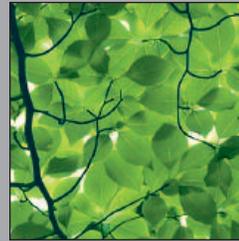




Shareholder Letter



CHANGING THE WAY THE WORLD SLEEPS!®

2006 Shareholder Letter

Tempur-Pedic® International Inc.

Dear Shareholders:

2006 was a great year for Tempur-Pedic International. For the year, our Company reported record net sales of \$945 million, or an increase of 13%, and earnings per share (EPS) increased 32% to \$1.28. Our U.S. business gained momentum through the year and expanded net sales by over \$86 million or 16% to \$622 million. Internationally, we delivered solid results, reporting \$323 million of net sales or an increase of 8%. For a more detailed discussion of our financial performance for the year, please refer to the Management's Discussion and Analysis section of the enclosed copy of our Form 10-K report for 2006.

We believe that we can continue to take market share in 2007 and beyond. Our long-term goal is to become the world's largest bedding company. In order to achieve this goal, we expect to continue executing our corporate strategies including:

- Investing in targeted marketing and advertising campaigns to increase our global brand awareness.
- Focusing on premium mattresses and pillows and regularly introducing new products.
- Extending our product distribution and improving our account productivity in both U.S. and International retail and bedding stores.
- Investing in our operating infrastructure to meet the requirements of our growing business.

Tempur-Pedic is one of the most recognized brands in the bedding industry, offering consumers an innovative technology as opposed to old fashioned, conventional innerspring mattresses. Our innovations represent technologies that continue to make inroads in the broader mattress industry. In addition to our proprietary formulas, we also hold patents for certain elements of our manufacturing process and construction and design of certain of our products. We believe that our products are

superior to all alternatives — conventional spring mattresses, water beds, air beds, "knock off" viscoelastic products and others and we are extremely well positioned to take advantage of a broad consumer shift away from conventional bedding.

We believe consumers in the U.S. and internationally increasingly associate our brand with premium quality products that enable better overall sleep. Our TEMPUR® brand has been in existence since 1991 and its global awareness is reinforced by our high level of customer satisfaction, as demonstrated by recognition received from: the Arthritis Foundation, the NASA Space Foundation, *Good Housekeeping* and *Consumers Digest*. In addition, our products are recommended by more than 25,000 healthcare professionals and according to independent, third-party research, the Company has the highest customer satisfaction ratings in the industry, driven by passionate consumers. In fact, Tempur-Pedic is the most referred brand in the industry. With all of these strengths, it is no surprise that a recent study of our retailers reports Tempur-Pedic is the easiest brand to sell.

As our retail channel continues to grow, our relationship with our retailers becomes critically important. We will continue providing our retailers with the level of support they need to help expand market acceptance and product distribution. In 2006, we increased our U.S. retail sales force. This investment allows our sales personnel to focus on fewer accounts resulting in more time spent with each consumer. With more time in customer stores, our sales personnel can focus on improved merchandising and frequent in-store training courses, which highlight the benefits of a complete Tempur-Pedic sleep system, including pillows. We are beginning to see the benefits of this approach as pillow attach rates have significantly improved. In fact, in the fourth quarter, domestic pillow units and sales revenue represented new all-time quarterly records.

Product innovation and enhancements to our proprietary TEMPUR® formula are keys to our future success. To that end, we will continue to seek ways to expand our mattress floor space in established and new retail accounts. In 2006, we introduced two new mattresses in the U.S. The RhapsodyBed by Tempur-Pedic™ and The GrandBed by Tempur-Pedic™. These products have far exceeded our expectations both in terms of distribution and sales volume as consumers and retailers reacted very favorably to the product designs, our new TEMPUR formulation (TEMPUR-HD™) and the overall value these products offer. In addition to the successful launch of these new models, our existing product line grew substantially and, importantly, our “refreshed” Classic model resumed strong growth.

As our investors know, R&D and new product development are ingrained in our culture. So, 2007 will continue to see new TEMPUR products as we extend our lead in innovation. We have recently announced several new products across our global markets including:

NORTH AMERICA

- The BellaSonna Bed by Tempur-Pedic™ which features two thick layers of TEMPUR material and our latest support base innovation: the T-Flex™ Support System, a matrix of individually adjusting cylindrical flexors. We believe this product, with a suggested retail price of \$4099 for a queen size mattress, will help us expand our consumer market as we believe it will attract consumers looking for a more “traditional” mattress feel with the benefits of TEMPUR.
- The SymphonyBed by Tempur-Pedic™ will feature a tremendous consumer value near the lower end of the premium mattress segment. With a suggested retail price point of \$1399 for a queen size mattress, we believe this product will help us exploit the key \$1000 to \$2000 price points and take significant market share.

INTERNATIONAL

- The TEMPUR® Scandinavian Bed Supreme Collection was introduced in January 2007. This new mattress line features three distinct models with higher price points. They will be offered throughout Europe.
- In the U.K., we are upgrading two mattresses to include our TEMPUR-HD formula, which has proven extremely popular in the U.S. We expect U.K. consumers will react very favorably to this latest technological innovation.

Building on our successes with pillows, we are also launching several new pillow products across the globe. We believe The RhapsodyPillow by Tempur-Pedic™ will be quite popular as a standalone product while also being a key component of the complete Rhapsody sleep system. These products are only the beginning! Our R&D and product management teams are hard at work developing the next technological and product innovations as we continue our mission of *Changing the way the world sleeps!*®

Turning to our operations, 2006 marked an important milestone in our Company’s history as we completed construction of our manufacturing facility in New Mexico. This factory will provide us significant capacity to keep up with growing demand while improving operating efficiencies. It doubles our U.S. capacity while lowering transportation and distribution costs. In January 2007, the factory started production and we are now on our way to seeing this factory become our most efficient operation worldwide.

In addition to successfully opening the new factory, our operations team was successful in mitigating unprecedented cost increases for some of our key raw materials. While prices for these raw materials were relatively stable in 2006, they were at an elevated level all year. Yields in our factories were up substantially and savings from sourcing and distribution also had a positive

2006 Shareholder Letter

Tempur-Pedic® International Inc.

impact on the bottom-line. Looking forward, we expect to see continued improvements in these areas. Our operations team is working on numerous projects to drive operating efficiencies while maintaining our commitment to quality.

In 2006, we were pleased to add Rick Anderson to our management team as Executive Vice President and President, North America. Rick joined us from Procter & Gamble after a 23 year career with The Gillette Company, which became part of P&G in 2005. Rick has an outstanding track record in the consumer products market with a breadth of marketing and sales experience, a proven record of brand building results and an outstanding commitment to organizational excellence. Our top five executive officers, Tom Bryant, Rick Anderson, Matt Clift, David Montgomery and Dale Williams, have nearly 130 years of combined management experience running large, diverse, multinational businesses.

Our management team is committed to maximizing shareholder value. During late 2005 and early 2006, the stock price was trading at a level that we believed represented a significant discount to the underlying value. Accordingly, we bought back nearly 20% of the Company's common stock at an average price of \$12 per share. This stock buyback was funded primarily through borrowings.

In the second half of 2006, reflecting the business's strong cash flow dynamics, we redeemed our senior subordinated debt, which substantially lowered our cost of borrowing and improved corporate flexibility, and overall we lowered total debt by nearly \$56 million, even though we incurred a sizeable call premium in connection with the redemption of the senior subordinated debt.

The Company has a proven track record of strong cash flows, most recently evidenced by generating \$166 million in cash flow from operations during 2006. As a result, in January 2007 we announced that the Company would commence a quarterly dividend on the common stock and

a new \$100 million share repurchase program authorization. We firmly believe that initiating a dividend and a share repurchase program are excellent ways to leverage the business's strong cash flow dynamics as we seek to maximize shareholder value.

Tempur-Pedic is the worldwide leader in specialty sleep, the fastest growing segment of the estimated \$12 billion global mattress market. It is one of the top 4 mattress manufacturers in the U.S. Of U.S. bedding manufacturers, the Company has the largest international presence with more than 1/3 of our business originating outside the U.S. As a global, vertically integrated manufacturer, all TEMPUR material is made in one of our three factories.

The future is very bright for Tempur-Pedic International. Our goal is clear – to build on our leadership position in the premium segment to become the world's largest bedding company (we believe we are already the most profitable). To achieve that goal, we will continue to implement the business model that has proven so successful over the past several years. We appreciate your continued support and look forward to sharing another successful year with you.

Sincerely,



H. Thomas Bryant
President & Chief Executive Officer



Plant Dedication

Albuquerque, New Mexico



Tempur-Pedic® International Dedicates The World's Largest Mattress Factory

On January 26, Tempur-Pedic International Inc. held the official grand opening of its new manufacturing facility in Albuquerque, New Mexico. This state-of-the-art facility, just over 800,000 sq. ft., is the world's largest mattress factory and the Company's second in the United States.

The plant will meet growing manufacturing needs for the western United States. Construction began on the \$95+ million facility in September 2004. It is located on a 50 acre site on Paseo Del Volcan in Northwest Albuquerque. Tempur-Pedic plans to manufacture the Company's complete line of mattresses out of the Albuquerque facility to service the needs of the western U.S.

New Mexico Governor Bill Richardson and U.S. Congresswoman Heather Wilson among other dignitaries were on hand to assist Tempur-Pedic's CEO, Tom Bryant with the ribbon cutting ceremony.

Right: With help from U.S. Congresswoman Heather Wilson and New Mexico Governor Bill Richardson, Tom Bryant cut the ribbon at the Albuquerque Plant Grand Opening Ceremony on January 26, 2007. Below: A wide view of the new plant illustrates its immense size.

Presentations to charities in the Albuquerque area were also made during the ceremony. For 2007, Tempur-Pedic is making donations to Casa Esperanza (www.casaesperanzanm.org), a facility that houses the families of people undergoing cancer treatment at hospitals throughout Albuquerque, and Barrett House (www.barrettfoundation.org), a 45-bed facility that provides emergency and short-term shelter to homeless women and children.



New 2007 Products

North America

The BellaSonna Bed by Tempur-Pedic™

The BellaSonna Bed by Tempur-Pedic combines our proprietary TEMPUR® material with our exclusive T-Flex™ Support System to create our latest breakthrough in sleep technology — a completely new sleep experience for consumers who desire the revolutionary pressure relief and comfort benefits that only Tempur-Pedic® can provide but are reluctant to abandon the familiar feel of a

traditional mattress. The TEMPUR material layers gently conform to the user's body, relieving pressure and absorbing motion while the patented T-Flex Support System adjusts and flexes to provide buoyant support. The super-stretch, anti-microbial and hypoallergenic cover is removable for easy washing.

The combination of TEMPUR and the patented T-Flex Support System, exclusively available from Tempur-Pedic, is an advance in bedding design that can only be described as *simply beautiful sleep*.



New 2007 Products

North America



The SymphonyBed by Tempur-Pedic™

The SymphonyBed by Tempur-Pedic features a super-conforming TEMPUR® *Comfort Layer* on top of our slightly firmer TEMPUR *Support Layer*. Our AirFlow System™ base is convoluted on the surface and adhered to the TEMPUR components to increase air circulation—enhancing comfort and responsiveness. The stylish khaki velour cover is removable, washable, anti-microbial and allergen-resistant.



The RhapsodyPillow by Tempur-Pedic™

The RhapsodyPillow by Tempur-Pedic™ perfectly coordinates with The RhapsodyBed by Tempur-Pedic™, while providing pressure-relieving comfort in a more traditional pillow shape. The removable, washable and allergen-resistant outer cover is dual sided with TEMPUR-Tex™ on top and micro suede on the bottom to match the top and sides of its mattress namesake. The patented design of this luxurious pillow features a super conforming inner sleeve lined with TEMPUR-HD™ and generously filled with shapeable, TEMPUR® micro-cushions.

TEMPUR-HD, a higher density formula of our proprietary TEMPUR material, creates a luxurious, deep sleep experience. More TEMPUR cells across the sleep surface conform to every angle of your body with exacting precision, providing even more support, greater pressure relief and unsurpassed durability.



New 2007 Products

Europe



TEMPUR® Scandinavian Bed Supreme Collection

An extra luxurious version of the Scandinavian Bed Supreme Collection was launched at the International Furniture Fair in Cologne, Germany in January 2007.

The three new beds — Supreme Ice Grey, Supreme Chocolate and Supreme Avantgarde — feature furniture quality fabric woven in striking new colors for a contemporary look. Elastan woven into the fabric makes it stretchable and allows a nice neat fit.

On top of each mattress is an additional layer of TEMPUR® material covered with soft classical velour in matching colors. Coordinating Comfort Pillows and Design Pillows complete the set and accentuate the modern design.



2006 Product Launches

GLOBAL

The SymphonyPillow by Tempur-Pedic™

Our new, softer formulated TEMPUR® material harmonizes perfectly with the unique dual-sided design of The SymphonyPillow by Tempur-Pedic to provide a slightly softer, yet supportive pillow to fit any sleeping position. The gently arched side provides head and neck support for back sleepers while the other side provides a more traditional pillow feel and works well for side sleepers.

Package designs from the U.S., Europe and Asia.



NORTH AMERICA

The GrandBed by Tempur-Pedic™

TEMPUR-HD™ quilted into the silk blend cover reacts immediately to distribute body weight while a second layer of TEMPUR-HD provides additional pressure relief and comfort. The super-thick TEMPUR Support Layer provides body-conforming support. The GrandBed by Tempur-Pedic features the most TEMPUR material content available in a mattress.

The RhapsodyBed by Tempur-Pedic™

A masterful composition of technology and comfort, The RhapsodyBed by Tempur-Pedic features TEMPUR-HD as the Comfort Layer along with a TEMPUR material Support Layer and our dual AirFlow System™ Base Layer. The removable, washable, allergen-resistant cover features micro-fiber suede sides and a stretchable TEMPUR-TEX™ top.



UNITED KINGDOM

The CelebrityMattress by TEMPUR™

The CelebrityMattress by TEMPUR™ has been designed to provide even more luxury to our pressure-relieving technology. The ultra-plush design contains more TEMPUR material, offering extravagance and providing the same pressure-relieving comfort as all TEMPUR® Products.



Medical Division

Product and Partnership Development

The Pro-HealthCore Bed by Tempur-Pedic™

Launched in late 2006, The Pro-HealthCore Bed by Tempur-Pedic was specifically designed for health professionals to help provide relief to those who suffer from pain.

The Pro-HealthCore Bed by Tempur-Pedic features three specific Body-Zones that vary to provide perfect support where the consumer needs it most. The Back-Zone, the section in the middle of the mattress, is designed to provide extra body-conforming support to the heavier torso and upper-leg areas of the body. This promotes proper alignment of the spine which provides increased therapy needed to help reduce chronic back pain.

The Head-Zone and Foot-Zone are comprised of a softer formulation of our TEMPUR® material to gently cushion and support lighter areas of the body with total comfort.

The Pro-HealthCore Bed by Tempur-Pedic also features our new TEMPUR-HD.™ This reformulated, higher-density TEMPUR material provides an unmatched level of comfort and body-conforming support.



Partner Program Developments

The Tempur-Pedic® Medical Division continues to expand and add to its partner program with leading healthcare industry participants. Selected examples include:

Partner Company	Area of Specialty	Tempur-Pedic Medical Solutions
GE	Imaging Systems	Imaging Pads
Image Enhancement Systems	MRI Solutions Equipment	MRI Table Pads
OSI	Specialty Surgical Tables	Surgical Table Pads
Patterson	Dental Office Supplies	Dental Chair Cushions
ROHO	Wheelchair Seating	Wheelchair Cushions
Stretchair	Patient Handling Equipment	Transfer Chair Pads

Asian Expansion Efforts

Hotel Program & Trade Show



Japan Hotel Partner Program

Since its inception in December 2003, the TEMPUR® hospitality program in Japan has installed more than 33,000 pillows and 2,500 sleep surfaces in hotels and inns all around the country.

Partner hotels use in-room displays to proudly proclaim that they provide TEMPUR sleep comfort, and several also advertise that fact in nationwide newspapers and magazines, or in trains, aircraft and billboards.

夢の中まで夢ごっこ。
全ホテルにテンピュール枕を
ご用意しています。

東急ホテルズでは、全ホテルが
テンピュールの「コンフォートピロー」。
眠りの質までたいせつなサービスと考える、
私どものこだわりです。

ひとりひとりのコンフォートへ。
TOKYU HOTELS

◆東急ホテルズ予約センター ☎0120-21-5489 www.tokyuhotels.co.jp

A Tokyu Hotels' nationwide print ad featuring TEMPUR products.

Shenzhen Furniture Exhibition

In conjunction with its local distributor, Tempur-Pedic® International Inc. participated in the August Shenzhen Furniture Exhibition — the largest exhibition of its kind in China targeting the local market. The Shenzhen Furniture Exhibition attracts dealers, buyers and consumers alike, traveling from all corners of China to view the latest trends and technologies in the furniture and bedding market.

A total of 16 bed settings spread over 4000 sq. ft., displayed the complete range of Tempur-Pedic mattresses and pillows. Tempur-Pedic's booth was the most visited at the Exhibition with people literally lining up to try the three space cabins that were in operation.

The exhibition far exceeded our goal of increasing exposure for the TEMPUR brand and establishing new furniture and bedding dealers.

China is a key focus for Tempur-Pedic International and we believe TEMPUR is currently the number one imported brand in the Chinese premium bedding market.



2006 Annual Report

