

Report of the Supervisory Board



“My goal as Chairman of the Supervisory Board is to oversee and drive forward GRAMMER’s future development together with the other members of the Supervisory Board by working closely and in a spirit of mutual trust with the Executive Board.”

Alfred Weber
Chairman of the Supervisory Board

Dear shareholders,

2020 was a stress test for just about every company in almost every industry. The main reason for this was the COVID-19 pandemic – a situation that was new for all of us and posed enormous challenges. We think that the GRAMMER team mastered this test very well.

In close consultation with the Supervisory Board, the Executive Board took measures at an early stage to safeguard the Group’s liquidity and to reduce costs as necessary.

The efficiency-enhancement program launched in the fourth quarter of 2019 to optimize operating processes and cost structures, was continued and stepped up in all areas in the year under review. A new, more regionally focused organization, which accelerates decision-making processes within the Group, as well as numerous measures to sustainably improve the Group’s cost structure, were implemented in 2020 despite the COVID-19 pandemic.

In addition to early refinancing and an increase in the syndicated loan agreement together with the repayment of the bridge finance that had been arranged for the acquisition of TMD, GRAMMER obtained a hybrid loan with an equity character from its main shareholder Ningbo Jifeng in March. As well as this, the syndicated loan agreement signed in the first quarter was extended with the addition of a third tranche C in August. A further measure to strengthen the Company’s equity base was the successful capital increase of 40 million euros using authorized capital subject to the shareholders’ subscription rights.

This shows that there are many reasons for being confident that our Company will emerge stronger in the years ahead thanks to the measures that have been taken.

Monitoring and advisory activities of the Supervisory Board

In 2020, the Supervisory Board fulfilled its duties with the utmost care in accordance with the applicable statutory requirements, Articles of Association, the German Corporate Governance Code and the rules of procedure. It monitored the activities of the Executive Board on a thorough and ongoing basis, advising it on all matters of importance for the Company.

All important matters were discussed in detail during the meetings of the Supervisory Board on the basis of written reports submitted in advance by the Executive Board. Both the shareholder representatives and the employee representatives met before each ordinary meeting of the Supervisory Board for preliminary discussions.

The Supervisory Board’s approval was requested in all cases where this was required under the rules of procedure. The individual decisions were preceded by intense discussion normally on the basis of a corresponding submission or presentation by the Executive Board. 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.

The Supervisory Board also met regularly in the absence of the Executive Board to deal with matters relating either to the Executive Board itself or to internal Supervisory Board matters.

The Executive Board and the Supervisory Board worked together constructively, openly and in a spirit of mutual trust. The Executive Board also informed the Supervisory Board outside the meetings of matters of particular significance. In addition, the Chairman of the Supervisory Board discussed current issues directly with the Chief Executive Officer, the Chairman of the Audit Committee and the Chief Financial Officer. The entire Supervisory Board was briefed on the content of these discussions by no later than at the next meeting.

Main matters dealt with at the meetings of the Supervisory Board

In the year under review, the Supervisory Board of GRAMMER AG held five ordinary, one constituent meeting and seven extraordinary meetings.

No member of the Supervisory Board or its committees attended only half or fewer than half of the meetings. No conflicts of interest 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.

At its ordinary quarterly meetings as well as 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 the revenue and earnings performance as well as the financial condition and liquidity situation of GRAMMER AG and the GRAMMER Group. In addition, the members of the Supervisory Board discussed and passed resolutions on numerous matters as well as measures requiring their consent. The Executive Board reported to the Supervisory Board on a large number of other measures and business transactions, discussing them at length and in detail, for example, the impact of the COVID-19 pandemic on the Company and the measures taken in response to it.

In its regular reports on the state of the Company, the Executive Board provided information during the ordinary meetings of the Supervisory Board on the general situation with regard to the business of the Group and the two Divisions, the Group's financial situation, significant investments and projects as well as new business. It also described any deviations from the planned budget. The Executive Board's reports to the Supervisory Board also elaborated on macroeconomic trends in GRAMMER's main markets.

A further key aspect was the Supervisory Board's self-assessment review, which took the form of an online questionnaire and a detailed discussion with all members of the Supervisory Board at the meeting in question. Overall, the Supervisory Board's work was considered to be efficient and was rated favorably. Individual suggestions are also taken up and implemented during the year. There was no indication of any fundamental need for change.

At the first extraordinary Supervisory Board meeting of the year held on January 15, 2020, which was attended by 10 members

of the Supervisory Board, the allocation of responsibilities for the Executive Board of GRAMMER AG was updated and the currently planned financing projects presented. This was followed on January 30, 2020, by the second extraordinary meeting of the Supervisory Board, which was attended by 11 members of the Supervisory Board. The GRAMMER Group's multi-year planning was approved at this meeting. A further item concerned the early refinancing and increase of the syndicated loan agreement as well as the discharge of the bridge finance that had been arranged for the acquisition of TMD. The Supervisory Board held its third extraordinary meeting on February 12, 2020, with the attendance of 11 members. At this meeting, the press release published by the Frankfurt public prosecutor's office on February 11, 2020, was discussed. The fourth extraordinary meeting of the Supervisory Board was held on February 21, 2020 and attended by 11 members. At this meeting, the Board primarily deliberated on the potential impact of the COVID-19 pandemic on the Company and on current financing projects. At the fifth extraordinary meeting of the Supervisory Board, which was held on April 27, 2020 and attended by 12 members, the proposals for the shareholder representatives to be elected at the Annual General Meeting were approved. The sixth extraordinary meeting of the Supervisory Board was held on May 25, 2020 and attended by 12 members. At this meeting, the Supervisory Board primarily dealt with the impact of the COVID-19 pandemic on the Company and the measures taken in response to it. Among other things, the Executive Board provided an update on the addition of tranche C to the syndicated loan agreement with the participation of KfW. All members attended the seventh extraordinary meeting of the Supervisory Board on October 29, 2020. At this meeting, the Supervisory Board gave its approval to the Executive Board's resolution concerning partial utilization of authorized capital for a cash capital increase subject to the shareholders' subscription rights.

The Supervisory Board held its first ordinary meeting for 2020 on March 27 and was attended by all members of the Supervisory Board. One key item on the agenda of that meeting 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, 2019 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2019, without any reservations.

In addition, the Supervisory Board dealt with the annual report for 2019, including the report of the Supervisory Board, the corporate governance report and the remuneration report, as well as the dividend proposal and the agenda for GRAMMER AG's annual general meeting on July 8, 2020. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 0.00 per dividend-entitled share. The separate non-financial report published in GRAMMER AG's 2019 annual report was discussed at length by the Supervisory Board. The report was checked for its appropriateness, the implementation of the concepts and the internal due-diligence processes. 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. The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from January 1 to December 31, 2019, was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued 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 27, 2020 and at the meeting of the Supervisory Board on March 27, 2020. The independent auditor was available at

both meetings 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 appended to the dependent company report.

The Supervisory Board also deliberated on the invitation to the Annual General Meeting as well as the opportunity and risk report. At this meeting, the Supervisory Board also set the targets for the variable remuneration for the Executive Board for 2020.

The main topics discussed at the second ordinary meeting on July 7, 2020, which was attended by 12 members of the Supervisory Board, entailed the expansion of the syndicated loan agreement signed in the first quarter to include a third tranche C and further measures to strengthen the Company's equity base by means of a capital increase from authorized capital subject to the shareholders' subscription rights. The preparation of the Annual General Meeting, which took place on the following day, was also a subject of the meeting.

At the constituent meeting on July 8, 2020, which was attended by all members, Mr. Alfred Weber was elected Chairman of the Supervisory Board and Mr. Horst Ott Deputy Chairman. Likewise, new members were appointed to the committees at this meeting. A further item of the meeting was the onboarding presentation for the newly elected members of the Supervisory Board by the Executive Board of GRAMMER AG.

The third ordinary meeting, which was held on September 18, 2020 and attended by all members of the Supervisory Board, primarily dealt with the preparation of the efficiency review including a decision to shorten the period for the submission of the parent-company and consolidated financial statements for 2020. At this meeting, the Supervisory Board also approved the establishment of a new production site in Shenyang.

At an executive session, which was also the fourth meeting of the Supervisory Board, on November 19, 2020, all members of the Supervisory Board participated in a training session conducted by an external consultant covering the fundamentals of stock corporation law, the Corporate Governance Code and the GRAMMER AG rules of procedure. This executive session was part of the onboarding process for the newly elected members of the Supervisory Board.

The fifth ordinary meeting of the Supervisory Board was held on December 10, 2020 and attended by all members of the Supervisory Board. The main items on the agenda for this meeting were the budget for 2021, the medium-term budget and the corporate strategy, which were discussed in detail and duly approved. At this meeting, the Supervisory Board also dealt in detail with the application of the recommendations of the German Corporate Governance Code. The Executive Board and the Supervisory Board submitted their declaration of conformity with the German Corporate Governance Code on December 11, 2020. The wording of the declaration of conformity can be found in the corporate governance statement.

Circulatory resolutions of the Supervisory Board

In 2020, the Supervisory Board of GRAMMER AG passed two circulatory resolutions in writing.

On April 27, 2020, the Supervisory Board passed a resolution to hold the Annual General Meeting of GRAMMER AG on July 8, 2020, in virtual form without the physical presence of shareholders or their proxies due to the COVID-19 pandemic.

In a circular resolution dated December 17, 2020, the Supervisory Board approved the agreement on the deferral of the additions to retirement benefit expenses under the service agreements of the members of the Executive Board for 2020, waiving compliance with the relevant formal and minimum-period requirements.

Attendance at the meetings of the Supervisory Board

A member-by-member breakdown of participation in the meetings of the Supervisory Board and its committees can be found in the corporate governance report. Apologies were duly received from members unable to attend the meetings of the Supervisory Board or its committees, who generally cast their votes in writing. Reflecting the special circumstances arising from the COVID-19 pandemic, meetings were held in virtual or hybrid form from March 2020.

Supervisory Board committees

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees in the year under review, which had the following composition as of December 31, 2020:

Composition of the committees

Strategy Committee

Martin Heiß

Dr. Peter Merten

Horst Ott

Alfred Weber

Personnel and Mediation Committee

Martin Heiß

Horst Ott

Gabriele Sons

Alfred Weber

(Chairman of the Personnel and Mediation Committee)

Audit Committee

Andrea Elsner

Dr. Peter Merten (Chairman of the Audit Committee)

Antje Wagner

Alfred Weber

Executive Committee

Horst Ott (Deputy Chairman of the Supervisory Board)

Alfred Weber (Chairman of the Supervisory Board)

Nominating Committee

Dr. Peter Merten

Gabriele Sons

Alfred Weber

The Supervisory Board of GRAMMER AG has a Strategy Committee, a Personnel and Mediation Committee, an Audit Committee, a Nomination Committee and an Executive Committee. 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. The committee met twice in 2020.

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 five times in the year under review. In the second half of the year, it focused on the revision of the remuneration system for the Executive Board and the Supervisory Boards of GRAMMER AG.

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.

In addition, the risk report was discussed and the Supervisory Board informed of the progress of the project for enhancing the risk management system. In addition, the head of Internal Auditing presented the audit report for 2019. Furthermore, it was briefed by the Executive Board of the current funding projects. The Audit Committee met five times in 2020.

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. It met twice in the year under review.

The task of the [Executive Committee](#) 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. The Executive Committee met a total of eight times.

Annual and consolidated financial statements

At the annual general meeting held on July 8, 2020, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, was appointed as statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. At its meeting of August 6, 2020, the Audit Committee engaged the auditor for the 2020 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 annual financial statements and the consolidated financial statements for the period ending December 31, 2020. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the management report of GRAMMER AG and the GRAMMER Group provides a true and fair view of the Company and of the Group, as well as the opportunities and risks with regard to future development.

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

The reports and financial statement documents were submitted to the members of the Supervisory Board by the auditor in a timely manner and examined thoroughly. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the primary results of the audit during the meeting of the Audit Committee held on March 30, 2021 dealing with the annual and consolidated financial statements and at the meeting of the Supervisory Board also held on March 30, 2021 reviewing the financial statements.

After thorough examination of the annual financial statements and the consolidated financial statements for 2020, 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 2020. GRAMMER AG's annual financial statements were therefore duly approved. In view of the net loss for the year sustained by GRAMMER AG in the year under review, no dividend will be proposed. The retained loss as of December 31, 2020, will be carried forward.

Combined separate non-financial report

At its balance-sheet meeting of March 30, 2021, the Supervisory Board considered the Company's non-financial report. The combined separate non-financial report submitted by the Executive Board describes the Company's policies in respect of economic, social, ethical and environmental matters. The current separate non-financial report is included in the 2020 annual report. The Supervisory Board satisfied itself that the report had been prepared and reviewed the appropriateness and implementation of its contents 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 GRAMMER Group's separate non-financial report.

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 January 1 to December 31, 2020, was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued an unqualified audit opinion:

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

3. the factual statements made in the report are correct,
4. 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 30, 2021 and at the meeting of the Supervisory Board on March 30, 2021. The independent auditor was available at both meetings 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 appended to the dependent company report.

On behalf of the Supervisory Board, I would like to thank all GRAMMER employees for their dedicated efforts over the past year. Thanks are equally due to the members of the Executive Board, who have guided the Company through a very difficult market environment. I would also like to thank our employee representatives and the works councils, who have always provided constructive support for GRAMMER's development. Finally, the Supervisory Board would also like to convey its gratitude to the shareholders, particularly the Wang family as the main shareholder, who placed their trust in GRAMMER AG's Executive Board and Supervisory Board last year.

Ursensollen, March 2021

On behalf of the Supervisory Board



Alfred Weber
Chairman