Annual Report 2021

SOLUTIONS FOR A WORLD ON THE MOVE

GRAMMER

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LETTER FROM THE EXECUTIVE BOARD

Dear Sir or Madam,

This year's Annual Report presents the megatrends that will be relevant for GRAMMER over the coming decades. The Zukunftsinstitut in Frankfurt, one of the most influential think tanks in European futurology, describes megatrends as an "avalanche in slow motion". Although they develop slowly, they are hugely important and result in extensive upheaval. They involve risks, but also significant opportunities – providing they are addressed at an early enough stage. For GRAMMER, analyzing megatrends is an indispensable tool for strategic planning and a core element of our vision: "Solutions for a World on the Move". Many areas of life, and mobility in particular, are undergoing unprecedented change. The CEO of a prominent automotive group summarized it well: "Our industry will change more over the next ten years than it did in the previous 100." This is accompanied by factors such as sustainability and climate protection, digital transformation, population growth and urbanization – which will require all of us to continuously review and adapt our structures, our business models, and our strategic priorities.

On the following pages, we will illustrate how GRAMMER is using its solutions to make the lives of many people around the world more comfortable, safer and more sustainable, allowing it to participate in the relevant megatrends. Based on five application areas, we will show how our development teams generate a competitive edge for our customers with innovative product concepts and bring to life the central elements of GRAMMER's mission – "We deliver what matters" – in terms of innovation, customer focus, and sustainability. However, change is not only taking place within our company. It is also affecting our working environment and our social lives. Although the past year was still dominated by the COVID-19 pandemic and its global economic consequences, the GRAMMER team delivered outstanding performance once again.

We wish to express our heartfelt thanks to all of our employees for their exceptional commitment and staying power.

This is also why we have added a section to this year's Annual Report entitled "People at GRAMMER", in which we actively report in detail on our unique Way of Working@GRAMMER. Our team spirit and our strong corporate culture help us to develop innovative solutions for a world in flux and make us proud and confident for the future every single day.

Thorsten Seehars
Chief Executive Officer (CEO)

Jurate Keblyte
Chief Financial Officer (CFO)

First and second half of 2021 marked by light and shade

In 2021, we steered GRAMMER through another year full of unexpected challenges. In terms of our business development, the year can be divided into light and shade. Although the recovery that began in the second half of 2020 continued into the first half of 2021, the second half of the year was significantly weaker than had been anticipated in the summer. Revenue performance in the third and fourth quarter was substantially impacted by the sharp reduction in customer call-offs, often at short notice, in response to the limited availability of semiconductor components in the Automotive Division. The resulting downturn in revenue was particularly pronounced in the AMERICAS and EMEA regions. Despite this negative impact on business performance in the second half of the year, the GRAMMER Group reported a 11.2% increase in revenue to EUR 1.9 billion in 2021, slightly higher than the forecast of EUR 1.8 billion. This positive revenue development across all three regions was driven in particular by the Commercial Vehicles Division, which recorded growth of 31%. Group earnings before interest and taxes (EBIT) improved substantially from EUR −46.1 million to EUR 18.9 million. Operating EBIT – one of our key performance indicators – amounted to EUR 22.8 million, corresponding to operating EBIT margin of 1.2%. Although this level is obviously below our expectations, it represents a solid result in light of the substantial rise in the cost of materials, volatility in terms of customer call-offs and the resulting underutilization, as well as increased personnel costs in the AMERICAS region as a result of non-recurring effects in connection with the coronavirus. The improvement compared with the previous year is attributable to the higher level of revenue, the positive contribution from Commercial Vehicles and the successful implementation of the efficiency enhancement program with measures such as the optimization of location concepts and the closure of four production sites in EMEA and AMERICAS.

APAC with substantially positive growth, AMERICAS in need of restructuring

The APAC region enjoyed extremely dynamic performance over the past year, recording above-average revenue growth of almost 20%. This development was driven to a large extent by the Commercial Vehicles Division (+34%), although the Automotive Division (+14%) also benefited from new orders and the expansion of local production capacities. This also reflected the successful cooperation with our strategic partner Ningbo Jifeng, which is allowing us to generate synergies in the areas of procurement and manufacturing as well as improving our market access in China. The operating EBIT margin in APAC rose by 4 percentage points to 13%. The EMEA region also made a substantially positive earnings contribution, whereas the AMERICAS region fell far short of our expectations, closing the year with EBIT in negative territory at EUR −61.5 million. The main reasons for this development were the sharp rise in material prices, the pronounced increase in personnel costs, significant underutilization at times due to volatile customer call-offs, and an unfavorable product mix in the Automotive Division. In the fourth quarter of 2021, we therefore launched an extensive restructuring program, "P2P AMERICAS", with the aim of returning the region to profitability by 2024 at the latest.

Smart factory, innovations and Green Company mission well on track

GRAMMER's competitive position is largely a result of efficient, flexible and competitive production. The aim of GRAMMER's project Mayflower is to create a blueprint for "Seat Production 4.0" and become the most advanced manufacturer of commercial vehicle seats worldwide. To achieve this, work has begun on converting the plant in the Upper Palatinate village of Haselmühl into a pilot plant. With this smart factory, GRAMMER will have the world's most cutting-edge production plant for offroad commercial vehicle seats. In the future, the plant will produce state-of-the-art seats that are unparalleled when it comes to quality, safety and individual availability.

In the past year, GRAMMER again demonstrated its innovative strength by presenting a range of new products. One highlight came in September 2021 with the presentation of Ubility One, with which GRAMMER is positioning itself as the first provider of a holistic interior concept for the buses and trains of tomorrow. The innovative product family makes consistent use of lightweight construction and features sustainable design and high user comfort, pointing the way to the future of urban mobility.

We also pressed ahead with the transformation of GRAMMER into a Green Company. In 2021, we defined the necessary action areas for achieving our Group-wide target of reducing our CO_2 emissions by at least 50% by the end of this decade. One of the many milestones that have already been achieved in this context was switching energy supply to renewable energy sources at all German sites.

Despite the challenges outlined above, we achieved solid business results overall in 2021, and we are looking to the tasks and opportunities in 2022 and beyond with confidence. The past two years in particular have required our strong team to demonstrate its resilience and ability to deal with crisis situations, and we firmly believe in our corporate culture, our values, our mission and the guidance they provide.

We would like to conclude by thanking our shareholders, especially the Wang family as owners of Jiye Auto Parts GmbH, and our business partners for their loyal partnership. We hope you will continue to accompany us on our journey, and we will do everything in our power to harness the many opportunities arising from the relevant megatrends for GRAMMER.

Sincerely,

Thorsten Seehars   Jurate Keblyte   Jens Öhlenschläger

GRAMMER AG Executive Board

Jens Öhlenschläger
Chief Operating Officer (COO)

WITH OUR FINGER ON THE PULSE OF MEGATRENDS

GRAMMER DELIVERS INNOVATIVE SOLUTIONS FOR A WORLD IN FLUX

Every day, more than fifty million people around the world come into contact with GRAMMER products – on the bus or train on their way to work, in their own car or in high-speed trains while traveling, and in tractors, forklifts and trucks at work.

GRAMMER makes the lives of many people more comfortable, safer and more sustainable with its wide range of products for cars and commercial vehicles – and is participating in the key **megatrends of the future** with its solutions.

Electrification and new mobility

Digitalization

Growth in world population

Urbanization

Sustainability

The shift to "new mobility" is well underway, accompanied by trends such as electrification and new sharing models. Automated driving is also increasingly in the spotlight. According to studies, autonomous driving services using self-driving vehicles could account for around 32% of the traffic volume in German cities in 2035. At the same time, travel times will increase, resulting in longer dwell times and significant changes in vehicle usage. This will make the vehicle interior and customers' growing need for comfort, safety and functionality exceptionally important.

The digital transformation is reshaping the entire industrial landscape, including that of the automotive and commercial vehicle industry. Like in other sectors, the established players must address the new developments in the digitalization process and understand and integrate new customer requirements. Connectivity takes comfort, safety and entertainment in cars and commercial vehicles to a new dimension. In an industrial context, growing connectivity is also impacting the planning, operations and value creation structures of factories and enabling the automation of production processes.

Providing adequate food for the rapidly growing human population will be one of the greatest challenges of the coming decades. According to United Nations estimates, the Earth will be home to around 10 billion people by 2050. At the same time, food production will have to expand by an estimated 70% between now and the middle of the century. However, the consequences of climate change mean the natural production conditions in many parts of the world are deteriorating. This challenge requires a significant increase in agricultural productivity.

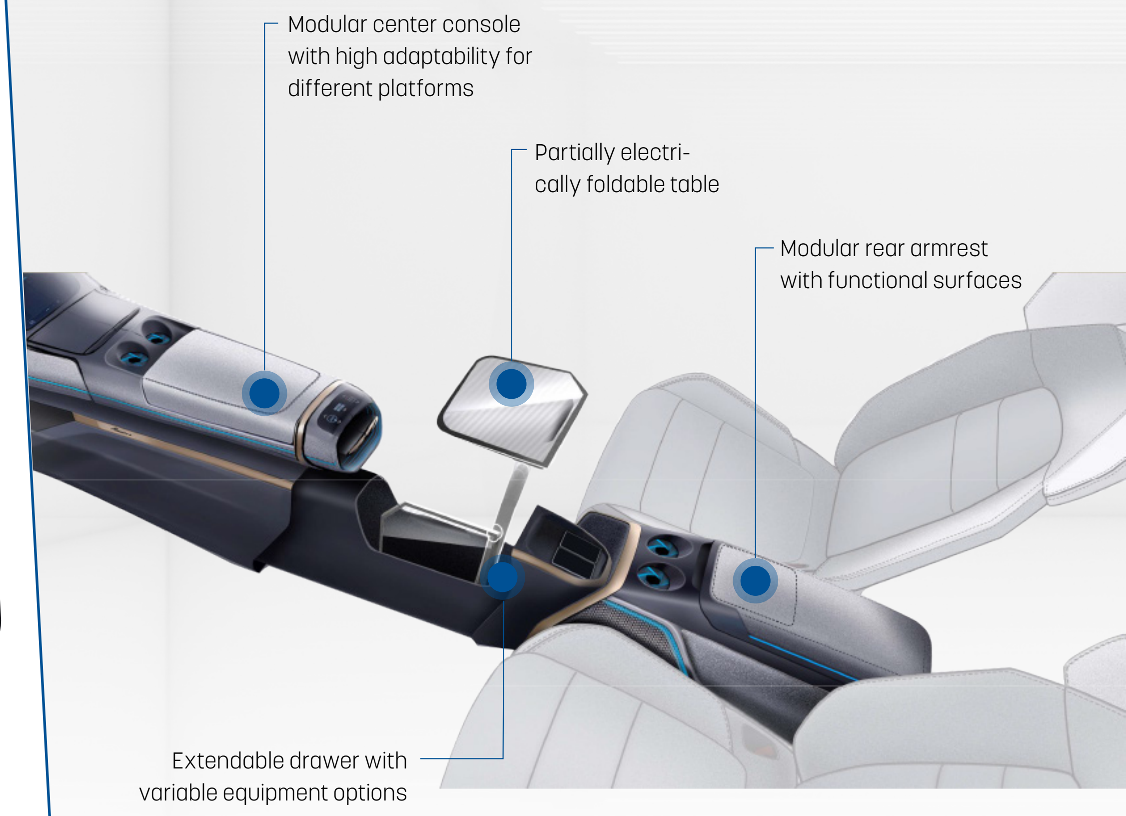
According to United Nations forecasts, cities will be home to around 80% of the world's population by 2030. This urban shift requires efficient infrastructure planning by politicians and businesses if this rapid growth is to be absorbed. The city of the future will be characterized by energy-efficient buildings, the use of renewable energies and, not least, intelligent mobility concepts. The transportation of the future will be automated, connected, and electrified. This requires safe, comfortable, and robust interior solutions.

Climate change is now being felt all around the world. Companies are being called on to do their part in order to sustainably reduce their environmental impact and greenhouse gas emissions. In the automotive and commercial vehicle industry, manufacturers and suppliers are equally responsible for helping to shape the fundamental shift towards environmentally friendly solutions. The focus is on the entire value chain as well as upstream supply chains, the aim being to work together to achieve far-reaching, measurable improvements in order to reduce global environmental impacts.

RETHINKING MOBILE INTERIORS

PURE, the innovative interior concept developed by GRAMMER, is helping to advance the conversation around **customization, comfort and variability in new mobility solutions**. It makes the vehicle interior a place to live, relax and work. It introduces new functions for automotive interior components. For example, sliding center consoles are the new centerpiece of the future design, creating an increasingly interactive and connected space in the vehicles of tomorrow.

Modular solutions for future vehicle generations
GRAMMER's development teams are working on innovative concepts for center consoles that take the additional installation space in the interior of electric vehicles and use it for hands-on functions and additional storage space. The modular product family offers flexible configurations and can be tailored to individual customer requirements.



DESIGN FOR USE FROM THE SMART FACTORY

Digitalization initiatives at GRAMMER are focused on achieving the **highest product quality within the defined time and cost constraints** and improving productivity through the efficient use of resources. With its smart factory in Haselmühl, the company is currently creating the world's most cutting-edge production plant for offroad commercial vehicle seats. In the future, the plant will produce state-of-the-art seats. Based on our "design for use" philosophy, we offer manufacturers and end users tailored seating solutions with the greatest possible customer benefit.

Multifunctional comfort for the driver's cab

For GRAMMER's product development in the Commercial Vehicles Division, comfort and functionality are the overriding priorities. With the cinema seat, GRAMMER is offering a new pair of seats for the driver's cab that saves space as well as enabling a wide variety of uses during truck downtimes and breaks. It includes a folding function and a two-part backrest that can be used as a table or storage area. The result: more space and comfort in the cab and improved driver productivity.

A NEW DIMENSION OF SEATING COMFORT

As a world-leading manufacturer of innovative seating systems for agricultural machinery, GRAMMER has the potential to make an important contribution to **improving agricultural productivity** and hence supplying food for the growing world population. Thanks to innovative, fully active suspension and seats that are continuously optimized for ergonomic comfort, the physical forces faced by drivers of agricultural machinery are better balanced, thereby increasing efficiency and productivity at harvest time.

Ergonomics: the successful factor for demanding work conditions
All the models in GRAMMER's offroad seat family are designed for comfortable, safe and effortless work. GRAMMER's suspension and damping systems have been setting measurable standards in the industry for decades. Ergonomically shaped seat cushions, backrests and armrests provide optimal support for the human body and are continuously adapted to reflect the latest scientific insights as well as user feedback. At the Agritechnica 2023, GRAMMER will showcase a new product family for high-end agricultural and construction machinery with entirely new functions for the interface between man and machine.

INNOVATIONS FOR URBAN MOBILITY

Mobility in conurbations and metropolitan regions is facing a profound change. In addition to the increased range of shared mobility solutions and the growing use of self-driving vehicles, public transport needs to develop attractive, sustainable transportation concepts in order to meet passengers' demands in terms of comfort and a certain degree of privacy. With its groundbreaking seating concept for urban passenger transportation, Ubility One, GRAMMER is positioning itself as the world's first provider of a **holistic interior concept for the buses and trains** of tomorrow.

UBILITY SHIFT
- **3in1** function
- Innovative seat mechanism
- Sustainable lightweight construction

UBILITY Light
- up to **60%** lighter
- only **5** components
- variable direction of travel possible

UBILITY AIR

Save on weight.
Not on seating comfort.
- **4 kg** complete weight
- Twin Sheet construction
- Up to **100%** recyclable

The ultra-light next-generation seating system for buses and trains

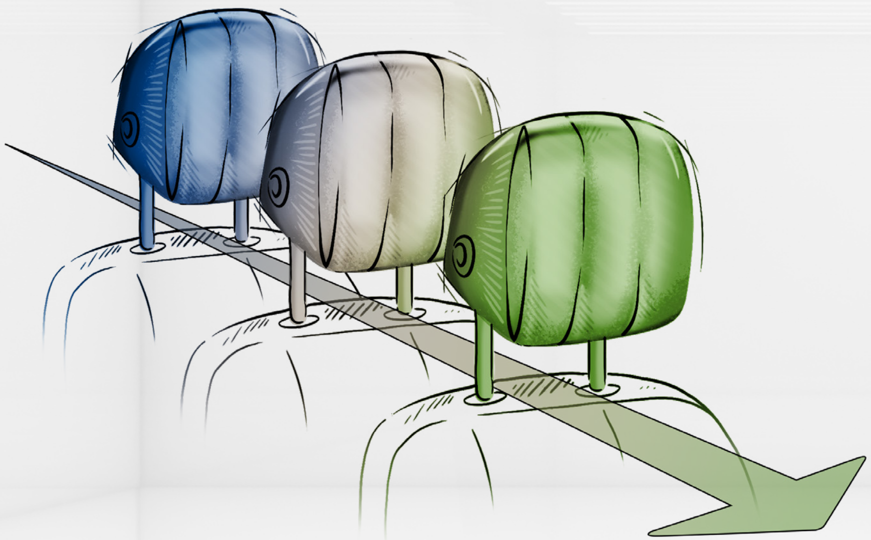
With Ubility One, the GRAMMER development team is responding to the sustained megatrend of growing urbanization and positioning itself as the first provider of a holistic interior concept for the buses and trains of tomorrow. The innovative product family with its three seat models Ubility Light, Ubility Air and Ubility Shift, puts the focus on people and the ways in which they use urban transportation. Ubility One offers comfort for passengers and efficiency and flexibility for vehicle manufacturers and transport companies, while also meeting society's expectations when it comes to sustainable, climate-neutral products.

BECOMING A GREEN COMPANY WITH SUSTAINABLE PRODUCTS

In 2021, GRAMMER launched a comprehensive program aimed at making its global operations more sustainable. The company intends to reduce its global CO_2 emissions by at least 50% by the end of this decade as its contribution to achieving the 1.5 degree goal of the Paris Agreement. With the Green Company initiative, GRAMMER is harnessing its most valuable resource and inviting its employees to help shape the future in the spirit of the Way of Working@GRAMMER. One of the most important areas of action on the way to becoming a Green Company is **developing sustainable products from environmentally friendly materials**. The new generation of headrests from GRAMMER is one example of this.

Rethinking products – modeled on nature

From hemp, wood and flax as admixtures in biopolymers (plastics with a high proportion of sustainable raw materials) to fungal structures and spiderwebs as biological models for new construction solutions, not to mention the circular economy: As it becomes a Green Company, GRAMMER is taking various approaches to developing products with an improved climate footprint. With its next generation of headrests, GRAMMER will make CO_2 savings of around 80% in the medium term.



80%

CO_2 reduction

Revenue
1,903.0 EUR m

EBIT margin
1.0 %

Operating EBIT margin
1.2 %

Equity ratio
23.3 %

Net profit
0.6 EUR m

Free cash flow
−5.6 EUR m

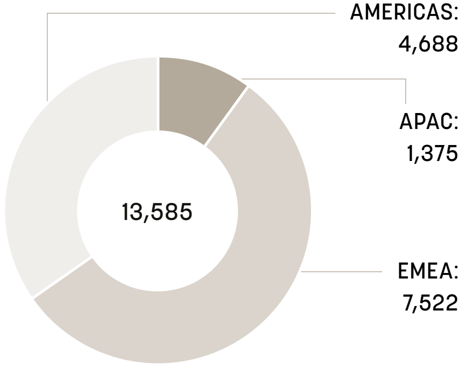
EBIT
18.9
EUR m

Capital expenditure
114.7
EUR m

Company profile

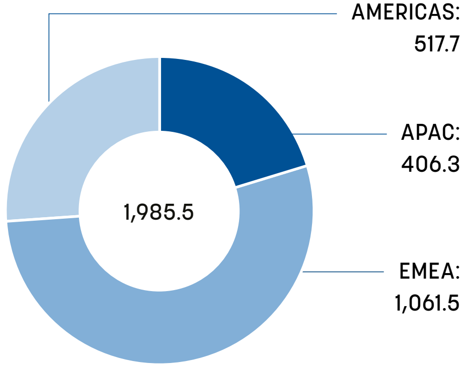
GRAMMER AG, which has its head office in Ursensollen, operates in two business segments: GRAMMER develops and produces high-quality interior and operating systems and innovative thermoplastic components for the global automotive industry. GRAMMER is a full service provider of driver and passenger seats for trucks, buses, trains and offroad vehicles. At present, GRAMMER AG has about 14,000 employees in 19 countries around the world. Its revenue in 2021 was about EUR 1.9 billion. GRAMMER shares are listed in the Prime Standard and traded on the Munich and Frankfurt stock exchanges via the Xetra electronic trading platform.

Employees by region[1]
Annual average



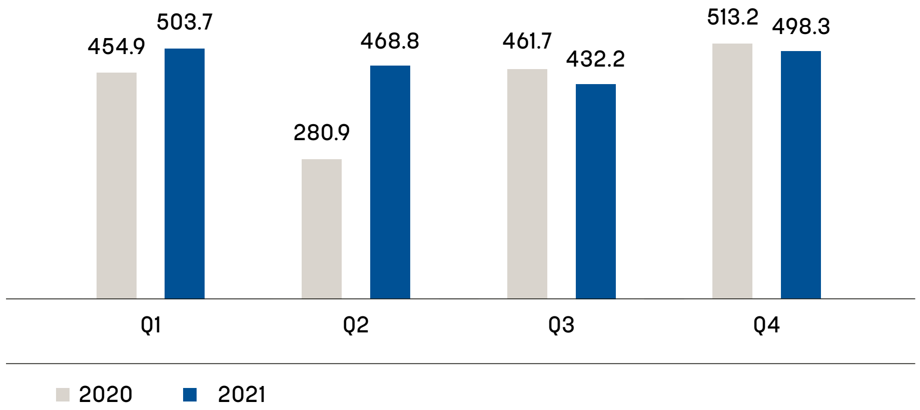
[1] On average, 421 people were employed in Central Services.

Revenue by region[2]
EUR m



[2] The consolidation effect of revenue between the regions amounts to EUR 82.5 million.

Revenue by quarter
EUR m



Operating EBIT by region

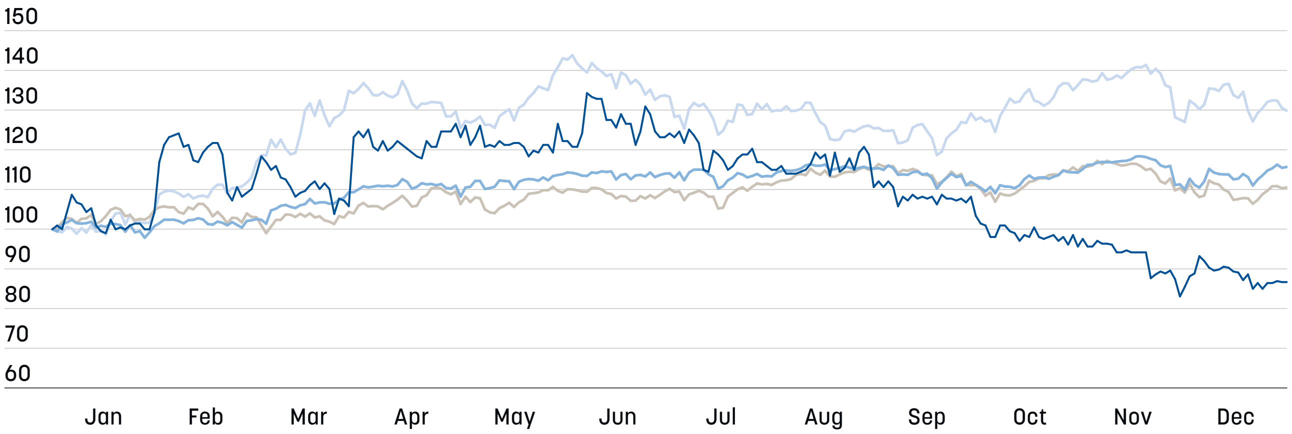
AMERICAS	EMEA	APAC
−61.5	47.2	52.8
EUR m	EUR m	EUR m

GRAMMER share

"Open, intensive dialog with our stakeholders remained indispensable in the second year of the pandemic, especially given the growing challenges in the second half of the year."

Jurate Keblyte, CFO

Share price development 2021 – GRAMMER vs German share indices
in %



Index January 4, 2021 = 100%

Trends in the German stock markets

Year of recovery despite continued high uncertainty due to COVID-19

Although 2021 was consistently dominated by combating the COVID-19 pandemic, capital markets continued their recovery that had begun in the second half of 2020. The German blue-chip DAX index opened the trading year on January 4 at 13,890 points. Thanks to progress made in vaccination campaigns in the first half of 2021 and the economic recovery, the index quickly left behind its annual low of 13,432 points on January 29, climbing to a new record high of 16,283 points by November 17, 2021. The day closed at the highest level for the year at 16,251 points. The emergence of the new Omicron variant then created temporary uncertainty, causing the index to decline to a closing price of 15,100 points on November 30, 2021. However, the price recovered again towards the end of the year and closed at 15,884 points on the last trading day of the year, representing a hefty 14.4% upturn on the 2021 opening price.

GRAMMER share price performance in second half of the year affected by supply and procurement problems

The performance of the GRAMMER share in the first half of the year also reflected the global economic recovery and, in particular, that of the automotive and commercial vehicle sectors. On January 4, 2021, the share opened at EUR 20.70, rising sharply throughout January until February 8 to a closing price of EUR 25.60. However, the share suffered a setback prior to the publication of the 2020 business figures, before the publication of quarterly and business figures at the end of March marked the start of a recovery until the high for the year of EUR 27.80 on June 10. As a result, however, supply and procurement problems at major automotive manufacturers took a toll on business performance and thus on the share price performance of GRAMMER shares. The share recorded its low for the year on November 29, 2021 at EUR 17.20. It recovered again slightly in December and closed at EUR 17.95 on December 30, 2021, down 13.3% on the opening price. The benchmark SDAX index rose by 10.5% over the same period, while the DAXsector Automobile sub-index gained 29.8%.

Key figures for the GRAMMER share 2017 to 2021

	2017	2018	2019	2020	2021
Earnings per share (in EUR)	2.67	1.90	3.56	–5.10	0.08
Year-end share price (Xetra, in EUR)	51.85	37.70	31.95	19.90	17.95
High for the year (in EUR)	61.90	67.10	39.20	33.30	27.80
Low for the year (in EUR)	40.74	30.02	27.90	12.60	17.20
Dividend (in EUR)	1.25	0.75	0.00	0.00	0.00[1]
Number of shares	12,607,121	12,607,121	12,607,121	15,237,922	15,237,922
Market capitalization (in EUR m)	653.7	475.3	402.8	303.2	273.5

[1] With the extension of the syndicated loan by a KfW loan, the dividend will be suspended during the three-year term of the third tranche until 2023.

GRAMMER basic share data

On December 31, 2021, GRAMMER AG's share capital totaled EUR 39,009,080.32, divided into 15,237,922 bearer shares with a notional value of EUR 2.56 per share. Of this, the Company holds 330,050 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.

GRAMMER suspends dividend for 2021

GRAMMER AG implemented various financing measures to widen its financial scope in 2020 in view of the difficulty of estimating the impact of the COVID-19 pandemic on its business performance. One of these precautionary measures was to expand the syndicated loan agreement to include a EUR 235.0 million tranche C in August 2020. This secures GRAMMER's liquidity in the long term even in a difficult economic environment. In addition to the core banks, the KfW banking group also participated as a direct lender under the special KfW coronavirus program. With the extension by a KfW loan, the dividend will be suspended during the three-year term of the third tranche until 2023.

Transparent financial communications with all stakeholders

As a company listed in the Prime Standard of the German Stock Exchange, GRAMMER AG is subject to extensive transparency and disclosure requirements. The aim of investor relations work is to process and present current and future developments at the GRAMMER Group transparently for all stakeholders.

In 2021, GRAMMER AG's Executive Board and IR team continued to maintain an intensive dialog with the capital market, providing regular and comprehensive information on the Company's current business performance. As usual, telephone conferences were held each quarter at the same time as publishing business and quarterly figures in order to keep investors, analysts and members of the press abreast of the latest developments at the Company even during the COVID-19 pandemic. In November 2021, GRAMMER also participated in Deutsches Eigenkapitalforum, the largest German investor conference. Further detailed information on GRAMMER's share is available at www.grammer.com, where recent financial news and reports as well as presentations and recordings of the conference calls are also published.

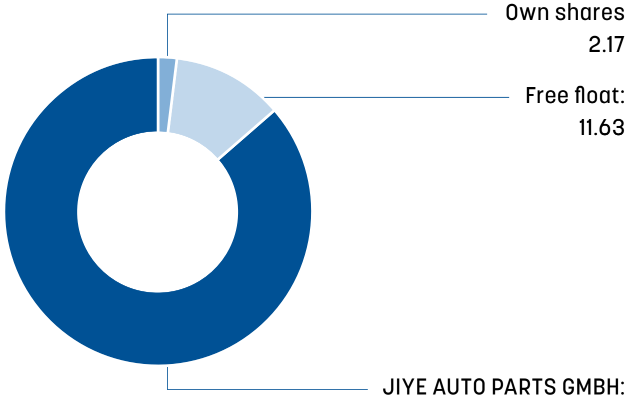
Annual General Meeting held online again

The GRAMMER AG Annual General Meeting was again held virtually last year for the second year in a row on account of the COVID-19 pandemic. Regardless of the entirely virtual event, shareholders were able to exercise their rights. 177 questions were answered as part of the event. In total, more than 87% of the voting share capital was represented at the Annual General Meeting on June 23, 2021. At its peak, the Annual General Meeting was attended by 139 shareholders. The shareholders accepted all of the proposals submitted by the Executive Board and Supervisory Board and, among other things, voted in favor of omitting a dividend for 2020. All items of the agenda were approved with large majorities.

Shareholder structure

There were no changes to shareholder structure in 2021 compared to the previous year. With a shareholding of 86.20%, Jiye Auto Parts GmbH remains the main shareholder of GRAMMER AG. The diagram below only shows shareholders who hold more than 3% of GRAMMER shares. In addition, it indicates the number of own shares held. The current shareholder structure and voting rights announcements are also disclosed in the Investor Relations section of the GRAMMER AG website.

Shareholder structure
in %
as of December 31, 2021



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References

Contents of Internet sites referred to in the Group management report are not part of the Group management report but merely serve as a source of further information. This does not apply to the Group's corporate governance declaration pursuant to singular section 315d in connection with section 289f HGB (German Commercial Code) and the declaration of conformity with the German Corporate Governance Code (section 161 AktG (German Stock Corporation Act)), which are permanently available on the Company's website at https://www.grammer.com/en/company/corporate-governance.html. In addition, the combined separate non-financial report pursuant to sections 289b (3) and 315b (3) HGB is published on the Company's website at https://www.grammer.com/en/company/sustainability.html no later than four months after the reporting date.

Forward-looking statements

This Group management report contains forward-looking statements based on current assumptions and estimates made by GRAMMER's management of future trends. Such statements refer to periods in the future or are characterized by terms such as "expect", "predict", "intend", "forecast", "plan", "estimate", "anticipate" or similar terms. 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 imponderables 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.

Rounding differences in the disclosures contained in the annual financial statements are possible.

1. Basis of the Group

1.1 Business model

The GRAMMER Group is a global group of companies that operates in the three regions AMERICAS, APAC and EMEA in two business segments: GRAMMER is a full service provider of driver and passenger seats for trucks, buses, trains and offroad vehicles (construction machinery, forklifts and tractors). The Group develops driver and passenger seats for trucks and driver seats for offroad vehicles and supplies these directly to commercial vehicle OEMs and in spare-parts business as part of aftersales. The Company also develops and manufactures driver and passenger seats for bus and railway vehicle OEMs.

GRAMMER develops and produces high-quality interior and operating systems, innovative thermoplastic components and headrests, armrests and center console systems for the global automotive industry. GRAMMER's customers are automotive manufacturers and their Tier 1 suppliers.

GRAMMER Group
Revenue (FY 2021): EUR 1,903.0 m
Employees (FY 2021): Ø 14,006

AMERICAS
Revenue: EUR 517.7 m
Employees: Ø 4,688

EMEA
Revenue: EUR 1,061.5 m
Employees: Ø 7,522

APAC
Revenue: EUR 406.3 m
Employees: Ø 1,375

The consolidation effect of revenue generated between the regions within the Group amounted to EUR 82.5 million in the year under review. Central Services had an average of 421 employees in 2021.

1.2 Corporate structure

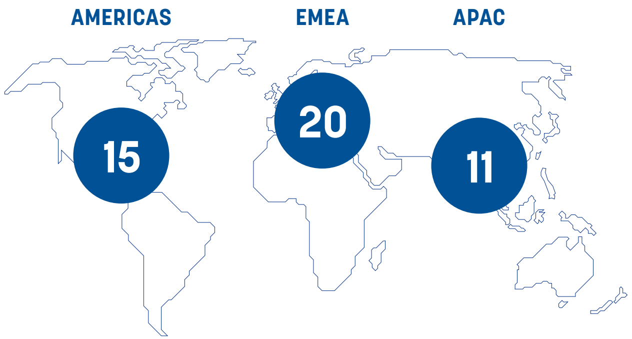
GRAMMER AG is the parent company of GRAMMER Group and is managed by three members of the Executive Board. It acts as an operating holding company in which the Executive Board members and the business-relevant Group departments are based.

In 2020, the Executive Board initiated the global realignment of GRAMMER Group's organizational structure in order to respond more quickly and flexibly to changing customer needs and to make operational decisions on a local basis. Responsibility for operating business is delegated on a decentralized basis to the three main regions EMEA (Europe, Middle East and Africa), AMERICAS (North, South and Central America) and APAC (Asia-Pacific). As a result of the new alignment, responsibility for the respective income statements, statements of financial position as well as cash flows was also transferred to the regions. This resulted in a fundamental optimization of management and resource allocation. The regions EMEA, AMERICAS and APAC have been the reportable business segments since January 1, 2021.

The previous reportable segments Automotive and Commercial Vehicles were defined as two divisions and focus on further developing and implementing global market, customer and product strategy. The global functions (Group areas) continue to support the three regions and the two divisions by providing systems, standards and guidelines as well as defined services, e.g. in the area of research and development.

The number of production and logistics sites declined as a result of four plant closures and one plant sale in the APAC and EMEA regions. On the other hand, three new plants were opened in China. Thus GRAMMER operates 46 production and logistics sites worldwide, which assemble and distribute high-quality products for the global vehicle industry with varying degrees of vertical integration.

Production and logistics sites



In addition to the parent company GRAMMER AG, the Group includes 39 fully consolidated companies as well as two joint ventures accounted for using the equity method (see also Note 3 "Scope of consolidation" in the notes to the consolidated financial statements). GRAMMER is active in 19 countries worldwide.

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. On December 31, 2021, the share capital of GRAMMER AG totaled approximately EUR 39.0 million, divided into 15,237,922 bearer shares. Of this, the Company holds 330,050 of its own shares. Own shares account for 2.17%. The majority of the shares issued (86.20%) are held by Jiye Auto Parts GmbH. The free float currently stands at around 11.63%. Effective October 8, 2019, the majority shareholder Jiye Auto Parts GmbH became an indirect subsidiary of Ningbo Jifeng Auto Parts Co. Ltd. following a change in its parent company's shareholder structure. Accordingly, the GRAMMER Group has been fully consolidated within the Ningbo Jifeng Group since that date.

1.3 Management process system

The GRAMMER Group's internal value-based management process system is primarily aligned to the key management indicators revenue, earnings before interest and taxes (EBIT), operating earnings before interest and taxes (operating EBIT).

Since 2020, both revenue and operating EBIT have been defined as the key management indicators. These indicators were maintained in 2021. Operating EBIT is defined as consolidated earnings before interest and taxes, i.e. excluding income taxes, financial income, financial expenses and other financial result, adjusted for foreign exchange effects and special items (e.g. restructuring expenses, expenses under change-of-control arrangements, transaction costs from company acquisitions, special expenses in connection with shareholder matters and, since 2020, the corona-related protection and response measures). Operating EBIT is not a performance indicator defined in accordance with the International Financial Reporting Standard (IFRS) in the version endorsed by the EU. However, GRAMMER AG uses operating EBIT for management purposes as it presents the GRAMMER Group's results of operations more transparently and in a more comparable manner over time, irrespective of special factors that may affect the assessment of the Company's performance.

The remuneration system for the Executive Board was also revised in 2021. Short-term incentives (STI) were defined as net income, EBIT or EBT – the Supervisory Board selects one of these each year – free cash flow (FCF) and strategic and ESG targets, e.g. compliance, environmental protection, economic stability and growth. A more detailed explanation of the key non-financial performance indicators for GRAMMER AG can be found in the remuneration report.

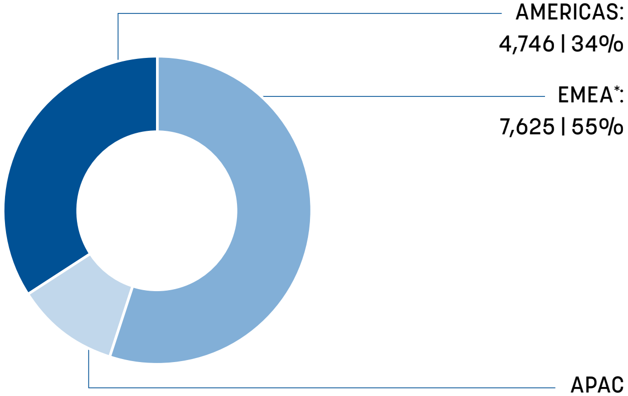
Components of long-term incentives (LTI) are relative total shareholder return (TSR) compared to the SDAX and ROCE as generally defined.

The Company also monitors and analyzes financial ratios such as net debt, working capital, gearing (net debt divided by equity) and leverage (net debt divided by EBITDA).

1.4 People at GRAMMER

With passion, personal commitment and comprehensive expertise, our 13,845 employees around the world develop innovations and solutions that help millions of people move through the world of mobility more safely, comfortably and happily. We face significant challenges on a daily basis. The transformation of the automotive sector, driven by current megatrends such as sustainability, automated driving and digitalization, demand adaptability in that we must be able to make decisions and put these into practice quickly to make the most of the opportunities that present themselves. This is why GRAMMER creates space for new ideas and for its employees' personal development. In this context we do not only facilitate collaborative working, we actively encourage it. GRAMMER supports teamwork between its organizational units and involves the team members in important issues as sources of expertise and in decision-making processes.

Breakdown of employees by region
as of December 31, 2021



* This includes 400 employees from Central Services.

Way of Working at GRAMMER: Rethinking collaboration

Since 2019, the letters "WoW" have expressed more than just a pleasantly surprised exclamation at GRAMMER: they also represent a new corporate culture, the new "Way of Working".

Diverse employees are a strength for organizations because different ways of thinking and opinions expand our horizons and foster creativity. If, however, there are (too) many different opinions on how work should be done "properly", the whole team's efficiency often suffers. The following therefore applies: To make the most of the benefits of everyone's individual strengths at a company, having a general framework for collaboration is thus key to success.

This framework is established with binding effect for GRAMMER in the Way of Working, because one thing is clear: Everyone in our Company should be able to participate and contribute their creativity and drive. True teamwork and seeking out collaborative decisions are vital elements of a successful partnership and consistent performance. If we take the premises of the WoW to heart, we will continue to be successful in the rapidly changing vehicle sector and its extremely challenging competitive environment moving forward.

GRAMMER WoW CODE: Let the show begin!

The related WoW CODE creates a framework that shows all employees how we want to work together and interact. The guidelines set out here are based on four pillars represented by the letters C, O, D and E, abbreviated to the WoW CODE. Trust and respect are the building blocks of our Way of Working at GRAMMER. On the one hand, this refers to the trust placed by managers in the abilities of their employees, especially in their individual responsibility, which is expressed chiefly in the term "empowerment". Yet it also refers to the trust all employees at GRAMMER have in their own abilities, shown primarily by personal "drive". Specifically, this is about being a good judge of a situation and then making a swift decision on the basis of this. Trust in the team's strengths is reflected in the term "collaboration". Last but not least, mutual trust is also the basis for open and respectful interaction, represented by the "openness" pillar in the GRAMMER WoW CODE.

The cultural shift that GRAMMER is undergoing as a result of the WoW principle is far from over. Major steps have already been made on the WoW journey, for example through training sessions including coaching, the launch and roll-out of the WoW CODE and the PowerHouse. It should be noted here that everyday working life can look very different, especially if we consider work in administrative areas compared to in production.

At the heart of the Way of Working: the PowerHouse

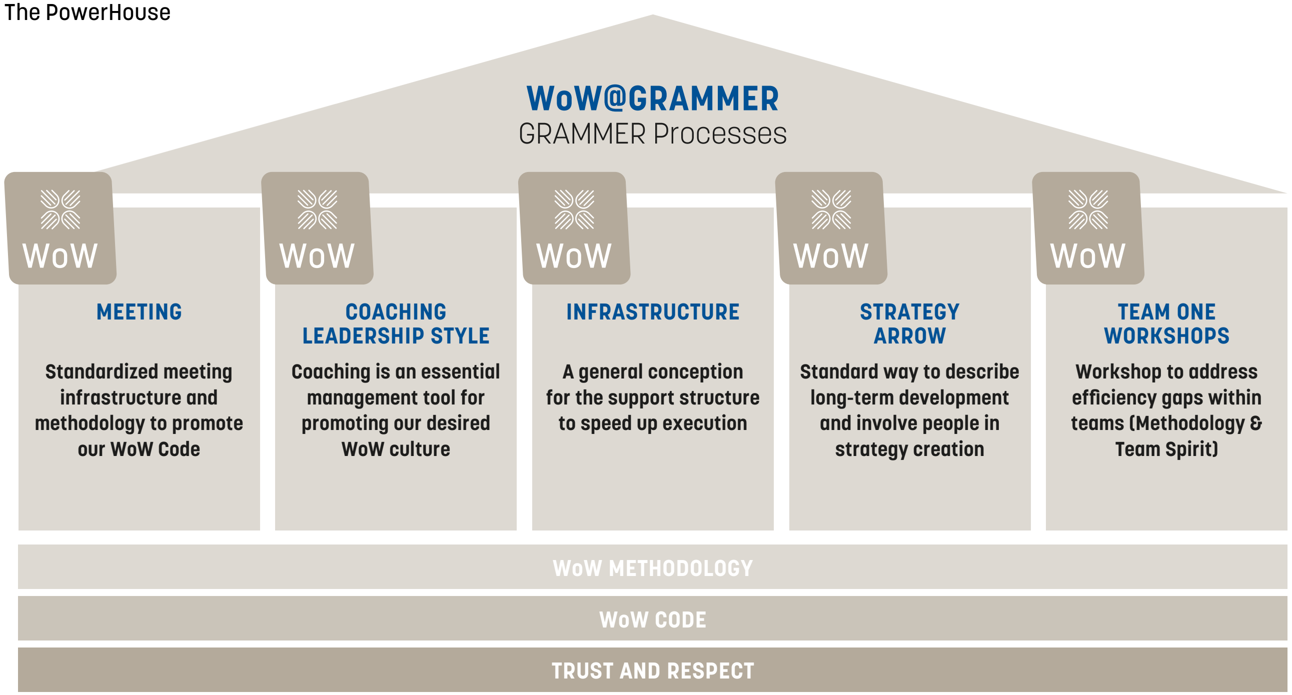
To put this into practice in their day-to-day work, we provide our employees with a set of tools. The most important of these is the WoW PowerHouse, the heart and drive of our Company's Way of Working.

GRAMMER's new PowerHouse is built on five building blocks: Each of these building blocks represents a key tool to put the Way of Working into practice at our Company. Accordingly, the PowerHouse plays a vital role in successfully enshrining the WoW CODE into employees' attitudes and thus into GRAMMER's DNA.

WoW – survey results

To measure the progress we have made in developing our corporate culture and identify areas for improvement, we conducted the first global WoW@GRAMMER survey in the fourth quarter of 2020. The questionnaire helped collect information on the five WoW dimensions – methodology, strategy, collaboration, ability and culture – as well as on the status of information. The results show clear successes in incorporating the Wow culture into our Company: there is more awareness of Wow culture, employees can actively contribute in meetings, are involved in the decision-making process and encouraged to take on responsibility. At the same time, collaboration in teams has improved significantly.

The PowerHouse



In November 2021, we again invited our employees to take part in a global survey under the name "ONE GRAMMER – ONE TEAM". The employee survey offered all members of staff the opportunity to document their experiences and issues first hand and to suggest where improvements could be made. The results confirmed to us that we have already made substantial progress in establishing a new corporate culture. Employees said that they feel they are in good hands at GRAMMER and can identify with GRAMMER as an employer. In addition, evaluations indicate that leadership qualities have improved as a result of the WoW culture shift and that diversity is present and valued at GRAMMER. The higher response rate of 75% also suggests that the survey was very much welcomed and not seen as unnecessary extra work. Yet we are not resting on our laurels: we intend to carry on with the work we have begun.

As well as setting out how we want to work together and interact at GRAMMER in the future, GRAMMER's Way of Working was also the start of a major change of course for the Company.

Employee development and securing young talent

Qualified and motivated employees are the essential building block for GRAMMER Group's success. When filling vacancies, our recruitment process initially takes the form of internal job postings. External channels such as job exchanges or recruitment agencies are used only when there are no suitable internal applicants.

Education and onboarding: a key component of recruiting young staff

To integrate new employees into the Company quickly, the onboarding process was further improved in the reporting year comprising an orientation training session and various training sessions on relevant personnel and technical issues. As early as this onboarding process, we talk to new employees about our WoW culture and use exercises to make it come to life. The onboarding process was implemented at sites in China last year and a global launch is planned for 2022.

To cement our success, we also need well-qualified young staff at our sites in the future. Accordingly, GRAMMER strategically designs its professional training in line with technological advances at the sites in Germany. By adjusting training content to take account of technologies and products used in the future, we are able to respond to technological change at an early stage. Our aim here is to ensure that operational requirements are met at the individual sites and thus not only to safeguard competitiveness and production output by qualified experts but also to continue to increase these.

To remain at the cutting edge of technology and research in the long term, GRAMMER also maintains a research partner network with many national and international universities, from which we benefit in many areas. In the areas of ergonomics/usability, for example, it partners with prestigious universities that GRAMMER uses to generate solutions. It also collaborates with Duale Hochschule Baden-Württemberg (DHBW), the Technische Hochschule Ingolstadt – chiefly with the electrical engineering and information technology faculty, which works on megatrends including automated/autonomous driving in specialized degree programs – and the University of Applied Sciences Landshut. In the case of the latter, GRAMMER works predominantly with the degree programs digitalization and process optimization & management, in part to bolster the training of IT experts at GRAMMER. This network within and outside Germany also puts GRAMMER in a good position to recruit qualified young staff. Once the pandemic eases, we will again step up our presence at various university recruitment events.

Further training: Success through needs-based development

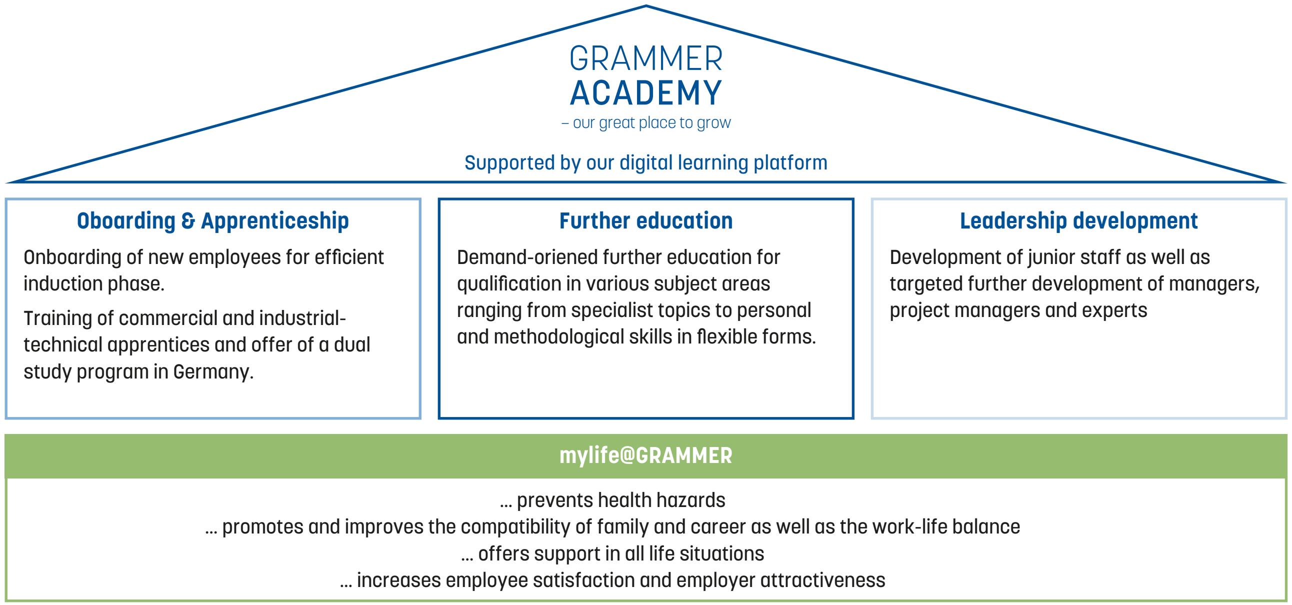
GRAMMER's goal for the next few years is to strengthen our culture of learning and expand expertise that is relevant for the future. Human resources development creates the framework and offers at GRAMMER in order to develop employee expertise, taking into account future market environment requirements and employees' individual skills and needs.

The GRAMMER Academy was founded with this in mind. It is supported by an e-learning platform and can be accessed by all white collar employees around the world. This platform can be used to provide qualifications needed at GRAMMER (current examples include project management and intercultural problem solving skills) and to deliver targeted training sessions (e.g. presentation techniques and communication), the need for which is determined individually in employee performance reviews. In the reporting period, e-learning sessions were also held on virtual management and remote working to support our managers in the changed working environment resulting from COVID-19. In addition, employees were also trained on the use of agile methods (e.g. scrum, Kanban, understanding digitalization). The training GRAMMER provides for its Blue Collar employees aims at improving individual performance, securing quality and delivery performance at the plants. There are also plans to develop and incorporate relevant learning content in the e-learning platform, but this first requires expanding the necessary infrastructure.

Management development

To provide optimal support and further training to our junior staff and managers, we offer our employees the opportunity to participate in various corporate development programs. The DRIVE program is designed for young professionals with the potential to progress to senior positions and responsibilities. This program is intended to set out their career path (management, project or expert). While the FAST LANE program was designed for employees with initial management experience and very high potential, the TOP GEAR program is tailored to participants from middle management. GRAMMER runs the corporate development programs to develop future managers largely from its own organization and, to this end, begun establishing an internal pipeline for succession planning in 2022. In the reporting year, GRAMMER also restructured the career tracks for the management, project and expert tracks. The Company places great value on the use of a standardized global job evaluation system for all three career tracks, as all three career paths are equally important for the Company's success.

At global talent conferences, we offer our employees an evaluation of their potential and set out potential career and development steps. This helps employees see what prospects there are at the Company and gives them a development plan that suggests how they can continue to make progress.



Attractive remuneration

A carefully considered remuneration system plays a key role at GRAMMER in positioning itself as an attractive employer. We see remuneration as a holistic system made up of various components such as the base salary, performance-based components and ancillary benefits.

It is important to us that our employees believe their remuneration to be in line with the market and related to their performance. For management positions, this is achieved by the use of a new, Company-wide job evaluation system introduced in the reporting year. This makes it possible to compare positions within the Company as a whole and within the market environment using transparent criteria, ensuring fair salaries.

In addition to fixed remuneration in line with market rates, management employees also receive performance-based annual additional remuneration in the form of a performance bonus. This is derived from a system that is standardized at global level and is based on the Company's financial success, the attainment of strategic company and departmental targets and employees' individual performance. Since the last financial year, the process of setting and following up on targets as part of the annual performance management process has been supported digitally and allows employees and managers to receive and give regular feedback on performance and behavior (WoW Code). This way, GRAMMER creates a high level of transparency regarding the fair composition of performance-based remuneration.

Outside management, remuneration is determined on the basis of collective agreements and company and statutory regulations, ensuring market comparability. The inclusion of social partners in line with the law ensures a high level of acceptance among employees.

As well as fixed and performance-based remuneration, GRAMMER also offers its employees a wide range of individual, voluntary and social benefits as well as special allowances, which are also based on local market considerations and the needs of the employees. Prime examples of these include the company pension scheme at sites in Germany and comprehensive health insurance in the US and China. GRAMMER also offers a large range of non-monetary benefits such as company catering, a company physician and other social support services.

Diversity and inclusion meet WoW

The Way of Working philosophy is based on the fundamental values of trust and respect. Accordingly, diversity and inclusion are part and parcel of our corporate culture. For us, diversity of people and personalities at GRAMMER is one of the Company's main strengths. Different ways of thinking and opinions expand our horizons and foster creativity.

People at GRAMMER support our motto: "It's all about people". Managers and employees at GRAMMER firmly believe that, as a company, they make better decisions, retain employees in the longer term and achieve a better customer focus if diversity, equality and inclusion are promoted and put into practice. To ensure that everyone feels respected and listened to, managers and employees receive training on the practices of the CODE.

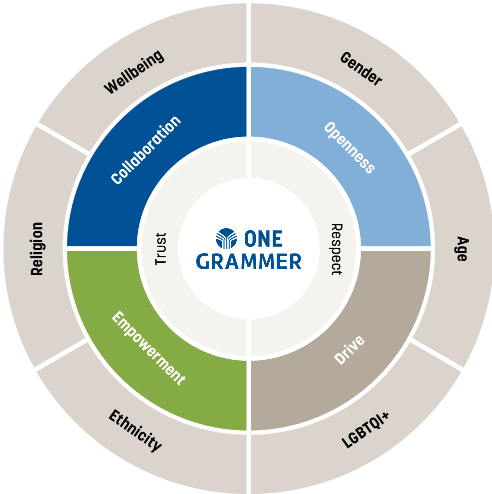
As well as being a signatory to the Diversity Charter, GRAMMER also supports diversity by participating in the internal global network Ladies@GRAMMER to exchange views. Tips, interesting events and publications are shared, which raises awareness of the advancement of women. An equal opportunities officer position is currently being created at a GRAMMER plant in Serbia where the share of women is particularly high. In addition, educational seminars and training sessions are planned there for all employees and managers.

Share of women in the workforce
as of December 31, 2021

	Female	Male
GRAMMER Group	5,990 (43%)	7,855 (57%)
EMEA (incl. CS)	3,322 (44%)	4,303 (56%)
AMERICAS	2,267 (48%)	2,479 (52%)
APAC	401 (27%)	1,073 (73%)

We signed the Diversity Charter in 2006, consciously espousing our commitment to greater tolerance and openness in how we interact with each other. Various campaigns and programs have arisen as a result of this and show that GRAMMER's employees support the Charter and practice this culture. Dynamic, interactive diversity and inclusion workshops were held in May 2021 to celebrate Diversity Day and the World Day for Cultural Diversity for Dialogue and Development. These focused on issues including mental wellbeing, gender, ethnicity and age. The workshops, which were attended by a diverse range of people, were held under the auspices of and with the active participation of CFO Jurate Keblyte.

Jurate Keblyte, CFO: **"For me, corporate culture is the most important aspect of the magic triangle that forms the foundation of sustainable business performance: strategy, structure and culture. The strategy is the brain that gives direction. The structure is the backbone comprising the organizational structure, processes and systems. And culture is our heart, supplying the brain with blood and oxygen and ensuring that our spine stays upright. This is why WoW@GRAMMER is so important to us."**



To highlight the importance of this issue and raise awareness, D&I videos were published on a website created specifically for the initiative featuring eight individual reports as part of a four-week series. Using video messages, the Executive Board as a whole and members of senior management shared their personal experiences. The personal involvement and input of the Executive Board clearly demonstrate that diversity is a key component of our corporate culture, the GRAMMER Way of Working.

At present, a project group is working on other diversity and inclusion initiatives to mark the upcoming Diversity Day. This is further evidence that, at GRAMMER, we practice diversity at work.

People@GRAMMER in the digital transformation

GRAMMER is continuing to further drive the Company's digital transformation to provide support to employees and further improve efficiency in everyday working life.

GRAMMER is already digitally mapping the performance management process, the talent review process and other HR planning processes as part of corporate planning. As part of the new potential assessment process, all participating employees can fill out their talent profiles in our HR IT system and describe their career wishes, mobility and any training requirements. There are also plans to introduce a standardized global database for all personnel master data. This would allow for further digitalization of HR processes while at the same time creating the basis for improved reporting as the basis for strategic decisions by management.

GRAMMER's digital learning management solution GRAMMER, which ensures targeted learning regardless of the time and place, facilitates training and continuing education in what are known as agile skills, e.g. scrum, agile project management, design thinking etc. We also offer conventional learning content through this platform, including language training, intercultural training and software training.

Nuanced solutions to support wellbeing

Within the framework of the GRAMMER Academy, the initiative MyLife@GRAMMER advocates for the reconciliation of professional and private needs. GRAMMER places significant value on health, family and individual flexibility for its employees. To promote a work-life balance, GRAMMER creates the framework for flexible working time models including part-time and supports parents returning to work after parental leave. GRAMMER also encourages a family/job balance by helping organize childcare. For example, the site in Hardheim has an integrated nursery.

Continued focus on health and safety

Occupational health and safety are of paramount importance in a production company like GRAMMER. This stems from two key focus points: avoiding accidents at work and encouraging activities for preserving employees' health and ability to perform. GRAMMER has implemented various measures to ensure this. All managers at GRAMMER are regularly trained on and aware of their responsibility when it comes to occupational health and safety. All machinery, equipment and work processes are thoroughly tested and approved. Where unavoidable residual risks remain, all employees are trained accordingly and provided with the required protective equipment. Employees are taught about workplace hazards as part of risk assessments and regular safety briefings. Compliance with regulations is ensured by regular site visits involving all managers. In addition to these checks, employees are encouraged to actively contribute to occupational health and safety.

GRAMMER measures the success of its occupational health and safety measures using the lost time injury frequency rate (LTIFR). This indicator of the number and frequency of accidents shows how accidents develop over time.

As the LTIFR as part of the occupational health and safety management system under ISO 45001, regular audits are also conducted to review the continuous ongoing improvement and effectiveness of measures already in place. All factors relevant to occupational health and safety are monitored and the plants that perform the best are awarded an occupational health and safety prize at the end of the year.

			Total December 31, 2021	Total December 31, 2020
Number of employees	global, total		13,845	14,040
	EMEA (incl. CS)		7,625	8,073
	APAC		1,474	1,269
	AMERICAS		4,746	4,698
Number of nationalities in Germany			51	51
Number of nationalities at GRAMMER AG			35	33
Share of employees working outside Germany		%	79.41	79.25
Share of women in the workforce	global, total	%	43.26	44.14
	EMEA (incl. CS)	%	43.57	44.46
	APAC	%	27.20	27.42
	AMERICAS	%	47.77	48.13
	in Germany	%	23.02	23.82
Share of women in management positions at GRAMMER AG	Top management	%	25.00	– [1]
	Middle-Management	%	10.80	– [1]
Share of (graded) managers outside Germany		%	42.33	
Number of apprentices in Germany			83	88
Share of part-time employees in Germany		%	4.18	6.45
Share of employees younger than 30		%	17.88	18.63
Share of employees 30 to 50		%	61.70	61.17
Share of employees older than 50		%	20.41	20.21
Average age	global	Years	40.32	40.72
	EMEA (incl. CS)	Years	42.61	42.38
	APAC	Years	36.34	35.66
	AMERICAS	Years	37.87	39.24
Average years of service	global	Years	8.20	8.33
	EMEA (incl. CS)	Years	10.53	10.40
	APAC	Years	4.71	5.04
	AMERICAS	Years	4.47	4.36
Average years of service in Germany			13.67	14.08

[1] Data collected for the first time in 2021

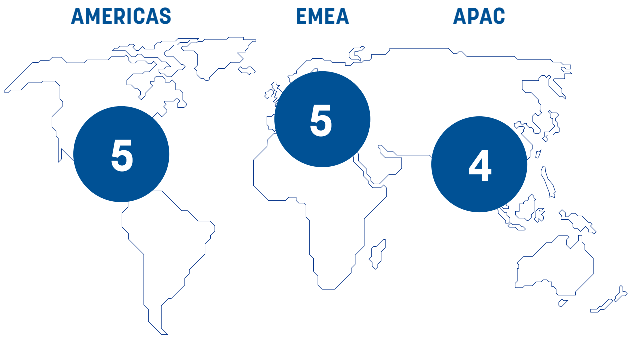
1.5 Research and development

R&D strategy

Research and development (R&D) is a key element of the corporate strategy and divisional strategies and is an important foundation for making the GRAMMER Group more competitive. The strategy process results in specific product strategies for the divisions with different requirements and focus points in the various regions. The R&D strategy is based on the vision of developing products that are systematically aligned with customer and end user requirements when it comes to reliability and performance. Here, GRAMMER wants to be the preferred development partner to its international customer base in key markets, providing the R&D resources needed on site.

Accordingly, GRAMMER Group works on the basis of a regional R&D structure with a central division for divisional and global product strategy, sustainability, ergonomics and design tasks. GRAMMER had a total of 14 R&D locations in 2021, five of which were in the EMEA region, five in AMERICAS and four in APAC. Roughly 500 GRAMMER engineers and R&D employees work there with the aim of continuously enhancing the ergonomics, safety, functionality, quality and aesthetics of our products. GRAMMER significantly stepped up its R&D resources in both divisions in 2021, especially in China, to capitalize on the strong regional growth. With its local presence on the Chinese market, GRAMMER is aiming for closely interlocked, regional cooperation with its global customers – from the first stages of development right up to the end product, taking account of country-specific market requirements.

Research and development centers



Key areas of development

The key areas of development are based on the respective division's product strategy. These account for dominant megatrends in the sector as well as customer surveys and the ongoing development of the product portfolio. Megatrends focus on the transformative changes in the automotive industry, chiefly the new mobility, electric and hybrid drives and connectivity. For GRAMMER, these developments mean a growing focus on health, safety and wellbeing with entirely new requirements for interior products in the vehicles of the future. The megatrends of digitalization, urbanization and sustainability also play a vital role in product development. With the latter, GRAMMER supports its customers in complying with new regulations by making its products more sustainable in terms of the materials and processes used. For example, GRAMMER helps reduce vehicles' CO_2 emissions and fuel consumption by employing light-weight construction solutions.

Specifically, in all three regions in the Automotive Division last year the key areas of development were customer projects – from acquisition to validated series production. Furthermore, advances were made on results optimization of the ongoing series (VAVE) as well as numerous customer-driven series changes (ECM) and optimizations. In addition, in innovation projects GRAMMAR focused on innovative console functionalities such as sliding consoles, loudspeaker integration in headrests, glass as both design and functional element as well as upgrading the entire vehicle interior. For the Commercial Vehicles Division alongside validations of customer-specific orders in the onroad and offroad sectors, the focus was on the further development of the seat platforms for the offroad sector (S2900, MSG 29x), the "Ubility One" product concept unveiled in September 2021 for bus and rail transport, as well as on further developing the weight-optimized seating platforms for high-speed trains.

More efficient product development through digitization

In order to meet future requirements in the markets and regions, a project was launched to digitize the management of the entire product lifecycle (product lifecycle management or PLM). Last year, information was networked from different areas in the new system environment, thus making an additional contribution to the TISAX certification with the transition to a modern document management system. These solutions are in the process of being rolled out globally.

With increased transparency, processes such as engineering change, product and process planning as well as the bid process are now being optimized and shortened. It's another aim here of GRAMMER to implement an integrated CO_2 assessment into product and process planning to reduce the carbon footprint of the products and production sustainably and at an early stage.

Further details regarding the methods to efficiently develop mechatronic systems were provided in the strategic cooperation with Systemtechnik LEBER GmbH & Co. KG. The objective of the partnership is to demonstrably improve expertise in mechatronics so as to become a relevant development partner for customers in this area. Particular importance was attached to the sub-processes requirements management, architecture design and hardware and software development. A tool landscape was also established that clearly shows the degree to which the Company's own quality benchmarks are met at all times. An example of the results of this cooperation is a proprietary GRAMMER seat control box for the Commercial Vehicles Division.

GRAMMER put the methods successfully into place in joint projects and architecture and control units were developed for future generations of suspensions. Alongside Systemtechnik LEBER, the systems engineering methods are refined further in the outlook and transferred to Grammer systems (including PLM).

R&D expenses

Non-capitalized research and development expenses came to EUR 78.2 million in 2021 (2020: EUR 59.0 million), representing 4.1% of total revenue (2020: 3.4%). Furthermore, in fixed assets EUR 7.5 million of development costs were capitalized.

Results of R&D work

GRAMMER started successful series production for numerous development projects last year and brought innovative products to market. There were 1,955 Group-wide patents pending and granted (2020: 1,895).

Significant division projects in 2021 are listed below:

Further expansion of the product portfolio in the Commercial Vehicles Division

IIn the area of seating systems for the various segments of the commercial vehicle market, the focus is on heightening driving comfort, safety, ergonomics and keeping vehicle occupants healthy. The next generation of active suspension systems currently under development will provide greatly improved vibration isolation, additionally protecting the spinal health of agricultural and construction equipment operators. In addition, new functions in the upper part of the seat provide increased comfort and additional safety.

In the truck segment, GRAMMER successfully introduced a new driver/passenger seat combination for medium-weight and heavy trucks in 2021. As the first air suspension premium driver seat, the MSG 115 can be fitted with a swivel adapter, combined with the new cinema seat from the MSG 115 system kit which also swivels. This allows GRAMMER to offer its OEM customers an innovative solution for increased variability in the truck cab. The product innovation increases user comfort while also improving safety in the cab.

GRAMMER introduced its Ubility One concept in October 2021 with the aim of helping shape urban passenger transport in the 21st century: The innovative product family makes consistent use of lightweight construction and features sustainable design and high user comfort, pointing the way to the future of urban mobility. By launching Ubility One, GRAMMER is positioning itself as the first provider of a holistic interior concept for the buses and trains of tomorrow. It is the Company's answer to the megatrend of urbanization and helps meet growing individual mobility requirements.

Production of the first module in the Ubility One product family is scheduled to start in 2023 at a GRAMMER site in Europe. The Ubility One market launch underscores the Company's position as a leading supplier of seating solutions for global urban passenger transportation.

New product concepts in the Automotive Division

With the increasing electrification of the drivetrain system as well as the further automation of driving functions, GRAMMER expects to see significant changes and upgrades to vehicle interiors in the coming generations of vehicles. End user expectations regarding comfort, flexibility and functionality will undergo a fundamental change. Thanks to their architecture, electric cars are more adaptable to customer needs. As well as being more spacious, fewer buttons and switches mean that they are easier to operate. As there is no longer a drivetrain, the center console will play an even more important role in the vehicle and include new functions. In its concept study "Console 4U", GRAMMER is developing center consoles that can combine a number of functions for new vehicle interior concepts using modularity and sliding features. Another area of research last year was the use of 3D glass in the vehicle interior as a sustainable premium material with innovative design approaches. A new forming process creates three-dimensional glass modules that slot seamlessly into existing cockpit architecture. Glass combines the advantages of being highly robust with the properties of a premium surface and a number of attractive design elements. It is also recyclable and thus more sustainable than conventional materials.

Last year, important research areas for GRAMMER developers were integrating functions such as lights and control units. Other product concepts were developed as part of strategic collaboration with HARMAN International Industries, a leading provider of audio systems in the automotive sector, to develop solutions to integrate optimized audio systems in headrests. Together it is intended to offer best-in-class audio systems with new possibilities such as individual sound zones and noise cancellation.

2. Economic conditions

2.1 Economic conditions

2.1.1 Macroeconomic environment

Macroeconomic conditions in 2021 were largely shaped by a global economic recovery. Over the course of the year, this was increasingly held back by the negative consequences of the COVID-19 pandemic, such as material bottlenecks resulting from supply chain interruptions. Compared to the previous year, when the International Monetary Fund (IMF) calculated that global gross domestic product (GDP) sunk by 3.1% on account of the COVID-19 pandemic, the IMF's latest outlook puts global economic growth in January 2022 at 5.9%.

Economic growth was driven by good performance both in industrialized countries (+5.0%) and in emerging markets (+6.5%). While the economic upturn in the first half of 2021 was propelled by hopes that the pandemic would soon be over as vaccination campaigns got underway in industrialized countries, the development clouded over in the second half of the year. Higher inflation, supply bottlenecks – with particular problems in the supply of raw materials and semiconductors, which increased material prices considerably – labor shortages and new worries about the highly contagious Delta and Omicron variants meant that economic performance varied considerably around the world.

In the AMERICAS region, the US once again emerged as the driving force among industrialized countries in 2021, enjoying a strong economic recovery. The IMF thus expected GDP to increase by 5.6% in the year as a whole. Nevertheless, high inflation and the severe labor shortage meant that growth forecasts fell sharply by 1.4 percentage points between July 2021 and January 2022. The Federal Reserve has already responded to this and indicated that it will raise interest rates soon. In Mexico, economic growth in 2021 came to 5.3%.

In EMEA, the IMF also revised its outlook for Germany downwards in the second half of 2021. While experts were still assuming growth of 3.6% in July and 3.1% in October, the problems described caused growth outlooks to be revised to just 2.7% in January 2022. Current estimates put eurozone GDP growth at 5.2%.

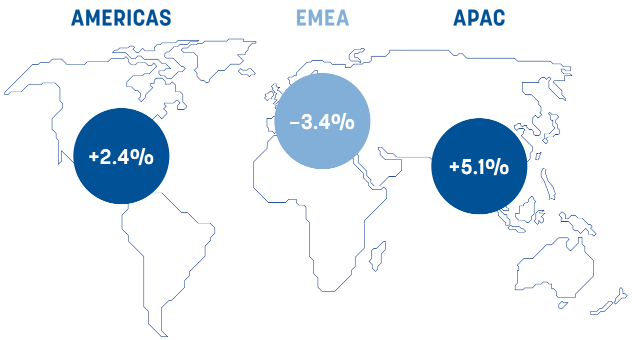
In the APAC region, the IMF calculates that emerging market economies grew by 7.2% in the reporting period. China – GRAMMER's most important market in the region and the only major economy to generate economic growth in 2020 – fared well throughout the last year too, with its very restrictive COVID-19 policies. According to the IMF, Chinese GDP picked up by 8.1% over the year.

Other major economies such as Russia, Brazil, India and Japan also recovered from the COVID-19 pandemic in 2021. Nonetheless, the uncertainty accompanying the pandemic remains high, with the extent of the economic recovery varying sharply from country to country and from sector to sector on account of differences in the progress made in vaccination campaigns, the sharp rise in inflation in some cases and supply chain issues.

2.1.2 Sector environment

Semiconductor shortage slows recovery in automotive sector

Automotive production in 2021 compared with the previous year.



Following the massive sales declines in 2020 attributable to the COVID-19 pandemic, the production volume in the automotive industry recovered slightly in 2021. A more substantial recovery was hindered by the shortage of semiconductors, which took a particular toll on global automotive production from the second half of 2021 onwards. Semiconductors, a key component of microchips, are increasingly important for modern cars. As a result of the economic recovery and the rapid growth of the electronic industry, demand for semiconductors has surged recently. However, as numerous automotive manufacturers canceled their orders in 2020 and communication and entertainment technology producers filled this demand gap, in 2021 semiconductor and chip suppliers no longer gave preference to automotive manufacturers. In response, German manufacturers in particular focused on high-margin models, whereas the production of models that generate high sales but weak margins had to be stopped in some cases. According to IHS (IHS Markit), only 2.5% more vehicles were produced globally in 2021 than in the weak previous year. While the AMERICAS and APAC regions generated slight gains, the EMEA region suffered a downturn.

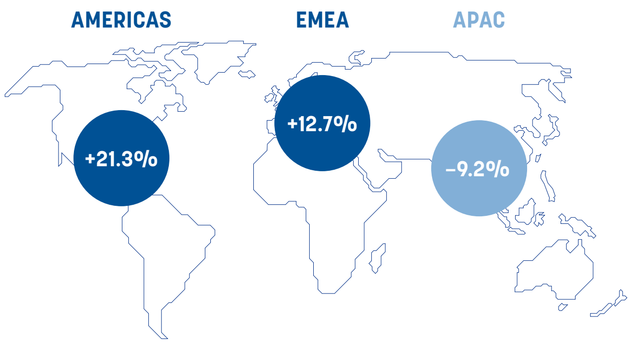
Following a 22.0% downturn in production in the AMERICAS region in 2020, it also recovered only slightly in 2021, up 2.4% year on year (369,018 vehicles). After a weak opening quarter (–3.2%), production figures enjoyed a particularly dynamic recovery in Q2 2021 (+148.9%), before production figures contracted again significantly compared to the previous year in H2 (Q3 2021: –24.4%, Q4 2021: –13.6%).

Despite the general economic recovery in the last year, the EMEA region saw production figures contract by 3.4% or 626,028 vehicles. After a very weak 2020, production figures recovered in the first two quarters year on year by 1.3% and 81.1% respectively. The European market then had to tackle these problems in the second half of the year, which resulted in sharp declines of 28.8% in Q3 and 24.0% in Q4.

Overall, IHS expects that APAC generated a year-on-year increase of 5.1% in production output during the period under review. This growth was driven by a strong start to the year. In China, production volume expanded by 80.5% in the first quarter of 2021. However, the Chinese market saw production figures decline in the subsequent quarters of 2021 (Q2 2021: –5.0%, Q3 2021: –14.5%, Q4 2021: –5.5%). Having said that, it should be noted that the first quarter of 2020 in China, in particular, was still dominated by very strict restrictions on account of the COVID-19 pandemic, whereas the trend from May 2020 onwards was positive. The APAC region excluding China generated growth of 5.9% and 81.0% in the first two quarters of 2021 respectively. However, the second half of the year was weaker with production volumes declining by 10.6% and 12.5% respectively.

Commercial vehicle market: Shortage of semiconductors hampers upturn

Commercial vehicle production (trucks and buses) in 2021 compared with the previous year.



Like the automotive industry, the commercial vehicle sector (trucks and buses) was stymied in 2021 by the global shortage of semiconductors. Performance in the first half of the year was also far better than in the previous year (Q1 2021 +48.4% on Q1 2020, Q2 2021 +12.2% on Q2 2020), but production figures dwindled significantly in the second half of the year (Q3 2021 –25.8% on Q3 2020, Q4 2021 –26.7% on Q4 2020). All in all, LMC Automotive estimates that global production volumes of commercial vehicles fell by 1.2% in the reporting period.

However, the individual regions in which GRAMMER AG operates were a mixed bag. Commercial vehicle production in the AMERICAS and EMEA regions performed well in 2021 overall. The EMEA region picked up by 12.7% against 2020 and the AMERICAS region generated year-on-year growth of 21.3%. Nonetheless, this positive development is attributable to the very weak previous year period.

By contrast, the reporting period was not a good year for the APAC region after a strong 2020 – in spite of the pandemic (+8.8%). Commercial vehicle production declined by 9.2% compared to the previous year. This poor performance is essentially the result of the market in China (–19.4% on 2020), where there was weaker demand due to the introduction of a new emission standard and high inventories. On the other hand, the APAC region excluding China posted a positive development (+32.3% on 2020).

Agricultural machinery

According to PSR OE Link, the agricultural machinery industry performed well compared to all other vehicle sectors last year. Despite the COVID-19 pandemic, the segment enjoyed global growth of 15.5% compared to 2020.

Construction machinery sector

The global construction machinery sector was similarly positive. Bolstered by the global real estate cycle, information from PSR OE Link puts year-on-year production growth for the segment at 9.9%, positioning it well for further growth in the years ahead.

Material handling

The material handling industry closely followed the latest global economic conditions last year and performed similarly to the construction machinery industry. According to the most recent PSR OE Link forecast, production output increased by 17.3% worldwide compared to 2020.

Railway industry

Data from the Unife World Rail Market Study indicates that the global railway industry maintained its long-term growth trajectory in 2021. As the largest railway infrastructure market in western Europe, Germany was one of the key drivers of this. VDB (Verband der Bahnindustrie in Deutschland e. V. – German Railway Industry Association) was upbeat in its assessment of the first half of 2021: with revenue reaching EUR 7.3 billion, the rail industry in Germany achieved a new record. Compared with the previous year, revenue increased by 14.0%. However, order intake for the first half of 2021 fell by almost 7% to EUR 7.0 billion. According to VBD, this decline is also due to the COVID-19 crisis. In addition, the decline in domestic orders was specifically highlighted.

2.2 Significant events in 2021

COVID-19

The ongoing COVID-19 pandemic and its consequences continued to play a major role in determining the GRAMMER Group's business activities in 2021. While the first half of the year was still shaped by regional lockdowns combined with simultaneous economic recovery, in the second half of the year negative side effects such as supply chain problems, labor shortages and raw material and logistics price increases as well as the emergence of the Delta and Omicron variants increasingly impacted GRAMMER's financial performance. In terms of its own organization, extensive corona-related protection and response measures meant that the Group was able to limit the negative effects and safeguard the health and safety of its employees as far as possible.

Realignment: Test passed

The realignment of the organization initiated in 2020 into the three regions AMERICAS, APAC and EMEA was put to the test in the reporting period, which meant a stress test for the Group, not least on account of the ongoing COVID-19 pandemic. The new structure strengthened the various market regions by giving them more responsibility. Decisions could be taken locally, taking advantage of the best-possible information available and proximity to customers, which helped bring about positive business performance despite a challenging environment. The objective is to continue strengthening the three regions this year too, increasing response speed and flexibility. At the same time, the overarching Group functions and the global Automotive and Commercial Vehicles Divisions ensure a high level of security, synergies and transfer of knowledge as well as a coordinated global approach to how the Company presents itself to global customers.

Terms extended for all three Executive Board members

Last year, the GRAMMER AG Supervisory Board extended the terms of the three Executive Board members Thorsten Seehars (CEO), Jurate Keblyte (CFO) and Jens Öhlenschläger (COO) ahead of schedule. This is the Supervisory Board's way of honoring the strategic realignment of the GRAMMER Group implemented by the Executive Board team in the exceptional year that was 2020. In addition, early and resolute implementation of the efficiency-enhancement program to further improve the cost structure and bolster long-term competitiveness created a sound basis for operating excellence and lasting business success. Thorsten Seehars's new Executive Board contract expires on August 31, 2026, with Jens Öhlenschläger's contract extended until December 31, 2026 and Jurate Keblyte's term extended until June 30, 2027.

Earnings secured by efficiency-enhancement program

Implementation of the efficiency-enhancement program launched in the fourth quarter of 2019 to optimize operating processes and cost structures was continued last year and played a major role in safeguarding earnings. In connection with this, the following progress was made in consolidating sites in Europe and Northern America in 2021:

- In the EMEA region, a Spanish subsidiary was sold in the second quarter and the German plants in Wörth and Trusetal and the Belgian plant in Geel were closed by the third quarter to improve cost structures and improve competitiveness in the long term. Combined with the expansion of the Haselmühl site, this optimized capacity utilization.
- In the AMERICAS region, despite extended downtime at customers, as a result of volatile call-off orders and the strained labor market, the site in Jefferson, Ohio/USA, was closed in the second quarter of 2021. As part of this, production of seats for the commercial vehicles industry was successfully moved to the TMD plant in Delphos, Ohio/USA.

Project Mayflower: Blueprint for the future

GRAMMER's competitive position is also the result of efficient, flexible and competitive production. The aim of GRAMMER's project Mayflower is to create a blueprint for "Seat Production 4.0" and become the most advanced manufacturer of commercial vehicle seats worldwide. To achieve this, work began on converting the plant in the Upper Palatinate village of Haselmühl into a pilot plant so that the Company can continue to meet steadily rising demand among commercial vehicle OEMs for model- and brand-specific seat variants.

Expansion of footprint in APAC

As the world's largest single market for cars and commercial vehicles, China is enormously significant for GRAMMER. The Company therefore continued to systematically implement its growth strategy in 2021. Alongside opening a new production location in Shenyang, in the reporting period the new Chinese headquarter was established in Hefei (Anhui province) and the new plant in Haerbin was opened. Another milestone was founding a company together with a subsidiary of the FAW Group, China's largest commercial vehicle OEM as partner. Together, they will now produce high-quality truck seats used in many of the FAW Group's truck model platforms. GRAMMER also made its presence in China more visible by participating in Auto Shanghai 2021. The fair focused on the PURE concept, which presents various interior ideas for future usage scenarios. For example, the sliding console showcased at the trade fair means that the car interior can be used for a wider variety of purposes and adapted to passengers' individual needs.

GRAMMER becomes a green company

Corporate strategy not marketing: The GRAMMER Group takes its environmental responsibility seriously and intends to do its part in achieving the 1.5 degree Paris Agreement goal. To this end, the Company wants to reduce its global CO_2 emissions by at least 50% by the end of this decade and defined five action areas for this in 2021. As well as developing more sustainable products, this includes reducing direct emissions, making more efficient use of energy, raw materials and materials, increasing its recycling rate and optimizing the carbon footprint in its supply chains and own products. One of the many milestones that have already been achieved in this context was switching energy supply to renewable energy sources at all German sites.

Ubility One: Innovation made by GRAMMER

GRAMMER's competitiveness depends not least on recognizing future trends and customer needs at an early stage and launching products that address these. Through its Ubility One concept that was unveiled in September 2021, GRAMMER is picking up on the global trends of urbanization and sustainability and positioning itself as the first provider of a holistic interior concept for the buses and trains of tomorrow. The innovative product family, with its three seat models Ubility Light, Ubility Air and Ubility Shift, makes consistent use of lightweight construction and features sustainable design and high user comfort, pointing the way to the future of urban mobility.

2.3 Overview of key figures and business performance

GRAMMER Group Key figures

EUR m

	GRAMMER Group			EMEA			AMERICAS			APAC		
	2021	2020	Change	2021	2020	Change	2021	2020	Change	2021	2020	Change
Revenue	1,903.0	1,710.7	192.3	1,061.5	965.8	95.7	517.7	476.6	41.1	406.3	339.2	67.1
EBIT	18.9	–46.1	65.0	43.3	–8.7	52.0	–61.7	–34.5	–27.2	52.9	29.6	23.3
EBIT margin (%)	1.0	–2.7	3.7%-points	4.1	–0.9	5.0%-points	–11.9	–7.2	–4.7%-points	13.0	8.7	4.3%-points
Operating EBIT	22.8	–11.7	34.5	47.2	–6.9	54.1	–61.5	–30.0	–31.5	52.8	30.5	22.3
Operating EBIT margin (%)	1.2	–0.7	1.9%-points	4.4	–0.7	5.1%-points	–11.9	–6.3	–5.6%-points	13.0	9.0	4.0%-points
Capital expenditure (without finacial assets)	114.7	83.8	30.9	46.2	36.7	9.5	21.1	16.2	4.9	35.7	11.0	24.7
Employees (number, average)	14,006	14,192	–186	7,522	7,649	–127	4,688	4,612	76	1,375	1,290	85

The consolidation effect of the turnover generated within the Group between the regions amounted to EUR 82.5 million in the reporting year. On average, 421 people were employed in Central Services in 2021.

GRAMMER Group business performance

After global economic output shrunk in 2020 in light of the COVID-19 pandemic, 2021 was a year of general economic recovery. Nevertheless, this recovery trend weakened in the second half of 2021 as almost all industrial sectors suffered increasing supply bottlenecks and higher raw materials, production and transport costs. The result of this was that economic prospects were weaker on the whole than anticipated at the start of the year. Since the second quarter the automotive sector, which is relevant to GRAMMER, has seen semiconductor shortages and price hikes for commodities and materials. This led to a substantial drop-off in customer call-offs and overcapacity in plants with automotive products.

Despite this negative impact on business performance in the second half of the year, the GRAMMER Group reported a 11.2% increase in revenue to EUR 1,903.0 million in 2021, slightly higher than expected Group revenue of EUR 1.8 billion. This revenue upturn was driven by the Commercial Vehicles Division, while the Automotive Division generated only a slight revenue increase in comparison to the previous year. Group earnings before interest and taxes (EBIT) came to EUR 18.9 million (2020: EUR –46.1 million). Operating EBIT improved to EUR 22.8 million (2020: EUR –11.7 million), representing an operating EBIT margin of 1.2% (2020: –0.7%). The EMEA and APAC regions clearly contributed to earnings here, whereas the AMERICAS region fell short of expectations and closed the year with EBIT well into negative territory at EUR –61.7 million. Key reasons were increased material prices, considerably higher personnel costs, a disadvantageous product mix and short-term reductions in automotive customer call-offs.

Group earnings after taxes improved considerably to EUR 0.6 million (2020: EUR –64.7 million). Earnings per share came to EUR 0.08 (2020: EUR –5.10). This earnings improvement reflects both higher revenue and cost savings as a result of restructuring measures such as the consolidation of plant locations and the closure of four production sites to bolster the GRAMMER Group's long-term competitiveness.

Free cash flow as of December 31, 2021 was EUR –5.6 million (2020: EUR –36.3 million). The negative free cash flow was essentially the result of the increase in inventories and a rise in trade accounts receivable. The GRAMMER Group increased its investments as planned to EUR 114.7 million, directing investment particularly towards production ramp-ups and projects to digitalize core processes and systems. Net debt as of December 31, 2021 was EUR 420.2 million (December 31, 2020: EUR 358.0 million).

GRAMMER had an average of 14,006 employees in 2021, 186 (1.3%) fewer at global level.

2.4 Reconciliation of business performance in 2021 with the outlook

In line with the International Monetary Fund's expectations, which had predicted a 5.5% rise in global GDP in 2021, the outlook for 2021 as a whole given in the 2020 annual report at the end of March assumed that GRAMMER AG markets would continue to enjoy good economic conditions. This was also based on the IHS Markit's positive forecast, which anticipated production figure growth of 13.7% in the automotive market. By contrast, LMC anticipated a slight decrease of 1.6% in the commercial vehicles segment. The Group expected the improvement measures to take effect at the individual sites and that the APAC and EMEA regions would continue their good performance from the second half of 2020. Only in the AMERICAS region did a somewhat weaker start to the year subdue expectations.

In view of these forecasts, in its outlook for 2021 in the 2020 annual report GRAMMER Group stated that it expected revenue to recover slightly to EUR 1.8 billion (2020: EUR 1.7 billion) and operating EBIT to improve significantly to about EUR 65 million (2020: EUR –11.7 million).

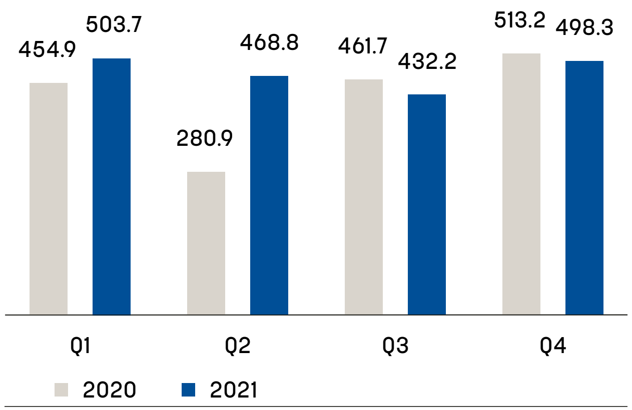
Performance in the first half of the year confirmed the expectations of GRAMMER AG's Executive Board. However, the limited availability of semiconductor components in the AMERICAS region in Q2 resulted in substantially lower customer call-offs in certain cases, which was already causing revenue to drop off slightly at this time. Moving on to the second half of the year, increasingly severe shortages in the semiconductor industry, the sharp rise in the price of steel and plastic and labor shortages in the USA continued to foil the hoped-for recovery. This took a considerable toll on earnings in the third quarter, which is why GRAMMER revised its earnings forecast for the year as a whole at the start of October. It now expected operating EBIT of between EUR 17 million and EUR 22 million. The revenue outlook was confirmed.

2.5 GRAMMER Group results of operations

2.5.1 GRAMMER Group revenue

GRAMMER Group revenue came to EUR 1,903.0 million in 2021, thus exceeding the previous year by 11.2% (2020: EUR 1,710.7 million). The higher revenue stemmed from increased revenue in the three regions, EMEA, AMERICAS and APAC, with the latter reporting the greatest growth. Both divisions also contributed to the revenue growth. The Automotive Division increased revenues by 2.9% to EUR 1,234.9 million, with the Commercial Vehicle Division picking up by 31.0% to EUR 668.1 million. Revenue in the Automotive Division includes income from development services totaling EUR 104.5 million (2020: EUR 93.3 million). The expenses of supplies, tools and equipment until the product reaches series production are allocated to this revenue.

GRAMMER Group revenue by quarter



2.5.2 Revenue in the regions

With effect from January 1, 2021, GRAMMER AG rearranged its management and resource allocation and stated that the AMERICAS, APAC and EMEA regions now constitute the key reportable operating segments. Unlike the 2020 annual report, this report thus places greater emphasis on business performance in the regions. The previous reportable segments Automotive and Commercial Vehicles were defined as two divisions and focus on the further development of market, customer and product strategies.

The EMEA region generated revenue of EUR 1,061.5 million in 2021 (2020: EUR 965.8 million), representing an upturn of 9.9%. This rise was driven by higher revenue in the Commercial Vehicles Division, while the Automotive Division posted lower revenue than in the previous year. Revenue in the Commercial Vehicles Division rose by 25.6% to EUR 496.7 million, due primarily to catch up effects on the previous year which was dominated by the COVID-19 pandemic. The Automotive Division recorded revenue of EUR 564.8 million, thus falling 0.9% short of the previous year. Decisive here was the business trend in the second half of 2021, shaped as it was by lower customer call-offs resulting from the lack of semiconductor components. In the first half of the year, in the EMEA region, the Automotive Division managed to post a year-on-year upturn of 25.1%.

The AMERICAS region generated revenue of EUR 517.7 million in 2021 (2020: EUR 476.6 million), representing an increase of 8.6%. This increase resulted primarily from the base effect of lower previous year revenue on account of the pandemic. This more than compensated for reduced customer call-offs as a result of the semiconductor problem. Revenue in the Commercial Vehicles Division moved up by 44.6% to EUR 94.7 million and in the Automotive Division by 2.9% to EUR 423.0 million. In the first half of the year, the region posted a considerable revenue upturn, due to the temporary plant shutdowns in the second quarter of the previous year. In the third and fourth quarters, the upturn in the Commercial Vehicles Division was unable to offset the appreciable decline in the Automotive business as a result of lower customer call-offs.

Out of all the regional segments, the APAC region generated the highest revenue growth in 2021, up 19.8% at EUR 406.3 million (2020: EUR 339.2 million). This upswing was driven primarily by the Commercial Vehicles Division, which improved by 33.5% to EUR 138.2 million. The Automotive Division picked up by 13.7% to EUR 268.1 million. As well as the basis effect of the weaker previous year due to COVID-19-related production downtime in Asia, the main factors behind this good revenue performance were the expansion of market presence and production capacities. Performance in the first two quarters was stable compared to the previous quarter, each generating revenue of around EUR 103 million. In the third quarter, revenue in Commercial Vehicles was down on previous quarters. This was because Chinese truck manufacturers brought forward some of their production into the first two quarters as a result of the "China 6" emission standard introduced in July. In the fourth quarter, the two divisions again posted year-on-year revenue increases. All things considered, the APAC region proved to be the most robust of all regions and also promises the greatest potential for growth.

Revenue development by region and division

EUR m

	GRAMMER Group			EMEA			AMERICAS			APAC		
	2021	**2020**	**Change**	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Automotive	1,234.9	1,200.6	2.9%	564.8	570.2	−0.9%	423.0	411.1	2.9%	268.1	235.7	13.7%
Commercial Vehicles	668.1	510.1	31.0%	496.7	395.6	25.6%	94.7	65.5	44.6%	138.2	103.5	33.5%
Revenue	**1,903.0**	**1,710.7**	**11.2%**	**1,061.5**	**965.8**	**9.9%**	**517.7**	**476.6**	**8.6%**	**406.3**	**339.2**	**19.8%**

The consolidation effect of the turnover generated within the Group between the regions amounted to EUR 82.5 million in the reporting year. On average, 421 people were employed in Central Services in 2021.

2.5.3 GRAMMER Group earnings

Condensed income statement for the GRAMMER Group

EUR k

	2021	2020	Change
Revenue	1,903,014	1,710,714	192,300
Cost of sales	–1,727,708	–1,585,440	–142,268
Gross profit	**175,306**	**125,274**	**50,032**
Selling expenses	–33,350	–37,760	4,410
Administrative expenses	–149,823	–148,265	–1,558
Other operating income	26,731	14,625	12,106
Earnings before interests and taxes (EBIT)	**18,864**	**–46,126**	**64,990**
Financial income	3,410	1,525	1,885
Financial expenses	–22,062	–23,962	1,900
Other financial result	6,502	–2,159	8,661
Financial result	**–12,150**	**–24,596**	**12,446**
Earnings before taxes	**6,714**	**–70,722**	**77,436**
Income taxes	–6,068	6,014	–12,082
Net profit/loss	**646**	**–64,708**	**65,354**

The GRAMMER Group recorded earnings before interest and taxes (EBIT) of EUR 18.9 million in 2021 (2020: EUR –46.1 million). This figure was strongly impacted by the significantly improved revenue trend in the Commercial Vehicles Division. The full-year EBIT margin came to 1.0% in 2021 (2020: –2.7%).

Operating EBIT of EUR 22.8 million (2020: EUR –11.7 million) and the operating EBIT margin of 1.2% (2020: –0.7%) were significantly higher than in the previous year. Alongside adjustments for positive currency translation effects of EUR 3.3 million (2020: negative currency effects of EUR 9.3 million), directly attributable costs for corona-related protection and response measures of EUR 2.7 million (2020: EUR 4.5 million) also expenses of EUR 4.5 million from the sale of a subsidiary in Spain were eliminated.

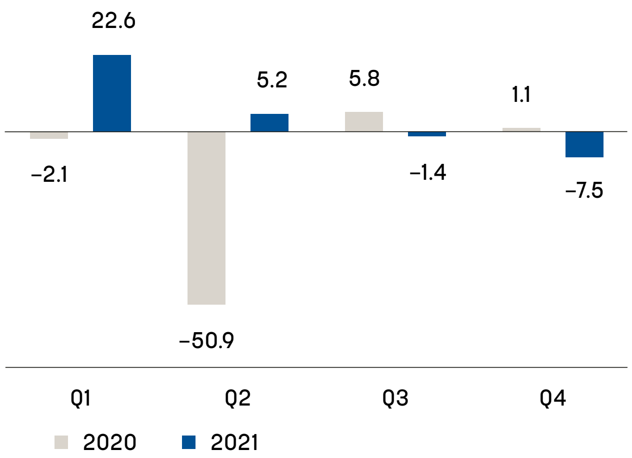
The cost of sales increased by EUR 142.3 million or 9.0% to EUR 1,727.7 million (2020: EUR 1,585.4 million). This increase is primarily due to higher revenue levels. The gross margin improved to 9.2% (2020: 7.3%).

Sales expenses moved down by EUR 4.4 million over the previous year to EUR 33.4 million (2020: EUR 37.8 million). As a percentage of revenue, they declined to 1.8% (2020: 2.2%).

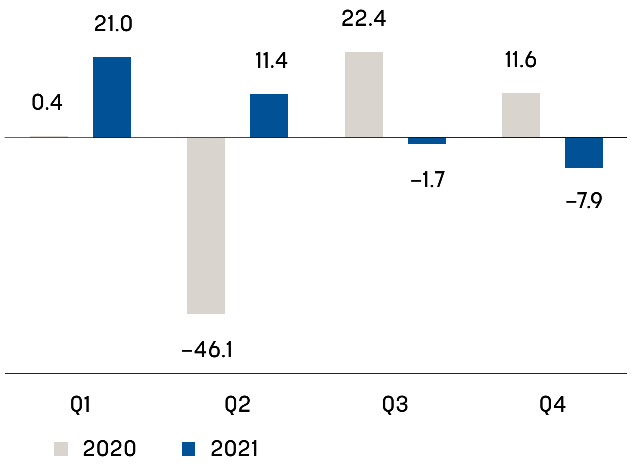
Administrative expenses rose slightly to EUR 149.8 million (2020: EUR 148.3 million). The personnel expense included in the above items moved up to a total of EUR 465.9 million (2020: EUR 444.1 million) for business-related reasons. At 24.5%, the personnel expense ratio was down on the previous year (2020: 26.0%) as 2020 was negatively impacted by restructuring expenses.

Other operating income increased substantially from EUR 14.6 million in the previous year to EUR 26.7 million in 2021. The sharp year-on-year rise is the result of a tax issue in Brazil, the sale of the plant building in Schmölln as well as increased income from insurance claims and income from the sale of metal waste.

GRAMMER Group EBIT by quarter



GRAMMER Group operating EBIT by quarter



At EUR –12.2 million, the financial result was considerably up on the previous year's figure of EUR –24.6 million. The improved financial result was essentially the result of positive currency translation effects in the other financial result at EUR 6.5 million (2020: EUR –2.2 million). Fluctuations in the exchange rates of the Czech koruna, the Brazilian real and the US dollar resulted in substantial foreign exchange gains in 2021, whereas 2020 saw a loss in connection with this.

Earnings before taxes improved from EUR –70.7 million in 2020 to EUR 6.7 million in 2021. In 2021 the earnings per tax position included tax expenses of EUR 6.1 million (2020: tax income of EUR 6.0 million). Tax payments relating to previous years, higher withholding taxes and not recognizing deferred tax assets on loss carryforwards, especially in the USA, increased tax expenses. At 90.4% the Group tax rate is thus considerably higher than in the previous year (2020: 8.5%).

Earnings after taxes picked up from EUR –64.7 million in 2020 to EUR 0.6 million in 2021. Relative to revenue, the net profit/loss margin came to 0.03% (2020: –3.8%). Basic/diluted earnings per share are calculated by reference to net profit/loss for the year adjusted for non-controlling interests and shares attributable to lenders of hybrid loans and equal EUR 0.08 in 2021 (2020: EUR –5.10).

ROCE for 2021 came to 2.6% (2020: –1.3%). ROCE is the ratio of the operating EBIT reported for the year in question to the average operating assets in the same year and is expressed as a percentage.

2.5.4 Appropriation of profit

The appropriation of profit by the GRAMMER Group is based on the retained profit recorded in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. As of December 31, 2021, GRAMMER AG posted a retained loss of EUR 74.9 million (December 31, 2020: retained loss of EUR 72.5 million). This includes the net loss for the year of EUR 2.4 million. Due to the net loss of GRAMMER AG for the current financial year, there is currently no dividend proposal. Furthermore, with the increase to the syndicated loan in 2020, the Executive Board and Supervisory Board resolved to suspend the dividend payment during the loan's three-year term of the third tranche.

2.5.5 Earnings performance in the regions

EMEA

EBIT in the EMEA region, which includes the companies with the highest revenue in the Group, climbed substantially in 2021 to EUR 43.3 million compared to EUR –8.7 million in the previous year. This can be attributed primarily to higher revenue from the Commercial Vehicles Division. Earnings were depressed by the sale and deconsolidation of the subsidiary in Spain, coming to EUR –4.5 million. The EBIT margin was 4.1% (2020: –0.9%). Operating EBIT, adjusted for this sale and directly attributable costs for corona-related protection and response measures and positive currency-translation effects, increased significantly to EUR 47.2 million (2020: EUR –6.9 million). Accordingly, the operating EBIT margin rose to 4.4% (2020: –0.7%).

EMEA key figures

EUR m

	2021	2020	Change
Revenue	1,061.5	965.8	95.7
EBIT	43.3	–8.7	52.0
EBIT margin (%)	4.1	–0.9	5.0%-points
Operating EBIT	47.2	–6.9	54.1
Operating EBIT margin (%)	4.4	–0.7	5.1%-points
Capital expenditure (excluding finacial assets)	46.2	36.7	9.5
Employees (number, average)	7,522	7,649	–127

AMERICAS

EBIT in the AMERICAS region was EUR −61.7 million (2020: EUR −34.5 million). Earnings were negatively impacted by the ongoing low and very volatile call-offs of the Automotive customers and especially by higher commodity prices and personnel costs. Higher personnel expenses are the result of high turnover, in part driven by the "stay home" bonus paid as part of measures to contain the pandemic. Management launched a turnaround program in October 2021 with the aim of shoring up the region's financial stability and ensuring sustainable, profitable business performance in the long term. Key focus points in the current year are customer compensation, reduction of fluctuation as well as increasing production output and raising plant utilization levels. Another factor in the earnings decline was an unfavorable product mix in the Automotive Division. Here, too, management took measures to adapt to this. The EBIT margin decreased to −11.9% (2020: −7.2%). Operating EBIT came to EUR −61.5 million (2020: EUR −30.0 million), representing a margin of −11.9% (2020: −6.3%).

AMERICAS key figures

EUR m

	2021	2020	Change
Revenue	517.7	476.6	41.1
EBIT	−61.7	−34.5	−27.2
EBIT margin (%)	−11.9	−7.2	−4.7 %-points
Operating EBIT	−61.5	−30.0	−31.5
Operating EBIT margin (%)	−11.9	−6.3	−5.6 %-points
Capital expenditure (excluding finacial assets)	21.1	16.2	4.9
Employees (number, average)	4,688	4,612	76

APAC

EBIT in the APAC region increased to EUR 52.9 million (2020: EUR 29.6 million). The EBIT margin picked up by 4.3 percentage points to 13.0% (2020: 8.7%). This upturn was driven by good revenue performance, which in turn was the result of economic recovery, slowed slightly by the semiconductor shortage and higher raw materials prices. Operating EBIT also strengthened considerably to EUR 52.8 million (2020: EUR 30.5 million). The margin thus improved by 4.0 percentage points compared to the previous year to 13.0% (2020: 9.0%).

APAC key figures

EUR m

	2021	2020	Change
Revenue	406.3	339.2	67.1
EBIT	52.9	29.6	23.3
EBIT margin (%)	13.0	8.7	4.3 %-points
Operating EBIT	52.8	30.5	22.3
Operating EBIT margin (%)	13.0	9.0	4.0 %-points
Capital expenditure (excluding finacial assets)	35.7	11.0	24.7
Employees (number, average)	1,375	1,290	85

2.6 Financial position

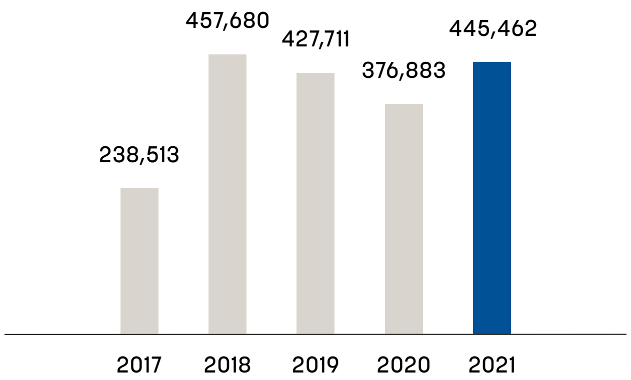
2.6.1 Finance and liquidity management

In implementing its funding activities, GRAMMER Group attaches importance to timing aspects in its interest-rate structure. Short-term drawdowns are based on floating rates, while medium to long-term funding generally involves fixed rates based on matching maturities. Operating cash flows and the availability of adequate external finance are managed centrally by Group Finance except in cases where legislation in a specific local jurisdiction limit the scope for doing this. As a general principle, the GRAMMER Group aims for an investment grade rating and, in conjunction with this, intends to achieve a balanced maturity structure with a diversified portfolio of financing instruments in order to secure its long-term liquidity. Group Finance handles worldwide payment transactions and the administration of the cash pool in consultation with the local companies. In this way, GRAMMER AG monitors and safeguards the liquidity of its subsidiaries to the extent that this is permissible and reasonable within the scope of legal and economic possibilities. Interest rate and currency risks are hedged centrally by means of customary derivative financial instruments to manage financial risks.

In 2020, the successful early refinancing and increase of the syndicated loan relaid the company's financing base. Tranche A has a volume of EUR 150.0 million with a five-year term and two one-year extension options. Tranche B amounts to USD 80.0 million and is amortizing with a four-year term. In addition, the existing syndicated loan under the KfW programme "Direct Participation for Syndicated Financing (855)" was extended by an amendment agreement to include a tranche C with a volume of EUR 235.0 million with a three-year term. Thus, the company's liquidity is sustainably secured - even in a currently difficult economic environment. Within the framework of loan and credit agreements, financial covenants were also agreed, which essentially relate to the leverage ratio. As part of the contract amendments in the 2020 financial year, compliance with the financial covenants was adjusted for the periods until 31 December 2022. After that date, at the latest, the original contractual conditions will come into effect again. After the successful restructuring of the financing base in 2020, no significant new re/financing measures were taken in the 2021 financial year.

In addition to the syndicated loan, bilateral financing agreements, medium-term bonded loans and long-term private placements secure GRAMMER's financing. The syndicated loan agreement with GRAMMER AG as sole borrower provides for the right of each lender to demand early repayment in the event of a change of control. A change of control within the meaning of this agreement occurs as soon as one person or several persons acting jointly acquire voting rights of at least 30% in GRAMMER AG. This does not include the direct or indirect acquisition of voting rights or control of the borrower by direct or indirect subsidiaries of the Wang family (Ningbo Jifeng).

Current and non-current financial liabilities
EUR k



The reason for the increase in financial liabilities by EUR 68.6 million to EUR 445.5 million was an increased capital requirement due to the rise in working capital, in particular to secure the supply of materials. Current financial liabilities increased by EUR 139.8 million to EUR 263.4 million (December 31, 2020: EUR 123.6 million). The increase resulted from reclassifications of non-current financial liabilities due to scheduled maturities in the amount of EUR 72.7 million as well as net utilization of current loans and overdrafts of EUR 66.4 million and currency translations and deferrals of EUR 0.7 million. By contrast, non-current financial liabilities decreased by EUR 71.3 million to EUR 182.0 million as of the balance sheet date (December 31, 2020: EUR 253.3 million). The decrease is attributable to reclassifications to current financial liabilities due to scheduled maturity in the amount of EUR 72.7 million and early repayments of EUR 7.4 million. This is offset by the utilization of long-term loans in the amount of EUR 5.0 million and currency translation and deferrals of EUR 3.8 million.

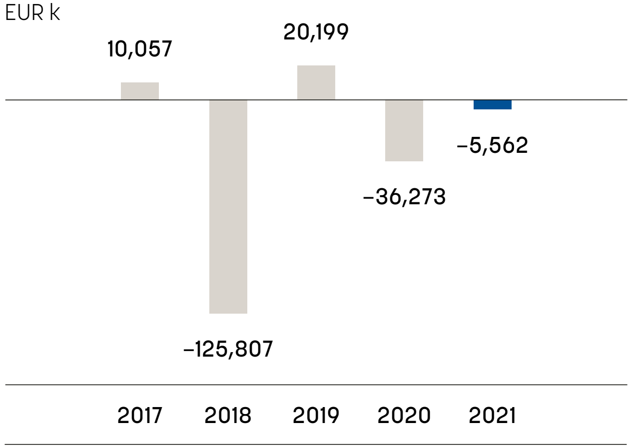
Cash flow from operating activities increased by EUR 40.2 million in 2021 to EUR 71.3 million (2020: EUR 31.1 million). The substantial improvement in earnings before taxes from EUR –70.7 million to EUR 6.7 million, and the increase in accounts payable and other liabilities were offset by higher inventories.

At EUR –76.8 million in 2021, the cash outflow from investing activities was higher than in the previous year (2020: EUR –67.3 million). Capital expenditure on property, plant and equipment increased to EUR 76.3 million (2020: EUR 69.4 million) due largely to the expansion of production capacity in the Commercial Vehicles Division and plant expansion in the APAC region. Furthermore investments in intangible assets also rose to EUR 8.2 million (2020: EUR 3.6 million), resulting essentially from the ongoing development of the new seat generations.

Financing activities generated a cash outflow of EUR –4.8 million in 2021 (2020: EUR –38.1 million) in connection with higher payments received from taking up financial liabilities and lower payments made for the settlement of financial liabilities. Consequently, the GRAMMER Group had liquidity of EUR 113.4 million as of December 31, 2021 (December 31, 2020: EUR 89.8 million). Bank overdrafts facilities utilized (including current liabilities under factoring contracts) of EUR 69.1 million (December 31, 2020: EUR 34.5 million) must be deducted from this. Accordingly, cash and cash equivalents stood at EUR 44.4 million as of December 31, 2021 (December 31, 2020: EUR 55.4 million).

Free cash flow

EUR k



The free cash flow is the total of cash flow from operating activities and cash flow from investing activities.

2.6.2 Capital structure

As of December 31, 2021, the Company's share capital amounted to EUR 39,009,080.32 as in the previous year, divided into 15,237,922 shares with a nominal value of EUR 2.56 per share. All shares (with the exception of own shares) accord the same rights. The shareholders have a right to payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting.

In accordance with a resolution passed at the Annual General Meeting of June 23, 2021, the Executive Board is authorized subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly by a total of up to EUR 19,504,537.60 by issuing bearer shares on a cash and/or non-cash basis on or before June 22, 2026 (Authorized Capital 2021). In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the new shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to exclude the shareholders' preemptive subscription rights in certain cases subject to the approval of the Supervisory Board.

Following partial utilization of Authorized Capital 2020 in the previous year, this was canceled by a resolution passed at the Annual General Meeting.

No authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2021.

The capital reserve amounted to EUR 162,947 thousand as of December 31, 2021 (December 31, 2020: EUR 163,033 thousand) and includes premiums from the capital increases in 1996, 2001, 2011, 2017 and 2020 less transaction costs. Retained earnings amounted to EUR 200,534 thousand as of December 31, 2021 (December 31, 2020: EUR 199,094 thousand).

2.6.3 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 immediately notify the Company and the Federal Financial Supervisory Authority. The lowest notification threshold is 3%. An overview of the current status of disclosed shareholdings that exceed the 3% threshold as of December 31, 2021 is included in the notes to the GRAMMER Group's consolidated financial statements.

2.6.4 Own shares

There is currently no authorization to acquire own shares. GRAMMER AG holds 330,050 own shares, all of which were acquired in 2006. These shares have a total nominal value of EUR 844,928.00 and still represent 2.166% (2020: 2.166%) of the share capital. The 330,050 shares held as own shares are non-voting and non-dividend-entitled.

2.6.5 Capital expenditure

Total capital expenditure

In 2021, GRAMMER increased its capital expenditure as planned by 36.9% to EUR 114.7 million (2020: EUR 83.8 million). Alongside capital expenditure in new ramp ups and replacing machinery, capital expenditure was made in projects to digitalize core processes and systems and in developing new seat generations in the Commercial Vehicles Division. In the year under review, of the total capital expenditure, EUR 30.2 million (2020: EUR 10.7 million) related to leased assets capitalized in accordance with IFRS 16. This includes essentially extending leases for existing plants and lease agreements for the new plant sites in China. Capital expenditure excluding leased assets recognized under IFRS 16 came to EUR 84.6 million in 2021, thus up on the previous year's figure of EUR 73.1 million by EUR 11.5 million or 15.7%. Capital expenditure on property, plant and equipment amounted to EUR 106.5 million in 2021 (2020: EUR 80.2 million), including EUR 76.3 million for assets acquired (2020: 69.5 million) and EUR 30.2 million (2020: EUR 10.7 million) for right-of-use assets under IFRS 16.

In the EMEA region, in the reporting period capital expenditure of EUR 46.3 million (2020: EUR 36.7 million) was incurred essentially as a result of purchasing equipment for new customer projects. One good example here in the Automotive Division is the investment in the Czech plant in Zatec, where a new injection molding system was installed. About EUR 1.3 million was invested in digitalizing projects. In the year past, these included installing an automatic warehouse system and considerably increasingly the level of automation in the U12 console assembly line. Capital expenditure in the APAC region rose significantly in 2021 from EUR 11.0 million to EUR 35.7 million. About EUR 7.0 million was invested in commissioning the new plant in Shenyang, China. In addition, EUR 3.1 million was invested in developing the companies with the FAW Group. Capital expenditure in the AMERICAS region also increased, from EUR 16.2 million to EUR 21.1 million and was directed chiefly towards the Tetla, Tupelo and Delphos plants in the US. Capital expenditure in Central Services declined substantially by 41.2% to EUR 11.7 million (2020: EUR 19.9 million). This resulted from the completion of investments in the Ursensollen Campus in 2020.

Capital expenditure on intangible assets came to EUR 8.2 million in 2021 and thus was substantially higher than the previous year's figure of EUR 3.6 million. EUR 7.8 million is attributed to Central Services, EUR 0.4 million for patents and concessions and EUR 7.4 million for capitalized development costs. Due to the change in the organizational structure, development services at GRAMMER AG are now carried out in this unit. In the previous year, EUR 2.5 million was recognized for this in the EMEA region. As in the previous year, this mainly relates to the development of a new seat generations. The Automotive Division invested EUR 0.2 million in intangible assets (2020: EUR 0.3 million), with the Commercial Vehicles Division also investing EUR 0.2 million (2020: EUR 2.6 million).

Capital expenditure GRAMMER Group

EUR m

	2021	2020	Change
GRAMMER Group	**114.8**	**83.8**	**37.0%**
Acquired	84.6	73.1	15.7%
of which property, plant and equipment	76.3	69.5	9.8%
of which intangible assets	8.2	3.6	127.8%
of which financial assets	0.1	0.0	–
Right-of-use assets (IFRS 16)	30.2	10.7	182.2%

Capital expenditure EMEA

EUR m

	2021	2020	Change
EMEA	**46.3**	**36.7**	**26.2%**
Acquired	33.6	29.3	14.7%
of which property, plant and equipment	33.2	26.6	24.8%
of which intangible assets	0.3	2.7	–88.9%
of which financial assets	0.1	0.0	–
Right-of-use assets (IFRS 16)	12.8	7.4	73.0%

Capital expenditure AMERICAS

EUR m

	2021	2020	Change
AMERICAS	**21.1**	**16.2**	**30.2%**
Acquired	19.8	14.5	36.6%
of which property, plant and equipment	19.7	14.4	36.8%
of which intangible assets	0.1	0.1	0.0%
of which financial assets	0.0	0.0	–
Right-of-use assets (IFRS 16)	1.3	1.7	–23.5%

Capital expenditure APAC

EUR m

	2021	2020	Change
APAC	**35.7**	**11.0**	**224.5%**
Acquired	20.8	10.3	101.9%
of which property, plant and equipment	20.7	10.2	102.9%
of which intangible assets	0.1	0.1	0.0%
of which financial assets	0.0	0.0	–
Right-of-use assets (IFRS 16)	14.9	0.7	2,028.6%

Capital expenditure Central Services

EUR m

	2021	2020	Change
Central Services	**11.7**	**19.9**	**–41.2%**
Acquired	10.4	19.0	–45.3%
of which property, plant and equipment	2.6	18.3	–85.8%
of which intangible assets	7.8	0.7	1,014.3%
of which financial assets	0.0	0.0	–
Right-of-use assets (IFRS 16)	1.3	1.0	30.0%

2.7 Net assets

Condensed balance sheet of the GRAMMER Group

EUR k

	December 31, 2021	December 31, 2020	Change
Non-current assets	833,533	799,583	33,950
Current assets	649,855	576,841	73,014
Assets	**1,483,388**	**1,376,424**	**106,964**
Equity	345,550	302,210	43,340
Non-current liabilities	428,143	524,189	–96,046
Current liabilities	709,695	550,025	159,670
Equity and liabilities	**1,483,388**	**1,376,424**	**106,964**

As of December 31, 2021, the GRAMMER Group had total assets of EUR 1,483.4 million, up EUR 107.0 million or 7.8% on December 31, 2020 (EUR 1,376.4 million). This upturn in total assets resulted from increased investments in property plant and equipment and intangible assets as well as higher inventory levels to secure the provision of materials.

Non-current assets primarily comprise property, plant and equipment, intangible assets and deferred income tax assets as well as non-current contract assets. As of December 31, 2021, they increased by EUR 33.9 million or 4.2% to EUR 833.5 million (December 31, 2020: EUR 799.6 million). Property, plant and equipment increased by EUR 48.6 million or 10.9% to EUR 495.3 million (December 31, 2020: EUR 446.7 million) while deferred tax assets declined by EUR 13.1 million or 20.4% to EUR 51.1 million (December 31, 2020: EUR 64.2 million).

Current assets primarily include inventories, current trade accounts receivable, cash and short-term deposits, current contract assets and other current assets. These climbed by EUR 73.1 million or 12.7% to EUR 649.9 million as of December 31, 2021 (December 31, 2020: EUR 576.8 million), chiefly due to the 26.8% increase in inventories to EUR 196.1 million (December 31, 2020: EUR 154.6 million), the 26.3% rise in cash and short-term deposits to EUR 113.4 million (December 31, 2020: EUR 89.8 million) and the 40.3% upturn in other current assets to EUR 38.3 million (December 31, 2020: EUR 27.3 million). By contrast, current trade accounts receivable decreased by 4.0% to EUR 229.4 million (December 31, 2020: EUR 238.9 million).

Equity as of December 31, 2021 rose by EUR 43.4 million or 14.4% to EUR 345.6 million (December 31, 2020: EUR 302.2 million), essentially due to other comprehensive income of EUR 38.6 million (2020: EUR –34.4 million) and positive net profit of EUR 0.6 million (2020: EUR –64.7 million). The equity ratio therefore improved by 1.3 percentage points to 23.3% (December 31, 2020: 22.0%). Other comprehensive income of EUR 38.6 million (2020: EUR –34.4 million) comprises the currency-translation effects and resulting tax effects of EUR +2.2 million (2020: EUR –7.2 million) from net investments in foreign operations in Mexico, the positive effects of EUR 25.7 million (2020: EUR –20.8 million) from the currency translation of foreign subsidiaries and actuarial losses of EUR 10.6 million (2020: EUR –6.3 million) from the interest-induced adjustment to retirement benefits and similar obligations including deferred taxes.

Non-current liabilities declined by EUR 96.1 million or 18.3% in the reporting period to EUR 428.1 million (December 31, 2020: EUR 524.2 million). This was due primarily to the reduction of non-current financial liabilities by EUR 71.3 million or 28.1% to EUR 182.0 million (December 31, 2020: EUR 253.3 million). In addition, retirement benefits and similar obligations declined by 9.4% to EUR 149.0 million (2020: EUR 164.5 million) following the increase of the discount rate from 0.7% (2020) to 1.2% (2021). Net deferred tax liabilities decreased to EUR 24.4 million (December 31, 2020: EUR 46.9 million). By contrast, other financial liabilities, which include non-current lease liabilities, increased by 26.3% to EUR 68.7 million (December 31, 2020: EUR 54.4 million). As of December 31, 2021, the Group had unutilized credit facilities of EUR 192.1 million (December 31, 2020: EUR 303.7 million), for which all the conditions required for drawing had been met.

Current liabilities increased by EUR 159.7 million or 29.0% to EUR 709.7 million as of December 31, 2021 (December 31, 2020: EUR 550.0 million). This development was chiefly due to the EUR 139.8 million or 113.1% increase in current financial liabilities to EUR 263.4 million (December 31, 2020: EUR 123.6 million) and the EUR 18.2 million or 7.3% rise in current trade accounts payable to EUR 269.1 million (December 31, 2020: EUR 250.9 million). Other current financial liabilities rose by 18.2% to EUR 19.5 million (December 31, 2020: EUR 16.5 million). On the other hand, provisions contracted by 9.1% to EUR 52.6 million (December 31, 2020: EUR 57.9 million).

3. Opportunity and risk report

3.1 Basic principles of risk management

Our risk policy aligns with our efforts to operate sustainably and to increase our enterprise value while managing appropriate risks and opportunities and avoiding inappropriate risks. As a company with an international focus and global operations, GRAMMER faces risks and opportunities that need to be addressed. Our risk strategy therefore sets out the following risk policy principles, among other things:

- GRAMMER defines opportunities and risks in terms of risk management as both internal and external events that may have a positive or negative impact on the achievement of its corporate objectives.
- Risk management thus contributes to value-based corporate governance. Value-based means that the Company consciously accepts risks only when it sees potential for enhancing its value by taking advantage of favorable business opportunities. As a general principle, the GRAMMER Group avoids all activities potentially entailing risks that are liable to jeopardize its going-concern status.
- GRAMMER bears its own core business risks, particularly market risks, e.g. those arising from macroeconomic trends, as well as risks that may arise from the development of new products, to the extent these cannot be covered by an insurance policy. We aim to transfer other risks, particularly financial and liability risks, to third parties wherever possible.
- Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing countermeasures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and, as far as possible, to avoid and minimize risks within their area of responsibility.
- GRAMMER AG's internal audit department or an external service provider regularly reviews the appropriateness and effectiveness of the risk management system.

3.2 Opportunity and 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 permits 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, recognition, 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, while the Supervisory Board and the Audit Committee monitor and review the effectiveness of the systems and are kept regularly informed.

An ongoing risk-tracking process is applied to report to central risk management all material risks liable to prevent the corporate targets from being reached. Responsibility for risk reporting does not lie with a central division at GRAMMER AG, but forms part of the duties of individual managers and employees within the scope of their functions. Opportunities and risks together with measures for managing them are discussed in regular meetings with the Executive Board. An opportunity and risk report keeps the Executive Board and the Supervisory Board regularly informed of the Group's risk situation and the status of the measures implemented.

Group Controlling is responsible for coordinating risk management. Risks are reported in an SAP-based system. In this way, we gain an overview of the key opportunities and risks for the Group. Opportunities and risks are consolidated using a "risk atlas" specifically designed to address the risk categories at the GRAMMER Group. In addition to strategic risks, it also includes market, financial and legal risks as well as risks from IT, human resources, quality and procurement. GRAMMER Group's opportunity management aims not only to identify opportunities, but also to benefit from them as effectively as possible.

3.3 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 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 it relates to the Group's accounting processes. We define the internal control and risk management system as a comprehensive system and base our definitions of the accounting related internal control and risk management system on those of the Institute of Public Auditors in Germany (IDW), Düsseldorf. Accordingly, an internal control system comprises the principles, processes and measures taken within 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 and control the risks inherent in business activities. GRAMMER AG 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 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.

3.4 Compliance management system

Compliance with laws and internal requirements is the basis of GRAMMER's business activities. Compliance is not only the prevention of financial risks and reputational damage; it also promotes integrity, transparency and responsibility and so determines how people work together and interact. The Executive Board uses GRAMMER's compliance management system to work towards the following goals. This process is monitored by the Supervisory Board:

- Prevent and detect legal violations, breaches of internal company regulations and damage that these may cause (financial losses/damage to reputation).
- Reduce liability and reputation risks for GRAMMER, the members of its corporate bodies and employees.
- Improve awareness of compliance and compliance conduct among employees.

Compliance is an inter-departmental issue that affects all areas and functions at GRAMMER. Compliance measures are not taken in isolation, they are integrated into administrative and operating processes. The structure of GRAMMER's CMS is essentially based on the IDW PS 980 standard for compliance management systems[1]. The seven-element CMS structure under IDW PS 980 sets out the systematic framework for compliance responsibilities:

1 "IDW Auditing Standard: Principles for the Proper Auditing of Compliance Management Systems IDW PS 980", as of: March 11, 2011

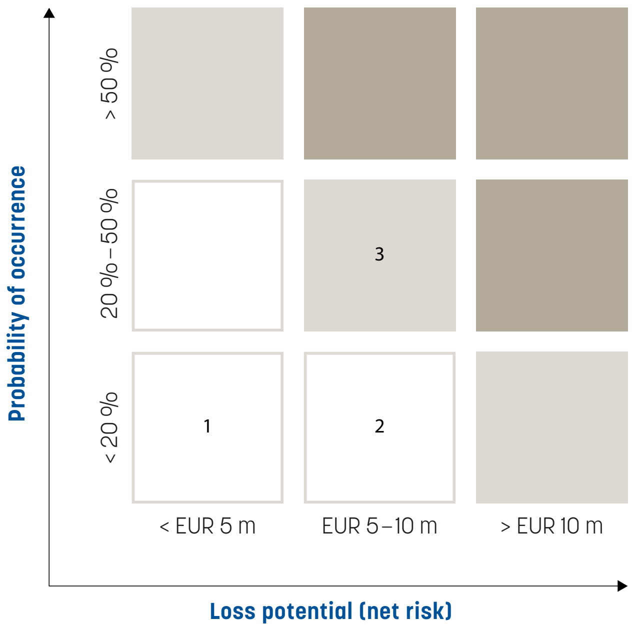
CMS elements	Description
1. Compliance culture	The compliance culture is the basis for the appropriateness and effectiveness of the CMS. It is shaped chiefly by the attitude and conduct of the management and the role of the supervisory body ("tone at/from the top"). The culture affects how important the Company's employees believe it is to comply with the rules and thus their willingness to do so.
2. Compliance goals	Based on the general corporate objectives and an analysis and weighting of key Company rules, the legal representatives establish goals that the CMS is helping to achieve. In particular, this involves determining the relevant sub-areas and the rules to be observed in the individual sub-areas. The compliance goals serve as the basis for assessing compliance risks.
3. Compliance organization	The management determines the roles and responsibilities and operational and organizational structure in the CMS as an integral part of the company organization and provides the resources required for an effective CMS.
4. Compliance risks	Taking account of the compliance goals, compliance risks are identified that could result in rule violations and thus mean that the compliance goals are not met. A process for systematically identifying and reporting risks is established for this purpose. The risks detected are analyzed in terms of how likely they are to occur and the potential impact they may have. This risk analysis is updated regularly and as required.
5. Compliance program	Based on the compliance risk assessment, principles and measures are established that are designed to limit compliance risks and thus avoid compliance breaches. The compliance program also comprises the measures to be taken if compliance violations are found. The compliance program is documented to ensure that the CMS function is not dependent on a certain individual.
6. Compliance communication	Employees and any third parties affected are informed about the compliance program and the assigned roles and responsibilities so that they have a sufficient understanding of their tasks in the CMS and can perform these properly. The Company regulates how compliance risks and information about potential or detected breaches of the rules are to be reported to the responsible body in the Company (e.g. legal representatives and, if necessary, the supervisory body).
7. Compliance-monitoring and improvement	The appropriateness and effectiveness of the CMS are suitably monitored. Monitoring requires that the CMS is sufficiently documented. If the monitoring discovers weaknesses in the CMS or breaches of the rules, these are reported to the management or the designated Company body. The legal representatives ensure that the CMS is implemented, faults are rectified and that the system is improved.

3.5 Risks

Presentation of key risk areas

The table of risks below takes account of the relevant risk mitigation measures (net view):

Overview of the main risk areas



1
- Market risks
- Quality risks
- Ecological risks
- Cyber and information risks
- COVID-19 risks
- Human resource risks
- Geopolitical risks

2
- Legal risks

3
- Financial risks
- Procurement 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 of 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 or minimization of risks to its going-concern status or to allow for them in the balance sheet. The overview on the key risk areas classifies the risks listed in relation to their current importance and provides an assessment of the relevant extent of risk.

COVID-19 risks

The macroeconomic impact of the COVID-19 pandemic is affecting all sell-side markets addressed by GRAMMER. The entire global economy was hit by the resultant adverse effects. The impact of the pandemic currently varies significantly between regions and industries. Governments and local authorities are working to contain the spread of COVID-19 by adopting various measures, ranging from recommending certain forms of limits on social contacts and adherence to minimum sanitary standards to broad-based lockdowns and restrictions to the opening of certain sectors of the economy. The key uncertainty of the COVID-19 pandemic stems from its duration, which hinges in part on possible further waves of infection or mutations of the coronavirus.

In light of these conditions, which are currently being materially influenced by the COVID-19 pandemic, the short to medium-term outlook for the GRAMMER Group's business performance is still subject to a certain degree of uncertainty. At this stage, it is not possible to reliably foretell the future impact of the COVID-19 pandemic on the sell-side and supply-side markets of relevance for GRAMMER.

The measures taken to date within the Company to mitigate the COVID-19 pandemic have proven effective and will be continuously maintained, reviewed and adjusted as needed, with priority given to preserving the health and safety of our employees as well as to business continuity.

Procurement risks

Procurement risks can be subdivided chiefly into the timely availability of materials, including supply chains and logistics, and price risks for raw materials and energy.

As a result of the COVID-19 pandemic, in 2022 there could again be production interruptions or bottlenecks in global supply chains which impact negatively on the global availability of materials and components. In respect to such bottlenecks, there are currently elevated risks, particularly in regard to the availability of critical components and thus the production and delivery volumes at GRAMMER.

The GRAMMER Group continues to seek to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the relevant commodity markets. As far as possible and appropriate, cost risks are hedged through long-term supply contracts and material escalator clauses in customer agreements. 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. In the same way, customer contracts do not usually contain clauses on the automatic passing on of energy price increases. Furthermore, there are supply chain risks which for various reasons may influence our product quality, ability to meet delivery schedules or even product availability in general. Moreover, quality problems with suppliers that crop up from time to time with suppliers or disruptions in the supply chain cause risks to our productivity that 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 by means of a partial dual-sourcing strategy under a contingency plan as well as continuous 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.

All raw materials and components used at GRAMMER increased in price in 2021, in some cases substantially. These price rises occurred in tandem with a hike in the cost of containers. As well as the pandemic, this was the result of a number of larger incidents within supply chains and events in the geopolitical/economic/climate environment. The expansion in supply chains since the start of the COVID-19 pandemic was unable to keep up with global demand, while hurricanes in the Gulf of Mexico (Q3 2020), winter storms in the Gulf of Mexico (Q1 2021), the Suez Canal incident (March 2021), Brexit, the tariff disputes between China and the US and ongoing social unrest all took a toll on prices. Demand for semiconductors far exceeds supply. Divestment prior to the COVID-19 pandemic, both in the US and in the European steel industry, and reliance on Chinese steel imports also affected commodities prices, as key steel producers in the EU and US reduced capacities. Petrochemical industry facilities in the US and in Europe are outdated and almost all refineries used the COVID-19 period to begin comprehensive maintenance work (in turn reducing supply), and so they cannot increase supply quickly enough now that demand is rising. Shortages on the timber market on account of high demand in the construction industry also caused the price of packaging and pallets to spike. In the fourth quarter of 2021, due to political disputes between Russia and the Ukraine and NATO, there was price turbulence on gas and energy markets, which could be ongoing and continue to have a significant impact in 2022.

GRAMMER took the following measures, in particular, to counteract these developments: The procurement and sales teams hold regular discussions and work closely together to offset price increases for customers and suppliers. Some projects were initiated to optimize freight costs and thus to make up for the price hikes by improving efficiency. An example is optimizing supply chains, particularly in Mexico and in the USA. Some localization projects in China and AMERICAS as well as insourcing were launched in EMEA to make better use of internal resource capacity. This included closing the GRAMMER Technical Components hub in Haselmühl. In addition, investments and technological progress in the area of digitalization helped ensure greater transparency and faster information networking to withstand the global supply chain crisis.

Legal risks

GRAMMER is an internationally active Group that is subject to a variety of legal and regulatory requirements. The large number of legal requirements and regulations and constant changes to these, including tax rules, may give rise to risks that have a negative impact on our net assets, financial position and results of operations. 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 always 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. GRAMMER AG and its subsidiaries face warranty claims that are being asserted by customers on account of alleged product defects. Provisions have been set aside to cover possible warranty claims. In addition, claims are being asserted in judicial proceedings on account of alleged defects in GRAMMER products. If these proceedings have a negative outcome for GRAMMER, this may necessitate compensation payments, repairs or other cost-intensive measures. As the outcome of these proceedings is subject to considerable uncertainty, the provisions that have been set aside may not be sufficient in some cases, leading to additional expenses. Restrictions of the Group's international activities through import or export controls, tariffs or other regulatory barriers to trade represent a risk that, because of the nature of its operations, it cannot escape. In addition, business activities may be adversely impacted or impeded by export control regulations, trade restrictions and sanctions. 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 so-called normal and going-concern risks.

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 as well as the networking of production activities across different continents. We have established appropriate action programs throughout the Group to address such risks. 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 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.

Market 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 adopting a wide range of different measures. Thus, we closely and continually monitor developments in relevant markets and industries and adjust production and capacities accordingly. As part of effective risk management, the GRAMMER Group seeks to react immediately to crises and any initial signs of lower revenue by taking appropriate action. For example, production and cost structures are adjusted to the changed revenue situation at an early stage. 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. 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 or companies are arising in or entering the emerging markets. The effects of crises in certain markets and regions also harbor risks that are no longer directly derived from our business segments. Market differentiation is also steadily increasing so that we can no longer necessarily draw conclusions about the effects of general developments on our business. This is equally true of both positive and negative trends. Further risks may arise for our markets in the wake of e-mobility. The technological transformation may cause unprecedented shifts in the structure of our customers and products. In the emerging markets of China in particular, a large number of new OEMs are arising and may take market shares away from our current existing customers. Although we are making every effort to supply also these new OEMs with our products, the extent to which this can be achieved and which companies will be successful on the market cannot be foreseen at present. There is also a risk that growth in autonomous driving will also lead the substitution of existing products or the development of new concepts. Although GRAMMER AG is attempting to prepare for future trends accordingly, this may have a negative impact on its net assets, financial position and results of operations.

Possible market or brand consolidation may lead to partial dependence on the part of GRAMMER AG on a small number of customers in view of their group structures. At the same time, vehicle manufacturers are increasingly passing on cost pressure to components suppliers. In this market environment, the possible absence 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 mitigate these competition risks. To this end, the GRAMMER 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 competitive lead that is as sustainable as possible. However, the introduction of new products and technologies is also accompanied by risks and requires a strong commitment to research and development that in turn is tied to a substantial commitment of funds and technical resources. Despite our numerous patents and the protection of our intellectual property, competitors – especially in growth markets – generally cannot be prevented from independently developing products and services that are similar to our own range.

Customarily, delivery contracts with the GRAMMER Group's principal customers contain legally binding commitments for a certain period for the delivery of specified products that have generally not yet been developed. However, these commitments do not entail exclusive delivery rights for a specific product on the part of GRAMMER Group companies. The specific products and quantities are ordered in separate call-downs 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 reduce product quantities assigned to GRAMMER 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 considerable 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. The semiconductor crisis made the supply volume risk particularly evident in 2021: As OEMs scaled back their semiconductor orders in 2020 on account of the pandemic, free chip capacities were redirected to other customers, especially from the technology industry. When (automotive) OEMs wanted to resume their earlier demand for semiconductors, this resulted in a shortage on the market that has still not been overcome. The situation was exacerbated by the shortage of semiconductor raw materials at chip manufacturers, which resulted in lower production and downtime in the sector. In turn, the lack of semiconductors caused call-off orders for GRAMMER Automotive products to decline considerably (especially in AMERICAS and EMEA), with a correspondingly negative impact on the GRAMMER Group's revenue and earnings. In response to this situation, GRAMMER is cutting plant costs and scaling down production. Sales is negotiating with the OEMs regarding compensation for the lack of call-off orders due to OEM plant shutdowns for which GRAMMER is not at fault. At the same time, measures are being taken such as adjusting inventories.

Continuous adjustments to and optimization of the cost structures of our production and development capacity as well as our vertical integration 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 aren't always executed within the planned time frame. 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 specialization increasingly also entail activities that are derived from our strategic portfolio policy in the individual business segments. Merger and acquisition activities are ordinarily subject to uncertainties. These 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, risks arising from the execution of a corporate transaction cannot be ruled out. As is normally the case with such transactions, acquisition, integration and other costs that cannot be estimated at the beginning of the process may arise. In addition to this, 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 exert additional strain and result in expenses that could not previously be foreseen due to a lack of knowledge and may adversely affect our net assets, financial position and results of operations.

Financial risks

The GRAMMER Group is exposed to interest-rate, currency and liquidity risks due to its worldwide activities and the economic risks described in the market and sector specific risks. It must primarily address currency risks arising from its exposure to the Czech koruna, the Polish zloty, the Mexican peso, Serbian dinar, 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 GRAMMER 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. Sharp appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

GRAMMER cannot completely shield itself from fluctuations in credit markets and this may pose risks to the Group's net assets, financial position and results of operations. It minimizes interest rate risks through long-term funding (e.g. private placements) and the use of derivatives.

High priority is also given to ensuring adequate liquidity. One key element of GRAMMER's Group funding is the syndicated loan taken out in 2020. This is divided into a credit facility for general corporate financing of EUR 150.0 million (Tranche A) with a term of five years and two renewal options of one year each and a credit facility for financing the TMD acquisition in the amount of USD 80.0 million (Tranche B), which is repayable in installments over four years. In addition, the existing syndicated loan under the KfW program "Direct Participation for Syndicated Financing (855)" was expanded in 2020 with the addition of Tranche C in an amount of EUR 235.0 million with a three-year term in an amendment agreement, meaning that GRAMMER's liquidity is secured on a sustained basis despite the difficult economic environment.

The liquidity situation is monitored continuously and systematically in a rolling global-wide financial requirements plan. Possible risks in connection with a change of control are described in the section on the Group's financial position. The GRAMMER Group's loan obligations include financial covenants requiring compliance with certain standard market financial ratios. If these financial covenants are breached, the GRAMMER Group's lenders have a special right of termination, which would entitle them to call in the loans immediately. Despite the possible disadvantages in terms of interest rates and similar factors, 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 may deviate from the computed values since assumptions regarding the main valuation parameters such as discount rates, salaries and inflation are subject to uncertainty. This may result in a risk to the Group's net assets, financial position and results of operations.

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

GRAMMER carries out impairment testing annually and additionally on an ad-hoc basis at the level of segments, which are the Group's cash-generating units. Impairment can be triggered by an increase in the discount factor and/or a deterioration in economic prospects.

Cyber and information risks

The security, protection and integrity of our data and IT infrastructure are indispensable for proper business operations. Statutory requirements and regulations stipulate that technical and organizational measures are taken to protect our information and ensure highly available and secure data transfer. In order to meet these requirements, GRAMMER operates a system with the mission-critical components of the IT infrastructure installed in redundant data centers where electricity supply is guaranteed, even in emergencies, by separate emergency generators. In addition, when using network services outside the organization, such as external cloud services, account is taken of different specifications in respect to information security, the quality of data transfer and its administration. Thus cloud providers must guarantee the integrity and the availability of our data and its protection against unauthorized access. All GRAMMER sites have redundant connections to the data centers. Business continuity plans document the steps for ensuring the recovery of business-critical IT systems. GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, virus scanners and other protective measures are implemented, regularly checked for effectiveness and adjusted if necessary. A Group-wide IT security organization responsible for ensuring the efficacy of all protective measures and for neutralizing threats is also in place to ensure IT security. Nonetheless, our worldwide activities, along with the general increase in vulnerabilities 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. Even so, this may pose potential risks for the Company's 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 employees (e.g. attempted manipulation) may place GRAMMER AG's net assets, financial position and results of operations at risk. We address these risks by analyzing loss events that have come to our attention and by taking appropriate precautions and formulating specific recommendations for action with regard to such activities. In addition, these matters undergo continuous assessment and all relevant processes are checked for any vulnerabilities and duly optimized. Furthermore, employees are kept regularly informed of these matters to heighten their awareness of them.

Human resource risks

Competition for a diverse and highly qualified workforce, such as specialists and managers as well as experts and talent, remains very strong in the industries and regions in which GRAMMER operates and has intensified, particularly in the AMERICAS region. The future success of the GRAMMER Group also depends on the extent to which we succeed in recruiting, integrating and retaining highly qualified employees. This appears to be especially relevant given the emergence of a new, virtual work environment. Furthermore, we see the need to promote diversity, inclusion and a sense of belonging in our workforce. With this in mind, we are continuing to develop the way we work together and our leadership culture. Despite all these efforts made in human resources and all the departments, there is no guarantee that the Group will be able to recruit and retain the number of qualified employees and managers it needs in every business segment. This may result in a risk to its net assets, financial position and results of operations. Heightened fluctuation must particularly be expected in expansionary markets such as APAC, NAFTA, South America and Eastern Europe on account of growth and the good employment opportunities for qualified experts, as well as a significant increase in wage costs.

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 and defines worldwide environmental and energy efficiency standards (e.g. environmental programs and targets and energy targets), which are further developed by local energy management and environmental officers at the GRAMMER sites, with their compliance and implementation monitored in regular audits. In this way we minimize the occurrence of ecological risks. We are continuing to drive forward the certification of our production sites in accordance with the requirements of ISO 14001 and ISO 50001. Climate-related risks, especially relating to CO_2 emissions are being observed on an ongoing basis. Currently this does not result in any definitive risks for GRAMMER. Nonetheless, external circumstances or misconduct may arise, exposing the Group to risks. This may result in a risk to its net assets, financial position and results of operations.

Geopolitical risks

For GRAMMER Group, risks may arise from an intensification of geopolitical tensions, such as the escalation in the Russia-Ukraine conflict. However, due to the very limited activities of GRAMMER Group in the Russian and Ukrainian markets, no significant direct effects on Group revenue and earnings are to be expected. However, there may be supply bottlenecks in connection with the war in Ukraine and associated supply difficulties on the part of OEMs, which could lead to disruptions in the production of vehicles, including in Germany. Any production stoppages could have an indirect impact on GRAMMER Group's revenue and earnings. Due to the very dynamic situation at the time this report was prepared, a reliable outlook is difficult and the effects therefore not yet quantifiable. In addition, GRAMMER Group is supplied by individual suppliers from Ukraine. The associated risk is considered manageable, as these suppliers are located in Western Ukraine and can supply GRAMMER Group from alternative locations outside Ukraine if necessary. In addition, current developments mean that rising energy prices are to be expected. Although supplies to GRAMMER Group in EMEA are secure due to long-term supply agreements, further price increases could impact earnings. In this context, GRAMMER also sees a risk that energy supplies to individual suppliers may not be secured or that individual suppliers may not be able to cope financially with further price increases, with corresponding negative consequences for supplies to GRAMMER Group. This may result in a risk to its net assets, financial position and results of operations.

3.6 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 for GRAMMER. Conversely, it is also possible that opportunities which have been identified may fail to materialize.

Global economy: With its global footprint, the GRAMMER Group has an opportunity for continuing to benefit from the recovery and growth in the global economy. Upbeat economic conditions in our main sales 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 supplier for local OEMs but still is supplying its European partners in the premium segment as well. In China, success in gaining contracts from global and local OEMs is likewise 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 in view of the heightened demand.

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 AMERICAS and APAC.

Focus on premium segment: With its 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 is able to grow more sharply than the volume segment. Accordingly, GRAMMER is endeavoring to make use of these potential market opportunities.

Global megatrends: GRAMMER is well positioned to capitalize on global megatrends such as population growth, heightened demand for mobility and increased demand for foods. We are 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 by harnessing the opportunities arising from global megatrends.

Automated 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 for vehicle interiors. In contrast to the situation with respect to drivetrain and engine systems, we expect the electrification of drivetrains and successive automation to generate new opportunities in view of the demand for higher-quality and more functional interior components meeting new driving requirements.

Strategic opportunities

Alongside market opportunities, strategic opportunities may also arise for GRAMMER.

Non-organic growth: This entails examining and making use of opportunities for exogenous growth. In this connection, we continuously observe our markets for any opportunities for acquisitions and partnerships. If we see any opportunities for reinforcing our market position or for expanding or supplementing our product range, we explore the options available to us. As opportunities for non-organic growth hinge on diverse 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 constantly 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 its global development and production network.

Innovations: Projects in the research and development pipeline harbor opportunities for entering new market segments and/or widening market share provided that viable products arise from this pipeline in the future. Both divisions are working on innovative new solutions aimed at helping our customers address the requirements of the future. GRAMMER is seeking on an ongoing basis to be recognized as an innovative premium partner by its customers and to tap market potential by means of new developments.

3.7 Assessment of risks and opportunities

After a thorough review of the current risk situation, we have come to the conclusion that the precautions and measures adopted by the GRAMMER Group take appropriate account of the risks that have been identified. With the exceptions of higher inflation risk, the market risks caused by the semiconductor crisis and procurement risks on account of strained global supply chains, the overall situation for GRAMMER has not changed significantly compared to the previous year. The risks currently known to us lead us to assume that we are not exposed to any factors that are liable to jeopardize our going-concern status and that additional risk-mitigating effects may arise from the opportunities available to us.

4. Business development forecast for the GRAMMER Group

4.1 Expected economic environment

4.1.1 Macroeconomic environment

As of the end of 2021, infections resulting from to the COVID-19 pandemic were increasing again on account of the highly contagious Omicron variant. Nevertheless, many countries opted not to impose severe restrictions on public life in light of advances made in vaccination campaigns and the milder symptoms that this seems to cause. In addition, countries such as the UK, Denmark and Spain have moved to preparing or implementing strategies to transition into living with the virus as endemic. Regardless, risks and uncertainties are still to be expected this year in connection with the COVID-19 pandemic. Looking forward, GRAMMER AG assumes that the further course of the COVID-19 pandemic and any new variants will be one of the most important determinants for future economic conditions in the individual regions.

Furthermore, the global economy came under strain, especially in the second half of 2021, from the sharp rise in inflation caused by higher commodities and energy prices and from supply bottlenecks, primarily for semiconductors, both in the US and in Europe. While the US Federal Reserve has already responded and announced interest rate hikes for 2022, the European Central Bank had not made any such announcements at the time of preparing this report. In terms of the supply chain problems, the semiconductor shortage is expected to continue until mid-2023, hurting automotive production.

In addition, geopolitical conflicts, such as a renewed intensification of the trade dispute between the United States and China, could lead to further supply chain problems. Likewise, supply chain problems and further increases in raw material and energy prices are to be expected in view of the war in Ukraine that had broken out and the sanctions adopted as a result at the time this annual report was prepared. Production interruptions due to material bottlenecks as well as sharp price increases could pose a risk to GRAMMER Group's revenue and earnings.

In its January 2022 forecast, the IWF expects global gross domestic product to grow by 4.4% in 2021, representing a –0.5 percentage point change compared to its expectations in October 2021.

In the AMERICAS region, experts predict growth of 4.0% for the US economy – a significant 1.2 percentage points lower than growth expectations, assuming that expansive monetary policy is ended and supply bottlenecks continue. The Mexican economy, which is highly dependent on the US economy, is expected to see GDP growth of 2.8%.

Economic growth of 3.9% is forecast for the EMEA region and the eurozone, although the economic impact of the pandemic within the EU and thus also the prospects for recovery vary widely. For Germany, the IMF forecasts a year-on-year increase of 3.8% in its January 2022 forecast.

In the APAC region, economic growth of 5.9% is anticipated in emerging markets in 2022. China is expected to grow by 4.8%.

4.1.2 Sector environment

Automotive

Passenger car market poised for a recovery

In its February 2022 forecast, IHS assumes passenger car production figures will rise again substantially in all regions in 2022. IHS expects approximately 6.5 million more vehicles to be produced worldwide this year than in the previous year (+8.5%). Whereas production in the EMEA and AMERICAS regions is expected to rise substantially by about 16%, IHS forecasts an increase of around 2.8% in output in APAC. Production growth of 0.9% compared to 2021 is anticipated in China. Production figures in the APAC region excluding China will improve by 5.2%. IHS assumptions were made before the outbreak of war in Ukraine.

Commercial Vehicles

Strong growth in the AMERICAS and EMEA

In the commercial vehicles sector, in its February 2022 forecast LMC expects a slight global downturn of –2.3% in 2022. A substantial increase of 7.0% and 14.0% is expected here for the EMEA and AMERICAS regions respectively, while a downturn of 9.7% is forecast for the APAC region as a whole. This dip can be attributed to the major market that is China, where – according to LMC – changes in emission standards are having a negative impact with a 17.7% drop in production figures. By contrast, production in the APAC region excluding China is expected to rise by about 10.1%. LMC assumptions were made before the outbreak of war in Ukraine.

Positive signals in the agricultural machinery industry

PSR OE Link's Q4 report puts anticipated global growth in the agricultural machinery industry at 3.7% in 2022, which looks set to continue in the years ahead, albeit at a slower rate. This expected increase in the overall production volume is essentially driven by changes to agricultural practices and the shift towards larger equipment and machinery.

Construction machinery industry

PSR OE's outlook for the construction machinery industry is unfazed by the ongoing uncertainty surrounding the COVID-19 pandemic and is also positive for 2022. Globally, a 5.1% increase is expected. Worries about sustained inflation, which could make construction projects unprofitable, are the only thing putting some pressure on sentiment in the sector.

Material handling

Material handling is expected to benefit from rising demand on the e-commerce market in 2022. According to the PSR forecast, the growing number of people who shop online will encourage e-commerce providers to modernize their inventories. For the whole of 2022, it is anticipated that there will be a 15.7% year on year rise in production volume.

Railway industry

The good performance enjoyed by the railway industry in recent years is expected to continue thanks to ongoing global megatrends such as urbanization, population growth and increasing environmental awareness. In addition, digitalization and automation will make public transport even more appealing. This trend will also be aided by government investment in railway infrastructure, such as in Germany, the largest market in western Europe. The APAC and AMERICAS regions are also expected to generate further market growth.

Further determinants

Macroeconomic and industry-specific conditions are of key importance for GRAMMER's business performance. In addition, however, a number of other factors also play an important role.

Thus, changes on the procurement side may have an impact on earnings. These include, in particular, fluctuations in raw material prices on the world market and bottlenecks in supplies of externally sourced parts. Ongoing supply bottlenecks for semiconductors should also be noted here. Last year this resulted in production downtime at GRAMMER Group customers and led to lower customer call-offs. There are currently no signs that this situation is easing; the semiconductor shortage is expected to continue until mid-2023.

In the past year, the prices of the main raw materials, such as steel, and of crude oil-based foam and plastic products has risen, in some cases significantly. Commodity prices are not expected to decline significantly on account of the expected economic recovery, continued supply chain disruption and potential geopolitical tension that supply shortages could bring about. Any resulting further increases in raw material prices would have a negative effect on the Company's margins and consequently also on its earnings.

In addition, personnel expenses in production countries also have an impact on business performance. They are just as much a factor in location decisions as reliable legal and political framework conditions are. The US bore the brunt of additional costs here in the reporting period as the country faced high labor fluctuation and a considerable shortage of skilled employees. In addition, exchange rate fluctuations may also have an impact on revenue, which GRAMMER mitigates by means of suitable hedging transactions. However, very significant changes in currency parities may have effects on earnings in individual cases.

4.2 Outlook for the GRAMMER Group 2022

At the time of preparing the 2021 annual report, there were indications that the risks and uncertainties in connection with the COVID-19 pandemic will continue in 2022 as a whole. As described, this comes alongside challenging macroeconomic conditions that could result in lower growth prospects in the markets addressed by GRAMMER. Further developments regarding semiconductor supply shortages and commodities and energy prices will have a particular influence on the Company's economic performance.

In view of the current uncertainties, a cautious revenue forecast has been chosen. Overall, for 2022 the Group anticipates a slight increase in revenue to approximately EUR 2.0 billion (2021: EUR 1.9 billion) and a considerably improved operating EBIT in a range between EUR 35 million and EUR 40 million (2021: EUR 22.8 million).

In 2022, operating EBIT will remain impacted by volatile call-offs, increasing costs from higher energy prices and material bottlenecks. The Company is endeavoring to compensate this with the efficiency and cost reduction measures it has implemented. In 2021, operating EBIT was very heavily impacted by the effects of the global semiconductor shortages, especially at automotive producers. There were also ongoing uncertainties in connection with the COVID-19 pandemic and costs from the individual issues already described.

5. Statement pursuant to section 315a HGB (German Commercial Code)

Composition of the subscribed capital: GRAMMER AG's subscribed capital amounts to EUR 39,009,080.32 and is divided into 15,237,922 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 Group's annual financial statements for 2021 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; 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: In accordance with a resolution passed at the Annual General Meeting of June 23, 2021, the Executive Board's authorization, included in article 5 (3) of the articles of association subject to the Supervisory Board's approval, to increase the Company's share capital once or repeatedly by a total up to EUR 9,402,263.04 in return for contributions in cash and/or in kind until July 7, 2025 (Authorized Capital 2020), was canceled.

In accordance with a resolution passed at the Annual General Meeting of June 23, 2021, the Executive Board was authorized subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly by a total of up to EUR 19,504,537.60 by issuing bearer shares on a cash and/or non-cash basis on or before June 22, 2026 (Authorized Capital 2021). In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to exclude the shareholders' preemptive subscription rights subject to the approval of the Supervisory Board in certain cases.

The Executive Board of GRAMMER AG is not authorized to issue bonds with warrants and/or convertible bonds.

GRAMMER holds 330,050 shares as own shares, all of which were acquired in 2006. The 330,050 shares held as own shares are non-voting and non-dividend-entitled.

There is no authorization to acquire own shares in accordance with section 71 (1) No. 8.

Company compensation agreements with the members of the Executive Board or employees in the event of a take-over bid: The service agreements entered into with the Executive Board members do not provide for any compensation to be paid in the event of a change of control in connection with a takeover bid.

Material company agreements contingent upon a change of control as a result of a takeover bid: The syndicated loan agreement with GRAMMER AG as the sole borrower provides for the right of each lender to demand early repayment in the event of a change of control. For the purposes of this contract, 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; excluded from this is any direct or indirect acquisition of voting rights or control in the borrower by direct or indirect subsidiaries of the Ningbo Jifeng Group. If these repayment or termination rights were to be exercised – particularly on a joint basis – the funding required by the GRAMMER Group for its ongoing business operations could be jeopardized, meaning that alternative sources of funding would be required.

Ursensollen, March 11, 2022

Thorsten Seehars Jurate Keblyte Jens Öhlenschläger

GRAMMER AG Executive Board

Index Corporate Governance

CORPORATE GOVERNANCE

The Group corporate governance declaration pursuant to section 315d in connection with section 289f HGB (German Commercial Code) and the declaration of conformity with the German Corporate Governance Code (section 161 AktG (German Stock Corporation Act)) are permanently available on the Company's website at www.grammer.com under "Corporate Governance" in the section entitled "COMPANY".

1. Supervisory Board and Executive Board

1.1 The Executive Board

The rules for the appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG as well as article 8 et sec. of the Company's articles of association. There were no changes to the Executive Board in the year under review.

In a circular resolution dated August 6, 2021, the Supervisory Board of GRAMMER AG extended the terms of office of the Executive Board members Thorsten Seehars (CEO) and Jurate Keblyte (CFO) ahead of schedule by five years. Thorsten Seehars's new Executive Board contract thus expires on August 31, 2026 and Jurate Keblyte's term in office extends until June 30, 2027. The contract for Jens Öhlenschläger, the final member of the Executive Board team and Chief Operating Officer (COO), was already extended in March 2021 and expires on December 31, 2026.

1.2 The Supervisory Board

There were no changes to the GRAMMER AG Supervisory Board in 2021.

2. Group corporate governance report and declaration

GRAMMER is committed to ensuring responsible and transparent corporate governance on the basis of statutory provisions, its articles of association, the rules of procedure of the Executive Board and the Supervisory Board and the German Corporate Governance Code (the Code, which are observed in all decision-making processes.

GRAMMER AG is subject to German stock corporation law and therefore has a dual management system consisting of an Executive Board and a Supervisory Board.

2.1 Executive Board

The Executive Board is responsible for the management of GRAMMER AG. As a management body, it is committed to furthering the Company's interests and to increasing its sustained enterprise value. To this end, it develops a suitable strategy, consults with the Supervisory Board and ensures that it is implemented.

The Executive Board is responsible for preparing the Company's quarterly reports and half-yearly financial report as well as the annual and consolidated financial statements and the management report for GRAMMER AG and the Group. The Executive Board is also responsible for compliance with the law and internal policies and ensures these are implemented and observed throughout the Company. To meet these obligations, the Executive Board ensures that there is an appropriate compliance management system in place that is based on the Company's risk position, as well as a control and risk management system.

The Supervisory Board has issued rules of procedure for the Executive Board, which include the definition of various areas of responsibility and the rules for cooperation both within the Executive Board and between the Executive Board and the Supervisory Board. The rules of procedure also determine the matters that are the responsibility of the Executive Board in its entirety and the required majorities for passing resolutions.

The Executive Board and the Supervisory Board work closely together in the Company's best interests. In addition to the Supervisory Board meetings, which are attended by the members of the Executive Board, members of the Supervisory Board regularly exchange information with the Chairman of the Executive Board and the other Executive Board members. The report of the Supervisory Board provides additional information on the collaboration between the Executive Board and the Supervisory Board.

The members of the Executive Board are subject to a comprehensive non-competition clause during their activities for GRAMMER AG. They undertake to act in the Company's best interests and may not pursue any personal interests when making decisions; in particular, they may not make use of any business opportunities arising for the Company for their own personal benefit. They may only engage in sideline activities, in particular, supervisory board mandates outside the GRAMMER Group, with the approval of the Supervisory Board. The Supervisory Board is responsible for deciding on how the remuneration received for sideline activities is to be treated. Each member of the Executive Board is under a duty to disclose to the Supervisory Board any conflicts of interest without delay.

As a rule, members of the Executive Board are initially appointed for a period of no more than three years. However, the Supervisory Board assesses each individual case on the basis of its own merits to determine the appropriate initial period of appointment.

In 2021, the Executive Board was composed of the following members:

Thorsten Seehars, Chief Executive Officer (CEO), Chief Human Resources Officer, member of the Executive Board since August 1, 2019, appointed until August 31, 2026

- Responsibilities: Automotive Division; Commercial Vehicles Division; Group R&D; Corporate Development; Group Marketing, Communications, Corporate Social Responsibility, Strategic Product Planning, Group Human Resources
- Seats on other Supervisory Boards required by law or comparable domestic and foreign governing bodies of commercial enterprises:
  - External mandates (as of December 31, 2021): none
  - Group mandates (as of December 31, 2021): member of the Board of Directors at GRAMAG Truck Interior Systems LLC, Changchun GRAMMER FAWSN Vehicle Parts and Grammer Vehicle Parts (Harbin) Co., Ltd. (since May 19, 2021)

Jurate Keblyte, Chief Financial Officer (CFO), member of the Executive Board since August 1, 2019, appointed until June 30, 2027

- Responsibilities: Group Controlling; Group Accounting; Group Finance; Finance EMEA region; Finance Region China; Finance Region AMERICAS; Group Legal & Compliance; Group Internal Audit; Group IT; Investor Relations
- Seats on other Supervisory Boards required by law or comparable domestic and foreign governing bodies of commercial enterprises:
  - External mandates (as of December 31, 2021): member of the Supervisory Board of HAWE Hydraulik SE, Aschheim, Munich, member of the Supervisory Board of Ottobock SE & Co., Duderstadt (since May 17, 2021)
  - Group mandates (as of December 31, 2021): member of the Board of Directors of Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd.

Jens Öhlenschläger, Chief Operating Officer (COO), member of the Executive Board since August 1, 2019, appointed until December 31, 2026

- Responsibilities: EMEA region; Region China; Region AMERICAS; Group Quality, HSE & Information Security; Group Supplier Management; Group Performance Improvement; Digitalization Operations; VA/VE Management
- Seats on other Supervisory Boards required by law or comparable domestic and foreign governing bodies of commercial enterprises:
  - External mandates (as of December 31, 2021): none
  - Group mandates (as of December 31, 2021): Member of the Board of Directors of ALLYGRAM Systems and Technologies Pvt., Ltd., Supervisory Board of GRAMMER (China) Holding Co., Ltd. (since April 30, 2021), GRAMMER Interior (Beijing) Co., Ltd., GRAMMER Interior (Changchun) Co., Ltd. (since March 5, 2021), GRAMMER Interior (Shanghai) Co., Ltd., GRAMMER Interior (Tianjin) Co., Ltd., GRAMMER Seating (Ningbo) Co., Ltd., GRAMMER Seating (Shaanxi) Co., Ltd., GRAMMER Vehicle Interiors (Hefei) Co., Ltd. (since November 11, 2021), GRAMMER Vehicle Parts (Shenyang) Co., Ltd. and GRAMMER Japan, Ltd.

The resumes of the members of the Executive Board are available on the Company's website. All information on the Executive Board remuneration system is included in the remuneration report.

2.2 Supervisory Board

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. It has 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 members of the Supervisory Board representing the shareholders are elected at the Annual General Meeting by a simple majority. Elections to the Supervisory Board are regularly held in the form of individual elections. The employee representatives on the Supervisory Board are elected in accordance with the provisions of the German Codetermination Act.

The work of the Supervisory Board is governed by statutory requirements, the articles of association and the rules of procedure. At regular intervals, the Supervisory Board discusses the Company's business performance and planning as well as strategy and its implementation. It reviews the annual and consolidated financial statements, the management report of GRAMMER AG and the Group as well as the non-financial statement and the dependent company report. It adopts the annual financial statements of GRAMMER AG and approves the consolidated financial statements, based on the results of the preliminary review conducted by the Audit Committee and taking into account the external auditor's reports. The Supervisory Board passes a resolution concerning the Executive Board's proposal for the appropriation of the Company's net retained profits and submits a proposal for the election of the external auditor at the Annual General Meeting. Together with the Executive Board, the Supervisory Board prepares a report on the remuneration paid and owed to members of the Executive Board and the Supervisory Board in the previous year.

The Supervisory Board is also responsible for appointing the members of the Executive Board and determining the allocation of responsibilities. The Supervisory Board, acting on a proposal by the Personnel and Mediation Committee, decides on the system for the remuneration of the members of the Executive Board and sets the specific remuneration in accordance with this system. It defines the targets for variable remuneration and the respective total remuneration for the individual members of the Executive Board and reviews the appropriateness of the total remuneration as well as the remuneration system for the Executive Board on a regular basis.

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, in which case the Chairman of the Supervisory Board holds two votes.

The Supervisory Board usually meets five times a year and also regularly without the presence of the Executive Board. To prepare for the Supervisory Board meetings, the shareholder and employee representatives regularly meet separately. Each member of the Supervisory Board is under a duty to disclose any conflicts of interest to the Supervisory Board.

Supervisory Board self-assessment

The Supervisory Board and its committees regularly review, either internally or with the involvement of external advisors, how effectively the Supervisory Board as a whole and its committees are performing their duties. It discusses scope for improvement on the basis of the results and adopts appropriate measures. Individual suggestions are also taken up and implemented during the year. The Supervisory Board conducted an internal self-assessment using questionnaires in the fourth quarter of 2021 and discussed the results and subsequent measures at length at the Supervisory Board meeting on November 16, 2021.

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.

2.3 Supervisory Board committees

In order to increase the efficiency of its work, the Supervisory Board has an Audit Committee, a Personnel and Mediation Committee, a Nominating Committee, a Strategy Committee and an Executive Committee, all of which met regularly in 2021. Their duties, responsibilities and work processes comply with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code (the Code). The committee chairs regularly report to the Supervisory Board on their activities.

The Audit Committee consists of four members elected by the Supervisory Board – two of whom are shareholder representatives and two employee representatives – from whom the Committee appoints one member as its chair. The committee meets as required but at least four times a year. The Chair of the Audit Committee is independent of the Company, the Executive Board and the controlling shareholders and, as a financial expert, has extensive knowledge and experience in the application of accounting principles and internal control processes and is familiar with the audit. This person is not the Chair of the Supervisory Board and is not a former member of the GRAMMER AG Executive Board whose tenure ended fewer than two years prior. The Audit Committee is responsible for accounting and accounting process issues, the efficacy of the internal control system, the risk management system and the internal auditing system, the internal procedure for related party transactions and compliance with legal provisions, official regulations and internal company compliance. As part of the audit of the financial statements, it also monitors the selection, independence and qualifications of the auditor and the auditor's services. The Audit Committee is responsible for the preliminary audit of the annual and consolidated financial statements, the management report of GRAMMER AG and the Group and the dependent company report. It discusses the documents listed in the previous sentence with the Executive Board and the auditor and deals with the auditor's audit report. In addition, the Audit Committee also prepares the Supervisory Board's decision regarding the preparation of the annual financial statements, the approval of the consolidated financial statements and the Executive Board's resolution on the appropriation of profit. The Audit Committee also verifies the independence of the external auditor and obtains from him the corresponding declaration of independence. It issues the audit engagement to the external auditor and enters into the corresponding fee agreement, deals with the determination of the main focal points of the external audit and monitors the audit of the financial statements.

The Personnel and Mediation Committee contains the Chairman of the Supervisory Board, his deputy, one member selected by the employee representative members and one selected by the shareholder representative members. It meets at least twice per calendar year. The Personnel and Mediation Committee deliberates on the Supervisory Board's personnel decisions in an advisory and preparatory capacity, chiefly regarding the appointment and removal of Executive Committee members, the remuneration system for the Executive Board, total compensation for the individual members of the Executive Board and the preparation of the remuneration report. In addition, the Personnel and Mediation Committee consults regularly about long-term succession planning for the Board of Management.

The Nomination Committee comprises three of the members selected by the Supervisory Board members representing the shareholders. It has the task of proposing to the Supervisory Board suitable shareholder representatives for election to the Supervisory Board at the Annual General Meeting. As well as the required knowledge, skills and professional experience, the objectives designated by the Supervisory Board for its composition and the competence profile drawn up for the entire Supervisory Board should be taken into account when proposing candidates. When determining its composition, the Supervisory Board should, in particular, suitably consider the Company's international activities, the age limit specified and diversity. Attention must be paid to ensuring appropriate representation of women and men in accordance with the statutory gender representation requirements.

The Strategy Committee comprises two of the members elected by the Supervisory Board members representing the shareholders and the employees. The committee meets at least twice each calendar year and deliberates on the development of the corporate strategy in an advisory and preparatory capacity. Key tasks include advising the Executive Board on the strategic development of the Company, preparing strategy meetings and resolutions of the Supervisory Board on business requiring the Supervisory Board's approval and advising the Executive Board on corporate strategy issues and projects of strategic relevance.

The Executive Committee comprises the Chairman of the Supervisory Board and his deputy. 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.

Attendance at the meetings of the Supervisory Board

In the year under review, the Supervisory Board of GRAMMER AG held five ordinary and two extraordinary meetings. Five ordinary meetings are planned for 2022. In addition, extraordinary meetings will be convened if necessary. The committees also meet regularly. The Supervisory Board considers the individualized disclosure of attendance at the meetings of the Supervisory

Board and its committees to form an element of good corporate governance:

Attendance at the meetings of the Supervisory Board

		Attendance rate	
Supervisory Board		**Actual / Target**	**Rate**
Klaus Bauer	Member	7/7	100%
Andrea Elsner	Member	7/7	100%
Dr. Ping He	Member	7/7	100%
Martin Heiß	Member	7/7	100%
Peter Kern	Member	7/7	100%
Jürgen Kostanjevec	Member	7/7	100%
Dr. Peter Merten	Member	6/7	86%
Horst Ott	Deputy Chairman	6/7	86%
Gabriele Sons	Member	7/7	100%
Prof. Dr. Birgit Vogel-Heuser	Member	6/7	86%
Antje Wagner	Member	7/7	100%
Alfred Weber	Chairman	7/7	100%
		81/84	**96%**

Strategy Committee			
Martin Heiß	Member	2/2	100%
Dr. Peter Merten	Member	2/2	100%
Horst Ott (deputy Ch SB)	Member	2/2	100%
Alfred Weber (Ch SB)	Chairman	2/2	100%
		8/8	**100%**

Personnel Committee			
Martin Heiß	Member	7/7	100%
Horst Ott (deputy Ch SB)	Member	7/7	100%
Gabriele Sons	Member	7/7	100%
Alfred Weber	Chairman	7/7	100%
		28/28	**100%**

Audit Committee			
Andrea Elsner	Member	5/5	100%
Dr. Peter Merten	Chairman	5/5	100%
Antje Wagner	Member	5/5	100%
Alfred Weber (Ch SB)	Member	5/5	100%
		20/20	**100%**

Executive Committee			
Horst Ott (deputy Ch SB)	Deputy Chairman	5/5	100%
Alfred Weber (Ch SB)	Chairman	5/5	100%
		10/10	**100%**

Further details of how the Supervisory Board works, the number of meetings and the main matters dealt with in 2021 can be found in the report of the Supervisory Board.

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 planning, business performance and the risk situation of the Company. 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.

Directors' dealings

All members of the Executive Board and Supervisory Board and persons closely associated with them are required, subject to certain conditions, to disclose all share transactions without delay in accordance with Art. 19 of the European Market Abuse Directive (EU 596/2014). A process has been established to duly publish these transactions in the event of such notification. 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. No transactions were reported in 2021.

Shareholders and Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. At the Annual General Meeting, the shareholders pass resolutions on the appropriation of profits, the ratification of the actions of the members of the Executive Board and the Supervisory Board and the election of the auditors, among other things. The shareholders pass resolutions on amendments to the articles of association and capital measures, which are duly implemented by the Executive Board. To assist absent shareholders in exercising their rights, two voting proxies attended the annual general meeting to exercise voting rights in accordance with the instructions issued. Shareholders were able to authorize and instruct these proxies, who could be reached throughout the meeting, at any time. Shareholders may also cast their votes in writing or electronically (postal vote). They can submit motions on resolutions proposed by the Executive Board and Supervisory Board and contest resolutions passed at the Annual General Meeting.

The reports, documents and information required by law for the Annual General Meeting, including the annual report, are available on the Internet, as are the agenda for the Annual General Meeting and any countermotions or election proposals from shareholders that are required to be disclosed. When shareholder representatives are to be elected to the Supervisory Board, a detailed resume is published for each candidate.

The Annual General Meeting on June 23, 2021

was organized as an online format without the physical presence of the shareholders and their proxies in view of the special circumstances arising from the COVID-19 pandemic in accordance with the Act Governing Measures In Company Law, Laws On Cooperatives, Association Law, Foundation Law And Residential Property Law To Combat The Effects Of The COVID-19 Pandemic.

As part of our investor relations work, we provide comprehensive information on developments at the Company. Among other things, quarterly statements, half-yearly financial and annual reports, earnings reports, ad hoc announcements, analyst presentations, press releases and the financial calendar for the current year, which includes the publication dates that are important for financial communications and the date of the Annual General Meeting, are published on www.grammer.com.

Accounting and statutory audit

The GRAMMER Group's consolidated financial statements for 2021, 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 23, 2021, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, ("EY") was elected external 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 external auditors that it was to be notified without delay of any findings and occurrences material to the duties of the Supervisory Board arising during 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.

Compliance management system

"Integrity forms the basis of our success." This is the initial statement in GRAMMER's Code of Conduct, which was first published in May 2006 and extensively revised in December 2020, laying the foundations for its 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 anti-corruption and fair competition as well as requirements concerning safety, health and environment. The Code of Conduct additionally contains provisions concerning the treatment of confidential information, compliance with data protection regulations and the avoidance of insider trading. The Code of Conduct is supplemented by detailed compliance guidelines, which are available in the languages relevant to GRAMMER on the Intranet.

During the year under review, the Executive Board regularly dealt with the further development of the compliance management system and ensured that the necessary measures were taken. The Executive Board as a whole is jointly responsible for compliance. Together with the entire management, it ensures that each individual in the Company abides by the principles of compliance. In addition, a Compliance Committee consisting of the members of the Executive Board and internal technical experts has been set up and regularly deals with compliance issues and the further development of the compliance management system. The management of the GRAMMER Group is responsible for encouraging conduct that conforms to the requirements of compliance and for acting as a role model. In addition to the extensive information available on the GRAMMER Group's Intranet, special web-based training modules on compliance related issues are available for employees, who are awarded a certificate upon successfully completing the training. All new employees are trained on the Code of Conduct. In addition, employees from relevant functions must attend web-based training sessions on significant compliance topics, in particular anti-corruption and antitrust law.

If any employees suspect or become aware or any breaches of the law or internal guidelines, they can report this anonymously to the internal whistleblower system, which is currently available 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.

Corporate governance statement pursuant to sections 289f and 315d HGB

The corporate governance statement pursuant to sections 289f and 315 HGB forms an integral part of the management report. Under section 317 (2) sentence 6 HGB, the external auditor's review of the disclosures pursuant to sections 289f and 315 HGB is limited to determining whether the disclosures have been made.

Remuneration of the Executive Board and the Supervisory Board

The remuneration report on the 2021 financial year and the auditor's report pursuant to Section 162 AktG, the applicable remuneration system pursuant to Section 87a (1) and (2) Sentence 1 AktG and the latest remuneration resolution pursuant to Section 113 (3) AktG can be viewed permanently on our corporate website at www.grammer.com in the Investor Relations section under Financial Publications / Annual Financial Statements 2021 section.

Declaration of conformity with the German Corporate Governance Code

On December 9, 2021, 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):

GRAMMER AG Executive Board and Supervisory Board declaration on the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with section 161 AktG

Since the last declaration of conformity dated December 10, 2020, GRAMMER AG ("Company") has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated December 16, 2019, published in the official section of Bundesanzeiger on March 20, 2020 ("2020 Code"), announced by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger with the following exceptions:

1. Recommendation D.1 - "Publication of the rules of procedure of the Supervisory Board"

   The 2020 Code recommends publishing the Rules of Procedure of the Supervisory Board on the Company's website. At Grammer AG's Annual General Meeting on July 8, 2020, new shareholder representatives were elected to the Supervisory Board as the previous terms of office had duly expired. As four of the six previous shareholder representatives did not stand for re-election, there was a substantial change in the composition of the Supervisory Board. The Supervisory Board addressed issues relating to the future governance of the Company as a whole at its meetings in Q3 2020, Q4 2020 and Q1 2021. For this reason, the rules of procedure of the Supervisory Board were initially not reviewed or revised. Accordingly, the Supervisory Board then resolved new Rules of Procedure on March 29, 2021 and published these on the Company's website at the start of May 2021, thereby ensuring compliance with the recommendation D.1 since this time.

2. Section G. I - "Executive Board remuneration"

   Section G.I. of the 2020 Code includes new recommendations concerning the remuneration of the Executive Board compared with the previous version.

   The system for remunerating members of the Company's Executive Board in place until December 31, 2020, which was approved by the Company's Annual General Meeting on June 12, 2018, did not comply in full with the recommendations of the 2020 Code.

   The system for remunerating members of the Company's Executive Board in place since January 1, 2021, which was approved by the Company's Annual General Meeting on June 23, 2021, complies with all recommendations on Executive Board remuneration in Section G.I. of the 2020 Code.

   The Company meets all recommendations of the 2020 Code and will continue to do so in the future.

Ursensollen, December 9, 2021

GRAMMER Aktiengesellschaft

The Executive Board The Supervisory Board

GRAMMER AG bases its actions on the suggestions of the German Corporate Governance Code and complies with these, with the following exceptions:

A whistleblower system is currently only available for employees of the Company (recommendation A.2). Given the impact of the COVID-19 pandemic, meetings of the Supervisory Board and its committees were generally held by video conference or as a hybrid event in the form of an in-person meeting where attendants could alternatively choose to take part virtually (recommendation D.8).

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

Objectives for the composition, competence profile and diversity policy for the Supervisory Board

The Supervisory Board of GRAMMER AG should be composed in such a way as to ensure that the Executive Board receives qualified supervision and advice from it. In this context, the complementary interaction of members with different personal and professional backgrounds as well as diversity in terms of internationality, age and gender is considered helpful.

Competence profile

Based on their knowledge, skills and experience, the candidates proposed for election to the Supervisory Board should be able to perform the duties of a Supervisory Board member in an internationally active and capital market-oriented company and appropriately represent it externally. The criteria are based on the current Code recommendations with regard to diversity and an appropriate proportion of women as well as the characteristics of independence, experience, international profile and expertise. Moreover, the members should possess the integrity, personality and commitment necessary for the duties of the Supervisory Board.

These criteria have been defined in a profile of competence and summarized in a corresponding questionnaire that forms a key basis of the examination to determine the suitability of a nominee.

The aim is to ensure that the Supervisory Board as a whole has all the knowledge and experience required to perform its duties – this applies in particular with regard to knowledge and experience of importance to GRAMMER concerning

- leadership in a large or medium-sized internationally active company
- knowledge of industrial business and valuation creation along various value chains
- knowledge of GRAMMER's key industries, markets, regions and business segments
- new technologies
- production and sales and knowledge of corporate processes
- general accounting knowledge
- general knowledge of corporate governance, controlling, risk management and compliance

The members of the Supervisory Board as a whole should be familiar with the sector in which the Company operates. At least one independent member of the Supervisory Board should have expertise in the fields of accounting or auditing as well as special knowledge and experience in the application of accounting principles and internal control procedures. Which of the desirable skills on the Supervisory Board is to be strengthened should be determined whenever a new candidate is to be elected to the Supervisory Board.

Diversity

Sufficient diversity should be ensured in the composition of the Supervisory Board. In addition to the appropriate representation of women, this also includes diversity with regard to cultural origins as well as the diversity of educational and professional backgrounds, experience and ways of thinking. When considering potential candidates for by-election or replacement for positions on the Supervisory Board that become vacant, the aspect of diversity should be given appropriate consideration at an early stage of the selection process. In accordance with the German Stock Corporation Act (AktG), the Supervisory Board must be composed of at least 30% women and 30% men.

Age limit

In accordance with the age limit specified by the Supervisory Board in its rules of procedure, only persons who are no older than 70 years of age at the time of being elected or re-elected are proposed for election as members of the Supervisory Board.

Independence

The Supervisory Board should have an appropriate number of independent members as determined by the shareholder representatives on the Supervisory Board. More than half of the shareholder representatives should be independent of the Company and the Executive Board. Significant conflicts of interest that are not merely temporary should be avoided. No more than two former members of GRAMMER AG's Executive Board are permitted to hold seats on the Supervisory Board. The members of the Supervisory Board should have sufficient time to exercise their mandate with the requisite regularity and diligence.

Implementation of the objectives for the composition, competence profile and diversity policy for the Supervisory Board; independent members of the Supervisory Board

The Supervisory Board as well as its Nominating Committee, take into account the objectives for the composition of the Supervisory Board and the requirements set out in the diversity policy during the selection process and the nomination of candidates for the Supervisory Board. Most recently, the Supervisory Board and the Nominating Committee took due account of the objectives, including the competence profile and the diversity policy, in the proposals for the shareholder representatives to be elected at the 2020 Annual General Meeting. The Supervisory Board believes that its current composition meets the targets with respect to composition and fulfills the competence profile and diversity policy. The members of the Supervisory Board have the professional and personal qualifications deemed necessary. The members of the Supervisory Board as a whole are familiar with the sector in which the Company operates and possess the knowledge, skills, capabilities, experience and international profile considered necessary for GRAMMER. In addition, the diversity of the professional and educational backgrounds of the individual members of the Supervisory Board can be seen in the resumes of its members, which are published on the GRAMMER AG website and updated annually.

Diversity is duly taken into account in the composition of the Supervisory Board. In 2021, the Supervisory Board had four female members, including two shareholder representatives and two employee representatives. 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 joint fulfillment has been rejected (separate fulfillment). The minimum representation requirement required under section 96 (2) sentence 1 AktG is therefore satisfied.

The Supervisory Board also includes an appropriate number of independent members. The Supervisory Board believes that all shareholder representatives are independent within the meaning of the Code. The defined age limit is also observed. No cap on the length of membership on the Supervisory Board has been defined.

Composition of the Supervisory Board committees
In order to increase the efficiency of its work, the Supervisory Board has an Audit Committee, a Personnel and Mediation Committee, a Nominating Committee, a Strategy Committee and an Executive Committee.

In 2021, the Audit Committee comprised of the Supervisory Board members Dr. Peter Merten, Andrea Elsner, Antje Wagner and Alfred Weber. Dr. Peter Merten was the Chairman.

The Strategy Committee in 2021 comprised of the Supervisory Board members Alfred Weber, Martin Heiss, Dr. Peter Marten and Horst Ott. Alfred Weber was the Chairman.

Supervisory Board members Alfred Weber, Martin Heiss, Horst Ott and Gabriele Sons were members of the Personnel and Mediation Committee in 2021. Alfred Weber was the Chairman.

The Nomination Committee comprised of Alfred Weber, Dr. Peter Merten and Ms. Gabriele Sons. The committee has not met since it was formed and so no committee chair has been appointed.

Alfred Weber and Horst Ott sat on the Executive Committee in 2021. The Executive Committee does not have a chair.

Targets for the representation of women on the Executive Board and in the two management levels below the Executive Board; disclosure on compliance with minimum quota requirements in the composition of the Supervisory Board
At its meeting on December 10, 2020, the Supervisory Board confirmed the target of 33% for the proportion of women on GRAMMER AG's Executive Board by December 31, 2023 set in 2017. In 2021, the GRAMMER AG Executive Board comprised of two men and one woman and so the target was met.

When filling management positions within the Company, the Executive Board pays attention to diversity and strives, in particular, to give appropriate consideration to women and an international background. It also takes account of sector-specific circumstances. The Executive Board of GRAMMER AG has defined a quota of 15% for the first management level below the Executive Board and 20% for the second level below the Executive Board by September 30, 2025. 25% of women were employed at the first management level below the Executive Board as of December 31, 2021. The target was thus exceeded. At the second level approximately 11% of women were employed as of the reporting date. In comparison to the previous year, the targeted level declined and was not met as of December 31, 2021. This was partly due to the introduction of a new job assessment system and the regional reorganization which resulted in a shift in the ratio.

In the period under review, the composition of the Supervisory Board in terms of the representation of women and men complied with the statutory minimum representation requirements.

Diversity policy for the Executive Board and long-term succession planning
When selecting members of the Executive Board, the Supervisory Board looks at their personal suitability, integrity, the presence of convincing leadership qualities, international experience, professional qualifications for the area of responsibility to be taken on, past performance, knowledge of the Company and ability to adapt business models and processes in a changing world.

Diversity is an important selection criterion when Executive Board positions are filled and also includes aspects such as age, gender and educational and professional background. When selecting members of the Executive Board, the Supervisory Board also considers the following aspects in particular:

In addition to the specific technical knowledge and management and leadership experience required for the task in question, the members of the Executive Board should possess as broad a range of knowledge and experience as possible as well as educational and professional backgrounds.

With a view to the Company's international orientation, the composition of the Executive Board should take into account international profiles in the sense of different cultural backgrounds or international experience.

The Executive Board as a whole should have experience in the business segments that are important for GRAMMER, particularly the industrial and automotive sectors.

The Executive Board as a whole should have many years of experience in research and development, technology, purchasing, production and sales, finance, as well as legal matters (including compliance) and human resources.

When Executive Board positions are filled, the target set by the Supervisory Board for the representation of women on the Executive Board must be taken into account. The Supervisory Board has set a target of 33% for the representation of women on the Executive Board.

It is considered helpful to have different age groups represented on the Executive Board. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board has set an age limit for the members of the Executive Board. Consequently, persons appointed to the Executive Board should not be older than 63 at the time of their initial or reappointment.

A decision on filling a specific position on the Executive Board is always based on the interests of the Company, taking into account all the circumstances of the individual case.

Implementation of the diversity policy for the Executive Board
The diversity policy for the Executive Board is implemented as part of the appointment process. The Supervisory Board and/or the Personnel and Mediation Committee observe the requirements set out in the diversity policy for the Executive Board when selecting candidates or proposing candidates for appointment to the Executive Board.

The members of the Executive Board possess a broad range of knowledge and experience, as well as educational and professional backgrounds and have international experience. The Executive Board as a whole possesses all the knowledge and experience considered essential in view of GRAMMER's activities. The Executive Board as a whole has experience in the business segments that are important for GRAMMER. Appropriate consideration is given to women, with the Executive Board comprising two men and one woman. No member of the Executive Board is currently older than 63.

Long-term succession planning for the Executive Board
Together with the Executive Board, the Supervisory Board is responsible for long-term succession planning for the Executive Board and is supported here in a preparatory capacity by the Personnel and Mediation Committee. In addition to the requirements of the German Stock Corporation Act and the recommendations of the Code, long-term succession planning takes into account the target set by the Supervisory Board for the representation of women on the Executive Board as well as the criteria defined in the diversity policy adopted by the Supervisory Board for the composition of the Executive Board. Taking into account the specific qualification requirements and the aforementioned criteria, the Personnel and Mediation Committee prepares an ideal profile, on the basis of which it draws up a shortlist of available candidates. Structured interviews are conducted with these candidates. A recommendation is then submitted to the Supervisory Board. If required, the Supervisory Board and/or the Personnel and Mediation Committee are supported by external consultants in the definition of job profiles and the selection of candidates.

"In 2021, too, the employees at GRAMMER met the challenges with impressive commitment and great perseverance."

Alfred Weber
Chairman of the Supervisory Board

Dear shareholders,

GRAMMER' employees have met the challenges of the past financial year – the search for innovative solutions for a vehicle industry in transition as well as the global economic consequences of the COVID 19 pandemic – with impressive commitment and great perseverance with the help of the unique Way of Working @GRAMMER.

After some new members were appointed to positions on the GRAMMER AG Supervisory Board in 2020, we had many opportunities last year to step up collaboration. Our work focused on areas including revising and redesigning the remuneration systems for the Executive Board and the Supervisory Board, regularly discussing the Company's position, further developing regular reporting on governance issues, especially on risk and compliance management. Furthermore, the focus was on the discussion of personnel development and succession planning, taking into account aspects such as diversity and corporate culture shaped by the Way of Working @GRAMMER. By reappointing members of the GRAMMER AG Executive Board, we are committing to continuity in terms of corporate governance so that we can address the challenges we face during these constantly changing times.

In 2021, the Supervisory Board collaborated closely with the Executive Board to propel the Group-wide positive cultural shift and advised the Executive Board on developing the strategies of the two divisions, in particularly taking into account customer feedback, advances in digitalization as well as sustainability and climate protection. This is helping make the GRAMMER site in Haselmühl near Amberg the most cutting-edge production plant for offroad commercial vehicle seats in the world. In addition, the transformation of GRAMMER into a Green Company is being driven forward by defining the areas of action necessary to achieve the Group-wide target of reducing CO_2 emissions by at least 50% by the end of this decade.

Monitoring and advisory activities of the Supervisory Board
In 2021, 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. Some were also prepared for resolution in the committees. 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 meets 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, members of the Supervisory Board regularly exchanged information with the Chairman of the Executive Board and the other Executive Board members. 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

The Supervisory Board of GRAMMER AG held five ordinary (including one executive session) and two extraordinary meetings last year.

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, managing the global pandemic and dealing with the ongoing supply chain challenges.

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 reportable operating segments in the AMERICAS, APAC and EMEA regions, the financial situation and the further strategic orientation. Business performance in the AMERICAS region was particularly relevant in the second half of the year.

Another focus topic in the first half of the year was the establishment of a new remuneration system for the Executive Board and the Supervisory Board. The existing Executive Board remuneration system was drawn up in 2018 and must be revised, in part due to the latest amendments to the German Stock Corporation Act and the German Corporate Governance Code. The 2021 Annual General Meeting approved the new remuneration systems by a large majority.

Discussion of business requiring approval – chiefly regarding M&A projects such as the establishment of another joint venture in China or the sale of the subsidiary in Spain – the establishment of new Group companies and capital measures at Group companies, were also on the agenda at Supervisory Board meetings. The GRAMMER AG Supervisory Board also looked at the Company's risk management in detail.

All twelve members of the Supervisory Board attended the first extraordinary Supervisory Board meeting on January 15, 2021. At this meeting, they discussed revising the Executive Board and Supervisory Board remuneration systems, the result of the 2020 self-assessment by the GRAMMER AG Supervisory Board, the measures taken as a result and the GRAMMER Group's current opportunity and risk report. The establishment of another joint venture in Harbin, China, and a capital increase at the Spanish subsidiary were also discussed and resolved.

The second extraordinary meeting of the Supervisory Board was held on April 26, 2021 and was attended by eleven members of the Supervisory Board. One Supervisory Board member was excused. At this meeting, members approved resolutions on holding the 2021 Annual General Meeting as a virtual event, the agenda, the sale of the subsidiary in Spain and the establishment of a new GRAMMER company in Hefei as the future headquarters in China.

All members of the Supervisory Board attended the first ordinary meeting on March 29/30, 2021. As well as Executive Board reporting on the current state of the Company and a discussion of ongoing M&A projects, the agenda included an updated resolution on the Executive Board remuneration system. This meeting also established the target values for Executive Board remuneration for 2021 and carried out the Executive Board performance evaluation for 2020. It was also decided to reappoint Mr. Jens Öhlenschläger as a member of the Executive Board from January 1, 2022 until December 31, 2026 and new rules of procedure were approved for the Supervisory Board and the Audit Committee, which can be viewed on GRAMMER AG's website.

As well as Executive Board reporting on the current state of the Company – including on current focus topics regarding market entry in India, the AMERICAS region, and the discussion of ongoing M&A projects – the agenda of the second ordinary Supervisory Board meeting on June 22, 2021, which was attended by all Supervisory Board members, included the approval of the supplementary budget for investment in 2021 and the preliminary discussion of the potential reappointment of Executive Board members Ms. Jurate Keblyte and Mr. Thorsten Seehars. The Supervisory Board also received up-to-date information on the ordinary Annual General Meeting taking place on the following day.

The main topics discussed at the third ordinary Supervisory Board meeting on September 23, 2021, which was attended by eleven members of the Supervisory Board, were the Supervisory Board's approval of a capital increase at the Group company in Belgium, ongoing M&A projects and the Supervisory Board's self-assessment in 2021. The Supervisory Board resolved to carry out the self-assessment on the basis of an online questionnaire. As well as Executive Board reporting on the current state of the Company and current focus topics, including optimization of the manufacturing footprint and updates on digitalization, the strategy and collaboration projects with the principal shareholder Ningbo Jifeng, the Executive Board also informed the Supervisory Board about personnel development, succession planning at GRAMMER and current questions relating to IT security.

The fourth ordinary Supervisory Board meeting, which was attended by eleven Supervisory Board members, was held as an executive session without the Executive Board on November 16, 2021. Presentations were given on relevant, current topics to aid the further training of the Supervisory Board, in some cases by external speakers. The Supervisory Board was informed about the German Supply Chain Due Diligence Act and the obligations this entails for the GRAMMER Group. Other presentations focused on issues relating to the obligations and liability of the Supervisory Board, including an overview of D&O insurance, and the German Act to Strengthen Financial Market Integrity (FISG) and its impact on GRAMMER AG. The Supervisory Board also looked closely at the results of the 2021 self-assessment and established appropriate measures. Overall, the work of the Supervisory Board and its committees was considered to be efficient and was essentially rated favorably.

At the fifth ordinary Supervisory Board meeting on December 9, 2021, the Supervisory Board was informed about the current state of the Company, primarily in the AMERICAS region, and about the risk management, internal control and compliance system and measures by Internal Auditing. In addition, the Supervisory Board discussed the recommendations of the German Corporate Governance Code and resolved an updated declaration of conformity for 2021.

The budget for 2022 and the medium-term budget for 2023–2026 were approved by the Supervisory Board at an extraordinary meeting on January 18, 2022, which was attended by eleven members.

Circulatory resolutions of the Supervisory Board
In 2021, the Supervisory Board of GRAMMER AG passed two circulatory resolutions in writing.

Ms. Jurate Keblyte and Mr. Thorsten Seehars were reappointed as members of the Executive Board ahead of schedule on August 6, 2021. Ms. Keblyte was appointed as a member of the Executive Board until June 30, 2027 and Mr. Seehars was appointed as a member of the Executive Board, Chairman of the Executive Board and Human Resources Officer until August 31, 2026. Both circulatory resolutions were discussed in advance at the Supervisory Board meeting on June 22, 2021 and at the Personnel Committee meeting on July 26, 2021.

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 and the corporate governance statement. 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, most meetings were held in virtual or hybrid form.

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, 2021:

Composition of the committees

Strategy Committee	
Martin Heiß	Member
Dr. Peter Merten	Member
Horst Ott (deputy Ch SB)	Member
Alfred Weber (Ch SB)	Chairman
Nominating Committee	
Dr. Peter Merten	Member
Gabriele Sons	Member
Alfred Weber (Ch SB)	Member
Personnel and Mediation Committee	
Martin Heiß	Member
Horst Ott (deputy Ch SB)	Member
Gabriele Sons	Member
Alfred Weber (Ch SB)	Chairman
Audit Committee	
Andrea Elsner	Member
Dr. Peter Merten	Chairman
Antje Wagner	Member
Alfred Weber (Ch SB)	Member
Executive Committee	
Horst Ott (deputy Ch SB)	Member
Alfred Weber (Ch SB)	Member

The Supervisory Board of GRAMMER AG has formed an Audit Committee, a Strategy Committee, a Personnel and Mediation Committee, a Nomination Committee and an Executive Committee. Details of the deliberations at the meetings of the committees were reported at the following meeting of the Supervisory Board.

The Audit Committee met five times in the reporting year (four ordinary and one extraordinary meetings) 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. As well as discussing the annual financial statements of GRAMMER AG and the Group and interim financial statements, focal areas in 2021 included monitoring and reviewing the effectiveness of risk and compliance management, internal auditing and the internal control system, as well as approving non-audit services. The Audit Committee also informed the Supervisory Board of its recommendation for auditor. At its extraordinary meeting, it discussed in detail the budget for 2022 and the multi-year planning for 2023 – 2026 presented by the Executive Board and submitted a recommended resolution for 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 2021. Key topics were advising the Executive Board on the further development of the corporate strategy, advising on location decisions and discussing ongoing M&A projects, as well as preparing the corresponding Supervisory Board decisions.

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. This committee met seven times in the year under review (five extraordinary and two ordinary meetings). It focused on the redesign of the remuneration system for the GRAMMER AG Executive Board, the reappointment of members of the Executive Board and the preparation of Supervisory Board decisions regarding target setting and target attainment for the Executive Board.

The Nomination Committee is responsible for proposing suitable nominees for the Supervisory Board to the Annual General Meeting, taking into account the current competence profile. The Nomination Committee did not meet in the year under review.

The Executive Committee supports 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 met five times in the year under review.

Annual and consolidated financial statements

The Annual General Meeting held on June 23, 2021, appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, as statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. At its meeting of August 3, 2021, the Audit Committee engaged the auditor for the 2021 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 financial 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, 2021. 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 29, 2022 dealing with the annual and consolidated financial statements and at the meeting of the Supervisory Board held on the same day reviewing the financial statements.

After thorough examination of the annual financial statements and the consolidated financial statements for 2021, 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 2021. 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 net loss as of December 31, 2021 will be carried forward.

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, 2021, 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 29, 2022 and at the meeting of the Supervisory Board on the same day. 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.

Remuneration report

The report prepared by the Executive Board and the Supervisory Board on Executive Board and Supervisory Board remuneration for 2021 (remuneration report) was audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which issued an unqualified audit opinion.

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.

Last but not least, I would like to thank my colleagues on the Supervisory Board, the Executive Board and the entire GRAMMER team personally and on behalf of my colleague Dr. Peter Merten for their excellent cooperation over the past years. For personal reasons, Dr. Merten and I will resign our Supervisory Board mandates at the end of the Annual General Meeting on May 18, 2022. I wish the Company and the entire team all the best and much success in the future.

Ursensollen, March 2022
On behalf of the Supervisory Board

Alfred Weber
Chairman

4. Remuneration Report

Remuneration Report in accordance with Section 162 of the German Stock Corporation Act

The remuneration report, prepared jointly by the Executive Board and the Supervisory Board of GRAMMER AG in accordance with Section 162 of the German Stock Corporation Act (AktG), describes the basic features of the remuneration system for both the Executive Board and the Supervisory Board. The remuneration report provides information on the remuneration awarded and due to current and former members of the Executive Board and Supervisory Board in the fiscal years 2021 and 2020 in accordance with the remuneration system applicable for the fiscal year 2021. The report takes into account the recommendations and suggestions of the German Corporate Governance Code (GCGC) in the version dated December 16, 2019.

In accordance with Section 162 (3) AktG, Ernst & Young Wirtschaftsprüfungsgesellschaft has formally audited the remuneration report. The remuneration report and the note regarding the audit are published on the website of GRAMMER AG (www.grammer.com).

On May 18, 2022 the remuneration report is to be submitted to the Annual General Meeting for approval in accordance with the requirements of Section 120a (4) AktG.

4.1 Review of the fiscal year 2021

Following a challenging fiscal year 2020, marked by the impact of the COVID-19 pandemic, GRAMMER AG recorded positive business development in 2021.This development was largely driven by the disproportionately high share of sales generated by the higher-margin Commercial Vehicles division. The company is currently growing particularly strongly in the APAC region, which includes the, for GRAMMER AG, particularly important Chinese market.

In fiscal 2021, the ongoing COVID-19 pandemic and its aftermath continued to determine business activities of GRAMMER AG to a large extent. While the first half of the year was initially characterized by regional lockdowns and simultaneous economic recovery, in the second half of the year negative impacts, such as supply chain problems and labor shortages, as well as the emerging delta and omicron variants of the COVID-19 virus, increasingly impacted the earnings development of GRAMMER. With regard to its own organization, the Group succeeded in limiting the negative effects and protecting the health and safety of its employees in the best possible way thanks to comprehensive Coronavirus protection and response measures.

During the reporting period the realignment of the organization into the three regions AMERICAS, APAC, and EMEA, initiated in 2020, was tested, which was a stress test for the Group, particularly due to the ongoing COVID-19 pandemic. However, the realignment was successful for the Group. The new structure has strengthened the various market regions by giving them more responsibility. The aim is to further strengthen the three regions in the current fiscal year, thereby further increasing responsiveness and flexibility.

The Supervisory Board of GRAMMER AG extended the terms of office of the three members of the Executive Board Thorsten Seehars (CEO), Jurate Keblyte (CFO) and Jens Öhlenschläger (COO) in the preceding fiscal year. Through this the Supervisory Board rewarded the strategic realignment of GRAMMER AG the Executive Board undertook in 2020 and its exceptional circumstances. In addition, the early and determined implementation of the efficiency assurance program to further improve the cost structure and sustainably strengthen competitiveness created a solid basis for operational excellence and the long-term success of the company.

As the world's largest single market for passenger cars and commercial vehicles, China has an enormous importance for GRAMMER. That's the reason why the company pursued its growth strategy resolutely there in the year 2021. Next to the opening of the new production location in Shenyang the company opened the new Chinese Headquarter in Hefei (Province Anhui). Furthermore, the foundation of a joint venture company together with a subsidiary of the FAW-Group, the biggest commercial vehicle manufacturer in China, marked another milestone. In this context, GRAMMER together with its joint venture partner expanded its manufacturing network for commercial vehicle seats with the Chinese sites in Harbin and Qingdao.

The GRAMMER Group takes its responsibility towards the environment seriously and wants to make its contribution to meeting the 1.5 degree target of the Paris climate agreement. To this end, the company aims to reduce its CO_2-emissions worldwide by at least 50% by the end of this decade and has defined various fields of action in 2021 that will contribute to achieving this goal.

4.2 Overview of the Remuneration system of the Executive Board

4.2.1 Principles

In response to the amended regulatory requirements resulting from the implementation of the second European Shareholder Rights Directive (ARUG II), the Supervisory Board reviewed the remuneration system for the Executive Board of GRAMMER AG in detail from the fourth quarter of 2020 and revised it to ensure compliance with the German Stock Corporation Act (AktG) and the GCGC and to implement an ambitious incentive structure aligned with the corporate strategy.

On June 23, 2021 the revised remuneration system for the members of the Executive Board of GRAMMER AG was approved by the Annual General Meeting with an approval rate of 99.89% and has been in place since the fiscal year 2021 for all active Executive Board members.

There were no changes in the Executive Board during the reporting period. The contracts of the incumbent Executive Board members were extended in March and August 2021 respectively to ensure continuity and a sustainable focus in the Executive Board team.

The remuneration system adopts a clear pay-for-performance approach, setting ambitious targets that are aligned with the corporate strategy. In addition, the remuneration system is more closely oriented to the capital market by offering a revised Long-term incentive in the form of a performance share plan. Among other things, the Short-term incentive includes ESG objectives, i.e. environmental aspects, social objectives, and responsible corporate governance, in order to provide an incentive for sustainable and responsible development at GRAMMER AG.

The principles of the new remuneration system are explained below.

4.2.2 Remuneration elements

The remuneration system of the Executive Board of GRAMMER AG consists of both fixed and variable components. In this context, a high proportion of the remuneration is performance-related. The variable remuneration components comprise a Short-term incentive (STI) and a Long-term incentive (LTI). The table below shows the main principles of the remuneration system.

Fixed components	
Fixed remuneration	Contractually agreed fixed remuneration paid in twelve equal monthly installments
Ancillary benefits	Standard ancillary benefits (including company car and insurance cover)
Retirement benefits	Cash amount that can be used by the member of the Executive Board for private pension savings
Variable components	
Short-term incentive (STI)	
Plan type	Annual target bonus plan
Cap	170% of the target amount
Performance criteria	• Net income, EBIT or EBT (determined annually by the Supervisory Board) • Free cash flow (FCF) • Strategic and ESG goals, e.g. compliance, environmental protection, economic stability and growth
Payment	In cash after the end of the financial year
Long-term incentive (LTI)	
Plan type	Performance share plan
Cap	200% of the target amount
Performance criteria	• Total shareholder return (TSR) relative to the SDAX • ROCE
Performance period	Four years
Payment	In cash after four-year performance period
Further contractual provisions	
Maximum remuneration	• EUR 2,700,000 for the Chairman of the Executive Board • EUR 1,800,000 for the other members of the Executive Board
Penalty / claw-back	Possibility of reducing or reclaiming performance-related remuneration in the event of serious breaches of duty or misstatements in the consolidated financial statements
Cap on terminations benefits	Termination benefits may not exceed the value of two years' total remuneration

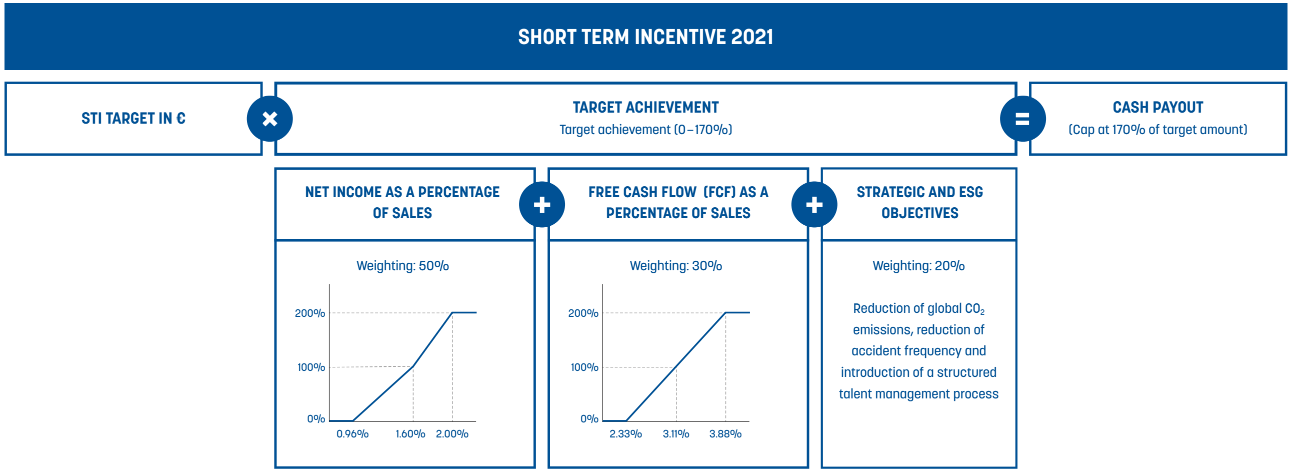
Fixed remuneration
The fixed remuneration is paid in twelve equal monthly installments at the end of each month. The members of the Executive Board do not receive any separate remuneration for accepting intra-Group mandates.

Benefits in kind
The Executive Board members are granted customary ancillary benefits such as insurance benefits in line with market practice as well as a company car.

Pension substitute payment
Pension substitute payments are granted to the Executive Board Members. This cash amount will be paid in December and can be used for private retirement provisions. A company financed pension plan does not exist.

Short-term incentive
The Short-term incentive is structured as a target bonus system and includes financial, strategic, and ESG targets. The financial performance criteria are derived directly from the corporate strategy and thus take into account the company's profitability and liquidity. In addition, the strategic and ESG objectives are intended to ensure the sustainability of the company's development.

The Short-term incentive (STI) 2021 complies with the remuneration system of GRAMMER AG, approved by the Annual General Meeting, and is described in the graphic below:



The Supervisory Board set Net Income and Free Cash Flow, each as a percentage of sales, as financial performance criteria for the STI and determined the individual weightings for the fiscal year 2021. Thus, the Supervisory Board considers profitability and liquidity of GRAMMER AG and supports the implementation of the corporate strategy through the use of these core performance indicators.

Net Income as a percentage of sales (50%) and Free Cash Flow (30%) are weighted at 80% of the total.

For strategic and ESG objectives the reduction of global CO_2-emissions in terms of annual sales, the reduction of accident frequency (LTIFR = Lost time incident frequency rate), and introduction of a structured talent management process taking into account a medium-term diversity target rate. Those strategic and ESG criteria were selected by the Supervisory Board from a catalog of criteria derived from the materiality analysis of sustainability reporting. Strategic and ESG targets are weighted at 20%. The individual targets were equally weighted at 6.7%.

For all performance criteria, a target achievement between 0% and 200% can be achieved. However, the final payout is capped at 170% of the STI target amount. Target achievements at intermediate values are interpolated linearly.

The following table shows target achievements and objectives for every performance criteria which is part of the Short Term Incentive for the fiscal year 2021:

STI 2021

	Weighting	Lower threshold	Target value	Upper threshold	Actual value	Target achievement
Net Income as % of sales	50%	0.96%	1.60%	2.00%	0.03%	0.00%
Free Cash Flow as % of sales	30%	2.33%	3.11%	3.88%	–0.29%	0.00%
Reduction of global CO_2 emissions in terms of sales	6.7%	Previous year's value	–10% compared to previous year's value	–20% compared to previous year's value	–21% compared to previous year's value	200.00%
Reduction of accident frequency (LTIFR)	6.7%	Previous year's value	–10% compared to previous year's value	–20% compared to previous year's value	–48% compared to previous year's value	200.00%
Introduction of a structured talent management process	6.7%	Qualitative assessment of the supervisory board				175.00%
Total target achievement						**38%**

The basis for STI payments is the STI target amount specified in the service contracts, which is multiplied by overall target achievement of the financial, strategic, and ESG performance criteria. The STI payment is made in cash and capped at 170% of the STI target amount.

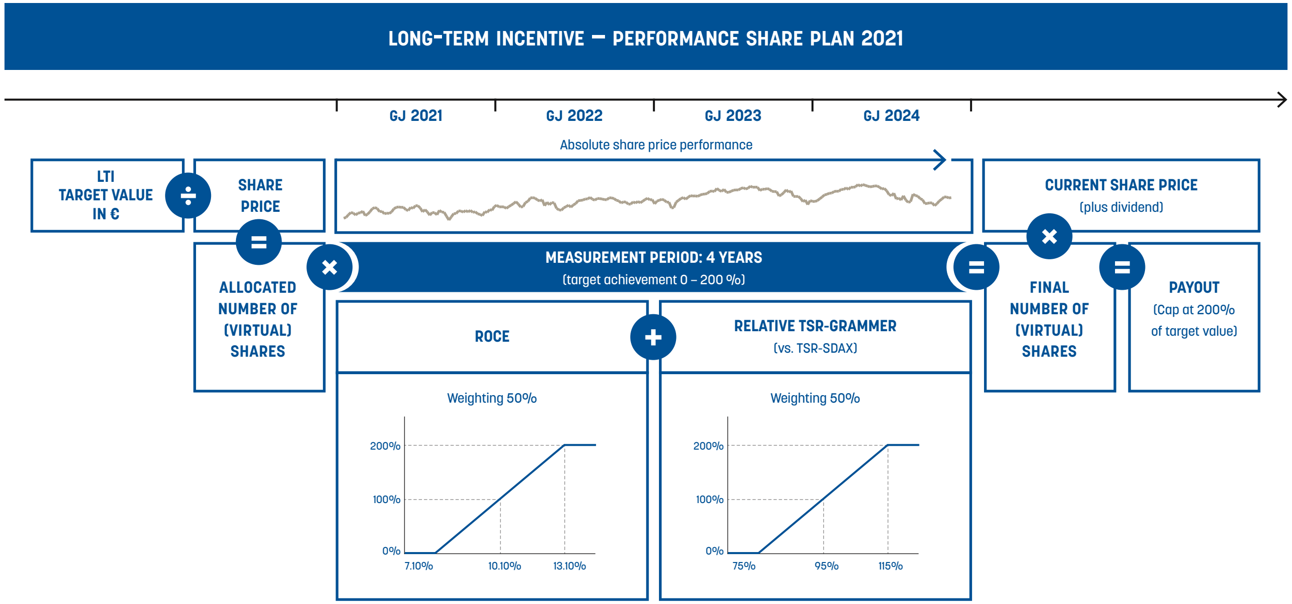
This results in the following target and payout amounts for the 2021 short term incentive:

Target and payout amounts STI 2021

	Target value in EUR k	Target achievement in %	Payout in EUR k
Thorsten Seehars	319	38%	121
Jurate Keblyte	195	38%	74
Jens Öhlenschläger	195	38%	74

Long-term incentive – Performance Share Plan

The Long-term incentive (LTI) 2021 is structured as a Performance Share Plan and corresponds to the remuneration system of GRAMMER AG approved by the Annual General Meeting.



With a performance period of four years, the LTI is geared towards the long-term development of GRAMMER AG and, through its orientation to the share price, provides an incentive for achieving continuous growth in enterprise value. By additionally taking into account the Company's share performance relative to the SDAX, the interests of the Executive Board and shareholders are further aligned and GRAMMER AG's competitiveness in the capital market enhanced.

Under the performance share plan, a number of virtual shares are contingently allocated at the beginning of the performance period. The number of virtual shares is determined by dividing the LTI target by the arithmetic mean of the closing prices for the GRAMMER AG share over the last 60 trading days before the start of the performance period (initial reference price).

For the performance share plan 2021 the following allocations of virtual shares were made:

LTI tranche 2021 allocations

	Target value in EUR k	Allocation course in EUR	Number of allocated virtual shares
Thorsten Seehars	404	18.27	22,099
Jurate Keblyte	247	18.27	13,498
Jens Öhlenschläger	247	18.27	13,498

In addition to the virtual share's performance target achievement is determined by the Return on Capital Employed (ROCE) and the relative total shareholder return (TSR).

ROCE is the ratio of earnings before interest and taxes (EBIT) reported for the applicable financial year to average operating assets in the same financial year, expressed as a percentage. ROCE provides an incentive for maximizing the long-term profitability and efficiency of GRAMMER AG's business activities. It is measured as an average over the performance period. For ROCE, the target for each LTI tranche is derived from the long-term forecast.

The relative total shareholder return (TSR) is based on GRAMMER AG's share performance as well as (notionally) reinvested dividends in comparison with the SDAX and thus places a particular focus on the development of the Company's enterprise value as well as its capital market orientation. This particularly strengthens the alignment between the interest of the Executive Board and those of the shareholders.

For the performance share plan's 2021 tranche the following target achievements for ROCE and relative TSR have been agreed on:

LTI Tranche 2021 Target achievements

in %

	Lower threshold	Target value	Upper threshold
Target achievements	**0%**	**100%**	**200%**
ROCE	7.10%	10.10%	13.10%
Relative TSR	75%	95%	115%

The final number of virtual shares reached at the end of the performance period is multiplied by the arithmetic mean of the closing prices of the GRAMMER AG share during the last 60 trading days prior to the end of the performance period plus dividends paid per GRAMMER AG share during the performance period. Target achievement between 0% and 200% is possible for both performance criteria. Payout is in cash and will be described in the remuneration report in 2024.

In 2019 and 2020, the members of the Executive Board have been promised Long-term incentives in the form of a performance cash plan. The relative total shareholder return compared with the SDAX is also taken into account. Instead of ROCE GRAMMER Economic Value Added (EVA) is used. In March 2020, in view of the economic impacts of the COVID-19 pandemic on the company, the members of the Executive Board waived the allocation of their 2020 – 2023 LTI tranche and the grants already allocated for the 2019 – 2022 LTI tranche. Hence, no remuneration awarded or due under the Long-term incentive is currently to be reported within the meaning of Section 162 AktG.

Malus and Clawback

The remuneration system includes malus and clawback provisions, which allow the Supervisory Board, in certain cases, to reduce variable remuneration components that have not yet been paid (malus) or reclaim variable remuneration components that have already been paid (clawback).

In the event of a significant breach of duty or a compliance violation on the part of a member of the Executive Board, the Supervisory Board may reduce the variable remuneration components (STI or LTI) in part or in full at its due discretion (malus). If variable remuneration components have already been paid, the Supervisory Board may also demand partial or full repayment of the variable remuneration amounts received in such cases (clawback).

If variable remuneration components are determined or paid on the basis of incorrect data, e.g. misstatements in the consolidated financial statements, the Supervisory Board may correct the determination or reclaim the remuneration components already paid.

This does not prejudice the Executive Board member's potential liability towards the Company for damages under Section 93 (2) AktG.

For fiscal year 2021, the Supervisory Board saw no reason to make any reductions or claims for repayment against members of the Executive Board.

Termination of the service contract

In the event of the premature termination of the service contract with a member of the Executive Board other than for good cause, payments to members of the Executive Board may not exceed the value of two years' worth of total remuneration and may not exceed the total remuneration for the remaining term of the service contract. The total annual remuneration as defined above comprises the fixed remuneration, the STI, the LTI and the pension substitute payment. If the service contract is terminated for good cause for reasons for which the member of the Executive Board is responsible, no LTI payments are made to him or her.

In the event of incapacity due to illness or accident, the member of the Executive Board concerned receives fixed remuneration for a further nine months. If the member of the Executive Board is entitled to illness-related benefits from third parties (e.g. sick pay), the claims are reduced accordingly. In the event of protracted incapacity over more than six months, the target STI and LTI amounts are reduced on a time-prorated basis.

In the event of the death of a member of the Executive Board, the surviving dependents (spouse and dependent children) continue to receive fixed remuneration for the month of death (time-proportionate) as well as for a further period of six months starting at the end of the month of death as joint creditors.

In the event of premature termination of the service contract, any outstanding variable remuneration components attributable to the period up until the date of termination of the contract are paid on the basis of the originally agreed targets and performance criteria on the due dates specified above. There is no early payout.

All entitlement accruing under outstanding LTI tranches lapse without any remuneration if the service contract is terminated by the Company before the end of the performance period for good cause for which the member of the Executive Board concerned is responsible, his or her appointment is revoked due to gross breach of duty, or he or she steps down other than for good cause and without the Company's consent. Notwithstanding this, all outstanding LTI tranches are settled immediately at the agreed targets (100% target achievement) and paid to the member of the Executive Board or his or her heirs if the service contract lapses due to disability or the death of the member of the Executive Board.

4.2.3 Individual disclosure of the Executive Board remuneration

Target remuneration

When determining the specific target total remuneration of the members of the Exe-cutive Board, the Supervisory Board ensures that it is commensurate with the duties and performance of the member of the Executive Board in question and the Company's situation and thus conforms to the requirements of the German Stock Corporation Act and the recommendations of the GCGC. The target total remuneration is set at a level that ensures competitiveness in the market for highly qualified executives but does not exceed the customary remuneration in the absence of any special justification.

To ensure this, the Supervisory Board regularly reviews the target total remuneration of the members of the Executive Board of GRAMMER AG. External as well as internal comparisons are applied for this purpose: On the one hand, an external comparison is made with companies that are comparable in terms of size, country, and sector. Hence, the Supervisory Board performed a comparison with the companies listed on the SDAX.

In addition, an internal comparison is used to assess the remuneration structure within GRAMMER AG. For this purpose, the remuneration of the Executive Board is compared with the two highest pay scale groups and the non-pay scale employee remuneration, and the status quo of and changes in these ratios over time are analyzed.

The following table presents the target remuneration for the fiscal year 2021 and the relative share of every remuneration component for the fiscal year 2020:

Target remuneration

	Thorsten Seehars CEO Executive Board Member since August 1, 2019			Jurate Keblyte CFO Executive Board Member since August 1, 2019			Jens Öhlenschläger COO Executive Board Member since January 1, 2019		
	2021		**2020**[1]	**2021**		**2020**[1]	**2021**		**2020**[1]
	in EUR k	**in %**	**in EUR k**	**in EUR k**	**in %**	**in EUR k**	**in EUR k**	**in %**	**in EUR k**
Fixed remuneration	575	39%	550	353	37%	317	353	37%	317
Benefits in kind	15	1%	23	24	3%	31	27	3%	28
Pension substitute payment	160	11%	0	125	13%	0	125	13%	0
Short-term variable remuneration	319	22%	313	195	21%	180	195	21%	180
Short-term incentive 2020	–	–	313	–	–	180	–	–	180
Short-term incentive 2021	319	–	–	195	–	–	195	–	–
Long-term variable remuneration	404	27%	388	247	26%	223	247	26%	223
Long-term incentive 2020 – 2023	–	–	387.5	–	–	223.2	–	–	223.2
Long-term incentive 2021 – 2024	404	–	–	247	–	–	247	–	–
Pension service cost	0	0%	110	0	0%	63	0	0%	63
Total remuneration	1,473	100%	1,383	944	100%	814	947	100%	811

[1] In March 2020, the members of the Executive Board waived the 2020 STI and the 2020 – 2023 LTI tranche allocation in light of the impact of the COVID-19 pandemic.

Remuneration Awarded and Due

The following table shows the remuneration awarded and due individually for the fiscal year 2021 in accordance with Section 162 AktG (fixed remuneration, short-term incentive, long-term incentive, expenses for benefits) and their relative share. The term "remuneration awarded and due" describes remuneration for which the underlying activity has been fully performed as of the end of fiscal year 2021.

In addition, the remuneration awarded and due for the fiscal year 2020 is presented. To provide a complete picture of the total remuneration expenses for retirement commitments are shown (after redemption of retirement entitlement as of December 31, 2020 only in 2020).

Remuneration awarded and due for the fiscal year

	Thorsten Seehars CEO Executive Board Member since August 1, 2019			**Jurate Keblyte** CFO Executive Board Member since August 1, 2019			**Jens Öhlenschläger** COO Executive Board Member since January 1, 2019		
	2021		**2020**	**2021**		**2020**	**2021**		**2020**
	in EUR k	**in %**	**in EUR k**	**in EUR k**	**in %**	**in EUR k**	**in EUR k**	**in %**	**in EUR k**
Fixed remuneration	575	66%	550	353	61%	317	353	61%	317
Benefits in kind	15	2%	23	24	4%	31	27	5%	28
Pension substitute payment	160	18%	0	125	22%	0	125	22%	0
Short-term variable remuneration	121	14%	0	74	13%	0	74	13%	0
Short-term incentive 2020[1]	–	–	0	–	–	0	–	–	0
Short-term incentive 2021	121	–	–	74	–	–	74	–	–
Long-term variable remuneration	0	0%	0	0	0%	0	0	0%	0
Long-term incentive 2017 – 2020[2]	–	–	0	–	–	0	–	–	0
Long-term incentive 2018 – 2021[2]	0	–	–	0	–	–	0	–	–
Other[3]	–	0%	154	–	0%	89	–	0%	124
Remuneration awarded and due in accordance with Section 162 AktG	871	100%	727	576	100%	436	579	100%	469

[1] Executive Board members waived the 2020 STI in March 2020 in light of the impact of the COVID-19 pandemic.
[2] Due to joining the Executive Board in 2019, the members of the Executive Board did not receive an allocation of the 2017 and 2018 LTI tranches.
[3] As part of the revision of the Executive Board remuneration system, the old company pension plan was abolished and a pension substitute payment was introduced. Previous retirement entitlements were replaced as of December 31, 2020 and the settlement was paid in fiscal year 2021. The total shown includes the pension service cost for 2020.

In the fiscal year 2020, the pension obligations to the former member of the Executive Board, Manfred Pretscher, were discharged, amounting to EUR 931,641.

Maximum remuneration

Appropriate remuneration for members of the Executive Board is ensured by two types of caps: Firstly, a maximum cap of 170% on the STI and 200% on the LTI relative to the respective target amount is set for the variable components.

Secondly, pursuant to Section 87a (1) sentence 2 No 1 AktG, the Supervisory Board has defined maximum remuneration which caps the total amount of remuneration paid out for a given financial year irrespective of the date payment. The maximum remuneration amounts to EUR 2,700,000 for the Chairman of the Executive Board and EUR 1,800,000 for the other members of the Executive Board.

The total of all expenses resulting from commitments for the fiscal year 2021 can only be determined after the four-year performance period of the Performance Share Plan 2021 (LTI 2021 – 2024). However, it can already be ruled out that the maximum remuneration pursuant to Section 87 (1) sentence 2 No 1 AktG will be exceeded, as even if the Performance Share Plan were to pay out 200% of the target amount (cap), the total of all remuneration components would be below the maximum remuneration:

Maximum remuneration for fiscal year 2021

TEUR

	Thorsten Seehars CEO	Jurate Keblyte CFO	Jens Öhlenschläger COO
	in EUR k	in EUR k	in EUR k
Fixed remuneration 2021	575	353	353
Benefits in kind 2021	15	24	27
Retirement benfits 2021	160	125	125
Short-term incentive 2021	121	74	74
Payout limit for the Performance Share Plan (2021 – 2024)	808	493	493
Maximum Value of the remuneration for the fiscal year 2021	**1,679**	**1,069**	**1,072**
Maximum remuneration Section 87a (1) sentence 2 No 1 AktG	**2,700**	**1,800**	**1,800**

4.3 Remuneration System for the Supervisory Board

For each full year of membership, each member of the Supervisory Board receives fixed remuneration that is paid after the end of the year in question. The members of the Supervisory Board receive a fixed attendance fee for every physical meeting of the Supervisory Board and for every physical meeting of a committee of the Supervisory Board as well as lump-sum reimbursement of expenses including any value added tax applicable. The attendance fee is not paid for participation in meetings of the Nominating Committee. Members of the Supervisory Board who only sit on the board for part of the year receive fixed remuneration on a pro rata basis. Remuneration is differentiated by function and is based on the recommendations of the GCGC.

The following table presents the remuneration awarded and due individually for members of the Supervisory Board for the fiscal years 2021 and 2020 as well as their relative share of total remuneration.

Supervisory Board remuneration

	2021					2020				
	Fixed remuneration		Attendence fees		Total remuneration	Fixed remuneration		Attendence fees		Total remuneration
	in EUR k	in %	in EUR k	in %	in EUR k	in EUR k	in %	in EUR k	in %	in EUR k
Alfred Weber (ChSB)	60	63	35	37	**95**	29	57	22	43	**51**
Horst Ott (deputy ChSB)	45	69	20	31	**65**	45	66	23	34	**68**
Klaus Bauer	30	81	7	19	**37**	10	71	4	29	**14**
Andrea Elsner	30	71	12	29	**42**	30	70	13	30	**43**
Dr. Ping He	30	81	7	19	**37**	14	74	5	26	**19**
Martin Heiß	30	65	16	35	**46**	30	65	16	35	**46**
Peter Kern	30	81	7	19	**37**	14	74	5	26	**19**
Jürgen Kostanjevec	30	81	7	19	**37**	14	74	5	26	**19**
Dr. Peter Merten	30	63	18	38	**48**	30	71	12	29	**42**
Gabriele Sons	30	68	14	32	**44**	14	62	9	38	**23**
Prof. Dr. Birgit Vogel-Heuser	30	83	6	17	**36**	30	83	6	17	**36**
Antje Wagner	30	71	12	29	**42**	30	75	10	25	**40**
Former members of the Supervisory Board										
Wolfram Hatz (until July 8, 2020)	0	0	0	0	**0**	16	63	9	37	**25**
Ingrid Hunger (until July 8, 2020)	0	0	0	0	**0**	16	84	3	16	**19**
Harald Jung (until September 1, 2020)	0	0	0	0	**0**	20	87	3	13	**23**
Dr.-Ing. Klaus Probst (until July 8, 2020)	0	0	0	0	**0**	31	71	13	29	**44**
Lars Roder (until July 8, 2020)	0	0	0	0	**0**	16	76	5	24	**21**
Dr. Bernhard Wankerl (until July 8, 2020)	0	0	0	0	**0**	16	76	5	24	**21**

4.4 Comparative presentation of remuneration and earnings development

The table below describes the development of the remuneration awarded and due of present and former members of the Executive Board and the Supervisory Board in accordance with Section 162 AktG, the development of the average employee remuneration, as well as the performance development of GRAMMER AG over the past two years.

The average personnel expenses (IFRS) on a full-time equivalent basis are used for employee remuneration. For this purpose, employees in Germany are taken into account.

Net income is used as the earnings indicator, as it is a key performance indicator and an indicator of the profitability of business activities. Net income also serves as a possible performance target in the STI.

Comparative presentation

	2021 in EUR k	2020 in EUR k	Change 2021 / 2020 in %
Executive Board members			
Thorsten Seehars	871	727	20%
Jurate Keblyte	576	436	32%
Jens Öhlenschläger	579	469	23%
Supversiory Board members			
Alfred Weber (ChSB, from July 8, 2020)	95	51	87%
Horst Ott (deputy ChSB)	65	68	–4%
Klaus Bauer (from September 1, 2020)	37	14	164%
Andrea Elsner	42	43	–2%
Dr. Ping He (from July 8, 2020)	37	19	90%
Martin Heiß	46	46	0%
Peter Kern (from July 8, 2020)	37	19	90%
Jürgen Kostanjevec (from July 8, 2020)	37	19	90%
Dr. Peter Merten	48	42	14%
Gabriele Sons (from July 8, 2020)	44	23	87%
Prof. Dr. Birgit Vogel-Heuser	36	36	0%
Antje Wagner	42	40	5%
Employees			
Average	71	70	2%
Earnings performance			
Net Income Group	646	–64,708	n/a
Net Income GRAMMER AG	–2,400	–72,472	97%

Consolidated Financial Statements Index

Consolidated Statement of Income

January 1 – December 31 of the respective financial year

EUR k

	Note	2021	2020
Revenue	7	1,903,014	1,710,714
Cost of sales	8.3	–1,727,708	–1,585,440
Gross profit		**175,306**	**125,274**
Selling expenses	8.3	–33,350	–37,760
Administrative expenses	8.3	–149,823	–148,265
Other operating income	8.1	26,731	14,625
Earnings before interest and taxes (EBIT)		**18,864**	**–46,126**
Financial income	8.2	3,410	1,525
Financial expenses	8.2	–22,062	–23,962
Other financial result	8.2	6,502	–2,159
Earnings before taxes		**6,714**	**–70,722**
Income taxes	9	–6,068	6,014
Net profit/loss		**646**	**–64,708**
Of which attributable to:			
Shareholders of the parent company		1,233	–64,314
Non-controlling interests		–1,207	–825
Hybrid loan lender’s compensation claims		620	431
Net profit/loss		**646**	**–64,708**
Earnings per share			
Basic/diluted earnings per share in EUR	10	0.08	–5.10

Consolidated Statement of Comprehensive Income

January 1 – December 31 of the respective financial year

EUR k	2021	2020
Net profit/loss	**646**	**–64,708**
Amounts that will not be reclassified to profit and loss in future periods		
Actuarial gains/losses (–) under defined benefit plans		
Gains/losses (–) arising in the current period	14,979	–8,763
Tax expenses (–)/tax income	–4,365	2,494
Actuarial gains/losses (–) under defined benefit plans (after tax)	**10,614**	**–6,269**
Total amount that will not be reclassified to profit and loss in future periods	**10,614**	**–6,269**
Amounts that will be reclassified 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	25,666	–20,754
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	**25,666**	**–20,754**

EUR k	2021	2020
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	1,269	–1,484
Plus/less (–) amounts reclassified to the income statement through profit and loss	–953	1,215
Tax expenses (–)/tax income	–139	85
Gains/losses (–) from cash flow hedges (after tax)	**177**	**–184**
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	2,680	–9,622
Tax expenses (–)/tax income	–488	2,385
Gains/losses (–) from net investments in foreign operations (after tax)	**2,192**	**–7,237**
Total amounts that will be reclassified to profit and loss in future periods under certain conditions	**28,035**	**–28,175**
Other comprehensive income	**38,649**	**–34,444**
Total comprehensive income (after tax)	**39,295**	**–99,152**
Of which attributable to:		
Shareholders of the parent company	39,829	–98,764
Non-controlling interests	–1,154	–819
Hybrid loan lender's compensation claims	620	431

Consolidated Statement of Financial Position

as of December 31 of the respective financial year

Assets

EUR k

	Note	December 31, 2021	December 31, 2020
Property, plant and equipment	12	495,319	446,737
Intangible assets	12	183,534	180,959
Investments measured at equity	4	958	859
Other financial assets	16	6,366	6,871
Deferred tax assets	9	51,147	64,217
Other assets	17	32,419	36,702
Contract assets	15	63,790	63,238
Non-current assets		**833,533**	**799,583**
Inventories	13	196,137	154,620
Current trade accounts receivable	14	229,370	238,884
Other current financial assets	16	5,261	4,027
Current income tax receivables		5,463	5,349
Cash and short-term deposits	18	113,441	89,838
Other current assets	17	38,332	27,284
Current contract assets	15	61,851	56,839
Current assets		**649,855**	**576,841**
Total assets		**1,483,388**	**1,376,424**

Consolidated Statement of Financial Positon

as of December 31 of the respective financial year

Equity and liabilities

EUR k

	Note	December 31, 2021	December 31, 2020
Subscribed capital	19	39,009	39,009
Capital reserve	19	162,947	163,033
Own shares	19	–7,441	–7,441
Retained earnings	19	200,534	199,094
Cumulative other comprehensive income	19	–71,646	–110,242
Equity attributable to shareholders of the parent company		**323,403**	**283,453**
Hybrid loan	19	19,621	19,579
Non-controlling interests	19	2,526	–822
Equity		**345,550**	**302,210**
Non-current financial liabilities	21	182,036	253,255
Trade accounts payable	23	261	543
Other financial liabilities	24	68,719	54,443
Other liabilities	25	1,356	1,260
Retirement benefits and similar obligations	20	148,973	164,456
Deferred tax liabilities	9	24,365	46,859
Contract liabilities	15	2,433	3,373
Non-current liabilities		**428,143**	**524,189**

EUR k

	Note	December 31, 2021	December 31, 2020
Current financial liabilities	21	263,426	123,628
Current trade accounts payable	23	269,135	250,861
Other current financial liabilities	24	19,467	16,520
Other current liabilities	25	93,528	93,550
Current income tax liabilities		8,038	6,448
Provisions	22	52,610	57,858
Current contract liabilities	15	3,491	1,160
Current liabilities		**709,695**	**550,025**
Total liabilities		**1,137,838**	**1,074,214**
Total equity and liabilities		**1,483,388**	**1,376,424**

Consolidated Statement of Changes in Equity

for the Financial Year ending December 31, 2021

EUR k

	Subscribed capital	Capital reserve	Retained earnings	Own shares	Cumulative other comprehensive income: Cash flow hedges	Foreign currency conversion	Net investments in foreign operations	Actuarial gains and losses from defined benefit plans	Total	Hybrid loan	Non-controlling interests	Consolidated equity
As of January 1, 2021	**39,009**	**163,033**	**199,094**	**–7,441**	**483**	**–29,656**	**–23,212**	**–57,857**	**283,453**	**19,579**	**–822**	**302,210**
Net profit/loss	0	0	1,233	0	0	0	0	0	1,233	620	–1,207	646
Other comprehensive income	0	0	0	0	177	25,613	2,192	10,614	38,596	0	53	38,649
Total comprehensive income	**0**	**0**	**1,233**	**0**	**177**	**25,613**	**2,192**	**10,614**	**39,829**	**620**	**–1,154**	**39,295**
Capital increase by issuing new shares	0	0	0	0	0	0	0	0	0	0	0	0
Transaction costs	0	–86	0	0	0	0	0	0	–86	0	0	–86
Changes in scope of consolidation	0	0	207	0	0	0	0	0	207	0	0	207
Transaction involving non-controlling interests	0	0	0	0	0	0	0	0	0	0	4,502	4,502
Distribution of hybrid loan lender's compensation claims	0	0	0	0	0	0	0	0	0	–578	0	–578
Proceeds from hybrid loan	0	0	0	0	0	0	0	0	0	0	0	0
As of December 31, 2021	**39,009**	**162,947**	**200,534**	**–7,441**	**660**	**–4,043**	**–21,020**	**–47,243**	**323,403**	**19,621**	**2,526**	**345,550**

Consolidated Statement of Changes in Equity

for the Financial Year ending December 31, 2020

EUR k

					Cumulative other comprehensive income							
	Subscribed capital	Capital reserve	Retained earnings	Own shares	Cash flow hedges	Foreign currency conversion	Net investments in foreign operations	Actuarial gains and losses from defined benefit plans	Total	Hybrid loan	Non-controlling interests	Consolidated equity
As of January 1, 2020	**32,274**	**129,796**	**263,408**	**–7,441**	**667**	**–8,896**	**–15,975**	**–51,588**	**342,245**	**0**	**–3**	**342,242**
Net profit/loss	0	0	–64,314	0	0	0	0	0	–64,314	431	–825	–64,708
Other comprehensive income	0	0	0	0	–184	–20,760	–7,237	–6,269	–34,450	0	6	–34,444
Total comprehensive income	**0**	**0**	**–64,314**	**0**	**–184**	**–20,760**	**–7,237**	**–6,269**	**–98,764**	**431**	**–819**	**–99,152**
Capital increase by issuing new shares	6,735	33,280	0	0	0	0	0	0	40,015	0	0	40,015
Transaction costs	0	–43	0	0	0	0	0	0	–43	0	0	–43
Transaction involving non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from hybrid loan	0	0	0	0	0	0	0	0	0	19,148	0	19,148
As of December 31, 2020	**39,009**	**163,033**	**199,094**	**–7,441**	**483**	**–29,656**	**–23,212**	**–57,857**	**283,453**	**19,579**	**–822**	**302,210**

Consolidated Statement of Cash Flows

January 1 – December 31 of the respective financial year

EUR k

	Note	2021	2020
1. Cash flow from operating activities			
Earnings before taxes		6,714	–70,722
Reconciliation of earnings before taxes with cash flow from operating activities			
Depreciation and impairment of property, plant and equipment	12	68,737	71,281
Amortization and impairment of intangible assets	12	15,482	16,543
Gains (–)/losses from the disposal of assets		–418	2,249
Other non-cash changes		52,216	31,310
Financial result	8.2	12,150	24,596
Changes in operating assets and liabilities			
Decrease/increase (–) in trade accounts receivable and other receivables	14, 15, 16, 17	–6,608	–16,766
Decrease/increase (–) in inventories	13	–42,603	37,259
Decrease (–)/increase in provisions and retirement benefit provisions	20, 22	–38,327	–15,879
Decrease (–)/increase in accounts payable and other liabilities	23, 24, 25	22,946	–39,474
Income taxes paid	9	–19,006	–9,333
Cash flow from operating activities		**71,283**	**31,064**
2. Cash flow from investing activities			
Purchases			
Purchase of property, plant and equipment	12	–76,257	–69,417
Purchase of intangible assets	12	–8,242	–3,599
Purchase of financial assets	16	–117	–12

EUR k	Note	2021	2020
Disposals			
Disposal of property, plant and equipment	12	5,149	3,449
Disposal of intangible assets	12	56	78
Disposal of financial assets	16	1,184	1,893
Payments from disposals of subsidiaries less disposals of cash and cash equivalents	5	–1,712	0
Payments made for the formation of plan assets	20	–315	–1,664
Interest received	8.2	3,410	1,525
Government grants received		0	410
Cash flow from investing activities		**–76,844**	**–67,337**
3. Cash flow from financing activities			
Payments received from hybrid loan	19	0	19,148
Payments made for the hybrid loan lender's compensation claim	19	–578	0
Inflow from the issue of new shares	19	0	40,015
Outflow from transaction costs due to the issue of new shares	19	–86	–43
Inflow from capital increase by minority shareholders	19	4,502	0
Payments received from raising financial liabilities	21	75,000	84,232
Payments made for the settlement of financial liabilities	21	–45,654	–143,712
Payments made for the settlement of lease liabilities	12	–20,677	–19,651
Interest paid	8.2	–17,337	–18,086
Cash flow from financing activities		**–4,830**	**–38,097**
4. Cash and cash equivalents at the end of the period			
Changes in cash and cash equivalents recognized in the cash flow statement (sub-total of items 1–3)		–10,391	–74,370
Effects of exchange rate differences of cash and cash equivalents		–624	6,088
Cash and cash equivalents as of January 1		55,372	123,654
Cash and cash equivalents as of December 31		**44,357**	**55,372**
5. Analysis of cash and cash equivalents			
Cash and short-term deposits	18	113,441	89,838
Bank overdrafts (including current liabilities under factoring contracts)	21	–69,084	–34,466
Cash and cash equivalents as of December 31		**44,357**	**55,372**

Notes to the Consolidated Financial Statements for the year ending December 31, 2021

1. Information about the GRAMMER Group and Basis of Reporting

GRAMMER AG is a public listed company incorporated under German law. The Company's registered office and business address is Grammer-Allee 2, 92289 Ursensollen, 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 is listed in the Prime Standard on 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 global group of companies specializing in the development and production of complex components and systems for passenger vehicle interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles (tractors, construction machinery and forklifts). In 2021, the Company employed an average of 14,006 persons (excluding apprentices, including 421 employees in Central Services) at 46 (2020: 48) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg and Ursensollen.

GRAMMER AG is managed by an Executive Board composed of three members.

The EMEA, AMERICAS and APAC regions have been the reportable operating segments at the GRAMMER Group since January 1, 2021. The Automotive and Commercial Vehicles segments were the main internal reporting structures in 2020. These became divisions in 2021 and now focus on customer and product strategies. These divisions and their new focus areas are described in greater detail in Note 6.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the European Union. The consolidated financial statements of GRAMMER AG (the "Company") were prepared by the Executive Board in accordance with section 315 a (1) HGB (German Commercial Code) on March 11, 2022.

GRAMMER AG is an indirectly held subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo City, China (Ningbo Jifeng) and is included in that company's consolidated financial statements. These are available in Chinese at http://www.sse.com.cn. Ningbo Jifeng indirectly holds 86.20% (2020: 86.20%) of the voting rights in GRAMMER AG and is the next highest parent company of GRAMMER AG that prepares consolidated financial statements. The direct parent company of GRAMMER AG is Jiye Auto Parts GmbH, Frankfurt am Main.

2. Accounting and valuation methods

2.1. Summary of significant accounting policies and use of estimates and judgments

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 continue to apply.

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

Estimates and judgments (IAS 8)

In certain cases, it is necessary to apply assessments and judgments. 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 assets and liabilities of the reporting period. The assumptions and estimates are based on information currently available. 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.

The current uncertainties, particularly with regard to the ongoing COVID-19 pandemic and its economic impact on the future development of the business activities of GRAMMER and its subsidiaries, sell-side markets and supply chains, prices in the markets relevant for GRAMMER, interest rates and exchange rates mean that the assumptions and estimates in the consolidated financial statements are subject to additional uncertainty. The impact of the COVID-19 pandemic on the consolidated financial statements depends on how virus variants develop and emerge moving forward, the progress made with global vaccinations and their effectiveness and the potential effects of country-specific measures to combat the pandemic. GRAMMER assumes that the impact of COVID-19 will not significantly affect its consolidated financial statements. The COVID-19 pandemic had an impact on the consolidated financial statements particularly with respect to government grants (Notes 8.1 and 8.4), Corona-related protection and response measures (Note 8.3), impairment losses on trade accounts receivable (Note 14) and contract assets and contract liabilities (Note 15).

Climate-related aspects have no material impact on the consolidated financial statements, as climate change is not currently expected to have a significant impact on GRAMMER due to the specific product portfolio. Due to the introduction of legislation or other regulations, there are no known consequences of the economic useful life of assets being reduced compared to the original forecasts. The Group continuously monitors legislation related to climate change. Currently, no legislation has been enacted that has a material impact on the Group.

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 on unused tax losses as well as the definition of the assumptions underlying the actuarial calculations of retirement benefit expenses under defined benefit plans. Furthermore, estimates and discretionary judgments are applied to revenue from contracts with customers for the purpose of determining the transaction price and also to the formation of portfolios of financial instruments in the case of expected credit risks or losses. In addition, discretionary decisions must be made in assessing whether there is a legal or constructive obligation for which a provision must be recognized. In particular, all known circumstances, such as restructuring provisions, are taken into account to determine the existence of a constructive obligation. Estimates and discretionary judgments are particularly applied to determine the term of the lease. With respect to the inclusion of subsidiaries in the consolidated financial statements, GRAMMER also applies discretionary judgments in determining whether it has the de facto ability and possibility to determine the relevant activities as a controlling influence over the investee.

Principles of consolidation (IFRS 10)

The consolidated financial statements include the financial statements of GRAMMER AG and the financial statements of the consolidated subsidiaries as of December 31 of each financial year. The financial statements of the parent company and the subsidiaries are prepared in accordance with uniform accounting and valuation methods. 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 controls a subsidiary if it has the power 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. This involves an assessment of all circumstances that result in GRAMMER AG having the de facto ability and possibility to determine the relevant activities as a controlling influence over the investee.

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 (IFRS 3)

Business combinations are accounted for using the purchase method. 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 expense. 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. 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 (IFRS 11) and associates (IAS 28)

Joint ventures are companies on which GRAMMER AG 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.

An associate is an entity over which GRAMMER AG has significant influence. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control. Where an entity holds 20% or more of the voting power (directly or through subsidiaries) of an investee, it will be presumed that the investor exerts significant influence unless it can be clearly demonstrated that this is not the case.

The GRAMMER Group's shares in such joint ventures and associates are recognized by using the equity method.

By using the equity method, the shares in a joint venture or associate are initially recognized at historical cost. These costs are adjusted in subsequent periods to reflect any changes in the Group's share in the net assets of the joint venture or associate 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 or the associate 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 or associate and the carrying amount, upon which the resultant loss is recognized through profit and loss within the share of earnings of joint ventures and associates. The carrying amount forms the upper limit of the impairment provided that there is no obligation to compensate for any losses.

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 consolidated statement of income includes the Group's share in the earnings of the joint venture or associate for the period under review. A loss attributable to GRAMMER is taken into account as long as it does not exceed the carrying amount of the investment in the joint venture or associate. Any adjustments recognized within the other comprehensive income of a subsidiary are likewise recognized in the Group's other comprehensive income. In addition, any changes are recorded directly in the equity of the joint ventures or associates 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 or associates are eliminated in accordance with the shares held in the joint venture or associates.

Current/non-current distinction (IAS 1)

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 (IAS 21)

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. Any resulting translation differences from this are recognized in profit or loss. 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 from this are recognized directly in equity. In addition, currency translation differences arising from foreign-currency loans for collateralizing a net investment are recognized directly in equity in other comprehensive income and reclassified to profit and loss for the period upon disposal.

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

		Average exchange rate		**End-of-year exchange rate**	
		2021	**2020**	**2021**	**2020**
Argentina	ARS	0.009	0.013	0.009	0.010
Brazil	BRL	0.157	0.173	0.158	0.157
China	CNY	0.131	0.127	0.139	0.125
United Kingdom	GBP	1.161	1.129	1.190	1.112
Japan	JPY	0.008	0.008	0.008	0.008
Mexico	MXN	0.042	0.041	0.043	0.041
Poland	PLN	0.219	0.225	0.218	0.219
South Africa	ZAR	0.057	0.054	0.055	0.055
Czech Republic	CZK	0.039	0.038	0.040	0.038
Turkey	TRY	0.096	0.126	0.066	0.110
United States	USD	0.844	0.875	0.883	0.815

Revenue from contracts with customers (IFRS 15)

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.

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. Complete satisfaction of a performance obligation is determined using the input-based method as there is assumed to be a direct correlation between the costs already incurred and the progress of the development work and is based on the ratio of costs already incurred to the total expected costs (cost-to-cost). Only in cases where it is not yet possible to measure the performance obligation appropriately at certain stages of the contract revenue is recognized on the basis of costs incurred (at cost). 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 on provisions). Recognition of this performance 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 series 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 (IAS 32, IFRS 9)

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 note on financial assets.

Warranty obligations (IAS 37)

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. Details of the accounting method for warranty provisions can be found in the note on provisions. There are no further warranty commitments that can be classified as an independently definable service.

Research and development expenses (IAS 38)

Research expenses are recognized as expense directly upon arising. Market-related development expenses are recognized as intangible assets if the conditions for recognition 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 as long as the asset has not yet been used or if there are any indications for impairment during the year.

Interest income and expense (IAS 1, IAS 32)

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 (IAS 1)

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

Government grants (IAS 20)

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 systematically recorded as income over the period necessary to net it with the corresponding expenses. 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 (IAS 12)

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 taxpayers and the local tax authorities. The Group recognizes provisions for potential effects from tax audits based on estimates. The calculation of these provisions is based on various factors, such as experience from previous tax audits and different official interpretations of tax rules by the authorities. Taxes referring to items that are recognized directly in equity are also recognized directly in equity. The liability method is used to calculate deferred tax assets and liabilities with an impact on future taxes arising from temporary differences between the carrying amounts of assets and liabilities recognized in the statement of financial position and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

- Deferred tax assets from deductible temporary differences, which arise from the initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction had no influence on the net profit for the period as reported in the financial statements or on the taxable income are not recognized.
- Deferred tax assets arising from taxable temporary differences in connection with investments in subsidiaries and associates and interests in joint ventures are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income against which the temporary differences can be utilized.

Deferred tax assets are only recognized on unused tax losses if the corresponding tax advantages are likely to be utilized. In particular, the Group determines whether there has been a series of losses in the recent past. In assessing the likelihood that taxable profit will be available against which unused tax losses can be utilized, particular consideration is given to whether there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity to give rise to taxable amounts against which the unused tax losses can 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.

Property, plant and equipment (IAS 16, IAS 36)

Property, plant and equipment are recognized at cost less straight-line depreciation and accumulated impairment losses. 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. Impairments are recognized 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 (IFRS 16)

A lease is a contract that transfers the right to use an asset (leased asset) for an agreed period of time in return for payment. As the lessee, GRAMMER recognizes a right-of-use asset and a corresponding lease liability over the lease term calculated at its present value using the effective interest method. The judgment as to whether a contract constitutes or contains a lease is made at the inception of the lease. Right-of-use assets and lease liabilities are recognized on the commencement date, i.e. the date on which the leased asset becomes available for use.

The following lease payments are included in the measurement of the lease liability:

- fixed payments, less any leasing incentives to be provided;
- variable lease payments that are tied to an index or interest rate;
- expected payments under residual value guarantees;
- the exercise price of a purchase option where exercise is reasonably certain;
- penalties for terminating the lease if the calculation of the lease term takes into account the exercise of an option to terminate the lease.

Lease payments are discounted at the incremental borrowing rate as it is generally not possible for GRAMMER to readily determine the interest rate on which the lease is based.

Right-of-use assets are recognized at historical cost and are composed of:

- the amount derived from the initial measurement of the lease liability;
- lease payments made on or before the leased asset becomes available less any lease incentives received;
- initial direct costs and
- dismantling obligations.

They are subsequently remeasured at amortized cost. Right-of-use assets are depreciated on a straight-line basis over the lease term or the expected useful life of the leased asset, whichever is the shorter. The guidance contained in IAS 36 on recognizing and measuring impairments also applies to right-of-use assets.

In the case of short-term leases (leases with a maximum duration of 12 months with no purchase option) and leases for low-value assets (office and business equipment, such as printers and small electronic devices), GRAMMER recognizes the lease payments on a straight-line basis through profit and loss. This procedure is also applied to intangible assets.

The lease term comprises the non-cancelable term of a lease, taking into account options to extend or terminate it as well as purchase options, provided that it is reasonably certain that the option will be exercised. The assessment of whether it is reasonably certain that a contractual option will be exercised is made at the inception of the lease. Consideration is given to all relevant facts and circumstances that provide an economic incentive to exercise or not exercise the option, such as costs associated with relocation, material leasehold improvements and the contractual terms, including any changes in those facts and circumstances that are expected to occur from the commencement date to the date the option is exercised. After the provision of the leased asset, the lease term is redefined if a material event or change in circumstances occurs that is within GRAMMER's control and affects the original determination of the lease term.

The lease liability is remeasured if the expected lease payments change, e.g. in the case of index-linked lease payments or due to new estimates regarding contractual options. The change to the carrying amount is recognized through equity by making a corresponding adjustment to the right-of-use asset.

Intangible assets (IAS 38)

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. If the expected useful life of the asset or the expected amortization schedule has changed, a different amortization period or amortization method is chosen. Such changes constitute a change of estimate. Intangible assets include patents and licenses. Patents may be either generated internally or acquired and are recognized at historical cost provided that the criteria for recognition of an intangible asset are satisfied and the Group can provide proof of the development costs. 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 (IAS 38, IAS 36)

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 the determination of 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 and additionally on an ad-hoc basis at the level of segments, which are the Group's 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 fair value less costs to sell of the cash-generating units to which the goodwill has been attributed. In order to estimate the fair value less costs to sell, 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 five 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 (IAS 2)

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 is calculated on the basis of 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 (IAS 7)

Cash and short-term deposits, as reported in the balance sheet, include cash on 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 (IAS 32)

If the 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.

Hybrid loans (IAS 32)

The recognition of the hybrid loan depends on the specific structure of the instrument. A hybrid loan is accounted for and measured as an equity instrument if certain conditions are cumulatively met. These include the fact that the hybrid loan has no final maturity, the lender has no termination rights and distributions are made at the discretion of GRAMMER.

In this case, the loan is classified completely as equity in accordance with IAS 32. It is reported below the item "Equity attributable to shareholders of the parent company", as it was obtained by a subsidiary of GRAMMER AG. The hybrid loan is recognized at cost using the historical exchange rate. Changes in exchange rates over the historical exchange rate are recognized in other comprehensive income as a component of "Equity attributable to shareholders of the parent company". The hybrid loan lender's compensation claims are deducted from retained earnings and allocated to the hybrid loan.

Retirement benefits and other post-employment benefits (IAS 19)

The actuarial measurement of retirement benefit 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 retirement benefit 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 reclassified to profit and loss. Current service cost, past service cost, gains and losses from plan curtailments and extraordinary plan settlements are recognized within cost of sales, administrative costs or selling costs depending on their function. Past service cost is recorded as expense upon the plan change taking effect. With respect to defined benefit plans, the GRAMMER Group only has plan assets in connection with one deferred compensation commitment. The net interest expenses and interest income on defined benefit plans resulting from the plan assets are recorded in net financial result. Other post-employment benefits for employees are measured in accordance with IAS 19 (revised 2011). Actuarial calculations are based on material assumptions including on discount rates, expected wage and salary trends and mortality rates. The discount factors applied are determined on the basis of market yields on the reporting date on investment-grade corporate bonds with the appropriate maturity and currency denomination. Changes in market and economic conditions, particularly interest rates, may cause the underlying assumptions to differ from actual performance. Given the complexity of the measurements and their long-term nature, defined benefit obligations react extremely sensitively to any changes in the underlying assumptions. These assumptions are reviewed on each reporting date. The GRAMMER Group does not have any defined-contribution pension plans. Further details on retirement benefit obligations can be found in Note 20.

Provisions (IAS 37)

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 specify and change over time as more specific information becomes available. Restructuring costs are provided for if the general criteria for the recognition of provisions in accordance with IAS 37 are satisfied. Termination benefits (IAS 19) are included in restructuring provisions. The Group is confronted with various legal disputes and regulatory processes in different countries. Warranty claims are also sometimes asserted in court proceedings. 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. This does not apply to contract assets as these represent services already transferred to the customer. 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 fulfill it.

Share-based payment (IFRS 2)

The remuneration system for the Executive Board includes share-based remuneration as part of the variable performance-related remuneration. The share-based compensation is included in the total shareholder return ("TSR") as part of the long-term incentive ("LTI") and is calculated by comparing the GRAMMER share's performance over the four years of the performance period relative to the SDAX. The share-based payment is settled in cash and measured at its fair value on the reporting date. Pending payment of the LTI, the liability for the performance-related compensation is remeasured on each reporting date and on the settlement date and any changes in fair value are recognized through profit and loss under administrative expenses.

Financial assets (IFRS 9)

Financial assets are recognized on their settlement date.

After initial recognition, financial assets are subsequently measured either 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 are assigned to the following categories:

- Financial Assets at Amortized Cost (FAAC)
- Financial Assets at Fair Value through Other Comprehensive Income without reclassification 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 Cost (FAAC)" include cash and short-term deposits, trade accounts receivable, loans and receivables (other financial assets). They are held within the purposes of the GRAMMER Group's business model, 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 loss over the remaining term (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 duly 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 and 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 financial result. Trade accounts receivable that are to be sold as part of factoring operations also fall into this category. The Group did not have any financial assets at fair value through profit or loss in the year under review or in the previous year.

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 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 cash flows generated by an asset have lapsed or materially all risks and opportunities under the financial asset are transferred, it is derecognized. Trade accounts 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 (IFRS 9)

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 hedging instruments 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 purposes and other financial liabilities designated as measured at fair value through profit or loss upon initial recognition and derivatives with a negative market value that are not designated as hedging instruments 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 and 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 and loss but in other comprehensive income. The Group did not make use of the option to allocate financial liabilities to this category in the current financial year or in the previous year.

"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 amortizations by using the effective interest method.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled 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 uses derivative financial instruments, such as currency forwards and interest rate swaps to hedge interest rate, exchange rate and other price risks. These derivative financial instruments are recognized at fair value at the time of agreement and remeasured at their fair value in subsequent periods. Depending on whether the fair value is positive or negative, they are recognized either as financial assets or as financial liabilities.

The GRAMMER Group classifies hedge relationships as cash flow hedges for accounting purposes. This hedges exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, a highly probable forecast transaction or the foreign currency risk attributable to an unrecognized 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 from a hedging instrument is recognized in other comprehensive income, whereas the ineffective portion is recognized through profit and loss immediately. Cumulative other comprehensive income is adjusted to the lower of the following amounts: the cumulative gain or loss on the hedge since its inception at the date when the hedge cash flows affect profit or loss or the cumulative change in the fair value of the hedged item if the hedging instrument continues to exist as of the reporting date.

The Group uses currency forwards 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 currency forwards and interest rate swaps, but no commodity futures contracts. In addition, there were fully effective hedging relationships for the interest rate swaps and forward exchange contracts. If the hedges do not satisfy the requirements of hedge accounting or they constitute the ineffective part of another effective hedge relationship, the change in fair value is recognized through profit and loss.

2.2. Application of new IFRS in 2021

The IASB has published the following standards and interpretations, application of which was mandatory the first time in 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 16: COVID-19-related rent concessions

Only those standards and interpretations of material relevance for GRAMMER's consolidated financial statements are described below. Other standards are not relevant for the Group and are therefore not included here.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are effective for annual accounting periods beginning on or after January 1, 2021. The amendments offer users temporary relief for the impact on financial reporting of replacing interbank offered rates (IBOR) with alternative interest rate benchmarks. The amendments contain the following practical expedients:

- a practical expedient that allows contractual amendments or changes to contractual cash flows that are a direct result of the reform – such as fluctuations in a market interest rate – to be treated as changes to a variable interest rate
- a practical expedient that allows changes to the designation and documentation of a hedging relationship required by the IBOR reform, without this resulting in hedge accounting being discontinued
- a temporary exemption from the separate identifiability if an instrument with an alternative benchmark rate is used to hedge a risk component

These amendments did not have any effect on the consolidated financial statements. GRAMMER makes use of the practical expedients.

Amendments to IFRS 16: COVID-19-related rent concessions

The IASB published "Amendments to IFRS 16: COVID-19-related rent concessions" on May 28, 2020 and the amendments were endorsed in European law on October 9, 2020, under the comitology procedure provided for this purpose. The amendments have already been applied for 2020. These amendments were originally to remain in effect until June 30, 2021. However, as the COVID-19 pandemic is still ongoing, on March 31, 2021 the IASB extended the term of the practical expedient until June 30, 2022.

The amendments must be applied for the first time to annual accounting periods beginning on or after April 1, 2021. The amendments grant lessees relief in applying the guidance in IFRS 16 on accounting for lease modifications due to rent concessions resulting from the COVID-19 pandemic. As a practical expedient, a lessee may elect to suspend judgment as to whether a lessor's pandemic-related rent concession constitutes a lease modification. GRAMMER applies the practical expedient and thus accounts for any qualifying change in lease payments resulting from COVID-19-related rent concessions in the same way as the company would account for the change under IFRS 16 if it had not resulted in a lease modification. GRAMMER did not receive any COVID-19-related rent concessions in 2021.

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 financial year 2021.

- Amendments to IAS 37: Onerous contracts – costs of fulfilling a contract
- Amendments to IFRS 3: Reference to the conceptual framework
- Amendments to IAS 16: Property, Plant and Equipment – proceeds before intended use
- Annual improvements to IFRS (2018–2020 cycle)
- Amendments to IAS 41: Taxation in fair value measurements
- IFRS 17: Insurance Contracts

The GRAMMER Group didn't adopt to these standards and interpretations prematurely. Only those standards and interpretations of relevance for GRAMMER's consolidated financial statements are described below in greater detail. The other standards published by the IASB and IFRIC are not relevant for the Group and are therefore not included here.

Amendments to IAS 37: Onerous contracts – costs of fulfilling a contract

On May 15, 2020, the IASB published "Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contracts – cost of fulfilling a contract". The amendments specify the costs that must be included in an assessment of whether a contract is onerous. The amendment focuses on costs that relate directly to the contract. The costs associated with the performance of contracts for the supply of goods or the rendering of services include both the directly attributable (incremental) costs of fulfilling the contract and overheads that relate directly to contract fulfillment. General administrative costs are not directly related to the contract and therefore do not come within contract fulfillment costs, unless it is expressly stipulated in the contract that they are to be recharged to the customer.

The amendments must be applied for the first time to annual accounting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which not all obligations have been settled at the beginning of the year in which it first applies the amendments. The amendments do not affect the consolidated financial statements as the Group already accounts for allocable overheads for development work, such as depreciation of project-related property, plant and equipment and when recognizing performance obligations.

Annual improvements to IFRS (2018–2020 cycle)
The IASB published the annual improvements to IFRS in the 2018–2020 cycle on May 14, 2020. The annual improvements to IFRS 2018–2020 result in direct amendments to the following standards:

- IFRS 1: Subsidiaries as first-time users: The amendment permits a subsidiary that applies IFRS 1.D16(a) to measure cumulative foreign currency translation differences at the amounts recognized by its parent relating to the date of the parent's adoption of IFRS.
- IFRS 9: Fees in the "10%-test" for derecognition of financial liabilities: The amendment clarifies that an entity may only consider such fees paid or received between the entity as a borrower and the lender under the so-called "10%-test" if derecognizing a financial liability.

The amendments to IFRS 1 and IFRS 9 must be applied for the first time to annual accounting periods beginning on or after January 1, 2022. The amendment to IFRS 1 is not relevant to GRAMMER. The amendment to IFRS 9 is applied to financial liabilities that are modified or exchanged at or after the beginning of the financial year 2022.

Not yet endorsed by the EU
The IASB published further standards and interpretations in 2021. However, these have not yet been integrated in EU law under the comitology procedures.

- Amendments to IAS 1: Classification of liabilities as current or non-current
- Amendments to IAS 8: Definition of accounting estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

Amendments to IAS 1: Classification of liabilities as current or non-current
The IASB published "Amendments to IAS 1: Classification of liabilities as current or non-current" on January 23, 2020. The amendments concern paragraphs 69 to 76 of "IAS 1 Presentation of Financial Statements" and clarify the requirements for classifying liabilities as current or non-current. The amendments clarify the following:

- The right to defer the settlement of a liability is explained.
- The right to defer settlement of a liability must exist at the reporting date.
- For classification purposes, it is irrelevant whether the company expects to actually exercise this right.
- Only if a derivative embedded in a convertible debt instrument is an equity instrument that must be accounted for separately is it not necessary to take account of the terms of the debt instrument for classification purposes.

The amendments must be applied for the first time to annual accounting periods beginning on or after January 1, 2023 and are applicable retroactively. The Group is currently assessing the impact the amendments will have on its current accounting practice and whether existing borrowing arrangements might have to be renegotiated.

Amendments to IAS 8: Definition of accounting estimates
The IASB published "Amendments to IAS 8: Definition of Accounting Estimates" on February 12, 2021. The amendment clarifies how to differentiate between changes to accounting estimates, changes to accounting policies and error corrections. It also explains how companies can perform accounting estimates with the help of measurement tools and inputs.

The amendments must be applied for the first time to annual accounting periods beginning on or after January 1, 2023 and to changes to accounting policies and accounting estimates made at or after the start of this period. GRAMMER does not expect the amendments to have any material impact on the consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
The IASB published "Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies" on February 12, 2021. The amendments provide guidance and examples intended to help companies assess when information on accounting policies is considered "material" and must therefore be disclosed. The amendments are intended to help companies disclose accounting policies more helpfully for users of financial statements by replacing the requirement for entities to disclose "significant" accounting policies with a requirement to disclose "material" information on accounting policies and adding guidance to make it easier for companies to apply the concept of materiality when assessing when information on accounting policies is to be disclosed.

The amendments to IAS 1 must be applied for the first time to annual accounting periods beginning on or after January 1, 2023. As the amendments to the Practice Statement 2 contain non-binding application guidance for the definition of "material" regarding information on accounting policies, an effective date for the amendments was not considered necessary. It is currently being evaluated what impact the amendments will have on the disclosures on accounting policies in the consolidated financial statements.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The IASB published "Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction" on May 7, 2021. The amendments relate to accounting for deferred taxes on transactions such as leases at the lessee and dismantling obligations. As a result, an exemption from recognizing deferred assets in accordance with IAS 12.15(b) and IAS 12.24 (initial recognition exemption) does not apply to transactions in which entities recognize both an asset and a liability. This results from the introduction of IAS 12.22A, which sets out an exemption from the initial recognition exemption. This means that deferred taxes are to be recognized on transactions in which both deductible and taxable temporary differences arise on initial recognition, resulting in the recognition of deferred tax assets and liabilities in equal amounts.

The amendments must be applied for the first time to annual accounting periods beginning on or after January 1, 2023. The amendments are to be applied retrospectively for transactions that occur at or after the beginning of the earliest comparative period presented. In addition, deferred taxes for all temporary differences related to leases and decommissioning obligations are to be recognized at the beginning of the earliest comparative period. The cumulative effect of the initial application of these amendments is recognized as an adjustment of the opening retained earnings. The Group does not expect the amendments to have any material impact on the consolidated financial statements.

3. Scope of consolidation

Information on subsidiaries

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

Name of subsidiary		Domicile	Main activity	Equity interest (%)	
				2021	2020
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.	Shannon (MS), United States	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	98.84	98.84
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.[1]	Olérdola, Spain	Automotive	0.00	100.00
12.	GRAMMER Industries, LLC	Troy (MI), United States	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 Interior (Tianjin) Co., Ltd.	Tianjin, China	Commercial Vehicles	100.00	100.00
16.	GRAMMER Interior (Changchun) Co., Ltd.	Changchun, China	Automotive	100.00	100.00
17.	GRAMMER Interior (Shanghai) Co., Ltd.	Shanghai, China	Automotive/Commercial Vehicles	100.00	100.00
18.	GRAMMER System d.o.o.	Aleksinac, Serbia	Automotive	100.00	100.00
19.	GRAMMER Railway Interior GmbH	Amberg, Germany	Commercial Vehicles	100.00	100.00
20.	GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Commercial Vehicles	100.00	100.00
21.	GRAMMER Electronics N.V.	Aartselaar, Belgium	Commercial Vehicles	100.00	100.00
22.	GRAMMER Interior (Beijing) Co., Ltd.	Beijing, China	Automotive	100.00	100.00
23.	GRAMMER Automotive CZ s.r.o.	Česká Lípa, Czech Republic	Automotive	100.00	100.00
24.	GRAMMER Seating (Ningbo) Co., Ltd.	Ningbo City, China	Commercial Vehicles	100.00	100.00
25.	GRAMMER Automotive South Africa (Pty) Ltd.	Bedfordview, South Africa	Automotive	100.00	100.00

Name of subsidiary		Domicile	Main activity	Equity interest (%) 2021	2020
1. Consolidated subsidiaries					
26.	GRAMMER Argentina S.A.	Buenos Aires, Argentina	Commercial Vehicles	99.96	99.96
27.	GRAMMER Italia srl.	Jesi, Italy	Distribution company	100.00	100.00
28.	GRAMMER Interior Components GmbH	Hardheim, Germany	Automotive	100.00	100.00
29.	GRAMMER Seating (Shaanxi) Co., Ltd.	Weinan City, China	Commercial Vehicles	90.00	90.00
30.	Toledo Molding & Die, LLC	Toledo (OH), United States	Automotive/Commercial Vehicles	100.00	100.00
31.	TMD Mexico LLC	Wilmington (DE), United States	Automotive	100.00	100.00
32.	TMD International Holdings LLC	Wilmington (DE), United States	Automotive	100.00	100.00
33.	Toledo Molding de Mexico S.R.L. de C.V.	Queretaro, Mexico	Automotive	100.00	100.00
34.	Toledo Molding CZ s.r.o.	Prague, Czech Republic	Automotive	100.00	100.00
35.	Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd.	Changchun, China	Automotive	49.00	49.00
36.	GRAMMER Vehicle Parts (Shenyang) Co., Ltd.[2]	Shenyang, China	Automotive	100.00	0.00
37.	GRAMMER (China) Holding Co., Ltd.[3]	Hefei City, China	Holding company	100.00	0.00
38.	GRAMMER Vehicle Parts (Harbin) Co., Ltd.[4]	Harbin, China	Commercial Vehicles	60.00	0.00
39.	GRAMMER Vehicle Parts (Qingdao) Co., Ltd.[5]	Qingdao City, China	Commercial Vehicles	60.00	0.00
40.	GRAMMER CZ Servicecenter s.r.o.[6]	Tachov, Czech Republic	Service company	100.00	0.00
2. Consolidated joint ventures and associated companies					
1.	GRA-MAG Truck Interior Systems LLC	London (OH), United States	Commercial Vehicles	50.00	50.00
2.	ALLYGRAM Systems and Technologies Private Limited	Pune, India	Development company	30.00	30.00

[1] GRAMMER Automotive Española S.A. was sold on May 31, 2021.
[2] GRAMMER Vehicle Parts (Shenyang) Co., Ltd. was included in the consolidated financial statements for the first time on July 1, 2021.
[3] GRAMMER (China) Holding Co., Ltd. was included in the consolidated financial statements for the first time on July 1, 2021.
[4] GRAMMER Vehicle Parts (Harbin) Co., Ltd. was included in the consolidated financial statements for the first time on July 1, 2021.
[5] GRAMMER Vehicle Parts (Qingdao) Co., Ltd.was included in the consolidated financial statements for the first time on October 1, 2021.
[6] GRAMMER CZ Servicecenter s.r.o. was included in the consolidated financial statements for the first time on October 1, 2021.

In addition to GRAMMER AG, five (2020: five) domestic and 34 (2020: 30) foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IFRS 10 are consolidated.

GRAMMER AG sold 100% of shares in the Spanish subsidiary, GRAMMER Automotive Española S.A. Olèrdola, Spain, as of May 31, 2021. The company was removed from the consolidated financial statements at that time. GRAMMER Vehicle Parts (Shenyang) Co., Ltd., Shenyang, China, a company newly established in 2020, commenced operations in 2021 and was included in the consolidated financial statements on July 1, 2021. GRAMMER (China) Holding Co., Ltd., Hefei, China, and GRAMMER Vehicle Parts (Harbin) Co., Ltd., Harbin, China, were also included in the consolidated financial statements as of July 1, 2021 and GRAMMER Vehicle Parts (Qingdao) Co., Ltd., Qingdao, China, as of October 1, 2021 in connection with the payment of subscribed capital. GRAMMER CZ Servicecenter s.r.o., Tachov, Czech Republic, which was not previously included in the consolidated financial statements on account of immateriality, was consolidated for the first time as of October 1, 2021 in order to align internal and external reporting. The companies accounted for at equity are 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, and the associate ALLYGRAM Systems and Technologies Private Limited, Pune, India (ALLYGRAM), in which GRAMMER AG holds 30% of the voting rights.

The uniform reporting date for all of the consolidated companies is December 31, 2021.

2021

	Germany	International	Total
Fully consolidated companies (including GRAMMER AG)	6	34	40
Companies accounted for at equity	0	2	2
Companies	**6**	**36**	**42**

2020

	Germany	International	Total
Fully consolidated companies (including GRAMMER AG)	6	30	**36**
Companies accounted for at equity	0	2	**2**
Companies	**6**	**32**	**38**

Within GRAMMER Group, investments 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. Investments in joint ventures and associates

GRA-MAG LLC

GRAMMER AG holds a 50% share in the capital of GRA-MAG Truck Interior Systems LLC, London, OH, United States (GRA-MAG LLC), a joint venture in the United States, which is active in the AMERICAS region and primarily develops and assembles seats and seating systems for trucks. As in the previous year, the Group's shares in GRA-MAG LLC are recognized in accordance with equity method of accounting. The share in GRA-MAG LLC is recognized at equity and has a value of EUR 0 as the cumulative losses exceed the carrying amount of the investment. As GRAMMER AG is not under any obligation to settle the loss, the negative equity is not recognized as a liability.

The summarized financial information corresponds to the amounts reported in the annual financial statements of the joint venture as of December 31, 2021 prepared in accordance with IFRS.

EUR k

Income statement 100%	2021	2020
Revenue	39,482	31,795
Cost of sales including systematic depreciation of EUR 113 thousand (2020: EUR 139 thousand)	–31,756	–28,489
Selling expenses	–1	–4
Administrative expenses	–4,148	–1,133
Interest expenses	–697	–838
Earnings before taxes	**2,880**	**1,331**
Income taxes	–56	–46
Net profit/loss	**2,824**	**1,285**
Group's share of profit or loss (50%)	1,412	643

EUR k

Statement of financial position 100%	2021	2020
Non-current assets	937	575
Current assets	10,920	7,758
Assets	**11,857**	**8,333**
Non-current liabilities	18,487	17,109
Current liabilities	6,297	5,882
Liabilities	**24,784**	**22,991**
Equity	**–12,927**	**–14,658**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment	0	0

The aforementioned items include cash and short-term deposits of EUR 670 thousand (2020: EUR 1,562 thousand) as well as current and non-current financial liabilities of EUR 2,729 thousand (2020: EUR 287 thousand) and EUR 18,487 thousand (2020: EUR 19,944 thousand).

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

EUR k

Unrecognized gains/losses (50%)	2021	2020
Unrecognized losses of GRA-MAG LLC as of January 1	–7,779	–8,422
Unrecognized gains of GRA-MAG LLC in the period under review	1,412	643
Unrecognized losses of GRA-MAG LLC as of December 31	**–6,367**	**–7,779**

As of December 31, 2020 and 2021, 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.

Other immaterial investments accounted for using the equity method

GRAMMER AG holds a 30% interest in the capital of ALLYGRAM Systems and Technologies Private Limited, Pune, India (ALLYGRAM). ALLYGRAM is an associate in India that provides development services for the global GRAMMER sites. As in the previous year, the Group's shares in ALLYGRAM are recognized by using the equity method. The equity measurement in ALLYGRAM amounts to EUR 958 thousand as of December 31, 2021 (2020: EUR 859 thousand). Accordingly, the share of net profit of EUR 435 thousand (2020: EUR 335 thousand) was recognized in profit and loss and the share of dividends received of EUR 392 thousand (2020: EUR 0 thousand) were recognized as well. In addition, foreign currency differences of EUR 67 thousand (2020: EUR 87 thousand), actuarial losses of EUR 1 thousand (2020: EUR 0 thousand) and gains from cash flow hedges of EUR 2 thousand (2020: EUR 0 thousand) were recognized in cumulative other comprehensive income.

5. Corporate disposals

GRAMMER AG sold 100% of shares in GRAMMER Automotive Española, S.A., Olèrdola, Spain, as of May 31, 2021. Due to the declining order backlog, there was no positive earnings development for the company in the future. Therefore, the company was sold without consideration. Alternative scenarios would have resulted in higher expenses. The subsidiary was deconsolidated on the day of the sale, as control of the company was also transferred to the acquirer at this time. The company's assets and liabilities disposed of and the deconsolidation effect for GRAMMER are as follows:

EUR k	**Disposal at sale**
Property, plant and equipment	1,306
Deferred tax assets	119
Other assets	10
Non-current assets	**1,435**
Inventories	1,085
Current trade accounts receivable	2,944
Other current financial assets	1
Cash and short-term deposits	1,712
Other current assets	19
Current assets	**5,761**
Assets	**7,196**
Other financial liabilities	69
Deferred tax liabilities	76
Non-current liabilities	**145**
Current trade accounts payable	2,258
Other current financial liabilities	130
Other current liabilities	772
Provisions	62
Current liabilities	**3,222**
Liabilities	**3,367**
Net assets	**3,829**
Consideration received	0
Hidden liabilities incl. deferred taxes not yet recognized in profit and loss	14
Deconsolidation effect	**–3,815**

The deconsolidation effect (loss) of EUR –3,815 thousand comprises EBIT of EUR –3,809 thousand and deferred tax liabilities of EUR –6 thousand. Within EBIT, an amount of EUR –3,829 thousand relates to administrative expenses and EUR +20 thousand to the cost of sales. The company is included in the Consolidated Financial Statements for the period from January to May 2021 with EBIT of EUR 105 thousand and net profit of EUR 42 thousand. Consulting costs of EUR 303 thousand incurred in connection with the sale in the first half of 2021 and are included in administrative expenses. In addition, customer claims under contracts for series development amounting to EUR 423 thousand were derecognized, as no future cash inflow will occur due to the disposal of the subsidiary. Within EBIT, expenses relating to the disposal of the company came to EUR 4,536 thousand.

6. Segment reporting

The segments described below cover the internal reporting and organizational structure of the GRAMMER Group since 2021. Determination of the Company's key management indicators is based on the data contained in the IFRS consolidated financial statements.

In 2020, the Executive Board initiated the global realignment of GRAMMER Group's organizational structure in order to respond more quickly and flexibly to changing customer needs and to make operational decisions on a local basis. 2020 was a transitional year here for organizational preparation. Effective January 1, 2021, GRAMMER AG made a fundamental change to its management and resource allocation. The EMEA, AMERICAS and APAC regions became the main internal reporting structures and have been the reportable operating segments ever since. The previous reportable segments Automotive and Commercial Vehicles were defined as two divisions and focus on preparing and implementing global market, customer and product strategies. The global functions (i.e. Group areas) continue to support the three regions and the two divisions by providing systems, standards and guidelines as well as defined services, e.g. in the area of research and development.

The segment information is shown since January 1, 2021 for the EMEA, AMERICAS and APAC segments. The EMEA region (Europe, Middle East, Africa) comprises all European companies and the companies in Turkey and South Africa. The AMERICAS region includes all companies in North, Central and South America, while APAC (Asia Pacific) is made up of all Chinese companies and Japan. The comparative information for financial year 2020 was prepared on the basis of the new reporting structure.

The EMEA region is the largest of the three reportable segments within the GRAMMER Group. Based on the total revenue of the three reporting segments (excluding eliminations across segments), 53.5% (2020: 54.2%) of revenue was generated in the EMEA region in 2021, followed by the AMERICAS region at 26.1% (2020: 26.8%) and the APAC region at 20.5% (2020: 19.0%).

The revenue and earnings before interest and taxes (EBIT), operating EBIT and the operating EBIT-margin generated by the operating segments are monitored separately by management in order to make decisions on resource allocation and determine the earnings strength of the units. 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 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 at the Group level.

Alongside the three 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:

2021

EUR k

	EMEA	AMERICAS	APAC	Central Services	Eliminations	GRAMMER Group
Revenue from sales to external customers	991,433	514,868	396,713	0	0	**1,903,014**
Inter-segment revenue	70,065	2,821	9,539	0	–82,425	**0**
Revenue	**1,061,498**	**517,689**	**406,252**	**0**	**–82,425**	**1,903,014**
Segment EBIT	**43,320**	**–61,739**	**52,902**	**–15,808**	**189**	**18,864**
Financial income						**3,410**
Financial expenses						**–22,062**
Other financial result						**6,502**
Earnings before taxes						**6,714**
Income taxes						**–6,068**
Net profit/loss						**646**
Other segment information						
Capital expenditure						
Property, plant and equipment	45,963	20,981	35,599	3,926	0	**106,469**
Intangible assets	266	93	93	7,790	0	**8,242**
Depreciation and amortization						
Depreciation	–30,989	–21,272	–11,164	–5,312	0	**–68,737**
Amortization of intangible assets	–4,010	–10,088	–112	–1,272	0	**–15,482**
Non-cash items						
Changes in retirement benefit provisions	3,451	337	9	1,809	0	**5,606**

2020

EUR k

	EMEA	AMERICAS	APAC	Central Services	Eliminations	GRAMMER Group
Revenue from sales to external customers	904,917	475,313	330,484	0	0	**1,710,714**
Inter-segment revenue	60,857	1,297	8,706	0	–70,860	**0**
Revenue	**965,774**	**476,610**	**339,190**	**0**	**–70,860**	**1,710,714**
Segment EBIT	**–8,747**	**–34,494**	**29,636**	**–9,613**	**–22,908**	**–46,126**
Financial income						**1,525**
Financial expenses						**–23,962**
Other financial result						**–2,159**
Earnings before taxes						**–70,722**
Income taxes						**6,014**
Net profit/loss						**–64,708**
Other segment information						
Capital expenditure						
Property, plant and equipment	33,925	16,125	10,923	19,179	0	**80,152**
Intangible assets	2,734	68	54	743	0	**3,599**
Depreciation and amortization						
Depreciation	–34,331	–21,585	–10,320	–5,045	0	**–71,281**
Amortization of intangible assets	–4,647	–10,510	–348	–1,038	0	**–16,543**
Non-cash items						
Changes in retirement benefit provisions	4,400	302	15	2,297	0	**7,014**

Information on divisions

The following tables include information on externally generated revenue and non-current assets of the Group's divisions for the financial years ending December 31, 2021 and 2020.

2021

EUR k

By division	Automotive	Commercial Vehicles	Central Services	Group
Revenue EMEA	564,834	496,664	0	**1,061,498**
Revenue AMERICAS	422,986	94,703	0	**517,689**
Revenue APAC	268,033	138,219	0	**406,252**
Eliminations	–20,928	–61,497	0	**–82,425**
Revenue	**1,234,925**	**668,089**	**0**	**1,903,014**
Non-current assets (property, plant and equipment as well as intangible assets)	486,916	81,559	110,378	**678,853**

2020

EUR k

By division	Automotive	Commercial Vehicles	Central Services	Group
Revenue EMEA	570,143	395,630	0	**965,773**
Revenue AMERICAS	411,154	65,457	0	**476,611**
Revenue APAC	235,737	103,453	0	**339,190**
Eliminations	–16,379	–54,481	0	**–70,860**
Revenue	**1,200,655**	**510,059**	**0**	**1,710,714**
Non-current assets (property, plant and equipment as well as intangible assets)	460,012	89,333	78,351	**627,696**

In the Automotive Division, 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 Division Commercial Vehicles develops and produces driver and passenger seats for trucks as well as driver seats for offroad vehicles (tractors, construction machinery and forklifts), 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.

7. Revenue from contracts with customers

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

2021

EUR k

Point in time of revenue recognition	EMEA	AMERICAS	APAC	Elimina-tions	GRAMMER Group
Goods transferred at a specific point in time	996,133	494,203	389,049	–80,871	**1,798,514**
Goods and services transferred over time	65,365	23,486	17,203	–1,554	**104,500**
Intragroup transactions	–70,065	–2,821	–9,539	82,425	**0**
Total revenue from contracts with customers	**991,433**	**514,868**	**396,713**	**0**	**1,903,014**

2020

EUR k

Point in time of revenue recognition	EMEA	AMERICAS	APAC	Elimina-tions	GRAMMER Group
Goods transferred at a specific point in time	911,200	447,767	328,456	–69,961	**1,617,462**
Goods and services transferred over time	54,574	28,843	10,734	–899	**93,252**
Intragroup transactions	–60,857	–1,297	–8,706	70,860	**0**
Total revenue from contracts with customers	**904,917**	**475,313**	**330,484**	**0**	**1,710,714**

Based on the change to segment reporting, the presentation of revenue from contracts with customers was also adjusted. The comparative information for financial year 2020 was prepared on the basis of the new reporting structure.

80% of the net contract liabilities of EUR 4,533 thousand reported as of December 31, 2020 were recognized as revenue in 2021 (2020: with approx. 60% of EUR 3,776 thousand).

In 2021 and 2020, there was likewise no material revenue from performance obligations which had been fulfilled in part or in full in earlier periods.

8. Other income and expenses

8.1. Other operating income

Other operating income primarily included income from recharged handling costs of EUR 2,995 thousand (2020: EUR 2,673 thousand), income from the sale of metal waste of EUR 4,799 thousand (2020: EUR 2,186 thousand) and miscellaneous other income of EUR 6,197 thousand (2020: EUR 3,651 thousand). The miscellaneous other income mainly consists of reversals of provisions from previous years, one-time payments for compensation for order cancellations and increases in material prices and freight costs. Other operating income additionally comprised government grants of EUR 1,832 thousand (2020: EUR 1,270 thousand), the sale of property, plant and equipment of EUR 2,319 thousand (2020: EUR 264 thousand), income from insurance claims of EUR 2,371 thousand (2020: EUR 36 thousand) and income from recharged expenses and rental income of EUR 416 thousand (2020: EUR 419 thousand). In addition, it included a refund claim for other taxes of EUR 2,856 thousand (2020: EUR 0 thousand) in connection with the quasi-VAT levies PIS and COFINS (Programa de Integração Social/Contribuição para o Financiamento da Seguridade Social) in Brazil. The refund claim includes taxes paid twice. Brazilian courts confirmed the refund claim in the financial year 2021. 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	2021	2020
Interest income on bank balances	1,493	1,056
Income from other financial assets	1,917	436
Proceeds from loans	0	33
Financial income	**3,410**	**1,525**
Interest on loans and overdrafts	–17,337	–18,086
Other interest costs	–7	–106
Interest cost of retirement benefit provisions	–1,626	–2,363
Loss from financial assets and liabilities at fair value through profit or loss	–164	–311
Interest element of lease payments	–2,928	–3,096
Financial expenses	**–22,062**	**–23,962**
Currency-translation gains/losses from cash at bank and in hand	–625	6,088
Exchange-rate differences from intercompany finance	7,127	–8,247
Other financial result	**6,502**	**–2,159**
Financial result	**–12,150**	**–24,596**

The improvement in the financial result was essentially due to positive currency translation effects. Fluctuations in the exchange rates of the Czech koruna, the Brazilian real and the US dollar resulted in substantial foreign exchange gains in 2021, whereas 2020 saw a loss in connection with this. Financial income includes interest income on the refund claim for other taxes of EUR 1,631 thousand (2020: EUR 0 thousand) in connection with the quasi-VAT levies PIS and COFINS (Programa de Integração Social/Contribuição para o Financiamento da Seguridade Social) in Brazil.

8.3. Amortization, depreciation, foreign exchange differences and acquisition and production costs included in the consolidated statement of income

Cost of sales

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise of EUR 1,642,215 thousand (2020: EUR 1,517,140 thousand). 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. Non-capitalized development costs incurred in the Commercial Vehicles Division are also included here. The cost of sales also includes exceptional expenses from non-recurring business transactions of EUR 2,322 thousand in 2021 (2020: EUR 10,756 thousand). In financial 2021, these comprised expenses for directly attributable costs for corona-related protection and response measures of EUR 2,342 thousand (2020: EUR 3,834 thousand) and EUR –20 thousand of hidden liabilities not yet recognized in profit or loss due to the sale of the Spanish subsidiary. In financial year 2020 EUR 6,922 thousand in restructuring expenses was also incurred.

Selling expenses

The selling expenses of EUR 33,350 thousand (2020: EUR 37,760 thousand) relate to expenses of the sales and distribution function 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. In 2021, this item included expenses for compensation of EUR 6,020 thousand as a result of negotiations by the sales department with a customer regarding defective products.

Administrative expenses

Administrative expenses include all administrative expenditure which cannot be assigned directly to other functions, including expenditure on general administration, management and central departments. Other administrative expenses also include income from exchange rate movements in the amount of EUR 20,978 thousand (2020: EUR 27,229 thousand) and mainly relate 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 reporting date. Foreign exchange losses amounting to EUR 17,634 thousand (2020: EUR 36,529 thousand) are also recognized under other administrative expenses. Administrative expenses also include various exceptional expenses from non-recurring business transactions of EUR 4,516 thousand in 2021 (2020: EUR 14,401 thousand). In 2021, this item included EUR 3,829 thousand in expenses from the deconsolidation of the Spanish subsidiary, consulting costs of EUR 304 thousand in connection with the disposal of this subsidiary and directly attributable corona-related protection and response measures of EUR 383 thousand (2020: EUR 766 thousand). In the previous year, it also included restructuring expenses of EUR 13,635 thousand.

Amortization and depreciation

Amortization of intangible assets totaled EUR 15,482 thousand (2020: EUR 16,543 thousand) and is recognized in the under the cost of sales, selling expenses and administrative expenses depending on origin. This item also contains capitalized development costs of EUR 2,180 thousand (2020: EUR 2,604 thousand) that are included in the cost of sales. Depreciation of property, plant and equipment amounted to EUR 68,737 thousand (2020: EUR 71,281 thousand), including systematic depreciation of EUR 17,600 thousand (2020: EUR 18,964 thousand) for right-of-use assets. No expenses due to a lower recoverable amount (impairment) were incurred in 2021. Impairment in 2020 came to EUR 1,443 thousand, attributable to property, plant and equipment. 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	2021	2020
Wages and salaries	376,480	366,363
Social security contributions	89,393	77,750
Personnel expenses	**465,873**	**444,113**

In 2021, personnel expenses include EUR 850 thousand (2020: EUR 11,809 thousand) in government grants to deal with the consequences of the COVID-19 pandemic, mainly consisting of reimbursements from social security funds and other government support payments.

9. Income taxes

The key components of income taxes for 2021 and 2020 break down as follows:

EUR k	December 31, 2021	December 31, 2020
Consolidated Statement of Income		
Actual income taxes		
Actual tax expenses – Germany	–6,731	–4,521
Actual tax expenses – international	–13,291	–6,174
Total actual tax expenses	**–20,022**	**–10,695**
Deferred taxes		
Deferred tax liabilities (–)/deferred tax assets – Germany	1,095	–397
Deferred tax liabilities (–)/deferred tax assets – international	12,859	17,106
Deferred tax liabilities (–)/deferred tax assets	**13,954**	**16,709**
Tax expense (–)/income reported in the consolidated statement of income	**–6,068**	**6,014**

The increase in actual income tax expense in Germany is mainly due to higher dividends paid in the Group, the associated withholding taxes incurred abroad which are not allowable in Germany and the effects of a tax audit. Higher international income tax expense is essentially a result of higher earnings before tax as business recovered from the effects of the COVID-19 pandemic.

Deferred tax assets on the losses for the current year of EUR 7.6 million were not recognized in 2021. Most of these related to the tax group in the US, with companies in Belgium and China also affected. In no cases was there any substantial evidence indicating that sufficient taxable income towards which the unused losses can be used will arise in the future. The deferred tax assets in Germany stem largely from the reversal of deferred tax assets on loss carryforwards, which were considered as not recoverable in the previous year. Loss carryforwards that were considered not recoverable in the previous year were also capitalized outside Germany. This primarily concerned companies in the US and in China.

The far higher tax rate compared to the previous year can be attributed mainly to the non-recognition of deferred tax assets in the current year. In addition, non-deductible foreign withholding tax on dividends paid in the Group that is recognized in Germany had a negative impact of EUR 3.2 million as shown in effects from minimum taxation and withholding taxes. Further negative effects resulted from tax audits in Germany, China and Slovenia, which are recognized in the tax reconciliation as an effect of actual income taxes relating to previous years (EUR –2.8 million) and of non-deductible business expenses (EUR –3.3 million).

As of the balance sheet date, the Group had loss carryforwards totaling EUR 267.7 million. No deferred tax assets were formed for tax losses of EUR 96.8 million. If the Group had been able to recognize all unconsidered deferred tax assets from 2021 and preceding years, net profit and equity would have increased by a total of EUR 22.6 million (2020: EUR 25.7 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 financial years 2021 and 2020 is as follows:

EUR k	2021	2020
Earnings before taxes	**6,714**	**–70,722**
Income taxes at the effective rate in Germany of 28.9% (2020: 29.1%)	–1,940	20,580
Effects from minimum taxation and withholding taxes	–3,192	–2,991
Actual income taxes relating to previous years	–2,833	995
Effects of the non-recognition of deferred taxes for the current year	–7,605	–16,162
Change in deferred taxes from previous years	10,217	5,527
Tax reduction from tax-exempt income	1,206	–422
Non-deductible expenses	–3,328	–4,421
Other tax effects	–629	698
Effects from changes to tax rate/legislation	285	1,136
Effect of foreign tax groups on tax rate	1,751	1,074
Income taxes at the effective tax rate of 90.4% (2020: 8.5%)	**–6,068**	**6,014**

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

EUR k	2021	2020
Property, plant and equipment (excluding right-of-use assets)	–24,536	–23,001
Right-of-use assets	–7,236	–6,441
Intangible assets	–21,675	–22,103
Other assets	–4,454	–5,755
Inventories	–36	–90
Trade accounts receivable, current	–76	–54
Contract assets	–5,558	–1,196
Other current financial assets	–567	–48
Non-current financial liabilities	–215	–2,471
Others	–1,209	–2,643
Deferred tax liabilities (non-netted)	**–65,562**	**–63,802**
Retirement benefits and similar obligations	24,656	29,656
Provisions	5,231	4,853
Tax losses carried forward	25,708	12,450
Other financial assets	13	1,262
Contract assets	69	0
Property, plant and equipment	3,817	2,930
Intangible assets	3,378	3,319
Other current liabilities	769	2,489
Current trade accounts receivable	5,503	3,382
Other financial liabilities	7,008	4,446
Other current financial liabilities	3,063	2,819
Inventories	2,892	3,227
Non-current financial liabilities	2,248	0
Others	7,989	10,327
Deferred tax assets (non-netted)	**92,344**	**81,160**
Net deferred tax liabilities (–)/deferred tax assets	**26,782**	**17,358**

The change in the deferred taxes is described below:

EUR k	2021	2020
As of January 1	**17,358**	**–1,398**
Deferred tax liabilities (–)/deferred tax assets through profit and loss	13,954	16,709
Deferred tax liabilities (–)/deferred tax assets through statement of comprehensive income	–4,504	2,579
Deferred taxes acquired as a result of first-time consolidation	18	0
Currency-translation effects	–44	–532
As of December 31	**26,782**	**17,358**

The statutory rate of corporate income tax in Germany was 15% for the 2021 and 2020 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 28.9% for 2021 (2020: 29.1%).

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 28.9% (2020: 29.1%). As in the previous year, the local income tax rates for foreign entities varied between 10% and 34%. Deferred tax assets are only recognized if the management deems their recoverability to be probable. Relevant impairments are based on all known positive and negative factors relating to future taxable income. The estimates made may 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 taxes were not recorded on outside basis differences (i.e. differences between net assets, incl. goodwill at subsidiaries or the relevant tax value of interests in subsidiaries), as reversal of differences, e.g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. The outside basis differences stand at EUR 204,970 thousand as of December 31, 2021 (2020: EUR 229,398 thousand). The distribution of dividends to the shareholders did not have any consequences for income tax in 2021 or 2020.

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 financial year, less the Company's own shares that were bought back in 2006 (330,050 shares). The Company's share capital amounts to EUR 39,009,080.32 and is divided into 15,237,922 shares. All shares with the exception of own shares 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, 2021, its basic and diluted earnings per share are identical.

Consolidated earnings per share

	2021	2020
Weighted average number of ordinary shares used to calculate basic/diluted earnings	14,907,872	12,601,417
Earnings in EUR thousand (excluding non-controlling interests/hybrid loan lenders)	1,233	–64,314
Basic/diluted earnings per share in EUR	0.08	–5.10

The hybrid loan raised in 2020 is classified as equity (see Note 19). The related compensation claim of the hybrid loan lender represents payments for a component of equity that reduces the earnings available for distribution to the shareholders of the parent company and has therefore been included in the determination of (basic/diluted) earnings per share.

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. GRAMMER AG reported a net loss of EUR –74.9 million as of December 31, 2021 (2020: EUR –72.5 million). This includes the net loss for the 2021 financial year of EUR –2.4 million. As GRAMMER AG does not report a net profit, no dividend will be proposed. The net loss as of December 31, 2021 will be carried forward. No dividends were distributed in 2021 or 2020.

Further details can be found in Note 19.

Dividends approved and distributed during the financial year:

Dividends on ordinary shares

EUR k

	2021	2020
Dividend for 2021: EUR 0.00 (2020: EUR 0.00)	0	0

12. Property, plant and equipment and intangible assets

EUR k

Amount on December 31, 2021	Historical cost						
	Amount on January 1, 2021	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassifications	Amount on December 31, 2021
Land and buildings	**191,038**	1,124	–1,793	2,386	–2,242	493	**191,006**
Technical equipment and machines	**318,982**	26,864	–14,596	13,938	–3,647	9,162	**350,703**
Operating and business equipment	**231,705**	11,542	–16,972	4,889	–4,149	8,785	**235,800**
Prepayments made and assets under construction	**12,785**	36,728	–29	621	3	–18,481	**31,627**
Right-of-use assets	**100,101**	30,211	–10,799	5,818	–6	0	**125,325**
Property, plant and equipment	**854,611**	**106,469**	**–44,189**	**27,652**	**–10,041**	**–41**	**934,461**
Concessions, industrial rights	**136,350**	739	–1,677	7,479	–254	83	**142,720**
Goodwill	**116,344**	0	0	5,629	0	0	**121,973**
Capitalized development costs	**40,424**	7,461	–653	198	0	0	**47,430**
Prepayments made	**0**	42	0	0	0	–42	**0**
Intangible assets	**293,118**	**8,242**	**–2,330**	**13,306**	**–254**	**41**	**312,123**
Property, plant and equipment and intangible assets	**1,147,729**	**114,711**	**–46,519**	**40,958**	**–10,295**	**0**	**1,246,584**

EUR k

Amount on December 31, 2021	Depreciation and amortization							Carrying amount	
	Amount on January 1, 2021	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassi-fications	Amount on December 31, 2021	January 1, 2021	December 31, 2021
Land and buildings	**55,746**	5,754	–760	695	–1,763	0	**59,672**	**135,292**	**131,334**
Technical equipment and machines	**155,298**	28,320	–12,542	5,582	–3,393	18	**173,283**	**163,684**	**177,420**
Operating and business equipment	**160,935**	17,063	–15,544	3,094	–4,067	–18	**161,463**	**70,770**	**74,337**
Prepayments made and assets under construction	**0**	0	0	0	0	0	**0**	**12,785**	**31,627**
Right-of-use assets	**35,895**	17,600	–10,612	2,332	–491	0	**44,724**	**64,206**	**80,601**
Property, plant and equipment	**407,874**	**68,737**	**–39,458**	**11,703**	**–9,714**	**0**	**439,142**	**446,737**	**495,319**
Concessions, industrial rights	**75,293**	13,302	–1,621	3,287	–262	0	**89,999**	**61,056**	**52,721**
Goodwill	**10,630**	0	0	0	0	0	**10,630**	**105,714**	**111,343**
Capitalized development costs	**26,235**	2,180	–653	198	0	0	**27,960**	**14,189**	**19,470**
Prepayments made	**0**	0	0	0	0	0	**0**	**0**	**0**
Intangible assets	**112,158**	**15,482**	**–2,274**	**3,485**	**–262**	**0**	**128,589**	**180,959**	**183,534**
Property, plant and equipment and intangible assets	**520,032**	**84,219**	**–41,732**	**15,188**	**–9,976**	**0**	**567,731**	**627,696**	**678,853**

EUR k

Amount on December 31, 2020	Historical cost						
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassifications	Amount on December 31, 2020
Land and buildings	**139,206**	12,361	–627	–4,217	0	44,315	**191,038**
Technical equipment and machines	**309,632**	23,754	–7,145	–17,342	0	10,083	**318,982**
Operating and business equipment	**224,863**	17,230	–8,438	–7,415	0	5,465	**231,705**
Prepayments made and assets under construction	**57,010**	16,072	–266	–492	0	–59,539	**12,785**
Right-of-use assets	**101,433**	10,735	–6,554	–5,186	0	–327	**100,101**
Property, plant and equipment	**832,145**	**80,152**	**–23,030**	**–34,652**	**0**	**–3**	**854,611**
Concessions, industrial rights	**144,430**	1,068	–1,102	–8,081	0	35	**136,350**
Goodwill	**122,577**	0	–5	–6,228	0	0	**116,344**
Capitalized development costs	**37,969**	2,499	0	–44	0	0	**40,424**
Prepayments made	**0**	32	0	0	0	–32	**0**
Intangible assets	**304,976**	**3,599**	**–1,107**	**–14,353**	**0**	**3**	**293,118**
Property, plant and equipment and intangible assets	**1,137,121**	**83,751**	**–24,137**	**–49,005**	**0**	**0**	**1,147,729**

EUR k

Amount on December 31, 2020	Depreciation and amortization							Carrying amount	
	Amount on January 1, 2020	**Additions**	**Disposals**	**Effects from exchange-rate differences**	**Changes in scope of consolidation**	**Reclassi-fications**	**Amount on December 31, 2020**	**January 1, 2020**	**December 31, 2020**
Land and buildings	**52,145**	5,333	–499	–1,241	0	8	**55,746**	**87,061**	**135,292**
Technical equipment and machines	**140,648**	28,092	–5,992	–7,641	0	191	**155,298**	**168,985**	**163,684**
Operating and business equipment	**153,333**	18,892	–6,421	–4,817	0	–52	**160,935**	**71,530**	**70,770**
Prepayments made and assets under construction	**0**	0	0	0	0	0	**0**	**57,010**	**12,785**
Right-of-use assets	**22,714**	18,964	–4,421	–1,215	0	–147	**35,895**	**78,719**	**64,206**
Property, plant and equipment	**368,840**	**71,281**	**–17,333**	**–14,914**	**0**	**0**	**407,874**	**463,305**	**446,737**
Concessions, industrial rights	**65,062**	13,939	–1,023	–2,685	0	0	**75,293**	**79,369**	**61,056**
Goodwill	**10,636**	0	–5	0	0	0	**10,630**	**111,941**	**105,714**
Capitalized development costs	**23,675**	2,604	0	–44	0	0	**26,235**	**14,294**	**14,189**
Prepayments made	**0**	0	0	0	0	0	**0**	**0**	**0**
Intangible assets	**99,373**	**16,543**	**–1,028**	**–2,729**	**0**	**0**	**112,158**	**205,604**	**180,959**
Property, plant and equipment and intangible assets	**468,213**	**87,824**	**–18,361**	**–17,643**	**0**	**0**	**520,032**	**668,909**	**627,696**

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
Technical equipment and machines	5 – 25 years
Other equipment, operating and business equipment	2 – 15 years
Right-of-use assets (leased assets)	2 – 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.

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 ten years. In 2021, total research and development costs stood at EUR 85,707 thousand (2020: EUR 61,514 thousand), including an amount of EUR 7,461 thousand (2020: EUR 2,499 thousand) which satisfied the criteria for recognition under IAS 38. Most of this amount was recognized as expense in the income statement.

A government grant of EUR 823 thousand was deducted from land and buildings in 2020. In addition, directly attributable interest of EUR 1,003 thousand on borrowings attributable to the period of construction of the GRAMMER Campus in Ursensollen was capitalized in 2020. The effective interest rate of the corresponding loan was used for this purpose. No grants were recognized in fixed assets in 2021.

12.2. Leases

GRAMMER has entered into various leases for buildings, manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between two and 25 years. Most of the leases do not provide for any options for extending the lease or purchasing the leased asset, with the exception of buildings or limited items of equipment. In the case of buildings, these are largely standard 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. Expense of EUR 412 thousand (2020: EUR 1,036 thousand) for short-term leases and EUR 458 thousand (2020: EUR 344 thousand) for low-value leases was recognized through profit and loss in 2021. The right-of-use assets shown in Note 12.1 under which GRAMMER has a right to use the corresponding assets in accordance with IFRS 16 break down as follows:

EUR k

Amount on December 31, 2021	Historical cost						
	Amount on January 1, 2021	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassifications	Amount on December 31, 2021
Land and buildings	**81,957**	25,392	–8,165	5,529	226	0	**104,939**
Technical equipment and machines	**4,387**	632	0	76	0	0	**5,095**
Operating and business equipment	**5,189**	1,595	–1,555	114	–6	0	**5,337**
Motor vehicles	**8,568**	2,592	–1,079	99	–226	0	**9,954**
Right-of-use assets	**100,101**	**30,211**	**–10,799**	**5,818**	**–6**	**0**	**125,325**

EUR k

Amount on December 31, 2021	Depreciation and amortization							Carrying amount	
	Amount on January 1, 2021	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassifica-tions	Amount on December 31, 2021	January 1, 2021	December 31, 2021
Land and buildings	**24,831**	13,477	–8,133	2,132	–148	0	**32,159**	**57,126**	**72,780**
Technical equipment and machines	**3,490**	587	0	43	0	0	**4,120**	**897**	**975**
Operating and business equipment	**3,203**	1,070	–1,547	65	–6	0	**2,785**	**1,986**	**2,552**
Motor vehicles	**4,371**	2,466	–932	92	–337	0	**5,660**	**4,197**	**4,294**
Right-of-use assets	**35,895**	**17,600**	**–10,612**	**2,332**	**–491**	**0**	**44,724**	**64,206**	**80,601**

EUR k Amount on December 31, 2020	Historical cost						
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassifications	Amount on December 31, 2020
Land and buildings	**83,627**	6,694	–3,652	–4,711	0	0	**81,957**
Technical equipment and machines	**6,283**	451	–1,894	–126	0	–327	**4,387**
Operating and business equipment	**4,712**	973	–340	–156	0	0	**5,189**
Motor vehicles	**6,812**	2,617	–668	–193	0	0	**8,568**
Right-of-use assets	**101,433**	**10,735**	**–6,554**	**–5,186**	**0**	**–327**	**100,101**

EUR k Amount on December 31, 2020	Depreciation and amortization							Carrying amount	
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Changes in scope of consolidation	Reclassi-fications	Amount on December 31, 2020	January 1, 2020	December 31, 2020
Land and buildings	**13,814**	13,701	–1,744	–940	0	0	**24,831**	**69,812**	**57,126**
Technical equipment and machines	**4,342**	1,262	–1,890	–78	0	–147	**3,490**	**1,941**	**897**
Operating and business equipment	**2,259**	1,312	–281	–87	0	0	**3,203**	**2,452**	**1,986**
Motor vehicles	**2,298**	2,689	–506	–110	0	0	**4,371**	**4,514**	**4,197**
Right-of-use assets	**22,714**	**18,964**	**–4,421**	**–1,215**	**0**	**–147**	**35,895**	**78,719**	**64,206**

The following lease payments (including guaranteed residual values) are payable in subsequent periods under the right-of-use assets recognized:

EUR k	Less than 1 year	1 to 5 years	More than 5 years
2021			
Lease payments	19,504	46,439	34,602
Less interest expense from discounting	–3,235	–7,911	–4,411
Present value (statement of financial position)	**16,269**	**38,528**	**30,191**
2020			
Lease payments	16,941	36,477	27,937
Less interest expense from discounting	–2,625	–5,904	–4,069
Present value (statement of financial position)	**14,316**	**30,573**	**23,868**

Possible future cash outflows of EUR 17,114 thousand (2020: EUR 6,869 thousand) for options to extend leases the exercise of which is not yet reasonably certain are not included in lease liabilities. In 2021, there were future possible cash outflows from leases that had not yet commenced of EUR 254 thousand (2020: EUR 0 thousand).

12.3. Goodwill

The realignment of the organizational structure that begun in 2020 is now included in external reporting. Effective January 1, 2021, GRAMMER AG made a fundamental change to its management and resource allocation. The EMEA, AMERICAS and APAC regions became main internal reporting structures and have been the reportable operating segments and the cash-generating units (CGUs 1) of the GRAMMER Group since. They reflect the internal management structure of the GRAMMER Group in 2021. For the purposes of impairment testing in accordance with IAS 36, goodwill acquired in the past or recognized in Group accounting is allocated to the CGUs.

The new reportable segments on the basis of the three regions from 2021 also resulted in the determination of new CGUs and the reallocation of goodwill. Goodwill was reallocated using the relative value approach on the basis of the fair values of the new CGUs determined as of December 31, 2020. The impairment tests performed immediately after the reallocation of goodwill for the new CGUs did not reveal any impairment. The comparative information for financial year 2020 was prepared on the basis of the new reporting structure.

Goodwill attributable to the CGUs breaks down as follows as of December 31, 2021:

EUR k

	Cash generating unit	Goodwill in 2021	Goodwill in 2020	2021 growth rate [1]	2020 growth rate [1]	Discount factor in 2021	Discount factor in 2020
CGU I	EMEA	35,964	34,146	1%	1%	5.9%	6.4%
CGU II	AMERICAS	22,603	21,460	1%	1%	6.1%	6.4%
CGU III	APAC	52,776	50,108	1%	1%	6.1%	6.4%
	Goodwill	**111,343**	**105,714**				

[1] Perpetual annuity

Goodwill is generally tested for impairment at the level of the CGUs (cash generating unit) annually as of December 31. 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 based on the budgets approved by management for a period of five years. These budgets are particularly based on assumptions with respect to macroeconomic trends and trends in sell-side and commodity prices. These are subject to a high degree of uncertainty due to the protracted COVID-19 pandemic and global supply bottlenecks affecting semiconductors and other commodities. In addition to these market forecasts, historical data is also taken into account. To arrive at the perpetual annuity extending beyond the five-year time horizon, the cash flow was extrapolated in the light of the expected sustainable growth rate of 1% (2020: 1%). The fair value calculated for the CGUs is assigned to Level 3 of the fair value hierarchy. The Group uses the same calculation methods and parameters for all three segments when testing for impairment.

The key assumptions used in determining the fair value less of costs to sell of a CGU are the free cash flows, the discount rate together with the related parameters and the sustainable growth rate. Free cash flows are calculated on the basis of the budget of the five-year plan adjusted for expected efficiency improvements. The discount factor is calculated on the basis of a cost of equity and a cost of debt rate. The cost of equity rate applied is based on a risk-free interest rate of 0.1% after tax (2020: –0.2%), a risk premium for general market risks of 7.5% after tax (2020: 7.5%) and a premium for a CGU's specific country risk. To determine operating and leverage risks, 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 debt rate is determined by reference to the peer group of relevance for GRAMMER. The cash flows were discounted at a pre-tax interest rate of between 5.9% and 6.1% (2020: 6.4%). A growth rate of 1% (2020: 1%) was assumed.

The impairment tests performed in 2021 confirm that the value of all goodwill is fully recoverable and that the goodwill attributable to the CGUs is not impaired.

A scenario analysis of the recoverable amount of the EMEA CGU, AMERICAS CGU and APAC CGU was carried out to determine the risk exposure of the cash flows. The scenario analysis is based on a variation of the discount factor of between 4.0% and 7.5%.

In the case of the AMERICAS CGU, this showed that the application of a discount factor of 6.3% triggers an impairment. In addition, an impairment loss would be recognized in the event of a 0.2 percentage-point reduction in the sustainable EBIT margin and a 3.9% reduction in sustainable revenue.

No impairments arose for the EMEA CGU or the APAC CGU under the above discount factor range.

13. Inventories

Inventories break down as follows:

EUR k	December 31, 2021	December 31, 2020
Raw materials, supplies and consumables	144,238	110,157
Work in progress	17,659	15,661
Finished goods and services	31,304	27,108
Prepayments made	2,936	1,694
Inventories	**196,137**	**154,620**

All inventories are carried at cost. Impairments of EUR 5,083 thousand (2020: EUR 6,436 thousand) were recognized for inventories.

14. Trade accounts receivable

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

EUR k	December 31, 2021	December 31, 2020
Trade accounts receivable - gross	233,579	243,421
Impairment	–2,007	–1,860
Provisions for verity risks	–2,202	–2,677
Trade accounts receivable	**229,370**	**238,884**

The decrease in trade accounts receivable is due to the higher use of factoring as well as the first-time consolidation of GRAMMER CZ Servicecenter s. r. o., Czech Republic, as the Group's receivables from this company were included as of December 31, 2020. As of the reporting date, trade accounts receivable of EUR 71,270 thousand (2020: EUR 63,548 thousand) 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, 2021, impairments of EUR 2,007 thousand (2020: EUR 1,860 thousand) 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	Impairment	Provisions for verity risks	Total
Amount on January 1, 2021	**1,860**	**2,677**	**4,537**
Additions	299	32	**331**
Utilization	–32	–215	**–247**
Write-backs	–5	–320	**–325**
Changes in scope of consolidation	–60	0	**–60**
Effects from exchange-rate differences	–55	28	**–27**
Amount on December 31, 2021	**2,007**	**2,202**	**4,209**
Amount on January 1, 2020	**1,152**	**1,964**	**3,116**
Additions	1,591	1,663	**3,254**
Utilization	–661	–785	**–1,446**
Write-backs	–130	–153	**–283**
Effects from exchange-rate differences	–92	–12	**–104**
Amount on December 31, 2020	**1,860**	**2,677**	**4,537**

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 time bands				
	Total	**Not overdue**	**Up to 30 days**	**31–60 days**	**61–90 days**	**91–180 days**	**More than 180 days**
2021							
Trade accounts receivable – gross	**233,579**	208,525	12,069	3,491	2,746	4,401	2,347
Contract assets – gross	**125,641**	125,641	0	0	0	0	0
Impairment	**2,007**	313	78	162	125	321	1,008
2020							
Trade accounts receivable – gross	**243,421**	220,681	15,497	2,095	1,289	1,327	2,532
Contract assets – gross	**120,077**	120,077	0	0	0	0	0
Impairment	**1,860**	495	100	114	77	142	932

15. Balances of contract assets and contract liabilities

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

EUR k	December 31, 2021	December 31, 2020
Non-current contract assets	63,790	63,238
Current contract assets	61,851	56,839
Contract assets	**125,641**	**120,077**

As planned, performance obligations of EUR 102,147 thousand as of December 31, 2021 (2020: EUR 103,603 thousand) for series development were not fulfilled in part or in full in line with plans. Around 45% of these is expected to be recognized as revenue within one year.

Contract liabilities break down as follows:

EUR k	December 31, 2021	December 31, 2020
Non-current contract liabilities	2,433	3,373
Current contract liabilities	3,491	1,160
Contract liabilities	**5,924**	**4,533**

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, 2021	December 31, 2020
Outstanding loans	6,193	6,809
Investments in associates	173	62
Non-current other financial assets	**6,366**	**6,871**
Other receivables	4,025	3,232
Derivative financial assets	1,236	795
Current other financial assets	**5,261**	**4,027**

Other receivables result primarily from current accounts receivable from associates, creditors with debit accounts and amounts due from employees. They are due for settlement in roughly 30 days. Financial assets are neither past due nor impaired. Loans include the loan to GRA-MAG LLC, a joint venture accounted for using the equity method, of EUR 6,193 thousand (2020: EUR 6,809 thousand). The reduction is due to scheduled repayments.

17. Other assets

Other assets break down as follows:

EUR k

	December 31, 2021	December 31, 2020
Other assets	31,217	35,467
Deferrals	1,202	1,235
Non-current other assets	**32,419**	**36,702**
Other assets	32,863	22,810
Deferrals	5,469	4,474
Current other assets	**38,332**	**27,284**

Other non-current assets include security deposit agreements, which are classified as long-term depending on the term of the underlying contract. Other assets also include consideration paid to customers of EUR 27,335 thousand (2020: EUR 28,226 thousand), which is recognized on a straight-line basis over the duration of the series as a reduction in revenue. If necessary, impairment is recognized. The majority of these assets are classified as non-current other assets. Of these assets, an amount of EUR 6,296 thousand (2020: EUR 7,747 thousand) was recognized as a reduction in revenue in 2021.

GRAMMER has included assets in connection with contract fulfillment costs for series deliveries in current other assets of EUR 987 thousand (2020: EUR 0 thousand) and non current other assets of EUR 893 thousand (2020: EUR 0 thousand). No other impairments were recognized.

Other current assets are chiefly made up of receivables of EUR 23,638 thousand (2020: EUR 16,478 thousand) arising from pass-through taxes such as value added tax and other taxes as well as temporary security deposit agreements of EUR 567 thousand (2020: EUR 868 thousand). Receivables from other taxes include the refund claim of EUR 5,007 thousand (2020: EUR 2,758 thousand) from the two quasi-VAT levies PIS and COFINS (Programa de Integracao Social / Contribuicao para o Financiamento da Seguridade Social) in Brazil.

There were no material restrictions on ownership and disposal 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, 2021	December 31, 2020
Cash and short-term deposits	113,441	89,838

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, 2021	December 31, 2020
Cash and short-term deposits	113,441	89,838
Bank overdrafts (including current liabilities under factoring contracts)	–69,084	–34,466
Cash and cash equivalents	**44,357**	**55,372**

19. Equity

Subscribed capital

As of December 31, 2021, the subscribed capital of GRAMMER Group amounted to EUR 39,009 thousand (2020: EUR 39,009 thousand) divided into 15,237,922 no-par value shares (2020: 15,237,922). 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 162,947 thousand as of December 31, 2021 (2020: EUR 163,033 thousand). It includes premiums from the capital increases in 1996, 2001, 2011, 2017 and 2020, less transaction costs. The EUR 86 thousand reduction in the capital reserve in 2021 is due to subsequent costs incurred in connection with the 2020 capital increase.

Own shares

As of December 31, 2021, 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 2.166% (2020: 2.166%) of the share capital.

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 was 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 complied with the safe haven rules of sections 14 (2), 20a (3) of the old version of 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. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2021: 15,237,922 (2020: 15,237,922) ordinary shares were outstanding.

Retained earnings

Retained earnings comprises the statutory reserve of GRAMMER AG, which totaled EUR 1,183 thousand on both December 31, 2021 and 2020 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. They rose from EUR 199,094 thousand to EUR 200,534 thousand due to the positive earnings after taxes of EUR 1,233 thousand attributable to the shareholders of the parent company. In the previous year, this figure included the negative earnings after taxes of EUR 64,314 thousand. Retained earnings also increased by EUR 207 thousand as a result of including the subsidiary GRAMMER CZ Servicecenter s. r. o., Czech Republic, in the consolidated financial statements for the first time. It had not been included previously on account of immateriality and represents historical profit carryforwards.

Cumulative other comprehensive income

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

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

Hybrid loan

On March 30, 2020, a subordinated hybrid loan of EUR 19,148 million was granted indefinitely by Ningbo Jifeng Auto Parts Co., Ltd., a member of the Ningbo Jifeng Group (the majority shareholder of GRAMMER AG), to one of GRAMMER AG's Chinese subsidiaries, GRAMMER Interior (Shanghai) Co., Ltd., China. The hybrid loan has an indefinite term and was paid out in full to this subsidiary.

The hybrid loan bears interest at 3% p.a. and is not contractually limited in its term. The hybrid loan is allocated to the subsidiary's equity in accordance with IAS 32. It is at the sole discretion of the subsidiary to decide whether and when to repay the hybrid loan. The lender, Ningbo Jifeng Auto Parts Co., Ltd., has no ordinary right to terminate the loan agreement and unilaterally demand repayment of the loan. The timing of interest payments under the hybrid loan is determined solely at the discretion of GRAMMER.

As of April 9, 2021, the compensation claims from the hybrid loan, comprising interest accrued for the period from March 30, 2020 to March 29, 2021 and equivalent to EUR 578 thousand, were paid to the hybrid loan lender. The hybrid loan increased by EUR 473 thousand as a result of the interest accrued since March 30, 2021 and came to EUR 19,621 thousand as of December 31, 2021.

Non-controlling interests

Non-controlling interests in equity relate primarily to shareholders in GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S., Turkey, GRAMMER AD, Bulgaria, GRAMMER Seating (Shaanxi) Co. Ltd., China, GRAMMER Argentina S.A., Argentina, Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd., China and GRAMMER Vehicle Parts (Harbin) Co., Ltd., China. As the shares in GRAMMER Vehicle Parts (Qingdao) Co., Ltd., China, are held by GRAMMER Vehicle Parts (Harbin) Co., Ltd., its components of profit or loss are attributable on a pro rata basis to non-controlling interests. GRAMMER AG indirectly controls Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. with an equity interest of 49%, as GRAMMER AG is entitled to 51% of voting rights in accordance with the partnership agreement.

The transactions involving non-controlling interests are payments of subscribed capital of other shareholders at Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. in the amount of EUR 1,363 thousand and at GRAMMER Vehicle Parts (Harbin) Co., Ltd. in the amount of EUR 3,139 thousand. Non-controlling interests totaled EUR 2,526 thousand as of December 31, 2021 (2020: EUR –822 thousand).

Authorizations

In accordance with a resolution passed at the Annual General Meeting of June 23, 2021, the Executive Board's authorization, included in article 5 (3) of the articles of association subject to the Supervisory Board's approval, to increase the Company's share capital once or repeatedly by a total up to EUR 9,402,263.04 in return for contributions in cash and/or in kind until July 7, 2025 (Authorized Capital 2020), was canceled. In addition, a resolution authorized the Executive Board, subject to the Supervisory Board's approval, to increase the Company's share capital once or repeatedly by a total of up to EUR 19,504,537.60 by issuing bearer shares on a cash and/or non-cash basis on or before June 22, 2026 (Authorized Capital 2021). In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to disapply shareholder's pre-emptive rights under certain conditions, within defined limits and with the approval of the Supervisory Board. Authorized Capital 2021 as of December 31, 2021 was unchanged at EUR 19,504,537.60.

20. Retirement benefits and other post-employment benefits

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

Provisions for retirement benefit obligations are calculated on the basis of benefit plans for the provision of old-age, invalidity and surviving dependents benefits. Benefits paid by the Group vary in accordance with the legal, tax and economic factors in the relevant countries and generally depend on the length of employment and the remuneration paid to the employee.

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

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

When retirement benefit 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 retirement benefit commitments is based primarily on the following actuarial assumptions:

DBO measurement parameters

in %

	2021	2020
Interest rate	1.20	0.70
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.50	1.50

Measurement parameters for other benefits

in %

	2021	2020
Interest rate	1.20 – 14.61	0.70 – 6.75
Salary trend	2.30 – 4.50	2.30 – 4.50
Inflation rate	1.50 – 10.40	1.50 – 9.00

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 in Mexico is 8.0% (2020: 6.75%) and in Turkey 14.6% (2020: 3.8%), while the salary trend in Mexico is 4.5% (2020: 4.5%) and Turkey has an inflation rate of around 10.4% (2020: 9.0%).

As in the previous year, the Aon Solutions Germany GmbH, Hamburg, interest rate was applied in financial year 2021. 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.

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, 2021.

Mortality and disability are calculated on the basis of the 2018 G Heubeck biometric tables or comparable foreign mortality tables. Reflecting the persistently low interest and inflation rates, the inflation rate/pension trend remained at the previous year's level of 1.5%. The probability of fluctuation was computed specifically for the Group.

In 2021, annuities were paid on retirement benefit commitments in an amount of EUR 3,874 thousand (2020: EUR 4,451 thousand). Other post-employment benefits paid totaled EUR 1,038 thousand (2020: EUR 144 thousand).

The following amounts were recognized in the income statement:

EUR k

	Pension plan	Other benefits
2021		
Service cost	3,831	150
Current service cost	3,831	150
Past service cost	0	0
Net interest expense	1,242	384
Service cost and net interest expense	**5,073**	**534**

EUR k

	Pension plan	Other benefits
2020		
Service cost	3,997	653
Current service cost	4,023	653
Past service cost	–26	0
Net interest expense	1,899	464
Service cost and net interest expense	**5,896**	**1,117**

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 retirement benefit 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
2021		
Cumulative amount recognized in other comprehensive income as of January 1, 2021	81,570	0
Amount recognized in the year under review	–14,979	0
Cumulative amount recognized in other comprehensive income as of December 31, 2021	**66,591**	**0**

EUR k	Pension plan	Other benefits
2020		
Cumulative amount recognized in other comprehensive income as of January 1, 2020	72,807	0
Amount recognized in the year under review	8,763	0
Cumulative amount recognized in other comprehensive income as of December 31, 2020	**81,570**	**0**

The changes in the present value of the defined benefit obligations break down as follows:

EUR k	Pension plan	Other benefits
Amount on January 1, 2021	**166,415**	**3,547**
+ Service cost	3,831	150
+ Interest expense	1,242	384
Changes in estimates: gains (–)/losses (+)	–14,990	0
Changes in demographical assumptions	–1	0
Changes in financial assumptions	–13,173	0
Changes based on historical data	–1,816	0
Actual payments	–3,874	–1,038
Disposal of obligations	–4	18
Exchange rate differences	103	–249
Amount on December 31, 2021	**152,723**	**2,812**
Amount on January 1, 2020	**156,477**	**3,603**
+ Service cost	3,997	653
+ Interest expense	1,899	464
Changes in estimates: gains (–)/losses (+)	8,625	0
Changes in financial assumptions	13,912	0
Changes based on historical data	–5,287	0
Actual payments	–4,451	–144
Disposal of obligations	0	–7
Exchange rate differences	–132	–1,023
Amount on December 31, 2020	**166,415**	**3,547**

In the past, retirement benefits for the members of the Executive Board took the form of a capital account plan, to which the Company added an annually calculated amount for each member of the Executive Board.

With retroactive effect from January 1, 2021, the Supervisory Board adopted a new remuneration system for the members of the Executive Board that was approved by the Annual General Meeting on June 23, 2021. The new remuneration system also revised the regulations on pension schemes for active Executive Board members effective January 1, 2021. Under this, members of the Executive Board now receive a pension allowance in the form of a cash amount that can be used for a private pension. Accordingly, there is no longer a company-financed occupational pension scheme.

Based on this change, the retirement benefit commitments granted to active members of the Executive Board were annulled and pension benefits granted until December 31, 2020, were paid out as compensation. In view of the cancellation of these retirement benefit commitments, GRAMMER AG was reimbursed from the separate assets of the Contractual Trust Agreement for the incumbent members of the Executive Board.

Independent of the pension scheme for members of the Executive Board, a defined benefit plan in different forms still applies to employees at German sites and members who have already left the Executive Board. In this context, a Contractual Trust Agreement remains in place.

As of December 31, 2021, the capital payments deposited in the Contractual Trust Agreement thus amounted to EUR 6,562 thousand (2020: EUR 5,506 thousand), which also includes an amount of EUR 2,525 thousand (2020: EUR 2,516 thousand) for former members of the Executive Board and management. As of December 31, 2020, EUR 134 thousand was included for current 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	2021	2020
Fair value of plan assets on January 1	**5,506**	**5,904**
Interest income on plan assets	40	49
Adjustments	–11	–138
Contributions to plan assets	1,342	1,355
Actual payments	–315	–1,664
Fair value of plan assets on December 31	**6,562**	**5,506**

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 data, with all other assumptions remaining constant.

Discount factor

EUR k

	2021 1% reduction	2021 1% increase	2020 1% reduction	2020 1% increase
Effect on DBO	28,142	–21,604	33,195	–25,412
Effect on current service cost	432	–278	525	–391
Effect on net interest expense	–1,352	933	–1,658	1,126

Future salary increases

EUR k

	2021 0,5% reduction	2021 0,5% increase	2020 0,5% reduction	2020 0,5% increase
Effect on DBO	–2,235	2,511	–2,913	3,268

Inflation rate

EUR k

	2021 0,5% reduction	2021 0,5% increase	2020 0,5% reduction	2020 0,5% increase
Effect on DBO	–9,043	9,987	–10,447	11,573

Mortality rate

EUR k

	2021 10% reduction	2021 10% increase	2020 10% reduction	2020 10% increase
Effect on DBO	5,257	–4,652	6,105	–5,383

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 cash outflows

EUR k

	Expected cash outflows in 2021	Expected cash outflows in 2020
Short-term (<1 year)	3,710	3,372
Medium-term (1 to 5 years)	17,336	16,396
Long-term (>5 years)	125,251	140,709

21. Financial liabilities

Financial liabilities break down as follows:

EUR k	Current	Non-current	Total
2021			
Bank overdrafts (including current liabilities under factoring contracts)	69,084	0	**69,084**
Loans	149,370	97,996	**247,366**
Bonded loans	44,972	84,040	**129,012**
Financial liabilities	**263,426**	**182,036**	**445,462**

EUR k	Current	Non-current	Total
2020			
Bank overdrafts (including current liabilities under factoring contracts)	34,466	0	**34,466**
Loans	86,892	127,404	**214,296**
Bonded loans	2,270	125,851	**128,121**
Financial liabilities	**123,628**	**253,255**	**376,883**

One key element of GRAMMER's Group funding is the syndicated loan taken out in 2020. This is divided into a credit facility for general corporate financing of EUR 150.0 million (Tranche A) with a term of five years and two renewal options of one year each and a credit facility for financing the TMD acquisition in the amount of USD 80.0 million (Tranche B), which is repayable in installments over four years. In addition, the existing syndicated loan under the KfW program "Direct Participation for Syndicated Financing (855)" was expanded in 2020 with the addition of Tranche C in an amount of EUR 235.0 million with a three-year term in an amendment agreement, meaning that GRAMMER's liquidity is secured on a sustained basis despite the difficult economic environment. The credit facility B declined to USD 19.0 million as of December 31, 2021, on account of repayments (2020: USD 48.0 million). The euro credit facility under Tranche A was provided by five core banks and 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 margin. A small number of key GRAMMER companies are liable for the entire syndicated loan via guarantees.

In view of the described refinancing in the 2020 financial year, there was a modification of the contractual cash flows, which is why losses from the contractual adjustment had to be recognized in profit or loss in accordance with IFRS 9. There were no modifications to contractual cash flows in 2021. Details on the financial covenants can be found in Note 31 "Capital management". Qualitative information on the assessment of the nature and extent of risks associated with financial instruments to which GRAMMER is exposed as of the reporting date can be found in Section 3 "Opportunity and risk report" in the GRAMMER Group Management Report.

In addition, long-term, mortgage-backed (development) fixed-rate loans with a carrying amount of EUR 41.9 million (2020: EUR 48.0 million) were taken out to finance the construction of the new GRAMMER campus.

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 short and medium-term bilateral loans. 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 and private placements of EUR 126.7 million (2020: EUR 125.3 million). The bonded loans increased by EUR 1.4 million in 2021 as a result of the currency translation of bonded loans denominated in USD. The bonded loans have fixed or variable interest rates and differing maturity dates until 2031. 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, 2021

EUR k

	December 31, 2020	Change recognized in the cash flow statement	Reclassification	Change due to currency-translation effects	Other non-cash changes	December 31, 2021
Current financial liabilities	**89,162**	31,762	72,663	551	204	**194,342**
Current financial liabilities from leases	**14,316**	–20,676	15,399	890	6,340	**16,269**
Non-current financial liabilities	**253,255**	–2,416	–72,663	4,374	–514	**182,036**
Non-current financial liabilities from leases	**54,441**	0	–15,399	2,674	27,003	**68,719**
Total	**411,174**	**8,670**	**0**	**8,489**	**33,033**	**461,366**

Reconciliation of changes in financial liabilities for the financial year ending December 31, 2020

EUR k

	December 31, 2019	Change recognized in the cash flow statement	Reclassification	Change due to currency-translation effects	Other non-cash changes	December 31, 2020
Current financial liabilities	**188,738**	–77,398	–17,818	–5,003	643	**89,162**
Current financial liabilities from leases	**16,765**	–19,651	14,925	–622	2,899	**14,316**
Non-current financial liabilities	**219,976**	17,918	17,818	–2,623	166	**253,255**
Non-current financial liabilities from leases	**64,372**	0	–14,925	–3,393	8,387	**54,441**
Total	**489,851**	**–79,131**	**0**	**–11,641**	**12,095**	**411,174**

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 current account overdrafts or current liabilities under factoring agreements with banks.

The other non-cash changes arise from changes in discounts and interest. In 2020, the other non-cash changes also included adjustments as a result of the modification of the loan agreements.

22. Provisions

Provisions break down as follows:

EUR k	Amount on January 1, 2021	Addition	Utilization	Amounts not used and written back	Reclassification	Changes in scope of consolidation	Effects from exchange-rate differences	Amount on December 31, 2021	Current provisions 2021
Market-related provisions	**38,643**	32,717	–23,712	–6,091	0	0	1,830	**43,387**	**43,387**
Obligations relating to personnel	**17,739**	5,938	–11,758	–4,978	0	–62	–145	**6,734**	**6,734**
Other provisions	**1,476**	2,044	–989	–118	0	0	76	**2,489**	**2,489**
Provisions	**57,858**	**40,699**	**–36,459**	**–11,187**	**0**	**–62**	**1,761**	**52,610**	**52,610**

EUR k	Amount on January 1, 2020	Addition	Utilization	Amounts not used and written back	Reclassification	Changes in scope of consolidation	Effects from exchange-rate differences	Amount on December 31, 2020	Current provisions 2020
Market-related provisions	**15,386**	30,163	–5,078	–1,323	–43	0	–462	**38,643**	**38,643**
Obligations relating to personnel	**7,397**	17,737	–7,066	–353	44	0	–20	**17,739**	**17,739**
Other provisions	**611**	1,041	–82	–74	–1	0	–19	**1,476**	**1,476**
Provisions	**23,394**	**48,941**	**–12,226**	**–1,750**	**0**	**0**	**–501**	**57,858**	**57,858**

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. In addition, provisions for impending losses from onerous contracts from series development are included. The additions relate to provisions for warranties of EUR 18,853 thousand (2020: EUR 21,440 thousand) and provisions for impending losses from onerous contracts from series development of EUR 6,805 thousand (2020: EUR 7,129 thousand).

Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses. As of December 31, 2021, they include restructuring provisions of EUR 1,154 thousand (2020: EUR 12,334 thousand). These essentially reduced as a result of utilizations.

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

Trade accounts payable break down as follows:

EUR k	December 31, 2021	December 31, 2020
Non-current trade accounts payable	261	543
Current trade accounts payable	269,135	250,861
Trade accounts payable	**269,396**	**251,404**

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 payables.

24. Other financial liabilities

Other financial liabilities break down as follows:

EUR k	December 31, 2021	December 31, 2020
Derivative financial liabilities	359	233
Liabilities from leases	16,269	14,316
Liabilities to associated companies	1,223	930
Miscellaneous other current financial liabilities	1,616	1,041
Other current financial liabilities	**19,467**	**16,520**
Liabilities from leases	68,719	54,441
Liabilities to associated companies	0	2
Other non-current financial liabilities	**68,719**	**54,443**

Other financial liabilities mainly comprise non-current and current liabilities from leases. The increase compared to 2020 was predominantly a result of renewing existing leases and concluding new leases, which exceeds the reduction in lease liabilities due to scheduled repayments.

25. Other liabilities

Other liabilities break down as follows:

EUR k	December 31, 2021	December 31, 2020
Other liabilities	66,575	68,894
of which personnel-related liabilities	33,258	33,918
of which liabilities for consulting	1,481	1,024
Liabilities from other taxes and charges	16,144	14,753
Prepayments received	4,568	2,274
Social security obligations	4,812	6,067
Deferred income	1,429	1,562
Other current liabilities	**93,528**	**93,550**
Prepayments received	1,356	1,220
Miscellaneous other liabilities	0	40
Other non-current liabilities	**1,356**	**1,260**
Other liabilities	**94,884**	**94,810**

Social security obligations are largely obligations to social security agencies. Other liabilities mainly comprise liabilities to employees from outstanding annual leave, overtime, flex-time or similar benefits. The item also includes liabilities relating to value-added tax and for short-term accrued expenses.

26. Statement of Cash Flows

The cash flow statement presents the Group's cash flow situation broken down into cash inflows and outflows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification of the respective items. Cash flow from operating activities is derived indirectly from net profit before taxes, which is adjusted 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 of right-of-use assets. The effects of deconsolidating GRAMMER Automotive Española S.A., Olèrdola, Spain, were included in "Payments from disposals of subsidiaries less disposals of cash and cash equivalents" in 2021. Financing activities include cash outflows for dividend payments, changes to other financial liabilities and lease liabilities as well as cash inflows from the receipt of hybrid loans, the issue of new shares under the capital increase and cash outflows for the hybrid loan lender's compensation claims. In addition, this also includes cash inflows from the capital increase by minority shareholders. At the GRAMMER Group, cash and cash equivalents consist of cash and short-term money market funds, less bank overdrafts (including current liabilities under factoring contracts) to banks.

27. Legal disputes

Some GRAMMER Group companies are involved in legal disputes or could be involved in other legal disputes. This could bring about claims for compensation or other claims. Suitable amounts and, where necessary, receivables from insurers are recognized for these receivables and claims.

GRAMMER AG and a US subsidiary have been and are still defendants in several lawsuits in the United States, some of which have been filed as class actions. A court decision on whether these lawsuits will be admissible as class actions has not yet been issued. Under the lawsuits, claims are being asserted for allegedly defective head restraints. The amount in dispute has not been set. GRAMMER successfully had some of these actions dismissed in the reporting year, in particular actions against GRAMMER AG. GRAMMER is defending itself against the other actions that are still pending, although the outcome of the proceedings cannot be foreseen at present.

There are not currently any further pending lawsuits or legal action that could significantly impact GRAMMER's economic position, nor have there been any in the past.

28. Contingent liabilities

Contingent liabilities break down as follows:

EUR k	2021	2020
Guarantees	2,411	2,607

Guarantees have been issued primarily as performance bonds.

29. Related parties 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 on arm's length terms. Outstanding amounts at the end of the financial 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 in the previous year, no impairment losses were recognized on accounts receivable from related parties as of December 31, 2021.

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	Accounts receivable from related parties	Accounts payable to related parties
GRA-MAG Truck Interior Systems LLC	**2021**	11,316	0	8,563	0
	2020	6,414	0	7,868	0
Ningbo Jifeng Auto Parts Co., Ltd.	**2021**	170	2,486	62	1,530
	2020	421	1,599	498	1,236
Jifeng Automotive Interior GmbH	**2021**	4	0	0	0
	2020	10	0	0	0
Jifeng Automotive Interior CZ s.r.o.	**2021**	346	279	16	0
	2020	146	0	107	0
Ningbo Jifeng Technologiy Co., Ltd	**2021**	0	4,011	0	894
	2020	0	2,000	0	375
Ningbo Jiye Trading Co., Ltd.	**2021**	0	1,480	0	0
	2020	0	0	0	0
Tianjin Jifeng Auto Parts Co., Ltd.	**2021**	0	64	0	13
	2020	0	0	0	0
ALLYGRAM Systems and Technologies Private Limited	**2021**	0	3,283	0	398
	2020	0	3,033	0	256

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) (2020: 50%). GRA-MAG LLC had 50 employees as of December 31, 2021 (2020: 54). The accounts receivable from GRA-MAG LLC include a loan of EUR 6,193 thousand (2020: EUR 6,809 thousand).

Ningbo Jihong Investment Co., Ltd.

Ningbo Jihong Investment Co., Ltd., Ningbo City, China is the ultimate parent company of GRAMMER AG. There are no arrangements with Ningbo Jihong Investment Co., Ltd. for the delivery of goods and services. In accordance with the last received voting-right notifications in accordance with section 40 WpHG dated December 11, 2019, Ms. Bifeng WU in conjunction with Yiping WANG and Jimin WANG (WANG family) is the ultimate controlling party of the GRAMMER Group.

Ningbo Jifeng Auto Parts Co., Ltd. / Jifeng Automotive Interior GmbH / Jifeng Automotive Interior CZ s.r.o. / Ningbo Jifeng Technology Co., Ltd. / Ningbo Jiye Trading Co., Ltd. / Tianjin Jifeng Auto Parts Co., Ltd.

Like GRAMMER AG's direct parent company (Jiye Auto Parts GmbH), Jifeng Automotive Interior GmbH, Kitzingen, Jifeng Automotive Interior CZ s.r.o., Česká Lípa, Czech Republic, Ningbo Jifeng Technology Co., Ltd., Ningbo City, China, Ningbo Jiye Trading Co., Ltd., Ningbo City, China, and Tianjin Jifeng Auto Parts Co., Ltd., Tianjin, China, are controlled by Ningbo Jifeng Auto Parts Co., Ltd. GRAMMER maintains direct relations for the delivery of goods and the provision of services with these companies.

In 2021 and 2020, Jiye Auto Parts GmbH, Ningbo Jiye Investment Co., Ltd., Ningbo City, China, and GRAMMER AG entered into a cost coverage agreement with the Ningbo Jifeng Group for the reimbursement of expenses incurred in the provision of information in connection with the preparation of the annual financial statements. GRAMMER AG invoiced Ningbo Jifeng Auto Parts Co, Ltd. for internal and external costs totaling EUR 362 thousand in 2021 (2020: EUR 351 thousand). No other rechargeable costs arose in 2021. Accordingly, all internal costs and all external costs were recharged in full by GRAMMER AG. Internal costs are determined on the basis of the hours worked by the department concerned and external costs incurred.

On March 30, 2020, a hybrid loan of EUR 19,148 thousand was granted by Ningbo Jifeng Auto Parts Co., Ltd. to one of GRAMMER AG's Chinese subsidiaries. The hybrid loan was granted for an indefinite term and is classified as equity. As of April 9, 2021, the compensation claims from the hybrid loan, comprising interest accrued for the period from March 30, 2020 to March 29, 2021 and equivalent to EUR 578 thousand, were paid to the hybrid loan lender. The balance of the hybrid loan as of December 31, 2021 stands at EUR 19,621 thousand due to interest accrued since March 30, 2021.

Ningbo Jifeng Auto Parts Co., Ltd. and GRAMMER AG entered into a sales cooperation agreement for the Japanese market as well as a purchasing cooperation agreement in 2020. There are no direct service relationships between Ningbo Jifeng and GRAMMER AG as a result of the joint purchasing activities. The services provided in the sales cooperation take the form of consulting hours. In 2021, Ningbo Jifeng Auto Parts Co., Ltd. and GRAMMER AG entered into a cooperation agreement to develop and produce automotive interior components and armrests for the Chinese market. This is settled using the unit price for the goods supplied as part of the cooperation.

ALLYGRAM Systems and Technologies Private Limited

The Group holds an interest of 30% in the capital of ALLYGRAM Systems and Technologies Private Limited (ALLYGRAM). ALLYGRAM provides development services for GRAMMER Group, which are invoiced on the basis of hourly rates. ALLYGRAM had 104 (2020: 99) employees as of December 31, 2021.

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 financial instruments of the Group recognized in GRAMMER AG, classified according to measurement category, carrying amount and fair value:

EUR k

	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2021	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2021
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash and short-term deposits	FAAC	113,441	113,441				**113,441**
Trade accounts receivable	FAAC	229,370	229,370				**229,370**
Other financial assets							
Loans and receivables	FAAC	10,218	10,218				**10,218**
Investments in associates	FVOCI	174		174			**174**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n. a.	1,236		1,236			**1,236**
Equity and Liabilities							
Trade accounts payable	FLAC	269,396	269,396				**269,394**
Current and non-current financial liabilities	FLAC	445,462	445,462				**435,097**
Other financial liabilities							
Other financial liabilities	FLAC	2,839	2,839				**2,839**
Liabilities from leases	n. a.	84,988				84,988	**84,988**
Derivatives with no hedge relationship	FLtPL	0			0		**0**
Derivatives with hedge relationship	n. a.	359		359			**359**

EUR k	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2021	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2021
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	353,029	353,029				**353,029**
Financial assets at fair value through other comprehensive income	FVOCI	174		174			**174**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and Liabilities							
Financial liabilities at amortized cost	FLAC	717,697	717,697				**707,330**
Financial liabilities at fair value through profit and loss	FLtPL	0			0		**0**

EUR k	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2020	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2020
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash and short-term deposits	FAAC	89,838	89,838				**89,838**
Trade accounts receivable	FAAC	238,884	238,884				**238,884**
Other financial assets							
Loans and receivables	FAAC	10,041	10,041				**10,041**
Investments in associates	FVOCI	62		62			**62**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	795		795			**795**
Equity and Liabilities							
Trade accounts payable	FLAC	251,404	251,404				**251,400**
Current and non-current financial liabilities	FLAC	376,883	376,883				**379,922**
Other financial liabilities							
Other financial liabilities	FLAC	1,973	1,973				**1,973**
Liabilities from leases	n.a.	68,757				68,757	**68,757**
Derivatives with no hedge relationship	FLtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	233		233			**233**

EUR k	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2020	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2020
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	338,763	338,763				**338,763**
Financial assets at fair value through other comprehensive income	FVOCI	62		62			**62**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and Liabilities							
Financial liabilities at amortized cost	FLAC	630,260	630,260				**633,295**
Financial liabilities at fair value through profit and loss	FLtPL	0			0		**0**

The maximum credit risk as of the reporting date corresponds to the carrying amount of each category of financial assets listed.

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 are determined on the basis of the respective yield curves and the risk premium applicable to GRAMMER.

The fair values of liabilities to banks, debenture bond and other non-current financial liabilities are determined as the present values of the payments associated with the liabilities calculated on the basis of the respective yield curves and the risk premium applicable for GRAMMER.

Fair value measurement

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2021:

EUR k	Total	Level 1	Level 2	Level 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	1,236	0	1,236	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	305	0	305	0
Interest rate swaps	54	0	54	0
Liabilities for which a fair value is recognized				
Interest-bearing liabilities				
Liabilities under hire purchase contracts	554	0	554	0
Current and non-current financial liabilities	435,097	0	435,097	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, 2020:

EUR k	Total	Level 1	Level 2	Level 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	795	0	795	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	126	0	126	0
Interest rate swaps	107	0	107	0
Liabilities for which a fair value is recognized				
Interest-bearing liabilities				
Liabilities under hire purchase contracts	1,394	0	1,394	0
Current and non-current financial liabilities	379,922	0	379,922	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	2021	2020
Financial assets at amortized cost	5,497	–2,608
Financial liabilities at amortized cost	1,580	–10,159
Net gains/losses from financial instruments	**7,077**	**–12,767**

Net gains or losses from financial assets at amortized cost include currency-translation gains or losses, changes to impairments through profit and loss, gains or losses from the derecognition of receivables and reversals of previously impaired receivables.

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

The net gains or losses from financial liabilities at amortized cost primarily include currency-translation gains and losses from financial liabilities.

The GRAMMER Group has entered into master contracts 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	Offsetting agreement	Net amount
December 31, 2021			
Financial assets			
Currency forwards	1,236	0	1,236
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	–305	0	–305
Interest rate swaps	–54	0	–54

EUR k	Gross and net amounts of financial instruments in the statement of financial position	Offsetting agreement	Net amount
December 31, 2020			
Financial assets			
Currency forwards	795	–67	728
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	–126	67	–59
Interest rate swaps	–107	0	–107

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

31. Financial derivatives and risk management

The main originated financial liabilities used in the Group encompass bonded loans, private placements, bank loans, overdrafts, liabilities from leases and 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.

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 and taking into account the Group's risk tolerance.

All derivative transactions entered into for risk management purposes 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 significant concentrations of credit risks as major transactions are characterized by short-term maturity structures and the high credit ratings of the key-account customers.

Market risk

Market risk refers to the risk that the fair value or future cash flows of financial instruments vary due to fluctuations in market prices. Market risk encompasses the following three risk types: 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 as well as derivative financial instruments. The sensitivity analyses in the sections below relate to the situation as of December 31, 2021 and 2020. They were prepared on the basis of the hedging transactions outstanding on December 31, 2021, 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 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 2021 or 2020, 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 Eurozone and through the assets and liabilities of the 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 earnings and cash flow volatilities.

Individual cash flows in the respective currency are aggregated in accordance with the GRAMMER Group's currency management guidelines, 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 currency forwards 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 MXN, PLN and CZK for which the conditions for cash flow hedging were satisfied. The following foreign currency-related hedging instruments broken down by maturity are held:

	Maturity		
	1–6 months	**7–12 months**	**Total**
2021			
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	26,710	23,811	**50,521**
Average forward exchange rate (EUR/CZK)	26.020	26.039	–
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	6,415	5,788	**12,203**
Average forward exchange rate (EUR/PLN)	4.521	4.578	–
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	0	0	–
Average forward exchange rate (EUR/MXN)	0.000	0.000	–
2020			
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	18,174	17,969	**36,143**
Average forward exchange rate (EUR/CZK)	26.742	26.769	–
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	2,640	2,636	**5,276**
Average forward exchange rate (EUR/PLN)	4.469	4.477	–
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR thousand)	3,886	0	**3,886**
Average forward exchange rate (EUR/MXN)	26.505	0	–

As of December 31, 2021, currency forwards with a positive market value of EUR 1,236 thousand (2020: EUR 795 thousand) and with a negative market value of EUR 305 thousand (2020: EUR 126) were designated as cash flow hedges. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the year under review.

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

EUR k	December 31, 2021	December 31, 2020
Carrying amount (other current financial assets)	1,236	795
Carrying amount (other current financial liabilities)	305	126
Nominal value	62,724	45,305
Hedge relationship[1]	1:1	1:1
Change in the fair value of outstanding hedges since January 1	262	669
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	–262	–669

Effect on cumulative other comprehensive income:	**2021**	**2020**
Cash flow hedge amount on January 1	**557**	**932**
Change in the fair value of the hedge (effective part)	1,269	–1,484
Recycled from other comprehensive income to profit and loss	–1,006	946
Tax expenses (-)/tax income	–124	164
Cash flow hedge amount on December 31	**696**	**557**

[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.
- A change in the exchange rate of +/– 10 (2020: +/– 10) percentage points on the reporting date is assumed in order to determine sensitivity to exchange rate risks. All other variables remain constant.

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

EUR k

	Changes in the USD exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	7,425	–3,398
	–10%	–7,421	3,397
2020	+10%	3,396	–1,378
	–10%	–3,398	1,378

	Changes in the TRY exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	303	0
	–10%	–303	0
2020	+10%	219	0
	–10%	–219	0

	Changes in the CZK exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	4,014	5,742
	–10%	–3,999	–4,735
2020	+10%	4,472	4,078
	–10%	–4,472	–3,336

	Changes in the PLN exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	320	1,322
	–10%	–320	–1,087
2020	+10%	–243	573
	–10%	243	–469

EUR k

	Changes in the MXN exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	0	0
	–10%	0	0
2020	+10%	2,591	8,206
	–10%	–2,590	–8,121

	Changes in the CNY exchange rate	Impact on earnings before taxes	Impact on equity
2021	+10%	535	0
	–10%	–530	0
2020	+10%	576	0
	–10%	–565	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 receiver interest rate swaps. The market rates prevailing on the date on which the loan is taken out apply in the case of 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 roll-over basis. To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent permitted, GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

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

	Duration	
	Until 2022	Total
2021		
Nominal amount (in EUR thousand)	6,500	**6,500**
Weighted interest rate (%)	0.810	**0.810**
2020		
Nominal amount (in EUR thousand)	6,500	**6,500**
Weighted interest rate (%)	0.810	**0.810**

As of December 31, 2021, there were interest rate swaps with a nominal volume of EUR 6.5 million (2020: EUR 6.5 million) in connection with the euro-denominated bonded loans issued to hedge the interest rate risks arising from the floating-rate tranches. These interest rate swaps qualify as cash flow hedges. As of December 31, 2021, interest rate swaps with a negative market value of EUR 54 thousand (2020: EUR 107 thousand) were designated as cash flow hedges.

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

EUR k	December 31, 2021	December 31, 2020
Carrying amount (other current financial liabilities)	54	107
Nominal value	6,500	6,500
Maturity date	2022	2022
Hedge relationship	1:1	1:1
Change in the fair value of outstanding hedges since January 1	–54	–270
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	54	270
Weighted average hedge for the year	0.810%	0.810%
Effect on cumulative other comprehensive income:	**2021**	**2020**
Cash flow hedge amount on January 1	**–74**	**–265**
Change in the fair value of the hedge (effective part)	0	0
Recycled from other comprehensive income to profit and loss	53	270
Tax expenses (–)/tax income	–15	–79
Cash flow hedge amount on December 31	**–36**	**–74**

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.
- Variable-rate originated financial instruments, payments under 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.
- Variable-rate originated financial instruments, payments under 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 cash flow hedges have an effect on net profit for the period and are thus included the sensitivity analysis.
- Interest rate derivatives that are designated as cash flow hedges 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.
- The determination of the sensitivity of interest rate derivatives assumes a parallel shift along the yield curve of +/–50 (2020: +/–50) basis points. 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 (basis points)	Effect on earnings before taxes	Effect on equity
2021	–50	–251	0
	50	–99	2
2020	–50	6	–1
	50	–47	2

Risks in connection with the IBOR reform

The Company has loans in its portfolio where interest is charged at variable benchmark rates that are subject to the IBOR reform and that have not yet switched to alternative benchmark rates. This relates to a USD bonded loan with a carrying amount of EUR 6.6 million and a nominal volume of USD 7.5 million that matures in 2024 and bears interest at the USD LIBOR rate. The USD LIBOR is expected to switch to an alternative benchmark rate in June 2023. There are also two bilateral credit facilities each with a volume of over EUR 18.3 million, including the USD LIBOR, which were not drawn down in USD as of December 31, 2021. The other benchmark rates used in the GRAMMER Group were already changed prior to December 31 or loan agreements were amended accordingly. The IBOR reform does not pose any risks to GRAMMER.

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 instruments.

To hedge foreign currency transactions, the Group enters into hedging relationships in which the contractual terms of the hedging instruments match those of the hedged item in the applicable month on average. 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 2021 and 2020, 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 hedging instrument) 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 2021 and 2020, 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 448.3 million (2020: EUR 446.2 million), by constantly monitoring 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, capitalized leases and hire purchase agreements.

As of December 31, 2021, the Group had unutilized credit facilities of EUR 192.1 million (2020: EUR 303.7 million), 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		
2021		**2022**	**2023–2025**	**2026 and thereafter**
Bonded loans	129,012	46,896	16,980	83,392
Bank loans	247,366	152,542	80,491	21,616
Bank overdrafts (including current liabilities under factoring contracts)	69,084	69,084	0	0
Current and non-current financial liabilities	**445,462**	**268,522**	**97,471**	**105,008**
Current and non-current trade accounts payable	**269,396**	**269,139**	**263**	**0**
Liabilities from leases	84,988	19,504	39,158	41,883
Other originated financial liabilities	2,839	2,839	0	0
Current and non-current other financial liabilities	**87,827**	**22,343**	**39,158**	**41,883**
Interest rate derivatives	54	53	0	0
Currency derivatives	305	0	0	0
Incoming payments		–12,073	0	0
Outgoing payments		12,203	0	0
Derivatives	**359**	**183**	**0**	**0**
	803,044	**560,187**	**136,892**	**146,891**

EUR k 2020	Carrying amount	Cash flow 2021	2022–2024	2025 and thereafter
Bonded loans	128,121	4,298	57,523	88,343
Bank loans	214,296	91,360	83,990	50,355
Bank overdrafts (including current liabilities under factoring contracts)	34,466	34,466	0	0
Current and non-current financial liabilities	**376,883**	**130,124**	**141,513**	**138,698**
Current and non-current trade accounts payable	**251,404**	**250,875**	**549**	**0**
Liabilities from leases	68,757	16,941	29,778	34,635
Other originated financial liabilities	1,973	1,971	2	0
Current and non-current other financial liabilities	**70,730**	**18,912**	**29,780**	**34,635**
Interest rate derivatives	107	53	53	0
Currency derivatives	126	0	0	0
Incoming payments		5,176	0	0
Outgoing payments		–5,276	0	0
Derivatives	**233**	**–47**	**53**	**0**
	699,250	**399,864**	**171,895**	**173,333**

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 return on equity. 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 leverage and gearing. Leverage is the ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to net debt. Net debt is made up of current and non-current financial liabilities and current and non-current other financial liabilities less cash and short-term deposits. Gearing is defined as the ratio of net debt to equity.

EUR k

	December 31, 2021	December 31, 2020
Non-current financial liabilities	182,036	253,255
Other non-current financial liabilities	68,719	54,443
Current financial liabilities	263,426	123,628
Other current financial liabilities	19,467	16,520
Cash and short-term deposits	–113,441	–89,838
Net debt	**420,207**	**358,008**
Equity	345,550	302,210
Equity ratio	23%	22%
Gearing	122%	118%
EBITDA	103,083	41,698
Leverage	4.1	8.6

Financial covenants have also been agreed under loan agreements, mainly relating to the leverage ratio. Under the contractual amendments in 2020, compliance with the financial covenants was suspended as of the reporting date December 31, 2020 and adjusted for the periods ending December 31, 2022. The original contract conditions come into force again after that date at the latest.

The way leverage is calculated for internal management was changed in 2021. Net debt is now used instead of net financial liabilities, as these are used to determine financial covenants. Net financial liabilities are made up of current and non-current financial liabilities less cash and short-term deposits. Net financial liabilities totaled EUR 332,021 thousand as of December 31, 2021 (2020: EUR 287,045 thousand).

32. Disclosure of shareholdings in accordance with section 33 WpHG

Under section 33 (1) or (2) of the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must notify the Company and the Federal Financial Supervisory Authority immediately, however in no less than four trading days. The lowest notification threshold is 3%. The Company was notified of the following shareholdings as of December 31, 2021 in accordance with section 33 WpHG (the percentage and number of shares shown refers to the share capital in existence as of the date of the notification; the number of shares is taken from the most recent notification served on GRAMMER AG and may therefore no longer apply):

In notices dated October 14, 2019 and December 11, 2019, Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG, China, informed us pursuant to section 33 (1) WpHG that their voting rights in GRAMMER AG (ISIN: DE0005895403) continued to exceed the 75% threshold and 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 allocated by the following company: Jiye Auto Parts GmbH, Frankfurt am Main, Germany, an indirect subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo, China.

(published on December 16, 2019)

All notifications served on GRAMMER AG in accordance with sections 33 and following WpHG can be inspected at the Company's website and at the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

33. Other disclosures

Employees
Annual average number of employees:

	2021	2020
Wage-earning employees	11,123	11,320
Salaried employees	2,883	2,872
Total	**14,006**	**14,192**

Hyperinflation
IAS 29 "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 "hyperinflation" countries. Its criteria for identifying such countries are similar to those for identifying "hyperinflationary economies" under IAS 29. Argentina was among those countries in which cumulative inflation over the last three years was forecast to exceed 100%.

Based on this assessment, the effects of the application of IAS 29 are reviewed annually. The application of IAS 29 resulted in an increase in revenue of EUR 0.7 million, a EUR 0.1 million increase in EBIT and a EUR 0.1 million rise in net profit/loss in 2021. 2020 saw a EUR 0.2 million rise in revenue but no major impact on EBIT and an increase in net profit/loss of EUR 0.1 million.

Auditors' fees within the meaning of section 314 (1) No. 9 HGB
Fees paid to the auditor of the consolidated financial statements, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Nuremberg, which are recognized as expenses in the reporting year, amounted to EUR 1,089.6 thousand, including an amount of EUR 356.4 thousand attributable to the previous year's audit. In the previous year, auditors' fees of EUR 796.5 thousand, including EUR 107.1 thousand attributable to the previous year's audit (2019) had been recognized. No fees for tax consulting or miscellaneous attestation, valuation or other services arose in the year under review or in the previous year.

Additional expenses for the group auditor Ernst & Young GmbH in connection with the audit of the consolidated financial statements for the Ningbo Jifeng Group amounted to EUR 64.1 thousand in 2021 (2020: EUR 62.6 thousand) and are not included in the auditor's fee as they were directly recharged to Ningbo Jifeng Auto Parts Co, Ltd, Ningbo, China.

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	2021	2020
Total remuneration paid to the Executive Board amounted to	2,098	1,301
The Supervisory Board received total remuneration of	566	573

Total remuneration paid to the Executive Boards was affected by components from the prior year in the total amount of EUR –118 thousand (2020: EUR – 68 thousand). Of the total remuneration of the Executive Board, EUR 1,909 thousand is accounted for by short-term benefits and EUR 189 thousand by other long-term benefits.

The GRAMMER AG remuneration system and details of individual remuneration paid to members of the Executive Boards are set out in the remuneration report in accordance with section 162 AktG. The report is available on the Company's website.

In view of the change to Executive Board service agreements, as of December 31, 2021 GRAMMER AG no longer had any retirement benefit obligations to its incumbent members of the Executive Board. The retirement benefit obligations of EUR 367 thousand in place until this time were settled and GRAMMER AG was reimbursed for the plan assets of EUR 136 thousand. Instead, members of the Executive Board receive defined-contribution allowances for their own pension schemes, which are included in the total remuneration listed above. As of December 31, 2020, provisions of EUR 362 thousand were recognized for retirement benefit obligations to the members of GRAMMER AG's Executive Board backed by plan assets of EUR 134 thousand.

Payments of EUR 283 thousand (2020: EUR 1,215 thousand) were made to former members of the Executive Board and their surviving dependents under retirement benefit commitments. In the previous year, it had included the settlement of the retirement benefit obligation towards one former Executive Board member in the amount of EUR 932 thousand.

Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at a total of EUR 8,764 thousand (2020: EUR 9,379 thousand) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

In addition, no current service costs (2020: EUR 232 thousand) arose for members of the Executive Board for additions to the retirement benefit provisions. Executive Board members receive no loans from the Company.

Please see the information in the remuneration report in accordance with section 162 AktG, which is available on the Company's website, for details on individual remuneration paid to members of the Supervisory Board.

With the exception of employee representative remuneration agreed in employment contracts, no other remuneration was paid or benefits granted to Supervisory Board members for services rendered in person in addition to Supervisory Board remuneration. No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration.

34. Group corporate governance declaration

The Group corporate governance statement pursuant to section 315d in connection with section 289 and the following HGB and the declaration of conformity with the German Corporate Governance Code (section 161 AktG) have been released and are permanently available on the Company's website at www.grammer.com in the "INVESTOR RELATIONS" section under "Corporate Facts".

Disclosures on the Executive Board and the Supervisory Board

Members of the Executive Board

Dipl.-Wirtschaftsingenieur **Thorsten Seehars,** Munich	Chief Executive Officer (CEO) HR Director
Dipl.-Ing. **Jens Öhlenschläger,** Amberg	Chief Operating Officer (COO)
M.Sc. **Jurate Keblyte,** Haar	Chief Financial Officer (CFO)

Members of the Supervisory Board

Dipl.-Kaufmann **Alfred Weber**, Stuttgart	Chairman of the Supervisory Board
Horst Ott, Königstein	Deputy Chairman of the Supervisory Board/ employee representative
Dipl.-Ing. **Klaus Bauer**, Ensdorf	Employee representative
Andrea Elsner, Ebermannsdorf	Employee representative
Dr.-Ing. **Ping He**, Wenzenbach-Irlbach	
Martin Heiß, Sulzbach-Rosenberg	Employee representative
Peter Kern, Kümmersbruck	Employee representative
Dipl.-Ing. **Jürgen Kostanjevec**, Cologne	
Dipl.-Kaufmann Dr. **Peter Merten**, Heppenheim	
Gabriele Sons, Berlin	
Prof. Dr.-Ing. **Birgit Vogel-Heuser**, Garching	
Antje Wagner, Frankfurt am Main	Employee representative

Professions and other offices of the members of the Executive Board within the meaning of section 285 (1) no. 10 HGB

Executive Board	
Thorsten Seehars Chief Executive Officer (CEO) HR Director	**Board of Directors:** GRA-MAG Truck Interior Systems LLC Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. GRAMMER Vehicle Parts (Harbin) Co., Ltd. (since May 19, 2021)
Jens Öhlenschläger Chief Operating Officer (COO)	**Board of Directors:** ALLYGRAM Systems and Technologies Pvt. Ltd. **Supervisory Board:** GRAMMER (China) Holding Co., Ltd. (since April 30, 2021) GRAMMER Interior (Beijing) Co., Ltd. GRAMMER Interior (Changchun) Co., Ltd. (since March 5, 2021) GRAMMER Interior (Shanghai) Co., Ltd. GRAMMER Interior (Tianjin) Co., Ltd. GRAMMER Japan Ltd. GRAMMER Seating (Ningbo) Co., Ltd. GRAMMER Seating (Shaanxi) Co., Ltd. GRAMMER Vehicle Interiors (Hefei) Co., Ltd. (since November 11, 2021) GRAMMER Vehicle Parts (Shenyang) Co., Ltd.
Jurate Keblyte Chief Financial Officer (CFO)	**Board of Directors:** Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. **External mandates:** Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich Member of the Supervisory Board of Ottobock SE & Co. KGaA, Duderstadt (May 17, 2021)

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 (1) sentence 5 AktG	Other offices
Dipl.-Kaufmann **Alfred Weber** Former Chief executive Officer of MANN+HUMMEL GmbH (retired)	– Chairman of the Supervisory Board of GRAMMER AG, Ursensollen	– Chairman of the Advisory Board of Südpack Verpackungen GmbH & Co. KG, Ochsenhausen – Member of the Advisory Board of Kurtz Holding GmbH & Co. Beteiligungs KG, Kreuzwertheim (until January 1, 2021)
Horst Ott First Representative of IG Metall Amberg	– Deputy Chairman of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Dipl.-Ing. **Klaus Bauer** Plant manager at GRAMMER Technical Components GmbH, Kümmersbruck	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Andrea Elsner Business management assistant	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Dr.-Ing. **Ping He** Former development engineer in the Powertrain Division of Continental AG (retired)	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Martin Heiß Management assistant for data processing	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Peter Kern Locksmith	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Dipl.-Ing. **Jürgen Kostanjevec** Independent consultant	– Member of the Supervisory Board of GRAMMER AG, Ursensollen	– No other offices
Dr. **Peter Merten** Management consultant	– Member of the Supervisory Board of GRAMMER AG, Ursensollen – Member of the Supervisory Board of Nanogate SE, Göttelborn (until April 14, 2021)	– Member of the Advisory Board of Deutsche Bank AG, Mannheim – Member of the Advisory Board of KAMAX Holding GmbH & Co. KG, Homberg (Ohm)
Gabriele Sons Attorney at Law in the Sons Law Firm	– Member of the Supervisory Board of GRAMMER AG, Ursensollen – Member of the Supervisory Board of ElringKlinger AG, Dettingen/Erms	– Member of the Board of Directors of TÜV Rheinland Berlin Brandenburg Pfalz e.V., Cologne
Prof. Dr.-Ing. **Birgit Vogel-Heuser** Electrical engineer, Professor of Automation and Information Systems at the Technical University of Munich	– Member of the Supervisory Board of GRAMMER AG, Ursensollen – Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich – Member of the Supervisory Board of SMS group GmbH, Düsseldorf and SMS Holding GmbH, Düsseldorf (until April 27, 2021)	– No other offices
Antje Wagner Lawyer, Trade Union Secretary, IG Metall Management Board	– Member of the Supervisory Board of GRAMMER AG, Ursensollen – Member of the Supervisory Board of WISAG Produktionsservice GmbH, Frankfurt am Main (since September 1, 2021)	– No other offices

35. Combined separate non-financial report

The combined separate non-financial report pursuant to sections 289b (3) and 315b (3) HGB is published no later than four months after the reporting date on the Company's website at www.grammer.com in the "COMPANY" section under "Sustainability" – "Separate non-financial report".

36. Supplementary Report

Risks for GRAMMER Group may arise from geopolitical conflicts, such as the war in Ukraine that broke out on February 24, 2022. However, due to the very limited activities of GRAMMER Group in the Russian and Ukrainian markets, no significant direct effects on Group revenue are to be expected. However, supply bottlenecks and related supply difficulties on the part of OEMs may occur in this context, which could lead to disruptions in the production of vehicles, including in Germany, and thus indirectly impact GRAMMER Group's revenue and net profit. Due to the very dynamic situation at the time this report was prepared, it is difficult to provide a reliable outlook and the effects are therefore not yet quantifiable. More detailed information can be found in the GRAMMER Group Management Report in chapter „3. Opportunity and Risk Report", „3.5 Risks" under „Geopolitical risks".

The Chairman of the Supervisory Board of GRAMMER AG, Alfred Weber, as well as the Chairman of the Audit Committee, Dr. Peter Merten, informed the Company's Boards on March 9, 2022, that they will prematurely resign their mandates for personal reasons at the end of the Annual General Meeting of the Company on May 18, 2022. The Supervisory Board will submit a proposal for a replacement no later than with the invitation to the Annual General Meeting.

Ursensollen, March 11, 2022

Thorsten Seehars   Jurate Keblyte   Jens Öhlenschläger

GRAMMER AG Executive Board

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 Aktiengesellschaft, Ursensollen, and its subsidiaries (the Group), which comprise the consolidated statement of income and consolidated statement of comprehensive income for the fiscal year from 1 January 2021 to 31 December 2021, the consolidated statement of financial position as at 31 December 2021, the consolidated statements of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January 2021 to 31 December 2021, 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 Aktiengesellschaft for the fiscal year from 1 January 2021 to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the group statement on corporate governance pursuant to Sec. 315d in conjunction with Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code], which is published on the website stated in the group management report and is part of the group management report.

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 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 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021, 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. Our opinion on the group management report does not cover the content of the group statement on corporate governance referred to above.

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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 2021 to 31 December 2021. 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. Impairment testing of goodwill

Reasons why the matter was determined to be a key audit matter

Pursuant to IAS 36, goodwill is subject to an annual impairment test in which the carrying amount of the cash-generating unit, to which the goodwill is allocated, is compared with its recoverable amount. The basis for determining the recoverable amount is the present value of future cash flows of the cash-generating unit. 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 of GRAMMER AG 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 to calculate the discount rate are partly based on estimated market expectations and are, therefore, also subject to judgment.

In light of the planning uncertainty resulting from the future-oriented nature of the measurement and also in view of the effects of the COVID-19 pandemic and the judgment exercised as part of the required impairment test, the impairment testing 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 processes associated with the inspection and approval of planning as a key basis for the impairment tests and carried out substantive audit procedures.

In particular, we discussed the demarcation of cash-generating units as of 31 December 2021 with the executive directors of GRAMMER AG and assessed this in respect of its consistency with the internal reporting structure.

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, including any impact of the COVID-19 pandemic. To determine the reliability of the budgets, we compared historical budget data with actual figures on a sample basis. In this regard, effects attributable to the COVID-19 pandemic were also taken into consideration.

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 identify a potential impairment risk, we additionally conducted sensitivity analyses on the results of the impairment test to determine which changes in specific valuation inputs would lead to a different assessment about the need to recognize an impairment loss 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 regard to the accounting policies applied in respect of goodwill and the related disclosures on judgment exercised by the Executive Board of GRAMMER AG and sources of estimation uncertainties, please refer to the disclosure in section 2.1 "Significant accounting policies and critical accounting estimates", sub-section "Estimates and judgment (IAS 8)" and "Goodwill (IAS 38, IAS 36)" and the disclosures on goodwill in section 12.3 "Goodwill" in 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 the executive directors' estimation of 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

We performed tests of design and operating effectiveness for the significant controls implemented by the executive directors 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 as well as the estimation of contract costs. 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 from customer contracts, we also performed the substantive tests presented below:

By questioning those responsible for group-wide project controlling, we gained an overview of the content of the contracts and the contracted development services, and the status of the respective fulfillment of the contract, the reasons for deviations between planned costs and actual costs and the current assessment of the costs still expected to be incurred up until the time of completion. We examined the information obtained to determine whether it was consistent with the available evidence, such as customer correspondence or contracts. In doing so, we assessed the executive directors' planning in respect of its consistency with the current development of the market and externally available sales forecasts for the underlying models of automobiles. We also examined the transaction price of the performance obligations by comparing this with the underlying contracts. If, based on the executive directors' planning, it was no longer to be expected that the unavoidable costs to fulfill the contractual obligation would be fully covered, we verified that a provision had been recognized for the onerous contract.

We analyzed the reported revenue from development contracts to determine, among other things, whether the planned and realized margin from the contracts is in line with our expectations, which we derived for the individual project or the performance of comparable projects. Our audit procedures did not lead to any reservations regarding the recognition of revenue from development contracts over time.

Reference to related disclosures

Regarding the information provided by the Company on the recognition of revenue over time, reference is made to section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Estimates and judgements (IAS 8)" and "Revenue from contracts with customers (IFRS 15)" and section 7 "Revenue from contracts with customers" as well as section 15 "Balances of contract assets and contract liabilities" 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 or that fictitious revenue is recognized. Revenue results from a range of individual transactions in the form of separate deliveries. In addition, ongoing price negotiations and adjustments with customers lead to frequent changes to transaction prices and consequently to an amended measurement of recognized revenue. The recognition of revenue is exposed to the risk of material misstatement including the inherent risk of management bypass or override of the internal control system. On account of the frequently changing transaction prices, revenue recognition is deemed to be complex, meaning that there is an increased risk of material misstatement. As recognized revenue has a material impact on GRAMMER AG's consolidated financial statements, we considered revenue recognition to be 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 obtaining control, 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 examined the internal procedures and controls implemented for revenue recognition and for recording the amount of revenue. We performed tests of design and operating effectiveness in this context, examining the revenue recognized for the fiscal year from 1 January 2021 to 31 December 2021 with respect to how it was recorded in the accounts. We analyzed any deviations from our exceptions in the posting logic based on additional substantive audit procedures by obtaining audit evidence, for example on proof of delivery and incoming payments. In addition, our audit procedures also included obtaining external customer confirmations on a sample 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. 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, we performed a margin analysis at a monthly level. Our audit procedures did not lead to any reservations regarding the recognition of revenue from serial production.

Reference to related disclosures

The Company's disclosures on revenue recognized at a point in time are presented in section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Revenue from contracts with customers (IFRS 15)", and in section 7 "Revenue from contracts with customers" of the notes to the consolidated financial statements.

4. Recoverability of recognized deferred tax assets on unused tax losses

Reasons why the matter was determined to be a key audit matter

The entities within the GRAMMER Group carry out their business activities in numerous countries with varying local tax laws. In this regard, in some of these countries there are unused tax losses, for which, pursuant to IAS 12, a deferred tax asset should be recognized to the extent that it is probable that a future taxable profit will be available against which the unused tax losses can be utilized. This assessment is subject to a great deal of judgment and estimates by the executive directors, primarily in cases in which the affected companies have recognized a series of losses in the recent past, and consequently subject to judgment to a great extent in particular also in light of the effects of the COVID-19 pandemic.

The executive directors of GRAMMER AG have recognized a deferred tax asset on unused tax losses in an amount that is material for the consolidated financial statements of GRAMMER AG. Deferred tax assets on unused tax losses in Germany, which were still classified as not recoverable in the prior year, were partially recognized in the reporting year. In light of this, the recoverability of recognized deferred tax assets was a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by the executive directors of GRAMMER AG and the accounting policies for determining the deferred tax assets to be recognized on unused tax losses, including impairment testing, to identify any risks of material misstatement and obtained an understanding of the process steps.

In respect of the assessment of the executive directors regarding the probability of whether a taxable result will be available, against which the unused tax losses can be utilized, we analyzed the corporate planning underlying the assessment by comparing the earnings generated in the past and current developments in business figures. In this regard, based on the responsibility statement, we verified that the unused tax losses result from identifiable causes which are unlikely to recur. For companies that have had several loss-making years in the recent past, we obtained evidence that there are convincing indications that sufficient taxable income will be available in the future. We analyzed the declarations and evidence received as to whether both positive and negative indications were taken into account equally. We also considered the changes in the market in the fiscal year and the forecasts made of its future development. In this regard, effects attributable to the COVID-19 pandemic were also taken into consideration.

When assessing the likelihood of whether taxable income will be available, against which the unused tax losses can be utilized, taxable temporary differences in relation to the same tax authority and the same taxable entity were also taken into account, from which the taxable income, against which the unused tax losses can be utilized, will result. Our audit procedures did not lead to any reservations regarding the recoverability of recognized deferred tax assets on unused tax losses.

Reference to related disclosures

The Company's disclosures on deferred tax on unused tax losses recognized as assets are presented in section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Estimates and judgment (IAS 8)" and "Taxes (IAS 12)" as well as section 9 "Income taxes" 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 declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the corporate governance report and declaration pursuant to Sec. 315d HGB in conjunction with Sec. 289f HGB, as well as for the remuneration report pursuant to Sec. 162 AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the corporate governance report and declaration referred to above and the combined separate non-financial report pursuant to Sec. 289b (3) HGB and Sec. 315b (3) HGB, which is referred to in the group management report and of which we obtained a version prior to issuing this auditor's report. Furthermore, the other information comprises additional parts to be included in the annual report, of which we obtained a version prior to issuing this auditor's report, in particular:

- the section "Letter from the Executive Board"
- the section "With our fingers on the pulse of megatrends"
- the section "Dashboard"
- the section "GRAMMER Share"
- the section "Supervisory Board and Executive Board"
- the section "Report of the Supervisory Board"
- the Remuneration Report pursuant to § 162 of the German Stock Corporation Act
- the responsibility statement
- the section "GRAMMER Group multi-year overview in accordance with IFRS"
- the section "Financial statements of GRAMMER AG"
- the section "Financial Calendar for 2022"

but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the 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

Report on the assurance on the electronic rendering of the consolidated financial statements and the group management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file "GRAMMER_AG_KA+KLB_ESEF-2021-12-31.zip" (SHA-256-checksum: 0f43c4f3ef64277b 8040c0eabf6e96d67b5bd 4b935f77d9f1073c358c52d6780) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 23 June 2021. We were engaged by the Supervisory Board on 5 August 2021. We have been the group auditor of GRAMMER AG without interruption for more than 27 years. Since fiscal year 1996, GRAMMER AG has been classified as a corporation geared to the capital market within the meaning of Sec. 264d HGB.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 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:

- Audit of the remuneration report pursuant to Sec. 162 (3) AktG of GRAMMER AG for the fiscal year from 1 January 2021 to 31 December 2021

Other matter – use of the auditor's report
Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Bundesanzeiger [German Federal Gazette] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Udo Schuberth.

Nuremberg, 11 March 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth	Thies
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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 developmentof the Group.

Amberg, March 11, 2022

GRAMMER AG

The Executive Board

GRAMMER Group multi-year overview in accordance with IFRS

EUR m	2021	2020	2019	2018	2017
Group revenue	**1,903.0**	**1,710.7**	**2,038.5**	**1,861.3**	**1,786.5**
Revenue EMEA[3]	1,061.5	965.8			
Revenue Americas	517.7	476.6			
Revenue APAC	406.3	339.2			
Statement of income					
Gross profit	175.3	125.3	231.4	211.8	215.1
EBIT	18.9	–46.1	74.5	48.7	66.5
EBIT margin (%)	1.0	–2.7	3.7	2.6	3.7
Financial result	–12.2	–24.6	–20.4	–14.3	–10.6
Earnings before taxes	6.7	–70.7	63.6	34.5	55.9
Income taxes	–6.1	6.0	–20.1	–11.3	–23.5
Net profit/loss	0.6	–64.7	43.5	23.2	32.4
Consolidated Statement of Financial Position					
Total assets	1,483.4	1,376.4	1,474.4	1,441.4	1,107.0
Non-current assets	833.5	799.6	825.6	696.3[2]	372.3
Current assets	649.9	576.8	648.8	745.1[2]	734.6
Equity	345.6	302.2	342.2	314.8	337.7
Equity ratio (%)	23	22	23	22	31
Net financial liabilities	420.2	358.0	370.0	277.4	101.0

EUR m	2021	2020	2019	2018	2017
Statement of Cash Flows					
Capital expenditure (without business combinations and financial assets)	114.7	83.8	132.8	73.9	59.1
Depreciation and amortization	84.2	87.8	85.3	52.3	49.5
Cash flow from operating activities	71.3	31.1	124.0	143.6	69.2
Employees					
Annual average	14,006	14,192	14,910	13,439	12,483
Domestic employees	2,848	3,026	3,227	3,315	3,201
Non-domestic employees	11,158	11,166	11,683	10,124	9,282
Personnel costs	465.9	444.1	486.3	425.2	375.4
Share data					
Prices (Xetra closing price in EUR)	17.95	19.90	31.95	37.70	51.85
Market capitalization (EUR m)	273.5	303.2	402.8	475.3	653.7
Dividend (EUR)[1]	0.00[1]	0.00	0.00	0.75	1.25
Earnings per share (EUR)	0.08	–5.10	3.56	1.90	2.67

[1] With the expansion of the syndicated loan through a KfW loan, the dividend will be suspended during the three-year term of the third tranche until 2023.

[2] Adjustment in accordance with IFRS 3.49, see Note 4 in the 2019 annual report Business combinations.

[3] Due to the change of segment reporting in 2021, the comparative information for the reporting segments is only given for 2020.

Financial Statements of GRAMMER AG

GRAMMER AG's results of operations

GRAMMER Aktiengesellschaft Statement of Income for the year from January 1 to December 31

EUR k	2021	2020
Revenue	649,298	571,039
Decrease in inventories of finished goods and work in progress	–1,691	–17,251
Other own work capitalized	121	0
Other operating income	56,004	35,163
Total revenues	**703,732**	**588,951**
Cost of materials	494,023	457,736
Personnel costs	83,973	80,377
Depreciation and amortization	8,313	7,675
Other operating expenses	78,979	71,454
	38,444	**–28,291**
Net investment income – of which from affiliated companies EUR 57,996 thousand (2020: EUR 46,665 thousand)	58,399	46,665
Income from profit transfer agreements – of which from affiliated companies EUR 21,263 thousand (2020: EUR 9,693 thousand)	21,263	9,693
Income from other securities and loans of financial assets – of which from affiliated companies EUR 5,795 thousand (2020: EUR 5,476 thousand)	5,795	5,791
Other interest and similar income – of which from affiliated companies EUR 1,751 thousand (2020: EUR 1,554 thousand)	1,762	1,604
Impairment of financial assets and securities held as current assets	95,531	75,565
Expenditure from the absorption of loss – of which from affiliated companies EUR 2,493 thousand (2020: EUR 5,900 thousand)	2,493	5,900
Interest and similar expenses – of which from affiliated companies EUR 58 thousand (2020: EUR 49 thousand) – of which from discounting EUR 6,987 thousand (2020: EUR 6,704 thousand)	23,189	21,875
Income taxes	6,759	4,521
Net profit/loss	**–2,309**	**–72,399**
Other taxes	91	73
Net loss for the year	**–2,400**	**–72,472**
Profit carried forward from the previous year	–72,472	0
Net retained loss	**–74,872**	**–72,472**

[1] Financial statements according to 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

	December 31, 2021	December 31, 2020
A. Non-current assets		
I. Intangible assets	12,849	12,786
II. Property, plant and equipment	84,877	88,420
III. Financial assets	546,033	503,258
	643,759	**604,464**
B. Current assets		
I. Inventories	48,338	49,890
II. Receivables and other assets	187,203	135,104
III. Cash at bank and in hand	7,551	16,018
	243,092	**201,012**
C. Prepaid expenses	3,319	2,691
Total assets	**890,170**	**808,167**

Equity and liabilities

EUR k

	December 31, 2021	December 31, 2020
A. Equity		
I. Subscribed capital	39,009	39,009
Own shares	–845	–845
Issued capital	38,164	38,164
II. Capital reserve	165,211	165,211
III. Retained earnings	132,158	132,158
IV. Net retained loss	–74,872	–72,472
	260,661	**263,061**
B. Provisions		
1. Provisions for retirement benefits	82,259	77,997
2. Tax provisions	3,569	730
3. Other provisions	27,212	31,965
	113,040	**110,692**
C. Liabilities		
1. Liabilities to banks	452,803	379,581
2. Prepayments received	2,617	2,600
3. Trade accounts payable	15,346	15,377
4. Liabilities to affiliated companies	40,382	29,835
5. Liabilities to companies in which an equity interest is held	296	212
6. Other liabilities	4,935	6,719
	516,379	**434,324**
D. Deferred income	90	90
Total Equity and Liabilities	**890,170**	**808,167**

[1] Financial statements according to HGB.

Financial Calendar 2022[1]

Important dates for shareholders and analysts

- **30 March** – Analyst and financial press conference
- **18 May** – Annual General Meeting 2022
- **30 March** – Publication of Annual Report 2021
- **11 August** – Publication of Interim Report 2nd Quarter 2022
- **28 April** – Publication of Interim Management Statement 1st Quarter 2022
- **27 October** – Publication of Interim Management Statement 3rd Quarter 2022

[1] All dates are tentative and subject to change. Subject to change without notice.

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Masthead

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

Release date
March 30, 2022

Concept, layout
IR.on AG, Cologne, Germany
dada design, Bonn, Germany

Photos
Johanna Lohr

The photos taken for this year's Annual Report were produced in strict compliance with the hygiene regulations mandated to contain the COVID-19 pandemic. Some photos were produced before the start of the pandemic.

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