. Light-weight construction is also an important focus of development in truck business and two new and innovative light-weight prototypes were unveiled at last year's IAA in Hanover. Both weigh roughly 40 % less than conventional seats – without sacrificing comfort and safety.

Solid financial foundation

On the cost and financing front, we succeeded last year in optimizing cost structures. Today, we are better positioned, with a leaner and more flexible structure than just a few years ago. The enhancements include our group-wide production and quality management systems, our broad international presence and the greater flexibility we have created at our plants allowing rapid response to order fluctuations.

Financially, GRAMMER is on solid footing. With net gearing of 33 %, an equity ratio of 34 % and plentiful financial reserves under a new global credit facility, we are optimally prepared for any downturn in the global economy. At the same time, we have the financial power not only to finance organic growth, but also to push ahead with strategic investments.

Our industry will continue to see dynamic expansion in the coming years. We have a close eye on developments and are poised to adapt our strategy as needed. Our focus is on strengthening GRAMMER's core competencies and technological leadership, as well as building up value chains and our market presence internationally.

GRAMMER Group is thus ideally positioned for continued successful strategic growth. Through investments in new markets and products, we are creating fresh growth potential, making us an attractive partner for customers, suppliers, employees and shareholders.

Nectec

In the market for passive and active headrests, GRAMMER has long been a leading supplier, especially in the premium segment. In order to expand our technological competence in this, our strongest revenue generating segment, we completed the full takeover of Czech headrest specialist, Nectec Automotive s.r.o., in early 2013. Nectec's innovative ideas and solutions ideally complement our existing range of passive and active headrests and modules – making GRAMMER an even more attractive partner for our automotive customers.

Sustainable business practices and social involvement

GRAMMER recognizes its social responsibility, and we are convinced that sustainable business practices are key for the success of any company. Yet, we are against reducing "sustainability" to a modern synonym limited to ecological sustainability. This is why we have embraced the concept of Corporate Social Responsibility (CSR) – which encompasses accountability with respect to economic, environmental and social issues. Our aim is to establish a company culture that creates a harmonious balance between the interests of our shareholders, employees, customers and society as a whole.

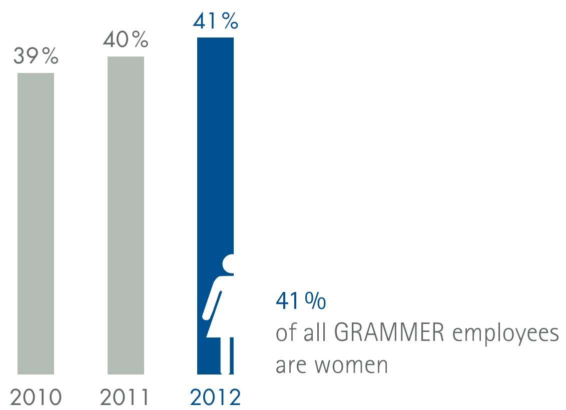
The basis for our business policies is the German Corporate Governance Code with its set of rules for good business practices. The Code obliges the Executive Board and Supervisory Board to orient operations on sustainability and the principles of the social market economy. Moreover, we established our own GRAMMER code of conduct many years back as a worldwide guideline for our activities that calls on every employee to abide by applicable laws and the rules set out in the code of conduct. In order to facilitate compliance with the rules, GRAMMER has also created special web-based training modules and set up a dedicated "Code Team", which is on hand to answer questions, probe into violations and penalize misconduct.

Mutual respect creates trust

In addition to promoting integrity and trustworthiness, GRAMMER places a strong emphasis on professional development of our employees and staff. After all, it is their qualification, creativity and desire to get the job done that form the basis for our success. GRAMMER offers numerous continuing education programs for employees in all areas of operations and at all levels, as well as cooperating with other mid-sized companies in the Oberpfalz and Oberfranken regions to promote young talent. As one of the region's principle providers of formal professional training for apprentices, we live up to our social responsibility by educating more young people than necessary to meet our own operational needs. At the end of 2012, a total of 89 apprentices were employed by GRAMMER AG. 62 young people were in training for technical professions – of which 10 females, who are preparing to take on typical "male" occupations such as tool maker and electronic engineer. Through targeted partnerships with universities, schools and other educational institutions, we are doing our part to arouse interest among young women in technical careers.

The principle of equal opportunity is anchored firmly in our company policies. We condemn discrimination of any kind – whether based on gender, skin color, physical disability, ethnicity, religion, age or sexual orientation. Our participation in the campaign, "Respect! No room for racism", supported by unions such as IG Metall, as well as corporate partners and sponsors, was an obvious choice for GRAMMER in October 2012. Already in June 2012, the German government's "Diversity Charter" was signed by the Executive Board. It represents a further acknowledgement of a climate where acceptance and trust provide the fertile ground needed to

Share of women GRAMMER Group



charta der vielfalt

Commitment to diversity – inside and out

The signatory companies to the "Diversity Charter" have committed to maintaining a working environment that is free from discrimination. All of our employees should feel appreciated, irrespective of gender, race, nationality, ethnic background, religion or ideology, disability, age, sexual orientation or identity. Initiated by German Chancellor Angela Merkel and sponsored by the German government, the Diversity Charter has been signed by more than 1,100 German companies, professional associations, clubs and initiatives. Among the most prominent signatories of the charter are companies like Daimler and Deutsche Bank, as well as large organizations like the German Football Association.

nurture innovative strength – because creative solutions arise most easily in a matrix of diverse ideas, thoughts and opinions, characterized by mutual respect. As a responsible employer, GRAMMER also values a work life balance that allows individuals to find the right blend family and career. We have set up the infrastructure necessary to facilitate this for our employees, and are continually expanding our range of flextime models, home office possibilities and childcare options, so that young mothers and fathers are able to smoothly transition back into professional life after completing their parental leave.

GRAMMER further acts on its obligations to society through its support of numerous social projects, volunteer initiatives and education institutions in the Oberpfalz region and other locations worldwide. As every year, our employees in Germany had the opportunity in 2012 to apply for one of our coveted sponsoring packages on behalf of their favorite clubs, social projects, volunteer fire departments and emergency medical services, childcare or elderly care facilities – and as every year, numerous applications were received.

When it comes to the environment, GRAMMER works with a management system on the basis of the global ISO 14001 standard. We certify every GRAMMER production site worldwide according to these guidelines. And, regular internal and independent audits are conducted to ensure compliance. Moreover, we contribute to protection of the environment by developing products using low-impact production bearing in mind the need for efficient recycling at the end of their useful life. This entails deployment of the best available technology and working to ensure environmentally sound procurement and logistics in order to render our products sustainable and environmentally friendly.

As a company operating around the world, we are aware of the responsibilities this entails. For GRAMMER, corporate social responsibility is seen as an important investment in our future.

"The focus of diversity management is creating a company culture that is free of prejudice and discrimination. That is why I see my job as fostering equal opportunity for all employees. Another area of focus in our international operations over the coming years will be continual improvement of networking and the exchange of ideas beyond individual company and national boundaries."

Jutta Winkelsträter, GRAMMER Diversity Manager

Corporate governance report and statement pursuant to section 289 a of the German Commercial Code (HGB)

Declaration of Compliance

On December 7, 2012, the Executive and Supervisory Boards of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act on compliance with the German Corporate Governance Code (GCGC).

> GRAMMER AG complies and will comply in the future with the all of the recommendations of the Government Commission on the German Corporate Governance Code published in the official section of the Federal Gazette by the Federal Ministry of Justice on June 15, 2012 in the version dated May 15, 2012.

GRAMMER AG maintains voluntary compliance with the recommendations of the GCGC, with the following exception:

> Presently, the GRAMMER AG Annual General Meeting cannot be viewed via modern communication media (e.g. Internet).

This declaration, along with all Declarations of Compliance issued in previous years, is permanently available on the GRAMMER AG website under www.grammer.com/en/about-grammer/corporate-governance.

Relevant information on management practices outside the scope of statutory requirements

The Code of Conduct in effect within GRAMMER Group is a binding guideline for the legal and responsible conduct of all employees worldwide. It contains rules governing the conducting of business at GRAMMER and sets high ethical standards. In addition to the Code of Conduct, GRAMMER AG has issued additional explanations and specifications of the rules and offers Web-based training to support employees with compliance and implementation. The Company ensures that all employees have access to specialist-support for questions pertaining to the Code of Conduct. This "Code Team" assists in the rectification of violations of the code, and works to pursue instances of improper conduct.

Description of the work process of the Executive and Supervisory Boards and of the membership and methods of the Supervisory Board committees

As a stock corporation under German law, GRAMMER AG has a dual management system comprising the Executive Board and Supervisory Board, each of which has distinct competencies. In the context of management and monitoring of the Company, the Executive and Supervisory Boards of GRAMMER AG work together in a close and trusting relationship. Management of GRAMMER AG is carried out by the Executive Board on the basis of statutory guidelines and the rules of procedure defined by the Supervisory Board. The Executive Board is advised and monitored by the Supervisory Board. The members of the Executive Board are appointed by the Supervisory Board, which has approval power over material transactions.

Supervisory Board

The twelve members of the GRAMMER AG Supervisory Board in accordance with German law and the Company's Articles of Association include six shareholders and six employee representatives. All members of the Supervisory Board, elected by the shareholders, are independent persons having no business or personal relationships with the Company or the Executive Board.

The following members: Dr. Peter M. Stehle, Mr. Joachim Bender and Mr. Martin Bodensteiner left the membership of the Supervisory Board in 2012. Dr. Hans Liebler was elected by the 2012 Annual General Meeting as successor to Dr. Peter M. Stehle, who stepped down from the Supervisory Board after the Annual General Meeting. Mr. Horst Ott was appointed by the court as successor to Mr. Joachim Bender. Mr. Bernhard Hausmann was appointed with the decision dated February 19, 2013 by the Amberg local court as successor to Mr. Martin Bodensteiner. Ms. Ingrid Hunger, who was elected to the Supervisory Board by the Annual General Meeting 2012 after she was appointed by Amberg local court on August 18, 2011 as successor to Dr. Bernd Blankenstein, who left the Supervisory Board after June 30, 2011. All members of the Supervisory Board have been elected until conclusion of the Annual General Meeting in 2015.

The Supervisory Board advises and monitors the Executive Board in matters relating to management of the Company. 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, which were updated in 2012. 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 discharges the members of the Executive Board. When filling vacant seats on the Executive Board, the Supervisory Board ensures the professional qualifications, international experience and leadership quality of the candidate, as well as maintaining a view to diversity and, in particular, adequate consideration of female candidates. The Supervisory Board therefore emphasizes inclusion of qualified female applicants in the selection process and adequate consideration of these candidates when next there is a vacancy to be filled on the Executive Board.

The Executive and Supervisory Boards of GRAMMER AG are obliged to act in the interest of the Company. Conflicts of interest on the part of Supervisory Board members must be disclosed to the Supervisory Board. No conflicts of interest were identified among the members of the Supervisory Board in fiscal year 2012.

The remuneration of the Supervisory Board is explained on page 54.

Supervisory Board's efficiency review

The Supervisory Board regularly conducts a review to evaluate the efficiency of its activities. At the September meeting of the Supervisory Board, critical issues and proposals for improvement were discussed and measures adopted to increase efficiency. At the same time, the decision was made to conduct the efficiency review annually, with the next review scheduled for May 2013.

Objectives of the Supervisory Board with regard to its composition

During fiscal year 2010, the Supervisory Board adopted a set of objectives for its composition. With the court appointment of Ms. Ingrid Hunger as shareholder representative on the Supervisory Board of GRAMMER AG, there are now two women serving on the Board. At the 2011 meeting, the Supervisory Board created and adopted a qualification profile, in the context of which the members were surveyed with respect to the knowledge, skills and professional experience necessary for proper performance of their functions as a basis for qualification of future Board member.

Supervisory Board committees

The Supervisory Board of GRAMMER AG has formed four committees: the Strategy Committee, the Audit Committee, the Standing Committee and the Nominating Committee. The work of the committees is based on the rules of procedure of the Supervisory Board. The Audit Committee has its own rule of procedure. The Audit Committee meets at least once each quarter. The remaining committees meet as needed.

The composition of the Supervisory Board and its committees is outlined on page 36.

Executive Board

The Executive Board of GRAMMER AG comprises three members: Mr. Hartmut Müller, Chief Executive Officer of GRAMMER AG, Mr. Manfred Pretscher and Mr. Volker Walprecht. Mr. Alois Ponnath stepped down from the Executive Board on May 31, 2012. Mr. Volker Walprecht succeeded him as Chief Financial Officer on October 1, 2012. The Executive Board bears joint responsibility for managing the business 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, orally and in writing, about current business developments and management issues. The focus of these meetings is on the strategy, ongoing business and economic situation of the Company and the Group, as well as risk management.

The Executive Board members of GRAMMER AG are obliged to act in the interest of the Company. Conflicts of interest on the part of the members of the Executive Board must be disclosed immediately to the Supervisory Board and the other members of the Executive Board. No conflicts of interest were identified among the members of the Executive Board in fiscal year 2012.

The composition of the Executive Board is explained on page 126. Remuneration of the Executive Board and an explanation of the remuneration system are presented in the remuneration report on page 54.

Ownership of shares

Members of the Executive and Supervisory Boards, along with all other employees having management duties, are obliged in accordance with section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), to disclose the purchase and sale of GRAMMER shares or financial instruments relating to them. This obligation also applies to persons closely associated with the above group. In the reporting year, no such transactions were disclosed to GRAMMER AG.

On the balance sheet date of December 31, 2012, members of the Executive Board and the Supervisory Board directly or indirectly held less than 1.0% of the Company's shares. This also takes into account shares owned by persons closely associated with members of the Executive and/or Supervisory Board within the meaning of section 15a (1) sentence 2 WpHG.

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 mandated by law are voted on by the Annual General Meeting, with binding effect for the shareholders and the Company; each share accords one vote. Among the tasks assigned to the Annual General Meeting by law are deciding on the appropriation of net retained profit, approval of the actions of the members of the Executive Board and Supervisory Board, appointment of auditors, election of the shareholders' representatives of the Supervisory Board and decisions about amendments to the Articles of Association. The Annual General Meeting also serves as a platform for dialogue between shareholders and members of the Executive and Supervisory Boards.

After timely registration and presentation of evidence of share ownership, all shareholders have the right to attend and exercise voting rights at the Annual General Meeting. Absent shareholders may exercise their voting rights by proxy through an authorized representative with full power of attorney or a voting representative subject to shareholder instructions. Moreover, GRAMMER AG permits shareholders to vote by absentee ballot.

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

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

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

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

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

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

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 monitors accounting processes and reporting, the efficacy of the internal control system, the risk management system and the internal audit system. Details on risk management are available in the Management Report on pages 56f.

Report of the Supervisory Board

Dear shareholders,

GRAMMER Group continued to grow in fiscal year 2012, despite challenging conditions in car and truck markets, and once more topped the record revenue generated in 2011, as well as achieving good performance in terms of operating profits.

In fiscal year 2012, the Supervisory Board fulfilled its duties with utmost care in accordance with the Articles of Association, Rules of Procedure 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 the Supervisory Board 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 with the Supervisory Board Chairman even before the regular meetings.

Numerous topics and business transactions requiring Board approval were discussed and decided on at the various Supervisory Board meetings. In all, five meetings were held: four regular and one extraordinary meeting. The committee chairs reported regularly to the full Supervisory Board concerning the content and recommendations of the preceding committee meetings.

Focal points of the Supervisory Board's activities

During the 2012 reporting year, the Supervisory Board addressed, in depth, GRAMMER AG's business situation, finances and strategy. Special attention was paid to the growth strategy as well as to the current earnings situation, including the risk situation and risk management.

At the meeting held on March 27, 2012 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, 2011 in the presence of the appointed auditor. During this meeting, the Supervisory Board discussed the agenda for the Annual General Meeting on May 23, 2012 and set the level of remuneration for the Executive Board for fiscal year 2011 on the basis of targets met. The Supervisory Board also conducted a supplementary election with members of the Strategy Committee. Furthermore, the Executive Board presented the risk report for the first quarter of 2012, along with a report on current M&A activities.

At the second meeting on May 22, 2012, the Executive Board reported on the state of the Group's operations and finances after finalizing figures for the first quarter. Mr. Alois Ponnath and Dr. Peter M. Stehle were officially bid farewell at this meeting.

The third regular meeting of the Supervisory Board was held on September 25, 2012 at GRAMMER CZ s.r.o. in Tachov/Czech Republic. The members of the Supervisory Board toured the plant and used the opportunity to meet with the management and gather information on the project status for the new MSG 115 truck seat. The Supervisory Board engaged in intense discussion about business development during the first eight months of the 2012 fiscal year and appointed Mr. Horst Ott at this meeting to the post of Deputy Chairman of the Supervisory Board and member of the Strategy Committee and the Standing Committee, after the former Deputy Chairman, Joachim Bender, stepped down on June 30, 2012. The Supervisory Board granted its approval of the GRAMMER Group strategy 2012 – 2017. It also approved an amendment to the wording of the GRAMMER AG Articles of Association as well as the management agenda for the GRAMMER AG Executive Board as of October 1, 2012, adjustment of the Executive Board remuneration system and the employment contracts of the Executive Board members.

At the extraordinary meeting of the Supervisory Board on November 15, 2012, the Board dealt with the strategic topic "Company growth through acquisition of technology and markets", and granted approval for the takeover of Nectec Automotive s.r.o. in the Czech Republic.

Key topics covered at the fifth and final regular meeting on December 7, 2012 included extending the appointment of Executive Board member Manfred Pretscher by another five years, approval of the GRAMMER Group budget for 2013, the Declaration of Compliance with the GCGC and the founding of a Chinese joint venture with partner Yuhua Automobile Parts Co., Ltd.

There was no member of the Supervisory Board who took part in fewer than half the meetings.

In fiscal year 2012, the Supervisory Board also adopted three resolutions by way of a vote circulated in writing. The subject of the resolution on February 10, 2012 was signing of an employment termination agreement with Mr. Alois Ponnath. With the circular resolution on June 12, 2012, the Supervisory Board granted its approval for the founding of a fully owned subsidiary – GRAMMER (Beijing) Co. Ltd. – in China. The topic of the third resolution on July 5, 2012 was the appointment of Mr. Volker Walprecht to the GRAMMER AG Executive Board for the period from October 1, 2012 to September 30, 2015.

Supervisory Board committees

To facilitate the efficient discharge of its duties, the GRAMMER AG Supervisory Board made use of for committees in the year under review. In fiscal year 2012, the Supervisory Board committees were comprised as follows:

- Strategy Committee:
  Joachim Bender (until June 30, 2012)
  Georg Liebler (starting March 27, 2012)
  Horst Ott (starting September 25, 2012)
  Dr. Klaus Probst (Chairman)
  Wolfgang Rösl

- Standing Committee:
  Joachim Bender (until June 30, 2012)
  Georg Liebler
  Horst Ott (starting September 25, 2012)
  Dr. Klaus Probst (Chairman)
  Wolfgang Rösl

- Audit Committee:
  Wolfram Hatz (Chairman)
  Tanja Jacquemin
  Wolfgang Rösl
  Dr. Bernhard Wankerl

- Nominating Committee:
  Wolfram Hatz
  Dr. Klaus Probst
  Dr. Bernhard Wankerl

The Audit Committee met five times during the reporting year, to comprehensively address topics of financial reporting and accounting processes. The effectiveness of the internal control system was reviewed along with the risk management system, as well as the effectiveness of the internal audit function and the compliance system. Following a thorough analysis, the Audit Committee recommended to the Supervisory Board that it once again recommend to the Annual General Meeting Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as the auditor for the financial statements of the company and of the Group for fiscal year 2013. Moreover, the Audit Committee conducted a self-evaluation of its activities, from which measures were derived to improve efficiency.

The Nominating Committee results on February 24, 2012 to recommend that the Supervisory Board propose Ms. Ingrid Hunger as a candidate for appointment as shareholder representative. With this proposal, the Nominating Committee also took into account the diversity policies of the Supervisory Board.

The Standing Committee, which according to the Rules of Procedure of the Supervisory Board, in addition to its duties under the German Codetermination Act has duties relating to executive functions, met four times in fiscal year 2012. The committee discussed possible candidates for the position of CFO, and resolve to recommend the appointment of Mr. Volker Walprecht to the GRAMMER AG Executive Board for the period from October 1, 2012 to September 30, 2015. In addition to discussing the content of the employment and pension contract the future CFO of GRAMMER AG, Mr. Volker Walprech, adjustments to all Executive Board member's employment contracts, in particular the introduction of a change of control clause and changes to the provisions governing outside employment, were discussed. The Standing Committee also resolved to propose extending the appointment of Mr. Manfred Pretscher for an additional five years.

The Strategy Committee met once during fiscal year 2012. The topic of this meeting 2012 – 2017 strategy.

Annual and consolidated financial statements

At the Annual General Meeting held on May 23, 2012, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, was appointed as the auditor for the reporting year. At its meeting of October 31, 2012, the Audit Committee engaged the auditor for the 2012 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 auditor, in accordance with section 317 (4) HGB, examined and found that the Executive Board had instituted a monitoring system that satisfies the statutory requirement for an early warning system to identify risks that would threaten the survival of the Company, and that the Executive Board had implemented appropriate measures for early detection of negative developments and protection against risks. The reports and financial statement documents were provided to the members of 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 Chair and at the Supervisory Board meeting held on March 26, 2013 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 approved the annual financial statements for GRAMMER AG and the Group. The GRAMMER AG annual financial statements have therefore been officially approved. The Supervisory Board agreed with the Executive Board proposal for appropriation of net retained profits.

Corporate Governance

On December 7, 2012, the Executive Board and the Supervisory Board provided an updated Declaration of Compliance, which was made permanently and publicly available on the Company's website. All recommendations of the German Corporate Governance Codex were followed.

No conflicts of interest arose among Supervisory Board members in relation to their activities as members of the GRAMMER AG Supervisory Board.

Membership of the Executive and Supervisory Boards

The composition of the Supervisory Board changed as follows during the reporting year: Dr. Peter M. Stehle left the Supervisory Board of GRAMMER AG at the close of the Annual General Meeting on May 23, 2012. Dr. Hans Liebler was appointed as his successor on the Supervisory Board by the Annual General Meeting on the same day. Mr. Joachim Bender stepped down from the Supervisory Board effective June 30, 2012. He was succeeded by Mr. Horst Ott, who was appointed by the Amberg local court with the decision dated July 24, 2012. Mr. Martin Bodensteiner left the Company on December 29, 2012, on which date he also gave up his Supervisory Board membership. Mr. Bernhard Hausmann was appointed with the decision dated February 21, 2013 by the Amberg local court.

The composition of the Executive Board changed on May 31, 2012 through the departure of Mr. Alois Ponnath from the Executive Board of GRAMMER AG in amicable agreement with the Supervisory Board. Mr. Volker Walprecht assumed the position of CFO on October 1, 2012 and, together with CEO Mr. Hartmut Müller and Executive Board member Mr. Manfred Pretscher, completes the membership of the GRAMMER AG Executive Board.

The Supervisory Board would like to express our thanks to the members of the Executive Board, and all of the employees and employee representatives of GRAMMER AG, as well as our appreciation for their personal commitment and hard work during fiscal year 2012.

Amberg, March 2013

On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER Share

Stock markets substantially higher at 2012 close

Stock markets around the globe ended 2012 in positive territory. However, valuations over the course of the year were once more marked by high volatility. The ongoing sovereign debt crisis in the eurozone and the uncertainties it has triggered in the markets continued to drag on stock prices, as well as leading to substantial jumps in stock valuations.

Germany's benchmark DAX started the year robust, and had surpassed the 7,000 point mark by March. As the year progressed, the index began to fall, and in June even passed below 6,000 to close at 5,969 points. In the second half of the year, the DAX then resumed its upward progress to close at 7,612 points on the final trading day of the year. Altogether then, the benchmark index rose by roughly 29 % in 2012, the best annual performance since 2003.

The SDAX, a selection index of the 50 smaller listed companies in Germany, followed the lead of the DAX in 2012. During the second half, however, performance was somewhat less solid. The SDAX closed 2012 at 5,249 points, an increase of 18.7 % compared to the prior-year close.

GRAMMER share gains in value

On the whole, the GRAMMER share saw positive performance in the market last year. Price development, however, was highly volatile given the unsteady economic environment.

The GRAMMER share started 2012 with strong price gains. Publication of the preliminary financial figures in February, the announcement of record results for fiscal year 2011 in March and positive analyst reports all served to support the soaring price of the share. On April 3, 2012, the GRAMMER share peaked at EUR 18.01.

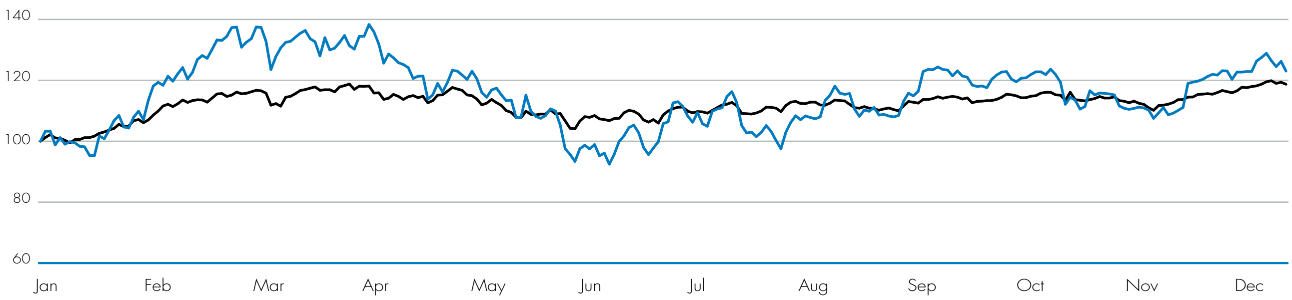
In the second quarter, conditions in the stock market began to deteriorate on negative news coming out of the eurozone. In this context, the share gave back some of its previous gains, and bottomed out on June 14, 2012 at EUR 12.04.

Supportive measures announced by the European Central Bank in the second half of the year brought about a stabilization of market conditions. On the back of positive company news, such as the largest seat order from Deutsche Bahn and GRAMMER's reported nine-month earnings, the GRAMMER share continued to strengthen. In December, GRAMMER announced the takeover of headrest manufacturer Nectec and the launch of a joint venture for truck seats in China. The achievement of these milestones in the GRAMMER growth strategy further buoyed the share's valuation. The GRAMMER share ended the 2012 trading year with a closing price of EUR 16.02 on December 28, 2012.

From January to December 2012, the GRAMMER share gained roughly 23 % in value. This puts GRAMMER among the winners in the SDAX, outperforming the selection index by more than four percentage points. The GRAMMER share was also a very liquid SDAX stock in 2012. With a daily trading volume of roughly 45,000 shares, GRAMMER is in the upper third of the SDAX rankings.

Based on positive company news and the announcement of the good results for 2012, the GRAMMER share has seen a considerable ramp in the first three months of the year. On February 28, 2013, the price was EUR 23.00 – 43.6 % higher than the 2012 close.

GRAMMER AG and SDAX Performance Index 2012 price trend (in %)



December 31, 2011 = 100 %

— GRAMMER AG
— SDAX Performance Index

GRAMMER basic share data

On December 31, 2012, the share capital of GRAMMER AG totaled approximately EUR 29.6 million, divided into 11,544,674 bearer shares. Thereof, 330,050 own shares are held by the Company. The GRAMMER share is listed in the SDAX, and traded 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

	2012	2011
Share price (XETRA closing Dec. 31)	16.02	13.02
Annual high (in EUR)	18.01	20.50
Annual low (in EUR)	12.04	10.87
Number of shares (Dec. 31)	11,544,674	11,544,674
Market capitalization (in EUR m, Dec. 31)	184.9	150.3
Earnings per share (in EUR)	2.17	2.02
Dividend per share (in EUR)	0.50*	0.40

* proposal

GRAMMER once again an attractive dividend stock

The dividend paid for the 2011 fiscal year was the first of its kind since 2008, and marks a positive step toward positioning GRAMMER once more in the capital market as an attractive dividend stock. In 2012, GRAMMER also wants to see its shareholders benefit not only from the rising price of the share, but also to participate in the success of our business through payment of a dividend. Therefore, the Executive Board and Supervisory Board will propose to the Annual General Meeting on June 5, 2013 that a dividend of EUR 0,50 per share to be distributed. This results in a dividend yield of 3.1 % based on the 2012 closing price.

Analysts focus on GRAMMER

The GRAMMER share is currently on the watchlist of seven different analysts. Four of the analysts have a "buy" recommendation for the share; two analyst rates GRAMMER as a "hold" and one analyst as a "sell".

Wide variety of Investor Relations activities

Investor Relations at GRAMMER is characterized by open, prompt and comprehensive communication with all target groups. In 2012, we offered a wide variety of investor relations activities for private investors, institutional investors, analysts and financial journalists.

At the annual press and analyst conference on March 29, 2012 in Frankfurt am Main, we presented the annual report for fiscal year 2011. The Executive Board spoke to analysts and financial journalists about the developments within GRAMMER Group over the course of the previous year, as well as giving them insight into the GRAMMER growth strategy.

In 2012, GRAMMER took part in several international capital market conferences, including the Baader Investment Conference and the German Investment Conference last September in Munich or the German Equity Forum in Frankfurt am Main in November. At these conferences, we made presentations and held one-on-ones with numerous international investors.

Further one-on-one-meetings and Company presentations were made to investors at a number of road shows in Germany and in Europe's most important financial centers.

The 2012 Annual General Meeting was held on May 23, 2012 in Amberg. More than 44 % of voting share capital was represented. A decisive majority of shareholders voted to formally approve the work of the Executive and Supervisory Boards in fiscal year 2011. All other proposals were adopted by the Annual General Meeting with substantial majorities as well.

All relevant information about GRAMMER AG and the GRAMMER share is available on the Company's website: The financial calendar, transcripts of the telephone conference and the latest presentations are also to be found there, as are financial reports and press releases. And the share data section contains the historical prices of the GRAMMER share. Visitors can view a chart for the GRAMMER share, which allows users to set their own timeframe for the data and compare the chart with benchmarks like the DAX or SDAX.

Award-winning communication

The GRAMMER AG 2011 Annual Report has been recognized for excellence in multiple international competitions. The report received a "Gold Award" from the ARC (Annual Report Competition) in the automotive supplier category. A "Platinum Award" – the highest recognition for design and content – was awarded by the American League of Communication Professionals (LACP). Our report was among more than 6,000 submitted from around the globe.

In December, GRAMMER was honored with the 2012 "BIRD" award for the best investor relations in Germany. In voting by readers of the investor magazine "Börse Online", GRAMMER was named as having the best investor relations out of the companies listed in a selection index from Deutsche Börse in 2012.

Shareholder structure

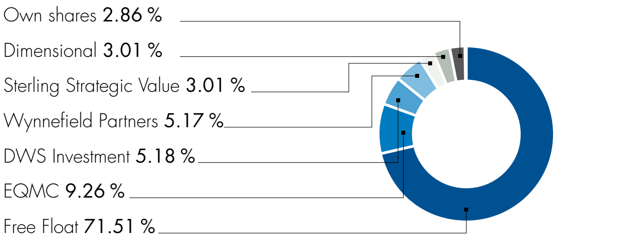
Once more last year, the GRAMMER share was in the sights of national and international investors. In addition to high daily trading volumes, this was reflected in the changes to the shareholder structure subject to mandatory disclosure.

Dimensional Fund Advisors LP in Austin/USA informed the Company that its share of voting rights had crossed above the 3 % threshold on May 14, 2012, to 3.01 % (347,021 shares).

The percentage share of GRAMMER AG's voting capital held by Wynnefield Partners Small Cap Value L.P., New York/USA increased in 2012. On May 29, 2012, Wynnefield Partners Small Cap Value L.P. crossed above the 5 % threshold and now holds 5.17 % of voting capital (597,053 shares).

In October, Sterling Strategic Value Limited notified us that it had passed above the 3 % threshold on October 17, 2012, and now holds 3.01 % (348,054 shares) in GRAMMER AG.

Shareholder structure



as of December 31, 2012

Holdings by Fondsmæglerselskab A/S, Taastrup/Denmark pass below the 3 % threshold on October 26, 2012 to 2.98 % (343,497 shares). Sparinvest had reported passing above the 3 % threshold on June 22, 2012 to 3.01 % (347,276 shares), after initially falling below the 3 % threshold in the reporting period on March 9, 2012.

The largest shareholder in GRAMMER AG remains Electra QMC Europe Development Capital Funds PLC in Dublin/Ireland, with 1,069,311 shares (9.26 %).

DWS Investment GmbH in Frankfurt am Main/Germany is still the second largest shareholder, and holds 597,500 shares (5.18 %).

Only notifications relating to voting rights holdings of greater than 3 % have been presented here. The current shareholder structure is published in the Investor Relations section of the GRAMMER AG website.

Group Management Report Index

Group Management Report

- Group revenue hits another new record at EUR 1.14 billion.
- Operating profit held steady despite difficult environment.
- Earnings after interest and taxes higher year-over-year.
- Substantial improvement in cash flow from operating activities.
- Proposal of dividend.

Company structure and operations

GRAMMER Group is a global supplier specialized 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. GRAMMER Group operates 29 production plants worldwide, which – with considerable value chain integration – manufacture high-quality products for the global vehicle industry. In addition to the parent company, GRAMMER AG – based in Amberg/Germany – the Group includes 23 other fully consolidated companies. GRAMMER Group is represented in 18 countries worldwide.

GRAMMER Group is managed centrally by a three-member Executive Board and has its registered office in Germany with the Group headquarters in Amberg (Bavaria).

Business divisions

The Automotive division supplies premium automakers and automotive system suppliers with products such as premium interior components, including headrests, armrests and center consoles. In the Seating Systems division, the Company operates as both tier 1 and aftermarket supplier for complete seat units and seating systems. Our customers include 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-based corporate management system is primarily oriented towards the key management indicators revenue, earnings before interest and taxes (EBIT), working capital, gearing and GRAMMER economic value added (GEVA). The latter is based on economic value added (EVA) and measures the efficiency with which the Company's capital is being employed.

Overall economic conditions and developments

Weak growth of the global economy

Over the course of 2012, global economic activity cooled increasingly. This is reflected to different degrees in all of the world's key economic regions, and saw world trade continuously slowing as the year progressed. On average, global economic output increased by only 3.2 % according to data from the International Monetary Fund (IMF), following an already restrained rate of 3.9 % in 2011. Although it is likely that the economy bottomed at the turn of the year 2012/2013, the sovereign debt crisis in the eurozone, along with the uncertainty about future fiscal governance in the US are likely to weigh on growth.

With 1.3 % growth in 2012, the world's developed economies once more expanded only moderately according to the IMF. The UK, which contracted by 0.2 %, and the eurozone (–0.4 %) actually moved into recessionary territory; in Europe, Italy and Spain were particularly hard-hit. Efforts by many countries to bring debt back to manageable levels through government spending cuts were a drag on advanced economies. Uncertainty on the part of consumers and investors also helped to limit economic expansion in these countries. Germany, on the other hand, grew its GDP at a moderate rate of 0.9 %, though this is down considerably from 3.1 % growth of the previous year. Here, after a promising start to 2012, persistent concerns stemming from the European debt crisis noticeably inhibited domestic economic momentum over the further course of the year. Germany's expansion was fueled largely by exports, though the impetus from this sector has waned of late. The US economy saw robust growth in 2012, a trend that even fiscal uncertainty at year-end and persistently high unemployment could not hold back. In all, the US economy grew by 2.3 % in 2012.

Signs of slowing were also unmistakable in developing and emerging markets. According to the IMF, production in these countries improved by only 5.1 %, following a 6.3 % rise in 2011. In addition to lagging demand from industrialized countries, these markets also had to contend with domestic economic difficulties. To add to their woes, emerging markets faced a substantial pullout of foreign capital, as investors turned to lower risk alternatives in reaction to the financial market conditions. Particularly noticeable was the slowdown in Central and Eastern Europe, where the pace of expansion fell by nearly two-thirds to just 1.8 %. In China, India and Latin America, activity also slowed considerably. The Chinese economy grew by 7.8 % last year. This marks a slackening in the pace of growth seen in past years. In 2011, China's economy expanded by 9.3%. India's domestic demand stagnated at prior-year levels, and thus failed to contribute to growth in the economy. At only 4.5%, economic activity expanded considerably less than it did in 2011, when growth reached 7.9%.

GRAMMER Group sees positive performance continue despite difficult economic conditions

In spite of contracting markets and uncertain economic conditions, the performance of GRAMMER Group was positive in the reporting year. New orders and revenue increased by a full 4% on the strength of continued high demand in our markets and important product launches, following on already strong growth of 18% the previous year. Even with the marked slowdown in Europe as a result of the ongoing euro crisis, and the drastic falloff of the market in South America, we were able to build on strong demand for our premium-segment products in both the first and the second half of the year. As new truck seat projects ramped-up, we were also able to compensate for weakness facing this business segment in Europe. Thus, after an outstanding prior-year result, the Group succeeded in generating clearly positive earnings in the reporting year, despite budgeted expenses for new production starts and the unexpectedly severe slowing of the Brazilian market. This is attributable to stable revenue growth throughout the Group as well as fixed cost degression. The implementation of measures to optimize cost structures in quality management and logistics, along with major production starts in truck business in Europe affected the Group's business results throughout 2012.

Changes in fiscal year 2012

The closure of GRAMMER Wackersdorf GmbH's Wackersdorf plant arranged together with the local works council was completed in August 2012.

On December 10, 2012, GRAMMER AG concluded a deal for the takeover of Nectec Automotive s.r.o., under which GRAMMER acquired 100 % of share capital in Nectec from Fehrer-Group. The transaction was pending approval by anti-trust authorities. Approval was granted February 2013.

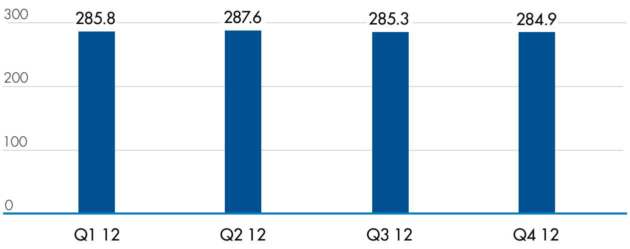
Nectec develops and produces headrests primarily for the premium car market. The company was founded in 2008 by Fehrer-Group, and grew rapidly to become one of the leading suppliers of headrests in Europe. Nectec's headquarters and production facilities are located in Ceska Lipa, Czech Republic. In total, the company employs roughly 240 people and generated revenue of slightly more than EUR 35 million in fiscal year 2012. As part of the deal, GRAMMER also acquires the 50% stake held by Nectec Automotive s.r.o. in a joint venture with Chinese automotive supplier NingBo Jifeng.

On December 17, 2012, GRAMMER AG and Jiangsu Yuhua Automobile Parts Co. Ltd. – an established Chinese supplier of components and systems for commercial vehicles and cars, signed an agreement to launch a joint venture for production and marketing of seats for trucks and busses in China. GRAMMER AG will hold a 60% stake in the jointly controlled company, GRAMMER Seating (Jiangsu) Co. Ltd., while Yuhua will own 40%. This will give GRAMMER Group rapid and lasting access to the world's largest market for commercial vehicles. The joint venture marks an important step in the implementation of our global growth strategy. With founding of this company, GRAMMER now has an outstanding platform for realizing our ambitious growth targets in the Chinese truck market. Yuhua will provide a new production facility and brings other benefits to the joint venture, such as the integration of its existing truck seat business and established customer base. Consequently, the Group and its partner Yuhua will be able to take market-specific seat types from our research and development and produce them locally and distribute to local and international customers.

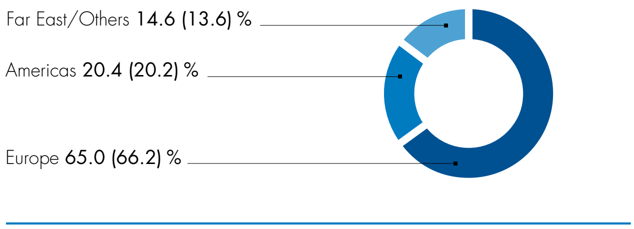
At EUR 1.14 billion Group revenue reaches another new record

In this macroeconomic and industry-specific environment, GRAMMER Group brought in revenue totaling EUR 1,143.6 million in 2012 (2011: 1,093.5) – another new record in the more than 60-year history of the Company. Revenue growth of more than 6% during the first six months of 2012 in the individual business segments was maintained at a respectable level over the remainder of the year. As a result of our good market position in the production launches in our growth segments, revenue in the fourth quarter of 2012 held steady as compared to the very high prior quarters, despite initial economic weakening.

Group revenue by quarters (in EUR m)



Revenue by regions (previous year in brackets)



in EUR m

	2012	2011
Q1	285.8	263.0
Q2	287.6	274.5
Q3	285.3	272.9
Q4	284.9	283.1
Total year	1,143.6	1,093.5

in EUR m

	2012	2011
Europe	743.1	724.4
Americas	233.1	220.7
Far East/Others	167.4	148.4
Total	1,143.6	1,093.5

Revenues varied regionally throughout GRAMMER Group: In Europe, Group revenue increased by EUR 18.7 million to EUR 743.1 million (2011: 724.4), or 2.6%, despite considerable contraction in car and truck markets. This growth, however, lagged slightly behind overall Group revenue. Particularly the first two quarters in the Seating Systems division were considerably stronger in Europe than they were in the comparable prior-year period. The Automotive division saw revenue decline somewhat on weakness of demand in European submarkets, despite solid sales in the premium segment. Revenue increased, however, in the Americas and China, partly because components previously exported from Europe are now being produced locally.

Even with the unexpectedly severe decline of up to 25% in the Brazilian truck market, revenue in the Americas region was once more slightly higher in 2012, on the back of new production starts and a further recovery of the NAFTA markets. In this region, GRAMMER generated revenue of EUR 233.1 million in the reporting year, after EUR 220.7 million the previous year. This equates to an increase of nearly 6% year-over-year, with the massive decline in revenue from GRAMMER's important Brazilian truck business more than offset by the strong growth of automotive business in the NAFTA region.

Business in Asia continued to see very positive development. Revenue in the countries belonging the Far East/Others region rose by 12.8% to EUR 167.4 million in 2012 (2011: 148.4). Growth of the Group thus outstripped economic expansion in Asia as a whole. As a result of very high, double-digit rates of expansion in recent years, growth in the region normalized as expected in the reporting year. On the whole, however, Asia stood out as the most dynamic region in the Group.

Global automotive markets mixed

International car markets were in stable condition for the most part in 2012, however with some significant regional divergences. Whereas markets in Europe experienced hefty setbacks, countries such as the United States, Brazil, Japan, Russia, India and China saw solid growth. According to estimates by the German Automobile Manufacturers Association (VDA), new vehicle registrations worldwide were up by a good 4% on the prior-year with 68.3 million cars sold in 2012.

Double-digit growth was recorded in the US, where a total of 14.4 million light vehicles – 13.4% more than the prior year – were sold.

Solid increases were also reported in Brazil, where the light vehicles market expanded by 6.1% to 3.6 million new vehicles. In Russia, new registrations were up by 10.6% to 2.9 million vehicles, and India saw a rise of 10.3% to 2.8 million newly registered vehicles.

Japan, with growth of 29.7% to nearly 4.6 million new cars, was the clear winner in this category. An incentive program that ran until September 2012 along with pent-up demand following the natural disaster in the spring of 2011 combined to bring about the best results in new vehicle registrations in Japan since 2006.

With a total of 13.2 million vehicles sold (+8.4%), China remained behind the US as the number two car market worldwide.

Registration numbers in some European countries, on the other hand, have taken on crisis proportions. In December alone, the figures were 16.3% lower in the EU according to the European Automobile Manufacturers Association (ACEA) in the continuation of the downward trend of the last 15 months. The December decline was the largest since 2008. With a full-year decline of 8.2%, the situation also looks bleak on balance, reflecting demand for new vehicles in Europe that is down to levels last seen in 1995 at 12.1 million units.

Among the largest volume markets, only the UK was able to buck the negative trend with growth of 5.3 %. Favorable financing conditions, attractive offers and improved consumer sentiment pulled in buyers to the local dealerships. On the other hand, Spain (–13.4 %), France (–13.9 %) and – in particular – Italy (–19.9 %) dropped off substantially. Smaller markets like Greece (–40.1 %) or Portugal (–37.9 %) were hit even harder.

Germany showed itself to be relatively stable with full-year new registration volumes down only 2.9 % at 3.1 million cars. Here too, however, December brought with it a substantial decline of 16.4 %. German new car production figures for full-year 2012 came in at 5.4 million vehicles, falling short of the previous year's record high by only 4 %.

Automotive division profits from focus on premium segment and global presence

The Automotive division once again enjoyed an exceptionally good order situation last year as compared to the difficult situation in the European core market. Given the stability of demand in the premium segments and the very high export rate of the German auto industry, order books remained full and our forecasts were optimistic up to December. For the year as a whole, our product development activities and new production starts, along with the continued strength of new car sales by premium manufacturers in Germany had a positive impact on business performance. Despite the in some cases massive effects of the debt crisis in Europe on the European car market, our market position in the premium segment, along with the OEMs' record sales made strong revenue growth possible. The strategic expansion of our center console product range also contributed to revenue growth in the Automotive division with numerous production launches.

Revenues in all Group regions increased at already high levels. In Europe, new production starts pushed revenues still higher year-over-year despite market weakness, and capacity utilization at our plants in some cases hit the limit as sporadic demand lead to repeated order surges. Volumes at our Chinese production facilities in Shanghai and Changchun were also better than planned. Construction of a new plant in Beijing to expand our production capacity in the Chinese growth market began as planned in the reporting year. The domestic Chinese market and the performance of our local customers proved to be very robust, and we were once again in a position to profit from these developments. Along with the still positive market situation from the perspective of the Company, expansion of our center console product range also provided fuel for additional growth. Following the renewed strength of the market last year, revenue performance in the NAFTA countries also remained positive, which can be largely attributed to the expansion of our customer base and product range.

To strengthen the earnings situation of the Automotive division long term, we continue to implement measures to improve profitability and cost efficiency, especially in the areas of logistics and quality management. Our process and structural enhancement measures aim at optimizing the worldwide production network. For instance, the closure of the production plant in Wackersdorf was completed in August 2012 and the consolidation of our three locations in Changchun to create a single new central plant made great progress. Capacities at our plants in Schmölln and Zwickau were expanded as planned. As new projects were added in the area of center consoles, additional front-end production facilities were established. Thus, we were able to further improve capacity utilization of center console production sites in line with additional customer orders in this segment.

Commercial vehicle market in decline

The worldwide market for commercial vehicles was also marked by considerable regional differences; in 2012, volume declined by a total of 3 % to 10.8 million units.

In the European Union, economic weakness and the lingering sovereign debt crisis disproportionately undermined commercial vehicle demand. At roughly 1.7 million commercial vehicles sold, the figure was 12 % lower than the previous year; there were nearly no countries reporting positive growth rates.

Germany too was faced with a substantial cooling down, as reflected in the decline of 7 % to 311,000 new commercial vehicles for all of 2012. In the segment, heavy commercial vehicles over 6 t, the market contracted by as much as 10 %. At year's end, investment climate took another turn for the worse, so that commercial vehicle sales in December were down 25 % year-over-year.

Unlike in Europe, the commercial vehicle industry in the US saw marked improvement. There, 2012 was once more a successful year with growth of 13 % to nearly 346,000 units. The heavy truck segment was similarly successful, with new registration volumes up 14 %. At the end of the year, however, the US also showed signs of slowing, as sales of heavy and medium trucks fell by 4 %.

In South America (Mercosur), full-year new commercial vehicle registration volumes tumbled by 18 % to just under 195,000 units. Weaker economic activity and stricter emission standards – equivalent to Euro V – were the cause of a significant decline in demand. Even with incentive programs from the Brazilian government (such as financing conditions), the downward trend could not be stopped.

Sales of heavy commercial vehicles in India suffered from a slump in investment, so that the market for commercial vehicles grew by only 3 % to 803,000 units after strong expansion in 2011.

The world's largest commercial vehicle market, China, saw new registrations decline by 4 % to 6.1 million, and the market for trucks over 6 t was down even more. From January to December 2012, 926,270 heavy trucks were sold in China. This equates to a decline of 21 % compared to the previous year.

With growth of 16 % to at least 797,000 new commercial vehicles, the Japanese market set itself apart from the rest.

Agricultural machinery market continues to grow
According to Germany's mechanical and industrial engineering association, VDMA (Verband Deutscher Maschinen und Anlagenbau e. V.) worldwide agricultural machinery production in 2012 likely increased by nearly 8 % from EUR 80 to EUR 86 billion. With a share of 31.9 %, the EU was the largest market, followed by North America (23.9 %) and China (20.3 %). The VDMA projects the revenue improvement in Germany, by far the largest production location for agricultural machinery in Europe, at 8 % to more than EUR 7.5 billion. This surpasses even the record set in 2008. A significant role in the good showing for the industry globally was played by strong demand in the largest European markets, especially France and Germany, but also in the UK. This can be attributed to the favorable situation in farm incomes. In nearly every Central and Eastern European market, agricultural machinery orders were also substantially higher than they have been over the past three years. Southern Europe, on the other hand, and especially Italy and Spain, saw agricultural machinery markets contract, due to weak macroeconomic conditions and also smaller crop yields.

Construction machinery in demand
The Committee for European Construction Equipment (CECE) is reporting a 6 % rise in production for the European construction machinery sector in 2012. The report points to considerable differences between the various countries in the region. Whereas Spain and Italy once more faced substantial declines in the first half, demand in Scandinavia and the Baltic states, as well as in Turkey, continued to grow. In the volume markets of Germany, France and the UK, the first signs arose of a slowdown on the horizon. There were also significant differences in development between the various products segments. Demand was lower for earth moving and road construction machines, while demand for high-rise construction equipment increased.

Good showing for material handling sector
The German material handling industry grew at a moderate rate in 2012. According to a survey of industry association Bundesverbands der Händler und Vermieter von Baumaschinen, Baugeräten, Flurförderzeugen und Arbeitsbühnen (bbi), total revenue increased by 2 % over the already strong level in 2011. Revenue from new machine business, according to the survey, was up 2 %, while used machine revenues held steady.

Rail industry strong in the first half
After a largely positive first half of 2012, with revenues rising nearly 13 % to EUR 5.3 billion – the second-highest amount in the history of the industry – the German Railway Industry Association expects full-year revenues to once more exceed EUR 10 billion. Order volumes in the first half of 2012 were respectable at nearly EUR 6 billion. Train business in the first half year improved by 14 % to EUR 4 billion, with a disproportionate rise of 29 % in orders from Germany to EUR 1.8 billion. Infrastructure equipment business, however, remained weak stagnating at a low level of EUR 1.3 billion.

Seating Systems
Varied performance in the truck and offroad segments
The Seating Systems division was once more the driving force behind growth of GRAMMER Group, especially in the first half. This year's dynamic business development started in 2012 with an outstanding first quarter, despite the collapse of demand in the Brazilian truck market. The trend was continued with further improvement in the second quarter on the strength of a surge in new orders. Thanks to our strong market position in the offroad market and the start of production for our new generation of truck seats in Europe, we were able to translate the strong demand situation into a 13.6 % rise in revenue. In the third quarter, revenue then fell short for the first time the high levels seen in 2011 as a result of truck market weakness and seasonal effects in offroad business, as sales of commercial vehicles in the US and Europe declined at the end of the year.

Despite considerable contraction of our core markets in Europe and South America, we successfully achieved a slight revenue increase compared to the very strong prior year.

In the offroad segment, sales volumes in seats for agricultural machines remained very high for the year as a whole, and we were once again able to achieve growth. Full-year 2012 results were similarly positive in the construction machinery segment, and the material handling segment improved further from the already strong prior-year level. In all, earnings developments in these product groups were highly satisfactory in the reporting year.

In truck business, our performance in Europe defied the general market trend. The decline in sales volumes among important manufacturers was compensated by the launch of our new truck seat platform. In the key South American market, we were unable to fully avoid the consequences of the 18 % drop in demand, which resulted in substantial revenue declines. Even after implementing numerous countermeasures, it was impossible to compensate for this as the market deterioration continued throughout the remainder of the year, despite massive stimulus measures by the Brazilian government among others. Nonetheless, we were able to successfully reinforce our leading position in the South American market.

On the back of the production launches in Europe, we managed to grow in 2012 in spite of the negative market developments.

During the reporting year, after expansion of the new plant for truck seats in Tachov/Czech Republic was completed on schedule, production was started on the new truck seat platform. Starting in the first quarter of 2012, a number of important truck seat models were succesfully launched. Through the JIS front-end production facilities in Wörth (Germany) and Geel (Belgium), supplies were delivered on time to our customers and sequencing of our new seats was assured from the very first day. Similarly, at the production plant in Haselmühl near Amberg, additional capacities and production lines were commissioned for production of metal components for the new generation of truck seats. Furthermore, programs for production optimization based on the principles of lean management were used to restructure key components of production.

Work continued to expand Group-wide supplying of seats and seating components from the plant in Tianjin/China, which allowed us to improve our cost position. In the US, we carried on the gradual development of independent R&D, distribution and production capabilities to supply the American offroad market. The related localization is 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.

Railway segment continues to improve

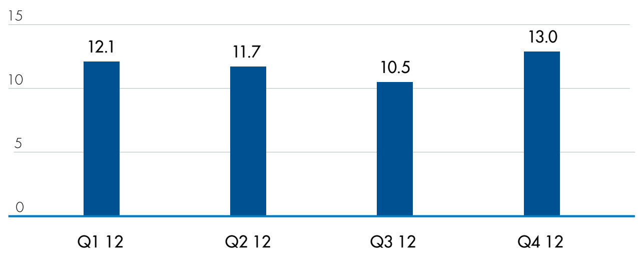
As part of the ongoing reorientation of the Company, the railway unit further optimized and stabilized its process capabilities. GRAMMER continued to restructure production and focus on project business. Development of additional platforms and increased acquisition of national and international projects was given a greater emphasis last year. New international orders from outside Germany were responsible for the majority of production launches.

Earnings

Earnings marked by difficult markets and new production starts

GRAMMER Group generated operating profit in 2012 only slightly below the high previous year results despite budgeted expenses for new production starts and the difficult market environment. Gross profit in 2012 fell slightly to EUR 141.6 million (2011: 142.5). Despite the burden from new production starts and the slump of the truck markets, earnings before interest and taxes (EBIT) was nearly on a level with the prior year at EUR 47.3 million (2011: 49.4). The difficult market environment, with in some cases sudden revenue declines in emerging markets, along with a slight delay in capacity adjustments resulted in the inability to fully compensate to the previous year. This can be seen above all in the reduced operating profit margin in Seating Systems, which the Automotive division could not compensate for in spite of excellent performance. During the reporting year, GRAMMER Group achieved a positive EBIT margin of 4.1 % (2011: 4.5), which is down somewhat from the very strong prior year but can be viewed as successful in light of the substantial burden from the market development and production starts.

Consolidated EBIT by quarters (in EUR m)



in EUR m

	2012	2011
Q1	12.1	12.1
Q2	11.7	13.7
Q3	10.5	10.2
Q4	13.0	13.4
Total year	47.3	49.4

Cost development dominated by difficult economic environment

Costs of sales increased by 5.4 % to EUR 1,001.9 million (2011: 951.0). This increase matched the almost proportional rise in revenue, and can be attributed largely to revenue increases and the massive expansion of production in places as a result of new orders. High rates of capacity utilization at the start of the year, especially in offroad business, and production launches in truck business, combined with the market downturn in Brazil resulted in proportionately higher personnel and material costs as well as costs for capacity measures in the initial quarters. In light of the difficult economic environment marked by volatile exchange rates, sudden fluctuations in demand and falling markets in the area of seating systems, cost management within GRAMMER Group remained satisfactory. The high level of uncertainty with respect to market reactions to the euro crisis was particularly burdensome, as it impacted both pricing and order volumes by our customers.

Labour costs rose by EUR 4.3 million to a total of 233.9 million (2011: 229.6). In addition to the revenue improvements and capacity adjustments, earlier restructuring measures also began to result in lower fixed costs. The ratio of personnel expenses to revenue at 20.5% was lower than 2011 (21.0) and the long-term average despite capacity adjustment costs as a result of strong contraction in the market.

In the year under review, sales expenses were down slightly to EUR 27.3 million (2011: 27.8). This is primarily attributable to the measures taken to cut costs and increase efficiency.

Administrative expenses rose to EUR 80.0 million (2011: 75.4). As a result of higher revenues and expanded business activities in growth regions, costs were held at prior-year levels relative to revenue. A portion of the cost increases is also attributable to low levels of capacity utilization at the start of the year and costs for plant closures and consolidation of production and administration in places.

Other operating income
Other operating income came to EUR 12.9 million (2011: 10.1). The minor increase is attributable to increased scrap sales, as well as rents and passing on of costs to suppliers.

Financial expenses
Lower financial expenses, at EUR 12.6 million (2011: 15.4), were primarily the result of our activities aimed at compensating for volatile exchange rates and lower financing rates. As a result of the financial restructuring in 2011, interest rate expenses were down substantially year-over-year at EUR 7.5 million (2011: 10.3). Other interest and other income declined slightly from EUR 2.2 million to EUR 2.0 million, given that interest rates on excess liquidity are lower, e. g. from cash reserves held in response to the euro crisis. Due to volatility in exchange rates as a result of the euro crisis, an expense of EUR 0.7 million was recognised under other financial income in the reporting year (2011: 2.0).

Taxes
As expected, income taxes and earnings were down slightly from prior-year levels at EUR 11.6 million (2011: 12.2). Positive operating profit growth in Germany increased income tax expenses through imputation of deferred taxes, whereas income tax expenses abroad declined slightly as a result of earnings performance. Withholding taxes and minimum taxation also burdend income tax although lower than in the previous year.

Profit
GRAMMER Group's operating earnings before interest and taxes (EBIT) in the year under review totaled EUR 47.3 million (2011: 49.4), nominally only marginally down from the very good prior-year. The EBIT margin of 4.1% lagged somewhat behind 2011 (4.5), but remained above the five-year average. Earnings after interest and taxes climbed to EUR 24.4 million (2011: 22.1), which – despite a slight decline in operating profit – is primarily due to the good financial result and lower taxes compared to the previous year.

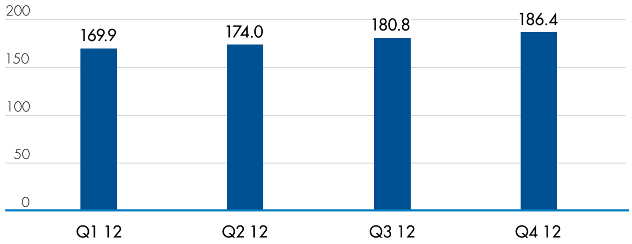
Earnings per share at EUR 2.17 (2011: 2.02) is based on net income.

Appropriation of profit
Appropriation of profit by GRAMMER Group is based on net retained profit/loss in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code (HGB). On December 31, 2012, GRAMMER AG posted net retained profit of EUR 15.4 million (2011: 13.1). This takes into account the profit of EUR 8.6 million carried forward, the allocation of EUR 6.8 million to other revenue reserves and net profit of EUR 13.6 million. The Executive Board will propose to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.50 be paid per share and that the remaining EUR 9.8 million be carried forward. This decision takes into account that the Company holds a total of 330,050 own shares, which are not dividend bearing. If the number of shares according dividend rights should change before the date of the Annual General Meeting on June 5, 2013, the Executive Board and Supervisory Board of GRAMMER AG will present an accordingly adjusted dividend proposal to the meeting.

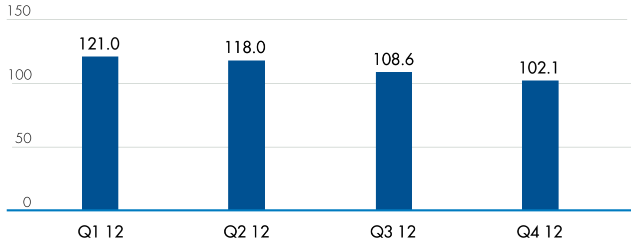
Divisional revenues and earnings

Revenue and earnings rise despite weaker demand in Automotive division
In the Automotive division, we produce interior components for premium car manufacturers and automotive system suppliers. The division primarily generates its revenue through serial production and project business. In 2012, the division saw revenue of EUR 711.1 million (2011: 680.3), an increase of 4.5% year-over-year. This accounted for 61.3% of Group revenue (2011: 60.8). Earnings before interest and taxes (EBIT) totaled EUR 30.5 million (2011: 26.9), a clear improvement over the prior year in both nominal and relative terms, which is attributable to both revenue growth and the implemented capacity and optimization measures. Start-up costs and capacity adjustments to implement the necessary expansions for new products led in some cases to higher expenditures. The division also incurred further costs for plant closures, which had an impact on earnings.

Automotive revenue by quarters (in EUR m)



Seating Systems revenue by quarters (in EUR m)



in EUR m

	2012	2011
Q1	169.9	171.7
Q2	174.0	169.3
Q3	180.8	167.1
Q4	186.4	172.2
Total year	711.1	680.3

in EUR m

	2012	2011
Q1	121.0	98.7
Q2	118.0	111.7
Q3	108.6	112.0
Q4	102.1	115.6
Total year	449.7	438.0

Revenue in Seating Systems division up despite market declines
Revenue performance in the Seating Systems division was up slightly in 2012 despite slumping truck markets worldwide. In the offroad segment, revenue rose in spite of the already strong prior year, which in some cases tested capacity limits. Newly launched production helped the truck segment to a good order situation despite the massive crisis in Europe and South America. Although the commercial vehicle market contracted in Europe and Brazil, the special situation resulting from new production starts was enough to compensate this market weakness. In total, the Seating Systems division generated revenue of EUR 449.7 million in 2012 (2011: 438.0), which is 2.7 % more than in the previous year – despite the difficult environment. As a result of economic developments, especially in the key Brazilian market, as well as costs for the startup of the truck platform in Europe, the division failed to match the excellent operating profit of the previous year. In the reporting year, despite high revenue, earnings before interest and taxes (EBIT) fell from EUR 30.6 million to EUR 24.7 million as a result of market weakness and the resulting capacity adjustment problems.

Financial position

Finance and liquidity management
After its restructuring of financing in 2011, GRAMMER Group has continued its financing strategy and implemented the next stages of the plan to further optimize financing costs and structures. The aim is to improve the maturity structure while at the same time creating financial reserves for further development of the Group. Management of operating capital flows and adequate raising of external capital are centrally overseen by Group Treasury, except in cases where laws in a given country would limit this. To provide backing for our growth through acquisitions and new company investments, we have expanded our cash position in order to be ready to continue our solid and conservative financial policies as planned. The main financial priority of the Group is to further improve its credit rating and establish a balanced maturity structure and diversified financing portfolio to ensure liquidity over the long term and structurally, even in crisis phases like this one.

As of December 31, 2012, the Group holds EUR 73.3 million in cash and short-term deposits, to be used primarily for the expansion of Group M&A activities and to strengthen the business segments driving our growth.

In August 2011, GRAMMER AG issued a long-term debenture bond in the amount of EUR 60 million, with tranches of three, five and seven years. At the same time, EUR 9.5 million of the old debenture bond, which matures in August 2013, went into early prolongation. Preparations for restructuring of the debenture bond, which is recognized under current financial liabilities, were begun on schedule last year, and will be completed in 2013. Group Finance handles worldwide payment transactions and administration of the cash pool that ensures adequate liquidity for the Group's subsidiaries, as well as determining the extent to which the system is viable and effective within the given legal and economic circumstances. In the context of managing financial risks, interest rate and currency risks are managed centrally using conventional derivative financial instruments. The Group has always kept very close watch over these risks.

Non-current liabilities were reduced to EUR 76.8 million in the year under review (2011: 129.8), as the debenture bond maturing in August 2013, which GRAMMER issued in 2006, is now recognized under current financial liabilities. Current financial liabilities climbed to EUR 72.8 million (2011: 9.1), which are matched by cash and cash equivalents totaling EUR 73.3 million, including cash and short-term deposits. In addition, a banking syndicate opened a credit facility totaling EUR 110.0 million, which is guaranteed until 2015.

Cash flow from operating activities increased primarily as a result of the improvement in operating profit and lower taxes compared to the prior year. The cash flow generated was utilized to build on expanded business volumes, and employed at roughly the same level as last year for investment in property, plant and equipment. Key projects included the expansion of production lines for the new generation of truck seats in Tachov and at the Haselmühl plant, as well as center console projects in Germany, Mexico and China, as they promise to stabilize future revenue generation. When adjusted to account for the acquisition EiA Electronics, Cash flow from investments was slightly higher year-over-year, due to the time lag affecting outflows of capital expended for lengthening our value chain and for the aforementioned business expansion projects. Cash flow from financing activities declined significantly, as planned, as a result of the dividend payment in the capital increase in 2011. Despite the very strong cash and equivalents position, additional liquidity of approx. EUR 10 million was added to financing, to provide backing for acquisitions and restructuring of our current financial liabilities, although additional operating free cash flow was generated. On the whole, cash flow figures point to further improvement in free cash flow.

Net assets

On the balance sheet date, December 31, 2012, the total assets of GRAMMER Group amounted to EUR 669.4 million (2011: 625.2). Business expansion and additions to the strategic liquidity reserve resulted in a 7% rise in total assets as compared to 2011.

Fixed assets rise on production expension

Non-current assets totaled EUR 267.1 million on December 31, 2012 (2011: 260.6). The build-up of production for expansion of center console business in Mexico and Schmölln, as well as for truck seats in the Czech Republic led to a rise in property, plant and equipment to EUR 167.2 million (2011: 159.7). Intangible assets were roughly on a level with the prior year at EUR 59.0 million (2011: 57.4). Utilization of tax loss carry forwards resulted in a reduction of deferred tax assets by EUR 2.9 million to EUR 35.7 million (2011: 38.6).

Current assets rise along with business activity

Compared to the 2011 reporting date, current assets increased to EUR 402.3 million (2011: 364.6). This rise was due in large part to the increase in business activity and creating of the strategic liquidity reserve, which was a desired effect of financial restructuring, to finance the acquisition of Nectec and set up of the joint venture in China. At EUR 108.4 million, inventories were EUR 4.4 million higher than previous year, which is partly attributable to stocking of the front-end plants as well as preparations for consolidation of the three Changchun sites. As the result of strong revenues growth in the fourth quarter totaling EUR 137.8 million, accounts receivable rose to EUR 142.5 million, despite the measures implemented in receivables management. Other current financial assets grew compared to the previous year by EUR 3.0 million to EUR 60.9 million as a result of the continued development of customer projects, whereas other current assets were down by EUR 0.3 million to EUR 15.0 million. At the end of the year, cash and short-term deposits amounted to EUR 73.3 million (2011: 46.7), which takes into account payment of the purchase price for Nectec Automotive s.r.o., as well as financing for the expansion of activities in China and other planned strategic liquidity reserves. Because the Group also intends to further optimize its financing in 2013, the available liquidity will also be used to secure the financing.

Equity continues to grow

On the balance sheet date, December 31, 2012, equity was substantially higher at EUR 228.0 million (2011: 211.2) on the back of the Company's continued profitability. Equity thus comprises 85.4% (2011: 81.0) of non-current assets. The equity ratio as of December 31, 2012 remained on a level with the previous year at 34% (2011: 34), despite the expansion of the balance sheet through addition of roughly EUR 60 million to the liquidity reserve under cash and short-term deposits. In 2013, as a result of changes to the IFRS accounting standard IAS 19, the corridor method was eliminated as of January 1, 2013. Actuarial losses, which have increased substantially as a result of the reduction of the applicable discount rate for pensions from 5.0% to 3.6% due to the euro crisis, will cause an approx. EUR 25.8 million reduction in equity without profit and loss effect in the current fiscal year. Because the company will also be prospectively applying the new IFRS 11 standard as of January 1, 2013, a compensatory effect totaling EUR 9.5 million will result.

Changes in liabilities
Non-current liabilities amounted to EUR 180.9 million (2011: 226.7) on the reporting date, attributable largely to reclassification of the debenture bond maturing in August 2013 under current financial liabilities. Non-current financial liabilities were consequently EUR 53.0 million lower at EUR 76.8 million (2011: 129.8). As outlined in the previous section, measures will be implemented in 2013 to further optimize long-term financing in order to improve the maturity structure and volumes of individual tranches at maturity. The steps taken will have a comprehensive positive impact on the quality and stability of GRAMMER Group's financial position. Non-current assets totaled EUR 68.2 million in the year under review (2011: 64.5). At the same time, EUR 5.3 million in trade accounts payable were categoriezed as long-term in nature and recorded accordingly. Deferred tax liabilities also increased slightly to EUR 20.3 million (2011: 19.5).

Current liabilities climbed from EUR 187.4 million to EUR 260.5 million, which is largely attributable to reclassification of the debenture bond in current financial liabilities. Accordingly, current financial liabilities – as a result of the new maturity structure and the liquidity reserve – increased from EUR 9.1 million to EUR 72.8 million, which, are matched by EUR 73.3 million in liquidity. In total, the Group's net debt declined by around EUR 17 million, despite payment of the dividend: Trade accounts payable; at EUR 115.5 million, were higher year-over-year (2011: 110.6), which roughly equates to the amount by which inventories increased. Other current liabilities were slightly lower at EUR 48.3 million (2011: 49.6) due to the structure of business growth. Other current financial liabilities rose to EUR 12.0 million compared to the previous year (2011: 4.5). Due to the earnings development, other current financial liabilities were, especially in Brazil, close to the prior-year level at EUR 2.2 million (2011: 4.5).

Capital

Capital structure
As of December 31, 2012, the subscribed capital of GRAMMER AG amounted to EUR 29,554,365.44 divided into 11,544,674 shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend (with the exception of own shares) and may exercise one vote for each share at the Annual General Meeting. The Annual General Meeting on May 28, 2009 approved a conditional increase in share capital to EUR 13.4 million. 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 14.78 million through one or more issuances of bearer shares. This authorization expires on May 25, 2016. 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, provided this is necessary to eliminate fractional amounts; if the shares are issued against contribution in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company or if a capital increase is made against a cash contribution which does not exceed 10% of share capital and the issue price of the new shares is not substantially lower than the exchange price (section 186 (3) sentence 4 AktG); if use is made of the authorization in conjunction with an exclusion of shareholder rights in accordance with section 186 (3) sentence 4 AktG, the exclusion of subscription rights under other authorizations is to be taken into account pursuant to section 186 (3) sentence 4 AktG.

With the resolution on May 18, 2011, the Executive Board of GRAMMER AG declared its intent:

(1) to make no use of the authorization under the new section 5 (3) of the Articles of Association to increase the share capital of the Company against cash and/or contributions in kind with statutory subscription rights for shareholders during the term of the authorization if this would lead to issuance of an amount of shares in GRAMMER AG in excess of 30% of existing share capital;

(2) to limit use of the authorization to exclude shareholders' statutory subscription rights in the event that shares are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company during the term of the authorization to no more than 20% of the Company's existing share capital;

(3) to ensure that the sum of any capital increases from authorized capital excluding shareholder subscription rights during the term of the authorization does not exceed 20% of existing share capital;

The capital reserve amounted to EUR 74,444 thousand (2011: 74,444) as of December 31, 2012. The capital reserve includes the share premium from the capital increases in 1996 as well as premiums from the capital increases in 2001 and 2011.

The revenue reserve amounted to EUR 131,426 thousand (2011: 111,528) as of December 31, 2012.

Disclosure of shareholdings subject to section 21 WpHG

Under the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must immediately notify the Company and the Federal Financial Supervisory Authority. The lowest notification threshold is 3%. An overview of the current status of notified shareholdings that currently exceed the 3% threshold or have at some point is included in the Notes of the financial statements of GRAMMER AG.

Own shares

Pursuant to a 2006 resolution of the Annual General Meeting, the Executive Board of GRAMMER AG is authorized to purchase own shares in accordance with section 71 (1) no. 8 AktG, which it exercised in fiscal year 2006 to acquire 330,050 own shares. These shares have a total value of EUR 844,928 and represent 2.8589% of share capital. The 330,050 own shares are non-voting and accord no dividend rights. 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 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.

Appraisal of 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 may be characterized as either good or very good, and our innovative products enjoy a great degree of acceptance in the marketplace. Thanks to current projects and product launches, we view the Group's revenue and earnings performance , also over the long term, as positive. However, the impact of developments in, and the volatility of, commodities 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, including the ongoing euro crisis, may significantly influence the Company's performance.

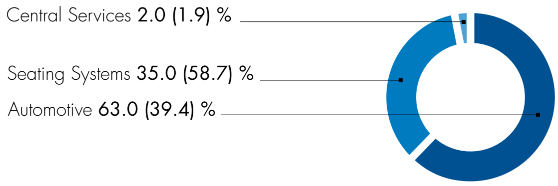
Investment

Capital expenditure by GRAMMER Group in the year under review increased to EUR 39.4 million (2011: 37.6). At EUR 33.6 million, investment in fixed assets were on the same level as previous year (2011: 33.8). Following the surge in investment last year for truck production and expansion of center console business in Europe, the focus in 2012 shifted to emerging markets. In the Automotive division, we invested a total of EUR 24.8 million (2011: 14.8), or around EUR 10 million higher than the previous year. In addition to new production facilities for upcoming customer projects in Bremen and Rastatt, the investments concentrated on further expansion in China and Mexico. At the new plant in Changchun, we invested to consolidate three locations and improve the value chain as a result of the good order situation and future orders, purchasing state-of-the-art injection molding and foaming equipment. With the setup of the first production line for headrest rods in Shanghai, we increased added value in China, while laying the groundwork for offering metal headrest components at the same favorable conditions from this emerging export market. Furthermore, we invested to create integrated console production at both locations in Mexico, where the low-wage environment coupled with highly automated integrated production of highly precise volume components will contribute substantially to optimization of our cost structure. GRAMMER invested extensively in integrated center console production, which was necessary due to orders received and forms the basis for our future growth potential. Additional synergies were generated in the production of functional headrests through optimum capacity utilization, as these – like center consoles – require complex and precise kinematic plastic parts. Moreover, the Company continued to carry out lean optimizations designed to increase plant productivity.

Investment in the Seating Systems division totaled EUR 13.8 million in 2012 (2011: 22.1). Investments were also made in 2012 in production for the new generation MSG 115 truck seats in the Czech Republic and Germany as well as our JIT plants. We invested in the expansion of our capacities in Brazil, despite the market slowdown, to be better positioned for the future in this South American growth market as well as ensuring optimum costs and supply independence. Also in Brazil, further investments were initiated which aimed primarily at bolstering cost leadership in the market. This included the setup and successful commissioning of a JIT front-end. As we continue to transition production to lean management, investments were made especially in the area of offroad, and additional investments were made once more in tools for new product platforms and further expansion of modular production units. These investments will serve to enhance efficiency as well as supporting the product innovation offensive. As with our research and development activities, these investments clearly signal our commitment to innovation leadership in both products and production in our markets.

A total of EUR 0.8 million (2011: 0.7) was invested the Central Services division. We acquired further upgrades and additional licenses for our SAP system, and invested in expansion modules to increase the range of usability especially in production and planning. Additionally, we invested in optimizing, integrating and networking our CAD software.

Investments by segments (previous year in brackets)



in EUR m

	2012	2011
Automotive	24.8	14.8
Seating Systems	13.8	22.1
Central Services	0.8	0.7
Total	39.4	37.6

Employees

Fewer employees despite business expansion

As compared to the previous year, the number of employees remained nearly constant at a rate proportionally well below revenue growth. On the balance sheet date, December 31, 2012, a total of 8,672 people were employed within the GRAMMER Group (2011: 8,726). This included 5,279 (2011: 5,148) employees in the Automotive division, 3,140 (2011: 3,377) in the Seating Systems division and 253 (2011: 201) in Central Services. The decline was largely attributable to hiring of indirect production workers and salary personell, and the increase in Central Services results from reclassification within the organization to central functions. The average number of employees during the year was 8,877 (2011: 8,429). Over the course of the year the number of employees has been declined after production launches and optimization of indirect hiring.

Focus remains on labour cost reduction

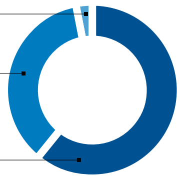
Although in 2012 revenue and business growth led to continued higher number of employees on average, the labour cost ratio ended up lower compared to 2011. In January 2012, the negotiated package of measures regarding closure of production in Wackersdorf was signed and fully implemented by the end of August 2012. The strong rise in demand and new product launches made it necessary to add personnel at various locations in Germany, and in China in particular, as well as other low-wage countries. Truck seat production started up and the necessary new personnel added at the Tachov plant in the Czech Republic. In Serbia and Bulgaria, our sewing capacities were expanded in response to persistent high demand in Automotive business. However, we were successfully able to implement productivity measures, especially in indirect areas of hiring for production, so well that, after a temporary rise in subsequent personnel reduction, the Company was ultimately able to realize cost savings.

Training, professional development, human resources

Personnel 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 existing 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 talents. All three professional development concepts are oriented on the mission statement, targets and strategy of GRAMMER Group. In 2013, GRAMMER Group will restructure the professional development program as part of a revamping to better deal with the growing complexity of hiring and training qualified employees.

The Group also plays an important role in training in its regions, and the number of apprentices trained by the Group exceeds the number needed for GRAMMER’s own business purposes. For instance, the training program at the Company’s professionally staffed training center in Amberg, is a key element of GRAMMER AG’s human resource policy. We gladly hire trainees to work in our Company as the economic situation allows. In 2012, we continued to employ motivated apprentices 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 young professionals are also attracted through university recruiting events or cooperation with Bildungswerk der bayerischen Wirtschaft. 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 (HAW).

Employees by segments (previous year in brackets)



in figures (as of December 31)

	2012	2011
Automotive	5,279	5,148
Seating Systems	3,140	3,377
Central Services	253	201
Total	8,672	8,726

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. CFO, Mr. Alois Ponnath, departed from the Company at May 31, 2012. We thank Mr. Ponnath for his many years of service. Mr. Volker Walprecht began as the new Chief Financial Officer of GRAMMER on October 1, 2012.

Multiple changes occurred in the Supervisory Board during the reporting year: Effective at close of the 2012 Annual General Meeting on May 23, 2012, Dr. Peter M. Stehle stepped down from the Supervisory Board. We thank Dr. Peter M. Stehle for his long years of work for the good of our Company. Dr. Hans Liebler was elected as a member of the Supervisory Board at the Annual General Meeting on May 23, 2012. Ms. Ingrid Hunger, who was officially appointed to the Supervisory Board by the Amberg Local Court in August 2011, was duly elected to the Supervisory Board by the Annual General Meeting. Effective July 30, 2012, Mr. Horst Ott was appointed by the Amberg Local Court as a member of the Supervisory Board. He succeeds Mr. Joachim Bender, who left the Supervisory Board on June 30, 2012. Mr. Martin Bodensteiner left the Supervisory Board on December 29, 2012.

Principles of the remuneration system

Beginning August 1, 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 commitments 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). 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. A discount is withheld from the bonus payment to ensure income consistency, the amount and repayment of which 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.

Changes to the remuneration of the Supervisory Board were authorized by the Annual General Meeting on May 26, 2011, and it is now calculated as follows:

For each complete fiscal year of Supervisory Board membership, each member of the Supervisory Board receives a fixed remuneration of EUR 30,000. The Chairman receives twice this amount as fixed annual remuneration and the Deputy Chairman receives one and a half of the above amount. Members of the Supervisory Board who only sit on the board for part of any given fiscal year receive fixed remuneration on a pro rata basis. The fixed remuneration is payable after the end of each fiscal year. The members of the Supervisory Board shall also receive a meeting fee of EUR 1,000 per personally attended Board or committee meeting, plus reimbursed expenses. The chairman of a committee receives a further EUR 1,000 per committee meeting. The meeting fee shall not be paid for participation in meetings of the Nominating Committee. The fixed payment for reimbursement of expenses is payable in each case on the first business day following the Supervisory Board or committee meeting. The Company is authorized to conclude financial loss insurance (D&O, directors and officers liability insurance) at reasonable conditions in line with the prevailing market rate, the premiums for which shall be paid by the Company. The Company will also reimburse members of the Supervisory Board for any incurred VAT liability on the remuneration and the fixed payment for reimbursement of expenses. A variable component, such as was paid in previous years, has been eliminated and 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 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 to be found in this Annual Report starting on page 32 f. and are permanently available on the Company website under www.grammer.com/en/about-grammer/corporate-governance.

Research and development

Research and development is a central focus for GRAMMER AG, as an important factor for successful positioning in the market now and in the future. It is this technological advantage that generates innovative products and diversity in the product range. It allows us to tap into new market potentials and ensure long-term competitiveness. The responsibility for developing new automotive components and systems is increasingly shifting to 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. We also constantly work on seats for commercial vehicles in order to further improve our products and generate innovative solutions that anticipate changes in market developments. 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 increased focus on innovation by the Company began to manifest its first successes over the past several years. In our core offroad seating business, for instance, several new products covering the spectrum from low end to premium will come onto the market in the next 24 months. Following its successful development and production launch, we acquired a big-name truck manufacturer as a customer for the new MSG 115 truck seat generation, which was presented as part of our lightweight construction initiative at the IAA 2012. This means that GRAMMER will be able to establish itself as an innovation partner in an important core business segment for years to come. Research and development in the area of driver workspaces is focused on presentation of ergonomic solutions for the driver's cab, as well as initial concept work on innovative HMI (Human Machine Interface) solutions. This work is being accomplished in close cooperation with our subsidiary GRAMMER EiA Electronics. In the area of consoles as well, numerous development projects are underway focusing on lightweight construction and new kinematic technologies. At the same time, new and more refined injection molding technologies are being developed for these system components, which soon serve to reduce weight as well as permitting the creation of attractive and luxurious surfaces. The focus when it comes to headrests is on electrically driven systems in the premium segment. Also in 2012, we once more matched the high number of patents registered by the Company. Through acquisition of the Czech Republic-based headrests specialist Nectec Automotive, we have expanded our range of passive and active headrest products, making this an even more attractive partner for carmakers. Our progress in the field of electronics has also yielded its first results in the form of sensory electronic applications.

In the coming years, the focuses of the innovation strategy will emphasize regionalization, i.e. focusing of product development on the specific needs of regional markets, in addition to traditional project-related themes. This is synchronized with the activities of the various segments. Moreover, we have stepped up projects to standardize products specifically for each region, 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 for a number of different regions.

Procurement management

Procurement management is a key factor for the success of the Group contributes substantially unsustainably the profitability of our operations. Its main objective is to ensure the availability and quality of materials and services so we can precisely meet our customers' needs. Another aim of procurement management is identifying the right vendors worldwide as suppliers for our innovative products and broad product range. This involves, for instance, harnessing of new market potentials in the emerging markets and assuring future competitiveness through the use of these savings potentials. External procurement accounts for roughly 60% of our total revenue. Consequently, we also launched a logistics offensive last year to optimize our internal and external supply chain. The Group separates its activities centrally according to commodities. Each commodity department attempts to establish a strong buyer position vis-à-vis suppliers, as well as defining commodity benchmarks worldwide in order to generate savings for the Group. Procurement in emerging markets and "local content" are growing in importance at our production sites in these regions, and are being emphasized in programs and structures. Our strategic orientation in procurement management also calls for the expansion of the e-Sourcing platform, which was operated effectively in the year under review.

Production

Production is the basis of what we do for our customers. As an innovative manufacturer, we generate revenue and earnings through the products we create. GRAMMER Group has 29 production facilities worldwide in 18 countries. The GRAMMER Group strategy aims to sustainably improve the cost position for our products, while strengthening production and value added locally. With its uniform global production standards, GRAMMER Group ensures consistent quality of products and services worldwide. Our strategic operational footprint is managed centrally, and production methods rolled out worldwide incorporate best practice benchmarks. Our GPS (GRAMMER Production System) makes available the production methods and tools required so that the right processes for the quality desired by the customer can be reliably implemented when and where it is needed. The GPS is the manifestation of our structured, process-oriented approach to implementing lean manufacturing throughout the Group. It allows us to meet growing demands on production as well as improving cost positions for both GRAMMER and our customers. To support our lean production activities, the Group has launched a worldwide training program offered at every location, in every unit and function. The "Lean Academy" and our continuous learning process, which are also taken into account for the development of production facilities and functions, and flow directly into the target system, are an example of how we consistently and sustainably make use of our growing knowledge base. Our growth and expansion of our production capabilities and emerging markets like China, where we now have five production locations, as well as expansion in Mexico and Brazil impressively demonstrate the extensive internationalization of our value chain. Further measures are currently being prepared, to propel us along the path toward efficient plants with an extensive command of the value chain in processes and independent of products within the planned timeframe. Cost efficiency is the top priority here, as our production and process systems ensure the ability to produce a uniform standard of quality at all of our locations.

Quality management

GRAMMER Group's products are known in the market for their quality, making the quality of our products and services a decisive factor for our success in an ever more competitive environment. For many years, Group has employed an independent quality management system and program, GPQ (GRAMMER Producers Quality), which incorporates all of the Company's employees into the quality control process, and strives to systematically generate progressive, permanent quality improvements. Our main quality objective is high customer satisfaction with our innovative products. Internal audits and assessments, benchmarks in the GPQ process and with the competition help us to ensure the effectiveness and growth of our quality management capabilities. Building on our philosophy and the demands of our customers, our stated goal is to establish a culture of continual improvement and exacting quality consciousness. Professional development in the area of quality management and regular training of our employees is meant to further improve our product quality and ensure that we continue to be perceived as a quality and innovation leader in the market. Another important aspect of our quality management approach is product safety. Because our products serve to protect the well-being, physical structure and health of our direct customers and their end-users, product safety and process capabilities constitute a strategic aim of our value chain. Starting with research and development, all the way to support for spare parts, product safety is a cardinal strategic and operational objective. For this reason, we not only adhere strictly to legally mandated rules and requirements, we also work with scientists and researchers, as well as independent experts, to develop our own rules and standards and ensure that this objective is always met.

Sales and customers management

Within GRAMMER Group, sales activities and business segments are based on product groups, in order to offer our customers optimum support and high level product competence. The division structure allows us to consistently focus on the needs of individual customers and markets, so that changes affecting a specific product can be integrated and implemented in a targeted manner. Long-term customer relationships form the basis of our longstanding success and growth. Process standards such as the GRAMMER PDS (Product Development System) support systematic and stable product development, and ensure that the right project timelines and phases are available when the customer needs them. This also serves to promotes joint project cooperation with our customers for the development of innovative 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 the Group itself. The Company also bears risks arising from development of new products, whereas the Group 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.

- At regular and appropriate intervals, our internal audit function also performs a review of the sufficiency and effectiveness of our risk management system. All employees of the Company are called upon minimize risks to the extent possible within their area of responsibility, as well as to work on solutions for active risk prevention via processes and products. In general, it cannot be wholly ruled out that opportunities and risks will arise in the course of business, which every employee is required, however, to immediately report to the relevant supervisor before situations arise that are out of our direct control.

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, as well as 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. Reports made to the risk management system are handled independent to ensure the broadest possible scope and review in accordance with "four eyes" principle.

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

In this way, we maintain 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.

Risks

In the following paragraphs, we describe risks and discuss their sometimes considerable impact on our business development, net assets, financial position and earnings, as well as our stock price and market reputation. Additional risks that we currently rate as slight or whose existence or potential effects are as yet unknown to us can likewise adversely affect our business activities. An essential part of the Group's risk management is the avoidance of going-concern risks.

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 numerous different measures, while closely and continually monitoring developments in relevant markets and industries. We adjust our production and capacity accordingly when necessary. GRAMMER Group strives as part of effective risk management to react immediately to crises such as the euro crisis and initial signs of revenue weakening. Production and cost structures are always proactively adjusted to account for changes in the revenue situation. We can generally expect to face sector-specific revenue risks in the future. Competitive intensity is on the rise in our markets, exposing us increasingly to risks from factors including price pressure, more aggressive timeframes for development and times-to-market, product and process quality and rapidly changing conditions. Surges in demand and sales volumes are increasing in frequency, and the volatility of those swings is on the rise. Due to our dependence on global markets with differing economic and demand cycles like those in emerging market countries, we have to be cognizant of and able to interpret an even broader range of factors than before. In addition, new competitors are entering these markets or are now turning up in places where before there had been only minor or regionally limited competition. The effects of crises in certain markets, like Europe, carry risks that are no longer directly derived from to particular business segments. Differentiation in the markets is also steadily increasing so that we can no longer necessarily draw conclusions about the effects of general developments on our business. This applies to both positive and negative developments.

Since the regional decline in markets, 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. In recent months, economic data and indicators have pointed to continued uncertainty of the macroeconomic environment. Nonetheless, because there can be no way of knowing the extent to which a economic developments will be checked by political complications and ongoing weakness in eurozone countries like Greece, Italy or Portugal, and since no reliable opinions exist concerning the scope of effects on the markets and products relevant to GRAMMER, risks remain that could affect our net assets, financial position and earnings. The influence of political and economic uncertainties, particularly in the current worldwide macroeconomic environment marked by a broad crisis of confidence in financial markets and permanent threat of further economic downturns, represents a risk to our net assets, financial position and earnings that the Group has little influence over.

As our markets and the companies in them continue to consolidate, additional competitive risks arise. At the same time, cost pressures being passed on by vehicle manufacturers continue to mount on the supplier industry. As a result, we may face a slump in follow-on orders in Europe and elsewhere. In response, we are putting a heavy emphasis on research and development, in addition to numerous process optimization measures to offset risk and increase cost efficiency, which will position us to keep pace with the growing demands.

Our goal is to improve our market position in all business segments, 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. The introduction of new products and technologies is also accompanied with risks and requires a strong commitment to research and development that is, in turn, tied to a substantial commitment of funds and technical resources. Despite our numerous patents and the security of our intellectual property, competitors - especially in growth markets - generally cannot be prevented from independently developing products and services that are similar to our own.

Continuous adjustment of our capacities and optimization of our production structures produces a medium-term risk that consolidations and closings will initially add burdens to our financial position, earnings and assets. Moreover, there is the risk that such measures cannot always be executed within the planned timeframe and that the manifold complexities of such processes can result in delays and additional costs or their utility proves to be less than originally planned and estimated.

The scope of our operations increasingly embraces activities that derive from our strategic portfolio policy affecting our business segments. Possible mergers and acquisition activities are ordinarily fraught with uncertainties since they include risks of market reaction, integration of people and technologies as well as products and product development. It cannot be ruled out that implementation risks will also arise and, as is normally the case with such transactions, there will be acquisition, integration and other costs that could not be estimated at the beginning of the transaction. Risks from such activities can also arise from divestitures that might not produce the desired effects or that could lead to additional burdens on financial position, earnings and assets.

Risks can also arise from the many changes and adjustments to regulations, statutes, guidelines and technical specifications with respect to our products to which we, as a globally operating company, are increasingly exposed. We cannot rule out the possibility that rules and legal regulations in particular markets and regions will produce additional burdens and expenses that could not previously be considered and that could adversely affect our financial position, earnings and assets.

Procurement risks

GRAMMER aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard are the market price performance of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the markets for these commodities. As far as possible and reasonable, cost risks are hedged through long-term supply contracts. These, however, are currently difficult to achieve in the market given the enormity of demand and prevailing volatility in steel, foam and plastics. Furthermore, supply chain risks exist, and can for various reasons influence our product quality, ability to meet delivery schedules or, in a worst case scenario, product availability in general. Generally speaking, quality problems with suppliers that crop up from time to time with suppliers or disruptions in the supply chain cause risks to our productivity that can negatively affect our financial position, earnings and assets.

Potential risks arising from non-delivery by suppliers are countered by GRAMMER with a dual-sourcing strategy as part of an emergency plan as well as 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 avoid dependencies where possible.

Quality risks

As described in the chapter "Quality management", GRAMMER Group places great value on maintaining high internal quality standards, as well as and early identification of possible sources of defects and their remediation. Nevertheless we cannot completely rule out the possibility that potential quality, workplace safety or environmental risks will arise or that duplicate work and down times can always be avoided. This applies in particular to the complex production structures and cross-continental interdependencies that are inevitable given our global orientation and operation. We have established programmatic measures to minimize such risks within the Group's production and quality management.

In order to address risks arising from quality problems attributable to suppliers, GRAMMER pursues focused supplier development and conducts regular supplier audits. Using system-based supplier evaluations we continuously analyze and grade specific suppliers for their quality and performance in the supply process, but we cannot completely exclude the possibility that individual risks will arise that negatively impact our financial position, earnings and assets.

Financial risks

The Group is exposed to interest, currency and liquidity risks, alone due to its worldwide activities and the above-described risks from economic conditions. GRAMMER Group has to manage primarily currency risks originating from trade payables/receivables and procurement costs denominated in Czech koruna, US dollars, Mexican pesos and Chinese yuan. The Group counters currency risks through "natural hedging," that means increasing purchasing volumes in foreign currency regions or increasing local production. In addition, currency risks are hedged selectively via the financial market. A strong upward valuation of the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

GRAMMER Group cannot completely avoid fluctuations in the fixed interest markets and the increased volatility brings with it risks for the Group, which, despite all efforts, could affect our financial position, eanings and assets. The Group works to minimize interest rate risks through long-term debt refinancings and the use of derivatives but complete success cannot be guaranteed. In light of the current restrictive credit policies among banks, ensuring adequate liquidity reserves is a high priority. In 2011, adequate financing for the Group was safeguarded and structurally improved through prolongation of the existing debenture bond and issue of an additional long-term debenture bond, as well as securing short-term lines of credit at a guaranteed rate of interest. With maturities of three to seven years and low tranche volumes, dependency on specific maturities and banks was once more reduced. Liquidity risks are continually monitored and documented by way of a rolling Group-wide financial plan. Additionally, investments are selectively concluded via leasing and rental agreements. Despite the interest rate disadvantages that could result, greater emphasis is placed on the expansion of our liquidity, as well as creation of a prudent liquidity reserve. To a certain degree, this negatively affects interest income, a fact that we are willing to accept to pursue our strategic activities and safeguard our liquidity position. Our customer structure serves to limit debtor default risks, which are controlled through active receivables management in Controlling/Accounting. The financing status of our pension plans is heavily influenced by interest rate uncertainties and risks as well as by changes in accounting rules that can mean both increases or decreases in the present value of our accrued pension obligations. Pension obligations are carried at their actuarial values, in the computation of which the assumed interest rate plays an important role. The actual development of payouts can deviate from the computed values since assumptions regarding interest rates, wages and inflation are all uncertain in nature. Consequently, they pose potential risks to our financial position, earnings and assets.

Group Finance centrally tracks interest, currency and liquidity risks. A strategic treasury management, the effectiveness of which is reviewed regularly, is used to mitigate these risks. However, we cannot completely rule out that the risks discussed will negatively affect our financial position, earnings and assets.

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. Restrictions on our firm's international activities through import/export controls, tariffs or other regulatory barriers to trade represent a risk that, because of the nature of our operations, the Group cannot escape. In addition, our business activities can be adversely impacted or limited by export control regulations, trade restrictions and sanctions or countersanctions. Strict adherence to all legal requirements can produce limitations that can lead to disadvantages in our competitive environment. The many legal rules and regulations and constant changse in, among other things, tax rules can give rise to risks that can adversely impact our financial position, earnings and assets.

Human resource risks

GRAMMER relies on highly qualified staff and management personnel to effectively capitalize on business opportunities and build on our competitive advantage. For this reason, focused, 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. We also participate in recruiting events and job fairs at schools and universities to generate interest in GRAMMER among motivated, young professionals and specialists. Despite all these efforts, there is no guarantee now or in the future that the Group will be able to hire and retain the qualified employees and managers it needs in every country and business segment.

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 guaranteed, 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, GRAMMER has set up suitable security systems to protect against attacks from the outside and installed measures to deter such attacks, such as firewalls and virus scanners, as well as other activities, which we test regularly for effectiveness and adjust accordingly. A Group-wide IT security organization, charged with staying on top of the latest developments and proactively neutralizing threats, 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. Nonetheless, our worldwide activities, along with the general increase in threats and attacks, mean that our systems, networks, data and solutions are exposed to some level of risk. Depending on the severity, such threats can result in, e. g. data loss, system malfunctions (incl. production stoppage due to lack of data exchange), which would negatively affect our financial position, earnings and assets.

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. Nonetheless, external circumstances or internal errors could arise that result in risks for the Group.

Opportunities: Positive conditions in our core markets are fuelling growth

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 political or environmental factors do not result in rampant price growth in the commodities sector. Following the restructuring measures at all Group companies, and as a result of the additional steps taken in 2012, there may be favorable opportunities to expand within our existing, highly competitive markets. Based on the current product and customer portfolio, and the growth it will generate, we see opportunities for positive development in the current and subsequent years. Through the new focus on product and market relations, fast 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 and chances for growth have improved even in highly competitive markets.

With respect to our markets in China, we see a range of chances for our products in all business segments, as local OEM exporters are increasingly partnering with GRAMMER and demand for high-quality products is increasing for the local market. Through our announced entry to gain faster access to the Chinese truck market, we expect additional growth in this segment, in a market where our products and platforms were previously hardly present. In the NAFTA markets, we also see further potential for our entire product portfolio. With stabilization of OEMs in North America and increasing direct local production by European OEMs in the country, our worldwide supply and production capabilities could provide a competitive advantage for GRAMMER. A recovery of the economy in Brazil would open up further potential, given the extreme difficulties faced by this key market last year.

In Europe, given the focus on innovation and further expansion of competencies, we are deepening our command of the value chain, to allow better market positioning of the Company following completion of the structural optimizations in Germany. Moreover, new partners from other specialized industries are opening up additional new directions for growth and value-chain positions that will increase the attractiveness of our product range and contribute further to solid growth. With the takeover of headrest specialist, Nectec Automotive s.r.o., we are also strengthening our production and product platform, so that this acquisition also has the potential to open up new opportunities for revenue and earnings 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 position and earnings of the Company. At this time, we see no risks that could jeopardize the further existence of the Company, and additional risk-mitigating expansion is possible as a result of the above-named opportunities. 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. If an economic stabilization materializes, we would expect stable development of the Group from the current perspective.

Features of the internal control system

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

There is no legal definition of "the internal control and risk management system as 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 processes, the structures and processes outlined as follows are implemented in the internal control system. GRAMMER Group's Executive Board is assigned overall responsibility for the internal control and risk management system as it relates to the consolidated accounting process in the Group. All of the companies included in the consolidated financial statements and strategic divisions are linked into this system by way of defined management and reporting structures. The principles, the operational and organizational structure and the processes involved in the Group accounting-related internal control and risk management system are documented for the entire Group in a 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 statement;

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

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

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

Outlook

IMF expresses confidence in the world economy, uncertainties remain

Economic developments in 2013 will also be stressed with an array of uncertainties. The key risk continues to be development of the crisis in the eurozone. In its global economic forecast published in January 2013, the IMF expects the eurozone to remain stuck in recession this year and that its economies will shrink by 0.2 %. Things are not expected to get back on track until next year. The IMF is considerably more confident about the global economy as a whole. Worldwide, economic activity should grow by 3.5 %, a bit stronger than last year.

Germany looks to be able to once again escape the negative trend in the eurozone. Its gross domestic product is predicted to increase by 0.6 %. For the two countries of concern: Italy and Spain, the International Monetary Fund is again forecasting contraction of minus 1.0 % and minus 1.5 % respectively. The strongest impulses for the world economy are once more expected to come from the emerging and developing markets, which are set to grow at an aggregate rate of 5.5 %. There will, however, be substantial regional differences: China with a growth rate of 8.2 % and India at 5.9 % will dominate in Asia, the Latin American and Caribbean countries will add only 3.6 %. In the USA, the economy is expected to cool off a bit in 2013 and expand by about 2.0 %. Recovery in the real estate market and a favorable environment for the financial markets are expected to buoy private consumption. The risk as the IMF sees it is that, in its efforts to consolidate the Federal budget, the US government will hit the brakes too hard. After briefly slipping into recession, the IMF expects the Japanese economy to grow by about 1.2 % for all of 2013.

Outlook Automotive

Moderate growth for global car market

The VDA outlook for carmakers in 2013 is cautiously optimistic. On the whole, the passenger vehicle market should continue to grow, if only at a moderate rate. According to the automotive industry association, there will be 70.56 million new vehicle registrations worldwide this year, which represents an increase of 2 % over 2012. However, like last year, there will be significant regional differences. The market in Western Europe is again expected to shrink – albeit at a much slower rate than last year – by –3 % to 11.46 million units. In Germany, registration figures could fall by 2 % to 3.01 million passenger vehicles. While consumer buying will tend weaker, the VDA is hoping that commercial registrations – above all company cars – will again have a stabilizing effect. Once again the drive for the world market will come from Asian countries. In China, the VDA is expecting 14.03 million or 6 % more new passenger vehicle registrations and the Indian market could grow by 7 % and to 2.97 million units. Japan, on the other hand, is likely to see an 11 % drop to 4.07 million cars after last year's boom. The automotive sector in the United States will continue to grow. New registrations there are expected to increase by 5 % to 15.17 million light vehicles. With a 4 % rise, the light trucks segment is expected to be a bit weaker, but the passenger car segment (with a plus of 6 %) should be somewhat stronger.

Outlook Seating Systems

Commercial vehicle market showing signs of recovery

Commercial vehicle business is exceptionally cyclical and reacts faster and generally more drastically to changes in the overall economy. In all, the VDA expects new registrations (including buses) in the countries surveyed to increase 4 % to 11.26 million units – more than compensating for last year's drop. After years of strong growth, the USA is expecting a soft landing, with the market expected to stagnate at about 346,000 units. Brazil, too, should see a turn for the better after the market collapse last year, and registration numbers there are expected to grow by 5 % to 176,000 units. In China, the VDA likewise foresees a positive trend change and expects 7 % growth to 6.49 million commercial vehicles. Following last year's boom, Japan is expected experience a 10 % decline to about 718,000 commercial vehicle registrations.

The market environment remains difficult in Europe, where uncertainty is causing customers to continue to postpone investment decisions. The EU (excl. Cyprus and Malta) should see new registrations of commercial vehicles fall by 2 % to 1.67 million, with none of the major markets able to avoid the decline. Even in Germany, signs are pointing to a pull back of –3 % to 304,000 units. However, the German commercial vehicle industry is a bit more optimistic for 2013: According to the ifo business climate index, sentiment among truck manufacturers markedly improved in January.

Agricultural machinery stable

The VDMA estimates that the agricultural machinery industry in Germany will be able to maintain its high revenue level in 2013. Overall, the European Union market gives a similar picture: In light of continued expectations of favorable developments in key Eastern European import and export markets, and with the South American market bottoming out, the VDMA considers it possible that agricultural machinery production in terms of Europe-wide nominal revenues will remain stable. Over the medium to long term, growing demand for agricultural products will lead to added pressure to mechanize and thus have a positive effect on the agricultural machinery market. The association rates the potential, above all in the emerging countries, as high.

Construction sector showing signs of weakness

The Committee for European Construction Equipment (CECE) is more-or-less pessimistic for 2013. The markets that have exhibited strong growth up to now are threatened with a slowdown, and the countries still on the bottom are likely to get on their feet only gradually. Europe-wide austerity is also a drag on road construction. Growth in this segment will likely occur only as the result of replacement investments. On the other hand, the outlook for building construction – the largest customer segment in Europe – is somewhat better, as reflected in the growth of new orders in this area. Outside of Europe, the weak Chinese market is the CECE's primary concern.

Material handling segment cautiously optimistic

The German material handling industry is relatively optimistic for 2013. According to a survey by the industry association Bundesverband der Baumaschinen-, Baugeräte- und Industriemaschinenfirmen e. V. (bbi), companies in the industry are forecasting revenue growth of 3 %. This figure reflects a 2 % increase in new machine business, which will beat out used machinery business (+1 %).

Progress in the rail industry

According to the estimates by the German Railway Industry Association (VDB), the accessible world market for railroad equipment should expand by 2.7 % annually until 2017, with the Latin American region (excl. Mexico) and the Africa/Middle East region growing the strongest.

Business development forecast

Looking back to the final quarters of 2012, signs for the Group are stable. As hoped for, a positive earnings situation was achieved once more. On the whole, business in 2012 was stable, despite various rough spots. Based on the latest estimates of unit volumes by our customers and new project business, GRAMMER is planning with stable, slightly higher revenues over the next several years. The economy, however, will not see a strong recovery in early 2013, but will continue with sideways movement. The eurozone still faces threats from negative influences from financially weaker countries like Greece, Spain and Italy. GRAMMER Group has not been immune from the pull of the weaker markets, but additional new product launches may generate positive performance despite weakness – as they did in 2012. The further growth of GRAMMER Group also 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, a large number of projects are in developed or in the pipeline, and efforts continue to acquire new projects throughout all of our product groups and regions. These will further improve capacity utilization in Germany and at our plants abroad. The deciding factor will be the extent to which customers further drive these developments and move forward at the same speed with 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. For Europe, the difficulties in business with one or the other OEM could result in problematic sales developments for the Group in 2013 and beyond. On the whole, however, we expect targeted growth in Europe.

Seating Systems faces heavier competition in our established markets, as well as increasing globalization as emerging markets continue their rise. Following the rapid growth seen in 2011 and 2012, a degree of stagnation is possible, especially in offroad markets. On the whole, revenues will increase somewhat as a result of newly launched truck seat production, but also become more complex. As the year progresses, we expect revenue to remain at a high level, though gains in our traditional markets are only small. In China, GRAMMER Group anticipates that our new activities will result in higher revenues initially, and improving earnings as capacity utilization rises.

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. 2013 will also be characterized by commissioning and expansion of console and truck seat production in China as well as by the integration of Nectec Automotive s.r.o. in the headrest segment. Implementation of the package of efficiency measures introduced by the Executive Board will continue undiminished in 2013. Over the long term, we foresee a modest improvement in the macroeconomic environment, with the possibility of some recovery though activity could easily become recessionary as a result of the euro crisis coupled with the massive budget deficits of other countries, such as the USA. Provided markets, especially in China and South America, continue their stable development, we expect earnings to continue their gradual improvement in 2013 and beyond, building on the solid foundation created by the measures introduced and implemented.

Investment

With respect to capital expenditures, we plan to once more keep them on a level with the prior year. In order to continue driving growth of the Company, further investments will be made in NAFTA and Asian markets. One area of focus in 2013 will continue to be Europe, as further growth will arise from the expansion of center console production and pending larger-scale customer projects in the headrest segment. At the same time, an initiative will be launched for optimization of our R&D activities. Furthermore, the expansion of lean production methods worldwide will continue to optimize costs. The acquisition of Nectec Automotive s.r.o will be completed beginning of 2013 and thus qualifies as an investment.

Research and development

In the Automotive division, we intend to upgrade the current product portfolio and deepen our value chain. The emphasis of this will be on expansion to include new vehicle models and strengthening of our core competencies. 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 in 2013 to focus on the new MSG 115 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 manufacturing technologies and production materials 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. A central and overarching topic for all business segments is lightweight construction, with a dual focus on lightweight plastic construction and development of lightweight metallurgical construction that is strong enough to withstand heightened mechanical stresses. In the area of seats, especially truck seats, GRAMMER has launched a major lightweight construction offensive, with a substantial long-term focus. Additional comprehensive product range enhancements have been identified to propel both divisions forward into new technological fields and innovations, which GRAMMER will take advantage of in 2013 and beyond.

Employees

Changes in the number of employees are determined primarily by market conditions and cost considerations in Europe and Germany, as well as Company expansion in the Far East and Americas.

In light of the current economic situation, the Group will make minor additions to its production workforce to align with the revenue and order situation. GRAMMER thus anticipates a slight increase in the number of employees for the Group.

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 more or less positive given the development of the economy. Risks are increasing with respect to the development of commodity markets, as well as wage development, especially for skilled workers, in Europe. Impacts from environmental catastrophes and demand growth as a result of the global economic recovery 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 along with the extreme high levels of government debt facing some industrialized countries and the resulting euro crisis. A rapid recovery of the euro, however, would also have negative consequences – at least for the portion of sales attributable to our exporting customers in Europe – and would increase both price pressure and the necessity for capacity adjustments. We will continue to broaden and intensify internationalization in 2013, to establish an even greater presence in the emerging markets – especially in China – and further improve revenues across all markets. To mitigate risks, specific measures will continue to be pushed forward, including the packages of efficiency measures introduced by the Executive Board, along with an expansion of market and customer analysis, in order to better cope with any economic soft spots. Potential opportunities in this economic environment will result mainly from the expected moderate rise in revenue and from expansion of the product range, which will strenghten the competitive position we have in our markets. With respect to operating profit in 2013 and the ensuing years, we expect a slight percentage increase over last year. 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. In particular, market risks arising from political instability, such as tensions in the Middle East and the threat of war in this crisis-plagued region, or ongoing problems facing eurozone countries, could have a negative impact on earnings over the long term. Development of the European debt and currency crisis, and the related economic difficulties, represent a further potential source of long-term risk.

Summary statement concerning the forecast of the Executive Board

In view of the business situation in the initial months of 2013, and in light of the ongoing instability of the economic environment, our outlook on the performance of GRAMMER Group is cautiously positive. We do not expect any significant growth momentum to materialize in 2013. The leveling off of the economy in the second half of 2012 will continue to weigh on economic activity in the first half of 2013. However, revenue and earnings should be slightly better for 2013 as a whole. Assuming stabilization and further improvement of the economy, and provided commodity price increases are moderate with stable exchange rate developments, we will continue to grow in 2013 and in the years thereafter. We also expect operating profit in and after 2013 to be slightly higher than last year. Our outlook for earnings in 2013 is likewise positive, provide the coming years are not too severely effected by the aftereffects of the euro crisis and emerging economic risks.

Events subsequent to the reporting date

Germany's Federal Cartel Office approved the takeover of Nectec Automotive s.r.o. by GRAMMER AG, which acquired 100% of Nectec Automotive s.r.o. on February 21, 2013.

Effective February 21, 2013, Mr. Bernhard Hausmann was appointed by the Amberg Local Court as a member of the Supervisory Board. Mr. Hausmann will serve as employee representative to the Supervisory Board, succeeding Mr. Martin Bodensteiner, who left the Supervisory Board on December 29, 2012.

Amberg, March 19, 2013

GRAMMER AG
The Executive Board

Consolidated Financial Statements Index

Consolidated Statement of Income for the fiscal year ended December 31, 2012

EUR k

	Note	2012	2011
Revenue	7	1,143,556	1,093,497
Cost of sales	8.3	−1,001,921	−951,007
Gross profit		**141,635**	**142,490**
Selling expenses	8.3	−27,281	−27,785
Administrative expenses	8.3	−80,000	−75,385
Other operating income	8.1	12,898	10,076
Operating profit/loss (–)		**47,252**	**49,396**
Financial income	8.2	2,024	2,233
Financial expenses	8.2	−12,583	−15,381
Other financial result	8.2	−718	−1,991
Profit/loss (–) before income taxes		**35,975**	**34,257**
Income taxes	9	−11,553	−12,159
Net profit/loss (–)		**24,422**	**22,098**
Of which attributable to:			
Shareholders of the parent company		24,384	22,040
Non-controlling interests		38	58
		24,422	**22,098**
Earnings/loss (–) per share			
Basic/diluted earnings/loss (–) per share in EUR	10	2.17	2.02

Consolidated Statement of Comprehensive Income for the fiscal year ended December 31, 2012

EUR k

	2012	2011
Net profit/loss (–)	24,422	22,098
Gains/Losses (–) from currency translation of foreign subsidiaries		
Gains/Losses (–) arising in the current period	–2,990	–330
Less transfers recognized in the Income Statement	0	0
Tax expenses (–)/Tax income	0	0
Gains/Losses (–) from currency translation of foreign subsidiaries (after tax)	–2,990	–330
Gains/Losses (–) from cash flow hedges		
Gains/Losses (–) arising in the current period	–1,414	–1,578
Less transfers recognized in the Income Statement	–199	632
Tax expenses (–)/Tax income	444	284
Gains/Losses (–) from cash flow hedges (after tax)	–1,169	–662
Gains/Losses (–) from net investments in foreign operations		
Gains/Losses (–) arising in the current period	1,096	–1,900
Less transfers recognized in the Income Statement	0	0
Tax expenses (–)/Tax income	0	0
Gains/Losses (–) from net investments in foreign operations (after tax)	1,096	–1,900
Other comprehensive income	–3,063	–2,892
Total comprehensive income (after tax)	21,359	19,206
Of which attributable to:		
Shareholders of the parent company	21,318	19,160
Non-controlling interests	41	46

Consolidated Statement of Financial Position for the fiscal year ended December 31, 2012

ASSETS

EUR k

	Note	2012	2011
Non-current assets			
Property, plant and equipment	12	167,154	159,680
Intangible assets	13	59,014	57,393
Other financial assets	16	5,201	4,866
Income tax assets		57	70
Deferred tax assets	9.1	35,684	38,577
		267,110	**260,586**
Current assets			
Inventories	14	108,380	103,993
Trade accounts receivable	15	142,451	137,801
Other current financial assets	16	60,899	57,930
Short-term income tax assets		2,298	2,781
Cash and short-term deposits	18	73,314	46,749
Other current assets	17	14,984	15,339
		402,326	**364,593**
Total assets		**669,436**	**625,179**

Consolidated Statement of Financial Position for the fiscal year ended December 31, 2012

EQUITY AND LIABILITIES

EUR k

	Note	2012	2011
Equity			
Subscribed capital	19	29,554	29,554
Capital reserve	19	74,444	74,444
Own shares	19	–7,441	–7,441
Retained earnings	19	131,426	111,528
Accumulated other comprehensive income	19	–460	2,606
Equity attributable to shareholders of the parent company		227,523	210,691
Non-controlling interests	19	522	474
Total equity		228,045	211,165
Non-current liabilities			
Non-current financial liabilities	21	76,778	129,776
Trade accounts payable	23	5,254	3,260
Other financial liabilities	24	9,789	6,532
Other liabilities	25	0	2,302
Retirement benefit obligations	20	68,175	64,495
Income tax liabilities		571	786
Deferred tax liabilities	9.1	20,288	19,506
		180,855	226,657
Current liabilities			
Current financial liabilities	21	72,822	9,090
Current trade accounts payable	23	115,534	110,619
Other current financial liabilities	24	12,012	4,465
Other current liabilities	25	48,336	49,625
Current income tax liabilities		2,197	4,499
Provisions	22	9,635	9,059
		260,536	187,357
Total liabilities		441,391	414,014
Total equity and liabilities		669,436	625,179

Consolidated Statement of Changes in Equity for the fiscal year ended December 31, 2012

Note 19

EUR k

					Accumulated other comprehensive income					
	Subscribed capital	Capital reserve	Revenue reserve	Own shares	Cash flow hedges	Currency translation	Net investments in foreign operations	Total	Non-controlling interests	Group equity
As of January 1, 2012	29,554	74,444	111,528	–7,441	–662	9,939	–6,671	210,691	474	211,165
Net profit/loss (–) for the period	0	0	24,384	0	0	0	0	24,384	38	24,422
Other comprehensive income	0	0	0	0	–1,169	–2,993	1,096	–3,066	3	–3,063
Total comprehensive income	0	0	24,384	0	–1,169	–2,993	1,096	21,318	41	21,359
Capital increase by issuing new shares	0	0	0	0	0	0	0	0	0	0
Transaction costs	0	0	0	0	0	0	0	0	0	0
Dividends	0	0	–4,486	0	0	0	0	–4,486	–4	–4,490
Own shares	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	11	11
As of December 31, 2012	29,554	74,444	131,426	–7,441	–1,831	6,946	–5,575	227,523	522	228,045

Consolidated Statement of Changes in Equity for the fiscal year ended December 31, 2011

EUR k

					Accumulated other comprehensive income					
	Subscribed capital	Capital reserve	Revenue reserve	Own shares	Cash flow hedges	Currency translation	Net investments in foreign operations	Total	Non-controlling interests	Group equity
As of January 1, 2011	26,868	58,237	89,488	−7,441	0	10,257	−4,771	172,638	463	173,101
Net profit/loss (–) for the period	0	0	22,040	0	0	0	0	22,040	58	22,098
Other comprehensive income	0	0	0	0	−662	−318	−1,900	−2,880	−12	−2,892
Total comprehensive income	0	0	22,040	0	−662	−318	−1,900	19,160	46	19,206
Capital increase by issuing new shares	2,686	16,414	0	0	0	0	0	19,100	0	19,100
Transaction costs	0	−207	0	0	0	0	0	−207	0	−207
Dividends	0	0	0	0	0	0	0	0	−35	−35
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	0	0
As of December 31, 2011	29,554	74,444	111,528	−7,441	−662	9,939	−6,671	210,691	474	211,165

Consolidated Statement of Cash Flow for the fiscal year ended December 31, 2012

Note 26

EUR k	2012	2011
1. Cash flow from operating activities		
Profit/loss (–) before income taxes	35,975	34,257
Non-cash items		
Depreciation of property, plant and equipment	25,099	23,785
Amortization of intangible assets	4,197	3,750
Changes in provisions and pension provisions	2,521	5,309
Other non-cash changes	–4,547	–2,806
Changes in net working capital		
Decrease/Increase (–) in trade accounts receivable and other receivables	–7,264	3,296
Decrease/Increase (–) in inventories	–4,387	–11,195
Decrease/Increase (–) in other assets	3,389	–2,013
Decrease (–)/Increase in accounts payable and other liabilities	17,546	16,907
Gains/Losses from disposal of assets	–23	–817
Income taxes paid	–9,597	–12,464
Cash flow from operating activities	**62,909**	**58,009**
2. Cash flow from investing activities		
Purchases		
Purchase of property, plant and equipment	–31,684	–33,825
Purchase of intangible assets	–5,797	–3,757
Purchase of financial investments	–578	–232
Aquisition of subsidiaries (less acquired cash)	0	–9,476
Disposals		
Disposal of property, plant and equipment	1,574	2,403
Disposal of intangible assets	0	9
Disposal of financial investments	193	190
Interest received	2,024	2,233
Government grants received	1,361	1,981
Cash flow from investing activities	**–32,907**	**–40,474**
3. Cash flow from financing activities		
Dividend payments	–4,490	0
Issue of new shares	0	18,893
Changes in non-current liabilities to banks	–52,998	31,617
Changes in current liabilities to banks	63,662	–27,223
Changes in lease liabilities	–1,059	–1,666
Interest paid	–9,620	–11,183
Cash flow from financing activities	**–4,505**	**10,438**
4. Cash and cash equivalents at end of period		
Net changes in cash and cash equivalents (sub-total of items 1–3)	25,497	27,973
Effects of exchange rate differences of cash and cash equivalents	998	541
Cash and cash equivalents as of January 1	44,905	16,391
Cash and cash equivalents as of December 31	**71,400**	**44,905**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	73,314	46,749
Bank overdrafts	–1,914	–1,844
Cash and cash equivalents as of December 31	**71,400**	**44,905**

Notes to the Consolidated Financial Statements for the Fiscal Year ending December 31, 2012

1 Information about GRAMMER Group 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/Main and Munich stock exchanges since 1996.

GRAMMER AG has been included in the SDAX of the Frankfurt Stock Exchange since August 2005.

International Securities Identification Number (ISIN): DE0005895403
German Securities ID (WKN): 589540
Common Code: 006754821
Ticker Symbol: GMM

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, 2012, the Company employed 8,672 persons (excluding trainees and including 253 employees in Central Services) at 29 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at GRAMMER Group Central Services in Amberg. The GRAMMER Group is managed by a three-man Executive Board and is headquartered in Amberg (Bavaria). GRAMMER Group has divided its activities into the Automotive and Seating Systems segments. The main activities of the Group are described in Note 6.

General

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

The consolidated financial statements of GRAMMER AG (the „Company") for the fiscal year ending December 31, 2012 were prepared in accordance with section 315 a (1) HGB and were approved by the Executive Board for submission to the Supervisory Board on March 19, 2013.

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 prorate 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 consolidated statement of financial position (balance sheet) is broken down by maturities. Net income is presented in two separate statements: an income statement and a statement of comprehensive income. The income statement was prepared using the cost of sales method.

Declaration of conformity with IFRS

The consolidated financial statements of GRAMMER AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Principles of consolidation

The consolidated financial statements include the financial statements of GRAMMER AG and the consolidated subsidiaries as of December 31 of each fiscal year. The financial statements of the subsidiaries are prepared in accordance with uniform Group accounting policies also applied for the financial statements of the parent company. The reporting date of the financial statements of the companies included in the consolidated financial statements corresponds to the balance sheet date of the consolidated financial statements. If necessary, the financial statements of subsidiaries are adjusted to conform to the accounting policies applicable in the Group.

Any intragroup balances, transactions, income, expenses and unrealized profits or losses resulting from intragroup transactions that are included in the carrying amount of the assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, i. e. from the date on which the Group effectively obtains control of the company concerned. The subsidiary is no longer included in the consolidated financial statements as soon as the parent effectively loses control over the company concerned. Net income from subsidiaries acquired or sold in the course of the year is recognized in the consolidated income statement in line with the actual acquisition or disposal date.

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

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

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 cumulated 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 formerly attributable to accumulated other comprehensive income, depending on the applicable IFRS rules, is recognized under revenue reserves or via the income statement.

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 minority interest. In the context of any business combination, the Group values minority 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.

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 is recognized in the income statement.

When the Group acquires a company, it determines 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. Any embedded derivatives in underlying assumptions are also accounted for separately by the Company.

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. The agreed contingent consideration is measured at fair value at the time of the business combination. Subsequent changes to the fair value of a contingent consideration representing an asset or liability are either recognized in profit and loss or other income in accordance with IAS 39. If a contingent consideration is equity, the original amount is not remeasured and subsequent settlement is taken directly to equity. If the contingent consideration does not fall under the scope of IAS 39, measurement follows the relevant IFRS rules.

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.

Interest in a joint venture
The Group is involved in a joint venture, which is defined as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group employs proportional consolidation for accounting treatment of its interest in the joint venture. The Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with similar items in the financial statements. The financial statements of the joint venture for a given fiscal year are prepared in accordance with uniform Group accounting and asset measurement policies also applied for the financial statements of the parent company.

If the Group contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction reflects the substance of the transaction. If the Group purchases assets from a jointly controlled entity, it does not recognize its share of the gain for the joint venture from the transaction until it resells the asset to an independent party.

The joint venture remains proportionately consolidated until joint control by the Group is lost or ended and is pro rata consolidated in the group financial statements.

The Group intends to apply the new IFRS 11 standard, which is mandatory for all fiscal years starting after January 1, 2014, prospectively beginning January 1, 2013. The Group expects that application of the standard will result in accounting changes to the joint venture GRA-MAG, and valuation at equity instead of proportionate consolidation. The effects are explained in section 2.4.2.

Scope of consolidation
In addition to GRAMMER AG, the scope of consolidation now includes five domestic and 18 foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IAS 27. A joint venture within the meaning of IAS 31 is also proportionately consolidated. GRAMMER AG holds 50% of the voting rights in this joint venture.

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, income and expenses and contingent liabilities of the reporting period. Assumptions and estimates mainly relate to assessing the value of intangible assets, determining uniform economic useful lives for property, plant and equipment, assessing the recoverability 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 the same reporting period for equally reasonable reasons. In particular, the circumstances prevailing at the time of preparation of the consolidated financial statements as well as the anticipated realistic development of the global and sector-specific environment were used as the basis for forecasting the future business 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 forecast developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Estimation uncertainties
The major 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. Assumptions and estimates consistently relate to the parameters in effect at the time of preparation of the consolidated financial statements. As a result of market development and conditions outside Group control, however, these may change over time. Such changes are only taken into account when they have occurred.

Impairment of goodwill

The Group tests goodwill for impairment at least once annually. This requires an estimate to be made of the value in use of the cash-generating units to which the goodwill has been attributed. In order to estimate the value in use, the Group must estimate the expected future cash flows from the cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. The cash flows are extrapolated from budgets for the subsequent three years, which relates to the estimates of the management as to the realizable value. The realizable value depends largely on the discount rate applied for discounted cash flow method, as well as the expected future cash flows and rate of growth used as the basis for extrapolation. As of December 31, 2012, the carrying amount of goodwill amounted to EUR 35,854 thousand (2011: 35,859). For further details, please refer to Note 13.1.

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

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 in 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 available in Note 9.1.

Pensions and other post-employment benefits
Obligations under post-employment benefit plans and the associated net expense in the period are defined in accordance with actuarial values. These valuations are based on key assumptions including the discount factor, salary trends, life expectancy, mortality and future pension increases. The discount factors applied are determined on the basis of market yields at the balance sheet date on high-quality corporate bonds with the appropriate maturity and currency denomination. In times of crisis, this rate may result in a narrow range of available options with accordingly low yield expectations given the high-quality of the bonds. The expense from defined post-employment benefit plans is determined on the basis of actuarial calculations. In line with the long-term nature of these plans, such estimations are subject to material uncertainties. In light of financial market volatility, this can have a substantial effect on the amount of the obligations, which until now have been accounted for using the corridor method, under which mathematical gains/losses are recorded only after passing a certain threshold. As of December 31, 2012, provisions for pension and similar obligations amounted to EUR 68,175 thousand (2011: 64,495). For further details, please refer to Note 20.

The amended version of IAS 19 applicable starting January 1, 2013 no longer permits use of the corridor method. In consequence, the actuarial gains/losses are to be recognized against equity in initial application. This accounting policy will bring about the changes outlined in the following table as of January 1, 2013, which at the reporting date – due to the very low long-term average of the discount factor as a result of the euro crisis – rose significantly but have not yet been realized:

	Dec. 31, 2012	Jan. 1, 2013
Pensions and other obligations	68,175	94,002
Equity	228,045	202,218

2.3 Summary of significant accounting policies

Currency translation
The Consolidated Financial Statements were prepared in Euro (EUR). 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. 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, that are classified as a net investment and 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 EUR from the respective local currency at the middle rate on the balance sheet date.

Income statement items are translated into EUR at the average exchange rate for the year. The net income for the year so determined is taken to the consolidated balance sheet. Any translation differences are recorded in equity with no effect on income.

For currency translation purposes, the following exchange rates were applied for the major currencies outside the eurozone that are of relevance to the Group:

		Average rate		Closing rate	
		2012	2011	2012	2011
Brazil	BRL	0.398	0.430	0.370	0.414
China	CNY	0.123	0.111	0.122	0.123
United Kingdom	GBP	1.229	1.149	1.225	1.197
Japan	JPY	0.010	0.009	0.009	0.010
Mexico	MXN	0.059	0.058	0.058	0.055
Poland	PLN	0.239	0.243	0.245	0.224
Czech Republic	CZK	0.040	0.041	0.040	0.039
Turkey	TRY	0.430	0.430	0.425	0.409
USA	USD	0.774	0.718	0.758	0.773

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 expenditure for discontinued operations is presented separately from the income and expenditure for continuing operations, and separately recognized as after-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, and if these components are subject to regular replacement, the Group recognizes these separately and depreciates them individually. The useful lives assumed correspond to the period over which the asset or relevant component 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, as long as 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 amount of lease payments made.

Any lease or rent payments under operating leases involving subsidiaries as lessee are recognized as an expense directly in the income statement.

Borrowing cost

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

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 whether goodwill is impaired, it is necessary to allocate the goodwill acquired by the business combination from the day of acquisition to each of the cash-generating units that will benefit from the business combination. This is carried out irrespective of any previous allocation of other Group assets or liabilities to these units.

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 and amortized over their useful life (software: three to six 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 chosen. Any such changes are treated as a change in an accounting estimate.

Intangible assets with indefinite useful lives are tested for impairment at least once annually for each asset or on the level of the cash-generating unit. These intangible assets are not amortized. The useful life of an intangible asset with an indefinite useful life is tested annually to establish if an indefinite useful life is still to be assumed. Should this not be the case, the asset is deemed to have a finite life and a change in an accounting estimate from indefinite to finite is recognized prospectively.

Amortization and impairment for the year under review have been attributed 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 licenses 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 intangible 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 of the asset or cash-generating unit and its value in use. The recoverable amount must be established for each asset individually, unless an asset does not generate any cash flows that are largely independent from those of other assets or groups of assets. Should the carrying amount of an asset exceed its recoverable amount, the asset is deemed impaired and is written down to its recoverable amount. In order to establish the value in use, the estimated future cash flows are discounted to their present value, taking into account a discount rate before taxes reflecting current market expectations on interest effect and the specific risks related to the asset.

Impairment costs of continued operations are recognized in those cost categories that reflect the function of the impaired asset.

As of each balance sheet date, the Group reviews if there is any indication that an impairment loss recognized in previous periods might no longer be existent or may have decreased. If there is any such indication, the recoverable amount is estimated. An impairment loss recognized in prior periods is 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 is 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 regular way purchases or sales as part of a contract, the conditions of which envisage delivery of the asset within a period, which is normally set by law or the conventions of the respective market, the settlement date, i.e. the date on which the asset is delivered to or by the Group, is the date on which the asset is first recognized or derecognized in the balance sheet.

If contracts to buy or sell non-financial items fall under the scope of IAS 39, they are accounted for in accordance with the procedures 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 measurement 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 in accordance with IAS 39 and are effective as such. If agreements contain embedded derivatives, the derivatives are accounted for separately from the underlying agreement when the economic attributes and risks of the embedded derivative are not closely connected to the economic attributes and risks of the underlying agreement. The Group establishes whether embedded derivatives are to be accounted for separately from the underlying agreement when it becomes a counterparty for the first time. A reassessment takes place only if there are major changes to the agreement terms, which result in a significant change to the payment flows.

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 when they are derecognized or written down or 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. Non-realized gains or losses are recognized as other gains/losses under the provision 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 provision 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 it 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 involvement.

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

If the continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement 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 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 other profit/loss and recognized via the income statement. Impairment of equity instruments is 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 – is eliminated from other profit/loss and recognized via 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 the profit or loss statement.

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

The Group determines classification of its financial assets upon initial recognition. Upon initial recognition, financial liabilities are measured at fair value. In the case of loans, directly attributable transaction costs are also taken into account.

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

Subsequent recognition of financial liabilities

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

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

Financial liabilities that fall under the category "financial liabilities measured at fair value through profit or loss" are recognized at fair value in subsequent periods and the resultant gains and losses are recognized in the income statement.

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 recognized 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 write-downs.

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.

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.

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.

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

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

The effective portion of the gain or loss from a hedging instrument is recognized directly in equity, whereas the ineffective portion is recognized directly in the income statement. 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 similarly to 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 gains/losses, 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 valued at cost under strict application of the lower-of-cost-and-market principle. Costs of purchase are measured in the Group using a moving average price and an adequate portion of the costs associated with the procurement of goods. In addition to directly attributable costs, the costs of conversion include reasonable portions of manufacturing and materials overheads as well as depreciation. Administrative expenses are included insofar as they relate to production. General administrative expenses and interest expenses are not recognized. 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 in accordance with the stage of completion as of the balance sheet date (percentage-of-completion-method) in accordance with IAS 11. 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 (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 recognized as an expense in the period in which they are incurred. Any expected project losses are recognized as provisions.

Cash and cash equivalents

Cash and short-term deposits, as reported in the balance sheet, include cash in hand, bank balances and short-term deposits with original terms to maturity of less than three months. These are recognized at amortized cost.

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

Own shares

If the Group acquires own shares, these are carried at cost and deducted from equity. The purchase, sale, issue or cancellation of own shares is recognized directly in equity. Any differences between the carrying amount and the consideration paid are recognized in equity.

Other provisions

In accordance with IAS 37, provisions are recognized insofar as the Group, as a result of a past event, has a present obligation vis-à-vis third parties that will likely cause an outflow of resources and a reliable estimate can be made with respect to the amount of the obligation.

Where the Group expects at least a partial reimbursement of a provision carried as a liability (e.g. in the case of an insurance policy), the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The expense relating to the provision is presented in the income statement net of the amount recognized for the reimbursement. Where the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the risks specific to the liability. When discounting, the increase in the amount of a provision reflecting the time value of money is recognized as interest expense. Provisions for warranty costs are recognized as of the date of the sale of the respective product. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation.

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 beneficiaries and differences between actual trends (e.g. salary or pension increases) compared to the assumptions on which the calculations were based. In accordance with the option set forth in IAS 19, this amount is allocated in the GRAMMER Group over the expected average remaining working lives of the employees and recognized as appropriate in the balance sheet and income statement if the unrecognized actuarial gains or losses at the beginning of the fiscal year exceed 10% of the greater of the defined benefit obligation or the fair value of any plan assets at the beginning of the fiscal year.

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 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, and are 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 asset. In the current fiscal year, EUR 434 thousand in direct grants related to expenses within the period were recognized as income, as well as EUR 1,361 thousand in grants related to assets, which served to reduce their acquisition cost.

To the extent that loans or other subsidies 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 liabilities from deductible temporary differences, which arise from the initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction had no influence on net income for the period as reported in the financial statements nor on the taxable income are not recognized.

- Deferred income tax assets arising from taxable temporary differences in connection with investments in subsidiaries, associates and interests in joint ventures are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income against which the temporary differences can be utilized.

As of each balance sheet date, the carrying amount of deferred income tax assets is reassessed and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the deferred income tax asset can be at least partially utilized. Unrecognized income tax assets are reassessed as of each balance sheet date and recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

Deferred income taxes and liabilities are measured at the income tax rates expected to apply to the period when the asset is realized or the liability settled, based on the income tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income taxes referring to items that are recognized directly in equity, depending on the types of transactions, are recognized either in other income or 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, 2012:

IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets
With this amendment, the IASB demands extensive new disclosures on transferred financial assets that have not been derecognized to enable users of its financial statements to understand these assets and associated liabilities. The amendment also calls for disclosures on the entity's continuing involvement at the reporting date in transferred and derecognized financial assets to enable users of financial statements to evaluate the nature of, and risks associated with, these assets. The amendment must be adopted for this first time for fiscal years beginning on or after July 1, 2011. As the Group does not have any such instruments, no additional disclosures were necessary.

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

EU endorsement done

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 2012. The Group does not prospectively apply these standards and interpretations.

IAS 1 Presentation of Financial Statements – Presentation of Components of Other Comprehensive Income

The amendments to IAS 1 were published in June 2011 and are to be applied for the first time in the fiscal year beginning on or after July 1, 2012. The amendment to IAS 1 concerns the presentation of components of other comprehensive income. Components to be reclassified to profit or loss at a future point in time must be presented separately from items that will remain in equity. The amendment merely affects presentation and thus has no impact on the net assets, financial position and results of operations of the Group.

Amendment to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment to IFRS 1 was published in December 2010 and must be applied for the first time in the fiscal year beginning on or after January 1, 2013. The amendment deletes fixed dates for derecognizing financial assets and liabilities and for regulations to recognize a gain or loss at the time of addition in accordance with IFRS, and replaces these with the time of transition to IFRS. The amendment also clarifies how an entity should resume presenting financial statements in accordance with IFRS after a period in which the entity was unable to fully comply with IFRS due to a functional currency featuring severe hyperinflation. The new rules are not yet applicable to the Group and will therefore have no impact on the net assets, financial position or results of operations of the Group.

IFRS 10 Consolidated Financial Statements

IFRS 10 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. The new standard replaces the provisions of the former IAS 27 Consolidated and Separate Financial Statements that addresses accounting for consolidated financial statements, and Interpretation SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model which applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significantly more judgment to determine which entities are controlled and whether these are therefore required to be included in the consolidated financial statements by a parent. In June 2012, the revised transition regulations for IFRS 10 – 12 were also published which aimed to simplify first-time adoption of the new standards. However, these have not yet been endorsed. The Group will prospectively adopt the regulations of IFRS 10 on January 1, 2013, in conjunction with the prospective adoption of IFRS 11 and IFRS 12. The Group does not expect any change in the scope of consolidation as a result of the prospective adoption, but merely clarification of the inclusion and type of control.

IFRS 11 Joint Arrangements

IFRS 11 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. Early adoption of the new standard is possible. The standard replaces IAS 31 Interests in Joint Ventures and Interpretation SIC-13 Jointly-controlled entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. In the future, these entities will be accounted for solely at-equity in the consolidated financial statements. Application of the new standard will impact net assets of the Group because jointly controlled entities which were previously proportionately consolidated, i.e. whose assets and liabilities were included on a pro rata basis in the financial statements, must now be accounted for using the at-equity method. The Group participates in one jointly-controlled company (see Note 4 for explanations of the accounting).

The Group will prospectively adopt IFRS 11 at the beginning of the fiscal year January 1, 2013.

The Group expects a change in the jointly-controlled company GRA-MAG as a result of using the equity method instead of the former proportionate consolidation method after applying and carefully examining the new rules of IFRS 11.

The table below highlights the effects of the accounting change as a result of applying the standard:

Assets	Dec. 31, 12	Jan. 1, 13
Non-current assets	267,110	268,105
Current assets	402,326	402,145
Total assets	669,436	670,250

Liabilities	Dec. 31, 12	Jan. 1, 13
Shareholders' equity	228,045	237,559
Non-current liabilities	180,855	173,615
Current liabilities	260,536	259,076
Sum total liabilities	441,391	432,691
Total liabilities	669,436	670,250

As of the recording date January 1, 2013, the assets and liabilities proportionately consolidated in the Group will be eliminated and the "at equity" item offset.

The change will positively influence the shareholders' equity item of the Group due to the negative shareholders' equity of the jointly-controlled company. Income and expenses proportionately consolidated in the 2012 consolidated financial statements (please refer to Note 4) no longer apply.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. The standard combines the disclosure requirements in Group accounting for interests in subsidiaries as previously included in IAS 27, for joint arrangements, associates as previously included in IAS 31 and IAS 28 and for structured entities into one comprehensive disclosure standard. Given that the new standard sets forth additional disclosure requirement besides the explanatory requirements already applied, Group reporting on such interests will have an expanded scope in the future. The Group will prospectively adopt IFRS 12 at the beginning of the fiscal year beginning on January 1, 2013.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities
The amendments to IFRS 32 and IFRS 7 were published in December 2011 and must be applied for the first time in the fiscal year beginning on or after January 1, 2014 and January 2013 respectively. The amendments are intended to address inconsistencies in current practice through additional guidelines for applying the offsetting criteria. However, the existing rules for the offsetting of financial instruments have been retained. The amendments also introduce additional disclosure requirements. They will most likely expand even further the volume of disclosures on financial instruments. However, they will not have any material influence on the recognition and valuation of assets and liabilities in the consolidated financial statements and the results in the future fiscal years.

IFRS 13 Fair Value Measurement
IFRS 13 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2013. The standard describes how to measure fair value under IFRS and defines a number of quantitative and qualitative disclosures about fair value measurements. The standard does not specify when an entity is required or permitted to use fair value measurement for its assets and liabilities. IFRS 13 defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date. The Group is currently evaluating the impact of the new standard on the Group's net assets, financial position and results of operations. First evaluations suggest that no material effects are expected.

Amendment to IAS 12 – Deferred taxes: Realization of underlying assets
The amendment to IFRS 12 was published in December 2010 and must be applied for the first time in the fiscal year beginning on or after January 1, 2013. The amendment to IAS 12 introduces a simplification rule. The amendment clarifies the rules for measurement of deferred taxes on investment property measured using the fair value model. It is based on the (rebuttable) assumption that for fair value measurement of deferred taxes on property according to IAS 40, the carrying amount of such an asset must be recoverable entirely through sale. Deferred tax arising on non-depreciable assets valued using the revaluation model in accordance with IAS 16 should always be based on the sale rate. In jurisdictions subject to German law, application is not expected to have any effect on net assets, financial position and results of operations.

IAS 19 Employee Benefits
The IASB has carried out a comprehensive revision of IAS 19. The amendments span from significant changes, for example the calculation of the expected return on plan assets and the abolition of the corridor method, to simple clarifications or rewordings. The revised standard IAS 19 was published in June 2011 and is to be adopted for the first time in the fiscal year beginning on or after July 1, 2013. The standard must be retrospectively applied. Since the Group applies the corridor method which has meanwhile been abolished as a result of the amendment, in the future the provision amount will reflect the full extent of the pension commitments, with actuarial gains and losses being fully recognized in comprehensive income in the period when they occur. Furthermore the past service costs from plan changes are immediately recognized in net profit or loss in the period in which the changes took place and is no longer divided up over several years. In the future, the revised standard will impact pension expense since the return on plan assets is no longer dependent on the actual portfolio structure but will be computed using the same interest rate as that used for discounting the contributions-based commitment. In the income statement, the amounts are shown offset. The Group does not have any plan assets which would be affected by this regulation.

Upon first-time application of the new regulation in fiscal year 2013, according to our preliminary estimates the provision amount will increase by EUR 25.8 million to EUR 94.0 million as of January 1.

The table below retrospectively highlights the effects in detail:

EUR k	
As of January 1, 2011	
Increase in provisions for pensions and similar commitments	3,417
Decline in deferred tax liabilities	1,025
Net reduction in the opening value of the revenue reserves	2,392
For the period January 1 to December 31, 2011	
Increase in provisions for pensions and similar commitments	1,972
Net increase in provisions for pensions and similar commitments	1,972
Decline in deferred tax liabilities	564
Expense recognized in other comprehensive income	1,408
For the period January 1 to December 31, 2012	
Increase in provisions for pensions and similar commitments	20,438
Net increase in provisions for pensions and similar commitments	20,438
Decline in deferred tax liabilities	5,939
Expense recognized in other comprehensive income	14,499
Reporting actuarial gains/losses as of January 1, 2013	
Increase in provisions for pensions and similar commitments	25,827
Decline in deferred tax liabilities	7,505
Net reduction in the opening value of the revenue reserves	18,322

Further effects are also expected from the reporting of top-up amounts in connection with the Group's semi-retirement commitments. In the future, these will no longer qualify as termination benefits but as other long-term (or short-term) employee benefits for which a provision has to be furnished for the entire benefit period starting from when the commitment came about. Hence, the top-up amounts no longer constitute a one-off allocation as before, but are accounted for as current expense of the periods.

IAS 27 Separate Financial Statements (revised 2011)
The revised standard IAS 27 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. With the adoption of IFRS 10 and IFRS 12, the application scope of IAS 27 has been restricted solely to the accounting requirements for subsidiaries, joint ventures and associates in an entity's separate financial statements. The new rules are not yet applicable to the Group and will therefore have no impact on the net assets, financial position or results of operations of the Group.

IAS 28 Investments in Associates and Joint Ventures (revised 2011)
The revised standard IAS 28 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. With the adoption of IFRS 11 and IFRS 12, IAS 28 was renamed "Investments in Associates and Joint Ventures" and the scope of application of IAS 28 expanded so that the equity method also applies to jointly controlled companies in addition to associates IAS 28. Please refer to the explanations on IFRS 11 for a summary of the effects of the changes.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
In October 2011, the IASB published IFRIC Interpretation 20. The interpretation provides guidance on recognition of production stripping costs as an asset and on the initial and subsequent measurement of the stripping activity asset, provided the objective of improving future access to mineral ore deposits and other mandatory conditions is fulfilled. The interpretation is to be applied for fiscal years starting on or after December 1, 2013. The Group is not engaged in any such activities.

EU endorsement pending
The IASB has published the following standards and interpretations, the application of which was not yet mandatory in fiscal year 2012. These standards and interpretations have not yet been endorsed by the EU and are not applied by the Group.

Amendment to IFRS 1 – Government Loans
The amendment to IFRS 1 was published in March 2012 and must be applied for the first time in the fiscal year beginning on or after January 1, 2013. The amendment concerns the method of accounting for a government loan which was granted at an interest rate below the usual market rate, and permits first-time adopters to continue recognizing a loan taken out before the transition period at its former carrying amount. The company does not expect this amendment to have any material effects on the consolidated financial statements.

IFRS 9 Financial Instruments: Classification and Valuation
The initial part of phase I in the process of drafting IFRS 9 Financial Instruments was published in November 2009. The standard contains amendments relating to the classification and valuation of financial assets. Accordingly, 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. However, fluctuations in the value of equity instruments may be recognized under other comprehensive income on account of 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 which are held for trading and which must be valued 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 on non-listed equity instruments may no longer be recognized at historical cost. IFRS 9 must be applied for the first time in the fiscal year beginning on or after January 1, 2015. The application of the first part of phase I will affect classification and valuation of the Group's financial assets. The second part of this project phase is not expected to have any material effect on the Group's net assets, financial position and results of operations. The Group will analyze and quantify the effects in conjunction with the other phases after publication.

Amendments to IFRS 10; IFRS 12 and IAS 27: Investment Entities
The amendments to IFRS 10, IFRS 12 and IAS 27 were published in October 2012 and must be applied for the first time in the fiscal year starting on or after January 1, 2014. Early adoption is permitted. The new regulation demands that so-called investment entities be removed from the application scope of the consolidation regulations of IFRS 10 and that all investments controlled by them be valued at fair value through profit and loss. The exception are investments in subsidiaries which provide services for the investment entities; these would remain covered by the consolidation regulations of IFRS 10. By contrast, the parent company of an investment entity which itself is not classified as an investment entity must consolidate all the companies controlled by the investment entity in its consolidated financial statements. An investment entity is defined as a company which procures funds from investors and offers investment management services to these investors, the objective being to achieve capital appreciation in the form of value increases and/or by generating investment returns. The Group is not engaged in activities of this kind.

Amendments to IFRS 10; IFRS 11, IFRS 12: Transition Guidance
The amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Regulations were published in June 2012 and must be applied for the first time in the fiscal year starting on or after January 1, 2013. Early adoption is permitted. The objective of the amendment is to clarify the transition regulations in IFRS 10. The changes also contain additional relief for transition to IFRS 10, IFRS 11 and IFRS 12. For example, adjusted comparative information is only demanded for the preceding comparison periods. Furthermore, in connection with information in the Notes on the non-consolidated structured entities, the obligation to state comparative information for periods prior to the first-time adoption of IFRS 12 also no longer applies. This would be in keeping with the intended inception of IFRS 10, IFRS 11 and IFRS 12. However, the endorsement from the EU for these changes is still pending. As things stand at this juncture, application will only become mandatory for EU IFRS users for financial years starting on or after January 1, 2014. The Group therefore applies IFRS 10, IFRS 11, IFRS 12 prospectively as of January 1, 2013 as they have been endorsed, but may not yet apply the transitional provisions in the above form for the reasons already mentioned.

Improvements to IFRS (2009 – 2011)

Improvements to IFRS 2009 – 2011 is a collection of amendments to various IFRS standards published in May 2012, the application of which is mandatory for fiscal years beginning on or after January 1, 2013. The Group has not yet adopted the following changes:

IFRS 1: Clarification that an entity which no longer prepares its accounts in accordance with IFRS and decides or is obliged to continue this system of accounting has the possibility of applying IFRS 1 once again. If the company does not apply IFRS 1 again, it must retroactively adjust its accounts in such a way as if it had never stopped applying the IFRS accounting standards.

IAS 1: Clarification of the difference between voluntary additional comparative information and prescribed comparative information which as a rule encompasses the preceding reporting periods.

IAS 16: Clarification that essential spare parts and repair equipment which qualify as tangible assets do not come under the application provisions for inventories.

IAS 32: Clarification that income tax on distributions to bearers of equity instruments come under the application provisions of IAS 12 Income Taxes.

IAS 34: Regulation concerning the harmonization of disclosures on segment assets with disclosures on segment liabilities in interim financial statements and concerning the harmonization of disclosures in interim financial statements with disclosures for annual financial statements.

The clarifications will not yet impact the accounting methods used by the Group.

Amendments to IFRS 7 and IFRS 9 disclosures: Time Scope and Transitional Provisions

The amendments to IFRS 7 and IFRS 9 Disclosures were published in December 2011 and must be used for the first time in the fiscal year which begins on or after January 1, 2015. Early adoption is permitted. These amendments are intended to allow simultaneous application of all provisions of IFRS 9; in addition, no adjusted prior year figures have to be stated for first-time adoption of IFRS 9 and a chronological order determined which successively schedules the prior year adjustments for the transition from IAS 39 to IFRS 9. The Group will analyze and qualify the effects in conjunction with the application of IFRS 9.

3 Acquisitions

On December 10, 2012, GRAMMER AG concluded a deal for the takeover of Nectec Automotive s.r.o., under which GRAMMER acquired 100 % of share capital in Nectec from Fehrer Group.

Nectec develops and produces headrests primarily for the premium car market. The company was founded in 2008 by Fehrer Group, and grew rapidly to become one of the leading suppliers of headrests in Europe. Nectec's headquarters and production facilities are located in Ceska Lipa, Czech Republic. In total, the company employs roughly 240 people and generated revenue of EUR 35.8 million in fiscal year 2012. As part of the deal, GRAMMER also acquires the 50 % stake held by Nectec Automotive s.r.o. in a joint venture with Chinese automotive supplier NingBo Jifeng. Nectec's product range and production location make it an ideal fit with the existing structure of the Company. The takeover further expands the Group's strongest revenue-generating segment and reinforces its leading position in Europe's headrest market. At the same time, the integration of Nectec strengthens the Group's competence in the area of active headrest technologies, resulting in an even larger spectrum of innovative products. Nectec's production location also brings an additional production space that the Group requires for the expansion of its business activities.

The transaction, which was subject to approval by antitrust authorities, received full approval in February 2013. On February 21, 2013, GRAMMER AG acquired Nectec Automotive s.r.o. The purchase price, including the loans in the amount of EUR 4.0 million to be redeemed, totaled EUR 22.1 million and included the takeover of cash and short-term deposits in the amount of EUR 0.2 million. No other contingent considerations or compensation claims exists. Nectec will be integrated into the Automotive division. Consolidation into the Group will begin as of the date of acquisition in 2013. Because consolidation begins after the reporting date, Nectec has no effect on Group revenue and earnings in 2012. Below is a summary of the values of the main groups of acquired assets and liabilities on the date of acquisition, which however are subject to change in the context of allocation of the purchase price. Property, plant and equipment was acquired in the amount of EUR 7.2 million, as well as intangible assets amounting to EUR 5.7 million, inventories of EUR 1.8, trade receivables of EUR 4.7 million and other assets totaling EUR 2.1 million. Liabilities on the acquisition date were comprised primarily of long-term financial liabilities in the amount of EUR 2.3 million, other liabilities of EUR 5.0 million and current trade payables of EUR 4.6 million. It was not possible to perform an initial purchase price allocation by the reporting date given the late date of the transaction at the end of February, after conclusion of the fiscal year.

4 Interest in a Joint Venture

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

The share of the assets, liabilities, income, and expenses of the jointly controlled entity attributable to the Group as of December 31, 2012 and December 31, 2011 based on proportionate consolidation in the consolidated financial statements is as follows:

EUR k

	2012	2011
Current assets	3,450	4,049
Non-current assets	950	727
	4,400	**4,776**
Current liabilities	–4,498	–3,730
Non-current liabilities	–11,229	–10,097
	–15,727	**–13,827**
Income	10,679	11,221
Expenses	–13,164	–12,198

As of December 31, 2011 and December 31, 2012, no share of contingent liabilities or capital commitments was attributable to the Group.

Because the Group will prospectively adopt IFRS 11 beginning January 1, 2013, this joint venture will be carried at-equity instead of the previously applied proportionate consolidation; details are available in section 2.4.2.

5 Restructuring Expenses

In 2012, the Group carried out various restructuring and relocation measures which resulted primarily from the full relocation of production from the Wackersdorf plant of GRAMMER Wackersdorf GmbH. These expenses included costs from termination of employment and other closure or relocation costs, and totaled roughly EUR 0.8 million.

6 Segment Reporting

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

The Automotive segment, which is the largest segment within GRAMMER Group, achieved 61.3 % (2011: 60.8) of total Group revenue in fiscal year 2012. GRAMMER is active in this segment as a supplier to the automotive industry, developing and producing headrests, armrests and center console systems. The Group sells these products primarily to automakers in the upper and premium segments and to their tier 1 suppliers.

The Seating Systems segment generated 38.7 % of Group revenue in the reporting year (2011: 39.2). 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 segment also develops and produces driver and passenger seats for sale to makers of busses and railway vehicles, as well as railway operators. The Seating System segment encompasses the business segments Trucks, Busses and Offroad (agricultural machinery, construction machinery and forklifts) as well as Railway.

Profit before income tax generated by the operating segments is monitored separately by the management, in order to make decisions on resource allocation and determine the earnings strength of the units. Segment performance is assessed on the basis of profit before income tax and is assessed in the consolidated financial statements on the basis of profit before income 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 division carries out Group-wide functions in financial controlling, corporate communications, procurement, product development, operations, finance, internal control, investor relations, marketing, 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.

Reporting 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, 2012 and 2011.

Fiscal year as of December 31, 2012

EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	432,516	711,040	0	1,143,556
Inter-segment revenue	17,168	109	–17,277	0
Total revenue	449,684	711,149	–17,277	1,143,556
Segment earnings (Operating profit/loss (–))	24,716	30,529	–7,993	47,252
Financial income				2,024
Financial expenses				–12,583
Other financial result				–718
Profit/loss (–) before income taxes				35,975
Income taxes				–11,553
Net profit/loss (–)				24,422
Other segment information				
Investments:				
Property, plant and equipment	11,802	21,302	494	33,598
Intangible assets	1,989	3,520	288	5,797
Depreciation of property, plant and equipment	–11,287	–13,293	–519	–25,099
Amortization of intangible assets	–1,528	–2,277	–392	–4,197
Non-cash items				
Changes in pension provisions	2,589	649	442	3,680

Fiscal year as of December 31, 2011 EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	414,157	679,340	0	1,093,497
Inter-segment revenue	23,850	983	–24,833	0
Total revenue	438,007	680,323	–24,833	1,093,497
Segment earnings (Operating profit/loss (–))	30,624	26,917	–8,145	49,396
Financial income				2,233
Financial expenses				–15,381
Other financial result				–1,991
Profit/loss (–) before income taxes				34,257
Income taxes				–12,159
Net profit/loss (–)				22,098
Other segment information				
Investments:				
Property, plant and equipment	21,063	12,328	435	33,826
Intangible assets	981	2,491	285	3,757
Depreciation of property, plant and equipment	–10,205	–13,063	–517	–23,785
Amortization of intangible assets	–1,281	–1,873	–596	–3,750
Non-cash items				
Changes in pension provisions	3,163	66	188	3,417

Reconciliation

EUR k	2012	2011
Segment earnings (Operating profit)	55,245	57,541
Central Services	–6,217	–9,876
Elimination	–1,776	1,731
Group earnings (Operating profit)	47,252	49,396
Financial result	–11,277	–15,139
Profit/loss (–) before income taxes	35,975	34,257

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, 2012 and 2011. The geographical breakdown is based on the region of registration of the companies:

Fiscal year as of December 31, 2012

EUR k

Registration of the companies	Europe[1]	Americas	Far East/ Others	Group
Revenue	743,119	233,062	167,375	**1,143,556**
Non-current assets (= Property, plant and equipment and intangible assets)	184,214	18,853	23,101	**226,168**

Fiscal year as of December 31, 2011

EUR k

Registration of the companies	Europe[1]	Americas	Far East/ Others	Group
Revenue	724,407	220,668	148,422	**1,093,497**
Non-current assets (= Property, plant and equipment and intangible assets)	176,383	20,116	20,574	**217,073**

[1] EU member states

7 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 business segments.

Revenue of EUR 1,143,556 thousand (2011: 1,093,497) includes contract revenue of EUR 33,022 thousand (2011: 40,965) determined using the PoC method. The expenses incurred corresponded to revenues. These revenues relate to development activities as well as working capital that must be engaged and financed by GRAMMER Group until a product reaches serial production and generates initial revenues. These primarily relate to the Automotive segment. In the segment Seating Systems, PoC revenues were generated due to the new projects for truck seat production.

8 Other Income and Expenses

8.1 Other income

Other operating income primarily includes income from the reversal of provisions and valuation allowances amounting to EUR 2,346 thousand (2011: 666) and proceeds from the sale of scrap metal and materials handling costs as well as rental income of EUR 4,401 thousand (2011: 4,395). This item also contains government grants of EUR 1,402 thousand (2011: 895), income from offsetting costs of approximately EUR 357 thousand (2011: 637) and income from the sale of property, plant and equipment of EUR 493 thousand (2011: 1,137). 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.

8.2 Financial result

EUR k

	2012	2011
Financial income		
Interest income from bank balances	1,003	989
Available-for-sale financial assets	17	5
Other loans	355	266
Financial assets and liabilities measured at fair value through profit or loss	649	973
Total financial income	**2,024**	**2,233**
Financial expenses		
Loans and overdraft	–7,525	–10,313
Other interest costs	–120	–566
Interest cost of pension provisions	–3,464	–3,338
Net loss from financial assets and liabilities measured at fair value through profit or loss	–1,330	–1,032
Interest element of lease payments	–144	–132
Total financial expenses	**–12,583**	**–15,381**
Other financial result	**–718**	**–1,991**
Financial result	**–11,277**	**–15,139**

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 1,375 thousand (2011: 1,260) calculated using the effective interest rate method.

Financial expenses include interest expenses for loans and overdrafts totaling EUR 7,525 thousand (2011: 10,313), the reduction of which is attributable to the now noticable effect of the restructuring of group financing of which EUR 6,950 thousand (2011: 7,580) were determined using the effective interest rate method.

Other financial result primarily relates to gains or losses from measurement of borrowing and loans in foreign currency terms and measurement of financial assets and liabilities at the reporting date.

8.3 Amortization, depreciation and impairment; foreign exchange differences and cost of inventories included in the consolidated income statement

Cost of sales

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise. This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. The set up of reserves for warranty purposes is covered by this item as well. The cost of sales also includes non-capitalized research and development costs in the amount of EUR 36,094 thousand (2011: 37,743) 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 959,937 thousand (2011: 909,532).

Selling expenses

Selling expenses involve all sales-related costs and primarily refer to costs incurred by the Sales, Advertising and Marketing departments as well as overheads allocable to these departments or activities. Freight, commissions and forwarding charges are also included in selling expenses.

Administrative expenses

Administrative expenses include all administrative expenditure which cannot be assigned directly to other functions, including expenditure for general administration, management and central departments. Other administrative expenses also includes income from exchange rate movements in the amount of EUR 14,196 thousand (2011: 14,845) and mainly relates to foreign exchange gains between the origination and settlement of foreign currency receivables and liabilities as well as foreign exchange gains resulting from measurement at the balance sheet date. Foreign exchange losses amounting to EUR 14,833 thousand (2011: 13,746) are also recognized under other administrative expenses. Cost components from the internal restructuring of the Group are also included.

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

Amortization of intangible assets totaled EUR 4,197 thousand (2011: 3,750) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. The amount amortized includes EUR 1,540 thousand (2011: 1,360) for capitalized development costs included in cost of sales.

Depreciation of property, plant and equipment amounted to EUR 25,099 thousand (2011: 23,785).

As in 2011, no impairment losses were incurred in fiscal year 2012.

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

8.4 Personnel expenses

EUR k

	2012	2011
Wages and salaries	189,966	185,516
Social security contributions of which for pensions EUR 4,271 thousand (2011: 2,076)	43,953	44,087
	233,919	**229,603**

9 Income Taxes

The key components of income taxes for fiscal 2012 and 2011 are as follows:

EUR k

	2012	2011
Consolidated Statement of Income		
Current tax		
Current tax expenses – Germany	–2,465	–2,913
Current tax expenses – abroad	–5,135	–9,481
Total current tax expenses	**–7,600**	**–12,394**
Deferred tax		
Deferred tax income (+)/expenses (–) Germany	–2,516	210
Deferred tax income (+)/expenses (–) abroad	–1,437	25
Deferred tax income (+)/expenses (–)	**–3,953**	**235**
Tax income/expenses (–) reported in the consolidated Statement of Income	**–11,553**	**–12,159**

Reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2012 and 2011 is as follows:

EUR k

	2012	2011
Earnings before income taxes (relating to continuing operations)	**35,974**	**34,257**
EIncome taxes at the effective rate in Germany at 29.06 % (2011: 28.59)	–10,454	–9,794
Effects from minimum taxation and withholding taxes	–1,290	–3,029
Adjustments to current income tax incurred in the previous year	–107	–1,044
Tax reduction due to losses carried forward/deferred taxes	885	1,661
Tax exempt government grants	385	325
Non-deductible expenses	–1,049	–1,340
Other tax effects	452	468
Effects from different tax rates	–375	594
Income taxes at the effective tax rate of 32.1 % (2011: 35.5)	**–11,553**	**–12,159**

9.1 Deferred income taxes

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

EUR k

	2012 Consolidated Statement of Financial Position	2011 Consolidated Statement of Financial Position	Change
Deferred tax liabilities			
Property, plant and equipment	–6,361	–5,544	–817
Intangible assets	–4,490	–4,345	–145
Goodwill	–4,614	–4,110	–504
Finance lease	–264	–365	101
Other assets	–1	–24	23
Receivables	–3,734	–4,244	510
Others	–824	–874	50
	–20,288	**–19,506**	**–782**
Deferred tax assets			
Pension provisions	4,565	4,087	478
Other provisions	1,730	412	1,318
Tax losses carried forward	21,903	26,591	–4,688
Financial assets	207	15	192
Others	7,279	7,472	–193
	35,684	**38,577**	**–2,893**

The statutory rate of corporate income tax in Germany was 15% for the 2011 and 2012 assessment periods, plus a solidarity surtax of 5.5%. Together with municipal trade tax, which is not deductible as a business expense segment in Germany, results in a net tax burden of approximately 29.06% for 2012 (2011: 28.59).

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 29.06% (2011: 28.59). The local income tax rates for foreign entities varied between 10% and 46%.

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.

Deferred tax assets on loss carry-forwards of EUR 1.9 million (2011: 2.2) were assumed to be non-recoverable. These relate mainly to tax results of a US subsidiary. 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 as a result of the financial crisis. The tax losses carried forward may be carried forward, for periods of 10 to 20 years or indefinitely, and in some cases carried back.

Deferred taxes were not recorded on outside basis differences (i.e. differences between net assets, incl. goodwill at subsidiaries and the relevant tax value of interests in subsidiaries), as reversal of differences, e.g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. As of December 31, 2012, outside basis differences totaled EUR 64,784 thousand.

In 2012, tax loss carry-forwards from previous years were realized in the amount of EUR 15,855 thousand (2011: 10,656).

10 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 own shares that have been bought back. As of December 31, 2012, the share capital of the Company amounted to EUR 29,554,365.44 divided into 11,544,674 shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend (with the exception of own shares) and may exercise one vote for each share at the Annual General Meeting. The number of outstanding shares is calculated based on the weighted average.

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.

	2012	2011
Weighted average number of no-par value shares used to calculate basic/diluted earnings per share	11,214,624	10,918,459
Consolidated net profit/loss (–) (in EUR thousand)	24,384	22,040
Basic/diluted earnings per share in EUR	2.17	2.02

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.

11 Dividends paid and proposed

Appropriation of profit by GRAMMER Group is based on net profit/loss in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. On December 31, 2012, GRAMMER AG posted net profit of EUR 15.4 million (2011: 13.1). This takes into account the profit of EUR 8.6 million carried forward, the allocation of EUR 6.8 million to other revenue reserves and annual profit of EUR 13.6 million. The Executive Board will propose to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.50 be paid per share and that the remaining EUR 9.8 million be carried forward. This decision takes into account that the Company holds a total of 330,050 own shares, which are not dividend bearing. If the number of shares according dividend rights should change before the date of the Annual General Meeting on June 5, 2013, the Executive Board and Supervisory Board of GRAMMER AG will present an accordingly adjusted dividend proposal to the meeting.

A dividend of EUR 4.5 million was paid in the reporting year (2011: 0). For further details, please refer to Note 19.

Dividends resolved and distributed during the fiscal year:

Dividends on no-par value shares
EUR k

	2012	2011
Dividend for 2011: 0.40 EUR (2010: 0.00 EUR)	4,486	0

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

Dividends on no-par value shares
EUR k

	2012	2011
Dividend for 2012: 0.50 EUR (2011: 0.40 EUR)	5,607	4,486

12 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, 2012	90,180	152,938	160,002	5,615	6,158	414,893
Additions	488	12,534	11,115	6,185	3,276	33,598
Disposals	–434	–8,886	–6,528	–48	0	–15,896
Effects of exchange rate differences	–89	–627	527	65	188	64
Effects from company aquisition	0	0	0	0	0	0
Reclassifications	2,677	–4,932	9,766	–5,430	–2,081	0
As of December 31, 2012	92,822	151,027	174,882	6,387	7,541	432,659
Depreciation						
As of January 1, 2012	41,642	93,602	115,931	0	4,038	255,213
Additions	2,969	9,517	12,047	0	566	25,099
Disposals	–119	–8,064	–6,162	0	0	–14,345
Effects of exchange rate differences	–154	–607	262	0	37	–462
Reclassifications	0	–4,312	4,741	0	–429	0
As of December 31, 2012	44,338	90,136	126,819	0	4,212	265,505
Carrying amount on January 1, 2012	48,538	59,336	44,071	5,615	2,120	159,680
Carrying amount on December 31, 2012	48,484	60,891	48,063	6,387	3,329	167,154
Cost						
As of January 1, 2011	85,466	146,172	148,112	9,798	6,644	396,192
Additions	906	10,591	14,554	7,775	0	33,826
Disposals	–32	–5,821	–2,889	0	–230	–8,972
Effects of exchange rate differences	–1,053	–3,496	–1,626	–144	–256	–6,575
Effects from company aquisition	0	192	230	0	0	422
Reclassifications	4,893	5,300	1,621	–11,814	0	0
As of December 31, 2011	90,180	152,938	160,002	5,615	6,158	414,893
Depreciation						
As of January 1, 2011	39,214	91,306	109,321	0	2,972	242,813
Additions	2,879	9,612	9,949	0	1,345	23,785
Disposals	–5	–4,681	–2,473	0	–227	–7,386
Effects of exchange rate differences	–446	–2,632	–869	0	–52	–3,999
Reclassifications	0	–3	3	0	0	0
As of December 31, 2011	41,642	93,602	115,931	0	4,038	255,213
Carrying amount on January 1, 2011	46,252	54,866	38,791	9,798	3,672	153,379
Carrying amount on December 31, 2011	48,538	59,336	44,071	5,615	2,120	159,680

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.

GRAMMER 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 three and twelve 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:

EUR k	Manufacturing plant and equipment	Other plant and equipment	Motor vehicles	Total
Cost				
As of January 1, 2012	5,604	127	427	6,158
Additions	3,276	0	0	3,276
Disposals	0	0	0	0
Effects of exchange rate differences	179	–2	11	188
Reclassifications	–2,081	0	0	–2,081
Stand 31. Dezember 2012	6,978	125	438	7,541
Depreciation				
As of January 1, 2012	3,576	93	369	4,038
Additions	492	15	59	566
Disposals	0	0	0	0
Effects of exchange rate differences	37	–2	2	37
Reclassifications	–429	0	0	–429
As of December 31, 2012	3,676	106	430	4,212
Carrying amount January 1, 2012	2,028	34	58	2,120
Carrying amount December 31, 2012	3,302	19	8	3,329
Cost				
As of January 1, 2011	5,803	141	700	6,644
Additions	0	0	0	0
Disposals	0	0	–230	–230
Effects of exchange rate differences	–199	–14	–43	–256
As of December 31, 2011	5,604	127	427	6,158
Depreciation				
As of January 1, 2011	2,347	87	538	2,972
Additions	1,249	14	82	1,345
Disposals	0	0	–227	–227
Effects of exchange rate differences	–20	–8	–24	–52
As of December 31, 2011	3,576	93	369	4,038
Carrying amount on January 1, 2011	3,456	54	162	3,672
Carrying amount on December 31, 2011	2,028	34	58	2,120

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
2012			
Lease payments	768	2,766	0
Less interest cost on a discounted basis	–125	–217	0
Present value (Statement of financial position)	**643**	**2,549**	**0**
2011			
Lease payments	805	242	0
Less interest cost on a discounted basis	–62	–10	0
Present value (Statement of financial position)	**743**	**232**	**0**

Under the operating 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
2012			
Lease payments	13,647	25,377	5,539
2011			
Lease payments	11,098	20,577	7,060

13 Intangible Assets

EUR k

	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2012	29,640	47,006	18,069	3	94,718
Additions	3,446	0	2,315	36	5,797
Disposals	–703	–5	0	0	–708
Effects of exchange rate differences	45	0	–13	0	32
Effects from company aquisition	0	0	0	0	0
Reclassifications	37	0	0	–37	0
As of December 31, 2012	32,465	47,001	20,371	2	99,839
Amortization					
As of January 1, 2012	19,760	11,147	6,418	0	37,325
Additions	2,657	0	1,540	0	4,197
Disposals	–709	0	0	0	–709
Effects of exchange rate differences	23	0	–11	0	12
Reclassifications	0	0	0	0	0
As of December 31, 2012	21,731	11,147	7,947	0	40,825
Carrying amount on January 1, 2012	9,880	35,859	11,651	3	57,393
Carrying amount on December 31, 2012	10,734	35,854	12,424	2	59,014
Cost					
As of January 1, 2011	23,900	43,738	16,340	0	83,978
Additions	2,145	0	1,602	10	3,757
Disposals	–125	0	0	0	–125
Effects of exchange rate differences	–189	0	127	0	–62
Reclassifications	3,902	3,268	0	0	7,170
Reclassifications	7	0	0	–7	0
As of December 31, 2011	29,640	47,006	18,069	3	94,718
Amortization					
As of January 1, 2011	17,609	11,147	4,973	0	33,729
Additions	2,390	0	1,360	0	3,750
Disposals	–116	0	0	0	–116
Effects of exchange rate differences	–123	0	85	0	–38
Reclassifications	0	0	0	0	0
As of December 31, 2011	19,760	11,147	6,418	0	37,325
Carrying amount on January 1, 2011	6,291	32,591	11,367	0	50,249
Carrying amount on December 31, 2011	9,880	35,859	11,651	3	57,393

Concessions and industrial rights are comprised primarily of computer software as well as existing customer data that were identified in the context of the acquisition of EiA Electronics N.V. and are amortized over seven years. All other intangible assets are amortized, as in the past, using the straight-line method over an expected useful life of three to six years.

Capitalized development costs relate to internally generated patents and are amortized on a straight-line basis over an expected useful life of one to nineteen years. Total research and development costs amounted to EUR 38,409 thousand in 2012 (2011: 39,345), of which EUR 2,315 thousand (2011: 1,602) satisfied the criteria for capitalization under IAS 38.

13.1 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, 2012 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	2012 Goodwill	2011 Goodwill	2012 Growth rate	2011 Growth rate	2012 Discount factor	2011 Discount factor
CGU I	Seating Systems	6,462	6,467	1 %	1 %	9.8 %	9.5 %
CGU II	Automotive	29,392	29,392	1 %	1 %	9.9 %	9.5 %
	Total	35,854	35,859				

Basis of calculation

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

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

Total cost of capital is determined using the capital asset pricing model assuming a risk-free interest rate of 2.3 % and a risk premium for general market risk of 5.5 %. 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 of the specific CGU. Cost of capital is estimated taking into account the future financing conditions of GRAMMER AG and adjusted in line with market expectations. The cost of capital determined in this way reflects the time value of money and the specific risks of the CGU for which the estimated future cash flows were not adjusted.

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

Based on the impairment tests carried out on December 31, 2012, no impairment losses were recognized since the recoverable amounts of the cash-generating units exceeded the respective carrying amounts.

Basic assumptions for calculating fair value

In calculating the fair value of the two segments 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 in as much 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 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.

With respect to the Automotive CGU, the recoverable amount exceeds the carrying amount by EUR 103,546 thousand. Potential changes to the basic assumptions could lead to the carrying amount exceeding the recoverable value. This could be caused by material changes to the following parameters:

- Strong changes in revenues: The Company management is projecting moderately rising revenues, which takes account of the current 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 fair value of this CGU would equal its carrying amount.

- A reduction of the terminal value growth rate (growth discount) to 0 %, with all other parameters remaining unchanged, would lead to a roughly 7.9 % 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 input tax of approx. 3.7 %-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, 2012, GRAMMER AG's market capitalization was below the carrying value of Group equity. This could theoretically indicate that goodwill or other assets are impaired, assuming a direct correlation between goodwill and market capitalization as a result of equity investment decisions. On the reporting date, the ratio of goodwill to equity was 15.7 % and 19.7 % compared to current market value, which is below average in relation to the SDAX. The following table illustrates key supplementary values and figures.

EUR k

Market cap	Equity	Fixed assets	Gearing
184,946	228,045	226,168	33 %

For the individual CGUs themselves, no market price is available. Allocation of 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, 2012 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. For many companies traded on the stock exchange, there is a gap between carrying values and market values, which recent studies attribute to the different factors influencing valuations by market participants, which can be independent of individual companies. General pessimism with respect to the economic outlook, negative financial policy developments, media-fueled speculation and sector-specific characteristics such as the skepticism in perception of the automotive supplier industry in the capital market constitute factors that influence buying decisions independent of a company's value. Assessing the potential of a company entails more subjective judgments been complex forecasts relating to a company. Pricing does not take into account any control premiums for the determination of a market price for the totality of shares in GRAMMER AG. Theoretically, the shares of GRAMMER AG traded in the market represent 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. This can be seen as well in the volatile history of GRAMMER AG's market capitalization, which on February 28, 2013 – just weeks after the end of the year – reached EUR 265,469 thousand. This represents an increase of 43.5 %, and puts market capitalization far in excess of equity.

The management of GRAMMER AG is of the opinion that market capitalization at the reporting date is immaterial 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.

14 Inventories

EUR k

	2012	2011
Raw materials and supplies	67,130	65,376
Work in progress	11,811	11,080
Finished goods and services	22,139	21,124
Advance payments	7,300	6,413
Total inventories	108,380	103,993

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

15 Trade Accounts Receivable

EUR k

	2012	2011
Trade accounts receivable	142,451	137,801

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 –120 days.

As of December 31, 2012, write-downs of EUR 2,804 thousand (2011: 3,203) were taken on trade accounts receivable. Details are given in the table below:

EUR k

	Specific bad debt allowances	Portfolio-based allowances	Total
As of January 1, 2012	1,245	1,958	3,203
Additions	175	0	175
Utilization	–21	–8	–29
Write-backs	–476	–98	–574
Effects from exchange rate differences	29	0	29
As of December 31, 2012	952	1,852	2,804
As of January 1, 2011	1,419	1,276	2,695
Additions	14	728	742
Utilization	–46	–46	–92
Write-backs	0	0	0
Effects from exchange rate differences	–142	0	–142
As of December 31, 2011	1,245	1,958	3,203

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
2012							
Trade accounts receivable	**142,451**	119,616	14, 733	4,017	1,908	1,138	1,039
Receivables from construction contracts	**54,551**	54,551	0	0	0	0	0
Other financial receivables	**10,734**	10,734	0	0	0	0	0
2011							
Trade accounts receivable	**137,801**	115,058	16,919	2,625	896	1,256	1,047
Receivables from construction contracts	**54,086**	54,086	0	0	0	0	0
Other financial receivables	**8,169**	8,169	0	0	0	0	0

The carrying amount of the receivables portfolio represents the maximum default risk. The amount under accounts up to 30 days past due primarily comprises payments pending at the balance sheet date. In certain cases, the past-due accounts relate to project business beyond the balance sheet date and are the result of payment processing for tools. 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.

16 Other Financial Assets

EUR k

	2012	2011
Non-current		
Outstanding loans	4,070	3,887
Participating interests	800	541
Others	331	438
	5,201	**4,866**
Current		
Receivables from construction contracts	54,551	54,086
Other receivables	6,333	3,844
Non-derivate financial assets	15	0
	60,899	**57,930**

Outstanding loans primarily comprise one loan to a joint venture in a currency other than Group currencies at a fair value on the origination date of EUR 5,621 thousand (2011: 5,271), which was measured at fair value on the reporting date to total EUR 3,989 thousand (2011: 3,797). 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 331 thousand (2011: 438).

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

Other receivables result primarily from trade receivables from affiliates with a term of 30 – 90 days.

17 Other Current Assets

EUR k

	2012	2011
Other assets	13,316	13,440
Prepaid expenses	1,668	1,899
	14,984	**15,339**

Other assets mainly include pass-through taxes such as value-added tax in the amount of EUR 8,866 thousand (2011: 8,226), investment grants totaling 592 thousand (2011: 1,324), security deposits of EUR 945 thousand (2011: 457), receivables due from employees of EUR 382 thousand (2011: 454) and receivables due from creditors with debit balances of EUR 1,925 thousand (2011: 706).

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

18 Cash and Short-term Deposits

TEUR

	2012	2011
Cash and short-term deposits	73,314	46,749

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

The bank balances have variable interest rates and can be withdrawn on demand. Short-term deposits are made for various terms of between one day and three months depending on the Group's current liquidity requirements. The deposits accrue interest at the current interest rates for demand deposits.

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

EUR k

	2012	2011
Cash and short-term deposits	73,314	46,749
Bank overdrafts	–1,914	–1,844
	71,400	44,905

19 Subscribed Capital and Reserves

Subscribed capital

As of December 31, 2012, the subscribed capital of GRAMMER Group amounted to EUR 29,554 thousand divided into 11,544,674 no-par value shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend (with the exception of own shares) and may exercise one vote for each share at the Annual General Meeting.

Capital reserve

The capital reserve totaled EUR 74,444 thousand (2011: 74,444) as of December 31, 2012. The capital reserve includes premiums from the capital increases in 1996, 2001 and 2011, less transaction costs.

Retained earnings

The statutory reserve of GRAMMER AG totaled EUR 1,183 thousand on both December 31, 2012 and 2011, and is not available for the payment of dividends.

Retained earnings reflect income earned in the past by the companies included in consolidation, provided such income was not paid out as dividends. As a result of the profit for the year and including the dividend payments of EUR 4,486 thousand, retained earnings increased from EUR 111,528 thousand in 2011 to EUR 131,426 thousand in 2012.

Accumulated other comprehensive income

Accumulated other comprehensive income mainly comprises adjustments arising from the currency translation of the financial statements of foreign subsidiaries and the effects of the subsequent measurement of financial instruments in equity, as well as adjustments from net investments in accordance with IAS 21 and the related deferred taxes.

Own shares

As of December 31, 2012, GRAMMER AG holds a total of 330,050 own shares, all of which were acquired in fiscal year 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 884,928 of the share capital and represent 2,8589 % 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 by 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 harbor rules of sections 14 (2), 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's website. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2012, 11,544,674 ordinary shares (2011: 11,544,674) were in circulation.

Non-controlling interests

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

Authorizations

The Annual General Meeting on May 28, 2009 approved a conditional increase in share capital in the amount of EUR 13,434 thousand. The conditional capital increase will be carried out only to the extent that holders of options or conversion rights exercise their rights, or the bond holders who are under the obligation to convert their bonds or exercise their options comply with such obligation under bonds with warrants or convertible bonds issued or guaranteed by the Company until May 27, 2014 on the basis of the authorization given to the Executive Board, and provided no other forms of performance are implemented with respect to the condition (conditional capital 2009).

Moreover, the Annual General Meeting on May 26, 2011 also granted approval until May 25, 2016 for new authorized capital in the amount of EUR 14,777 thousand (authorized capital 2011). The Executive Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the Company once or more than once by up to a total of EUR 14,777 thousand through the issue of shares against cash contribution and/or contribution in kind. A general shareholder subscription right applies to the new shares. The shares may also be underwritten by one or more banks subject to an obligation to offer them for subscription to shareholders. The Executive Board is, however, authorized, subject to the approval of the Supervisory Board, exclude shareholders' statutory subscription rights,

a) provided this is necessary to eliminate fractional amounts;

b) if the shares are issued against contribution in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company;

c) if a capital increase made against a cash contribution does not exceed 10% of share capital and the issue price of the new shares is not substantially lower than the exchange price (section 186 (3) sentence 4 AktG); if use is made of the authorization in conjunction with an exclusion of shareholder rights in accordance with section 186 (3) sentence 4 AktG, the exclusion of subscription rights under other authorizations is to be taken into account pursuant to section 186 (3) sentence 4 AktG.

With the resolution on May 18, 2011, the Executive Board of GRAMMER AG declared its intent:

(1) to make no use of the authorization under the new section 5 (3) of the Articles of Association to increase the share capital of the Company against cash and/or contributions in kind with statutory subscription rights for shareholders during the term of the authorization if this would lead to issuance of an amount of shares in GRAMMER AG in excess of 30% of existing share capital;

(2) to limit use of the authorization to exclude shareholders' statutory subscription rights in the event that shares are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company during the term of the authorization to no more than 20% of the Company's existing share capital;

(3) to ensure that the sum of any capital increases from authorized capital excluding shareholder subscription rights during the term of the authorization does not exceed 20% of existing share capital.

20 Pensions 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

%

	2012	2011
Interest rate	3.60	5.00
Salary trend	2.30	2.20
Income trend for individual commitments	2.30	2.20
Inflation rate	1.90	1.90

Measurement parameters other benefits

%

	2012	2011
Interest rate	3.60–6.50	4.23–7.00
Salary trend	2.30–5.31	2.20–5.31
Inflation rate	1.90–6.16	1.90–10.44

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 2012, annuities were paid on pensions in the amount of EUR 1,809 thousand (2011: 1,618). Other post-employment benefits paid totaled EUR 329 thousand (2011: 87).

The following amounts were recognized in the income statement:

EUR k

2012	Pension plan	Miscellaneous benefits
Benefits earned in 2012	1,435	913
Interest expenses in 2012	3,331	133
Actuarial gains/losses recognized in 2012	11	0
Total 2012	4,777	1,046

EUR k

2011	Pension plan	Miscellaneous benefits
Benefits earned in 2011	1,437	666
Interest expenses in 2011	3,237	101
Actuarial gains/losses recognized	26	0
Total 2011	4,700	767

The above amounts are generally contained under personnel costs in the different segments; interest costs for pension commitments are recognized in the financial result.

Unfunded portions of pensions and other obligations in accordance with IAS 19 are as follows:

EUR k

	Pension plan	Miscellaneous benefits
DBO as of December 31, 2012	90,850	3,152
Unamortised actuarial losses (–)	–25,827	0
Provisions as of December 31, 2012	65,023	3,152

EUR k

	Pension plan	Miscellaneous benefits
DBO as of December 31, 2011	67,484	2,399
Unamortised actuarial losses (–)	–5,389	0
Provisions as of December 31, 2011	62,095	2,399

Accordingly, the change in DBO appears as follows:

EUR k

	Pension plan	Miscellaneous benefits
As of January 1, 2012	67,484	2,399
+ Benefits earned in 2012	1,435	913
+ Interest expenses in 2012	3,331	133
– Actual payments in 2012	–1,809	–329
– Disposals from liabilities 2012	–4	–59
Exchange rate differences	–9	95
Actuarial gains (–)/losses (+) 2012	20,422	0
As of December 31, 2012	90,850	3,152
As of January 1, 2011	62,429	2,066
+ Benefits earned in 2011	1,437	666
+ Interest expenses in 2011	3,237	101
– Actual payments in 2011	–1,618	–87
– Disposals from liabilities 2011	–3	–39
Exchange rate differences	4	–308
Actuarial gains (–)/losses (+) 2011	1,998	0
As of December 31, 2011	67,484	2,399

Changes in the assumptions used and planned changes are provided in the next table:

EUR k

	2012	2011	2010	2009	2008
Expected DBO as of December 31 of the relevant year	70,412	65,512	61,450	58,940	56,362
Current value of the DBO as of December 31 of the relevant year	90,850	67,484	62,429	58,399	55,714
Overfunding/Underfunding	20,438	1,972	979	–541	–648
of which from:					
necessary and implemented structural adjustments	670	–736	219	–878	62
changes in assumptions	19,768	2,708	760	337	–710

21 Financial Liabilities

Interest-bearing liabilities

EUR k	Current	Non-current	Total
2012			
Overdrafts	1,914	0	1,914
Loans			
EUR loan	2,612	7,500	10,112
CNY loan	6,082	0	6,082
BRL loan	47	47	94
Debenture bond	62,167	69,231	131,398
Total Financial Liabilities	72,822	76,778	149,600

EUR k	Current	Non-current	Total
2011			
Overdrafts	1,844	0	1,844
Loans			
EUR loan	421	112	533
CNY loan	4,902	0	4,902
BRL loan	52	105	157
Debenture bond	1,871	129,559	131,430
Total Financial Liabilities	9,090	129,776	138,866

As a result of a long-term KfW loan of EUR 10 million in the reporting year, as well as the capital increase in 2011, GRAMMER AG has improved its available liquidity and expanded the strategic liquidity reserve. One tranche of the debenture bond issued in 2006 in the amount of EUR 60.5 million falls due in August 2013. Given the available liquidity reserve and the significant cash position of the Company, redemption of this debenture bond is ensured. Nonetheless, GRAMMER Group has initiated negotiations for follow-on financing.

The bilateral global credit facility concluded between GRAMMER companies in Germany and seven commercial banks in 2011 was extended until July 1, 2015 on the basis of the agreement on amendments dated October 4, 2012, and the available credit line increase to EUR 100 million. Lines of credit may be drawn as overdraft facilities or fixed-rate loans with interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin.

GRAMMER Group companies bear joint and several liability for the bilateral lines of credit. Beyond this, no other collateral backing exists.

Overdrafts

Overdrafts are primarily amounts drawn by subsidiaries outside of Germany from local banks.

Current loans

In the reporting year, a KfW loan in the amount of EUR 10.0 million was taken out, which will be redeemed with half yearly payments in the amount of EUR 1,250 thousand starting April 2013 and bear variable interest at the EURIBOR rate.

Additionally, foreign subsidiaries have EUR-denominated loans maturing in December 2014. Current loans denominated in Chinese local currency feature tranches maturing in December 2013, which will also be prolonged on a revolving basis taking into account the amount of funding deemed necessary for one year.

Debenture bond

A debenture bond totaling EUR 70.0 million exists which features a fixed interest rate of 4.8 % and matures in the amount of EUR 60.5 at the end of August 2013. A EUR 9.5 million tranche entered early prolongation in September 2011 for a further three to five years. The interest rate in the prolongation phase is variable.

Moreover, GRAMMER AG issued a new debenture bond in September 2011 with a total nominal value of EUR 60.0 million. The debenture bonds feature both fixed and variable rates of interest on tranches of three, five and seven years.

22 Provisions

EUR k

	Market related provisions	Obligations relating to personnel	Other provisions	Total
As of January 1, 2012	7,999	547	513	9,059
Additions	6,093	923	51	7,067
Utilization	–3,738	–643	–87	–4,468
Releases	–1,724	0	–48	–1,772
Effects from exchange rate differences	–255	0	4	–251
As of December 31, 2012	8,375	827	433	9,635
Current provisions 2012	8,384	827	433	9,635
Non-current provisions 2012	0	0	0	0
As of January 1, 2011	7,277	616	399	8,292
Additions	4,655	265	290	5,210
Utilization	–3,071	–338	–141	–3,550
Releases	–648	4	–22	–666
Effects from exchange rate differences	–214	0	–13	–227
As of December 31, 2011	7,999	547	513	9,059
Current provisions 2011	7,999	547	513	9,059
Non-current provisions 2011	0	0	0	0

Market-related provisions relate to all risks from the sale of parts and products, including development. For the most part, this comprises 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 2012, the allocated plan assets and obligations from early retirement entitlements were netted in the amount of EUR 389 thousand in accordance with IAS 19.

Other provisions refer to a number of identifiable specific risks and contingent liabilities, for instance provisions for litigation costs, which are recognized at their probable amounts.

23 Trade Accounts Payable

EUR k

	2012	2011
Non-current trade accounts payable	5,254	3,260
Current trade accounts payable	115,534	110,619
Trade accounts payable	120,788	113,879

Trade accounts payable and other liabilities refer to outstanding payment obligations for goods and services and well as running costs. Outstanding invoices and liabilities for deliveries received are recognized in accordance with their characteristics under trade accounts payable. Generally, trade accounts payable are non-interest-bearing and have a term of up to 90 days. Non-current trade accounts payable contain liabilities under closed-end leasing agreements with maturities of up to five years. Customary retention of title by suppliers applies in relation to trade payables.

24 Other Financial Liabilities

EUR k

	2012	2011
Current		
Liabilities from derivatives	2,560	1,592
Liabilities from leases	643	743
Liabilities to associated companies	8,809	2,130
Other financial liabilities (current)	12,012	4,465
Non-current		
Liabilities from leases	2,549	232
Liabilities to associated companies	7,240	6,300
Other financial liabilities (non-current)	9,789	6,532

25 Other Liabilities

EUR k

	2012	2011
Current		
Social security obligations	2,473	2,106
Tax liabilities	3,813	3,642
Prepayments received	6,740	3,694
Other liabilities	30,664	35,509
Deferred income	4,646	4,674
Other current liabilities	48,336	49,625
Non-current		
Tax liabilities	0	1,590
Miscellaneous other liabilities	0	712
Other liabilities (non-current)	0	2,302
Total other liabilities	48,336	51,927

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 and for short-term accrued expenses.

Tax liabilities relating to other taxes and charges principally comprise outstanding wage taxes and similar charges for fiscal year 2012.

26 Cash Flow Statement

The cash flow statement presents the Group's cash flow situation broken down into cash inflows and outflows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification of the respective items. Cash flow from operating activities is derived indirectly from net profit before taxes, which is adjusted to include non-cash expenses (primarily depreciation, amortization and impairment) and income. Cash flow from operating activities is calculated under consideration of the change in working capital. Investing activities comprise payments for property, plant and equipment and investments in property, plant and equipment and financial assets, but not additions to capitalized development costs. Financing activities include cash outflows for dividend payments and repayments of loans, as well as changes in other financial liabilities. At GRAMMER Group, cash and cash equivalents consists of cash and short-term money market funds, less current account liabilities to banks.

27 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.

28 Contingent Liabilities

EUR k

	2012	2011
Guarantees	1,377	32

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

29 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 % 2012	2011
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	90.23	90.21
9. GRAMMER System GmbH	Amberg, Germany	100.00	100.00
10. GRAMMER Automotive Metall GmbH	Amberg, Germany	100.00	100.00
11. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	100.00	100.00
12. GRAMMER Automotive Española S.A.	Olérdola, Spain	100.00	100.00
13. GRAMMER Industries Inc.	Greenville (SC), USA	100.00	100.00
14. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	100.00	100.00
15. GRAMMER Automotive Polska sp. z.o.o.	Bielsko-Biala, Poland	100.00	100.00
16. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	100.00	100.00
17. GRAMMER Interior (Tianjin) Co. Ltd.	Tianjin, China	100.00	100.00
18. GRAMMER Interior (Changchun) Co. Ltd.	Changchun, China	100.00	100.00
19. GRAMMER Interior (Shanghai) Co. Ltd.	Shanghai, China	100.00	100.00
20. GRAMMER System d.o.o.	Aleksinac, Serbia	100.00	100.00
21. GRAMMER Railway Interior GmbH	Amberg, Germany	100.00	100.00
22. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	100.00	100.00
23. GRAMMER EiA Electronics N.V.	Aartselaar, Belgium	100.00	100.00
2. Proportionately consolidated companies			
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	50.00	50.00

GRAMMER System GmbH, GRAMMER Wackersdorf GmbH and GRAMMER Automotive Metall GmbH, GRAMMER Railway Interior GmbH and GRAMMER Technical Components 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, 2012 (2011: 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	2012	1,973	0	14,129	25
	2011	1,245	0	12,142	42

GRA-MAG Truck Interior Systems LLC Limited

GRAMMER AG holds an interest of 50 % in GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2011: 50 %). GRA-MAG had 52 employees as of December 31, 2012 (2011: 60).

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.

30 Additional Information on Financial Instruments

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

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/12	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value 12/31/12
			Amortized costs	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	73,314	73,314					73,314
Trade accounts receivable	LaR	142,451	142,451					142,451
Other financial assets								
Loans and receivables	LaR	10,734	10,734					10,734
Receivables from construction contracts	LaR	54,551	54,551					54,551
Financial assets available-for-sale	AfS	800		800				800
Financial assets held-for-trading	FAHfT	15				15		15
Liabilities								
Trade accounts payable	FLAC	120,788	120,788					120,867
Current and non-current liabilities to banks	FLAC	149,600	149,600					155,117
Other financial liabilities								
Other financial liabilities	FLAC	16,049	16,049					16,049
Liabilities from finance leases	n.a.	3,192					3,192	3,192
Derivatives without hedge relationship	FLHfT	0						0
Derivatives with hedge relationship	n.a.	2,560			2,560			2,560
Of which aggregated by valuation category in acc. with IAS 39								
Loans and receivables	LaR	281,050	281,050					281,050
Financial assets available-for-sale	AfS	800		800				800
Financial assets held-for-trading	FAHfT	15				15		15
Financial liabilities measured at amortized costs	FLAC	286,436	286,436					292,033
Financial liabilities held-for-trading	FLHfT	0						0

EUR k

	Valuation category acc. to IAS 39	Carrying amount 12/31/11	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value 12/31/11
			Amortized costs	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	46,749	46,749					**46,749**
Trade accounts receivable	LaR	137,801	137,801					**137,801**
Other financial assets								
Loans and receivables	LaR	8,169	8,169					**8,169**
Receivables from construction contracts	LaR	54,086	54,086					**54,086**
Financial assets available-for-sale	AfS	541		541				**541**
Financial assets held-for-trading	FAHfT	0						**0**
Liabilities								
Trade accounts payable	FLAC	113,879	113,879					**113,979**
Current and non-current liabilities to banks	FLAC	138,866	138,866					**145,583**
Other financial liabilities								
Other non-interest-bearing liabilities	FLAC	8,431	8,431					**8,431**
Liabilities from finance leases	n.a.	975					975	**975**
Derivatives without hedge relationship	FLHfT	646				646		**646**
Derivatives with hedge relationship	n.a.	946			946			**946**
Of which aggregated by valuation category in acc. with IAS 39								
Loans and receivables	LaR	246,805	246,805					**246,805**
Financial assets available-for-sale	AfS	541		541				**541**
Financial assets held-for-trading	FAHfT	0						**0**
Financial liabilities measured at amortized costs	FLAC	261,176	261,176					**267,993**
Financial liabilities held-for-trading	FLHfT	646				646		**646**

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.

Available for sale financial assets are non-listed equity instruments for which a fair value cannot be reliably determined. These instruments are therefore measured at cost. On the reporting date, the Group had no intention to sell these instruments.

Trade accounts payable and other liabilities usually have short residual maturities. Longer-term trade accounts payable were determined on the basis of the respective yield curves and the risk premium applicable for GRAMMER. 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 our financial instruments at fair value in the three levels of the fair value hierarchy:

EUR k

2012	Carrying amount	Level 1	Level 2	Level 3
Financial assets recognized at fair value				
Derivates				
with hedge relationship	0		0	
without hedge relationship	15		15	
Financial liabilities recognized at fair value				
Derivates				
with hedge relationship	2,560		2,560	
without hedge relationship	0		0	

EUR k

2011	Carrying amount	Level 1	Level 2	Level 3
Financial liabilities recognized at fair value				
Derivates				
with hedge relationship	946		946	
without hedge relationship	646		646	

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 2012	Net income 2011
Loans and receivables	–3,601	2,765
Financial assets and liabilities held-for-trading	–513	127
Financial liabilities measured at amortized costs	2,495	–3,639
	–1,619	**–747**

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

Net income from financial instruments held for trading includes 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 losses.

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

All derivative transactions entered into for purposes of risk management are managed by expert teams that have the necessary knowledge and experience, and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management. In its internal guidelines the Group ruled out trading in derivatives in 2012 and 2011, 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 creditworthiness of major customers, especially in the Automotive sector, is subject to particular monitoring due to risks from trade receivables. If no rating information is available, the Group uses other available financial information and its own records to assess 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 or future cash flows of financial instruments vary due to fluctuations in market prices. 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, 2012 and 2011. The sensitivity analyses were prepared on the basis of the hedging transactions existing on December 31, 2012, 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, can also be entered into to hedge price risks related to purchases of commodities. The Group carefully monitors the development of markets as a basis for decision making about the implementation of hedging.

There were no commodity forwards for hedging of price risks in raw materials procurement reported at the balance sheet date in 2012 or 2011, 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 may be concluded to hedge specific foreign currency inflows and outflows amounting to 70 % – 80 % of the exposure.

Cash flow hedges
During the reporting period, currency hedges were in place in PLN, CZK and TRY, which satisfy the requirements for cash flow hedging. Moreover, currency forwards in USD were concluded, which are not included under the cash flow hedging definition. At the balance sheet date, there were no open currency forwards designated for hedging purposes.

As of December 31, 2011, currency forwards with a negative market value of EUR -15 thousand were designated as cash flow hedging instruments. These forward transactions matured during the 2012 fiscal year. Consequently, in the context of currency hedging, EUR 214 thousand was included directly in equity. Of this amount, EUR 199 thousand (2011: –632) was taken to the net profit for the period. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review.

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 (2011: 10) is assumed. All other variables remain constant.

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

EUR k

	Changes in the price of the USD	Impact on profit before tax	Impact on equity
2012	+10%	4,996	–1,173
	–10%	–4,997	1,174
2011	+10%	5,343	–1,197
	–10%	–5,341	1,196

	Changes in the price of the TRY	Impact on profit before tax	Impact on equity
2012	+10%	–463	0
	–10%	463	0
2011	+10%	–311	0
	–10%	312	0

	Changes in the price of the CZK	Impact on profit before tax	Impact on equity
2012	+10%	1,634	0
	–10%	–1,634	0
2011	+10%	2,431	430
	–10%	–2,432	–351

	Changes in the price of the PLN	Impact on profit before tax	Impact on equity
2012	+10%	–391	0
	–10%	391	0
2011	+10%	–310	0
	–10%	309	0

	Changes in the price of the MXN	Impact on profit before tax	Impact on equity
2012	+10%	1,729	1,291
	–10%	–1,729	–1,291
2011	+10%	1,591	1,291
	–10%	–1,591	–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.

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 affiliated companies in the form of loans.

The interest rate swaps in place last year, which do not qualify as cash flow hedges, were settled early in the reporting year. The nominal volumes of these swaps totaled EUR 21.4 million. In the previous year, the negative market value of EUR 0.6 million was reported under other current financial liabilities.

As of December 31, 2012, in connection with the issue of the debenture bond, interest rate swaps with a total nominal volume of EUR 52 million (2011: 43) were in place to hedge against interest rate changes affecting the variable-rate tranches, which share the residual maturity range of between three and six years with the underlying transactions. These interest rate swaps qualify as cash flow hedges. The negative market value of EUR 2,560 thousand (2011: 931) is reported under other current financial liabilities. The Company recognizes changes in the market value in accumulated other comprehensive income.

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.
- Variable rate primary financial instruments, the payments from which are designated as underlyings for effective cash flow hedges against interest rate risks, have synthetic fixed rates and thus are not subject to interest rate risks. Accordingly, they are not taken into account for 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.
- Interest rate derivatives that are designated as hedging instruments in the context of cash flow hedges have an affect on equity and are taken account of accordingly 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 (2011: 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 % was 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	Impact on Equity
2012	–50	–239	–844
	+50	159	826
2011	–50	–257	–850
	50	356	828

Liquidity risk

The Group manages liquidity risks by holding appropriate reserves, lines of credit in the amount of EUR 113.3 million (2011: 82.1) 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.

GRAMMER Group has access to adequate liquidity, through the large cash position and approved credit lines, to service the tranches of the 2006 debenture bond that fall due in August 2013. Nonetheless, GRAMMER Group has initiated negotiations for follow-on financing. Consequently, in October 2012 – and despite high levels of liquidity – a long-term KfW loan of EUR 10 million was taken out until June 2016.

As of December 31, 2012, the Group had unutilized lines of credit in the amount of EUR 105.3 million (2011: 75.4), 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

2012	Carrying amount	Cashflow 2013	2014–2016	2017 and thereafter
Current and non-current financial liabilities				
Debenture bonds	131,399	65,575	63,015	12,328
Bank loans/KfW loan	16,288	9,273	7,770	0
Overdrafts	1,914	1,914	0	0
Current and non-current trade accounts payable	**120,788**	**115,695**	**5,049**	**355**
Current and non-current other financial liabilities				
Liabilities form finance leases	3,192	768	2,021	745
Other original financial liabilities	16,049	8,896	0	7,153
Derivatives				
Interest rate derivates	2,560	687	1,972	144
Currency derivates	15			
Incoming payments		–3,411		
Payments in advance		3,395		
		202,795	**79,827**	**20,725**

EUR k

2011	Carrying amount	Cashflow 2012	2013–2015	2016 and thereafter
Current and non-current financial liabilities				
Debenture bonds	131,430	5,603	88,682	54,520
Bank loans/KfW loan	5,592	5,728	228	0
Overdrafts	1,844	1,844	0	0
Current and non-current trade accounts receivable	**113,879**	**110,839**	**3,271**	**223**
Current and non-current other financial liabilities				
Liabilities form finance leases	975	805	242	0
Other original financial liabilities	8,430	2,151	0	6,279
Derivatives				
Interest rate derivates	1,575	532	1,238	121
Currency derivates	17			
Incoming payments		–5,655		
Payments in advance		5,673		
		127,520	**93,661**	**61,143**

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.

Other primary financial liabilities totaling EUR 7,153 thousand comprise interest-bearing debt. Based on the contractual terms for redemption, a return is not currently expected until five years have elapsed.

For currency derivatives, both the payments made and corresponding payments received are recorded, since net cash settlement is not generally possible for these derivatives, which must be settled through provision of the countercurrency.

Capital management

In its management of capital, the Group tries to ensure that it achieves both a good credit rating and an equity ratio that is sufficient to support its operating activity and to optimize its value approach. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

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

As a result of the 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

	2012	2011
Non-current bank liabilites	76,778	129,776
Current bank liabilities	72,822	9,090
Liabilities from finance lease	3,192	975
Cash and securities	–73,314	–46,749
Net financial liabilities	**79,478**	**93,092**
Equity before minority interests	227,523	210,691
	35%	44%

32 Events after the Balance Sheet Date

Germany's Federal Cartel Office approved the takeover of Nectec Automotive s.r.o. by GRAMMER AG, which acquired 100% of Nectec Automotive s.r.o. on February 21, 2013.

Effective February 21, 2013, Mr. Bernhard Hausmann was appointed by the Amberg Local Court as a member of the Supervisory Board. Mr. Hausmann will serve as employee representative to the Supervisory Board, succeeding Mr. Martin Bodensteiner, who left the Board on December 29, 2012.

33 Other Information

Employees

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

	2012	2011
Wage-earning employees	7,032	6,620
Salaried employees	1,845	1,809
Total	**8,877**	**8,429**

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

	2012	2011
Seating Systems	3,140	3,377
Automotive	5,279	5,148
Central Services	253	201
Total	**8,672**	**8,726**

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 310.9 thousand (2011: 333.8) for the audit, EUR 103.4 thousand (2011: 51.3) for other audit and assessment services and EUR 6.2 thousand (2010: 5.9) for other services.

Executive Board and Supervisory Board remuneration

EUR k

	2012	2011
Total remuneration paid to the Executive Board amounted to	2,019	2,050
The Supervisory Board received total remuneration of	497	477

The total remuneration of the Executive Board, EUR 229 thousand (2011: 441) are attributable to performance-related components and EUR 487 thousand (2011: 368) to components with long-term incentive effect. The performance-related remuneration components and components with long-term incentive effect are affected by the corresponding components from the prior year in the amount of EUR 9 thousand (2011: 76) and EUR 131 thousand (2011: 0) respectively.

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2012:

EUR k

	Non-performance-related components	Performance-related components	Components providing long-term incentives	Total
Hartmut Müller	548	66	211	825
Manfred Pretscher	346	42	144	532
Volker Walprecht	105	19	23	147
Alois Ponnath[1]	304	102	109	515
	1,303	**229**	**487**	**2,019**

[1] Total remuneration including all amounts paid after departure from the Executive Board in May until the end of employment on October 31, 2012.

Of the total amounts listed in the table as payment for his term as a member of the Executive Board, Mr. Alois Ponnath received remuneration totaling EUR 239 thousand for the period following termination of his Executive Board duties until expiration of his original employment contract on October 31, 2012. This includes payment of the agreed fixed salary (150k), performance-related remuneration components (50k) and components with long-term incentive effect (39k) for the remaining months of the original employment contract until October 31, 2012.

Provisions were recognized in the amount of EUR 541 thousand (2011: 841) for pension obligations to current members of the GRAMMER AG Executive Board.

Executive Board members receive no loans or advances from the Company.

A further EUR 282 thousand (2011: 267) was paid to former members of the management and the Executive Board and their surviving dependents.

In accordance with IAS 19 (under the corridor method), EUR 4,956 thousand (2011: 3,583) were recorded on the balance sheet date for pension payments to former members of the management and the Executive Board and their surviving dependents.

Moreover, current service cost for allocations to pension provisions arose for active members of the Executive Board in the amount of EUR 126 thousand (2011: 101). Of this, EUR 34 thousand were for Mr. Hartmut Müller, EUR 37 thousand for Mr. Manfred Pretscher and EUR 25 thousand for Mr. Volker Walprecht, as well as EUR 30 thousand for Mr. Alois Ponnath until his departure from the Company on October 31, 2012.

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

EUR k

	Non performance related components	Meeting fees	Total
Dr.-Ing. Klaus Probst	60.0	15.0	**75.0**
Joachim Bender[1]	22.5	4.0	**26.5**
Martin Bodensteiner[2]	30.0	5.0	**35.0**
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	10.0	**40.0**
Lic. oec. HSG Ingrid Hunger	30.0	5.0	**35.0**
Dipl.-Kauffrau Tanja Jacquemin	30.0	5.0	**35.0**
Dipl.-Betriebswirt (FH) Harald Jung	30.0	5.0	**35.0**
Anton Kohl	30.0	5.0	**35.0**
Dipl.-Betriebswirt Georg Liebler	30.0	9.0	**39.0**
Dipl.-Kaufmann Dr. Hans Liebler[3]	18.2	3.0	**21.2**
Horst Ott[4]	16.6	6.0	**22.6**
Wolfgang Rösl	30.0	14.0	**44.0**
Dr.-Ing. Peter M. Stehle[5]	11.9	2.0	**13.9**
Dr. Bernhard Wankerl	30.0	10.0	**40.0**
	399.2	**98.0**	**497.2**

[1] Member until June 30, 2012
[2] Member until December 29, 2012
[3] Member from May 23, 2012
[4] Member from July 30, 2012
[5] Member until May 23, 2012

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 2012, the Supervisory Board was not paid any performance-based remuneration.

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration.

34 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 2011 Annual Report and are permanently available on the company website under www.grammer.com/en/about-grammer/corporate-governance.

Boards

Executive Board

▷ **M.Sc. BWL, Dipl.-Ing. (FH) Hartmut Müller, Darmstadt**
Chief Executive Officer

▷ **Dipl.-Kaufmann Alois Ponnath, Kümmersbruck**
Member of the Executive Board until May 31, 2012

▷ **Dipl.-Ing. (FH) Manfred Pretscher, Meine**

▷ **Dipl.-Kaufmann Volker Walprecht, Essen**
Member of the Executive Board as of October 1, 2012

Supervisory Board

▷ **Joachim Bender, Sulzbach-Rosenberg**
Deputy Chairman
Employee representative until June 30, 2012

▷ **Martin Bodensteiner, Freudenberg**
Employee representative until December 29, 2012

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

▷ **Bernhard Hausmann, Amberg**
Employee representative
Member of the Supervisory Board as of February 21, 2013

▷ **Lic. oec. HSG Ingrid Hunger, Lohr am Main**

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

▷ **Dipl.-Betriebswirt (FH) Harald Jung, Nabburg**
Employee representative

▷ **Anton Kohl, Hahnbach**
Employee representative

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

▷ **Dipl.-Kaufmann Dr. Hans Liebler, Gräfelfing**
Member of the Supervisory Board as of May 23, 2012

▷ **Horst Ott, Königstein**
Employee representative
Member of the Supervisory Board as of June 30, 2012
Deputy Chairman as of September 25, 2012

▷ **Dr.-Ing. Klaus Probst, Heroldsberg**
Chairman of the Supervisory Board

▷ **Dr.-Ing. Peter M. Stehle, Bad Homburg**
Member of the Supervisory Board until May 23, 2012

▷ **Wolfgang Rösl, Sulzbach-Rosenberg**
Employee representative

▷ **Dr. Bernhard Wankerl, Schwandorf**

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

Executive Board:

▷ **Hartmut Müller**
Chief Executive Officer
- Chairman of the Supervisory Board of GRAMMER AD, Trudovetz/Bulgaria
- Member of the Supervisory Board of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China
- Member of the Supervisory Board of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin/China
- Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China
- President of the Board of Directors of GRAMMER Automotive Peubla S.A. de C.V., Puebla/Mexico

▷ **Alois Ponnath**
Executive Board member until May 31, 2012
- Member of the Supervisory Board of GRAMMER AD, Trudovetz/Bulgaria (until June 19, 2012)
- Member of the Board of Directors of GRAMMER Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa/Turkey (until September 5, 2012)
- Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (until April 30, 2012)
- Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China (until April 30, 2012)
- Member of the Board of Directors of GRAMMER Seating (Xiamen) Ltd., Xiamen/China (until March 31, 2012)
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA (until March 31, 2012)

▷ **Manfred Pretscher**
Members of the Executive Board
HR Director
- Chairman of the Board of Directors of GRAMMER Koltuk Sistemleri Sanayii ve Ticaret A.S., Bursa/Turkey
- Member of the Supervisory Board of GRAMMER AD, Trudovetz/Bulgaria (as of June 20, 2012)
- 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 Interior (Tianjin) Co. Ltd., Tianjin/China
- Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co. Ltd., Shanghai/China (as of May 1, 2012)
- Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun/China (as of May 1, 2012)
- Member of the Supervisory Board of GRAMMER Interior (Beijing) Co. Ltd., Beijing/China (as of September 28, 2012)
- President of the Board of Directors of GRAMMER Japan Ltd., Tokyo/Japan
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA
- Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern

▷ **Volker Walprecht**
Member of the Executive Board as of October 01, 2012
Chief Financial Officer
- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA (as of February 1, 2013)

Supervisory Board:

▷ **Dr.-Ing. Klaus Probst**
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 Deutsche Bank AG, Munich (region south)

▷ **Joachim Bender**
1st Chairman of IG Metall Amberg (until April 27, 2012)
(Member of the Supervisory Board until June 30, 2012)
- Deputy Chairman of the Supervisory Board of Kennametal GmbH, Fürth (until June 30, 2012)
- Deputy Chairman of the Supervisory Board of Kennametal Holding GmbH, Fürth (until June 30, 2012)
- Deputy Chairman of the Supervisory Board of Kennametal Hertel Europe Holding GmbH, Fürth (until June 30, 2012)

▷ **Martin Bodensteiner**
Supplier Development Commodity Coverings
(Member of the Supervisory Board until December 29, 2012)
- no further offices

▷ **Wolfram Hatz**
Independent Businessman, Executive Director of Motorenfabrik Hatz GmbH & Co. KG and Hatz Holding GmbH
- Member of the Advisory Board of Commerzbank AG, Frankfurt am Main

▷ **Ingrid Hunger**
Managing Partner and Management Spokesperson of Walter Hunger GmbH & Co. KG
- no further offices

▷ **Tanja Jacquemin**
Political Secretary of IG Metall Frankfurt/Main
- no further offices

▷ **Harald Jung**
Director Division Controlling Consoles
- no further offices

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

▷ **Georg Liebler**
Former Member of the Executive Board of Kolbenschmidt Pierburg AG
Consultant, owner of Georg Liebler Consulting Services
- no further offices

▷ **Dr. Hans Liebler**
Independent Investment Advisor
(Member of the Supervisory Board as of May 23, 2012)
- Chairman of the Supervisory Board of Investunity AG, Munich
- Deputy Chairman of the Supervisory Board of Augusta Technologie AG, Munich
- Member of the Supervisory Board of Mercatura Cosmetics BioTech AG, Bremen renamed Jean Pierre Rosselet Cosmetics AG, Bremen as of July 19, 2012
- Member of the Supervisory Board of autowerkstattgroup N.V., Maastricht (NL)
- Member of the Supervisory Board of WashTec AG, Augsburg (as of May 10, 2012)

▷ **Horst Ott**
1st Chairman of IG Metall Amberg (as of May 1, 2012)
(Member of the Supervisory Board as of July 30, 2012)
- no further offices

▷ **Dr. Peter M. Stehle**
Managing Partner of SYN GmbH
(Member of the Supervisory Board until May 23, 2012)
- Member of the Board of Directors of Stulz Holding GmbH, Hamburg

▷ **Wolfgang Rösl**
Industrial Electrician
- Member of the Advisory Board of AOK, Amberg

▷ **Dr. Bernhard Wankerl**
Attorney, law firm Dr. Wankerl and colleagues
- 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, 2012. 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 315 a (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 315 a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Nuremberg, March 19, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth Wirtschaftsprüfer	Helgert Wirtschaftsprüfer

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amberg, March 19, 2013

GRAMMER AG
Executive Board

GRAMMER AG – Income Statement[1] for the fiscal year ending December 31, 2012

EUR k	2012	2011
Revenue	509,368	509,256
Increase in finished goods and work in progress	1,744	1,058
Other own work capitalized	568	612
	511,680	**510,926**
Other operating income	6,473	8,940
Material costs	378,068	382,174
Personnel expenses	67,266	67,225
Depreciation and amortization	10,829	10,260
Other operating expenses	48,537	50,104
	13,453	**10,103**
Earnings from participations	8,887	24,011
of which from affiliated companies EUR k 8,887 (2011: 24,011)		
Income from profit and loss transfer agreements	8,513	27
of which from affiliated companies EUR k 8,513 (2011: 27)		
Income from other investments and long-term loans	4,427	3,545
of which from affiliated companies EUR k 3,914 (2011: 3,114)		
Other interest and other income	657	2,104
of which from affiliated companies EUR k 589 (2011: 1,926)		
Amortisation of financial assets and investments classified as current assets	476	0
Expenses from the transfer of losses	8,956	9,495
of which from affiliated companies EUR k 8,956 (2011: 9,495)		
Interest and other expenses	10,408	12,917
of which to affiliated companies EUR k 151 (2011: 199)		
Result from ordinary activities	**16,097**	**17,378**
Extraordinary income	0	0
Extraordinary expenses	0	0
Extraordinary result	0	0
Income taxes	2,452	2,921
Other taxes	89	115
Net profit/net loss	**13,556**	**14,342**
Loss carry-forward	8,658	−26,009
Releases from the reserve for own shares	0	0
Releases from other revenue reserves	0	24,811
Allocation to other revenue reserves	−6,778	0
Net retained profit/net retained loss	15,436	13,144

[1] Financial statements in accordance with HGB

GRAMMER AG – Balance Sheet[1]
for the fiscal year ended December 31, 2012

ASSETS

EUR k	2012	2011
A. Fixed assets		
I. Intangible assets	4,472	5,636
II. Property, plant and equipment	34,044	38,110
III. Financial assets	155,207	138,203
	193,723	**181,949**
B. Current assets		
I. Inventories	40,223	38,216
II. Receivables and other assets	153,575	145,003
III. Cash on hand and bank balances	28,955	25,813
	222,753	**209,032**
C. Deferred items	575	381
D. Positive difference from asset allocation	0	222
Total assets	**417,051**	**391,584**

EQUITY AND LIABILITIES

EUR k	2012	2011
A. Equity		
I. Subscribed capital	29,555	29,555
Own shares	−845	−845
Issued capital (conditional capital EUR k 13,434; 2011: 13,434)	28,710	28,710
II. Capital reserve	74,651	74,651
III. Revenue reserves	7,961	1,183
IV. Net profit	15,436	13,144
	126,758	**117,688**
B. Provisions		
1. Pension provisions	52,251	49,166
2. Provisions for taxation	707	0
3. Other provisions	18,821	26,156
	71,779	**75,322**
C. Liabilities		
1. Liabilities to banks	140,000	130,001
2. Prepayments received	3,540	3,478
3. Trade accounts payable	12,113	12,992
4. Liabilites to related parties	52,924	45,456
5. Liabiltiies to companies in which a participating interest is held	41	0
6. Other liabilities	9,896	6,647
	218,514	**198,574**
Total equity and liabilities	**417,051**	**391,584**

[1] Financial statements in accordance with HGB

GRAMMER Group Five-year Overview according to IFRS

in EUR m

	2012	2011	2010	2009	2008
Group revenue	**1,143.6**	**1,093.5**	**929.7**	**727.4**	**1,007.0**
Automotive revenue	711.1	680.3	610.2	495.5	637.6
Seating Systems revenue	449.7	438.0	341.9	247.1	390.0
Income statement					
Gross profit	141.6	142.5	119.6	76.0	129.8
EBIT	47.3	49.4	32.9	–23.9	32.0
EBIT margin (in %)	4.1	4.5	3.5	–3.3	3.2
Financial result	–11.3	–15.1	–12.3	–7.6	–12.4
Profit/loss (–) before tax	36.0	34.3	20.6	–31.5	19.6
Income taxes	–11.6	–12.2	–4.2	3.3	–5.4
Net profit/loss (–)	24.4	22.1	16.3	–28.2	14.1
Balance sheet					
Total assets	669.4	625.2	559.4	500.4	481.0
Non-current assets	267.1	260.6	245.9	228.0	216.7
Current assets	402.3	364.6	313.5	272.4	264.3
Equity	228.0	211.2	173.1	151.0	173.0
Equity ratio (in %)	34	34	31	30	36
Net financial debt	76.3	92.1	113.8	106.2	80.2
Cash flow statement					
Capital expenditure (without M&A)	39.4	37.6	38.1	32.7	39.9
Depreciation and amortization	29.3	27.5	26.3	26.5	23.4
Cash flow from operating activities	62.9	58.0	38.0	1.7	40.8
Employees					
Annual average	8,877	8,429	7,745	7,474	9,493
thereof in Germany	2,212	2,177	2,147	2,354	2,682
thereof outside Germany	6,665	6,252	5,598	5,120	6,811
Personnel expenses	233.9	229.6	208.4	199.1	238.7
Key share data					
Share price at year-end (XETRA, in EUR)	16.02	13.02	18.30	6.05	6.90
Market capitalization at year-end (in EUR m)	184.9	150.3	192.1	63.5	72.4
Dividend (in EUR)	0.50*	0.40	0.00	0.00	0.00
Earnings per share (in EUR)	2.17	2.02	1.60	–2.77	1.38

* proposal

Financial Calender 2013 and Trade Fair Dates[1]

Important dates for shareholders and analysts

Annual Report 2012	03/27/2013
Annual analyst and press conference fiscal year 2012	03/27/2013
Interim Report, first quarter 2013	05/08/2013
Annual General Meeting 2013 Location: ACC (Amberger Congress Centrum), 92224 Amberg	06/05/2013
Interim Report, second quarter and first half-year 2013	08/07/2013
Interim Report, third quarter 2013	11/13/2013

Important trade fair dates

Bauma 2013, Munich, Germany	04/15 – 04/21/2013
Moscow International Motor Show, Moscow, Russia	08/26 – 08/29/2013
Expo 1520, Moscow, Russia	09/11 – 09/14/2013
GIE Expo, Louisville, USA	10/23 – 10/25/2013
Agritechnica, Hanover, Germany	11/10 – 11/16/2013
Comvex, Istanbul, Turkey	11/14 – 11/17/2013
METS 2012, Amsterdam, Netherlands	11/19 – 11/21/2013

[1] All data above are tentative and subject to change.

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Imprint

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

Date of publication
March 27, 2013

Concept, Artwork, Layout
Kirchhoff Consult AG, Hamburg

Printed by
Druckerei Frischmann, Amberg

FSC® www.fsc.org MIX Paper from responsible sources FSC® C014539

Translated by
THINKFAST Text and Translation
Service, Frankfurt

The Annual Report of GRAMMER Group is
published in German and English.

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