WE ARE GRAMMER

ANNUAL REPORT 2017

GRAMMER

NAVIGATION GUIDE

Link to the report or online resources

Link to the Internet

CONTENT

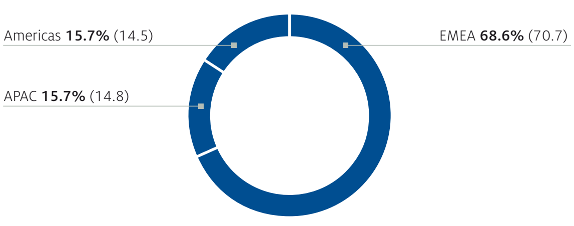
KEY FIGURES ACCORDING TO IFRS
GRAMMER GROUP

IN EUR M	Q4 2017	Q4 2016	2017	2016
Group revenue	447.6	430.2	1,786.5	1,695.5
Automotive revenue	317.3	329.7	1,291.2	1,270.8
Commercial Vehicles revenue	142.4	113.0	540.2	473.6
Income statement				
EBITDA	33.3	35.0	116.0	120.2
EBITDA-margin (in %)	7.4	8.1	6.5	7.1
EBIT	20.7	23.5	66.5	73.0
EBIT-margin (in %)	4.6	5.5	3.7	4.3
Operating EBIT	21.6	20.6	80.2	68.1
Operating EBIT-margin (in %)	4.8	4.8	4.5	4.0
Profit/loss (–) before income taxes	19.2	26.2	55.9	62.7
Net profit/loss (–)	6.7	19.6	32.4	45.2
Statement of financial position				
Total assets	1,107.0	1,050.6	1,107.0	1,050.6
Equity	337.7	271.2	337.7	271.2
Equity ratio (in %)	31	26	31	26
Net financial debt	92.2	139.1	92.2	139.1
Gearing (in %)	27	51	27	51
Investments	18.9	22.1	59.1	56.2
Depreciation and amortization	12.6	11.5	49.5	47.2
Employees (December 31)			12,947	12,250
Key share data				
Share price (Xetra closing price in EUR)			51.85	47.55
Market capitalization (in EUR m)			653.7	548.9
Dividend per share (in EUR)			1.25[1]	1.30
Earnings per share (in EUR)			2.67	4.01

[1] Proposal.

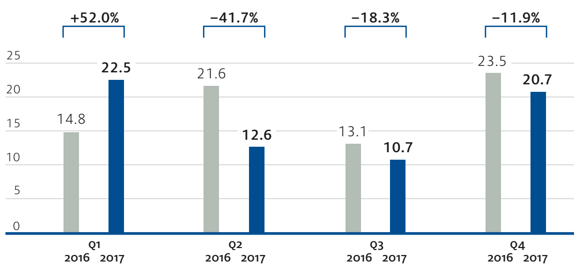
REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



GROUP EBIT BY QUARTER

IN EUR M

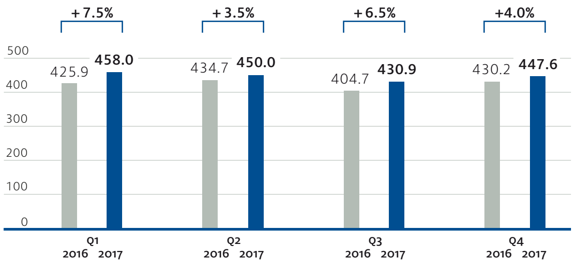


QUARTERLY OVERVIEW OF THE GROUP AND DIVISIONS

GROUP

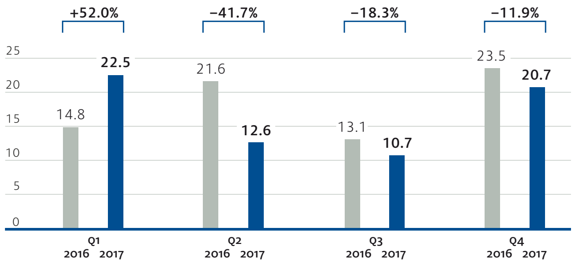
GROUP REVENUE DEVELOPMENT BY QUARTER

IN EUR M



GROUP EBIT BY QUARTER

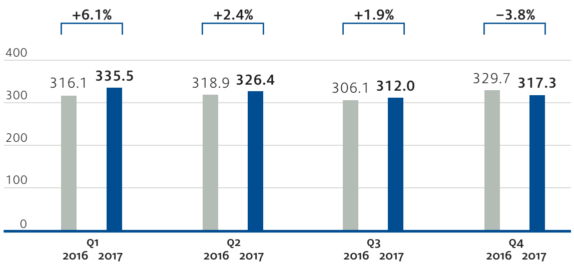
IN EUR M



AUTOMOTIVE

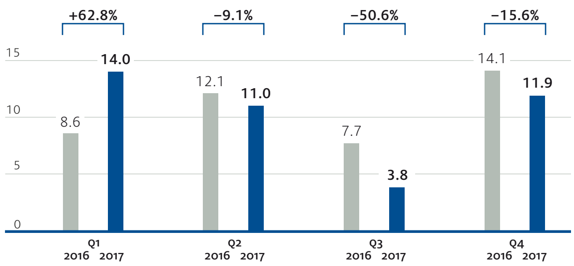
AUTOMOTIVE REVENUE DEVELOPMENT BY QUARTER

IN EUR M



AUTOMOTIVE EBIT DEVELOPMENT BY QUARTER

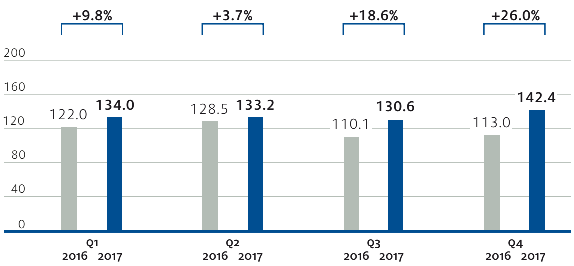
IN EUR M



COMMERCIAL VEHICLES

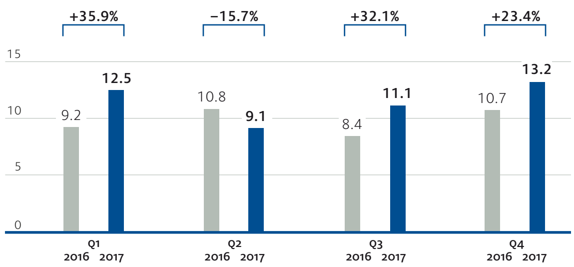
COMMERCIAL VEHICLES REVENUE DEVELOPMENT BY QUARTER

IN EUR M



COMMERCIAL VEHICLES EBIT DEVELOPMENT BY QUARTER

IN EUR M



DIVISIONS

COMMERCIAL VEHICLES

Around the world, GRAMMER Commercial Vehicles develops and produces driver and passenger seats for agricultural and construction vehicles, forklifts, trucks, buses and trains. Following the “Design for use” philosophy, GRAMMER Commercial Vehicles 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.

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

TRUCK & BUS
Driver seats for trucks and buses

RAILWAY
Passenger seats for trains, Train driver seats

IN EUR M

	2017	2016
Revenue	540.2	473.6
EBIT	45.9	39.1
EBIT-margin (in %)	8.5	8.3
Operating EBIT	47.5	35.8
Operating EBIT-margin (in %)	8.8	7.6
Investments	12.2	9.3
Employees (December 31)	3,737	3,699

AUTOMOTIVE

Our Automotive division supplies headrests, armrests, center consoles and high-quality interior components 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.

HEADRESTS

ARMRESTS

CENTER CONSOLES

INTERIOR COMPONENTS

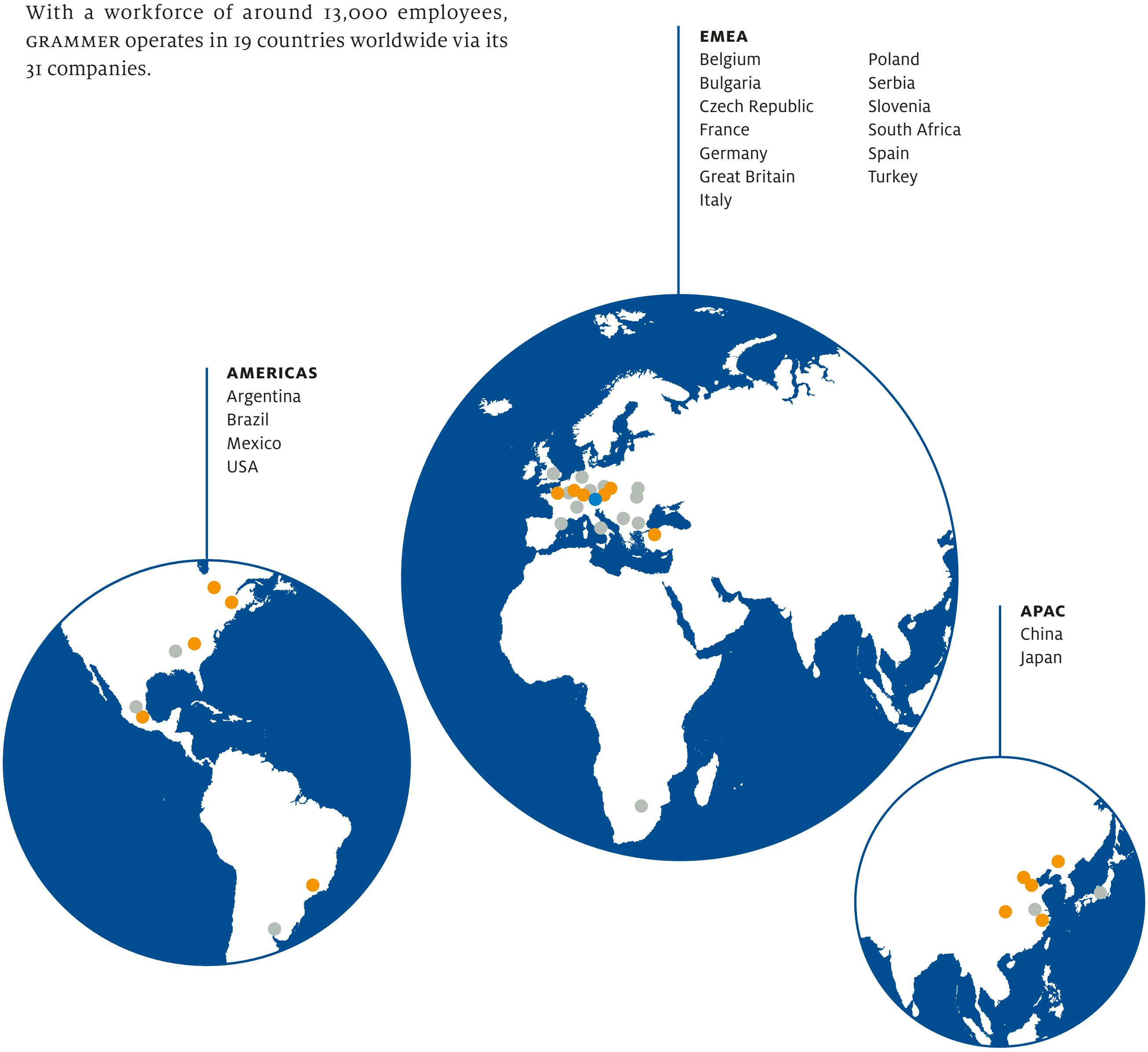
IN EUR M

	2017	2016
Revenue	1,291.2	1,270.8
EBIT	40.7	42.5
EBIT-margin (in %)	3.2	3.3
Operating EBIT	45.4	40.9
Operating EBIT-margin (in %)	3.5	3.2
Investments	42.9	42.8
Employees (December 31)	8,931	8,272

COMPANY PROFILE

GRAMMER AG is a globally active stock-listed manufacturer of seating systems and automotive interiors. The Commercial Vehicles Division develops and manufactures technologically sophisticated seating systems for commercial and offroad vehicles as well as for trains and busses. In its Automotive Division, GRAMMER engineers and produces high-quality headrests, center consoles, armrests and interior components for OEMs.

With a workforce of around 13,000 employees, GRAMMER operates in 19 countries worldwide via its 31 companies.



GRAMMER locations
GRAMMER locations with R&D activities
GRAMMER Group Headquarters

HARTMUT MÜLLER
Chief Executive Officer

Dear Sir or Madam,

2017 was an exceptional year for us with changes in GRAMMER AG's shareholder structure, a crucial Annual General Meeting with very strong shareholder presence, record revenue and the further increase in the profitability of our operating business.

At the Annual General Meeting in May 2017, the overwhelming majority of the shareholders averted an attempt by a minority shareholder to gain control. And with our strategic partner Ningbo Jifeng we now have a reliable shareholder that is valued by our customers. On behalf of the Executive Board, I wish to thank all employees, business partners and shareholders for their great support during this period.

At EUR 1.79 billion, GRAMMER's revenue reached a new record for the seventh consecutive time. This success was underpinned by both divisions last year. In particular, the Commercial Vehicles Division benefited from the sustained strong demand for seats for trucks, construction machinery and forklifts as well as a robust recovery in the agriculture market and demand in Brazil. After the strong growth rates achieved in the previous years, the Automotive Division posted somewhat slower growth as expected but was still able to additionally strengthen its market position in China and North America in particular last year.

Earnings on operating business, i.e. operating EBIT is very encouraging. The activities and measures of the past few years are paying off, while further stimulus came from the recovery in major core markets and the strong demand for our products worldwide. At 4.5 percent, the operating EBIT-margin was up on the previous year, also exceeding the guidance that we had issued last autumn. The fact that IFRS EBIT fell short of the previous year is particularly due to non-recurring and exceptional effects as well as negative currency-translation effects.

Nonetheless, we want to give our shareholders a substantial participation in our success this year once again. Accordingly, the Executive Board and the Supervisory Board will be asking the shareholders to approve a dividend of EUR 1.25 at the Annual General Meeting. This dividend is only marginally lower than in the previous year. The proposal is based on the Company's actual business performance and does not factor in exceptional effects on earnings. The dividend ratio for 2017 stands at 47 percent of the Group's net profit for the year and is thus above the target corridor.

Order intake in the Automotive Division for future new projects came under significant pressure in 2017. As we repeatedly reported in the course of the year, new orders and contract signings, particularly with German car OEMs, were unsatisfactory, falling well short of our expectations. Despite all these difficulties, the Automotive Division managed to obtain new orders worth over EUR 1 billion. Down from EUR 1.3 billion in the previous year, this marked the second highest figure in the Company's history.

As I have already indicated, we also found a local partner for our automotive business in China. We want to work with Ningbo Jifeng, a local components supplier that has an attractive customer base and – very important criteria for us – produces high quality. We are currently conducting negotiations on the type of partnership in the Chinese market which is of benefit for both companies. Regardless of the potential joint activities in the future, Ningbo Jifeng is supporting GRAMMER's corporate strategy and, with its financial commitment, has become the Company's stable anchor shareholder and the largest shareholder.

With the ongoing and, in fact, accelerating pace of change in the automotive industry and the emergence of a new engine and mobility concepts as well as autonomous driving, OEMs and components suppliers are facing further major changes. We are prepared for these changes. GRAMMER is already positioned perfectly to profit from these developments. As an interior specialist we will benefit on a lasting basis from the upgrade of mobile interiors in future passenger and commercial vehicles. GRAMMER has a high reputation with its customers and is known as a reliable and innovative source of ideas for the automotive and commercial vehicle industry. Last year, we again received numerous awards for our innovations, quality and delivery performance. Day for day, our 13,000 employees working around the world improve the safety and comfort of millions of people in the working world, in traffic or on travels. The competition for the best employees and managers has prompted us to launch internationally diverse initiatives to continue offering outstanding working conditions and enhancing GRAMMER's appeal as an employer.

One aspect of this is the decision to combine our central R&D departments under the roof of our new technology center and future headquarters in Ursensollen, just a few kilometers from our current offices in Amberg. The groundbreaking ceremony for the new technology center took place on March 1, 2018. With its new technology center, GRAMMER is creating the basis for reinforcing its innovation leadership and enhancing its appeal as a forward-looking employer in the automotive and commercial vehicles industry. With the new site in Ursensollen, we are also demonstrating a clear commitment to the region as well as the innovative German economy.

Our new building project has been particularly structured in accordance with the principles of sustainability and sparing use of resources. Sustainability has been part of GRAMMER's values for many years. For the first time, this Annual Report includes the statutory non-financial statement on sustainable corporate governance, which sets out in greater detail than before the economic, ecological and social aspects of our activities. We have a long history and established values and take seriously our responsibility for our employees, the environment and society. We are now reporting on specific projects, strategic aims, targets and performance indicators.

Sustainable business activity goes hand in hand with profitable growth for us. In 2018, we expect revenue to rise to over EUR 1.85 billion, accompanied by a further increase in operating profitability.

On behalf of my colleagues, I would like to take this opportunity to thank all GRAMMER employees once more for their support and dedication. With their commitment, they have not only been instrumental in our business performance but also gave a clear signal in support of a strong and independent GRAMMER Group. We would also like to thank all shareholders who supported us with their clear vote at last year's Annual General Meeting. We will do everything we can to fully justify the trust placed in us also in the future. We hope that you will continue to support us with your vote. The next Annual General Meeting is taking place on June 13, 2018 in Amberg and we look forward to welcoming you. Our thanks also go out to the representatives from trade unions, associations and politics who supported us and all our employees last year.

Yours sincerely,

Hartmut Müller
Chief Executive Officer of GRAMMER AG

GÉRARD CORDONNIER HARTMUT MÜLLER MANFRED PRETSCHER

EXECUTIVE BOARD GRAMMER AG

GÉRARD CORDONNIER
Member of the Executive Board (CFO) since June 2015

Group Finance,
Group Accounting,
Group Controlling,
Group Purchasing,
Group IT

HARTMUT MÜLLER
Chief Executive Officer (CEO) since August 2010
Member of the Executive Board since 2007

Corporate Development,
Group Internal Control & Legal,
Group Investor Relations & Communications,
Group Human Resources,
Group Marketing & Strategic Product Planning

MANFRED PRETSCHER
Member of the Executive Board (COO) since August 2010

Group Operations,
Group Sales & Projects,
Group Quality & Group Services,
Group Research & Development

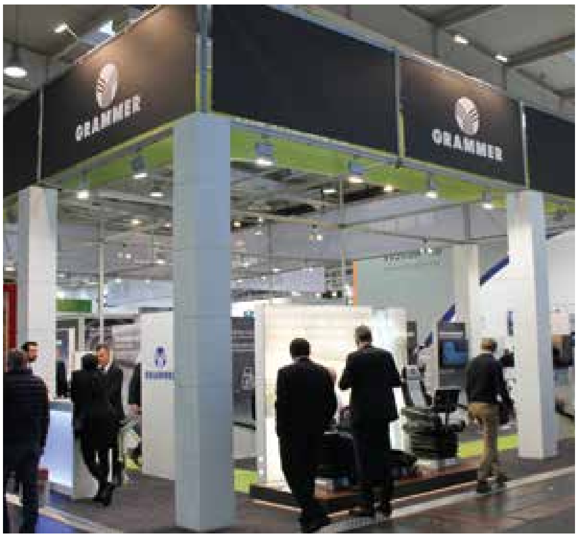
HIGHLIGHTS OF 2017

CLEAR SHAREHOLDER SUPPORT FOR GRAMMER

At 67 percent, shareholder presence at the 2017 Annual General Meeting was rarely as high as it was last year, showing how important it was for our shareholders to prevent the attempted takeover of control by a minority shareholder. All the motions submitted by Cascade International Investment GmbH were rejected and GRAMMER management's course supported with a majority vote.

OUTSTANDING INDUSTRY FAIR PARTICIPATION

Agritechnica is the world's leading industry fair for agricultural machinery. Exhibitors from all around the world present their latest agricultural machinery and GRAMMER was among them again this year. We presented our new products and cutting-edge ideas for use in agricultural machinery in response to the industry trends of the future. Examples included an app to measure the driver's personal exposure to vibration as well as improved climate control systems. Not surprisingly, the "Smart CAB", the driver cabin of the future, was unveiled at the fair. For this joint "CAB Concept Cluster" project, we contributed a suspended driver seat with electrically adjustable features, multifunction armrests and innovative touch displays. A further highlight at the fair was the fact that numerous of the award-winning vehicles at Agritechnica were fitted with GRAMMER seats.



SUCCESSFUL ERGOMECHANICS® CONGRESS

On September 26, 2017, we organized and held our third Ergomechanics® Congress, which explored the latest trends in spine research. The speakers included renowned experts from international universities and from automotive and commercial vehicle companies. Around 200 guests attended the Conference, listening to the multidisciplinary presentations. In addition to approaches for easing strain on the spine in the driver's seat, autonomous driving also featured prominently in many presentations. The successful one-day Congress was concluded with an inspiring discussion between the speakers and the audience.

NEW MEMBER OF THE SUPERVISORY BOARD

The Local Court of Amberg appointed Prof. Dr.-Ing. Birgit Vogel-Heuser to the Supervisory Board with effect from July 26, 2017.

STRATEGIC PARTNERSHIP IN CHINA

In February 2017, we established a strategic alliance with the Chinese automotive components supplier Ningbo Jifeng Auto Parts Co. Together we want to grow our business in the attractive Chinese market and improve our range for existing customers. China remains the largest and fastest-growing automotive market in the world, offering us high potential for growth. This link is also reflected in our shareholder structure: JAP Holding GmbH, a company affiliated with Ningbo Jifeng, is now GRAMMER AG's largest shareholder with a stake of 25.51 percent.

GRAMMER'S INVESTMENT GRADE RATING CONFIRMED

In its rating report of August 2017, Euler Hermes Rating GmbH again confirmed our BBB investment grade rating. In its rating rationale, Euler Hermes refers to the reasonable stability of the GRAMMER Group's strategy, management and customer relations and therefore expects the rating to remain stable over the coming twelve months. With the confirmation of this favorable rating, we are able to secure access to the international capital market on favorable terms.

BBB

POLITICAL BACKING

We received backing from political and trade union representatives in our efforts to respond to the demands for changes to our senior management. Both the Bavarian minister of economic affairs Ilse Aigner (top picture, right; together with plant manager Edgar Gandner and Chief Executive Officer Hartmut Müller) and the state secretary of the Federal Ministry of Economics and Technology Matthias Machnig (bottom picture, left) visited our Haselmühl plant in spring 2017. They held discussions with our Chief Executive Officer and the Deputy Chairman of the Supervisory Board and General Manager of the IG Metall Amberg trade union concerning the recent developments. Both sides expressed their concern and called for an open dialogue to avert any adverse effects on the employees' future prospects and the relations with customers.

ETM AWARD

We received the ETM Award for "best brand" in the passenger seat category. This is the most important measure of market positioning. 11,400 readers of the trade journals published by ETM Verlag together with the Dekra organization of independent experts selected the best commercial vehicles as well as the top commercial vehicle brands.

WE ARE GRAMMER

International, innovative, competent, dynamic, diverse, thorough and sustainable – these are just some of the words to describe the GRAMMER Group and its employees around the world. With our skills, a sustainable business model and a visionary strategy, we are facing a promising future.

This Annual Report shows some of the faces behind our skills from many of our sites in 19 countries. People who identify with the company, its products and its values and are committed to GRAMMER.

The automotive industry is in a state of flux. With our skills, our customers, our employees and our shareholders, we will be on the winning side.

We are GRAMMER.

INTERNATIONAL

Although GRAMMER has its Group headquarters in Amberg in the German region of Upper Palatinate, we are just as much at home in other parts of Europe, in Asia as well as in North and South America. This not only applies to our production facilities but also to our purchasing, sales, project management and development capacities. Our global network ensures that we are always close to our customers.

Names: from left Gemini Tang, Sylvia Lu, Cathy Shen

Region: APAC

GRAMMER makes … all the difference for us as it is more than just a job. We derive a great pleasure out of our daily work.

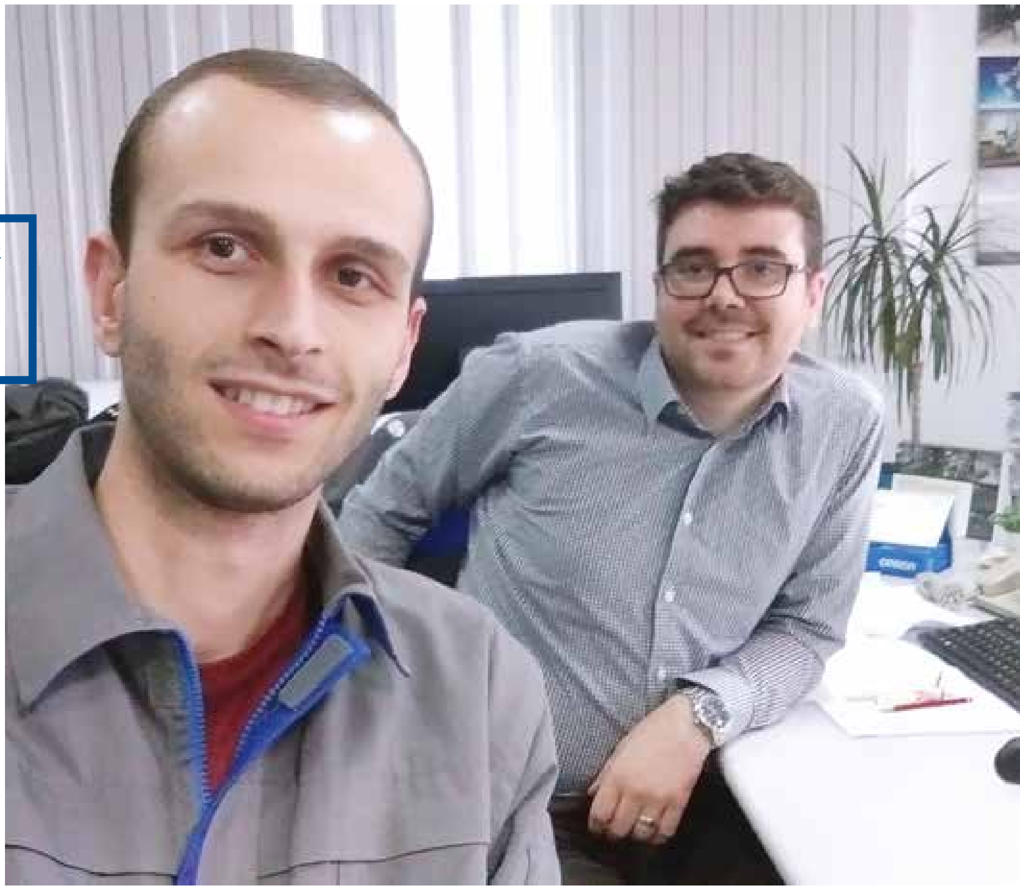
Names: from left Melanie Krettler, Melina Zawrel, Martina Eckert

Region: EMEA

We are GRAMMER because … at GRAMMER we are setting great things in motion together.

CLOSE TO OUR CUSTOMERS

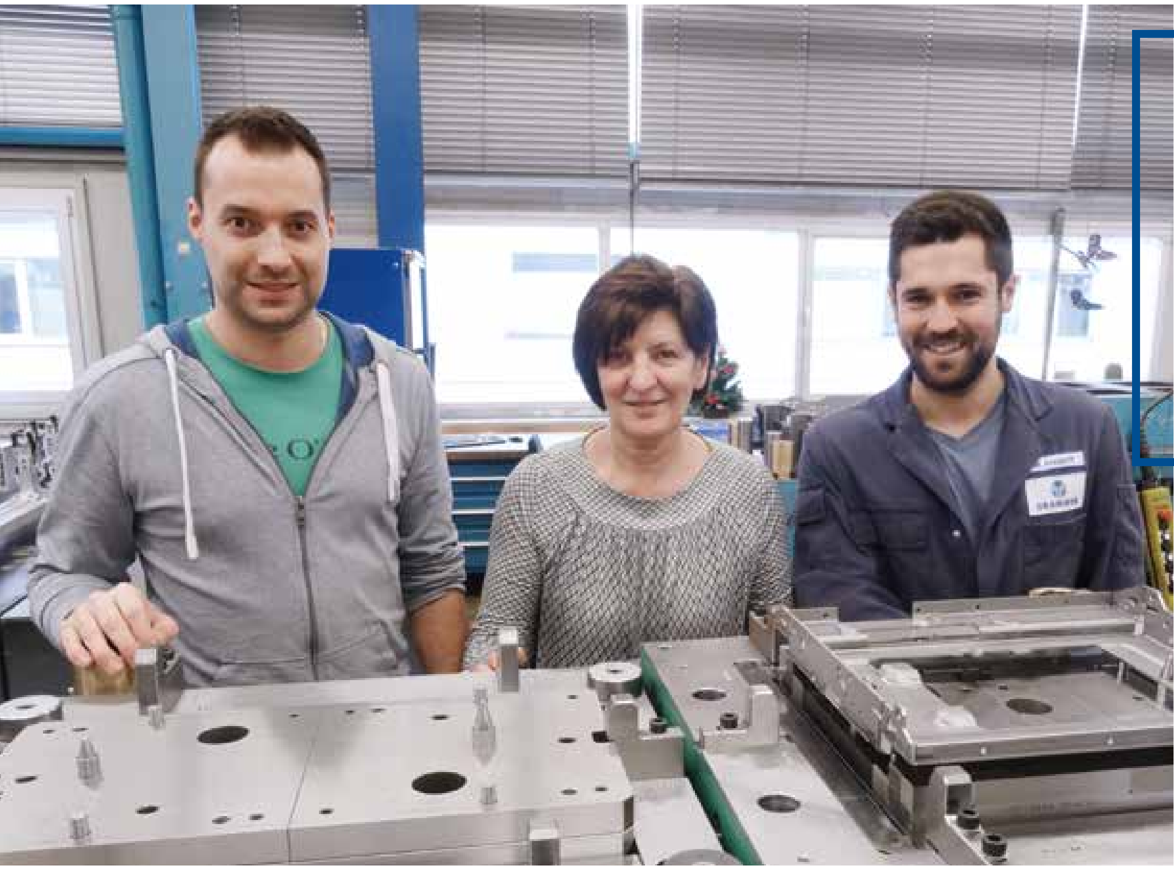
Generating business with customers is one thing. Understanding and implementing their special wishes and requirements is something entirely different. In addition to reliability, this calls for flexibility and creativity on the part of engineers, project management and procurement. In this way, we are able to support our customers in the automotive and commercial vehicle sectors as effectively as possible in development, production ramp-ups and volume production. One major benefit in this respect is our global Group network, which offers advantages that are not available at a single site. This also includes global supply chain management, in which we have built up an innovative and reliable base of suppliers through careful selection, training and ongoing evaluation. Moving forward, we will continue to optimize our global presence under our internationalization strategy with the aim of replicating the entire value chain at a local level as far as possible as a means of lowering costs and shortening turnaround times. The close links between the various GRAMMER sites across different continents allow us to simultaneously coordinate the development and series start-ups of components such as center consoles for the world platforms that are widely used in automotive engineering. This is a capability that our customers greatly appreciate.



Names: from left Caglar Ozyurt, Ahmet Ozturk

Region: EMEA

We are GRAMMER because … we are always a great team.



Names: from left Lukas Willner, Marianne Winter, Marco Freibott

Region: EMEA

We are GRAMMER because … we have been part of this Company since our apprenticeships. Working for GRAMMER means showing what we are capable of day for day. At GRAMMER, we are able to put our ideas into practice. GRAMMER makes all the difference for us as we face the good times and the bad times together. For us, GRAMMER is “OUR” GRAMMER.

Name: Sandeep Choudhary

Region: EMEA

I am GRAMMER because … we are one big family and family always comes first. I have worked in a lot of great teams and for plenty of large companies, but GRAMMER is unique. We're there for each other when things are difficult – a telephone call is all it takes. We not only trust each other at work but also party together and stay together. We know what we have in our colleagues and do not miss any opportunity to let them know.

INNOVATIVE AND FORWARD-LOOKING

Trends such as electromobility and autonomous driving are forcing automotive OEMs and their components suppliers to rethink their strategies. GRAMMER is facing this challenge in a focused frame of mind and in the knowledge that interior components, seats, headrests and center consoles with electronic controls will grow in relevance in the future.

Name: Tanja Knechtskern

Region: EMEA

I am GRAMMER because … I would always like to work flexibly. In my daily work, I am repeatedly involved in advanced projects that make my work interesting and varied.

WHEN EXPERTISE COUNTS

Automotive OEMs and their components suppliers must make sure that they are in the right lane early enough to be prepared for the secular trends of the future. GRAMMER started at a very early stage to analyze the coming changes. One aspect of this was its organizational structure: as a supplier of components to the automotive and commercial vehicle industry, we are where our employees are intimately acquainted with the local market and are able to respond to special requirements. With our local research and development centers and the several testing centers, it is also easier for us to secure new projects in the growth regions of Asia and NAFTA and to widen our customer base. Another aspect is technology. The specialists at GRAMMER Electronics are developing electronic solutions such as touch screens and functional surfaces, which are being integrated in vehicles. The engineers are aware of the particular requirements at the human/machine interface and are working on control technologies and surfaces aimed at easing the strain on the driver. And because premium OEMs are increasingly viewing the vehicle interior as a competitive differentiator, our business will not only grow but also gain in value.

Name: Liming Xu

Region: APAC

I am GRAMMER because … I repeatedly learn new skills here.

Names: from left Zhou Ying, Zhide Yang, Huijun Liu

Region: APAC

We are GRAMMER because … at GRAMMER we work together and move forward hand in hand.

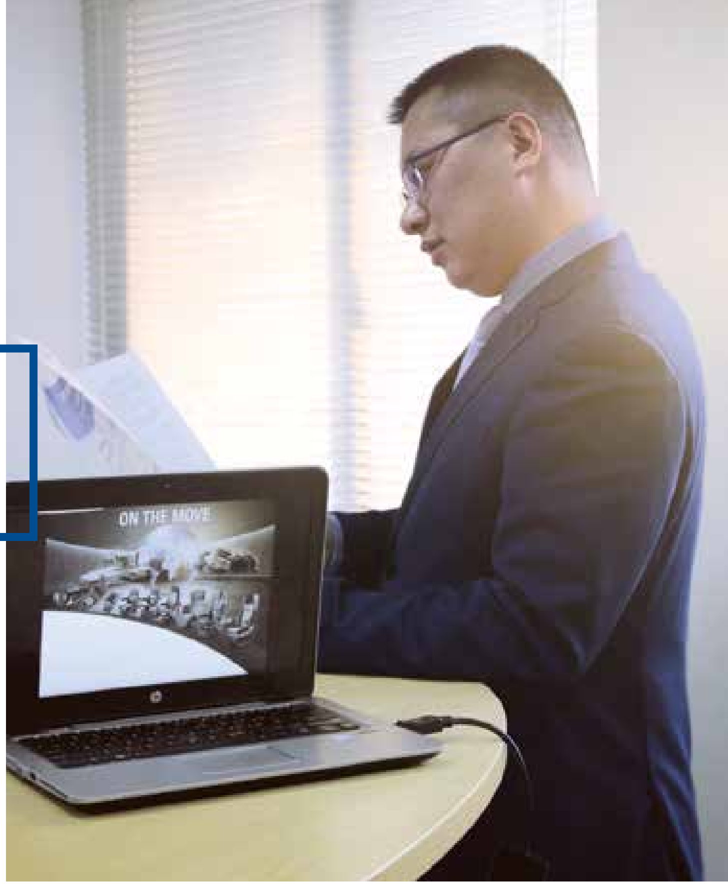
SKILLED

Component suppliers in the heavily competitive automotive industry only have a chance of long-term success if they master their business perfectly and have their costs under control. As one of the leading global suppliers, GRAMMER offers innovative state-of-the-art products and materials as well as production processes.

Names: from left Holger Schmidt, Martina Eckert

Region: EMEA

We are GRAMMER because … we repeatedly face new challenges allowing us to develop personally and giving us the opportunity of assuming responsibility.



Name: Bogang Cai

Region: APAC

I am GRAMMER because … at GRAMMER I am constantly being pushed beyond my comfort zone.

WHEN EXPERIENCE COUNTS

Names: from left Aleksandra Djoric, Sandra Milenkovic, Marina Denic

Region: EMEA

We are GRAMMER because … it is our second family.

System suppliers to the automotive industry such as GRAMMER are currently facing a double challenge. For one thing, they must prepare components for production maturity and, for another, they must offer the corresponding production processes. GRAMMER employees have repeatedly demonstrated their skills in this respect, one example being the use of MuCell technology for center consoles. As a pioneer of this innovative foam process, we have been able to combine elegant design with high-quality haptics and simultaneously achieve weight savings. Or as an innovator of seating systems for commercial vehicles, where we have been able to set standards in biomechanics, vibration reduction, user-friendly operation and seat climate control. Looking forward, we want to focus even more keenly on light-weight construction and the use of new materials such as molded foam made from sustainable raw materials and take the integration of electronic components to the next level.

Names: from left Yingqi Li, Yan Zhang, Weiguo Lang
Region: APAC
We are GRAMMER because … for us, working for GRAMMER means creating value for our customers.

Names: from left Václav Šlégr, Jaroslav Fritsch
Region: EMEA
We are GRAMMER because … because GRAMMER keeps on moving forward.

DYNAMIC

GRAMMER is synonymous with innovative seating systems, headrests, center consoles and interior components. High investments in research and development for ergonomics, products, technologies and production processes is paying off. This is because the numerous development projects on which we are working will ensure our future success on a sustained basis.

Names: from left Tanja Knechtskern, Andreas Fischer, René Mößel, Michaela Hummel, Andreas Gaßmann

Region: EMEA

We are GRAMMER because … we render GRAMMER's success and strategy visible in figures.

Name: Niuniu Li

Region: APAC

I am GRAMMER because ... GRAMMER makes the difference for me. I can gain knowledge and improve my working skills.

Names: from left Cordula Beck, Doris Beer

Region: EMEA

We are GRAMMER because ... we work in a team characterized by respect, trust and professional standards.

Name: Emrah Özdemir

Region: APAC

I am GRAMMER because ... we look different and we see things differently.

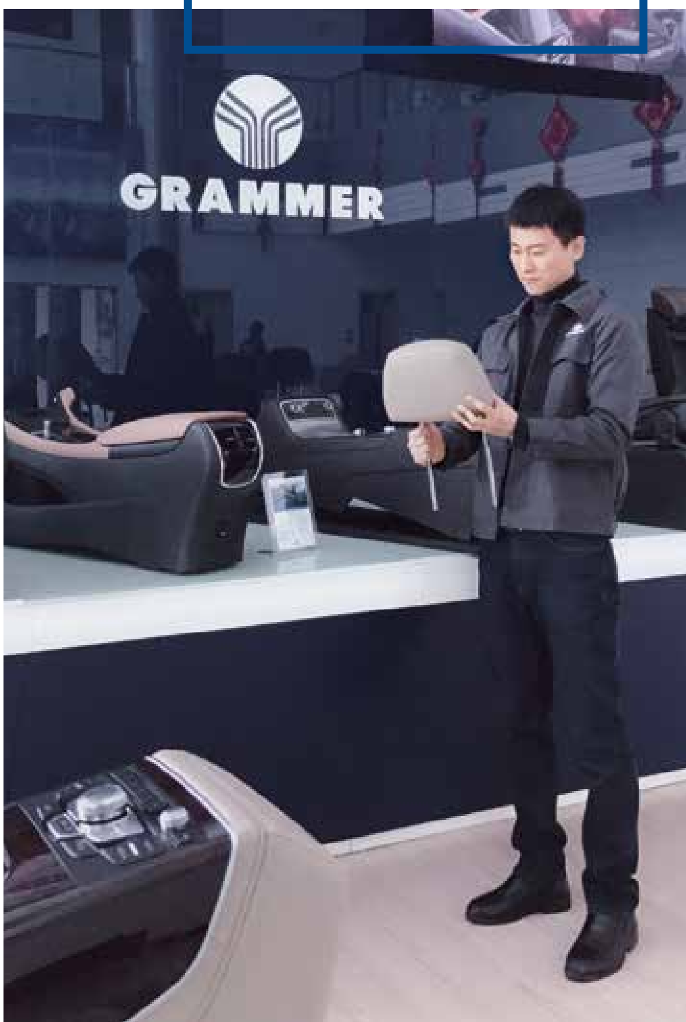
WHERE INNOVATIVE IDEAS ARE BORN

GRAMMER's engineers are repeatedly able to design user-friendlier and comfortable vehicle interiors with innovative ideas and to set new standards in seats for commercial vehicles. This not only calls for a deep understanding of the rapidly changing market and industry but also demands the ability to re-evaluate our own decisions and to face new developments with an open mind. This is because globalization poses particular challenges for automotive components suppliers as they must continuously develop new products to maintain their lead over their peers. This results in ever shorter innovation cycles. At GRAMMER, more than 500 employees work at our international R&D centers with a great deal of specialist knowledge and curiosity. Their goals are to additionally enhance product functionality and quality and to make production processes even more efficient. The high number of patents registered in the last few years testifies to our innovativeness. Not least of all, our innovativeness is reflected in the numerous awards that we have received such as the New Business Awards 2017 for interior components or as a trend setter in ergonomic, comfortable and safe seats at Agritechnica, the fair for the global agricultural machinery industry.

Name: Jian Li

Region: APAC

I am GRAMMER because ... I constantly learn new things in my daily work.



DIVERSE

Well-trained employees are of crucial importance for an innovative company with a large proportion of research and development work. And because creativity thrives best when people with different backgrounds and values come together, we attach high priority to encouraging diversity.

Names: from left Peter Yu, Wenjun Pan

Region: APAC

We are GRAMMER because ... we have good working conditions, better prospects and plenty of career opportunities here.

Names: from left Frank Bao, Ken Ren, Veli Ozturk

Region: APAC

We are GRAMMER because ... we feel comfortable in an international company and are proud to be a part of this global team!

Name: Zdenek Vesely

Region: EMEA

I am GRAMMER because ... I am not afraid of the challenges!

WHEN DIFFERENCES MAKE ALL THE DIFFERENCE

GRAMMER is proud of offering its employees all around the world attractive jobs. We set the highest standards in occupational safety, attach importance to equal opportunities and expect mutual respect. All employees are held in the same high regard irrespective of gender, skin color, disabilities, religion, origin, age or sexual orientation. We appreciate diversity as an invaluable source of talent, creativity and experience. Together with the high qualifications and commitment of our staff, it forms the basis of our success. Fair pay and plenty of scope for showing initiative provide the framework for securing this success permanently. In addition to creating an atmosphere of trust and integrity, we attach particular importance to the professional and personal development of our staff as well as their health. Alongside comprehensive occupational safety precautions, we organize plant health days, offer training and encourage participation in company sports. And not least of all, as a production company which traditionally once had more male than female employees, we have launched various initiatives to support women's interest in traditionally male careers.

Name: from left Bahtiyar Sen, Bekir Cavusoglu

Region: EMEA

We are GRAMMER because … we feel at home here.

Names: from left Cathy Shen, Bruce Liu, Mandy Guo

Region: APAC

We are GRAMMER because … at GRAMMER we have a positive working atmosphere, better prospects and more career opportunities.

THOROUGH

In addition to innovativeness, GRAMMER's success rests on the high quality and reliability of its products. Before a product reaches the market, it undergoes strict testing on the basis of ergonomic, comfort and safety criteria going beyond the statutory requirements and standards.

Names: from left Wenjun Pan, Cathy Shen

Region: APAC

We are GRAMMER because ... we can put our knowledge to good use and are always 'on the move'.

GIVING QUALITY TO LIFE

At GRAMMER, implementing high product and process standards is not the responsibility of a few specialists but is put into practice on a daily basis throughout the entire Company. Each employee can and is expected to make their own contribution towards ensuring that quality is viewed as an asset that must be nurtured and developed. To provide an institutional framework for this process, we have implemented the special global "GRAMMER Produces Quality" (GPQ) program. Employees attend training and undergo further education to acquire the necessary skills and knowledge to ensure consistent quality in GRAMMER products. Moreover, a global market leader such as GRAMMER is characterized by leading-edge production processes. We have particular skills in plastic injection molding, surface and metal finishing and connector technology. Across the entire Group, a specially developed "GRAMMER Production System" sees to it that all our production plants around the world observe the high standards. High customer satisfaction and, flowing from this, strong customer loyalty bear out this approach and provide us with the incentive to continue improving our standards.

Name: Jiaojiao Yang

Region: APAC

I am GRAMMER because … for me GRAMMER is an open and friendly international family.

Names: from left Rob Davies, Adam Booton, Julio Apaez

Region: EMEA

For us, GRAMMER means … being in a constant learning process. There are always chances for improving and becoming even better – this is what motivates us and drives us forward: perfection and constant improvement!

Namen: from left Laura Spöttl, Boris Mutius, Carolin Pollinger, Gabriele Reitzig

Region: EMEA

We are GRAMMER because ... our corporate culture is characterized by open communications – agile and accessible at all times in the entire Group.

SUSTAINABLE

For GRAMMER, sustainability means responsible and holistic action. In addition to pursuing our business goals, we are committed to protecting the environment, ensuring fair relations with each other and encouraging diversity within the Group day for day. As an internationally active enterprise, we are aware of our responsibility and make our contribution to rendering the world more sustainable for present and future generations.

IMBUING SUSTAINABILITY WITH LIFE

GRAMMER is a global group specializing in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, offroad commercial vehicles, trains and buses.

GRAMMER is committed to sustainability and has firmly entrenched economic, ethical and ecological principles in its corporate guidelines. For us, accepting responsibility for people, society and the environment means minimizing strain on people and nature as far as possible and furthering their ability to regenerate. We seek to balance all our stakeholders' interests, further our employees' interests and strive for uniform environmental management at all locations.

Detailed information on the business model can be found in the Management Report on page 68.

1 SUSTAINABILITY IN THE GRAMMER GROUP

Sustainable activity forms a firm part of the GRAMMER Group's corporate traditions and underlying values. Strategic and operating decisions take account of ethical and ecological aspects alongside economic factors. Only in this way can we secure the Company's long-term success.

For us, sustainability begins with the people who work at our Company and are linked to it. It covers such aspects as research and development (R&D), procurement and production, the finished products and end-of-life recycling of the product components. With the expansion of our global presence and the Group's broad footprint, we are also communicating this message internationally. In this connection, sustainability has the same local and global importance. This is due to the growing realization around the world that motor vehicles must take account of heightened environmental awareness: This starts with the need to reduce vehicle fuel consumption but also entails the introduction of environmental-friendly drive systems and new approaches to traffic management as well as a reduction in individual transportation. New impetus can already be generated at the production stage through the use of light, innovative and recyclable materials and the implementation of the latest production processes. These trends mean that components suppliers and OEMs must take steps to safeguard the future viability of their business models. We continue to see the GRAMMER Groupas being well positioned for the future but realize that these changes also pose challenges for us. Thus, although our products will continue to be in demand regardless of the drive train, issues such as light-weight construction, environmental impact and autonomous driving are calling for new and enhanced solutions.

In its two divisions – Automotive and Commercial Vehicles – GRAMMER is already putting sustainability into practice. One example of this can be seen in the development of products, where certain materials are used to reduce weight or to lower the amount of energy required. Further aspects concern employee training and further education, health care, site safety and also local support for civil society.

This separate non-financial report for the GRAMMER Group (NFR) has been prepared in accordance with the requirements of sections 289b to e and 315b and c of the German Commercial Code (HGB). It contains the disclosures required by law on material matters relating to the environment, employees, social concerns, observance of human rights and anti-corruption and anti-bribery precautions and takes account of the principles of Global Reporting Initiative (GRI) standards. In addition, the NFR discloses material risks in accordance with section 289c (3) No. 3 and 4 HGB where these are necessary for an understanding of the Group's business performance, results of operations and position as well as the impact on non-financial aspects. The GRAMMER Group has defined financial parameters and the most significant financial performance indicators for controlling the Group. The most significant non-financial performance indicators as defined in section 289c (3) Nr. 5 HGB are not used to manage the Group, although GRAMMER applies a series of parameters and indicators for sustainability management purposes. Moreover, there is no direct link between the amounts reported in the annual financial statements in accordance with section 289c (3) No. 6 HGB and the five non-financial aspects. In some cases, reference is made to the content of the Group management report in accordance with section 315b (1) sentence 3 HGB. The NFR has been reviewed by the Supervisory Board, which has satisfied itself of its legality, propriety and suitability for its intended purpose.

2 SUSTAINABILITY MANAGEMENT

Sustainability forms part of GRAMMER's strategy as well as its operating activities. We have issued policies, installed management systems and created organizational structures to ensure the observance of our rules as a basis for coordinating sustainability aspects internationally across the entire GRAMMER Group.

In view of its high importance for the GRAMMER Group's business activities, responsibility for sustainability is assigned directly to the Executive Board. A CSR-council was established in 2015 to entrench sustainability even more firmly within the GRAMMER Group. This council includes executives from all relevant parts of the Group such as accounting, compliance, human resources, R&D, communications, quality assurance, IT, environment and production. Institutionalized dialog and regular meetings ensure that sustainability as an issue is firmly rooted in the Group and implemented in accordance with the corporate strategy and business requirements.

Using a systematic multi-stage process, we have intensified the uniform Group-wide approach to sustainability matters. This was preceded by a materiality analysis in which GRAMMER identified the main aspects of relevance. Subsequently, we attached key importance to developing and formulating strategies and approaches aimed at additionally securing sustainability. This did not only involve the basic definition of goals but also entailed systematic formulation and detailing for the GRAMMER Group. Thus, we defined specific targets and activities for selected material aspects. The corresponding approaches are set out in the following sections.

In addition, we defined non-financial indicators and the methods for tracking them and will continue to develop them. These indicators and the trends that they revealed last year are described in the following sections.

2.1 MATERIALITY ANALYSIS

During the period under review, the GRAMMER Group worked on the Group-wide establishment, systematic implementation, documentation and monitoring of sustainability standards. These activities particularly focused on formulating and adopting various plans for the relevant sustainability aspects. The main and significant CSR matters had already been defined for the GRAMMER Group on this basis and are set out in the table on page 40. This entails all matters liable to exert a material influence on the decisions made by providers of capital that have a short, medium or long-term impact on the Company's ability to generate value.

A total of 13 material and nine important matters were identified in an extensive evaluation process. On the basis of a scale, the material matters were classified as very relevant, while the important matters were identified as being of moderate relevance. The analysis proceeded from a total of around 100 potential matters relevant to the Company and the sector in the areas of economy, ecology, society and ethics. These had been evaluated and adopted by management in 2015. In the upcoming reporting period, the CSR-Council will broaden the concepts and also undertake an impact evaluation.

NON-FINANCIAL ASPECT	ASPECTS OF RELEVANCE FOR THE GRAMMER GROUP	MATERIAL ASPECTS	IMPORTANT ASPECTS
Employee matters	• Employees	• Employee satisfaction • Employee development and fostering (including development of young potentials) • Safety and health	• Work-life balance/flexibilization
Observance of human rights	• Human rights	• Child and forced labor	
Environmental footprint	• Environmental protection	• Energy • Air/water/soil emissions	• Transport and logistics • Resource efficiency
Social concerns	• Corporate citizenship		• Support for school and university training
Cross-cutting issue particularly anti-corruption	• Corporate governance	• Compliance • Enterprise values and culture • Data protection and security • Stakeholder dialog	
Cross-cutting issue	• Economic stability	• Economic performance	• Regional manufacturing input and employment
	• Product and process responsibility	• Innovative product and process solutions • Customer orientation/satisfaction (including quality and safety)	• Use of the best available techniques and processes (BAT) • Environmental-friendly products
	• Procurement		• Supply chain management in accordance with environmental and social standards • Origin of resources

In addition to the matters defined as material or important, “diversity” has been included as a further relevant issue in this separate non-financial report. GRAMMER considers diversity to be a central part of its corporate strategy and systematically promotes it in its day-to-day activities.

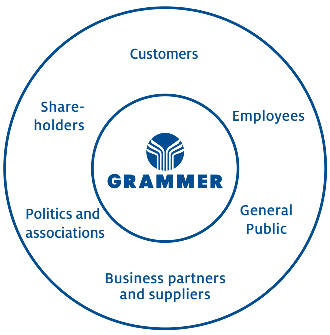
Detailed information can be found in the Opportunity and Risk Report of the Management Report on page 93 et sec.

2.2 INCLUSION OF ALL STAKEHOLDERS

GRAMMER attaches particular importance to dialogue with and the inclusion of different stakeholder groups. These communications are mostly handled by the relevant parts of the Group. By systematically tracking these activities, it is possible to access the results of such communications centrally in order to address corresponding inquiries from outside the Company or to convey messages from within the Company to the general public.

As we maintain very close contact with our stakeholders, we were able to take account of the expectations and needs of the individual groups in the formulation of our sustainability goals.

GROUP STAKEHOLDER GROUPS



2.3 RISK EVALUATION OF NON-FINANCIAL MATTERS

Business always entails opportunities as well as risks. Our risk strategy defines various principles relating to the Group’s risk policy. In this connection, GRAMMER defines opportunities and risks in the context of risk management as any positive or negative deviations from a plan or target defined in circumstances of uncertainty. Risk management thus contributes to value-based management within the GRAMMER Group. GRAMMER Group has implemented a uniform Group-wide risk management system to detect risks at an early stage, to analyze and to assess their causes and to avert or at least mitigate them. 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. This also entails the early detection of risks to the Group’s going-concern status.

Under the CSR Directive Implementation Act governing the disclosure of non-financial and diversity-related information, companies must not only report on the material matters but also explain the related risks. GRAMMER views risk in net terms, i.e. after risk mitigation. No material risks that are linked to the Company’s own business, business relations or the products and are liable to have severely adverse effects on non-financial aspects have been identified in connection with non-financial aspects. However, there are fundamental risks which may impact individual non-financial aspects. Among other things, this applies to ecological risks which we address by implementing management systems in accordance with ISO 14001 and ISO 50001.

3 RESPONSIBLE CORPORATE GOVERNANCE

GRAMMER is committed to specific values that are observed by our employees day for day and shape our business activity. We communicate clearly and openly, thus creating a high degree of transparency for our customers, shareholders and employees. In addition to achieving transparency, GRAMMER attaches key importance to balancing the interests of our stakeholders and ensuring a respectful approach. Thus, we created a deep-seated trust that is required for business success and our corporate culture.

3.1 ECONOMIC STABILITY

Day for day, GRAMMER works with the utmost care to supply the best possible products. What drives us as a company is our passion for developing new ideas. This entails two thrusts: For one thing, we set ourselves ambitious strategic goals to achieve a prominent position in the international market for automotive components. For another, we work on improving comfort and safety for the people all around the world who use our products.

Their trust in our product quality makes a decisive contribution to our business success. We must respond flexibly and creatively to market requirements if we are to continue earning this trust. This we do by supplying exactly what gives our customers in the automotive industry as well as the final users the greatest possible added value. We are convinced that the combination of a global presence and innovative high-quality products will assure the GRAMMER Group of long-term and profitable growth.

At around EUR 1.79 billion, GRAMMER Group revenue was up 5.4 percent on the previous year in 2017 (2016: EUR 1.69 billion). This top-line growth in Group revenue confirmed the long-term strategy aimed at improving profitability.

3.2 COMPLIANCE AND ANTI-CORRUPTION

Our binding Group-wide code of conduct defines the values and conduct expected of all employees. It forms the basis of our business activities. All new employees are briefed on this code of conduct, while existing ones undergo regular training to refresh their knowledge of its contents.

Detailed information can be found in the Coporate Governance Report on page 52 et sec.

The Group takes different approaches for ensuring compliance with external rules and regulations as well as GRAMMER's own policies. Comprehensive measures have been firmly in place for many years:

All specialist and management staff undergo regular anti-corruption and anti-bribery training including the appropriate response to such occurrences. In particular, decision-makers are required to take part in online training.

Our internal control system (ICS) safeguards the efficacy and economic viability of our business activities and ensures due and proper internal and external accounting operations and compliance with the applicable legal requirements.

Regular compliance audits are performed by Internal Auditing to identify any compliance or corruption risks to which individual facilities may be exposed. For this purpose, the Transparency International Corruption Index provides an important indicator for determining the frequency of audits at individual locations. The purchasing and accounting functions are regularly audited. If an audit conducted at a specific GRAMMER location gives rise to initial suspicion, further investigations are performed. In 2017 plant inspections did not give rise to any suspicions necessitating a more detailed examination.

Established whistleblowing mechanisms ensure that possible breaches can be readily reported. Thus, a code team has been established to accept any reports. Internal Auditing examines any specific suspicions in accordance with the instructions of the Executive Board or the code team. Information received in 2017 pertained to possible misconduct on the part of GRAMMER employees and was investigated by Internal Auditing. If investigations relate to individual employees, the findings are forwarded to the Human Resources department, which processes them and takes any necessary measures under employment law. In 2017, one case of discrimination was reported and investigated. No instances of corruption were reported or investigated.

Detailed information can be found in the chapter "Reports of Operation" of the Management Report on page 75.

Together with our open corporate culture, the availability of points of contact for whistleblowers and regular training, we will continue to ensure in the future that any breaches of the code of conduct including the anti-corruption guidelines are detected and addressed within the GRAMMER Group with the appropriate response.

APPROACH TO SUSTAINABILITY FOR COMPLIANCE

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Business locations made aware of compliance/corruption risks	–	100% of the Group	Every 2–3 years
Compliance audits conducted at locations exposed to compliance/corruption risks	Percentage and number of audited sites exposed to compliance/corruption risks	–	2020

3.3 OBSERVANCE OF HUMAN RIGHTS

Manufacturing companies are exposed to a greater risk of human rights violations than service companies. Risks of potential human rights violations may primarily arise along the upstream value chain and in the procurement of resources. We are aware of our responsibility and have therefore adopted the industry-related code of conduct issued by the German Federal Association of Materials Management, Purchasing and Logistics (BME), which governs conduct with respect to human rights as well as child and forced labor. This code of conduct applies across the entire Group. It states, among other things, that no minor may be employed anywhere in the world except in accordance with the applicable statutory provisions, e.g. those applicable to apprentices in Germany.

We heighten our employees' awareness of human rights issues by means of the "Compliance" e-learning module. All managers also receive training and are kept regularly informed of compliance matters with the usual communications tools. GRAMMER provides its employees with more detailed information on the code of conduct via the Intranet. Moreover, we are committed to the core labor standards defined by the International Labour Organization (ILO) and the UN Universal Declaration of Human Rights.

We also strive to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations on our suppliers.

3.4 DATA PROTECTION AND SECURITY

The GRAMMER Group has defined stringent data protection standards. A data protection organization reporting to GRAMMER's Executive Board has been in place for many years. The data protection officer is responsible for ensuring observance of the statutory requirements as well our data protection policy, which is binding on all employees. GRAMMER expects its employees to protect the business secrets and intellectual property rights held by GRAMMER as well as its business partners. Commercial property rights, business secrets and other privileged company information must be shielded from unauthorized disclosure.

GRAMMER employees' awareness of data protection concerns is regularly raised in circulars sent out by the data protection officer. In addition, regular data protection training is held for GRAMMER employees in accordance with the German Federal Data Protection Act. Under the data protection structure, inquiries by employees and managers are handled and corresponding solutions devised and implemented.

Regular IT security and authorization checks are performed in the light of the statutory data protection requirements.

The number of relevant data leaks was reduced to a single incident in the year under review. We are not aware of any legitimate complaints on the part of our customers, regulatory authorities or third parties with respect to data protection and data privacy.

APPROACH TO SUSTAINABILITY FOR HUMAN RIGHTS

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Raising awareness of human rights during compliance training sessions	–	–	Ongoing

A security incidence team was established nine years ago to coordinate IT security more efficiently. It is composed of the System & Security unit within Group IT, the data protection officer and GRAMMER Group risk management and the internal control department.

GRAMMER operates a system where critical components of the IT infrastructure are installed in two data centers. The electricity supply is safeguarded, even in emergencies, by separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Business continuity plans document the steps for ensuring the recovery of critical IT systems.

GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, malware scanners and other activities are regularly reviewed to determine their efficacy and adjusted where necessary.

4 COMPANY ENVIRONMENTAL PROTECTION

4.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group assumes responsibility for the environment and, in doing so, takes an integrated approach. Nearly half of all the Group's facilities around the world have already installed an environmental management system in accordance with ISO 14001 and defined local environmental targets and measures. We plan to have all GRAMMER facilities certified by the end of 2018.

We are also aiming to reduce business-induced environmental impacts as far as possible. Accordingly, material goals and measures relating to company environmental protection entail increased energy efficiency, a reduction in emissions from production and logistics and the optimum use of resources along our logistics chain.

The targets pursued by and the progress made in our environmental activities including observance of all relevant legal rules are regularly audited and assessed both internally and externally. By making appropriate adjustments, we are able to achieve continuous improvements in our environmental and energy management systems.

In order to achieve our goals, we encourage, train and motivate our employees by means of specific training measures, allowing them to perform their duties responsibly and in the light of our environmental targets. We keep our employees, customers and general public informed of the current status of our environmental and energy management systems with the aim of fostering open and transparent communications and cooperative relations with government authorities and the general public.

4.2 ENERGY

In 2015, we supported the plants and companies at all German sites with the establishment of an energy management system in accordance with ISO 50001, thus ensuring compliance with the statutory requirements. With these measures, we are able to monitor, control and, if necessary, adjust energy consumption and identify potential for savings. We collect consumption data for eight German production sites.

The pronounced awareness of our employees in the responsible use of energy forms the basis for sustained reductions in consumption. The GRAMMER Group supports its employees by offering regular training and access to corresponding information. By implementing the best available techniques at its production sites, the GRAMMER Group is able to harness additional savings potential.

Via our activities in the "Energy Efficiency Network for Companies in Bavaria", the GRAMMER Group is also involved in sharing knowledge on energy-related matters and the promotion of industry-wide standards.

Our employees are under instructions to use energy sparingly and receive corresponding instructions as part of safety and on-boarding training. For example, boards attached to the walls remind employees of the importance of saving energy in their day-to-day routines.

APPROACH TO SUSTAINABILITY FOR ENERGY

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Energy indicators, goals and measures for all ISO 14001/ISO 50001-certified GRAMMER locations to be recorded centrally	Percentage of certified locations tracked centrally	100%	By the end of June 2018
ISO 50001 recertification of the German locations	Recertification achieved	100% Germany-wide	2018

4.3 EMISSIONS

A further important aspect concerns the emissions which enter the air, water or soil as a result of production activities. As part of its environmental management system, GRAMMER has implemented extensive measures at its facilities for reducing emissions and monitoring their implementation. An environmental management system in accordance with ISO 14001 has already been implemented at a total of 16 GRAMMER facilities. It is to be extended across all other sites around the world in the short term.

In addition, we have individual plans at numerous facilities that take account of the specific nature of the local activities and processes as well as national requirements. We developed a comprehensive plan for the entire Group in 2016. In doing so, we are pursuing the goal of documenting the various local approaches centrally, collecting historical data and defining uniform benchmarks.

APPROACH TO SUSTAINABILITY FOR AIR/WATER/SOIL EMISSIONS

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Main emission indicators, goals and measures for all ISO 14001-certified GRAMMER locations to be recorded centrally	Extent of certified locations tracked centrally	100%	By the end of June 2018
ISO 14001 certification of all locations	Extent of coverage of environmental management system	100%	End of 2018

4.4 DEPLOYMENT OF RESOURCES AND MATERIALS

In all our production processes, we strive for minimum energy and resource use in order to avoid emissions and waste. As far as possible, unavoidable production waste is recycled or disposed of in a responsible way. During the development and production, we make sure that our products can be recycled as fully as possible at the end of their product life-cycle.

In addition to the economical use of energy, we attach importance to the efficient utilization of water and raw materials. In the selection of materials for our products, criteria such as quality, origin and environmental impact play a decisive role. In this connection, the focus is on making greater use of light and modern materials which are easier to recycle. We use our resources as efficiently as possible, thus minimizing waste, e.g. by means of programs for optimizing nesting, i.e. the space-saving storage of the templates used for cutting leather and materials. As well as this, we have increased the proportion of recycled materials, e.g. by selling injection-mold sprues or left-over leather.

This is illustrated, for example, by the progress made at our facility in Haselmühl, where we have been able to reduce the proportion of non-recyclable waste from 12.4 percent in 2000 to less than 5 percent. At the same time, water consumption of the paintshop measured in terms of coated surface has been cut by more than half.

4.5 TRANSPORT AND LOGISTICS

Ongoing improvements to our procurement and shipment logistics as well as supply chain optimization help to lessen the strain we exert on the environment. One example of how we optimize transportation is the use of “milk runs”, i.e. return trips with suppliers and customers to avoid empty runs. Through the use of front-end plants, we are located close to the customer, thus reducing transportation requirements.

We also include our environmental goals in the logistics contracts with our external service providers. The road haulage contracts stipulate the use of low-emission vehicles, systematic waste separation and measures to save energy.

We minimize the volume of logistics-related packaging by using a large proportion of re-usable packaging in Europe. From 2015, we also launched projects for recycling disposable packaging and for increasing packaging density.

5 PROCESS AND PRODUCT RESPONSIBILITY

5.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group attaches key importance to process and product efficiency, quality and safety. Product responsibility commences in the development phase and continues during production (use of material) and ultimate utilization by the customer. Examples of important criteria include quality, resilience, safety, ergonomics, product innovation and sustainable procurement. Process responsibility addresses the question as to how processes are developed, rolled out and monitored. In this respect, the focus is on efficiency, compliance with standards, new and innovative production methods and high quality. These aspects must be intermeshed within the value chain at all times. In connection with product and process responsibility, GRAMMER also systematically identifies and assesses opportunities and risks along the entire value chain.

Our high-quality seating systems and premium interior products are currently being produced at 40 (2016: 40) production and logistics facilities around the world. All our GRAMMER sites are certified under the ISO 9001 quality management standard or the IATF 16949 quality management standard for the European and American automotive industry. New locations undergo preliminary certification in accordance with the applicable rules to meet the high quality requirements of our customers.

Innovations in products and production processes form a key determinant of the GRAMMER Group's business success. At the same time, they seek to minimize the strain on the environment. Non capitalized research and development costs rose again to EUR 65,258 thousand compared with the previous year (2016: 61,705).

5.2 SUSTAINABLE PROCUREMENT

In the interests of integrated environmental protection, we source our raw materials, supplies and consumables in accordance with ecological criteria as far as possible and in the light of energy efficiency requirements. As far as possible, we give preference to suppliers located in the vicinity of our facilities. We take appropriate measures to encourage our business partners to orient themselves to our activities and to likewise obtain environmental and/or energy certification.

5.3 SUSTAINABLE PRODUCTION

The assembly of high-quality seating systems and premium interior products calls for production excellence. To this end, GRAMMER has defined core processes and spent substantially on these in the last few years. At the same time, we are increasingly migrating our standardized core processes to the individual regions to achieve low local production costs, reduce logistics costs and minimize currency-translation effects. Our environmental and energy management systems are based on compliance with all relevant legislative provisions. In addition, we are seeking to deploy the best technology available in order to reduce energy requirements and emissions in the production process. For example, the use of solvent-based coatings, foam components and adhesives has been heavily reduced in the course of the years. At the same time, we are working on reducing the number of components in our products. Comprehensive testing on the basis of guidelines and internal specifications ensures that standards going beyond the legislative requirements are observed. In efforts to harmonize development, production and series standards and processes, it is necessary to take account of the differences in the individual segments. Whereas the Automotive Division must generally observe comprehensive OEM-specified requirements, the Commercial Vehicles Division has considerably more discretion of its own due to the large volume of proprietary developments.

The purpose of the GRAMMER product system is to achieve a continuous improvement in our value flows by systematically reducing work and resource requirements. This is done through the improved use of material resources in order to reduce rejects (raw materials), inventories (space) and transportation (energy). At the same time, we structure workplaces to help our employees achieve the desired results with the least possible effort. This entails

- the avoidance of unnecessary and unhealthy movements (ergonomic workplace design)
- the avoidance of unnecessary work steps (standardized work)
- the balanced distribution of processing steps (line balancing)
- the use of specifications for operating materials.

Using Kaizen processes, we systematically integrate our employees in the continuous improvement process. At GRAMMER, "Kaizen" (Japanese for "change for the better") is a process enabling continuous improvements and innovation within the Company. In addition to business factors, this also includes measures aimed at motivating employees and furthering environmental protection. In 2017, GRAMMER completed more than 2,700 "Kaizen events". Planning and implementation always remain in our employees' hands, thus encouraging active participation on all levels. The core of GRAMMER's Kaizen philosophy is the avoidance of waste: transportation, inventories, poor ergonomics, waiting times, surplus production, process complexity and errors.

5.4 SUSTAINABLE PRODUCTS

The GRAMMER Group has established local research and development (R&D) units at some of its sites in order to offer customers high-quality solutions meeting their requirements. Our engineers work on the further development of GRAMMER products at a total of 16 locations. In addition, R&D has a presence in selected production plants to provide the necessary support. The number of patents pending and granted rose by 4 percent to 1,155 in 2017 (2016: 1,111) as a result of this.

PATENTS 2016/2017

	AS OF DECEMBER 31, 2017	AS OF DECEMBER 31, 2016
Patents granted	763	744
Patents pending	392	367

Rapid technological process is being accompanied by the steadily growing demands made of components suppliers by OEMS (original equipment manufacturers). Motor types, vehicles concepts and the degree of driving automation alongside safety and digital interfaces are defining the framework for future development.

Thus, new developments in autonomous driving are also calling for a new approach to cabin and cockpit design. In addition, there is demand for higher comfort in the truck and offroad segment together with a growing trend towards electronic integration of various functions in seats. A further challenge entails the human-machine interface, which calls for highly modern user interfaces, as well as the integration of different functions in more and more components. Thus, there is growing demand for components that are not only highly stable but also exhibit outstanding functional, aesthetic and haptic qualities.

The GRAMMER Group has already entrenched sustainability in the product development process. An internal environmental manual sets out the rules for environmentally friendly product development and includes, for example, stipulations concerning the use of materials as well as a list of banned substances and materials. In addition, we record all necessary materials and fabric components for a component to facilitate end-of-life recycling of our products.

LIGHT-WEIGHT CONSTRUCTION

Our products help our customers to act in an environmentally responsible manner. Innovations such as light-weight construction allow weight savings to be achieved as a means of reducing fuel consumption. Light-weight construction plays a key role in the development of center consoles, armrests and headrests. For one thing, reduced material requirements lowers resource input and, for another, cuts CO_2 emissions during the vehicle product life-cycle. We achieve weight reductions by means of function integration and design, for example. Moreover, material requirements can be reduced by means of foam injection molding and partial fiber reinforcement using fiber glass and/or renewable raw materials. Weight is additionally saved through the partial reduction of the density of PU foam parts.

We are currently testing the use of Organo Sheet (OS) technology to substitute steel with composite products. In addition to their lower weight, such items require fewer process steps during the production process.

RECYCLING

Recycling rates for our products are in the high double digits. This is the case with our driver seats for example. There is no problem recycling the steel structure, while the PU foam can also be thermally recycled at the end of the product life. To this end, we are developing a “green” headrest and plan to make greater use of natural fibers in covers. In addition to recycling, measures aimed at increasing the service life of our products also help to ease the strain on the economy. In the case of driver seats, this means optimizing the kinematics and preventing any softening of the seat suspension as the product lifecycle progresses despite the very high strain to which it is exposed.

ERGONOMICS

In our development activities, we attach particular importance to ensuring that the driver’s health is preserved through ergonomic and comfortable products. Moreover, our headrests are an important safety feature for preventing an injury of/or strain on the cervical spine in the event of an accident. Headrests that are hightadjustable and permit a modification of the distance from the head and in additon store those personal settings in a memory function provides ideal protection. In addition, our crash-active headrests protect passengers from the risk of whiplash injury. The ergonomic design of our multifunction armrests eases the strain on the spine, shields the driver from mental pressure and heightens the seat comfort. Our suspension seating systems for all kinds of commercial vehicles also meet the highest ergonomic requirements, thus helping to preserve the driver’s health.

The GRAMMER Group regularly reviews the status of its products on the basis of customer feedback, internal testing, user studies and discussions with leading biomechanics and spine researchers. In this connection, we use biomechanical measuring methods to test the impact of new features on the human body. Using electromyography (EMG), we measure electrical muscle activity in strain situations for example.

5.5 PRODUCT SAFETY

Ensuring the greatest possible product safety for the user, is the goal of our design and production activities. Suitable techniques and computer-based simulations are used to identify, evaluate and avert potential product risks and ensure that all aspects of product safety are duly taken into account. Management supports the preventive approach taken towards product safety, defining this as a leadership task.

All of the GRAMMER Group’s products are developed on the basis of internal specifications and tested in accordance with strict ergonomic, comfort and safety criteria. Only products satisfying these strict criteria ultimately find their way into the market. In this connection, the criteria applied by GRAMMER exceed the statutory requirements or relevant standards.

5.6 CUSTOMER ORIENTATION, SATISFACTION AND QUALITY

In regular intervals, we ask our customers in the truck and offroad segments about their satisfaction with our products. This feedback is used as a basis for reviewing and, if necessary, adjusting our services and products.

An efficient and safe use of a vehicle calls for physically and mentally sound drivers. It is for this reason that the GRAMMER Group is committed to health concerns even after the sale of its products, offering customers and dealers aftermarket training on healthy sitting. The GRAMMER Group is particularly committed to promoting basic spine research. For this reason, we have established the GRAMMER European Spine Journal Award in recognition of outstanding research activities. We organized the Ergomechanics Congress 2017 as a public forum for leading experts to share knowledge on sitting-related matters. The results including basic information on health, back pain, safety, comfort and participation in working life are being published in a book and are also available on our website to the interested public.

The results of the Ergomechanics Congress can be found at www.grammer.com under “Products & Markets” > “Ergonomics” > “Ergomechanics”

6 EMPLOYEES

6.1 OVERVIEW AND MANAGEMENT APPROACH

Our business success is above all the result of the commitment and dedication of our 12,947 (2016: 12,250) employees around the world. We maintain a dialog with them characterized by mutual trust and involve them in the development of the GRAMMER Group. We respect their right to freedom of association and to engage in collective negotiations. The department Human Resources, which reports directly to our Chief Executive Officer and HR Director, Mr. Hartmut Müller, is responsible for employee development.

Our human resources strategy for the period through 2021 is a firm part of the GRAMMER Group's strategy. In addition to requirements planning and the further development of the human resources structures, the main focus is on further internationalization, the expansion of conceptual employee development and strengthening employer branding at GRAMMER.

Established in 2016, the Talent Management & Employer Branding unit is systematically pursuing this future-oriented approach. The aim is to develop training and further education models aligned to market requirements, to reinforce employee loyalty to our Company and to achieve a competitive position as an employer with a favorable outlook and scope for knowledge management. In this way, GRAMMER is systematically preparing for further internationalization and heightened competition in the future.

The sustainability concepts developed in the year under review are linked with our human resources strategy and define further goals and measures in the following areas:

- Employee satisfaction
- Employee development and recruitment
- Diversity
- Safety and health.

The GRAMMER Group has a global footprint with operations not only in Europe but particularly in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, around 80 percent of our employees work in production. We seek a reasonable gender balance and actively support and encourage our female employees. All in all, GRAMMER employed 5,855 women and 7,092 men around the world as of December 31, 2017.

6.2 EMPLOYEE SATISFACTION

The satisfaction of our employees forms one of the basic pillars for productive and favorable working conditions at the GRAMMER Group.

In 2017, we established the staff survey as a global feedback instrument to obtain information from our employees. In this way, we want to regularly evaluate key parameters for employee loyalty and motivation around the world as a basis for defining specific measures. The survey was conducted in the first half of the year in hybrid form (i.e. online and paper) in 13 languages. A total of 57 questions covered twelve dimensions such as motivation, corporate climate or scope for personal development, with the responses evaluation on the basis of a scale.

We had already received a very high response rate of 75 percent when we performed the online survey for the first time.

The evaluation of the responses showed that the strong commitment of our staff and their customer orientation are particular strengths of the GRAMMER organization. The results in these categories are well above benchmark. We want to increase the return rate by a total of four percentage points in future surveys.

With the availability of dedicated communication channels, employees have had several possibilities for many years for providing feedback and for reporting any problems openly and in good time. In this connection, we offer all pay-scale employees of the GRAMMER Group annual performance assessment talks. Non-pay-scale employees in Germany as well as all management positions in our grading system also undergo performance and potential analysis in the form of employee discussions. This appraisal process is held once a year and assesses the employee's performance in the previous year. This process was implemented via the SAP system in 2015, thus ensuring that data is automatically available. Designed as a top-down process, it commences with a self-appraisal of top management at the end of the year. This is followed by an assessment by the responsible solid-line and, where applicable, dotted-line manager as well as a personal conversation, the results of which are also included in the evaluation. This procedure provides for a performance assessment based on standardized criteria and also offers the employee concerned an opportunity of contributing feedback.

In addition to this, the GRAMMER Group offers diverse global, regional and local opportunities for personnel development. Starting with the "Talent Days" in 2016, we have enhanced this concept, integrating it in a global program in line with plans. Career@GRAMMER is now composed of three different programs for systematically developing the talents that we identify and preparing them for their future duties. In addition, we offer outstanding career opportunities via various global projects.

We are working on three main aspects to improve employees' work-life balance at GRAMMER. We continuously improve our managers' leadership skills to ensure that these matters are firmly entrenched in our organizational structures. We drive the development of our employees and, in doing so, safeguard organizational skills and efficiency. In addition to this, we create the necessary basis in the form of flexible working time models (including part-time hours), career reintegration and numerous measures for promoting health.

At GRAMMER employee remuneration is in line with customary market levels. In addition, we offer many voluntary fringe benefits.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE SATISFACTION

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Regular systematic employee surveys and definition of measures based on the results	Return ratio	65%	Ongoing
Definition and implementation of local employee-retention projects	Results of the employee survey	–	2020

6.3 EMPLOYEE DEVELOPMENT AND RECRUITMENT

Well-trained employees are of crucial importance for GRAMMER as an innovative company that is heavily engaged in research and development. The greater the proximity of automotive OEMs and their components suppliers in a given region, the stronger the competition is for qualified employees. GRAMMER faces a fiercly contested employment market at many of its domestic and international locations.

Effective employer branding is therefore important for GRAMMER. We approach potential candidates at universities, on job platforms and via adverts based on specific job profiles, tasks and responsibilities and encourage them to work for our Company. After recruiting new employees, we ensure that they receive appropriate training so that they have the skills required to perform their current duties and to tackle new challenges. Our employee training activities cover the entire spectrum of statutory measures as well as those aimed at boosting quality and developing skills. This includes such elements as individual and team development, individual coaching and complex corporate programs. In this context, we developed the career@GRAMMER Corporate Management Program and rolled it out worldwide in 2017. It is made up of three modular programs (DRIVE, FAST LANE and TOP GEAR) and gives employees with a leadership focus the management skills relevant for the level in question.

The annual appraisal process and the related individual talks with employees as well as annual successor planning and additional programs from the career@GRAMMER portfolio provide us with a global overview of employee potential, while giving employees the feedback that they require for orientation and their own further development. We plan relevant measures on an individual and organizational level on the basis of annual surveys in order to systematically develop our organizational structures.

As well as this, we are continuing to take measures to additionally drive forward internationalization within the GRAMMER Group and to improve working conditions for our employees. The focus here is on intensifying global knowledge sharing. We have successfully made foreign transfers more attractive and are seeking to encourage more employees to accept such assignments.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE DEVELOPMENT, FOSTERING AND RECRUITMENT

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Step-by-step installation of an appraisal process for a defined group of employees and establishment of employee development programs	Number of employees integrated in the process	100%	From 2018
Onboarding scheme for all employees	–	100%	Ongoing from 2018
Work on an e-learning strategy and implementation together with the operating departments	Share of departments with access to e-learning	75%	From 2018 until 2020

Information on the proportion of women in senior management can be found at www.grammer.com in "Corporate Governance" in the "About GRAMMER" section.

6.4 DIVERSITY

The GRAMMER Group has been taking diversity seriously for a long time. Indeed, with our international expansion, this aspect has grown in importance. We were one of the first signatories of the Diversity Charter, thus figuring among a group of particularly responsible companies committed to greater tolerance and openness. The aim is to ensure that all employees receive the same respect regardless of their gender, origin, nationality, ethnic background, religion, beliefs, physical condition, age and sexual orientation and identity. We had previously already appointed a diversity officer and issued a diversity policy within the Group.

The Diversity Charter stipulates that men and women have equal rights and plays a crucial role in our entire human resources life cycle process. Our code of conduct incorporates this matter, while our internal processes help our employees to appreciate the importance of respecting the principle of equal rights.

We also actively encourage women to consider a career in the automotive components industry by inviting them to take part in projects specifically targeted at potential future employees such as "Girls Day" and a camp specifically aimed at female researchers. This is particularly important in view of the traditionally very pronounced predominance of male employees in this sector.

We recorded a disabled-employees quota of 6.7 percent at our German facilities in 2017 (2016: 7.6), thus remaining substantially above the minimum statutory requirement. The GRAMMER Group supports the "Respect! No place for racism" initiative and is committed to workplace tolerance.

6.5 HEALTH AND SAFETY

Safety is of paramount importance in a production company like GRAMMER. This stems from the need to avoid accidents and to encourage activities for preserving employees' health and ability to perform. One particular aspect of this is workplace design to minimize the strain on employees as far as possible. This primarily entails minimizing noise and emissions as well as physical strain. With our comprehensive safety measures, we are actively promoting our employees' safety and health.

We have also established extensive preventive measures for promoting health and safety. Examples include health days within several plants, training and the organization of company sports. In accordance with the statutory provisions, GRAMMER has installed an occupational integration management system at its German plants. In this way, we are able to help employees who were unable to work for more than six weeks within the previous twelve months to ease themselves back into working life. This also helps to prevent the employees from relapsing into illness and to preserve their long-term working capacity.

In addition, a health task force has been established in Germany to concentrate on employees' health matters. It develops specific proposals and ideas for furthering employee health. Projects were continued and new initiatives were launched at various locations around the world in 2017. Examples include a training session with Olympic medal winner Kati Wilhelm for employees in Amberg and physical exercises for promoting health during breaks at our plant in Shanghai, China. In addition to advice on occupational medicine, GRAMMER also offers voluntary solutions via its in-company medical center, such as flu vaccinations.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE HEALTH AND SAFETY

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Implementation of health and safety management systems in accordance with ISO 45001 (and conversion of OHSAS 18001 at two locations)	ISO 45001-certified locations	100% of the Group	From 2018 until the end of 2019
Reduction in absentee rate	Absentee rate	< 5%	Ongoing

7 CORPORATE CITIZENSHIP

At the GRAMMER Group we are aware of our responsibility as a corporate citizen and support charitable projects, voluntary activities and training facilities in the Upper Palatinate region in Germany and elsewhere around the world. In doing so, we always observe the principles contained in our code of conduct.

In its donations and sponsoring activities, GRAMMER attaches particular importance to assisting social facilities and projects. Moreover, we support sports, concentrating in particular on young people in different team sports. GRAMMER does not provide any financial support for political parties and/or similar lobby groups.

In the area of secondary and tertiary education, GRAMMER takes part in various partnerships, development and sponsoring programs. This includes schools, vocational training centers and universities in the Amberg region as well as in other parts of Germany and the world. Our aim is to prepare young people for the employment market. To this end, we organize career orientation days, open days and girls days etc. In addition, GRAMMER supports student initiatives such as the “Running Snail Racing Team”, a project organized by OTH Amberg-Weiden, in which students independently develop a formula racing car.

As in every year, our employees were able to apply for one of the coveted “sponsoring packages” in 2017 on behalf of their sports clubs, social projects, fire brigades, rescue services or care facilities and extensive use was made of this offer. This year, 90 of our employees took part in the company race in Amberg. By sponsoring this sports event, GRAMMER seeks to express its support for efforts taken by its employees to maintain their health.

Corporate volunteering projects are also encouraged at international sites. In Mexico, GRAMMER employees made cash and non-cash donations and assumed voluntary duties for the “NEEDED” and “VILLA INFANTIL” rehabilitation projects for disadvantaged young people. In Brazil, employees took part in the “EDUCA GRAMMER” program to help disadvantaged young people gain solid professional qualifications.

CORPORATE GOVERNANCE REPORT AND GROUP CORPORATE GOVERNANCE DECLARATION

CORPORATE GOVERNANCE AT GRAMMER

GRAMMER is committed to ensuring responsible and transparent corporate governance on the basis of statutory provisions, its articles of incorporation, the rules of procedure for the Executive Board as well as Supervisory Board and the German Corporate Governance Code (the Code), which are observed in all decision-making processes. In accordance with the statutory provisions relating to German stock corporations, GRAMMER has a dual governance system characterized by the distinction between the Executive Board as the management body and the Supervisory Board as the monitoring body with separate members in both cases.

We report below on our main corporate governance practices in accordance with article 3.10 of the Code and section 289f HGB.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

On December 5, 2017, the Executive Board and the Supervisory Board of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act (AktG) concerning conformity to the German Corporate Governance Code (GCGC):

Declarations of conformity can be found at www.grammer.com in the section „Investor Relations“.

Declaration of conformity of GRAMMER AG dated December 5, 2017

The Executive Board and the Supervisory Board declare as follows:

GRAMMER AG has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 5, 2015 and the version dated February 7, 2017 from the day on which they were announced on April 24, 2017 published by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger (the Code) since the last declaration of conformity dated December 9, 2016 and will continue to do so in the future, with two exceptions:

1. Article 4.2.5 (3) and (4)
   Under article 4.2.5 (3) and (4) of the Code, the remuneration report must present certain remuneration components separately for each member of the Executive Board on the basis of model tables attached to the Code.

   The remuneration paid to the members of GRAMMER AG’s Executive Board has hitherto been disclosed in accordance with the applicable statutory provisions and already sets out detailed information on each member’s remuneration. The Executive Board and the Supervisory Board consider the previous method for presenting this information to be sufficiently transparent. Accordingly, the model tables do not provide any additional information.

2. Article 5.4.1 (2) Sentence 2
   The Supervisory Board has not defined any maximum period of membership for the Supervisory Board. The Supervisory Board takes the view that a general cap on the length of membership fails to take account of individual factors that justify longer membership by individual persons on the Supervisory Board. Consequently, it wishes to retain the flexibility of proposing candidates for nomination to the Supervisory Board who are able to contribute to GRAMMER AG on account of their long-standing experience and who have proven themselves in their activities on the Supervisory Board.

Amberg, December 5, 2017

The Executive Board and the Supervisory Board of GRAMMER AG

This declaration and all declarations of conformity issued in previous years are available on GRAMMER AG’s website.

GRAMMER AG voluntarily conforms to the non-obligatory Code recommendations with two exceptions: Article 2.3.3 of the Code recommends allowing shareholders to follow the Annual General Meeting via modern communications channels such as the Internet. GRAMMER AG currently does not offer this; nor does it currently have any plans to offer live transmission of the Annual General Meeting.

Article 4.1.3 second half of sentence 3 recommends installing a whistleblower system for third parties to report any breach of statutory provisions and internal company policies. Such a whistleblower system is currently only available for employees of the Company.

In 2017, the Supervisory Board dealt in depth with the Executive Board remuneration system and adopted a new remuneration system. Contrary to the declaration of conformity dated December 9, 2016, the recommendations in article 4.2.2 (2) sentence 3 are now observed.

COMPOSITION OF THE SUPERVISORY BOARD OF GRAMMER AG – GOALS AND IMPLEMENTATION

GRAMMER AG's Supervisory Board has a total of 12 members. In accordance with the German Codetermination Act, it has an equal number of six members representing the shareholders and six members representing the employees. The Supervisory Board of GRAMMER AG is striving for a composition that ensures qualified supervision of and advice for the Executive Board of GRAMMER AG. Its composition is oriented to the current Code recommendations with regard to diversity and a reasonable proportion of women as well as the criteria of independence, experience, international profile and expertise. Moreover, the members should possess the integrity, personality and willingness to perform necessary for the duties of the Supervisory Board of an internationally active, capital market-oriented industrial company to be duly executed successfully. These criteria have been defined in a profile of requirements, which was revised in 2017, and summarized in a corresponding questionnaire that forms a key basis of the examination to determine the suitability of a nominee. In the interests of successful joint activities on the entire Supervisory Board, its members should be chosen to ensure sufficient diversity in terms of career backgrounds, expertise and experience. In accordance with section 96 (2) sentence 1 AktG, the Company must have a Supervisory Board comprised of at least 30 percent women and 30 percent men. This gender quote must be satisfied separately by the shareholder representatives and the employee representatives, as joint satisfaction has been rejected (separate satisfaction of the gender quota requirements).

Only nominees who are no older than 70 on the date of their election or re-election are eligible to serve as members of the Supervisory Board. No cap on the length of membership on the Supervisory Board has been defined.

The Nominating Committee is responsible for searching for and evaluating possible nominees in the light of the requirements of the German Stock Corporation Act, the German Corporate Governance Code and the Supervisory Board's rules of procedure as well as the aforementioned targets with respect to the Supervisory Board's composition and its profile of skills.

IMPLEMENTATION OF DIVERSITY TARGETS

As well as this, section 96 (2) AktG stipulates a male and female gender quota of least 30 percent of GRAMMER AG's Supervisory Board. This statutory quota is the same as the target quota adopted by the Supervisory Board. In 2017, the female gender quota was initially not achieved because, although two of the employee representatives were women, the shareholder representatives had elected only a single woman to the Supervisory Board. The statutory quota was achieved with the appointment of Prof. Dr.-Ing. Birgit Vogel-Heuser on July 26, 2017.

Section 111 (5) AktG stipulates that the supervisory board of a listed company must define targets for the proportion of women on its executive board. Under section 76 (4) AktG, the executive board is also required to define the target proportion of women on the two management levels below the executive board.

In defining the targets for the proportion of women on the Executive Board and the two management levels below it, GRAMMER AG as a technically oriented company must take account of specific sector-related factors as well as the current proportion of women in the workforce. At its meeting of March 29, 2017, the Supervisory Board reviewed the target agenda for the Executive Board and set a figure of 33 percent. This target is to be reached by December 31, 2020. Achievement of the target quota is to be reviewed no later than at the last ordinary meeting of the Supervisory Board held in 2020.

This target has not yet been reached as the Executive Board currently comprises three men and no women. As no new members were appointed to the Executive Board in 2017, it has so far not been possible to appoint a woman and thereby achieve the target gender quota.

The Executive Board of GRAMMER AG has defined an (international) quota of 15 percent for the first management level below the Executive Board and 20 percent for the second level below the Executive Board. A target of 10 percent for the first management level and 15 percent for the second management level has been defined for Germany. Achievement of this target is reviewed annually. Failure to achieve the target quota in middle management in Germany is due to vacancies that had not been filled as of the reporting date. Attempts are being made to meet the target quota.

CURRENT TARGET ACHIEVEMENT AS OF DECEMBER 31, 2017

	TOP MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15%	20%
Current quota (international)	15.63%	22.3%
Target quota (Germany)	10%	15%
Current quota (Germany)	11.11%	13.4%

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the Annual General Meeting of May 24, 2017, all shareholders were again able to exercise their voting rights on an equal basis and discuss all the items of the agenda with the members of the Executive Board and Supervisory Board. The invitation to the Annual General Meeting including the statutory reports and documents as well as the management report and the agenda were readily available to the shareholders on the Company's website in German and mostly also in English. All other relevant information was also disclosed on the GRAMMER website or sent on request. To assist absent shareholders in exercising their rights, two voting proxies attended the Annual General Meeting to exercise voting rights in accordance with the instructions issued. Shareholders were able to authorize and instruct these proxies at any time, who could be reached throughout the meeting. Shareholders who initially attended the Annual General Meeting but left it early without exercising their voting rights were able to issue voting instructions during the Annual General Meeting to the proxies named by GRAMMER. Details on voting proxies are announced in the invitation to each Annual General Meeting.

MANAGEMENT BY THE EXECUTIVE BOARD

The Executive Board is responsible for the strategy, governance and management of GRAMMER AG. It acts in the interests of the shareholders and all stakeholders with the aim of securing and raising the Company's enterprise value on a lasting basis. To this end, it develops a suitable strategy, consults with the Supervisory Board and ensures that it is implemented. Its duties also include implementing effective risk and opportunity management and supervision as well as ensuring compliance with statutory requirements and internal company policies throughout the entire Group. Collaboration and the allocation of duties to the members of the Executive Board are governed by statute, the Code and the Executive Board's rules of procedure, which also govern the Executive Board's reporting and information duties. They also contain the departmental responsibilities of the individual Executive Board members, matters that are the responsibility of the Executive Board in its entirety, the required majority as well as a list of transactions requiring the Supervisory Board's approval.

There were no changes in the composition of the Executive Board in 2017. It has the following members:

- Hartmut Müller, Chief Executive Officer, Human Resources Director,
  member of the Executive Board since 2007,
  appointed until January 31, 2022
- Gérard Cordonnier, Chief Financial Officer,
  member of the Executive Board since 2015,
  appointed until May 31, 2021
- Manfred Pretscher, Chief Operating Officer,
  member of the Executive Board since 2010,
  appointed until July 31, 2021

The remuneration system for the Executive Board was amended in 2017. The basic elements of the remuneration system are described in the remuneration report.

WORK OF THE SUPERVISORY BOARD

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. The work of the Supervisory Board is governed by statutory requirements, the Articles of Association and the rules of procedure. In addition, an Audit, Nomination, Strategy, Personnel and Mediation Committee have been established, all of which met regularly in the year under review. In addition, there is an Ad-hoc Committee. The chairman of the Audit Committee is independent and not simultaneously the chairman of the Supervisory Board and, as a financial expert, possesses special knowledge of and experience in the accounting principles and internal control processes required for this position. He must not have been a member of GRAMMER AG's Executive Board at any time in the past.

The section in this annual report on the Supervisory Board and Executive Board contains more information on the composition of the committees. Further details of how the Supervisory Board works and the number of Committee meetings and the main matters dealt with in 2017 can be found in the report of the Supervisory Board. The remuneration report describes the structure and amount of remuneration paid to the Supervisory Board.

The Supervisory Board reviews the efficiency of its work annually on the basis of a detailed questionnaire. Among other things, it reviews its efficiency in terms of the collaboration on the Supervisory Board, the availability of information and the processes for making decisions. It discusses scope for improvement on the basis of the results and adopts appropriate measures. The last efficiency review was held in 2017. The questionnaire underlying the efficiency review was also revised in that year.

A list of the offices held by all members of the Supervisory Board can be found in the section on the Supervisory Board and the Executive Board.

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of GRAMMER AG held four ordinary and three extraordinary meetings. Four ordinary meetings are also planned for the current year. In addition, extraordinary meetings will be held if necessary. The committees also meet regularly. In the absence of any mandatory statutory provisions to the contrary, the resolutions of the Supervisory Board are deemed to have been passed with a simple majority of the vote cast. In the event of a parity of votes, voting is repeated, in which case the chairman of the Supervisory Board holds two votes.

The Supervisory Board considers the individualized disclosure of attendance at the meetings of the Supervisory Board and the committees to form an element of good corporate governance:

Detailed information on the activities of the Supervisory Board and its relations with the Executive Board can be found in the Report of the Supervisory Board. (page 58 et sec.).

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	7/7	100%
Tanja Fondel	6/7	86%
Wolfram Hatz	7/7	100%
Martin Heiß	7/7	100%
Ingrid Hunger	7/7	100%
Harald Jung	7/7	100%
Dr. Hans Liebler[1]	1/4	25%
Dr. Peter Merten	6/7	86%
Horst Ott (Deputy Chairman)	7/7	100%
Dr. Klaus Probst (Chairman)	7/7	100%
Lars Roder	7/7	100%
Prof. Dr. Birgit Vogel-Heuser[1]	2/2	100%
Dr. Bernhard Wankerl	7/7	100%
STRATEGY COMMITTEE		
Horst Ott	2/2	100%
Dr. Klaus Probst (Chairman)	2/2	100%
Lars Roder	2/2	100%
Dr. Bernhard Wankerl	2/2	100%
PERSONNEL AND MEDIATION COMMITTEE		
Horst Ott	3/3	100%
Dr. Klaus Probst (Chairman)	3/3	100%
Lars Roder	3/3	100%
Dr. Bernhard Wankerl	3/3	100%

[1] Dr. Liebler stepped down from the Supervisory Board effective June 30, 2017.
Prof. Dr.-Ing. Birgit Vogel-Heuser was appointed to GRAMMER AG's Supervisory Board effective July 26, 2017.

A list of the current members of the Supervisory Board committees can be found on page 60 of this report.

AUDIT COMMITTEE

Andrea Elsner	4/4	100%
Wolfram Hatz (Chairman)	4/4	100%
Martin Heiß	4/4	100%
Dr. Klaus Probst	4/4	100%

AD-HOC COMMITTEE

Andrea Elsner	15/15	100%
Wolfram Hatz	14/15	93%
Martin Heiß	15/15	100%
Ingrid Hunger	15/15	100%
Harald Jung	13/15	87%
Horst Ott	10/15	67%
Dr. Klaus Probst (Chairman)	14/15	93%
Dr. Peter Merten	11/15	73%
Lars Roder	14/15	93%
Dr. Bernhard Wankerl	12/15	80%

NOMINATING COMMITTEE

Wolfram Hatz	1/1	100%
Dr. Klaus Probst (Chairman)	1/1	100%
Dr. Bernhard Wankerl	1/1	100%

COLLABORATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and the Supervisory Board of GRAMMER AG worked closely and in mutual trust for the benefit of the Company again in the year under review. The Executive Board's information and reporting duties were defined in its rules of procedure. During the meetings of the Supervisory Board, the Executive Board and Supervisory Board discussed all key strategic decisions as well as transactions requiring consent openly, in detail and subject to strict confidentiality. The Executive Board kept the Supervisory Board comprehensively informed on a regular and up-to-date basis on all key matters as well as the planning, business performance, the risk situation and compliance measures. In addition to the regular Supervisory Board meetings attended by the Executive Board, the Chief Executive Officer and the Chairman of the Supervisory Board discussed all relevant matters on a regular basis. The report of the Supervisory Board provides additional information on the collaboration between the Executive Board and the Supervisory Board. In the year under review, the members of the Executive Board and the Supervisory Board were covered by D&O insurance with a deductible of at least 10 percent per claim and capped at one-and-a-half-times the fixed annual remuneration of the individual member.

COMPLIANCE MANAGEMENT SYSTEM

"Integrity forms the basis of our success" is the first statement in GRAMMER's Code of Conduct, which was first published in May 2006, laying the foundations for GRAMMER's present compliance management system. Business success can only be sustained if statutory provisions and the Company's internal policies are observed. This corporate culture helps to encourage a sense of responsibility in each individual, enhance skills and particularly highlight integrity as a basis for working together in a spirit of mutual trust. The Code of Conduct is binding on all employees of the GRAMMER Group. It summarizes the main internal and external rules and principles and contains binding rules governing fair competition as well as requirements concerning safety, health and environment. The Code of Conduct additionally contains provisions concerning the treatment of confidential information and also governing the avoidance of corruption and insider trading.

During the year under review, the Executive Board regularly dealt with the further development of the compliance management system and ensured that the necessary measures were taken. The Executive Board as a whole is jointly responsible for compliance. Together with management, it ensures that each individual in the Company abides by the principles of compliance. In addition, a "Code Team" made up of internal experts was established. The management of the GRAMMER Group is responsible for encouraging conduct that conforms to the requirements of compliance and for acting as a role model.

In addition to the extensive information available on the GRAMMER Group's Intranet, special web-based training modules on compliance-related issues are available for employees, who are awarded a certificate upon successfully completing the training. All new employees attend a face-to-face training course on the Code of Conduct.

If employees become aware of any breach of statutory provisions or internal Company policies, they may report this to defined internal officers. Information on the internal whistleblower system is currently available to GRAMMER employees in fourteen languages.

There is a high degree of familiarity across the Group as a whole with the basic values enshrined in GRAMMER's Code of Conduct. This was confirmed by the staff survey conducted in 2017, which included questions relating to GRAMMER's basic values. Compliance audits conducted by Internal Auditing as well as audits of the specialist departments are further elements of the compliance management system at GRAMMER.

TRANSPARENCY

GRAMMER AG kept shareholders, shareholder groups, financial analysts, the media and the general public informed of the Company's business and material occurrences comprehensively informed on a equal basis, with minimum delay. As in earlier years, the Company used a variety of different media for this purpose. All mandatory disclosures as well as detailed additional information were published on the GRAMMER website with minimum delay. The publications, such as ad hoc announcements, media releases, interim and annual reports were always issued in both German and English. Telephone conferences were offered in addition to the annual press and analyst conference. The latest financial calendar, which provides information on the dates for all key releases and events, can also be viewed on the website.

ACCOUNTING AND STATUTORY AUDIT

The GRAMMER Group's consolidated financial statements for 2017 as well as the report on the first half of the year and the quarterly reviews were prepared in accordance with the International Financial Reporting Standards (IFRS). At the Annual General Meeting held on May 24, 2017, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, ("EY") was elected as the statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. The proposal had been preceded by an independence check. This ruled out any business, financial, personal and other relations between the auditors, their corporate bodies as well as chief auditors on the one hand and GRAMMER AG as well as the members of its corporate bodies on the other hand liable to call into question the independence of the auditors. EY submitted a binding declaration of independence. The Supervisory Board also agreed with the statutory auditors that it was to be notified without delay of any findings and occurrences material to the duties of the Supervisory Board arising during execution of the audit. Accordingly, the auditors undertake to advise the Supervisory Board or make a corresponding note in their audit report if any evidence is found indicating the presence of any misrepresentation in the Code declaration issued by the Executive Board and the Supervisory Board.

DIRECTORS' DEALINGS

All share transactions are published on GRAMMER's website in accordance with article 19 of the European Market Abuse Directive as soon as they are disclosed to GRAMMER AG. No directors' dealings were reported in 2017.

All current financial communications publications can be found in the Investor Relations section of our corporate website at www.grammer.com.

Amberg, March 20, 2018

GRAMMER AG

For the Executive Board	For the Supervisory Board
Hartmut Müller	Dr. Klaus Probst

REPORT OF THE SUPERVISORY BOARD

Dr. Klaus Probst
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In 2017, the Supervisory Board fulfilled its duties with the utmost care in accordance with the Articles of Association, the rules of procedure and the applicable statutory requirements. It monitored the activities of the Executive Board on an ongoing basis, advising it on all matters of importance for the Company. To this end, the Executive Board and the Supervisory Board worked closely together, maintaining regular contact with each other. The Executive Board briefed the Supervisory Board regularly, immediately and comprehensively in both writing and orally on all relevant matters within the Company as well as on its main business performance indicators. The Supervisory Board and the Executive Board discussed decisions of fundamental importance such as strategic issues concerning corporate planning, business policy, business performance, the risk situation and risk management.

Outside its meetings, the chairman of the Supervisory Board consulted with the Chief Executive Officer several times a month in intensive discussions both in person and over the phone, obtaining information on the Company's business performance and main transactions.

The Executive Board kept the Supervisory Board informed of the changes in the shareholder structure on an ongoing basis. A separate committee was established for regular close consultation and discussion on the Supervisory Board on this matter.

MAIN MATTERS DEALT WITH AT THE MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board held a total of four ordinary meetings and three extraordinary meetings in 2017. At its ordinary quarterly meetings, the Supervisory Board dealt in detail with the Company's current business and financial condition. At these regular meetings, the Supervisory Board deliberated on revenue, earnings and capacity utilization as well as the financial condition and liquidity situation of GRAMMER AG and the GRAMMER Group. In addition, the members of the Supervisory Board discussed and passed resolutions on numerous matters as well as measures requiring their consent.

In addition, the Supervisory Board's activities in the year under review were characterized by the request submitted by a shareholder for an extraordinary shareholder meeting to be convened and by discussion between the members of the Executive Board and the Supervisory Board. Prior to his resignation, effective June 30, 2017, Dr. Hans Liebler attended only one of the four meetings of the Supervisory Board. No other member of the Supervisory Board or its committees attended only half or fewer than half of the meetings. No conflicts of interests on the part of any of the members of the Supervisory Board in connection with the exercise of their duties were reported in the period under review.

The Supervisory Board's first extraordinary meeting in 2017 was held on January 9, 2017 and attended by eleven members. The main item on the agenda for this meeting was the request by a shareholder for a shareholder meeting at which five members of the Supervisory Board were to be dismissed and replacement members elected. The extraordinary meeting of the Supervisory Board was used to apprise the members of other significant developments, particularly with respect to the Company's business activities in China and the plans to issue a convertible bond as a further source of funding. This meeting also passed a resolution to alter the composition of the Ad-hoc Committee. Moreover, a decision was made to include an additional, more detailed provision in the existing change-of-control clause contained in the service contracts entered into with the members of the Executive Board.

The second extraordinary meeting of the Supervisory Board was held on March 18, 2017 as a telephone conference, in which all members of the Supervisory Board participated. The main item of business concerned preliminary discussion of the agenda of GRAMMER AG's Annual General Meeting to be held in May 2017.

Eleven members attended the first ordinary meeting of the Supervisory Board on March 28, 2017. The main item on the agenda concerned the audit of the annual financial statements and the consolidated financial statements. In the presence of the statutory auditor, the Supervisory Board adopted the parent-company financial statements of GRAMMER AG for the year ending December 31, 2016 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2016. In addition, the Supervisory Board passed resolutions concerning GRAMMER AG's Annual General Meeting which was to take place on May 24, 2017. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 1.30 per dividend-entitled share. The Supervisory Board's report and the corporate governance report for 2016 were approved. In addition, the gender quota targets for the Executive Board and the Supervisory Board were reviewed. The Supervisory Board defined a target of 33 percent for the proportion of women on the Executive Board, which is to be achieved by December 31, 2020. The statutory gender quota of 30 percent was confirmed for the Supervisory Board. The Supervisory Board reviewed the Executive Board's performance in 2016 in its absence and passed a resolution approving the payment of a bonus.

The main focus of the second meeting, which was held on May 23, 2017 and attended by eleven members of the Supervisory Board, was on preparations for the Annual General Meeting taking place on the following day. In addition, the Supervisory Board was briefed by the Head of Human Resources on the current progress of the project to convert the remuneration system for the Executive Board and managers and the company pension scheme. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board additionally reviewed the efficiency of its own activities and adopted measures to improve such efficiency. In addition, a resolution was passed at this meeting to modify the Articles of Association following the issue of new shares.

The third extraordinary meeting of the Supervisory Board was held on July 10, 2017 and attended by nine members of the Supervisory Board. Dr. Hans Liebler's resignation from the Supervisory Board and Prof. Dr.-Ing. Birgit Vogel-Heuser's nomination as his replacement were announced. The main focus of this meeting was a review of the Annual General Meeting. At this meeting, the Supervisory Board decided to implement the new remuneration system and the defined-contribution retirement benefit scheme for the members of GRAMMER AG's Executive Board. Further items of business included the structure of the strategic partnership with Ningbo Jifeng, the current status of M&A activities as well as the changes to the German Corporate Governance Code and their impact on the work of the Executive Board and the Supervisory Board.

The third ordinary meeting of the Supervisory Board was held on September 26, 2017 and attended by all members. Prof. Dr. Birgit Vogel-Heuser took part in a meeting of the Supervisory Board for the first time. The main items of business entailed updates on the structure of the strategic partnership in China and on current M&A projects. The results of the staff survey were also presented. Furthermore, the Supervisory Board decided to renew the service contracts of the Executive Board members Mr. Cordonnier and Mr. Pretscher for a further three years.

Held on December 5, 2017 at GRAMMER System GmbH in Bremen, the Supervisory Board's fourth ordinary meeting was attended by all of its members. In a detailed tour of the plant, the Supervisory Board was briefed by local management on products, production processes and new developments at the site. The main focus of discussion was on the GRAMMER Group's strategy for 2018–2022 and the budget for 2018 that was duly approved by the Supervisory Board. The Supervisory Board's profile of skills was revised and its rules of procedure duly amended. The Supervisory Board adopted a resolution stipulating that the appropriate number of independent members of the Supervisory Board as a whole should stand at no less than ten and approved the revised version of the declaration of conformity. A comprehensively revised questionnaire for preparing the 2018 efficiency review was presented. In addition, there was an update on current M&A projects and the structure of the strategic partnership in China.

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

A member-by-member breakdown of participation in the meetings of the Supervisory Board and its committees can be found in the corporate governance report. Apologies were duly received from members unable to attend the meetings of the Supervisory Board or its committees, who generally cast their votes in writing.

CIRCULATORY RESOLUTIONS OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board of GRAMMER AG passed one circulatory resolution in writing.

In a circulatory resolution dated April 25, 2017, the joint statement issued by the Executive Board and the Supervisory Board in response to the request by Cascade Investment International GmbH to add supplementary motions to the agenda (motion to dismiss shareholder representatives, to elect three new shareholder representatives and to recover damages from the Supervisory Board) was approved for publication in "Bundesanzeiger".

SUPERVISORY BOARD COMMITTEES

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees in the year under review, which had the following composition as of the reporting date (December 31, 2017):

STRATEGY COMMITTEE
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl

PERSONNEL AND MEDIATION COMMITTEE
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl

AUDIT COMMITTEE
Andrea Elsner
Wolfram Hatz (Chairman)
Martin Heiß
Dr. Klaus Probst

NOMINATING COMMITTEE
Wolfram Hatz
Dr. Klaus Probst (Chairman)
Dr. Bernhard Wankerl

AD-HOC COMMITTEE
Andrea Elsner
Wolfram Hatz
Martin Heiß
Ingrid Hunger
Harald Jung
Dr. Peter Merten
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl

The various committees held a total of 22 meetings in 2017. The business dealt with by the committees was reported to the Supervisory Board at the latter's next meeting.

The Strategy Committee advises the Executive Board on the development and implementation of the corporate strategy. It monitors the progress being made, prepares the consultations and resolutions of the Supervisory Board in connection with strategy-related matters and submits recommendations to it. The committee met twice in 2017. Both meetings were attended by all committee members. The meeting of February 14, 2017 was held as a telephone conference. Approval was granted for the issue of a mandatory convertible bond in a nominal amount of EUR 60,000,000 subject to the exclusion of the shareholders' preemptive subscription rights. The main focus of the meeting of October 26, 2017 was to prepare the meeting of the Supervisory Board of December 5, 2017 at which the GRAMMER Group's strategy for 2017–2022 was on the agenda. As well as this, the highlights and trends at IAA 2017 were discussed.

In addition to its duties under the German Codetermination Act, the Personnel and Mediation Committee performs tasks relating to Executive Board matters, it prepares personnel decisions to be made by the Supervisory Board as a whole. It met three times in the year under review. All members attended these meetings.

The agenda for the meetings held on February 2, 2017 and on March 27, 2017 included the restructuring of the remuneration system and retirement benefits for GRAMMER AG's Executive Board as well as deliberations on the preparations for decisions on the contract renewals for Mr. Cordonnier and Mr. Pretscher. The adjustments to the service contracts with the members of the Executive Board were discussed at the meeting held on September 26, 2017.

The Audit Committee prepares the resolutions of the Supervisory Board on accounting matters and monitors the accounts, the accounting system, the efficacy of the internal control system, the risk management system and the internal auditing system as well as compliance. It submits to the Supervisory Board a reasoned recommendation for the selection of the statutory auditor, which must include at least two candidates in cases in which proposals are requested for the audit engagement. It monitors the independence of the statutory auditor and also deals with additional services provided by the statutory auditor, the grant of the audit engagement to the statutory auditor, the determination of the key audit issues and the agreement of the fees.

The Audit Committee met four times in 2017 and all members attended these meetings. The main item on the agenda for the first meeting held on March 28, 2017 concerned the annual financial statements and consolidated financial statements for 2016. Representatives from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which had been elected as statutory auditors for 2016 at the Annual General Meeting, were also present. The risk and internal auditing report was also dealt with. The second meeting held on April 27, 2017 considered the interim report for the first quarter ending March 31, 2017. At its third meeting on July 26, 2017, the Audit Committee deliberated on the GRAMMER Group's preliminary figures for the first half of the year ending June 30, 2017 and the engagement of the statutory auditor. At its fourth meeting held on October 26, 2017, the Committee discussed the preliminary interim financial statements as of September 30, 2017.

The Nominating Committee is responsible for submitting the names of suitable nominees for the Supervisory Board to the Annual General Meeting as well as for defining in advance the requirements for the specific position to be filled. One meeting was held in the year under review on June 8, 2017 at which a resolution concerning the judicial appointment of the replacement for Dr. Hans Liebler was passed and Prof. Dr. Birgit Vogel-Heuser nominated as the new member of the Supervisory Board.

In the year under review, the Ad-hoc Committee, which had a changed composition from January 9, 2017, met a total of 15 times. The Ad-hoc Committee is responsible for ensuring regular close consultation with and advising the Executive Board on recent developments and events; these were particularly related to the significant changes in the shareholder structure in the year under review.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the annual general meeting held on May 24, 2017, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, was appointed as statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. At its meeting of July 26, 2017, the Audit Committee engaged the auditor for the 2017 annual financial statements and the consolidated financial statements. The auditor submitted the Statement of Auditor's Independence as required by the German Corporate Governance Code and disclosed the auditing and consulting fees charged during the fiscal year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited GRAMMER AG's 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 report for GRAMMER AG and the GRAMMER Group. The auditor issued an unqualified opinion in both cases. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the management report of GRAMMER AG and the GRAMMER Group provides a true and fair view of the Company and of the Group, as well as the opportunities and risks with regard to future development.

The auditor was satisfied in accordance with section 317 (4) HGB that the Executive Board had instituted a suitable monitoring system that meets the statutory requirements for an early warning system for the early detection of risks to the Company's going-concern status and that the Executive Board had implemented appropriate measures for early detection of developments and for averting risks.

The reports and financial statement documents were submitted to the members of Supervisory Board by the auditor in a timely manner and examined thoroughly. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the key results of the audit during the meeting of the Audit Committee held on March 20, 2018 dealing with the annual and consolidated financial statements and at the Supervisory Board meeting also held on March 20, 2018 to review the financial statements.

After thorough examination of the annual financial statements and consolidated financial statements as well as the management report of GRAMMER AG and the GRAMMER Group, the Supervisory Board raised no objections in this regard. The Supervisory Board thus endorsed the audit results established by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and approved the annual financial statements for GRAMMER AG and the Group. GRAMMER AG's annual financial statements have therefore been duly approved. The Supervisory Board agreed with the Executive Board proposal for appropriation of net retained profits.

SEPARATE NON-FINANCIAL GROUP REPORT

At its balance-sheet meeting of March 20, 2018, the Supervisory Board considered the Company's non-financial report. The background to this is an EU directive that has been transposed into German law under the CSR Directive Implementation Act. The separate non-financial Group report submitted by the Executive Board describes the Company's approach to economic, social, ethical and environmental matters. It is published together with the annual financial statements for 2017 for the first time and can be found on page 38 et sec. of this annual report. The Supervisory Board reviewed the existence of the report, the appropriateness and implementation of its contents and the due diligence processes and was satisfied that the measures taken and the concepts applied for sustainability are appropriate for addressing the risks and opportunities and correspond to the business model. After careful examination, the Supervisory Board approved the GRAMMER Group's separate non-financial Group report.

COMPOSITION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

There were no changes in the composition of the Executive Board in 2017. At its meeting of September 26, 2017, the Supervisory Board decided to renew the service contracts of the Executive Board members Mr. Cordonnier and Mr. Pretscher for a further three years. There was one change in the composition of the Supervisory Board in the year under review: Prof. Dr.-Ing. Birgit Vogel-Heuser was appointed to GRAMMER AG's Supervisory Board effective July 26, 2017 to replace Dr. Hans Liebler, who had stepped down from the Supervisory Board effective June 30, 2017.

The Supervisory Board would like to express its thanks to the Executive Board, the employees and the employee representatives of GRAMMER AG for their great personal commitment and hard work and for identifying so impressively with the Company, without which the favorable business performance achieved in the turbulent year of 2017 with its difficult underlying conditions would not have been possible. The Supervisory Board would also like to convey its gratitude to the shareholders who placed their trust in GRAMMER AG's Executive Board and Supervisory Board last year and voted so clearly at the 2017 Annual General Meeting in favor of the continuation of the Company's successful business strategy in the interests of all stakeholders.

Amberg, March 2018
On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER SHARE

TRENDS IN THE INTERNATIONAL STOCK MARKETS

The global stock markets were in solid shape in 2017, with equity prices rising sharply in some cases in Europe, the United States, Asia and the emerging markets without any major corrections. The favorable economic environment around the world as well as hopes of advantageous fiscal policies in the United States propelled some markets to new historical highs. Political risks as well as concerns over more restrictive trade policies on the part of the new US administration and a possible escalation of the tension between the United States and North Korea failed to place a damper on rising equity prices. Similarly, the US Federal Reserve's rate hike did not slow the upside move in the stock markets. Investors were also encouraged by the failure of the anti-European parties to gain any major influence in the French presidential and parliamentary elections.

All in all, 2017 can be divided into three phases in the financial markets. The upbeat sentiment in the stock markets in the first half of the year gave way to slight consolidation during the summer months. In the second half of the year, the markets resumed their upward trend, with some benchmarks, including the DAX, which hit just under 13,479 points, reaching new highs. The German blue-chip index closed the year up 12.51 percent, while mid-caps and small-caps performed even more favorably. Thus, the MDAX advanced by 18.08 percent over the year as a whole and the SDAX, in which GRAMMER is also listed, by as much as 24.87 percent.

PERFORMANCE OF THE GRAMMER SHARE

The GRAMMER share closed 2017 at EUR 51.85 in electronic XETRA trading, up 9.04 percent on December 31, 2016 (EUR 47.55). Including the dividend of EUR 1.30 per share, it thus achieved a yield of 11.78 percent last year. This is roughly equivalent to the gains in the DAXsector Prime Automobile sub-index, which rose by 12.01 percent over 2017 as a whole. The GRAMMER share achieved a closing high for the year of EUR 61.90 at the end of April. Given the attempt by minority shareholder Cascade International Investment GmbH to obtain control over the Company, the share was tracked closely by many investors.

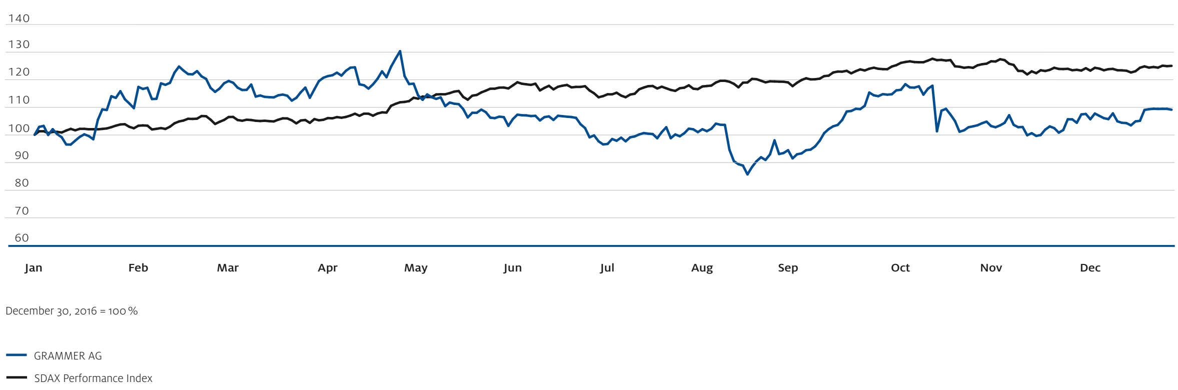
A daily average of around 68,000 GRAMMER AG shares was traded via the electronic XETRA trading system in 2017. Over the year as a whole, more than 17 million shares were traded via XETRA. In Deutsche Börse's SDAX/MDAX rankings as of December 31, 2017, GRAMMER was 59th in terms of trading volumes and 100th in terms of free-float market capitalization. Total market capitalization came to EUR 653.7 million at the end of the year.

KEY FIGURES FOR THE GRAMMER SHARE

In 2017, we commenced our strategic partnership with Chinese components supplier Ningbo Jifeng. This company is also an internationally active producer of interior components for passenger vehicles. This strategic partnership was reinforced on February 14, 2017, when a company affiliated with Ningbo Jifeng subscribed to a mandatory convertible bond for EUR 60 million. This bond was converted into new shares issued by

GRAMMER AG AND SDAX PERFORMANCE INDEX 2017 PRICE TREND

IN %



GRAMMER AG on April 25, 2017. As a result of this subscription as well as the acquisition of further shares in the market, our Chinese partner now holds 25.51 percent of GRAMMER AG's capital. The shares arising from the conversion of the bond were eligible for voting at the Annual General Meeting on May 24, 2017 but not yet dividend-entitled.

On December 31, 2017, the share capital of GRAMMER AG totaled roughly EUR 32.3 million, divided into 12,607,121 bearer shares. Of this, the Company holds 330,050 of its own shares. GRAMMER shares are 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 FOR THE GRAMMER SHARE

	DECEMBER 31, 2017	DECEMBER 31, 2016
Xetra closing price (EUR)	51.85	47.55
High for the year (EUR)	61.90	56.65
Low for the year (EUR)	40.74	23.85
Number of shares	12,607,121	11,544,674
Market capitalization (EUR m)	653.7	548.9
Earnings per share (EUR)	2.67	4.01
Dividend per share (EUR)	1.25[1]	1.30

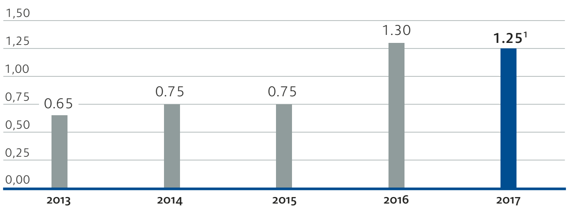
[1] Proposed.

DIVIDEND CONTINUITY

Around 67 percent of the voting-entitled capital was represented at GRAMMER AG's Annual General Meeting on May 24, 2017, constituting a significant portion of its share capital. The shareholders approved the proposal submitted by the Executive Board and the Supervisory Board for distribution of a dividend of EUR 1.30 per share. This marked a continuation of the consistent dividend policy of the last few years. The Executive Board and the Supervisory Board will be asking the shareholders to approve a dividend of EUR 1.25 per share for 2017 at the Annual General Meeting on June 13, 2018. This will ensure that shareholders benefit to the customary extent from the Company's success and the improvement in its operating performance achieved last year. At last year's Annual General Meeting, the shareholders supported management's course with a substantial majority. All of the motions submitted by GRAMMER management were accepted with a large majority. Accordingly, the shareholders of GRAMMER AG voted against the planned replacement of three members of the Supervisory Board with candidates nominated by Cascade International Investment GmbH and rejected all of this shareholder's motions to amend the agenda with a clear majority.

DEVELOPMENT OF DIVIDENDS

IN EUR



[1] Proposal.

COVERAGE BY ANALYSTS

At the end of December 2017, the GRAMMER share was being covered by six different research companies. The consensus target price was an average of EUR 53.40 at the end of the year. Analysts gave interested parties a regularly updated assessment of the outlook for the GRAMMER shares.

ANALYST COVERAGE OF GRAMMER AG IN 2017

Oddo BHF
Baader-Helvea
DZ Bank AG
Bankhaus Lampe
Landesbank Baden-Württemberg
M.M. Warburg Investment Research

INVESTOR RELATIONS

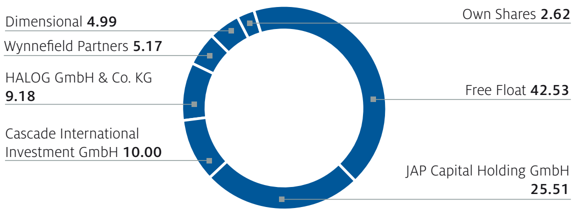
In 2017, we continued to keep institutional investors, analysts and private individuals informed of the Company's business performance, strategy and goals. We met with institutional investors and analysts at numerous roadshows in financial centers in Europe and took part in national and international capital market conferences. In addition, we held numerous one-on-ones. Besides talks in person, capital market participants have numerous other options for keeping abreast of events at GRAMMER and the performance of the GRAMMER share. We regularly publish ad-hoc bulletins as well as press releases and voting right notifications. The annual report, the half-year report and the quarterly reviews also contain detailed information and are backed up with telephone conferences for multipliers such as analysts and journalists. These telephone conferences are recorded and made available on GRAMMER's website at www.grammer.com. We also offer further information via our website, which provides details on all capital market activities in the Investor Relations section. In addition, the Investor Relations Team can be reached by telephone or by e-mail.

SHAREHOLDER STRUCTURE

The chart below only includes notifications relating to holdings of GRAMMER shares of greater than 3 percent. In addition, it shows the number of shares held as treasury stock. The current shareholder structure is also disclosed in the Investor Relations section of the GRAMMER AG website.

SHAREHOLDER STRUCTURE[1]

IN %



[1] as of December 31, 2017.

GRAMMER AG received the following voting right notifications in accordance with section 33 WpHG (section 21 WpHG (old version)):

VOTING RIGHT NOTIFICATIONS IN 2017

			SHARE OF VOTING RIGHTS ACCORDING TO NOTIFICATION	
DATE OF CHANGE	NOTIFYING SHAREHOLDER	THRESHOLD EXCEEDED/ DROPPED BELOW	SHARES	IN %
January 3	Nijaz Hastor	Loss of indirect holding	0	0.00%
January 26	Union Investment Privatfonds GmbH	Over 3%	354,290	3.07%
February 14	Bifeng WU	Instruments, over 5%	1,062,447	9.20%
March 23	Bifeng WU	Over 10%	1,160,847	10.06%
April 12	Alantra Partners S.A. (formerly Nmas1 Dinamia, S.A.)	Under 3%	345,016	2.99%
April 12	Union Investment Privatfonds GmbH	Under 3%	234,755	2.03%
April 13	Old Mutual Plc	Under 3%	327,497	2.83%
April 25	HALOG Beteiligungs- und Geschäftsführungs-GmbH	Under 10%	1,157,037	9.18%
April 25	Bifeng WU	Over 10%	1,389,482	11.02%
May 18	Bifeng WU	Over 15%	1,899,403	15.07%
July 12	Bifeng WU	Over 20%	2,523,293	20.01%
October 19	Bifeng WU	Over 25%	3,215,724	25.51%

GROUP MANAGEMENT REPORT INDEX

GROUP MANAGEMENT REPORT

- 5.4% increase in Group revenue to almost EUR 1.8 billion
- Substantial increase of 17.8% in operating Group EBIT from EUR 68.1 million to EUR 80.2 million
- Net profit for the year down on the previous year due to exceptionals and currency-translation effects
- Dividend of EUR 1.25 per share proposed

BASIS OF THE GROUP

BUSINESS MODEL

GRAMMER is a global group specializing 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 operates over 40 production and logistic facilities worldwide, which manufacture and distribute high-quality products for the global vehicle industry in a highly integrated value chain. In addition to the parent company, GRAMMER AG, the Group includes 30 fully consolidated companies as well as one joint venture accounted for using the equity method [see also Note 3 ("Basis of consolidation") in the consolidated financial statements]. The GRAMMER Group is active in 19 countries worldwide. With its global footprint in the various regions, it chiefly follows its main customers. In addition to its home market in Europe, the GRAMMER Group benefits from its presence in the NAFTA countries, China and Brazil.

The Group's business performance correlates closely with the performance of its relevant markets and main customers. In the Automotive Division these are primarily the premium passenger vehicle segment and in the Commercial Vehicles Division (formerly Seating Systems Division) commercial vehicle business in the aforementioned sell-side markets.

GROUP STRUCTURE

GRAMMER Aktiengesellschaft is the parent company in the GRAMMER Group, which is managed by an Executive Board comprising three members. The Executive Board and the Group's central corporate functions, e.g. development, quality, operations, sales, strategy, risk management, Group accounting and controlling, investor relations, legal affairs and finance, are based within GRAMMER AG as the operating holding company. In addition, it is responsible for a large part of research and development activities mostly for Europe and the overarching central coordination of sales and marketing.

The companies that are included in the consolidated financial statements are named in Note 3 of the consolidated financial statements ("Scope of consolidation").

BUSINESS DIVISIONS

The GRAMMER Group comprises two divisions.

In the Automotive Division, GRAMMER is active as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems as well as high-quality interior components and complex operating elements. The Group sells these products to automotive OEMs and their Tier 1 suppliers in the upper and premium segments in particular.

In the Commercial Vehicles Division, GRAMMER operates 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 marketing 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 Commercial Vehicles Division encompasses the business segments Trucks and Offroad (agricultural machinery, construction machinery and forklifts) as well as Railway & Bus.

Alongside the two reportable Divisions, Central Services comprises the overarching general corporate functions.

MANAGEMENT PROCESS SYSTEM

GRAMMER's internal value-based management process system is primarily aligned to the key management indicators revenue, earnings before interest and taxes (EBIT) and operating earnings (operating EBIT). The GRAMMER Group applies operating earnings (operating EBIT) as a key criterion for assessing its operating performance. Operating earnings (operating EBIT) are defined as consolidated earnings before tax net of income taxes, financial income and expenses as well as other financial result adjusted for exceptionals and currency-translation effects. It is not a performance indicator defined in accordance with the International Financial Reporting Standard (IFRS) in the version endorsed by the EU. However, the GRAMMER Group uses it as it believes that it presents the Company's earning situation more transparently and provides a better basis for comparison over time because it eliminates extraordinary effects liable to adversely affect an assessment of its performance.

In addition, net financial liabilities, working capital, G-ROCE[1] (GRAMMER Return on Capital Employed), GEVA[2] (GRAMMER Enterprise Value Added) and gearing (net financial liabilities divided by equity) are evaluated and monitored as further financial indicators. In 2017, G-ROCE gained new significance in connection with the revised rules for the remuneration of the Executive Board. The definition underlying this indicator was revised in 2017 and is to be applied in managing the Group in 2018. Details on the calculation of G-ROCE and GEVA are provided in the section outlining the principles of the remuneration system.

RESEARCH AND DEVELOPMENT

Alongside operating performance, the GRAMMER Group's pronounced research and development culture forms the basis for its competitiveness and leading market position in many product segments.

Innovative products and production technologies holding promise for the future are decisive determinants of a company's business success in the automotive industry. Reflecting this, research and development for the creation of innovative products, applications and processes form a central element of our corporate strategy. Over the last few years, we have been steadily broadening our international development network to maintain our technological lead with products offering potential for the future so as to position ourselves successfully in all core regions. This is aided by closer collaboration with our customers during the development phase. This is done in all regions of relevance for GRAMMER. Thus, technology centers were successfully established in the Americas and APAC many years ago and have been steadily expanded since then. We are stepping up our development activities in China to include APAC as a whole via two technology centers – one in Changchun for the Automotive Division and a further one in Shanghai for both Divisions. We are able to work closely with customers to execute tightly intermeshed global projects and to complete country-specific developments directly on site in close collaboration. This approach strengthens customer relationships and ultimately also the competitive position of the GRAMMER Group.

In order to secure and reinforce the leading position that we hold in innovations and technology, we have more than 500 GRAMMER engineers and R&D employees working in the Group-wide research and development network with the aim of constantly improving the ergonomics, safety, functionality, quality, aesthetics and design of our products. Non-capitalized research and development costs came to EUR 65,258 thousand (2016: 61,705), equivalent to 3.7% (2016: 3.6%) of total revenue. In addition to meeting ongoing market and customer requirements, we have established a systematic innovation process in the R&D area. By closely linking strategic product planning and advanced engineering, we are able to identify future trends and key developments in our markets at an early stage and systematically initiate and develop our own innovations in response to these. The success of this strategy is reflected in the numerous new orders and increased growth in all regions. The large number of series and predevelopment projects additionally testifies to our high innovativeness.

As well as this, we have taken further steps to standardize products and processes with the aim of actively intermeshing product and process development as a means of improving our competitiveness.

[1] G-ROCE is a business indicator defined by GRAMMER based on the ROCE definition.
[2] GEVA is a business indicator defined by GRAMMER based on the EVA definition.

For many years now, light-weight construction has formed a major thrust of our development activities. The aim is to play an active role in the general trend towards weight reduction in automotive engineering as a means of cutting fuel consumption and carbon dioxide emissions. To this end, we are engaging in numerous activities, including ones with the external support of universities and specialist institutions, and have presented various ideas, e.g. for truck passenger seats and the production of center consoles. Looking forward, the use of sustainable biologically sourced materials will also continue to grow in importance.

In addition to enhancing our traditional products and skills, we are increasingly concentrating on the integration of electric and electronic subsystems in our products. At the same time, the steady global expansion of our electronics competence is a central determinant of the entire GRAMMER Group's future success. With the combination of new electronic operating and control elements and our long-standing expertise in the development of armrests, center consoles, headrests and seating systems, we are able to create innovative solutions for our customers, giving GRAMMER a decisive competitive edge.

In the Automotive Division, responsibility for developing new automotive components and systems is continuing to shift away from OEMs and towards suppliers. Consequently, GRAMMER is increasingly positioning itself as a development partner and innovation driver for customers in this area. In this context, a technological lead and innovative solutions give us an important competitive edge. In addition to light-weight construction, the thrust of our development activities is targeted at designing high-quality and functional surfaces for our products as well as new kinematic solutions for consoles. Here, we are conducting intensive research into materials as well as production processes. With the acquisition at the end of 2015 of the REUM Group (since renamed GRAMMER Interior Components), we are specifically expanding our own technological capabilities in plastic injection molding processes, surface finishing and metalworking. These capabilities are being steadily developed at our competence center in Hardheim. The newly integrated innovative process and production technologies will allow GRAMMER to additionally develop its range – particularly in automotive interiors – swiftly and in line with future requirements.

In addition, we are working on solutions for integrating new HMI (human-machine interface) solutions, which we will be offering to customers as integrated systems together with consoles and armrests in the future. With respect to headrests, the main focus of development activities is on innovative solutions for electric drive trains and fully automatic adjustments in the premium segment. We are working on steadily enhancing existing technologies in the areas of safety, comfort, construction space optimization, weight and adjustment mechanisms.

In the Commercial Vehicles Division, GRAMMER is continuing to refine and enhance its product portfolio: In doing so, we are developing innovative solutions to respond to changing requirements and markets. In this Division, new and innovative products will enable GRAMMER to meet customer requirements to a high degree and to additionally reinforce and broaden its market position. In this connection, GRAMMER is benefiting from the combination of many years of experience in the development of suspension seats and ergonomically solutions. With the addition of the electronics skills amassed in the last few years, we are able to offer integrated and bespoke solutions for providing optimum cabin comfort and covering all aspects of vehicle control. In the offroad segment, activities aimed at expanding the current range of HMI solutions are progressing according to schedule; at the same time, however, work on the next-generation integrated seat solutions is being stepped up. As well as this, we are improving the comfort, safety and functionality of our latest generation of truck driver seats with adjustment functions fully controlled by electric motors. Looking forward to future generations of truck cabins, demand for the integration of ergonomic seating systems with multifunctional electronic armrests will increase. We are working closely with universities and customers to design the driver cabin of the future. In this way, we are able to enter a whole new dimension in the integration of vehicle and cabin functions as well as the ergonomic design of the cockpit environment.

In the rail segment, we are continuing to establish ourselves as a full-line supplier for the entire segment, supplying new seating platforms for high-speed, long-distance and regional trains.

Driven by autonomous driving and e-mobility, two trends with a major impact on the future, we are developing and testing new interior designs as innovators in both the Automotive and the Commercial Vehicles Division. Our existing range, which primarily focuses on interiors and vehicles, offers us an excellent and future-proof basis for defining new benchmarks. Working together with our customers, we are engineering the designs of the future and bringing them to market fruition.

BUSINESS ENVIRONMENT AND PERFORMANCE

BUSINESS ENVIRONMENT

In addition to the global economic environment, the situation in the industries addressed by our two Divisions – Automotive and Commercial Vehicles – is of particular relevance for GRAMMER. For this reason, the following section briefly describes economic conditions in these industries.

STATE OF THE GLOBAL ECONOMY

After emerging in mid-2016, the economic upswing continued in 2017. According to data released by the International Monetary Fund (IMF), 2017 was the first year in a long time in which the global economy was driven by the industrialized nations. Global growth reached its highest rate in seven years, with the situation improving in both the advanced economies and in the emerging markets.

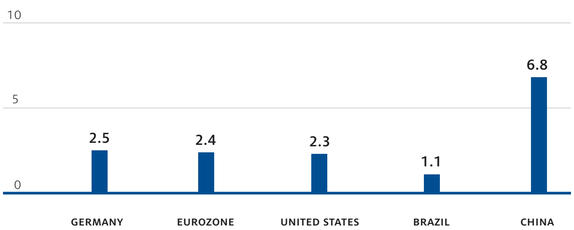
The favorable outlook for the world's largest economies prompted the IMF to raise its forecasts for the global economy in the course of the year. Even so, it warned that the global recovery might not be sustainable, explaining that a closer examination revealed that not all countries were benefiting from the upswing to the same extent. It also cautioned that, against the backdrop of muted growth in wages and salaries, inflation was often below the target and that the medium-term outlook in many regions was still disappointing. That said, the IMF expects economic output in the established economies to have expanded in 2017.

It stated that growth had accelerated on a broad basis in the United States and Canada as well as in Europe and Japan. In this connection, the industrialized nations were continuing to benefit from low central-bank interest rates and the unexpected absence of any real increase in oil prices. Thus, at 2.3%, growth in the United States was substantially stronger in 2017 than in the previous year.

The Eurozone also outperformed expectations in 2017 again, growing by 2.4%. Exports are proving to be the driving force, with Germany (+2.5%) not the only economy to benefit from the recovery in global trade. Favorable underlying financial conditions as well as lower political risks and uncertainties left positive traces. Output in the emerging markets and developing countries rose by 4.7%. The Asian emerging markets – led by China (+6.8%) and India (+6.7%) – stood apart with above-average growth rates. The European emerging markets also achieved growth. The laggards among the emerging markets were Russia (+1.8%) and Brazil (+1.1%). Driven by a recovery in exports, however, Brazil was able to overcome the recession that had been afflicting it in the previous two years. Despite the uncertainty surrounding the future of the Northern American free trade zone NAFTA and tighter central-bank monetary policies, Mexico was able to repeat the previous year's good performance.

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) IN SELECTED COUNTRIES

IN %



Source: IMF

FURTHER GROWTH IN THE AUTOMOTIVE INDUSTRY

According to VDA calculations, the global market for passenger vehicles increased again in 2017, with new registrations rising by 2% to 84.7 million vehicles. However, compared with the previous year, in which growth of 6% had been registered, the rate of expansion slowed substantially in 2017. In China, the world's largest market, new registrations were up 2%, climbing to 24.2 million vehicles in 2017. By contrast, new registrations in the United States, the world's second largest market, declined, dropping by 2% for the first time in years. Sales of light vehicles came to just under 17.1 million vehicles. On the other hand, new registrations in the other two NAFTA markets, Canada and Mexico, were slightly higher.

In Europe, new registrations were also up, rising by 4% to 18.0 million vehicles in 2017. Of the five largest markets (Germany, France, the United Kingdom, Italy and Spain), only the United Kingdom reported a drop in new registrations. VDA assumes that this is due to the initial effects of the Brexit decision. In the year under review, the German passenger vehicle market rose substantially again for the fourth consecutive year by 3% to 3.4 million new registrations. According to VDA, two contrary developments are currently playing out in the market: On the one hand, the premium being offered by some OEMs as an incentive to buy new cars and, on the other, the appreciable uncertainty arising from the prospect of car bans in large cities.

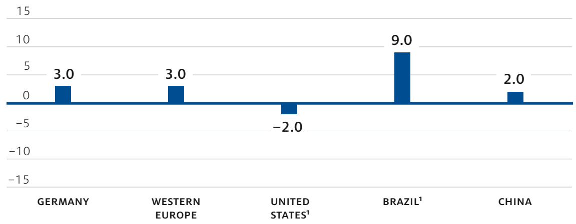
With the exception of Ireland, the smaller markets in Europe were in good shape. Growth was particularly strong in the young EU countries, where total new registrations were up on the previous year. Russia was able to recover from the previous year's market slump, recording an increase in new registrations of light vehicles.

Production output of passenger vehicles and light trucks also rose by 2% to 84.5 million in 2017. Of this, China accounted for just under one third (24.3 million, +2%). In the NAFTA countries, 17.0 million light vehicles (–4%) left the factories, with the United States accounting for the largest share of light vehicles (10.9 million, –9%).

In Europe, production output of passenger vehicles remained flat. There were slight declines in the two largest producer countries, namely Germany (–2% to 5.6 million) and Spain (–3% to 2.3 million). According to VDA, a good three out of four cars produced by German OEMs in Germany, were exported. It assumes that there was a slightly decline in the number of vehicle exports in 2017 as a whole due to model changeovers in other countries as well as the effects of the upcoming Brexit, which placed a damper on demand in the United Kingdom as a result of currency effects. On the other hand, production output was up in Italy and France compared with the previous year.

CHANGE IN AUTOMOTIVE SALES VOLUMES 2017 IN SELECTED COUNTRIES YEAR ON YEAR

IN %



¹ Including light vehicles.
Source: VDA

COMMERCIAL VEHICLE MARKET: HEAVY-DUTY TRUCKS IN DEMAND

New registrations of commercial vehicles point to particularly strong demand for trucks over 6t. In the countries covered by VDA, new registrations climbed by 21% to 2.6 million vehicles, with the Chinese market responsible for the bulk of this growth. New registrations in this market surged by 40% to 1.3 million units. With 290,000 new registrations, the Western European commercial vehicle market was marginally up on the previous year, achieving its highest figure since 2008. This growth was led by Italy. On the other hand, Spain and Germany were slightly down on the previous year, while the UK market slumped noticeably. However, the US market, which contracted sharply in the previous year, can be assumed to have stabilized. That said, new registrations of medium and heavy trucks moved in contrary directions.

New registrations of commercial vehicles across all size classes (including buses) were up 6% on the previous year in 2017. Specifically, new registrations rose by 8% in China, while the United States also recorded an increase to 415,000 vehicles. In Western Europe, the market was somewhat stronger (+3%). Of the larger markets, Spain (+13%) and France (+7%) stood out. In Germany, new registrations rose by 3% to 369,000 units.

SUBSTANTIAL GROWTH IN AGRICULTURAL MACHINERY

In the first half of 2017, German agricultural machinery and tractor OEMs recorded an increase of 7% in revenue to a good EUR 4.5 billion according to German Federal Plant and Mechanical Engineering Association VDMA. With growth remaining largely confined to the German market in the first quarter, foreign sales picked up substantially in the second quarter according to VDMA, rising by 14%. In addition to the German market, the Eastern European market in particular generated key impetus. On the other hand, business remained mute in the United States, where capital spending in the agricultural industry remains weak due to the unsatisfactory income situation. Sentiment was the strongest in the agricultural nations of Russia and Ukraine, which benefited from record harvests and excellent conditions for growth. VDMA likewise assumes that the Chinese agricultural machinery market expanded in 2017, driven by growing demand for innovative agricultural technology from the West. VDMA calculates total production output in the German agricultural machinery industry of EUR 7.5 billion (up 4%) for 2017 as a whole.

UPBEAT SENTIMENT IN THE CONSTRUCTION MACHINERY SECTOR

The upbeat sentiment in the construction industry continued in the third quarter of 2017. In a survey conducted by industry association Bundesverband der Baumaschinen-, Baugeräte und Industriemaschinenfirmen e. V. ("bbi"), 45% of the dealers polled reported revenue on a par with the previous year, while 35% stated that revenue had risen. Only 20% of the companies polled experienced lower revenue. The survey found out that the outlook for the fourth quarter was also favorable, with 20% of the dealers expecting rising revenue and a further 20% anticipating lower revenue.

GROWTH OPPORTUNITIES FOR MATERIAL HANDLING

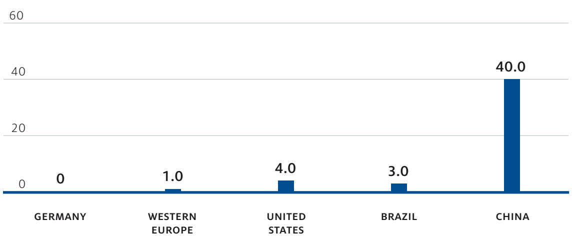
According to the bbi survey, dealers of material handling equipment in Germany were largely satisfied with conditions in their sector in the third quarter of 2017. 45% of the dealers polled reported revenue on a par with the previous year, 15% stated that revenue had dropped and 40% reported higher revenue. Dealers were also optimistic about the fourth quarter, with 60% of companies polled expecting revenue to remain flat, while the remaining 40% saw opportunities for growth.

FOREIGN BUSINESS PLACING A DAMPER ON THE RAIL INDUSTRY

According to industry association VDB, the revenue of railway equipment producers in Germany rose by 9.1% over the previous year to EUR 5.0 billion in the first half of 2017. Whereas domestic revenue remained flat at EUR 2.5 billion, foreign business contracted from EUR 3.0 to 2.5 billion. According to VDB, there are stronger signs than before of a growing global trend in favor of market foreclosure and national protectionism, e.g. through the imposition of local content requirements. In the first half of 2017, around 72% of revenue (EUR 3.6 billion) was generated from rolling stock and related components.

CHANGE IN COMMERCIAL VEHICLE SALES VOLUMES 2017 (TRUCKS ABOVE 6 T) IN SELECTED COUNTRIES YEAR ON YEAR

IN %



Source: VDA

CHANGES IN FISCAL YEAR 2017

In 2017, we founded our strategic partnership with Chinese automotive components supplier Ningbo Jifeng Auto Parts Co. Ltd., Ningbo City, China ("Ningbo Jifeng"). This company is also an internationally active producer of interior components for passenger vehicles. This strategic partnership was reinforced on February 14, 2017, when JAP Capital Holding GmbH, Kitzingen, a company affiliated with Ningbo Jifeng subscribed to a mandatory convertible bond for EUR 60 million. This bond was converted into new shares issued by GRAMMER AG on April 25, 2017. As a result of this subscription as well as the acquisition of further shares in the market, our Chinese partner now holds 25.51% of GRAMMER AG's capital according to the last notification received pursuant to section 26 (1) WpHG of October 25, 2017. The shares arising from the conversion of the bond were eligible for voting at the Annual General Meeting on May 24, 2017 but not yet dividend-entitled.

On December 22, 2016, Cascade International Investment GmbH had served on the Executive Board of GRAMMER AG a request for a shareholder meeting to be convened in accordance with section 122 (1) AktG. The proposed items of the agenda concerned the dismissal of members of the Supervisory Board, the election of new members to the Supervisory Board and a vote of no-confidence by the shareholders in the Chief Executive Officer Hartmut Müller. The Executive Board of GRAMMER AG rejected this request due to legal concerns. The Nuremberg Court of Appeal confirmed that the request submitted by Cascade International Investment GmbH for a shareholder meeting to be convened constituted an abuse of the law and was therefore ultimately void. Cascade's request had previously been rejected by the Local Court of Amberg at the lower instance.

At GRAMMER AG's Annual General Meeting on May 24, 2017, all of the motions proposed by the Company's management were accepted with large majorities. Moreover, the shareholders of GRAMMER AG voted against the planned replacement of three members of the Supervisory Board with candidates nominated by Cascade International Investment GmbH and rejected all of this shareholder's motions to amend the agenda.

The motions to amend the agenda that had been submitted by Cascade International Investment GmbH ahead of the Annual General Meeting seeking to dismiss members of the Supervisory Board, to hold a vote of no-confidence against the Executive Board and to determine the scope for asserting claims for damages against the company's governance bodies were likewise rejected with a clear majority at this Annual General Meeting.

In 2017, the Executive Board confirmed its commitment to the Amberg region by submitting an application for a building permit for the construction of the new Group head office in Ursensollen near Amberg. The budget for this investment stands at a total of EUR 40 million.

In addition, GRAMMER Interior Components Polska Sp. z o.o. was merged with GRAMMER Automotive Polska Sp. z o.o. in 2017. The resultant lean corporate structures and a targeted fixed-cost policy will aid future growth.

In addition, a contingent capital increase of BGN 500,000 (EUR 255.9 thousand) was executed by GRAMMER AD in 2017. The new shares were subscribed by GRAMMER AG. As a result, GRAMMER AG's share in this company has increased from 91.46% to 98.78%.

BUSINESS PERFORMANCE

- Significant increase in operating EBIT despite difficult environment in 2017

KEY FIGURES GRAMMER GROUP

IN EUR M

	2017	2016	CHANGE
Revenue	1,786.5	1,695.5	5.4%
EBIT	66.5	73.0	−8.9%
EBIT-margin (in %)	3.7	4.3	−0.6%-points
Operating EBIT	80.2	68.1	17.8%
Operating EBIT-margin (in %)	4.5	4.0	0.5%-points
Investments	59.1	56.2	5.2%
Employees (number, as of December 31)	12,947	12,250	5.7%

In 2017, the GRAMMER Group demonstrated the strength of its operating business, which continued to expand despite exceptionals and negative currency-translation effects. As a result, the GRAMMER Group's profitability improved significantly over the previous year. Operating EBIT climbed by EUR 12.1 million (17.8%) from EUR 68.1 million to EUR 80.2 million. This translates into an operating EBIT margin of 4.5% (in 2016: 4.0) in tandem with a further 5.4% increase in revenue.

The first half of 2017 in particular was dominated by changes and events in connection with GRAMMER AG's shareholder structure as well as the uncertainty resulting from the change of control sought by a minority shareholder. This triggered protracted restraint on the part of individual premium OEMs in placing new orders with GRAMMER, also exerting strain on the Automotive Division's future business performance and earnings in the year under review due to the shortfall in the recoupment of development and business acquisition costs resulting from non-nomination for orders.

However, this negative effect was more than made up for in 2017 with global measures aimed at optimizing fixed costs and process structures, as a result of which operating earnings rose substantially despite this additional strain.

Underpinned by the GRAMMER Group's good international position and its clear focus on customers in the premium segment, we were able to generate volume growth in all core regions in a generally favorable market environment. Within the Automotive Division, console business benefited from very strong global diversification. Despite all these difficulties, the Automotive Division has already been awarded orders worth around EUR 1 billion for the post-2019 period, with further efforts to generate new business currently being taken. The Commercial Vehicles Division was the main driver of the growth in revenue and operating profitability in 2017. This Division's performance was underpinned by its outstanding global position together with upbeat conditions in the offroad and material-handling segment. Revenue from our products developed for these markets grew substantially worldwide. In China our Shaanxi joint venture exceeded expectations, while our truck business gained substantial market share. In Brazil, the recession appears to have bottomed out, with nascent signs of an improvement now coming into view. The Commercial Vehicles Division continued to benefit from the generally very good market environment in Europe.

In addition, exceptionals and currency-translation effects totaling EUR 13.7 million arose in 2017. These exceptionals related to non-recurring expenses in connection with the change in the management and supervisory bodies sought by a minority shareholder at the Annual General Meeting. The heightened consulting expenses incurred in this connection came to a total of EUR 7.2 million (2016: 0). The appreciation of the euro caused negative currency-translation effects of EUR 6.5 million for the GRAMMER Group. This resulted in a negative difference of a total of EUR 11.4 million over the previous year, in which positive currency-translation effects of EUR 4.9 million had been recorded.

These exceptionals and currency-translation effects exerted considerable strain on EBIT and net profit for the year. Consequently, EBIT dropped by EUR 6.5 million from EUR 73.0 million to EUR 66.5 million in 2017.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT FOR THE GRAMMER GROUP

IN EUR K

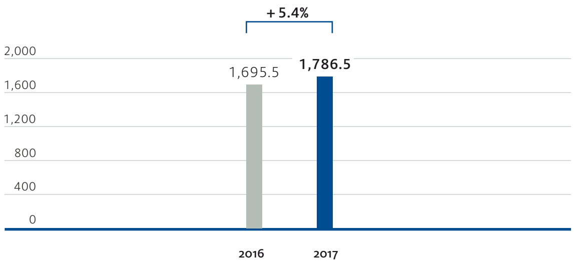
	2017	2016	CHANGE
Revenue	1,786,466	1,695,483	90,983
Cost of sales	−1,571,344	−1,496,764	−74,580
Gross profit	**215,122**	**198,719**	**16,403**
Selling expenses	−35,872	−35,311	−561
Administrative expenses	−128,726	−102,808	−25,918
Other operating income	15,947	12,448	3,499
EBIT	**66,471**	**73,048**	**−6,577**
Financial result	−10,596	−10,317	−279
Profit/loss (−) before income taxes	**55,875**	**62,731**	**−6,856**
Income taxes	−23,524	−17,508	−6,016
Net profit/loss (−)	**32,351**	**45,223**	**−12,872**

GROUP REVENUE

- Growth in revenue to EUR 1.79 billion

GROUP REVENUE DEVELOPMENT

IN EUR M



In 2017, the GRAMMER Group achieved total revenue of EUR 1,786.5 million, thus exceeding the previous year's already high figure of EUR 1,695.5 million by EUR 91.0 million (5.4%). The increase was primarily due to growth in sell-side markets and high-price products. This marks a continuation of the strong figures achieved in earlier years. This gratifying increase in revenue is consistent with the forecast published in the 2016 Annual Report. The increase in revenue was chiefly underpinned by strong growth in the Americas (North, South and Central America) as well as APAC (Asia Pacific). At 13.8%, revenue growth in the Americas was the strongest. Growth of 11.9% was recorded in APAC and 2.3% in EMEA (Europe, Middle-East, Africa). In the Automotive Division, the greatest growth in revenue was generated in the Americas, while the Commercial Vehicles Division recorded an increase across all regions, particularly APAC.

With an increase of EUR 20.4 million (1.6%) to EUR 1,291.2 million, revenue in the Automotive Division remained at the same high level of the earlier years in 2017, rising slightly in line with expectations. This is particularly due to the steady growth in console business. The integrated/merged GRAMMER Interior Components companies also continued to contribute to the GRAMMER Group's stable top-line growth.

However, the Commercial Vehicles Division achieved an encouragingly sharp increase of 14.1% in revenue, which rose by EUR 66.6 million to EUR 540.2 million in 2017. This growth was generated in the second half of 2017 in particular thanks to the strong rise in demand in the offroad and material-handling segments together with a further increase in demand in the truck segment. This was joined by the nascent recovery in Brazil.

Revenue includes a figure of EUR 115.6 million (2016: 93.9) calculated using the "percentage-of-completion" (PoC) method. Related expenses largely match the revenue due to heavy competition and customers' price sensitivity. This revenue arises from development activities as well as consumables, tools and equipment which the GRAMMER Group expenses until a product reaches series production. It primarily arises in the Automotive Division.

REVENUE BY REGION

Business growth varied from region to region, reflecting local market conditions.

EMEA (EUROPE, MIDDLE EAST AND AFRICA)

Revenue in EMEA rose by 2.3% or EUR 27.0 million to EUR 1,224.9 million in 2017 (2016: EUR 1,197.9 million). This growth was generated in the Commercial Vehicles Division, which recorded an increase of 12.4% (2016: 4.1%) in revenue to EUR 373.7 million in this core region (particularly Germany). The Automotive Division achieved revenue of EUR 851.3 million in EMEA, thus coming close to the previous year's high figure of EUR 865.4 million. This reflected various new product launches in a stable environment, helping GRAMMER to additionally reinforce its market position. Revenue in EMEA accounted for 68.6% of the Group total (2016: 70.7). This decline was particularly due to the disproportionately strong growth in other regions.

In Germany, revenue climbed by EUR 52.5 million (5.8%) from EUR 905.9 million in 2016 to EUR 958.4 million in 2017, reflecting general market trends. This was due to the fact that the Commercial Vehicles Division achieved a high growth rate (13.1%) thanks to the very favorable order situation in 2017.

APAC (ASIA PACIFIC)

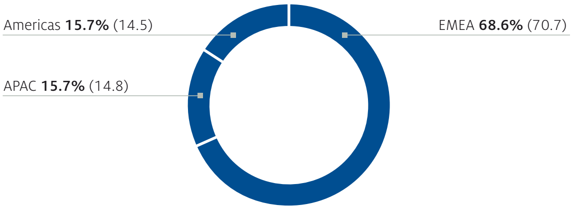
Revenue in APAC climbed by EUR 29.9 million or 11.9% to EUR 280.9 million (2016: 251.0). The greatest growth driver in this region was the Commercial Vehicles Division with a 54.9% increase from EUR 39.9 million in the previous year to EUR 61.8 million in 2017. Truck business in China expanded, resulting in further gains. The Automotive Division recorded a small increase of 3.8% in revenue in APAC to EUR 219.1 million (2016: 211.1), stabilizing its business volumes in this region as well. APAC contributed 15.7% to total Group revenue (2016: 14.8).

AMERICAS (NORTH, SOUTH AND CENTRAL AMERICA)

Regional revenue in the Americas also grew sharply, rising substantially by 13.8% in 2017, compared with only 1.1% in 2016. Revenue climbed from EUR 246.6 million in 2016 to EUR 280.7 million to 2017, underpinned by the favorable economic environment in the NAFTA region as well as new automotive product launches at the new plant in Tupelo, MS, United States, as well as our plants in Mexico. Moreover, the recession in Brazil appears to have bottomed out, with nascent signs of an improvement now coming into view. At 13.7% (2016: 4.6) and 14.2% (2016: –7.9), respectively, the Automotive and the Commercial Vehicles Divisions grew at almost the same rate in this region. All told, the share of Americas business in total Group revenue widened from 14.5% to 15.7%.

REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



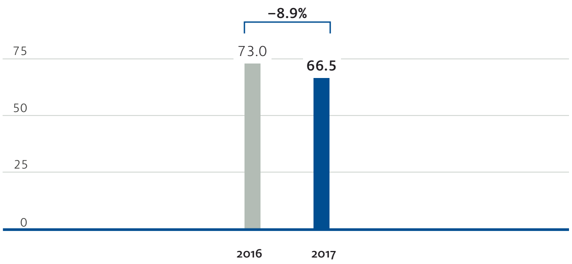
IN EUR M	2017	2016	CHANGE
APAC	280.9	251.0	11.9%
Americas	280.7	246.6	13.8%
EMEA	1,224.9	1,197.9	2.3%
Revenue	**1,786.5**	**1,695.5**	**5.4%**

GROUP PROFIT

- New record in operating EBIT
- Exceptionals and currency-translation effects leaving traces on EBIT and net profit

EBIT DEVELOPMENT GRAMMER GROUP

IN EUR M



2017 was a year of great uncertainty in connection with the shareholder structure as a result of an attempt by a minority shareholder to gain control of the Company. Despite these difficult underlying conditions, the Group's adjusted operating earnings rose substantially over the previous year. At EUR 80.2 million, operating EBIT climbed by 17.8% over the previous year's figure of EUR 68.1 million. Consequently, the operating EBITDA margin widened by 0.5 percentage points over the previous year to 4.5% (2016: 4.0). This is particularly due to the wider gross margin as well as the measures implemented to boost efficiency.

The encouraging operating performance in 2017 failed to fully make up for the exceptionals and currency-translation effects totaling EUR –13.7 million (2016: +4.9) to which the Group was exposed in 2017. Consequently, Group earnings before interest and taxes (EBIT) fell from EUR 73.0 million in the previous year to EUR 66.5 million in 2017 as expected. The exceptionals arising from consulting expenses came to EUR 7.2 million (2016: 0) and were necessitated by the attempted change in the management and supervisory bodies sought by a minority shareholder at the Annual General Meeting. Moreover, the euro strengthened against nearly all Group currencies, causing a negative currency-translation effect of EUR –6.5 million and reversing the previous year's positive currency-translation effect of EUR 4.9 million. The negative currency-translation effects primarily arose from the volatility of the USD Dollar, Chinese Yuan, Mexican Peso, Turkish Lira, Japanese Yen, Czech Koruna against the Euro

The cost of sales increased by EUR 74.5 million or 5.0% to EUR 1,571.3 million (2016: 1,496.8). This was largely due to the higher revenue. All in all, the gross margin widened by 0.3 percentage points to 12.0% (2016: 11.7), something that reflects the favorable performance of the operating production units.

Sales expenses were up by only EUR 0.6 million on the previous year, climbing to EUR 35.9 million (2016: 35.3) and accounting for a slightly improved 2.0% of revenue (2016: 2.1).

Administrative expenses rose by EUR 25.9 million or 25.2% to EUR 128.7 million (2016: 102.8). These expenses were substantially higher than in the previous year due to the aforementioned exceptionals of EUR 7.2 million in connection with the change of control in GRAMMER AG's management and supervisory bodies sought by a minority shareholder as well as negative currency-translation effects of EUR 6.5 million. The difference in the currency-translation effects over 2016 stands at EUR –11.4 million. In addition to these exceptionals, higher costs also arose from the expansion of business activities and increased staff costs. At the same time, work was performed on defining strategic alternatives for future Group growth, causing additional expenses over the previous year.

The staff costs included in the above items climbed by EUR 23.0 million to a total of EUR 375.4 million (2016: 352.4) for business-related reasons. At almost 21.0%, the staff cost ratio was unchanged over the previous year (2016: 20.8).

Other operating income increased by EUR 3.5 million from EUR 12.4 million in the previous year to EUR 15.9 million in 2017. This is due to higher scrappage income compared with the previous year.

At EUR –10.6 million, financial result was almost the same as in the previous year (2016: –10.3). Within this item, financial income dropped by EUR 0.4 million to EUR 1.1 million. Financial expenses fell by EUR 2.5 million to EUR 11.0 million. This was chiefly due to lower interest expense on retirement benefit obligations, which dropped from EUR 3.2 million to EUR 2.6 million, as well as the repayment of bonded loans of EUR 40.0 million in March 2017 and reduced interest expense on loans of EUR 7.4 million (2016: 8.6). By contrast exchange rate effects from internal Group funding operations and currency translation effects came to EUR –0.7 million (2016: +1.7).

As a result of the factors described above, earnings before tax dropped by EUR 6.8 million (10.8%) from EUR 62.7 million in 2016 to EUR 55.9 million in 2017.

At EUR 23.5 million, tax expense was substantially up on the previous year's figure of EUR 17.5 million, rising by EUR 6.0 million or 34.3%. This places the tax rate at 42.1% in 2017, compared with 27.9% in 2016. This difference is largely due to adjustments to deferred income tax assets recognized on unused tax losses by a Chinese company as well as the recent tax reform in the United States, which provided for a nominal cut in corporate tax rates from 35% to 21%. The low tax rate in the previous year was additionally due to the recognition of deferred income tax assets. Moreover, international transfer pricing resulting from the reconciliation of differing interpretations of the local tax authorities and their views on our international transfer pricing applications had a positive effect on actual foreign income taxes.

Net profit came to EUR 32.4 million in 2017, thus dropping by EUR 12.8 million from EUR 45.2 million in 2016.

Basic earnings per share are calculated by reference to net profit for the year adjusted for non-controlling interests and stand at EUR 2.67 in 2017 (2016: 4.01).

APPROPRIATION OF PROFIT

The appropriation of profit by the GRAMMER Group is based on the net profit/loss recorded in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. Compared with the previous year, GRAMMER AG posted a substantially higher unappropriated surplus of EUR 57.7 million as of December 31, 2017 (2016: 51.2). This includes the profit of EUR 36.7 million carried forward and the net profit for the year of EUR 42.0 million less retained earnings of EUR 21.0 million. The Executive Board of GRAMMER AG will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 1.25 per share be paid (total dividend: EUR 15.3 million) and that the balance of EUR 42.3 million be carried forward. In this connection, allowance was made for the fact that Company holds a total of 330,050 of its own shares, which are not dividend-entitled. If the number of dividend-entitled shares changes before the expected date of the Annual General Meeting on June 13, 2018, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

APPRAISAL OF THE COMPANY'S ECONOMIC SITUATION

On the strength of the higher revenue and earnings achieved in 2017 as well as the solid funding structures, we continue to see the GRAMMER Group as being well positioned. We hold a good to very good market position in the individual business segments which we address and were again able to gain market share with our innovative, high-quality and professional products in the year under review. Moving forward, GRAMMER will continue to be able to fund its organic growth internally and remain on its course of strategic expansion thanks to rising revenue, a substantial improvement in operating EBIT and, hence, the positive cash flow from operating activities. Our balanced funding structure and an equity ratio of 30.5% assure us of the flexibility which we require to act on strategic opportunities expected to arise in the market in the future. Growth in the Automotive Division beyond 2018 will materially depend on a reversal of the ordering restraint exercised by key German premium OEMs in 2017 and our ability to make up for the lost orders. Accordingly, the Group's current economic condition can be considered to be favorable.

AUTOMOTIVE DIVISION

- Automotive Division on a stable trajectory at the operating level

KEY FIGURES AUTOMOTIVE DIVISION

IN EUR M

	2017	2016	CHANGE
Revenue	1,291.2	1,270.8	1.6%
EBIT	40.7	42.5	−4.2%
EBIT-margin (in %)	3.2	3.3	−0.1%-points
Operating EBIT	45.4	40.9	11.0%
Operating EBIT-margin (in %)	3.5	3.2	0.3%-points
Investments	42.9	42.8	0.2%
Employees (number, as of December 31)	8,931	8,272	8.0%

The Automotive Division generated revenue of EUR 1,291.2 million in 2017 (2016: 1,270.8) and, as forecast in the 2016 Annual Report, was able to achieve small growth of EUR 20.4 million or +1.6%. Following the high growth rates of earlier years, top-line growth returned to a normal level in the individual segments as expected.

As already explained, order receipts for future new projects came under pressure in 2017 as a result of uncertainty surrounding the shareholder structure. Order receipts and contract signings, particularly with German OEMs, were unsatisfactory, falling well short of our expectations. The protracted restraint on the part of individual premium OEMs in placing new orders with GRAMMER is exerting strain on the Automotive Division's future business performance and also its earnings due to the shortfall in the recoupment of development and business acquisition costs, particularly in the third and fourth quarters of 2017.

Revenue in the Automotive Division rose by 13.7% (2016: 4.6%) from EUR 184.0 million to EUR 209.2 million in the Americas and by 3.8% (2016: 22.6) from EUR 211.1 million to EUR 219.1 million in APAC. Division revenue in EMEA contracted by −1.6% or EUR −14.1 million from EUR 865.4 million to EUR 851.3 million for market-related reasons. German business rose slightly by 2.2% or EUR 13.2 million from EUR 605.7 million to EUR 618.9 million.

To additionally strengthen the Automotive Division's earnings potential, we systematically continued the measures already implemented to improve profitability and cost efficiency along the entire value chain. The current process and structural improvement initiatives are aimed at optimizing the worldwide production network and also optimizing product costs. Among other things, production at the Česká Lípa facility in the Czech Republic was additionally stabilized, while capacity utilization at the Žatec plant was further increased due to series-related growth in volumes. As well as this, our Sosnowiec plant in Poland was expanded. With these measures in Europe, we are addressing the future growth requirements in the Automotive Division. The implementation measures and the boost in capacity utilization at our Beijing plant, for example, are showing the expected results. Substantial capacity expansion was also necessary at our facilities in Mexico and particularly at our new plant in Tupelo, MS, in the United States, as we are ramping up console production there. As expected, these measures led to considerable cost burdens at these plants with a corresponding effect on operating earnings in the Automotive Division.

EBIT in the Automotive Division came to EUR 40.7 million in 2017, falling EUR 1.8 million or 4.2% short of the previous year's figure of EUR 42.5 million. This small decline is primarily due to negative currency-translation effects, which came to EUR –4.7 million in 2017 in contrast to the positive currency-translation effects of EUR 1.6 million in 2016. The negative currency-translation effects were primarily caused by changes in the exchange rates of the Chinese Yuan, USD Dollar, Mexican Peso and Czech Koruna against the Euro.

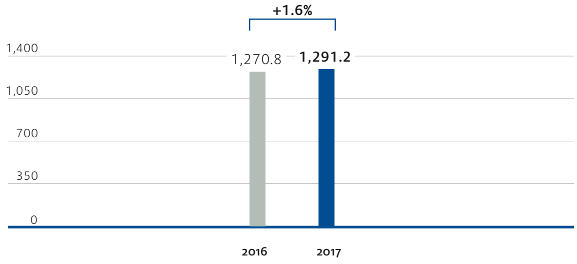
Thus, operating EBIT adjusted for currency-translation effects came to EUR 45.4 million in 2017, up a substantial EUR 4.5 million or 11.0% over the previous year's figure of EUR 40.9 million. The operating EBIT margin widened from 3.2% in 2016 to 3.5% in 2017. This again reflects the success of the measures implemented to improve and optimize operating performance and the strategic and global orientation of the Automotive Division in 2017. By the same token, however, it came under considerable pressure from muted order receipts for future projects and the related shortfall in the recoupment of development and business acquisition costs.

Investments in the Automotive Division came to EUR 42.9 million in 2017 and was thus on a par with the previous year's figure of EUR 42.8 million.

Employee numbers in this Division rose by 8.0% from 8,272 in the previous year to 8,931 in 2017 due to the aforementioned new product launches in the NAFTA region as well as further insourcing activities to optimize cost structures at our sewing facility in Serbia.

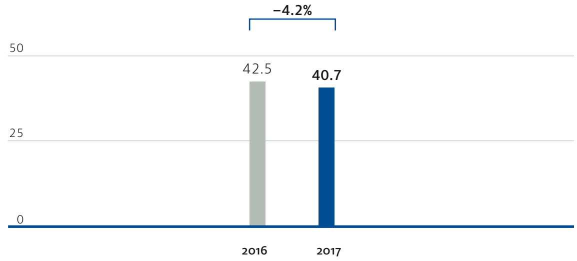
REVENUE DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



EBIT DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



COMMERCIAL VEHICLES DIVISION

- Commercial Vehicles Division on a growth trajectory

KEY FIGURES COMMERCIAL VEHICLES DIVISION

IN EUR M

	2017	2016	CHANGE
Revenue	540.2	473.6	14.1%
EBIT	45.9	39.1	17.4%
EBIT-margin (in %)	8.5	8.3	0.2%-points
Operating EBIT	47.5	35.8	32.7%
Operating EBIT-margin (in %)	8.8	7.6	1.2%-points
Investments	12.2	9.3	31.2%
Employees (number, as of December 31)	3,737	3,699	1.0%

In 2017, the Commercial Vehicles Division was able to substantially exceed the forecast of "stable revenue performance" that we had indicated in the 2016 annual report. Thus, revenue in this Division rose very substantially by EUR 66.6 million or 14.1% from EUR 473.6 million in the previous year to EUR 540.2 million. This profitable top-line growth was underpinned by the very strong demand in the offroad and material-handling segments as well as increased demand for our innovative and premium truck seating systems in Europe, Brazil and particularly China.

The Commercial Vehicles Division is made up of the offroad, material-handling, truck and railway & bus segments. Selling activities are primarily structured according to markets or customers (OEMs are addressed by key account managers) and distribution channel (retrofit or OEM). Marketing supports the international selling activities. Orders are determined by long-term delivery contracts as well as a dynamic market environment. 2017 was characterized by a very favorable order situation, which laid the foundations for continued strong performance particularly in Brazil and China.

The Commercial Vehicles Division achieved a very substantial increase in revenue in all regions. Revenue in APAC rose by 54.9% (2016: 5.3) from EUR 39.9 million in 2016 to EUR 61.8 million in 2017 particularly as a result of the growth in truck business in China. Revenue climbed by 14.2% (2016: –7.9) from EUR 62.6 million to EUR 71.5 million in the Americas and by 12.4% (2016: 4.1) from EUR 332.6 million to EUR 373.7 million in EMEA and, thus, almost at the same rate. Consequently, it was possible to reverse the previous year's 7.9% decline in revenue in the Americas as a result of growth of 14.2% due to the broader customer base. This region was spurred by top-line growth in the offroad and material-handling segments. EMEA revenue rose very encouragingly across all segments, particularly offroad and material-handling. Revenue in Germany increased by 13.1% or EUR 39.2 million from EUR 300.3 million in 2016 to EUR 339.5 million in 2017.

Division EBIT climbed by EUR 6.8 million or 17.4% from EUR 39.1 million to EUR 45.9 million in 2017. Driven by dynamic growth, the Commercial Vehicles Division was able to substantially improve its profitability in 2017 over the previous year.

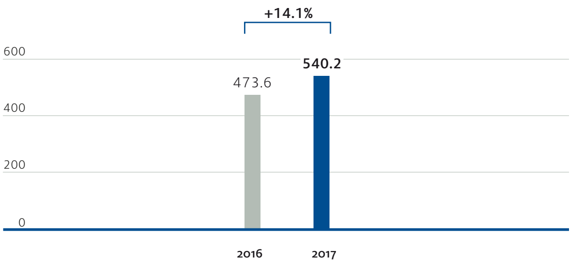
Thus, operating EBIT climbed by EUR 11.7 million or a superb 32.7% from EUR 35.8 million in 2016 to EUR 47.5 million in 2017. Currency-translation effects, which came to EUR –1.6 million in 2017 (2016: +3.3), resulted in a negative difference of EUR 4.9 million over the previous year. The negative currency-translation effects were primarily caused by changes in the exchange rates of the Chinese Yuan, the USD Dollar and the Japanese Yen against the Euro.

Capital spending in the Commercial Vehicles Division came to EUR 12.2 million in 2017, marking an increase of EUR 2.9 million or 31.2% over the previous year (EUR 9.3 million).

Despite the strong top-line growth, the Commercial Vehicles Division had a total of 3,737 employees as of December 31, 2017, i.e. only slightly higher than in the previous year (2016: 3,699).

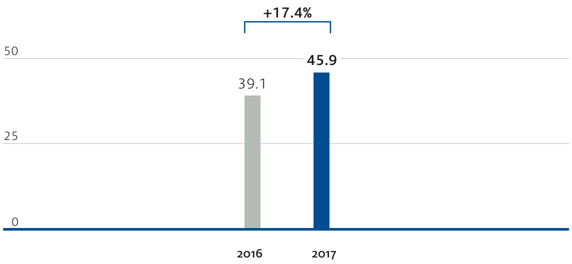
REVENUE DEVELOPMENT COMMERCIAL VEHICLES DIVISION

IN EUR M



EBIT DEVELOPMENT COMMERCIAL VEHICLES DIVISION

IN EUR M



FINANCIAL POSITION

FINANCE AND LIQUIDITY MANAGEMENT

- Still high cash and cash equivalents of EUR 138.0 million
- Mandatory convertible bond for EUR 60.0 million issued

GRAMMER AG's syndicated loan contract, which was signed in 2013, has a term of five years plus two one-year renewal options. GRAMMER exercised the second renewal option in 2015, with all participating banks renewing their share accordingly. The new term thus expires on October 31, 2020. This together with the medium and long-term bonded loans means that GRAMMER AG's funding is secured on a long-term basis.

GRAMMER AG and two other domestic Group companies are parties to this syndicated loan agreement, under which each creditor has the right to demand premature repayment in the event of a change of control. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers.

The bonded loans have a total value of EUR 201.5 million as of December 31, 2017. Termination rights in the event of a change of control are also provided for in the agreements underlying the bonded loans. If these termination rights are exercised jointly in particular, the funding required by the GRAMMER Group for its ongoing business operations may be jeopardized, forcing it to seek alternative funding. As of December 31, 2017, cash and and cash equivalents are valued at EUR 146.3 million (2016: 133.0).

In pursuing funding activities, Group Finance attaches importance to timing aspects in the interest-rate structure so that short-term drawdowns are based on floating rates, while medium to long-term funding generally applies fixed rates based on matching maturities.

Management of operating cash flows and adequate external capital are overseen centrally by Group Treasury except in cases where legislation in a specific jurisdiction would limit this. The Group's main financial priority is to further improve its credit rating and to establish a balanced maturity structure and diversified funding portfolio to ensure liquidity over the long term.

Group Finance handles worldwide payment transactions and the administration of the cash pool in consultation with the local companies for ensuring adequate liquidity for GRAMMER AG's subsidiaries, as well as determining the extent to which the system is permitted and effective within the given legal and economic circumstances. For the purposes of managing financial risks, interest rate and currency risks are hedged centrally using conventional derivative financial instruments.

At EUR 190.3 million, non-current financial liabilities were down on the previous year (2016: 216.8).

At EUR 48.2 million, current financial liabilities were also substantially lower than in the previous year (2016: 55.3).

The cash flow from operating activities dropped by EUR 16.6 million (19.3%) from EUR 85.8 million in 2016 to EUR 69.2 million in 2017 due to the lower earnings before tax and increased tax expenses. Although the effects arising from the business-induced increase in trade accounts receivable exerted pressure on the cash flow from operating activities, they were largely offset by the simultaneous increase in trade accounts payable.

At EUR 59.2 million in 2017, the cash outflow from investing activities was higher than in 2016 (51.9). In the year under review, investments on property, plant and equipment remained steady over the previous year due to ongoing production expansion in both Divisions. Spending on intangible assets came to EUR 10.5 million in 2017 and was thus EUR 3.2 million up on the previous year due, among other things, to an increase in additions to concessions and industrial rights as well as the greater capitalization of development activities (EUR 2.4 million; 2016: EUR 0.8 million).

There was a cash outflow from financing activities of EUR 2.6 million in 2017. A cash inflow arose from the issue of new share capital following the conversion of a mandatory convertible bond of EUR 60.0 million. In the previous year, there had also been a positive effect on cash inflow primarily from the arrangement of long-term finance in the form of a bonded loan for EUR 39 million. On the other hand, bonded loans of EUR 40 million as well as smaller loans forming part of worldwide funding operations were repaid (2016: 54), while a dividend payment of EUR 14.6 million (2016: 8.4) was distributed in 2017.

All in all, the Group continues to hold strong cash and cash equivalents available for funding further business expansion and for use as a strategic reserve.

CAPITAL STRUCTURE

As of December 31, 2017, the Company's share capital amounted to EUR 32,274,229.76 (2016: 29,554,365.44) divided into 12,607,121 (2016: 11,544,674) shares. All shares (with the exception of own shares) accord the same rights; shareholders have a right to payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting.

At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue option bonds and/or convertible bonds with the possibility of excluding the shareholders' preemptive subscription rights, to create new Contingent Capital 2014/I and to make a corresponding amendment to the Company's Articles of Association: The Company's share capital was increased by up to EUR 14,777,182.72 on a contingent basis through the issue of up to 5,772,337 new bearer shares (Contingent Capital 2014/I). The contingent capital was issued so that shares can be granted to the bearers of convertible or option bonds issued in accordance with the corresponding authorization. In connection with the conversion of the convertible bond, 1,062,447 shares were issued for subscription on April 25, 2017 using Contingent Capital (2014/I), as a result of which the share capital rose by EUR 2,719,864.32. Following the issue of the new shares, Contingent Capital 2014/I is valued at EUR 12,057,318.40, equivalent to 4,709,890 shares. The Executive Board may utilize the remaining Contingent Capital with the Supervisory Board's approval on or before May 27, 2019.

See also Note 17 "Subscribed capital and reserves" in the notes to the consolidated financial statements.

The capital reserve amounted to EUR 129,796 thousand as of December 31, 2017 (2016: 74,444). The increase of EUR 55,352 thousand in the capital reserve over the previous year is due to the premium from the conversion of the mandatory convertible bond less transaction costs and trailing effects of EUR 1,928 thousand. Accordingly, the capital reserve as of December 31, 2017 includes premiums from the capital increases in 1996, 2001, 2011 and 2017.

The revenue reserve amounted to EUR 254,960 thousand (2016: 236,268) as of December 31, 2017.

DISCLOSURE OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 33 WPHG (SECTION 21 WPHG (OLD VERSION))

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 exceed the 3% threshold as of December 31, 2017 is included in the notes to the consolidated financial statements.

OWN SHARES

The Annual General Meeting passed a resolution on May 28, 2014 to authorize the Executive Board to acquire treasury stock amounting to no more than 10% of the share capital on or before May 27, 2019. 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 the Company's own shares. GRAMMER holds 330,050 own shares, all of which were acquired in 2006. These shares have a total value of EUR 844,928.00 and represent 2.618% of the share capital. The 330,050 own shares are non-voting and non-dividend-entitled.

INVESTMENTS

Investments (additions to the historical costs of property, plant and equipment and intangible assets) by the GRAMMER Group came to EUR 59.1 million (2016: 56.2) in 2017 and was slightly up on previous year's level.

Spending on property, plant and equipment stood at EUR 48.6 million in 2017, i.e. on a par with the previous year's figure of EUR 48.9 million. Of these additions to property, plant and equipment, the Automotive Division accounted for EUR 36.0 million (2016: 38.8) and the Commercial Vehicles Division for EUR 9.4 million (2016: 8.6). Spending on property, plant and equipment for Central Services came to EUR 3.2 million (2016: 1.5).

Investments in the Automotive Division focused on Poland, Mexico and Germany. A new production hall was built and coating, injection-mold and console production capacity expanded in Sosnowiec, Poland. In Mexico, spending on the production of consoles and headrests was stepped up to accommodate the many new product launches. In Schmölln, Zwickau and Bremen, investments were made in equipment for series launches and the expansion of center console production. At the German facility in Schafhof, metal production was expanded to generate capacity for new products. One material focus of capital spending was on strengthening production of interior components in Hardheim, Germany, on rationalizing and technology.

Investments in the Commercial Vehicles Division concentrated on Germany, Turkey, China and the United States. In Germany, expansion and rationalization spending was completed at the Haselmühl site. Capital spending focused on production in the truck segment in Turkey and on our Chinese site in Shaanxi in order to continue our growth in the Chinese market. Production capacity for the offroad and material-handling segments was also expanded in Tianjin, China. In this way, we are strengthening the market position of the Commercial Vehicles Division. In the United States, we continued to invest in our site in Tupelo, MS, as well as in machinery and assembly equipment to additionally ramp up console production. In the rail and bus segment, which is based in Germany, further assembly facilities for the regional transportation seating platform were acquired.

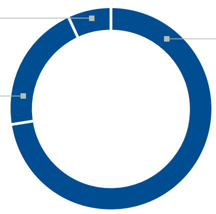
In addition, investments were made in site safety and environmental protection in both Divisions.

Spending in Central Services was particularly dominated by the preparatory activities for the construction of the GRAMMER Group's new head office in Ursensollen near Amberg.

Spending on intangible assets came to EUR 10.5 million in 2017 and was thus up EUR 3.2 million on previous year's figure of EUR 7.3 million. Of this, the Automotive Division accounted for EUR 6.9 million (2016: 4.0) and the Commercial Vehicles Division EUR 2.8 million (2016: 0.7). Spending on intangible assets for Central Services came to EUR 0.8 million (2016: 2.6). Intangible assets include patents, concessions as well as capitalized development activities.

INVESTMENTS BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



IN EUR M

	2017	2016	CHANGE
Automotive	42.9	42.8	0.2%
Commercial Vehicles	12.2	9.3	31.2%
Central Services	4.0	4.1	−2.4%
Investments	**59.1**	**56.2**	**5.2%**

NET ASSETS

- Equity ratio of 30.5% at the end of the year under review
- Moderate increase of 5.4% in total asset due to business growth

CONDENSED BALANCE SHEET GRAMMER GROUP

IN EUR K

	2017	2016	CHANGE
Non-current assets	372,327	379,557	–7,230
Current assets	734,641	671,001	63,640
Assets	**1,106,968**	**1,050,558**	**56,410**
Equity	337,661	271,237	66,424
Non-current liabilities	359,523	397,397	–37,874
Current liabilities	409,784	381,924	27,860
Equity and liabilities	**1,106,968**	**1,050,558**	**56,410**

On the reporting date (December 31, 2017), the GRAMMER Group had total assets of EUR 1,107.0 million (2016: 1,050.6). The increased equity and rising business volumes as well as the ongoing production expansion led to an increase of 5.4% in total assets.

Non-current assets primarily comprise property, plant and equipment, intangible assets and deferred income tax assets. As of December 31, 2017, these were valued at EUR 372.3 million, down on the previous year's figure of EUR 379.6 million. This decline of EUR 7.3 million (1.9%) is chiefly due to an adjustment to the probable utilization of the tax losses of a Chinese company as well as the recent tax reform in the United States, which provides for a reduction in the nominal corporate tax rate from 35% to 21%.

Current assets primarily include inventories, current trade receivables, other current financial assets, cash, cash equivalents and short-term deposits as well as other current assets. As of December 31, 2017, they were valued at EUR 734.6 million, up EUR 63.6 million or 9.5% on December 31, 2016 (EUR 671.0 million). This increase was primarily due to the increased volume of business. Within current assets, inventories climbed by EUR 9.7 million to EUR 158.0 million (2016: 148.3) and trade accounts receivable by EUR 16.7 million to EUR 223.3 million (2016: 206.6) due to the increase in revenue. The other current financial assets rose by EUR 23,9 million over the previous year to EUR 176,9 million due to higher advance outlays for projects. Other current assets remained at the previous year's level, coming to EUR 23.3 million (2016: 23.6). At the end of the year, cash and cash equivalents stood at EUR 146.3 million (2016: 133.0).

As of December 31, 2017, equity rose to EUR 337.7 million (2016: 271.2). This translates into an equity ratio of 30.5% (2016: 25.8). This increase is primarily due to the issue of the mandatory convertible bond of EUR 60.0 million on February 14, 2017 and the Group net profit of EUR 32.4 million (2016: 45.2). The dividend distribution of EUR 14.6 million and the other comprehensive income of EUR 9.4 million (2016: 19.3) caused by negative currency-translation effects at the level of the foreign subsidiaries and the net investments in foreign business operations had a negative effect on equity. The actuarial gains on defined benefit pension plans calculated on the reporting date including deferred taxes had a positive effect on other comprehensive income of EUR 0.9 million (2016: –10.7). This also applied to the positive effects from hedge accounting. Despite the slight increase in total assets and the changes in equity caused by netting effects in comprehensive income and the dividend distribution, the equity ratio widened by 4.7 percentage points to 30.5% due to the net profit for the year and the issue of the mandatory convertible bond. Consequently, the ratio of equity to non-current assets now stands at 90.7% (2016: 71.5%).

Non-current liabilities amounted to EUR 359.5 million on the reporting date (2016: 397.4). Non-current financial liabilities dropped by EUR 26.5 million to EUR 190.3 million primarily as a result of the reclassification of non-current liabilities as current liabilities. Retirement benefits and similar obligations were almost unchanged at EUR 140.5 million (2016: 141.7). The deferred tax liabilities come to EUR 22.6 million (2016: 30.8) after netting.

Current assets rose by EUR 27.9 million or 7.3% from EUR 381.9 million to EUR 409.8 million. Current trade accounts payable climbed by EUR 39.6 million to EUR 258.9 million due to increased business volumes. On the other hand, current financial liabilities dropped from EUR 55.3 million to EUR 48.2 million. The change was primarily due to the repayment of the bonded loan of EUR 40 million and the simultaneous addition of several smaller loans. Provisions declined from EUR 23.5 million in the previous year to EUR 17.5 million in 2017 primarily due to the utilization of current amounts provided for.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

EMPLOYEES

INCREASE IN HEADCOUNT DUE TO THE BUSINESS PERFORMANCE

As of December 31, 2017, the GRAMMER Group had a total of 12,947 employees (2016: 12,250), equivalent to an increase of 5.7%.

The number of employees rose as a result of the expansion of our business operations and the many new product launches in the NAFTA region and China. At the same time, the staff cost ratio remained largely stable. The annual average headcount stood at 12,483 (2016: 12,144).

The number of employees in the Automotive Division increased to 8,931 (2016: 8,272) as of the reporting date. In the course of the year, new employees were recruited on account of new product launches and increased business volumes particularly at the production sites in Mexico, the United States and China as well as in response to insourcing projects at the sewing facilities in Serbia.

The headcount in the Commercial Vehicles Division climbed slightly to 3,737 (2016: 3,699). This was chiefly due to the establishment of our facility in Shaanxi (China). However, the increase of around 1.0% in the headcount of the Commercial Vehicles Division was substantially lower than the rate of top-line growth (+14.1%).

At 279, the headcount in Central Services was exactly the same as in the previous year (2016: 279).

Looking forward, we also expect a slight increase in headcount in 2018 in view of the increased volume of business and the planned new product launches.

TRAINING, PROFESSIONAL DEVELOPMENT, HUMAN RESOURCES

Qualified and motivated employees are one of the key determinants of our success. Talent management plays a crucial role in securing and growing our internal skills. It seeks to encourage and develop all employees in line with their potential. Committed employees with new ideas and extensive knowledge play a decisive role in advancing our successful position and building on our competitive strengths in the international market.

The Talent Management & Employer Branding unit was established in 2016 and the Group's personnel development programs revamped. We systematically continued on this course, adding numerous new corporate programs in 2017. In addition, local programs were standardized and implemented. The purpose of all these measures is to address more effectively the requirements with respect to the motivation and further training of qualified staff and to drive global networking within the Group.

Our corporate program is divided into different segments: "GRAMMER TOP Gear" focuses on strategic further education for the members of middle management, while "GRAMMER Fast Lane" is primarily targeted at employees exhibiting very high potential, some of whom have already gained preliminary management experience. The "GRAMMER DRIVE" program is for employees exhibiting strong potential who are to be prepared for future responsibilities. All these programs aim to develop the management staff of the future from within our own organizational structures to a large degree.

Additional individualized programs are available for senior management. Moreover, an annually updated training catalog provides all employees with an overview of possible upskilling measures and contains standardized training modules.

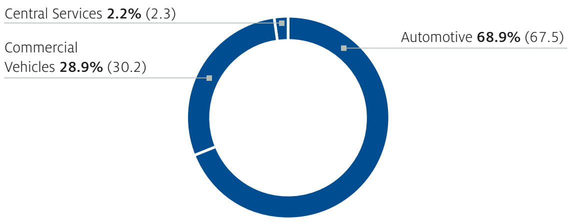
Looking forward to 2018, the existing programs are to be continued and new modules designed for global use.

In addition to management training, GRAMMER also offers training for experts as a means of providing highly qualified specialists with scope for professional development and deploying them to optimum effect as sources of knowledge and experience. In 2017, a project management career path was implemented to offer our project managers a promising perspective in line with market requirements.

The Group is a key provider of vocational training and further education in its home regions in Germany as well as at its global sites and will remain so in 2018. Our aim is to orient all aspects of our training and continuing education program to future requirements internationally in order to offer the employees concerned the best career outlook at all locations through training. In this connection, modifications were made at the Amberg site, which has its own training center and has been playing an important role in recruiting young talent for quite some time. The apprenticeships offered by the former REUM Group (now GRAMMER Interior Components), which recently joined the GRAMMER Group, were pooled at this training center under single management. Apprenticeship courses and training sites were adjusted in 2017 in the light of current requirements and new approaches developed towards placing vocational training on an international footing. We offer apprentices firm positions in our Company provided that this is in line with our personnel policy and we have sufficient vacancies. In 2017, we continued to employ motivated apprentices in many different parts of the Company in order to maintain a qualified pool of resources in fields that are becoming more important for the future. We also hosted internships in Germany and elsewhere and offered students and postgraduates the possibility of completing their thesis or dissertation while gaining practical experience within our Company. Highly qualified young professionals are also attracted through university recruiting events in Germany and other countries. The cooperation with Ostbayerische Technische Hochschule (OTH), a local university of applied sciences, offering a good example of our successful commitment to forging links between business and universities.

EMPLOYEES BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



AS OF DECEMBER 31

	2017	2016	CHANGE
Commercial Vehicles	3,737	3,699	1.0%
Automotive	8,931	8,272	8.0%
Central Services	279	279	0.0%
Employees	**12,947**	**12,250**	**5.7%**

SUPERVISORY BOARD AND EXECUTIVE BOARD

The rules for the appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG as well as article 8 et sec. of the Company's articles of incorporation. The contract with Mr. Gérard Cordonnier providing for his appointment to GRAMMER AG's Executive Board was renewed until May 31, 2021 in a resolution passed by the Supervisory Board on September 26, 2017. The contract with Mr. Manfred Pretscher providing for his appointment to GRAMMER AG's Executive Board was renewed until July 31, 2021 in a resolution passed by the Supervisory Board on September 26, 2017. The following change to the composition of GRAMMER AG's Supervisory Board arose in 2017: Dr. Hans Liebler stepped down from the Supervisory Board effective June 30, 2017. Prof. Dr.-Ing. Birgit Vogel-Heuser was appointed to GRAMMER AG's Supervisory Board effective July 26, 2017 in a ruling of the Local Court of Amberg for the period ending at the expiry of of the next Annual General Meeting.

PRINCIPLES OF THE REMUNERATION SYSTEM

With effect from January 1, 2017, the Supervisory Board modified the remuneration system for the Executive Board of GRAMMER AG. The basic principles of this remuneration system are described below. Annual total target remuneration comprising fixed remuneration, a target short-term incentive (STI) and a target long-term incentive (LTI) is agreed upon with each member of the Executive Board. The fixed remuneration is paid in twelve equal monthly instalments less any statutory deductions in arrears at the end of each month.

The STI is calculated for each year and depends on the achievement of budget targets defined for the two parameters earnings before tax margin (EBT-margin) and the return on capital employed (ROCE). These two factors are weighted evenly in the calculation of the STI, i.e. 50% of the target STI depends on the achievement of the budget target for the EBT-margin and 50% on the achievement of the budget target for ROCE. The EBT-margin is calculated on the basis of the consolidated financial statements as follows: ratio of EBT for a given year to total revenue in the same year. This calculation is adjusted for currency-translation and other exceptional effects. The EBT-margin is expressed as a percentage. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). ROCE is the ratio of the operating EBIT reported in the consolidated financial statements for the year in question to average operating assets in the same year and is expressed as a percentage.

The LTI is calculated for each year and depends on the achievement of the target enterprise value added (EVA) and total shareholder return (TSR). GRAMMER AG may include further factors in the calculation of the LTI particularly to take account of corporate social responsibility (CSR). A weighting of 40% EVA, 40% TSR and 20% CSR is being sought in the medium term (i.e. from 2020 at the latest). In the absence of any CSR target, EVA and TSR are weighted evenly in the calculation of the LTI, i.e. 50% of the target LTI depends on the achievement of the EVA target and 50% on the achievement of the TSR target. The following parameters have been defined for the calculation of the LTI:

EVA equals ROCE less WACC (weighted average cost of capital) calculated on the basis of the consolidated financial statements for the year in question. ROCE is defined in the same way as for STI. WACC expresses the expected return on the cost of capital employed.

Long-term target achievement is measured according to the ratio of four-year average real EVA to the average budget for the same period.

TSR is the difference in the price of a share between the beginning and the end of the year plus dividends distributed. The TSR factor within LTI is the ratio of the four-year average TSR on GRAMMER shares to the four-year average TSR on the SDAX.

The LTI rules are subject to transitional rules for the period from January 1, 2017 up until and including December 31, 2019 to replace the previous arrangements for the long-term bonus.

The degree of achievement for the STI and the LTI may be between zero ("floor") and 200% ("cap"). The budget targets for the STI and the LTI are set annually at the Supervisory Board's due discretion. In addition, the Supervisory Board regularly reviews the remuneration system for the Executive Board to ensure that it is in line with customary market practice and is appropriate.

Remuneration of the Executive Board contains no components with a long-term incentive effect, such as stock option or stock award programs. Furthermore, the Supervisory Board may decide in the event of extraordinary earnings or losses in the relevant year to adjust compensation at the end of the year in the form of a bonus or penalty comprising 10% of the fixed salary. The disclosures required under section 160 AktG are included in the notes to the consolidated financial statements.

In the event of early termination of the service contract, the termination benefits are contractually capped at a maximum of twice the total annual remuneration. In addition, the following change-of-control arrangements described in the disclosures required by section 289 (4) HGB have been agreed upon with the Executive Board members.

At the same time as the new remuneration system for the Executive Board of GRAMMER AG was introduced, the retirement benefit scheme for the members of the Executive Board was also revised. Commitments to the members of the Executive Board under the previous retirement benefit contracts have been replaced in full by the new arrangements for retirement benefits. Retirement benefits take the form of a capital account plan, to which the Company adds an annually calculated amount for each member of the Executive Board. The entitlement to retirement benefits vesting in the members of the Executive Board as of January 1, 2017 were converted into an equivalent capital amount calculated on the basis of actuarial principles and transferred to the benefit account as a starting amount. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses.

Changes to the remuneration of the Supervisory Board were authorized in a resolution passed at the Annual General Meeting on May 26, 2012. Accordingly, remuneration is now calculated as follows as of 2012: For each complete year of Supervisory Board membership, each member of the Supervisory Board receives 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 the 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 also receive a fee of EUR 1,000 for each Board or committee meeting which they attend in person, 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. Expenses are reimbursed on the first business day following the Supervisory Board or committee meeting. GRAMMER AG is authorized to take out financial loss insurance (D&O, directors and officers liability insurance) at reasonable conditions in line with the prevailing market rate, the premiums for which are covered by the Company. The Company will also reimburse members of the Supervisory Board for any VAT liability incurred on the remuneration paid and the lump-sum reimbursement of expenses. There are no variable or long-term incentive components, such as stock option or stock award programs, in the remuneration of the Supervisory Board.

PROCUREMENT MANAGEMENT

Procurement management is a key factor in the Group's success. Its main objective is to safeguard the constant availability of raw materials, components and services at defined high standards of quality to ensure that we are able to supply our customers to optimum effect. Group purchasing is based centrally within GRAMMER AG. One important task is to identify the appropriate vendors worldwide for our innovative products and broad product range. The key tasks of procurement are to coordinate relations with vendors and to purchase project requirements. Cost advantages can be gained by pooling Group-wide requirements and, thus, harnessing economies of scale and also by means of targeted local activities in the individual regions. Employees in the procurement organization, which is structured centrally by commodity, hold global responsibility. Its employees are also based regionally to ensure greater penetration and a better understanding of the local markets. The strategic orientation in procurement management entails the further development of the e-sourcing platform e-Procurement and the ASTRAS platform with the core e-RFX (electronic request for proposals) processes and the expansion of the eAuction tool. Moreover, procurement activities are to be expanded in the emerging markets to generate positive contributions along our value chain and in our growth regions in the light of sustainability and "total cost of ownership" requirements. The programs previously launched in 2013 in conjunction with development and production to strengthen design-to-cost activities as a means of additionally reducing the cost-of-materials base were continued in the year under review.

In addition, purchasing processes along the production chain are to be additionally optimized. For one thing, purchasing will become more closely involved right from the development and project phase in this way. For another, the new structure will allow purchasing to play an even greater role in optimization measures for series production. As well as this, the introduction of cost engineering will allow all parts of the purchasing organization to substantially improve their efficiency thanks to an improved data base.

Our global supply chain management continues to help us in the strategic and ongoing development of our vendors. Qualified selection, training and evaluation structures ensure that we are able to leverage our vendors' potential and innovativeness profitably and establish a solid basis for sourcing in all regions.

PRODUCTION

The GRAMMER Group produces and sells its products worldwide from 40 production and logistics facilities in 19 countries. Facilities in close proximity to our customers are a strategic necessity to meet the growing demands for just-in-sequence deliveries and thus to safeguard our position in international competition. We are continuing to drive the internationalization of our value chain and the expansion of our worldwide production capacities (Mexico, United States, China and South Africa). Related to this is access to local suppliers and production technology.

A key aspect for the GRAMMER Group is the quality of our products. This already commences in the development phase and continues through to the production process and beyond to delivery of the finished products. With uniformly defined, globally applicable standards for production, we ensure consistently high quality in our products and services along the entire value chain. In this way, we safeguard the high quality of our products regardless of where they are produced.

GRAMMER coordinates and controls production methods across the Group with the GRAMMER Production System (GPS). In this way, the individual operating units have the production processes required to achieve the quality and delivery reliability expected by the customer at all times. The GPS is the manifestation of our methodological, process-oriented approach to implementing lean manufacturing throughout the Group. In order to additionally advance the lean manufacturing approach, the Group has launched a worldwide training program integrating every location, unit and function. With the "Lean Academy" and the continuous learning process installed there, we are systematically implementing our benchmarks on a sustained basis.

As part of plans to automate and digitize key core processes, GRAMMER is currently rolling out a modern operating and machine data collection system (BDE/MDE) around the world with a particular focus on production planning and control. This is being accompanied by the introduction of a product lifecycle management (PLM) system for virtual product development and for achieving tight integration with production planning.

The activities of the GRAMMER Interior Components companies are being systematically integrated and internationalized and are bearing preliminary fruit in the form of new customer orders in all regions.

QUALITY MANAGEMENT

The consistently high quality and reliability of our products and services are decisive determinants of our global market success. For many years, GRAMMER has utilized an independent quality management system and program, GPQ (GRAMMER Produces Quality), which integrates all employees in the quality control process. It is designed to systematically ensure high quality standards and to achieve quality improvements. These continuous quality improvements are implemented with minimum delay using standardized processes to achieve uniformly high levels of quality. The main purpose of these measures is to generate high customer satisfaction and, as a result, to encourage strong customer loyalty. Internal audits and assessments, benchmarking in the GPQ process and against our peers help us to ensure the effectiveness and growth of our quality management capabilities. Driven by this philosophy and our customers' high expectations, our declared goal for our quality culture is to achieve ongoing improvements in our products and processes. Professional development and regular training of our employees in the area of quality management aim to further enhance and safeguard our high product quality so 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. As our products serve to protect the well-being and health of their final users, product safety constitutes a crucial goal of our value chain. Starting with development right through to after-sales service and spare-parts business, product safety is a cardinal strategic and operational objective. Accordingly, we not only strictly adhere to legislative rules and requirements but also work with scientists and researchers as well as independent experts to develop our own rules and standards going beyond what is legally required to achieve these goals.

SALES AND CUSTOMER MANAGEMENT

GRAMMER organizes its segments and sales by product group. This ensures high product competence, which is required in the interests of the best possible customer relationship management. Sales and customer management are aligned to global responsibility but handled directly in the regions to address customers directly and more efficiently in the interests of heightened bonding effects.

Given the nature of the automotive components industry, the Automotive Division does not develop and produce products for the market as a whole. Instead, it engineers and assembles product solutions for a specific model or platform in accordance with the customer's specifications. This gives rise to long-standing intermeshed business relations between OEMs and automotive component suppliers.

During the development phase for new models, OEMs invite automotive component suppliers to submit proposals for the delivery of components and systems. Whether an automotive component supplier is invited to submit a proposal or not depends, among other things, on its engineering and technological skills, its renown and its contacts with the OEMs. Upon receiving such invitations, automotive component suppliers prepare extensive documentation at their own expense setting out technical specifications, details of the prices of the parts, tooling costs, prototype part prices, prototype tooling costs, the production site and long-term conditions (annual price reductions).

The OEMs then select automotive component suppliers as development and series suppliers in a "nomination letter" on the basis of the proposal submitted and after one or several selection rounds. Final nomination as a series supplier is contingent upon the achievement of certain goals specified in the nomination letter relating to technical parameters, observance of the defined schedule (production of prototypes, production trial runs, zero series and series start-ups), the prices, the tooling and the quality. Generally speaking, a series supplier is nominated for a period from the start until the end of the model production period. Frequently, however, a model is facelifted after a certain period (normally after around four years).

GRAMMER primarily supplies automotive OEMs in the upper and premium segment as well as their Tier 1 suppliers. In this connection, Tier 1 suppliers in the automotive industry may be both customers and competitors for the GRAMMER Group. As a rule, Tier 1 suppliers are system integrators, e.g. for the vehicle seats of the automotive OEM. Negotiations with the Tier 1 suppliers are conducted on the basis of the same criteria as those with the automotive OEMs.

In view of the special nature of the automotive components industry, sales and marketing activities are highly customer-oriented. Key account management, project management and development are pooled in customer management units for each existing customer. Selling activities are supported by globally oriented marketing activities.

Selling activities in the Commercial Vehicles Division are primarily structured according to markets or customers (OEMs are addressed by key account managers) and distribution channel (aftermarket or OEM). Marketing supports the international selling activities. Selling and marketing activities are organized on a customer-oriented basis in the individual offroad, material-handling, truck and railway & bus segments. The offroad segment supplies all main offroad OEMs in the agricultural machinery sector. The main customers in the truck segment are supplied on the basis of master contracts which normally have terms of several years.

CORPORATE GOVERNANCE – GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration in accordance with section 315d HGB in conjunction with 289f HGB together with the declaration on the German Corporate Governance Code (section 161 AktG) can be found permanently on the Company's website at www.grammer.com in "Corporate Governance" in the "ABOUT GRAMMER" section.

NON-FINANCIAL GROUP STATEMENT

The non-financial Group statement required by section 315b HGB is permanently available on the company website at www.grammer.com in the "About GRAMMER" section under "Corporate Social Responsibility".

DISCLOSURES IN ACCORDANCE WITH SECTION 315A HGB

Composition of the subscribed capital: GRAMMER AG's subscribed capital amounts to EUR 32,274,229.76 and is divided into 12,607,121 bearer shares.

Restrictions on voting rights or the transfer of shares: The Executive Board is aware of no restrictions on the exercise of voting rights or the transfer of shares.

Direct or indirect shares in the share capital exceeding 10% of the voting rights: The notes to GRAMMER AG's annual financial statements for 2017 set out detailed information on the voting right notifications received in accordance with section 21 WpHG.

Shares with special rights conveying control powers: There are no shareholders with special rights.

Type of voting right control if employees hold a share of the Company's capital and do not directly exercise their control rights: There are no employee participation programs.

Statutory provisions and stipulations in the articles of association governing the appointment and dismissal of members of the Executive Board or amendments to the articles of association: The members of GRAMMER AG's Executive Board are appointed and dismissed in accordance with the statutory provisions (section 84 and 85 AktG and section 31 MitBestG). Article 8 et sec. of the Company's articles of association stipulates that the Executive Board must be composed of at least two members. Any amendments to the Company's articles of association are executed in accordance with section 119 (1), number 5 and 179 (2) AktG; article 25 of the articles of association governs the passing of resolutions by the Annual General Meeting. Under article 13 (3) of the Company's articles of association, the Supervisory Board may amend the articles of association, provided that such amendments are confined to the wording of the provision in question.

Executive Board's powers to issue or buy back shares: The Executive Board is authorized to issue profit-participation rights with or without an option or conversion right or obligation and/or option and/or convertible bonds on or before May 27, 2019. The share capital has been increased on a contingent basis by up to EUR 14,777,182.72 for this purpose (Contingent Capital 2014/I). Following partial utilization, Contingent Capital 2014/I now stands at EUR 12,057,318.40 as of December 31, 2017. GRAMMER holds 330,050 own shares, all of which were acquired in 2006. The 330,050 own shares are non-voting and non-dividend-entitled. The Company is authorized until May 27, 2019 to acquire treasury stock in accordance with section 71 (1) No. 8 AktG and to use it for all the purposes specified in the authorization.

Company compensation agreements with the members of the Executive Board or employees in the event of a take-over bid: The service contracts entered into with the member of the Executive Board include a change-of-control clause, under which each member of the Executive Board has a special right of termination which may be exercised within three months of a change of control. If the special right of termination is exercised, the terminating party may claim 150% of the settlement cap agreed upon in the service contract equaling the total remuneration for a two-year period. In addition, there are change-of-control compensation agreements with individual members of the Company's senior management.

Material Company agreements contingent upon a change of control as a result of a takeover bid: GRAMMER AG and two other domestic Group companies are parties to a syndicated loan agreement, under which each creditor has the right to demand premature repayment in the event of a change of control. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers.

As described above, the agreements governing the bonded loans include change-of-control clauses up to the full amount. If these termination rights are exercised jointly in particular, the funding required by the GRAMMER Group for its ongoing business operations may be jeopardized, forcing it to seek alternative sources of funding.

OPPORTUNITY AND RISK REPORT

RISK POLICIES AND PRINCIPLES

Business always entails opportunities as well as risks. Opportunities and risks especially arise from the international orientation of the GRAMMER Group and must be duly addressed. Listed below are some of the principles defined in the GRAMMER Group's 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 accepts risks only when there is potential for enhancing its value by taking advantage of favorable business opportunities. GRAMMER must avoid any activities potentially entailing risks that are liable to jeopardize the further existence of the Company. Core operational risks and, in particular, market risks such as economic risks, as well as risks arising from the development of new products are borne by the Group itself. As far as possible, the Group seeks to transfer other risks, particularly financial and liability risk to third parties. Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing measures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and minimize risks within their area of responsibility.
- The internal audit function also performs a review of the sufficiency and effectiveness of the risk management system at regular intervals. Each employee is required to contribute to active risk avoidance. All employees undertake to report all opportunities and risks arising during business operations to their responsible managers.

RISK MANAGEMENT PROCESS

GRAMMER has implemented a uniform Group-wide risk management system to detect, avert or at least mitigate risks at an early stage and to analyze and assess their causes. The risk management process ensures early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage, monitor and control them. This particularly entails the early detection of risks to the Group's going-concern status. The risk management system coordinates identification, tracking, assessment, documentation and reporting activities for risks as well as opportunities. The Executive Board is responsible for the risk management system and the internal control system. The Supervisory Board and the Audit Committee monitor and check its efficacy and are kept regularly informed. An ongoing risk-tracking process is applied to report all material risks liable to cause any unexpected deviations in earnings to central risk management. Every division and central service department has a responsible risk officer. Opportunities and risks are discussed together with measures for managing them in regular meetings with the Executive Board. A Group-wide reporting system ensures that the Executive Board and its Audit Committee regularly receive comprehensive information on the Group's risk situation as well as the status of the measures implemented. For this purpose, an opportunities and risk report is prepared several times a year.

Central risk management is contained within the Group Finance department and operates an IT-based risk management system, in which risks are managed centrally and appropriate measures for risk mitigation are initiated. This acknowledged software solution provides optimum support for risk management. In this way, we gain an overview of the key opportunities and risks for the Group. Opportunities and risks are classified using a "risk atlas" specifically designed to meet the GRAMMER Group's requirements. These include strategic, market, financial and legal risks, as well as risks stemming from IT, human resources and production.

RISKS

In the following paragraphs, we describe risks and discuss their sometimes considerable impact on our business performance, 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 may likewise adversely affect our business activities. The assessment of the risks included here is applicable at least to the following year. One material aspect of the Group's risk management is the avoidance of risks to its going concern status.

MARKET AND SECTOR SPECIFIC RISKS

As a company with worldwide operations, the GRAMMER Group is exposed to business conditions in its home market as well as markets across the globe. We address these risks by means of numerous different measures, while closely and continually monitoring developments in relevant markets and industries. We adjust our production and capacity accordingly when necessary. As part of effective risk management, the Group strives to react immediately to crises and any initial signs of slumps in revenue. Production and cost structures are proactively adjusted in the light of any changes to the revenue situation. We can generally expect to face sector specific revenue risks in the future. Our markets are become increasingly competitive, exposing us to more and more risks from factors including price pressure, short timeframes for development and times to market, product and process quality and rapidly changing conditions. Volatility in demand and sales volumes is increasing. Due to our exposure to the global markets with differing economic and demand cycles, we must track and interpret a broad range of factors. In addition, new competitors are arising in or entering the emerging markets. The effects of crises in certain markets and regions harbor risks that are no longer directly derived from our business segments. Market disparity 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 trends.

As our markets and the companies in them continue to consolidate together with the partial dependence on a small number of customers due to their group structures, additional competitive risks will arise. At the same time, vehicle manufacturers are increasingly passing on cost pressure to components suppliers. Against this backdrop, the lack of follow-up contracts may also exert pressure on us. In response, we are placing heavy emphasis on research and development alongside numerous process optimization measures to offset risk and increase cost efficiency, which will allow us to keep pace with customers' growing demands.

We are seeking to improve our market position in all segments in order to reduce these competition risks. For this reason, the Group relies on technical innovations and the enhancement of its existing products. By stepping up research and development activities, we want to secure or reinforce the technological leadership of our products in order to gain a sustainable competitive lead as far as possible. The introduction of new products and technologies is also accompanied by risks and requires a strong commitment to research and development that in turn is tied to a substantial commitment of funds and technical resources. Despite our numerous patents and the protection 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.

Customarily, delivery contracts with the GRAMMER Group's principal customers provide in particular for legally binding commitments for a certain period for the delivery of specified products that have generally not yet been developed but not for the sourcing of a given product exclusively from GRAMMER Group companies. The specific products and quantities are ordered in separate calldowns which may apply to a shorter period but which constitute a specific obligation of acceptance. From a purely legal point of view, the GRAMMER Group's principal customers are fundamentally able to cancel even large contracts or product quantities in the medium term. This would have a detrimental effect on the Company's net assets, financial position and results of operations. However, as the cancellation of a contract during ongoing volume production entails heavy costs and resource requirements for the customer and also necessitates a considerable lead time, it is fairly unlikely that a customer would completely cancel all orders at once. However, other factors such as the shareholder structure, may prompt our customers to exercise restraint in placing new orders and to withhold follow-up or new contracts under such circumstances. This may have a detrimental effect on the Company's net assets, financial position and results of operations.

Continuous adjustments to and optimization of the cost structures of our production and development capacity and manufacturing integration give rise to a risk in that, for example, plant consolidation and closures may place burdens on our net assets, financial position and results of operations. Moreover, there is a risk that such measures cannot always be executed within the planned timeframe. In addition, the manifold aspects and complexities of such processes may cause delays and additional financial burdens or their benefits may prove to be less than originally planned or estimated.

Our areas of activity increasingly also entail activities that are derived from our strategic portfolio policy affecting our business segments. Merger and acquisition activities are ordinarily subject to uncertainties. The risks not only relate to market reactions but also concern the integration of people, cultures and technologies as well as products and developments. In addition, it is not possible to rule out transaction implementation risks. As is normally the case with such transactions, acquisition, integration and other costs that cannot be estimated at the beginning of the transaction may arise. In this connection, risks may also come from divestments that fail to produce the desired effects or are liable to place additional strains on the Company's net assets, financial position and results of operations.

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 strain and expenses that could not previously be foreseen and may adversely affect the Company's net assets, financial position and results of operations.

Material changes in the shareholder structure and a subsequent possible change of control may give rise to medium and long-term risks to customer loyalty and thus adversely affect the Company's ability to gain new orders.

PROCUREMENT RISKS

GRAMMER aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the relevant commodity markets. 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 strong demand and prevailing volatility in the factor prices of commodities such as steel, foam and plastics. Furthermore, there are supply chain risks which for various reasons may influence our product quality, ability to meet delivery schedules or, in a worst-case scenario, product availability in general. Moreover, 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 may adversely affect the Company's net assets, financial position and results of operations.

Potential risks arising from non-delivery by suppliers are addressed by GRAMMER with a partial dual-sourcing strategy under a contingency plan as well as close monitoring of potentially critical suppliers along with swift reaction through the implementation of defined emergency and risk management measures. In order to protect our value chain, we pay close attention to our suppliers' financial strength.

QUALITY RISKS

GRAMMER attaches great importance to observing high external and internal quality standards together with the early identification of possible sources of errors and their avoidance. Nevertheless, it is not possible to entirely rule out quality risks. This applies in particular to development work on products with complex production structures. This risk is inherently exacerbated by the Group's global orientation and the networking of production activities across different continents. For this reason, we have adopted precautions to minimize such risks throughout the entire Group.

In order to minimize risks arising from quality problems attributable to suppliers, GRAMMER engages in intensive 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 chain. The results of these activities provide the key criteria for the selection by GRAMMER of suppliers for project work and series production.

Even so, we cannot completely exclude the possibility of individual risks arising and negatively impacting our net assets, financial position and results of operations.

FINANCIAL RISKS

The GRAMMER Group is exposed to interest, currency and liquidity risks on account of its worldwide activities and the economic risks described above. It must primarily manage currency risks arising from its exposure to the Czech Koruna, Polish Złoty, Turkish Lira, the US Dollar, the Mexican Peso, the Brazilian Real, the Japanese Yen and the Chinese Yuan. These risks stem from trade accounts receivable and payable as well as from local production. The Group addresses currency risks through "natural hedging," i.e. by increasing purchasing volumes in foreign currency regions and simultaneously increasing sales in same currency region. In addition, currency risks are hedged selectively via the financial market. Strong appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

GRAMMER cannot completely shield itself from fluctuations in credit markets and this may give rise to risks to the Group's net assets, financial position and results of operations. It minimizes interest rate risks through long-term funding (e.g. bonded loans) and the use of derivatives. High priority is also given to ensuring adequate liquidity. In 2013, the Group's funding was placed on a firm footing with the signing of a syndicated loan agreement for a period of five years plus two one-year renewal options. As the second renewal option was exercised in 2015, the syndicated loan is now available to us until the 4th quarter of 2020. The liquidity situation is monitored continuously in a rolling global-wide financial requirements plan. Possible risks in connection with a change of control are described in the section on the Group's financial position. Despite the possible disadvantages in terms of interest rates, key importance is attached to widening our liquidity position; appropriate liquidity reserves are maintained. To a certain degree, this adversely affects interest result, a fact that we are willing to accept in order to maintain our strategic leeway and safeguard our liquidity position. Our customer structure limits credit risks, which are monitored through active receivables management. The funded status of our pension plans may be heavily influenced by interest rate uncertainties and risks inherent in the market. This may cause either an increase or decrease in the present value of the defined-benefit pension plans. Pension obligations are recognized on the basis of actuarial calculations in which the applicable interest rate plays an important role. The actual payouts can deviate from the computed values since assumptions regarding the main valuation parameters such as discount rates, salaries and inflation are all uncertain. Consequently, they may pose potential risks for our net assets, financial position and results of operations.

Group Finance centrally tracks interest, currency and liquidity risks. Strategic treasury management, the effectiveness of which is reviewed regularly, is used to mitigate these risks. However, we cannot completely rule out the possibility of these risk adversely affecting our net assets, financial position and results of operations.

LEGAL RISKS

To guard against legal risks, we employ a system comprising intensive contract review and contract management, as well as systematic documentation and archiving. GRAMMER has sufficient insurance to cover normal and going-concern risks. Restrictions of the Group'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 may be adversely impacted or impeded by export control regulations, trade restrictions and sanctions. Strict adherence to all legal requirements can produce limitations that can lead to competitive disadvantages. The many legal rules and regulations and constant changes in tax rules, among other things, may give rise to risks that may adversely impact our net assets, financial position and results of operations.

HUMAN RESOURCE RISKS

As an engineering specialist and innovator, GRAMMER is dependent on highly qualified specialists and executives with international experience in all areas so that it is able to make efficient use of opportunities and extend its competitive lead. For this reason, focused, driven employee training and continuing upskilling 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 in Germany and other countries to arouse 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 recruit and retain the number of qualified employees and managers it needs in every country and business segment. Consequently, they may pose potential risks for our net assets, financial position and results of operations. Heightened fluctuation must particularly be expected in expansionary markets such as China and NAFTA on account of the heavy growth.

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. Business continuity plans document the steps for ensuring the recovery of critical IT systems. GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, virus scanners and other activities are regularly reviewed to determine their efficacy and adjusted where necessary. A Group-wide IT security organization responsible for tracking the latest developments and proactively neutralizing threats is also in place to ensure IT security. The IT services department's systems & security team along with the data protection officers and risk management team together make up the security incidence team, which is tasked with coordinating 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. However, a negative impact on net assets, financial position and results of operations as a result of data loss, system disruption and loss of production is not considered likely. Consequently, they may pose potential risks for our net assets, financial position and results of operations.

Risks from fraud or cyber attacks are defined as the risk of losses caused by the failure of internal processes (control risks), people (personnel risks) or system vulnerabilities (IT risks). The growing digitization and electronic networking arising from developments such as the "Internet of Things", Industry 4.0 or "Smart Everything" expose the Group to cyber attacks and offer broad scope for eavesdropping, sabotaging business and administrative process or criminal enrichment at the expense of third parties. Cyber attacks involving malware or specific attacks on individual employees (e.g. manipulation such as CEO fraud) may give rise to GRAMMER AG's net assets, financial position and results of operations. This risk is addressed by analyzing the loss events and attempted attacks that become publicly known, taking the necessary precautions and observing specialists' specific recommendations on such activities. In addition, these matters undergo continuous assessment and all relevant processes are checked for any vulnerabilities and suitably optimized. As well as this, employees are kept regularly informed of these matters to heighten their awareness of them.

ECOLOGICAL RISKS

GRAMMER works with an environmental management system on the basis of ISO 14001 as well as an energy management system on the basis of ISO 50001. The GRAMMER Group's management system incorporates all the requirements of both systems. This system defines worldwide environment and energy efficiency standards (e.g. environmental programs and targets and energy efficiency goals), which are implemented by local energy efficiency and environmental officers and monitored via regular audits to minimize ecological impact. We are also continuing to pursue certification of our production sites in accordance with ISO 14001 and 50001. Nonetheless, external circumstances or misconduct may arise, exposing the Group to risks. Consequently, they may pose potential risks for our net assets, financial position and results of operations.

CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM

As a capital market-oriented corporation within the meaning of section 264d HGB, we are required under section 289 (4) HGB to describe the main characteristics of the internal control and risk management system as they relate to the Group's accounting process. There is no statutory 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 comprises the principles, processes and measures taken in the Company by its management for the 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 its entirety, all organizational rules and measures intended to identify risks and control the risks inherent in business activities.

The Group has implemented the following structures and processes with respect to the internal control system for the accounting process:

The Executive Board holds overall responsibility for the internal control and risk management system as it relates to the Company's accounting process. All strategic segments are integrated in this system by means of defined management and reporting structures. The principles, the operational and organizational structure and the processes involved in the accounting-related internal control and risk management system are documented for the entire Group in policies and operating procedures that are updated at regular intervals to reflect current external and internal developments. As they relate to the accounting process, we consider the main characteristics of the internal control and risk management system to be those that may materially affect financial reporting and the overall impression left by the annual and 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 accounting process;
- Monitoring of the accounting process and results at the level of the Executive Board and at the level of the Divisions and responsible departments.
- Regular and preventive checks in the financial and accounting systems and in operational, performance-related business processes that generate material information for the preparation of the annual and consolidated financial statements, including the management report, plus a separation of functions and defined approval processes in relevant departments;
- Measures that ensure proper IT-based processing of information and data relating to accounting processes;
- Measures for monitoring the internal control and risk management system as it relates to accounting processes.
- Measures for ensuring due and proper completion of the consolidation process.

OPPORTUNITIES MANAGEMENT

The GRAMMER Group engages in opportunities management to record and evaluate opportunities for the Group and to make the best possible use of them. Opportunities are defined as a positive deviation from a goal defined against a backdrop of uncertainty. Opportunities may inherently arise in all parts of the GRAMMER Group.

OPPORTUNITIES

MARKET OPPORTUNITIES

This section describes the main market opportunities which may arise assuming that GRAMMER's business continues to perform favorably and there is no deterioration in macroeconomic conditions. These comments are not exhaustive and the opportunities described here are not necessarily the only one which may arise. Conversely, it is also possible that opportunities which have been identified may fail to materialize.

Global economy – Given its global footprint, the GRAMMER Group has an opportunity of continuing to benefit from growth in the global economy. Upbeat economic conditions in our main sell-side markets and, resulting from this, heightened demand for passenger and commercial vehicles may offer opportunities for GRAMMER in the form of greater demand for its products particularly in countries and regions outside Germany.

Growth in core regions – Generally speaking, the importance of North and Central America as well as China has continued to grow sharply for GRAMMER. In particular, GRAMMER's Automotive Division is increasingly operating as a components supplier for local OEMs as well as its European partners in the premium segment. In China, success in gaining contracts from global and local OEMs is giving rise to new opportunities. In the Commercial Vehicles Division, we operate local production facilities in the Chinese truck market for suspended seating systems and expect to generate additional growth on the strength of positive market effects. Among other things, ergonomics and safety as key product characteristics are also yielding opportunities.

Growth through broader customer base – The GRAMMER Group is also able to harness new opportunities by addressing new customer segments. This is due to the global expansion of existing customers as well as the heightened penetration of local customers into new markets. To date, such opportunities have resulted in greater customer diversification in the United States and Asia.

Focus on premium segment – With its innovative and attractive products, GRAMMER primarily focuses on the premium segment. As demand in this segment is less volatile than in the market as a whole due to the favorable macroeconomic scenarios, it may grow more sharply than in the volume segment. Accordingly, GRAMMER is endeavoring to make use of these market opportunities.

Global megatrends – GRAMMER is well positioned to capitalize on global secular trends such as population growth, heightened demand for mobility, increased demand for foods and greater wealth in the emerging markets. GRAMMER is attempting to make optimum use of the resultant opportunities. Thus, heightened demand for mobility may spur sales of our Automotive and Commercial Vehicles products. Rising demand for food and agricultural produce as well as increased construction activity may also generate additional sales in the Commercial Vehicles Division as agricultural machinery is frequently fitted with GRAMMER seating systems. Overall, GRAMMER is hoping to generate a continued rise in business in its products on the basis of global megatrends.

Autonomous driving and E-mobility – GRAMMER is a supplier of components for automotive interiors with its seating systems and consoles as well as other decorative and functional parts. In contrast to the situation with respect to drive and engine technology, we expect the technology and quality of interior components to continue being upgraded to meet the new needs of relaxed driving, opening up new opportunities for us.

STRATEGIC OPPORTUNITIES

Alongside market opportunities, strategic opportunities may also arise for GRAMMER. These are discussed in greater detail below.

Non-organic growth – This entails examining and making use of opportunities for exogenous growth. In this connection, we continuously observe our markets for any opportunities for acquisitions and partnerships. If we see any opportunities for reinforcing our market position or for expanding or supplementing our product range, we explore the options available to us. As opportunities for non-organic growth depend on many factors beyond our control, it is not possible to make any forecasts on the scope available to us for acting on these opportunities.

Efficiency measures – We work permanently on measures for improving our efficiency and on initiatives for cutting costs with a view to improving our strategic competitive position. In this connection, GRAMMER also regularly reviews the appropriateness of its global locations.

Innovations – Projects in the research and development pipeline resulting in products which can be launched on the market also harbor opportunities for entering new market segments and/or widening market share. Both Divisions are working on innovative new solutions aimed at helping our customers address the requirements of the future. Looking forward, GRAMMER will continue to position itself as an innovative premium partner for its customers and to tap market potential by means of new developments.

ASSESSMENT OF RISKS AND OPPORTUNITIES

After a detailed review of the current risk situation, we have determined that the GRAMMER Group has implemented appropriate precautions to address the risks which have been identified. The risks that are currently known to us have no material impact on the Company's future net assets, financial position and results of operations. At this time, we see no risks that are liable to jeopardize the Company's going-concern status, and the opportunities may additionally help to mitigate risks. We are monitoring very closely order intake, which has come under pressure from events surrounding GRAMMER's shareholder structure, the consequences of which may take several years to be seen. Due to volatile forecasts, no conclusive assessment can be made as to the risks arising from commodity prices, since the possible scenarios entail both opportunities and risks. The GRAMMER Group's growth, particularly in its core markets, was again supported by the stabilization of the global economy in 2017. Assuming that the global economy continues to perform favorably in the future, this may yield additional opportunities.

BUSINESS DEVELOPMENT FORECAST

OUTLOOK FOR 2018

GLOBAL ECONOMY STILL ON AN EXPANSIONARY COURSE

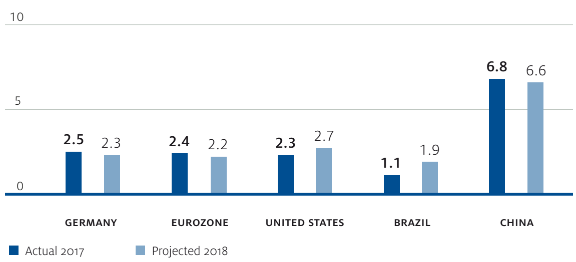
The broad-based economic upswing is likely to continue in 2018, with global GDP growth expected to accelerate to 3.9%. This favorable performance is being underpinned by growing momentum around the world and the expected positive effects of the US tax reform. Whereas the opportunities and risks balance each other out in the short term, the International Monetary Fund (IMF) has warned that underlying conditions could deteriorate in the medium term. It mentions the risks of tighter funding conditions, sustained low inflation rates in the industrialized nations and the risk of possible financial turbulence in the emerging markets. The protectionist tendencies in a number of countries are also being viewed with skepticism as the trend towards policies that place national interests at their core could have a harmful effect on the economy. A sustained recovery in the advanced economies is possible only if accompanied by a sharp increase in capital spending. Moreover, there are risks to financial stability in China due to the past growth in lending.

In the advanced economies, macroeconomic stimulus, continuous improvements in the job market and accommodative financial conditions should spur demand. In its base scenario, the IMF assumes that growth in the industrialized nations will reach 2.3% in 2018. With the exception of the United States, for which growth of 2.7% is projected, most of the forecasts are slightly lower. Growth in the Eurozone will lose some momentum (+2.2%). According to the IMF, the medium-term outlook for the United Kingdom depends on some degree on its future trade relationship with the EU and the extent to which trade, migration and cross-border financial transactions are limited. Of the large Eurozone economies, Spain should take the lead, followed by Germany (+2.3%).

The emerging markets should grow at more than twice the rate of the industrialized nations. Brisker capital spending is expected in India and the dynamic economies of Asia. Spurred by higher commodity prices and more accommodative monetary policy, Brazil and Russia should continue to recover. The IMF sees growth in the emerging markets at the previous year's level of 4.9% (2016: 4.7%). India (+7.4%) and China (+6.6%) will achieve the greatest growth, while the ASEAN 5 nations will also grow at above-average rates. On the other hand, the outlook outside Asia is more muted. Whereas economic output in the European emerging markets and developing countries should widen, Russia and Latin America will lag behind substantially. At the same time, Brazil should be able to increase its growth rate to 1.9%, with Mexico also set to achieve growth.

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) IN SELECTED COUNTRIES

IN %



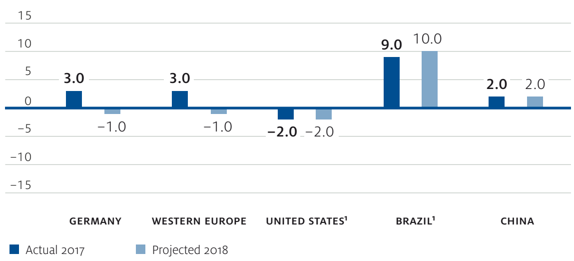
Source: IMF

VDA expects European new passenger vehicle registrations as a whole to rise by a moderate 1%. Of the EU 15 nations, Germany as well as the United Kingdom, will sustain declines. The US market is likely to continue weakening. VDA expects sales of light vehicles to contract by 2% to 16.8 million. As well as this, the light trucks segment also looks set to weaken (down 3% to 10.7 million) for the first time in many years. However, new passenger vehicle registrations should remain flat at the previous year's level (6.1 million). Russia should record double-digit growth, while the recovery in Brazil (+10%) also looks set to continue.

With respect to German OEMs' global production, VDA projects growth of 2% to 16.7 million units in 2018. While domestic production should remain stable at 5.6 million units, foreign output is expected to grow by 3% to 11.1 million units.

CHANGES IN AUTOMOTIVE SALES VOLUMES IN SELECTED COUNTRIES

IN %



¹ including light vehicles
Source: VDA

OUTLOOK FOR THE AUTOMOTIVE DIVISION

FURTHER GROWTH IN THE PASSENGER VEHICLE MARKET IN 2018

VDA expects global new registrations to rise by 1% to 86.0 million. This growth will probably be driven primarily by Asia (+3%), particularly the ASEAN nations Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The Indian market looks set to dominate Asia with growth of 10% to 3.6 million new registrations, thus exceeding the German passenger vehicle market (–1% to 3.4 million vehicles) for the first time. However, the German market will remain above its long-term average. According to the forecasts, new registrations in China will increase by 2% as in the previous year to 24.7 million, while Japan will remain flat at the previous year's level.

OUTLOOK FOR THE COMMERCIAL VEHICLES DIVISION

MODERATE GROWTH IN THE COMMERCIAL VEHICLE MARKET

According to VDA, new registrations in the Western European commercial vehicle market (over 6t) will rise slightly by 1% to 292,000 units in 2018. The German market is expected to move sideways. After growth of 4% in the previous year, the US market should expand by 10%.

UPBEAT SENTIMENT IN THE AGRICULTURAL MACHINERY INDUSTRY

Sector experts assume that global sales of agricultural machinery will grow by 4% in 2018. Sentiment in this industry has reached a high. In a survey conducted by VDMA of exhibitors at Agritechnica, the world's largest fair for this industry, in autumn 2017, 94% of the companies polled consider Western Europe to be the top performer in the global agricultural machinery markets. The survey indicates that companies are just as optimistic about the situation in Eastern Europe, where promising conditions are expected in 2018. On the other hand, the outlook for North America is somewhat more muted, although 65% of the VDMA members polled expected a swift recovery.

The CEMA business confidence index, which is based on a monthly poll of managers in the European agricultural machinery industry, remains at a high level. In December 2017, 84% of the companies questioned stated that they expected sales to rise in 2018. However, this is down from the September figure of 94%. A regional breakdown shows that most companies expect rising sales across all European countries over the coming six months. Globally, the best opportunities for growth are seen in Central and South Asia as well as Oceania.

CONSTRUCTION

According to VDMA, the European and global markets for construction machinery were in the midst of a boom at the end of 2017, although sentiment indicators were pointing downwards. For the period from 2016 to 2020, VDMA calculates annual global growth of 2.8% in construction spending. The swiftest growth is likely to be seen in Australia (+4.3%) and Africa (+4.1%). Asia and North America should also achieve above-average growth rates of +3.0% and +2.9%, respectively. By contrast, the outlook for Europe (+2.2%) and Latin America (+1.2%) is somewhat more muted.

MATERIAL HANDLING EQUIPMENT STILL STABLE AT A HIGH LEVEL

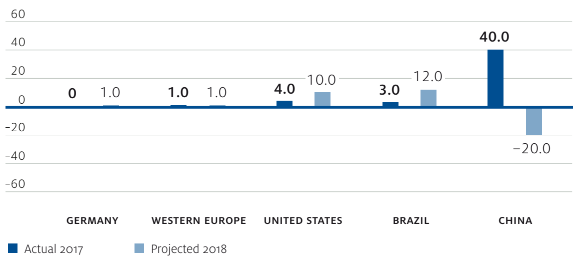
The companies surveyed in polls conducted by bbi remain optimistic about the future. Following the growth already achieved in 2017, further increases of 5% in new machinery business are expected for 2018.

FAVORABLE CONDITIONS IN THE RAIL INDUSTRY

Judging by a study by the European Railway Industry Association (UNIFE), the rail industry should expand by an annual rate of 2.6% globally between 2016 and 2021, additionally underpinned by the fourth EU rail package, which aims at overcoming existing obstacles and improving the competitiveness of the European rail network.

CHANGES IN COMMERCIAL VEHICLE SALES VOLUMES (TRUCKS OVER 6 T) IN SELECTED COUNTRIES

IN %



Source: VDA

OUTLOOK FOR THE GRAMMER GROUP

In the past fiscal year, the GRAMMER Group was able to report further substantial growth in revenue. The previous year's forecast of revenue of over EUR 1.75 billion was slightly exceeded particularly due to the significant increase in revenue in the Commercial Vehicles Division. This growth was materially driven by the recovery of the markets addressed by the Commercial Vehicles Division and the expansion of activities in China as well as numerous new product launches. At the same time, however, pressure was exerted on earnings by the ongoing expansion and optimization projects in the year under review. Thus, revenue in the Commercial Vehicles Division rose substantially in the year under review primarily as a result of the appreciable recovery in the offroad and material-handling markets as well as strong demand in the truck market. Despite further up-front costs and the expenses arising from muted order intake in the Automotive Division in the wake of the issues relating to GRAMMER AG's shareholder structure, good operating earnings were recorded in the year under review. Moreover, the efficiency measures taken in the Automotive Division unleashed their effect, contributing to the slight increase in earnings despite the considerable strain arising from efforts to secure new orders. The slight increase in earnings indicated in the previous year's forecast was substantially exceeded. The following forecast for the GRAMMER Group and its Divisions is based on the general trends expected for the global economy and the specific projections for the Automotive Division and Commercial Vehicles Division as outlined above.

INVESTMENTS IN 2018

In 2018, Group investments on operating business will remain roughly the same as in 2017 and concentrate on the expansion of production capacity in the Automotive Division and continued measures for boosting efficiency. In addition, a considerable amount of capital expenditure will be for the construction of our new Group head office and development center in Ursensollen near Amberg (Germany).

In 2018, the Automotive Division will again be influenced by numerous product launches and new projects. To this end, efforts are continuing to generate new project business across all of our product groups and regions to safeguard future growth. Given the product lifecycles of our order books and the mildly positive market forecasts, we expect to achieve a slight increase in revenue accompanied by a small improvement in operating profit in 2018. However, the Automotive Division is highly exposed to changes in the sales volumes of German premium OEMs in particular and would be unable to shield itself from the effects of a slower market in the upper segment as well as a continuation of muted order intake. At this stage, it is not possible to assess the effects that the continuing diesel emission debate, the Brexit negotiations and possible changes in free trade with the United States may have on us. We are monitoring order intake, which came under pressure from events surrounding GRAMMER's shareholder structure last year, very closely. However, it is not possible to completely rule out or forecast a possible impact on earnings.

The Commercial Vehicles Division continues to face great competitive pressure in our traditional markets. We expect revenue in this Division to remain stable in 2018 following the recovery and growth in the core markets. Given the still favorable business environment for agricultural and material-handling machinery, demand in the offroad segment in particular is expected to improve thanks to growth generated from newly gained customer orders, among other things. At this stage, we assume that conditions for truck business will improve slightly due to continued growth in Europe and further expansion in China thanks to newly gained customer order. We generally expect slight growth in the Brazilian markets. Against this backdrop, we anticipate further slight growth in operating earnings in the Commercial Vehicles Division after the substantial gains of the previous year.

In its international business activities, the Group is exposed to currency translation effects particularly in the countries of material importance for its business such as Brazil, China, Mexico, the Czech Republic and the United States. Although we have been able to improve natural hedging effects all around the world through the ongoing localization of our production activities, significant exchange-rate changes between relevant currencies may still have an adverse effect on earnings. In addition, trends in production costs at our facilities – particularly in Germany – as well as in sell-side and buy-side prices may impact the GRAMMER Group. Risks from the commodity markets, particularly steel and oil prices, have risen recently.

In view of the GRAMMER Group's generally good order backlog and additional customer projects in the Automotive Division, revenue is expected to continue climbing slightly this year assuming stable political and economic conditions. In addition, the package of efficiency measures implemented by the Executive Board in earlier years will continue to unleash its effects in 2018, enhancing profitability in both Divisions on a sustained basis. Once again, this year will be characterized by numerous new product launches, the stabilization of the expansion and optimization projects and trends in the commodity markets, meaning that costs will remain under pressure in the first half of the year in particular.

SUMMARY STATEMENT CONCERNING THE FORECAST OF THE EXECUTIVE BOARD

This year, we expect macroeconomic conditions to remain challenging, with the markets which we address painting a mixed picture. Specifically, for the Automotive Division we expect a very small increase in global market volumes and a continuation of the stable light growth in the markets addressed by the offroad and material-handling segments. We are also upbeat about the truck segment in China within the Commercial Vehicles Division. In the light of the current macroeconomic situation and the volatile conditions in the world markets together with the complex political developments, we are guardedly optimistic about the outlook for the GRAMMER Group in 2018 as a whole.

We expect a small increase in Group revenue in the GRAMMER Group's core business. Assuming that currency parities remain largely unchanged, revenue should increase to over EUR 1.85 billion in 2018. Operating profit will be influenced by pressure from possible additional costs in connection with the still ongoing expansion and optimization projects in individual segments in the Automotive Division. On the other hand, we anticipate slight growth in the earnings contributed by the Commercial Vehicles thanks to larger business volumes. Assuming the absence of any significant exceptional expenses of the type that arose in 2017, we expect the GRAMMER Group to be able to report substantial EBIT of EUR 66.5 million in 2018, i.e. in excess of 2017, accompanied by continued growth in operating profitability over the level recorded in the previous year. We expect ROCE, which is being used as a performance indicator for the first time in 2018, to increase slightly over the figure of 11.5% recorded in 2017.

This assessment is based on the above forecasts for the global economy as well as our main sell-side markets and OEM customers. Any deterioration in these underlying economic or political conditions may also have an adverse effect on GRAMMER's business and earnings. On the other hand, further growth in the agricultural machinery markets and a more pronounced recovery of the Brazilian truck markets could in particular generate additional impetus for business performance. Moreover, the GRAMMER Group's business may also deviate from the forecast as a result of the opportunities and risks described in the risk and opportunity report. Looking ahead to next year, we project further growth in revenue and earnings assuming stable macroeconomic conditions. That said, it is not yet possible to forecast the potential impact of matters relating to GRAMMER AG's shareholder structure on earnings and order intake.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current assumptions and estimates by GRAMMER's management of future trends. Such statements are subject to risks and uncertainties which GRAMMER can neither estimate nor influence with any precision, e.g. future market conditions and the macroeconomic environment, the behavior of other market participants, the successful integration of newly acquired companies, the materialization of expected synergistic benefits and government actions. If any of these or other factors of uncertainty or imponderabilities occur or if any of the assumptions on which these statements are based prove to be incorrect, actual results could differ materially from the results expressed or implied in these statements. GRAMMER neither intends nor is under any obligation to update any forward-looking statements in the light of any changes occurring after the publication of this document.

Amberg, March 7, 2018

GRAMMER AG
The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS INDEX

CONSOLIDATED STATEMENT OF INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	NOTE	2017	2016
Revenue	6	1,786,466	1,695,483
Cost of sales	7.3	–1,571,344	–1,496,764
Gross profit		**215,122**	**198,719**
Selling expenses	7.3	–35,872	–35,311
Administrative expenses	7.3	–128,726	–102,808
Other operating income	7.1	15,947	12,448
Earnings before interest and taxes (EBIT)		**66,471**	**73,048**
Financial income	7.2	1,123	1,506
Financial expenses	7.2	–11,045	–13,517
Other financial result	7.2	–674	1,694
Profit/loss (–) before income taxes		**55,875**	**62,731**
Income taxes	8	–23,524	–17,508
Net profit/loss (–)		**32,351**	**45,223**
Of which attributable to:			
Shareholders of the parent company		32,488	44,981
Non-controlling interests		–137	242
Net profit/loss (–)		**32,351**	**45,223**
Earnings per share			
Basic/diluted earnings/loss (–) per share in EUR	9	2.67	4.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	2017	2016
Net profit/loss (–)	**32,351**	**45,223**
Amounts not to be recycled in profit and loss in future periods		
Actuarial gains/losses (–) from defined benefit plans		
Gains/losses (–) arising in the current period	1,243	–15,167
Tax expenses (–)/Tax income	–370	4,481
Actuarial gains/losses (–) from defined benefit plans (after tax)	**873**	**–10,686**
Total amount not to be recycled in profit and loss in future periods	**873**	**–10,686**
Amounts which will be recycled under certain conditions to profit and loss in future periods		
Gains/losses (–) from currency translation of foreign subsidiaries		
Gains/losses (–) arising in the current period	–6,822	–126
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	**–6,822**	**–126**
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	1,029	–1,366
Plus transfers recognized in the Income Statement	64	952
Tax expenses (–)/Tax income	–331	75
Gains/losses (–) from cash flow hedges (after tax)	**762**	**–339**
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	–4,220	–8,122
Gains/losses (–) from net investments in foreign operations (after tax)	**–4,220**	**–8,122**
Total amount to be recycled under certain conditions to profit and loss in future periods	**–10,280**	**–8,587**
Other comprehensive income	**–9,407**	**–19,273**
Total comprehensive income (after tax)	**22,944**	**25,950**
Of which attributable to:		
Shareholders of the parent company	23,111	25,713
Non-controlling interests	–167	237

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K

	NOTE	DEC. 31, 2017	DEC. 31, 2016
Property, plant and equipment	11	238,928	230,270
Intangible assets	11	83,604	85,786
Other financial assets	14	3,923	3,866
Deferred tax assets	8	39,395	54,747
Other assets	15	6,477	4,888
Non-current assets		**372,327**	**379,557**
Inventories	12	158,020	148,253
Trade accounts receivable	13	223,334	206,589
Other current financial assets	14	176,922	152,968
Short-term income tax assets		6,783	6,623
Cash and short-term deposits	16	146,312	132,968
Other current assets	15	23,270	23,600
Current assets		**734,641**	**671,001**
Total assets		**1,106,968**	**1,050,558**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EQUITY AND LIABILITIES

EUR K

	NOTE	DEC. 31, 2017	DEC. 31, 2016
Subscribed capital	17	32,274	29,554
Capital reserve	17	129,796	74,444
Own shares	17	−7,441	−7,441
Retained earnings	17	254,960	236,268
Accumulated other comprehensive income	17	−72,277	−62,900
Equity attributable to shareholders of the parent company		**337,312**	**269,925**
Non-controlling interests	17	349	1,312
Equity		**337,661**	**271,237**
Non-current financial liabilities	19	190,331	216,784
Trade accounts payable	21	2,405	2,983
Other financial liabilities	22	3,552	5,042
Other liabilities	23	112	100
Retirement benefit obligations	18	140,538	141,683
Deferred tax liabilities	8	22,585	30,805
Non-current liabilities		**359,523**	**397,397**
Current financial liabilities	19	48,182	55,254
Current trade accounts payable	21	258,934	219,311
Other current financial liabilities	22	5,287	5,591
Other current liabilities	23	74,642	69,409
Current income tax liabilities		5,253	8,811
Provisions	20	17,486	23,548
Current liabilities		**409,784**	**381,924**
Total liabilities		**769,307**	**779,321**
Total equity and liabilities		**1,106,968**	**1,050,558**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2017

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES
As of January 1, 2017	**29,554**	**74,444**	**236,268**	**−7,441**
Net profit/loss (−)	0	0	32,488	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**32,488**	**0**
Capital increase through the issue of new shares through the mandatory convertible bond	2,720	57,280	0	0
Transaction costs and incidental effects from the mandatory convertible bond	0	−1,928	0	0
Dividends	0	0	−14,579	0
Transaction of non-controlling interests	0	0	783	0
As of December 31, 2017	**32,274**	**129,796**	**254,960**	**−7,441**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2016

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES
As of January 1, 2016	**29,554**	**74,444**	**199,698**	**−7,441**
Net profit/loss (−)	0	0	44,981	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**44,981**	**0**
Dividends	0	0	−8,411	0
Transaction of non-controlling interests	0	0	0	0
As of December 31, 2016	**29,554**	**74,444**	**236,268**	**−7,441**

NOTE 17

ACCUMULATED OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS/ LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	GROUP EQUITY
−1,208	**−352**	**−16,094**	**−45,246**	**269,925**	**1,312**	**271,237**
0	0	0	0	**32,488**	−137	**32,351**
762	−6,792	−4,220	873	**−9,377**	−30	**−9,407**
762	**−6,792**	**−4,220**	**873**	**23,111**	**−167**	**22,944**
0	0	0	0	**60,000**	0	**60,000**
0	0	0	0	**−1,928**	0	**−1,928**
0	0	0	0	**−14,579**	−13	**−14,592**
0	0	0	0	**783**	−783	**0**
−446	**−7,144**	**−20,314**	**−44,373**	**337,312**	**349**	**337,661**

ACCUMULATED OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS/ LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	GROUP EQUITY
−869	**−231**	**−7,972**	**−34,560**	**252,623**	**800**	**253,423**
0	0	0	0	**44,981**	242	**45,223**
−339	−121	−8,122	−10,686	**−19,268**	−5	**−19,273**
−339	**−121**	**−8,122**	**−10,686**	**25,713**	**237**	**25,950**
0	0	0	0	**−8,411**	−16	**−8,427**
0	0	0	0	**0**	291	**291**
−1,208	**−352**	**−16,094**	**−45,246**	**269,925**	**1,312**	**271,237**

CONSOLIDATED STATEMENT OF CASH FLOWS

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	NOTE	2017	2016
1. Cash flow from operating activities			
Profit/loss (–) before income taxes		55,875	62,731
Reconciliation of earnings before tax with cash flow from operating activities			
Depreciation of property, plant and equipment	11	36,712	34,768
Amortization of intangible assets	11	12,784	12,460
Gains (–)/losses from the disposal of assets		335	943
Other non-cash changes		–9,798	5,026
Financial result	7.2	10,596	10,317
Changes in operating assets and liabilities			
Decrease/increase (–) in trade accounts receivable and other assets	13, 14, 15	–41,206	–46,174
Decrease/increase (–) in inventories	12	–9,767	–2,348
Decrease (–)/increase in provisions and pension provisions	18, 20	–9,507	–7,680
Decrease (–)/increase in accounts payable and other liabilities	21, 22, 23	44,509	33,589
Income taxes paid	8	–21,287	–17,865
Cash flow from operating activities		**69,246**	**85,767**
2. Cash flow from investing activities			
Purchases			
Purchases of property, plant and equipment	11	–48,598	–48,666
Purchases of intangible assets	11	–10,485	–7,253
Disposals			
Disposals of property, plant and equipment	11	1,224	1,527
Disposals of intangible assets	11	0	57
Disposals of financial assets	11	0	295
Payments made for the formation of plan assets	18	–3,346	0
Interest received	7.2	1,123	1,506
Government grants received		893	589
Cash flow from investing activities		**–59,189**	**–51,945**
3. Cash flow from financing activities			
Dividend payments	17	–14,592	–8,427
Inflow from the issue of the mandatory convertible bond	17	60,000	0
Outflow from transaction costs and incidental effects from the mandatory convertible bond	17	–2,710	0
Payments received from raising financial liabilities	19	6,471	43,244
Payments made for the settlement of financial liabilities	19	–42,112	–54,349
Decrease (–)/increase in lease liabilities	11	–2,174	–2,105
Interest paid	7.2	–7,474	–8,554
Cash flow from financing activities		**–2,591**	**–30,191**
4. Cash and cash equivalents at end of period			
Net changes in cash and cash equivalents (sub-total of items 1–3)		7,466	3,631
Effects of exchange rate differences of cash and cash equivalents		2,950	1,729
Cash and cash equivalents as of January 1st		127,616	122,256
Cash and cash equivalents as of December 31st		**138,032**	**127,616**
5. Analysis of cash and cash equivalents			
Cash and short-term deposits	16	146,312	132,968
Bank overdrafts (including current liabilities from factoring contracts)	19	–8,280	–5,352
Cash and cash equivalents as of December 31st		**138,032**	**127,616**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

1 INFORMATION ABOUT THE GRAMMER GROUP AND BASIS OF REPORTING

GRAMMER AG is a public listed company incorporated under German law. 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 on the Xetra electronic trading platform and over counter in Stuttgart, Berlin and Hamburg since 1996.

GRAMMER AG has been listed 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
Commercial register number: HRB 1182 Local Court of Amberg

The 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), railway and buses. As of December 31, 2017, the Company employed 12,947 persons (excluding trainees and including 279 employees in Central Services) at 40 (2016: 40) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg.

The GRAMMER Group is managed centrally by the three members of its Executive Board.

The GRAMMER Group has divided its activities into the Automotive and Commercial Vehicles segments. The segments are described in greater detail in Note 5.

The consolidated financial statements and the Group management report of GRAMMER AG (the "Company") for the fiscal year ending December 31, 2017 were prepared in accordance with section 315e (1) HGB and approved by the Executive Board for submission to the Supervisory Board on March 7, 2018.

2 ACCOUNTING AND VALUATION METHODS

2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGEMENTS

These consolidated financial statements for GRAMMER AG were prepared in accordance with section 315e HGB ("consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRS) and related interpretations (SIC/IFRIC interpretations) as applicable in the European Union (EU) in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council. The term "IFRS" also includes the International Accounting Standards (IAS) which are still valid.

The consolidated financial statements are prepared using the historical cost principal, except where application of other methods of measurement are mandatory. The consolidated financial statements were prepared in Euro (EUR). Unless otherwise indicated, all values are rounded to the nearest thousand (EUR k). Individual amounts and percentages may not exactly equal the aggregated amounts due to rounding differences. The consolidated statement of financial position (balance sheet) applies the current/non-current distinction. Net income is presented in two separate statements: an income statement and a statement of comprehensive income. The income statement is prepared using the cost of sales method.

ESTIMATES AND JUDGEMENTS

In certain cases, it is necessary to apply estimates and assumptions. 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. The assumptions and estimates are based on presumptions reflecting the currently available information. In addition, they may include estimates that could have been different in the same reporting period for equally plausible reasons. GRAMMER cautions that future events often differ from forecasts and that estimates are routinely subject to revision. 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. In particular, estimates and discretionary judgments are necessary in connection with impairment testing of goodwill, intangible assets and non-current assets as well as the recognition of deferred tax assets and and tax loss carry forwards as well as the definition of the assumptions underlying the actuarial calculations of retirement benefit expenses under defined benefit plans.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of GRAMMER AG and the financial statements of the consolidated subsidiaries as of December 31 of the respective fiscal year. The financial statements of the parent company and the subsidiaries are prepared in accordance with uniform accounting policies. The reporting date of the financial statements of the companies included in the consolidated financial statements corresponds to the reporting date of the consolidated financial statements.

The consolidated financial statements include GRAMMER AG as well as all subsidiaries on which GRAMMER AG directly or indirectly exerts control. GRAMMER AG is deemed to control a subsidiary if it is able to exercise control over it, participates in positive and negative returns from these companies and is also able to use its power over the subsidiary to affect the amount of such returns.

Assets, liabilities, income and expenses of a subsidiary which was acquired during the reporting period are recorded in the statement of financial position and statement of comprehensive income as of the day on which GRAMMER AG gains control over the subsidiary until the day on which control ceases.

BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method in accordance with IFRS 3. Costs for the 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.

Identifiable assets, liabilities and contingent liabilities acquired in a business combination are initially recognized at their fair value on the acquisition date. The agreed contingent consideration is also measured at fair value on the acquisition date. The excess of the cost of acquisition over the fair value is recorded as goodwill. Subsequent changes to the fair value of a contingent consideration representing an asset or liability are either recognized in profit and loss or in other comprehensive income in accordance with IAS 39. If a contingent consideration is classified as equity, the original amount is not remeasured and subsequent settlement is taken directly to equity.

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 therefore recognized in the income statement separate from the share of results of operations attributable to the shareholders of the parent company. In the balance sheet, it is recognized directly in equity in a line item separate from the equity attributable to the shareholders of the parent company.

JOINT VENTURES

Joint ventures are companies on which GRAMMER and one or more outside parties jointly exercise control. Joint control arises if decisions on the main activities require the unanimous consent of the parties sharing control over the entity in question.

The GRAMMER Group's shares in such a joint venture are recognized in accordance with the equity method of accounting.

Under the equity method of accounting, the shares in a joint venture are initially recognized at historical cost. These costs are adjusted in subsequent periods to reflect any changes in the Group's share in the joint venture's net assets since the acquisition date. The Group determines on each reporting date whether there is any objective evidence suggesting that the share in the joint venture may be impaired. In the event of such evidence being found, the impairment equals the difference between the recoverable amount of the share in the joint venture and the carrying amount, upon which the resultant loss is recognized through profit and loss within the share of profits of joint ventures.

Goodwill arising from the acquisition of an associate or a jointly controlled entity is included within the carrying amount of such entities. If such an entity is sold, the attributable amount of goodwill is included in the determination of the net gain or loss on the sale.

Accordingly, the Group's income statement includes the Group's share in the net profit or loss of the joint venture for the reporting period provided that this is a positive amount. Any adjustments recognized within the other comprehensive income of a subsidiary are likewise recognized in the Group's other comprehensive income. In addition, any changes are recorded directly in the equity of the joint ventures in an amount equaling the shares held by the Group and, as far as necessary, included in the statement of changes in equity. Unrealized gains and losses from transactions between the Group and the joint ventures are eliminated in accordance with the shares held in the joint venture.

CURRENCY TRANSLATION

The consolidated financial statements were prepared in Euro, which is GRAMMER AG's functional currency. The assets and liabilities of foreign subsidiaries whose functional currency is not the Euro are translated into Euro on the basis of their functional currency. The functional currency of the subsidiaries is the corresponding local currency. It is translated using the modified end-of-year exchange rate method, under which items of the statement of financial position are translated at the end-of-year exchange rate and items of the income statement at average exchange rates. Any resulting translation differences are recognized in profit or loss. Excluded from this are currency translation differences arising from foreign-currency loans in connection with a net investment in a foreign business operation. These are recorded directly in equity and recycled to profit and loss for the period upon disposal. Currency translation differences arising from foreign-currency loans for collateralizing a net investment are recorded directly within other comprehensive income.

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

		AVERAGE RATE		END-OF-YEAR EXCHANGE RATE	
		2017	2016	2017	2016
Argentina	ARS	0.053	0.061	0.045	0.060
Brazil	BRL	0.277	0.261	0.252	0.292
China	CNY	0.131	0.137	0.128	0.137
United Kingdom	GBP	1.144	1.230	1.127	1.168
Japan	JPY	0.008	0.008	0.007	0.008
Mexico	MXN	0.047	0.049	0.042	0.046
Poland	PLN	0.235	0.229	0.239	0.227
Czech Republic	CZK	0.038	0.037	0.039	0.037
Turkey	TRY	0.244	0.301	0.220	0.270
USA	USD	0.886	0.908	0.834	0.949

REVENUE FROM CONSTRUCTION CONTRACTS

Customer-specific construction contracts are recognized using the percentage-of-completion method in accordance with IAS 11 on the basis of the ratio of costs already incurred to expected total contract costs ("cost-to-cost" method). This method entails a measured estimate of the stage of completion. To determine the percentage of completion, the Group must reliably estimate the total contract costs, the costs to complete, the total contract revenue, the contract risks and other assumptions. Management continually reviews these estimates and adjusts them as necessary. When the percentage-of-completion method is applied, such adjustments may result in an increase or decrease in revenue in the corresponding reporting period. If it is not possible to reliably estimate the results of a construction contract, the income from the contract is recorded at an amount equaling the contract costs which have arisen, meaning that this construction contract is recorded within equity. Contract costs are recognized as an expense in the period in which they arise. Any expected contract losses are recognized as provisions. The construction contracts are included with "other financial assets".

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are recognized as expense directly upon arising. Development expenses are capitalized as intangible assets if the conditions for recognition stated in IAS 38 are satisfied and the Group is able to prove this:

- 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,
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

After initial recognition, development expenses are accounted for using the purchase cost model, i.e. at cost less cumulative depreciation and impairment expense. Depreciation is calculated for the period in which the asset is expected to be used. Capitalized development expenses are tested for impairment annually if the asset has not yet been used or if there are any indications for impairment during the year.

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 the supplier 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 revenue.

In the case of long-term construction contracts (e.g. customer development contracts), revenue is recognized in accordance with the percentage of completion as of the reporting date. The percentage of completion is determined on the basis of the ratio of the accumulated contract costs as of the reporting date to the estimated total contract costs. If income from a construction contract cannot be estimated reliably, probable revenue is 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 in which this became apparent.

INTEREST INCOME AND EXPENSE

Interest income and expense are recognized in the period in which 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

Dividend income is recognized upon a legal right to payment arising.

GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that the grants will be received and the eligible Group 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. 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 government grant.

TAXES

Tax items are calculated in the light of the applicable local tax legislation and tax rates. Due to their complexity, they may be subject to differences in interpretation between the tax payers and the local tax authorities. The Group recognizes provisions for potential effects from tax audits based on estimates. The calculation of these provisions is based on various factors, such as experience from previous tax audits and different official interpretations of tax rules by the authorities. Taxes referring to items that are recognized directly in equity are also recognized directly in equity.

The liability method is used to calculate deferred tax assets and liabilities with an impact on future taxes arising from temporary differences between the carrying amounts of assets and liabilities recognized in the statement of financial position and their respective tax bases.

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

- Deferred tax assets from deductible temporary differences, which arise from the initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction had no influence on the net profit for the period as reported in the financial statements or on the taxable income are not recognized.
- Deferred tax assets arising from taxable temporary differences in connection with investments in subsidiaries and associates and interests in joint ventures are recognized only 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.

Deferred tax assets are only recognized on unused tax losses if the corresponding tax advantages are likely to be utilized. Accordingly, an estimate is required to determine the amount of deferred tax assets on the basis of the expected timing and amount of the future taxable profit as well as the future tax planning strategies. The recoverable value of the deferred tax assets is tested annually on the basis of planned taxable income.

Deferred tax assets and liabilities are measured on the basis of tax rates expected to apply in the period in which an asset is realized or a liability settled.

Deferred 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 refunded or paid is recognized under "other current assets" or "other current liabilities", as the case may be.

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 is 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 on a straight-line basis. The useful lives applied correspond to the period over which the relevant component is expected to be available for use. Any material residual values have been included in the calculation of the depreciation amounts.

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 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 amortized cost.

An item of property, plant and equipment is derecognized upon disposal or when an economic benefit can no longer be expected from its continued use. Any gains or losses arising from this derecognition as the net proceeds from the sale differ from the carrying amount are reported through profit and loss.

The residual carrying amounts of the assets, their useful lives and the depreciation methods applied are reviewed annually and, if necessary, adjusted.

LEASES

Leases involving the Group as lessee are classified as operating leases or finance leases in accordance with IAS 17. The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time at which it is established 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 company. In this case, economic ownership rests with the Group companies concerned and the asset is recognized at its fair value or, if lower, the present value of the minimum lease payments. Depreciation is recognized on the asset on a straight-line basis over its expected life or, if shorter, the duration of the lease. The corresponding lease payment is recognized as a liability and the repayment component of the lease payments already made is deducted.

Any lease or rent payments under operating leases involving Group companies as the lessee are recognized as an expense directly in the income statement on a straight-line basis over the duration of the lease.

Leases may also include sale-and-lease-back transactions, entailing the sale of an asset by the vendor and the leasing of the same asset back to the vendor.

INTANGIBLE ASSETS

Intangible assets acquired – other than as a result of a business combination – are initially recognized at historical cost. The costs of such intangible assets acquired under business combinations equal their fair value on their date of acquisition. They are subsequently recorded at historical cost less cumulative amortization and any cumulative impairment expense.

A distinction is drawn between intangible assets with a definite useful life and those with an indefinite useful life. With the exception of goodwill, the GRAMMER Group does not have any intangible assets with an indefinite useful life. Intangible assets with a definite useful life are amortized over their useful lives using the same method as for depreciation of property, plant and equipment. They are also tested for impairment as soon as there is any indication that they might be impaired. The amortization period and method applied to intangible assets with a definite useful life are reviewed at least annually. If the expected useful life of the asset or the expected amortization schedule has changed, a different amortization period or amortization method is chosen. Such changes constitute a change of estimate.

Intangible assets include patents and licenses. Patents may be either generated internally or acquired and are recognized at historical cost. Licenses for the use of intellectual property are issued for individual use for a period of one to ten years. Patents and licenses are amortized on a straight-line basis over their respective useful life.

GOODWILL

Goodwill arising from a business combination is initially measured at cost and is defined as the excess of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and debt of the entity acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill impairments are only identified through annual impairment testing.

In such a test, impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that relates to the goodwill. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. 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 the value of the business sold to the remaining part of the cash-generating unit.

Impairment testing is carried out annually 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. 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. Forecasts of cash flows are based on historical data and management's best estimate of future events over the next three years. Cash flows beyond the forecast period are extrapolated on the basis of individual growth rates. The assumptions underlying the fair value less costs to sell and value in use entail estimated growth rates, weighted average cost-of-capital rates and tax rates. These estimates and the underlying methods may exert considerable influence on the applicable figures and ultimately also the extent of a possible impairment of goodwill.

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 retrograde discounts on the internal transfer prices. If, as result of decreased prices on the market, the net realizable value on the reporting date is lower, the inventories are recognized at such lower prices.

CASH AND SHORT-TERM DEPOSITS

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 overdraft facilities that have been drawn on.

TREASURY STOCK

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.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The actuarial measurement of pension provisions is based on the projected unit credit method in respect of defined benefit plans in accordance with IAS 19 (revised 2011). This valuation method is based not only on pension payments and vested benefits known as of the reporting date but also reflects future salary and pension increases.

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. They are reported within other comprehensive income (retained earnings) and subsequently no longer recycled to profit and loss.

Current service cost, past service cost, gains and losses from plan curtailments and extraordinary plan settlements are recognized within cost of sales, administrative costs or selling costs depending on their function.

Past service cost is recorded as expense upon the plan change taking effect. With respect to defined benefit plans, the GRAMMER Group only has plan assets in connection with one deferred compensation commitment. The net interest expenses and interest income on defined benefit plans resulting from the plan assets are recorded in net financial result. Other post-employment benefits for employees are measured in accordance with IAS 19 (revised 2011).

Actuarial calculations are based on material assumptions including on discount rates, expected wage and pension trends and mortality rates. The discount factors applied are determined on the basis of market yields on the reporting date on investment-grade corporate bonds with the appropriate maturity and currency denomination. Changes in market and economic conditions, particularly interest rates, may cause the underlying assumptions to differ from actual performance. Given the complexity of the measurements and their long-term nature, defined benefit obligations react extremely sensitively to any changes in the underlying assumptions. These assumptions are reviewed on each reporting date. Further details on the pension obligations can be found in Note 18.

PROVISIONS

In accordance with IAS 37, provisions are recognized insofar as the Group, as a result of a past event, has present obligations towards 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 (e.g. in the case of an insurance policy) for a particular matter, the reimbursement is recognized as a separate asset 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 at the time of sale of the relevant products or performance of the relevant services. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation.

The measurement of provisions for warranties and litigation is largely based on estimates and assumptions. For warranty estimates, a significant number of assumptions are made relating to technical disruptions, costs and possible claims, which to some extent rely on operating management's past experience. These may change over time as more specific information becomes available. The Group is confronted with various legal disputes 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 cash outflows.

FINANCIAL ASSETS

Current and non-current financial assets are assigned to the following categories:

- Loans and receivables (LaR)
- Financial assets at fair value through profit or loss (FVtPL)
- Financial assets held for trading (FAHfT)
- Available-for-sale financial assets (AfS)

Loans and receivables (LaR) are composed of cash and cash equivalents, financial receivables and trade accounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are not quoted on an active market. Subsequent to initial recognition, they are recognized at amortized cost using the effective interest rate method less possible impairment losses. Trade accounts receivable are recognized at their invoice amount. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

Financial assets measured at fair value through profit or loss (FVtPL) are recognized at fair value in the balance sheet and any unrealized gains and losses are recognized in profit and loss in the financial result. This item includes embedded derivatives. If agreements contain embedded derivatives, they 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. The Group did not have any financial assets measured at fair value through profit and loss in the year under review or in the previous year.

Financial assets held-for-trading (FAHfT) comprise derivative financial instruments which do not satisfy the criteria for hedge accounting. They are initially recognized at fair value. Any changes in the fair value of the derivatives are reported through profit and loss in other financial income and expense. Financial assets are classified as held for trading if they have been purchased for the purpose of being sold in the near future. In contrast to the previous year, the Group held derivatives not satisfying the criteria for hedge accounting in the year under review.

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

Following initial recognition, available-for-sale financial assets are measured at their fair value in subsequent periods provided that there is an active market. Unrealized gains or losses are recognized as other gains/losses in the reserve for available-for-sale financial assets within equity. No prices are quoted on an active market for the Group's held-for-sale financial assets. As their fair value can also not be reliably determined, they are measured at amortized cost. Upon such assets being derecognized, the cumulative gain or loss is recognized in other operating income. If an asset is impaired, the cumulative loss is recognized within financial expenses in the income statement and eliminated from the reserve for available-for-sale financial instruments. The same thing applies if equity instruments in this category exhibit a significant or persistent decline in their fair value to below historical cost. For this purpose, the "significant" criterion is assessed on the basis of the original cost, while the "persistent" criterion is based on the time period during which the fair value was lower than the historical cost. Here as well, the impairment is recorded through profit and loss. Impairments of equity instruments are not reversed through profit and loss; any subsequent rise in the fair value is recognized directly within equity.

Financial assets are recognized on their settlement date.

If the contractual rights to cash flows generated by an asset have lapsed or materially all risks and opportunities under the financial asset are transferred, it is derecognized. Trade accounts receivables and financial receivables are derecognized before the settlement date as soon as it is established that they are no longer recoverable.

In the event of objective evidence of an impairment of loans and receivables (LaR), impairment expense equaling the difference between the present value of the expected future cash flows and the carrying amount is calculated and recognized in a separate impairment account within profit and loss.

FINANCIAL LIABILITIES

Current and non-current financial liabilities are assigned to the following categories:

- Financial liabilities at fair value through profit or loss (FVtPL)
- Financial liabilities held for trading (FLHfT)
- Other financial liabilities at acquisition costs (FLAC)

Financial liabilities measured at fair value through profit or loss (FVtPL) include financial liabilities held for trading as well as financial liabilities designated as measured at fair value through profit or loss upon initial recognition. The financial liabilities assigned to this category are measured at fair value not only upon initial recognition but also in subsequent periods. Any resultant gains and losses are recorded through profit and loss. The Group did not make use of the possibility of assigning financial liabilities to this category in the year under review or in the previous year.

Financial liabilities held for trading (FLHfT) are derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such. Liabilities in this category are measured at fair value upon initial recognition as well as in subsequent periods. Any resultant gains and losses are reported through profit and loss. In contrast to the previous year, the Group had a small volume of derivatives not satisfying the criteria for hedge accounting in the year under review.

Other financial liabilities at acquisition costs (FLAC) comprise financial liabilities that are not assigned to any other category of financial liabilities. They are measured at amortized cost using the effective interest rate method. In the case of current financial liabilities, amortized cost equals the repayment or settlement amount. Gains and losses are recognized as profit or loss when the liabilities are derecognized or as part of write-downs.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or has expired. The exchange of an existing financial liability with another 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 original financial liability and recognition of the new financial liability. The difference between the carrying amounts is recognized in profit or loss for the period.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group makes use of derivative financial instruments, such as currency forwards and interest rate swaps to hedge interest rate, exchange rate and other price risks. These derivative financial instruments are recognized at fair value at the time of agreement and remeasured at their fair value in subsequent periods. Depending on whether the fair value is positive or negative, they are recognized either as financial assets or as financial liabilities. If the hedges do not satisfy the requirements of hedge accounting or they constitute the ineffective part of another effective hedge relationship, the change in fair value is recognized through profit and loss.

The Group held currency forwards but no commodity forwards as of the reporting date. In addition, fully effective cash flow hedges were available for the interest rate swaps. Accordingly, any changes in the fair value of these financial instruments are initially allocated to retained earnings. They are recycled to profit and loss upon the recognition of the gains or losses from the hedged transaction.

2.2 APPLICATION OF IFRS STANDARDS

Several minor amendments to and clarifications of various standards were subject to mandatory application from 2017. However, they did not have any material effect on the consolidated financial statements.

2.3 PUBLISHED STANDARDS WHICH ARE NOT YET SUBJECT TO MANDATORY APPLICATION

ENDORSED BY THE EU BUT NOT YET APPLIED

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 2017. Only those standards and interpretations of relevance for GRAMMER's consolidated financial statements are described below. The other standards published by the IASB and IFRIC and endorsed by the EU are not relevant for the Group and are therefore not included here.

IFRS 9: FINANCIAL INSTRUMENTS

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which will be replacing IAS 39, Financial instruments: Recognition and Measurement as well as all previous versions of IFRS 9. IFRS 9 combines the three project phases for accounting for financial instruments: "classification and measurement", "impairment" and "hedge accounting". IFRS 9 must be applied for the first time in accounting periods commencing on or after January 1, 2018. Earlier adoption is permissible. With the exception of hedge accounting, the standard must be applied retroactively, although the disclosure of comparative information is not required. Aside from a few exceptions, the guidance on hedge accounting must be applied prospectively. The GRAMMER Group will apply the new standard from the stipulated date. The GRAMMER Group conducted an analysis of the three IFRS 9 project phases in 2017. This analysis is based on information currently available, which may be subject to change by the time IFRS 9 is applied for the first time. Generally speaking, the Group does not expect IFRS 9 to have any significant impact on its consolidated financial statements.

Moreover, most of our debt instruments coming within the scope of IFRS 9 are recognized at amortized cost as we consider this to be appropriate for collecting contractual cash flows that solely represent payments of principal and interest. We do not anticipate any material effect on these debt instruments.

GRAMMER will be making use of the option to recognize equity instruments within equity and to continue recognizing derivatives at their fair value through profit and loss. The GRAMMER Group does not expect this to have any significant impact. Similarly, there are no material changes in connection with financial liabilities.

We will be applying the simplified impairment model under IFRS 9 to trade accounts receivable and recording the lifetime expected losses. In most cases, we will be applying the practical simplification option for financial instruments (general impairment approach) to cash and short-term deposits as they are exposed to only a minor credit risk. GRAMMER is current analyzing the effects of first-time application of IFRS 9 on trade accounts receivable, cash and short-term deposits and expects only a minor impact on the Group's net assets, financial position and results of operations.

The conditions for hedge accounting continue to be satisfied for existing hedging relations that we have designated as being effective. As IFRS 9 does not provide for any general changes to hedge accounting, the GRAMMER Group does not anticipate any material effects in this respect either.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was published in May 2014 and endorsed by the European Union together with the IASB clarifications on IFRS 15 on November 9, 2017. Under IFRS 15, a company must recognize revenue equaling the consideration that it expects to receive for the transfer of goods and services to the customer. When applying this standard, the company must take account of the contractual provisions (enforceable rights and obligations) as well as all relevant facts and circumstances. IFRS 15 defines a five-stage model for recognizing revenue from contracts with customers. In addition, it provides guidance on recognizing individual customer contracts, although it may also be applied to a portfolio of similar contracts provided that this does not have any significant impact on the presentation of net assets, financial position and results of operations.

IFRS 15 replaces IAS 18 and IAS 11 and the respective interpretations (SIC-31, IFRIC 13, IFRIC 15, IFRIC 18) and must be applied for the first time in accounting periods commencing on or after January 1, 2018; earlier adoption is permissible. GRAMMER will be applying the standard from the accounting period commencing on January 1, 2018 and using the modified retrospective method for the purposes of first-time application, i.e. cumulative conversion effects will be recognized directly in retained earnings at the beginning of first-time application on January 1, 2018. The comparison figures for 2017 will not be restated in the annual financial statements for 2018.

The project launched in 2016 for the implementation of IFRS 15 was extended in 2017 with the addition of a specific review of customer contracts and an analysis of the impact of the application of IFRS 15 on the Group's net assets, financial position and results of operations. An international project team defined clusters of customer contracts, used a check list devised for this standard to determine the business and legal regulations of these contracts on the basis of the five-stage model and identified any differences over previous accounting practices.

Accounting under IFRS 15 and the first-time application of this standard results in an implied reduction in current contract assets in connection with the construction contracts currently recognized under PoC method. In the absence of any direct contractual refund claim and direct economic compensation for development orders, an adjustment of EUR 34.9 million is required. This adjustment will be recognized in equity through retained earnings with due allowance made for deferred taxes effective January 1, 2018 when IFRS 15 is applied for the first time. Under IFRS 15 in contrast to IAS 11/IAS 18, the transaction components are accounted for by applying contractual measurements on the basis of an economic view of the overall project, e.g. as advance outlays made. This will need to be governed by corresponding future contracts for an accounting approach with mutual obligations. In the absence of such clear mutual contractual obligations, IFRS 15 requires a corresponding adjustment as subsequent changes to the contract are generally not possible. This applies to the Automotive Division.

In addition, various items of the statement of financial position have been modified as IFRS 15 requires certain separate items for contract assets and contract liabilities. As well as this, additional quantitative and qualitative disclosures are required in the notes.

The implementation of IFRS 15 is not believed to have any significant effects on GRAMMER's consolidated financial statements aside from those described above.

IFRS: 16 LEASES

The IASB published the new standard on accounting for leases on January 13, 2016.

IFRS 16 abolishes the distinction between operating and finance leases on the part of the lessee. It now provides for only a (single) accounting model for lessees. Under this model, the lessee must recognize all lease assets and liabilities except in the case of lease terms of less than 12 months or assets with a low value. By contrast, the lessor continues to draw the distinction between operating and finance leases for accounting purposes.

IFRS 16 replaces IAS 17 Leases and must be applied for the first time in accounting periods commencing on or after January 1, 2019. Early adoption is permissible provided that IFRS 15 Revenue from Contracts with Customers is already being applied or is adopted at the same time as IFRS 16. GRAMMER expects to apply the new standard from January 1, 2019 using the modified retrospective model, meaning that the comparison figures for the previous year will not be restated.

A project was launched in 2017 to identify the impact of this standard on the GRAMMER Group's net assets, financial position and results of operations. The responsible project team is identifying and reviewing the main leases that are not already classified as finance leases under IAS 17. It is currently assumed that the application of this standard will cause an increase in total assets as all lease assets and liabilities (particularly under real estate leases) must be recognized. The leases set out in Note 11 will be accounted for in accordance with IFRS 16 in 2019 assuming that they are still in existence. This will result in an increase in property, plant and equipment as well as in non-current liabilities. At this stage, first-time application of the standard is not expected to have any impact on equity. However, it will have a negative effect on GRAMMER's equity ratio.

3 BASIS OF CONSOLIDATION

INFORMATION ON SUBSIDIARIES

The consolidated financial statements include the financial statements of GRAMMER AG as the parent and the following subsidiaries:

NAME OF SUBSIDIARY	REGISTERED OFFICE	MAIN ACTIVITY	EQUITY INTEREST IN % 2017	2016
1. Fully consolidated subsidiaries				
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/ Commercial Vehicles	100.00	100.00
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	Sales company	100.00	100.00
3. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	Commercial Vehicles	99.40	99.40
4. GRAMMER Inc.	Hudson (WI), USA	Automotive/ Commercial Vehicles	100.00	100.00
5. GRAMMER CZ s.r.o.	Tachov, Czech Republic	Automotive/ Commercial Vehicles	100.00	100.00
6. GRAMMER Japan Ltd.	Tokyo, Japan	Sales company	100.00	100.00
7. GRAMMER AD	Trudovetz, Bulgaria	Commercial Vehicles	98.78[1]	91.46
8. GRAMMER System GmbH	Amberg, Germany	Automotive	100.00	100.00
9. GRAMMER Automotive Metall GmbH	Amberg, Germany	Automotive	100.00	100.00
10. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	Automotive	100.00	100.00
11. GRAMMER Automotive Española S.A.	Olèrdola, Spain	Automotive	100.00	100.00
12. GRAMMER Industries Inc.	Greenville (SC), USA	Automotive	100.00	100.00
13. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	Automotive	100.00	100.00
14. GRAMMER Automotive Polska Sp. z o.o.	Bielsko-Biala, Poland	Automotive	100.00	100.00
15. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	Automotive	100.00	100.00
16. GRAMMER Interior (Tianjin) Co., Ltd.	Tianjin, China	Commercial Vehicles	100.00	100.00
17. GRAMMER Interior (Changchun) Co., Ltd.	Changchun, China	Automotive	100.00	100.00
18. GRAMMER Interior (Shanghai) Co., Ltd.	Shanghai, China	Automotive	100.00	100.00
19. GRAMMER System d.o.o.	Aleksinac, Serbia	Automotive	100.00	100.00
20. GRAMMER Railway Interior GmbH	Amberg, Germany	Commercial Vehicles	100.00	100.00
21. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Commercial Vehicles	100.00	100.00
22. GRAMMER Electronics N.V.	Aartselaar, Belgium	Commercial Vehicles	100.00	100.00
23. GRAMMER Interior (Beijing) Co., Ltd.	Beijing, China	Automotive	100.00	100.00
24. GRAMMER Automotive CZ s.r.o.	Česká Lípa, Czech Republic	Automotive	100.00	100.00
25. GRAMMER Seating (Jiangsu) Co., Ltd.	Jiangyin, China	Commercial Vehicles	100.00	100.00
26. GRAMMER Automotive South Africa (Pty) Ltd.	Bedfordview, South Africa	Automotive	100.00	100.00
27. GRAMMER Argentina S.A.	Buenos Aires, Argentina	Commercial Vehicles	99.96	99.96
28. GRAMMER Italia srl.	Jesi, Italy	Commercial Vehicles	100.00	100.00
29. GRAMMER Interior Components GmbH	Hardheim, Germany	Automotive	100.00	100.00
30. GRAMMER Interior Components Polska Sp. z o.o.	Sosnowiec, Poland	Automotive	[2]	100.00
31. GRAMMER Seating (Shaanxi) Co., Ltd.	Weinan City, China	Commercial Vehicles	90.00	90.00
2. Proportionately consolidated companies				
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	Commercial Vehicles	50.00	50.00

[1] GRAMMER AD completed a contingent capital increase of BGN 500,000 (EUR 255.9 thousand) in 2017. The shares were subscribed by GRAMMER AG. As a result, GRAMMER AG'S share in this company has changed from 91.46% to 98.78%.
[2] GRAMMER Interior Components Polska Sp. z o.o. was merged with GRAMMER Automotive Polska Sp. z o.o. on September 1, 2017.

In addition to GRAMMER AG, five domestic and 25 foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IFRS 10 are consolidated.

The company accounted for at equity is the GRA-MAG joint venture, in which GRAMMER AG holds 50% of the voting rights.

The uniform reporting date for all of the consolidated companies is December 31, 2017.

2017

	NATIONAL	ABROAD	TOTAL
Fully consolidated companies (incl. GRAMMER AG)	6	25	**31**
Companies consolidated at equity	0	1	**1**
Companies	**6**	**26**	**32**

2016

	NATIONAL	ABROAD	TOTAL
Fully consolidated companies (incl. GRAMMER AG)	6	26	**32**
Companies consolidated at equity	0	1	**1**
Companies	**6**	**27**	**33**

The GRAMMER Group does not have any material shares in subsidiaries on which it does not exerting a controlling influence or in consolidated structured entities.

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

4 SHARES IN A JOINT VENTURE

GRAMMER AG holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC), a jointly controlled entity in the United States, which is active in the Commercial Vehicles Division and primarily develops and assembles seats and seating systems for trucks.

As in the previous year, the Group's shares in GRA-MAG LLC are recognized in accordance with equity method of accounting.

The share in GRA-MAG LLC is recognized at equity and has a value of EUR 0 as the cumulative losses exceed the carrying amount of the investment. As GRAMMER AG is not under any obligation to settle the loss, the negative equity is not recognized as a liability.

The summarized financial information corresponds to the amounts reported in the annual financial statements of the joint venture prepared in accordance with IFRS.

EUR K

INCOME STATEMENT PREPARED 100%	2017	2016
Revenue	37,594	33,565
Cost of sales, including scheduled depreciation of EUR 353 thousand (2016: 433)	−30,113	−26,079
Administrative expenses	−4,262	−3,822
Interest expenses	−1,007	−1,085
Profit/loss (−) before income taxes	**2,212**	**2,579**
Income taxes	−69	−64
Net profit/loss (−)	**2,143**	**2,515**
Group's share of profit or loss (50%)	1,072	1,258

EUR K

DATA FOR STATEMENT OF FINANCIAL POSITION 100%	2017	2016
Non-current assets	313	577
Current assets	8,525	7,996
Assets	**8,838**	**8,573**
Non-current liabilities	24,849	29,565
Current liabilities	7,186	7,625
Liabilities	**32,035**	**37,190**
Equity	**−23,197**	**−28,617**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment	0	0

The aforementioned items include cash and short-term deposits of EUR 832 thousand (2016: 1,100) as well as current financial liabilities of EUR 4,930 thousand (2016: 5,568).

GRA-MAG LLC's unrealized losses break down as follows:

EUR K

UNREALIZED GAINS/LOSSES (50%)	2017	2016
GRA-MAG LLC's unrealized losses as of January 1	−13,122	−14,380
Unrealized gains of GRA-MAG LLC in the period under review	1,072	1,258
Unrealized losses of GRA-MAG LLC as of December, 31	**−12,050**	**−13,122**

As of December 31, 2017 and 2016, the joint venture did not have any contingent liabilities or capital commitments. The GRAMMER Group is not involved in any joint activities coming within the scope of IFRS 11.

5 SEGMENT REPORTING

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

The Automotive Division, which is the larger of the two segments within the GRAMMER Group, contributed 70.5% (2016: 72.8) of total Group revenue in 2017. GRAMMER is active in this segment as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems and complex operating elements. The Group sells these products primarily to automotive OEMs in the upper and premium segments and to their tier I suppliers.

The Commercial Vehicles Division generated 29.5% of Group revenue in 2017 (2016: 27.2). The Commercial Vehicles Division develops and produces driver and passenger seats for medium and heavy-weight trucks as well as offroad vehicles (agricultural and construction machinery, landscaping vehicles), material handling equipment as well as seats and seating systems for trains and buses.

In this segment, GRAMMER is active as a supplier to the commercial vehicle industry, marketing driver and passenger seats to commercial vehicle OEMs or as an aftermarket supplier. It also markets driver and passenger seats to bus and rolling stock OEMs, as well as railway operators.

The revenue and earnings before interest and taxes (EBIT), operating EBIT and the operating EBIT-margin generated by the operating segments are monitored separately by 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, expenses and earnings include transfers between business segments. These transfers within the segments are eliminated at the segment level and transfers between the segments upon consolidation.

Alongside the two segments, Central Services comprises the higher-level general corporate functions, which are allocated to GRAMMER AG.

REPORTING SEGMENTS

The following tables include information on income and earnings as well as selected information on the assets and liabilities of the Group's business segments.

FISCAL YEAR ENDED DECEMBER 31, 2017

EUR K

	COMMERCIAL VEHICLES	AUTOMOTIVE	CENTRAL SERVICES	ELIMINATION	GRAMMER GROUP
Revenue from sales to external customers	506,906	1,279,560	0	0	**1,786,466**
Inter-segment revenue	33,336	11,687	0	−45,023	**0**
Revenue	**540,242**	**1,291,247**	**0**	**−45,023**	**1,786,466**
Segment earnings (EBIT)	**45,867**	**40,651**	**−20,001**	**−46**	**66,471**
Financial income					1,123
Financial expenses					−11,045
Other financial result					−674
Profit/loss (−) before income taxes					**55,875**
Income taxes					−23,524
Net profit/loss (−)					**32,351**
Other segment information					
Investments					
Property, plant and equipment	9,438	35,979	3,181	0	**48,598**
Intangible assets	2,807	6,938	740	0	**10,485**
Amortization					
Depreciation of property, plant and equipment	−11,071	−24,198	−1,443	0	**−36,712**
Amortization of intangible assets	−2,451	−8,604	−1,729	0	**−12,784**
Non-cash items					
Changes in pension provisions	4,573	1,411	852	0	**6,836**

FISCAL YEAR ENDED DECEMBER 31, 2016

EUR K

	COMMERCIAL VEHICLES	AUTOMOTIVE	CENTRAL SERVICES	ELIMINATION	GRAMMER GROUP
Revenue from sales to external customers	434,975	1,260,508	0	0	**1,695,483**
Inter-segment revenue	38,665	10,262	136	−49,063	**0**
Revenue	**473,640**	**1,270,770**	**136**	**−49,063**	**1,695,483**
Segment earnings (EBIT)	**39,124**	**42,462**	**−10,686**	**2,148**	**73,048**
Financial income					1,506
Financial expenses					−13,517
Other financial result					1,694
Profit/loss (−) before income taxes					**62,731**
Income taxes					−17,508
Net profit/loss (−)					**45,223**
Other segment information					
Investments					
Property, plant and equipment	8,576	38,804	1,559	0	**48,939**
Intangible assets	749	3,991	2,513	0	**7,253**
Amortization					
Depreciation of property, plant and equipment	−11,100	−22,264	−1,404	0	**−34,768**
Amortization of intangible assets	−2,678	−8,220	−1,562	0	**−12,460**
Non-cash items					
Changes in pension provisions	4,487	1,232	742	0	**6,461**

INFORMATION ON GEOGRAPHIC AREAS

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, 2017 and 2016. The geographical breakdown is based on the region of registration of the companies.

2017

EUR K

REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Revenue	1,224,922	280,694	280,850	**1,786,466**
Non-current assets (property, plant and equipment as well as intangible assets)	262,010	34,292	26,230	**322,532**

2016

EUR K

REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Revenue	1,197,921	246,585	250,977	**1,695,483**
Non-current assets (property, plant and equipment as well as intangible assets)	256,835	30,519	28,702	**316,056**

EMEA (Europe, Middle East, Africa) includes all European companies as well as the companies in Turkey and South Africa. The Americas include all companies in the North, Central and South America, while APAC (Asia Pacific) is made up of all Chinese and Japanese companies.

The GRAMMER Group's revenue in Germany stands at EUR 958 million (2016: 906). Non-current assets in Germany are valued at EUR 173 million (2016: 171).

6 REVENUE STRUCTURE OF THE GROUP

GRAMMER Group generates revenue primarily from the sale and delivery of its products to customers. The revenue structure of the reportable operating segments is described in the segment report.

Revenue of EUR 1,786,466 thousand (2016: 1,695,483) includes contract revenue of EUR 115,621 thousand (2016: 93,865) determined using the percentage-of-completion method. The related expenses primarily match the revenue due to the heavy competition and customers' price sensitivity. This revenue concerns development activities and supplies which the GRAMMER Group must prefinance until initial series revenue is generated. It primarily arises in the Automotive Division.

7 OTHER INCOME AND EXPENSES

7.1 OTHER OPERATING INCOME

Other operating income primarily includes income from handling costs of EUR 3,026 thousand (2016: 2,310), income from the sale of scrap metal of EUR 3,237 thousand (2016: 2,289) and other income of EUR 4,376 thousand (2016: 3,401). Other operating income additionally comprises government grants of EUR 2,399 thousand (2016: 1,229) and income from recharged expenses and rental income of EUR 102 thousand (2016: 114). The government grants were received for the acquisition of certain items of property, plant and equipment as well as in the form of income subsidies. The conditions for these grants were satisfied in full and there is currently no risk that they will not be observed in the future.

7.2 FINANCIAL RESULT

The following table breaks down financial result:

EUR K	2017	2016
Interest income on bank balances	555	770
Available-for-sale financial assets	58	340
Other loans	510	396
Financial income	**1,123**	**1,506**
Loans and overdraft	–7,354	–8,554
Other interest costs	–37	–135
Interest cost of pension provisions	–2,633	–3,240
Losses from financial assets and liabilities measured at fair value through profit and loss	–872	–1,367
Interest element of lease payments	–149	–221
Financial expenses	**–11,045**	**–13,517**
Currency-translation gains/loss from cash at bank and in hand	2,950	1,730
Exchange rate differences from intercompany finance	–3,624	–36
Other financial result	**–674**	**1,694**
Financial result	**–10,596**	**–10,317**

7.3 AMORTIZATION, DEPRECIATION, CURRENCY TRANSLATION DIFFERENCES AND HISTORICAL COSTS 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 of EUR 1,496,375 thousand (2016: 1,425,587). This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. Reserves for product warranties are covered by this item as well. Expenses relating to the development and expansion of individual 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. Expenses in the Commercial Vehicles Division for "design to market" developments are also included here.

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 allocated to these functions 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 include income from exchange rate movements in the amount of EUR 14,776 thousand (2016: 26,185) 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 21,276 thousand (2016: 21,274) are also recognized under other administrative expenses. Cost components from the internal restructuring of the Group are also included.

AMORTIZATION AND DEPRECIATION

Amortization of intangible assets totaled EUR 12,784 thousand (2016: 12,460) and is recognized in the income statement under the cost of sales, selling expenses and administrative expenses depending on origin. This item also contains capitalized development costs of EUR 2,342 thousand (2016: 2,586) that are included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 36,712 thousand (2016: 34,768).

As in 2016, no impairment losses were recognized in fiscal year 2017.

Depreciation and amortization are recognized in the income statement under the cost of sales, selling expenses and general administrative expenses.

7.4 PERSONNEL EXPENSES

Personnel expenses are analyzed in the following table:

EUR K	2017	2016
Wages and salaries	307,283	288,630
Social security contributions	68,148	63,774
Personnel expenses	**375,431**	**352,404**

8 INCOME TAXES

The key components of income taxes in 2017 and 2016 break down as follows:

EUR K	2017	2016
Consolidated Statement of Income		
Current tax		
Current tax expenses Germany	−8,752	−5,297
Current tax expenses abroad	−9,373	−9,908
Total current tax expenses	**−18,125**	**−15,205**
Deferred tax		
Deferred tax expenses (−)/income Germany	−469	−7,089
Deferred tax expenses (−)/income abroad	−4,930	4,786
Deferred tax expenses (−)/income	**−5,399**	**−2,303**
Tax expenses reported in the Consolidated Statement of Income	**−23,524**	**−17,508**

The increase in current tax expenses in Germany was primarily influenced by the utilization of tax loss carry forwards within the tax group.

The increase in deferred tax expenses abroad is largely due to adjustments to deferred tax assets recognized on tax loss carry forwards. In 2017, deferred tax assets of EUR 4.8 million were impaired. This was mostly due to a correction in the probable utilization of tax loss carry forwards by a Chinese subsidiary, while a further part is due to the US tax reform announced in December 2017. Moreover, tax losses of around EUR 4.2 million were not recognized.

Reconciliation between the income tax expenses reported in the consolidated income statement and the product of the reported net profit for the period and the applicable tax rate for the Group for fiscal years 2017 and 2016 is as follows:

EUR K

	2017	2016
Profit/loss (–) before income taxes	**55,875**	**62,731**
Income taxes at the effective rate in Germany of 29.2% (2016: 29.2)	–16,316	–18,318
Effects from minimum taxation and withholding taxes	–2,157	–888
Current income taxes relating to previous years	–90	–282
Effects of the non-recognition of deferred income taxes for the current year	–1,921	–367
Change in deferred income taxes from previous years	–4,192	–1,321
Tax-exempt government grants/Tax benefits	309	370
Non-deductible expenses	–2,278	–2,812
Other tax effects	332	2,625
Effects of changes in tax rate/legislation	–2,301	–199
Effects from different foreign tax rates	5,090	3,684
Income taxes at the effective tax rate of 42.1% (2016: 27.9)	**–23,524**	**–17,508**

Deferred tax assets broke down as follows as of the relevant reporting dates:

EUR K

	2017	2016
Property plant and equipment	–11,617	–9,948
Intangible assets	–10,626	–11,353
Other assets	–431	–768
Inventories	–1,064	–932
Current trade accounts receivable	–180	–32
Other current financial assets	–3,757	–4,779
Non-current financial liabilities	–114	–968
Other current assets	–331	–328
Other	–827	–1,697
Deferred tax liabilities (non-netted)	**–28,947**	**–30,805**
Pensions and similar liabilities	23,618	24,589
Provisions	981	1,354
Unused tax losses	10,717	19,717
Other financial assets	904	69
Property, plant and equipment	3,041	2,729
Other current liabilities	1,974	1,690
Current trade accounts receivable	921	1,079
Other	3,601	3,520
Deferred tax assets (non-netted)	**45,757**	**54,747**
Net deferred tax assets	**16,810**	**23,942**

The reconciliation of deferred taxes is set out below:

EUR K	2017	2016
As of January 1	**23,942**	**21,347**
Deferred tax expenses (–)/income in profit and loss	–5,399	–2,303
Deferred tax expenses (–)/income in the statement of comprehensive income/mandatory convertible bond	81	4,556
Currency-translation effects	–1,814	342
As of December 31	**16,810**	**23,942**

The statutory rate of corporate income tax in Germany was 15% for the 2017 and 2016 assessment periods, plus a solidarity surtax of 5.5%. Together with municipal trade tax, which is not deductible as a business expense in Germany, this results in a tax rate of approximately 29.2% for 2017 (2016: 29.2).

For the 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 measured on the basis of the overall tax rate of 29.2% (2016: 29.2). The local income tax rates for foreign entities ranged between 10% and 35% (2016: 10–38).

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 unused tax losses that led to their creation. Based on past experience and anticipated income levels, it is assumed that the corresponding benefits can be realized.

The Group assumes that it will have sufficient taxable income to make use of existing unused tax losses for which deferred tax assets have been recognized. The unused tax losses in individual countries may be carried forward for periods of 5 to 20 years or also 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. The outside basis differences stand at EUR 70,740 thousand as of December 31, 2017 (2016: 83,897).

The distribution of dividends to the shareholders did not have any consequences for income tax in 2017 or 2016.

9 CONSOLIDATED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing consolidated net profit by the nominal number of shares outstanding during the fiscal year, less the Company's own shares that have been bought back in 2006 (330,050 shares). The Company's share capital amounts to EUR 32,274,229.76 and is divided into 12,607,121 shares. All shares with the exception of treasury stock accord the same rights; shareholders have a right to receive payment of the approved dividend 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.

Acting with the consent of the Supervisory Board, the Executive Board of GRAMMER AG passed a resolution on February 14, 2017 to issue a mandatory convertible bond in a nominal amount of EUR 60 million subject to the exclusion of the shareholders' preemptive subscription rights. The mandatory convertible bond was placed with JAP Capital Holding GmbH, Kitzingen, a company affiliated with Chinese automotive component supplier Ningbo Jifeng Auto Parts Co. Ltd. (Ningbo Jifeng) 1,062,447 new shares were issued following the conversion of the mandatory convertible bond on April 25, 2017. Consequently, the total number of voting rights in GRAMMER AG increased to a total of 12,607,121.

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 to no-par value shares of the Company, such as convertible bonds and options). As the GRAMMER Group did not issue any such financial instruments or entered into any such contracts as of December 31, 2017, its basic and diluted earnings per share are identical.

EARNINGS PER SHARE

BASIC/DILUTED EARNINGS PER SHARE	2017	2016
Weighted average number of ordinary shares for calculating basic/diluted earnings	12,148,985	11,214,624
Earnings in EUR K (net of non-controlling interests)	32,488	44,981
Basic earnings per share in EUR	2.67	4.01
Diluted earnings per share in EUR	2.67	4.01

10 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, 2017, GRAMMER AG posted net profit of EUR 57.7 million (2016: 51.2). This includes the profit of EUR 36.7 million carried forward, the allocation of EUR 21.0 million to retained earnings and the net profit for the year of EUR 42.0 million. The Executive Board and the Supervisory Board will be proposing to the Annual General Meeting that a dividend of EUR 1.25 (2016: 1.30) per share be paid and that the balance of EUR 42.3 million be carried forward. This translated into a total dividend of EUR 15.3 million (2016: 14.6), which was not recognized as a liability as of December 31, 2017. In this connection, allowance was made for the fact that Company holds a total of 330,050 of its own shares, which are not dividend-entitled. If the number of dividend-entitled shares changes before the expected date of the Annual General Meeting on June 13, 2018, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

A dividend of EUR 14.6 million was paid in the year under review (2016: 8.4). Further details can be found in Note 17.

Dividends approved and distributed during the fiscal year:

DIVIDENDS ON NO-PAR VALUE SHARES

EUR K

	2017	2016
Dividend for 2016: EUR 1.30 (2015: EUR 0.75)	14,579	8,411

11 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

EUR K AS OF DECEMBER 31, 2017	HISTORICAL COSTS					
	AS OF JANUARY 1, 2017	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2017
Land and buildings	**101,060**	3,699	−169	297	3,380	**108,267**
Technical equipment and machines	**206,061**	21,967	−7,386	−3,684	10,190	**227,148**
Factory and office equipment	**212,423**	14,422	−3,004	−3,102	5,548	**226,287**
Advance payments and plant under construction	**13,363**	8,510	−41	104	−13,249	**8,687**
Finance lease	**14,356**	0	0	−199	−5,884	**8,273**
Property, plant and equipment	**547,263**	**48,598**	**−10,600**	**−6,584**	**−15**	**578,662**
Concessions, industrial rights	**84,697**	8,031	−229	410	26	**92,935**
Goodwill	**48,879**	0	0	0	0	**48,879**
Capitalized development costs	**27,658**	2,443	0	−117	0	**29,984**
Advance payments	**0**	11	0	0	−11	**0**
Intangible assets	**161,234**	**10,485**	**−229**	**293**	**15**	**171,798**
Property, plant and equipment and intangible assets	**708,497**	**59,083**	**−10,829**	**−6,291**	**0**	**750,460**

EUR K AS OF DECEMBER 31, 2016	HISTORICAL COSTS					
	AS OF JANUARY 1, 2016	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2016
Land and buildings	**101,913**	1,436	−3,009	201	519	**101,060**
Technical equipment and machines	**193,432**	18,050	−7,198	−2,753	4,530	**206,061**
Factory and office equipment	**200,260**	16,814	−5,914	−14	1,277	**212,423**
Advance payments and plant under construction	**9,099**	12,201	−1,203	−43	−6,691	**13,363**
Finance lease	**13,927**	438	0	22	−31	**14,356**
Property, plant and equipment	**518,631**	**48,939**	**−17,324**	**−2,587**	**−396**	**547,263**
Concessions, industrial rights	**79,693**	6,438	−1,356	−481	403	**84,697**
Goodwill	**48,879**	0	0	0	0	**48,879**
Capitalized development costs	**26,973**	814	−57	−72	0	**27,658**
Advance payments	**6**	1	0	0	−7	**0**
Intangible assets	**155,551**	**7,253**	**−1,413**	**−553**	**396**	**161,234**
Property, plant and equipment and intangible assets	**674,182**	**56,192**	**−18,737**	**−3,140**	**0**	**708,497**

Depreciation						Carrying amount	
As of January 1, 2017	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2017	January 1, 2017	December 31, 2017
40,706	3,619	−168	−233	0	**43,924**	**60,354**	**64,343**
113,906	16,481	−6,174	−2,401	3,773	**125,585**	**92,155**	**101,563**
157,097	14,998	−2,699	−2,309	15	**167,102**	**55,326**	**59,185**
0	0	0	0	0	**0**	**13,363**	**8,687**
5,284	1,614	0	13	−3,788	**3,123**	**9,072**	**5,150**
316,993	**36,712**	**−9,041**	**−4,930**	**0**	**339,734**	**230,270**	**238,928**
47,939	10,442	−229	308	0	**58,460**	**36,758**	**34,475**
10,636	0	0	0	0	**10,636**	**38,243**	**38,243**
16,873	2,342	0	−117	0	**19,098**	**10,785**	**10,886**
0	0	0	0	0	**0**	**0**	**0**
75,448	**12,784**	**−229**	**191**	**0**	**88,194**	**85,786**	**83,604**
392,441	**49,496**	**−9,270**	**−4,739**	**0**	**427,928**	**316,056**	**322,532**

Depreciation						Carrying amount	
As of January 1, 2016	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2016	January 1, 2016	December 31, 2016
39,930	3,551	−3,009	234	0	**40,706**	**61,983**	**60,354**
106,229	14,772	−6,201	−908	14	**113,906**	**87,203**	**92,155**
147,997	14,522	−5,576	168	−14	**157,097**	**52,263**	**55,326**
0	0	0	0	0	**0**	**9,099**	**13,363**
3,366	1,923	0	−5	0	**5,284**	**10,561**	**9,072**
297,522	**34,768**	**−14,786**	**−511**	**0**	**316,993**	**221,109**	**230,270**
39,557	9,874	−1,356	−136	0	**47,939**	**40,136**	**36,758**
10,636	0	0	0	0	**10,636**	**38,243**	**38,243**
14,356	2,586	0	−69	0	**16,873**	**12,617**	**10,785**
0	0	0	0	0	**0**	**6**	**0**
64,549	**12,460**	**−1,356**	**−205**	**0**	**75,448**	**91,002**	**85,786**
362,071	**47,228**	**−16,142**	**−716**	**0**	**392,441**	**312,111**	**316,056**

11.1 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation is based generally on the following useful economic lives:

Land	No depreciation/amortization
Buildings and fixtures	10–40 years
Leasehold improvements	5–40 years
Technical equipment and machines	5–25 years
Other plant and equipment	2–15 years
Leased assets (finance leasing)	3–25 years
Concessions, industrial rights	3–12 years
Capitalized development costs	7–10 years

As in the past, property, plant and equipment are depreciated and intangible assets amortized using the straight-line method over the expected useful life.

Intangible assets comprise concessions, industrial property rights, patents and customer orders. Capitalized development costs comprise internally generated patents, which are amortized on a straight-line basis over an average expected useful life of 10 years. In 2017, total research and development costs stood at EUR 67,701 thousand (2016: 62,518), of which EUR 2,443 thousand (2016: 814) satisfied the criteria for capitalization under IAS 38. Most of this amount was recognized in the income statement.

11.2 LEASES

GRAMMER has entered into various finance and operating leases for buildings, technical equipment and machines, factory and office equipment as well as motor vehicles with terms between three and 25 years. Most of the leases do not provide for renewal or purchase options, with the exception of buildings and limited items of equipment. In the case of buildings, these are largely customary

EUR K AS OF DECEMBER 31, 2017	HISTORICAL COSTS					
	AS OF JANUARY 1, 2017	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFICATIONS	AS OF DECEMBER 31, 2017
Land and buildings	**2,339**	0	0	−283	0	**2,056**
Technical equipment and machines	**10,237**	0	0	82	−5,884	**4,435**
Factory and office equipment	**1,599**	0	0	6	0	**1,605**
Motor vehicles	**181**	0	0	−4	0	**177**
Leased assets	**14,356**	**0**	**0**	**−199**	**−5,884**	**8,273**

EUR K AS OF DECEMBER 31, 2016	HISTORICAL COSTS					
	AS OF JANUARY 1, 2016	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFICATIONS	AS OF DECEMBER 31, 2016
Land and buildings	**2,264**	0	0	75	0	**2,339**
Technical equipment and machines	**10,141**	165	0	−52	−17	**10,237**
Factory and office equipment	**1,402**	197	0	0	0	**1,599**
Motor vehicles	**120**	76	0	−1	−14	**181**
Leased assets	**13,927**	**438**	**0**	**22**	**−31**	**14,356**

renewal options, which provide for a renewable option which may be unilaterally exercised by GRAMMER or renegotiation for continued use after expiry of the lease.

GRAMMER executed a sale-and-lease-back transaction in 2015 in connection with the sale of the buildings and land in Immenstetten. The buildings and lands were sold and leased back for the next few years under a simultaneously signed lease agreement and are recognized as an operating lease. The outstanding accounts receivable, which are due for settlement by 2020, continue to stand at EUR 4.0 million and were recognized at their discounted present value of EUR 3.9 million (2016: 3.8) as of December 31, 2017.

The leased assets shown in Note 11 summary of fixed assets which are attributable to the Company for economic purposes in accordance with IAS 17 break down as follows:

Depreciation						Carrying amount	
As of January 1, 2017	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2017	January 1, 2017	December 31, 2017
189	85	0	−28	0	**246**	**2,150**	**1,810**
4,572	1,221	0	31	−3,788	**2,036**	**5,665**	**2,399**
416	299	0	6	0	**721**	**1,183**	**884**
107	9	0	4	0	**120**	**74**	**57**
5,284	**1,614**	**0**	**13**	**−3,788**	**3,123**	**9,072**	**5,150**

Depreciation						Carrying amount	
As of January 1, 2016	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2016	January 1, 2016	December 31, 2016
95	87	0	7	0	**189**	**2,169**	**2,150**
3,019	1,565	0	−12	0	**4,572**	**7,122**	**5,665**
146	270	0	0	0	**416**	**1,256**	**1,183**
106	1	0	0	0	**107**	**14**	**74**
3,366	**1,923**	**0**	**−5**	**0**	**5,284**	**10,561**	**9,072**

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
2017			
Lease payments	1,366	2,296	1,886
Less interest cost on a discounted basis	–113	–239	–391
Present value (Statement of financial position)	**1,253**	**2,057**	**1,495**
2016			
Lease payments	2,357	3,587	2,285
Less interest cost on a discounted basis	–162	–333	–497
Present value (Statement of financial position)	**2,195**	**3,254**	**1,788**

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
2017			
Lease payments	17,921	31,667	13,577
2016			
Lease payments	17,524	34,426	14,419

11.3 GOODWILL

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

For the 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 annually. The underlying assumptions on which the determination of the recoverable amount attributable to the CGUs as of December 31, 2017 is based 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	2017 GOODWILL	2016 GOODWILL	2017 GROWTH RATE[1]	2016 GROWTH RATE[1]	2017 DISCOUNT FACTOR	2016 DISCOUNT FACTOR
CGU I	Commercial Vehicles	4,423	4,423	1%	1%	6.8%	6.3%
CGU II	Automotive	33,820	33,820	1%	1%	6.8%	6.3%
	Goodwill	**38,243**	**38,243**				

[1] perpetual annuity.

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, the best and most recent management forecasts of future performance as well as market expectations and market assumptions.

The total cost of capital is determined using the capital asset pricing model based on a risk-free interest rate of 1.25% after tax (2016: 0.5) and a risk premium for general market risks of 7.0% after tax (2016: 7.0). For the determination of operating and leverage risks, individual beta factors are derived from a group of comparable companies (peer group) and used to measure the positive cash flows of the specific CGU. The cost of capital is estimated on the basis of GRAMMER AG's future borrowing costs in the light of peer-group cost-of-capital rates and adjusted in line with market expectations. The cost of capital determined in this way reflects the impact of interests 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 on the basis of a growth rate of 1% (2016: 1).

The impairment tests performed confirm that the value of all goodwill is fully recoverable. There were no changes in the terminal-value growth rate to 0 or in the detailed planning period to 0 or any evidence of impairments such as an increase by 400 basis points in the interest rate on debt capital.

12 INVENTORIES

Inventories break down as follows:

EUR K	DEC. 31, 2017	DEC. 31, 2016
Raw material and supplies	112,074	101,551
Work in progress	14,859	14,032
Finished goods and services	25,081	23,930
Advance payments	6,006	8,740
Inventories	158,020	148,253

All inventories are recognized at their historical costs. Impairments recognized on inventories in the light of their lower fair value come to EUR 4.8 million (2016: 4.2).

13 TRADE ACCOUNTS RECEIVABLE

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 to 60 days.

EUR K	DEC. 31, 2017	DEC. 31, 2016
Trade accounts receivable	223,334	206,589

As of the reporting date, trade accounts receivable of EUR 33,949 thousand (2016: 14,245) were reduced as a result of non-recourse factoring. The relevant risks with respect to the factored receivables include credit risk as well as the risk of late payment. In connection with a contract with a bank, the Group continues to recognize trade accounts receivable at their settlement amount, i.e. the maximum default reserve for which it is still liable for the risk inherent in the receivables, and recognizes a matching liability.

As of December 31, 2017, impairments of EUR 3,843 thousand (2016: 3,412) were recognized on trade accounts receivable. Details are given in the table below:

EUR K	ALLOWANCES FOR DOUBTFUL ACCOUNTS	PORTFOLIO-BASED ALLOWANCES	TOTAL
As of January 1, 2017	1,407	2,005	3,412
Additions	581	585	1,166
Utilization	–93	0	–93
Write-backs	–546	0	–546
Effects from exchange rate differences	–96	0	–96
As of December 31, 2017	1,253	2,590	3,843
As of January 1, 2016	1,607	1,039	2,646
Additions	595	1,028	1,623
Utilization	–131	–62	–193
Write-backs	–618	0	–618
Effects from exchange rate differences	–46	0	–46
As of December 31, 2016	1,407	2,005	3,412

The following table shows non-current and current financial receivables, which have neither been written down nor are overdue on the reporting 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
2017							
Trade accounts receivable	**223,334**	202,100	17,356	1,210	851	1,132	685
Receivables from construction contracts	**169,732**	169,732	0	0	0	0	0
Other financial receivables	**10,255**	10,255	0	0	0	0	0
2016							
Trade accounts receivable	**206,589**	185,542	14,444	3,756	894	1,134	819
Receivables from construction contracts	**146,013**	146,013	0	0	0	0	0
Other financial receivables	**10,770**	10,770	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 reporting date for which payments are expected. 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.

14 OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

EUR K

	DEC. 31, 2017	DEC. 31, 2016
Participating interests	50	50
Other receivables	3,873	3,816
Non-current other financial assets	**3,923**	**3,866**
Receivables from construction contracts	169,732	146,013
Other receivables	6,382	6,955
Derivative financial assets	808	0
Current other financial assets	**176,922**	**152,968**

As in the previous year, non-current other financial assets include the purchase price payments of EUR 3,873 thousand (2016: 3,816) due in installments for the sale of the land and buildings in Immenstetten in 2015.

Current other financial assets include receivables from construction contracts. These contain the net amount owed by customers for contract work determined using the percentage-of-completion method and not yet invoiced as of the reporting date.

Other receivables result primarily from current accounts receivable from associates, creditors with debit balances and amounts due from employees. They are due for settlement in around 30 days.

15 OTHER ASSETS

Other assets break down as follows:

EUR K

	DEC. 31, 2017	DEC. 31, 2016
Other assets	1,277	0
Prepaid expenses	5,200	4,888
Non-current other assets	**6,477**	**4,888**
Current other assets	17,794	18,368
Current prepaid expenses	5,476	5,232
Current other assets	**23,270**	**23,600**

As in the previous year, the non-current prepaid expenses reported within non-current other assets include the sale-and-leaseback transaction of 2015 in connection with the land and building in Immenstetten. Non-current other assets mostly include security deposit agreements which are classified as non-current depending on the term of the underlying contract.

Current other assets are chiefly made up of receivables of EUR 12,511 thousand (2016: 13,798) arising from pass-through taxes such as value added tax as well as temporary security deposit agreements of EUR 137 thousand (2016: 100).

There were no material ownership or alienation restrictions with respect to the other receivables and assets reported and no impairment losses were recognized.

16 CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits break down as follows as of the reporting date:

EUR K	DEC. 31, 2017	DEC. 31, 2016
Cash and short-term deposits	**146,312**	**132,968**

The Group has balances at different banks in various currencies that are translated at the end-of-year exchange rate as of the reporting date.

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	DEC. 31, 2017	DEC. 31, 2016
Cash and short-term deposits	146,312	132,968
Bank overdrafts (including current liabilities under factoring contracts)	–8,280	–5,352
Cash and cash equivalents	**138,032**	**127,616**

17 SUBSCRIBED CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

As of December 31, 2017, the subscribed capital of GRAMMER Group amounted to EUR 32,274 thousand (2016: 29,554) divided into 12,607,121 (2016: 11,544,674) no-par value shares. All shares accord the same rights. The shareholders have a right to payment of the approved dividend (with the exception of the Company's own shares) and may exercise one vote for each share at the Annual General Meeting.

The increase in subscribed capital is due to the conversion of the mandatory convertible bond. Acting with the consent of the Supervisory Board, the GRAMMER AG passed a resolution on February 14, 2017 to use part of the existing contingent capital (Contingent Capital 2014/I) to issue a mandatory convertible bond in a nominal amount of EUR 60,000 thousand subject to the exclusion of the shareholders' preemptive subscription rights. On April 25, 2017, 1,062,447 subscription shares were issued upon the conversion of the mandatory convertible bond, as a result of which the subscribed capital increased by EUR 2,719,864.32. The shares arising from the conversion of the bond were eligible for voting at the Annual General Meeting on May 24, 2017 but not yet dividend-entitled.

CAPITAL RESERVE

The capital reserve totaled EUR 129,796 thousand (2016: 74,444) as of December 31, 2017. The increase of EUR 55,352 thousand in the capital reserve over the previous year is due to the conversion of the mandatory convertible bond. This amount equals the proceeds from the transaction of EUR 60,000 thousand less transaction costs and incidental effects of EUR 1,928 thousand and the increase of EUR 2,720 thousand already included in the subscribed capital. In addition, an amount of EUR 120 thousand from the proceeds from the transaction were recognized as other financial liabilities. The tax effects of EUR 782 thousand arising from the transaction costs caused the capital reserve to increase. The capital reserve includes premiums from the capital increases in 1996, 2001, 2011 and 2017, less transaction costs.

RETAINED EARNINGS

Retained earnings comprises the statutory reserve of GRAMMER AG, which totaled EUR 1,183 thousand on both December 31, 2017 and 2016 and is not available for the payment of dividends.

Retained earnings additionally include income earned in the past by the consolidated companies not paid out as dividends. This item rose from EUR 236,268 thousand to EUR 254,960 thousand. However, the net profit is not fully reflected in retained earnings due to the dividend payment of EUR 14,579 thousand (2016: 8,411).

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 the related deferred taxes.

In addition, it includes changes in connection with actuarial gains and losses in accordance with IAS 19 and cumulative foreign-currency translation effects in connection with the loans classified as net investments in a foreign operation in accordance with IAS 21.

OWN SHARES

As of December 31, 2017, GRAMMER AG holds a total of 330,050 shares as treasury stock, all of which were acquired in 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 844,928 and represent 2.618% 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 (1) number 8 AktG. The Company may acquire up to 10% of its share capital, i.e. up to 1,049,515 of its own shares, with the authorization granted by the shareholders. 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 haven 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, 2017, 12,607,121 ordinary shares (2016: 11,544,674) were outstanding.

NON-CONTROLLING INTERESTS

Non-controlling interests in equity relate primarily to shareholders in GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey, GRAMMER AD, Bulgaria and GRAMMER Seating (Shaanxi) Co. Ltd.

In addition, a contingent capital increase of BGN 500,000 (EUR 255.9 thousand) was executed at GRAMMER AD, Bulgaria, in 2017. The new shares were subscribed by GRAMMER AG. As a result, GRAMMER AG's share in this company has increased from 91.46% to 98.78%. Consequently, the fair value of the share held by GRAMMER AG rose to EUR 783 thousand. This is included in the statement of changes in equity.

AUTHORIZATIONS

At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue option bonds and/or convertible bonds with the possibility of excluding the shareholders' preemptive subscription rights, to create new Contingent Capital 2014/I and to make a corresponding amendment to the Company's Articles of Association: The Company's share capital was increased by up to EUR 14,777,182.72 on a contingent basis through the issue of up to 5,772,337 new bearer shares (Contingent Capital 2014/I). The contingent capital was issued so that shares can be granted to the bearers of convertible or option bonds issued in accordance with the corresponding authorization. 1,062,447 shares were issued for subscription on April 25, 2017 using Contingent Capital (2014/I), as a result of which the share capital rose by EUR 2,719,864.32. Following the issue of the new shares, Contingent Capital 2014/I is valued at EUR 12,057,318.40. The Executive Board may exercise this authorization with the Supervisory Board's approval on or before May 27, 2019.

18 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The GRAMMER Group has defined benefit plans, mostly in Germany.

Provisions for retirement benefit obligations are calculated on the basis of benefit plans for the provision of old-age, invalidity and surviving dependents benefits. 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.

In the case of the foreign subsidiaries, the provisions primarily contain other post-employment benefits.

The present value of the defined benefit obligations and the related current and past service cost have been calculated in accordance with IAS 19 (revised 2011) using the projected unit credit method. Under this method, the necessary expense for the accrued benefits is allocated to the period which is attributable to the unit of accrued benefits arising in the year in question in the light of vesting conditions.

When pension obligations are measured, assumptions regarding the relevant factors affecting the amount of the benefit are made. These assumptions are based on actuarial calculations performed by an actuary for the GRAMMER Group.

The calculation of the defined benefit obligation (DBO) for pension commitments is based primarily on the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS DBO

IN %

	2017	2016
Interest rate	1.80	1.80
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.70	1.70

ACTUARIAL ASSUMPTIONS OTHER BENEFITS

IN %

	2017	2016
Interest rate	1.80–9.00	1.80–9.00
Salary trend	2.30–4.50	2.30–4.50
Inflation rate	1.70–5.00	1.70–5.00

The actuarial assumptions also include liabilities from other countries that tend to have higher interest rates than Germany due to different structures. For example, the interest rate is 7.25% (2016: 7.75) and the salary trend 4.5% (2016: 4.5) in Mexico, while Turkey has an interest rate of around 5.0% (2016: 5.0).

As in the previous year, the AON Hewitt interest rate was applied in fiscal year 2017. This interest rate is derived from the vested obligations in the light of the specific structure of the payment flows. The calculation is based on the GRAMMER companies' pension obligations which underlie the pension provisions as of December 31, 2017.

The calculation of the interest rate is based on the yield structure curve of investment-grade EUR-denominated corporate bonds, the coupon yields of the iBoxx € Corporates AA index for various maturity classes and the yield structure curve for (fictitious) zero-coupon bonds with no credit risk (source: Deutsche Bundesbank). The calculations are performed on the basis of the end-of-day prices as of December 31, 2017.

Mortality and disability are calculated on the basis of the 2005 G Heubeck tables or comparable foreign mortality tables. Reflecting the persistently low interest and inflation rates, the inflation rate/pension trend remained at the previous year's level of 1.7%. The probability of fluctuation was computed specifically for the Group.

In 2017, annuities were paid on pensions in the amount of EUR 2,592 thousand (2016: 2,448). Other post-employment benefits paid totaled EUR 150 thousand (2016: 349).

The following amounts were recognized in the income statement:

EUR K

	PENSION PLAN	OTHER BENEFITS
2017		
Service cost	3,552	651
Current service cost	2,808	651
Past service cost	744	0
Net interest expense	2,517	116
Net interest expense and service cost	**6,069**	**767**

EUR K

	PENSION PLAN	OTHER BENEFITS
2016		
Service cost	2,407	814
Current service cost	2,407	814
Past service cost	0	0
Net interest expense	3,114	126
Net interest expense and service cost	**5,521**	**940**

Service cost includes current and past service cost. Past service cost corresponds to the gains or losses from plan adjustments or curtailments which are recognized immediately upon arising.

As there are no plan assets for funding future pension obligations under defined benefit plans, net interest expense for the defined benefit plans is identical to interest expense.

Service cost is generally contained in personnel costs in the different segments; interest expense for pension commitments is recognized in the financial result.

The following items were recorded within other comprehensive income:

EUR K	PENSION PLAN	OTHER BENEFITS
2017		
Cumulative amount recognized in other comprehensive income as of January 1, 2017	63,895	0
Amount recognized in the current year	–1,243	0
Cumulative amount recognized in other comprehensive income as of December 31, 2017	**62,652**	**0**

EUR K	PENSION PLAN	OTHER BENEFITS
2016		
Cumulative amount recognized in other comprehensive income as of January 1, 2016	48,728	0
Amount recognized in the current year	15,167	0
Cumulative amount recognized in other comprehensive income as of December 31, 2016	**63,895**	**0**

The changes in the present value of the defined benefit obligations break down as follows:

EUR K	PENSION PLAN	OTHER BENEFITS
As of January 1, 2017	**138,488**	**3,504**
+ Reclassification	0	0
+ Service cost	3,552	651
+ Interest expense	2,517	116
Changes in estimates: gains (–)/losses (+)	–1,241	0
Changes in demographic assumptions	0	0
Changes in financial assumptions	87	0
Experience adjustments	–1,328	0
– Actual payments	–2,592	–150
– Disposal of obligations	0	–7
Changes in exchange rates	–41	–604
As of December 31, 2017	**140,683**	**3,510**
As of January 1, 2016	**119,794**	**3,930**
+ Reclassification	523	–523
+ Service cost	2,407	814
+ Interest expense	3,114	126
Changes in estimates: gains (–)/losses (+)	15,167	0
Changes in demographic assumptions	9	0
Changes in financial assumptions	15,643	0
Experience adjustments	–485	0
– Actual payments	–2,448	–349
– Disposal of obligations	0	–20
Changes in exchange rates	–69	–474
As of December 31, 2016	**138,488**	**3,504**

With effect from January 1, 2017, the Supervisory Board modified the remuneration system for the Executive Board of GRAMMER AG. At the same time, the retirement benefit scheme for the members of the Executive Board was also revised. Commitments to the members of the Executive Board under the previous retirement benefit contracts have been replaced in full by the new arrangements for retirement benefits. Retirement benefits take the form of a capital account plan, to which the Company adds an annually calculated amount for each member of the Executive Board. The entitlement to retirement benefits vesting in the members of the Executive Board as of January 1, 2017 were converted into an equivalent capital amount calculated on the basis of actuarial principles and transferred to the benefit account as a starting amount. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses.

The new company pension scheme continues to entail a defined benefit plan.

The three members of the Executive Board were added to the existing contractual trust agreement in 2017 and the principal of a total of EUR 3.3 million deposited in a trust account. This principal constitutes plan assets and is netted with the retirement benefit obligations for the Executive Board in an amount of EUR 3.4 million in the balance sheet. Changes in the fair value of the plan assets are shown in the following table:

EUR K	2017	2016
Fair value of the plan assets on Jan. 1	**309**	**306**
Interest expense on the plan assets	7	8
Adjustments	3	–5
Contributions to plan assets	3,336	0
Fair value of the plan assets on Dec. 31	**3,655**	**309**

The material actuarial assumptions used to calculate the defined benefit obligation entail the discount rate, expected salary increases and mortality. The following sensitivity analyses have been performed in the light of the possible changes which may reasonably occur in the individual assumptions as of the reporting date, with all other assumptions remaining constant.

DISCOUNT FACTOR

EUR K

	2017 1% REDUCTION	2017 1% INCREASE	2016 1% REDUCTION	2016 1% INCREASE
Impact on DBO	28,716	−21,973	29,951	−22,791
Impact on current service cost	536	−400	635	−473
Impact on net interest expense	−1,111	725	−1,115	716

FUTURE SALARY INCREASE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	−3,385	3,855	−3,812	4,339

INFLATION RATE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	−8,568	9,467	−8,660	9,571

MORTALITY RATE

EUR K

	10% REDUCTION	10% INCREASE	10% REDUCTION	10% INCREASE
Impact on DBO	4,617	−4,120	4,653	−4,154

As most of the defined benefit obligations relate to the German companies, the sensitivity analysis is confined to these companies.

In the above sensitivity analyses, the present value of the defined benefit obligation was calculated using the projected unit credit method as of the reporting date, i.e. the same method as that used to calculate the defined benefit liability recorded in consolidated balance sheet.

It can be assumed that the above sensitivity analysis is not representative of the actual change which would occur in the defined benefit obligation as it is unlikely for deviations from the assumptions applied to arise in isolation in view of the fact that some of the assumptions are linked to each other.

The following table sets out the expected future cash outflows for the existing pension plans:

EXPECTED FUTURE CASH OUTFLOWS

EUR K

	2017	2016
Short-term (< 1 year)	2,713	2,537
Medium-term (1 to 5 years)	13,142	12,503
Long-term (> 5 years)	121,474	123,448

19 FINANCIAL LIABILITIES

INTEREST-BEARING LIABILITIES

EUR K	CURRENT	NON-CURRENT	TOTAL
2017			
Bank overdrafts (including current liabilities resulted from factoring contracts)	8,280	0	**8,280**
Loans	27,653	582	**28,235**
Bonded loans	12,249	189,749	**201,998**
Financial liabilities	**48,182**	**190,331**	**238,513**

EUR K	CURRENT	NON-CURRENT	TOTAL
2016			
Bank overdrafts (including current liabilities resulted from factoring contracts)	5,352	0	**5,352**
Loans	8,764	15,671	**24,435**
Bonded loans	41,138	201,113	**242,251**
Financial liabilities	**55,254**	**216,784**	**272,038**

GRAMMER signed a syndicated loan contract for EUR 180 million in 2013, thus securing the Group's long-term funding. The syndicated loan contract was entered into between the main domestic GRAMMER companies and six commercial banks.

The cash credit facilities may be drawn on as an overdraft or as loans with fixed interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin. The syndicated loan contract has an original term of five years plus two one-year renewal options. GRAMMER exercised the first renewal option in 2014 and the second one in September 2015. Accordingly, the new term expires on October 31, 2020.

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

OVERDRAFTS

Overdrafts are primarily amounts drawn under corresponding credit facilities as well as current bank borrowings under factoring agreements due for settlement within a very short space of time.

LOANS

This item includes bilateral loans to subsidiaries with short and medium terms. Depending on the facility, the loans are structured to allow revolving utilization.

BONDED LOANS

In addition to deferred interest and the discount, this item includes bonded loans of EUR 201.5 million (2016: 241.5). The amount of the bonded loan was reduced by EUR 40 million in 2017 due to contractual maturity. The bonded loans have fixed or variable interest rates and differing maturity dates until 2025.

Deferred interest for the existing bonded loans is included in the current part.

RECONCILIATION OF CHANGES IN FINANCIAL LIABILITIES

FINANCIAL YEAR ENDED DECEMBER 31, 2017

EUR K	DEC. 31, 2016	CHANGE RECOGNIZED IN THE CASH FLOW STATEMENT	RECLASSIFICATION	CHANGE DUE TO CURRENCY-TRANSLATION EFFECTS	OTHER NON-CASH CHANGES	DEC. 31, 2017
Current financial liabilities	49,902	−35,642	26,453	−557	−254	39,902
Current financial liabilities under finance leases	2,195	−2,174	1,244	−12	0	1,253
Non-current financial liabilities	216,784	0	−26,453	0	0	190,331
Non-current financial liabilities under finance leases	5,042	0	−1,244	−246	0	3,552
Total	**273,923**	**−37,816**	**0**	**−815**	**−254**	**235,038**

The current financial liabilities shown in the table do not include overdrafts inclusive current liabilities to banks from factoring contracts in accordance with the presentation of changes in financial liabilities in the consolidated statement of cash flows.

Other non-cash changes comprise changes from discounts and interest.

20 PROVISIONS

EUR K	AS OF JANUARY 1, 2017	ADDITIONS	UTILIZATION	RELEASES	EFFECTS FROM EXCHANGE RATE DIFFERENCES	AS OF DECEMBER 31, 2017	CURRENT PROVISIONS 2017	NON-CURRENT PROVISIONS 2017
Market-related provisions	17,372	6,452	−6,168	−3,900	−585	13,171	13,171	0
Obligations relating to personnel	5,727	840	−597	−2,185	0	3,785	3,785	0
Other provisions	449	182	0	−116	15	530	530	0
Provisions	**23,548**	**7,474**	**−6,765**	**−6,201**	**−570**	**17,486**	**17,486**	**0**

EUR K	AS OF JANUARY 1, 2016	ADDITIONS	UTILIZATION	RELEASES	EFFECTS FROM EXCHANGE RATE DIFFERENCES	AS OF DECEMBER 31, 2016	CURRENT PROVISIONS 2016	NON-CURRENT PROVISIONS 2016
Market-related provisions	11,853	10,460	−4,377	−974	410	17,372	17,372	0
Obligations relating to personnel	6,018	263	−431	−123	0	5,727	5,727	0
Other provisions	851	0	−150	−252	0	449	449	0
Provisions	**18,722**	**10,723**	**−4,958**	**−1,349**	**410**	**23,548**	**23,548**	**0**

Market-related obligations include provisions for post-development risks from the sale of parts and products. 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.

Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses.

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.

21 TRADE ACCOUNTS PAYABLE

EUR K

	DEC. 31, 2017	DEC. 31, 2016
Non-current trade accounts payable	2,405	2,983
Current trade accounts payable	258,934	219,311
Trade accounts payable	**261,339**	**222,294**

Trade accounts payable refer to outstanding payment obligations for goods and services. 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 in particular include liabilities under hire-purchase agreements with maturities of up to five years. Customary retention of title by suppliers applies in relation to trade accounts payable.

22 OTHER FINANCIAL LIABILITIES

Other financial liabilities break down as follows:

EUR K

	DEC. 31, 2017	DEC. 31, 2016
Liabilities from derivatives	1,440	1,794
Liabilities from leases	1,253	2,195
Liabilities to affiliated companies	829	1,602
Miscellaneous other current financial liabilities	1,765	0
Other current financial liabilities	**5,287**	**5,591**
Liabilities from leases	3,552	5,042
Other non-current financial liabilities	**3,552**	**5,042**

23 OTHER LIABILITIES

Other liabilities break down as follows:

EUR K

	DEC. 31, 2017	DEC. 31, 2016
Other liabilities	52,365	46,656
of which personnel-related liabilities	33,844	29,969
of which customers with credit balances	0	2,311
of which liabilities for advisory services	1,747	1,111
Liabilities from other taxes and charges	10,128	10,181
Prepayments received	3,934	4,301
Social security obligations	3,543	3,258
Deferred income	4,672	5,013
Other current liabilities	**74,642**	**69,409**
Miscellaneous other liabilities	112	100
Other non-current liabilities	**112**	**100**
Other liabilities	**74,754**	**69,509**

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. The item also includes liabilities relating to value-added tax and for short-term accrued expenses.

24 STATEMENT OF CASH FLOW

The statement of cash flow presents the Group's cash flow situation broken down into cash inflows and outflows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification of the respective items. Cash flow from operating activities is derived indirectly from net profit/loss before taxes, which is adjusted for 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, intangible assets 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. Also included in 2017 is the inflow from the issue of the mandatory convertible bond. For the GRAMMER Group, cash and cash equivalents consist of cash and money market funds that can be sold at short notice, less bank overdrafts (including current liabilities to banks from factoring contracts).

25 LITIGATION

As protection against legal risks, we work with a system of intensive contract review, contract management and systematic archiving. Sufficient insurance cover 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.

26 CONTINGENT LIABILITIES

EUR K

	2017	2016
Guarantees	1,039	1,418

Guarantees have been issued primarily as performance bonds.

27 RELATED PARTIES DISCLOSURE

Information on the Group structure, subsidiaries and the parent company can be found in Note 3.

TERMS OF RELATED PARTY TRANSACTIONS

This section describes the sales to and purchases from related parties. 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 from or liabilities to related parties. An impairment test is performed annually by reviewing the financial position of the related party and the market in which it operates. As of December 31, 2017, the Group recognized impairment losses of EUR 0.3 million on accounts receivable from related parties (2016: 0.4).

The following table specifies the total amounts of transactions with GRA-MAG Truck Interior Systems LLC for the reporting year:

EUR K

RELATED PARTIES		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	RECEIVABLES FROM RELATED PARTIES	LIABILITIES FROM RELATED PARTIES
GRA-MAG Truck Interior Systems LLC	2017	7,209	0	5,263	0
	2016	5,607	0	6,292	0

According to the most recent notification pursuant to section 33 WpHG (section 21 WpHG old version) dated October 25, 2017, JAP Capital Holding GmbH holds 25.51% of GRAMMER AG's share capital. In view of the ownership structure, JAP Capital Holding GmbH, derived deliveries of EUR 2.1 million from a subsidiary of GRAMMER AG via its indirect share in Ningbo Jifeng Auto Parts Co. Ltd.

GRA-MAG TRUCK INTERIOR SYSTEMS LLC

The Group holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC) (2016: 50). GRA-MAG LLC had 56 employees as of December 31, 2017 (2016: 50).

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. Remuneration paid to the Executive Board is presented in Note 31.

28 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows all of the Group's financial instruments classified according to category, carrying amount and fair value:

EUR K

	VALUATION CATEGORY ACC. TO IAS 39	CARRYING AMOUNT ON DEC. 31, 2017	AMOUNT STATED IN BALANCE SHEET ACC. TO IAS 39				AMOUNT STATED IN BALANCE SHEET ACC. TO IAS 17	FAIR VALUE ON DEC. 31, 2017
			AMORTIZED COSTS	HISTORICAL COSTS	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE RECOGNIZED IN PROFIT OR LOSS		
Assets								
Cash and short-term deposits	LaR	146,312	146,312					**146,312**
Trade accounts receivable	LaR	223,334	223,334					**223,334**
Other financial assets								
Loans and receivables	LaR	10,255	10,255					**10,255**
Receivables from construction contracts	LaR	169,732	169,732					**169,732**
Financial assets available-for-sale	AfS	50		50				**50**
Financial assets held-for-trading	FAHfT	49				49		**49**
Derivatives with hedge relationship	n.a.	759			759			**759**
Liabilities								
Trade accounts payable	FLAC	261,339	261,339					**261,294**
Current and non-current financial liabilities	FLAC	238,513	238,513					**242,146**
Other financial liabilities								
Other financial liabilities	FLAC	2,593	2,593					**2,593**
Liabilities from finance leases	n.a.	4,805					4,805	**4,369**
Derivatives without hedge relationship	FLHfT	6				6		**6**
Derivatives with hedge relationship	n.a.	1,434			1,434			**1,434**
Of which aggregated by category in acc. with IAS 39:								
Loans and receivables	LaR	549,633	549,633					**549,633**
Financial assets available-for-sale	AfS	50		50				**50**
Financial assets held-for-trading	FAHfT	49				49		**49**
Financial liabilities at amortized cost	FLAC	502,445	502,445					**506,033**
Financial liabilities held-for-trading	FLHfT	6				6		**6**

EUR K	Valuation category acc. to IAS 39	Carrying amount on Dec. 31, 2016	Amount stated in balance sheet acc. to IAS 39				Amount stated in balance sheet acc. to IAS 17	Fair value on Dec. 31, 2016
			Amortized costs	Historical costs	Fair value recognized in equity	Fair value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	132,968	132,968					**132,968**
Trade accounts receivable	LaR	206,589	206,589					**206,589**
Other financial assets								
Loans and receivables	LaR	10,770	10,770					**10,770**
Receivables from construction contracts	LaR	146,013	146,013					**146,013**
Financial assets available-for-sale	AfS	51		51				**51**
Financial assets held-for-trading	FAHfT	0						**0**
Derivatives with hedge relationship	n.a.	0						**0**
Liabilities								
Trade accounts payable	FLAC	222,294	222,294					**222,580**
Current and non-current financial liabilities	FLAC	272,038	272,038					**277,297**
Other financial liabilities								
Other financial liabilities	FLAC	1,602	1,602					**1,602**
Liabilities from finance leases	n.a.	7,237					7,237	**6,859**
Derivatives without hedge relationship	FLHfT	0						**0**
Derivatives with hedge relationship	n.a.	1,794			1,794			**1,794**
Of which aggregated by category in acc. with IAS 39:								
Loans and receivables	LaR	496,340	496,340					**496,340**
Financial assets available-for-sale	AfS	51		51				**51**
Financial assets held-for-trading	FAHfT	0						**0**
Financial liabilities at amortized cost	FLAC	495,934	495,934					**501,479**
Financial liabilities held-for-trading	FLHfT	0						**0**

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 historical 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.

FAIR VALUE MEASUREMENT

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2017:

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Derivative financial assets				
Currency forwards	808	0	808	0
Interest rate swaps	0	0	0	0
Liabilities measured at fair value				
Derivative financial liabilities				
Currency forwards	327	0	327	0
Interest rate swaps	1,113	0	1,113	0
Liabilities for which a fair value is disclosed				
Interest bearing loans				
Obligations under finance leases and hire-purchase agreements	8,236	0	8,236	0
Current and non-current financial liabilities	242,146	0	242,146	0

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2016:

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Derivative financial assets				
Currency forwards	0	0	0	0
Interest rate swaps	0	0	0	0
Liabilities measured at fair value				
Derivative financial liabilities				
Currency forwards	0	0	0	0
Interest rate swaps	1,794	0	1,794	0
Liabilities for which a fair value is disclosed				
Interest bearing loans				
Obligations under finance leases and hire-purchase agreements	11,693	0	11,693	0
Current and non-current financial liabilities	277,297	0	277,297	0

The levels of the fair value hierarchy reflect the significance of the inputs employed in estimating fair values. The hierarchy is broken down into three levels as follows:

Level 1: Quoted prices (unadjusted) 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.

There were no changes between Level 1 and Level 2 in the year under review. No assets or liabilities were assigned to Level 3.

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

EUR K	2017	2016
Loans and receivables	−7,467	8,080
Financial assets and liabilities held-for-trading	42	−24
Financial liabilities measured at historical cost	−1,061	1,614
Net gains/losses from financial instruments	**−8,486**	**9,670**

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 profit or loss from financial instruments held for trading includes changes in the market value of unhedged derivatives including interest income and expenses.

Financial liabilities at historical cost chiefly contain currency translation gains and losses from financial liabilities.

The GRAMMER Group has transacted hedges with several banks. The derivative assets and liabilities outstanding as of the reporting date do not satisfy the offsetting criteria provided for in IAS 32.42. Accordingly, they are reported separately in the balance sheet. However, the master contracts include offsetting arrangements that apply in the event of insolvency.

The following table sets out the carrying amounts of the financial instruments which are subject to these agreements:

EUR K	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE BALANCE SHEET	OFFSETTING AGREEMENT	NET AMOUNT
Dec. 31, 2017			
Financial assets			
Currency forwards	808	–121	687
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	–327	121	–206
Interest rate swaps	–1,113	0	–1,113

EUR K	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE BALANCE SHEET	OFFSETTING AGREEMENT	NET AMOUNT
Dec. 31, 2016			
Financial assets			
Currency forwards	0	0	0
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	0	0	0
Interest rate swaps	–1,794	0	–1,794

As these amounts are not netted in the balance sheet the gross and net amounts are combined in a single column.

29 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 Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

In addition, the Group has derivative financial instruments which it uses for risk management, primarily to hedge interest rate and currency risks where necessary.

FINANCIAL RISKS

The Group is exposed to market, credit and liquidity risks as well as currency and interest rate risks. Consequently, the Executive Board has implemented a risk management system which is also monitored by the Supervisory Board. The risk management system is integrated in the Chief Financial Officer's area of responsibility while the Executive Board bears ultimate overall responsibility. 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 managing 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.

CREDIT RISK

Credit risk is defined as the risk of the Group suffering a loss (risk of default) because a counterparty fails to fulfill its obligations. The Group guidelines stipulate that transactions may only be entered into with creditworthy third parties to reduce the risks of non-performance. 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 credit risk. There are no significant concentrations of credit risks in the Group as major transactions are characterized by short-term maturity structures and the high credit ratings of the key-account customers.

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 situation as of December 31, 2017 and 2016. They were prepared on the basis of the hedging transactions outstanding on December 31, 2017, 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.

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 Group may deviate considerably as a result of actual market developments.

COMMODITY PRICE RISK

Procurement prices, especially for commodities such as steel, foam and plastics, are subject to significant fluctuations depending on the market situation. As these cannot always be passed on to customers, this results in price risks. To hedge these risks, the Company seeks long-term supply contracts and consolidates volumes 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 price risks for raw materials as of the reporting date in 2017 or 2016, and no such contracts were concluded in either of these two years.

CURRENCY RISK

As a consequence of its international focus and business activities, the Group is exposed to currency risks. Fluctuations in exchange rates 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.

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 but do not qualify for cash flow hedging.

As of December 31, 2017, currency forwards with a positive market value of EUR 438 thousand were designated as cash flow hedging instruments. These transactions will be expiring in the course of 2018. There were no currency forwards as of December 31, 2016. In 2017, an amount of EUR 412 thousand (2016: –168) was recognized directly in equity. Of this amount, EUR 809 thousand (2016: 416) was recycled from equity to profit and loss. 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 (2016: 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 USD exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	6,747	–1,291
	–10%	–6,743	1,291
2016	+10%	6,357	–1,469
	–10%	–6,352	1,468

	Changes in the TRY exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	–62	494
	–10%	62	–404
2016	+10%	–259	0
	–10%	259	0

	Changes in the CZK exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	3,915	3,380
	–10%	–3,890	–2,766
2016	+10%	5,747	0
	–10%	–5,747	0

	Changes in the PLN exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	106	746
	–10%	–106	–611
2016	+10%	–756	0
	–10%	757	0

	Changes in the MXN exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	2,882	3,781
	–10%	–2,882	–3,781
2016	+10%	777	3,781
	–10%	–777	–3,781

	Changes in the CNY exchange rate	Impact on profit before tax	Impact on equity
2017	+10%	3,135	0
	–10%	–3,130	0
2016	+10%	3,039	0
	–10%	–3,039	0

INTEREST RATE RISK

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. The market rates prevailing on the date on which the loan is taken out apply in the case of current loans, meaning that the interest rate risk is limited to fluctuations in the market on the date on which the loan is drawn. Interest on overdrafts 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 permitted, GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

As of December 31, 2017, interest rate swaps with a total nominal volume of EUR 83 million (2016: 103) were in place in connection with the issue of the bonded loan to hedge interest rate changes affecting the floating-rate tranches and have the same residual maturity range of between one and five years as the underlying transactions. These interest rate swaps qualify as cash flow hedges. Consequently, an amount of EUR 681 thousand (2016: 1,225) for currency hedges was included directly in equity. Of this, a loss of EUR –872 thousand (2016: –1,367) was recycled from equity to profit and loss. The negative market value of EUR 1,113 thousand (2016: 1,794) 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 risks and thus not included in the sensitivity analysis.
- Floating-rate primary financial instruments, the payments from which are not designated as hedged transactions 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 hedged items 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 into account of in the sensitivity analysis.
- Interest rate derivatives that are designated as hedging instruments in the context of cash flow hedges have an effect 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.
- To determine the sensitivity of interest rate derivatives, a parallel shift in the yield curve of +/– 50 basis points (2016: 50) is assumed. The interest rate on deposits was reduced on interest-bearing current account balances to a minimal level of 0.001%.

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
2017	–50	–86	–262
	50	695	258
2016	–50	–146	–217
	50	399	100

LIQUIDITY RISK

The Group manages liquidity risks by means of appropriate bank credit facilities of EUR 241.7 million (2016: 216.0), through constant monitoring of projected and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The aim is to achieve a balance between covering the need for financial resources at all times and ensuring flexibility through the use of overdraft facilities, loans, bonds, factoring, finance leases and closed-end leasing agreements.

As of December 31, 2017, the Group had unutilized credit facilities of EUR 218.6 million (2016: 198.1), 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

2017	CARRYING AMOUNT	CASHFLOW 2018	2019–2021	2022 AND THEREAFTER
Bonded loans	201,998	15,693	141,724	59,713
Bank loans	28,235	27,726	309	322
Bank overdrafts (including current liabilities under factoring contracts)	8,280	8,280	0	0
Current and non-current financial liabilities	**238,513**	**51,699**	**142,033**	**60,035**
Current and non-current trade accounts payable	**261,339**	**259,009**	**2,300**	**135**
Liabilities from finance leases	4,805	1,362	2,166	2,021
Other original financial liabilities	2,593	2,593	0	0
Current and non-current other financial liabilities	**7,398**	**3,955**	**2,166**	**2,021**
Interest rate derivates	1,113	797	504	−14
Currency derivates	327			
Incoming payments		12,479		
Outgoing payments		−12,649		
Derivatives	**1,440**	**627**	**504**	**−14**
	508,690	**315,290**	**147,003**	**62,177**

EUR K

2016	CARRYING AMOUNT	CASHFLOW 2017	2018–2020	2021 AND THEREAFTER
Bonded loans	242,251	44,967	156,200	60,961
Bank loans	24,435	9,157	15,467	424
Bank overdrafts (including current liabilities under factoring contracts)	5,352	5,352	0	0
Current and non-current financial liabilities	**272,038**	**59,476**	**171,667**	**61,385**
Current and non-current trade accounts payable	**222,294**	**219,878**	**2,023**	**513**
Liabilities from finance leases	7,237	2,357	3,352	2,520
Other original financial liabilities	1,601	1,601	0	0
Current and non-current other financial liabilities	**8,838**	**3,958**	**3,352**	**2,520**
Interest rate derivates	1,794	859	1,248	2
Currency derivates	0			
Incoming payments		0		
Outgoing payments		0		
Derivatives	**1,794**	**859**	**1,248**	**2**
	504,964	**284,171**	**178,290**	**64,420**

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 reporting date. In the case of interest rate derivatives, the net payments are recorded based on calculation of payment flows on the variable side using the relevant forward interest rates.

For currency derivatives, 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 counter currency.

CAPITAL MANAGEMENT

Capital management serves the purpose of ensuring a high credit rating and establishing an appropriate equity ratio. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

The Group monitors its capital structure by reference to net financial liabilities and gearing.

Net financial liabilities include current and non-current financial liabilities less cash and short-term deposits. Gearing is defined as the ratio of net financial liabilities to equity.

The syndicated loan agreement provides for financial covenants which the Group observed at all times during the reporting period.

EUR K	DEC. 31, 2017	DEC. 31, 2016
Non-current bank liabilities	190,331	216,784
Current bank liabilities	48,182	55,254
Cash and short-term deposits	−146,312	−132,968
Net financial liabilities	**92,201**	**139,070**
Equity	**337,661**	**271,237**
Equity ratio	**31%**	**26%**
Gearing	**27%**	**51%**

30 DISCLOSURE OF SHAREHOLDINGS IN THE COMPANY SUBJECT TO SECTION 33 WPHG (SECTION 21 WPHG OLD VERSION)

Under section 21 (1) of 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 notify the Company and the Federal Financial Supervisory Authority immediately, however in no less than four trading days. The lowest notification threshold is 3%. The Company was notified of the following shareholdings as of December 31, 2017 in accordance with section 21 (1) WpHG (the percentage and number of shares shown refers to the share capital in existence as of the date of the notification; the number of shares is taken from the most recent notification served on GRAMMER AG and may therefore no longer apply).

Wynnefield Capital Management LLC., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Wynnefield Capital Management LLC in accordance with section 22 (2) and also 3.92% (452,617 voting rights) in accordance with section 22 (1) sentence 1 number 1 WpHG.

Wynnefield Capital Inc., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.92% (452,617 voting rights) are attributable to Wynnefield Capital Inc. in accordance with section 22 (2) and 1.25% (144,436 voting rights) in accordance with section 22 (1) sentence 1 number 1 WpHG.

Wynnefield Small Cap Value Offshore Fund, Ltd., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.92% (452,617 voting rights) are attributable to Wynnefield Small Cap Value Offshore Fund, Ltd. in accordance with section 22 (2) WpHG.

Wynnefield Partners Small Cap Value L.P., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.57% (412,697 voting rights) are attributable to Wynnefield Partners Small Cap Value L.P., in accordance with section 22 (2) WpHG.

Wynnefield Partners Small Cap Value L.P. I, New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 2.85% (328,792 voting rights) are attributable to Wynnefield Partners Small Cap Value L.P. I, in accordance with section 22 (2) WpHG.

Joshua Landes, United States, notified us in accordance with section 21 (1) WpHG that his share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Joshua Landes in accordance with section 22 (2) and also section 22 (1) sentence 1 number 1 WpHG. He has been assigned voting rights by the following shareholder, whose share of the voting rights in GRAMMER AG is 3% or more: Wynnefield Capital Management LLC.

Nelson Obus, United States, notified us in accordance with section 21 (1) WpHG that his share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Nelson Obus in accordance with section 22 (2) and also section 22 (1) sentence 1 number 1 WpHG. He has been assigned voting rights by the following shareholder, whose share of the voting rights in GRAMMER AG is 3% or more: Wynnefield Capital Management LLC.
(published on June 5, 2012)

Dimensional Holdings Inc., Austin, Texas, United States, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had dropped below the threshold of 5% on October 18, 2016 and stood at 4.999% (577,158 voting rights) on that day. Of this, 4.999% (577,158 voting rights) are attributable to Dimensional Holdings Inc. in accordance with section 22 WpHG.
(published on October 25, 2016)

Eastern Horizon Group Netherlands B.V., Amsterdam, Netherlands, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 10% on December 8, 2016 and stood at 10.001% (1,154,638 voting rights) on that day. Of this, 10.001% (1,154,638 voting rights) are attributable to it in accordance with section 22 WpHG. It has been assigned voting rights by the following shareholder, whose share of the voting rights in GRAMMER AG is 10% or more: Cascade International Investment GmbH, Frankfurt am Main, Germany.
(published on December 14, 2016)

Halog Beteiligungs- und Geschäftsführungs-GmbH, Wolfsburg, Germany, notified us on May 4, 2017 in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had dropped below the threshold of 10% on April 25, 2017 and stood at 9.18% on that day. Of this, 9.18% (1,157,037 voting rights) are assigned to Halog Beteiligungs- und Geschäftsführungs-GmbH in accordance with section 22 WpHG by the following shareholder: HALOG GmbH & Co. KG, Wolfsburg, Germany.
(published on May 8, 2017)

Ms. Bifeng WU, China, notified us on October 23, 2017 in accordance with section 21 (1) WpHG that her share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 25% on October 19, 2017 and now stood at 25.51% (3,215,724 voting rights). Of this, 25.51% (3,215,724 voting rights) are attributable to Ms. Bifeng WU in accordance with section 22 WpHG. Voting rights are allocated by the following company: JAP Capital Holding GmbH.
(published on October 25, 2017)

All notifications served on GRAMMER AG in accordance with sections 21 et sec. WpHG can be inspected at the Company's website and at the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

31 OTHER INFORMATION

EMPLOYEES

The following table shows the annual average number of employees:

	2017	2016
Wage-earning employees	9,921	9,653
Salaried employees	2,562	2,491
Employees	12,483	12,144

Breakdown of employees by Division as of December 31:

	2017	2016
Commercial Vehicles	3,737	3,699
Automotive	8,931	8,272
Central Services	279	279
Employees	12,947	12,250

AUDITORS' FEES WITHIN THE MEANING OF SECTION 314 (1) NO. 9 HGB

Fees paid to the auditor of the consolidated financial statements, which are recognized as expenses in the reporting year, amounted to EUR 753.3 thousand, including an amount of EUR 235.3 thousand for the previous year's audit. In the previous year, auditors' fees of EUR 658.0 thousand, including EUR 168.0 thousand for the previous year's audit (2015) had been recognized. No fees for tax advice arose in the year under review (2016: 36.6). Expenses for other attestation and evaluation services came to EUR 123.6 thousand in the year under review (2016: 0). No miscellaneous services were invoiced in the year under review (2016: 32.4).

EXECUTIVE BOARD AND SUPERVISORY BOARD REMUNERATION

The remuneration paid to the Executive Board and Supervisory Board is set out in the following table:

EUR K	2017	2016
Total remuneration paid to the Executive Board amounted to	2,913	2,178
The Supervisory Board received total remuneration of	508	527

Of the total remuneration paid to the Executive Board, EUR 607 thousand (2016: 363) is attributable to performance-related components and EUR 710 thousand (2016: 309) to components with a long-term incentive effect.

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2017 and 2016:

EUR K 2017	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL
Hartmut Müller	719	293	368	1,380
Gérard Cordonnier	452	157	158	767
Manfred Pretscher	425	157	184	766
	1,596	607	710	2,913

EUR K 2016	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL
Hartmut Müller	632	156	128	916
Gérard Cordonnier	452	103	96	651
Manfred Pretscher	422	104	85	611
	1,506	363	309	2,178

Provisions of EUR 3,354 thousand (2016: 2,182) were recognized for retirement benefit obligations to current members of GRAMMER AG's Executive Board.

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

A further EUR 271 thousand (2016: 269) was paid to former members of management and the Executive Board and their surviving dependents.

Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at EUR 6,377 thousand (2016: 6,390) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

Moreover, current service cost of EUR 495 thousand (2016: 288) for allocations to retirement benefit provisions arose for active members of the Executive Board. Of this, EUR 230 thousand (2016: 129) was for Mr. Hartmut Müller, EUR 181 thousand (2016: 85) for Mr. Manfred Pretscher and EUR 84 thousand (2016: 74) for Mr. Gérard Cordonnier.

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR K	NON-PERFORMANCE-RELATED	NET MEETING FEES	TOTAL
Dr.-Ing, Klaus Probst	60.0	18.0	78.0
Horst Ott	45.0	10.0	55.0
Andrea Elsner	30.0	10.0	40.0
M.A. Tanja Fondel	30.0	5.0	35.0
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	13.0	43.0
Martin Heiß	30.0	10.0	40.0
Lic. oec. HSG Ingrid Hunger	30.0	6.0	36.0
Dipl.-Betriebswirt (FH) Harald Jung	30.0	6.0	36.0
Dipl,-Kaufmann Dr. Hans Liebler[1]	15.0	0.0	15.0
Dipl.-Kaufmann Dr. Peter Merten	30.0	5.0	35.0
Lars Roder	30.0	10.0	40.0
Prof. Dr.-Ing, Birgit Vogel-Heuser[2]	13.0	2.0	15.0
Dr. Bernhard Wankerl	30.0	10.0	40.0
	403.0	**105.0**	**508.0**

[1] Until June 30, 2017.
[2] From July 26, 2017.

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 2017, the Supervisory Board did not receive any performance-based remuneration.

32 CORPORATE GOVERNANCE – GROUP CORPORATE GOVERNANCE STATEMENT

The Group corporate governance statement pursuant to section 315d in connection with section 289f of the German Commercial Code (HGB) and the declaration of conformity with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG)) have been released and are permanently available on the company website under at www.grammer.com in the "Investor Relations" section under "Corporate Facts ".

DISCLOSURES ON THE COMPANY'S MANAGEMENT

MEMBERS OF THE EXECUTIVE BOARD

M.Sc. BWL, Dipl.-Ing. (FH) **HARTMUT MÜLLER**, Darmstadt	Chief Executive Officer (CEO)
Dipl.-Ing. (FH) **MANFRED PRETSCHER**, Meine	Member of the Executive Board (COO)
Gradué en Sciences Juridiques **GÉRARD CORDONNIER**, Eupen, Belgium	Member of the Executive Board (CFO)

MEMBERS OF THE SUPERVISORY BOARD

Dr.-Ing, **KLAUS PROBST**, Heroldsberg	Chairman of the Supervisory Board
HORST OTT, Königstein	Deputy Chairman of the Supervisory Board, employee representative
ANDREA ELSNER, Ebermannsdorf	Employee representative
M.A. **TANJA FONDEL**, Frankfurt a. M,	Employee representative
Dipl.-Betriebswirt (FH) **WOLFRAM HATZ**, Ruhstorf a. d. Rott	
MARTIN HEISS, Sulzbach-Rosenberg	Employee representative
Lic. oec. HSG **INGRID HUNGER**, Lohr a. M.	
Dipl.-Betriebswirt (FH) **HARALD JUNG**, Nabburg	Employee representative
Dipl.-Kaufmann **DR. HANS LIEBLER**, Gräfelfing (Member of the Supervisory Board until June 30, 2017)	
Dipl.-Kaufmann **DR. PETER MERTEN**, Heppenheim	
LARS RODER, Fensterbach	Employee representative
Prof. Dr.-Ing, **BIRGIT VOGEL-HEUSER**, Garching (Member of the Supervisory Board from July 26, 2017)	
DR. BERNHARD WANKERL, Bodenwöhr	

PROFESSIONS AND OTHER OFFICES OF THE MEMBERS OF THE EXECUTIVE BOARD WITHIN THE MEANING OF SECTION 285 (1) NO. 10 HGB

EXECUTIVE BOARD	
HARTMUT MÜLLER Chief Executive Officer (CEO) HR Director	– Chairman of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria (until January 5, 2017) – Member of the Advisory Board of IFA ROTORION – Holding GmbH, Haldensleben, Germany – Member of the Supervisory Board of Wieland-Werke AG, Ulm
MANFRED PRETSCHER Chief Operating Officer (COO)	– Member of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria (until January 5, 2017) – Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States
GÉRARD CORDONNIER Chief Financial Officer (CFO)	– Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States – Member of the Board of Directors of GRAMMER Japan Limited, Tokyo, Japan – Member of the Board of Directors of GRAMMER Electronics N.V., Artselaar, Belgium – Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China – Member of the Supervisory Board of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin, China – Member of the Supervisory Board of GRAMMER Interior (Changchun) Co., Ltd., Changchun, China – Member of the Supervisory Board of GRAMMER Seating (Jiangsu) Co., Ltd., Jiangyin, China – Member of the Supervisory Board of GRAMMER Interior (Beijing) Co., Ltd., Beijing, China – Member of the Supervisory Board of GRAMMER Seating (Shaanxi) Co., Ltd., Weinan City, China

PROFESSIONS AND OFFICES IN ACCORDANCE WITH SECTION 125 (1) SENTENCE 5 AKTG AND OTHER OFFICES HELD BY MEMBERS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	OFFICES IN ACCORDANCE WITH SECTION 125 (1) SENTENCE 5 AKTG	OTHER OFFICES
Dr.-Ing. **KLAUS PROBST** Former Chief Executive Officer of LEONI AG	– Chairman of the Supervisory Board of GRAMMER AG, Amberg – Chairman of the Supervisory Board of LEONI AG, Nuremberg, (from May 11, 2017) – Member of the Supervisory Board of Zapp AG, Ratingen	– Member of the Advisory Board of Lux-Haus GmbH & Co., Georgensmünd – Member of the Advisory Board of Deutsche Bank AG, Munich (region south) – Deputy Chairman of the Advisory Board of Diehl Stiftung & Co. KG, Nuremberg – Member of the Advisory Board of Richard Bergner Holding GmbH & Co. KG, Schwabach
HORST OTT 1st Representative of IG Metall Amberg	– Deputy Chairman of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Christophorus Holding GmbH, Weiden (until October 31, 2017)	– No further offices
ANDREA ELSNER Industrial business management assistant	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
TANJA FONDEL Trade union secretary, IG Metall Management Board	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of DMG MORI AG, Bielefeld (from January 17, 2018)	– No further offices
WOLFRAM HATZ Chairman of the Advisory Board of Motorenfabrik Hatz GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
MARTIN HEISS Management assistant for data processing	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
INGRID HUNGER CEO of Walter Hunger GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
HARALD JUNG Vice President Division Controlling Consoles & Armrests	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
DR. HANS LIEBLER Managing Director of Lenbach Capital GmbH	– Member of the Supervisory Board of GRAMMER AG, Amberg (until June 30, 2017) – Member of the Supervisory Board of Washtec AG, Augsburg – Member of the Supervisory Board of Autowerkstattgroup N.V., Maastricht, Netherlands	– No further offices
DR. PETER MERTEN Member of the Executive Board of Rheinmetall Automotive AG (until July 31, 2017), Management consultant (from August 1, 2017)	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Nanogate SE, Göttelborn (from June 29, 2017)	– Member of the Advisory Board of Deutsche Bank AG, Mannheim – Member of the Advisory Board of KAMAX Holding GmbH & Co. KG, Homberg (Ohm)
LARS RODER Mechanical engineering technician	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
Prof. Dr.-Ing. **BIRGIT VOGEL-HEUSER** Professor – Head of the Institute of Automation and Information Systems at the Technical University of Munich	– Member of the Supervisory Board of GRAMMER AG, Amberg (from July 26, 2017) – Member of the Supervisory Board of SMS group GmbH, Düsseldorf, and of SMS Holding GmbH, Düsseldorf	– No further offices
DR. BERNHARD WANKERL Attorney, law firm Dr. Wankerl and colleagues	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices

33 NON-FINANCIAL GROUP STATEMENT

The non-financial Group statement required under section 315b HGB can be found permanently on the Company's website at www.grammer.com in the section entitled "About GRAMMER" under "Sustainability".

"INDEPENDENT AUDITOR'S REPORT

To GRAMMER Aktiengesellschaft

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of GRAMMER AG, Amberg, and its subsidiaries (the Group) for the fiscal year from January 1 to December 31, 2017, which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statement of income, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2017 to December 31, 2017 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GRAMMER AG, Amberg, for the fiscal year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the fiscal year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Testing goodwill for impairment

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

Goodwill is subject to an annual impairment test. This is normally based on the present value of the future cash flows of the cash-generating unit to which the goodwill is allocated. These calculations are based on the budgets of the cash-generating units which are prepared in accordance with the financial plans approved by management and the Supervisory Board. They are discounted on the basis of the weighted average cost of capital (WACC) for the respective cash-generating unit. The parameters used to calculate the discount rate are partially derived from market estimates and therefore entail a certain degree of judgment.

The results of the measurements particularly depend on estimates of the future cash flows by the executive directors as well as the determination of the discount rate used. Given the planning uncertainty arising from the forward-looking nature of the measurements as well as the scope for discretion in connection with the necessary impairment testing of goodwill, this was considered to be a key audit matter.

AUDITOR'S RESPONSE

To assess the recoverable amounts for the segments calculated by the executive directors, we examined the underlying processes for calculating the recoverable amounts and performed substantive audit procedures. In particular, we reviewed the methodology and arithmetic calculations underlying the valuation models in consultation with internal valuation experts. We also determined whether the budgets reflect general and sector-specific market expectations including the measurement parameters used to calculate the recoverable amounts, e.g. estimated growth rates. In our assessment, we considered the corresponding market expectations as well as the explanations given by management on the main value drivers underlying the budgets. To determine the reliability of the budgets, we compared historical budget data with actual figures on a sample basis. We reviewed the weighted average cost of capital (WACC) rates particularly by assessing the reliability of the beta factor used on the basis of the composition of the peer group applied and comparing the return on equity and interest on debt with available market data. In order to detect possible impairment risks, we performed our own sensitivity analyses on the results of the impairment tests to determine the changes to certain measurement parameters that would result in a different opinion on the existence of an impairment at the level of the cash-generating unit. Our audit procedures did not lead to any reservations regarding the impairment of goodwill.

REFERENCE TO RELATED DISCLOSURES

With respect to the accounting and measurement methods applied to goodwill and the related disclosures on the Executive Board's discretion and sources of estimating uncertainties, reference should be made to the disclosures in Note 2.1 Summary of significant accounting policies and the disclosures on goodwill in Note 11.3 Goodwill in the notes to the consolidated financial statements.

2. Recognition of revenue from long-term construction contracts

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

Revenue from customer-specific construction contracts is measured using the percentage-of-completion (PoC) method under IAS 11. For this purpose, revenue is recognized on the basis of the percentage of completion of the underlying construction contract. The percentage of completion is calculated on the basis of the expense that has so far arisen as a proportion of the total expected costs of the contract. If it is not yet possible under the terms of the contract to invoice the customer for the contract costs that have accumulated, they are reported together with the estimated partial gains as future accounts receivable from construction contracts under other financial assets.

Consequently, the recognition of revenue and profit and loss under the PoC method is heavily dependent on the executive directors' estimates regarding the total income from and costs of the contract in the light of possible changes to the contract and has a material impact on the items of the consolidated financial statements via the calculation of the percentage of completion. For this reason, we considered the recognition of revenue from long-term construction contracts to constitute a key audit matter due to the risk of material misrepresentation in the consolidated financial statements including the inherent risk arising from the approach to or avoidance of the internal control system by management.

AUDITOR'S RESPONSE

We assessed the consistency of the accounting and measurement methods applied in the consolidated financial statements for the recognition of revenue using the PoC method with the guidance contained in IAS 11 on construction contracts. We examined the structure and effectiveness of the tests during the period under review for the material controls implemented by the executive directors with respect to the acceptance and execution of orders as well as the recognition of construction contracts particularly in connection with the calculation of contract assets and the estimate of the contract costs including the identification of the contract-related risks. For this purpose, we tested the controls at the transaction level as well as at higher levels, such as the regular review meetings.

In the case of construction contracts which were material on account of their technical or business complexity or in view of their financial significance on the basis of the forecasts for total contract costs and income, we also performed the following substantive checks of individual cases:

We interviewed the contract project team and the responsible Group controlling offices to gain an impression of the content of the contracts as well as the development activities to be performed as well as the progress achieved in the performance of the respective contract. In connection with material contracts, we also requested management's assessment of the percentage of completion and an estimate of the risks involved in the contract. We examined the information obtained to determine whether it was consistent with the externally available evidence such as customer correspondence and contracts. In addition, we recalculated the various components of the total contract revenue by comparing them with their contractual bases.

We analyzed the construction contracts included in the reported revenue to determine whether the planned and realized margins on the contracts were consistent with our expectations regarding the progress of the individual project in the light of comparable contracts. Our audit procedures did not lead to any reservations regarding the recognition of revenue from long-term construction contracts.

REFERENCE TO RELATED DISCLOSURES

Reference should be made to Note 2.1 Summary of significant accounting policies – Revenue from construction contracts and Note 6 Structure of the Group's revenue and Note 14 Other financial assets in the notes to the consolidated financial statements.

3. Recognition of revenue

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

The revenue reported in the consolidated financial statements is one of the main financial performance indicators used by the executive directors of GRAMMER AG. Revenue from sales is recognized when the service has been rendered or the goods have been delivered, i.e. when the risk has been transferred to the customer. In this connection, the recognition of revenue is exposed to the risk that it may be recognized too early, with the result that it is allocated to the wrong period, or the risk of fictitious revenue being reported. Revenue is generated with a large number of customers and, thus, for numerous individual transactions in the form of separate deliveries. Moreover, continuous price negotiations with customers lead to regular changes in transaction prices and, hence, to changes in the measurement of the revenue recognized. The recognition of revenue is exposed to the risk of material misstatement including the inherent risk arising from the approach to or avoidance of the internal control system by management. As revenue recognition has a material impact on GRAMMER AG's consolidated financial statements, we considered it to be a key audit matter.

AUDITOR'S RESPONSE

For the purposes of our audit, we examined the contracts entered into with the customers, particularly the provisions governing the timing of the transfer of risk and the billing procedure and assessed them in the light of our understanding of GRAMMER AG's business and processes. Against this backdrop, we considered the internal procedures and control mechanisms for recording revenue, for allocating it to the appropriate period and for entering the right amounts. We performed structural and functional tests in this connection.

In addition, we performed data analyses of the entire revenue reported for the period from January 1 until December 31, 2017 to determine how it had been entered in the system and assessed the posting logic in the light of the existing processes. Any deviations from our expectations with respect to the posting logic were analyzed using additional substantive audit activities on the basis of audit evidence such as delivery papers or third-party confirmations in the light of the transfer of risk to customers as well as the posting of the correct amount of revenue in accordance with the principles of accrual accounting. We checked that the revenue had been entered in the right amount particularly by comparing a sample of the transaction prices with their applicable contractual bases. In connection with revenue, we also determined whether the corresponding trade receivables had been settled by the customer by payment of the invoice amount in the customary business cycle. At the same time, we checked a sample of incoming payments against the corresponding statements of account.

In order to detect any irregularities in connection with the earnings generated from the revenue, we compared the revenue recorded in the individual months of the year with the corresponding production costs as a basis for analyzing the earnings for any unexpected fluctuation in the gross margin reported. Our audit procedures did not lead to any reservations regarding the recognition of revenue.

REFERENCE TO RELATED DISCLOSURES

The Company's disclosures on the recognition of revenue can be found in Note 2.1 Summary of significant accounting policies – Recognition of income and expenses and Note 6 Structure of the Group's revenue in the notes to the consolidated financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for its own report in accordance with section 171 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). In all other respects, the executive directors are responsible for the other information. Other information includes the elements of the annual report, of which we received a copy prior to preparing this report, the Group corporate governance statement in accordance with section 315d HGB, the report of the Supervisory Board in accordance with section 171 (2) AktG, the non-financial Group report in accordance with section 315b (1) HGB, the responsibility statement in accordance with section 297 (2) sentence 4 HGB and the information presented in the section on the GRAMMER share. Other information also includes all the other parts of the annual report with the exception of the audited consolidated financial statements and the Group management report as well as our independent auditor's report which we expect to receive after we have issued our independent auditor's report. This particularly applies to the Executive Board's letter to the shareholders and the quarterly overview of the Group and the segments.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting on May 24, 2017. We were engaged by the audit committee on July 26, 2017. We have been the group auditor of GRAMMER AG without interruption for more than 23 years. GRAMMER AG has been classified as a capital market-oriented company as defined by section 264d HGB since fiscal year 1996.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

- support in connection with enforcement proceedings initiated by Deutsche Prüfstelle für Rechnungslegung DPR e.V.
- attestation services in connection with the partial utilization of the Company's authorization to issue option and/or convertible bonds

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Oliver Sieger."

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 7, 2018

GRAMMER AG
The Executive Board

GRAMMER GROUP FIVE-YEAR OVERVIEW ACCORDING TO IFRS

IN EUR M	2017	2016	2015	2014	2013
Group revenue	**1,786.5**	**1,695.5**	**1,425.7**	**1,365.9**	**1,265.7**
Automotive revenue	1,291.2	1,270.8	1,008.1	911.6	813.3
Commercial Vehicles revenue	540.2	473.6	458.4	478.7	472.8
Income Statement					
Gross profit	215.1	198.7	152.1	158.3	155.9
EBIT	66.5	73.0	42.7	57.0	58.0
EBIT-margin (%)	3.7	4.3	3.0	4.2	4.6
Financial result	−10.6	−10.3	−6.9	−8.6	−15.6
Profit/loss (−) before income taxes	55.9	62.7	35.7	48.4	42.4
Income taxes	−23.5	−17.5	−11.9	−14.8	−12.8
Net profit/loss (−)	32.4	45.2	23.8	33.6	29.6
Statement of Financial Position					
Total assets	1,107.0	1,050.6	992.1[2]	836.5	766.0
Non-current assets	372.3	379.6	373.7[2]	319.1	298.5
Current assets	734.6	671.0	618.4	517.4	467.4
Equity	337.7	271.2	253.4	231.8	224.7
Equity ratio (%)	31	26	26	28	29
Net financial debt	92.2	139.1	155.5	86.7	93.2
Statement of Cash Flows					
Investments (without M&A)	59.1	56.2	47.9	51.5	46.8
Depreciation and amortization	49.5	47.2	40.5	36.7	34.3
Cash inflow/outflow from operating activities	69.2	85.8	28.8	65.0	59.5
Employees					
Annual average	12,483	12,144	10,995	10,446	9,315
thereof in Germany	3,201	3,170	2,457	2,374	2,235
thereof abroad	9,282	8,974	8,538	8,072	7,080
Personnel expenses	375.4	352.4	301.8	282.2	251.6
Key share data					
Share price at year-end (XETRA, in EUR)	51.85	47.55	27.32	33.05	34.66
Market capitalization at year-end (in EUR m)	653.7	548.9	315.4	381.6	400.1
Dividend (in EUR)	1.25[1]	1.30	0.75	0.75	0.65
Earnings per share (in EUR)	2.67	4.01	2.10	3.09	2.67

[1] Proposal.
[2] Adjusted in accordance with IFRS 3.49, see Note 4 "Business combinations" in Annual Report 2016.

GRAMMER AG FINANCIAL STATEMENTS

RESULTS OF OPERATIONS OF GRAMMER AG

GRAMMER AG INCOME STATEMENT[1] FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31

EUR K

	2017	2016	CHANGE
Revenue	657,349	587,893	69,456
Increase in inventories of finished goods and work in progress	7,862	24,879	−17,017
Other own work capitalized	52	150	−98
Other operating income	6,128	4,776	1,352
Total revenues	**671,391**	**617,698**	**53,693**
Material expenses	528,790	470,359	58,431
Personnel expenses	91,776	85,564	6,212
Depreciation and amortization	9,070	8,646	424
Other operating expenses	75,105	59,097	16,008
Financial result	84,173	68,470	15,703
Profit/loss (–) before income taxes	**50,823**	**62,502**	**−11,679**
Income taxes	8,715	5,279	3,436
Other taxes	119	277	−158
Net profit/loss (–)	**41,989**	**56,946**	**−14,957**
Profit carried forward from the previous year	36,667	22,773	13,894
Additions to retained earnings	−20,995	−28,473	7,478
Net retained profit/loss (–)	**57,661**	**51,246**	**6,415**

[1] Financial statements in accordance with HGB.

NET ASSETS OF GRAMMER AG

GRAMMER AG'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION [1] AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K	2017	2016	CHANGE
A. Fixed assets			
I. Intangible assets	16,531	14,353	2,178
II. Property, plant and equipment	26,665	27,660	−995
III. Financial assets	289,875	294,600	−4,725
	333,071	**336,613**	**−3,542**
B. Current assets			
I. Inventories	94,911	88,104	6,807
II. Receivables and other assets	175,465	153,379	22,086
III. Cash at bank and in hand	99,915	64,538	35,377
	370,291	**306,021**	**64,270**
C. Prepaid expenses	1,191	840	351
Total assets	**704,553**	**643,474**	**61,079**

EQUITY AND LIABILITIES

EUR K	2017	2016	CHANGE
A. Equity			
I. Subscribed capital	32,274	29,555	2,719
Own shares	−845	−845	0
II. Capital reserve	131,931	74,651	57,280
III. Retained earnings	94,484	73,489	20,995
IV. Net retained profit	57,661	51,246	6,415
	315,505	**228,096**	**87,409**
B. Provisions			
1. Provisions for pensions	67,997	65,630	2,367
2. Tax provisions	1,508	818	690
3. Other provisions	21,828	26,226	−4,398
	91,333	**92,674**	**−1,341**
C. Liabilities			
1. Liabilities to banks	224,654	256,500	−31,846
2. Prepayments received	1,906	3,429	−1,523
3. Trade accounts payable	20,465	16,925	3,540
4. Liabilities to related parties	44,465	39,713	4,752
5. Liabilities to companies in which a participating interest is held	6,225	6,137	88
	297,715	**322,704**	**−24,989**
Total equity and liabilities	**704,553**	**643,474**	**61,079**

[1] Financial statements in accordance with HGB.

FINANCIAL CALENDAR 2018 AND TRADE FAIR DATES[1]

IMPORTANT DATES FOR SHAREHOLDERS AND ANALYSTS

Annual Report 2017	March 21, 2018
Annual analyst and press conference	March 21, 2018
Interim Management Statements, 1st quarter of 2018	May 14, 2018
Annual General Meeting 2018 Venue: ACC (Amberger Congress Centrum), 92224 Amberg	June 13, 2018
Interim Report, second quarter and first half-year 2018	August 07, 2018
Interim Management Statements, 3rd quarter of 2018	November 13, 2018

IMPORTANT TRADE FAIR DATES

Commodity Classic, Anaheim, California, United States	February 27–March 1, 2018
CeMAT 2018, Hannover, Germany	April 23–27, 2018
Automotive Interior Expo, Stuttgart, Germany	June 5–7, 2018
Hillhead, Hillhead Quarry Buxton, United Kingdom	June 26–28, 2018
Truck Grand Prix 2018, Nürburgring, Germany	June 29–July 1, 2018
Caravan Salon 2018, Düsseldorf, Germany	August 25–September 02, 2018
SMM 2018, Hamburg, Germany	September 4–7, 2018
Innotrans 2018, Berlin, Germany	September 18–21, 2018
IAA Nutzfahrzeuge 2018, Hannover, Germany	September 20–27, 2018
GIE Expo, Kentucky, United States	October 17–19, 2018
Automotive Interior Expo, Detroit, United States	October 23–25, 2018
CeMAT China, Shanghai, China	November 6–9, 2018
EIMA 2018, Bologna, Italy	November 07–11, 2018
METS 2018, Amsterdam, Netherlands	November 13–15, 2018
Bauma China, Shanghai, China	November 27–30, 2018

[1] All dates are tentative and subject to change. Subject to change without notice.

CONTACT

GRAMMER AG
Georg-Grammer-Straße 2
92224 Amberg
Germany

P.O. Box 14 54
92204 Amberg
Germany

Phone +49 (0) 96 21 66 0
Fax +49 (0) 96 21 66 1000
www.grammer.com

INVESTOR RELATIONS
Ralf Hoppe
Phone +49 (0) 96 21 66 2200
Fax +49 (0) 96 21 66 32200
E-Mail investor-relations@grammer.com

IMPRINT

PUBLISHED BY
GRAMMER AG
P.O. Box 14 54
92204 Amberg
Germany

RELEASE DATE
March 21, 2018

CONCEPT, TEXT, LAYOUT
Kirchhoff Consult AG, Hamburg, Germany

PRINTED BY
Druckerei Vogl GmbH, Zorneding, Germany

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C014405

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

GRAMMER AG
P.O. Box 14 54
D-92204 Amberg
Germany
Phone +49 (0) 96 21 66 0

www.grammer.com