GRAMMER AG

ANNUAL REPORT 2018

GRAMMER

KEY FIGURES ACCORDING TO IFRS
GRAMMER GROUP

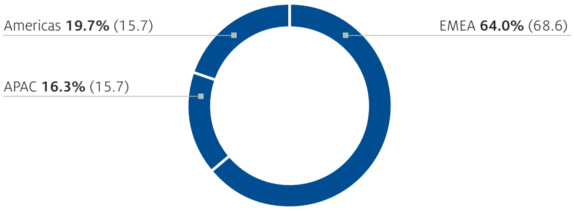
IN EUR M

	Q4 2018	Q4 2017	2018	2017
Group revenue	**502.1**	**447.6**	**1,861.3**	**1,786.5**
Automotive revenue	369.9	317.3	1,312.6	1,291.2
Commercial Vehicles revenue	143.8	142.4	599.8	540.2
Income statement				
EBITDA	37.4	33.3	101.0	116.0
EBIT margin (in %)	7.4	7.4	5.4	6.5
EBIT	20.8	20.7	48.7	66.5
EBIT margin (in %)	4.1	4.6	2.6	3.7
Operating EBIT	19.2	21.6	75.8	80.2
Operating EBIT margin (in %)	3.8	4.8	4.1	4.5
Profit/loss (–) before income taxes	13.1	19.2	34.5	55.9
Net profit/loss (–)	8.3	6.7	23.2	32.4
Statement of Financial Position				
Total assets	1,441.4	1,107.0	1,441.4	1,107.0
Equity	314.8	337.7	314.8	337.7
Equity ratio (in %)	22	31	22	31
Net financial debt	253.3	92.2	253.3	92.2
Gearing (in %)	80	27	80	27
Investments (without M&A)	24.5	18.9	73.9	59.1
Depreciation and amortization	16.6	12.6	52.3	49.5
Employees (December 31)			**14,657**	**12,947**
Key share data				
Share price (XETRA closing price, in EUR)			37.70	51.85
Market capitalization (in EUR m)			475.3	653.7
Dividend per share (in EUR)			0.75[1]	1.25
Earnings per share (in EUR)			1.90	2.67

[1] Proposed.

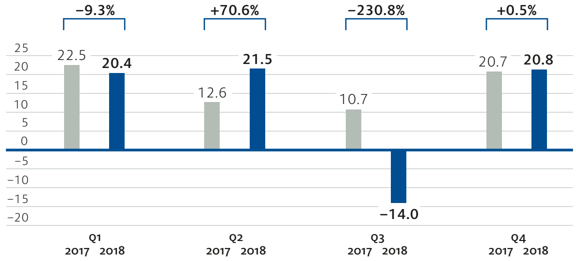
REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



GROUP EBIT DEVELOPMENT BY QUARTER

IN EUR M

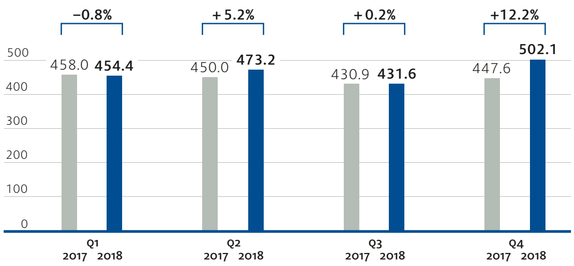


QUARTERLY OVERVIEW OF THE GROUP AND DIVISIONS

GROUP

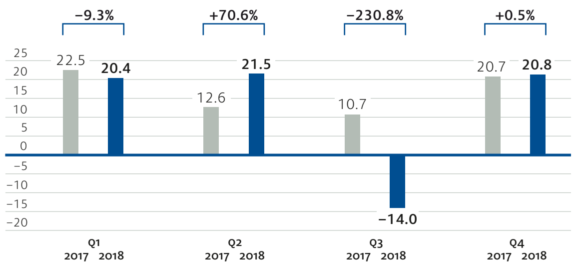
GROUP REVENUE DEVELOPMENT BY QUARTER

IN EUR M



GROUP EBIT DEVELOPMENT BY QUARTER

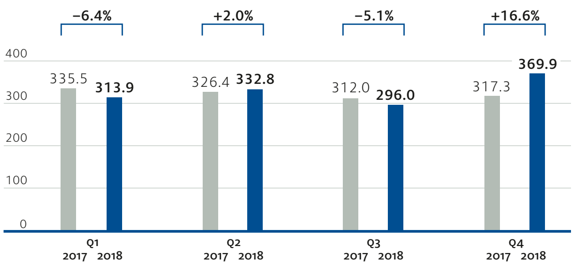
IN EUR M



AUTOMOTIVE

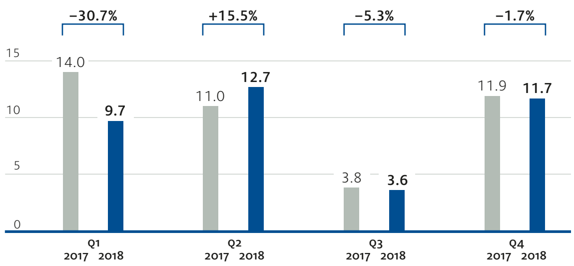
AUTOMOTIVE REVENUE DEVELOPMENT BY QUARTER

IN EUR M



AUTOMOTIVE EBIT DEVELOPMENT BY QUARTER

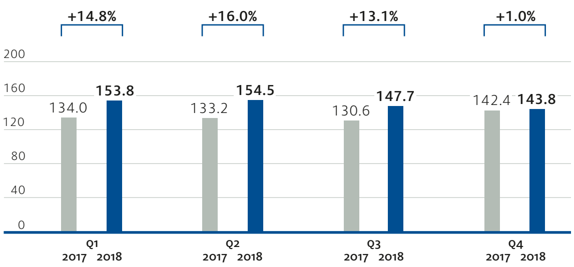
IN EUR M



COMMERCIAL VEHICLES

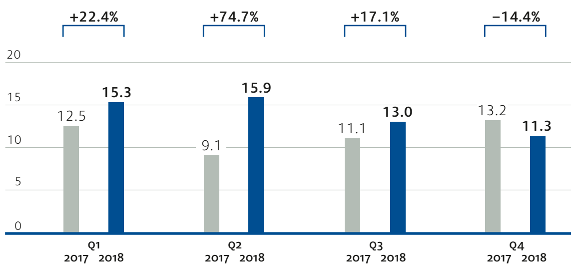
COMMERCIAL VEHICLES REVENUE DEVELOPMENT BY QUARTER

IN EUR M



COMMERCIAL VEHICLES EBIT DEVELOPMENT BY QUARTER

IN EUR M



DIVISIONS

COMMERCIAL VEHICLES

GRAMMER Commercial Vehicles develops and produces driver and passenger seats for agricultural and construction machinery, forklifts, trucks, buses and trains worldwide. With "Design for use", GRAMMER Commercial Vehicles creates products that are ergonomic, user-friendly, comfortable and safe. Thanks to its innovative seating systems, GRAMMER is the global number 1 in offroad vehicles and one of the leading producers of seats for trucks, buses and rail.

IN EUR M

	2018	2017
Revenue	599.8	540.2
EBIT	55.5	45.9
EBIT margin (in %)	9.3	8.5
Operating EBIT	53.5	47.5
Operating EBIT margin (in %)	8.9	8.8
Investments (without M&A)	16.6	12.2
Employees (number, as of December 31)	3,744	3,737

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

TRUCK & BUS
Driver seats for trucks and buses

RAILWAY
Passenger seats, driver seats

AUTOMOTIVE

In the Automotive Division, we supply headrests, armrests, center console systems, high-quality interior components, operating systems and innovative thermo-plastic solutions to premium automakers and automotive system suppliers. Our interior components feature top comfort, design and safety. Leading automotive OEMs and Tier 1 suppliers appreciate GRAMMER Automotive as a source of inspiration and ideas in interior design due to its competitive and high-quality products.

IN EUR M

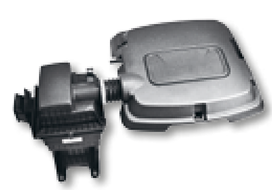
	2018	2017
Revenue	1,312.6	1,291.2
EBIT	37.7	40.7
EBIT margin (in %)	2.9	3.2
Operating EBIT	36.8	45.4
Operating EBIT margin (in %)	2.8	3.5
Investments (without M&A)	39.8	42.9
Employees (number, as of December 31)	10,635	8,931

HEADRESTS

ARMRESTS

CENTER CONSOLES

INTERIOR COMPONENTS



FUNCTIONAL PLASTICS

CONTENTS

NAVIGATION GUIDE

Link to the report

Link to the internet

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 and innovative thermoplastic solutions for OEMs.

With a workforce of around 15,000 employees, GRAMMER operates in 19 countries worldwide via its 40 companies.

HIGHLIGHTS OF 2018

SUCCESSFUL ACQUISITION

With the acquisition of USD automotive components supplier Toledo Molding & Die, Inc. (TMD), we passed an important milestone in the implementation of our long-term strategy. At the same time, this was the largest acquisition in the Company's history. We have found in TMD an ideal partner. In this way, we are able to broaden our expertise and product range and also expand our presence in North America, the world's second largest automotive market.

TOP SUPPLIER

At the "2018 National Supplier Conference", the Shaanxi Group named GRAMMER Seating as one of its strategic Top 5 suppliers in the "High Efficient Collaboration" segment. The award, which Shaanxi bestows annually on its best suppliers, underscores the important strategic position that we hold in Shaanxi's supply chain. At the same time, it vindicates our strategic decision to set up production facilities in China in order to address local OEMS.

INVESTMENT GRADE CONFIRMED

Euler Hermes Rating GmbH reaffirmed its investment-grade BBB rating for GRAMMER AG. In its rationale for the favorable rating, the agency cited our strong market position in the Commercial Vehicles Division and the steady improvement in our market position in the Automotive Division. Looking forward over the next twelve months, Euler Hermes therefore expects GRAMMER's rating to remain stable.

NEW TECH CENTER IN PUNE

Looking forward, external support services for development projects will be pooled at a single site and allocated across a small number of specialized development service providers. A joint tech center is being established in conjunction with AllyGrow Technologies in the West Indian city of Pune, where many of our customers are based. AllyGrow is a leading engineering service provider in the automotive, engineering and aerospace sectors.

With the establishment of this joint venture in India, we are optimizing our development processes under the global R&D strategy and substantially improving the efficiency of our R&D structures.

AWARD-WINNING SPINE RESEARCH

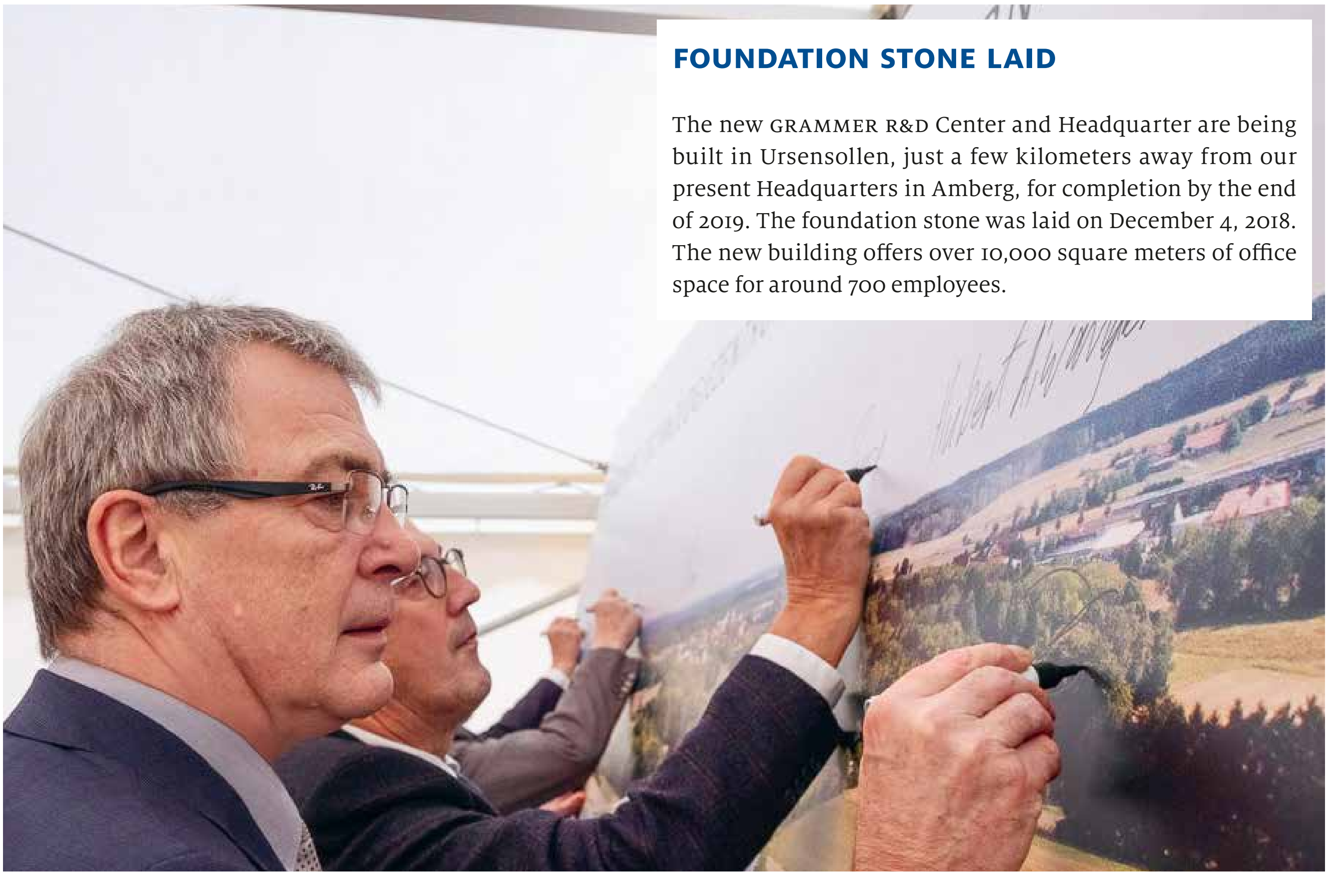
The 19th Grammer European Spine Journal Award was presented at "EUROSPINE 2018", the largest European congress devoted to spine health research. Each year, the award is given in recognition of outstanding achievements in basic and applied research. We sponsor the coveted prize together with the "European Spine Journal".

This year, a group of spine researchers led by Neil Broom from the University of Auckland received the award for their research on the lumbar spine.

DEEPER PARTNERSHIP

GRAMMER and Ningbo Jifeng forged a strategic partnership back in February 2017. In the course of 2018, Jiye Auto Parts GmbH, an entity affiliated with Ningbo Jifeng, submitted a takeover bid to our shareholders. This bid was accepted by just under 59% of the shareholders. Since then, Jiye Auto Parts GmbH has been our majority shareholder with 84% of our shares. This has resulted in a significant stabilization of our shareholder structure. At the same time, the acquisition strengthens our strategic partnership with Ningbo Jifeng.

The takeover bid is also linked to a far-reaching business combination agreement safeguarding jobs, facilities, expertise and the brand at the GRAMMER Group over the coming years and underpinning the company's independence and growth strategy.



FOUNDATION STONE LAID

The new GRAMMER R&D Center and Headquarter are being built in Ursensollen, just a few kilometers away from our present Headquarters in Amberg, for completion by the end of 2019. The foundation stone was laid on December 4, 2018. The new building offers over 10,000 square meters of office space for around 700 employees.

FOREWORD OF THE CEO

Dear Sir or Madam,

2018 was an eventful year, in which GRAMMER AG passed important milestones. The shareholder structure has been stabilized on a long-term basis and we can now return all of our attention to ensuring the continued successful operational and strategic development of the GRAMMER Group. The measures taken to preserve the Company's independence and future viability necessitated considerable efforts including on the part of the entire workforce. All our employees deserve our sincere thanks for their strong commitment and cohesion in these challenging times!

We achieved our full-year targets and received a large number of incoming orders in a difficult market environment. With order intake exceeding EUR 1.4 billion, GRAMMER received more new orders in its Automotive Division in 2018 than ever before. These encouraging figures once again testify to our customers' trust in GRAMMER as a reliable partner offering a high degree of innovativeness and product quality. In addition, we further diversified our customer structure and signed up important new automotive OEMs in addition to our existing premium customers.

On an encouraging note, we have in our strategic partner, the Chinese automotive components supplier Ningbo Jifeng, a reliable majority shareholder who is respected by our customers. Ningbo Jifeng holds around 84 percent of GRAMMER shares via an affiliated company. The takeover was executed on the basis of the joint business combination agreement, which provides far-reaching assurances for jobs, locations, intellectual property and expertise and thus also secures GRAMMER's independence. Our new anchor shareholder is supporting the continuity of our growth and innovation strategy as well as our funding and dividend policy. This gives us solid forward planning security, allowing us to respond to trends in the international automotive industry. In addition, the partnership with Ningbo Jifeng gives us better access to the Chinese market and additional local potential.

The changes to the Executive Board mirror the upheaval experienced by the Company in 2018. Thus, the long-standing Chief Executive Officer Hartmut Müller and Chief Financial Officer Gérard Cordonnier resigned from the Executive Board effective December 31, 2018. The Company owes a great deal to these two executives, who have positioned it as an innovative and global components supplier over the last few years, making a decisive contribution to GRAMMER's success. The Supervisory Board has appointed Manfred Pretscher, who has hitherto also been a member of the Executive Board, to the positions of CEO and CFO on an interim basis. By appointing Jens Öhlenschläger as COO from January 1, 2019, it has also laid the foundations for a new line-up on the Executive Board.

Manfred Pretscher
Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

New drive-train and mobility concepts as well as the advances being made in autonomous driving are posing major challenges for our industry. Over the last few years, GRAMMER has built up a good position for addressing these challenges. By systematically implementing a clearly defined growth strategy, executing targeted acquisitions and forging partnerships, we have evolved into a leading international automotive components supplier.

We successfully continued this strategy in 2018 as well. With the acquisition of US automotive supplier, Toledo Molding & Die, Inc. (TMD), the largest acquisition in the Company's history, GRAMMER has expanded its market position and now completed its North American footprint. At the same time, the acquisition gives us broad-based knowledge of special production processes. This acquisition and the intensified cooperation with Ningbo Jifeng offer GRAMMER considerable competitive advantages in two growth regions, namely the United States and China. GRAMMER is now also present on the Indian subcontinent, having founded a joint tech center with engineering service provider AllyGrow Technologies in Pune, West India. Looking forward, it will be handling development activities for GRAMMER's worldwide locations and making a significant contribution to increasing global research and development input.

The operating environment for the Automotive Division deteriorated in the second half of 2018, mainly due to muted demand in the European passenger car market, with diesel-related issues and production shortfalls due to the implementation of the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) taking their toll. This forced a number of automotive components suppliers to lower their original revenue and earnings targets. GRAMMER was also affected, although our second mainstay, the Commercial Vehicles Division, continued to display gratifying growth. All segments within this Division continued to operate at full capacity utilization.

The GRAMMER Group was able to assert itself successfully in what were generally adverse market conditions for the automotive and components industry in 2018. Once again, we achieved record revenue of EUR 1.86 billion, an increase of around 4 percent over the previous year.

With revenue rising by 11 percent to a total of EUR 600 million, the Commercial Vehicles Division in particular continued to expand. As in the previous quarters, the Automotive Division recorded slower growth of 1.7 percent to EUR 1.3 billion due to protracted muted market conditions in Europe in line with expectations.

At EUR 75.8 million, operating EBIT before currency-translation and extraordinary effects came close to the previous year despite the difficult underlying conditions. The operating EBIT margin reached 4.1 percent and was, thus, also almost unchanged. Earnings before interest and taxes (EBIT) in accordance with IFRS came to around EUR 48.7 million, having come under strain from high extraordinary and currency-translation effects.

Once again, we want to give our shareholders a substantial share of our success this year. Accordingly, the Executive Board and the Supervisory Board will be asking the shareholders to approve a dividend of € 0.75 at the Annual General Meeting. The proposal is based on the Company's business performance last year. Consequently, the dividend ratio for 2018 stands at 40 percent of Group net profit for the year.

Looking forward, we must come to terms with the fact that the passenger vehicle market could remain susceptible to fluctuation. As macroeconomic indicators are tending to point to weaker global growth, it is possible that the Commercial Vehicles Division, which has so far been performing vey well, may lose some of its momentum. Even so, we are guardedly optimistic about the current year on the whole.

One milestone on GRAMMER's future trajectory is the construction of our new corporate head office and the technology center together with the expansion of our research and development activities arising from this. Consequently, the development activities of the two divisions – Automotive and Commercial Vehicles – as well as the corporate head office will all be under a single roof at a shared site for the first time, laying the foundations for optimum collaboration between the different departments. The new technology center will enable us to further expand our leading position in innovative interior solutions, which are set to gain added importance in the future.

We would like to thank our customers and suppliers for the dependable cooperation based on a spirit of mutual trust. Our thanks also go out to our shareholders for the trust they have placed in us and for the open dialog that we have conducted with them.

Yours sincerely,

Manfred Pretscher
Chief Executive Officer of GRAMMER AG

Jens Öhlenschläger (left)
Chief Operating Officer (COO)

Vice President Division Consoles & Armrests at GRAMMER AG (2015–2018)
Member the Executive Board of GRAMMER AG since 2019

Manfred Pretscher (right)
Chief Executive Officer (CEO)
and Chief Financial Officer (CFO)

Member the Executive Board of GRAMMER AG since 2010
Chief Executive Officer (CEO) of GRAMMER AG since 2019

GRAMMER

TMD

TWO IDEAL PARTNERS

As part of our growth strategy, we have expanded our product portfolio and process expertise in recent years through targeted acquisitions. In 2018 we reached another important milestone. We have found in US company Toledo Molding & Die, Inc. (TMD), the largest acquisition in our Company's history, the ideal partner for our growth targets in the NAFTA region.

Looking forward, TMD will be a key pillar for GRAMMER in the US automotive market. This results in several advantages: we gain direct access to local customers, broaden our customer portfolio, strengthen our local manufacturing input and expand our product portfolio and technologies in the field of thermoplastic applications. The newly established product segment will also improve our profitability in the long term and help us achieve our medium-term profitability targets.

TMD HIGHLIGHTS

THE TMD GROUP IS A LEADING SPECIALIST IN THERMOPLASTIC COMPONENTS FOR THE AUTOMOTIVE INDUSTRY WITH ANNUAL REVENUE OF AROUND 300 MILLION US DOLLARS

Founded in 1955
History spanning 63 years

Multiple awards received for innovative products

About 1,700 employees

9 locations

+100 engineers and R&D specialists

PRODUCTS

TMD SOLUTIONS COMBINE SUPERIOR DESIGN, SOPHISTICATED ENGINEERING AND OUTSTANDING PERFORMANCE

TMD mainly produces innovative components for visible and invisible applications in passenger cars. The company is not only one of the leading specialists in thermoplastic solutions in the North American automotive market but also has its own tool shop and test laboratories. This facilitates in-house product development, prototyping and testing. The combination of the GRAMMER and TMD product portfolios will result in new interior solutions in the future. TMD's innovative process technology also offers opportunities for commercial vehicle applications.

AIR INDUCTION SYSTEMS

FLUID RESERVOIRS

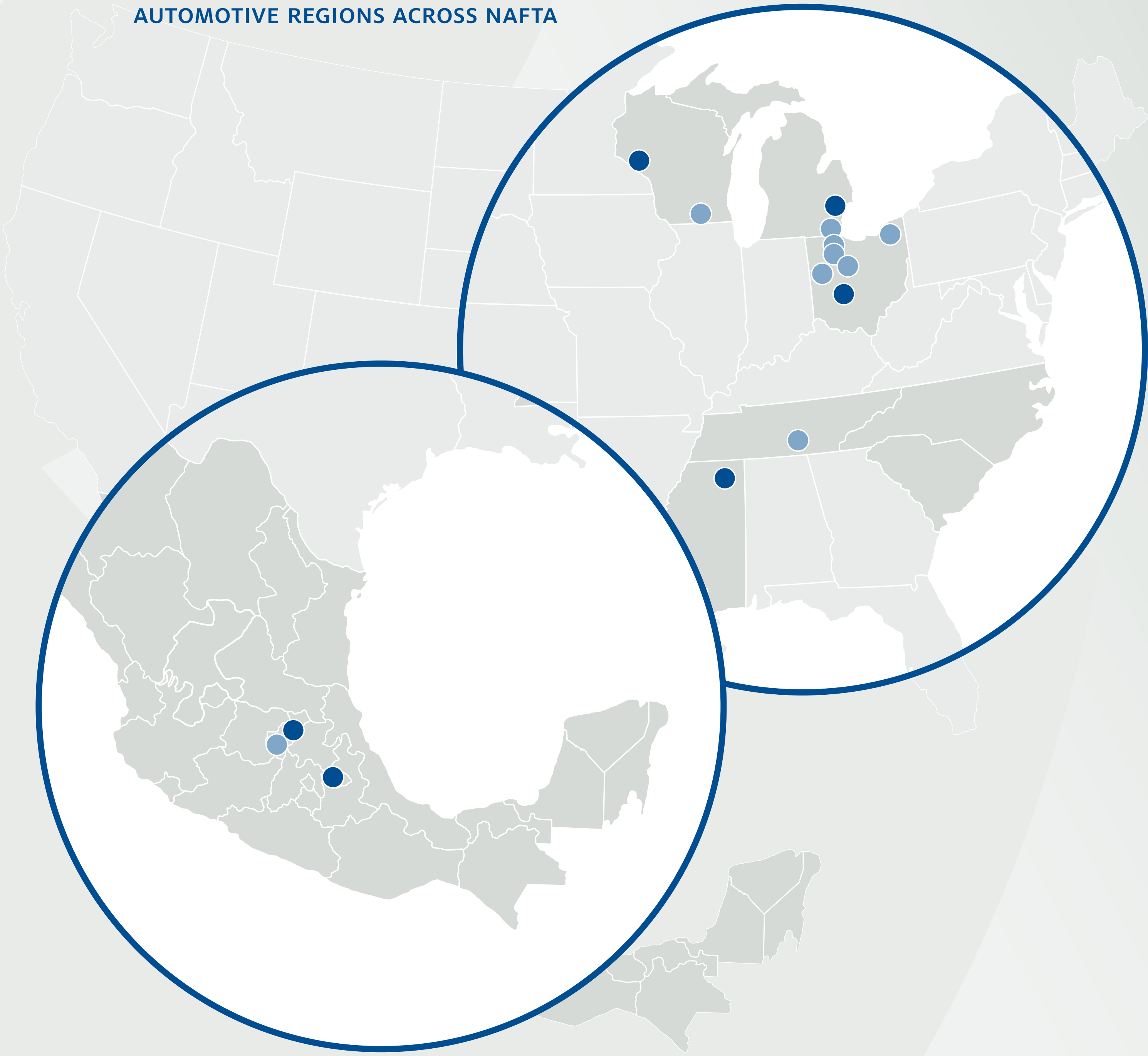
ENGINEERING SERVICES

INTERIOR SYSTEMS

HVAC SYSTEMS

FOOTPRINT

JOINT FOOTPRINT COVERS ALL MAJOR AUTOMOTIVE REGIONS ACROSS NAFTA

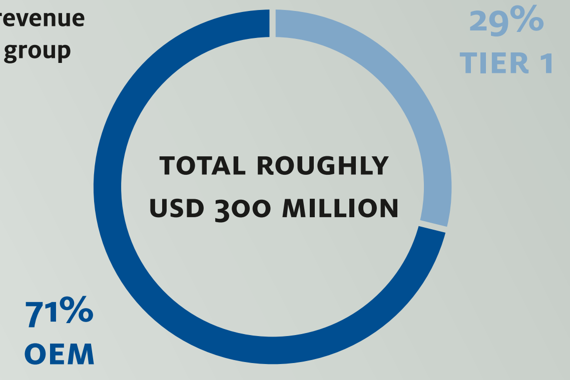


We are convinced that this global presence combined with our innovative products will secure sustainable and profitable growth for the GRAMMER Group. Through the acquisition of TMD, we are widening our footprint in the NAFTA region significantly, while GRAMMER's global positioning will make it easier for TMD to market its products outside the United States in the future. This will generate additional growth in Europe and China. Looking forward, the innovative TMD solutions can also be marketed for global vehicle platforms.

CUSTOMERS

RELIABLE PARTNER FOR GLOBAL PASSENGER VEHICLE OEMS AND TIER 1 SUPPLIERS

TMD Group revenue by customer group



In its history spanning more than 60 years, TMD has evolved from a pure plastic injection molding specialist to a product-oriented full service provider. Today, the company is a valued partner to global passenger vehicle OEMs and Tier I suppliers. Moving forward, we will be able to offer TMD's innovative product portfolio to an even broader customer base around the world in various industries. And thanks to TMD's strong and long-standing partnership with important US customers, GRAMMER will also be able to strengthen its sales activities in the USA.

TECHNOLOGY

EXPANSION OF PROCESS TECHNOLOGY

TMD has extensive engineering expertise and flexible R&D capacities. The experienced assembly and development teams at all locations leverage their process expertise in injection molding, blow molds and complex assemblies to meet the highest standards of product quality. Moving forward, GRAMMER will also benefit from TMD's innovative leadership in thermoplastic technologies, for example through the increased use of innovative materials. In this way, TMD is helping GRAMMER to leverage even more effectively the advantages that it has in key industry trends such as lightweight construction and fuel efficiency.

Innovative hybrid composite technology

The injection-molded magnesium tire holder with nylon coating was awarded the SPE Innovation Award.

COMBINED SEPARATE NON-FINANCIAL REPORT

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, procurement and production as well as the finished products and the end-of-life recycling of 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 address heightened environmental awareness: it starts with the need to reduce vehicle fuel consumption but also entails the introduction of environment-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 Group as 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 very largely regardless of the drive train, issues such as light-weight construction, environmental impact and autonomous driving are calling for new and enhanced solutions.

This report is the combined separate non-financial statement for both the GRAMMER Group and GRAMMER AG for 2018 as defined in sections 289b, 315b HGB and has been made available publicly on the corporate website under "COMPANY" > Sustainability> Non-Financial Report.

Unless otherwise stated, the content refers to the entire GRAMMER Group including GRAMMER AG. Where used below, the term GRAMMER Group includes "GRAMMER AG".

This combined separate non-financial report (NFR) has been prepared in accordance with the requirements of sections 289b to e and 315c of the German Commercial Code (HGB).

It contains the disclosures required by law on material matters pertaining to the environment, employees, social concerns, observance of human rights and anti-corruption and anti-bribery precautions. 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. GRAMMER AG successfully completed the acquisition of US automotive components supplier Toledo Molding & Die, Inc. (TMD) at the end of last year. Accordingly, TMD's sustainability figures will only be included in the combined seperate non-financial report from the 2019 financial year onwards.

The GRAMMER Group has defined solely financial parameters and the most significant financial performance indicators. For this reason, there are no non-financial performance indicators pursuant to section 289c (3) No. 5 HGB that are of significance for the business activities of the GRAMMER Group. Detailed information on provisions can be found in the notes to the consolidated financial statements on page 91 et seq. Moreover, there is no direct link between the amounts reported in the annual financial statements of the GRAMMER Group in accordance with section 289c (3) No. 6 HGB and the 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.

The combined separate non-financial report has been prepared on the basis of the Global Reporting Initiative (GRI) standard. Looking forward, reporting in accordance with this standard is to be expanded step by step.

1 SUSTAINABILITY AT GRAMMER

The GRAMMER Group 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, buses and offroad commercial vehicles.

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.

In its two Divisions – Commercial Vehicles and Automotive – 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.

1.1 ORGANIZATIONAL STRUCTURE OF SUSTAINABILITY

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.

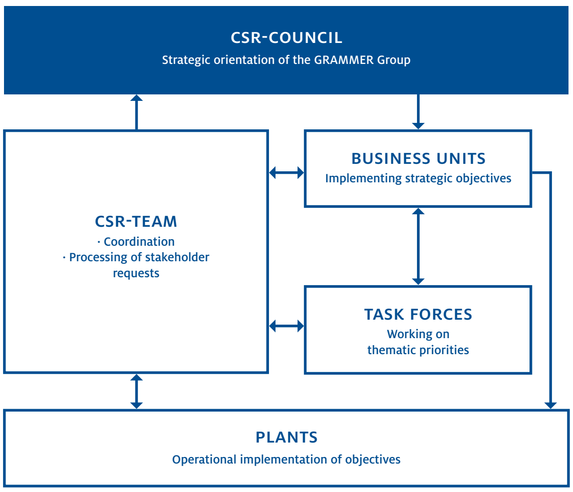
In view of its high importance for the GRAMMER Group's business activities, responsibility for sustainability is assigned directly to the Executive Board. The CSR-team supports it, coordinating GRAMMER's activities in this area. A CSR-council was established in 2015 to entrench sustainability even more 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.

The individual business units represented on the CSR-council are responsible for implementing the strategic objectives. This involves close communication with the individual plants to operationalize the objectives.

In the year under review, tasks forces addressing environmental matters, the supply chain and sustainable products were established to work on these issues on a cross-segmental basis where required.

A description of the diversity policy in accordance with section 289f (2) sentence 6 HGB can be found on page 29.

CSR-ORGANISATION



Further details on the business model can be found in the Management Report on page 46.

1.2 MATERIALITY ANALYSIS

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. A total of 13 material matters were identified in an extensive evaluation process that 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. Subsequently, we attached key importance to developing and formulating strategies and approaches aimed at additionally securing sustainability.

ASPECTS OF RELEVANCE FOR THE GRAMMER GROUP	MATERIAL ASPECTS	NON-FINANCIAL ASPECT
Economic stability	• Economic performance	Cross-cutting issue
Corporate governance	• Compliance	Cross-cutting issue, particularly anti-corruption
Human rights	• Child and forced labor	Observance of human rights
Environmental protection	• Air/water/soil emissions	Environmental footprint
Product and process responsibility	• Innovative product and process solutions	Cross-cutting issue
Employees	• Employee satisfaction • Employee development (including development of young potentials) • Occupational health and safety	Employee matters

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.

During the period under review, the GRAMMER Group worked on the Group-wide establishment, systematic implementation, documentation and monitoring of sustainability standards. A further key aspect was the completion of an impact assessment to additionally focus our activities. Using a scoring model, the existing 13 material matters were analyzed for their impact on the environment, the economy and society. Particular attention was paid to the severity and probability of an impact. As a result, this report now covers eight material matters, which are illustrated in the diagram above.

In addition to the matters defined as material, "corporate citizenship" has been included as a further relevant issue in this combined seperate non-financial report to provide information on social matters within the Company. GRAMMER considers social commitment to be a central part of its corporate strategy and systematically promotes it in its day-to-day activities.

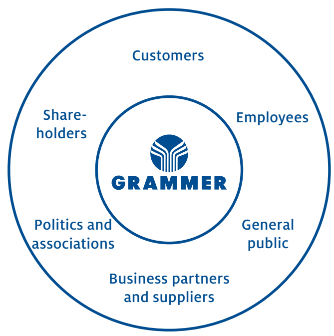
Sustainable procurement at GRAMMER is also described to provide a comprehensive overview.

1.3 INCLUSION OF ALL STAKEHOLDERS

GRAMMER attaches particular importance to dialog 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.

STAKEHOLDER GROUPS GRAMMER GROUP



1.4 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 disclose the related risks. The concept of risk has been expanded and integrated in risk management to depict the non-financial risks in the process. Internal experts have assessed the qualitative impact of our corporate activities. 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 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.

2 RESPONSIBLE CORPORATE GOVERNANCE

GRAMMER is committed to specific values that are observed by our employees day for day and shape our business activities. 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 the deep-seated trust that is required for business success and our corporate culture.

2.1 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: On the one hand, we set ourselves ambitious strategic goals to achieve a prominent position in the international market for automotive components. On the other hand, we work on improving comfort and safety for the people all around the world who use our products.

Their trust in our 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 EUR 1.86 billion, GRAMMER Group revenue was up 4% on the previous year in 2018 (2017: EUR 1.79 billion). This growth in Group revenue vindicated the long-term strategy aimed at improving profitability.

Further details on economic efficiency can be found in the chapter entitled "Result of operations" in the management Report on page 53.

2.2 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. The Code of Conduct is available in 16 different languages.

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.

Further information on our risk management process can be found in the Opportunity and risk report on page 71.

Code of Conduct:
www.grammer.com
> Company
> Sustainability
> Code of Conduct

3,000 Employees
take part in the biannual compliance and cartel law 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.

Moreover, regular compliance audits are performed by Internal Auditing to identify any compliance or corruption risks to which individual plants may be exposed. For this purpose, the Transparency International corruption index for specific countries 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 2018 plant inspections did not give rise to any suspicions necessitating a more detailed examination.

OBJECTIVE
Sensitivity for compliance and corruption risks is to be raised at 100% of business sites every two or three years. In addition, compliance audits are to be performed at sites exposed to compliance/corruption risks by 2020.

Further information on purchasing can be found at: www.grammer.com > Supplier-Support > Purchasing

24 Sites
underwent compliance audits in 2018 (mostly self-audits).

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. 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 2018, one case of discrimination was reported and investigated. No instances of corruption were reported or investigated. 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.

Further details on compliance can be found in the Corporate Governance Report in the Management Report on page 28.

2.3 SUSTAINABLE PROCUREMENT

GRAMMER views its suppliers as an extension of the Company and as an important part of the broader value chain. We search for suppliers who are committed to a clear system of values and to ethical principles. We expect our direct and indirect suppliers to comply with the solid business practices that we promote, observe laws and standards, perform their duties in accordance with the applicable rules and regulations and also provide documentary evidence of this.

In the interests of integrated environmental protection, we source our raw materials, supplies, consumables and services in accordance with ecological criteria and also in the light of energy efficiency requirements. We take appropriate measures to encourage our business partners to orient themselves to our activities and to likewise obtain environmental and/or energy certification.

We keep our suppliers regularly informed of matters pertaining to corporate social responsibility and the code of conduct (CoC). To this end, regional supplier partner days (Asia, the Americas, Europe), collaboration days and also supplier days at our plants are held among other things. These issues also form an integral part of our contracts.

A responsible approach to finite resources is of great importance to us. In this connection, we also pay particular attention to what is known as “conflict minerals”, such as tin, tantalum, tungsten and gold, which are often mined in regions exposed to high conflict potential.

We are working systematically on our processes to exclude the use of conflict materials, the financing of conflicts and the violation of human rights. The origin of the metals are determined in consultation with our suppliers as the materials concerned are not sourced directly from mines or smelters but may be contained in the products that we procure.

2.4. 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

GRAMMER conducted supplier days in China, Germany and Mexico in the year under review.

as child and forced labor. This code of conduct applies across the entire Group.

We heighten our employees' awareness of human rights issues by means of the "Compliance" e-learning module. 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.

OBJECTIVE
To arouse employee awareness of human rights through compliance training sessions.

We also strive to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations and performing checks. At supplier days and meetings, our suppliers undergo training and are expressly informed of our code of conduct for suppliers and its relevance and contents.

In 2018, we worked systematically on expanding our code of conduct for suppliers to include all sustainability criteria and to do justice to the extensive requirements. It is to be published and placed in the new supplier portal next year, while further measures for monitoring suppliers will be developed.

3 COMPANY ENVIRONMENTAL PROTECTION

3.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group assumes responsibility for the environment and, in doing so, takes an integrated approach. Our mission statement defines active environmental protection as a key goal. We make a contribution by designing and assembling our products in such a way as to ensure environment-friendly production as well as safe utilization and disposal.

Overall responsibility for environmental management has been assigned to the Quality unit, which reports to the Chief Operating Officer. This unit devises strategic parameters for environmental protection across the entire Group. A local environment, health and safety manager is assigned to each plant to implement the measures.

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 the value chain and the optimum use of resources along our value 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.

BME Code of Conduct:
www.grammer.com
> Supplier-Support
> Purchasing

Environmental and Energy Policy:
www.grammer.com
>Company
> Sustainability
> GRAMMER Environmental and Energy Policy

More than 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.

OBJECTIVE
We plan to have all GRAMMER facilities certified in accordance with ISO 14001 by the end of 2019.

70%
of our production sites have installed an environmental management system certified in accordance with ISO 14001.

In 2015, we supported the plants and companies at the German sites by rolling out 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.

91%
of the German production facilities are certified in accordance with ISO 50001.

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.

3.2 EMISSIONS

One 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. 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 are currently pursuing the goal of documenting the various local approaches centrally, collecting historical data and defining uniform benchmarks.

OBJECTIVE
The key emission indicators, targets and measures are to be recorded centrally for 100% of our production sites by 2020.

One particular focus is on reducing air pollutants, such as CO_2 emissions and volatile organic compounds. These are continuously measured in the emission-intensive systems at our plants. Thus, for example, GRAMMER's Automotive Division uses emission-reduced foam materials to lower emissions of volatile hydrocarbons by up to 70% in some cases. Likewise, emissions from the use of water-based foam release agent have been cut by around 75%. This has been implemented at four different plants, with further sites to follow in 2019.

In production processes, water is primarily used in the paint shop and as a cooling agent. Various steps have been taken at our plants to lower water requirements.

In Brazil, process water is recycled after use and utilized in other appropriate places. In addition, fresh water inflow and waste water amounts are continuously measured at production sites.

In the interests of conserving resources, we apply a waste material hierarchy to minimize waste during the production phase. Seat upholstery materials are cut in such a way as to reduce waste as far as possible. If it is not possible to recycle waste, it is disposed of properly.

4 PROCESS AND PRODUCT RESPONSIBILITY

4.1 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.

Our high-quality seating systems and premium interior products are currently being produced at 39 (2017: 40) production and logistics facilities[1] around the world. In order to meet the high quality requirements which our products must satisfy, we have also established a uniform quality management system. All our GRAMMER sites are regularly certified under the ISO 9001 quality management standard or the IATF 16949 quality management standard for the European and American automotive industry.

97%
of our production facilities are certified in accordance with ISO 9001/IATF 16949.

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. At EUR 60,634 thousand, the non-capitalized research and development costs were roughly the same as in the previous year (2017: 65,258).

EUR 60,634 THOUSAND
Research and development expenses in 2018.

4.2 INNOVATIVE PROCESS SOLUTIONS

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. 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, foaming, painting and gluing systems now use solvent-reduced materials on a large scale.

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.

Quality policy:
www.grammer.com
> Company
> Sustainability
> Quality Policy

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.

Employees undergo a multi-level further education program to enhance operational excellence.

[1] Excluding TMD.

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)

Using Kaizen processes, we systematically integrate our employees in the continuous improvement process.

> **OBJECTIVE**
> Continuous avoidance of waste in processes through Kaizen workshops and events.

In addition to business factors, this also includes measures aimed at motivating employees and furthering environmental protection. Planning and implementation always remain in our employees' hands, thus encouraging active participation on all levels. At the core of GRAMMER's Kaizen philosophy is the avoidance of waste such as unnecessary transportation, high inventories, superfluous movements, waiting times, surplus production, process complexity and errors.

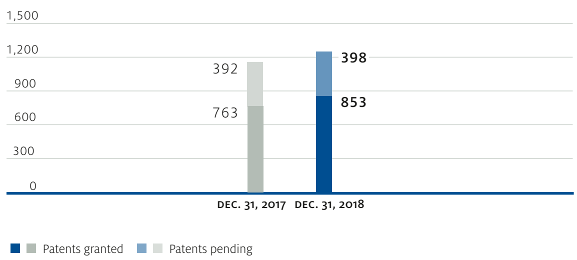
4.3 INNOVATIVE PRODUCT SOLUTIONS

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 15 locations. In addition, R&D is present at selected production plants to provide the necessary support. The number of patents pending and granted rose by 8% to 1,251 in 2018 (2017: 1,155) as a result of this.

In addition, the establishment of a new joint venture known as "AllyGram Systems and Technologies" in India was prepared in December 2018. Looking forward, this company will be providing engineering services for our GRAMMER facilities and will therefore be making a decisive contribution to boosting the Group's R&D capabilities. 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 level of driving automation alongside safety and digital interfaces are defining the framework for future development.

PATENTS

NUMBER



Thus, new developments in autonomous driving are also calling for a new approach to cabin and cockpit design. In addition, there is demand for heightened comfort in the truck and offroad segment together with a growing trend towards electronic integration of various functions in seats. Further challenges entail 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.

GRAMMER organized the GRAMMER Ergomechanics Congress for the third time. Under the motto “Research meets Application”, 14 highly qualified experts presented their research on various aspects of the human spine and back health on a multidisciplinary platform.

OBJECTIVE
To increase the proportion of innovations per product in order to expand the innovative product portfolio. Pilot project to be commenced in 2019 to measure the percentage share of innovation in each new product. In addition, the number of patents is to be increased and innovation performance reinforced in the long term.

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. Material is additionally saved through the use of foam injection molding and the partial reduction of the density of PU foam parts.

RECYCLING

There is no problem recycling the steel structure, while the PU foam can also be thermally recycled at the end of the product life. What is more, our “Smart Textile” project is conducting research into recycled textiles (e.g. materials made from recycled PET bottles and imitation leather made from fruit peels) for use in vehicle interiors and with seating systems in order to additionally lower resource requirements.

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 life cycle progresses despite the very high strain to which it is exposed. At the same time, we are exploring the use of more robust textiles to overcome the effects of wear and tear on seats at an early stage.

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 injury of/or strain on the cervical spine in the event of an accident. Products that are not only height-adjustable but also permit the distance from the head to be modified and then store these personal settings in a memory function provide 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.

Efficient and safe use of a vehicle calls for physically and mentally sound drivers. Consequently, 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.

GRAMMER European Spine Journal Award: www.grammer.com > Products & Markets > Ergonomics > Ergomechanics

5 EMPLOYEES

5.1 OVERVIEW AND MANAGEMENT APPROACH

Our business success is first and foremost the result of the commitment and dedication of our 5,860 women and 7,089 men around the world (as of December 31, 2018).[1] 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 Group Human Resources, which reports directly to the Chief Executive Officer and the Human Resources Director, is responsible for employee development.

Further details on employees can be found in the Management Report on page 66.

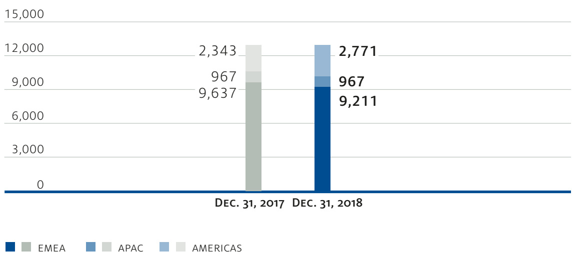
Our human resources strategy for the period through 2022 is a firm part of the GRAMMER Group's strategy. In addition to requirements planning and the further development of the human resources structures, the main focus is on further internationalization, the expansion of conceptual employee development and strengthening employer branding at GRAMMER. The sustainability concepts developed in the year under review are systematically linked with our human resources strategy and define further goals and measures in the following areas:

- Employee satisfaction
- Employee development
- Occupational health and safety

The GRAMMER Group has a global footprint with operations not only in Europe but particularly also in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, around 80% 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 12,949 employees[1] (2017: 12,947).

EMPLOYEES BY REGION[1]

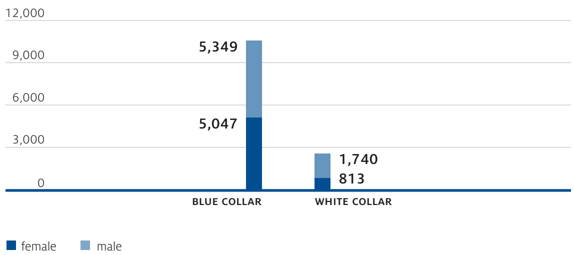
NUMBER



[1] Excluding TMD.

EMPLOYEES BY TYPE OF EMPLOYMENT[1]

NUMBER



[1] Excluding TMD.

5.2 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 conducted an employee survey as a global feedback and strategic tool for corporate and organizational development. 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 2017 in hybrid form (i.e. online and paper) in 13 languages. A very high response rate of 75% was achieved with the online version in particular when we carried out the survey for the first time. A total of 57 questions covered twelve different aspects such as motivation, corporate climate and scope for personal development, eliciting a response on a scale from 1 ("completely agree") to 6 ("completely disagree").

The evaluation of the responses showed that the keen commitment of employees and their customer-centric approach are particular strengths of the GRAMMER organization. The results in these categories are well above benchmark.

Various global, regional and local projects were initiated on the basis of the results of this evaluation with the aim of building on the current strengths and leveraging potential. Our high potentials are integrated on a worldwide basis particularly with a view to enhancing employee-oriented communications and have developed approaches for purposeful and target-oriented local communications across the Group as part of a support program. To this extent, we again improved and expanded our range of global staff development schemes in 2018.

OBJECTIVE
Regular systematic employee surveys as a basis for defining measures. Feedback rate (online and paper) of at least 65%. Local employee-retention programs will be defined and implemented on the basis of the results of the employee survey by 2020.

In order to address the need for ongoing further education even more effectively, we will be adopting a learning management solution in 2019 to provide targeted learning opportunities regardless of the time and place.

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.

The company pension scheme is a key pillar alongside statutory pensions and private retirement savings to safeguard employees' standard of living after they reach the age of retirement. We are encouraging this ongoing form of providing for old age, implementing a company pension scheme in 2018 for employees based at the plants in the Amberg region. The system will be rolled out in due course at the other German sites as well.

5.3 EMPLOYEE DEVELOPMENT

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 hotly 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. Looking forward, social media and career networks will be increasingly used to broaden our presence and strengthen our employer branding efforts on the Internet.

Career at GRAMMER: www.grammer.com > Career.

We help employees to plan their careers via internal training programs.

After we recruit new employees, we continue to train them on a targeted basis in line with requirements so that they possess the skills required to perform their duties and to address new challenges. Our employee training activities cover the entire range of statutory measures as well as those aimed at enhancing quality and developing skills. In addition, we offer individual support, such as coaching, as well as team development activities.

In order to fill key positions internally wherever possible and thus contribute to the Company's sustained success, we support managers and employees in their efforts to prepare for a leadership role in their career planning with the help of internal qualification programs. In this context, the career@GRAMMER Corporate Management Program was developed and rolled out worldwide in 2017. It is made up of three modular programs (DRIVE, FAST LANE und TOP GEAR) aimed at strengthening cross-segment and cross-location networking as well as reinforcing the necessary leadership skills and social competence among other things.

With the availability of dedicated channels, employees have had avenues 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. The annual appraisal interview of all employees constitutes an important instrument for securing a consensus on the performance benchmarks between managers and employees and for defining development targets. At the same time, employees are encouraged to assume responsibility for their own career development. 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.

445 Employees

have already been integrated in the appraisal process.

> **OBJECTIVE**
> Starting in 2018, defined groups of employees will be gradually integrated into the appraisal process and further employee development programs established.

New employees undergo appropriate on-boarding so that they are able to perform their duties and feel secure in their areas of responsibility without undue delay.

Plant operatives receive in-depth training on the machinery that they are to operate. Dedicated BCD training centers have already been established at various sites for this purpose. The knowledge conveyed and the training plans developed by Corporate Operations include such things as the basics of on-site safety, hygiene rules and production in accordance with LEAN principles.

In the case of office staff, the responsible line manager devises an on-boarding plan before new recruits commence their duties. In this way, they are acquainted swiftly and systematically with the matters and interfaces of relevance for them. During the onboarding phase, new recruits are assigned a mentor, whom they can approach if they have any questions as a means of acquainting themselves with their new position. We have thus achieved our objective of developing an onboarding system for all employees and, as we move forward, will be continuing to enhance this approach.

> **OBJECTIVE**
> The onboarding scheme for all employees is to be additionally enhanced.

"E-learning" in the broadest sense encompasses all forms of learning involving electronic or digital assistance. With the ongoing internationalization of the GRAMMER Group, it is becoming increasingly important to convey a uniform global understanding of products, production activities and processes for all employees. The implementation of a learning management system (LMS) is supporting this from a strategic point of view.

With the LMS, we are pursuing the goal of improving the quality of information sharing and teaching on a sustained basis by implementing e-learning modules. What is more, the heightened flexibility possible in the digital age allows employees to engage in learning outside normal working hours. At the same time, e-learning modules can standardize training and elicit a uniform understanding of processes in tandem with defined quality standards for all employees. In this way, the LMS is an answer to the requirements arising from the sharp growth in the Group's international footprint.

> **OBJECTIVE**
> An e-learning strategy is to be developed by 2020, with 75% of the departments to have access to the e-learning platform.

As well as this, we are continuing to take measures to additionally drive forward internationalization within the GRAMMER Group and to make working conditions even more attractive 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.

5.4 OCCUPATIONAL 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.

Occupational Health and Safety Policy
www.grammer.com
> Company
> Sustainability
> Employees

Plant management at each GRAMMER site is responsible for occupational safety with the support of a local environment, health and safety manager. GRAMMER wants to have all production sites certified in order to integrate occupational health and safety in day-to-day company practices effectively. ISO 45001 came into effect in March 2018 and is being implemented step by step at our facilities.

> **OBJECTIVE**
> The occupational health and safety management system certified in accordance with ISO 45001 is to be implemented at all sites by the end of 2019.

One particular aspect of this is the workplace design that seeks 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' health and safety. Height-adjustable standard work places are being installed in the assembly areas as a means of additionally improving work place ergonomics.

We have also adopted extensive measures for promoting health and safety. Examples include training and the organization of company sports. As a symbol of our efforts to promote employee health awareness and to encourage fitness, 65 of our employees took part in the company race in Amberg in the year under review. Under the motto "Together we're strong!", GRAMMER entered the third largest team and came first in the team ranking. In accordance with the statutory provisions, GRAMMER has installed an occupational integration management (BEM) system at its German sites. In this way, we are able to help employees who were unable to work for more than six weeks over 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.

In addition to advice on occupational medicine, GRAMMER also offers voluntary solutions via its in-company medical center, such as flu vaccinations. In order to detect circulatory disorders at an early stage, an additional medical examination of the carotid artery was offered at two of our locations.

The absence rate of all companies (excluding TMD) was 4.67% in the year under review, thus reaching the goal that had been set for this year. Looking forward, we will continue to pursue various measures to keep the absence rate at a low level.

4.67%
Current absence rate
[All companies (excluding TMD) as of December 31, 2018]

OBJECTIVE
The absence rate is to be kept continuously below 5%.

At the 2018 company race in Amberg, Germany, the GRAMMER team took first place in the team ranking.

GRAMMER presented a check to the voluntary fire brigade in Kümmersbruck, just one of the many winners of the support packages.

6 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 enshrined in our Code of Conduct as well as our global sponsoring policy.

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 and 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, and girls days etc. Site tours and internships are offered at our sites in Germany and also the Czech Republic. The "Manager for a day" initiative in Bulgaria gave school students an insight into various functions in the Company. Thus, for example, they were able to accompany the plant manager and the quality manager for a day.

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 "support packages" in 2018 on behalf of their sports clubs, social projects, fire brigades, rescue services or care facilities and extensive use was made of this offer. In the year under review, support packages with a total value of EUR 20,000 were awarded.

Social projects are also supported at international sites. Our site in Atibaia, Brazil, for example is supporting the "For a better planet" project, which organizes theater performances and recycling workshops for children to heighten their environmental awareness through games and to impress on them the importance of preserving the environment.

Code of Conduct:
www.grammer.com
>Company
> Sustainability
> Code of Conduct

CORPORATE GOVERNANCE REPORT AND 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 AG 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 11, 2018, 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 (the Code):

Declaration of conformity of GRAMMER AG dated December 11, 2018

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 5, 2017 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 11, 2018

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.

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 based on 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 were defined in a profile of requirements 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 collaboration on the entire Supervisory Board, its members should be chosen in such a way as 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% women and 30% men. This quota must be fulfilled separately by the shareholder representatives and the employee representatives respectively, as the overall fulfilment was rejected (separate fulfilment).

Only nominees who are no older than 70 years 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

Section 96 (2) AktG stipulates a male and female gender quota at least 30% of GRAMMER AG's Supervisory Board. This statutory quota is the same as the target quota adopted by the Supervisory Board. This quota was fulfilled in 2018.

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 in March 2017, the Supervisory Board reviewed the target agenda for the Executive Board and set a figure of 33%. 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 was not reached in 2018 as the Executive Board comprised three men and no woman. Mr. Hartmut Müller (CEO) and Mr. Gérard Cordonnier (CFO) resigned from the Executive Board effective December 31, 2018. Mr. Jens Öhlenschläger was appointed to the position of Chief Operating Officer (COO) with effect from January 1, 2019, while Mr. Pretscher assumed the offices of CEO, CFO and HR Director on an interim basis.

The Executive Board of GRAMMER AG has defined an (international) quota of 15% for the first management level below the Executive Board and 20% for the second level below the Executive Board. A target of 10% for the first management level and 15% for the second management level has been defined for Germany. Achievement of this target is reviewed annually.

CURRENT TARGET ACHIEVEMENT AS OF DECEMBER 31, 2018

	TOP MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15 %	20 %
Current quota (international)	16.13 %	20 %
Target quota (Germany)	10 %	15 %
Current quota (Germany)	12 %	15.09 %

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the Annual General Meeting of June 13, 2018, 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. At any time shareholders were able to authorize and instruct these proxies, who could be reached throughout the meeting. Shareholders who initially attended the Annual General Meeting but who wanted to leave early while still 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.

The Executive Board of GRAMMER AG had the following members as of December 31, 2018:

- Hartmut Müller, Chief Executive Officer, Human Resources Director, member of the Executive Board since 2007, appointed until January 31, 2022; resigned effective December 31, 2018
- Gérard Cordonnier, Chief Financial Officer, member of the Executive Board since 2015, appointed until May 31, 2021; resigned effective December 31, 2018
- Manfred Pretscher, Chief Operating Officer, member of the Executive Board since 2010, appointed until July 31, 2021. Mr. Pretscher was appointed to the positions of CEO, CFO and Human Resources Director effective January 1, 2019 and will remain with the Company until June 30, 2019 after exercising his change-of-control right.

Mr. Jens Öhlenschläger was appointed to the Executive Board effective January 1, 2019 for a period expiring on December 31, 2021. Mr. Jens Öhlenschläger has assumed the tasks of Chief Operating Officer.

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. There is also an Audit Committee, a Nomination Committee, a Strategy Committee, a Personnel and Mediation Committee and, since September 26, 2018, an Executive Committee. The Ad-hoc Committee was disbanded with effect from September 26, 2018. The Committees met regularly in the year under review. 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 was not a member of GRAMMER AG's Executive Board at any time.

The section in the 2018 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 2018 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 carried out in 2018 and numerous measures were implemented to improve efficiency.

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 ten extraordinary meetings. Five ordinary meetings are planned for 2019. 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 shall be deemed to have been passed with a simple majority of the vote cast. In the event of a parity of votes, voting is repeated, and in the event of a renewed parity of votes 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:

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	11/14	78 %
Tanja Fondel	13/14	93 %
Wolfram Hatz	14/14	100 %
Martin Heiß	13/14	93 %
Ingrid Hunger	14/14	100 %
Harald Jung	14/14	100 %
Dr. Peter Merten	14/14	100 %
Horst Ott (Deputy Chairman)	11/14	78 %
Dr. Klaus Probst (Chairman)	14/14	100 %
Lars Roder	14/14	100 %
Prof. Dr. Birgit Vogel-Heuser	12/14	86 %
Dr. Bernhard Wankerl	14/14	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 (expanded from October 15, 2018)		
Andrea Elsner[1]	7/7	100 %
Dr. Peter Merten[1]	7/7	100 %
Horst Ott	10/10	100 %
Dr. Klaus Probst (Chairman)	10/10	100 %
Lars Roder	10/10	100 %
Dr. Bernhard Wankerl	10/10	100 %

[1] Ms. A. Elsner and Dr. P. Merten have been members of the expanded Personnel Committee since October 15, 2018.

Audit Committee		
Andrea Elsner	6/6	100 %
Wolfram Hatz (Chairman)	6/6	100 %
Martin Heiß	6/6	100 %
Dr. Klaus Probst	6/6	100 %
Ad-hoc Committee		
Andrea Elsner	1/1	100 %
Wolfram Hatz	1/1	100 %
Martin Heiß	1/1	100 %
Ingrid Hunger	1/1	100 %
Harald Jung	0/1	0 %
Horst Ott	0/1	0 %
Dr. Klaus Probst (Chairman)	1/1	100 %
Dr. Peter Merten	0/1	0 %
Lars Roder	1/1	100 %
Dr. Bernhard Wankerl	0/1	0 %
Nominating Committee		
Wolfram Hatz	1/1	100 %
Dr. Klaus Probst (Chairman)	1/1	100 %
Dr. Bernhard Wankerl	1/1	100 %
Executive Committee		
Horst Ott	1/1	100 %
Dr. Klaus Probst (Chairman)	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% 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. In the year under review a project was initiated with the assistance of external advisors to enhance the compliance management system and the risk management system. This project is expected to be completed in 2019. The Executive Board as a whole is jointly responsible for compliance. Together with the entire 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 completing the training successfully. 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 14 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. 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 an 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 fiscal 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 2018 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 June 13, 2018, 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 in accordance with article 19 of the European Market Abuse Directive as soon as they are disclosed to GRAMMER AG. The following transactions were reported in 2018: Dr. Klaus Probst – sale of 20,000 shares under the voluntary public takeover offer by Jiye Auto Parts GmbH on August 13, 2018.

Amberg, March 15, 2019

GRAMMER AG

For the Executive Board	For the Supervisory Board
Manfred Pretscher	Dr. Klaus Probst

REPORT OF THE SUPERVISORY BOARD

DR. KLAUS PROBST
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In 2018, 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 both in 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.

MAIN MATTERS DEALT WITH AT THE MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board held a total of four ordinary meetings and ten extraordinary meetings in 2018. At its ordinary quarterly meetings as well as at its extraordinary 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 on 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 heavily influenced by the voluntary public takeover bid that had been submitted by Jiye Auto Parts GmbH, a company affiliated with the Chinese Ningbo Jifeng Group.

No 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.

All members attended the first ordinary meeting of the Supervisory Board on March 20, 2018. 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, 2017 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2017. In addition, the Supervisory Board agreed to the agenda items for GRAMMER AG's Annual General Meeting which was to take place on June 13, 2018. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 1.25 per dividend-entitled share. The Supervisory Board's report and the corporate governance report for 2017 were approved. The separate non-financial report published in GRAMMER AG's 2017 Annual Report for the first time was discussed at length by the Supervisory Board. The existence of the report was verified and the appropriateness and implementation of the concepts as well as the internal due-diligence processes were reviewed. The Supervisory Board was satisfied that the measures taken and the sustainability concepts applied are appropriate for addressing the risks and opportunities and are in line with the business model. At this meeting, the Supervisory Board discussed the planned construction of the new Headquarters and R&D Center in Ursensollen near Amberg. Funding requirements were outlined and a resolution approved providing for the necessary finance to be raised and the mortgages to be issued up to an amount of EUR 50 million. The Company's current Human Resources development programs were also presented. This entailed the Talent Management@GRAMMER as well as succession planning programs and the career opportunities afforded under the Career@GRAMMER program. The efficiency review questionnaire revamped by a taskforce established by the Supervisory Board was adopted. The Supervisory Board reviewed the Executive Board's performance in 2017 in its absence and passed a resolution approving the payment of a bonus.

The Supervisory Board's first extraordinary meeting in 2018 was held on April 27, 2018 and attended by all of its members. The meeting primarily dealt with the notification received by the Executive Board from the later bidder in the (voluntary public) takeover bid, Jiye Auto Parts GmbH (a company affiliated with the principal shareholder of GRAMMER AG, JAP Capital Holding GmbH, and of Ningbo Jifeng) of its intention to increase its share in GRAMMER and to submit a voluntary public takeover bid to the shareholders. The Supervisory Board was apprised of the progress made in talks with the investor and shown a draft version of the business combination agreement. During the extraordinary meeting of the Supervisory Board discussion on the budget for 2018 was also continued. It was planned to review the budget presented in December 2017 at the beginning of 2018 with the aim of finalizing the parameters that were still outstanding in December 2017. The final budget was approved at this meeting.

On May 22, 2018, the Supervisory Board decided to approve an agreement providing for the purchase by GRAMMER AG of all shares in Toledo Molding & Die, Inc., United States. In addition, a loan agreement for up to USD 260 million to finance this acquisition was approved. The resolution was passed by telephone vote. Ten members of the Supervisory Board cast their vote over the telephone and two in a written declaration served by a courier.

The second extraordinary meeting of the Supervisory Board was held on May 25, 2018 and was attended by eleven members. The main item of the agenda was an update on the extraordinary meeting of April 27, 2018 as well as discussion on a further draft of the business combination agreement. The meeting was also attended by consultants from Morgan Stanley who explained to the Supervisory Board the method for assessing a public takeover bid price.

The third and fourth extraordinary meetings of the Supervisory Board were held on May 29, 2018. Eleven members of the Supervisory Board attended the meeting held on the morning of May 29, 2018. In the night prior to the meeting, the public had been informed of Jiye Auto Parts GmbH's intention of submitting a voluntary public takeover bid. At this stage, there was no final agreement on the business combination agreement and the bid price. Consequently, the Supervisory Board merely granted its consent at this meeting subject to the condition that the Executive Board contacts Jiye Auto Parts GmbH to commence talks on the business combination agreement as a basis for signing it. In addition, the Supervisory Board granted its consent in the event that the business combination agreement was signed and agreement was reached on a bid price of EUR 60.00 plus the dividend expected for 2017 of EUR 1.25 (equivalent to total consideration of EUR 61.25 per share). After final negotiations on the bid price, the Supervisory Board met for a further extraordinary meeting on the afternoon of May 29, 2018, at which eleven members of the Supervisory Board were present. At this meeting, the resolution to consent to the signing of the business combination agreement was expressly confirmed.

The second ordinary meeting, which was held on June 12, 2018 and attended by eleven members of the Supervisory Board, primarily dealt with the implementation of the efficiency review and the preparations for the Annual General Meeting taking place on the following day. The efficiency review was performed using a substantially expanded questionnaire for the first time. The Supervisory Board agreed on extensive actions to improve its efficiency which were to be, and were, implemented at its next meetings. In preparation of the Annual General Meeting, the Supervisory Board discussed the question as to whether a resolution to create authorized capital should be placed on the agenda in view of Jiye Auto Parts GmbH's intention of submitting a voluntary public takeover bid to the shareholders of GRAMMER AG. The Supervisory Board concurred with the Executive Board's view that the proposal should be withdrawn as there would likely be substantial changes in the shareholder structure following the execution of the takeover bid (which at that stage had merely been announced). The shareholders in their new structure should then decide on the creation and form of new authorized capital and the arrangements for new authorization by the Annual General Meeting for the issue of new shares. In connection with Executive Board remuneration, the details concerning the calculation of the parameters underlying the remuneration system, the system for determining the long-term incentive (LTI) tranches and the conditions for payment were approved.

The fifth extraordinary meeting of the Supervisory Board was held on July 6, 2018 and attended by eleven members. This meeting was convened immediately after the announcement of the voluntary public takeover offer by Jiye Auto Parts GmbH on June 25, 2018. The items on the agenda included the presentation of both fairness opinions prepared by the consultants retained by GRAMMER, the evaluation of the takeover bid by the Supervisory Board and deliberation on and the approval of the joint reasoned opinion of the Executive Board and the Supervisory Board. Both fairness opinions confirmed that the bid price is and was fair. The Supervisory Board examined and evaluated the takeover bid and subsequently approved the reasoned joint opinion published on July 6, 2018. In this opinion, the Supervisory Board and the Executive Board recommended that the shareholders of GRAMMER AG should accept the bid.

The sixth extraordinary meeting of the Supervisory Board was held on July 24, 2018 due to the modification published on July 18, 2018 to the voluntary public takeover bid. The meeting was attended by eleven members, who approved the supplementary joint reasoned opinion of the Executive Board and Supervisory Board, in which acceptance of the offer by the shareholders of GRAMMER AG was again recommended.

The seventh extraordinary meeting of the Supervisory Board was held on August 16, 2018. It took the form of a telephone conference in which ten members of the Supervisory Board participated. During this meeting, the Supervisory Board was briefed in detail on the current status of the voluntary public takeover bid and the commencement of the material asset restructuring project, which was required under Chinese regulatory law to enable the transfer of the share in GRAMMER to Ningbo Jifeng as a listed company.

The eighth extraordinary meeting of the Supervisory Board was held on August 31, 2018. It took the form of a telephone conference in which ten members of the Supervisory Board participated. It dealt with the successful completion of the takeover bid after the expiry of the extended acceptance period, and its legal consequences.

The third ordinary meeting of the Supervisory Board was held on September 26, 2018 and attended by all members. As all the members of the Executive Board had stated on September 24, 2018 that they intended to exercise their change-of-control rights, they were asked to give the Supervisory Board their respective reasons for this decision. The process for the search of replacements was discussed and the ensuing steps approved. Other matters dealt with at the meeting included an update on the progress of the voluntary public takeover bid by Jiye Auto Parts GmbH, which was completed on September 6, 2018. A report was submitted on the current status of the fulfillment of the closing conditions for the acquisition of Toledo Molding & Die, Inc., United States, and the funding of the acquisition. In a follow-up to the efficiency review, training opportunities for the members of the Supervisory Board were presented and the questionnaire for the 2019 efficiency review adopted. The Ad-hoc Committee was disbanded. The Executive Committee of the Supervisory Board was established for the first time and the rules of procedure duly amended. The remuneration system for the Executive Board was again on the agenda of the Supervisory Board's meeting. As GRAMMER AG had left the SDAX effective September 24, 2018, discussion concerned the impact that this would have on the long-term incentive as the total shareholder return was a component of the remuneration system and was based on the performance of the GRAMMER share relative to the SDAX. A project for enhancing the compliance and risk management system was presented and an update provided on the construction of the new Headquarters and R&D Center in Ursensollen near Amberg.

The ninth extraordinary meeting of the Supervisory Board was held on October 25, 2018 and attended by eleven members. At this meeting, a report was submitted on the current status of discussion on the search for replacements for the members of the Executive Board as well as the retention of a Human Resources consultant to assist with this process. The profile of requirements for the vacancies on the Executive Board was approved by the Supervisory Board.

The fourth ordinary meeting of the Supervisory Board was held on December 11, 2018 and attended by all members of the Supervisory Board. The main item on the agenda concerned the search for replacement of the members of the Executive Board. The Supervisory Board was informed of the current status of the process as well as the planned future steps. The Supervisory Board advocated offering Mr. Manfred Pretscher an addendum to his employment contract providing for him to act as interim CEO and Human Resources Director until June 30, 2019 and additionally also as interim CFO pending the appointing of a permanent CFO. Thereupon, Mr. Manfred Pretscher was appointed interim CEO and Human Resources Director for the period from January 1, 2019 to June 30, 2019 and also interim CFO. It was also decided to appoint Mr. Jens Öhlenschläger to the position of Chief Operating Officer (COO) with effect from January 1, 2019. His employment contract was approved by the Supervisory Board. The remuneration system was revised by an external expert following the reallocation of Executive Board responsibilities, upon which the Supervisory Board approved the proposed modifications from January 1, 2019. An update was provided on the vacancies on the Executive Board. The plan for the integration of Toledo Molding & Die, Inc. was presented. An overview was provided on the establishment of a joint venture in India with AllyGrow Technologies. The planned amendments to the German Corporate Governance Code were discussed and the revised version of the declaration of conformity approved.

At the tenth extraordinary meeting of the Supervisory Board on December 20, 2018, which was attended by all members, votes were taken on a proposal submitted by the Personnel and Mediation Committee nominating Mr. Jens Öhlenschläger as COO. The Supervisory Board decided to appoint Mr. Jens Öhlenschläger to the Executive Board for a period from January 1, 2019 until December 31, 2021. In addition, an update was provided on the search for candidates for the vacancies on the Executive Board.

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 (page 28 of this 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.

The Corporate Governance Report can be found on page 28 of this report.

CIRCULATORY RESOLUTIONS OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board of GRAMMER AG passed two circulatory resolutions in writing. On May 25, 2018, it approved an agreement providing for the purchase by GRAMMER AG of all shares in Toledo Molding & Die, Inc., United States, as well as the funding of this transaction. The temporary addition of a further two members to the Personnel and Mediation Committee with effect from October 15 and the corresponding amendments to the rules of procedure of the Supervisory Board were approved in a circulatory resolution dated October 9, 2018.

SUPERVISORY BOARD COMMITTEES

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees in the year under review, to which a sixth one was added on September 26, 2018. These committees had the following composition as of the reporting date (December 31, 2018):

Strategy Committee
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl
Personnel and Mediation Comittee
Andrea Elsner (from October 15, 2018)
Dr. Peter Merten (from October 15, 2018)
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 (until September 26, 2018)
Andrea Elsner
Wolfram Hatz
Martin Heiß
Ingrid Hunger
Harald Jung
Dr. Peter Merten
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl
Prof. Dr. Birgit Vogel-Heuser
Präsidium (from September 26, 2018)
Horst Ott
Dr. Klaus Probst

The individual committees held a total of 18 meetings in 2018. Details of the deliberations at the meetings of the permanent committees were reported at the following meeting of the Supervisory Board.

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. It met twice in 2018. All members of the Supervisory Board attended the first meeting on March 20, 2018, which deliberated on the strategic partnership with Ningbo Jifeng. The main focus of the meeting of October 26, 2018 was to prepare the meeting of the Supervisory Board of December 11, 2018 at which the GRAMMER Group's strategy for 2018–2023 was on the agenda. The division managers were given the opportunity of presenting their strategy to the Strategy Committee and of answering any questions.

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 nine times in the year under review. All members attended these meetings. At the meeting on March 19, 2018, the Executive Board's target achievement in 2017 was reviewed, the application of the bonus/penalty system discussed and a proposal for submission to the plenary meeting of the Supervisory Board worded. At the meeting of June 7, 2018, individual aspects of the calculation of the parameters underlying the remuneration system and the system for determining the long-term incentive (LTI) tranches were discussed. The meeting of September 26, 2018 was primarily concerned with the announcement that all the members of the Executive Board intended to resign as well as the process for finding suitable replacements. In addition, there was preliminary discussion on those items of the agenda for the meeting of the Supervisory Board on September 26, 2018 falling within the responsibility of the Personnel and Mediation Committee. As well as this, corresponding proposals for submission to the plenary meeting of the Supervisory Board were adopted. In a circulatory resolution passed by the Supervisory Board on October 9, 2018, a decision was made to expand the Personnel and Mediation Committee pending the appointment of replacement members of the Executive Board by adding two members, Ms. Andrea Elsner and Dr. Peter Merten, on a parity basis.

At the first meeting of the Committee in its enlarged form on October 15, 2018, a resolution was passed to retain an external Human Resources consultant. In addition, fundamental questions concerning the search for replacements for the members of the Executive Board were addressed.

On November 9, 2018, the first status report by the external Human Resources consultant on the identification of external candidates was submitted and the timeline for new appointments discussed. A further update was given in a telephone conference held on November 20, 2018, while the meetings held on November 22 and 28, 2018 provided a detailed overview of the evaluation of internal candidates as well as attempts to address external ones.

In a telephone conference held on December 10, 2018, there was an update on the process, accompanied by preparatory discussion on the proposal to be submitted to the plenary meeting of the Supervisory Board concerning the appointment of a Chief Operating Officer (COO). At the meetings held on December 17 and 19, interviews were held with the candidates for the position of CEO and CFO on the Executive Board. In a further telephone conference held on December 20, 2018, it was decided to propose that the Supervisory Board should appoint Mr. Jens Öhlenschläger the position of COO for a period from January 1, 2019 until December 31, 2021. The future allocation of duties was discussed. However, it was decided not to make any changes for the time being.

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 six times in 2018 and all members attended these meetings. The main item on the agenda for the first meeting held on March 20, 2018 concerned the Annual Financial Statements and the Consolidated Financial Statements for 2017. Representatives from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which had been elected as statutory auditors for 2017 at the Annual General Meeting, were also present. The risk and internal auditing report was also dealt with. The second ordinary meeting held on April 27, 2018 discussed the Interim Report for the first quarter ending March 31, 2018. At its third meeting on July 26, 2018, the Audit Committee deliberated on the GRAMMER Group's preliminary figures for the first half of the year ending June 30, 2018 and the engagement of the statutory auditor. In addition, there was discussion on the opportunity/risk report. The Audit Committee held an extraordinary meeting on September 19, 2018 at which it was informed of the upcoming activities in connection with the acquisition of Toledo Molding & Die, Inc., United States, particularly conversion/initial valuation in accordance with IFRS, the funding for the transaction and the impact this would have on the bank covenants. Information was also provided on the material asset restructuring process required for transferring the GRAMMER shares to the listed company Ningbo Jifeng. In a further extraordinary meeting of October 17, 2018, the Audit Committee deliberated on the reasons behind and the impact of the ad-hoc bulletin of October 15, 2018. At its fourth meeting held on October 26, 2018, the Committee discussed the preliminary Interim Financial Statements as of September 30, 2018. The main purpose of the extraordinary meeting held on November 26, 2018 was to receive an update on the project for enhancing the risk management system and the compliance management system.

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. All members of the Nominating Committee attended the first meeting on March 20, 2018. Prof. Dr. Birgit Vogel-Heuser, who had already been appointed to the Supervisory Board by the court, was proposed as a candidate for election at the Annual General Meeting.

The Ad-hoc Committee is responsible for ensuring regular close consultation with the Executive Board and for advising it on recent developments and events; these were particularly related to the significant changes in the shareholder structure. In the year under review, one meeting was held on February 15, 2018, attended by six of its members. The customer situation in connection with the shareholder structure was discussed and an outlook provided of the matters to be discussed at the 2018 Annual General Meeting. On September 26, 2018, the Supervisory Board passed a resolution to disband the Ad-hoc Committee as its activities had very largely been rendered superfluous following the acceptance of the voluntary public takeover bid submitted by Jiye Auto Parts GmbH.

A resolution was passed on September 26, 2018 to establish the Executive Committee. Its task is to support the Chairman of the Supervisory Board in the performance of his duties, particularly the preparation of the meetings and the coordination of the Supervisory Board's activities as well as the preparation of the resolutions to be passed by the Supervisory Board. The Executive Committee is composed of the Chairman of the Supervisory Board and his deputy. It met for the first time on November 15, 2018 to prepare the Supervisory Board meeting of December 11, 2018.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the Annual General Meeting held on June 13, 2018, 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, 2018, the Audit Committee engaged the auditor for the 2018 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 for the parent-company financial statements and the Consolidated Financial Statements as of December 31, 2018. 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 current combined separate non-financial report can be found on page 12 of this report.

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 to identify risks threatening the existence of the Company 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 1, 2019 dealing with the Annual and Consolidated Financial Statements and also at the Supervisory Board meeting held on March 15, 2019 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 for 2018. GRAMMER AG's Annual Financial Statements have therefore been duly approved. The Supervisory Board agreed with the Executive Board's proposal for appropriation of net retained profits.

COMBINED SEPARATE NON-FINANCIAL REPORT

At its balance-sheet meeting of March 15, 2019, the Supervisory Board considered the combined separate non-financial report. The combined separate non-financial report submitted by the Executive Board describes the Company's approach to economic, social, ethical and environmental matters. It was published for the first time together with the Annual Financial Statements for 2017. The current combined separate non-financial report for the 2018 Annual Report can be found on page 12. The Supervisory Board satisfied itself that the report had been prepared and reviewed the appropriateness and implementation of its concepts and the internal due diligence processes and determined that the measures taken and the concepts applied for sustainability are appropriate for addressing the risks and opportunities and are consistent with the business model. After careful examination, the Supervisory Board approved the combined separate non-financial report of GRAMMER AG and the GRAMMER Group.

DEPENDENT COMPANY REPORT

The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from September 6 to 31 December 31, 2018 was audited by the independent auditors – Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft – and issued with an unqualified audit opinion:

"Based on our audit and opinion as required by law, we confirm that

1. the factual statements made in the report are correct,
2. the consideration paid by the Company for the transactions listed in the report was not unreasonably high or disadvantages were compensated."

The dependent company report and the auditor's report were submitted to all members of the Supervisory Board in good time and discussed in detail at the meeting of the Audit Committee on March 1, 2019 and at the meeting of the Supervisory Board on March 15, 2019. At both meetings, the auditor was available to answer questions and provide information on the dependent company report and the main findings of his audit.

Following its own detailed review and discussion of the dependent company report, the Supervisory Board approved the results of the audit and determined that it had no objections to the declaration of the Executive Board at the end of the dependent company report.

COMPOSITION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

All members of the Executive Board informed the Chairman of the Supervisory Board, Dr.-Ing. Klaus Probst, on September 24, 2018 that they planned to utilize their contractual change-of-control rights and to stand down from the Executive Board. Mr. Hartmut Müller and Mr. Gérard Cordonnier served notice of termination effective December 31, 2018 and left the Executive Board on this date. Mr. Manfred Pretscher served notice of termination effective February 28, 2019 but came to an agreement with the Supervisory Board providing for his contract to be renewed until June 30, 2019. At the same time, he declared his willingness to act as interim Chief Executive Officer, Human Resources Director and Chief Financial Officer from January 1, 2019.

There were no changes in the composition of the Supervisory Board in the year under review. Prof. Dr.-Ing. Birgit Vogel-Heuser, who had been appointed to GRAMMER AG's Supervisory Board by order of the court effective July 26, 2017, was duly elected to the Supervisory Board at the Annual General Meeting on June 13, 2018.

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, without which the favorable business performance achieved in the turbulent year of 2018 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.

Amberg, March 2019
On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER SHARE

TRENDS IN THE INTERNATIONAL STOCK MARKETS

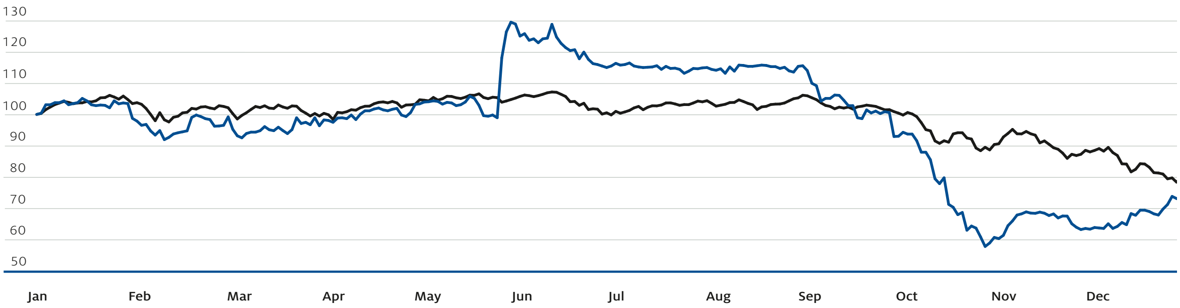
Whereas the DAX 30 companies were still reaching all-time highs at the beginning of 2018, analysts subsequently scaled back their expectations step for step. The trade dispute between the United States and China, rising interest rates in the United States, the protracted Brexit negotiations and discussions about the Italian public-sector budget significantly dampened growth expectations. At the end of the year, analysts' consensus estimate indicated that the earnings of the DAX companies looked set to decline compared with 2017. In tandem with the deteriorating earnings outlook, stock markets in Europe and the emerging markets began to go into reverse from the summer months if not earlier. The currencies and equity markets of many emerging markets sagged. From October onwards, the US equity markets saw a downward correction. Regardless of this, experts saw greater economic risks in Europe than in the United States. This was attributed to the greater dependence on exports, as well as uncertainties surrounding the Brexit agreement with the United Kingdom. In the automotive industry in particular, the turmoil caused by the adoption of the new WLTP emissions test and discussion about the future of the diesel engine exerted pressure on investor sentiment. The German blue chip index DAX 30 closed the year 18.26% lower. In the small caps segment, the SDAX lost 20.00%.

THE GRAMMER SHARE IN 2018

The GRAMMER share closed 2018 at EUR 37.70 in Xetra electronic trading, 27.29% lower than the closing price of EUR 51.85 on December 31, 2017. The DAXsector Prime Automobile sub-index fell by 27.22% in the same period. The GRAMMER share left the SDAX index from September 24, 2018 due to the low free float following the completion of the takeover. Its performance was influenced significantly by the purchase of the vehicle interior specialist Toledo Molding & Die Inc. in the United States and, in particular, by the public takeover bid submitted at the end of May by Jiye Auto Parts GmbH, a company affiliated with Ningbo Jifeng. At the end of May, the price reached a new historic high with a closing price of EUR 67.10. Jiye Auto Parts' offer of EUR 60 per share aimed at deepening GRAMMER AG's strategic partnership with Ningbo Jifeng, which was first established in 2017, further stabilizing the shareholder structure, optimizing the global footprint and underpinning the global growth strategy. By the end of the extended acceptance period at the end of August, Ningbo Jifeng and affiliated companies had secured a total of 84.23% of GRAMMER shares. After the expiry of the takeover bid, the GRAMMER share was no longer able to escape the general downward trend in equity prices in the automotive industry and subsequently weakened significantly. In addition, the revised guidance published in mid-October due to weak sales of passenger vehicles took its toll on the share price. This caused the GRAMMER share to hit a low of EUR 30.02 at the end of October.

GRAMMER AG AND SDAX PERFORMANCE INDEX 2018 PRICE TREND

IN %



December 30, 2017 = 100%

GRAMMER AG
SDAX Performance Index

KEY FIGURES FOR THE GRAMMER SHARE

On December 31, 2018, 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 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.

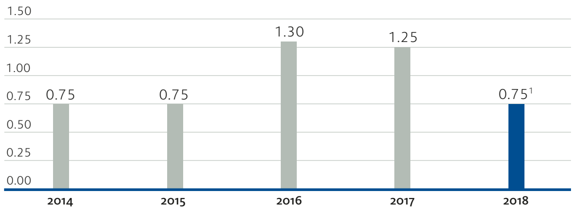
KEY FIGURES FOR THE GRAMMER SHARE

	DECEMBER 31, 2018	DECEMBER 31, 2017
Xetra closing price (EUR)	37.70	51.85
High for the year (EUR)	67.10	61.90
Low for the year (EUR)	30.02	40.74
Number of shares	12,607,121	12,607,121
Market capitalization (EUR m)	475.29	653.70
Earnings per share (in EUR)	1.90	2.67
Dividend per share (in EUR)	0.75[1]	1.25

[1] Proposed.

DEVELOPMENT OF DIVIDENDS

IN EUR



[1] Proposed.

DIVIDEND CONTINUITY

Roughly 71% of the voting-entitled capital was represented at GRAMMER AG's Annual General Meeting on June 13, 2018, constituting a significant portion of its share capital. The shareholders approved the proposal of the Executive Board and Supervisory Board, passing a resolution for the distribution of a dividend of EUR 1.25 per share, almost the same as in the previous year. 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 0.75 per share for 2018 at the Annual General Meeting 2019. In this way, shareholders will again be participating in the Company's success to the usual extent.

COVERAGE BY ANALYSTS

At the end of December 2018, the GRAMMER share was being covered by six different research companies. The consensus target price was an average of EUR 44.20 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 2018

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

INVESTOR RELATIONS

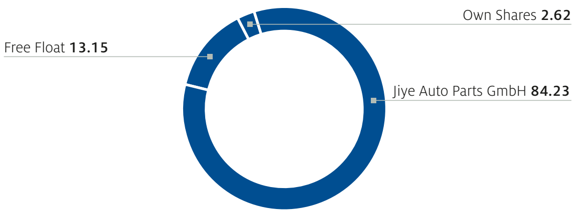
In 2018, we continued to keep institutional investors, analysts and private individuals informed of the Company's business performance, strategy and goals in a timely manner. We met with institutional investors and analysts at numerous roadshows in financial centers in Europe and took part in national and international capital market conferences. Numerous one-on-one meetings were also held. 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 publish ad-hoc announcements as well as regularly press releases and voting right notifications. The annual report, the half-year report and the interim management statements 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. Further information can be found on our website, where we report 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. Even after the completion of the takeover and the resultant withdrawal from the SDAX index, there will be no changes in the transparency, reliability and quality of our IR work. The GRAMMER IR team will continue to provide all shareholders, analysts and other capital market participants with equally reliable and timely information.

SHAREHOLDER STRUCTURE

Following the completion of the takeover by Jiye Auto Parts GmbH, a company affiliated with our strategic partner Ningbo Jifeng, the shareholder structure of GRAMMER AG has changed significantly. With an interest of 84.23%, Jiye is a strong anchor shareholder and stabilizes the shareholder structure significantly. The diagram below only includes shareholders who hold more than 3% of GRAMMER shares and have informed GRAMMER of this by means of a voting rights notice. In addition, it shows the number of shares held as treasury stock. The current shareholder structure and voting right notices can also be found in the Investor Relations section of the GRAMMER AG website.

SHAREHOLDER STRUCTURE[1]

IN %



[1] As of December 31, 2018.

GROUP MANAGEMENT REPORT INDEX

GROUP MANAGEMENT REPORT

- 4.2 percent increase in Group revenue to almost EUR 1.9 billion
- At EUR 75.8 million, Group operating EBIT down slightly on the high previous year
- Net profit for the year down on the previous year due to many exceptional effects
- Dividend of EUR 0.75 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.

It operates 48 production and logistic plants 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 39 fully consolidated companies as well as one joint venture accounted for using the equity method [see also Note 3 ("Scope of consolidation") in the notes to 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 commercial vehicle business in the aforementioned main sell-side markets.

GROUP STRUCTURE

GRAMMER Aktiengesellschaft is the parent company in the GRAMMER Group, which is managed by an Executive Board comprising at least two 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 sales coordination.

The companies that are included in the consolidated financial statements are named in Note 3 of the consolidated financial statements.

BUSINESS DIVISIONS

The GRAMMER Group comprises two Divisions.

In the Automotive Division, the GRAMMER Group is active as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. 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 (tractors, construction machinery and forklifts) and marketing these to commercial vehicle manufacturers or as an aftermarket supplier. The Division 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 (tractors, construction machinery and forklifts) as well as Railway & Bus.

Alongside the two 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), operating earnings (operating EBIT) and GRAMMER return on capital employed (G-ROCE)[1]. 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, i.e. 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. 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, GEVA (GRAMMER enterprise value added)[2] and gearing (net financial liabilities divided by equity) are evaluated and monitored as further financial indicators. In 2017, G-ROCE gained significance in connection with the revised rules for the remuneration of the Executive Board. The definition underlying this indicator was revised in 2017 and applied to the Group management process for the first time 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, dedicated 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.

At the end of 2018, we signed an agreement with our partner Allygrow Technologies Private Limited, Pune, India, concerning the establishment of a joint venture in Pune, India, to further optimize our global footprint and development processes on the one hand and to enhance R&D efficiency in order to maintain our competitiveness on the other. Moving forward, the new joint tech center in Pune will make a significant contribution to boosting global R&D performance and efficiency and has already gone into operation. This will impressively leverage potential for lowering costs and reducing the volume of external services and permit the sustained establishment of internal expertise to be stepped up, thus enabling adjustments to be made to meet steadily growing market requirements.

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 and aesthetics of our products. Non-capitalized research and development expenses came to EUR 60,634 thousand in 2018 (2017: 65,258), equivalent to 3.3% of total revenue (2017: 3.7).

[1] G-ROCE is a business indicator defined by GRAMMER on the basis of the definition of ROCE.

[2] GEVA is a business indicator defined by GRAMMER on the basis of the definition of EVA.

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.

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 concepts, e.g. for truck passenger seats and the production of center consoles. Looking forward, the use of sustainable biologically sourced materials will also grow in importance.

In addition to enhancing our traditional products and core technologies, 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. Our center of competence in Hardheim is working steadily on extending our technological capabilities in plastic injection molding processes, surface finishing and metalworking. New integrated, innovative process and production technologies are allowing 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 motors and fully automatic adjustments as well as the integration of audio and comfort applications in the premium segment in particular. We are working on steadily enhancing existing technologies in the areas of safety, comfort, installation space, weight and adjustment mechanisms.

One key milestone was the acquisition of the TMD Group in 2018. A specialist in plastics, TMD will allow us to take a further technological step forward in thermoplastic components and light-weight solutions and to simultaneously harness additional capacity for the important US market.

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 expanded 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 electronic adjustment functions fully controlled by electric motors. Looking forward to future generations of truck cabins, we expect demand for the integration of ergonomic seating systems with multifunctional electronic armrests to 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 newly developed 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 in both the Automotive and the Commercial Vehicles Division. Our existing product 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 into series.

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

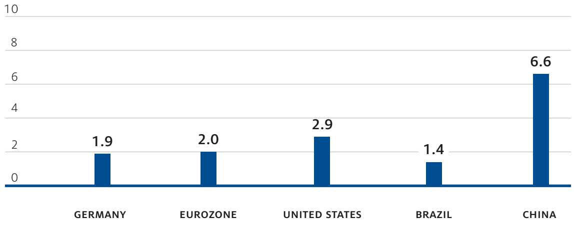
The global economy again proved to be robust in 2018. However, according to the International Monetary Fund (IMF), growth was less balanced and is likely to have peaked in some major economies. It added that the ongoing dispute over new trade barriers, especially between the two largest economies in the world, the United States and China, and the high debt burden of many countries was slowing down expansion. The originally expected faster pace of growth thus failed to materialize, the IMF explained in its World Economic Outlook. In addition, forecasts came under pressure from the dispute over US import duties for the automotive industry as well as Brexit. This prompted the IMF economists to lower their forecast for global economic growth to 3.7% in 2018, thus scaling it back by 0.2 percentage points compared with the forecast issued in April.

According to the IMF, the negative factors are being felt to differing degrees in the individual countries and trading zones. Thus, it projected growth of 2.9% in US gross domestic product in 2018, an increase of 0.7 percentage points over 2017. This primarily reflected the effects of the tax reform implemented by the Trump administration. By contrast, the forecast for growth in the Eurozone was reduced to 2.0%, down from 2.4% in the previous year. All major Eurozone countries were affected by the slower pace of growth compared with the previous year. The IMF also projected weaker economic momentum in Japan, the United Kingdom and Canada. Thus, it was particularly due to the United States that the advanced economies were able to increase their economic output in 2018 year on year by a modest 0.1 percentage point to 2.4%.

At 4.7%, growth in the developing and emerging markets should remain at the previous year's level according to the IMF. As in the previous year, the Asian developing and emerging markets are likely to have expanded by 6.5%. Economic growth in China slowed by 0.3 percentage points year on year to 6.6%. At 1.2% (2017: 1.3%), the contribution made by Latin America and the Caribbean was well below the average.

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) 2018 IN SELECTED COUNTRIES

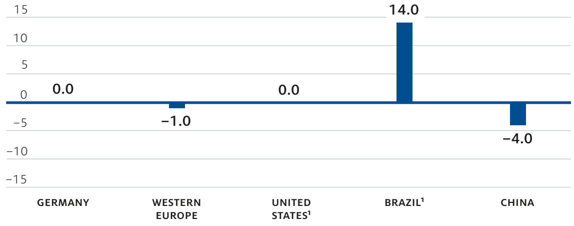
IN %



Source: IMF

CHANGE IN AUTOMOTIVE SALES VOLUMES 2018 IN SELECTED COUNTRIES YEAR ON YEAR

IN %



[1] Including light vehicles.
Source: VDA

AUTOMOTIVE INDUSTRY IN REVERSE GEAR

According to data from VDA (German Automotive Industry Association), the global passenger car market shrank by 1% to 84.2 million new registrations in 2018. The aggregate European market remained flat at 18.0 million units. The German passenger car market was also slightly below the previous year's level in 2018. In China, one of the world's three largest sales regions, the automotive market contracted for the first time in 20 years. According to industry association PCA (China Passenger Car Association), passenger vehicle sales fell by 6% year on year to 22.7 million cars. In the United States, new registrations of light vehicles (passenger vehicles and light trucks) remained steady at the previous year's level. On the other hand, new registrations in Brazil, India and Russia were again very dynamic, rising by double-digit rates in some cases.

At 83.3 million units in 2018, passenger vehicle production dropped by 2% over the previous year according to VDA. Of the main production countries, Germany and United Kingdom posted particularly sharp declines of 9% and 6%, respectively. Across Europe as a whole, production contracted by 1% to 19.2 million units. The other main production countries China, Japan and South Korea also registered a decline in production output. In the United States, production of light vehicles rose by 1% to almost 11 million units. At 3%, the pace of growth in India was somewhat higher.

COMMERCIAL VEHICLE MARKET: TRUCKS STILL IN DEMAND

According to VDA, new registrations of trucks over 6 tons increased by 6% to 2.8 million units in 2018. Double-digit growth was recorded in the United States, Russia, Brazil, India and elsewhere. In Western Europe, new registrations rose moderately by 1% to 0.3 million vehicles. Substantial declines were reported in the United Kingdom and also Turkey. New registrations in China shrank by 2% to 1.3 million vehicles.

AGRICULTURAL MACHINERY CONTINUING TO STABILIZE

According to the German Mechanical and Plant Engineering Association (VDMA), the European agricultural machinery market contracted by 5% between January and September 2018. In Turkey and China, sales/registration numbers fell by 29% and by 52%, respectively. The United States bucked the trend with growth of 8%, as did India, which was up 18%. VDMA assumes that the global market was worth EUR 107.6 billion in 2018.

CONSTRUCTION MACHINERY DYNAMIC

With revenue coming to around EUR 130 billion, the global market presumably widened by around 10%, thus reaching a new record. All major regions contributed double-digit growth.

MATERIAL HANDLING ON A GROWTH TRAJECTORY

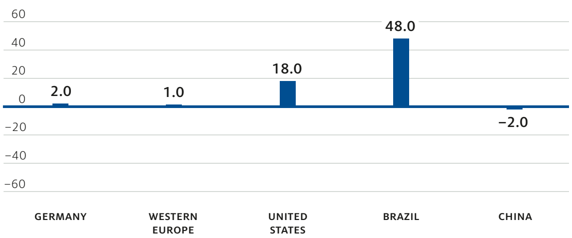
According to a survey conducted by industry association Bundesverband der Baumaschinen-, Baugeräte und Industriemaschinenfirmen e. V. (bbi), around 35% of the manufacturers of material handling equipment posted higher revenue compared with the previous year. 55% of the companies surveyed reported flat revenues, while 10% sustained declines. Only 5% of the interviewees expected to see a drop in revenue in the fourth quarter, with the rest projecting flat or higher revenue. According to Jungheinrich AG the material handling market is likely to have grown by more than 10% globally as well as in Europe over the year as a whole.

RAIL INDUSTRY WITH MOMENTUM

According to the German Railway Industry Association (VDB), the German railway sector achieved revenue of EUR 5.4 billion in the first half of 2018, an increase of 8%. At EUR 6.5 billion, new orders rose by around 5% over the same period in the previous year. At the same time, foreign demand rose significantly by 45.5%.

CHANGE IN COMMERCIAL VEHICLE SALES VOLUMES 2018 (TRUCKS ABOVE 6 T) IN SELECTED COUNTRIES YEAR ON YEAR

IN %



Source: VDA

CHANGES IN FISCAL YEAR 2018

On May 29, 2018, GRAMMER AG and Ningbo Jihong Investment Co., Ltd., Ningbo City, China, as well as Jiye Auto Parts GmbH, Kitzingen, (the "bidder") signed a business combination agreement governing the basis of and conditions for the strategic partnership between the parties and providing the foundations for a recommendation to accept a voluntary public takeover bid for all outstanding shares in GRAMMER AG. The main purpose of the agreement is to deepen the strategic partnership that was established in 2017 between GRAMMER AG and Ningbo Jifeng Auto Parts Co., Ltd., Ningbo City, China (Ningbo Jifeng), to additionally stabilize the shareholder structure by expanding the latter's share in GRAMMER AG, to optimize the Group's global footprint and to secure its global growth strategy. The voluntary public takeover bid with a minimum acceptance threshold of 50% plus one share of the outstanding share capital including the shares already held was published on June 25, 2018. Prior to the announcement of the public takeover bid, JAP Capital Holding GmbH, Frankfurt, likewise a company affiliated with Ningbo Jifeng, transferred its shares of 25.56% of GRAMMER AG's share capital to the bidder in full under a share purchase and transfer agreement. In their joint reasoned statement issued on July 6, 2018 on the basis of the tender documents, the Executive Board and the Supervisory Board recommended that all Grammer shareholders accept the bid. The acceptance period commenced on June 25, 2018 and was initially due to expire on July 23, 2018. On July 18, 2018, Jiye Auto Parts GmbH reduced the minimum acceptance threshold for its voluntary takeover offer for all outstanding shares of Grammer AG, which had been announced on June 25, 2018, from 50% plus one share to 36% plus one share. As a result of the lower minimum acceptance threshold, the acceptance period originally expiring on July 23, 2018 was extended by two weeks and therefore ended on August 6, 2018, 24:00 hours (local time in Frankfurt am Main). All the other terms and conditions of the bid remained unchanged. At the end of the extended acceptance period provided for in section 16 (2) WpÜG on August 23, 2018, 24:00 hours (local time in Frankfurt am Main), the offer was accepted for a total of 58.66% of all GRAMMER shares. Thereupon, the bidder thus held a total of 84.23% of GRAMMER shares. In accordance with the notice issued pursuant to section 40 (1) of WpHG (German Securities Trading Act), the takeover offer was completed on September 6, 2018.

The bidder intends to indirectly transfer the GRAMMER shares it holds to another company affiliated with Ningbo Jifeng with registered office in the People's Republic of China in the near future. Under the terms of the business combination agreement, GRAMMER is providing the bidder with the necessary support and making the requisite submissions for approval by the Chinese authorities, particularly the Chinese securities exchange authority.

The change in the shareholder structure also constituted a change of control. All the members of the Executive Board informed the Company on September 24, 2018 that they intended to exercise their contractual change-of-control rights and to stand down from the Executive Board. Mr. Müller and Mr. Cordonnier served notice of termination effective December 31, 2018 and left the Company on this date. Mr. Pretscher served notice of termination effective February 28, 2019 but came to an agreement with GRAMMER AG, represented by its Supervisory Board, providing for his contract to be renewed until June 30, 2019. He also declared his willingness to act as interim Chief Executive Officer, Human Resources Director and Chief Financial Officer with effect from January 1, 2019. Mr. Jens Öhlenschläger was appointed to the Executive Board effective January 1, 2019, assuming the position of Chief Operating Officer.

After being announced in the previous year, work on the new GRAMMER technology center and corporate headquartes in Ursensollen near Amberg continued according to plan. The ground-breaking ceremony for the largest construction project in the Company's history took place on March 1, 2018, with the foundation stone laid in November. The project for the construction of the new GRAMMER technology center and corporate headquartes currently has a budget of approximately EUR 50 million.

In 2018, GRAMMER AG completed the largest acquisition in its history, signing a contract to acquire Toledo Molding & Die, Inc. (TMD), Toledo, Ohio, United States, and its subsidiaries on May 22, 2018. The TMD Group is one of the leading specialists in the development and production of innovative thermoplastic components and applications in the Northern American automotive market and has its own tooling operations. It primarily develops and produces interior components for visible and invisible applications for the automotive industry. In this way, the GRAMMER Group is systematically continuing its strategy of acquiring companies for the specific purpose of broadening its capacities and enhancing its own range. GRAMMER AG acquired 100% of the shares of TMD. The acquisition was closed on October 1, 2018, as of which date the TMD Group was consolidated within the GRAMMER Group for the first time. TMD was integrated in the Automotive Division. The total amount spent on the acquisition of the TMD Group came to USD 295.9 million, including the discharge of the TMD Group's entire financial liabilities as well as certain cash and working capital components. This resulted in a provisional purchase price of USD 239.3 million, equivalent to EUR 206.7 million for all of the shares in the TMD Group. The TMD Group comprises nine individual companies which are based in the United States, the Czech Republic and Mexico. It has around 1,700 employees at nine facilities in the United States and Mexico, which are to be retained. The TMD Group contributed revenue of EUR 69.1 million over the three-month period from October 1, 2018.

BUSINESS PERFORMANCE

- Operating EBIT slightly down on the high previous year

KEY FIGURES GRAMMER GROUP

IN EUR M

	2018	2017	CHANGE
Revenue	1,861.3	1,786.5	4.2%
EBIT	48.7	66.5	−26.8%
EBIT margin (in %)	2.6	3.7	−1.1%-points
Operating EBIT	75.8	80.2	−5.5%
Operating EBIT margin (in %)	4.1	4.5	−0.4%-points
Investments (without M&A)	73.9	59.1	25.0%
Employees (number; as of December 31)	14,657	12,947	13.2%

The GRAMMER Group's business performance in 2018 came under strong pressure from exceptional effects. Adjusted for these strong non-recurring factors, the GRAMMER Group's operating profitability in 2018 fell slightly short of the high level achieved in the previous year. At EUR 75.8 million, operating EBIT was slightly below the figure of EUR 80.2 million recorded in 2017. This translated into an operating EBIT margin of 4.1% (2017: 4.5). Revenue in the GRAMMER Group rose again in 2018, climbing by 4.2% to EUR 1,861.3 million including the consolidation of the TMD Group as of October 1, 2018.

In 2018, the Group came under heavy pressure from non-recurring legal and consulting costs arising in connection with the acquisition of GRAMMER AG by Jiye Auto Parts GmbH, an entity affiliated with the strategic partner Ningbo Jifeng, and transaction costs in connection with the successful takeover of Toledo Molding & Die, Inc. (TMD) by GRAMMER AG. Further strain arose from the change-of-control rights exercised by all three members of the Executive Board ahead of their respective exits from GRAMMER AG and further non-recurring exceptional expenses in connection with the closure of the Langenfeld facility as well as market-related effects on earnings caused by the sharp slump in sales of European passenger vehicles from the end of the third quarter.

Underpinned by the GRAMMER Group's good international position, the wide range of products and its clear focus on customers in the premium segment as well as the acquisition of the TMD Group, we were able to achieve a slight increase in revenue despite the highly disparate market conditions. Within the Automotive Division, console business benefited from very strong global diversification and, as expected, was able to additionally reinforce its international footprint. All in all, the Automotive Division gained new orders worth a total of around EUR 1.4 billion in 2018 for execution in the years after 2019 (2017: approx. 1), with further new orders expected. The Commercial Vehicles Division was the main driver of the growth in revenue and operating profitability in 2018. This Division's performance was underpinned by its outstanding global position together with favorable 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.

Exceptionals and currency-translation effects totaling EUR –27.1 million exerted pressure on the GRAMMER Group in 2018 (2017: –13.7). These exceptional effects were chiefly composed of non-recurring legal and consulting costs of EUR 12.9 million arising in connection with the successful takeover bid to the shareholders of GRAMMER AG by an entity affiliated with the strategic partner Ningbo Jifeng, and of EUR 3.3 million in connection with the successful takeover of Toledo Molding & Die Inc. (TMD) by GRAMMER AG including an amount of EUR 1.7 million that was recognized as administrative expenses in 2018 and a further amount of EUR 1.6 million that will be deferred over the future years to reflect causation. The termination benefits for the members of the Executive Board who had exercised their contractual change-of-control rights came to EUR 11.5 million. This was accompanied by settlements of EUR 3.8 million in connection with the closure of the Langenfeld facility. In 2017, the exceptional effects had related to non-recurring expenses totaling EUR 7.2 million in connection with the change in the management and supervisory bodies sought by a minority shareholder at the annual general meeting. In contrast to the previous year, in which a negative difference of a total of EUR 6.5 million had arisen from currency-translation effects, positive currency-translation effects of EUR 2.8 million were recorded in 2018.

These exceptional effects exerted very considerable strain on EBIT and net profit for the year. Consequently, EBIT dropped by EUR 17.8 million from EUR 66.5 million to EUR 48.7 million in 2018. However, this was proportionately less than exceptional expenses.

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT GRAMMER GROUP

IN EUR K

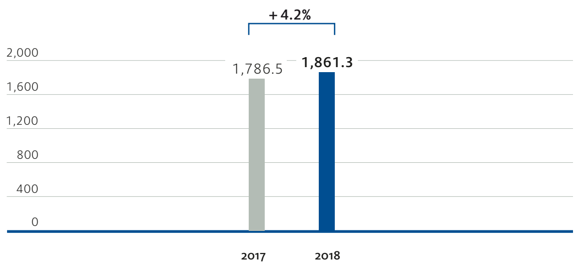
	2018	2017	CHANGE
Revenue	1,861,292	1,786,466	74,826
Cost of sales	−1,649,485	−1,571,344	−78,141
Gross profit	**211,807**	**215,122**	**−3,315**
Selling expenses	−37,769	−35,872	−1,897
Administrative expenses	−146,527	−128,726	−17,801
Other operating income	21,228	15,947	5,281
Earnings before interest and taxes (EBIT)	**48,739**	**66,471**	**−17,732**
Financial result	−14,271	−10,596	−3,675
Profit/loss (–) before income taxes	**34,468**	**55,875**	**−21,407**
Income taxes	−11,256	−23,524	12,268
Net profit/loss (–)	**23,212**	**32,351**	**−9,139**

GROUP REVENUE

- Growth in revenue to EUR 1.86 billion

GROUP REVENUE DEVELOPMENT

IN EUR M



In 2018, the GRAMMER Group achieved total revenue of EUR 1,861.3 million, thus exceeding the previous year's already high figure of EUR 1,786.5 million by EUR 74.8 million (4.2%). This increase was chiefly underpinned by growth in the sell-side markets in the Commercial Vehicles Division and the consolidation of the newly acquired TMD Group. 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 2017 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 30.5%, revenue growth in the Americas was the strongest thanks to the acquisition of the TMD Group. Growth of 8.0% was recorded in APAC, while EMEA (Europe, Middle-East, Africa) sustained a slight decline of 2.7%. The greatest revenue growth was achieved in the Americas in both the Automotive Division and the Commercial Vehicles Division.

Revenue in the Automotive Division rose by EUR 21.4 million (1.7%) to EUR 1,312.6 million particularly as a result of the acquisition of the TMD Group in 2018, thus repeating the high volume of business achieved in earlier years and exhibiting slight growth. On the other hand, substantial weaknesses arose in the EMEA markets in particular, where sizeable declines in revenue emerged from the end of the third quarter in the wake of muted sales on the part of various passenger vehicle OEMs. Without the aquisition of TMD Group, this would have resulted in lower revenue for the Division. Revenue rose significantly in the Americas due to the acquisition of the TMD Group as well as the ramp-up of a number of console product lines.

The Commercial Vehicles Division achieved a substantial increase of EUR 59.6 million in revenue to EUR 599.8 million in 2018, producing an encouragingly sharp rise of 11.0% over the previous year, which was underpinned by performance in the first half of 2018 in particular. This reflected the strong rise in demand in the offroad and material-handling segments together with a further increase in demand in the truck segment. In addition, the nascent recovery in Brazil contributed to this performance.

Revenue includes revenue for development activities of 105.3 million (2017: 115.6). This decline is due to the lower order intake in 2017. Intense competition and customers' price sensitivity mean that the costs incurred for this closely matched income. This income relates to development activities and expenses of the GRAMMER Group for consumables, tools and equipment arising ahead of series readiness. They are mostly allocated to the Automotive Division.

REVENUE BY REGION[1]

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

EMEA (EUROPE, MIDDLE EAST, AFRICA)

Revenue in EMEA dropped slightly by EUR 33.5 million or 2.7% to EUR 1,191.4 million (2017: 1,224.9). However, the performance of the Divisions was different. Whereas the Commercial Vehicles Division achieved strong growth of EUR 35.2 million or 8.7%, revenue in the Automotive Division dropped by EUR 63.1 million or 7.4% particularly from the end of the third quarter. Revenue painted a similar picture in the core market of Germany, where the Commercial Vehicles Division achieved sharp growth of 8.3%, while the Automotive Division sustained a small decline of 3.8%. The Automotive Division posted revenue of EUR 793.4 million in EMEA, thus falling short of the previous year's high figure of EUR 856.5 million. However, various new product launches in what were muted market conditions from the end of the third quarter helped GRAMMER to additionally reinforce its market position. Revenue in EMEA accounted for 64.0% of the Group total (2017: 68.6).

In Germany, revenue climbed by EUR 4.8 million to EUR 963.2 million in 2018, up slightly from EUR 958.4 million in 2017.

APAC (ASIA PACIFIC)

Revenue in APAC increased by EUR 22.6 million or 8.0% to EUR 303.5 million (2017: 280.9). The greatest growth driver in this region was the Commercial Vehicles Division with a 16.0% increase from EUR 62.5 million in the previous year to EUR 72.5 million in 2018. Truck business in China expanded, resulting in further gains. The Automotive Division recorded a 5.7% increase in revenue in APAC to EUR 231.6 million (2017: 219.1), stabilizing its business volumes in this region as well. APAC contributed 16.3% to total Group revenue (2017: 15.7).

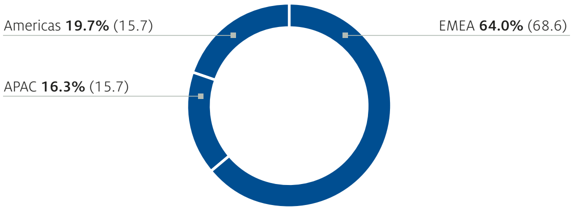
[1] In the previous year, the revenues for the individual divisions by region had been presented in consolidated form. To improve comparability with the information in the segment report in note 6 of the notes to the consolidated financial statements, these figures are presented consolidated at the level of the individual divisions for 2018. The figures for the previous year have been duly adjusted in the interests of heightened comparability.

AMERICAS (NORTH, SOUTH AND CENTRAL AMERICA)

Revenue in the Americas also grew sharply in both Divisions, rising again substantially by 30.5% in 2018, compared with 13.8% in 2017. Revenue climbed from EUR 280.7 million in 2017 to EUR 366.4 million to 2018, underpinned by the revenue growth achieved through the acquisition of the TMD Group and the favorable economic environment in the NAFTA region as well as new automotive product launches at the new plant in Tupelo, Mississippi, United States, as well as our plants in Mexico. Moreover, the recession in Brazil appears to have actually bottomed out, with nascent signs of an improvement now continuing. Both Divisions expanded in this region, with the Automotive Division growing by 33.3% and the Commercial Vehicles Division by 20.3%. All told, the share of Americas business in total Group revenue widened from 15.7% to 19.7%.

REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



IN EUR M

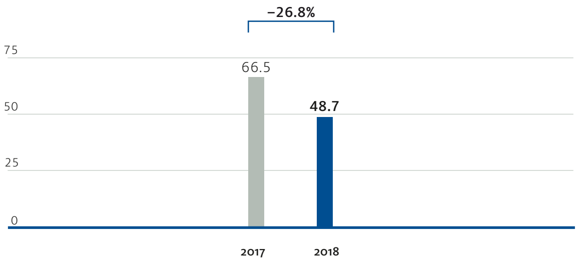
	2018	2017	CHANGE
APAC	303.5	280.9	8.0%
Americas	366.4	280.7	30.5%
EMEA	1,191.4	1,224.9	−2.7%
Revenue	**1,861.3**	**1,786.5**	**4.2%**

GROUP PROFIT

- Operating EBIT fell slightly short of the previous year's high level
- Exceptional effects leaving traces on EBIT and net profit

EBIT DEVELOPMENT GRAMMER GROUP

IN EUR M



2018 came under pressure due to high exceptional effects and a substantial decline in revenue in the Automotive Division from the end of the third quarter. Despite these difficult underlying conditions, the Group's adjusted operating EBIT dropped only slightly. At EUR 75.8 million, operating EBIT fell EUR 4.4 million short of the previous year's figure of EUR 80.2 million. Reflecting this, the operating EBIT margin narrowed from 4.5% in 2017 to 4.1% in the year under review.

Group earnings before interest and taxes (EBIT) reached EUR 48.7 million in 2018, down from EUR 66.5 million in the previous year. The exceptional effects arising from the aforementioned non-recurring transactions came to EUR 29.9 million, compared with EUR 7.2 million in the previous year. Non-recurring legal and consulting costs of EUR 12.9 million arose in connection with the successful takeover bid by an entity affiliated with the strategic partner Ningbo Jifeng. The expense in connection with the change-of-control rights exercised by the members of GRAMMER AG's Executive Board totaled EUR 11.5 million. Moreover, exceptional expenses of EUR 3.8 million arose in connection with the closure of the Langenfeld facility, while the acquisition of the TMD Group caused non-recurring legal and consulting costs of EUR 1.7 million. On the other hand, there was an improvement in exchange rates compared with 2017.

As a result, currency translation gains of EUR 2.8 million were recorded in 2018, reversing the currency translation losses of EUR 6.5 million that had arisen in 2017. The negative currency translation effects in 2017 had primarily been due to the volatility of the United States dollar, Chinese yuan, Mexican peso, Turkish lira, Japanese yen and Czech koruna against the euro. The positive currency translation effects in 2018 were very largely caused by the Mexican peso, the Turkish lira, the Japanese yen and the Czech koruna against the euro.

The cost of sales increased by EUR 78.2 million or 5.0% to EUR 1,649.5 million (2017: 1,571.3). This was largely due to the higher revenue. All told, the gross margin narrowed by 0.6 percentage points to 11.4% (2017: 12.0).

Sales expenses rose by EUR 1.9 million over the previous year to EUR 37.8 million (2017: 35.9). However, as a percentage of revenue, they remained unchanged at 2.0% (2017: 2.0).

Administrative expenses climbed by EUR 17.8 million or 13.8% to EUR 146.5 million (2017: 128.7). These expenses were substantially higher than in the previous year primarily as a result of the aforementioned exceptional effects. Currency-translation effects moved in the opposite direction. Contrary to 2017, in which currency-translation losses of EUR 6.5 million had been sustained, currency-translation gains of EUR 2.8 million arose in the year under review.

The staff costs included in the above items climbed by EUR 49.8 million to a total of EUR 425.2 million (2017: 375.4) for business-related reasons as a result of the consolidation of TMD and due to the expense arising from the termination benefits for the Executive Board members who had exercised their change-of-control rights as well as settlement payments in connection with the closure of the Langenfeld facility. At 22.8%, the staff cost ratio was slightly higher than the previous year (2017: 21.0).

Other operating income increased by EUR 5.3 million from EUR 15.9 million in the previous year to EUR 21.2 million in 2018. Compared with the previous year this is due to higher income from sale of scrap and similar sales and as well as recharged handling costs.

At EUR –14.3 million, financial result was slightly down on the previous year's figure of EUR –10.6 million. Within this item, financial income increased by EUR 0.4 million to EUR 1.5 million. Financial expenses rose by EUR 2.5 million to EUR 13.5 million primarily due to higher interest expenses of EUR 9.7 million (2017: 7.4) for loans taken out to finance the acquisition of the TMD Group. At EUR 2.6 million, interest expenses on retirement benefit obligations were unchanged over the previous year. In addition, currency-translation effects on internal Group funding and the translation of foreign-currency cash and cash equivalents of EUR –2.3 million (2017: –0.7) reduced financial result.

As a result of the factors described above, earnings before tax dropped by EUR 21.4 million from EUR 55.9 million in 2017 to EUR 34.5 million in 2018.

At EUR 11.3 million, tax expense was down a substantial EUR 12.2 million or 51.9% on the previous year's figure of EUR 23.5 million. Consequently, the tax rate came to 32.7% in 2018, compared with 42.1% in 2017, due to substantially lower earnings before tax caused by the exceptional effects. The high tax expense in the previous year was largely due to adjustments to deferred income tax assets recognized on the unused tax losses of a Chinese entity and the recently adopted tax reform in the United States, which provides for a reduction in the nominal corporate tax rate from 35% to 21% in that country.

Net profit came to EUR 23.2 million in 2018, thus dropping by EUR 9.2 million from EUR 32.4 million in 2017.

Basic earnings per share are calculated by reference to net profit for the year adjusted for non-controlling interests and stand at EUR 1.90 in 2018 (2017: 2.67).

APPROPRIATION OF PROFIT

The allocation of profit by the GRAMMER Group is based on the unappropriated surplus 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 lower unappropriated surplus of EUR 41.6 million as of December 31, 2018 (2017: 57.7). This includes profit of EUR 42.3 million carried forward and the net loss for the year of EUR 0.7 million. No profit was transfered to retained earnings. The Executive Board of GRAMMER AG will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.75 per share be paid (total dividend: EUR 9.2 million) and that the balance of EUR 32.4 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 Annual General Meeting 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, the acquisition of the TMD Group as well as the earnings achieved despite the heavy exceptional strains in 2018 together with 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 and high-quality 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, the expansion of our capacity following the acquisition in the United States and the strategic alliance forged with Ningbo Jifeng in China and the increasing positive cash flow from operating activities. Our funding structure, which is still good despite the acquisition, and the high operating earnings, which are expected to be free of any exceptional effects in the future, will give us the stability required to utilize opportunities arising in the market as we move forward. Growth beyond 2018 in the Automotive Division will be contingent on a recovery in the currently muted sales in Europe and the resolution of the problems relating to the exhaust emission scandal. Accordingly, the Group's current economic condition can be considered to be favorable.

AUTOMOTIVE DIVISION

- Automotive Division with stable operating business

KEY FIGURES AUTOMOTIVE DIVISION

IN EUR M

	2018	2017	CHANGE
Revenue	1,312.6	1,291.2	1.7%
EBIT	37.7	40.7	−7.4%
EBIT margin (in %)	2.9	3.2	−0.3%-points
Operating EBIT	36.8	45.4	−18.9%
Operating EBIT margin (in %)	2.8	3.5	−0.7%-points
Investments (without M&A)	39.8	42.9	−7.2%
Employees (number, as of December 31)	10,635	8,931	19.1%

The Automotive Division generated revenue of EUR 1,312.6 million in 2018 (2017: 1,291.2) and, as forecast in the 2017 annual report, was thus able to achieve small growth of EUR 21.4 million or 1.7%, although this was exclusively due to the acquisition of the TMD Group. Following the sharp expansion of earlier years, top-line growth slowed substantially in parts in some segments in Europe from the end of the third quarter.

In 2018, order receipts for new future projects no longer came under pressure from the events of 2017 relating to the shareholder structure. Order receipts and contract signings, particularly with German OEMs, were up, exceeding our expectations in some cases. The restraint on the part of some customers in placing new orders with the GRAMMER Group in 2017 continued to exert strain on the Automotive Division's future business performance and also its earnings in 2018 due to shortfalls in the recoupment of development costs and costs to receive new orders.

Revenue in the Automotive Division rose substantially by 33.3% (2017: 13.7) from EUR 215.7 million to EUR 287.6 million in the Americas thanks to the acquisition of the TMD Group and by 5.7% (2017: 3.8) from EUR 219.1 million to EUR 231.6 million in APAC. However, division revenue in EMEA contracted by 7.4% or EUR 63.1 million for market-related reasons particularly from the end of the third quarter. Revenue in this region dropped from EUR 856.5 million to EUR 793.4 million. German business also contracted slightly by 3.8% or EUR 23.3 million from EUR 618.9 million to EUR 595.6 million.

To additionally strengthen the Automotive Division's earnings potential, we are systematically continuing 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 plant in Sosnowiec in Poland was expanded and commenced additional production. 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 plant in Tupelo, Mississippi, in the United States, as we are still ramping up console production there. As expected, these activities led to appreciable cost burdens at these plants with a corresponding effect on operating earnings in the Automotive Division. In addition, we expanded our capacities in the US and Mexico in the fourth quarter with the acquisition of the TMD Group. We have begun integrating the TMD Group within the GRAMMER Group, which initially led to added expense from first-time consolidation.

EBIT in the Automotive Division came to EUR 37.7 million in 2018, falling EUR 3.0 million or 7.4% short of the previous year's figure of EUR 40.7 million. At the same time, currency-translation gains of EUR 0.9 million arose in 2018 in contrast to 2017 in which currency-translation losses of EUR 4.7 million had been recorded. The positive effects in 2018 were primarily caused by changes in the exchange rates of the US dollar, Mexican peso and Czech koruna.

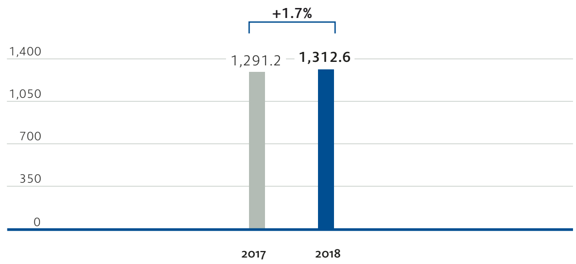
Thus, operating EBIT adjusted for currency-translation effects came to EUR 36.8 million in 2018, down EUR 8.6 million or 18.9% on the previous year's figure of EUR 45.4 million. The operating EBIT margin narrowed slightly from 3.5% in 2017 to 2.8% in 2018. The sharp decline in revenue from the end of the third quarter of 2018 in Europe and, resulting from this, the shortfalls in capacity utilization at the relevant plants left considerable traces on earnings, which the slightly higher revenue recorded in the other regions was unable to fully offset as this growth arose from product ramp-ups which also caused considerable strain in the Americas in particular.

Investments in the Automotive Division came to EUR 39.8 million in 2018, thus falling short of the previous year's figure of EUR 42.9 million.

The number of employees in this Division rose from 8,931 in the previous year to 10,635 due to the acquisition of the TMD Group. As of December 31, 2018, the TMD Group had 1,708 employees. Adjusted for this acquisition, there was no change in the headcount in the Automotive Division.

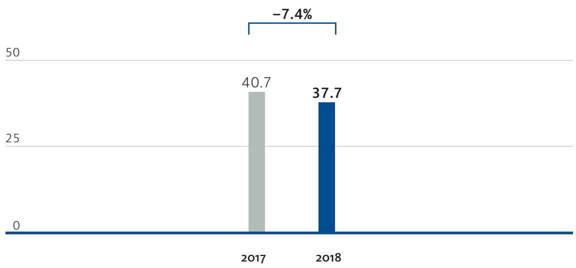
REVENUE DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



EBIT DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



COMMERCIAL VEHICLES DIVISION

- Commercial Vehicles Division still on a growth trajectory

KEY FIGURES COMMERCIAL VEHICLES DIVISION

IN EUR M

	2018	2017	CHANGE
Revenue	599.8	540.2	11.0%
EBIT	55.5	45.9	20.9%
EBIT margin (in %)	9.3	8.5	0.8%-points
Operating EBIT	53.5	47.5	12.6%
Operating EBIT margin (in %)	8.9	8.8	0.1%-points
Investments (without M&A)	16.6	12.2	36.1%
Employees (number, as of December 31)	3,744	3,737	0.2%

On a gratifying note, the Commercial Vehicles Division was able to substantially exceed the forecast of stable performance for 2018 that we had indicated in the 2017 annual report. Thus, revenue in this Division rose very substantially by EUR 59.6 million or 11.0% from EUR 540.2 million in the previous year to EUR 599.8 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 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. 2018 was characterized by a very favorable order situation, which laid the foundations for continued strong performance particularly in Brazil and China.

Revenue in the Commercial Vehicles Division rose in all regions, albeit to differing degrees. Revenue in APAC climbed significantly by 16.0% (2017: 54.9) from EUR 62.5 million in 2017 to EUR 72.5 million in 2018, driven in particular by the growth in truck business in China. At 20.3% (2017: 14.2), revenue in the Americas grew the most sharply, rising from EUR 71.6 million to EUR 86.1 million. Growth of 8.7% (2017: 12.4) was also registered in EMEA, where revenue rose from EUR 406.1 million to EUR 441.3 million. EMEA revenue climbed at very encouraging rates across all segments, particularly offroad and material-handling. Revenue in Germany also increased by 8.3% or EUR 28.1 million from EUR 339.5 million in 2017 to EUR 367.6 million in 2018.

Division EBIT climbed substantially by EUR 9.6 million or 20.9% from EUR 45.9 million to EUR 55.5 million in 2018. Driven by dynamic growth, the Commercial Vehicles Division was able to substantially improve its profitability in 2018 over the previous year.

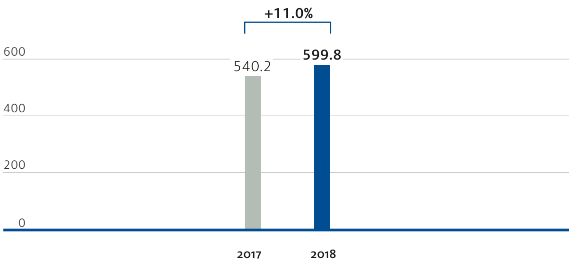
Thus, operating EBIT climbed by EUR 6.0 million or 12.6% from EUR 47.5 million in 2017 to EUR 53.5 million in 2018. The positive currency-translation effects, which came to EUR 2.0 million in 2018 (2017: –1.6), resulted in a difference of EUR 3.6 million over the previous year. The positive currency-translation effects particularly arose from trends in the exchange rates of the Chinese yuan, the Japanese yen, the Czech koruna and the Turkish lira.

Capital spending in the Commercial Vehicles Division came to EUR 16.6 million in 2018, marking an increase of EUR 4.4 million or 36.1% over the previous year of EUR 12.2 million.

Despite the strong top-line growth, the headcount of the Commercial Vehicles Division was unchanged over the previous year, standing at 3,744 employees as of December 31, 2018 (2017: 3,737).

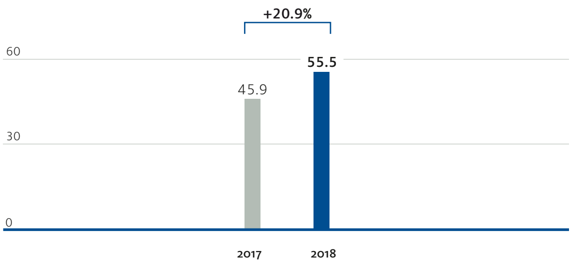
REVENUE DEVELOPMENT COMMERCIAL VEHICLES DIVISION

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 204.4 million
- Acquisition finance of USD 260.0 million taken out
- Long-term funding of EUR 41.0 million for the new GRAMMER technology center and corporate headquartes

The GRAMMER Group has sufficient cash and funding to finance the targeted growth and the necessary investments.

The syndicated loan contract taken out by GRAMMER AG in 2013 (EUR 180.0 million) 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 term thus expires on October 31, 2020. The syndicated loan is divided into a facility of EUR 100.0 million (tranche A) for general corporate financing and a facility of EUR 80.0 million (tranche B) for acquisition finance, which was terminated as part of the acquisition of the TMD Group and the funding of this transaction. Together with the medium-term and long-term bonded loans and the finance described below to fund the acquisition of the TMD Group, this gives the Group sufficient mid-term funding.

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. In this connection, all banks underwriting the syndicated loan granted to GRAMMER AG agreed to waive their termination rights following the acquisition by Jiye Autoparts GmbH of the shares in GRAMMER AG. The same applies to two other bilateral agreements with other banks. In this connection, part of this finance was increased to EUR 20.0 million and renewed until 2023.

The bonded loans have a total value of EUR 181.0 million as of December 31, 2018. Termination rights in the event of a change of control are also provided for in the agreements underlying the bonded loans. Only a very small portion of these termination rights – without the possibility of transferring the amount concerned – were exercised in the context of the acquisition by Jiye Autoparts GmbH of the shares in GRAMMER AG. However, in the event of a further change of control in the future, the exercise of these termination rights could still jeopardize the funding of the GRAMMER Group's operating business, meaning that alternative sources of funding would need to be found. As of December 31, 2018, cash and cash equivalents stood at EUR 204.4 million (2017: 146.3).

In connection with the acquisition of Toledo Molding & Die, Inc. (TMD), GRAMMER AG took out acquisition finance of USD 260 million with a term of twelve months plus a renewal option for a period of six months with a small group of core banks subject to the condition precedent of tranche B of the syndicated loan being terminated. There are no changes to Trance A of the syndicated loan. Upon the execution of the acquisition of TMD, Toledo Molding & Die, Inc., TMD Tennessee LLC and TMD Wisconsin LLC are co-guarantors of the bridge finance.

For the purpose of funding the new GRAMMER technology center and corporate headquartes in Ursensollen near Amberg, a long-term mortgage-secured (development) loan of a total of EUR 41 million was obtained. However, it had not yet been drawn on as of December 31, 2018.

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 cash pools in consultation with the local companies for ensuring adequate liquidity for GRAMMER AG's subsidiaries, to the extent to which this 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 162.0 million, non-current financial liabilities were down on the previous year (2017: 190.3).

Current financial liabilities stood at EUR 295.7 million and were thus substantially higher than in the previous year (2017: 48.2) due to the short-term funding of the TMD Group. Funding is to be restructured in 2019.

The cash flow from operating activities rose by EUR 74.4 million (107.5%) from EUR 69.2 million in 2017 to EUR 143.6 million in 2018 due to the sharp improvement in working capital despite the lower earnings before tax. Although the substantially lower earnings before tax caused by exceptional effects and the slower decline in trade accounts payable and other assets exerted pressure on the cash flow from operating activities they were very substantially offset by the simultaneous decrease in trade accounts receivable and other assets.

At EUR 269.4 million in 2018, the cash outflow from investing activities was higher than in the previous year (2017: 59.2). This is primarily attributable to the acquisition of the TMD Group. In the year under review, capital spending on property, plant and equipment exceeded the previous year substantially, coming to EUR 68.2 million (2017: 48.6) due to ongoing expansion of production in both Divisions as well as the commencement of construction of the GRAMMER technology center and corporate headquartes. Spending on intangible assets came to EUR 5.7 million in 2018 and was thus EUR 4.8 million down on the previous year.

All in all, there was a cash inflow of EUR 184.2 million from financing activities in 2018. To fund the acquisition of the TMD Group, financial liabilities of USD 260.0 million, equivalent to EUR 224.0 million, were raised. At the same time, repayments of EUR 36.8 million were made towards the bonded loans. In addition, a dividend of EUR 15.4 million was distributed in the year under review (2017: 14.6).

All in all, the Group continues to hold strong cash and cash equivalents available for funding its business and for further expansion of its business activities.

CAPITAL STRUCTURE

As of December 31, 2018, the Company's share capital amounted to EUR 32,274,229.76 (2017: 32,274,229.76) divided into 12,607,121 (2017: 12,607,121) shares. All shares (with the exception of treasury stock) 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. 1,062,447 shares were issued for subscription on April 25, 2017 using contingent capital (2014/I) in connection with the exercise of rights to convert the mandatory convertible bond, as a result of which the share capital rose by EUR 2,719,864.32. Following the issue of the new shares in 2017, this contingent capital (2014/I) is valued at EUR 12,057,318.40, equivalent to 4,709,890 new 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 1 "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, 2018 (2017: 129,796). Accordingly, the capital reserve as of December 31, 2018 includes premiums from the capital increases in 1996, 2001, 2011 and 2017.

The revenue reserve amounted to EUR 228,920 thousand (2017: 254,960) as of December 31, 2018.

DISCLOSURE OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 33 WPHG

Under the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must 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, 2018 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 at costs of property, plant and equipment and intangible assets) by the GRAMMER Group came to EUR 73.9 million (2017: 59.1) in 2018 and were thus substantially higher than in the previous year.

Spending on property, plant and equipment stood at EUR 68.2 million in 2018, i.e. also well up on the previous year's figure of EUR 48.6 million. Of these additions to property, plant and equipment, the Automotive Division accounted for EUR 39.2 million (2017: 36.0) and the Commercial Vehicles Division for EUR 13.4 million (2017: 9.4). Spending on property, plant and equipment for Central Services came to EUR 15.6 million (2017: 3.2).

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. One material focus of capital spending was on strengthening production of interior components in Hardheim, Germany for rationalization and technology.

Investments in the Commercial Vehicles Division concentrated on Germany, Turkey, China and the United States. In Germany, expansion and rationalization spending was stepped up at the Haselmühl site. Capital spending focused on truck seat production 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 Germany-based Railway & Bus segment, further assembly facilities for the regional transportation seat platform were procured.

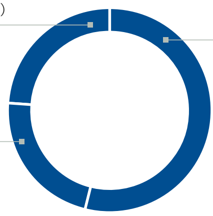
In addition, investments were made in site safety and environmental protection in both Divisions.

Investments in Central Services was particularly attributable the commencement of construction work on the new GRAMMER technology center and corporate headquartes in Ursensollen near Amberg.

Spending on intangible assets came to EUR 5.7 million in 2018 and was thus down EUR 4.8 million on previous year's figure of EUR 10.5 million. Of this, the Automotive Division accounted for EUR 0.5 million (2017: 6.9) and the Commercial Vehicles Division for EUR 3.2 million (2017: 2.8). Spending on intangible assets for Central Services came to EUR 2.0 million (2017: 0.8). Intangible assets include patents, concessions as well as capitalized development activities.

INVESTMENTS BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



IN EUR M

	2018	2017	CHANGE
Automotive	39.8	42.9	−7.2%
Commercial Vehicles	16.6	12.2	36.1%
Central Services	17.5	4.0	337.5%
Investments	**73.9**	**59.1**	**25.0%**

NET ASSETS

- Substantial 30.2% increase in total assets due to the consolidation of the TMD Group
- Equity ratio of 21.8% at the end of the year under review

CONDENSED BALANCE SHEET GRAMMER GROUP

IN EUR K

	2018	2017	CHANGE
Non-current assets	697,703	372,327	325,376
Current assets	743,714	734,641	9,073
Assets	**1,441,417**	**1,106,968**	**334,449**
Equity	314,840	337,661	−22,821
Non-current liabilities	359,956	359,523	433
Current liabilities	766,621	409,784	356,837
Equity and liabilities	**1,441,417**	**1,106,968**	**334,449**

On the reporting date (December 31, 2018), the GRAMMER Group had total assets of EUR 1,441.4 million (2017: 1,107.0). The consolidation of the TMD Group and the short-term funding of the purchase price caused total assets to rise by 30.2%.

Non-current assets primarily comprise property, plant and equipment, intangible assets and deferred tax assets as well as non-current contract assets. As of December 31, 2018, these were valued at EUR 697.7 million and were thus substantially higher than the previous year's figure of EUR 372.3 million. This increase is mainly due to the first-time consolidation of the TMD Group. In particular, property, plant and equipment rose by EUR 109.3 million to EUR 348.2 million as of December 31, 2018 primarily as a result of the first-time consolidation of the TMD Group. Within intangible assets, the acquisition of the TMD Group produced goodwill of EUR 72.9 million. At the same time, considerations paid to customers in the amount of EUR 18.0 million were reclassified as other non-current assets. In addition, an amount of EUR 82.1 million was reclassified as non-current contract assets due to the first-time application of IFRS 15 as of January 1, 2018. Up until the consolidated financial statements for 2017, this amount had been recognized within other current financial assets.

Current assets primarily include inventories, current trade accounts receivable, other current financial assets, cash, and short-term deposits, other current assets as well as current contract assets. At EUR 743.7 million as of December 31, 2018, current assets were slightly up on the previous year's figure of EUR 734.6 million. Within this item, inventories rose by EUR 33.0 million from EUR 158.0 million to EUR 191.0 million and current trade accounts receivable by EUR 26.7 million from EUR 223.3 million to EUR 250.0 million. In both cases, these increases were due to the growth in revenue and increased business as well as the first-time consolidation of the TMD Group. Other current financial assets declined by EUR 170.3 million from EUR 176.9 million to EUR 6.6 million due to the first-time application of IFRS 15. As already stated in connection with non-current assets, an amount of EUR 63.4 million was recognized as non-current contract assets as of December 31, 2018. These had been reported as other current financial assets in the consolidated financial statements for 2017 and in the previous years. In addition, the original current receivables from construction contracts were reduced by EUR 44.7 million. As already explained in the annual report for 2017, this reduction was due to the absence of any direct contractual refund claim and direct economic compensation for development orders. The remaining amount of EUR 51.8 million as of December 31, 2018 is recognized within current contract assets. At the end of the year, cash and short-term deposits stood at EUR 204.4 million (2017: 146.3).

As of December 31, 2018, equity dropped to EUR 314.8 million (2017: 337.7). This translates into an equity ratio of 21.8% (2017: 30.5). The reduction is mainly due to the first-time application of IFRS 15 described above, which accounts for an amount of EUR 33.6 million, and the dividend distribution of EUR 15.3 million by GRAMMER AG. The net profit of EUR 23.2 million (2017: 32.4) and the other comprehensive of EUR 3.3 million (2017: −9.4) caused equity to rise. The actuarial gains from defined benefit pension plans calculated on the reporting date including deferred taxes had a positive effect of EUR 5.1 million (2017: 0.9) in other comprehensive income within equity. Net investments in foreign operations likewise had a positive effect. Negative foreign currency translation effects from the currency translation of foreign subsidiaries caused other comprehensive income within equity to decline. Given the sharp rise in total assets caused by the first-time consolidation of the TMD Group from October 1 and the negative effects on equity resulting from the first-time application of IFRS 9 and particularly also IFRS 15 together with the dividend distribution, the equity ratio contracted by 8.7 percentage points to 21.8% (2017: 30.5) despite the net profit generated for the year. Consequently, the ratio of equity to non-current assets now stands at 45.1% (2017: 90.7).

G-ROCE, which was used as a performance indicator for the GRAMMER Group for the first time in 2018, contracted by 1.0 percentage points to 10.5%, compared with 11.5% in 2017.

Non-current liabilities amounted to EUR 360.0 million on the reporting date (2017: 359.5). Non-current financial liabilities dropped by EUR 28.3 million to EUR 162.0 million due to the reclassification of some items as current financial liabilities. Retirement benefits and similar obligations declined to EUR 135.0 million (2017: 140.5). After netting deferred tax liabilities came to EUR 41.9 million (2017: 22.6). The increase in deferred tax liabilities is due to effects arising from the first-time consolidation of the TMD Group.

Current liabilities increased by EUR 356.8 million from EUR 409.8 million to EUR 766.6 million. Specifically, current trade accounts payable climbed by EUR 99.4 million to EUR 358.3 million due to increased business volumes as well as the first-time consolidation of the TMD Group. Current financial liabilities also rose significantly from EUR 48.2 million to EUR 295.7 million. This increase was primarily due to the short-term funding of the purchase price for the TMD Group, which is to be replaced by long-term finance in 2019. Provisions rose from EUR 17.5 million to EUR 18.0 million in 2018.

SUPERVISORY BOARD AND EXECUTIVE BOARD

CHANGES IN THE EXECUTIVE BOARD

The rules for the appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG (German Stock Corporation Act) as well as article 8 et sec. of the Company's articles of incorporation. Mr. Hartmut Müller, Chief Executive Officer (CEO), and Mr. Gérard Cordonnier, Chief Financial Officer (CFO), resigned from the Executive Board of GRAMMER AG effective December 31, 2018. On December 11, 2018, Mr. Manfred Pretscher previously Chief Operating Officer (COO) was appointed to CEO and Human Resources Director from January 1, 2019 and also interim CFO pending the appointment of a permanent CFO. He will be leaving GRAMMER AG's Executive Board on June 30, 2019. Mr. Jens Öhlenschläger was appointed to the Executive Board effective January 1, 2019. He is assuming the position of Chief Operating Officer. There were no changes in the composition of GRAMMER AG's Supervisory Board in 2018. Prof. Dr.-Ing. Birgit Vogel-Heuser, who had been appointed to GRAMMER AG's Supervisory Board effective July 26, 2017, was duly elected to the Supervisory Board at the Annual General Meeting in 2018.

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.

STI is calculated for each year and depends on the achievement of budget targets defined for two parameters – the operating earnings margin before tax (EBT margin) and the GRAMMER return on capital employed (G-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 G-ROCE. The degree of achievement for the EBT margin and G-ROCE may be between zero (floor) and 200%

(cap). Accordingly, the payout amount under the STI is between zero (floor) and 200% (cap) of the target amount. The EBT margin is calculated on the basis of the consolidated financial statements as follows: ratio of operating 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 degree of target achievement for the EBT margin is between 0% and 200%. Target achievement is 0% if the EBT margin calculated for a given financial year is one percentage point or more below the budgeted amount determined at the beginning of the financial year. Target achievement is 200% if the EBT margin calculated for a given financial year is one percentage point or more above the budgeted amount determined at the beginning of the financial year. Target achievement is 100% if the EBT margin calculated for a given financial year matches the budgeted amount determined at the beginning of the financial year. G-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 degree of target achievement for G-ROCE is between 0% and 200%. Target achievement is 0% if G-ROCE calculated for a given financial year is 3 percentage points or more below the budgeted amount determined at the beginning of the financial year. Target achievement is 200% if G-ROCE calculated for a given financial year is 3 percentage points or more above the budgeted amount determined at the beginning of the financial year. Target achievement is 100% if G-ROCE calculated for a given financial year matches the budgeted amount determined at the beginning of the financial year.

The LTI is calculated for each year and depends on the achievement of the target enterprise value added (GEVA) and total shareholder return (TSR). The Supervisory Board plans to include further factors in the calculation of LTI particularly to take account of corporate social responsibility (CSR). A weighting of 40% GEVA, 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, GEVA and TSR are weighted evenly in the calculation of the LTI, i.e. 50% of the target LTI depends on the achievement of the GEVA target and 50% on the achievement of the TSR target. The degree of target achievement for GEVA and TSR may be between 0% (floor) and 200% (cap). Accordingly, the weighted aggregate target achievement for an LTI plan tranche is between 0% and 200%. The target payout amount for an LTI plan tranche is likewise between 0% and 200% of the target amount. The following parameters have been defined for the calculation of the LTI:

GEVA equals G-ROCE less WACC (weighted average cost of capital) calculated on the basis of the methodology defined for the grant of a plan tranche for the financial years making up the performance period. G-ROCE is defined in the same way as for STI. WACC expresses the expected return on the cost of capital employed. The degree of target achievement for GEVA is between 0% and 200%. Target achievement is 0% if the GEVA calculated for a given performance period is 2 percentage points or more below the budgeted amount determined at the beginning of the performance period. Target achievement is 200% if the GEVA calculated for a given performance period is 2 percentage points or more above the budgeted amount determined at the beginning of the performance period. Target achievement is 100% if the GEVA calculated for a given performance period matches the budgeted amount determined at the beginning of the performance period.

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

TSR is calculated by comparing the performance of the GRAMMER share price in the four financial years of the performance period (TSR-GRAMMER) with the performance of the SDAX index in the same four financial years (TSR-SDAX). TSR-SDAX forms the 100% target for the TSR target in the LTI. To determine TSR target achievement, TSR-GRAMMER is compared with TSR-SDAX. If TSR-GRAMMER is a maximum of 85% of TSR-SDAX, target achievement equals 0% (TSR-SDAX –15%). If TSR-GRAMMER is at least 115% of TSR-SDAX (TSR-SDAX +15%), target achievement equals 200%. Target achievement is 100% if TSR-GAMMER calculated for a given performance period matches TSR-SDAX. 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 other 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 (German Stock Corporation Act) are included in the notes to the consolidated financial statements.

In the event of the premature termination of the service contract of the member of the Executive Board, the settlement payable is capped at twice the annual amount of remuneration provided for in the service contract in question. In addition, change-of-control agreements were provided for in the service contracts with the (former) members of the Executive Board, Hartmut Müller, Gérard Cordonnier and Manfred Pretscher, as described below in the disclosures pursuant to section 315a HGB (German Commercial Code).

At the same time as the new remuneration system for the Executive Board of GRAMMER AG was introduced in 2017, 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 were 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, Hartmut Müller, Gérard Cordonnier and Manfred Pretscher, up until 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 SYSTEM IN 2018

In 2018, the Supervisory Board added more specific details to the remuneration system for the Executive Board to take account of future requirements; in particular, the methodology for calculating LTI was placed on a forward-looking basis and the targets budgeted for the future recalculated in accordance with the description of the remuneration system.

In addition, a decision was made in 2018 to revise the amount and composition of the remuneration system as well as the amount of the retirement benefits for the period after January 1, 2019 and, hence, for future members of the Executive Board. As well as this, new parameters were adopted for the remuneration system. Moreover, it was decided that future service contracts with members of the Executive Board should not provide for the payment of termination benefits in the event of a change of control. This has already been incorporated in the service contract entered into with Mr. Öhlenschläger.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

EMPLOYEES

SHARP INCREASE IN HEADCOUNT DUE TO ACQUISITION OF THE TMD GROUP

As of December 31, 2018, the GRAMMER Group had a total of 14,657 employees (2017: 12,947), equivalent to an increase of 13.2%.

The headcount rose solely as a result of the acquisition of the US TMD Group. The staff cost ratio widened marginally as a result. The annual average headcount stood at 13,439 (2017: 12,483).

The number of employees in the Automotive Division increased to 10,653 (2017: 8,931) due solely to the acquisition of the TMD companies. 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 and the United States. On the other hand, the number of employees in the Czech Republic and Germany declined.

The headcount in the Commercial Vehicles Division climbed slightly to 3,744 (2017: 3,737). This was mainly due to the further expansion of our site in Tupelo (United States) and increased volumes at the Amberg production site as well as the decrease in the number of employees in Turkey and Bulgaria. However, the increase of around 0.2% in the headcount of the Commercial Vehicles Division was substantially lower than the rate of top-line growth (11%).

At 278, the number of employees in Central Services remained almost completely unchanged at the previous year's level (2017: 279).

Looking forward, we also expect a slight increase in headcount in 2019 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. The Group seeks to develop all employees in the light of their potential and with a view to fulfilling competence profiles on a targeted basis and in line with requirements. 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.

Our employer branding and talent management activities, which also include learning and training, are being systematically driven forward with various Group-wide programs.

After a pilot phase in 2017, in which several corporate programs were rolled out worldwide for the first time under the "career@GRAMMER" umbrella, they entered the second round in 2018. Our corporate programs are divided into different segments: "GRAMMER TOP Gear" focuses on strategic further education for middle management, while "GRAMMER Fast Lane" is primarily targeted at employees exhibiting very high potential, some of whom have already gained preliminary management experience. "GRAMMER DRIVE" has been designed for employees who show great potential and are to be prepared to assume further responsibilities. With the assistance of an integrated location analysis, participants can define for themselves the career path they would like to pursue, whether in a specialist function or in a leadership role. All these programs aim to develop the high-potentials from within our own organizational structures to a large degree.

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. Experts share their experience across the Divisions and the plants, thus helping to spread the valuable knowledge held by the Company on a global basis and applying best practices to leverage synergistic benefits.

GRAMMER's career programs have been enhanced with the project management career established in 2017 to offer our project managers a promising perspective in line with market requirements. In addition, the system also includes target-oriented training opportunities. There are plans to additionally offer a program at the top-mangement level in 2019 to supplement the individual offerings. The purpose of all these measures is to address even more effectively requirements with respect to the motivation and further training of qualified staff and managers and to drive global networking within the Group.

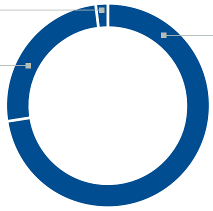
The Group is a employer investing in vocational training and further education in its home region at its plants in Germany as well as at its global sites. We will continue to observe this commitment as we move forward. Our aim is to orient all aspects of our training and continuing education program to future requirements internationally in order to offer the employees concerned the best career outlook at all locations through training. In 2018, 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. In addition, we offer specialist staff who have trained in Germany the opportunity of gaining a global view of the Company in our regions directly after they complete their training.

New conceptual approaches aimed at internationalizing training are being rolled out at selected sites in 2019. These are condensed training courses that will help us to establish proven methods and standards with the involvement of local employees on a long-term basis.

The cooperation with Ostbayerische Technische Hochschule (OTH), a local university of applied sciences, and with Duale Hochschule Baden-Württemberg (DHBW) offers a good example of our successful commitment to forging links between business and tertiary education institutions. This network together with selected recruiting events at universities in Germany as well as in other countries gives us access to highly qualified graduates, assuring us of a strong position in the future.

EMPLOYEES BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



AS OF DECEMBER 31	2018	2017	CHANGE
Commercial Vehicles	3,744	3,737	7
Automotive	10,635	8,931	1,704
Central Services	278	279	–1
Employees	**14,657**	**12,947**	**1,710**

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 eSourcing platform eProcurement 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 launched in conjunction with development and production were continued in the year under review to strengthen design-to-cost activities as a means of additionally reducing the cost-of-materials base.

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 48 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 and are increasingly able to access local suppliers and production technologies. With the acquisition of the US automotive components supplier TMD Toledo Molding & Die, Inc. in October 2018, an important step in our growth strategy was achieved, as a result of which our production capacities in the northern United States close to the assembly facilities of the American OEMs as well as in Mexico were expanded.

A further 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.

In addition, we expanded our capacities in the United States and Mexico and gained new technologies for automotive application products with the acquisition of the TMD Group.

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), an error avoidance process 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 safeguard our high product quality and ensure that we continue to be perceived as a quality and innovation leader in the market. Another important aspect of our quality management approach is product safety. 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's Divisions and selling operations are oriented to its existing product groups. 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 manufacture products for the market as a whole. Instead, it engineers and assembles product solutions for a specific model or platform until they are ready for market in accordance with the customer's specifications. This gives rise to long-standing integrated business relationships 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 may depend, among other things, on its engineering and technological skills, its renown and the underlying situation with respect to the OEM. A decision is primarily made on the basis of the economic advantages for the OEM. On the basis of such invitations, automotive component suppliers prepare extensive proposals at their own expense. These mainly comprise technical specifications, details of the costs of parts, tooling costs, prototype part costs, prototype tooling costs, the place of production 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 economically best proposal 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 and their Tier 1 suppliers in the upper and premium segment. 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 channels (retrofit 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. GRAMMER engineers separate products for the market in the Commercial Vehicles Division.

CORPORATE GOVERNANCE – GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration pursuant to section 315d HGB in connection with section 289f HGB (German Commercial Code) and the declaration of conformity with the German Corporate Governance Code are permanently available on the company website www.grammer.com under the "Corporate Governance" section of the part entitled "COMPANY".

NON-FINANCIAL GROUP STATEMENT

The non-financial group statement pursuant to section 289b (3) and section 315b (3) HGB (German Commercial Code) will be published at least four month after the reporting date on the company website at www.grammer.com under "COMPANY", "Sustainability", "Non-financial group statement".

DISCLOSURES IN ACCORDANCE WITH 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 2018 set out detailed information on the voting right notifications received in accordance with section 33 WpHG (German Securities Trading Act).

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 (German Stock Corporation Act) and section 31 MitBestG (Co-Determination Act). Article 8 ff 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 (German Stock Corporation Act); 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 in 2017, Contingent Capital 2014/I now stands at EUR 12,057,318.40 as of December 31, 2018. 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 own stock in accordance with section 71 (1) No. 8 AktG (German Stock Corporation Act) 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 Executive Board members Hartmut Müller, Gérard Cordonnier and Manfred Pretscher contain or contained a change of control clause, under which each member had a special right of termination exercisable within three months of a change of control. If the change-of-control option is exercised the termination party partly may claim, a termination benefit of 150% of the termination benefit cap agreed upon in the service contract equaling two full annual remuneration amounts. This benefit is not included in the service contract entered into with the newly appointed member of the Executive Board, Mr. Öhlenschläger. In addition, there are change-of-control compensation agreements with individual members of the Company's senior management, exercise of which is based on resignations from members of the Executive Board.

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 no more secure, meaning that alternative sources of funding would be required.

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:

- In the context of the Group's risk management, opportunities and risks encompass any positive or negative deviations from a plan or target defined in circumstances of uncertainty.
- Risk management thus contributes to value-based management of the 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 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 if possible minimize risks within their area of responsibility.
- The internal audit function also performs a review of the appropriateness 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. All Division departments and central service departments have 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 based in 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 results of operations 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 both to positive and negative trends.

With the development of e-mobility, further risks may arise for our markets. The adoption of the new technology may result in unprecedented shifts in the structure of our customers and products. In particular, the emerging markets in China comprise a large number of new OEMs, which may cost our regular customers market share. Although we are endeavoring to supply them with our products, it is currently not possible to determine the extent to which this will be successful. Our products are less affected by the adoption of new drive train technologies but could be affected by new preferences in interior design. In addition, an increase in autonomous driving may also cause a substitution of products or render new designs necessary. While GRAMMER AG is attempting to prepare for these trends, this may have an adverse effect on its net assets, financial position and results of operations.

Additional risks are arising from Brexit as part of our customers have production facilities in the United Kingdom. We are unable to assess the general impact on European markets and the European economy. However, it may have a negative impact on the Company's net assets, financial position and results of operations.

As our markets and the companies in them continue to consolidate and a partial dependence on a small number of customers arises from this as a result of their corporate 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 and processes. 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 however 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. In contrast to the events of 2017, the acquisition completed in the year under review did not result in any problems with order placements, which grew at a very swift rate.

Continuous adjustments to and optimization of the cost structures of our production and development capacity as well as our production facilities give rise to a risk in that plant consolidation and closures may place burdens on our net assets, financial position and results of operations for example. 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 risks in the implementation of a transaction. 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.

PROCUREMENT RISKS

The GRAMMER Group aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard are the market prices of steel and petroleum-based foam and plastic products. GRAMMER continually monitors the relevant commodity markets. As far as possible and appropriate, cost risks are lowered 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 or disruptions in the supply chain may give rise to production risks 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, the Polish zloty, the Mexican peso, the US dollar, the Turkish lira, 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 of 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 fourth quarter of 2020. Tranche B of the syndicated loan agreement (EUR 80 million), which is structured as an M&A facility, was cancelled as USD-denominated bridge finance was taken out to fund the acquisition of the shares in Toledo Molding & Die, Inc. Tranche A of this loan of EUR 100 million remains in place. The liquidity situation is monitored continuously in a rolling global-wide financial requirements plan. Possible risks in connection with a further 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 funding 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, this 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 even by using active risk management, we cannot completely rule out the possibility of these risk adversely affecting our net assets, financial position and results of operations.

LEGAL RISKS

GRAMMER is an internationally active Group that is subject to a variety of legal and regulatory requirements. 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. 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. Pending and threatened legal disputes are continuously monitored, analyzed, evaluated with regard to their legal and financial impact and taken into account in the calculation of the risk provisions reported in the balance sheet. However, as the outcome of legal disputes is uncertain, further risks may exist beyond the provisions recognized in the balance sheet and these could have a negative impact on the financial and earnings targets. A large number of company-wide standards, which are subject to continuous further development, are in place to avert legal risks. Examples include the standard terms and conditions, contract templates for various applications or internal guidelines and procedural instructions. In addition, 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.

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 a risk either now or in the future that the Group will not be able to recruit and retain the number of qualified employees and managers it needs in every business segment. Consequently, this 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 and the good employment opportunities for qualified experts.

IT AND INFORMATION RISKS

The security, protection and integrity of our data and IT infrastructure are indispensable for an ordinary business operation. 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 and security team along with the data protection officer 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, this 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), human error (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 risks affecting GRAMMER AG's net assets, financial position and results of operations. The risk is addressed through the analysis of known loss events and the implementation of suitable countermeasures and specific recommendations concerning 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 in 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, this 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 315 (4) HGB (German Commercial Code) 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, Incorporated Association (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 safeguarding 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. With the acquisition of the TMD Group, we have expanded our production capacities in North America close to the OEMs and can now step up our business development activities. At the same time, the TMD Group's products can now be offered worldwide and, for the first time, on a platform basis. 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 in 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 food 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 goods together with increased construction activity may also generate additional sales in the Commercial Vehicles Division as agricultural machinery is frequently fitted with GRAMMER seating systems. All told, 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-train and engine systems, we expect the technology and quality of interior components to continue being upgraded to meet the new needs of 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 non-organic 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 network.

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 and measures 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. Order intake, which had come under pressure from events surrounding GRAMMER's shareholder structure in the previous year, the impact of which will take a few years to emerge, was very favorable in the year under review. The acquisition now completed by a company affiliated with our strategic partner, Ningbo Jifeng, did not have any detrimental effect and there is no evidence of any negative impact moving forward. On the other hand, the strategic partnership can help us to strengthen our market position in Asia in particular. At this stage, it is currently not possible to tell whether the weakness afflicting the automotive industry from the end of the third quarter of 2018 in Europe as a result of registration problems and the diesel scandal will continue in 2019. 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 expansion of the global economy in 2018. Assuming that the global economy continues to perform favorably in the future, this may yield additional opportunities.

BUSINESS DEVELOPMENT FORECAST

OUTLOOK FOR 2019

GLOBAL ECONOMY IN MORE DIFFICULT WATERS

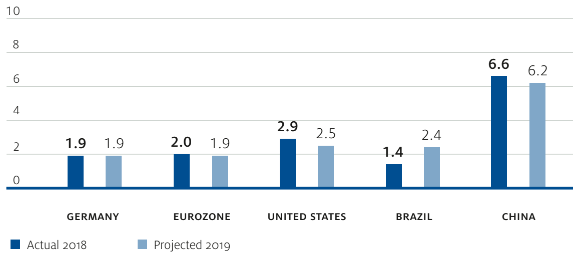
In its October 2018 report on the state of the global economy, the IMF scaled back its original forecast for global economy in 2019 by 0.2 percentage points to 3.7%, i.e. the same figure as for 2018. However, the economists at the Washington-based institute assume that the probability of negative developments has risen. Thus, further tension could exert strain on global trade and growth, unleashing even more planning and investment uncertainty. The US tariffs which are being threatened on cars and automotive parts as well as capital outflows from the advanced economies could also place a drag on expansion. According to the IMF, a more pronounced downswing in China would also feed through to the advanced economies. Finally, the still accommodative global financing conditions triggered by more aggressive monetary policies in the advanced economies could intensify and slow down investment activity (an important pillar of the IMF's baseline scenario).

The IMF assumes that growth in the United States is being driven by non-sustainable political measures and will slow to 2.5% in 2019. A moderate decline to 1.9% is projected for the Eurozone. Since the United Kingdom (1.5%), Japan (0.9%) and Canada (2.0%) are unlikely to unleash any real momentum, aggregate growth in the advanced economies is expected to come to only 2.1%, thus falling 0.3 percentage points short of the previous year.

On the other hand, economic output in the developing and emerging markets should again exceed the previous year and reach 4.7%. That said, weaker lending growth and mounting trade barriers may cause growth in China to slow to 6.2%, while India should expand by 7.4%, with the ASEAN 5 countries posting growth of 5.2%, i.e. slightly down on the previous year. Growth in Latin America and the Caribbean should surge to 2.2% (2017: 1.2%).

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) IN SELECTED COUNTRIES

IN %



Source: IMF

OUTLOOK FOR THE AUTOMOTIVE DIVISION

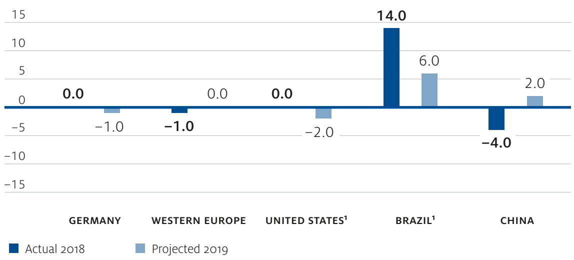
MODERATE GROWTH IN THE PASSENGER VEHICLE MARKET IN 2019

Industry association VDA expects global new registrations to increase by 1% to 84.9 million units in 2019. However, they are likely to shrink by 1% in the German market. According to ifo institute, business confidence in the automotive industry clouded over in January 2019 again after perking up for two months. Companies' business expectations have become a good deal more pessimistic, with the index dropping to its lowest level since winter 2012. For the European market as a whole, the VDA expects new registrations to increase by 1%, whereas the United States will presumably face a slight decline. The Chinese market should expand by 2%, while Brazil and India are likely to be a good deal more dynamic.

With respect to passenger vehicle production, VDA projects moderate growth of 1% to 84.4 million units in 2019. Production should likewise rise by 1% in Europe, with Germany and France expanding at slightly above-average rates. Whereas the United States and NAFTA will remain flat at the previous year's level, production output in China should grow moderately, while India will continue to dynamically ramp up production.

CHANGES IN AUTOMOTIVE SALES VOLUMES IN SELECTED COUNTRIES

IN %



¹ including light vehicles
Source: VDA

OUTLOOK FOR THE COMMERCIAL VEHICLES DIVISION

COMMERCIAL VEHICLE MARKET IN CHINA ON THE VERGE OF WEAKENING

Global new registrations of trucks over 6 t should shrink by 4% to 2.7 million vehicles in 2019. According to the VDA, Western Europe will get off lightly, with registrations remaining flat. As new registrations will be up slightly in the United States, Brazil, India and Russia, the main cause of the contraction will be China, where new registrations are set to decline by 10%.

AGRICULTURAL MACHINERY INDUSTRY CAUTIOUSLY OPTIMISTIC

A survey conducted by the European Agricultural Machinery Association CEMA of its members at the end of December 2018 revealed that 36% of the interviewees expected higher revenue, 47% flat revenue and 17% lower revenue over the coming six months. According to VDMA, the global market should reach a total of EUR 108.6 billion in 2019, up from EUR 107.6 billion in the previous year.

SUSTAINED POSITIVE TREND IN THE CONSTRUCTION INDUSTRY

VDMA projects good underlying conditions for 2019, with global revenue from construction machinery set to rise by a further 5%.

MATERIAL HANDLING SECTOR STILL STABLE

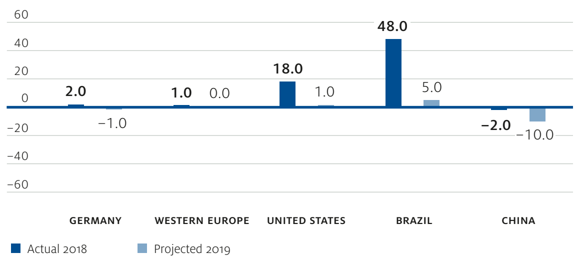
According to a survey conducted by bbi, the companies questioned remain optimistic about the outlook for the future. Total revenue is expected to rise by 3% in 2019, with new machinery business assumed to expand by 4%.

RAILWAY INDUSTRY STILL ON AN UPWARD TREND

The German Railway Industry Association (VDB) assumes that the global market for rolling stock will grow by an annual rate of 3.5% until 2021.

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

IN %



Source: VDA

OUTLOOK FOR THE GRAMMER GROUP

In the year under review, the GRAMMER Group was able to report further substantial growth in revenue. The previous year's forecast of revenue of over EUR 1.85 billion (before the acquisition of the TMD Group) was not quite achieved despite the significant increase in revenue in the Commercial Vehicles Division. This shortfall was offset solely by the acquisition of the TMD Group. This growth was materially driven by the integration of the TMD Group in the fourth quarter, the recovery in the markets addressed by the Commercial Vehicles Division, the expansion of activities in China and numerous new product launches. By contrast, revenue in the Automotive Division came under heavy pressure from exhaust and registration issues from the third quarter, resulting in the shortfall in the forecast. The muted performance of the automotive market in Europe in particular as well as ongoing expansion and optimization projects in the year under review continued to exert a drag on earnings. 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 advance outlays and the expenses arising from efforts to make up for the muted order intake in the Automotive Division in 2017 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 initiated in the Automotive Division unleashed their effect, helping to stabilize earnings. However, this was not sufficient to fully make up for the strain caused by the substantial decline in revenue in Europe from the end of the third quarter. As a result, the slight increase in operating earnings projected in the previous year's forecast was not achieved, with operating earnings falling slightly short of the previous year. 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 2019

In 2019, Group investments on operating business will be slightly higher than in 2018 due to the acquisition of the TMD Group and the substantial increase in connection with the construction of the new GRAMMER technology center and corporate headquartes in Ursensollen. Capital spending on operating activities will again concentrate on the expansion of production capacity in the Automotive Division and continued measures for boosting efficiency.

OUTLOOK FOR 2019

In 2019, 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 earnings in 2019 following the acquisition of the TMD Group. 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 exhaust emission debate, the Brexit negotiations and possible changes in free trade with the United States may have on the GRAMMER Group. After weakening in 2017, order intake has increased appreciably and is now in line with our expectations. We do not expect any decline in the success of our efforts to gain new business as a result of the acquisition of a majority stake by a company affiliated with our strategic partner Ningbo Jifeng.

The Commercial Vehicles Division continues to face great competitive pressure in our traditional markets. We expect revenue in this Division to remain stable in 2019 following the recovery and growth in the core markets. Demand in the Offroad segment is expected to improve again slightly thanks to the still favorable business environment for agricultural machinery and material handling due, among other things, to the growth generated from newly gained customer orders. At this stage, we assume that conditions for truck business will improve slightly because of continued growth in Europe and China in the wake of newly gained customer orders. 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 results of operations. 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 books, additional customer projects in the Automotive Division and the acquisition of the TMD Group, revenue should continue climbing substantially this year assuming stable political and economic conditions. In addition, the package of efficiency measures implemented by the Executive Board is expected to continue to unleash its effects in 2019 again. These measures will be supplemented with further activities aimed at unleashing synergistic benefits, enhancing profitability in both Divisions on a sustained basis. Once again, this year will see numerous new product launches and the stabilization of the expansion and optimization projects, 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. We expect a slight improvement in global market conditions for the Automotive Division, although performance in Europe is still very critical in view of the developments of the fourth quarter of 2018. Despite the very high level already reached, we expect to see a continuation of the stable light growth in the markets addressed by the offroad and material-handling segments. We remain 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 2019 as a whole.

We expect a very small increase in Group revenue in the GRAMMER Group's previous core business and substantial growth as a result of the acquisition of the TMD Group in 2019. Assuming an largely unchanged currency environment, Group revenue should increase to over EUR 2.1 billion in 2019. Operating earnings 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 as well as the earnings contributed by the TMD Group. On the other hand, we anticipate very slight growth in the earnings contributed by the Commercial Vehicles Division thanks to an expected slight increase in business volumes. Assuming the absence in 2019 of any significant expenses of the type that arose in 2018, the GRAMMER Group expects to be able to report a very positive EBIT this year, which is clearly higher than in 2018 (EUR 48.7 million). Against this backdrop, we expect a further improvement in operating profitability on par with the previous year. At 10.5%, G-ROCE should also increase substantially over 2018.

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 results of operations. In particular, Brexit-induced developments in the automotive market in Europe and other geopolitical problems may have a negative impact on business and results of operations. On the other hand, positive impetus in the agricultural machinery markets and a more pronounced recovery of the Brazilian truck market could in particular leave additional positive traces on 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.

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, 2019

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	2018	2017
Revenue	7	1,861,292	1,786,466
Cost of sales	8.3	−1,649,485	−1,571,344
Gross profit		**211,807**	**215,122**
Selling expenses	8.3	−37,769	−35,872
Administrative expenses	8.3	−146,527	−128,726
Other operating income	8.1	21,228	15,947
Earnings before interest and taxes (EBIT)		**48,739**	**66,471**
Financial income	8.2	1,506	1,123
Financial expenses	8.2	−13,501	−11,045
Other financial result	8.2	−2,276	−674
Net profit/loss (–) before income taxes		**34,468**	**55,875**
Income taxes	9	−11,256	−23,524
Net profit/loss (–)		**23,212**	**32,351**
Of which attributable to:			
Shareholders of the parent company		23,304	32,488
Non-controlling interests		−92	−137
Net profit/loss (–)		**23,212**	**32,351**
Earnings per share			
Basic/diluted earnings per share in EUR	10	1.90	2.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	2018	2017
Net profit/loss (–)	23,212	32,351
Amounts not recycled to profit and loss in future periods		
Actuarial gains/losses (–) under defined benefit plans		
Gains/losses (–) arising in the current period	7,170	1,243
Tax expenses (–)/tax income	–2,098	–370
Actuarial gains/losses (–) under defined benefit plans (after tax)	5,072	873
Total amount not recycled to profit and loss in future periods	5,072	873
Amounts recycled to profit and loss in future periods under certain conditions		
Gains/losses (–) from currency translation of foreign subsidiaries		
Gains/losses (–) arising in the current period	–3,964	–6,822
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	–3,964	–6,822
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	–1,062	1,029
Plus amounts recycled to the income statement through profit and loss	1,182	64
Tax expenses (–)/tax income	–6	–331
Gains/losses (–) from cash flow hedges (after tax)	114	762
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	2,616	–4,445
Tax expenses (–)/tax income	–508	225
Gains/losses (–) from net investments in foreign operations (after tax)	2,108	–4,220
Total amounts recycled to profit and loss in future periods under certain conditions	–1,742	–10,280
Other comprehensive income	3,330	–9,407
Total comprehensive income (after tax)	26,542	22,944
Of which attributable to:		
Shareholders of the parent company	26,650	23,111
Non-controlling interests	–108	–167

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K

	NOTE	DECEMBER 31, 2018	DECEMBER 31, 2017
Property, plant and equipment	12	348,246	238,928
Intangible assets	12	215,770	83,604
Other financial assets	16	2,026	3,923
Deferred tax assets	9	40,344	39,395
Other assets	17	27,929	6,477
Contract assets	15	63,388	0
Non-current assets		**697,703**	**372,327**
Inventories	13	190,992	158,020
Current trade accounts receivable	14	250,009	223,334
Other current financial assets	16	6,597	176,922
Current income tax receivables		11,458	6,783
Cash and short-term deposits	18	204,373	146,312
Other current assets	17	28,438	23,270
Current contract assets	15	51,847	0
Current assets		**743,714**	**734,641**
Total assets		**1,441,417**	**1,106,968**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EQUITY AND LIABILITIES

EUR K

	NOTE	DECEMBER 31, 2018	DECEMBER 31, 2017
Subscribed capital	19	32,274	32,274
Capital reserve	19	129,796	129,796
Own shares	19	−7,441	−7,441
Retained earnings	19	228,920	254,960
Cumulative other comprehensive income	19	−68,931	−72,277
Equity attributable to shareholders of the parent company		**314,618**	**337,312**
Non-controlling interests	19	222	349
Equity		**314,840**	**337,661**
Non-current financial liabilities	21	162,004	190,331
Trade accounts payable	23	2,273	2,405
Other financial liabilities	24	17,957	3,552
Other liabilities	25	0	112
Retirement benefits and similar obligations	20	134,990	140,538
Deferred tax liabilities	9	41,933	22,585
Contract liabilities	15	799	0
Non-current liabilities		**359,956**	**359,523**
Current financial liabilities	21	295,676	48,182
Current trade accounts payable	23	358,332	258,934
Other current financial liabilities	24	6,181	5,287
Other current liabilities	25	82,693	74,642
Current income tax liabilities		5,079	5,253
Provisions	22	18,018	17,486
Current contract liabilities	15	642	0
Current liabilities		**766,621**	**409,784**
Total liabilities		**1,126,577**	**769,307**
Total equity and liabilities		**1,441,417**	**1,106,968**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2018

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS	OWN SHARES
As of January 1, 2018 before adjustments	**32,274**	**129,796**	**254,960**	**−7,441**
Adjustment due to first-time application of IFRS 15 (after tax)	0	0	−33,633	0
Adjustment due to first-time application of IFRS 9 (after tax)	0	0	−365	0
As of January 1, 2018 (adjusted)	**32,274**	**129,796**	**220,962**	**−7,441**
Net profit	0	0	23,304	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**23,304**	**0**
Capital increase through the issue of new shares under the mandatory convertible bond	0	0	0	0
Transaction costs and incidental effects from the mandatory convertible bond	0	0	0	0
Dividends	0	0	−15,346	0
Transaction of non-controlling interests	0	0	0	0
As of December 31, 2018	**32,274**	**129,796**	**228,920**	**−7,441**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2017

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS	OWN SHARES
As of January 1, 2017	**29,554**	**74,444**	**236,268**	**−7,441**
Net profit	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 under 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**

NOTE 19

CUMULATIVE OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS AND LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	CONSOLIDATED EQUITY
−446	**−7,144**	**−20,314**	**−44,373**	**337,312**	**349**	**337,661**
0	0	0	0	**−33,633**	0	**−33,633**
0	0	0	0	**−365**	0	**−365**
−446	**−7,144**	**−20,314**	**−44,373**	**303,314**	**349**	**303,663**
0	0	0	0	**23,304**	−92	**23,212**
114	−3,948	2,108	5,072	**3,346**	−16	**3,330**
114	**−3,948**	**2,108**	**5,072**	**26,650**	**−108**	**26,542**
0	0	0	0	**0**	0	**0**
0	0	0	0	**0**	0	**0**
0	0	0	0	**−15,346**	−17	**−15,363**
0	0	0	0	**0**	−2	**−2**
−332	**−11,092**	**−18,206**	**−39,301**	**314,618**	**222**	**314,840**

CUMULATIVE OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS AND LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	CONSOLIDATED 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**

CONSOLIDATED STATEMENT OF CASH FLOWS

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	NOTE	2018	2017
1. Cash flow from operating activities			
Earnings before tax		34,468	55,875
Reconciliation of earnings before tax with cash flow from operating activities			
Depreciation and impairment of property, plant and equipment	12	40,630	36,712
Amortization and impairment of intangible assets	12	11,674	12,784
Gains (–)/losses from the disposal of assets		530	335
Other non-cash changes		11,601	–9,798
Financial result	8.2	14,271	10,596
Changes in operating assets and liabilities			
Decrease/increase (–) in trade accounts receivable and other receivables	14, 15, 16, 17	57,250	–41,206
Decrease/increase (–) in inventories	13	–19,752	–9,767
Decrease (–)/increase in provisions and retirement benefit provisions	20, 22	–7,939	–9,507
Decrease (–)/increase in accounts payable and other liabilities	23, 24, 25	15,915	44,509
Income taxes paid	9	–15,081	–21,287
Cash flow from operating activities		**143,567**	**69,246**
2. Cash flow from investing activities			
Purchases			
Purchase of property, plant and equipment	12	–68,202	–48,598
Purchase of intangible assets	12	–5,737	–10,485
Purchase of financial investments		–1	0
Purchase of subsidiaries, less acquired cash and cash equivalents		–196,848	0
Disposals			
Disposal of property, plant and equipment	12	572	1,224
Disposal of intangible assets	12	9	0
Payments made for the formation of plan assets	20	–898	–3,346
Interest received	8.2	1,506	1,123
Government grants received		225	893
Cash flow from investing activities		**–269,374**	**–59,189**
3. Cash flow from financing activities			
Dividend payments	19	–15,363	–14,592
Inflow from the issue of the mandatory convertible bond	19	0	60,000
Outflow from transaction costs and incidental effects from the mandatory convertible bond	19	0	–2,710
Payments received from raising financial liabilities	21	247,763	6,471
Payments made for the settlement of financial liabilities	21	–36,847	–42,112
Decrease (–)/increase in lease liabilities	12	–1,676	–2,174
Interest paid	8.2	–9,710	–7,474
Cash flow from financing activities		**184,167**	**–2,591**
4. Cash and cash equivalents at the end of the period			
Net changes in cash and cash equivalents (sub-total of items 1–3)		58,360	7,466
Effects of exchange rate differences of cash and cash equivalents		–3,088	2,950
Cash and cash equivalents as of January 1		138,032	127,616
Cash and cash equivalents as of December 31		**193,304**	**138,032**
5. Analysis of cash and cash equivalents			
Cash and short-deposits	18	204,373	146,312
Bank overdrafts (including current liabilities under factoring contracts)	21	–11,069	–8,280
Cash and cash equivalents as of December 31		**193,304**	**138,032**

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

1 INFORMATION ABOUT 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 Company's shares have been traded on the Frankfurt/Main and Munich stock exchanges via the Xetra electronic trading platform since 1996.

GRAMMER AG was listed in the SDAX of the Frankfurt Stock Exchange until September 24, 2018. Since this date, it has been listed in the Prime Standard of the Frankfurt Stock Exchange.

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, 2018, the Company employed 14,657 persons (excluding trainees, including 278 employees in Central Services) at 48 (2017: 40) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg.

GRAMMER AG is managed by at least two Executive Board members.

The GRAMMER Group has divided its activities into the Automotive and Commercial Vehicles segments. The segments are described in greater detail in Note 6.

The consolidated financial statements comply with IFRS as published by the International Accounting Standards Board (IASB). The consolidated financial statements of GRAMMER AG (the "Company") were prepared by the Executive Board in accordance with section 315e (1) HGB (German Commercial Code) on March 7, 2019. The direct parent company of GRAMMER AG is Jiye Auto Parts GmbH, Kitzingen.

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 principle, 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 assessments 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 and the recognition of deferred tax assets and tax loss carryforwards as well as the definition of the assumptions underlying the actuarial calculations of retirement benefit expenses under defined benefit plans.

Under the new IFRS 15 “Revenue from Contracts with Customers”, estimates and judgements are particularly required to determine the transaction price due to regular price negotiations with customers and thus possible changes in transaction prices for series deliveries. In the case of series development, the performance obligations are fulfilled over a certain period of time. The Group has come to the conclusion that the input-based method is the most suitable way of determining the completion of the work because it is assumed that there is a direct link between the costs already incurred and the completion made by GRAMMER in providing the development service. The Group thus recognizes revenue on the basis of the costs already incurred in relation to the total expected costs of providing the development service. Estimates of income, costs or percentage of completion are adjusted when circumstances change. Any resulting effects on the revenue to be recognized are included in profit or loss for the period in which the circumstances giving rise to the adjustment come to the attention of management.

In the case of “series delivery” performance obligations, the Group has come to the conclusion that it transfers the power of control over the series parts delivered at a certain point in time, i.e. when the risk is transferred to the customer, since GRAMMER only provides transport services to the extent of the agreed terms of delivery, meaning that this is the point in time at which the customer can benefit from the series parts.

Under the new standard IFRS 9 “Financial Instruments”, estimates are required in connection with expected credit risks and losses for the formation of portfolios.

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 financial 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 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.

Receivables and liabilities as well as income and expenses arising between consolidated companies are mutually netted. Intercompany profits from deliveries and services as well as dividends distributed within the Group are eliminated.

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.

Costs incurred in connection with the business combination are recognized as expenses in the period in which they arise.

In a business combination, all identifiable assets acquired, liabilities assumed and contingent liabilities of the acquiree are measured at their fair values at the acquisition date. Any agreed contingent consideration is also recognized at fair value as of the acquisition date. Any resulting difference is reported as goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment cost. Please refer to the section on goodwill for details of impairment testing. 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 IFRS 9 (2017: IAS 39). If a contingent consideration is classified as equity, the original amount is not remeasured and subsequent settlement is taken directly to equity.

Subsidiaries are included in the consolidated financial statements by offsetting the carrying amount of the shares in subsidiaries against the Group's share of the equity of the respective subsidiary. 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 separately 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 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. If the Group's share of net assets is negative, loss portions are recognized only if there is an obligation to offset losses. 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 provided that there is an obligation to absorb loss.

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 changes 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 share 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.

CURRENT/NON-CURRENT DISTINCTION

The Group classifies its assets and liabilities according to whether they are current or non-current. An asset is classified as current if it is expected to be realized within twelve months of the reporting date, the asset is held primarily for trading, or it entails cash or cash equivalents. All other assets are classified as non-current. A liability is classified as current if settlement of the liability is expected within twelve months of the reporting date or the liability is held primarily for trading purposes. All other liabilities are classified as non-current. Deferred tax assets and liabilities are classified as non-current assets or liabilities.

CURRENCY TRANSLATION

The consolidated financial statements were prepared in Euro, which is GRAMMER AG's functional currency. The Group determines the functional currency for each subsidiary. The items included in the financial statements of the companies are measured on the basis of the relevant 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 relevant local currency in most cases. The functional currency of the subsidiary is translated into the Group's reporting currency using the modified closing 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:

RECOGNITION OF INCOME AND EXPENSES (APPLICATION OF IAS 18 UP UNTIL DECEMBER 31, 2017)

Up until December 31, 2017 revenue was recognized when it was probable that the economic benefits associated with the transaction would flow to the Group and the amount of revenue could be measured reliably. This income was measured at the fair value of the consideration received or expected to be received, taking into account the contractual terms of payments or similar factors excluding taxes or similar charges. The Group had determined that it acted as the supplier for all revenue-generating transactions.

Revenue from sales and other operating income was principally recognized when the service had been rendered or the goods had been delivered, i.e. when the risk had been transferred to the customer. Any sales allowances such as discounts, rebates, customer bonuses etc. are deducted from revenue.

REVENUE FROM CONSTRUCTION CONTRACTS (APPLICATION OF IAS 11 UP UNTIL DECEMBER 31, 2017)

Until December 31, 2017, customer-specific construction contracts were recognized using the percentage-of-completion method in accordance with IAS 11 on the basis of the ratio of costs already incurred to the expected total contract costs (cost-to-cost method). With this method, it was particularly important to carefully assess the percentage of completion. To determine the

		AVERAGE EXCHANGE RATE		END-OF-YEAR EXCHANGE RATE	
		2018	2017	2018	2017
Argentina	ARS	0.032	0.053	0.023	0.045
Brazil	BRL	0.233	0.277	0.225	0.252
China	CNY	0.128	0.131	0.127	0.128
United Kingdom	GBP	1.129	1.144	1.118	1.127
Japan	JPY	0.008	0.008	0.008	0.007
Mexico	MXN	0.044	0.047	0.044	0.042
Poland	PLN	0.235	0.235	0.232	0.239
South Africa	ZAR	0.065	0.067	0.061	0.068
Czech Republic	CZK	0.039	0.038	0.039	0.039
Turkey	TRY	0.183	0.244	0.165	0.220
USA	USD	0.848	0.886	0.873	0.834

percentage of completion, the Group had to reliably estimate the total contract costs, the costs to complete, the total contract revenue, the contract risks and other assumptions. Management continuously reviewed these estimates and adjusted them as necessary. When the percentage-of-completion method was applied, such adjustments could result in an increase or decrease in revenues for the corresponding reporting period. Where it was not possible to reliably estimate the outcome of a construction contract, contract revenue was recognized only to the extent of the contract costs incurred, so that the construction contract in question was recognized directly in equity. Contract costs were expensed in the period in which they were incurred. Expected contract losses were accounted for by provisions. Construction contracts were reported as assets under "Other financial assets".

REVENUE FROM CONTRACTS WITH CUSTOMERS (APPLICATION OF IFRS 15 FROM JANUARY 1, 2018)

Revenue from contracts with customers is recognized when control over the goods or services passes to the customer. The revenue recognized equals the consideration that GRAMMER expects to receive upon the transfer of these goods or services.

The five-step model is used to determine revenue recognition from contracts with customers. Within the scope of the identified contracts with customers, two independently definable performance obligations are identified with series development and series delivery, particularly for the Group, which are described separately below.

The main judgements, estimates and assumptions in connection with the calculated percentage of completion are explained in Note 2.1 Estimates and judgements.

REVENUE FROM SERIES DEVELOPMENT

Customer tools, development services, devices and prototypes used in series development have been combined to form a performance obligation referred to as "series development", as GRAMMER does not believe that the underlying goods and services can be independently identified and the goods and services are highly interdependent or interrelated. Revenue from this performance obligation is recognized over a certain period if the resulting asset has no alternative use for the company and it has a legal right to receive payment for the service already rendered. The percentage of completion is determined using the input-based method and is based on the ratio of costs already incurred to the estimated total costs. An expected loss from a performance obligation is recognized immediately as an expense. Provisions are recognized for expected contract losses from project-specific series development (Note 2.1 Provisions). Recognition of this benefit obligation is based on the individual contracts with our customers, primarily in the Automotive Division. No significant financing components for these contracts were identified. Customer claims and obligations under contracts for series development are recognized as "contract assets" or "contract liabilities", respectively.

REVENUE FROM SERIES DELIVERY

In connection with series delivery, the production and delivery of series parts are bundled into a performance obligation known as "series delivery". GRAMMER transfers the power of control over the delivered series parts at a certain point in time and thus recognizes the revenue at the point in time at which the customer receives the power of control over these parts and derives the benefit from the delivery.

No significant financing components for these series delivery contracts were identified. In determining the transaction price for series deliveries, the Group considers the impact of consideration paid to customers. The consideration paid to a customer comprises amounts that GRAMMER pays to its customers that do not represent payment for an independently identifiable item or service delivered by the customer. The consideration paid to the customer is recognized by GRAMMER within other assets in an amount equaling the prepayment and deducted from the transaction price at the time at which the revenue in connection with the corresponding series delivery is recognized.

Additional costs incurred in connection with the fulfillment of series supply contracts with customers are recognized as an asset if GRAMMER expects these costs to be generated. Capitalized costs are amortized on a straight-line basis over the period of the expected future benefit and recognized in the cost of sales.

CONTRACT ASSETS

A contract asset is the right to receive consideration in exchange for goods or services transferred to a customer. If GRAMMER meets its contractual obligations by transferring goods or services to a customer before the customer remits the consideration or before payment becomes due, a contractual asset is recognized for the contingent claim for consideration.

CONTRACT LIABILITIES

A contract liability is GRAMMER's obligation to transfer goods or services to a customer for which it has received or will receive consideration. If a customer remits consideration before GRAMMER transfers the goods or services to it, a contract liability is recognized when payment is made or becomes due (whichever occurs first). Contract liabilities are recognized as revenue as soon as GRAMMER has fulfilled its contractual obligations.

TRADE ACCOUNTS RECEIVABLE

The unconditional entitlement of the Group to receive consideration (i.e. due date occurs automatically as time elapses) is shown under trade accounts receivable. The accounting policies for trade accounts receivable are explained in the section on financial assets.

WARRANTY OBLIGATIONS

The Group normally provides statutory warranties for any defects that existed at the time of sale. These "assurance-type warranties" are recognized as provisions, contingent liabilities and contingent assets in accordance with IAS 37. Details of the accounting method for warranty provisions can be found in the section on provisions. There are no further warranty commitments that can be classified as an independently definable service.

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are recognized as expense directly upon arising. Market-related 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.

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. Interest income and expenses are calculated using the effective interest rate method in the case of all financial instruments measured at amortized cost and interest-bearing financial assets measured at fair value through other comprehensive income. 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 liabilities and are recognized as income over the period necessary to match 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 loss carryforwards if the corresponding tax advantages are likely to be utilized. Accordingly, a discretionary judgment by management is required to determine the amount of deferred tax assets on the basis of the expected timing and amount of the future taxable profit. Reliable planning of future taxable results is also required. The recoverable value of deferred tax assets is reviewed annually.

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 original 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 in which GRAMMER AG or a subsidiary is the 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 useful 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 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 method 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 cost 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 expense. Goodwill is not subject to systematic amortization, but is tested for impairment annually or whenever there are any indications of impairment.

In such a test, impairment is measured by establishing the recoverable amount of the cash-generating unit 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 is less than its carrying amount, an impairment loss is recognized. First, the carrying amount of the goodwill allocated to the cash-generating unit and then, in proportion to the total carrying amount of the cash-generating unit, the carrying amount of the other assets of the unit is impaired. Impairment losses on goodwill are not reversed.

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 methods used to arrive at them may exert considerable influence on the applicable figures and ultimately also the amount 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.

OWN SHARES

If GRAMMER AG or a Group company acquires any own shares, this is 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.

RETIREMENT BENEFITS 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 costs, 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 discount rates, expected wage and salary trends and mortality rates. The discount rates 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 20.

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.

If the Group has an onerous contract, the present contractual obligation is recognized and measured as a provision. However, before establishing a separate provision for an onerous contract, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the expected economic benefits. The unavoidable costs under a contract reflect the minimum net cost of exiting the contract, which is the lower of the cost of fulfilling it or any compensation or penalties arising from failure to fulfil it.

FINANCIAL ASSETS (APPLICATION OF IAS 39 UP UNTIL DECEMBER 31, 2017)

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

- Loans and receivables (LaR)
- Financial assets held for trading (FAHfT)
- Available-for-sale financial assets (AfS)

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

Financial assets held for trading (FAHfT) comprised derivative financial instruments which did not satisfy the criteria for hedge accounting. They were initially recognized at fair value. Any changes in the fair value of the derivatives were reported through profit and loss in other financial income and expense. Financial assets were classified as held for trading if they had been purchased for the purpose of being sold in the near future. In 2017, there were derivatives that did not meet the criteria for hedge accounting.

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

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

Financial assets were generally recognized on their settlement date.

If the contractual rights to cash flows generated by an asset had lapsed or materially all risks and opportunities under the financial asset were transferred, the asset was derecognized. Trade accounts receivable were derecognized before the settlement date as soon as it was established that they were 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 was calculated and recognized in a separate impairment account within profit and loss.

FINANCIAL LIABILITIES IN ACCORDANCE WITH IAS 39 (APPLICATION OF IAS 39 UP UNTIL DECEMBER 31, 2017)
Current and non-current financial liabilities were assigned to the following categories:

- Financial liabilities held for trading (FLHfT)
- Financial liabilities at acquisition costs (FLAC)

Financial liabilities held for trading (FLHfT) were derivatives with a negative market value, which were not designated as hedges or were ineffective as such. Liabilities in this category were measured at fair value upon initial recognition as well as in subsequent periods. The resulting gains and losses were recognized in profit or loss. In 2017, a small number of derivatives did not meet the criteria for hedge accounting.

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

Financial liabilities were derecognized when the obligation underlying the liability was discharged, cancelled or expired. If an existing financial liability was replaced by another financial liability from the same lender with substantially different terms, or if the terms of an existing liability were substantially modified, such an exchange or modification was treated as a derecognition of the original liability. The difference between the respective carrying amounts was recognized in profit and loss for the period.

FINANCIAL ASSETS (APPLICATION OF IFRS 9 FROM JANUARY 1, 2018)
Financial assets are recognized on their settlement date.

After initial recognition, financial assets are subsequently measure at amortized cost, at fair value through other comprehensive income or at fair value through profit and loss.

Financial assets are classified on the basis of the characteristics of the cash flows associated with them (cash flow criteria) and the GRAMMER Group's business model for managing financial assets (business model criteria). Financial assets that meet the cash flow criteria by generating cash flows that represent only payments of principal and interest on the outstanding principal amount can be measured at amortized cost or at fair value through other comprehensive income. This assessment is made on the basis of the individual financial instrument.

Financial assets in the GRAMMER Group are assigned to the following categories:

- Financial assets at amortized costs (FAAC)
- Financial assets at fair value through other comprehensive income without recycling of the cumulative gains and losses on derecognition (equity instruments) (FVOCI)
- Financial assets at fair value through profit or loss (FVtPL)

Financial assets at amortized costs (FAAC) include cash and short-term deposits, trade accounts receivable, loans and receivables (other financial assets). They are held for the purposes of the GRAMMER Group's business model the purpose of which is to hold assets to generate contractual cash flows. The cash flow criteria are met for these financial assets. Gains and losses are recognized as profit or loss in the period when they are derecognized or impaired or are reduced through amortization. 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.

Impairments of loans and receivables (other financial assets) are recognized in accordance with general principles. If their credit risk has not increased significantly since initial recognition, an impairment loss is recognized equaling the credit losses that are expected to occur within the next twelve months (12-month expected credit loss; Level 1). Expected credit losses are based on the difference between the contractual cash flows payable under the contract and the total cash flows expected to be received by the Group discounted using an approximation of the original effective interest rate. The expected cash flows include the cash flows from the sale of collateral held or other credit collateral that is an integral part of the terms of the contract. If credit risk has increased significantly since initial recognition, an impairment loss is recognized equaling the expected credit losses that result from all possible default events over the life of the financial instrument (lifetime expected credit loss; levels 2 and 3). The expected credit loss is deducted from the carrying amount of the financial asset and recorded through profit and loss in a separate impairment account.

The simplified impairment model is applied to trade accounts receivable and contract assets and the lifetime expected losses respectively recognized. The Group has drawn up an impairment matrix based on its past experience with credit losses and adjusted for forward-looking factors specific to borrowers and the economic environment. The practical simplification option for financial instruments is applied to cash and short-term deposits as they are exposed to only a minor credit risk. On each reporting date, it assesses whether the financial instrument has a low credit risk using all reasonable and reliable information available without unreasonable expense or time.

Financial assets measured at fair value through profit or loss (FVtPL) include financial assets classified as held for trading, financial assets initially recognized at fair value through profit or loss and financial assets which must be recognized at their fair value. Financial assets are classified as held for trading if they have been purchased for the purpose of selling or repurchasing in the near future. Derivatives, including embedded derivatives recognized separately, are also classified as held for trading with the exception of those derivatives that are designated as a hedge and are effective as such. They are initially recognized at fair value. Any gains and losses arising from them are not netted and are recognized through profit and loss in the financial result. Trade accounts receivable that are to be sold as part of factoring operations also fall into this category. In the year under review, the Group did not have any financial assets at fair value through profit or loss.

Upon initial recognition, the Group may make an irrevocable decision to measure its equity instruments at fair value through other comprehensive income (FVOCI) when they satisfy the definition of equity in accordance with IAS 32 and are not held for trading. Each individual instrument is classified separately. Gains and losses arising upon derecognition of the financial asset remain within other comprehensive income (OCI). Gains and losses from investments in equity instruments are recognized in other comprehensive income.

If the contractual rights to receive cash flows from the financial asset have lapsed or materially all risks and opportunities of the financial asset are transferred, it is derecognized. Trade accounts receivable and other financial assets are derecognized before the settlement date as soon as it is established that they are no longer recoverable.

FINANCIAL LIABILITIES (APPLICATION OF IFRS 9 FROM JANUARY 1, 2018)

Upon initial recognition, financial liabilities are classified as financial liabilities recognized at fair value through profit or loss, as loans, as liabilities or as derivatives that are designated as hedges and effective as such. All financial liabilities are measured at fair value upon initial recognition. In the case of loans and liabilities, directly attributable transaction costs are deducted.

Financial liabilities are assigned to the following categories:

- Financial liabilities at amortized cost (FLAC)
- Financial liabilities at fair value through profit or loss (FLtPL)

Financial liabilities at fair value through profit or loss (FLtPL) include financial liabilities held for trading and other financial liabilities designated as measured at fair value through profit or loss upon initial recognition and derivates with a negative market value that are not designated as hedges or are ineffective as such. Financial liabilities are classified as held for trading if they were entered into for the purpose of being repurchased in the near future.

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 or loss. The portion of the fair value changes attributable to the change in the GRAMMER Group's own credit risk is not recognized through profit or loss but in other comprehensive income. In 2018, the Group did not make use of the option to allocate financial liabilities to this category.

Financial liabilities at amortized cost (FLAC) comprise financial liabilities that are not assigned to any other category of financial liabilities. This category usually includes mainly loans. They are measured at amortized cost using the effective interest 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 amortization using the effective interest method.

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 fundamentally 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 foreign exchange forward contracts 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.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

Hedging instruments that meet all the criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income, whereas the ineffective portion is recognized immediately through profit or loss. Cumulative other comprehensive income is adjusted to the lower of the following amounts: the cumulative gain or loss on the hedging instrument since its inception or the cumulative change in the fair value of the hedged item. The Group uses foreign exchange forward contracts to hedge the currency risk resulting from an expected transaction and forward commodity contracts to hedge the volatility risk of commodity prices. GRAMMER also uses interest rate swaps to hedge cash flows from variable-rate financial liabilities. As of the reporting date, the portfolio included foreign exchange forward contracts and interest rate swaps, but no commodity forward contracts. In addition, there were fully effective hedging relationships for the interest rate swaps and foreign exchange forward contracts.

If the hedging instruments do not satisfy the requirements of hedge accounting or they constitute the ineffective part of an otherwise effective hedge relationship, the change in fair value is recognized through profit or loss.

2.2 APPLICATION OF IFRS STANDARDS

The IASB has published the following standards and the application of which was mandatory in fiscal year 2018 for the first time. Only those standards and interpretations of relevance for GRAMMER's financial statements are described below. Other standards are not relevant for the Group and are therefore not included here.

FIRST-TIME APPLICATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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. Under IFRS 15 to present the transfer of promised goods and services to the customer, a company must recognize revenue equaling the consideration that it expects to receive for the transfer of goods and services to the customer. This entails a five-step model framework that is applied to all customer contracts.

GRAMMER has been applying the new guidance contained in IFRS 15 "Revenue from Contracts with Customers" since January 1, 2018, using the modified retrospective method. This means that the cumulative effects of the first-time application of the standard on the date of first-time application on January 1, 2018 are recognized as an adjustment to the opening balance of the retained earnings and no adjustment is made to the comparison periods, so that these continue to be reported in accordance with IAS 11, IAS 18 and the related interpretations.

IFRS 15 requires entities to exercise discretion in applying each level of the model to contracts with their customers and to consider all relevant facts and circumstances. It also provides guidance on the accounting treatment of the additional costs of initiating a contract and the costs directly associated with the performance of a contract. Finally, the standard contains extensive disclosure requirements.

The following table shows the aforementioned first-time application effects on the consolidated statement of financial position as of January 1, 2018 on the basis of the published annual financial statements as of January 1, 2018:

IFRS 15 – EFFECTS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR K

ASSETS		JANUARY 1, 2018 BEFORE FIRST-TIME ADOPTION OF IFRS 15	FIRST-TIME APPLICATION EFFECTS FROM IFRS 15	JANUARY 1, 2018, INCLUDING FIRST-TIME APPLICATION EFFECTS FROM IFRS 15
Property, plant and equipment		238,928		238,928
Intangible assets	a)	83,604	−18,264	65,340
Other financial assets		3,923		3,923
Deferred tax assets	c)	39,395	8,598	47,993
Other assets	a)	6,477	18,019	24,496
Contract assets	b)	0	82,117	82,117
Non-current assets		**372,327**	**90,470**	**462,797**
Inventories		158,020		158,020
Current trade accounts receivable		223,334		223,334
Other current financial assets	b)	176,922	−169,732	7,190
Current income tax receivables		6,783		6,783
Cash, cash equivalents and short-term deposits		146,312		146,312
Other current assets	a)	23,270	245	23,515
Current contract assets	b)	0	42,214	42,214
Current assets		**734,641**	**−127,273**	**607,368**
Total assets		**1,106,968**	**−36,803**	**1,070,165**
EQUITY AND LIABILITIES				
Subscribed capital		32,274		32,274
Capital reserve		129,796		129,796
Treasury stock		−7,441		−7,441
Retained earnings	b), c)	254,960	−33,633	221,327
Cumulative other comprehensive income		−72,277		−72,277
Equity attributable to shareholders of the parent company		**337,312**	**−33,633**	**303,679**
Non-controlling interests		349		349
Equity		**337,661**	**−33,633**	**304,028**
Non-current financial liabilities		190,331		190,331
Trade accounts payable		2,405		2,405
Other financial liabilities		3,552		3,552
Other liabilities		112		112
Retirement benefits and similar obligations		140,538		140,538
Deferred tax liabilities	c)	22,585	−2,711	19,874
Contract liabilities		0		0
Non-current liabilities		**359,523**	**−2,711**	**356,812**
Current financial liabilities		48,182		48,182
Current trade accounts payable		258,934		258,934
Other current financial liabilities		5,287		5,287
Other current liabilities	b)	74,642	−671	73,971
Current income tax liabilities		5,253		5,253
Provisions	b)	17,486	212	17,698
Current contract liabilities		0		0
Current liabilities		**409,784**	**−459**	**409,325**
Total liabilities		**769,307**	**−3,170**	**766,137**
Total equity and liabilities		**1,106,968**	**−36,803**	**1,070,165**

The following table shows the amounts resulting from the first-time application of IFRS 15 as of December 31, 2018 and for the period from January 1 to December 31, 2018 for each individual financial statement item concerned. The first-time adoption of IFRS 15 did not have any material impact on the Group's other comprehensive income or cash flows from operating, investing and financing activities. The column entitled "December 31, 2018 Application of IAS 11, IAS 18" shows the amounts that would have arisen if IFRS 15 has not been applied. The column entitled "Change" shows the amount of the adjustment arising from the application of IFRS 15.

IFRS 15 – EFFECTS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR K

ASSETS		DECEMBER 31, 2018 APPLICATION OF IAS 11, IAS 18	CHANGE	DECEMBER 31, 2018 APPLICATION OF IFRS 15
Property, plant and equipment		348,246	0	348,246
Intangible assets	a)	240,251	−24,481	215,770
Other financial assets		2,026	0	2,026
Deferred tax assets	c)	32,534	7,810	40,344
Other assets	a)	3,500	24,429	27,929
Contract assets	b)	0	63,388	63,388
Non-current assets		**626,557**	**71,146**	**697,703**
Inventories		190,992	0	190,992
Current trade accounts receivable		250,009	0	250,009
Other current financial assets	b)	163,092	−156,495	6,597
Current income tax receivables		11,458	0	11,458
Cash, cash equivalents and short-term deposits		204,373	0	204,373
Other current assets	a)	28,387	51	28,438
Current contract assets	b)	0	51,847	51,847
Current assets		**848,311**	**−104,597**	**743,714**
Total assets		**1,474,868**	**−33,451**	**1,441,417**
EQUITY AND LIABILITIES				
Subscribed capital		32,274	0	32,274
Capital reserve		129,796	0	129,796
Treasury stock		−7,441	0	−7,441
Retained earnings	b), c)	260,642	−31,722	228,920
Cumulative other comprehensive income		−68,931	0	−68,931
Equity attributable to shareholders of the parent company		**346,340**	**−31,722**	**314,618**
Non-controlling interests		222	0	222
Equity		**346,562**	**−31,722**	**314,840**
Non-current financial liabilities		162,004	0	162,004
Trade accounts payable		2,273	0	2,273
Other financial liabilities		17,957	0	17,957
Retirement benefits and similar obligations		134,990	0	134,990
Deferred tax liabilities	c)	44,644	−2,711	41,933
Contract liabilities	b)	0	799	799
Non-current liabilities		**361,868**	**−1,912**	**359,956**
Current financial liabilities		295,676	0	295,676
Current trade accounts payable		358,332	0	358,332
Other current financial liabilities		6,181	0	6,181
Other current liabilities	b)	83,364	−671	82,693
Current income tax liabilities		5,079	0	5,079
Provisions	b)	17,806	212	18,018
Current contract liabilities	b)	0	642	642
Current liabilities		**766,438**	**183**	**766,621**
Total liabilities		**1,128,306**	**−1.729**	**1,126,577**
Total equity and liabilities		**1,474,868**	**−33,451**	**1,441,417**

IFRS 15 – EFFECTS ON THE CONSOLIDATED STATEMENT OF INCOME

EUR K

		DECEMBER 31, 2018 APPLICATION OF IAS 11, IAS 18	CHANGE	DECEMBER 31, 2018 APPLICATION OF IFRS 15
Revenue	a), b)	1,863,393	–2,101	1,861,292
Cost of sales	a)	–1,654,285	4,800	–1,649,485
Gross profit		**209,108**	**2,699**	**211,807**
Selling expenses		–37,769	0	–37,769
Administrative expenses		–146,527	0	–146,527
Other operating income		21,228	0	21,228
Earnings before interest and taxes (EBIT)		**46,040**	**2,699**	**48,739**
Financial income		1,506	0	1,506
Financial expenses		–13,501	0	–13,501
Other financial result		–2,276	0	–2,276
Earnings before tax		**31,769**	**2,699**	**34,468**
Income taxes	c)	–10,468	–788	–11,256
Net profit		**21,301**	**1,911**	**23,212**
Of which attributable to:				
Shareholders of the parent company		21,393	1,911	23,304
Non-controlling interests		–92	0	–92
Net profit		**21,301**	**1,911**	**23,212**
Basic/diluted earnings per share in EUR		1.74	0.16	1.90

The nature of the adjustments as of January 1, 2018 and the reasons for the significant changes resulting from the transition from IAS 11/IAS 18 to IFRS 15 are described in the statement of financial position as of December 31, 2018 and in the income statement for the period from January 1, 2018 to December 31, 2018 set out below. The effects described above mainly affect the GRAMMER Group's Automotive Division.

a) CONSIDERATION PAYABLE TO THE CUSTOMERS

In accordance with IFRS 15, consideration payable to customers is no longer recorded as an intangible asset but as "consideration paid to a customer" in accordance with IFRS 15.70 within other current or non-current assets.

IFRS 15 AS OF JANUARY 1, 2018

When IFRS 15 was applied for the first time as of January 1, 2018, total intangible assets of EUR 18,264 thousand were reclassified as other non-current assets of EUR 18,019 thousand and as other current assets of EUR 245 thousand.

IFRS 15 AS OF DECEMBER 31, 2018

As of December 31, 2018, intangible assets decreased by EUR 24,481 thousand, other non-current assets increased by EUR 24,429 thousand and other current assets increased by EUR 51 thousand as a result of the application of IFRS 15. In 2018, the consideration paid to customers reduced revenue from series deliveries by EUR 4,800 thousand. If the previous IFRS had been applied, the impairment of intangible assets would have resulted in cost of sales of the same amount.

b) SERIES DEVELOPMENT

In accordance with IFRS 15.105, the new line items for current and non-current contract assets have been added to the statement of financial position and the amounts previously reported as receivables from construction contracts within current financial assets duly reclassified.

IFRS 15 AS OF JANUARY 1, 2018

In the absence of a direct contractual refund claim for the full development costs and any direct economic compensation for development contracts, receivables from construction contracts were reduced by EUR 44,730 thousand, taking into account deferred tax assets of EUR 8,598 thousand and deferred tax liabilities of EUR 2,711 thousand, and reclassified as retained earnings when IFRS 15 was applied for the first time. This resulted in a reduction of EUR 33,633 thousand in retained earnings after taxes and the recognition of a provision of EUR 212 thousand. New findings led to a further adjustment effect for some series development projects, which reduced retained earnings by a further EUR 7,625 thousand compared with the amounts stated in the quarterly and half-yearly reports and which has already been recognized in an amount of EUR 33,633 thousand. Corresponding adjustments were therefore also made to contract assets and deferred tax assets. Of the remaining contract assets, TEUR 82,117 was reclassified as non-current contract assets and TEUR 42,214 as current contract assets. In addition, there was a change in the assessment of when contract assets are expected to be realized. This resulted in a reclassification of non-current contract assets as current contract assets in the amount of EUR 6,079 thousand compared to the quarterly and half-year reports. Prepayments of EUR 671 thousand received for customer projects were also transferred from other current liabilities to the new line item "Current contract assets".

IFRS 15 AS OF DECEMBER 31, 2018

As of December 31, 2018, current and non-current contract assets of EUR 51,847 thousand and EUR 63,388 thousand, respectively, were reported. At the same time, current contract liabilities amounting to EUR 642 thousand and non-current contract liabilities amounting to EUR 799 thousand were recorded. The provisions of EUR 212 thousand and the other current liabilities of EUR 671 thousand as of January 1, 2018 continued to exist as of December 31, 2018 in accordance with IFRS 15. If IAS 11 and IAS 18 had been applied as of December 31, 2018, retained earnings including deferred tax assets and liabilities would have been EUR 31,722 thousand higher. If IAS 11 and IAS 18 had been applied in the year ending December 31, 2018, revenue would have been EUR 2,699 thousand lower.

C) OTHER ADJUSTMENTS

In addition to the adjustments described above, other items in the primary components of the financial statements such as deferred taxes and retained earnings have been adjusted accordingly. If IAS 11 and IAS 18 had been applied as of December 31, 2018, earnings after tax would have decreased by EUR 1,911 thousand.

FIRST-TIME APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS

GRAMMER Group has also applied IFRS 9 Financial Instruments since January 1, 2018. Most of the debt instruments continue to be recognized at amortized cost in accordance with IFRS 9. Similarly, there were no material changes in connection with derivatives and financial liabilities. The simplified impairment model under IFRS 9 was applied to trade accounts receivable. The effects were likewise minimal and were recorded directly in retained earnings within equity. Similarly, there are no material changes to hedge accounting as IFRS 9 does not provide for any general changes in this respect.

The transition effects and the changes to the measurement categories under IFRS 9 are presented in the following table:

EUR K	Measurement category in accordance with IAS 39	Carrying amount according to IAS 39 as of December 31, 2017	First-time application effects from IFRS 9	Measurement category according to IFRS 9	Carrying amount according to IFRS 9 as of January 1, 2018
ASSETS					
Cash, cash equivalents and short-term deposits	LaR	146,312		FAAC	146,312
Trade accounts receivable	LaR	223,334	–516	FAAC	222,818
Other financial assets					
Loans and receivables	LaR	10,255		FAAC	10,255
Participations	AfS	50		FVOCI	50
Financial assets held for trading	FAHfT	49		FVtPL	49
Derivatives with hedge relationship	n.a.	759		n.a.	759
EQUITY AND LIABILITIES					
Trade accounts payable	FLAC	261,339		FLAC	261,339
Current and non-current financial liabilities	FLAC	238,513		FLAC	238,513
Other financial liabilities					
Other financial liabilities	FLAC	2,593		FLAC	2,593
Liabilities from finance leases	n.a.	4,805		n.a.	4,805
Derivatives with no hedge relationship	FLHfT	6		FLtPL	6
Derivatives with hedge relationship	n.a.	1,434		n.a.	1,434

Including deferred tax liabilities of EUR 0.1 million, retained earnings dropped by EUR 0.4 million.

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 2018. The GRAMMER Group did not adopt these standards and interpretations early. 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 16 LEASES

IFRS 16 was issued in January 2016 and replaces IAS 17 "Leases" and all interpretations relating to lease accounting. The effect of the standard for the lessee is that virtually all leases are recognized in the statement of financial position because the distinction between operating and finance leases has been eliminated. Under the new standard, assets (rights to use the leased asset) and financial liabilities for future lease payments or rentals are recognized during the term of the lease. The lessee/tenant must record the interest expense for the financial liability and the depreciation expense for the right of use separately. It must also remeasure the lease liability when certain events, such as changes in the lease term or changes in future lease payments as a result of a change in the interest rate used to determine the lease payments, occur.

The GRAMMER Group will be applying the new standard from the mandatory adoption date and, thus, to the accounting period beginning January 1, 2019 for the first time. It will be applying the cumulative catch-up method. This means that comparative amounts for the year of first-time application are not adjusted retrospectively. The cumulative effect of the initial application of the standard is recognized as an adjustment to the opening balance of retained earnings. Utilization rights are measured at the amount of the lease liabilities on the date of transition.

In 2017, the Group installed a project team to review all of its leases in the light of the new guidance for accounting for leases under IFRS 16. In 2018, detailed assessments of the effects of IFRS 16 on the GRAMMER Group are available. The standard will primarily affect the accounting treatment of leases previously classified as operating leases in accordance with IAS 17.

For simplification purposes, the option to recognize each lease component and all related non-lease components as a single lease component is exercised for all classes of leased assets. The only exceptions to the obligation of the lessee/tenant to recognize rental or lease agreements on the statement of financial position apply with respect to short-term leases or rental agreements or leases of low-value items. Short-term leases or rental agreements are those with a term of less than twelve months. GRAMMER applies these exceptions.

As of the reporting date, the Group had obligations under non-cancellable operating leases amounting to EUR 68.3 million (Note 12). Of these obligations, approximately EUR 4.6 million relate to low-value and short-term leases or rental agreements, which continue to be recognized as lease expenses in profit or loss.

With respect to the remaining leases existing on the transition date, the Group expects to recognize rights of use of EUR 55.6 million as of January 1, 2019, other current financial liabilities of EUR 12.2 million and other non-current financial liabilities of EUR 43.4 million. The Group also expects the application of the new standard to increase EBITDA in 2019 by EUR 19.2 million based on the contracts in force as of December 31, 2018. EBIT will also increase by EUR 1.7 million on the basis of the contracts in force of December 31, 2018. Changes to this forecast may result from rental or lease agreements that are entered into or amended during the year.

In addition, the Group expects the application of IFRS 16 to have an impact on the presentation of cash flows in 2019. Cash flows from operating activities will increase by EUR 14.0 million as repayment of the principal under the lease liability will be recognized within the cash flow from financing activities.

As the Group pursues only insignificant activities as a lessor, it does not expect any material impact on its financial statements.

IFRIC 23: UNCERTAINTY OVER INCOME TAX TREATMENTS

The IASB published IFRIC Interpretation 23 on June 7, 2017. The interpretation is effective for accounting periods beginning on or after January 1, 2019. GRAMMER intends to apply the interpretation as of the prescribed effective date. The interpretation clarifies how the recognition and measurement requirements in IAS 12 “Income Taxes” should be applied if there are uncertainties with regard to income tax treatments. In assessing uncertainty, an entity needs to determine whether the authority is likely to accept the uncertain tax treatment. An entity must decide whether to assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach chosen should be the one which permits a better prediction of the resolution of the uncertainty. GRAMMER is currently reviewing whether this will have any effect on the consolidated financial statements. As things stand at present, no significant impact is expected.

3 COMPANIES CONSOLIDATED

INFORMATION ON SUBSIDIARIES

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

NAME OF SUBSIDIARY	DOMICILE	MAIN ACTIVITY	EQUITY INTEREST (IN %) 2018	2017
1. Consolidated subsidiaries				
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/Commercial Vehicles	100.00	100.00
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	Distribution 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	Distribution company	100.00	100.00
7. GRAMMER AD	Trudovetz, Bulgaria	Commercial Vehicles	98.80	98.78
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.	Olérdola, 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 Seating (Shaanxi) Co., Ltd.	Weinan City, China	Commercial Vehicles	90.00	90.00
31. Toledo Molding & Die Inc.	Toledo (OH), USA	Automotive	100.00[1]	–
32. TMD Mexico LLC	Wilmington (DE), USA	Automotive	100.00[1]	–
33. TMD International Holdings LLC	Wilmington (DE), USA	Automotive	100.00[1]	–
34. TMD WEK LLC	Wilmington (DE), USA	Automotive	100.00[1]	–
35. TMD Tennessee LLC	Fayetteville (TN), USA	Automotive	100.00[1]	–
36. TMD Wisconsin LLC	Beloit (WI), USA	Automotive	100.00[1]	–
37. Toledo Molding de Mexico S. de R.L. de C.V.	Queretaro, Mexico	Automotive	100.00[1]	–
38. TMD CZR s.r.o.	Prague, Czech Republic	Automotive	100.00[1]	–
39. TMD WEK North LLC	Jefferson (OH), USA	Automotive	100.00[1]	–
2. Consolidated joint ventures				
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	Commercial Vehicles	50.00	50.00

[1] The TMD Group was acquired in full and consolidated for the first time effective October 1, 2018.

In addition to GRAMMER AG, five domestic and 34 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 joint venture GRA-MAG Truck Interior Systems LLC, London, OH, United States (GRA-MAG LLC) , in which GRAMMER AG holds 50% of the voting rights.

The uniform reporting date for all of the consolidated companies is December 31, 2018.

2018

	NATIONAL	ABROAD	TOTAL
Fully consolidated companies (including GRAMMER AG)	6	34	40
Companies accounted for at equity	0	1	1
Companies	**6**	**35**	**41**

2017

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

Within GRAMMER Group, shares are held in all subsidiaries that ensure a controlling influence.

The companies GRAMMER System GmbH, GRAMMER Automotive Metall GmbH, GRAMMER Railway Interior GmbH, GRAMMER Technical Components GmbH and GRAMMER Interior Components GmbH make partial use of the accounting conveniences provided for in section 264 (3) HGB.

4 BUSINESS COMBINATIONS

On May 22, 2018, GRAMMER AG signed a contract to acquire 100% of the shares in Toledo Molding & Die, Inc. (TMD), Toledo, Ohio, United States, and its subsidiaries. The TMD Group is one of the leading specialists in the development and production of innovative thermoplastic components and applications in the Northern American automotive market and has its own tooling operations. It primarily develops and produces interior components for visible and invisible applications for the automotive industry. In this way, the GRAMMER Group is systematically continuing its strategy of acquiring companies for the specific purpose of broadening and enhancing its own range. The acquisition was closed on October 1, 2018, as of which date the TMD Group was consolidated within the GRAMMER Group for the first time. The TMD Group comprises nine individual companies which are based in the United States, the Czech Republic and Mexico. TMD has around 1,700 employees at nine production sites in the United States and Mexico.

After the date of acquisition on October 1, 2018, the TMD Group contributed revenue of EUR 69,122 thousand and earnings after tax of EUR 197 thousand in 2018. The results of the TMD Group in the period from the date of initial consolidation were particularly burdened by the effects of fair value measurement at the time of acquisition and systematic depreciation of the fair value measurements of EUR 2.9 million from the date of acquisition. From January to December 2018, the TMD Group generated US GAAP revenue of roughly USD 300 million and net profit of roughly USD 10 million after approximation calculations for IFRS purposes. It should be particularly noted that these are proforma carve-out figures under IFRS for all of 2018 for the TMD Group as it applied US GAAP until September 2018. In addition, it includes terminating customer business that GRAMMER did not acquire and which has been eliminated from the proforma figures. Corresponding systematic depreciation of the fair-value measurement has been included for 2018 as a whole.

The acquisition costs for the net assets of the TMD Group amounted to EUR 206,719 thousand. Less the cash and cash equivalents acquired, the total actual cash outflow amounted to EUR 196,849 thousand. Initial business combination accounting is still ongoing. There may be adjustments during the valuation period due to purchase price mechanisms such as attributable cash and cash equivalents or changes in working capital. The TMD Group was therefore provisionally consolidated for the first time as of October 1, 2018.

An agreement on contingent payments to executives is treated as remuneration for future services in the amount of EUR 1,570 thousand in a distinct transaction to be measured separately from the business combination. This was not included in the calculation of the consideration. The expense under this commitment is accruing on a prorata basis over the period during which these employees provide their services and is therefore only recognized as a liability on a prorata basis as of December 31, 2018.

The preliminary acquisition costs of this business combination were provisionally allocated to the acquired assets and liabilities as of the acquisition date as follows:

EUR K	PROVISIONAL FAIR VALUE AT DATE OF ACQUISITION
Property, plant and equipment	83,184
Intangible assets	81,845
Deferred tax assets	1,447
Other assets	351
Non-current assets	**166,827**
Inventories	13,221
Current trade accounts receivable	45,161
Cash, cash equivalents and short-term deposits	9,870
Other current assets	9,075
Current contract assets	26,491
Current assets	**103,818**
Assets	**270,645**
Other financial liabilities	−66,399
Deferred tax liabilities (of which from remeasurement: EUR 16,429 thousand)	−27,192
Non-current financial liabilities	**−93,591**
Current trade accounts payable	−26,084
Other current liabilities	−17,128
Current liabilities	**−43,212**
Liabilities	**−136,803**
Total identifiable net assets at fair value	**133,842**
Goodwill from business combination	72,877
Consideration provided	**206,719**
Cash and cash equivalents acquired with subsidiary	9,870
Outflow of cash and cash equivalents	−206,719
Actual cash outflow as a result of business combination	**−196,849**

All identifiable assets acquired and liabilities assumed were recognized at their fair values at the date of acquisition. There are no material differences between the gross value and the fair value of the receivables. The total contractual amounts are expected to be recoverable. There are no non-controlling interests. On the basis of the preliminary fair value of the net assets acquired, goodwill not subject to amortization for tax purposes amounts to EUR 72,877 thousand.

The GRAMMER Group considers the goodwill to be justified by the growth opportunities for the GRAMMER Group resulting from the takeover with individual products such as consoles due to the complementary footprints and the use of available production capacities in the north of the United States and in Mexico. Further synergistic effects will result from savings gained from the consolidation of companies and functions as well as the expansion of purchasing volumes or the substitution of external supplies for GRAMMER Group products. Goodwill is allocated in full to the Automotive cash generating unit.

In connection with the acquisition, costs totaling EUR 3.3 million arose in 2018, of which EUR 1.7 million was recognized as administrative expenses and EUR 1.6 million was deferred to subsequent years.

5 SHARES IN A JOINT VENTURE

GRAMMER AG holds a 50% interest in the capital of GRA-MAG Truck Interior Systems LLD, London, OH, United States (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 the 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 as of December 31, 2018 prepared in accordance with IFRS.

EUR K

INCOME STATEMENT 100%	2018	2017
Revenue	42,538	37,594
Cost of sales including systematic depreciation of EUR 105 thousand (2017: 353)	−34,457	−30,113
Selling expenses	−42	0
Administrative expenses	−4,207	−4,262
Interest expenses	−926	−1,007
Earnings before tax	**2,906**	**2,212**
Income taxes	−50	−69
Net profit	**2,856**	**2,143**
Group's share of profit or loss (50%)	1,428	1,072

EUR K

STATEMENT OF FINANCIAL POSITION 100%	2018	2017
Non-current assets	484	313
Current assets	10,625	8,525
Assets	**11,109**	**8,838**
Non-current liabilities	25,409	24,849
Current liabilities	7,054	7,186
Liabilities	**32,463**	**32,035**
Equity	**−21,354**	**−23,197**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment in associate	0	0

The aforementioned items include cash and short-term deposits of EUR 459 thousand (2017: 832) as well as current financial liabilities of EUR 4,321 thousand (2017: 4,930).

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

EUR K

UNRECOGNIZED GAINS/LOSSES (50%)	2018	2017
Cumulative unrecognized losses of GRA-MAG LLC as of January 1	−12,050	−13,122
Unrecognized gains of GRA-MAG LLC in the period under review	1,428	1,072
Cumulative unrecognized losses of GRA-MAG LLC as of December 31	**−10,622**	**−12,050**

As of December 31, 2018 and 2017, 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.

6 SEGMENT REPORTING

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

The Automotive Division is the larger of the two reportable segments within the GRAMMER Group. Based on the total revenue of the two reporting segments (excluding eliminations across segments), 68.6% (2017: 70.5%) of revenue was generated in the Automotive Division in 2018. In this segment, the GRAMMER Group operates as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. The Group sells these products to automotive OEMs in the upper and premium segments in particular.

The Commercial Vehicles Division generated 31.4% of Group revenue in 2018 (2017: 29.5%). It develops and produces driver and passenger seats for trucks as well as driver seats for offroad vehicles (tractors, construction machinery and forklift drives), 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 and markets them to bus and rolling stock OEMs, as well as railway operators.

The revenue and earnings before interest and tax (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. 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 intragroup transactions between the 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 ENDING DECEMBER 31, 2018

EUR K

	COMMERCIAL VEHICLES	AUTOMOTIVE	CENTRAL SERVICES	ELIMINATION	GRAMMER GROUP
Revenue from sales to external customers	561,594	1,299,698	0	0	**1,861,292**
Inter-segment revenue	38,185	12,900	0	−51,085	**0**
Revenue	**599,779**	**1,312,598**	**0**	**−51,085**	**1,861,292**
Segment earnings (EBIT)	**55,514**	**37,706**	**−44,473**	**−8**	**48,739**
Financial income					1,506
Financial expenses					−13,501
Other financial result					−2,276
Profit/loss (–) before income taxes					**34,468**
Income taxes					−11,256
Net profit/loss (–)					**23,212**
Other segment information					
Investments					
Property, plant and equipment	13,416	39,230	15,556	0	**68,202**
Intangible assets	3,163	571	2,003	0	**5,737**
Amortization					
Depreciation of property, plant and equipment	−11,077	−28,298	−1,255	0	**−40,630**
Amortization of intangible assets	−2,316	−7,510	−1,849	0	**−11,675**
Non-cash items					
Changes in retirement benefit provisions	4,560	1,388	783	0	**6,731**

FISCAL YEAR ENDING 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 retirement benefit provisions	4,573	1,411	852	0	**6,836**

INFORMATION ON GEOGRAPHIC AREAS

The following tables include information on externally generated revenue and non-current assets of the Group's geographical segments for the fiscal years ending December 31, 2018 and 2017. The geographical breakdown is based on the region of registration of the companies:

2018

EUR K

BY REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Automotive Division revenue	793,391	287,565	231,642	**1,312,598**
Commercial Vehicles revenue	441,252	86,053	72,474	**599,779**
Elimination	−43,286	−7,200	−599	**−51,085**
Revenue	1,191,357	366,418	303,517	**1,861,292**
Non-current assets (property, plant and equipment as well as intangible assets)	269,984	264,796	29,236	**564,016**

2017

EUR K

BY REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Automotive Division revenue	856,524	215,671	219,052	**1,291,247**
Commercial Vehicles revenue	406,142	71,568	62,532	**540,242**
Elimination	−37,744	−6,545	−734	**−45,023**
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**

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

The GRAMMER Group's revenue in Germany stands at EUR 963 million (2017: 958); non-current assets in Germany were valued at EUR 184 million (2017: 173).

7 REVENUE FROM CONTRACTS WITH CUSTOMERS

The GRAMMER Group generates revenue from the transfer of goods and services both over time and at a point-in-time basis in the following segments:

2018

EUR K

POINT IN TIME OF REVENUE RECOGNITION	COMMERCIAL VEHICLES	AUTOMOTIVE	ELIMINATION	GRAMMER GROUP
Revenue in accordance with IAS 18 up until December 31, 2017	–	–	–	–
Revenue in accordance with IAS 11 up until December 31, 2017	–	–	–	–
Goods transferred at a certain point in time in accordance with IFRS 15 from January 1, 2018	597,864	1,206,769	−48,632	1,756,001
Goods and services transferred over time in accordance with IFRS 15 from January 1, 2018	1,915	105,829	−2,453	105,291
Intragroup transactions	−38,185	−12,900	51,085	0
Total revenue from contracts with customers	**561,594**	**1,299,698**	**0**	**1,861,292**

2017

EUR K

POINT IN TIME OF REVENUE RECOGNITION	COMMERCIAL VEHICLES	AUTOMOTIVE	ELIMINATION	GRAMMER GROUP
Revenue in accordance with IAS 18 up until December 31, 2017	540,242	1,175,626	−45,023	1,670,845
Revenue in accordance with IAS 11 up until December 31, 2017	0	115,621	0	115,621
Goods transferred at a certain point in time in accordance with IFRS 15 from January 1, 2018	–	–	–	–
Goods and services transferred over time in accordance with IFRS 15 from January 1, 2018	–	–	–	–
Intragroup transactions	−33,336	−11,687	45,023	0
Total revenue from contracts with customers	**506,906**	**1,279,560**	**0**	**1,786,466**

As there were no contract liabilities as of January 1, 2018, no revenue was recognised in the reporting period in 2018 that was included in the contract liability balance at the beginning of the period.

In 2018, there was likewise no revenue recognised from performance obligations satisfied or partially satisfied in previous periods.

8 OTHER INCOME AND EXPENSES

8.1 OTHER OPERATING INCOME

Other operating income primarily includes income from recharged handling costs of EUR 4,586 thousand (2017: 3,026), income from the sale of metal waste of EUR 2,871 thousand (2017: 3,237) and other income of EUR 6,514 thousand (2017: 4,376). Other operating income additionally comprises government grants of EUR 2,277 thousand (2017: 2,399) and income from recharged expenses and rental income of EUR 486 thousand (2017: 102). 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.

8.2 FINANCIAL RESULT

The following table breaks down financial result:

EUR K	2018	2017
Interest income on bank balances	973	555
Financial assets available for sale	178	58
Proceeds from loans	355	510
Financial income	**1,506**	**1,123**
Loans and overdrafts	−9,710	−7,354
Other interest costs	−60	−37
Interest cost of pension provisions	−2,648	−2,633
Loss from financial assets and liabilities measured at fair value through profit or loss	−765	−872
Interest element of lease payments	−318	−149
Financial expenses	**−13,501**	**−11,045**
Currency-translation gains/loss from cash at bank and in hand	−3,088	2,950
Exchange-rate differences from intercompany finance	812	−3,624
Other financial result	**−2,276**	**−674**
Financial result	**−14,271**	**−10,596**

8.3 AMORTIZATION, DEPRECIATION AND IMPAIRMENT; FOREIGN EXCHANGE DIFFERENCES, HISTORICAL COST AND AMORTIZED COST

COST OF SALES

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise of EUR 1,579,798 thousand (2017: 1,496,375). This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. This item also includes the cost of additions to warranty provisions. 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

The selling expenses of EUR 37,769 thousand (2017: EUR 35,872) 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 includes income from exchange rate movements in the amount of EUR 24,473 thousand (2017: 14,776) 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 21,681 thousand (2017: 21,276) are also recognized under other administrative expenses. Administrative expenses in 2018 also include various special charges of EUR 29,886 thousand arising from one-off business transactions. This includes the non-recurring legal and consulting costs of EUR 12,893 thousand in connection with the successful takeover offer to the shareholders of GRAMMER AG by an entity affiliated with the strategic partner Ningbo Jifeng. Also included are expenses of EUR 11,527 thousand resulting from the exercise of the change-of-control clause by members of GRAMMER AG's Executive Board, exceptional expenses of EUR 3,787 thousand in connection with the closure of the Langenfeld facility and non-recurring legal and consulting costs of EUR 1.679 thousand for the acquisition of the TMD Group.

AMORTIZATION AND DEPRECIATION

Amortization of intangible assets totaled EUR 11,674 thousand (2017: 12,784) 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 2,291 thousand (2017: 2,342) that are included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 40,630 thousand (2017: 36,712).

As in 2017, no impairment losses were recognized in fiscal year 2018.

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

8.4 PERSONNEL EXPENSES

Personnel expenses are presented in the following table:

EUR K	2018	2017
Wages and salaries	349,887	307,283
Social security contributions	75,344	68,148
Personnel expenses	**425,231**	**375,431**

9 INCOME TAXES

The key components of income taxes for 2018 and 2017 break down as follows:

EUR K	2018	2017
Consolidated Statement of Income		
Current income taxes		
Current tax expenses – Germany	−917	−8,752
Current tax expenses – abroad	−8,962	−9,373
Total current tax expenses	**−9,879**	**−18,125**
Deferred taxes		
Deferred tax expenses (–)/income – Germany	236	−469
Deferred tax expenses (–)/income – abroad	−1,613	−4,930
Deferred tax expenses (–)/income	**−1,377**	**−5,399**
Tax expenses reported in the Consolidated Statement of Income	**−11,256**	**−23,524**

The reduction in the current income tax expense in Germany is attributable in particular to the significantly lower tax result of GRAMMER AG, which was significantly impacted by the non-recurring effects arising in 2018.

Deferred tax assets of EUR 4.8 million had been written down in 2017, a large portion of which was attributable to a correction in the probable utilization of the tax carry forward of a Chinese company and another portion to the US tax reform that came into effect in December 2017.

The change in deferred tax liabilities outside Germany in 2018 is due to an impairment of EUR 2.3 million of deferred tax assets at subsidiaries in the United States. This is due to loss deduction restrictions under US tax regulations in the event of a change of control.

If the Group had been able to recognize all excluded deferred tax assets from 2018 and preceding years, net profit and equity would have increased by a total of EUR 7.6 million.

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 2018 and 2017 is as follows:

EUR K	2018	2017
Profit/loss (–) before income taxes	**34,468**	**55,875**
Income taxes at the effective rate in Germany of 29.2% (2017: 29.2)	−10,065	−16,316
Effects from minimum taxation and withholding taxes	−1,548	−2,157
Current income taxes relating to previous years	529	−90
Effects of the non-recognition of deferred taxes for the current year	−3,201	−1,921
Change in deferred income taxes from previous years	−247	−4,192
Tax-exempt government grants/tax benefits	61	309
Non-deductible expenses	−2,479	−2,278
Other tax effects	−449	332
Effects of changes in tax rate/legislation	−297	−2,301
Effects from different foreign tax rates	6,440	5,090
Income taxes at the effective tax rate of 32.7% (2017: 42.1)	**−11,256**	**−23,524**

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

EUR K	2018	2017
Property, plant and equipment	−21,142	−11,617
Intangible assets	−28,670	−10,626
Other assets	−4,587	−431
Inventories	−1,250	−1,064
Current trade accounts receivable	−27	−180
Contract assets	−175	0
Other current financial assets	−128	−3,757
Non-current financial liabilities	−73	−114
Other current assets	−300	−331
Others	−477	−827
Deferred tax liabilities (non-netted)	**−56,829**	**−28,947**
Retirement benefits and similar obligations	21,430	23,618
Provisions	752	981
Tax losses carried forward	12,734	10,717
Other financial assets	346	904
Contract assets	4,360	0
Property, plant and equipment	2,918	3,041
Intangible assets	4,104	180
Other current liabilities	3,297	1,974
Current trade accounts receivable	762	921
Others	4,537	3,421
Deferred tax assets (non-netted)	**55,240**	**45,757**
Net amount of deferred tax liabilities (–)/deferred tax assets	**−1,589**	**16,810**

The change in deferred tax liabilities (gross) results primarily from the first-time consolidation of the TMD companies.

The reconciliation of deferred taxes is set out below:

EUR K	2018	2017
As of January 1	**16,810**	**23,942**
Deferred tax expenses (–)/income in profit or loss	−1,376	−5,399
Deferred tax expenses (–)/income in the statement of comprehensive income/mandatory convertible bond (2017)	−2,103	81
Deferred taxes acquired through first-time consolidation	−25,745	0
Recognition of deferred taxes in retained earnings as a result of first-time application of IFRS 9 and IFRS 15	11,460	0
Currency-translation effects	−635	−1,814
As of December 31	**−1,589**	**16,810**

The statutory rate of corporate income tax in Germany was 15% for the 2018 and 2017 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 2018 (2017: 29.2).

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the asset is realized or the liability settled. Deferred tax assets and liabilities were measured on the basis of the overall tax rate of 29.2% (2017: 29.2). The local income tax rates for foreign entities varied between 10% and 34%. In the previous year, these were between 10% and 35%.

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.

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 income 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 reversals of differences can be controlled, e.g. through distributions, and because no significant tax effects are expected in the foreseeable future. The outside basis differences stand at EUR 93,572 thousand as of December 31, 2018 (2017: 70,740).

The distribution of dividends to the shareholders did not have any consequences for income tax in 2018 or 2017.

10 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 were 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.

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 enter into any such contracts as of December 31, 2018, its basic and diluted earnings per share are identical.

EARNINGS PER SHARE

BASIC/DILUTED EARNINGS PER SHARE	2018	2017
Weighted average number of ordinary shares for calculating basic/diluted earnings	12,277,071	12,148,985
Earnings in EUR thousands (excluding non-controlling interests)	23,304	32,488
Basic earnings per share in EUR	1.90	2.67
Diluted earnings per share in EUR	1.90	2.67

11 DIVIDENDS PAID AND PROPOSED

Appropriation of profit by GRAMMER Group is based on net profit/loss in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. On December 31, 2018, GRAMMER AG posted an unappropriated surplus profit of EUR 41.6 million (2017: 57.7). This includes the profit of EUR 42.3 million carried forward from the previous year and the net loss of EUR –0.7 million. The Executive Board and the Supervisory Board will be proposing to the shareholders that a dividend of EUR 0.75 (2017: 1.25) per share be distributed. This translates into a total dividend of EUR 9.2 million (2017: 15.3), which was not recognized as a liability as of December 31, 2018. 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 July 12, 2019, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

A dividend of EUR 15.3 million was paid in the year under review (2017: 14.6). Further details can be found in Note 19.

Dividends approved and distributed during the fiscal year:

DIVIDENDS ON ORDINARY SHARES

EUR K

	2018	2017
Dividend for 2017: EUR 1.25 (2016: EUR 1.30)	15,346	14,579

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

EUR K AS OF DECEMBER 31, 2018	HISTORICAL COST								
	AS OF JANUARY 1, 2018	ADJUSTMENT DUE TO FIRST-TIME APPLICATION OF IFRS 15	AS OF JANUARY 1, 2018 (ADJUSTED)	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE-RATE CHANGES	EFFECTS FROM BUSINESS COMBINATION	RECLASSIFICATIONS	AS OF DECEMBER 31, 2018
Land and buildings	**108,267**	0	108,267	2,708	0	−1,069	15,968	281	**126,155**
Technical equipment and machines	**227,148**	0	227,148	21,231	−7,405	−1,129	46,075	4,299	**290,219**
Factory and office equipment	**226,287**	0	226,287	19,502	−4,368	−1,871	477	1,385	**241,412**
Advance payments and plant under construction	**8,687**	0	8,687	24,761	−34	0	3,165	−5,861	**30,718**
Finance leases	**8,273**	0	8,273	0	−91	261	17,499	−183	**25,759**
Property, plant and equipment	**578,662**	**0**	**578,662**	**68,202**	**−11,898**	**−3,808**	**83,184**	**−79**	**714,263**
Concessions, industrial rights	**92,935**	−34,284	58,651	2,400	−1,240	680	81,845	82	**142,418**
Goodwill	**48,879**	0	48,879	0	0	802	72,877	0	**122,558**
Capitalized development costs	**29,984**	0	29,984	3,334	0	−17	0	0	**33,301**
Advance payments	**0**	0	0	3	0	0	0	−3	**0**
Intangible assets	**171,798**	**−34,284**	**137,514**	**5,737**	**−1,240**	**1,465**	**154,722**	**79**	**298,277**
Property, plant and equipment and intangible assets	**750,460**	**−34,284**	**716,176**	**73,939**	**−13,138**	**−2,343**	**237,906**	**0**	**1,012,540**

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

	Depreciation								Carrying amount		
	As of January 1, 2018	Adjustment due to first-time application of IFRS 15	As of January 1, 2018 (adjusted)	Additions	Disposals	Effects from exchange-rate changes	Reclassifications	As of December 31, 2018	January 1, 2018	January 1, 2018 (adjusted)	December 31, 2018
	43,924	0	43,924	3,936	0	−427	0	47,433	64,343	64,343	78,722
	125,585	0	125,585	19,523	−6,828	−1,618	59	136,721	101,563	101,563	153,498
	167,102	0	167,102	15,760	−3,877	−1,519	0	177,466	59,185	59,185	63,946
	0	0	0	0	0	0	0	0	8,687	8,687	30,718
	3,123	0	3,123	1,411	−91	13	−59	4,397	5,150	5,150	21,362
	339,734	**0**	**339,734**	**40,630**	**−10,796**	**−3,551**	**0**	**366,017**	**238,928**	**238,928**	**348,246**
	58,460	−16,020	42,440	9,383	−1,231	−94	0	50,498	34,475	16,211	91,920
	10,636	0	10,636	0	0	0	0	10,636	38,243	38,243	111,922
	19,098	0	19,098	2,291	0	−16	0	21,373	10,886	10,886	11,928
	0	0	0	0	0	0	0	0	0	0	0
	88,194	**−16,020**	**72,174**	**11,674**	**−1,231**	**−110**	**0**	**82,507**	**83,604**	**65,340**	**215,770**
	427,928	**−16,020**	**411,908**	**52,304**	**−12,027**	**−3,661**	**0**	**448,524**	**322,532**	**304,268**	**564,016**

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

12.1 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation is based generally on the following useful economic lives:

Land	No depreciation
Buildings and fixtures	10–40 years
Building fittings	5–40 years
Manufacturing plant and equipment	5–25 years
Other equipment, operating and business equipment	2–15 years
Leased assets (finance leases)	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 of the assets in question.

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 2018, total research and development costs stood at EUR 63,967 thousand (2017: 67,701), of which EUR 3,334 thousand (2017: 2,443) satisfied the criteria for capitalization under IAS 38. Most of this amount was recognized in the income statement.

EUR K AS OF DECEMBER 31, 2018	HISTORICAL COST						
	AS OF JANUARY 1, 2018	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	EFFECTS FROM BUSINESS COMBINATION	RECLASSIFICATIONS	AS OF DECEMBER 31, 2018
Land and buildings	**2,056**	0	0	274	16,070	0	18,400
Technical equipment and machines	**4,435**	0	0	−9	1,092	−183	5,335
Operating and business equipment	**1,605**	0	0	3	337	0	1,945
Motor vehicles	**177**	0	−91	−7	0	0	79
Leased assets	**8,273**	**0**	**−91**	**261**	**17,499**	**−183**	**25,759**

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

12.2 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 renewal options, which provide either for a renewal option which may be unilaterally exercised by GRAMMER or for 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 purchase price receivables, which are due for settlement by 2020 at the latest, still stand at EUR 4.0 million and were recognized at their discounted present value of EUR 4.0 million (2017: 3.9) as of December 31, 2018.

The leased assets shown in Note 12 summary of fixed assets which are attributable to the Company for economic purposes in accordance with IAS 17 breaks down as follows:

DEPRECIATION						CARRYING AMOUNT	
AS OF JANUARY 1, 2018	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFICATIONS	AS OF DECEMBER 31, 2018	JANUARY 1, 2018	DECEMBER 31, 2018
246	217	0	18	0	481	1,810	17,919
2,036	842	0	−4	−59	2,815	2,399	2,520
721	344	0	1	0	1,066	884	879
120	8	−91	−2	0	35	57	44
3,123	**1,411**	**−91**	**13**	**−59**	**4,397**	**5,150**	**21,362**

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**

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
2018			
Lease payments	4,025	7,383	16,118
Less interest cost on a discounted basis	–895	–2,634	–2,910
Present value (Statement of financial position)	**3,130**	**4,749**	**13,208**
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**

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
2018			
Lease payments	21,893	33,346	13,013
2017			
Lease payments	17,921	31,667	13,577

12.3 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[1]) of GRAMMER Group.

[1] Cash generating units.

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, 2018 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	2018 GOODWILL	2017 GOODWILL	2018 GROWTH RATE[1]	2017 GROWTH RATE[1]	2018 DISCOUNT FACTOR	2017 DISCOUNT FACTOR
CGU I	Commercial Vehicles	4,423	4,423	1%	1%	6.3%	6.8%
CGU II	Automotive	107,499	33,820	1%	1%	6.3%	6.8%
	Goodwill	**111,922**	**38,243**				

[1] Perpetual annuity

The increase in goodwill is due to the acquisition of the shares in Toledo Molding & Die, Inc. (TMD), Toledo, Ohio, United States. As stated in Note 4, the TMD Group was consolidated effective October 1, 2018 and allocated in full to the Automotive CGU.

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 1.0% after tax (2017: 1.25) and a risk premium for general market risks of 7.0% after tax (2017: 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% (2017: 1).

The impairment tests performed confirm that the value of all goodwill is fully recoverable. Neither changes in the terminal-value growth rate to 0 or in the detailed planning period growth rate to 0 nor an increase by 400 basis points in the interest rate on debt capital provided any evidence of impairments.

13 INVENTORIES

Inventories break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Raw materials and supplies	141,238	112,074
Work in progress	16,467	14,859
Finished goods and services	31,053	25,081
Advance payments	2,234	6,006
Inventories	**190,992**	**158,020**

All inventories are recognised at their historical costs. Impairments of EUR 5.6 million (2017: 4.8) were recognized for inventories in the light of their lower fair value. The increase in inventories compared with 2017 resulted from the business combination with the TMD Group in an amount of EUR 13.2 million from the date of first-time consolidation on October 1, 2018 as well as new-product ramp-ups.

14 TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are generally non-interest-bearing and have a term of 30 to 60 days.

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Trade accounts receivable – gross	252,942	227,177
Impairments (2017: individual value adjustments)	−1,128	−1,253
Provisions for verity risks (2017: portfolio value adjustments)	−1,805	−2,590
Trade accounts receivable	**250,009**	**223,334**

The increase in trade accounts receivable is partly due to the acquisition of TMD as of October 1, 2018.

As of the reporting date, trade accounts receivable of EUR 42,301 thousand (2017: 33,949) were reduced as a result of non-recourse factoring. The risks arising from the factored receivables relevant for risk assessment are credit risk as well as the risk of delayed payment. With regard to a contract with a bank, the Group continues to recognize trade accounts receivable in the amount of its continuing exposure, i.e. the amount of the maximum default reserve and thus recognizes a corresponding liability.

As of December 31, 2018, impairments of EUR 1,128 thousand (2017: Allowances for doubtful accounts of 1,253) were recognized on trade accounts receivable. There is also a provision for verity risks based on an individual valuation discount. Details are given in the table below:

EUR K	Impairments (2017: Allowances for doubtful accounts)	Provisions for verity risks (2017: Portfolio based allowances)	Total
As of January 1, 2018	1,253	2,590	3,843
Adjustment due to first-time application of IFRS 9	516	0	516
As of January 1, 2018 (adjusted)	1,769	2,590	4,359
Additions	281	140	421
Utilization	−513	0	−513
Write-backs	−342	−925	−1,267
Effects from exchange rate differences	−67	0	−67
As of December 31, 2018	1,128	1,805	2,933
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

The following table shows the default risk position for trade accounts receivable and contract assets determined using an impairment matrix:

EUR K			Past due in the following periods				
	Total	Not overdue	Up to 30 days	31–60 days	61–90 days	91–180 days	More than 180 days
2018							
Trade accounts receivable – gross	252,942	226,916	17,127	4,495	1,014	928	2,462
Contract assets – gross	115,235	115,235	0	0	0	0	0
Impairment	1,128	199	47	24	90	48	720

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			NON IMPAIRED AND PAST DUE IN THE FOLLOWING PERIODS				
	TOTAL	NEITHER PAST DUE NOR IMPAIRED	UP TO 30 DAYS	31–60 DAYS	61–90 DAYS	91–180 DAYS	MORE THAN 180 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

15 BALANCES OF CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets as defined in IFRS 15 break down as follows:

CONTRACT ASSETS

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current contract assets	63,388	0
Current contract assets	51,847	0
Contract assets	**115,235**	0

In 2017, no contract assets were recognized due to the application of IAS 11. In connection with the business combination with TMD, there was a material increase of EUR 26,491 thousand in contract assets from the date of first-time consolidation (see also Note 4 Business combinations).

As of December 31, 2018, performance obligations of EUR 60,308 thousand for series development were not satisfied or partially not satisfied. Most of these are expected to be recognized as revenue within one year.

CONTRACT FULFILMENT COSTS

In addition to the aforementioned balances of contract assets and contact liabilities, GRAMMER recognized an asset in connection with contract fulfilment costs for series deliveries. As of 31 December 2018, this was recognized at a value of EUR 2,969 thousand. In the period under review, the contract fulfilment costs were not subject to depreciation or impairment.

Contract liabilities break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current contract liabilities	799	0
Current contract liabilities	642	0
Contract liabilities	**1,441**	**0**

Contract liabilities arise from customer prepayments for series development activities.

16 OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Participations	51	50
Other receivables	1,975	3,873
Non-current other financial assets	**2,026**	**3,923**
Receivables from construction contracts	0	169,732
Other receivables	6,329	6,382
Derivative financial assets	268	808
Current other financial assets	**6,597**	**176,922**

As in the previous year, non-current other financial assets include the purchase price payments of EUR 1,975 thousand (2017: 3,873) due in installments for the sale of the land and buildings in Immenstetten in 2015. Of this amount, EUR 2.0 million was reclassified as current other financial assets in 2018.

Current other financial assets included accounts receivable from construction contracts in the previous year. In 2017, these had contained 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. Following the first-time application of IFRS 15 from January 1, 2018, this item is shown separately under contract assets. 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 roughly 30 days. Financial assets are neither past due nor impaired.

17 OTHER ASSETS

Other assets break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Other assets	26,533	1,277
Prepaid expenses	1,396	5,200
Non-current other assets	**27,929**	**6,477**
Current other assets	22,285	17,794
Prepaid expenses	6,153	5,476
Current other assets	**28,438**	**23,270**

As in earlier years, the non-current prepaid expenses reported within other non-current assets include the deferred difference between the selling price and the fair value on the date of sale under the sale-and-leaseback transaction of 2015 in connection with the land and building in Immenstetten. Other non-current assets include security deposit agreements, which are classified as long-term in accordance with the term of the underlying contract. Assets have also been recognized for consideration paid to customers and are reported within other assets. The asset is recognized on a straight-line basis over the duration of the series as a reduction in revenue. If necessary, impairment is recognized. Other assets include consideration paid to customers of EUR 24,480 thousand. The majority of these assets are classified as non-current other assets. Of these assets, an amount of EUR 4,800 thousand was recognized as a reduction in revenue in 2018.

Other current assets are chiefly made up of receivables of EUR 17,707 thousand (2017: 12,511) arising from pass-through taxes such as value added tax and other taxes as well as temporary security deposit agreements of EUR 98 thousand (2017: 137).

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

18 CASH AND SHORT-TERM DEPOSITS

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

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash and short-term deposits	204,373	146,312

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	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash and short-term deposits	204,373	146,312
Bank overdrafts (including current liabilities under factoring contracts)	−11,069	−8,280
Cash and cash equivalents	**193,304**	**138,032**

19 SUBSCRIBED CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

As of December 31, 2018, the subscribed capital of GRAMMER Group amounted to EUR 32,274 thousand (2017: 32,274) divided into 12,607,121 no-par value shares (2017: 12,607,121). 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.

CAPITAL RESERVE
The capital reserve totaled EUR 129,796 thousand as of December 31, 2018 (2017: 129,796). It 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, 2018 and 2017 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 declined from EUR 254,960 thousand to EUR 228,920 thousand primarily due to the first-time application of IFRS 15, as described above (Note 2.2) in an amount of EUR 33,633 thousand and of IFRS 9 in an amount of EUR 365 thousand. Also the net profit after tax of EUR 23,212 thousand (2017: 32,351) is not fully reflected in retained earnings due to the dividend payment of EUR 15,346 thousand (2017: 14,579).

CUMULATIVE OTHER COMPREHENSIVE INCOME
Accumulated other comprehensive income mainly comprises adjustments arising from the currency translation of the financial statements of foreign subsidiaries and effects from cash flow hedges, 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, 2018, GRAMMER AG holds a total of 330,050 shares as Own shares, 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 has been authorized by its shareholders to acquire up to 10% of its share capital, i.e. up to 1,049,515 of its own shares. The share repurchase is for the purposes set out in the resolution adopted by the Annual General Meeting, which provides for both the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares. This authorization was valid from August 16, 2006 until December 1, 2007. The repurchase of the shares under this Executive Board resolution complies with the Safe Harbor rules of sections 14 (2), 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's website. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2018, 12,607,121 ordinary shares (2017: 12,607,121) were outstanding.

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

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 remaining authorization with the Supervisory Board's approval on or before May 27, 2019.

20 RETIREMENT BENEFITS AND SIMILAR OBLIGATIONS

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 %

	2018	2017
Interest rate	1.90	1.80
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.50	1.70

ACTUARIAL ASSUMPTIONS OTHER BENEFITS

IN %

	2018	2017
Interest rate	1.90–10.00	1.80–9.00
Salary trend	2.30–4.50	2.30–4.50
Inflation rate	1.50–13.00	1.70–5.00

The measurement parameters 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 10.0% (2017: 7.25) and the salary trend 4.5% (2017: 4.5) in Mexico, while Turkey has an interest rate of around 13.0% (2017: 5.0).

As in the previous year, the AON Hewitt interest rate was applied in fiscal year 2018. 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' retirement benefit obligations which underlie the retirement benefit provisions as of December 31, 2018.

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, 2018.

Mortality and disability are calculated on the basis of the recently published 2018G Heubeck tables or comparable foreign mortality tables. The changes resulting from this are reflected in the demographic assumptions. Given the persistently low interest and inflation rates, the inflation rate/pension trend was lowered to 1.5%. This change is included in the financial assumptions. The probability of fluctuation was computed specifically for the Group.

In 2018, annuities were paid on pensions in the amount of EUR 2,777 thousand (2017: 2,592). Other post-employment benefits paid totaled EUR 579 thousand (2017: 150).

The following amounts were recognized in the income statement:

EUR K	PENSION PLAN	OTHER BENEFITS
2018		
Service cost	3,221	863
Current service cost	3,221	863
Past service cost	0	0
Net interest expense	2,544	104
Service cost and net interest expense	**5,765**	**967**

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
Service cost and net interest expense	**6,069**	**767**

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
2018		
Cumulative amount recognized in other comprehensive income as of January 1, 2018	62,652	0
Amount recognized in the year under review	−7,170	0
Cumulative amount recognized in other comprehensive income as of December 31, 2018	**55,482**	**0**

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 year under review	−1,243	0
Cumulative amount recognized in other comprehensive income as of December 31, 2017	**62,652**	**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, 2018	**140,683**	**3,510**
+ Reclassification	0	0
+ Service cost	3,221	863
+ Interest expense	2,544	104
Changes in estimates: gains (–)/losses (+)	−7,320	0
Changes in demographic assumptions	117	0
Changes in financial assumptions	−6,050	0
Experience adjustments	−1,387	0
– Actual payments	−2,777	−579
– Disposal of obligations	0	0
Change in exchange rates	32	−824
As of December 31, 2018	**136,383**	**3,074**
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
Change in exchange rates	−41	−604
As of December 31, 2017	**140,683**	**3,510**

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 implemented in 2017 continues to entail a defined benefit plan.

In 2018, the retirement benefit model newly installed for the Executive Board members in 2017 was extended to all GRAMMER employees at the German locations in different configurations.

In 2018, the existing contractual trust agreement was also extended to include the new employees. As of December 31, 2018, the capital payments deposited in a trust account amounted to EUR 4,467 thousand, which also includes an amount of EUR 4,100 thousand for the members of the Executive Board. This capital benefit represents plan assets and is netted with the retirement benefit obligations reported in the statement of financial position. The assets of the contractual trust agreement have been invested in a fund comprising global shares, fixed-income securities and cash. The funds are exposed to the general risks of the equity and fixed-income markets.

Changes in the fair value of the plan assets are shown in the following table:

EUR K	2018	2017
Fair value of plan assets on January 1	**3,655**	**309**
Interest expenses on plan assets	66	7
Adjustments	−151	3
Contributions to plan assets	897	3,336
Fair value of plan assets on December 31	**4,467**	**3,655**

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

	2018	2018	2017	2017
	1% REDUCTION	1% INCREASE	1% REDUCTION	1% INCREASE
Impact on DBO	26,414	–20,358	28,716	–21,973
Impact on current service cost	471	–354	536	–400
Impact on net interest expense	–1,048	696	–1,111	725

FUTURE SALARY INCREASES

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	–3,006	3,407	–3,385	3,855

INFLATION RATE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	–8,067	8,901	–8,568	9,467

MORTALITY RATE

EUR K

	10% REDUCTION	10% INCREASE	10% REDUCTION	10% INCREASE
Impact on DBO	4,352	–3,882	4,617	–4,120

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

	2018	2017
Short-term (<1 year)	2,898	2,713
Medium-term (1 to 5 years)	13,858	13,142
Long-term (>5 years)	115,099	121,474

21 FINANCIAL LIABILITIES

EUR K	CURRENT	NON-CURRENT	TOTAL
2018			
Bank overdrafts (including current liabilities under factoring contracts)	11,069	0	11,069
Loans	236,919	25,152	262,071
Bonded loans	47,688	136,852	184,540
Financial liabilities	**295,676**	**162,004**	**457,680**

EUR K	CURRENT	NON-CURRENT	TOTAL
2017			
Bank overdrafts (including current liabilities under 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**

The existing facility under the syndicated loan contract of EUR 100.0 million (2017: 180.0) entered into in 2013 secures GRAMMER's Group funding on a long-term basis. The syndicated loan is divided into a facility of EUR 100.0 million (tranche A) for general corporate financing and a facility of EUR 80.0 million (tranche B) for acquisition finance, which was terminated as part of the acquisition of the TMD Group and the funding of this transaction. The syndicated loan contract was entered into between the main German GRAMMER companies and six commercial banks.

The credit facility for general corporate finance can be drawn on either as an overdraft facility or in the form of fixed-rate loans with interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin. 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. The term thus expires on October 31, 2020.

The participating GRAMMER Group companies bear joint and several liability for the credit facility. Beyond this, no other collateral backing exists.

The acquisition of Toledo Molding & Die, Inc. was financed via a limited number of banks under the existing syndicated loan. The acquisition finance for USD 260.0 million has a term of 12 months plus a six-month renewal option which may be exercised by GRAMMER. Once they have been repaid, amounts disbursed cannot be drawn on again.

In 2018, long-term, mortgage-backed (development) finance of EUR 41 million was raised for the construction of the new GRAMMER technology center and group headquarters on fixed-rate terms.

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 181.0 million (2017: 201.5). The amount of the bonded loan was reduced by EUR 20.5 million in 2018 due to scheduled maturities and a small number of cancellations by bonded loan creditors - without the possibility of transfer to other investors under the change of control. 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 FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2018

EUR K

	DECEMBER 31, 2017	CHANGE RECOGNIZED IN THE CASH FLOW STATEMENT	RECLASSIFICA-TION	CHANGE DUE TO CURRENCY-TRANSLATION EFFECTS	OTHER NON-CASH CHANGES	EFFECTS FROM BUSINESS COMBINATION	DECEMBER 31, 2018
Current financial liabilities	39,902	204,346	35,000	2,899	2,461	0	284,608
Current financial liabilities under finance leases	1,253	−1,676	2,098	350	0	1,105	3,130
Non-current financial liabilities	190,331	6,570	−35,000	0	103	0	162,004
Non-current financial liabilities under finance leases	3,552	0	−2,098	110	0	16,394	17,958
Total	**235,038**	**209,240**	**0**	**3,359**	**2,564**	**17,499**	**467,700**

RECONCILIATION OF CHANGES IN FINANCIAL LIABILITIES FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2017

EUR K

	DECEMBER 31, 2016	CHANGE RECOGNIZED IN THE CASH FLOW STATEMENT	RECLASSIFICA-TION	CHANGE DUE TO CURRENCY-TRANSLATION EFFECTS	OTHER NON-CASH CHANGES	EFFECTS FROM BUSINESS COMBINATION	DECEMBER 31, 2017
Current financial liabilities	49,902	−35,642	26,453	−557	−254	0	39,902
Current financial liabilities under finance leases	2,195	−2,174	1,244	−12	0	0	1,253
Non-current financial liabilities	216,784	0	−26,453	0	0	0	190,331
Non-current financial liabilities under finance leases	5,042	0	−1,244	−246	0	0	3,552
Total	**273,923**	**−37,816**	**0**	**−815**	**−254**	**0**	**235,038**

In line with the presentation of changes in financial liabilities in the consolidated statement of cash flows, the current liabilities shown in the table do not include bank overdrafts or current liabilities under factoring contracts with banks.

The other non-cash changes arise from changes in discounts and interest.

22 PROVISIONS

EUR K	AS OF JANUARY 1, 2018	ADDITION	UTILIZATION	RELEASE	EFFECTS FROM EX-CHANGE RATE DIFFERENCES	AS OF DECEMBER 31, 2018	CURRENT PROVISIONS 2018	NON-CURRENT PROVISIONS 2018
Market-related provisions	13,171	4,690	−1,483	−3,105	−347	12,926	12,926	0
Obligations relating to personnel	3,785	1,663	−925	0	0	4,523	4,523	0
Other provisions	530	160	0	−117	−4	569	569	0
Provisions	**17,486**	**6,513**	**−2,408**	**−3,222**	**−351**	**18,018**	**18,018**	**0**

EUR K	AS OF JANUARY 1, 2017	ADDITION	UTILIZATION	RELEASE	EFFECTS FROM EX-CHANGE 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**

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.

23 TRADE ACCOUNTS PAYABLE

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current trade accounts payable	2,273	2,405
Current trade accounts payable	358,332	258,934
Trade accounts payable	**360,605**	**261,339**

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. The increase in trade accounts payable results, among other things, from the first-time inclusion of the TMD companies.

24 OTHER FINANCIAL LIABILITIES

Other financial liabilities break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Derivative financial liabilities	851	1,440
Liabilities from leases	3,130	1,253
Liabilities to participations	1,042	829
Miscellaneous other current financial liabilities	1,158	1,765
Other current financial liabilities	**6,181**	**5,287**
Liabilities from leases	17,957	3,552
Other non-current financial liabilities	**17,957**	**3,552**

Other financial liabilities are primarily made up of current and non-current lease liabilities. The increase over 2017 is primarily due to the first-time consolidation of the TMD Group.

25 OTHER LIABILITIES

Other liabilities break down as follows:

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Other liabilities	59,982	52,365
of which personnel-related liabilities	42,598	33,844
of which debtors with credit balances	0	0
of which liabilities for consulting	1,675	1,747
Liabilities from other taxes and charges	13,420	10,128
Prepayments received	374	3,934
Social security obligations	5,401	3,543
Deferred income	3,516	4,672
Other current liabilities	**82,693**	**74,642**
Miscellaneous other liabilities	0	112
Other non-current liabilities	**0**	**112**
Other liabilities	**82,693**	**74,754**

Social security obligations are largely obligations to social security agencies.

Other liabilities mainly comprise liabilities to employees from outstanding annual leave, overtime, flextime or similar benefits. The item also includes liabilities relating to value-added tax and for short-term accrued expenses.

26 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. In 2018, the first-time consolidation of the TMD Group is accounted for in the line item "Acquisition of subsidiaries". Financing activities include cash outflows for dividend payments and repayments of loans, as well as changes in other financial liabilities. In 2017, the inflow from the issue of the mandatory convertible bond was also reported here. At the GRAMMER Group, the cash flow components of cash and cash equivalents consist of cash and short-term money market funds, less current account liabilities (including current liabilities under factoring contracts) to banks.

27 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. In its capacity as shareholder Cascade International Investment GmbH ("Cascade") filed a lawsuit on June 26, 2017 to set aside or, alternatively, nullify the resolution adopted at the annual general meeting on May 24, 2017 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2016. On July 13, 2018, Cascade filed an action for rescission, or alternatively an action for nullity, against the resolution adopted at the annual general meeting on June 13, 2018 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2017 by way of an extension of the action. In addition, it sought the annulment of the negative resolutions passed at this annual general meeting regarding the dismissal of the meeting chairman and a special audit to review and assert claims for damages against the Executive Board and the Supervisory Board. The action is pending before the Regional Court of Nuremberg-Fuerth.

28 CONTINGENT LIABILITIES

EUR K	2018	2017
Guarantees	1,911	1,039

Guarantees have been issued primarily as performance bonds.

29 RELATED PARTY DISCLOSURES

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, 2018, no impairment losses were recognized on accounts receivable from related parties (2017: 0.3).

The following table specifies the amounts of transactions between related parties for the reporting year:

EUR K

RELATED PARTIES		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	RECEIVABLES FROM RELATED PARTIES	LIABILITIES FROM RELATED PARTIES
GRA-MAG Truck Interior Systems LLC	**2018**	10,255	0	4,700	0
	2017	7,209	0	5,263	0
Ningbo Jifeng Auto Parts Co., Ltd.	**2018**	772	261	104	1
	2017	688	2,346	29	474
Jiye Auto Parts GmbH	**2018**	1,778	0	384	0
	2017	0	0	0	0
Jifeng Automotive Interior GmbH	**2018**	0	0	0	0
	2017	23	0	0	0
Jifeng Automotive Interior CZ s.r.o.	**2018**	0	12	0	7
	2017	0	0	0	0
Ningbo Jifeng Technology Co., Ltd.	**2018**	0	1,856	0	685
	2017	0	0	0	0

GRA-MAG TRUCK INTERIOR SYSTEMS LLC

The Group holds an interest of 50% in the capital of GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2017: 50%). GRA-MAG LLC had 62 employees as of December 31, 2018 (2017: 56).

NINGBO JIFENG AUTO PARTS CO., LTD./JIFENG AUTOMOTIVE INTERIOR GMBH/JIFENG AUTOMOTIVE INTERIOR CZ S.R.O./NINGBO JIFENG TECHNOLOGY CO., LTD.

Like the direct parent of GRAMMER AG (Jiye Auto Parts GmbH), Ningbo Jifeng Auto Parts Co., Ltd., Jifeng Automotive Interior CZ s.r.o., Ningbo Jifeng Technology Co., Ltd. and Jifeng Automotive Interior GmbH are ultimately indirectly controlled by the Wang family. GRAMMER has direct relations with these companies through the delivery of goods and the provision of services.

JIYE AUTO PARTS GMBH

In 2018, GRAMMER AG invoiced Jiye Auto Parts GmbH for internal and external costs incurred from a contractual obligation under the business combination agreement to provide and manage information and support a due diligence review.

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. The remuneration of the Management Board is presented in Note 33.

30 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows all of the Group's financial instruments, broken down into measurement categories in accordance with IFRS 9 as of December 31, 2018 and IAS 39 as of December 31, 2017, their carrying amounts and their fair values:

EUR K

	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2018	Amount stated in balance sheet in accordance with IFRS 9			Measured in accordance with IAS 17	Fair value on December 31, 2018
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash and short-term deposits	FAAC	204,373	204,373				**204,373**
Trade accounts receivable	FAAC	250,009	250,009				**250,009**
Other financial assets							
Loans and receivables	FAAC	8,304	8,304				**8,304**
Participations	FVOCI	51		51			**51**
Financial assets held for trading	FVTPL	0			0		**0**
Derivatives with hedge relationship	n.a.	268		268			**268**
Liabilities							
Trade accounts payable	FLAC	360,605	360,605				**360,552**
Current and non-current financial liabilities	FLAC	457,680	457,680				**459,342**
Other financial liabilities							
Other financial liabilities	FLAC	2,200	2,200				**2,200**
Liabilities from finance leases	n.a.	21,087				21,087	**19,415**
Derivatives without hedge relationship	FLtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	851		851			**851**
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	462,686	462,686				**462,686**
Financial assets at fair value through other comprehensive income	FVOCI	51		51			**51**
Financial assets at fair value through profit or loss	FLtPL	0	0				**0**
Equity and liabilities							
Financial liabilities at amortized cost	FLAC	820,485	820,485				**822,094**
Financial liabilities at fair value through profit or loss	FLtPL	0	0				0

EUR K

	Measurement category in accordance with IAS 39	Carrying amount on December 31, 2017	Amount stated in balance sheet in accordance to IAS 39				Measured in accordance with IAS 17	Fair value on December 31, 2017
			Amortized cost	Historical cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets								
Cashs 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 accordance 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**

The maximum credit risk equals the carrying amount of each measurement category stated for financial assets.

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

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

Trade accounts payable and other liabilities usually have short residual maturities. 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 bonds 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, 2018.

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	268	0	268	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	136	0	136	0
Interest rate swaps	715	0	715	0
Liabilities recognized at fair value				
Interest bearing liabilities				
Obligations under finance leases and hire-purchase agreements	22,777	0	22,777	0
Current and non-current financial liabilities	459,342	0	459,342	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, 2017.

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	808	0	808	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	327	0	327	0
Interest rate swaps	1,113	0	1,113	0
Liabilities recognized at fair value				
Interest bearing liabilities				
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 levels of the fair value hierarchy reflect the level of judgment involved in estimating fair values. The hierarchy is broken down into three levels as follows:

Level 1: Quoted 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	2018	2017
Financial assets at amortized cost (2017: loans and receivables)	2,232	−7,467
Financial assets and financial liabilities at fair value through profit or loss (2017: financial assets and liabilities held for trading)	−42	42
Financial liabilities at amortized cost (2017: financial liabilities measured at historical cost)	−1,688	−1,061
Net gains/losses from financial instruments	**502**	**−8,486**

Net gains or losses from financial assets at amortized cost (2017: loans and receivables) include currency-translation gains or losses, changes to impairments through profit and loss, gains or losses from the derecognition of receivables as well as payments received and reversals of previously impaired receivables.

Net gains or losses from assets and liabilities measured at fair value through profit or loss (2017: financial assets and liabilities held for trading) include changes in the fair value of derivative financial instruments for which hedge accounting is not applied, including interest income and interest expenses.

Financial liabilities measured at amortized cost (2017: financial liabilities measured at historical cost) mainly include 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 STATEMENT OF FINANCIAL POSITION	NETTING AGREEMENT	NET AMOUNT
December 31, 2018			
Financial assets			
Currency forwards	268	−86	182
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	−136	86	−50
Interest rate swaps	−715	0	−715

EUR K	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE STATEMENT OF FINANCIAL POSITION	NETTING AGREEMENT	NET AMOUNT
December 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

As these amounts are not netted in the statement of financial position, the gross and net amounts are combined in a single column.

31 FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The primary financial liabilities used in the Group encompass debenture bonds, bank loans, overdrafts and finance leases as well as trade accounts payable. The 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 Division, is subject to particular monitoring due to risks from deliveries of goods. 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. The Group does not see any material credit risks as the 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. Financial instruments exposed to market risks include interest-bearing loans, deposits, financial assets at fair value through other comprehensive income and derivative financial instruments. The sensitivity analyses in the sections below relate to the situation as of December 31, 2018 and 2017. They were prepared on the basis of the hedging transactions outstanding on December 31, 2018, 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 recognized as derivatives under IFRS 9 (2017: IAS 39) can also be transacted in order to hedge price risks arising from purchases of raw materials. 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 2018 or 2017, and no such contracts were concluded in either of these two years.

CURRENCY RISK

As a consequence of its international focus and business activities, GRAMMER is exposed to currency risks. Currency risks primarily arise from sales transactions in the ordinary course of business in international markets outside the euro zone and through the reported assets and liabilities of GRAMMER Group. The main currencies in GRAMMER Group are the euro, the Czech koruna, the Polish złoty, the Mexican peso, the Serbian dinar, the US dollar, the Turkish lira, the Brazilian real, the Japanese yen and the Chinese yuan. By transacting business in currencies other than the functional currencies of the respective Group companies, risks may arise from future payment flows. Exchange rate fluctuations may lead to unforeseeable and unfavorable volatilities in earnings and cash flow.

Individual cash flows in the respective currency are aggregated in accordance with the GRAMMER Group's currency management guideline, resulting in a net currency overhang or shortfall in periodic observations. Aggregated currency overhangs or currency requirements are hedged in advance on a rolling basis within the framework of the currency management guideline on the basis of the budgeted business plan. The hedging ratios of the respective currency exposures are increased over time.

The risk is mitigated by the fact that business transactions are mainly settled in the respective functional currency of the invoicing unit. 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. A shortfall or surplus of foreign currency holdings is hedged by means of forward exchange transactions after all the measures already mentioned have been carried out. The aim of hedging transactions is to offset the volatility that can arise from cash inflows and outflows.

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, there were currency hedges in PLN and CZK for which the requirements for cash flow hedging were satisfied.

The following foreign currency-related hedging instruments broken down by maturity are held:

	1–6 MONTHS	7–12 MONTHS	TOTAL
2018			
Currency forwards (sales expected with a high probability)			
Nominal amount (EUR k)	31,850	29,867	**61,717**
Average forward exchange rate (EUR/CZK)	25.775	25.924	
Currency forwards (sales expected with a high probability)			
Nominal amount (EUR k)	8,147	8,096	**16,243**
Average forward exchange rate (EUR/PLN)	4.356	4.401	

As of December 31, 2018, currency forwards with a positive market value of EUR 132 thousand (2017: 438) were designated as cash flow hedges. In 2018, an amount of EUR –278 thousand (2017: 412) was recognized directly in equity. Of this, a loss of EUR –431 thousands (2017: 809) was recycled from equity to profit and loss for the period. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review.

The effects of foreign currency-related hedges on the Group's net assets, financial position and results of operations are as follows:

EUR K	December 31, 2018
Carrying amount (current other financial assets)	268
Carrying amount (current other financial liabilities)	136
Nominal value	77,960
Hedge relationship[1]	1:1
Change in the fair value of outstanding hedges since January 1	132
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	–132
Effect on cumulative other comprehensive income:	
Cash flow hedge as of January 1, 2018	**340**
Change in the fair value of the hedge (effective part)	–709
Recycled from other comprehensive income to profit or loss	431
Tax expenses (–)/tax income	110
Cash flow hedge as of December 31, 2018	**172**

[1] Currency forwards have the same currency as the highly probable future sales (accordingly 1:1 hedge relationship).

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.
- To determine sensitivity to exchange rate risks, a change in the exchange rate of +/– 10 percentage points (2017: 10) on the reporting date 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	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	−13,412	−1,353
	−10%	13,410	1,352
2017	+10%	6,747	−1,291
	−10%	−6,743	1,291

	CHANGES IN THE TRY EXCHANGE RATE	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	633	0
	−10%	−634	0
2017	+10%	−62	494
	−10%	62	−404

	CHANGES IN THE CZK EXCHANGE RATE	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	6,115	6,862
	−10%	−6,117	−5,614
2017	+10%	3,915	3,380
	−10%	−3,890	−2,766

	CHANGES IN THE PLN EXCHANGE RATE	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	66	1,823
	−10%	−66	−1,492
2017	+10%	106	746
	−10%	−106	−611

	CHANGES IN THE MXN EXCHANGE RATE	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	2,760	3,781
	−10%	−2,759	−3,781
2017	+10%	2,882	3,781
	−10%	−2,882	−3,781

	CHANGES IN THE CNY EXCHANGE RATE	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	+10%	1,129	0
	−10%	−1,123	0
2017	+10%	3,135	0
	−10%	−3,130	0

INTEREST RATE RISK

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. To achieve this, GRAMMER uses so-called interest rate swaps. 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, the Group Treasury manages this risk centrally for all companies in the Group. To the extent permitted, the GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

The following interest-related hedging instruments broken down by maturity are held:

2018	UNTIL 2019	UNTIL 2020	UNTIL 2022	TOTAL
Nominal amount (EUR k)	26,000	42,500	6,500	**75,000**
Weighted interest rate (in %)	1.013	0.502	0.810	**0.706**

As of December 31, 2018, there were interest rate swaps with a nominal volume of EUR 75 million (2017: 83) in connection with the bonded loans issued to hedge the interest rate risks arising from the floating-rate tranches. These interest rate swaps qualify as cash flow hedges. Consequently, an amount of EUR 398 thousand (2017: 681) for currency hedges was included directly in equity. Of this, a loss of EUR −751 thousand (2017: −872) was recycled from equity to profit and loss. The negative market value of EUR 715 thousand (2017: 1,113) is reported under other current financial liabilities.

The effects of interest-related hedges on the Group's net assets, financial position and results of operations of the Group are as follows:

EUR K	DECEMBER 31, 2018
Carrying amount (current other financial liabilities)	715
Nominal value	75,000
Maturity date	2019, 2020, 2022
Hedge relationship	1:1
Change in the fair value of outstanding hedges since January 1	−398
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	398
Weighted average hedge for the year	0.706%
Effect on cumulative other comprehensive income:	
Cash flow hedge as of January 1, 2018	**−786**
Change in the fair value of the hedge (effective part)	−353
Recycled from other comprehensive income to profit or loss	751
Tax expenses (–)/tax income	−116
Cash flow hedge as of December 31, 2018	**−504**

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 payments from which are not designated as hedged transactions for cash flow hedges against interest rate risks have an effect on net profit for the period and are included in the sensitivity analysis.
- Floating-rate primary financial instruments, 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 net profit for the period and are thus included in the sensitivity analysis.
- Interest rate derivatives that are designated as hedging instruments in the context of a cash flow hedge have an effect on equity and are thus included 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 (2017: 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)	EFFECT ON EARNINGS BEFORE TAX	EFFECT ON EQUITY
2018	−50	151	−52
	50	565	295
2017	−50	−86	−262
	50	695	258

INEFFECTIVENESS OF HEDGING RELATIONSHIPS

The effectiveness of hedging relationships is determined at the inception of each hedging relationship and through regular prospective assessments to ensure that there is a commercial relationship between the hedged item and the hedging instrument.

For hedges of foreign currency transactions, the Group enters into hedging relationships in which the contractual terms of the correspond on average to the underlying transactions hedged in the respective month. The dollar offset method is used to assess the effectiveness of the hedging relationship.

Hedges of foreign currency transactions may be ineffective if the timing of the planned transaction changes from the original estimate or if there are any changes in the credit risk of GRAMMER or the counterparty to the derivative. In 2018 and 2017, there was no ineffectiveness with respect to foreign currency derivatives.

When interest rate risks are hedged, there is a commercial relationship between the floating-rate loan (the hedged item) and the interest rate swap (the hedge) as the terms of the interest rate swap correspond to those of the floating-rate loan (this applies to the notional amount, maturity, payment dates and repricing dates). The underlying risk of the interest rate swap is identical to that of the hedged risk component. Therefore, the hedging relationship has a hedging ratio of 1:1. The dollar offset method is also used to assess the effectiveness of the hedging relationship.

The ineffectiveness of hedges with interest rate swaps is assessed according to the same principles as for foreign currency sales. One reason for the ineffectiveness of a hedging relationship may be adjustments to the credit value/debit value adjustments of the parties to the interest rate swap that are not offset by changes in the value of the hedged loan. Differences in contractual terms between interest rate swaps and secured loans may also lead to ineffectiveness. In 2018 and 2017 there was no ineffectiveness with respect to interest rate swaps.

LIQUIDITY RISK

The Group manages liquidity risks by means of appropriate bank credit facilities of EUR 417.0 million (2017: 241.7), 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, 2018, the Group had unutilized credit facilities of EUR 174.6 million (2017: 218.6), for which all the conditions required for drawing had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR K	Carrying amount	Cash flow		
2018		2019	2020–2022	2023 and thereafter
Bonded loans	184,539	47,492	119,305	25,424
Bank loans	262,072	267,578	864	186
Bank overdrafts (including current liabilities under factoring contracts)	11,069	11,069	0	0
Current and non-current financial liabilities	**457,680**	**326,139**	**120,169**	**25,610**
Current and non-current trade accounts payable	**360,605**	**358,378**	**2,069**	**249**
Liabilities from finance leases	21,087	4,025	5,736	17,765
Other original financial liabilities	2,200	2,200	0	0
Current and non-current other financial liabilities	**23,287**	**6,225**	**5,736**	**17,765**
Interest rate derivates	715	435	345	0
Currency derivates	136			
Incoming payments		49,375		
Outgoing payments		−49,259		
Derivatives	**851**	**551**	**345**	**0**
	842,423	**691,293**	**128,319**	**43,624**

EUR K	CARRYING AMOUNT	CASH FLOW		
2017		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 originated 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**

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 of current and non-current financial liabilities less cash, cash equivalents and short-term deposits. Gearing is defined as the ratio of net financial liabilities to equity.

The syndicated loan agreement provides financial covenants which the Group observed at all times during the reporting period.

EUR K	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current financial liabilities	162,004	190,331
Current financial liabilities	295,676	48,182
Cash and short-term deposits	−204,373	−146,312
Net financial liabilities	**253,307**	**92,201**
Equity	**314,840**	**337,661**
Equity ratio	**22%**	**31%**
Gearing	**80%**	**27%**

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

Under section 33 (1) or (2) (formerly 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 German 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, 2018 in accordance with section 33 WpHG (new version)/section 21 WpHG (old version) (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):

On September 10, 2018, Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG, China, mentioned in the previous paragraphs as family WANG, informed us pursuant to section 33 (1) WpHG that their voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the 75% threshold on September 6, 2018 and now amounted to 84.23% (10,618,681 voting rights). Of this, 84.23% (10,618,681 voting rights) are attributable to Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG pursuant to section 34 WpHG. Voting rights are attributable to the following company: Jiye Auto Parts GmbH, Kitzingen, Germany.
(published on September 13, 2018)

Halog Beteiligungs- und Geschäftsführungs-GmbH, Wolfsburg, Germany, informed us on September 11, 2018 pursuant to section 33 (1) WpHG that its voting rights in GRAMMER AG (ISIN: DE0005895403) had fallen below the 3% threshold on September 6, 2018 and amounted to 0.02% as of that date. Of this, 0.02% (2,569 voting rights) are assigned to Halog Beteiligungs- und Geschäftsführungs-GmbH in accordance with section 34 WpHG by the following shareholder: HALOG GmbH & Co. KG, Wolfsburg, Germany.
(published on September 13, 2018)

Eastern Horizon Group Netherlands B.V., Amsterdam, Netherlands, informed us on September 11, 2018 pursuant to section 33 (1) WpHG that its voting rights in GRAMMER AG (ISIN: DE0005895403) fell below the 3% threshold on September 6, 2018 and amounted to 0.0079% (1,001 voting rights) as of that date. Of this, 0.0079% (1,001 voting rights) are attributable to it under section 34 WpHG. Voting rights are attributed to it by the following shareholder: Cascade International Investment GmbH, Frankfurt am Main, Germany.
(published on September 13, 2018)

According to information verified by GRAMMER AG, the voting rights notifications of Wynnefield Capital Management LLC, Wynnefield Capital Inc, Wynnefield Small Cap Value Offshore Fund, Ltd., Wynnefield Partners Small Cap Value L.P., Wynnefield Partners Small Cap Value L.P. I, Joshua Landes and Nelson Obus (published on June 5, 2012) reported in the annual financial statements of the previous years are now outdated, although no updated voting rights notification in accordance with the requirements of the WpHG stating that the 3% threshold is no longer reached has been received by GRAMMER AG.

All notifications received by GRAMMER AG pursuant to sections 33 et seq. WpHG (new version) and section 21 WpHG (old version) can be viewed on the Company's website and on the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

33 OTHER INFORMATION

EMPLOYEES

The following table shows the annual average number of employees:

	2018	2017
Wage-earning employees	10,750	9,921
Salaried employees	2,689	2,562
Employees	**13,439**	**12,483**

Breakdown of employees by Division as of December 31:

	2018	2017
Commercial Vehicles	3,744	3,737
Automotive	10,635	8,931
Central Services	278	279
Employees	**14,657**	**12,947**

HYPERINFLATION

IAS 29 "Financial Reporting in Hyperinflationary Economies" provides guidance on assessing whether the economy of a particular jurisdiction is hyperinflationary. However, the IASB does not name specific jurisdictions. The International Practices Task Force (IPTF) of the US Institute Centre for Audit Quality monitors the status of "high-inflation" countries. The Task Force's criteria for identifying such countries are similar to those for identifying "hyperinflationary economies" under IAS 29. Argentina was among the countries in which cumulative inflation over the last three years was forecast to exceed 100%.

Based on this assessment, the impact of IAS 29 from January 1, 2018 was reviewed. The application of IAS 29 does not have any material effect on the net assets, financial position and results of operations.

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 678.8 thousand, including an amount of EUR 141.3 thousand for the previous year's audit. In the previous year, auditors' fees of EUR 753.3 thousand, including EUR 235.3 thousand for the previous year's audit (2016) had been recognized. No fees for tax consulting services were incurred in the year under review or in the previous year. Expenses for other attestation and evaluation services came to EUR 0 thousand in the year under review (2017: 123,6). Other services were charged in the amount of EUR 4.6 thousand (2017: EUR 0 thousand).

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	2018	2017
Total remuneration paid to the Executive Board amounted to	2,906	2,913
The Supervisory Board received total remuneration of	631	508

Of the total remuneration paid to the Executive Board, EUR 546 thousand (2017: 607) is attributable to performance-related components and EUR 769 thousand (2017: 710) to components with a long-term incentive effect.

Individual remuneration paid to the members of the Executive Board was as follows in 2018 and 2017:

EUR K

2018	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL	SETTLEMENTS	TOTAL INCL. SETTLEMENTS
Hartmut Müller	714	262	394	1,370	5,445	**6,815**
Gérard Cordonnier	452	142	187	781	3,041	**3,822**
Manfred Pretscher	425	142	188	755	3,041	**3,796**
	1,591	**546**	**769**	**2,906**	**11,527**	**14,433**

EUR K

2017	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL	SETTLEMENTS	TOTAL INCL. SETTLEMENTS
Hartmut Müller	719	293	368	1,380	0	**1,380**
Gérard Cordonnier	452	157	158	767	0	**767**
Manfred Pretscher	425	157	184	766	0	**766**
	1,596	**607**	**710**	**2,913**	**0**	**2,913**

GRAMMER AG recognized provisions of EUR 3,842 thousand (2017: EUR 3,354 thousand) for retirement benefit commitments to members of the Executive Board as of December 31, 2018, which are offset by plan assets of EUR 3,787 thousand (2017: EUR 3,335 thousand).

The Company paid EUR 271 thousand (2017: 271) to former members of the Executive Board and their surviving dependants under retirement benefit commitments. Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at EUR 6,140 thousand (2017: 6,377) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised). In addition, current service costs of EUR 495 thousand (2017: EUR 495 thousand) arose for members of the Executive Board as of December 31, 2018 for additions to the retirement benefit provisions. Of this, EUR 230 thousand (2017: 230) was for Mr. Hartmut Müller, EUR 181 thousand (2017: 181) for Mr. Manfred Pretscher and EUR 84 thousand (2017: 84) for Mr. Gérard Cordonnier.

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

TARGET REMUNERATION UNDER THE EXECUTIVE BOARD REMUNERATION SYSTEM: 100% TARGET ACHIEVEMENT, MINIMUM AND MAXIMUM REMUNERATION

The basic elements of the remuneration system for the members of the Executive Board are described in the section entitled “Principles of the remuneration system” in the 2018 remuneration report in the Group management report.

Annual total target remuneration comprising fixed remuneration, a short-term incentive (STI) target and a long-term incentive (LTI) target is agreed upon with each member of the member of the Executive Board. The minimum remuneration equals the amount of the fixed remuneration. The degree of achievement for STI and LTI may be between zero ("floor") and 200% ("cap") of the target remuneration.

The remuneration actually received by the members of the Executive Board for 2018 and the previous year are set out above in the tables entitled "Executive Board remuneration". The following table shows the range of possible remuneration for a member of the Executive Board under the Executive Board remuneration system, which is unchanged over the previous year.

This table does not include termination benefits.

EUR

	HARTMUT MÜLLER CHAIRMAN OF THE EXECUTIVE BOARD/CEO UNTIL DECEMBER 31, 2018			
TARGET REMUNERATION	2017	2018	2018 (min.)	2018 (max.)
Target achievement for STI/LTI	100%	100%	0%	200%
Fixed remuneration	601,500	601,500	601,500	601,500
STI[1]	341,325	341,325	0	742,800
LTI	417,175	417,175	0	834,350
Total remuneration	**1,360,000**	**1,360,000**	**601,500**	**2,178,650**

[1] Including bonus/penalty rules

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR K

	NET FIXED REMUNERATION	NET MEETING FEES	TOTAL
Dr.-Ing. Klaus Probst	60.0	39.0	99.0
Horst Ott	45.0	20.0	65.0
Andrea Elsner	30.0	20.0	50.0
M.A. Tanja Fondel	30.0	11.0	41.0
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	24.0	54.0
Martin Heiß	30.0	17.0	47.0
Lic. oec. HSG Ingrid Hunger	30.0	12.0	42.0
Dipl.-Betriebswirt (FH) Harald Jung	30.0	12.0	42.0
Dipl.-Kaufmann Dr. Peter Merten	30.0	17.0	47.0
Lars Roder	30.0	22.0	52.0
Prof. Dr.-Ing. Birgit Vogel-Heuser	30.0	10.0	40.0
Dr. Bernhard Wankerl	30.0	22.0	52.0
	405.0	**226.0**	**631.0**

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. In financial year 2018, the Supervisory Board did not receive any performance-based remuneration.

34 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 at www.grammer.com in the "INVESTOR RELATIONS" section, "Corporate Facts", "Corporate Governance"

DISCLOSURES ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

MEMBERS OF THE EXECUTIVE BOARD

Dipl.-Ing. (FH) **MANFRED PRETSCHER,** Meine	Member and Chairman of the Executive Board (CEO, CFO) from January 1, 2019 Member of the Executive Board (COO) until December 31, 2018
Dipl.-Ing. **JENS ÖHLENSCHLÄGER,** Frankfurt a.M.	Member of the Executive Board (COO) from January 1, 2019
M.Sc. BWL, Dipl.-Ing. (FH) **HARTMUT MÜLLER,** Darmstadt	Member and Chairman of the Executive Board (CEO) until December 31, 2018
Gradué en Sciences Juridiques **GÉRARD CORDONNIER,** Eupen, Belgium	Member of the Executive Board (CFO) until December 31, 2018

	GÉRARD CORDONNIER MEMBER OF THE EXECUTIVE BOARD/CFO UNTIL DECEMBER 31, 2018				MANFRED PRETSCHER MEMBER OF THE EXECUTIVE BOARD/COO UNTIL DECEMBER 31, 2018 CEO/CFO FROM JANUARY 1, 2019			
	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)
	100%	100%	0%	200%	100%	100%	0%	200%
	404,000	404,000	404,000	404,000	404,000	404,000	404,000	404,000
	171,450	171,450	0	383,300	171,450	171,450	0	383,300
	209,550	209,550	0	419,100	209,550	209,550	0	419,100
	785,000	**785,000**	**404,000**	**1,206,400**	**785,000**	**785,000**	**404,000**	**1,206,400**

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. PETER MERTEN,** Heppenheim	
LARS RODER, Fensterbach	Employee representative
Prof. Dr.-Ing. **BIRGIT VOGEL-HEUSER,** Garching	
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	
MANFRED PRETSCHER Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Human Resources Director from January 1, 2019 Chief Operating Officer (COO) (until December 31, 2018)	– Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States
JENS ÖHLENSCHLÄGER Chief Technology Officer (COO) from January 1, 2019	– Member of the Board of Directors of GRAMMER Automotive South Africa (Pty) Ltd., Bedfordview, South Africa – Member of the Board of Directors of GRAMMER Automotive Peubla S.A. de C.V., Puebla, Mexico – Member of the Board of Directors of GRAMMER Interior (Beijing) Co., Ltd., Peking, China – Member of the Board of Directors of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China
HARTMUT MÜLLER Chief Executive Officer (CEO) and Human Resources Director until December 31, 2018	– Member of the Advisory Board of IFA ROTORION – Holding GmbH, Haldensleben – Member of the Supervisory Board of Wieland-Werke AG, Ulm – Member of the Advisory Board of Bühler Motoren Werke, Nuremberg (from May 1, 2018)
GÉRARD CORDONNIER Chief Financial Officer (CFO) until December 31, 2018	– 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., Aartselaar, 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., Peking, China – Member of the Supervisory Board of GRAMMER Seating (Shaanxi) Co., Ltd., Weinan City, China

PROFESSIONS AND OFFICES IN ACCORDANCE WITH SECTION 125 PARAGRAPH 1 SENTENCE 5 AKTG AND OTHER OFFICES HELD BY MEMBERS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	OFFICES IN ACCORDANCE WITH SECTION 125 I 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 – 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) – Member 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 chairman of IG Metall Amberg	– Deputy Chairman of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
ANDREA ELSNER Industrial business management assistant	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
TANJA FONDEL Trade union secretary, Management Board of IG Metall	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of DMG MORI AG, Bielefeld (from January 17, 2018)	– No other offices
WOLFRAM HATZ Chairman of the Advisory Board of Motorenfabrik Hatz GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
MARTIN HEISS Management assistant for data processing	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
INGRID HUNGER Chief Executive Officer of Walter Hunger GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
HARALD JUNG Vice President Division Controlling Consoles & Armrests	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
DR. PETER MERTEN, Management consultant	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Nanogate SE, Göttelborn	– 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 other offices
Prof. Dr.-Ing. **BIRGIT VOGEL-HEUSER** Professor of automation and information systems at the Technical University of Munich	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of SMS group GmbH, Düsseldorf and SMS Holding GmbH, Düsseldorf – Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich (from May 1, 2018)	– No other offices
DR. BERNHARD WANKERL Attorney, law firm Dr. Wankerl and colleagues	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices

35 NON-FINANCIAL CONSOLIDATED REPORT

The non-financial report pursuant to section 315d HGB (German Commercial Code) is available permanently on the company website at www.grammer.com under “COMPANY”, “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) which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018, 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 for the fiscal year from 1 January 2018 to 31 December 2018.

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 Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, 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 Sec. 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 Sec. 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 1 January 2018 to 31 December 2018. 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

Pursuant to IAS 36.90, cash-generating units to which goodwill has been allocated are subject to an annual impairment test, during the course of which the carrying amount of the unit including goodwill is compared with its recoverable amount. The measurements are based on the present value of future cash flows of the cash-generating unit to which respective goodwill is allocated. Valuations are based on the budgets for every cash-generating unit, which in turn are based on the budgets approved by management and the Supervisory Board and thus subject to judgment. They are discounted on the basis of the weighted average cost of capital (WACC) for the respective cash-generating unit. The inputs used in the calculation of the discounting rate are partly based on estimated market expectation and are, therefore, also subject to judgment.

In light of the planning uncertainty resulting from the future-oriented character of the measurement and the judgment exercised in the impairment test for cash-generating units to which goodwill has been allocated, the impairment of goodwill was a key audit matter.

AUDITOR'S RESPONSE

To assess the recoverable amounts of the cash-generating units determined by the executive directors, we examined the underlying processes for the determination of the recoverable amounts and performed substantive audit procedures. We also involved our valuation specialists in the audit in order to methodically and arithmetically assess the valuation model and the calculation inputs used. We examined whether the valuation models were applied consistently. We also examined whether the budget planning reflects general, regional and industry-specific market expectations. 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.

The inputs used in the determination of the recoverable amounts such as the estimated growth rates were assessed based on an analysis of general market indicators. We assessed the derivation of the weighted average cost of capital (WACC) by evaluating the beta factors used for the benchmark companies involved and comparing the interest rates for equity and liabilities 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 policies applied to goodwill and the related disclosures on the Executive Board's discretion and sources of estimation uncertainties, reference should be made to the disclosure in Note 2.1 Summary of significant accounting policies and the disclosures on goodwill in Note 12.3 Goodwill of the notes to the consolidated financial statements.

2. REVENUE RECOGNITION OVER TIME FROM DEVELOPMENT CONTRACTS WITH CUSTOMERS

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

The GRAMMER Group companies generally fulfill their performance obligations from customer-specific development contracts over time and recognize the resulting amount of revenue arising pursuant to IFRS 15, Revenue from Contracts with Customers, in accordance with the stage of completion of the respective performance obligation. The progress with regard to the satisfaction of the performance obligation in full is determined on an input basis and based on the costs incurred.

Revenue recognition over time is therefore highly dependent on management's judgment regarding total contract revenue and total contract costs and, through the determination of the stage of completion, has a significant impact on the items of the consolidated financial statements. We therefore considered the recognition of revenue from development contracts over time to be a key audit matter entailing the risk of material misstatement in the consolidated financial statements, including the inherent risk of management bypass or override of the internal control system.

AUDITOR'S RESPONSE

During the reporting period, we performed tests to assess the design and operating effectiveness of the significant controls implemented by management in contract acceptance and performance and in the accounting for customer contracts, especially in connection with the identification of performance obligations, the determination of the transaction price and its allocation to the identified performance obligations and the estimation of contract costs including the identification of contract-related risks. In this context, we tested both transaction-level controls and entity-level controls, such as regular review meetings.

For development contracts that were significant due to their technical or commercial complexity or their financial significance given the recognized assets, we also performed the following individual substantive procedures:

We obtained an understanding of the substance of the contracts and the requested development service as well as the status of contract fulfillment through inquiries of those responsible in group project controlling. We examined the information obtained to determine whether it was consistent with the externally available evidence such as customer correspondence and contracts. We also examined the various components of the transaction price of the performance obligations by comparing those components with the underlying contracts.

We analyzed the reported revenue from development contracts to determine, among other things, whether the planned and realized margin from the contracts is consistent with our expectation of the progress of each project based on the performance of comparable projects. The audit procedures performed by us did not lead to any reservations regarding revenue recognition over time from development contracts.

REFERENCE TO RELATED DISCLOSURES

Regarding the information provided by the Company on the revenue recognition over time, reference should be made to Note 2.1 Summary of significant accounting policies, Revenue from contracts with customers, Note 7. Revenue from contracts with customers as well as Note 15 Contract balances of the notes to the consolidated financial statements.

3. REVENUE RECOGNITION IN RELATION TO THE DELIVERY OF SERIAL PRODUCTS

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. As a general rule, revenue is recognized upon satisfaction of the respective performance obligation, namely the date on which the customer obtains control over the underlying asset.

The recognition of revenue is subject to the risk that revenue is recognized at a wrong time and thus, leads to a presentation in the wrong period, or the recognition of fictitious revenue. Revenue results from a range of 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 recognized revenue has a material impact on GRAMMER's consolidated financial statements, the recognition of revenue from serial production was considered a key audit matter.

AUDITOR'S RESPONSE

During our audit, we obtained an understanding of the contractual arrangements with the customers, especially the arrangements governing the time of passage of risk, as well as the arrangements regarding the billing procedure, and assesses them based on our understanding of the business and process. 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 connection with this.

We examined the revenue recognized for the fiscal year from 1 January 2018 to 31 December 2018 with respect to how it was recorded in the accounts. We analyzed any deviations from our expectation regarding the posting logic by performing additional substantive audit procedures, obtaining audit evidence, for example proof of delivery or third-party confirmations, with regard to the passage of risk to the customer and the recording of the correct amount of revenue on an accrual basis. We checked that the revenue had been entered in the right amount in particular 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 paying the invoice amount in the customary business cycle. At the same time, we checked a sample of incoming payments against the corresponding bank statements.

In order to identify unexpected fluctuations in the gross margin reported, which might imply the recognition of fictitious revenue, among other things, we performed a margin analysis at a disaggregate level. The audit procedures performed by us did not lead to any reservations regarding revenue recognition from serial production.

REFERENCE TO RELATED DISCLOSURES

The Company's disclosures on revenue recognized at a point in time are presented in Note 2.1 Summary of significant accounting policies, Revenue from contracts with customers and in Note 7. Revenue from contracts with customers of the notes to the consolidated financial statements.

4. ACCOUNTING FOR THE BUSINESS COMBINATION WITH TOLEDO MOLDING & DIE, INC., TOLEDO, OHIO, USA

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

On 22 May 2018, the executive directors of GRAMMER AG entered into a purchase agreement to take over Toledo Molding & Die, Inc. ("TMD") with registered offices in Toledo, Ohio, USA. After all closing conditions had been met, the business combination was performed in October 2018. Consequently, GRAMMER AG holds 100% of the shares in the acquired company and all its subsidiaries. In connection with the purchase price allocation, net identifiable assets acquired and liabilities assumed were recognized at their fair value as of the acquisition date in accordance with IFRS 3, Business Combinations.

There is a recognition duty for identifiable, acquired intangible assets, irrespective of whether or not the acquired company had recognized them prior to the business combination. The process of determining whether an intangible asset is identifiable and thus, has to be recognized separately from goodwill is complex and subject to the risk of wrong accruals and deferrals. Moreover, an increased risk of incorrect assessment results from estimation uncertainties in the course of determining the fair value of these intangible assets. Due to the existing risk of material misstatement, we consider the identification and assessment of the intangible assets acquired in the business combination a key audit matter.

AUDITOR'S RESPONSE

In order to evaluate whether an intangible asset is identifiable and therefore has to be recognized separately from goodwill, we in particular assessed the executive directors' approach based on the requirements of IFRS 3, Business Combinations. For this purpose, we held discussions with the Company's executive directors and derived industry-specific market expectations from comparable transactions to evaluate the completeness of the identified acquired intangible assets.

In addition, we examined the approach of the external expert engaged by the executive directors with respect to the measurement of the intangible assets identified by management. We performed the conceptional assessment of the applied valuation models supported by internal valuation specialists by verifying whether the applied models are in accordance with the requirements of IFRS 13, Fair Value Measurement. Our audit procedures also included reperforming calculations of the measurement models as well as comparing, e.g., the expected cash flows used with internal business plans and external standards of comparison. Furthermore, we analyzed whether the assumptions and estimates relating to the determination of the fair value of the acquired identifiable intangible assets at the time of acquisition correspond to general and industry-specific market expectations. We also compared the measurement of the transferred consideration with the contractual basis and checked whether it is uniform with the requirements of IFRS 3. The audit procedures performed by us did not lead to any reservations regarding the accounting for the business combination with Toledo Molding & Die, Inc., Toledo, Ohio, USA.

REFERENCE TO RELATED DISCLOSURES

The Company's disclosures concerning the business combination with Toledo Molding & Die, Inc. are presented in Note 2.1 Summary of significant accounting policies, Business combinations as well as in Note 4. Business combinations in the notes to the consolidated financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the Corporate Governance Report and the Group Corporate Governance Declaration. In all other respects, the executive directors are responsible for the other information.

The other information comprises the following components to which reference is made in the management report:

- the combined separate non-financial report pursuant to Sec. 289b (3) and Sec. 315b (3) HGB, and
- the Corporate Governance Report and Group Corporate Governance Declaration pursuant to Sec. 315 HGB in conjunction with Sec. 289 et seq. HGB.

The other information further comprises the following elements of the annual report, which were provided to us prior to us issuing this auditor's report:

- the responsibility statement;
- the section "GRAMMER AG Financial Statements";
- the section "Quarterly Overview of the Group and Divisions";
- the section "GRAMMER Group Five-year Overview";
- the section "Financial Calendar 2019 and Trade Fair Dates".

The other information also comprises the following remaining components of the annual report, which are expected to be provided to us after us issuing the auditor's report:

- the section "Key Figures according to IFRS GRAMMER Group, Revenue by Regions, Group EBIT by Quarter, Quarterly Overview Revenue and EBIT";
- the section "Overview of Divisions";
- the section "Company Profile";
- the section "Foreword of the CEO";
- the section "Executive Board";
- the section "GRAMMER + TMD";
- the section "Highlights of 2018";
- the section "Report of the Supervisory Board";
- the section "GRAMMER Share".

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 Sec. 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 Sec. 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 Sec. 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 auditor of the consolidated financial statements by the Annual General Meeting on 13 June 2018. We were engaged by the Supervisory Board on 26 July 2018. We have been the group auditor of GRAMMER AG without interruption for at least 24 years. GRAMMER AG has been classified as a capital market-oriented company as defined by Sec. 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.

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, 2019

GRAMMER AG
The Executive Board

GRAMMER GROUP FIVE-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

IN EUR M	2018	2017	2016	2015	2014
Group revenue	**1,861.3**	**1,786.5**	**1,695.5**	**1,425.7**	**1,365.9**
Automotive revenue	1,312.6	1,291.2	1,270.8	1,008.1	911.6
Commercial Vehicles revenue	599.8	540.2	473.6	458.4	478.7
Income statement					
Gross profit	211.8	215.1	198.7	152.1	158.3
EBIT	48.7	66.5	73.0	42.7	57.0
EBIT margin (in %)	2.6	3.7	4.3	3.0	4.2
Financial result	−14.3	−10.6	−10.3	−6.9	−8.6
Profit/loss (–) before income taxes	34.5	55.9	62.7	35.7	48.4
Income taxes	−11.3	−23.5	−17.5	−11.9	−14.8
Net profit/loss (–)	23.2	32.4	45.2	23.8	33.6
Statement of Financial Position					
Total assets	1,441.4	1,107.0	1,050.6	992.1[2]	836.5
Non-current assets	697.7	372.3	379.6	373.7[2]	319.1
Current assets	743.7	734.6	671.0	618.4	517.4
Equity	314.8	337.7	271.2	253.4	231.8
Equity ratio (in %)	22	31	26	26	28
Net financial debt	253.3	92.2	139.1	155.5	86.7
Statement of Cash Flows					
Investments (without M&A)	73.9	59.1	56.2	47.9	51.5
Depreciation and amortization	52.3	49.5	47.2	40.5	36.7
Cash inflow/outflow from operating activities	143.6	69.2	85.8	28.8	65.0
Employees					
Annual average	13,439	12,483	12,144	10,995	10,446
thereof in Germany	3,315	3,201	3,170	2,457	2,374
thereof abroad	10,124	9,282	8,974	8,538	8,072
Personnel expenses	425.2	375.4	352.4	301.8	282.2
Key share data					
Share price (XETRA closing rate, in EUR)	37.70	51.85	47.55	27.32	33.05
Market capitalization (in EUR m)	475.3	653.7	548.9	315.4	381.6
Dividend (in EUR)	0.75[1]	1.25	1.30	0.75	0.75
Earnings per share (in EUR)	1.90	2.67	4.01	2.10	3.09

[1] Proposal.
[2] Adjustment in accordance with IFRS 3.49, see Note 4 Business Combinations in the 2016 annual report.

GRAMMER AG FINANCIAL STATEMENTS

GRAMMER AG'S RESULTS OF OPERATIONS

GRAMMER AKTIENGESELLSCHAFT STATEMENT OF INCOME[1] FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31

EUR K

	2018	2017	CHANGE
Revenue	692,885	657,349	35,536
Decrease (2017: increase) in inventories of finished goods and work in progress	−24,192	7,862	−32,054
Other own work capitalized	64	52	12
Other operating income	12,141	6,128	6,013
Total revenues	**680,898**	**671,391**	**9,507**
Material expenses	528,316	528,790	−474
Personnel expenses	106,194	91,776	14,418
Depreciation and amortization	8,472	9,070	−598
Other operating expenses	91,019	75,105	15,914
Financial result	53,391	84,173	−30,782
Profit/loss (–) before income taxes	**288**	**50,823**	**−50,535**
Income taxes	925	8,715	−7,790
Other taxes	119	119	0
Net profit/loss (–)	**−756**	**41,989**	**−42,745**
Profit carried forward from the previous year	42,315	36,667	5,648
Additions to retained earnings	0	−20,995	20,995
Net retained profit/loss (–)	**41,559**	**57,661**	**−16,102**

[1] Financial statements prepared in accordance with German GAAP (HGB).

NET ASSETS OF GRAMMER AG

GRAMMER AKTIENGESELLSCHAFT STATEMENT OF FINANCIAL POSITION[1] AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K

	2018	2017	CHANGE
A. Fixed assets			
I. Intangible assets	15,757	16,531	−774
II. Property, plant and equipment	38,775	26,665	12,110
III. Financial assets	546,787	289,875	256,912
	601,319	**333,071**	**268,248**
B. Current assets			
I. Inventories	70,368	94,911	−24,543
II. Receivables and other assets	141,640	175,465	−33,825
III. Cash at bank and in hand	104,685	99,915	4,770
	316,693	**370,291**	**−53,598**
C. Prepaid expenses	**2,437**	**1,191**	**1,246**
Total assets	**920,449**	**704,553**	**215,896**

EQUITY AND LIABILITIES

EUR K

	2018	2017	CHANGE
A. Equity			
I. Subscribed capital	32,274	32,274	0
Own shares	−845	−845	0
II. Capital reserve	131,931	131,931	0
III. Retained earnings	94,484	94,484	0
IV. Net retained profit	41,559	57,661	−16,102
	299,403	**315,505**	**−16,102**
B. Provisions			
1. Provisions for retirement benefits	72,167	67,997	4,170
2. Tax provisions	362	1,508	−1,146
3. Other provisions	23,951	21,828	2,123
	96,480	**91,333**	**5,147**
C. Liabilities			
1. Liabilities to banks	438,525	224,654	213,871
2. Prepayments received	414	1,906	−1,492
3. Trade accounts payable	28,321	20,465	7,856
4. Liabilities to participations	45,264	44,465	799
5. Other liabilities	12,042	6,225	5,817
	524,566	**297,715**	**226,851**
Total equity and liabilities	**920,449**	**704,553**	**215,896**

[1] Financial statements prepared in accordance with German GAAP (HGB).

FINANCIAL CALENDAR FOR 2019 AND TRADE FAIR DATES[1]

IMPORTANT DATES FOR SHAREHOLDERS AND ANALYSTS

Annual Report 2018	March 18, 2019
Analyst and financial press conference	March 18, 2019
Interim Management Statements, 1st quarter of 2019	May 14, 2019
Annual General Meeting 2019 Venue: ACC (Amberger Congress Centrum), 92224 Amberg, Germany	July 12, 2019
Interim Report, 2nd quarter and 1st half of 2019	August 6, 2019
Interim Management Statements, 3rd quarter of 2019	November 12, 2019

IMPORTANT TRADE FAIR DATES

Lamma Show, Nec Birmingham, United Kingdom	January 8–9, 2019
TechDay Detroit at the NAIAS, Detroit, Michigan, United States	January 16–17, 2019
SIMA, Paris, France	February 24–28, 2019
Commodity Classic, Orlando, Florida, United States	February 28–March 2, 2019
bauma Munich, Munich, Germany	April 8–14, 2019
ProMat, Chicago, Illinois, United States	April 8–11, 2019
Shanghai Auto Show, Shanghai, China	April 18–25, 2019
Automotive Interior Expo Europe, Stuttgart, Germany	May 21–23, 2019
Plantworx, Peterborough, United Kingdom	June 11–13, 2019
Truck Grand Prix 2019, Nürburgring, Germany	July 19–21, 2019
Caravan Salon 2019, Düsseldorf, Germany	August 30–September 8, 2019
IMHX, Nex Birmingham, United Kingdom	September 24–27, 2019
Gie Expo, Louisville, Kentucky, United States	October 16–18, 2019
Busword Brussels, Brussels, Belgium	October 18–23, 2019
CIAME, Wuhan, China	October 26–28, 2019
Agritechnica, Hanover, Germany	November 10–16, 2019
METS, Amsterdam, Netherlands	November 19–21, 2019

[1] All dates are tentative and subject to change without notice.

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