INSIDE GRAMMER

Annual Report 2013

GRAMMER

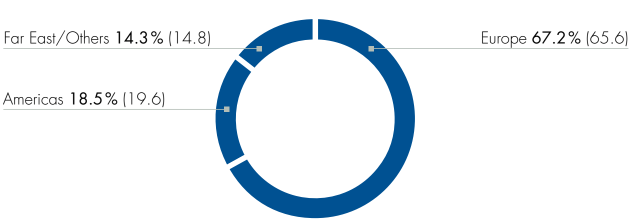
Key figures according to IFRS

GRAMMER Group

in EUR m	Q4 2013	Q4 2012[1]	2013	2012[1]
Group revenue	312.8	282.5	1,265.7	1,133.0
Automotive revenue	206.1	186.5	813.3	711.1
Seating Systems revenue	111.7	99.7	472.8	439.1
Income statement				
EBITDA	23.8	21.0	92.3	78.1
EBITDA-margin (in %)	7.6	7.4	7.3	6.9
EBIT	14.7	13.7	58.0	49.0
EBIT-margin (in %)	4.7	4.8	4.6	4.3
Profit/loss (–) before income taxes	8.3	11.5	42.4	38.3
Net profit/loss (–)	5.7	7.6	29.6	26.8
Statement of financial position				
Total assets	766.0	668.8	766.0	668.8
Equity	224.7	210.3	224.7	210.3
Equity ratio (in %)	29	31	29	31
Net financial debt	93.2	76.5	93.2	76.5
Gearing (in %)	41	36	41	36
Investments (without M&A)	15.8	18.3	46.8	39.0
Depreciation and amortization	9.1	7.3	34.3	29.1
Employees (December 31)			10,082	8,620
Key share data				
Share price (Xetra closing price in EUR)			34.66	16.02
Market capitalization (in EUR m)			400.1	184.9
Dividend (in EUR)			0.65[2]	0.50
Earnings per share (in EUR)			2.67	2.38

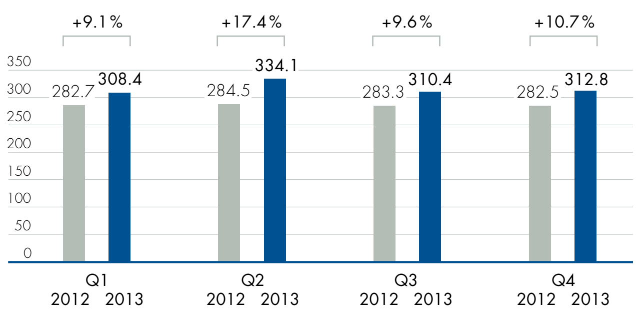
[1] adjusted prior-year figures
[2] Proposal

Revenue by regions[1] (previous year in brackets)



[1] adjusted prior-year figures

Group revenue development by quarter (in EUR m)



Cover: Sandra Beck, GRAMMER AG

Company profile

GRAMMER AG is a globally active listed producer of seating systems and automotive interiors. The Seating Systems Division develops and manufactures technologically sophisticated seating systems for commercial and offroad vehicles as well as for trains and buses. In its Automotive Division, GRAMMER engineers and produces high-quality headrests, center consoles and armrests for premium passenger vehicle OEMs.

With a workforce of around 10,000 employees, GRAMMER operates in 19 countries worldwide via its 29 subsidiaries.

Europe
Belgium
Bulgaria
Czech Republic
France
Germany
Great Britain
Poland
Russia
Serbia
Slovenia
Spain

Americas
Argentina
Brazil
Mexico
USA

Far East/Others
China
Japan
South Africa
Turkey

GRAMMER locations
GRAMMER locations with R&D activities
GRAMMER joint ventures

Divisions

Seating Systems

Around the world, GRAMMER Seating Systems develops and produces driver and passenger seats for agricultural and construction vehicles, forklifts, trucks, buses and trains. Following the "Design for use" philosophy, GRAMMER Seating Systems products are made to be ergonomic, user-friendly, comfortable and safe. With our innovate systems, GRAMMER is the global leader in seats for offroad vehicles, and is among the top producers of truck, bus and train seats.

Automotive

Our Automotive division supplies headrests, armrests and center consoles to well-known carmakers and systems suppliers for the automotive industry. Our interior components are distinguished by their comfort, design and safety. Because of our competitive and high-quality products, leading carmakers and automotive system suppliers prize GRAMMER Automotive as a source of new ideas and a driving force for innovation in the area of automotive interior components.

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

Truck & Bus
Driver seats for trucks and buses

Railway
Passenger seats for trains
Train driver seats

Headrests

Armrests

Center consoles

Seating Systems

- Expansion of technology leadership for innovative seating systems
- Utilization of growth potential in Asia and North America
- Strengthening of worldwide market position through market/customer-oriented solutions for offroad and truck seats

in EUR m	2013	2012[1]
Revenue	472.8	439.1
EBIT	37.6	26.4
EBIT-margin (in %)	8.0	6.0
Investments (without acquisitions)	15.8	13.4
Employees (December 31)	3,729	3,088

[1] adjusted prior-year figures

Automotive

- Targeted market development with selected customers in Europe, Asia and NAFTA with a complete product range
- Expansion of our position as first tier supplier for interior components
- Cost leadership in the headrest segment and operational excellence in all processes through optimization of production technologies and value chains

in EUR m	2013	2012[1]
Revenue	813.3	711.1
EBIT	33.1	30.5
EBIT-margin (in %)	4.1	4.3
Investments (without acquisitions)	29.9	24.8
Employees (December 31)	6,101	5,279

INSIDE GRAMMER

Inside GRAMMER stands for the mission statement of a globally active Group which supplies the world's leading producers with head rests, center consoles and seating systems for commercial vehicles, buses and railways.

Inside GRAMMER stands for passion and commitment, innovation and technology, comfort and ergonomics as well as safety and quality.

Inside GRAMMER stands for a view behind the scenes. Employees demonstrate the products, processes and values which make GRAMMER a premium partner in the automotive and commercial vehicle industry and explain the reasons for its success story.

Content

Hartmut Müller
Chief Executive Officer

Dear Sir or Madam,

In 2013 GRAMMER again performed very encouragingly in a generally still difficult and volatile market environment. Both the Automotive Division and the Seating Systems Division grew substantially, with our products gaining further market share with improved profitability. This makes us one of the few German companies in the automotive industry to have closed 2013 with both an increase in revenue and a wider margin.

Once again, our growth was underpinned by the GRAMMER Group's broad global footprint, which allowed us to cushion the effects of the protracted weakness of the European market with disproportionately strong growth in China and Americas. As well as this, our new Czech subsidiary nectec Automotive made a positive contribution to our growth. Completed in February 2013, the acquisition of this headrest specialist allowed us to additionally expand our revenue-heaviest Division and to reinforce our leading position in Europe.

Consolidated revenue rose by a total of some 12 percent over the previous year, reaching a new record of EUR 1.27 billion.

What is remarkable here is the growth in project revenue, i.e. the income which we generate from development contracts for our customers. We were able to substantially increase the number of projects. Our roughly 400 R&D employees are currently working on some 200 projects within the GRAMMER Group under which we are developing components and systems for the automotive and commercial vehicle industry. Automotive OEMs in particular tie in their components suppliers at a very early stage in the development of a new vehicle and are increasingly outsourcing engineering work to them – a trend which is unleashing considerable growth potential for GRAMMER. This is because these development projects lead to long-term supply contracts with the customers in most cases. The project business which we generate today is, as it were, an indicator of our top-line performance in the years ahead.

One of the key determinants of GRAMMER's business success is our systematic focus on innovation in our products and production processes. In the Group-wide research and development network, our engineers work consistently on enhancing the ergonomics, safety and functionality of our products and on reinforcing our leading market position in many segments. Suspended seating systems with multifunctional armrests, headrests featuring greater comfort and safety and center consoles with a quality look and feel and individual design elements are just some of the key aspects of our innovation strategy. At the same time, we have been expanding our regional research and development capacities, something which is allowing us to develop specific local solutions to meet the requirements of individual markets.

As a development partner to the automotive industry, however, we must initially make up-front efforts to secure our future growth. This is also one of the reasons why the EBIT (earnings before interest and taxes) margin in the Automotive Division remained almost steady at 4.1 percent last year. However, we were able to boost profitability considerably at the Group level as the EBIT margin in the Seating Systems Division widened from 6.0 to 8.0 percent. This Division owes its good performance to the reduced cost of starting up production of our new-generation truck seats as well as the substantial recovery in the Brazilian market after the severe slump in 2012. All told, consolidated EBIT rose by roughly one fifth to EUR 58.0 million last year, reaching the highest level in the Company's history.

Earnings would have been even better if we had not had to make considerable up-front efforts in other areas to secure future growth. Thus, we continued to optimize work structures and construct modern new production facilities in order to additionally improve our position in all regions. In China, for example, which is already the second most important market for GRAMMER after Germany, we completed broad-based adjustments, combining three previously separate production facilities under the roof of a new plant in Changchun. As well as this, we opened a front-end plant in Beijing for new center console contracts. At the same time, we entered the important Chinese truck market in conjunction with our partner Yuhua and launched the production and distribution of suspension seats for that market. With a total of five locations in China, GRAMMER is now able to cover the entire product range offered by the Automotive and Seating System Divisions.

In Eastern Europe we have also started optimizing our production facilities to additionally improve our competitive position. With the acquisition of nectec Automotive, our new plant in Česká Lípa is being expanded as planned and, looking forward, will serve as one of our two main headrest production plants in Europe.

To ensure successful growth outside Europe, all other main functions alongside production and development capacities must also be in place locally. For example, we have now created the basis in the individual regions for sourcing more than 40 percent of our procurement requirements outside Germany.

Our strategy of investing in long-term and sustainable growth rather than seeking short-term margin improvements is an expression of our responsible corporate activity. The fact that this strategy is also being applauded by the capital market is reflected in our stock's outstanding performance in 2013 and the growing interest being shown by large institutional investors. Last year, GRAMMER's market capitalization rose to over EUR 400 million. These impressive gains make the GRAMMER share one of last year's top performers. In order to additionally boost our appeal, we want to give investors an even greater share of our success and will therefore be asking them to approve a resolution to increase the dividend by 30 percent from EUR 0.50 to EUR 0.65 at the annual general meeting on May 28, 2014.

Turning now to 2014, we plan to step up our efforts to optimize and expand our production network in Europe, China and North America, to continue internationalizing the GRAMMER Group and to systematically leverage opportunities in growth regions. As a global played based in all core regions, GRAMMER is well poised to achieve this. We are very well positioned along the entire value chain – from development and purchasing to project management, production and sales.

Moving forward, Latin America also offers above-average growth potential alongside China and North America. Thus, the premium passenger car market in Brazil alone is expected to double in size by 2020. Our existing location in this country provides us with an ideal stepping stone for forays into the passenger vehicle market as well. Various contracts awarded at the end of 2013 for the production of headrests in Brazil mark the first step in this direction.

In 2014 we are going to intensify the up-front efforts for optimization and growth projects once more. For full year 2014 we expect an appreciable increase in revenues to more than 1.3 billion euros, accompanied by stable operating earnings. Our medium-term goal is for organic growth of 5 to 10 percent per year together with a slight improvement in margins and for GRAMMER to continue developing as a modern and profitable company.

On behalf of the entire Executive Board, I wish to thank all our customers, business partners and shareholders for their trust in our Company. I would also like to express my particular gratitude to all our staff who with their great dedication and outstanding performance have made a crucial contribution to GRAMMER's success.

Sincerely

Hartmut Müller
Chief Executive Officer of GRAMMER AG

Executive Board

from left to right

Volker Walprecht
Member of the Executive Board since October 2012
Finance, Accounting, Controlling, Purchasing, IT, Sales

Hartmut Müller
Chief Executive Officer since August 2010
Member of the Executive Board since 2007, Internal Control, Legal, Investor Relations, Communications, Marketing, Corporate Development

Manfred Pretscher
Member of the Executive Board since August 2010
Human Resources, Operations, Quality & Services, R&D,
Strategic Product Planning, Projects

Striving for new heights in all regions around the world

GRAMMER needs to broaden its global presence if it is to continue growing profitably. Looking ahead, Asia as well as North and South America will be playing an even more important role in our global strategy.

Rita Wu, GRAMMER Interior Beijing Co., Ltd.

GRAMMER worldwide: Focus on global presence

GRAMMER's roots go back more than a century, when company founder Willibald Grammer opened a saddlery business in Amberg, Germany, in 1880. Since then, the Company has evolved from being a regional supplier of seat cushions and, later on, tractor seats to become a global group serving the automotive and commercial vehicle industry. Today, GRAMMER has a global reach and is synonymous with mobile comfort and safety.

CUSTOMER PROXIMITY DECISIVE

As a global player, we have been active outside our domestic European market for many years, operating numerous facilities in North and South America as well as Asia. The relative weightings of the individual regions are increasingly shifting: Whereas we generated only around one third of our consolidated revenue outside Germany in 2002, this figure has since risen to over 60 percent. All told, we operate 29 companies in 19 countries in close proximity to our customers and generally addressing all main functions such as development and purchasing, project management, production and sales. Three quarters of our almost 10,000 employees are based in low-wage countries around the world.

Just as important as our end-to-end presence along the entire value chain is our long-standing local experience: We have been operating successfully in China for more than 20 years and indeed in the United States for over 35 years. We leverage the expertise gained in regional markets to adapt our products to meet specific customer requirements and regional preferences in our local research and development departments.

A widening international footprint is a crucial determinant of success in the automotive and commercial vehicle industry, allowing us to more than offset weak conditions in individual markets, as has recently been the case in Europe, by tapping above-average growth in other regions. At the same time, our broad-based international position helps us to reduce our exposure to exchange-rate fluctuation by allowing us to benefit from natural hedging, e.g. by procuring input products locally. The fact that over 40 percent of our procurement volume is sourced outside our domestic market reflects the advances which we have made in realigning our procurement chain.

As well as this, there is a further obvious argument in favor of stepping up international operations: The secular trends fueling sustained growth in the automotive market, and hence for components suppliers such as GRAMMER, are arising primarily outside Europe in the emerging markets. Populations are rising steadily in the emerging markets of Asia and Latin America; mounting prosperity is being accompanied by the establishment of a wealthy middle class who are seeking to fulfill the desire for greater mobility by buying their own cars. The emerging markets are also generating impetus for commercial vehicle sales. As growing incomes are triggering rapid changes in nutritional habits, agricultural production faces the prospect of enormous growth between now and 2050. In the absence of the sufficient availability of agricultural machinery, it will not be possible to feed the world's population, which will stand at nine billion by then, assuming constant farming land area.

STRONG DEMAND FOR COMMERCIAL VEHICLES

A further growth factor for GRAMMER is the booming megacities in the emerging markets. Construction machinery and trucks will be necessary for the massive building projects required to create housing and the necessary infrastructure. Indeed, global demand for commercial vehicles is set to widen by around one third through 2020 alone. In China, more than one million medium and heavyweight trucks are already being produced year for year, accounting for a share of almost 50 percent of the global market. With the GRAMMER Seating (Jiangsu) Co. Ltd. joint venture established in end of 2012, we have taken a crucial step forward in leveraging growth in this segment.

Our global orientation is a key characteristic which sets GRAMMER apart from many small and mid-size competitors. Over the years, we have established an organizational structure which is more typical of larger globally active groups than it is for a mid-size company. These investments are paying off, allowing us to successfully bid for "world platforms" contracts for automotive OEMs.

LOCAL CONTENT INCREASINGLY MORE IMPORTANT

Given the mounting importance of the emerging markets, more and more premium vehicle OEMs will be setting up local production facilities. As they require a certain level of local content, they are endeavoring to source more and more products regionally. This is forcing components suppliers to adapt accordingly. OEMs are

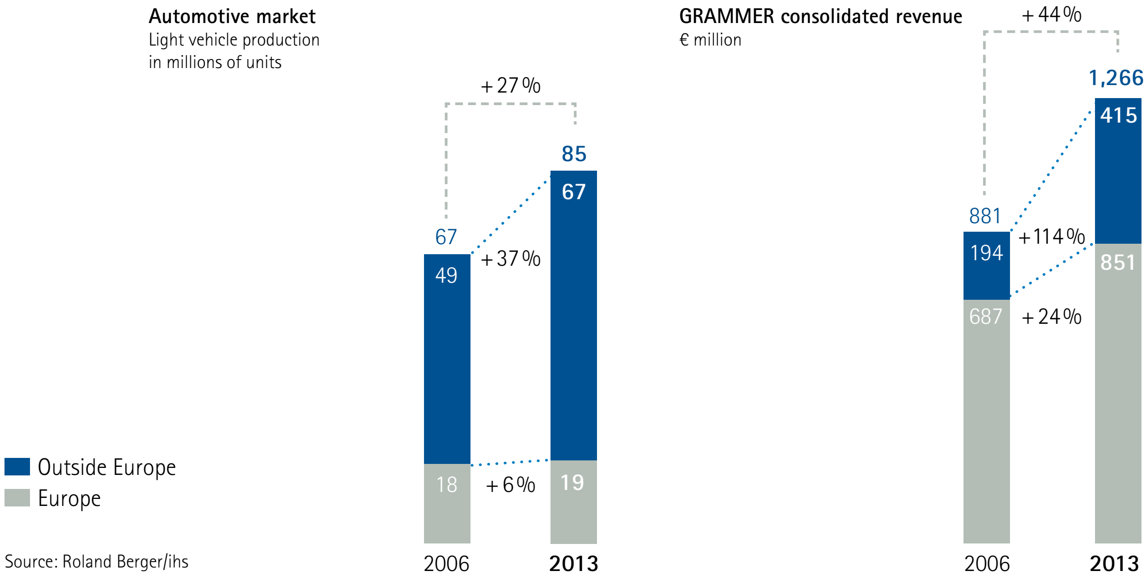
GRAMMER operates very successfully in the international market – in Asia, it is active at 7 sites. The high-degree of local specialization contributes to its global success.

particularly seeking companies such as GRAMMER, which have a broad international footprint, address all functions along the value chain locally and are able to provide the necessary capacities. At the same time, we are able to carve out niches in the international markets which are frequently less attractive to the industry majors.

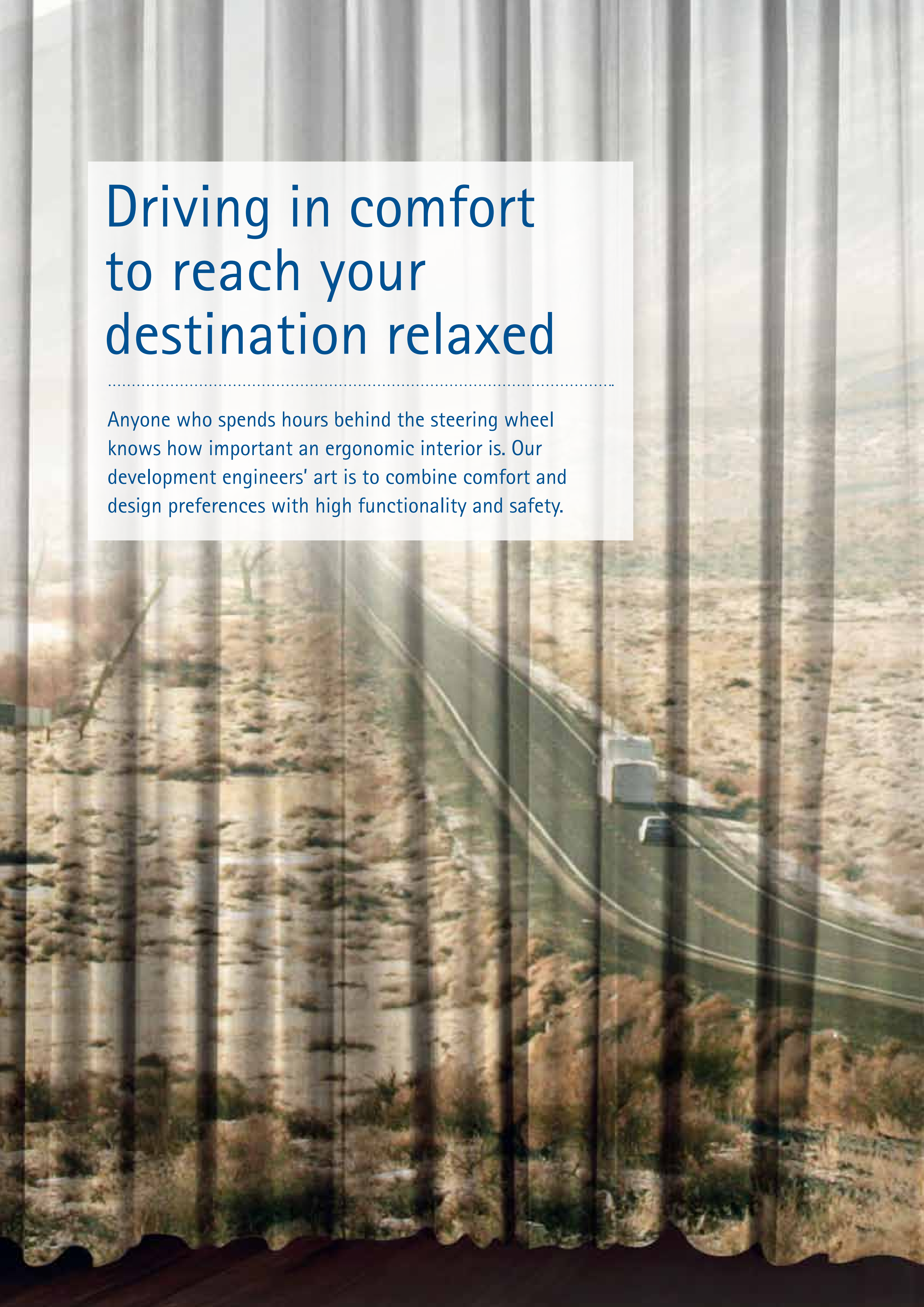
As the growth potential of the regions in which we are already active is far from exhausted, we are concentrating our resources on our existing facilities. We currently have five plants in China, which cover all our product groups. The same thing applies to North America, where we are very well positioned with two large facilities in Mexico and a new production site in the United States. We want to double our revenue in both regions by 2018. In Brazil, we will be specifically expanding our automotive operations over the next few years so as to reduce our exposure to volatile commercial vehicle business. With our growing internationalization, we consider ourselves ideally poised to deliver on our growth plans despite the intensive competition in the supplier industry.

GLOBAL PRESENCE A KEY DETERMINANT OF SUCCESS FOR THE AUTOMOTIVE AND COMMERCIAL VEHICLE INDUSTRY

More and more OEMs are relocating production capacity in other countries. GRAMMER is following them and already generates 33 of its consolidated revenue outside Europe.



Source: Roland Berger/ihs



Driving in comfort to reach your destination relaxed

Anyone who spends hours behind the steering wheel knows how important an ergonomic interior is. Our development engineers' art is to combine comfort and design preferences with high functionality and safety.

Jeff Franzen, GRAMMER Inc.

Innovative solutions for the highest demands

Innovative GRAMMER products are providing maximum safety, comfort and ergonomics in more and more vehicles around the world. Our goal is to improve the quality of life of people who must drive long distances each day or perform difficult work using agricultural or construction machinery. We do not consider comfort to be a luxury but see it as being crucial for efficient work under minimum duress.

DESIGN FOR USE

The driver's seat fitted to commercial vehicles and trucks plays a decisive role in this connection. It should be designed in such a way that it offers maximum support while not unduly constraining freedom of movement and preventing unnecessary strain for the driver and premature fatigue. At GRAMMER, we call this "design for use" and what we mean by this is the optimum combination of functionality, comfort and ease of use. Whenever we develop a new seat, the first question is this: what functions are actually required for the various applications and how can the seat be operated as intuitively as possible? The ideal seat does not have too many or too few features but exactly the "right" ones. It is with this philosophy in mind that GRAMMER has achieved the top global position in the offroad segment and established itself as a leading producer of truck, bus and rail seats.

Our development engineers pay particular attention to self-explanatory operation which is easy to learn. All adjustment levers are arranged in such a way that the driver can intuitively grasp their functions. What is more, we have learned from user surveys that complex health-maintaining functions must be controlled automatically.

COOPERATION WITH RESEARCHERS

As a trend setter in ergonomics, safety and comfort, GRAMMER has been working closely with scientists, universities and research institutions for many years, awarding a prestigious annual prize in conjunction with the European Spine Journal in recognition of the year's best work in spinal research. In this way, we are able to incorporate the latest findings from accident and spine research directly in our product development efforts. Ergomechanics® is the key word for seats meeting the highest requirements. By linking ergonomics and biomechanics, we are able to design seats which feature a sophisticated suspension system for minimizing vibration strain for operators. Strain on the back is reduced thanks to individual adjustment capabilities and optimum support for the spine. In addition to this, however, each seat must incorporate the latest findings from accident research to provide truck drivers with optimum protection from the risk of injury.

GRAMMER is also one of the world's leading seat producers for the railway industry. Train passengers enjoy maximum comfort with GRAMMER seats. They combine "Design for use" and Ergomechanics® for optimum functionality and comfort.

Our innovative headrest systems provide safety and comfort in the vehicle interior.

Our headrests offer comfort and simultaneously comply with the highest quality and safety standards. They are responsible for ensuring the best possible protection for car passengers in the event of an accident while affording maximum comfort on journeys in the car.

OPTIMUM ADJUSTMENT

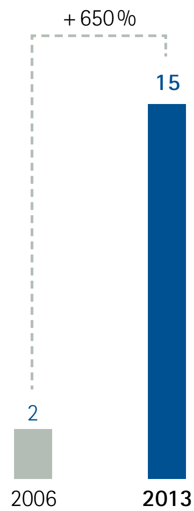
Our broad range of active and passive systems includes an optimum solution for nearly all types of vehicles. The first generation of our top model in the crash-active headrest range first went into series production in 2001. It has highly sensitive sensors which instantaneously push the upholstery forward a few centimeters in the event of a rear impact. This dampens the impact of the head, thus substantially lowering the risk of neck injuries. The same thing applies to the 4-way adjustment systems, which position the passenger's head vertically and horizontally to optimum effect, thus offering an ideal combination of safety and extraordinary comfort.

Adaptive back support with Dualmotion: The upper part of the back rest automatically adjusts to the driver's position during turning.

With the acquisition of Czech headrest specialist nectec Automotive in 2012, we have decisively broadened our activities in this product segment, reinforced our technological skills and fortified our leading market position in Europe. Nectec Automotive offers an end-to-end range integrating all conceivable additional functions in a headrest, thus satisfying the growing demand for electronic adjustments and locking systems.

In addition to design, high-quality haptics and surfaces, GRAMMER center consoles are characterized by their high functionality and numerous multimedia operating elements.

PASSENGER CAR MODELS EQUIPPED WITH GRAMMER CENTER CONSOLES



Customized solutions for all applications

Time and time again, the engineers at GRAMMER are able to convince automotive and commercial vehicle OEMs of their innovative ideas. In doing so, we demonstrate our technological leadership with the use of new materials and production processes.


Melanie Ranjie, GRAMMER AG

Experienced development partner to the vehicle industry

INNOVATIVE IDEAS

The name GRAMMER is synonymous with innovative seating system, headrest and center console designs. Leading automotive OEMs and system suppliers have been relying on our competitive and high-quality products for many years, valuing our input as a source of innovative ideas. We engage in intensive research in materials and functions and work closely with our customers to come up with an optimum product.

In the automotive segment, system suppliers such as GRAMMER are generally involved in the production process as soon as the OEM has defined the specifications. Whereas the geometry and appearance of the components is frequently predefined, we are able to contribute our specific skills in materials, kinematics and connection technologies. In this connection, the focus is on developing a component to production maturity together with the necessary production processes. Over the last few years, however, we have also increasingly been able to establish ourselves as an innovative partner with ideas of our own.

CUSTOMIZED SOLUTIONS

In the integration of electronic components in our seating systems, we also work closely with leading commercial vehicle OEMs. Thanks to the assistance of our subsidiary GRAMMER EiA Electronics, we are the only producer of commercial vehicle seats able to offer customized integrated solutions. Thus, for example, the integrated arm rests in the cabin can be factory-fitted with electronic control and operating elements, allowing adjustments to be made to meet the driver's requirements to optimum effect.

With its functional and high-quality seats, GRAMMER is the global market leader for suspension seats. As a leading innovator and trend setter, we concentrate on biomechanics, vibration comfort, ease of use and seat climate. We are in permanent dialog with our OEM customers and final users and also systematically benchmark peer products in order to better understand the requirements which our products must satisfy.

With our comprehensive focus on innovation, our center console business has evolved into a sought-after partner to the automotive industry within the space of only a few years. At our development centers in Amberg (Germany), Troy (United States), Shanghai (China) and Changchun (China) our engineers work on new products in a Group-wide research and development network. In addition, they develop ongoing measures to optimize production processes so that high-quality center consoles can be produced at reasonable expense. A case in point, we pioneered the use of the mono-sandwich process, which achieves substantial weight savings in center consoles, thus helping to reduce the vehicle's CO_2 emissions. We have now also implemented MuCell technology around the world to achieve even greater weight savings.

Given the unabated trend in favor of high-quality surfaces with both optic and haptic appeal, we are concentrating even more intensively on material and process development. Production processes such as laminating technology allow different core and surface components to be combined in order to produce a greater variety of different center consoles. The integration of the latest sensor technology gives rise to elegantly designed multifunctional components.

The human-machine interface in the modern car cockpit poses a challenge for developers. The aim is to ensure that the driver receives all the information required and is able to alter the settings quickly without being distracted from the road. This calls for intelligent operating concepts which are self-explanatory or available only when needed. Looking forward, many of the switches customarily found in cockpits will be increasingly replaced by touch-sensitive elements such as touchpads.

SAVING WEIGHT WITH LIGHTWEIGHT CONSTRUCTION

A further thrust in our research activities is lightweight construction. In the Seating Systems division, we work with renowned steel producers to develop extremely strong steel alloys. At the same time, our engineers have been working with IFA Technologies GmbH to develop a composite seat made from fiber-reinforced plastic. With new-generation seats, the structural rigidity can be enhanced during the design phase by means of precise simulation tools. And finally, modern joining techniques such as laser-welding can also help to achieve weight savings.

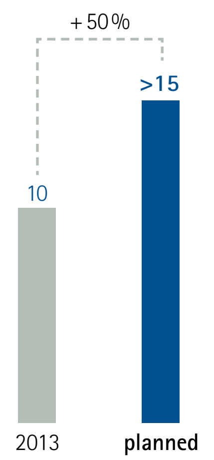
In the offroad segment, development activities are focusing on vibration isolation with the aim of having the suspension adjust automatically to different conditions during operations so that seating comfort is substantially improved in all working situations. We are doing this by additionally enhancing our proven suspension systems as well as by means of innovative active systems with computer-controlled damping.

By intelligently combining electronic and ergonomic components, GRAMMER offers its customers integrated and customized solutions ensuring optimum conditions in the cockpit. They provide maximum comfort for the driver, thus helping to unleash potential at the human/machine interface as effectively as possible.

FURTHER EXTENSIONS TO TECHNOLOGICAL LEADERSHIP

The high annual number of patents registrations testifies to our innovativeness. In 2013 alone, we applied for several patents for new products and processes. Vehicles to which GRAMMER products are fitted regularly achieve high scores in renowned crash tests such as the NCAP crash test. In September 2013, nine self-driving agricultural vehicles received awards in the bi-annual "Machinery of the Year" competition organized by Deutscher Landwirtschaftsverlag at the Agritechnica fair. Seven of the winners were fitted with GRAMMER seats. Looking forward, GRAMMER will systematically continue on its course of fortifying the technological leadership of its core products.

DEVELOPMENT OF RESEARCH AND DEVELOPMENT LOCATIONS
Number



Committed to greater quality of life

Long-term success hinges on corporate management which is committed to social and ecological sustainability. We seek to balance all our stakeholders' interests, further our employees and offer them attractive working conditions.

Sandra Wagner und Julian Wawersig, GRAMMER AG

No success without sustainability

RESPONSIBILITY FOR PEOPLE AND THE ENVIRONMENT

Companies such as GRAMMER which operate in many different countries face particular challenges. They must assume responsibility for people, society and the environment regardless of the underlying legal framework. GRAMMER is expressly committed to a culture of care and has firmly entrenched the duty of sustainable activity in its corporate guidelines. For this purpose, we implement the concept of corporate social responsibility, which covers economic, ecological and social factors as well as employees.

It is based on the idea of minimizing strain on people and nature as far as possible and of furthering their ability to regenerate. This we achieve with a corporate culture which creates balance between the interests of the various stakeholders. We assume additional social responsibility by supporting charitable projects, honorary activities and training facilities in the Upper Palatinate region in Germany and elsewhere around the world. For example, we support sports clubs and their youth teams as well as social facilities.

CODE OF CONDUCT AS A BASIS

As a globally active group, we are under an obligation to observe the rules and ethical principles of various markets, countries and regions. Accordingly, our Code of Conduct imposes on us the duty to observe not only the applicable legal rules and regulations but also the rules of fair competition and the safety, health and environment principles. It additionally contains provisions concerning the treatment of confidential information and also governing the avoidance of corruption and insider trading. Special web-based training modules help our employees to put these rules into practice. As well as this, a "Code Team" is available to answer any questions and also to look into any breaches. GRAMMER will be additionally broadening its commitment to ethical business and increasingly taking these principles into account in the selection of its business partners.

The Code team at GRAMMER: from left to right, Doris Höpfl, Hartmut Müller and Brigitte Steinbauer

In addition to creating an atmosphere of trust and integrity, we attach particular importance to the professional and personal development of our staff. Aware of the fact that innovations and technological progress are not possible without continuous further development, GRAMMER offers its employees opportunities for further training in line with their needs and the requirements for their area of responsibility. Moreover, employees displaying the corresponding potential are prepared for the acceptance of management responsibility at special seminars which accompany project work. Together with seven other companies from the region, we additionally organize a training program for young potentials. As technological progress has its roots at the universities, GRAMMER also awards "Georg-Grammer-Förderpreis" scholars to students in the Engineering faculty of the Eastern Bavarian Technical University (OTH) Amberg-Weiden each year. This scholarship not only offers financial support but also the opportunity for preparing for a technical career by means of internships and scope for completing undergraduate theses.

EQUAL OPPORTUNITIES FOR EVERYONE

The principle of equal opportunities is also firmly entrenched in our Code of Conduct. We abhor all kinds of discrimination on the grounds of gender, skin color, physical disability, ethnic origin, religion, age or sexual orientation and welcome diversity as an invaluable source of talent, creativity and experience. We have set up a separate diversity management to coordinate the achievement of these goals. As a production company which traditionally has more male than female employees, we have launched various initiatives to arouse women's interest in typical male careers and to improve the scope for reconciling families and jobs. At our "Forscherinnen-Camps" we offer girls who are interested in technical matters the possibility of finding out more about the theoretical and practical sides of a career in engineering. At "Girls' Day", we open up our training facilities for young women, giving them an insight into the world of metal-working careers and providing them with an opportunity for demonstrating their skills in practical applications.

Although the proportion of women in the Group workforce has already reached 44 percent, clear goals have been additionally defined for top management. We want to widen the share of women in top management from a current 12.5 percent to at least 15 percent by 2015 and to stabilize the already very good proportion of over 20 percent in lower and middle management.

Wherever possible in the light of organizational constraints, we offer our staff part-time positions and flexible working hours to help them reconcile the needs of their families and their jobs more effectively. As a member of the Bavarian-wide free "Plattform Betreuung" agency, we are also able to provide a temporary solution to bridge any gaps caused by the non-availability of a caretaker or day-care mother as well as during the school holidays.

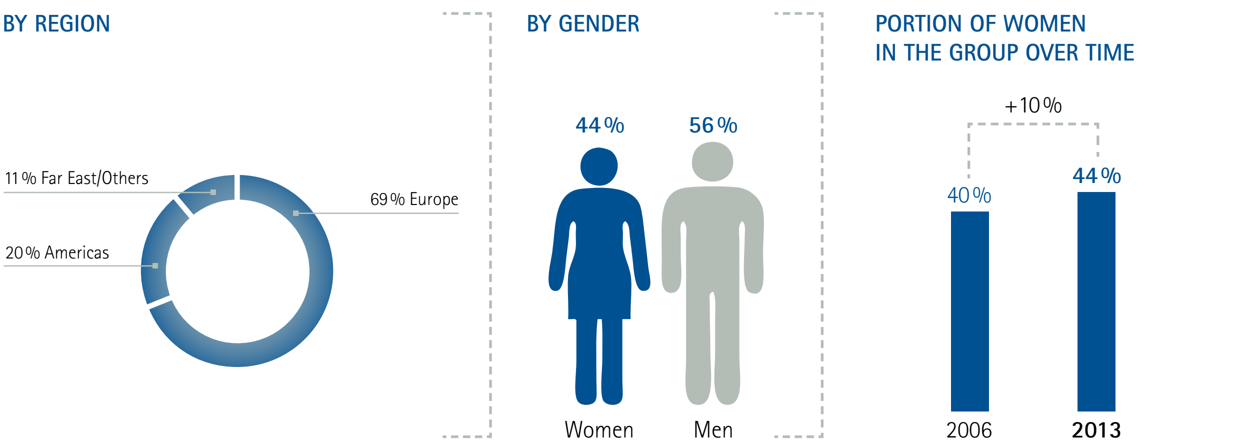
GRAMMER's corporate guidelines attach key importance to environmental protection. In this connection, we seek to minimize the consumption of raw materials, water and energy and to cap emissions as far as possible. However, our commitment to the environment also entails using the best available technology at all times together with environment-friendly procurement and logistics. In their development activities, our engineers not only focus on environment-friendly production processes but also take steps to make sure that our products can be readily recycled at the end of their lifecycles.

The results speak for themselves: At our Haselmühl plant, we have managed to reduce the residual waste rate, i.e. the proportion of waste which cannot be recycled, to less than 5 percent, compared with 12.4 percent, i. e. more than twice as high, in 2000. Measured in terms of the area coated, water consumption in the paintshop has been more than halved during the same period. Moreover, we have achieved measurable progress in reducing noise emissions (e. g. improved insulation, additional building doors in the press shop and encapsulation of presses).

UNIFORM ENVIRONMENTAL MANAGEMENT

We have defined the special requirements applicable to all our production sites around the world in a management system based on ISO 14001. Regular checks are performed to ensure compliance with environmental legislation, legal requirements and the stipulations on which the continued validity of approvals are contingent. At the Haselmühl plant for example, they are performed by internal and external auditors as well as via walk-throughs on the part of the environmental and waste management officer. Looking ahead over the next few years, we plan to harmonize environmental management across our various facilities.

GROUP EMPLOYEES
As of December 31, 2013



Corporate governance report and statement pursuant to Section 289a of the German Commercial Code (HGB)

GRAMMER AG is committed to good corporate governance, which is defined as the observance of international standards of responsible and sustainable governance. Our corporate culture has its roots in effective and mutually trusting collaboration between the Executive Board and the Supervisory Board as well as amongst the individual members, good relations with our shareholders, transparent reporting and corporate communications, an appropriate remuneration structure and compliance with the applicable legal requirements. Our corporate governance is based on the German Corporate Governance Code and the German Stock Corporation Act. In addition, our employees at all GRAMMER locations around the world undertake to abide by the Code of Conduct which the GRAMMER Group has adopted. The GRAMMER Code of Conduct contains binding rules governing the conduct of business at GRAMMER and sets high ethical standards. To ensure that the Code is implemented correctly and duly observed, GRAMMER has issued further explanatory and supplementary rules. In addition, GRAMMER offers its employees web-based training and has established a Code Team, whose members answer any questions which employees may have concerning the Code of Conduct and help in investigating and eliminating any breaches or instances of improper conduct.

Declaration of conformance

On December 10, 2013, 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 on conformance to the German Corporate Governance Code (GCGC):

> GRAMMER AG conforms and will in the future continue to conform to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 13, 2013 published by the Federal Ministry of Justice on June 10, 2013 in the official section of Bundesanzeiger with one exception:
>
> Article 4.2.2 (2) Sentence 3 of the current version of the Code dated May 13, 2013 adds a new recommendation under which the Supervisory Board is to consider the relationship between the compensation of the Executive Board and that of senior management and the staff overall, particularly in terms of its development over time and to determine how senior managers and the relevant staff are to be differentiated. GRAMMER AG does not conform to this recommendation.
>
> In determining the remuneration payable to the Executive Board, the Supervisory Board takes account of the criteria referred to in Article 4.2.2 (2) Sentence 2 of the Code, which stipulate among other things that the remuneration structures applicable elsewhere in the company must also be considered. This remuneration structure was analyzed in 2013 by an independent remuneration expert in the light of the current arrangements. However, the analysis did not include the chronological relationship between the remuneration of the Executive Board and that of the Company's senior managers and staff. In addition, the Supervisory Board had not expressly stipulated how the senior managers were to be differentiated from the relevant staff as a whole; this was duly done by an independent advisory after an inspection of the organizational structure.
>
> In the period between its last declaration of conformance of December 7, 2012 and the date on which the May 13, 2013 version of the Code took effect GRAMMER AG conformed to the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 15, 2012 published by the German Federal Ministry of Justice in the official part of Bundesanzeiger.

This declaration, along with all declarations of conformance issued in previous years, is permanently available on the GRAMMER AG website at www.grammer.com/en/investor-relations/corporate-facts/corporate-governance.html

Members of the Executive Board

Executive Board

Name	Function	Responsibilities
M.Sc. BWL, Dipl.-Ing. (FH) **Hartmut Müller** In office since 2007	Chief Executive Officer	Corporate Development Group Internal Control & Legal Group Investor Relations, Communications & Marketing
Dipl.-Ing. (FH) **Manfred Pretscher** In office since 2010	Member of the Executive Board	Group Human Resources Group Operations Group Projects Group Quality & Group Service Group Research & Development Strategic Product Planning Group
Dipl.-Kaufmann **Volker Walprecht** In office since 2012	Member of the Executive Board	Group Accounting Group Commercial Projects Group Controlling Group Finance Group IT Group Purchasing Group Sales

Members of the Supervisory Board

Supervisory Board

Name	Function	Profession/Place of residence
Dr.-Ing. Klaus Probst	Chairman of the Supervisory Board	Chairman of the Executive Board of LEONI AG, Nuremberg/Heroldsberg
Martin Bodensteiner	Member of the Supervisory Board, employee representative (from August 23, 2013 until January 21, 2014)	Supplier Development Commodity Coverings/Freudenberg
M.A. Tanja Fondel	Member of the Supervisory Board, employee representative (from February 8, 2014)	Trade union secretary, IG Metall Vorstand, Frankfurt a. M./Frankfurt a. M.
Dipl.-Betriebswirt (FH) Wolfram Hatz	Member of the Supervisory Board	Self-employed businessman, executive director of Motorenfabrik Hatz GmbH & Co. KG and Hatz Holding GmbH, Ruhstorf a.d. Rott/Ruhstorf a.d. Rott
Bernhard Hausmann	Member of the Supervisory Board, employee representative (from February 21, 2013 until August 23, 2013, re-appointed on February 8, 2014)	Team leader Intercompany Processing/Amberg
Lic. oec. HSG Ingrid Hunger	Member of the Supervisory Board	Management chairperson and majority shareholder of HUNGER Hydraulik Gruppe, Lohr am Main/Lohr am Main
Dipl.-Kauffrau Tanja Jacquemin	Member of the Supervisory Board, employee representative (until January 31, 2014)	Political secretary/Frankfurt a. M.
Dipl.-Betriebswirt (FH) Harald Jung	Member of the Supervisory Board, employee representative	Director Division Controlling Consoles/Nabburg
Anton Kohl	Member of the Supervisory Board, employee representative	Industrial foreman/Hahnbach
Dipl.-Betriebswirt Georg Liebler	Member of the Supervisory Board	Former member of the Executive Board of KSPG AG, consultant, owner of Georg Liebler Consulting Services/Möglingen
Dipl.-Kaufmann Dr. Hans Liebler	Member of the Supervisory Board	Self-employed investment advisor/Gräfelfing

Members of the Supervisory Board

Supervisory Board

Name	Function	Profession/Place of residence
Horst Ott	Deputy Chairman of the Supervisory Board, employee representative	1st Chairman of IG Metall Amberg/Königstein
Wolfgang Rösl	Member of the Supervisory Board, employee representative	Industrial electrician/Sulzbach-Rosenberg
Dr. Bernhard Wankerl	Member of the Supervisory Board	Attorney, law firm Dr. Wankerl und Kollegen/Schwandorf

Working methods of the Executive Board and the Supervisory Board and its committees

As a stock corporation under German law, GRAMMER AG has a dual governance system comprising the Executive Board and the Supervisory Board, each of which has distinct powers. The Executive Board and the Supervisory Board work together in a close and mutually trusting relationship to manage and monitor the Company. The Executive Board manages GRAMMER AG on the basis of statutory provisions and the rules of procedure defined by the Supervisory Board. The Supervisory Board advises and monitors the Executive Board in matters relating to management of the Company. Material transactions performed by the Executive Board require the Supervisory Board's approval. In addition, the Supervisory Board appoints the member of the Executive Board.

Executive Board

The Executive Board of GRAMMER AG comprises three members: Mr. Hartmut Müller, Chief Executive Officer, Mr. Volker Walprecht, Chief Financial Officer, and Mr. Manfred Pretscher, HR Director. The GRAMMER rules of procedure govern their individual responsibilities and internal cooperation on the Executive Board. In accordance with the applicable rules of procedure, certain decisions by the Executive Board require the approval of the Supervisory Board.

The members of the Executive Board jointly manage the Company, define its strategy and ensure compliance with the applicable statutory provisions and internal guidelines. At regular meetings, the Executive Board provides the Supervisory Board with prompt and comprehensive information, orally and in writing, on current business developments. The focus of these meetings is on the strategy, ongoing business and economic situation of the Company and the Group as well as risk management.

The members of GRAMMER AG's Executive Board are obliged to act in the Company's best interests. In the event of any conflicts of interests on the part of members of the Executive Board, the Supervisory Board and the rest of the Executive Board must be notified without delay. The members of the Executive Board did not disclose any conflicts of interests in 2013.

The Supervisory Board

GRAMMER AG's articles of association provide for the Supervisory Board to comprise a total of twelve members, half of whom are elected by the Company's shareholders and the other half by the employees of GRAMMER AG. All members of the Supervisory Board elected by the shareholders are independent persons having no business or personal relationships with the Company or the Executive Board. The members of the Supervisory Board undertake to act in the Company's best interests. Any conflicts of interests, e.g. arising from a management function for customers, suppliers, creditors or other business partners, must be disclosed to the Supervisory Board. The members of the Supervisory Board did not disclose any conflicts of interests in 2013.

There was a change in the composition of GRAMMER AG's Supervisory Board in 2013: Mr. Martin Bodensteiner was re-appointed to the Supervisory Board on August 23, 2013; simultaneously, Mr. Bernhard Hausmann stepped down on the same date. A list of the current members of the Supervisory Board can be found on Page 25 of this report.

The Supervisory Board appoints and dismisses the members of the Executive Board, makes decisions on material elements of their service contracts and on the Executive Board remuneration system and advises and monitors the Executive Board on matters concerning the management of the Company. In addition, it is involved in strategy and planning as well as in all issues that are of key importance to the Company. The Supervisory Board elects a Chairman and a Deputy Chairman, reviews the annual financial statements, management report and proposal for the allocation of the unappropriated profit as well as the consolidated financial statements and the Group management report in accordance with the statutory provisions. In addition, it issues and amends the Executive Board's rules of procedure and issues the declaration of conformance in accordance with Section 161 of the German Stock Corporation Act.

The Supervisory Board performs its duties in accordance with rules of procedure which it adopts itself and which were updated in 2013 and took effect by means of a circulatory resolution effective February 1, 2014. Detailed information on the activities of the Supervisory Board and its relations with the Executive Board can be found in the Report of the Supervisory Board (Pages 29 et seq.).

The members of the Supervisory Board review the efficiency of their work once a year. At its meeting of June 4, 2013, the Supervisory Board considered the results of its efficiency review and adopted the following measures to additionally improve efficiency:

- Thus, all members of the Supervisory Board must ensure that they have sufficient time to exercise their duties.
- Similarly, they are required to engage in further education or training where necessary.
- In addition, the Chairman of the Supervisory Board submits information to the Supervisory Board once a year on the market conformance of remuneration systems for members of the Executive Board as well as information on high potentials.
- Looking forward, executives are to be given an opportunity of presenting themselves to the Supervisory Board.
- In the interests of more efficient organization, it was decided to distribute the minutes of all the committee meetings to the entire Supervisory Board.

Supervisory Board committees

The Supervisory Board of GRAMMER AG had four committees in 2013: the Strategy Committee, the Audit Committee, the Standing Committee and the Nominating Committee. The work of the committees is governed by the Supervisory Board's rules of procedure with the exception of the Audit Committee, which has its own rules of procedure. The Audit Committee meets at least once each quarter and additionally on an ad-hoc basis.

Goals pursued with appointments to the Executive Board and the Supervisory Board

Vacancies on the Management Board and the Supervisory Board of GRAMMER AG are filled in accordance with various criteria. When making new appointments to the Executive Board, the Supervisory Board attaches importance to the professional qualifications, international experience and leadership qualities of the candidate and particularly also diversity and adequate consideration of female candidates.

The profile of requirements for potential members of the Supervisory Board includes the requisite knowledge and capabilities as well as appropriate experience in performing the duties of a supervisory board member. In addition, GRAMMER AG's Supervisory Board must have at least one independent member with accounting or auditing qualifications. When vacant positions are to be filled on the Supervisory Board, attention is also paid to increasing the percentage of women. As of December 31, 2013, two women – Ms. Ingrid Hunger and Ms. Tanja Jacquemin – held seats on GRAMMER AG's Supervisory Board.

No more than two former members of the Executive Board are permitted to hold seats on the Supervisory Board. Similarly, members of the Supervisory Board must not exercise any governance or advisory function for any of GRAMMER AG's main competitors. If a member of the Supervisory Board is also on the executive board of a listed company, he or she may not hold more than three supervisory board offices for listed companies.

GRAMMER Group's Code of Conduct

In addition to the recommendations of the German Corporate Governance Code, GRAMMER AG has adopted its own Code of Conduct which includes further binding rules governing the GRAMMER Group's business activity. The GRAMMER Group's Code of Conduct defines mandatory rules for observing national statutory requirements, the principles of fair competition, health, safety and the environment as well as provisions concerning the treatment of confidential information and the avoidance of corruption and insider trading. The principle of equal opportunities is also firmly entrenched in the Code of Conduct.

Responsibility as a corporate citizen

A company's long-term success does not depend only on successful business performance. GRAMMER is expressly committed to a culture of caring and has firmly entrenched the duty of sustainable activity in its corporate guidelines. Its corporate social responsibility statement comprises economic, ecological and social components. Thus, it strives to minimize the strain on people and nature as far as possible, supports social projects and institutions at various GRAMMER locations around the world, furthers employees and young potentials and is committed to environmental protection and lower emissions as well as the sparing consumption of raw materials, water and energy.

More detailed information on the GRAMMER Group's CSR activities can be found in the chapter entitled "Social responsibility" on page 22 et seq.

Compliance in the GRAMMER Group

Responsible and legal activity forms the basis of the GRAMMER Group's success and is a firm element of our corporate culture. It is for this reason that we enjoy the trust of our customers, shareholders, business partners and the general public. The GRAMMER Group's Executive Board and all its employees have undertaken to act responsibly and to observe all applicable rules and regulations. The GRAMMER Code Team was established in 2005 to implement and ensure observance of GRAMMER's compliance rules. This Code Team comprises a member of the Executive Board as well as the Vice President Group Human Resources and the Vice President Group Internal Control & Legal. The Company has set up a separate e-mail address for reporting any compliance-related matters and publishes bulletins on an ad-hoc basis. In connection with compliance activities, staff are also able to attend lectures and take part in web-based training on compliance-related matters. In addition, staff have access to a list of frequently asked questions complete with the corresponding answers on this subject.

Investor relations

As a matter of principle, GRAMMER reports about the Company and current developments equally and at the same time to all relevant target groups. The Executive Board and the Supervisory Board are committed to the continuing improvement of communications in order to provide the general public with comprehensive and transparent information.

At www.grammer.com, both institutional and private investors have direct access to in-depth coverage of relevant topics. In addition to current press releases, all declarations of conformance to the German Corporate Governance Code, information about the Executive Board, the Supervisory Board and Annual General Meeting are published here, as well as annual and quarterly reports. The Internet site also provides information on all important dates and publications, ad hoc notifications and transactions subject to disclosure requirements (directors' dealings). Other information of interest to investors, such as road show presentations, are also included.

Directors' dealings

Members of the Executive Board and the Supervisory Board, along with all other employees holding management responsibilities, are obliged under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), to disclose the purchase and sale of GRAMMER shares or financial instruments relating to them. This obligation also applies to persons closely related to management staff. In 2013, no such transactions were disclosed to GRAMMER AG.

As of December 31, 2013, members of the Executive Board and the Supervisory Board directly or indirectly held less than one percent of the Company's shares. This also applies to persons closely related to management staff.

Remuneration report

All information concerning the remuneration of members of the Executive Board and the Supervisory Board as well as the details of GRAMMER AG's remuneration system can be found starting on page 50 et seq. of this report.

Accounting and statutory audit

GRAMMER AG prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The separate financial statements are prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB).

The auditing company appointed by the annual general meeting – Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg – audited the consolidated financial statements as well as the annual financial statements of GRAMMER AG. Both audits were performed in compliance with all accounting rules and in the light of the Generally Accepted Standards in Germany for the Audit of Financial Statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer).

The audit also covered risk management and conformance to the GCGC corporate governance reporting requirements under Section 161 of the Stock Corporation Act. It was agreed that the auditor would immediately notify the Supervisory Board of any grounds for disqualification or conflicts of interests as well as any key findings and occurrences during the audit. There was no reason for any such notification to be made. The annual financial statements and the consolidated financial statements were both awarded an unqualified opinion.

Risk management

A responsible approach to business risks is a fundamental element of good corporate governance. Group-wide and company-specific management accounting and control systems ensure that the Executive Board and management of GRAMMER AG are able to readily and comprehensively identify, assess and manage risks. The Audit Committee regularly monitors accounting processes and reporting, the efficacy of the internal control system, the risk management system and the internal audit system. Details on risk management are available in the Management Report from page 53 et seq.

Report of the Supervisory Board

Dear shareholders,

In 2013, the GRAMMER Group continued on the successful trajectory of earlier years. The record revenue achieved in the previous year was exceeded again substantially, accompanied by a further improvement in the Company's profitability.

The Supervisory Board held a total of four ordinary meetings in 2013; in addition, the various committees were convened nine times.

Relationship between the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board work closely together, maintaining regular contact with each other. The Executive Board briefed the Supervisory Board regularly, immediately and comprehensively in both writing and orally on all relevant matters within the Company as well as on its main business performance indicators. Decisions of fundamental importance for the Company were discussed at length by the Executive Board and the Supervisory Board in advance.

At its ordinary quarterly meetings, the Supervisory Board of GRAMMER AG dealt in detail with the Company's current business and financial condition. Together with the Executive Board, the Supervisory Board regularly discussed fundamental and strategic issues concerning corporate planning, business policy, business performance, the risk situation and risk management.

Meetings of the Supervisory Board

At the meetings of the Supervisory Board, the members discussed and passed resolutions on numerous matters as well as measures requiring their consent. Thus, the Supervisory Board approved the corporate strategy for the next five years, defining its basic elements for the period through 2018. Accordingly, the strategic focus will remain on maintaining an international and local presence via our own production and research/development activities at our facilities around the world. At the same time, GRAMMER AG is striving for further growth via innovation, technology, functionality and design.

In addition, decisions were made on the planned establishment of new subsidiaries in the United States and South Africa, while the upervisory Board was briefed on the merger of two of our subsidiaries with GRAMMER AG and GRAMMER System GmbH, respectively. As well as this, the Supervisory Board deliberated on the location concept for research and development and approved a syndicated loan agreement of EUR 180 million to replace the 3-year general facility agreement for EUR 110 million. Thanks to GRAMMER's favorable business performance, it was possible to refinance this facility ahead of schedule.

At its first meeting for the year on March 26, 2013, the Supervisory Board approved the agenda of GRAMMER AG's annual general meeting on June 5, 2013. In addition, the consolidated financial statements for the year ended December 31, 2012 were approved and the single-entity financial statements for GRAMMER AG for the year ended December 31, 2012 submitted and adopted in the presence of the statutory auditor Ernst & Young GmbH.

The second ordinary meeting of the Supervisory Board on June 4, 2013 dealt with the preparations for the annual general meeting, the results of the Supervisory Board's efficiency review and the resultant definition of measures to be taken, the presentation of the provisional consolidated financial statements as of April 30, 2013 and a comparison of the profitability of various facilities within the GRAMMER Group. In addition, the Supervisory Board passed a resolution on the introduction of a company pension scheme for employees and executives at the German GRAMMER companies and decided to review the pension scheme in place for GRAMMER AG's Executive Board. The Executive Board briefed the Supervisory Board on the planned acquisition of land to expand the facilities of GRAMMER System d.o.o. in Serbia.

The Supervisory Board held its meeting of September 25, 2013 at our Czech facility GRAMMER Automotive CZ s.r.o. (formerly nectec Automotive s.r.o.) in Česká Lípa. This gave the members of the Supervisory Board an opportunity of inspecting the plant, holding talks with the local management and gaining an insight into the products. During the meeting, the Supervisory Board passed resolutions approving the GRAMMER Group's strategic orientation through 2018, the location concept for research and development and the Group's headquarters and the incorporation of subsidiaries in the United States and South Africa. The Executive Board briefed the Supervisory Board on the planned merger of GRAMMER Wackersdorf GmbH with GRAMMER AG and of GRAMMER Wörth AG with GRAMMER System GmbH as well as the plans to enter into a syndicated loan agreement for up to EUR 180 million. In addition, it deliberated on the adjustments to the Executive Board's rules of procedure, which were approved in a circular resolution passed in January 2014 and adopted on February 1, 2014. As well as this, the provisional consolidated financial statements as of August 31, 2013 and details of the GRAMMER young potential training program were presented to the Supervisory Board. Finally, the Supervisory Board approved the schedule of meetings of the Supervisory Board and the Audit Committee as well as the date of GRAMMER AG's annual general meeting for 2014.

The main matters covered at the fifth and final meeting on December 10, 2013 included the approval of the GRAMMER Group's budget for 2014, the declaration of compliance with the German Corporate Governance Code and the old-age pension scheme for the Executive Board. In addition, the Supervisory Board member Bernhard Hausmann was bidden farewell.

No member of the Supervisory Board took part in fewer than half the meetings. No conflicts of interests arose among Supervisory Board members in relation to their activities as members of the GRAMMER AG Supervisory Board.

Circulatory resolutions

In 2013, the Supervisory Board of GRAMMER AG passed four circulatory resolutions in writing. Thus, a resolution was passed on July 10, 2013 approving the acquisition of developed land in Aleksinac in Serbia to extend the facilities of GRAMMER System d.o.o. In a circulatory resolution of July 18, 2013, the members of the Supervisory Board approved the appointment of Mr. Hartmut Müller to the Advisory Board of IFA ROTORION – Holding GmbH in Haldensleben. On October 23, 2013, a resolution was passed to approve a syndicated loan agreement of up to EUR 180 million. In the circulatory resolution of October 24, 2013, several resolutions passed at the Supervisory Board's meeting of September 25, 2013 were re-confirmed due to changes in the composition of the Supervisory Board; these concerned the GRAMMER Group's strategy, the report on the current status of M&A activities, the location concept for research and development and for GRAMMER AG's headquarters and the establishment of subsidiaries in the United States and South Africa.

Committees

To facilitate the efficient discharge of its duties in 2013, GRAMMER AG's Supervisory Board established four committees. The composition of the Supervisory Board committees is as follows:

Strategy Committee
Georg Liebler
Horst Ott
Dr. Klaus Probst (Chairman)
Wolfgang Rösl

Standing Committee
Georg Liebler
Horst Ott
Dr. Klaus Probst (Chairman)
Wolfgang Rösl

Audit Committee
Wolfram Hatz (Chairman)
Tanja Jacquemin (until January 31, 2014)
Harald Jung (as of March 11, 2014)
Wolfgang Rösl
Dr. Bernhard Wankerl

Nominating Committee
Wolfram Hatz
Dr. Klaus Probst
Dr. Bernhard Wankerl

The Strategy Committee advises the Executive Board on the development of the corporate strategy and the planning of its implementation, observes the implementation of the strategy, prepares the consultations and resolutions of the Supervisory Board in connection with strategy-related matters and submits recommendations to the Supervisory Board. It met three times in the year under review on February 27, 2013, May 17, 2013 and August 5, 2013. During the meetings, the members of the Strategy Committee dealt at length with GRAMMER AG's growth targets through 2016/2017 and deliberated on the update of the M&A activities, the industrial footprint, the future funding strategy and the integration and business plan of the joint venture GRAMMER Seating (Jiangsu) Co. Ltd. in China. It submitted recommendations for Supervisory Board resolutions concerning the location concept for research and development and the strategy for 2013 through 2018.

In addition to its duties under the German Codetermination Act, the Supervisory Board's Standing Committee performs tasks relating to Executive Board matters, prepares personnel decisions for the full Supervisory Board and negotiates service contracts with the members of the Executive Board. It held two meetings in the year under review. At the meeting of May 17, 2013, the Standing Committee deliberated on the old-age pension scheme for employees and executives at the German GRAMMER companies and for GRAMMER AG's Executive Board. The agenda of the second meeting on September 24, 2013 provided for consultations on possible new arrangements for the pension contracts with the members of GRAMMER AG's Executive Board.

The Audit Committee prepares resolutions of the Supervisory Board on accounting matters and monitors the efficacy of the internal control system, the risk management system and the internal auditing system as well as the external audit, deals with compliance and places the audit mandate with the statutory auditor. It met a total of four times in 2013. Together with auditing company Ernst & Young GmbH, the committee members discussed the final single-entity and consolidated financial statements of GRAMMER AG for 2012 on March 26, 2013. The review of the quarterly figures as of March 31, 2013 and the latest progress in the issue of the promissory note loan were the main items on the agenda for the committee's second meeting on May 3, 2013. At the meeting of August 2, 2013, the GRAMMER Group's first-half figures as of June 30, 2013 were reviewed, while the meeting held on November 8, 2013 was devoted to a consideration of the figures for the 3rd quarter, an update on the syndicated loan agreement and the current status of the DPR audit. At all of its meetings, the Audit Committee additionally discussed the updating of the risk report.

The Nominating Committee is responsible for submitting the names of suitable candidates to the Supervisory Board for its election proposals to the annual general meeting as well as for defining in advance the requirements for the specific office to be filled. The Nominating Committee did not meet in the year under review.

Audit of the annual and consolidated financial statements

At the annual general meeting held on June 5, 2013, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, was appointed the auditor for 2013. The auditor submitted the statement of auditor's independence as required by the GCGC and disclosed the auditing and consulting fees charged during the 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 reports for both GRAMMER AG and the Group. The auditor issued an unqualified opinion in both cases. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the combined management report for GRAMMER AG and the Group provide a true and fair view of the Company and of the Group, as well as the opportunities and risks with regard to future development.

In accordance with Section 317 (4) of the German Commercial Code, the auditor determined and was satisfied that GRAMMER AG's consolidated financial statements presents a true and fair view of the Group's net assets, financial condition and results of operations. It additionally determined that the Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

The auditor's reports and financial statement documents were submitted to the members of Supervisory Board in good time before the Supervisory Board's balance sheet meeting on March 26, 2013. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft briefed the Supervisory Board and the Audit Committee on the main results of the audit.

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

Composition of the Supervisory Board and the Executive Board

There were only minor changes in the composition of the Supervisory Board in 2013. Mr. Bodensteiner was re-appointed to the Supervisory Board on August 23, 2013, while Mr. Bernhard Hausmann stepped down as of August 23, 2013.

There were no changes to the composition of GRAMMER AG's Executive Board in 2013.

The Supervisory Board would like to express its thanks to the members of the Executive Board and all of the employees and employee representatives of GRAMMER AG for their personal commitment and hard work throughout 2013.

Amberg, March 2014

On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER Share

Global stock markets with heavy gains in 2013

The international stock markets performed encouragingly in 2013, closing the trading year with double-digit growth rates. This performance was materially due to the US Fed and the European Central Bank, which continued their accommodative monetary policies.

The DAX, the benchmark German index, reached historical highs in the year under review, exceeding the 9,500 mark for the first time in its history. It closed the year at 9,552.16 points on December 30, 2013 and thus advanced by 25.5% in twelve months.

The SDAX, a selection index of the 50 smaller listed companies in Germany, in which GRAMMER is also included, posted strong gains, closing the year at 6,788.79 points, up 29.3% on the 2012 year-end close.

GRAMMER share with gains of over 116%

The GRAMMER share entered 2013 on a strong note, performing steadily as the year progressed. This positive trend was underpinned by the announcement of very good figures for 2012 in March followed by similarly upbeat quarterly figures in May and August. Spurred by the announcement of the nine-month figures, the GRAMMER share exceeded the EUR 37.00 mark for the first time, hitting a high for the year of EUR 38.05 on December 2. The share ended the trading year with a closing price of EUR 34.66 on December 30, 2013, thus more than doubling in value in the space of twelve months. With gains of over 116%, the GRAMMER share was one of the top performers not only in the SDAX but in the entire German stock market.

Trading volumes

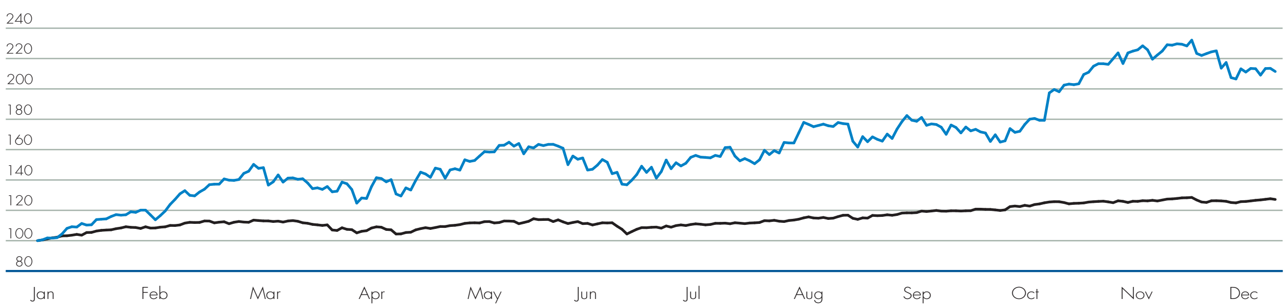
The GRAMMER share was one of the most liquid stocks in the SDAX in 2013. On average, over 48,000 shares were traded on the XETRA electronic trading system. Over the year as a whole, some 13.1 million shares changed hands on the Frankfurt stock exchange and via XETRA. GRAMMER ranks 64th in terms of trading volumes and is thus in the upper midfield of Deutsche Börse's SDAX.

GRAMMER key share data

	2013	2012[1]
Share price at year-end (in EUR, Xetra)	34.66	16.02
Annual high (in EUR)	38.05	18.01
Annual low (in EUR)	16.39	12.04
Number of shares (Dec. 31)	11,544,674	11,544,674
Market capitalization (in EUR m., Dec. 31)	400.1	184.9
Earnings per share (in EUR)	2.67	2.38
Dividend (in EUR)	0.65[2]	0.50

[1] adjusted prior-year figures
[2] proposal

GRAMMER AG and SDAX Performance Index 2013 price trend (in %)



December 31, 2012 = 100%

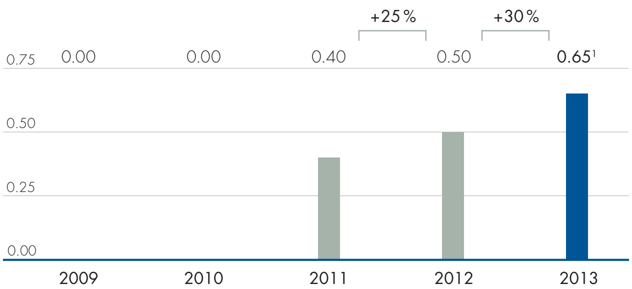
GRAMMER AG
SDAX Performance Index

GRAMMER share an attractive investment

GRAMMER is continuing to position its share as an attractive investment in the capital market and has taken preliminary steps towards achieving this with the dividends distributed in the past two years. At the annual general meeting, the shareholders approved a dividend of EUR 0.50 per share for the 2012 fiscal year. This was equivalent to a dividend yield of 3.1 % relative to the 2012 closing price and a 25 % increase in the dividend per share over the previous year.

In addition to the sharp gains in the price of the share in 2013, GRAMMER also wants its shareholders to benefit from the Company's business performance in the form of dividend payouts. Accordingly, the Executive Board and the Supervisory Board will be asking the shareholders to approve a dividend of EUR 0.65 per share for the 2013 fiscal year at the annual general meeting on May 28, 2014.

Development of dividends (in EUR)



[1] proposal

Broad analyst coverage

Several analysts regularly reported on the GRAMMER share in 2013.

Analyst coverage of GRAMMER AG in 2013

Banks and research companies
Bankhaus Lampe KG
getinsight Research GmbH
Landesbank Baden-Württemberg
LFG Kronos Investment Services GmbH
Montega AG
M.M. Warburg & Co. KGaA
Steubing AG

GRAMMER AG was not only covered by the analyses of banks and research institutions but also in articles featured in specialist publications such as "Der Aktionär" and "Focus Money", which included buy recommendations.

Investor-relations activities with an international outlook

Our investor-relations activities are characterized by consistent and comprehensive communications with all capital market participants. We brief private and institutional investors, analysts and financial journalists openly and with minimum delay at all times.

In 2013, we conducted numerous roadshows in national and international financial centers. In around 200 one-on-ones, the Executive Board and the GRAMMER investor-relations team were available to answer questions. As well as this, we took part in several international capital market conferences. In addition to our traditional attendance at Baader Investmentkonferenz, the German Investment Conference in Munich and Deutsches Eigenkapitalforum in Frankfurt/Main, GRAMMER also took part in the German Mittelstands Conference in New York. A large number of US investors made use of this opportunity to find out more about GRAMMER's current business performance and future prospects.

Roadshows and investor conferences

Month	Place
January	Zurich
March	Frankfurt/Main
April	Amsterdam
April	London
April	Baden-Baden
April	Dusseldorf
May	Vienna
May	Geneva
August	Zurich
August	Frankfurt/Main
August	Copenhagen
August	London
September	Munich
October	New York
October	Paris
November	Frankfurt/Main
December	Frankfurt/Main

Alongside one-on-ones with the Executive Board, GRAMMER provides numerous other sources of information for interested capital market participants, keeping them abreast with minimum delay of the latest news from the Group via press releases, ad hoc bulletins and voting right notifications. The annual report and the three quarterly reports contain detailed information. The publication of the annual report is accompanied by our annual press conference in Frankfurt/Main for analysts and financial journalists. When the quarterly reports are released, the Executive Board is available in telephone conferences to answer any questions asked by analysts and financial journalists. These telephone conferences are recorded and made available on GRAMMER's website at www.grammer.com.

The website also holds further detailed information on the GRAMMER Group and the GRAMMER share, giving the interested public an insight into the GRAMMER product worlds and its basic research into Ergomechanics®. The latest indicators for the share and the Company's business performance as well as details of analyst coverage of the GRAMMER share can be found in the Investor Relations section.

Strong attendance at the annual general meeting

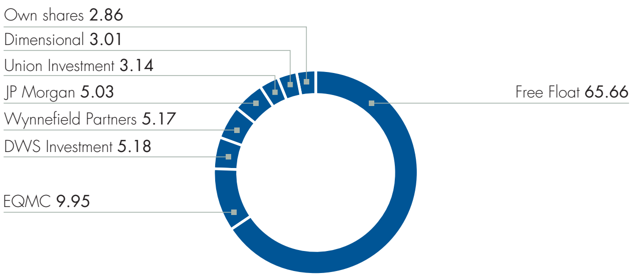
GRAMMER AG held its annual general meeting in Amberg on June 5, 2013. It attracted a great deal of interest on the part of GRAMMER AG shareholders, with more than 48 % of voting share capital represented. All motions were approved at the annual general meeting with large majorities. Similarly, a large majority of shareholders voted to formally approve the work of the Executive and Supervisory Boards in 2012.

Award-winning communications

After performing successfully in earlier years, the 2012 annual report again fared well in an international competition. Thus, the American League of Communication Professionals (LACP) awarded bronze for the 2012 annual report in recognition of the outstanding structuring of its factual content and graphic design.

Shareholder structure

Shareholder structure (in %)



as of December 31, 2013

Only notifications relating to voting right holdings of greater than 3 % are shown here. The current shareholder structure is disclosed in the Investor Relations section of the GRAMMER AG website.

Voting right notifications in 2013

Date of change	Disclosing party	Threshold reached	Share of voting rights according to notification
February 13	EQMC Europe Development Capital Fund	Under 10%	9.95% (1,148,907)
May 22	JP Morgan Asset Management	Over 3%	3.04% (350,578)
August 19	Sterling Strategic Value	Under 3%	2.85% (328,788)
August 20	Union Investment Privatfonds	Over 3%	3.14% (362,099)
November 7	JP Morgan Asset Management	Over 5%	5.20% (600,689)
December 4	JP Morgan Asset Management	Over 5%	5.03% (581,026)

Combined Group Management Report Index

Combined Group Management Report

In accordance with section 315 (3) in connection with section 298 (3) HGB, the combined management report includes the management report for the GRAMMER Group and for GRAMMER AG.

- New record in Group revenue of EUR 1.27 billion
- Substantial increase in operating earnings to EUR 58.0 million
- Earnings after interest and taxes up on the previous year
- Increase in earnings per share to EUR 2.67
- Further increase in dividend to EUR 0.65 per share proposed

Basis of the Group

Business model

GRAMMER is a global group specializing in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles. It operates 34 production and logistic plants worldwide, which – with considerable value chain integration – manufacture and distribute high quality products for the global vehicle industry. In addition to the parent company, GRAMMER AG, the Group includes 27 other fully consolidated companies as well as one joint venture consolidated at equity. The GRAMMER Group is represented in 19 countries worldwide. With its presence in the various regions, it chiefly follows its main customers. The main markets are the domestic European market, the NAFTA region, China and Brazil. The Group's business performance correlates closely with the performance of its relevant markets and main customers. In the Automotive Division these are the premium passenger vehicle segment and in the Seating Systems Division commercial vehicle business in its main sell-side markets.

The GRAMMER Group is managed centrally by the three members of its Executive Board. The parent company, GRAMMER AG, has its headquarters in Amberg, Germany.

Business divisions

The GRAMMER Group comprises two divisions. The Automotive Division supplies premium automakers and automotive system vendors with products such as premium interior components, including headrests, armrests and center consoles. In the Seating Systems division, the Company operates as both a tier 1 and aftermarket supplier for complete seat units and seating systems. Here, GRAMMER supplies OEMs of commercial and off-road vehicles, including agricultural and forestry vehicles as well as construction machinery and material handling vehicles. Other customer groups include rail transport OEMs, rail operators and bus manufacturers.

Management process system

GRAMMER's value-based management process system is primarily oriented towards the key management indicators revenue, earnings before interest and taxes (EBIT), working capital, gearing and GRAMMER economic value added (GEVA). The latter is based on economic value added (EVA) and measures the efficiency with which the Company's capital is employed. GEVA is defined as the ROCE (return on capital employed) minus WACC (weighted average cost of capital); for this purpose, ROCE is the quotient of operating earnings after tax and the capital required for operations, while WACC expresses the cost of capital employed.

Research and development

Research and development is a central focus for the GRAMMER Group as an important factor for successful positioning in the market now and in the future by means of a technological lead and innovative products to create a broad product range. This allows us to tap into new market potential and ensure the Group's long-term competitiveness. Thus, GRAMMER has installed a systematic innovation process in the development area to ensure that in addition to addressing ongoing market requirements it is also able to advance its own innovations. The success of this strategy is reflected in the continued high number of global patent applications as well as the launch of new products in the market place. The overarching focus of development activities is on light-weight construction and on playing an active role in the general trend in automotive engineering towards lower weight in order to reduce consumption. Numerous activities with external institutions have been initiated in this area. The results gained and new processes developed will be gradually incorporated in the development of new and improved products.

In the Automotive Division, responsibility for developing new automotive components and systems is increasingly shifting away from OEMs to suppliers. Consequently, GRAMMER is continuing to strengthen its position as a development partner and innovation driver for customers in this area. In this context, a technological lead and first-rate solutions give us important market advantages. The thrust of development activities is in light-weight construction together with the production of high-quality and premium surfaces for our products as well as new kinematic solutions for consoles. In addition, we are working on solutions for integrating new HMI (human/machine interface) solutions, which are to be offered to customers in a system together with the consoles in the future. With respect to head rests, the main focus is on innovative solutions for electric drives in the premium segment as well as further enhancements to existing technologies with respect to package space, weight and adjustment mechanisms.

In the Seating Systems Division, GRAMMER is also working steadily on enhancing its range and creating innovative solutions that anticipate changes in market conditions. Intensive research and development form the basis for both its current and future business success. Looking ahead, new and innovative products will enable GRAMMER to meet customer expectations to a high degree and additionally reinforce and broaden its market position. Here as well, joint activities with external experts are beginning to bear fruit. Thus, a completely new adjustable head rest for tractor seats has been developed in collaboration with the Department of Biomechanics at the University of Ulm. This head rest ensures that the tractor operator can move without any hindrance even in reverse and simultaneously receive optimum support for his or her backbone. The product was unveiled at Agritechnica in November 2013 and met with a very favorable market response. Offroad activities are targeted at completing the existing HMI solutions with a new multifunction armrest (MFA medium) scheduled for mid-2014 launch and are proceeding according to schedule. At the same time, work on developing new concepts for new and highly innovative next-generation HMI solutions for offroad applications is being stepped up. In the railway segment, we started developing an entirely new platform for regional transportation in the year under review and will be completing it in 2014. As a result, GRAMMER has been able to gain a leading North American rolling stock OEM as a new customer, something which highlights the innovativeness of the core activities pursued by our development department.

Moving forward, the innovation strategy will be emphasizing regionalization, i.e. focusing product development on the specific needs of regional markets, in addition to traditional project related themes. Moreover, we have stepped up projects to standardize products specifically for each region, which will strengthen our market position in the long term.

Economic conditions

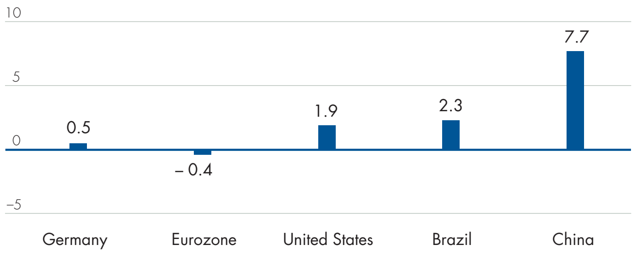
Overall economic conditions and developments

Global economy on a growth trajectory

The global economy entered 2013 listlessly, only picking up noticeably as the year progressed. However, the greater momentum emerging as of the summer was not sufficient to quite make up for the initially muted conditions, pushing full-year growth slightly down below the previous year. According to the International Monetary Fund (IMF), global production widened by 3.0 %, thus falling short of the previous year by 0.1 percentage points. Of the advanced economies, the United States in particular remained weak. At 1.9 %, growth in gross domestic product was substantially slower than in the previous year (2.8 %), reflecting the effects of the political dispute surrounding the government debt ceiling and more restrictive fiscal policy. However, the US economy recovered appreciably in the second half of the year despite continued political strain. The Eurozone emerged from the recession in the summer, although the economic recovery remained very moderate. Overall economic production has been expanding since the second quarter after previously contracting for six consecutive quarters. According to the IMF, full-year economic output shrank by 0.4 % in the Eurozone in 2013, compared with 0.7 % in the previous year. The structural adjustments required as a result of heavy public-sector debt in a number of countries, which were accompanied by lower incomes and uncertainty on the part of consumers and investors, remained an obstacle to growth. At the same time, economic conditions in the Eurozone are characterized by major differences between the individual countries. Of the four large economies, Germany and Frances posted moderate gains of 0.5 % and 0.2 %, respectively, whereas production contracted substantially by –1.8 % in Italy and by –1.2 % in Spain.

A number of developing countries and emerging markets also experienced a weak spell last year due to the expected gradual tightening of US monetary policy on the one hand and the absence of any impetus from the industrialized nations on the other. This was exacerbated by problems in the domestic economies which placed a damper on growth rates. According to the IMF, the rate of expansion in the developing countries and emerging markets came to 4.7 % in 2013, down slightly on the previous year's figure of 4.9 %. Here, as well as well, conditions were relatively mixed. Whereas growth picked up substantially in the countries of Central and Eastern Europe, in India as well as in Brazil, there were clear signs of a slowdown in Russia and Mexico. In China, growth remained flat at 7.7 %.

Economic growth (gross domestic product) in 2013 in selected countries (in %)



Source: IMF

N.B.: In June 2012, the amendments to IAS 19 "Employee benefits" were endorsed by the EU for mandatory application. The changed standard must be applied retroactively to financial statements for accounting periods commencing on or after January 1, 2013. Additionally, the GRAMMER Group early adopted as of January 1, 2013 the new IFRS 11 standard, which must be applied to financial statements for all accounting periods commencing on or after January 1, 2014. As required, the prior-year figures have been adjusted to reflect the effects of application of the standards.

Business performance

Key figures GRAMMER Group

in EUR m

	2013	2012[1]	Change in %
Revenue	1,265.7	1,133.0	11.7
EBIT	58.0	49.0	18.4
EBIT-margin (in %)	4.6	4.3	7.0
Investments (without acquisitions)	46.8	39.0	20.0
Employees (number, as of December, 31)	10,082	8,620	17.0

[1] adjusted prior-year figures

Group business performance characterized by strong growth

In the year under review, the GRAMMER Group achieved substantial business growth against the backdrop of disparate conditions in the global economy. This performance was underpinned by both Divisions, with total revenue climbing by 11.7 % accompanied by a increase in order receipts in both Divisions. In the Automotive Division, this favorable performance was driven by the Group's clear focus on premium customers as this customer group was able to more than make up for weak market conditions in Europe with strong business in Asia and America. In the truck segment, GRAMMER was also able to boost business volumes primarily by gaining market share in Europe on the strength of the new products which had been launched in the previous year as well as the buoyant Brazilian market. Revenue in offroad business was up slightly on the previous year. Against this backdrop, the GRAMMER Group achieved a substantial increase in earnings in 2013 despite the expenditure on opening new facilities and expanding and optimizing existing ones. Launched in the previous year, the projects for improving cost structures already began to make positive contributions to earnings. Consequently, GRAMMER was able to exceed the forecast for 2013, which had provided for small increases in revenue and operating earnings.

Changes in 2013

On December 10, 2012, GRAMMER AG signed a contract for the acquisition of nectec Automotive s.r.o. The transaction was cleared by the anti-trust authorities in February 2013.

This company develops and produces head rests at its facility in Česká Lípa in the Czech Republic primarily for the premium car market. Founded in 2008 by the Fehrer Group, it grew rapidly to become one of the leading suppliers of head rests in Europe in the space of only a few years. All told, it employed roughly 240 people on the date of the acquisition, generating revenue of EUR 41.4 million in 2013. Following the acquisition, it was renamed GRAMMER Automotive CZ s.r.o. As part of the transaction, GRAMMER also acquired control over the 50 % share held by GRAMMER Automotive CZ s.r.o. in a joint venture with Chinese automotive components supplier NingBo Jifeng. This share is to be sold to the joint venture partner in 2014.

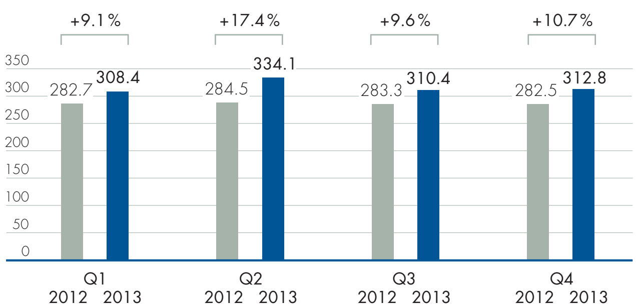
On December 17, 2012, GRAMMER AG and Jiangsu Yuhua Automobile Parts Co., Ltd. an established Chinese supplier of components and systems for commercial and passenger vehicles, signed an agreement to launch a joint venture for the production and marketing of seats for trucks and buses in China. GRAMMER AG holds 60 % and Yuhua 40 % in the jointly controlled company, GRAMMER Seating (Jiangsu) Co. Ltd. located in Jiangyin, China. The joint venture received its operating permit from the Chinese authorities on March 7, 2013 in a step which marks a further important step in the implementation of our global growth strategy. With this joint venture, GRAMMER now has an outstanding platform for achieving its ambitious growth targets in the Chinese truck market. Yuhua is providing a new production facility and contributing other benefits to the joint venture, such as its existing truck seat business and established customer base. Consequently, the Group and its partner Yuhua will be able to develop seat types for the specific market, produce them locally and sell them to renowned local and international customers.

After commencing its business operations in August 2013, GRAMMER Seating (Jiangsu) Co. Ltd. generated revenue of around EUR 3.3 million in 2013.

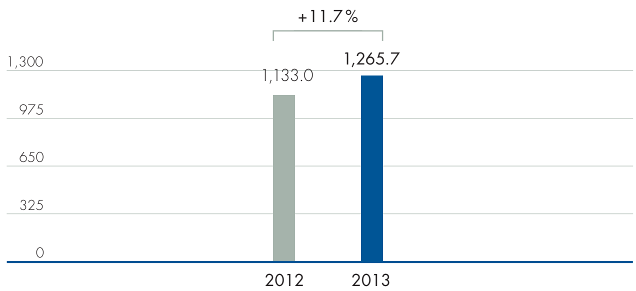
On October 17, 2013, GRAMMER AG established a new subsidiary based in Johannesburg, South Africa, which will be supplying individual customers in that country. This company did not generate any revenue in the year under review but will be commencing its business operations in the first half of 2014.

Further record revenue of EUR 1.27 billion
In 2013, the GRAMMER Group generated total revenue of EUR 1,265.7 billion (2012: 1,133.0), thus reaching a new record for the fourth consecutive year in its history of over 60 years. After growing 13.3 % year on year in the first half of the year, consolidated revenue continued climbing by 10.1 % in the second half. This substantial growth in business was achieved despite muted market conditions in the Company's domestic European market. Nor were there any signs of a slowdown in the fourth quarter, when the growth rate increased again by 10.7 % over the previous quarter (9.6 %).

Group revenue development by quarter (in EUR m)



Group revenue development[1] (in EUR m)



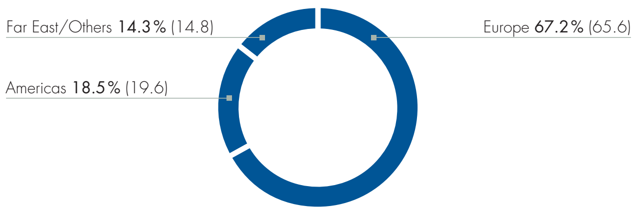
[1] adjusted prior-year figures

Regionally, the Group's revenue painted a mixed picture but both Divisions recorded gains in all three regions. In Europe, revenue grew by EUR 108.0 million to EUR 851.1 million (2012: 743.1). This disproportionately strong growth of 14.5 % in our core region was driven by both organic and non-organic factors. Thus, head rest specialist nectec Automotive s.r.o., which had been consolidated on February 1, 2013, contributed EUR 41.4 million to revenue. However, the other segments also asserted themselves extremely well despite very muted market conditions, gaining market share with their innovative and high-quality products. The very encouraging revenue generated with the MSG 115, the new truck seat which we had started producing in the previous year, also made a contribution.

In the Americas region, which comprises the North and South American markets, revenue grew by 5.0 % or EUR 11.1 million to EUR 233.6 million, thus coming close to the previous year's growth rate (6 %). However, this region painted a mixed picture. Whereas business in South America was very strong thanks to the robust commercial vehicle industry in Brazil, automotive business in the NAFTA region was very sluggish. It was characterized by the phasing-out and start-up of series production contracts, meaning that no real growth was generated in the period under review. On an encouraging note, GRAMMER was able to gain a major North American OEM as a new automotive customer in the United States in 2013 and also generated sizable new automotive business in Brazil.

Business in the region Far East/Others was favorable, chiefly spurred as it was by China. Thus, revenue in the region rose by 8.1 % over 2012 to EUR 181.0 million (2012: 167.4), thus slightly exceeding the Chinese growth rate of 7.7 %. Compared with the previous years, in which disproportionately strong growth had been achieved, the rate of expansion in this region normalized, not least of all as a result of fairly muted conditions in the local commercial vehicle markets.

Revenue by regions[1] (previous year in brackets)



[1] adjusted prior-year figures

in EUR m

	2013	2012[1]	Change in %
Europe	851.1	743.1	14.5
Americas	233.6	222.5	5.0
Far East/Others	181.0	167.4	8.1
Total	1,265.7	1,133.0	11.7

[1] adjusted prior-year figures

Economic situation

Results of operations

Condensed income statement for the GRAMMER Group

in EUR k

	Q4 2013	Q4 2012[1]	Change	01 – 12 2013	01 – 12 2012[1]	Change
Revenue	312,798	282,510	30,288	1,265,660	1,132,962	132,698
Cost of sales	−280,816	−246,056	−34,760	−1,109,739	−991,288	−118,451
Gross profit	**31,982**	**36,454**	**−4,472**	**155,921**	**141,674**	**14,247**
Selling costs	−5,715	−7,539	1,824	−25,662	−27,281	1,619
Distribution costs	−18,873	−20,287	1,414	−86,183	−78,275	−7,908
Other operating income	7,313	5,036	2,277	13,934	12,849	1,085
Net operating profit	**14,707**	**13,664**	**1,043**	**58,010**	**48,967**	**9,043**
Net finance expense	−6,431	−2,153	−4,278	−15,595	−10,635	−4,960
Earnings before taxes	**8,276**	**11,511**	**−3,235**	**42,415**	**38,332**	**4,083**
Income taxes	−2,587	−3,940	1,353	−12,829	−11,553	−1,276
Earnings after taxes from discontinued operations	23	0	23	23	0	23
Earnings after tax	**5,712**	**7,571**	**−1,859**	**29,609**	**26,779**	**2,830**

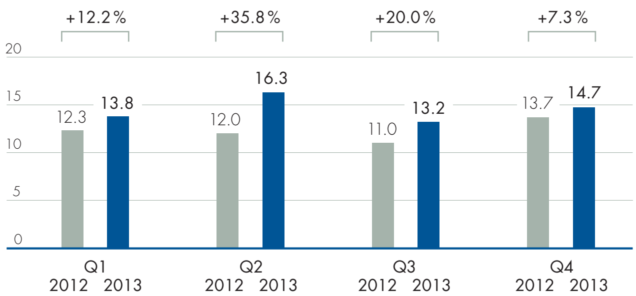
[1] adjusted prior-year figures

Consolidated earnings substantially up

The GRAMMER Group's favorable business performance in 2013 was also reflected in an improvement in earnings quality and, hence, a substantial increase in operating earnings. Thus, gross profit widened by EUR 14.2 million over the previous year to EUR 155.9 million. Driven by the increase in business volumes and the resultant economies of scale, operating earnings before interest and taxes (EBIT) rose by a disproportionately strong 18.4% or EUR 9.0 million to EUR 58.0 million, translating into an EBIT margin of 4.6% (2012: 4.3). This increase was underpinned by the Seating Systems Division, which recorded a disproportionately strong increase in earnings thanks to the market recovery in Brazil and the substantially lower start-up costs for the new-generation MSG 115 truck seats. Earnings in the Automotive Division were influenced by up-front efforts for new contracts as well as the construction of new facilities and extensions to existing ones to prepare for future growth.

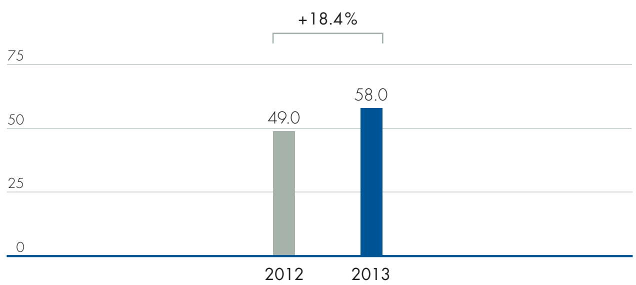
In the year under review, EBIT grew sequentially year on year in each quarter, spurred by the efficiency measures taken and the systematic and continuous optimization of our processes and structures.

Group EBIT by quarter[1] (in EUR m)



[1] adjusted prior-year figures

EBIT development GRAMMER Group[1] (in EUR m)



[1] adjusted prior-year figures

Costs
The cost of sales increased by 11.9 % to EUR 1,109.7 million (2012: 991.3), thus rising at almost the same rate as revenue.

In the year under review, sales expenses were down on the previous year, dropping to EUR 25.7 million (2012: 27.3). This is primarily attributable to the measures taken to cut costs and enhance efficiency.

Administrative expenses rose to EUR 86.2 million (2012: 78.3). As a result of higher revenues and expanded business activities in growth regions, costs rose by a slightly lower percentage than in the previous year.

The staff costs included in the above items climbed by EUR 19.3 million to a total of EUR 251.6 million (2012: 232.3) for business-related reasons, with the staff cost ratio improving to 19.9 % (2012: 20.5), i.e. below the average for the previous years, due to economies of scale.

Other operating income
Other operating expenses came to EUR 13.9 million (2012: 12.8). The minor increase is attributable to increased scrap sales, rentals and income from government grants.

Financial result
Financial result came to EUR 15.6 million (2012: 10.6). This increase was chiefly due to impairments arising from currency translation effects for the Czech koruna. In addition, non-recurring fees and commissions were incurred in connection with the restructuring and enlargement of GRAMMER AG's funding base, resulting from the issue of a new debenture bond and the signing of a new syndicated loan contract.

Taxes
At EUR 12.8 million, tax expense was up on the previous year (2012: 11.6). The growth in operating earnings in Germany resulted in income tax expenses in connection with minimum taxation effects. Non-domestic income tax expense rose as a result of the growth in the earnings of subsidiaries subject to higher tax rates.

Earnings
Operating earnings before interest and taxes (EBIT) rose substantially in the year under review thanks to strong business, coming to EUR 58.0 million (2012: 49.0). The EBIT margin widened from 4.3 % to 4.6 %. Despite the increased finance expense and slightly higher tax expense, earnings after interest and taxes also rose substantially to EUR 29.6 million (2012: 26.8).

Earnings per share are calculated on the basis of net profit for the year and stand at EUR 2.67 (2012: 2.38).

Appropriation of profit
The appropriation of profit by the GRAMMER Group is based on the net profit/loss recorded in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. GRAMMER AG posted virtually unchanged net profit of EUR 15.4 million as of as of December 31, 2013 (2012: 15.4). This includes the profit of EUR 9.8 million carried forward, the allocation of EUR 5.6 million to other revenue reserves and the net profit for the year of EUR 11.2 million. The Executive Board will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.65 be paid per share (EUR 7.3 million) and that the balance of EUR 8.2 million be carried forward. This decision takes account of the fact that the Company holds a total of 330,050 treasury shares, on which no dividend is paid. If the number of dividend-entitled shares changes before the date of the Annual General Meeting on May 28, 2014, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

Financial position
Finance and liquidity management
GRAMMER has signed a new syndicated loan contract for EUR 180 million, thus securing the Group's funding at an early stage. The new facility refinances the previous global loan agreement for EUR 110 million expiring in July 2013. The decision to renew the credit facility at this stage was prompted by the current favourable financing terms and GRAMMER's positive business performance. In this way, it was possible to further improve the maturities profile and obtain more favorable terms. In addition to the successful placement of a debenture bond in May 2013, the new credit facility enhances GRAMMER's financial position and heightens its scope for organic and non-organic growth. In implementing these activities, Group Treasury attaches importance to timing aspects in the interest structure so that short-term drawdowns are based on floating rates, while medium to long-term funding generally exhibits matching maturities. Management of operating cash flows and adequate external financing are overseen centrally by Group Treasury except in cases where legislation in a specific jurisdiction would limit this. To finance our growth activities, we have expanded our cash position in order to continue our solid and conservative funding policies. The Group's main financial priority is to further improve its credit rating and to establish a balanced maturity structure and diversified funding portfolio to ensure liquidity over the long term.

Group Finance handles worldwide payment transactions and administration of the cash pool for ensuring adequate liquidity for the Group's subsidiaries, as well as determining the extent to which the system is viable and effective within the given legal and economic circumstances. For the purposes of managing financial risks, interest rate and currency risks are hedged centrally using conventional external derivative financial instruments. The Group has always kept very close watch over these risks.

As of December 31, 2013, the Group holds EUR 91.3 million in cash and cash equivalents to be used primarily for the continued growth of its business activities and as a strategic reserve.

Non-current financial liabilities rose to EUR 146.8 million (2012: 76.8), reflecting the issue of the new debenture bond of EUR 73.5 million in May 2013. The new debenture bond comprises four tranches of up to six years with both fixed and floating interest rates.

At the same time, part of an existing 2006 debenture bond was renewed in an amount of EUR 16.5 million and therefore reclassified as a non-current financial liability. An amount of EUR 18 million of the 2006 debenture bond, which has a total nominal amount of EUR 60.0 million, will be falling due for repayment in September 2014 and was therefore reclassified as a current financial liability.

Current financial liabilities come to a total of EUR 37.7 million due to the changes in the debenture bonds and are therefore well below the previous year (2012: 72.8). The decline in this item is chiefly due to the repayment of EUR 44.0 million of a debenture bond in August 2013.

Moreover, a new syndicated bilateral loan contract providing for a facility of EUR 180.0 million was signed between domestic GRAMMER companies and six commercial banks in 2013. It expires on October 30, 2018 unless GRAMMER AG exercises the two one-year renewal options.

With the funding measures implemented, GRAMMER is also able to honor new non-current obligations under rental contracts and leases.

Despite the improved earnings before taxes, cash flow from operating activities contracted slightly due to the financing of customer projects in the Automotive Division. The cash flow generated was utilized to expand business volumes and for further spending on property, plant and equipment.

Adjusted for the acquisition of nectec Automotive s.r.o., cash flow from investing activities was up on the previous year. Capital spending on property, plant and equipment rose due to the establishment of a plant and the related acquisition of property, plant and equipment from the joint venture partner Jiangsu Yuhua Automobile Parts Co. Ltd. for the newly established joint venture GRAMMER Seating (Jiangsu) Co. Ltd., Jiangyin, China. In addition, a new facility for center consoles was established in Beijing.

Cash flow from financing activities improved due to the issue of a new debenture bond in May 2013. The opposite effect arose from the repayment of a debenture bond in August 2013 as well as the higher dividend payment compared with the previous year.

Accordingly, there was a further improvement in the previous year's already strong cash and cash equivalents, which are available for further business expansion in the growth regions and as a strategic reserve.

Capital structure

As of December 31, 2013, the Company's share capital amounted to EUR 29,554,365.44 divided into 11,544,674 shares. All shares (with the exception of treasury stock) accord the same rights; shareholders have a right to payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting. The Annual General Meeting on May 28, 2009 approved a contingent increase in share capital of EUR 13,434 thousand (Contingent Capital I). Pursuant to Article 5 (3) of the Articles of Association, the Executive Board is authorized, subject to approval by the Supervisory Board, in accordance with section 202 AktG to increase the share capital by a maximum of EUR 14.78 million by issuing bearer shares once or repeatedly (Authorized Capital 2011). This authorization expires on May 25, 2016. The Executive Board is further authorized, in each case subject to the approval of the Supervisory Board, to decide on the exclusion of shareholders' statutory subscription rights, provided this is necessary to eliminate fractional amounts; if the shares are issued against contribution in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company or if a capital increase is made against a cash contribution which does not exceed 10% of share capital and the issue price of the new shares is not substantially lower than the exchange price (section 186 (3) sentence 4 AktG); if use is made of the authorization in conjunction with an exclusion of shareholder rights in accordance with section 186 (3) sentence 4 AktG, the exclusion of subscription rights under other authorizations is to be taken into account pursuant to section 186 (3) sentence 4 AktG. With the resolution on May 18, 2012, the Executive Board of GRAMMER AG declared its intent:

(1) to refrain from using the authorization under the new Article 5 (3) of the Articles of Association to increase the share capital of the Company against cash and/or contributions in kind with statutory subscription rights for shareholders during the term of the authorization if this would lead to issuance of an amount of shares in GRAMMER AG in excess of 30% of existing share capital;

(2) to limit use of the authorization to exclude shareholders' statutory subscription rights in the event that shares are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company during the term of the authorization to no more than 20% of the Company's existing share capital;

(3) to ensure that the sum of any capital increases from authorized capital excluding shareholder subscription rights during the term of the authorization does not exceed 20% of existing share capital.

The capital reserve totaled EUR 74,444 thousand (2012: 74,444) as of December 31, 2013 and includes premiums from the capital increases in 1996, 2001 and 2011.

The revenue reserve amounted to EUR 155,940 thousand (2012: 131,552) as of December 31, 2013.

Disclosure of shareholdings subject to section 21 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 notified shareholdings that currently exceed the 3% threshold or have at some stage done so is included in the notes to the annual financial statements of GRAMMER AG.

Own shares

Pursuant to a resolution on June 28, 2006 of the Annual General Meeting, the Executive Board of GRAMMER AG is authorized to purchase treasury stock in accordance with section 71 (1) no. 8 AktG. The Annual General Meeting passed a resolution on May 28, 2009 to authorize the acquisition of treasury stock amounting to no more than 10% of the share capital on or before May 27, 2014. This authorization was confirmed by the 2010 Annual General Meeting as a confirming and/or new resolution. Neither in the prior year nor in the year under review did the Executive Board of GRAMMER AG make use of the authorization to acquire own shares. GRAMMER holds 330,050 treasury shares, all of which were acquired in 2006. These shares have a total value of EUR 844,928 and represent 2.8589% of the share capital. The 330,050 treasury shares are non-voting and non-dividend-entitled.

Capital spending

Capital spending by the GRAMMER Group in the year under review increased from EUR 39.0 million to EUR 46.8 million. Capital spending on property, plant and equipment rose to EUR 38.1 million (2012: 33.2).

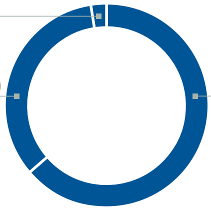
In the Automotive Division, capital spending came to a total of EUR 29.9 million (2012: 24.8) and concentrated on Germany, China, the Czech Republic and Mexico. At the German facility in Schafhof, production of head rest rods was expanded to generate capacity for new products. Production capacity for center consoles was extended at the facilities in Bremen, Schmölln and Rastatt. Capital spending also focused on console production at the Zwickau site. In China, the three facilities in Changchun, were combined to form a single plant while work on building a testing center was completed. In Beijing, a plant was constructed for the production of center consoles. Series production for Daimler will be commencing on schedule in 2014. In Mexico, injection-mold production was expanded in preparation of new products. At the Česká Lípa facility acquired in the year under review, additional injection-mold capacity was installed. There was further capital spending at the sewing facilities in Bulgaria and Serbia in response to the high demand and in preparation of new product launches. In addition, measures to boost productivity were implemented at various plants.

Capital spending in the Seating Systems Division totaled EUR 15.8 million in 2013 (2012: 13.4). The main investment in 2013 was the establishment of the joint venture GRAMMER Seating (Jiangsu) Co. Ltd. for regional production of truck and bus seats to open up the Chinese market. As in the previous year, the GRAMMER Group also invested in extensions to its Brazilian facilities. The local truck market recovered sharply in the year under review, generating strong growth in sales volumes. A new painting system was acquired and the layout optimized complete with corresponding changes to the building structure in order to boost efficiency and streamline processes. The German facilities primarily engaged in extension and replacement spending. Thus, in the rail segment, spending focused on assembly facilities for the new regional transportation platform. In addition, metal processing systems were acquired, the necessary lean management measures implemented and site safety and environmental protection additionally enhanced. At the Wörth front end plant, the necessary infrastructure spending was completed for the ramp-up of production of the new-generation MSG 115 truck seat.

A total of EUR 1.1 million (2012: 0.8) was spent in Central Services, chiefly in the form of software and IT licenses.

In 2014, Group capital spending will be slightly up on 2013 and focus on extensions to production capacity in the Automotive Division and measures aimed at boosting efficiency.

Investments by segments[1] (previous year in brackets)



[1] adjusted prior-year figures

in EUR m

	2013	2012[1]	Change in %
Automotive	29.9	24.8	20.6
Seating Systems	15.8	13.4	17.9
Central Services	1.1	0.8	37.5
Total	**46.8**	**39.0**	**20.0**

[1] adjusted prior-year figures

Net assets

The individual items of the balance sheet break down as follows:

Condensed Balance Sheet GRAMMER Group

in EUR k

	2013	2012[1]	Change
Non-current assets	298,453	266,840	31,613
Current assets	467,431	401,916	65,515
Assets held for sale	144	0	144
Assets	**766,028**	**668,756**	**97,272**
Equity	224,671	210,250	14,421
Non-current liabilities	276,051	199,446	76,605
Current liabilities	265,306	259,060	6,246
Equity and liabilities	**766,028**	**668,756**	**97,272**

[1] adjusted prior-year figures

On the balance sheet date, December 31, 2013, the GRAMMER Group had total assets of EUR 766.0 million (2012: 668.8). This 14.5% increase over the previous year was due to business expansion, further additions to the strategic liquidity reserve and the acquisition of nectec Automotive s.r.o.

Non-current assets resulting from the establishment of production facilities and the acquisition of nectec Automotive s.r.o. compared with the previous year

Non-current assets totaled EUR 298.5 million on December 31, 2013 (2012: 266.8). Property, plant and equipment rose to EUR 180.2 million (2012: 166.2) as a result of the construction of a plant for center consoles in Beijing and the establishment of a joint venture with Jiangsu Yuhua Automobile Parts Co. Ltd, which contributed its existing truck business to the joint venture. The increase in intangible assets to EUR 75.1 million (2012: 57.0) is primarily attributable to the acquisition of nectec Automotive s.r.o. Intangible assets of EUR 5.8 million accrued as a result of the acquisition. Remeasurement of customer orders and patents caused intangible assets to rise by a further EUR 9.4 million. At EUR 42.2 million, deferred income tax assets remained at the previous year's level (2012: 42.4).

Increase in current assets in tandem with greater business activity

Current assets increased to EUR 467.4 million (2012: 401.9). Other current financial assets grew by EUR 22.3 million over the previous year to EUR 86.2 million due to customer projects. Despite the revenue growth, inventories climbed by only a disproportionately low EUR 8.7 million to EUR 115.6 million (2012: 106.9).

As a result of strong revenue growth, accounts receivable rose from EUR 140.9 million to EUR 153.9 million. Other current assets climbed slightly to EUR 15.5 million (2012: 14.8). In addition, cash and cash equivalents stood at EUR 91.3 million at the end of the year (2012: 73.1).

Further growth in equity

As of December 31, 2013, equity stood at EUR 224.7 million (2012: 210.3). The favorable earnings are not fully reflected in a corresponding increase in equity due to currency translation losses, the recognition of actuarial gains and losses within equity in accordance with IAS 19 and the dividend payment. Despite these effects and the growth in total assets as a result of the liquidity reserve within cash and cash equivalents, the equity ratio came to a high 29% (2012: 31). Equity thus equals 75.3% (2012: 78.8) of non-current assets.

Changes in liabilities

Non-current liabilities amounted to EUR 276.1 million on the reporting date (2012: 199.4), attributable largely to the issue of a new debenture bond of EUR 73.5 million in May 2013. Non-current financial liabilities were consequently EUR 70.0 million higher at EUR 146.8 million (2012: 76.8). In addition, pension obligations rose to EUR 96.3 million (2012: 94.0). At the same time, EUR 2.3 million in trade accounts payable were classified as non-current. Deferred income tax liabilities also increased to EUR 25.3 million (2012: 20.3).

Current liabilities climbed from EUR 259.1 million to EUR 265.3 million due to an increase in income tax liabilities and provisions. Current financial liabilities contracted by EUR 35.1 million (2012: 72.8) chiefly as a result of the repayment of a debenture bond. In addition, a renewed part of the 2006 debenture bond of EUR 9.5 million was reclassified as a non-current financial liability. The part of the 2006 debenture bond of EUR 18.0 million maturing in September 2014 was reclassified as a current financial liability. The opposite effect rose from the increase in overdraft facilities. At EUR 150.4 million, trade accounts payable were higher than in the previous year (2012: 114.1). Other current liabilities rose to EUR 56.9 million (2012: 48.3). At EUR 3.8 million, other current financial liabilities were down on the previous year (2012: 12.0). In line with the strong earnings, current income tax liabilities rose to EUR 5.0 million (2012: 2.2).

Conditions in the Divisions

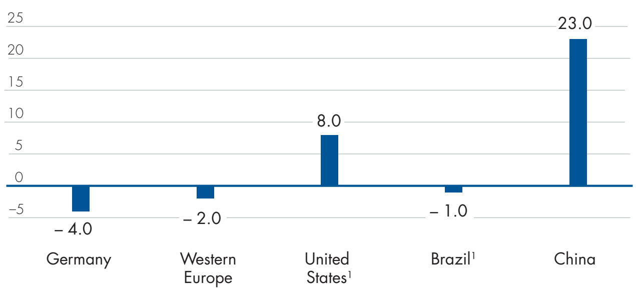
Automotive Division

Growth in the automotive industry

In 2013, the automotive industry was characterized by persistent weakness in Europe, solid growth in North America and a booming Chinese market. According to the German Association of the Automotive Industry (VDA), global new vehicle registrations came to 73.0 million, up 6 % on the previous year. Production in selected countries also rose by 6 % to 72.3 million vehicles. The European industry association ACEA reports that new passenger vehicle registrations totaled EUR 11.9 million from January to December, equivalent to a decline of 1.7 % and marking the sixth consecutive decline in new registrations. In fact, measured in terms of volumes, 2013 was the worst year since 1995. However, signs of a turnaround came into view towards the end of the year. underpinned by growth in nearly all countries, EU-wide new registrations climbed by 13.3 % in December alone. Of the major markets, the UK posted a gain of 10.8 % and Spain 3.3 % for the year as a whole. On the other hand, new registrations in many other key regions were disappointing, prime examples including Germany (–4.0 %), France (–5.7 %) and Italy (–7.1 %). That said, production figures indicate that 1 % more vehicles left the factories in Germany in 2013, with the United Kingdom reporting an increase of 3 % and Spain as much as 10 %. At 14.8 million units, EU-wide production was largely flat. The NAFTA markets in North America painted an upbeat picture. According to the VDA, new registrations of light vehicles (passenger vehicles and light trucks) came to 15.5 million, up 8 % on the previous year. At 10 %, growth in the light trucks segment outpaced passenger vehicles (up 5 %). Total new registrations of light vehicles were up 8 % in Mexico and up 4 % in Canada. In terms of production output, the United States recorded a 7 % increase to 10.8 million light vehicles, while the NAFTA-wide figure was up 5 %, rising to 16.1 million units.

Turning now to Asia, China stood out with 16.3 million new vehicle registrations, up 23 % on the previous year. As a result, it has edged past the United States for the first time and is now the country with the world's largest number of new registrations. Production output grew even more sharply by 24 % to 16.5 million units. Japanese new registrations remained flat at around 4.6 million vehicles, while India, the third largest market in Asia, registered a 7 % decline to 2.6 million vehicles.

Change in automotive sales volumes in selected countries year on year (in %)



[1] including light vehicles
Source: VDA

Above-average growth in the Automotive Division

Key figures Automotive division

in EUR m

	2013	2012	Change in %
Revenue	813.3	711.1	14.4
EBIT	33.1	30.5	8.5
EBIT-margin (in %)	4.1	4.3	–4.7
Investments (without acquisitions)	29.9	24.8	20.6
Employees (number, as of December, 31)	6,101	5,279	15.6

The Automotive Division recorded strong business growth in the year under review despite disparate market conditions. GRAMMER again benefited from the Division's focus on premium OEMs. With the concentration on orders from the upper middle-class and upper-class segment of the market, the GRAMMER Group was able to assert itself well despite the protracted weakness of its most important region, Europe. In 2013, premium OEMs continued to produce the series for which we supply components in high quantities, offsetting muted sales in the Southern European markets by exports to other regions. The successful acquisition and integration of nectec

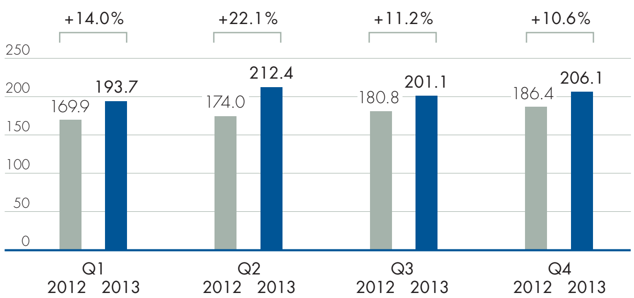
Automotive s.r.o., Czech Republic, which was consolidated for the first time on February 1, 2013, also performed encouragingly, making a positive contribution to earnings.

Regionally, the Division performed disparately. Thus, the domestic European market achieved the highest year-on-year growth rate of 19.6 % thanks to the aforementioned acquisition as well as organic gains in market share. In this way, we were able to additionally broaden our market position. With revenue up 9.2 %, high growth rates were also achieved in the region Far East/Others. Here, order intake was spurred by growth in the Chinese market. This resulted in generally very good capacity utilization at our plants in Changchun and Shanghai. Given the new orders on which work will be commencing over the next few years, this means that production space in Shanghai must be widened in 2014. Construction of the Peking plant continued according to schedule, with series production to commence there in 2014. On the other hand, the Americas region achieved only very moderate revenue growth of 0.8 % after the previous years' gains. The situation in this region was dominated by product phase-outs and start-ups, which more or less canceled each other out.

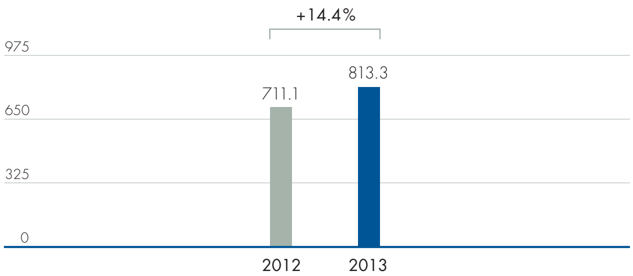
Order intake in the year under review was well up on the previous year, thus spurring continued growth in the Automotive Division. In addition to major contracts from our existing customers in Europe and China, preliminary orders were received from a large North American OEM as a new strategic customer. GRAMMER also received sizeable orders in Brazil and these will already be making a contribution to revenue in 2014.

To strengthen the Automotive Division's earnings situation on a sustained basis, we are continuing to implement measures to improve profitability and cost efficiency along the entire value chain. Our process and structural enhancement initiatives aim at optimizing the worldwide production network and also entail programs for improving product costs, which are being pursued with unabated effort. Thus, the consolidation of our three locations in Changchun to create a single new central plant was completed. In the Czech Republic, the new facility in Česká Lípa underwent expansion, resulting in a further increase in real net output ratio. In addition, a new facility is being built in Zatec to accommodate future growth requirements. With these two large facilities, we want to additionally optimize fixed costs and production processes.

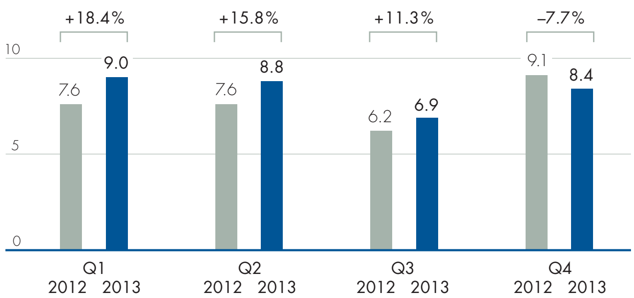
Automotive revenue development by quarter (in EUR m)



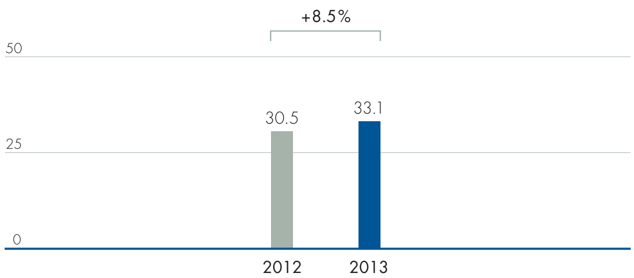
Revenue development Automotive division (in EUR m)



Automotive EBIT development by quarter (in EUR m)



EBIT development Automotive division (in EUR m)



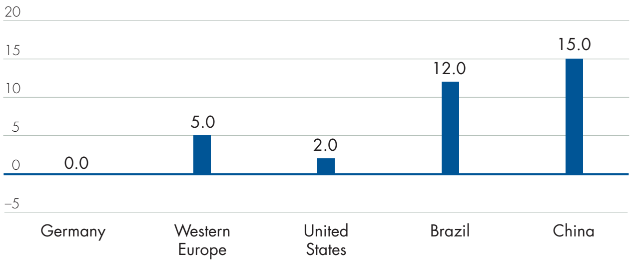
Seating Systems Division

Commercial vehicle market somewhat weaker

According to VDA, new registrations of commercial vehicles (including buses) declined by 4 % to 10.4 million units in 2013. The Western European market for heavy commercial vehicles turned the corner shortly before the end of the year after a muted first half. Pre-buying effects ahead of the new Euro VI exhaust standard resulted in unexpected growth in new registrations of trucks of over 6 tons, resulting in flat full-year commercial vehicle registrations of 1.6 million. In Germany, many fleet operators also made use of the lower prices of Euro V trucks; as a result, new registrations of commercial vehicles over 6 tons surged by a sharp 91 % over the previous year in December. Despite this year-end spurt, German registration figures fell by 2 % to 305,000 over the year as a whole. By contrast, double-digit growth was recorded in the United Kingdom (up 14 %) and Spain (up 10 %).

The US market for heavy and medium-heavy commercial vehicles unleashed considerable momentum towards the end of the year, with truck sales rising by 12 % in December. According to VDA, full-year new registrations in the United States climbed by 2 % to around 352,000 units. In Brazil favorable financing terms and a government stimulus program triggered a sharp surge in sales of heavy and medium-heavy commercial vehicles, causing new registrations to rise by 12 %. On the other hand, delays in the execution of infrastructure projects in India and flat industrial production took their toll, with full-year new registrations sagging by 16 % to only 687,000 units. After weak conditions in the previous year, the market for heavy commercial vehicles picked up appreciably in China, With sales of trucks over 6 tons climbing by some 15 % and passing the one-million mark in 2013.

Change in commercial vehicle sales volumes (trucks above 6t) in selected countries year on year (in %)



Source: VDA

Strong demand for agricultural machinery

Global production of agricultural machinery is likely to have risen for the fourth consecutive year in 2013. VDMA assumes full-year growth of some 5.5 % to EUR 96 billion, Roughly three quarters of which arose in the EU, North America and China with shares of 30.6 %, 26.5 % and 19.3 %, respectively. However, the EU painted a mixed picture: Whereas Germany, the largest market, presumably grew by a moderate 3 %, with France expanding by as much as 8 %, there was sharp contraction in the agricultural machinery markets in the United Kingdom (–13 %), Poland (–13 %) and the Netherlands (–9 %). In Germany, the market came under pressure from the fact that agricultural incomes are likely to have fallen slightly short of the previous year in 2013. According to VDMA estimate, the largest segment in the German agricultural machinery market was tractors, followed by combine-harvesters and tillage equipment. New registrations of tractors remained stable at 2012 levels.

Mixed picture in the construction machinery sector

2013 commenced on a muted note for German construction machinery OEMs. Although business picked up as the year progressed, this was not sufficient to make up for the initial weakness, resulting in a roughly 5 % decline in full-year sales. Despite this, the German market proved to be a stability anchor for Europe. The divide between the South and the North remains large, although the Southern European markets have now likely bottomed out. Contrary to hopes, no sustained recovery emerged in Central and Eastern Europe either. In China and India, the euphoria has subsided, with the Chinese construction machinery market contracting by another 15 % in 2013 according to VDMA. Ahead of the parliamentary elections, the Indian economy was in a state of paralysis.

Little impetus in material handling

The material handling industry failed to repeat the growth of earlier years in 2013.

Sales of German material handling machinery sellers contracted by 4 % over the previous year in 2013 according to the German Association of Construction Machinery, Construction Equipment and Industrial Machinery, with new business in particular declining by a substantial 7 %.

Rail industry with record order intake

The economic outlook for the rail industry improved considerably in the first half of 2013. The German Rail Industry Association puts order intake at EUR 8.7 billion, up 47 % on the previous year, thus marking a new record. Two major projects for trains and locomotives with a combined value of EUR 2.3 billion made a key contribution to this. On the other hand, rolling stock sales were extremely unsatisfactory in the first half of the year. Revenues from trains, locomotives and related components shrank by some 22 % to EUR 3.1 billion, with foreign business tumbling by more than a third to only EUR 1.4 billion.

Business growth in the Seating Systems Division

Key figures Seating Systems division

in EUR m

	2013	2012[1]	Change in %
Revenue	472.8	439.1	7.7
EBIT	37.6	26.4	42.4
EBIT-margin (in %)	8.0	6.0	33.3
Investments (without acquisitions)	15.8	13.4	17.9
Employees (number, as of December, 31)	3,729	3,088	20.8

[1] adjusted prior-year figures

In 2013, the Seating Systems Division achieved substantial business growth, recording a sizable improvement in revenue and earnings against the backdrop of protracted muted market conditions. The increase in business volumes was materially underpinned by the truck segment, with railway business also performing well. On the other hand, offroad business generated only marginal growth in the year under review chiefly as a result of general economic conditions in this segment.

Regionally, Europe was again the largest market for the Seating Systems Division in 2013, with GRAMMER recording a 6.3 % increase in revenue in that region. Whereas the offroad segment remained flat on account of the muted underlying economic conditions, market share was widened substantially in the truck segment, reflecting the growth in sales of our MSG 115 seat, which went into series production last year. European business was also up encouragingly in the rail segment, where we commenced deliveries for the HGV/Eurostar, thus demonstrating our skills in seats for high-speed trains once more.

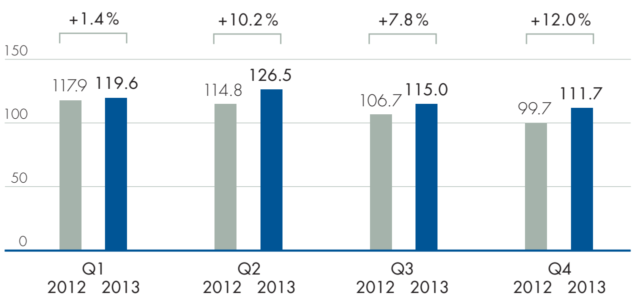
Revenue in the Americas rose by a substantial 11.7 %. As the Northern American market was fairly muted, the recovery of the Brazilian market played a crucial role here. After the pronounced weakness of this market in 2012, the GRAMMER Group was able to make use of its strong position and benefit from the recovery in market conditions, achieving substantial growth rates.

Far East/Others also achieved a 5.6 % increase in business in the year under review, underpinned in particular by the Chinese and Japanese markets. In the second half of the year, the newly created joint venture GRAMMER Seating (Jiangsu) Co. Ltd., in which GRAMMER holds a majority interest, also contributed to Chinese business.

Earnings in this division were also very encouraging. With a margin of 7.9 %, earnings quality improved substantially, primarily reflecting the positive performance of truck business, while margins on offroad business held steady against the backdrop of flat market conditions.

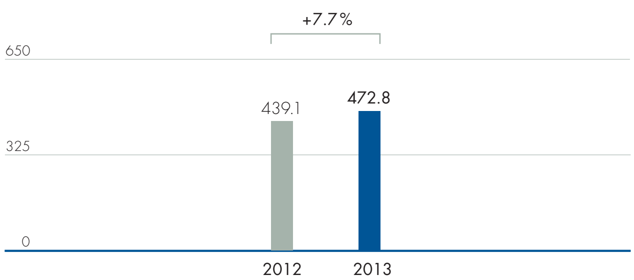
Following the successful launch of the new-generation MSG 115 truck seat in the previous year, key successes were achieved in the offroad segment in the year under review. Thus, customer ACGO named us supplier of the year in the logistics segment; the Division is the world's first vendor to supply this customer using the just-in-sequence (JIS) process. This flexible logistics management system offers the customer considerable advantages in inventories management and is therefore set to play an increasingly more important role in this segment. Thus, GRAMMER will be supplying a further leading agricultural and construction machinery OEM on a JIS basis in 2014. Here, we have been able to successfully apply the logistic skills which we have in the Automotive Division to the Seating Systems Division, thus securing a competitive edge in the market. In addition, preliminary orders were received from a leading OEM in Korea. Consequently, we have been able to gain a further strategic new customer. In the rail segment, a new preliminary contract was awarded by a Northern American rail OEM, marking the addition of a further important new customer.

Seating Systems revenue development by quarter[1] (in EUR m)



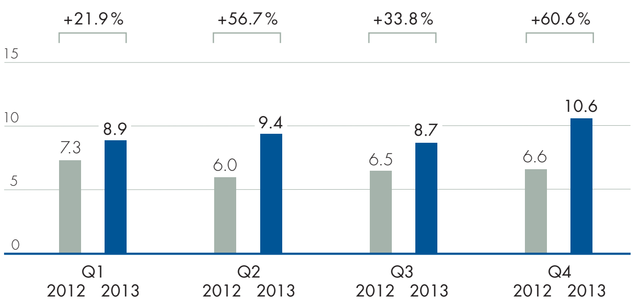
[1] adjusted prior-year figures

Revenue development Seating Systems division[1] (in EUR m)



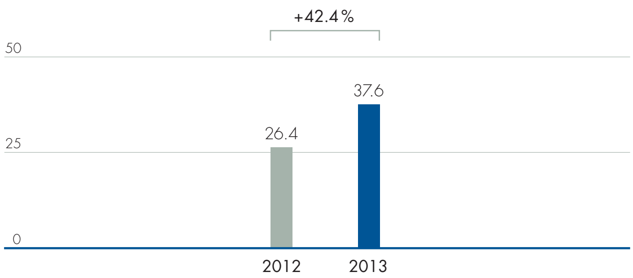
[1] adjusted prior-year figures

Seating Systems EBIT development by quarter[1] (in EUR m)



[1] adjusted prior-year figures

EBIT development Seating Systems division[1] (in EUR m)



[1] adjusted prior-year figures

Appraisal of the Company's economic situation

On the basis of the substantial increase in revenue and earnings achieved in 2013 as well as the successful reorganization of the funding structures, we consider the GRAMMER Group to be well positioned to achieve its future goals and tackle the challenges facing it. We hold a good to very good market position in the individual business segments and have been able to gain market share on the strength of our innovative and high-quality products. Driven by the substantial 11.7% increase in revenue, operating profit rose by 18.4%, reflecting the structural improvements in our cost and income position. Despite this growth and the advance outlays and capital spending underlying it, the Group again generated a net cash inflow from operating activities last year and was able to finance its growth with its own resources. With the successful placement of the new debenture bond and the restructuring and broadening of our credit facilities, we now have balanced funding resources providing us with the necessary flexibility for financing future growth as well as for acting on strategic opportunities. This in connection with a very solid equity ratio of 29% as of December 31, 2013 justifies a positive assessment of the GRAMMER Group's current economic situation.

Financial and non-financial performance indicators

Employees

Increase in headcount due to revenue growth and acquisition

As of December 31, 2013, the GRAMMER Group had a total of 10,082 employees (December 31, 2012: 8,620). This increase is due to revenue growth, the acquisition of a company and the establishment of new facilities and extensions to existing ones. Adjusted for the newly consolidated companies, efficiency gains were achieved despite the growth, resulting in a lower staff cost ratio. The annual average headcount stood at 9,315 (2012: 8,808).

The headcount in the Automotive Division rose to 6,101 (December 31, 2012: 5,279); this figure includes 240 employees who have joined the Group as a result of the acquisition of nectec Automotive s.r.o. In the course of the year, the number of employees rose as a result of extensions to the facility in Česká Lípa. Sewing capacity was increased in Serbia in response to high demand and new product launches.

The headcount in the Seating Systems Division climbed to 3,729 (December 31, 2012: 3,088). This increase is attributable to the first-time consolidation of the joint venture GRAMMER Seating (Jiangsu) Co. Ltd. as well as business-related additions to sewing capacities in Bulgaria.

At 252, the number of employees in Central Services remained steady at the previous year's level (2012: 253).

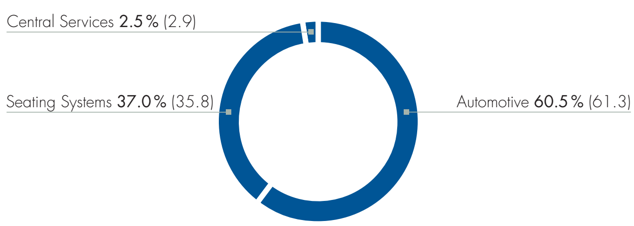
All told, the number of employees should rise slightly in 2014. Whereas the headcount in Europe and the Americas is likely to be lower on account of the efficiency-boosting measures implemented, we will be recruiting additional staff in the Far East/Others in response to the growing volume of business in this region.

Training, professional development, human resources

Personnel development is key to achieving and improving success in business. Employees with new ideas, greater knowledge and additional skills play a decisive role in maintaining established standards and consolidating competitive strengths. For this reason GRAMMER offers numerous initiatives for employees of all areas and levels. Our professional development program is based on a three-level structure: The "GRAMMER Corporate Executive General Management Program" focuses on strategic training for top management; the "GRAMMER Advanced Management Development Program" is aimed primarily at middle management and plant and department supervisors and the "GRAMMER Basic Management Program" program is designed to develop young potentials. The "GRAMMER Basic Management Program" entered the pilot phase in 2013. The pilot phases for the Advanced and Executive Programs will be launched in 2014 and 2015. All three concepts are oriented to the mission statement, targets and strategy of the GRAMMER Group. In 2013, the GRAMMER Group restructured the professional development programs in response to the heightened demands with respect to recruiting and training qualified staff. For the first time, a training catalog was prepared providing all staff with an overview of possible training course and setting out standardized Group-wide training modules. In addition to management careers, GRAMMER also offers specialists scope for developing their own particular strengths and preferences so that they can be put to the best possible use.

The Group also plays an important role in training school-leavers in its regions, and the number of apprentices which it takes on will again exceed the number needed for its own business purposes in 2014. For instance, the training program at the Company's professionally staffed training center in Amberg is a key element of GRAMMER AG's human resource policy. As a rule, we offer apprentices firm positions in our Company provided that this is in line with our personnel policy and we have sufficient requirements. In 2013, we continued to employ motivated apprentices in all divisions in order to maintain a qualified pool of resources in fields that are becoming more important for the future. We also hosted numerous internships in Germany and elsewhere and offered students and postgraduates the possibility of completing their thesis or dissertation while gaining practical experience within our Company. Highly qualified young professionals are also attracted through university recruiting events in Germany and in other European countries or in cooperation with "Bildungswerk der bayerischen Wirtschaft". One example of our successful activities in the university domain is the long-standing close working relationship with the Amberg Weiden University of Applied Sciences (Ostbayerische Technische Hochschule für angewandte Wissenschaften Amberg-Weiden).

Employees by segments[1] (previous year in brackets)



[1] adjusted prior-year figures

as of December, 31

	2013	2012[1]	Change in %
Automotive	6,101	5,279	15.6
Seating Systems	3,729	3,088	20.8
Central Services	252	253	−0.4
Total	10,082	8,620	17.0

[1] adjusted prior-year figures

Supervisory Board and Executive Board

The rules for appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG. No deviating or additional provisions are contained in the Articles of Association. There were no changes in the composition of the Executive Board in 2013.

There were several changes in the composition of the Supervisory Board during the reporting year: Effective February 21, 2013, Mr. Bernhard Hausmann, an employee representative, was appointed to the Supervisory Board by the Amberg Local Court. With Mr. Martin Bodensteiner's return to the Supervisory Board on August 23, 2013, Mr. Hausmann stepped down.

Principles of the remuneration system

Since August 1, 2010, Executive Board remuneration has entailed the following elements: The members of the Executive Board receive a fixed salary (70 %) and performance-related remuneration (30 %), as well as retirement benefits structured in the same manner as pension commitments to employees. The performance-related component comprises two elements – a short-term and a long-term one. The short-term bonus comprises 45 % of the performance related remuneration, one third of which is based on revenue and two thirds on return on sales. The long-term bonus is calculated entirely on the basis of the Company's enterprise value, GEVA (ROCE minus WACC). To ensure stable performance, the increase in enterprise value is calculated over the preceding three years, i. e. it is not finalized until three years have elapsed. An advance may be paid towards the long-term bonus to ensure income consistency, the amount and payment of which are determined by the Chairman of the Supervisory Board. Remuneration of the Executive Board contains no components with a long-term incentive effect, such as stock option or stock award programs. Furthermore, in the event of extraordinary earnings or losses in the relevant year, the Supervisory Board may decide to adjust compensation at the end of the year in the form of a bonus or penalty comprising 10 % of the fixed salary.

Changes to the remuneration of the Supervisory Board were authorized by the Annual General Meeting on May 26, 2012, and it is now calculated as follows as of 2012: For each complete year of Supervisory Board membership, each member of the Supervisory Board receives fixed remuneration of EUR 30,000. The Chairman receives twice this amount as fixed annual remuneration and the Deputy Chairman receives one and a half of the above amount. Members of the Supervisory Board who only sit on the board for part of the year receive fixed remuneration on a pro rata basis. The fixed remuneration is payable after the end of each fiscal year. The members of the Supervisory Board also receive a fee of EUR 1,000 for each Board or committee meeting which they attend in person, plus reimbursed expenses. The chairman of a committee receives a further EUR 1,000 per committee meeting. The meeting fee is not paid for participation in meetings of the Nominating Committee. Expenses are reimbursed on the first business day following the

Supervisory Board or committee meeting. The Company is authorized to conclude financial loss insurance (D&O, directors and officers liability insurance) at reasonable conditions in line with the prevailing market rate, the premiums for which are covered by the Company. The Company will also reimburse members of the Supervisory Board for any incurred VAT liability on the renumeration and the fixed payment for reimbursement of expenses. A variable component, such as was paid in previous years, has been eliminated and there are no components with a long-term incentive effect, such as stock option or stock award programs contained in the remuneration of the Supervisory Board.

Procurement management

Procurement management is a key factor for the Group's success. Its main objective is to ensure the constant availability of raw materials, components and services at defined high standards of quality to ensure that we can supply our customers to optimum effect. Group purchasing is based centrally within GRAMMER AG. This constitutes a key aspect of our efforts to safeguard the success of our business activities on a sustained basis. Another aim of procurement management is to identify the right vendors worldwide for our innovative products and broad product range. Accordingly, the key tasks of procurement are to maintain relations with vendors and to purchase project requirements. In this way, GRAMMER is able to harness new market potential in the emerging markets and safeguard its future competitiveness by making use of savings potential, which can be additionally optimized by pooling Group-wide requirements to generate economies of scale. The procurement organization is structured centrally according to commodities with global responsibility across the Group. Our strategic orientation in procurement management additionally entails the further development of the e-Sourcing platform, which was successfully rolled out in the previous year as well as expansion of sourcing activities in the emerging markets to generate positive contributions to value along our value chain and in our growth regions in the light of sustainability and "total cost of ownership". Thus, in 2013 we launched programs to solidify "Design to Cost" activities with the inclusion of development and production as a means of achieving further savings in the cost of materials. Our supply chain management supports our efforts in the strategic and continuous development of our suppliers and, with qualified selection, training and evaluation structures, ensures that we are able to make use of our vendors' potential and innovativeness for our mutual benefit and provides a solid basis for sourcing in all regions.

Production

The GRAMMER Group produces and sells its products worldwide from 34 production and logistics facilities in 19 countries. The GRAMMER Group's strategy goal is to achieve a continuous and sustainable improvement in the cost position of our products, while maintaining the high levels of quality and strengthening local production and value creation. With uniformly defined standards applicable globally to production process and technology, plant technology and logistics, the GRAMMER Group ensures consistently high quality in its products and services along the entire value chain. Production methods and systems are applied globally and undergo constant optimization as part of institutionalized continuous improvements based on "best practice" benchmarking. With the GPS (GRAMMER Production System), GRAMMER coordinates and controls production methods across the Group to ensure that the individual operating units have at all times the production processes required to achieve the quality expected by the customer. The GPS is the manifestation of our structured, process-oriented approach to implementing and manufacturing lean manufacturing throughout the Group. It allows us to meet growing demands in production as well as monitoring and optimizing the related cost positions. In order to additionally strengthen lean production activities, the Group has launched a worldwide training program integrating every location, unit and function. With the "Lean Academy" and the continuous learning process installed there, we are systematically implementing our benchmarks on a sustained basis. Our growth of the past few years and the resultant expansion of our production capabilities in countries such as China, where we now have five production sites, as well as extensions in Mexico, Brazil, the Czech Republic and Serbia impressively demonstrate the pronounced internationalization of our value chain.

Quality management

The Group's products are renowned in the marketplace for their high quality. This makes the quality of our products and services a decisive factor for our success in an increasingly competitive global environment. For many years, the Group has utilized an independent quality management system and program, GPQ (GRAMMER Produces Quality), which integrates all of the Company's employees in the quality control process and strives to systematically generate progressive, permanent quality improvements. The main quality objective is to achieve high customer satisfaction with our innovative products all around the world. Internal audits and assessments, benchmarking in the GPQ process and against our peers help us to ensure the effectiveness and growth of our quality management capabilities. Driven by this philosophy and our customers' high expectations, our declared goal for our end-to-end quality culture is to achieve ongoing improvements in our products and processes. Professional development in the area of quality management and regular training of our employees aim to further enhance and safeguard our high product quality and ensure that we continue to be perceived as a quality and innovation leader in the market. Another important aspect of our quality management approach is product safety. As our products serve to protect the well being and health of their final users, product safety constitutes a crucial goal of our value chain. Starting with research right through to after-sales service and spare-parts business, product safety is a cardinal strategic and operational objective. Accordingly, we not only strictly adhere to legislative rules and requirements but also work with scientists and researchers as well as independent experts to develop our own rules and standards going beyond what is legally required to achieve these goals.

Sales and customer management
Within the GRAMMER Group, sales activities and business segments are based on product groups in order to offer our customers optimum support and high-level product competence. This ensures that we are systematically oriented to customer and market requirements, allowing us to implement and execute customers' requirements in the light of the specific product group. Long-term customer relationships form the basis of our long standing success and growth. Process standards such as the GRAMMER PDS (Product Development System) support systematic and stable product development and ensure that the right project timelines and phases are available when the customer needs them. This also serves to promotes joint project cooperation with our customers for the development of innovative solutions.

Events subsequent to the reporting date

Effective January 31, 2014, Ms. Tanja Jacquemin, an employee representative, stepped down from the Supervisory Board. She was replaced by employee representative Ms. Tanja Fondel effective February 8, 2014. Similarly, Mr. Bernhard Hausmann, who had replaced Mr. Martin Bodensteiner and had stepped down from the Supervisory Board on January 21, 2014, returned to the Supervisory Board again on February 8, 2014 as an employee representative.

On January 29, 2014, GRAMMER signed a memorandum of understanding governing the conditions for the receipt of a government grant for the construction of a new plant in the United States. Located in Tupelo, Mississippi, it is ideally positioned logistically to supply our customers in the United States and to support our local growth strategy in connection with the Mexican sites. In this connection, the seat production activities in Hudson, Wisconsin, are being relocated in Tupelo.

Corporate governance

The corporate governance declaration pursuant to section 289 a of the German Commercial Code (HGB) along with the declaration of conformance with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG)) are reproduced in this Annual Report and are permanently available on the company website under www.grammer.com/en/about-grammer/corporate-governance.

Disclosures in accordance with section 289 (4) and section 315 (4) HGB

GRAMMER AG has subscribed capital of EUR 29,554,365.44, which is divided into 11,544,674 bearer shares.

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

According to its own disclosure, the largest shareholder is Electra QMC Europe Development Capital Funds plc in Dublin, Ireland. The notes to the annual financial statements for 2013 set out detailed information on the voting right notifications received in accordance with section 26 WpHG.

There are no shareholders with special rights. There are no staff participation programs.

The members of GRAMMER AG's Executive Board are appointed and dismissed in accordance with the statutory provisions (section 84 AktG) and Articles 8 et seq. of is Articles of Association. Any amendments to the Company's Articles of Association are executed in accordance with section 179 AktG; Article 25 of the Articles of Association governs the passing of resolutions by the Annual General Meeting.

The Executive Board is authorized to increase GRAMMER AG's share capital once or repeatedly by a total of up to EUR 14,777,182 on a cash or non-cash basis subject to the Supervisory Board's approval on or before May 25, 2016 (Authorized Capital 2011). In addition, the Executive Board is authorized to issue profit-participation rights with or without an option or conversion right or obligation and/or option and/or convertible bonds on or before May 27, 2014. The share capital has been increased on a contingent basis by up to EUR 13,433,803.52 for this purpose (Contingent Capital 2009). GRAMMER holds 330,050 treasury shares, all of which were acquired in 2006. The 330,050 treasury shares are non-voting and non-dividend-entitled. The Company is authorized until May 27, 2014 to acquire treasury stock in accordance with section 71 (1) No. 8 AktG and to use it for all the purposes specified in the authorization.

The service contracts entered into with the member of the Executive Board have included a change-of-control clause since January 2013, under which each member of the Executive Board has a special right of termination which may be exercised within three months of a change of control. If the special right of termination is exercised, the terminating party may claim compensation equaling the sum total of the fixed remuneration no longer paid as a result of the termination up until the expiry of the service period and 80% of the maximum achievable short-term bonus and limited to 150% of the settlement cap agreed upon in the service contract equaling the total remuneration for a two-year period. There are no other compensation arrangements in force with any employees in the event of a change of control.

GRAMMER AG and three other domestic Group companies are parties to an agreement with a banking syndicate concerning the provision of credit facilities of a maximum of EUR 180 million giving each creditor the right to demand premature repayment in the event of a change of control. Corresponding provisions are also included in the agreements underlying the debenture bonds issued by GRAMMER AG for a total of EUR 159.5 million. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers. If these termination rights are exercised individually or jointly, the funding required by the GRAMMER Group for its ongoing business operations may be jeopardized. In addition, some customers and other partners are entitled to terminate contractual relations with GRAMMER for good cause in the event of a change of control.

Opportunity and risk report

Risk policies and principles

Business always entails opportunities as well as risks. Opportunities and risks arise especially given the international orientation of the GRAMMER Group and must be duly managed. Listed below are some of the principles defined in the GRAMMER Group risk strategy:

- Opportunities and risks in the context of risk management for GRAMMER encompass any positive or negative deviations from a plan or target defined in circumstances of uncertainty.

- Risk management thus contributes to value based management within GRAMMER Group. Value-based means that the Company deliberately enters into risks only when there is potential for enhancing its value by taking advantage of favorable business opportunities. GRAMMER must avoid any activities possibly entailing risks that could jeopardize the further existence of the Company. Core operational risks, and in particular those originating in the market, as well as risks arising from the development of new products are borne by the Group itself. As far as possible, the Group seeks to transfer other risks, particularly financial and liability risk to third parties. Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing measures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and minimize risks within their area of responsibility.

- At regular intervals, our internal audit function also performs a review of the sufficiency and effectiveness of our risk management system. All employees of the Company are under a duty to minimize risks to the extent possible within their area of responsibility and to actively contribute to risk avoidance. All employees undertake to report all opportunities and risks arising during business operations to their responsible managers.

Risk management process

The risk management process ensures early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage risk, as well as risk monitoring and control. An ongoing risk-tracking process is applied to report all material risks liable to cause any unexpected deviations in earnings to central risk management. Every division and central service department has a responsible risk officer. In regular meetings with the various management levels of the divisions and central service departments, opportunities and risks are discussed along with measures to manage risk. A Group-wide reporting system ensures that decision makers regularly receive comprehensive information on the risk situation of the Company as well as the status of the measures implemented. Reports made to the risk management system are handled independently to ensure the broadest possible scope and reviewed in accordance with the "four eyes" principle.

Central risk management is contained within the Group Finance department and operates an IT based risk management system, in which risks are centrally managed and appropriate measures for risk mitigation are initiated. This acknowledged software solution provides optimum support for risk management.

In this way, we maintain an overview of the key opportunities and risks for the GRAMMER Group. These include: strategic risks, market risks, financial risks and legal risks, as well as risks stemming from IT, human resources and production.

Risks

In the following paragraphs, we describe risks and discuss their sometimes considerable possible impact on our business performance, net assets, financial position and earnings as well as our stock price and market reputation. Additional risks that we currently rate as slight or whose existence or potential effects are as yet unknown to us may likewise adversely affect our business activities. An essential part of the Group's risk management is the avoidance of risks to its going concern status.

Market and sector specific risks

As an enterprise with worldwide operations, the GRAMMER Group is affected by business conditions in its home market as well as markets across the globe. We address these risks by means of numerous different measures, while closely and continually monitoring developments in relevant markets and industries. We adjust our production and capacity accordingly when necessary. The GRAMMER Group strives as part of effective risk management to react immediately to crises such as the euro crisis and initial signs of declining revenues. Production and cost structures are proactively adjusted to account for changes in the revenue situation. We can generally expect to face sector specific revenue risks in the future. Competitive intensity is on the rise in our markets, exposing us increasingly to risks from factors including price pressure, more aggressive timeframes for development and times to market, product and process quality and rapidly changing conditions. Surges in demand and sales volumes are increasing in frequency, and the volatility of those swings is on the rise. Due to our exposure to the global markets with differing economic and demand cycles, we must track and interpret a broad range of factors. In addition, new competitors are arising in or entering the emerging markets. The effects of crises in certain markets and regions harbor risks that are no longer directly derived from our business segments. Market disparity is also steadily increasing so that we can no longer necessarily draw conclusions about the effects of general developments on our business. This applies to both positive and negative trends.

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

Our goal is to improve our market position in all business segments as a way to reduce these competitive risks. Consequently, GRAMMER is focusing on technical innovation and advancement of existing products. Through an increase of R&D activities, we intend to strengthen our position as technology leader with respect to our core products in order to generate competitive advantages in the marketplace. 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.

Continuous adjustment and optimization of our capacities and production structures produces a medium-term risk in that plant consolidation and closures initially place burdens on our financial position, earnings and assets. Moreover, there is the risk that such measures cannot always be executed within the planned timeframe and that the manifold complexities of such processes may result in delays and additional costs or their benefits prove to be less than originally planned and estimated.

The scope of our operations increasingly embraces activities that derive from our strategic portfolio policy affecting our business segments. Possible mergers and acquisition activities are ordinarily fraught with uncertainties since they include risks of market reaction, integration of people and technologies as well as products and product development. It cannot be ruled out that implementation risks will also arise and, as is normally the case with such transactions, there will be acquisition, integration and other costs that cannot be estimated at the beginning of the transaction. Risks from such activities can also arise from divestments that might not produce the desired effects or could lead to additional burdens on financial position, earnings and assets.

Risks can also arise from the many changes and adjustments to regulations, statutes, guidelines and technical specifications with respect to our products to which we, as a globally operating company, are increasingly exposed. We cannot rule out the possibility that rules and legal regulations in particular markets and regions will produce additional strain and expenses that could not previously be foreseen and may adversely affect our financial position, earnings and assets.

Procurement risks

GRAMMER aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price performance of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the markets for these commodities. As far as possible and reasonable, cost risks are hedged through long-term supply contracts. These, however, are currently difficult to achieve in the market given the strong demand and prevailing volatility in steel, foam and plastics. Furthermore, there are supply chain risks which may for various reasons influence our product quality, ability to meet delivery schedules or, in a worst case scenario, product availability in general. Generally speaking, quality problems with suppliers that crop up from time to time with suppliers or disruptions in the supply chain cause risks to our productivity that may negatively affect our financial position, earnings and assets.

Potential risks arising from non-delivery by suppliers are countered by GRAMMER with a dual-sourcing strategy as part of an emergency plan as well as close monitoring of potentially critical suppliers along with a rapid reaction through implementation of defined emergency and risk management measures. In order to protect our value chain, we pay close attention to our suppliers' financial strength. We foster ongoing intensive contact with our suppliers and avoid dependencies where possible.

Quality risks

The GRAMMER Group attaches great importance to maintaining high internal quality standards together with the early identification of possible sources of errors and their avoidance. Despite this, it is not possible to entirely rule out potential quality risks arising from development and consultation with the customers for which GRAMMER is therefore responsible. This applies in particular to development work on products with complex production structures and cross-continental interdependencies that are inevitable given our global orientation and operation. We have adopted precautions to minimize such risks throughout the entire Group.

In order to minimize risks arising from quality problems attributable to suppliers, GRAMMER engages in intensive supplier development and conducts regular supplier audits. Using system-based supplier evaluations we continuously analyze and grade specific suppliers for their quality and performance in the supply chain. The results of these activities provide the key criteria for the selection by GRAMMER of suppliers for project work and series production.

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

Financial risks

The Group is exposed to interest, currency and liquidity risks on account of its worldwide activities and the economic risks described above. The GRAMMER Group must primarily manage currency risks originating from trade payables/receivables and procurement costs denominated in Czech koruna, US dollars, Mexican pesos, the Brazilian real and the Chinese yuan. The Group addresses currency risks through "natural hedging", i. e. increasing purchasing volumes in foreign currency regions or increasing local production. In addition, currency risks are hedged selectively via the financial market. Strong appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

The GRAMMER Group cannot completely avoid fluctuations in credit markets and this may give rise to risks to our financial position, earnings and assets. The GRAMMER Group seeks to minimize interest rate risks through long-term funding and the use of derivatives. High priority is also given to ensuring adequate liquidity. In 2013, the Group's funding was placed on a firm footing with the issue of a new debenture bond and the signing of a syndicated loan agreement for a period of five years plus two one-year renewals. With terms of four to six years, the debenture bonds additionally reduce the Group's dependence on conventional sources of funding. Liquidity risks are monitored and documented continuously in a rolling Group-wide financial requirements plan. Additionally, investments are selectively concluded via leasing and rental agreements. Despite the possible disadvantages in terms of interest rates, key emphasis is placed on the expansion of our liquidity and the creation of appropriate liquidity reserves. 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 in Controlling/Accounting. The funded status of our pension plans is heavily influenced by interest rate uncertainties and risks in the market place as well as by changes in accounting rules that can mean both increases or decreases 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 development of payouts can deviate from the computed values since assumptions regarding interest rates, wages and inflation are all uncertain. Consequently, they may pose potential risks for our financial position, earnings and assets.

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

Legal risks

To guard against legal risks, we employ a system comprising intensive contract review and contract management, as well as systematic documentation and archiving. GRAMMER has sufficient insurance to cover normal and going-concern risks. Restrictions of the Group's international activities through import/export controls, tariffs or other regulatory barriers to trade represent a risk that, because of the nature of our operations, the Group cannot escape. In addition, our business activities may be adversely impacted or impeded by export control regulations, trade restrictions and sanctions. Strict adherence to all legal requirements can produce limitations that can lead to competitive disadvantages. The many legal rules and regulations and constant changes in tax rules, among other things, may give rise to risks that may adversely impact our financial position, earnings and assets.

Human resource risks

As an engineering specialist and innovator, GRAMMER is dependent on highly qualified specialists and executives with international experience in all areas so that it is able to make efficient use of opportunities and extend its competitive lead. For this reason, focused, driven employee training and continuing upskilling programs for as many employees as possible at all levels and in all areas of the Company are a top priority. We also participate in recruiting events and job fairs at schools and universities in Germany and other countries to generate interest in GRAMMER among motivated, young professionals and specialists. Despite all these efforts, there is no guarantee now or in the future that the Group will be able to recruit and retain the number of qualified employees and managers it needs in every country and business segment. Heightened fluctuation must particularly be expected in expansionary markets such as China and NAFTA on account of the heavy growth.

IT and information risks

The security, protection and integrity of our data and IT infrastructure are indispensable for the smooth operation of our business. Legal requirements and regulations stipulate that technical and organizational measures be taken to protect our data centers and ensure highly available and secure data transfers. In order to meet these requirements, GRAMMER operates a redundant system with the mission critical components of the IT infrastructure installed in two data centers. The electricity supply is guaranteed, even in emergencies, by separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Business continuity plans document the steps for ensuring the recovery of critical IT systems. GRAMMER has installed suitable security systems to avert external risks and taken measures to deter such attacks, such as firewalls and virus scanners as well as other activities, which we test regularly for effectiveness and adjust accordingly. A Group-wide IT security organization responsible for tracking the latest developments and proactively neutralizing threats is also in place to ensure IT security. The IT services department's Systems & Security Team along with the data protection officers and risk management team forms the Security Incidence Team, which is tasked with coordinating activities to improve IT security. Nonetheless, our worldwide activities, along with the general increase in threats and attacks, mean that our systems, networks, data and solutions are exposed to some level of risk. However, a negative impact on net assets, financial condition and results of operations as a result of data loss, system disruption and loss of production is not considered likely.

Ecological risks

GRAMMER works with an environmental management system on the basis of ISO 14001. The GRAMMER Group's management system incorporates all the ISO 14001 requirements. This system defines worldwide standards (e.g. environmental programs and targets), which are implemented by local environmental officers and monitored through regular audits to minimize ecological impact. We also continue to pursue certification of our production sites in accordance with ISO 14001. Nonetheless, external circumstances or internal errors may arise and result in risks for the Group.

Characteristics of the internal control system

As a capital market-oriented corporation within the meaning of section 264 d HGB, we are required under section 289 (5) no. 5 HGB to describe the main characteristics of the internal control and risk management system as they relate to the Group's accounting process. There is no statutory definition of "the internal control and risk management system as they relate to the Group's accounting processes". We define the internal control and risk management system as a comprehensive system and have adopted the definitions of the accounting-related internal control and risk management system proposed by the Institute of Public Auditors in Germany (IDW), Düsseldorf. Accordingly, an internal control system comprises the principles, processes and measures taken in the Company by its management for the organizational implementation of decisions made by management

- to ensure the effectiveness and viability of the Company's business activities (this also includes the safeguarding of assets, including prevention and detection of damage to assets);

- to ensure the propriety and reliability of internal and external accounting; and

- to comply with the legal regulations applicable to the Company.

As described above, the risk management system includes, in its entirety, all organizational rules and measures intended to identify risks and control the risks inherent in business activities.

In the context of the Group's accounting processes, the structures and processes outlined as follows are implemented in the internal control system.

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 can materially affect financial reporting and the overall impression left by the consolidated financial statements, including the group management report. These include the following elements in particular:

- Identification of the key risk and control areas relevant to the accounting process;
- Monitoring controls for supervising the accounting process and Group accounting process and their 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 consolidated financial statements, including the management report, plus a separation of functions and pre-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.

Opportunities management

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

Opportunities

Market opportunities

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

Global economy – Given the GRAMMER Group's global presence, it has an opportunity of continuing to benefit from the recovery in the global economy. In particular, favorable conditions in our main sell-side markets may give rise to opportunities for GRAMMER.

Growth in China – In China we are endeavoring to secure contract awards from globally active OEMs which are engaged in this expanding automotive market. In addition, we are also trying to tap new customer groups in the local market. In the Seating Systems Division, we established a joint venture in the Chinese truck market for suspended seating systems in 2013 and expect to generate additional positive growth on the strength of positive market effects. What is more, the Chinese market is not as developed by European and Northern American standards and thus offers correspondingly high growth potential. China is already the world's largest truck market and is thus able to generate corresponding opportunities for GRAMMER.

Optimization in North America – GRAMMER has opportunities in the Automotive Division in North America, where we are increasingly also acting as a system supplier for local OEMs as well as for our European partners in the premium segment. By opening a new plant in the United States, we will be optimizing our presence in this key automotive market, something which, among other things, will result in shorter paths to our customers.

Stabilization in Europe – The stabilization of the automotive markets in Southern Europe may also offer opportunities for GRAMMER; the markets in Central and Northern Europe have already returned to a growth trajectory. We generally expect the European markets to stabilize.

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

Global megatrends – GRAMMER is well positioned to capitalize on global megatrends such as population growth, heightened demand for mobility, increased demand for foods and greater wealth in the emerging markets. GRAMMER is attempting to make optimum use of the resultant opportunities. Thus, heightened demand for mobility may result in an increase in sales of our Automotive and Seating

Systems products. Rising demand for food and agricultural produce may also generate additional sales in the Seating Systems Division as agricultural machinery is frequently fitted with GRAMMER seating systems. All told, GRAMMER is hoping to generate a continue rise in business in its products on the basis of global megatrends.

Strategic opportunities

Opportunities for non-organic growth – Alongside market opportunities, strategic opportunities may also arise for GRAMMER. Among other things, this entails examining and making use of opportunities for non-organic growth. In this connection, we continuously observe our markets for any opportunities for acquisitions and partnerships. If we see any opportunities for reinforcing our market position or for supplementing our product range, we examine the options available to us. As opportunities for non-organic growth depend on many factors beyond our control, it is not possible to make any forecasts in this respect.

Efficiency measures – We work permanently on improving our efficiency and on lowering costs with a view to additionally enhancing our cost position and, hence, to improving our strategic competitive position.

Opportunities from innovation

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

Assessment of risks and opportunities

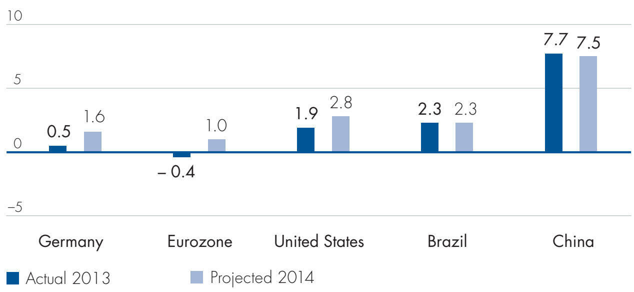
After a detailed review of the current risk situation, we have determined that the GRAMMER Group has implemented appropriate precautions to address the risk which have been identified. The risks that are currently known to us have no material impact on the future net assets, financial position and earnings of the Company. At this time, we see no risks that are liable to jeopardize the Company's going-concern status, and the opportunities may additionally help to mitigate risks. Due to current contradictory and volatile forecasts, no definitive assessment can be made as to the development of risks arising from commodity prices, since the possible scenarios entail both opportunities and risks. The GRAMMER Group's growth was again supported by the stabilization of the global economy in 2013. Assuming that the global economy continues to improve in the future, this may yield additional opportunities for the GRAMMER Group.

Business development forecast

Appreciable recovery in the global economy expected

At the end of 2013/beginning of 2014, the outlook for the economy brightened, indicating that global economic conditions and, hence, production should continue to gain momentum. The factors exerting strain on the global economy over the past few years have receded. According to IMF forecasts, global output will increase by 3.7% in 2014 and, hence, 0.7 percentage points more quickly than in the previous year. In contrast to previous years, this acceleration will not be underpinned by the emerging markets but by the developed economies, where growth should pick up by almost one percentage point to 2.2%, with the United States growing even more dynamically (2.8%). As further progress has been made in reducing US consumer debt and the job market is increasingly improving, consumer spending should pick up again. The IMF is also upbeat about the Eurozone, for which it projects annual average growth of 1.0%. Impetus should particularly be generated by Germany with expansion of 1.6%. However, the differences among the member states are likely to remain pronounced as many countries still face considerable structural problems. Even so, the crisis-inflicted countries of Southern Europe should be able to find their way back onto a growth trajectory. The IMF projects a recovery in the developing countries and emerging markets after the slight slowdown in 2013, with economic output likely to widen by 5.1% in 2014. The IMF sees low inflation in the developed countries, especially the Eurozone, as posing a risk to the global economy as it heightens the probability of deflationary trends in the event of any negative shocks for the economy. It also perceives risks in the emerging markets in the form of volatile financial and currency markets as well as capital outflows as the US Fed will probably be tapering its asset purchasing program in the course of the year.

Economic growth (gross domestic product) in selected countries (in %)



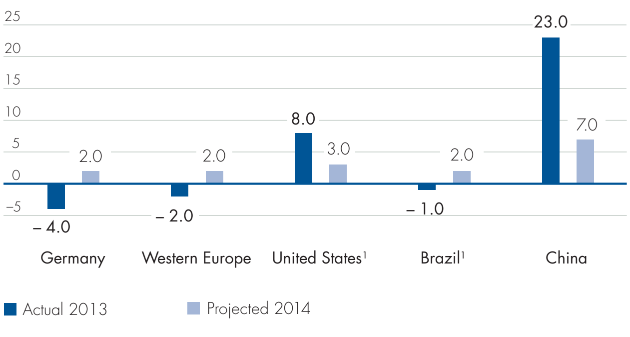
Source: IMF

Outlook for the Automotive Division

Further growth in the passenger vehicle market
The German Association of the Automotive Industry (VDA) is generally optimistic about 2014 and expects the passenger vehicle market to grow again, with global registrations rising by 3 % to 75.2 million. Concerns about Europe are receding and consumer confidence is returning. The US economic recovery will continue and nearly all of the main regions around the world will grow. One exception is Japan, where new registrations of passenger vehicles are likely to contract by 4 % to 4.4 million as they did in the previous year. VDA projects a 2 % increase in new registrations in Western Europe for the first time again. In Germany, new registrations should come to around 3 million, up 2 % on the previous year, with production set to widen by 1 % to 5.5 million units. New registrations in the three other major European markets – the United Kingdom, France and Italy – should rise by between 1 and 3 %, while production figures also look set to point upwards with the exception of Italy.

Sentiment in the United States remains very robust. According to VDA, the mood at the Detroit automobile show at the beginning of 2014 was characterized by confidence and optimism. The light vehicle market should widen by 3 % to close to 16 million new registrations, accompanied by a similar 3 % increase in production to 11.2 million units. VDA reports that the car is likely to remain the most important consumer item in China, with new registrations and production set to rise by 7 %. New registrations will also rise in the other BRIC nations in 2014, albeit less dynamically than in earlier years. VDA sees very strong potential there as measured by passenger vehicle density. However, it cautions that this potential can only be tapped in the right macroeconomic environment.

Changes in automotive sales volumes in selected countries (in %)

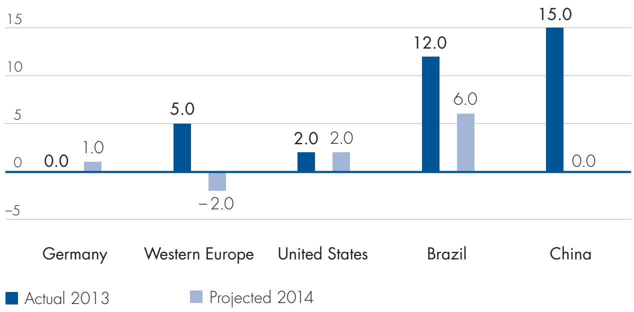


¹ including light vehicles
Source: VDA

Outlook for the Seating Systems Division

Commercial vehicle market emerging from the trough
The brighter global economic outlook should also be reflected in commercial vehicle business in 2014. In its forecast, VDA calculates that new registrations (including buses) will rise by 1 % to 10.5 million units. The German commercial vehicle industry entered 2014 on an optimistic note: According to the ifo business climate barometer, confidence on the part commercial vehicle OEMs brightened perceptibly in January with respect to both expectations and the current business situation. VDA expects new registrations to climb by 2 % to 311,000 over the year as a whole. It projects growth of 1 % to 1.7 million units in Western Europe. The United States should achieve growth of 2 % provided that industrial production, construction activity and capital spending continue to rise. Registration figures should also increase by 2 % in Brazil and by 6 % in India. On the other hand, China is likely to remain flat compared with the previous year with 5.7 million commercial vehicles.

Changes in commercial vehicle sales volumes (trucks over 6t) in selected countries (in %)



Source: VDA

Agricultural machinery industry edging sideways
According to VDMA, global production of agricultural machinery should decline moderately from EUR 96 to 94 billion in 2014. The recent slight deterioration in confidence in the European agricultural machinery industry also points to worsening market conditions. The number of companies expecting lower sales in the coming six months surged to 33 % in December 2013, up from only 21 % in the previous month. That said, the medium to long-term outlook remains favorable. VDMA attributes this to rising demand for and the increasing shortage of agricultural produce in the wake of the continued growth in global population, higher living standards in the major emerging markets and the additional use of agricultural commodities in the production of bio-energy. This will stoke demand for modern machinery, with the greatest potential coming from the emerging markets.

Construction industry cautiously optimistic
VDMA is confident about 2014 on the basis of a forecast by consulting company Off-Highway Research, which sees a further global increase in volume sales of construction machinery. Although the overall situation in Europe is not likely to materially improve according to Euroconstruct, the sector should at least achieve minimum growth there. VDMA assumes that conditions for the German construction and construction machinery industry will remain much the same in 2014 as they were in 2013, i.e. neither particularly bad nor very good. All told, conditions in the German industry are reasonable. Assuming that the recent perceptible upward trend in order receipts continues, sales should be up minimally in 2014 according to VDMA. Further impetus is likely to come from North America and the emerging markets, including the Middle East, Indonesia and a number of Latin American countries.

Material handling
The global market for material handling equipment should continue growing in 2014, particularly in Europe and Asia. According to a survey conducted by the German Association of Construction Machinery, Construction Equipment and Industrial Machinery, a 6.0% increase is expected in sales in 2014.

Railway industry
The German Rail Industry Association (VDM) forecasts growth of 2.7% in the global rail machinery market through 2017, with the Western European market to expand by 1.9%. Growth of 3.2% is expected in Eastern Europe.

Outlook for the GRAMMER Group

The GRAMMER Group was able to substantially better the previous year's good earnings despite volatile market conditions in the year under review. Both divisions – Automotive and Seating Systems – contributed to this gratifying performance with strong growth rates. Revenue was materially underpinned by market share gains thanks to new products in Europe and particularly also China and North and South America as well as the acquisition of Czech headrest specialist nectec Automotive s.r.o. Our forecast for the GRAMMER Group and its Divisions is based on the general trends expected for global economy and the projections for the Automotive Division and the Seating Systems Division as outlined above. The Group is exposed to currency translation effects particularly in the countries of material importance for our business such as Brazil, China, Mexico, the Czech Republic and the United States. By making adjustments to our production activities, we have been able to improve natural hedging effects all around the world; however, significant exchange-rate changes may still have an adverse effect on earnings. In addition, trends in production costs at our facilities – particularly in Germany – as well as in market-side and sourcing prices may impact the GRAMMER Group.

In the Automotive Division, a large number of projects are in development or in the pipeline, and efforts are continuing to acquire new projects across all of our product groups and regions. Given the product lifecycles of our order books, which are characterized by series phase-outs and start-ups, we expect to generate appreciable growth in 2014. This Division is highly exposed to the sales volumes of premium OEMs and would be unable to shield itself from the effects of slower markets.

The Seating Systems Division continues to face stronger competitive pressure in our established markets. After the substantial growth rates of the last few years, the offroad markets in particular could flatline. In China, GRAMMER is confident of achieving further growth thanks to the activities launched in the year under review. Business in this Division should generate a small increase in revenue in 2014.

In view of the GRAMMER Group's good order situation and additional customer projects for automotive products in Brazil and elsewhere, revenue is expected to climb appreciably this year in the absence of any fundamental change in political and economic conditions. In addition, implementation of the package of efficiency measures introduced by the Executive Board will continue undiminished in 2014 and generate a positive contribution to earnings over the coming years. This year will see additions to existing facilities and new product launches in China and NAFTA as well as work on optimizing the Czech facilities, which may result in a corresponding strain on costs.

Summary statement concerning the forecast of the Executive Board

This year, we expect macroeconomic conditions to remain challenging, with the markets which we address painting a mixed picture. In the light of the current macroeconomic situation, we consider the outlook for the GRAMMER Group to be generally favorable in 2014. We project an appreciable increase in revenue over the previous year to more than EUR 1.3 billion, accompanied by stable operating earnings. This assessment is based on the above forecasts for the global economy as well as our main sell-side markets. Any deterioration in these underlying economic or political conditions may also have an adverse effect on GRAMMER's business and earnings. Moreover, the GRAMMER Group's business may also deviate from the forecast as a result of the opportunities and risks described in the risk and opportunity report. Looking ahead to next year, we project further top-line growth assuming stable macroeconomic conditions.

Forward-looking statements

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

The management report of GRAMMER AG and the Group management report have been combined in accordance with section 315 (3) HGB in connection with section 298 (3) HGB and published in the 2013 GRAMMER annual report.

GRAMMER AG's annual financial statements and management report combined with the Group management report are submitted to the operator of the electronic Bundesanzeiger and published there.

GRAMMER AG (notes based on HGB (German Commercial Code)

Unlike the consolidated financial statements, which are prepared in accordance with the International Financial Reporting Standards (IFRS), GRAMMER AG's annual financial statements are prepared according to the rules of the German Commercial Code (HGB).

Business model and divisions

GRAMMER AG is the parent company of the globally active GRAMMER Group. The Executive Board and the Group's central corporate functions are based in GRAMMER AG as the holding company. In addition, it is responsible for a large part of research and development activities and central coordination of sales and marketing. As a specialized developer and producer of components and systems for automotive interiors as well as driver and passenger seats for trucks, trains, and offroad commercial vehicles, GRAMMER is active in 19 countries around the world. GRAMMER AG directly and indirectly holds shares in 35 subsidiaries and associates around the world. Accordingly, the parent company's business performance correlates very closely to that of its subsidiaries and associates. The underlying economic conditions in which GRAMMER AG operates largely match those of the GRAMMER Group and are described in detail in the corresponding section of the combined Group management report.

GRAMMER AG's results of operations

GRAMMER AG Income Statement[1] for the fiscal year from January 1 to December 31

EUR k

	2013	2012	Change
Revenue	532,235	509,368	22,867
Increase in finished goods and work in progress	17,861	1,744	16,117
Other own work capitalized	132	568	–436
Other operating income	4,840	6,473	–1,633
Total revenue	**555,068**	**518,153**	**36,915**
Material costs	413,461	378,068	35,393
Personnel expenses	74,892	67,266	7,626
Depreciation and amortization	10,916	10,829	87
Other operating expenses	53,606	48,537	5,069
Net finance income	10,746	2,644	8,102
Result from ordinary activities	**12,939**	**16,097**	**–3,158**
Income taxes	1,624	2,452	–828
Other taxes	91	89	2
Net profit/net loss	**11,224**	**13,556**	**–2,332**
Releases from other revenue reserves	9,829	8,658	1,171
Allocation to other revenue reserves	–5,612	–6,778	1,166
Net retained profit/net retained loss	**15,441**	**15,436**	**5**

[1] Financial statements in accordance with HGB

Revenue and sell-side markets

In 2013, GRAMMER AG's total revenue rose by 4.5% from EUR 509.4 million to EUR 532.2 million. At EUR 291.4 million (2012: 292.7), Germany continues to account for more than half of revenue 54.8% (2012: 57.5). However, the increase in revenue was underpinned solely by growth in foreign business from EUR 216.7 million to EUR 240.8 million; in this connection, revenue in the European Union rose substantially and with a growth rate of 13.2% achieved the largest absolute increase from EUR 150.0 million to EUR 169.8 million. Non-EU export revenue also continued to rise in 2013, coming to EUR 71.0 million (2012: 66.7) and highlighting the high potential of these markets for GRAMMER AG's future growth.

Expenses

In the period under review, the cost of materials came to EUR 413.5 million (2012: 378.1). The cost-of-materials ratio relative to total revenues widened by 1.5 percentage points from 73.0% to 74.5%. As GRAMMER AG sells solely merchandise, the cost-of-materials ratio is correspondingly high but offers an attractive margin as the Company merely performs the functions of a Group holding company and acts as a Group trading company.

Staff costs rose to EUR 74.9 million (2012: 67.3) in 2013, an increase of 0.5 percentage points relative to total revenues. This increase was caused by additional recruiting, which is necessary to accommodate current and future growth, as well as the 3.4% rise in industry-wide pay scales, which took effect from July 1, 2013.

At EUR 10.9 million (2012: 10.8), depreciation and amortization expense was roughly on a par with the previous year.

Other operating expenses came to EUR 53.6 million (2012: 48.5). This increase of EUR 5.1 million was chiefly due to research and development expense, currency translation losses and increased activities in connection with future projects. The ratio of other operating expenses to total revenues widened by 0.3 percentage points from 9.4% to 9.7%.

Finance expense

Interest expense rose from EUR 10.4 million to EUR 13.1 million chiefly as a result of the interest part of allocations to pension provisions as well as provisions for phased-retirement obligations which must be reported within net finance income/finance expense under the Accounting Law Modernization Act. Pension provisions were measured on the basis of a discount rate of 4.89 % p.a. published by Deutsche Bundesbank for an assumed remaining period of 15 years in accordance with section 253 (2) HGB. The reduction in this interest rate over the previous year (5.04 %) thus resulted in heightened interest expense for GRAMMER AG. In addition, nonrecurring fees and commission were incurred in connection with the restructuring and enlargement of GRAMMER AG's funding base, resulting from the issue of a new debenture bond and the signing of a new syndicated loan contract.

Other interest and similar income including income on loans granted declined from EUR 5.1 million to EUR 4.3 million. This item is materially influenced by income on loans to affiliated companies as GRAMMER AG also coordinates and handles funding within the Group.

The share of profit of associates comprises distributions from subsidiaries and, at EUR 6.5 million, was down on the previous year (2012: 8.9). In 2013, dividends were received from the subsidiaries in Bulgaria, the United Kingdom and Spain.

Net income under profit transfer agreements with subsidiaries came to EUR 14.1 million in 2013 (2012: –0.4), thus improving substantially. Given exchange-rate fluctuation in connection with the intercompany loans, impairments of financial assets rose from EUR 0.5 million in the previous year to EUR 1.0 million due to unrealized currency-translation losses. All told, net finance income rose from EUR 2.6 million in 2012 to EUR 10.7 million, underpinned by the earnings transferred by the domestic subsidiaries.

Taxes

Income taxes declined from EUR 2.5 million in the previous year to EUR 1.6 million in 2013. This drop was chiefly due to lower withholding taxes on license income, interest and dividends. Despite the existing unused tax losses, material corporate tax expense of EUR 0.3 million arose again for the first time in 2013 due to the minimum taxation rules. Trade tax expense, on which the minimum taxation rules had a significant impact, again came to EUR 0.7 million (2012: 0.7). At EUR 0.1 million, other taxes – including electricity tax – were more or less unchanged over the previous year.

Earnings

In the period under review, profit from ordinary business activities at GRAMMER AG dropped to EUR 12.9 million (2012: 16.1) primarily as a result of higher operating expenses in connection with capacity adjustments and research and development costs to secure future growth, which will not generate any contribution to earnings until a later date. However, this decline was largely offset by the increased earnings contributions of EUR 14.1 million under the profit transfer agreements with the German subsidiaries. Thus, generally good earnings were achieved in the year under review accompanied by continued low tax expense. GRAMMER AG's net profit for the year came to EUR 11.2 million (2012: 13.6).

Financial position

Finance and liquidity management

GRAMMER AG's financial and liquidity position improved again in 2013. With the placement of a new debenture bond of EUR 73.5 million with terms of four and six years and a new syndicated loan agreement of EUR 180 million with a tenor of five years plus two one-year options, the Company's funding position was significantly and successfully reinforced. Liabilities to banks stood at EUR 173.7 million at the end of the year, with cash and cash equivalents coming to EUR 54.7 million. Net debt, which is a core performance indicator, equaled EUR 119.0 million at the end of 2013 (2012: 111.0). As GRAMMER AG acts as a financing partner for the subsidiaries and granted loans of around EUR 73.0 million to the subsidiaries, GRAMMER AG's effective debt net of the loans granted to the subsidiaries is substantially less than indicated by its financial liabilities. All told, GRAMMER AG has sufficient funds to finance its long-term growth strategy.

Net assets

GRAMMER AG Balance sheet[1] as at December 31

ASSETS

EUR k

	2013	2012	Change
A. Fixed assets			
I. Intangible assets	5,891	4,472	1,419
II. Property, plant and equipment	31,590	34,044	–2,454
III. Financial assets	181,843	155,207	26,636
	219,324	**193,723**	**25,601**
B. Current assets			
I. Inventories	59,276	40,223	19,053
II. Receivables and other assets	141,346	153,575	–12,229
III. Cash on hand and bank balances	54,743	28,955	25,788
	255,365	**222,753**	**32,612**
C. Prepaid expenses	200	575	–375
Total assets	**474,889**	**417,051**	**57,838**

EQUITY AND LIABILITIES

EUR k

	2013	2012	Change
A. Equity			
I. Subscribed capital	29,555	29,555	0
Own shares	–845	–845	0
II. Capital reserve	74,651	74,651	0
III. Revenue reserves	13,573	7,961	5,612
IV. Net profit	15,441	15,436	5
	132,375	**126,758**	**5,617**
B. Provisions			
1. Pension provisions	55,796	52,251	3,545
2. Provisions for taxation	1,001	707	294
3. Other provisions	20,382	18,821	1,561
	77,179	**71,779**	**5,400**
C. Liabilities			
1. Liabilities to banks	173,723	140,000	33,723
2. Prepayments received	2,310	3,540	–1,230
3. Trade accounts payable	19,440	12,113	7,327
4. Liabilities to related parties	59,975	52,924	7,051
5. Liabilities to companies in which a participating interest is held	39	41	–2
6. Other liabilities	9,848	9,896	–48
	265,335	**218,514**	**46,821**
Total equity and liabilities	**474,889**	**417,051**	**57,838**

[1] Financial statements in accordance with HGB

Total assets rose by 13.9% standing at EUR 474.9 million as of December 31, 2013 (2012: 417.1). This translates into a further increase over the end of the previous year primarily as a result of the acquisition of new subsidiaries, the holding company function and extensions to funding arrangements.

Non-current assets
As of the reporting date, non-current assets were valued at EUR 219.3 million (2012: 193.7), equivalent to an increase of 13.2% over the previous year. Intangible assets rose to EUR 5.9 million (2012: 4.5), while property, plant and equipment declined to EUR 31.6 million (2012: 34.0) primarily as a result of depreciation. On the other hand, financial assets climbed significantly to EUR 181.8 million (2012: 155.2). This increase primarily reflects the acquisition of nectec Automotive s.r.o. (since renamed GRAMMER Automotive CZ s.r.o.), Czech Republic, from the Fehrer Group in February 2013 and the incorporation of the joint venture GRAMMER Seating (Jiangsu) Co. Ltd. in China. As well as this, the capital of GRAMMER System d.o.o. in Serbia and GRAMMER Interior (Beijing) Co. Ltd. in China was increased.

Current assets
Current assets increased by 14.6% over the previous year to EUR 255.4 million (2012: 222.8). At EUR 59.3 million, inventories were substantially up on the previous year (2012: 40.2) due to the increase in work in progress under research and development projects. The reduction of EUR 12.3 million in receivables and other assets to EUR 141.3 million (2012: 153.6) is primarily due to the decline in receivables from affiliated companies under the cash pooling arrangements among other things. At EUR 2.2 million (2012: 2.3), other assets were roughly on a par with the previous year. Cash and cash equivalents continued to rise to EUR 54.7 million (2012: 29.0) due to the strategic cash reserve and the new funding activities, thus contributing to a substantial increase in current assets.

Equity
As of December 31, 2013, GRAMMER AG's equity stood at EUR 132.4 million (2012: 126.8) due to the continued growth in profit. Even so, the equity ratio contracted to 27.9% (2012: 30.4) due to the dividend payout of EUR 5.6 million and particularly also the aforementioned increase in total assets. Despite the reduced equity ratio, this performance can generally be considered to be favorable as the measures mentioned above, while inflating the balance sheet, serve to improve GRAMMER AG's strategic position.

Provisions
Provisions were valued at EUR 77.2 million as of the reporting date (2012: 71.8). At EUR 55.8 million (2012: 52.3), pension provisions accounted for the bulk of provisions. The increase in this item is due to the necessary additions in accordance with the actuarial report, in which the discounting factor plays a material role. As GRAMMER AG does not make use of the accrual option provided for in article 67 (1) EGHGB, meaning that the total expense arising from the measurement changes under the Accounting Modernization Act was reported in full within profit and loss in 2010, there will be no further impact on earnings in future years. In a decision dated May 15, 2012 (3 AZR 11/10), the German Federal Labor Court ruled that in the case of pension plans which were established before RVAltGrAnpG took effect on January 1, 2008 the original contractual age limit of 65 years regularly equals the legal standard age of retirement of 67 years in the statutory pension scheme. Following a conclusive legal review, GRAMMER applied the consequences of the court decision in 2013 and recognized the pension liabilities on the basis of the statutory standard age of retirement. The positive effect of this change to pension obligations was more than offset by other measurement effects (e.g. salary trends).

Tax provisions rose by EUR 0.3 million to EUR 1.0 million as a result of the applicability of the minimum taxation rules despite the unused tax losses.

Other provisions climbed from EUR 18.8 million in the previous year to EUR 20.4 million chiefly due to personnel-related provisions for long-service benefits, overtime and vacation and due to increased warranty provisions particularly as a result of the increased volume of business.

Liabilities
GRAMMER AG's liabilities climbed to EUR 265.3 million in the year under review (2012: 218.5). Liabilities to banks rose by EUR 33.7 million to EUR 173.7 million due to the aforementioned realignment of the long-term funding strategy and, as a result of this, the planned improvements to liquidity and maturity structures. Current liabilities primarily comprise liabilities to affiliated companies (EUR 60.0 million) and trade accounts payable (EUR 19.4 million). Prepayments received of EUR 2.3 million and other liabilities of EUR 9.8 million were down on the previous year.

Dividend proposal

An amount of EUR 5.6 million from the net profit for the year has been retained in accordance with section 58 (2) AktG. The Executive Board will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.65 per share be paid and that the balance of EUR 8.2 million be carried forward. This decision takes account of the fact that the Company holds a total of 330,050 own shares, on which no dividend is paid. If the number of dividend-entitled shares changes before the date of the Annual General Meeting on May 28, 2014, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

Profit allocation proposal

EUR

	2013
Distribution on subscribed capital (€ 0.65 per share)	7,289,505.60
Balance (to be carried forward)	8,151,813.54
Net retained profit	15,441,319.14

Employees

The number of employees rose previous year. As of December 31, 2013, GRAMMER AG had 856 employees (2012: 804). The annual average stood at 832 (2012: 792).

Events subsequent to the reporting date

Effective January 31, 2014, Ms. Tanja Jacquemin, an employee representative, stepped down from the Supervisory Board. She was replaced by employee representative Ms. Tanja Fondel effective February 8, 2014. Similarly, Mr. Bernhard Hausmann, who had replaced Mr. Martin Bodensteiner and had stepped down from the Supervisory Board on January 21, 2014, returned to the Supervisory Board again on February 8, 2014 as an employee representative.

Risks and opportunities

GRAMMER AG's business performance is for the most part subject to the same risks and opportunities as the GRAMMER Group as a whole. As a matter of principle, GRAMMER AG is exposed to the risks of its subsidiaries and associates to an extent commensurate with the proportion of its share in them. Further information in this respect can be found in the combined Group management report.

As the parent company within the GRAMMER Group, GRAMMER AG is integrated in the Group-wide risk management system. Further information is contained in the combined Group management report.

The description of GRAMMER AG's internal control system required under section 289 (5) HGB is also to be found in the combined Group management report.

Outlook

With its close ties with the other Group companies and its weighting within the Group, the outlook for GRAMMER AG is identical to the forecast for the Group has a whole. We expect that the business forecasts provided for the Group will largely also match those for GRAMMER AG.

Accordingly, GRAMMER AG assumes on the basis of its current forecasts that revenue will be up slightly, underpinned by the expected economic recovery in the Eurozone. If the current difficult market conditions in the agricultural machinery industry worsen and the positive signals come from the commercial vehicle market exert a weaker effect than expected, GRAMMER AG's earnings could come under pressure as a result.

Amberg, March 12, 2014

GRAMMER AG
The Executive Board

Consolidated financial statements Index

All the comparative figures in the following tables have been adjusted to allow for the effects arising from the application of IFRS 11 and IAS 19 (revised 2011) (see also Note 2.4).

Consolidated Statement of Income
January 1 – December 31 of the respective financial year

EUR k

	Note	2013	2012 adjusted[1]
Continuing operations			
Revenue	8	1,265,660	1,132,962
Cost of sales	9.3	–1,109,739	–991,288
Gross profit		**155,921**	**141,674**
Selling expenses	9.3	–25,662	–27,281
Administrative expenses	9.3	–86,183	–78,275
Other operating income	9.1	13,934	12,849
Operating profit/loss (–)		**58,010**	**48,967**
Financial income	9.2	1,662	2,024
Financial expenses	9.2	–13,191	–11,941
Other financial result	9.2	–4,066	–718
Profit/loss (–) before income taxes		**42,415**	**38,332**
Income taxes	10	–12,829	–11,553
Net profit from continuing operations		**29,586**	**26,779**
Discontinued operations			
Net profit/loss (–) from discontinued operations	11	23	0
Net profit/loss (–)		**29,609**	**26,779**
Of which attributable to:			
Shareholders of the parent company		29,996	26,741
Non-controlling interests		–387	38
		29,609	**26,779**
Earnings/loss per share			
Basic/diluted earnings/loss (–) per share in EUR	12	2.67	2.38

[1] Prior-year figures were adjusted to reflect application of IFRS 11.

Consolidated Statement of Comprehensive Income
January 1 – December 31 of the respective financial year

EUR k	2013	2012 adjusted [1]
Net profit/loss (–)	29,609	26,779
Amounts not to be recycled in income in future periods		
Actuarial Gains/Losses (–) from defined benefit plans		
Gains/Losses (–) in the current period	–2,859	–20,438
Tax expenses (–)/Tax income	845	5,962
Actuarial Gains/Losses (–) from defined benefit plans (after tax)	–2,014	–14,476
Total amount not to be recycled in income in future periods	–2,014	–14,476
Amounts recycled in income in future periods		
Gains/Losses (–) from currency translation of foreign subsidiaries		
Gains/Losses (–) arising in the current period	–9,856	–3,633
Less transfers recognized in the Income Statement	0	0
Tax expenses (–)/Tax income	0	0
Gains/Losses (–) from currency translation of foreign subsidiaries (after tax)	–9,856	–3,633
Gains/Losses (–) from cash flow hedges		
Gains/Losses (–) arising in the current period	–11	–1,414
Less transfers recognized in the Income Statement	1,413	–199
Tax expenses (–)/Tax income	–387	444
Gains/Losses (–) from cash flow hedges (after tax)	1,015	–1,169
Gains/Losses (–) from net investments in foreign operations		
Gains/Losses (–) arising in the current period	–1,205	1,268
Less transfers recognized in the Income Statement	0	0
Tax expenses (–)/Tax income	0	0
Gains/Losses (–) from net investments in foreign operations (after tax)	–1,205	1,268
Total amount to be recycled in income in future periods	–10,046	–3,534
Other comprehensive income	–12,060	–18,010
Total comprehensive income (after tax)	17,549	8,769
Of which attributable to:		
Shareholders of the parent company	18,039	8,728
Non-controlling interests	–490	41

[1] Prior-year figures were adjusted to reflect application of IFRS 11 and the amended version of IAS 19 (revised 2011).

Consolidated Statement of Financial Position
as of December 31 of the respective financial year

ASSETS

EUR k

	Note	Dec. 31, 2013	Dec. 31, 2012 adjusted [1]	Jan. 1, 2012 adjusted [1]
Non-current assets				
Property, plant and equipment	14	180,194	166,204	158,953
Intangible assets	15	75,116	56,971	55,350
Other financial assets	18	865	1,212	1,069
Income tax assets		44	57	70
Deferred tax assets	10	42,234	42,396	39,311
		298,453	**266,840**	**254,753**
Current assets				
Inventories	16	115,649	106,899	102,245
Trade accounts receivable	17	153,928	140,858	136,151
Other current financial assets	18	86,203	63,923	60,152
Short-term income tax assets		4,867	2,298	2,781
Cash and short-term deposits	20	91,315	73,133	46,228
Other current assets	19	15,469	14,805	15,208
		467,431	**401,916**	**362,765**
Assets classified as held for sale	11	**144**	**0**	**0**
Total assets		**766,028**	**668,756**	**617,518**

[1] Prior-year figures were adjusted to reflect application of IFRS 11 and the amended version of IAS 19 (revised 2011).

Consolidated Statement of Financial Position
as of December 31 of the respective financial year

EQUITY AND LIABILITIES

EUR k

	Note	Dec. 31, 2013	Dec. 31, 2012 adjusted [1]	Jan. 1, 2012 adjusted [1]
Equity				
Subscribed capital	21	29,554	29,554	29,554
Capital reserve	21	74,444	74,444	74,444
Own shares	21	–7,441	–7,441	–7,441
Retained earnings	21	159,423	135,035	112,780
Accumulated other comprehensive income	21	–33,821	–21,864	–3,851
Equity attributable to shareholders of the parent company		**222,159**	**209,728**	**205,486**
Non-controlling interests	21	2,512	522	474
Total equity		**224,671**	**210,250**	**205,960**
Non-current liabilities				
Non-current financial liabilities	23	146,788	76,778	129,776
Trade accounts payable	25	2,320	5,254	3,261
Other financial liabilities	26	4,648	2,548	232
Other liabilities	27	93	0	2,302
Retirement benefit obligations	22	96,330	94,007	69,885
Income tax liabilities		575	571	786
Deferred tax liabilities	10	25,297	20,288	19,506
		276,051	**199,446**	**225,748**
Current liabilities				
Current financial liabilities	23	37,682	72,822	9,090
Current trade accounts payable	25	150,381	114,094	109,128
Other current financial liabilities	26	3,784	12,012	4,465
Other current liabilities	27	56,889	48,301	49,571
Current income tax liabilities		5,024	2,197	4,499
Provisions	24	11,546	9,634	9,057
		265,306	**259,060**	**185,810**
Total liabilities		**541,357**	**458,506**	**411,558**
Total equity and liabilities		**766,028**	**668,756**	**617,518**

[1] Prior-year figures were adjusted to reflect application of IFRS 11 and the amended version of IAS 19 (revised 2011).

Consolidated Statement of Changes in Equity
for the fiscal year ended December 31, 2013

EUR k

	Subscribed capital	Capital reserve	Revenue reserve	Own shares
As of January 1, 2013 (adjusted[1])	29,554	74,444	135,035	–7,441
Net profit/loss (–) for the period	0	0	29,996	0
Other comprehensive income	0	0	0	0
Total comprehensive income	0	0	29,996	0
Dividends	0	0	–5,608	0
Own shares	0	0	0	0
Non-controlling interests arising from the establishment of majority interest	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0
As of December 31, 2013	29,554	74,444	159,423	–7,441

[1] Prior-year figures were adjusted to reflect application of IFRS 11 and the amended version of IAS 19 (revised 2011).

Consolidated Statement of Changes in Equity
for the fiscal year ended December 31, 2012

EUR k

	Subscribed capital	Capital reserve	Revenue reserve	Own shares
As of January 1, 2012 before adjustments	29,554	74,444	111,528	–7,441
Accounting method changes	0	0	1,252	0
As of January 1, 2012 (adjusted[1])	29,554	74,444	112,780	–7,441
Net profit/loss (–) for the period	0	0	24,384	0
Net profit/loss (–) for the period adjusted	0	0	2,357	0
Other comprehensive income	0	0	0	0
Total comprehensive income	0	0	26,741	0
Dividends	0	0	–4,486	0
Own shares	0	0	0	0
Non-controlling interests arising from the establishment of majority interest	0	0	0	0
Sale of non-controlling interests	0	0	0	0
As of December 31, 2012	29,554	74,444	135,035	–7,441

[1] Prior-year figures were adjusted to reflect application of IFRS 11 and the amended version of IAS 19 (revised 2011).

Note 21

Accumulated other comprehensive income						
Cash flow hedges	Currency translation	Net investments in foreign operations	Actuarial gains/ losses from defined benefit plans	Total	Non-controlling interests	Group equity
–1,831	3,695	–5,403	–18,325	209,728	522	210,250
0	0	0	0	29,996	–387	29,609
1,015	–9,753	–1,205	–2,014	–11,957	–103	–12,060
1,015	–9,753	–1,205	–2,014	18,039	–490	17,549
0	0	0	0	–5,608	–4	–5,612
0	0	0	0	0	0	0
0	0	0	0	0	2,500	2,500
0	0	0	0	0	–16	–16
–816	–6,058	–6,608	–20,339	222,159	2,512	224,671

Accumulated other comprehensive income						
Cash flow hedges	Currency translation	Net investments in foreign operations	Actuarial gains/ losses from defined benefit plans	Total	Non-controlling interests	Group equity
–662	9,939	–6,671	0	210,691	474	211,165
0	–2,608	0	–3,849	–5,205	0	–5,205
–662	7,331	–6,671	–3,849	205,486	474	205,960
0	0	0	0	24,384	38	24,422
0	0	0	0	2,357	0	2,357
–1,169	–3,636	1,268	–14,476	–18,013	3	–18,010
–1,169	–3,636	1,268	–14,476	8,728	41	8,769
0	0	0	0	–4,486	–4	–4,490
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	11	11
–1,831	3,695	–5,403	–18,325	209,728	522	210,250

Consolidated Statement of Cash Flow
January 1 – December 31 of the respective financial year

Note 28

EUR k	2013	2012 adjusted[1]
1. Cash flow from operating activities		
Profit/Loss (–) before income taxes	42,415	38,332
Non-cash items		
Depreciation of property, plant and equipment	26,752	24,941
Amortization of intangible assets	7,514	4,197
Changes in provisions and pension provisions	9,230	2,521
Other non-cash changes	–9,812	–7,097
Changes in net working capital		
Decrease/Increase (–) in trade accounts receivable and other receivables	–28,689	–7,214
Decrease/Increase (–) in inventories	–7,043	–4,075
Decrease/Increase (–) in other assets	–2,395	3,389
Decrease (–)/Increase in accounts payable and other liabilities	30,833	16,864
Gains/Losses from disposal of assets	187	–23
Income taxes paid	–9,509	–9,597
Cash flow from operating activities	**59,483**	**62,238**
2. Cash flow from investing activities		
Purchases		
Purchase of property, plant and equipment	–34,159	–31,292
Purchase of intangible assets	–8,635	–5,797
Purchase of financial investments	–397	–300
Acquisition of subsidiaries (less acquired cash)	–21,896	0
Disposals		
Disposal of property, plant and equipment	316	1,574
Disposal of intangible assets	8	0
Disposal of financial investments	651	193
Interest received	1,662	2,024
Government grants received	3,814	1,361
Cash flow from investing activities	**–58,636**	**–32,237**
3. Cash flow from financing activities		
Dividend payments	–5,608	–4,490
Changes in non-current liabilities to banks	67,620	–52,998
Changes in current liabilities to banks	–45,722	63,662
Changes in lease liabilities	–1,222	–1,059
Interest paid	–9,499	–9,620
Cash flow from financing activities	**5,569**	**–4,505**
4. Cash and cash equivalents at end of period		
Net changes in cash and cash equivalents (sub-total of items 1–3)	6,416	25,496
Effects of exchanges rate differences of cash and cash equivalents	1,284	998
Cash and cash equivalents as of January 1	71,219	44,725
Cash and cash equivalents as of December 31	**78,919**	**71,219**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	91,315	73,133
Securities	0	0
Bank overdrafts	–12,396	–1,914
Cash and cash equivalents as of December 31	**78,919**	**71,219**

[1] Prior-year figures were adjusted to reflect application of IFRS 11.

Notes to the Consolidated Financial Statements for the fiscal year ended December 31, 2013

1 Information about the GRAMMER Group and Basis of Reporting

Information about the GRAMMER Group

GRAMMER AG is a public listed company incorporated under German law. The Company was created by means of a reorganization of GRAMMER GmbH (a private limited company) into a joint stock corporation (Aktiengesellschaft) and is registered in the commercial register of Amberg HRB 1182 under the name "GRAMMER Aktiengesellschaft". The Company's registered office and business address is Georg-Grammer-Str. 2 in 92224 Amberg, Germany. The shares of the Company have been traded on the Frankfurt/Main and Munich stock exchanges since 1996.

GRAMMER AG has been included in the SDAX of the Frankfurt Stock Exchange since August 2005.

International Securities Identification Number (ISIN): DE0005895403
German Securities ID (WKN): 589540
Common Code: 006754821
Ticker Symbol: GMM

With regard to its core products, GRAMMER Group is a leader in the development and production of components and systems for automotive interiors as well as driver and passenger seats for commercial vehicles (trucks and offroad) buses and trains. As of December 31, 2013, the Company employed 10,082 persons (excluding trainees and including 252 employees in Central Services) at 34 production and logistics sites in Europe, the NAFTA and Mercosur regions, Asia as well as at GRAMMER Group Central Services in Amberg. GRAMMER Group is managed centrally by the three members of the Executive Board and has its registered office in Germany with the Group headquarters in Amberg (Bavaria).

GRAMMER Group has divided its activities into the Automotive and Seating Systems segments. The main activities of the Group are described in Note 7.

General information

These consolidated financial statements were prepared in accordance with section 315 a (1) HGB in conjunction with the International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB), as applicable in accordance with Regulation no. 1606/2002 of the European Parliament and the Council in the European Union (EU).

The consolidated financial statements and the combined Group management report of GRAMMER AG (the "Company") for the fiscal year ended December 31, 2013 were prepared in accordance with section 315 a (1) HGB and approved by the Executive Board for submission to the Supervisory Board on March 20, 2014.

2 Accounting policies

2.1 Basis of preparation

Under Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated July 19, 2002 concerning the application of international accounting standards (Official Journal EC No. L 243 p. 1), GRAMMER AG was required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the first time for the fiscal year 2005; the opening IFRS consolidated balance sheet was prepared for the period beginning January 1, 2004 (date of first adoption to IFRS pursuant to IFRS 1). Acquisitions of companies before January 1, 2004 continued to be accounted for using the consolidation procedure pursuant to section 301 (1) sentence 2 No. 1 of the German Commercial Code (HGB), i.e. the book value method: The carrying amounts of the shares were offset against the pro-rata share in equity of the consolidated subsidiaries at the time of acquisition or initial consolidation (IFRS 1).

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). In the absence of anything to the contrary, all figures are rounded up or down to the closest thousand euros (TEUR). Individual amounts and percentages may not exactly equal the aggregated amounts due to rounding differences. The consolidated statement of financial position (balance sheet) is broken down by maturities. Net income is presented in two separate statements: an income statement and a statement of comprehensive income. The income statement was prepared using the cost of sales method.

Principles of consolidation

The consolidated financial statements include the financial statements of GRAMMER AG and the consolidated subsidiaries as of December 31 of each fiscal year. The financial statements of the subsidiaries are prepared in accordance with uniform Group accounting policies, which are also applied to the financial statements of the parent company. The reporting date of the financial statements of the companies included in the consolidated financial statements corresponds to the balance sheet date of the consolidated financial statements. If necessary, the financial statements of subsidiaries are adjusted to conform to the accounting policies applicable in the Group.

Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group effectively obtains control of the company concerned. The Group is deemed to control an investee if it has power over it, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Group's returns.

Accordingly, the Group is only deemed to control an investee if it exhibits all of the following characteristics:

- it exerts control over the investee
- it has exposure or rights to variable returns from its involvement with the investee
- it is able to use its power over the investee to affect the amount of the Group's returns.

If the Group does not hold a majority of the voting or comparable rights in an investee, it takes account of all relevant matters and circumstances in determining whether it exerts control over an investee. This includes:

- a contractual arrangement with other holders of voting rights
- rights arising from other contractual arrangements
- voting rights and potential voting rights of the Group.

If any matters or circumstances indicate any change in one or more of the conditions for control, the Group must again review whether it exerts control over the investee. A subsidiary is consolidated from the day on which the Group gains control of it. The subsidiary is no longer included in the consolidated financial statements as soon as the parent effectively loses control over the company concerned. Assets, liabilities, income and expenses of a subsidiary which was acquired or sold during the reporting period are recorded in the balance sheet and statement of comprehensive income as of the day on which the Group gains control over the subsidiary until the day on which control ceases.

The profit and loss and each part of the other comprehensive income are allocated to the holders of the parent company's shares and to non-controlling interests even if this results in a negative balance for the non-controlling interests. Any intragroup balances, transactions, income, expenses and unrealized profits or losses resulting from intragroup transactions that are included in the carrying amount of the assets are eliminated in full.

Any change in the size of the share in a subsidiary that does not result in a loss of control is accounted for as an equity transaction. In the event of a loss of control, the Group accounts for the remaining interest as follows:

- Derecognition of the assets and liabilities of the subsidiary, including goodwill
- Derecognition of the carrying amount of the non-controlling interest in a former subsidiary
- Derecognition of the cumulative amount of the currency translation differences recorded within equity
- Recognition of the fair value of the consideration received
- Recognition of the fair value of the remaining investment
- Recognition of the net profit or loss in the income statement
- Recycling of components of other comprehensive income attributable to the parent company to profit and loss to the extent that would be necessary if the Group had directly sold the corresponding assets and liabilities.

Business combinations and goodwill

Business combinations are accounted for using the purchase method in accordance with IFRS 3. Costs for the acquisition of a company are measured as the aggregate of the acquisition-date fair value of the consideration transferred and the amount of any minority interest. In the context of any business combination, the Group values minority interests in the acquired company either at fair value or as the relevant share of the identifiable net assets of the acquired company. Costs incurred in relation to the business combination are recognized as expense.

In the case of successive business combinations, the share of equity in the target company previously held by the acquiring entity is revalued to fair value at the time of acquisition and the resulting gain or loss is recognized in the income statement.

When the Group acquires a company, it determines the classification and designation of the financial assets and assumed debts in accordance with the contractual conditions, the economic situation and the conditions prevailing at the time of acquisition. Any embedded derivatives in underlying assumptions are also accounted for separately by the Company.

Identifiable assets, liabilities and contingent liabilities acquired in the context of a business combination are initially recognized at their fair value on the acquisition date. The agreed contingent consideration is measured at fair value at the time of the business combination. Subsequent changes to the fair value of a contingent consideration representing an asset or liability are either recognized in profit and loss or other income in accordance with IAS 39. If a contingent consideration is equity, the original amount is not remeasured and subsequent settlement is taken directly to equity. If the contingent consideration does not fall under the scope of IAS 39, measurement follows the relevant IFRS rules.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or the jointly controlled entity. Upon the disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss upon disposal.

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 accordingly recognized in the income statement separate from the share of results of operations attributable to the shareholders of the parent company. Recognition in the balance sheet is directly in equity, separate from the equity attributable to the shareholders of the parent company.

Investments in associates and joint ventures

A joint venture is a joint undertaking under which the parties which jointly manage the undertaking hold rights in the net assets of the joint venture. Joint management is the contractually agreed exercise of joint control. It arises only if decisions on the relevant activities must be made unanimously by the joint venture parties.

The Group's shares in joint ventures are recognized in accordance with equity method of accounting.

Under the equity method of accounting, the shares in a joint venture are initially recognized at historical cost. The carrying amount of the investment is adjusted to reflect any changes in the Group's share in the joint venture's net assets since the date of acquisition. The goodwill arising from the joint venture is included in the carrying amount of the investments and is not written down on a regular basis or subjected to an impairment test. Goodwill arose from only one joint venture within the Group.

The income statement includes the Group's share in the net profit or loss of the joint venture for the reporting period. Any changes in the other comprehensive income of these investees are recorded within consolidated other comprehensive income. In addition, any changes are recorded directly in the equity of the joint ventures in an amount equaling the share held by the Group and, as far as necessary, included in the statement of changes in equity. Unrealized gains and losses from transactions between the Group and the joint ventures are eliminated in accordance with the shares held in the joint venture.

The Group's total share in the joint ventures' net profit or loss is reported within the income statement and represents the earnings after tax and non-controlling interests in the subsidiaries of the joint ventures.

After applying the equity method of accounting, the Group determines whether it is necessary to allow for any impairment of its shares in the joint venture. The Group determines on each reporting date whether there is any objective evidence suggesting that the share in the joint venture may be impaired. In the event of such evidence being found, the impairment equals the difference between the recoverable amount of the share in the joint venture and the carrying amount, upon which the resultant loss is recognized through profit and loss within the share of profits of joint ventures.

Upon the loss of significant influence on the joint management of the joint control, the Group measures at fair value all shares which it retains in the former joint venture. Any differences between the carrying amount of the share in the joint venture on the date on which joint control is lost and the fair value of the retained shares and the proceeds from the sale are included in the income statement.

Companies consolidated

In addition to GRAMMER AG, five domestic and 22 foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IFRS 10 are consolidated.

The companies consolidated using the equity method of accounting comprise the GRA-MAG joint venture, in which GRAMMER AG holds 50% of the voting rights. The Ningbo Jifeng joint venture acquired through the takeover of nectec Automotive s.r.o. was also recognized in the consolidated financial statements using the equity method of accounting pending classification in accordance with IFRS 5.

In January 2013, the newly established company GRAMMER Interior (Beijing) Co. Ltd., Beijing, China, was consolidated for the first time.

nectec Automotive s.r.o., Česká Lípa, Czech Republic, was acquired in February and consolidated from February 1, 2013.

In April 2013, the newly established company GRAMMER Seating (Jiangsu) Co. Ltd., Jiangyin, China, was consolidated for the first time. This is a majority interest in which GRAMMER AG holds 60% and Jiangsu Yuhua Automobile Parts Co., Ltd. 40%.

The uniform reporting date for all of the consolidated companies is December 31, 2013.

	National	Abroad	Total
Fully consolidated companies (incl. GRAMMER AG)	6	22	28
Companies consolidated at equity	0	1	1
Group	6	23	29

2.2 Estimates and judgements

In certain cases, reporting in accordance with IFRS requires the application of estimates and assumptions which entail complex and subjective assessments and estimates involving circumstances which are intrinsically uncertain and subject to change. For instance, in preparing the consolidated financial statements, discretionary decisions, assumptions and estimates have to be made to a certain degree, which have an impact on the measurement and recognition of reported assets and liabilities, income and expenses and contingent liabilities of the reporting period. Assumptions and estimates mainly relate to assessing the value of intangible assets, determining uniform economic useful lives for property, plant and equipment, assessing the recoverability of receivables and undertaking recognition and measurement of provisions. The assumptions and estimates are based on presumptions reflecting the currently available information. These may contain assumptions that the management could not have reasonably deemed otherwise in the same reporting period for equally reasonable reasons. In particular, the circumstances prevailing at the time of preparation of the consolidated financial statements as well as the anticipated realistic development of the global and sector-specific environment were used as the basis for forecasting the future business trends. Developments that differ from these assumptions and are beyond the control of management may cause actual results to differ from the originally forecast estimates. As a precaution, the Group notes that future events often deviate from forecasts, and that estimates are routinely subject to revision. If actual developments differ from forecast developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Estimation uncertainties

The major assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date, which entail considerable risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year, are explained below. 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.

Impairment of goodwill

The Group tests goodwill for impairment at least once annually. This requires an estimate to be made of the value in use of the cash-generating units to which the goodwill has been attributed. In order to estimate the value in use, the Group must estimate the expected future cash flows from the cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. Forecasts on payment flows entail historical data and are based on management's best estimate of future events. Payment flows beyond the forecast period are extrapolated on the basis of individual growth rates. The main 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 extent of a possible impairment of goodwill. The cash flows are extrapolated from budgets for the subsequent three years, which relates to the estimates of the management as to the realizable value.

The realizable value depends largely on the discount rate applied for discounted cash flow method, as well as the expected future cash flows and rate of growth used as the basis for extrapolation. As of December 31, 2013, the carrying amount of goodwill amounted to EUR 36,516 thousand (2012: 33,811). For further details, please refer to Note 15.1.

Development costs
Development costs are capitalized in accordance with the accounting policies set out in Note 2.3. Capitalization of costs for the first time is based on the management's assessment that there is evidence that the development is technically and economically feasible. As a rule, this is the case if a product development project has achieved a specific stage of maturity in an existing project management model. For the purpose of calculating the amounts to be capitalized, assumptions and estimates were made concerning the expected future cash flows from assets, the applicable discount rates and the period in which the expected cash flows generated by such assets will flow to the Company.

Revenue recognition for contract business
A portion of business in the Group relates to customer development contracts. These construction contracts are recognized in accordance with the stage of completion as of the balance sheet date (percentage-of-completion method) as described in Note 2.3. This method entails a measured estimate of the stage of completion. For estimation of the stage of completion, the Group must approximate the total contract costs, the costs to complete, the total contract revenue, the contract risks and other assumptions. Management continually reviews these assumptions in the context of such construction contracts and adjusts them as necessary. In connection with the application of the percentage-of-completion method, such changes may result in an increase or decrease in revenue in the corresponding reporting period. The calculation also involves assumptions related to the contract term and execution as well as development efficiency. Uncertainties are greater at the beginning of construction contracts due to the development of design and function.

Provisions
The measurement of provisions for warranties, litigation or restructuring is largely based on estimates and assumptions. For warranty estimates, a significant number of assumptions are made relating technical disruptions, costs and possible claims, which rely on assessments of operational management. These may change over the course of time as more specific information becomes available. The Group is confronted with various litigations and regulatory processes in different countries. These can result in civil sanctions or monetary fines for the Group. The Group recognizes provisions for such litigation costs if it is probable that an obligation will arise from them that is likely to result in future payments. To this extent, the creation of provisions is based largely on management discretion.

Taxes
As a result of the global orientation of our business and the complexity of existing contractual agreements, discrepancies may exist between actual developments and the assumptions made or changed in the future, which could necessitate changes to reported tax expenses or income. Uncertainties also stem from the official interpretation of complex tax rules, amendments to tax laws and their periods of effectiveness as well as the amount and timing of future taxable results. Based on reasonable estimates, the Group recognizes provisions for potential effects from tax audits in countries where we operate. The amount of such provisions is based on various factors, such as experience in previous tax audits and different official interpretations of tax rules by the authorities. The probability of resulting litigation and payments of tax liabilities on the basis of such litigation is deemed to be minimal, so that no contingent liabilities were recognized in this regard.

Deferred income tax assets are recognized for all unused income tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused income tax losses can be actually utilized. Significant management judgments are required to determine the amount of deferred income tax assets on the basis of the expected timing and amount of the future taxable profit as well as the future tax planning strategies. Further details are included in Note 10.

Pensions and other post-employment benefits
Obligations under post-employment benefit plans and the associated net expense in the period are defined in accordance with actuarial values. These measurements are made on the basis of certain assumptions such as discount factors, salary trends, mortality and inflation rate/pension trends. The discount factors applied are determined on the basis of market yields at the balance sheet date on high-quality corporate bonds with the appropriate maturity and currency denomination. The expense from defined post-employment benefit plans is determined on the basis of actuarial calculations.

Given the complexity of the measurements and their long-term nature, defined benefit obligations react extremely sensitively to any changes in the underlying assumptions. These assumptions are reviewed on each reporting date.

Further details on the pension obligations can be found in Note 22.

Calculation of fair value of financial instruments
If the fair value of recognized financial assets and financial liabilities cannot be measured by reference to prices in active markets, it is calculated using valuation methods such as the discounted cash flow method. The input parameters for the model are based on observable market data as far as possible. If such data is not available, the fair value is based to a large degree on management's judgement. Such judgements relate to input parameters such as the liquidity risk, the credit risk and volatility. Any changes in the assumptions made for these factors may impact the fair values of financial instruments. Further details can be found in Note 32.

2.3 Summary of significant accounting policies

Currency translation
The Consolidated Financial Statements were prepared in Euro (EUR). Every company within the Group determines its own functional currency. The items included in the financial statements of the companies are measured on the basis of the relevant functional currency.

In the single-entity financial statements of GRAMMER AG and its consolidated subsidiaries, foreign currency transactions are translated at the exchange rate applicable on the date of initial recognition of the respective transaction. Financial statements prepared in foreign currencies and transactions denominated in foreign currencies are translated in accordance with the functional currency concept as set out in IAS 21. Accordingly, the functional currency is the currency of the primary economic environment in which the entity operates; its activities and financial structure are to be presented in the consolidated financial statements as they present themselves in that currency. Transactions in foreign currencies are translated into the functional currency at historical rates. Monetary items are translated at the closing rate. Any resulting translation differences are recognized in profit or loss. An exception is made for translation differences from loans or credits in foreign currencies, that are classified as a net investment and included in net income for the period only after their disposal. Any deferred income taxes resulting from these translation differences are also recognized directly in equity. The financial statements of Group companies whose functional currency differs from the reporting currency of the Group (EUR) are translated using the modified closing rate method. In the consolidated financial statements, the assets and liabilities of foreign Group companies are translated into EUR from the respective local currency at the middle rate on the balance sheet date.

Income statement items are translated into EUR at the average exchange rate for the year. The net income for the year so determined is taken to the consolidated balance sheet. Any translation differences are recorded in equity with no effect on income.

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

		Average rate		Closing rate	
		2013	2012	2013	2012
Brazil	BRL	0.349	0.398	0.307	0.370
China	CNY	0.122	0.123	0.120	0.122
United Kingdom	GBP	1.180	1.229	1.199	1.225
Japan	JPY	0.008	0.010	0.007	0.009
Mexico	MXN	0.058	0.059	0.055	0.058
Poland	PLN	0.238	0.239	0.241	0.245
Czech Republic	CZK	0.039	0.040	0.036	0.040
Turkey	TRY	0.394	0.430	0.338	0.425
USA	USD	0.752	0.774	0.725	0.758

Non-current assets held for sale and discontinued operations
Non-current assets qualifying as held for sale are recognized at the lower of the carrying amount and fair value less disposal costs. An asset is classified as held for sale if the relevant carrying amount is realizable primarily through disposal rather than use of the asset. This is only assumed to be the case if disposal of the asset is deemed highly probable and the asset is immediately available for sale in its present condition. This must be preceded by a management decision to sell the asset and the sale should be completed, or expected to be so, within a year from the date of the classification.

In the income statement for the period, and the preceding period, the total income and expenditure for discontinued operations is presented separately from the income and expenditure for continuing operations, and separately recognized as after-tax profit/ loss from the discontinued operations. This also applies if the Group continues to hold a non-controlling interest in the former subsidiary after disposal.

Assets classified as held for sale are not depreciated.

Property, plant and equipment
Property, plant and equipment are carried at cost less straight-line depreciation and accumulated impairment losses (IAS 16). If the cost of certain components is significant in proportion to the overall cost of the item of property, plant and equipment and if these components are subject to regular replacement, the Group recognizes these separately and depreciates them individually. The useful lives assumed correspond to the period over which the asset or relevant component is expected to be available for use. Residual values have been included in the calculation of the depreciation amounts to the extent material.

Cost is recognized on the basis of directly attributable costs plus any allocable material and production overheads, including depreciation, and borrowing costs for long-term construction projects or similar manufacturing processes, as long as they qualify for recognition. Repair costs and interest on borrowed funds are recognized as current expenses.

Property, plant and equipment are depreciated pro rata temporis over the expected useful life using the straight-line method.

Impairment losses on property, plant and equipment are recognized in accordance with IAS 36 when the carrying amount exceeds the value in use or the fair value less costs to sell of the assets. Should the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to the amount of the asset's original cost less any accumulated depreciation.

An item of property, plant and equipment is derecognized upon disposal or when an economic benefit can no longer be expected from the continued use or sale of the asset. Any resulting gains or losses are identified on the basis of the difference between the net sales proceeds and the carrying amount of the asset and are recognized as income in profit or loss in the period in which it is derecognized.

The residual carrying amounts of the assets, their useful lives and the depreciation methods applied are reviewed at the end of each fiscal year and, if needed, adjusted.

Leases
Leases involving the Group as lessee are classified as operating leases or finance leases in accordance with IAS 17. Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time of the conclusion thereof and requires a judgment as to whether the performance of the contractual arrangement depends on the use of a specific asset and whether the arrangement conveys the right to use the asset. With regard to leased items of property, plant and equipment, the requirements of finance leases in accordance with IAS 17 are met when all significant risks and opportunities of ownership have been transferred to the respective Group entity (economic ownership). In such case, the respective items of property, plant and equipment are capitalized at the lower of fair value or present value of the minimum lease payments and depreciated using the straight-line method over the shorter of the asset's economic life or the lease term. Consequently, the lease payment is recognized as a liability and the repayment component of the lease payments already made is deducted.

Any lease or rent payments under operating leases involving subsidiaries as the lessee are recognized as an expense directly in the income statement.

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition, construction or production costs of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs include interest and other costs that a company incurs in connection with borrowing.

Goodwill

Goodwill arising from a business combination is initially measured at cost, defined as the excess of the acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and debt acquired. If the acquisition cost is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement. Following initial recognition, goodwill is measured at cost less any accumulated impairment cost. To establish whether goodwill is impaired, it is necessary to allocate the goodwill acquired by the business combination from the day of acquisition to each of the cash-generating units that will benefit from the business combination. This is carried out irrespective of any previous allocation of other Group assets or liabilities to these units.

Impairment testing is carried out at the level of segments, which are cash-generating units or groups of cash-generating units, and represent the lowest level at which goodwill is monitored for internal management purposes.

Impairment is measured by establishing the recoverable amount of the cash-generating unit (or group of cash-generating units) that relates to the goodwill. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is below its carrying amount, an impairment loss is recognized. If goodwill has been attributed to a cash-generating unit and a portion of this unit is sold, the goodwill attributable to the sold portion of the unit is included as part of the carrying amount of the unit in establishing the result from sale of the unit. The value of any goodwill sold in this manner is determined on the basis of the ratio of value of the business segment sold to the unsold portion of the cash-generating unit.

Intangible assets

Intangible assets acquired – other than as a result of a business combination – are initially recognized at historical cost. The costs of such intangible assets acquired under business combinations equal their fair value on their date of acquisition. They are subsequently recorded at historical cost less cumulative amortization and, where applicable, cumulative impairment expense. Development costs are not capitalized with the exception of the part qualifying for capitalization and are recognized as an expense in the period in which they are incurred.

As a matter of principle, a distinction is drawn between intangible assets with a definite useful life and those with an indefinite useful life.

Intangible assets with finite useful lives are amortized over their useful lives and tested for impairment as soon as there is any indication that the intangible asset might be impaired. The amortization period and amortization method of intangible assets with a finite useful life are reviewed at least at the end of each fiscal year. If the expected useful life of the asset or the expected amortization method has changed, a different amortization period or amortization method is chosen. Any such changes are treated as a change in an accounting estimate.

Intangible assets with indefinite useful lives are tested for impairment at least once annually for each asset or on the level of the cash-generating unit. These intangible assets are not amortized. The useful life of an intangible asset with an indefinite useful life is tested annually to establish if an indefinite useful life is still to be assumed. Should this not be the case, the asset is deemed to have a finite life and a change in an accounting estimate from indefinite to finite is recognized prospectively.

Amortization and impairment for the year under review have been attributed to the respective functional areas.

Gains and losses from derecognition of intangible assets are calculated as the difference between the net sales proceeds and the carrying amount of the asset. They are recognized as profit or loss in the period in which the asset is derecognized.

Patents and licenses

Patents may be either internally generated or acquired and are recognized at cost. The patents are issued by the competent government authority for a minimum of ten years. There is a renewal option at the end of this period. Licenses for the use of intellectual property are issued for individual use for a period of one to ten years. The licenses generally include an option for extension, subject to the proviso that the Group satisfies the licensing conditions. There is little or no cost for an extension. Patents and licenses are amortized on a straight-line basis over their respective useful life.

All development costs for internally generated patents were measured at cost at the time of transition to IFRS on January 1, 2004. Balance sheet recognition under the IAS 38 criteria is limited to expected ability to generate cash flows within the respective cash-generating unit. Amortization is carried out on a straight-line basis over the expected useful life of the relevant patents (1 year to 19 years).

Research and development costs
Research costs are recognized as an expense in the period in which they are incurred. Development costs for individual projects are only capitalized as intangible assets if the Group can demonstrate the following:

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

Subsequent to initial recognition, development costs are accounted for using the cost model, i. e. at historical cost less any accumulated depreciation and any accumulated impairment losses. Amortization commences with the completion of the development phase and as of the date on which the asset can be utilized and is calculated for the period in which the asset is expected to be used.

Capitalized development costs are tested for impairment once annually if the asset has not yet been used or if there are indications for impairment during the year.

Impairment of non-financial assets
The Group assesses on each balance sheet date whether there are any indications that the value of an asset could be impaired. If there is any such indication or if an annual impairment test for an asset is required, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value less costs to sell of the asset or cash-generating unit and its value in use. The recoverable amount must be established for each asset individually, unless an asset does not generate any cash flows that are largely independent from those of other assets or groups of assets. Should the carrying amount of an asset exceed its recoverable amount, the asset is deemed impaired and is written down to its recoverable amount. In order to establish the value in use, the estimated future cash flows are discounted to their present value, taking into account a discount rate before taxes reflecting current market expectations on interest effect and the specific risks related to the asset.

Impairment costs of continued operations are recognized in those cost categories that reflect the function of the impaired asset.

As of each balance sheet date, the Group determines if there is any indication that an impairment loss recognized in previous periods might no longer be existent or may have decreased. If there is any such indication, the recoverable amount is estimated. An impairment loss recognized in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount; this does not apply to goodwill. The increased carrying amount, however, may not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment been recognized for the asset in previous years. Any such reversal of an impairment loss must be recognized immediately in the profit or loss for the period. Following the reversal of an impairment loss, the depreciation or amortization charge for the asset must be adjusted in future periods to allocate the asset's revised carrying amount, less any residual carrying amount, on a systematic basis over its remaining useful life.

Calculation of fair value
The Group measures financial instruments and non-financial assets at their fair value on each reporting date. The fair values of the financial instruments at amortized cost are set out in Note 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured on the assumption that the transaction under which the asset is sold or the liability transferred is executed either:

- in the main market for the asset or liability or
- in the most advantageous market for the asset or liability in the absence of any main market.

The Group must have access to the main or most advantageous market.

The fair value of an asset or liability is measured on the basis of assumptions that market participants would apply in determining the price of the asset or liability. For this purpose, it is assumed that the market participants operate in their own best economic interests.

In connection with the measurement of the fair value of a non-financial asset, allowance is made for the market participant's ability to generate economic benefits through the highest and best use of the asset or the sale of the asset to another market participant who finds the highest and best use for the asset.

The Group applies measurement methods which are appropriate in the light of the applicable circumstances and provide sufficient data for measuring fair value. In this connection, the greatest possible use is made of material and observable input factors and the least possible use of non-observable input factors.

All assets and liabilities whose fair value is measured and recognized in the financial statements are assigned to the following fair-value hierarchy based on input parameters for the lowest level which is generally material for measuring fair value:

- Level 1 – (Non-adjusted) prices quoted in active markets for identical assets or liabilities

- Level 2 – Measurement process for which the input parameters for the lowest level which is generally material for measuring fair value are directly or indirectly observable

- Level 3 – Measurement process for which the input parameters for the lowest level which is generally material for measuring fair value are not observable

No assets or liabilities were assigned to Level 3.

In the case of assets and liabilities which are recorded in the annual financial statements on a recurring basis, the Group determines whether there have been any changes in the allocation to the hierarchy levels by reviewing the classification at the end of each reporting period.

In order to satisfy the goodwill disclosure requirements, the Group has defined groups of assets and liabilities on the basis of their type, characteristics and risks as well as their allocation to the above-mentioned levels of the fair value hierarchy.

Financial instruments
Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or an equity instrument of another entity. Financial instruments recognized as financial assets or financial liabilities are recognized separately.

Financial instruments are recognized as soon as the Group becomes a counterparty to the financial instrument. In the case of regular purchases or sales as part of a contract, the conditions of which envisage delivery of the asset within a period, which is normally set by law or the conventions of the respective market, the settlement date, i.e. the date on which the asset is delivered to or by the Group, is the date on which the asset is first recognized or derecognized in the balance sheet.

If contracts to buy or sell non-financial items fall under the scope of IAS 39, they are accounted for in accordance with the procedures of this standard.

Initial recognition of financial assets
Financial assets within the meaning of IAS 39 are classified as financial assets measured at fair value through profit or loss, as loans and receivables, as held to maturity investments, as available-for-sale financial assets or as derivatives designated as hedging instruments and effective as such. The Group determines the classification of its financial assets upon initial recognition.

Upon initial recognition, financial assets are measured at fair value. In the case of investments not classified as at fair value through profit or loss, transaction costs directly attributable to acquisition of the assets are also taken into account.

The Group's financial assets include cash and short-term deposits, trade receivables, receivables from outstanding loans and other receivables as well as quoted and unquoted financial instruments and derivatives.

Subsequent measurement of financial assets
Subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit and loss
Financial assets measured at fair value through profit or loss include financial assets classified as held for trading and those designated measured at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they have been purchased for the purpose of selling 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 hedging instrument in accordance with IAS 39 and are effective as such. If agreements contain embedded derivatives, the derivatives are accounted for separately from the underlying agreement when the economic attributes and risks of the embedded derivative are not closely connected to the economic attributes and risks of the underlying agreement. The Group establishes whether embedded derivatives are to be accounted for separately from the underlying agreement when it becomes a counterparty for the first time. A reassessment takes place only if there are major changes to the agreement terms, which result in a significant change to the payment flows.

Financial assets measured at fair value through profit or loss are recognized at fair value and the resultant gains and losses are recognized in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not traded in an active market Subsequent to initial recognition, these are recognized at amortized cost using the effective interest rate method less possible impairment losses. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

Held to maturity financial investments
Non-derivative financial instruments with fixed or definable payments as well as a fixed term, which the Group clearly intends and has ability to hold to maturity are categorized as held to maturity financial investments. Following initial recognition, these held to maturity financial investments are measured at amortized cost using the effective interest rate method. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

No financial instruments of this category were present in the Group either on the balance sheet date or in the previous year.

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

Following initial recognition, available-for-sale financial assets are measured at fair value in subsequent periods. Non-realized gains or losses are recognized as other gains/losses under the provision for available-for-sale financial assets. In the event of derecognition of such assets, the cumulative gain or loss is recognized in other operating income. In the event of impairment, the cumulative loss is recognized under financial expenses in the income statement and eliminated from the provision for available-for-sale financial instruments.

Derecognition of financial assets
A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognized if it meets one of the following conditions:

The contractual rights to the cash flows from the financial asset have expired.

The Group has transferred its contractual rights to the cash flows from a financial asset or has undertaken a contractual obligation to immediately transfer cash flows to a third party pursuant to IAS 39.19 (pass-through arrangement) and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the financial asset.

If the Group has transferred its contractual rights to the cash flows from a financial asset or entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the financial asset, the Group recognizes an asset in the amount of the continuing involvement.

In such cases, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained.

If the continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to repay.

Impairment of financial assets
At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the expected future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment can exist if there are signs that the obligor or group of obligors face significant financial difficulties, default on interest or principle payments, if there are indications that bankruptcy or other financial reorganization are probable and if observable data indicates that there is a measurable decrease in the expected future cash flows, such as changes in arrears or economic conditions that point to default.

Impairment of assets carried at amortized cost
With respect to amounts carried at amortized cost from trade account receivables, an initial assessment is made to determine whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is then recognized or continues to be recognized are not included in a collective assessment of impairment. If there are objective indications that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows (excluding future credit losses that have not been incurred).

The carrying amount of trade receivables is reduced through use of an allowance account and the loss recognized in the income statement. No separate allowance account is used for any other financial assets.

If a receivable is classed as uncollectible, it is to be derecognized along with any related impairments when all pledged security has been called and liquidated. If, in a subsequent period, the amount of the impairment loss increases or decreases as the result of an event occurring after the impairment was recognized, the previously recognized impairment loss is accounted for in the income statement through and an upward or downward adjustment of the allowance account.

If a derecognized receivable is reclassified as collectable as the result of an event occurring after derecognition, the relevant impairment loss is reversed and the amount recognized in profit or loss.

Available-for-sale financial assets
At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity instruments held for sale, a significant and persistent reduction in the fair value of the instrument to below its historical cost would constitute objective evidence. The criterion "significant" is assessed on the basis of the original cost of the financial asset and the criterion "persistent" is based on the time period during which the fair value was lower than historical cost. If there are indications of impairment, the cumulative loss – calculated as the difference between historical cost and fair value less any earlier impairment loss on the instrument recognized in the income statement – is eliminated from other profit/loss and recognized via the income statement. Impairment of equity instruments is not reversed in the income statement; any subsequent rise in fair value is directly recognized under other profit/loss.

When calculating impairment of debt instruments classified as available for sale, the same criteria are applied as for financial asset carried at amortized cost. If there are indications of impairment, the cumulative loss – calculated as the difference between historical cost and fair value less any earlier impairment loss on the instrument recognized in the income statement – is eliminated from other profit/loss and recognized via the income statement.

Future interest income continues to be calculated based on the impaired book value of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This interest income is recognized under financial income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in the profit or loss statement.

Initial recognition of financial liabilities
Financial liabilities coming within the meaning of IAS 39 are classified either as financial liabilities recognized at fair value through profit or loss, as other liabilities or as derivatives that are designated as hedging instruments and are effective as such.

The Group determines classification of its financial assets upon initial recognition. Upon initial recognition, financial liabilities are measured at fair value. In the case of loans, directly attributable transaction costs are also taken into account.

The Group's financial liabilities include trade accounts payable and other financial liabilities, bank overdrafts, loans, bonds and derivatives.

Subsequent recognition of financial liabilities

Financial liabilities at fair value through profit or loss
This category includes financial liabilities held for trading as well as financial liabilities designated as measured at fair value through profit or loss upon initial recognition.

Derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such, are also classified as held for trading.

Financial liabilities that fall under the category "financial liabilities measured at fair value through profit or loss" are recognized at fair value in subsequent periods and the resultant gains and losses are recognized in the income statement.

No primary financial liabilities were classified as held for trading in either the reporting year or the previous year; no use was made of the option to initially designate financial liabilities as liabilities to be recognized at fair value through profit or loss.

Loans
Subsequent to initial recognition, interest-bearing loans are recognized at amortized cost using the effective interest rate method. Gains and losses are recognized as profit or loss when the liabilities are derecognized or as part of amortization using the effective interest rate method. Amortized cost is calculated taking into account any premium or discount upon acquisition, as well as fees or costs, which represent an integral component of the effective interest rate. Amortization using the effective interest rate method is recognized in the income statement under financial expenses.

Other liabilities
All financial liabilities that do not fall into the category financial liabilities recognized at fair value through profit or loss and are not derivatives, are recognized at amortized cost using the effective interest rate method. In the case of current liabilities, the repayment amount or settlement amount equates to the amortized cost. Gains and losses are recognized as profit or loss when the liabilities are derecognized or as part of write-downs.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or has expired. An exchange of an existing financial liability from the same lender with substantially different terms or a subsequent modification of the terms of an existing financial liability is accounted for as a derecognition of the primary financial liability and recognition of the new financial liability. The difference between the carrying amounts is recognized in profit or loss for the period.

Offsetting of financial instruments
Financial assets and liabilities are offset, and the net amount recognized in the balance sheet, only when a current legal right exists, e.g. contractually, to offset the amounts against one another, and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting
The Group makes use of derivative financial assets, such as currency forwards, interest rate swaps and commodity futures 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 revalued for recognition at fair value in subsequent periods. Derivative Financial instruments are accounted for as financial assets if their fair value is positive, and as financial liabilities if their fair value is negative. Gains or losses from changes during the fiscal year in the fair value of derivatives that do not satisfy the requirements for recognition as hedging transactions, as well as any ineffective portion of an effective hedging instrument are recognized immediately in profit or loss.

For purposes of hedge accounting, hedging instruments are classified as follows:

- As a fair value hedge, if it is a hedge against a change in fair value of a recognized asset or liability or an unrecognized firm commitment (excluding currency risks),
- As a cash flow hedge, if it is a hedge against cash flow fluctuations attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or the currency risk of an unrecognized firm commitment,
- As a hedge of a net investment in a foreign operation.

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. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and a description of how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows. Such hedges are expected to be highly effective in offsetting risks from changes in cash flows. They are assessed on an ongoing basis to determine whether they have actually been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group uses derivatives to hedge future cash flows from pending and planned transactions (cash flow hedges).

Hedges that satisfy the strict criteria for recognition as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss from a hedging instrument is recognized directly in equity, whereas the ineffective portion is recognized directly in the income statement. The amount included under equity is transferred to the income statement in the period in which the hedged transaction affects net income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction is no longer expected to occur, or the firm commitment no longer applies, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs or the firm commitment is settled.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. Gains or losses from the hedging instrument that are attributable to the effective portion of the hedging instrument are recognized in other gains/losses, whereas any gains or losses from the ineffective portion are recognized in profit or loss. Upon disposal of a foreign operation, the cumulative value of any gains or losses previously recognized in equity is transferred to the income statement. The Group makes use of loans to hedge against currency risks in relation to investments in foreign subsidiaries.

Inventories

Inventories are valued at cost under strict application of the lower-of-cost-and-market principle. Costs of purchase are measured in the Group using a moving average price and an adequate portion of the costs associated with the procurement of goods. In addition to directly attributable costs, the costs of conversion include reasonable portions of manufacturing and materials overheads as well as depreciation. Administrative expenses are included insofar as they relate to production. General administrative expenses and interest expenses are not recognized. Due to the elimination of intercompany profits, the cost of inventories from intercompany deliveries was accounted for by discounts on the internal transfer prices using the retail method. If, in response to decreased prices on the market, the net realizable value on the balance sheet date is lower than the inventory cost, the inventories are measured at their net realizable value.

Construction contracts

Construction contracts are recognized in accordance with the percentage-of-completion-method (POC-method) as of the balance sheet date in accordance with IAS 11. The percentage of completion is determined by the ratio of the accumulated contract costs as of the balance sheet date to the estimated total contract costs (cost-to-cost approach). The projects are included on the balance sheet under "other financial assets" insofar as the accumulated services rendered exceed the advance payments received. If net income from a construction contract cannot be reliably determined, revenues from the contract are only to be recognized in the amount of the contract costs incurred, which are probably collectible. Contract costs are recognized as an expense in the period in which they are incurred. Any expected project losses are recognized as provisions.

Cash and cash equivalents

Cash and short-term deposits, as reported in the balance sheet, include cash in hand, bank balances and short-term deposits with original terms to maturity of less than three months. These are recognized at amortized cost.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash and short-term deposits, as defined above, plus presently drawn overdraft facilities.

Treasury stock
If the Group acquires own shares, these are carried at cost and deducted from equity. The purchase, sale, issue or cancellation of own shares is recognized directly in equity. Any differences between the carrying amount and the consideration paid are recognized in equity.

Other provisions
In accordance with IAS 37, provisions are recognized insofar as the Group, as a result of a past event, has a present obligation vis-à-vis 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 carried as a liability (e. g. in the case of an insurance policy), the reimbursement is recognized as a separate asset only 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 original estimate of costs in relation to warranties is reviewed annually.

Restructuring costs are recognized when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the divisions affected by the restructuring.

Provisions for pensions and other employment benefits
The actuarial valuation of pension provisions is based on the projected unit credit method in respect of defined benefit plans in accordance with IAS 19 (revised 2011). This valuation method is based not only on pension payments and vested benefits known as of the balance sheet 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. Under IAS 19 (revised 2011), actuarial gains and losses are reported within other comprehensive income only and no longer recycled to profit and loss.

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

Past service cost is recorded as expense upon the plan change taking effect.

As the GRAMMER Group does not have any plan assets in connection with defined benefit plans, the net interest component equals the finance expense reported within net finance income/finance expense.

Other post-employment benefits for employees are measured in accordance with IAS 19 (revised 2011).

Recognition of income and expenses
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount can be reliably determined. These amounts are measured at the fair value of the consideration received or receivable, taking into account the contractual conditions governing payment and similar factors and net of any taxes or other charges. Upon comprehensive review, the Group has determined that it acts as the supplier for all revenue-generating transactions.

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

In the case of long-term construction contracts (e. g. customer development contracts), revenue is recognized in accordance with the stage of completion as of the balance sheet date. The percentage of completion is determined by the ratio of the accumulated contract costs as of the balance sheet date to the estimated total contract costs. Accordingly, income from percentage of completion is recognized as revenue. If income from a construction contract cannot be estimated reliably, probable revenues are recognized in the amount of expenses incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is immediately recognized in full as an expense in the period this became apparent.

Interest income and expense
Interest income and expense are recognized in the period in which they arise and are recognized in the income statement as part of the financial result. For all financial instruments measured at amortized cost and interest-bearing available-for-sale financial assets, interest income and expenses are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Dividends
Income from dividends is recognized as of the effective date.

Government grants
Government grants are recognized when there is reasonable assurance that the grants will be received and the Company complies with the conditions attached to them. Grants related to expenses are recognized as income on a systematic basis over the periods necessary to match with the related costs. Government grants related to assets are presented in the balance sheet by setting up the grant as deferred income that is depreciated on a straight-line basis over the expected useful life of the asset. In the current fiscal year, EUR 2,580 thousand in direct grants related to expenses within the period were recognized as income as well as EUR 1,234 thousand in grants related to assets.

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 further government grant.

Taxes
Current tax assets and current tax liabilities
Current tax assets and liabilities for current and prior periods are measured at the expected amount of tax reimbursements or tax payments. The amount is based on the tax rates and tax laws that are applicable or have been enacted as of the balance sheet date.

Actual taxes referring to items that are recognized directly in equity are recognized directly in equity without effect on profit or loss.

Deferred income taxes
Deferred income taxes are recognized using the balance sheet liability method for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

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

- Deferred income tax liabilities from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination that at the time of the transaction had no influence on net income for the period as reported in the financial statements nor on the taxable income are not recognized.

- Deferred income tax liabilities arising from taxable temporary differences in connection with investments in subsidiaries, associates and interests in joint ventures are not recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, unused income tax losses carried forward and unused income tax credits to the extent that it is probable that future taxable profit will be available against which the unused income tax losses and unused income tax credits can be utilized. The following exceptions apply:

- Deferred income tax liabilities 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 net income for the period as reported in the financial statements nor on the taxable income are not recognized.

- Deferred income tax assets arising from taxable temporary differences in connection with investments in subsidiaries, associates and interests in joint ventures are only recognized 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.

As of each balance sheet date, the carrying amount of deferred income tax assets is reassessed and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which the deferred income tax asset can be at least partially utilized. Unrecognized income tax assets are reassessed as of each balance sheet date and recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

Deferred income taxes and liabilities are measured at the income tax rates expected to apply to the period when the asset is realized or the liability settled, based on the income tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income taxes referring to items that are recognized directly in equity, depending on the types of transactions, are recognized either in other income or directly in equity without effect on profit or loss.

Deferred income tax assets and liabilities are netted if the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income taxes refer to income taxes of the same taxable entity levied by the same tax authority.

Value added tax
Sales revenues, expenses and assets are recognized net of value added tax. The following exceptions apply:

- Value-added tax from the purchase of goods or services that cannot be claimed back from the tax authorities is recognized as part of the costs of conversion of the asset or as part of expenses and

- Receivables and liabilities are recognized including value-added tax.

The value-added tax reimbursed by the tax authority or paid to the tax authority is recognized as a receivable or liability on the balance sheet.

2.4 Application of IFRS standards

The accounting policies applied generally correspond to those applied in the previous year, except for the new and revised standards and interpretations listed below that went into effect on January 1, 2013:

IAS 1 Presentation of Financial Statements – Presentation of Components of Other Comprehensive Income
The amendments to IAS 1 were published in June 2011 and are to be applied for the first time in the fiscal year beginning on or after July 1, 2012. The amendment to IAS 1 concerns the presentation of components of other comprehensive income. Components to be reclassified to profit or loss at a future point in time must be presented separately from items that will remain in equity. The amendment merely affects presentation and thus has no impact on the net assets, financial position and results of operations of the Group.

Amendment to IAS 12 – Deferred taxes: Realization of underlying assets
The amendment to IFRS 12 was published in December 2010 and must be applied for the first time in accounting periods commencing on or after January 1, 2013. The amendment to IAS 12 introduces a simplification rule. The amendment clarifies the rules for measurement of deferred income taxes on investment property measured using the fair value model. It is based on the (rebuttable) assumption that for fair value measurement of deferred income taxes on property according to IAS 40, the carrying amount of such an asset must be recoverable entirely through sale. Deferred income tax arising on non-depreciable assets valued using the revaluation model in accordance with IAS 16 should always be based on the sale rate. In jurisdictions subject to German law, application is not expected to have any effect on net assets, financial position and results of operations.

Amendment to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
The amendment to IFRS 1 was published in December 2010 and must be applied for the first time in the fiscal year beginning on or after January 1, 2013. The amendment deletes fixed dates for derecognizing financial assets and liabilities and for regulations to recognize a gain or loss at the time of addition in accordance with IFRS, and replaces these with the time of transition to IFRS. The amendment also clarifies how an entity should resume presenting financial statements in accordance with IFRS after a period in which the entity was unable to fully comply with IFRS due to a functional currency featuring severe hyperinflation. The new rules are not yet applicable to the Group and therefore have no impact on its net assets, financial position or results of operations.

Amendment to IFRS 1 – Government Loans
The amendment to IFRS 1 was published in March 2012 and must be applied for the first time in the fiscal year beginning on or after January 1, 2013. The amendment concerns the method of accounting for a government loan which was granted at an interest rate below the usual market rate, and permits first-time adopters to continue recognizing a loan taken out before the transition period at its former carrying amount. As no such situation exists in the Group, the amendment did not have any effect.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendments to IFRS 32 and IFRS 7 were published in December 2011 and must be applied for the first time in the fiscal year beginning on or after January 1, 2014 and January 2013 respectively. The amendments are intended to address inconsistencies in current practice through additional guidelines for applying the offsetting criteria. However, the existing rules for the offsetting of financial instruments have been retained. The amendments also introduce additional disclosure requirements. They will most likely expand even further the volume of disclosures on financial instruments. However, they will not have any material influence on the recognition and valuation of assets and liabilities in the consolidated financial statements and the results in the future fiscal years.

IFRS 13 Fair Value Measurement
IFRS 13 was published in May 2011. The standard provides guidance on measuring fair value and defines a number of quantitative and qualitative disclosures about fair value measurements. It does not specify when an entity is required or permitted to use fair value measurement for its assets and liabilities. IFRS 13 defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date. IFRS 13 must be applied prospectively to accounting periods commencing on or after January 1, 2013. The application of the standard did not exert any material influence on the Group's net assets, financial condition or results of operations.

Improvements to IFRS (2009 – 2011)
Improvements to IFRS 2009 – 2011 is a collection of amendments to various IFRS standards published in May 2012, the application of which is mandatory for accounting periods beginning on or after January 1, 2013.

IFRS 1: Clarification that an entity which no longer prepares its accounts in accordance with IFRS and decides or is obliged to continue this system of accounting has the possibility of applying IFRS 1 once again. If the company does not apply IFRS 1 again, it must retroactively adjust its accounts in such a way as if it had never stopped applying the IFRS accounting standards.

IAS 1: Clarification of the difference between voluntary additional comparative information and prescribed comparative information which as a rule encompasses the preceding reporting periods.

IAS 16: Clarification that essential spare parts and repair equipment which qualify as tangible assets do not come under the application provisions for inventories.

IAS 32: Clarification that income tax on distributions to bearers of equity instruments come under the application provisions of IAS 12 Income Taxes.

IAS 34: Regulation concerning the harmonization of disclosures on segment assets with disclosures on segment liabilities in interim financial statements and concerning the harmonization of disclosures in interim financial statements with disclosures for annual financial statements.

The clarifications did not have any impact on the accounting methods used by the Group.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
In October 2011, the IASB published IFRIC Interpretation 20. The interpretation provides guidance on the recognition of production stripping costs as an asset and on the initial and subsequent measurement of the stripping activity asset, provided the objective of improving future access to mineral ore deposits and other mandatory conditions is fulfilled. The interpretation must be applied for the first time in accounting periods commencing on or after January 1, 2013. It does not have any impact as the Group does not engage in such activities.

IAS 19 Employee Benefits
The IASB has carried out a comprehensive revision of IAS 19. The amendments span from significant changes, for example the calculation of the expected return on plan assets and the abolition of the corridor method, to simple clarifications or rewordings. The revised standard IAS 19 was published in June 2011 and is to be adopted for the first time in accounting periods beginning on or after January 1, 2013. The standard must be retrospectively applied. Previously, the Group had applied the corridor method. The abolition of the corridor method means that provisions reflect the full extent of the pension commitments, with actuarial gains and losses being fully recognized in comprehensive income in the period when they occur. Furthermore, the past service costs from plan changes are immediately recognized in net profit or loss in the period in which the changes take place and are no longer divided up over several years. The revised standard also impacts pension expense since the return on plan assets is no longer dependent on the actual portfolio structure but is computed using the same interest rate as that used for discounting the defined benefit obligation. The amounts are netted in the income statement. The Group does not have any plan assets which would be affected by this regulation. IAS 19 (revised 2011) also calls for more detailed disclosures. These can be found in Note 22.

The first-time application of the revised standard in 2013 resulted in major unrealized changes to equity. These changes result from the discount factor which has fallen to a very low long-term average on account of the Eurozone crisis.

The effects on other comprehensive income and equity are as follows:

EUR k	Dec. 31, 2012	Jan. 1, 2012
Expense recorded within other comprehensive income	–25,832	–5,394
Changes in deferred tax assets	7,507	1,545
Reduction in equity	**–18,325**	**–3,849**

EUR k	Dec. 31, 2012	Change	Dec. 31, 2012[1]
Pensions and similar obligations	68,175	25,832	94,007
Equity	228,045	–18,325	209,720

[1] adjusted prior-year figures

EUR k	Dec. 31, 2011	Change	Jan. 1, 2012[1]
Pensions and similiar obligations	64,495	5,390	69,885
Equity	211,165	–3,849	207,316

[1] adjusted prior-year figures

The amendments did not have any effect on cash flow statement. There was no material impact on the Group's basic and diluted earnings per share.

There was no impact on the income statement, of the previous year.

If the old provisions in IAS 19 had been applied in 2013, continued use of the corridor method would have resulted in an effect of EUR 1,077 thousand before interest and taxes through the amortization of the actuarial losses.

IAS 27 Separate Financial Statements (revised 2011)
The revised standard IAS 27 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. With the adoption of IFRS 10 and IFRS 12, the application scope of IAS 27 has been restricted solely to the accounting requirements for subsidiaries, joint ventures and associates in an entity's separate financial statements. The new rules are not yet applicable to the Group and therefore have no impact on its net assets, financial position or results of operations.

IAS 28 Investments in Associates and Joint Ventures (revised 2011)
The revised standard IAS 28 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. With the adoption of IFRS 11 and IFRS 12, IAS 28 was renamed "Investments in Associates and Joint Ventures" and the scope of application of IAS 28 expanded so that the equity method also applies to jointly controlled companies in addition to associates IAS 28. Please refer to the explanations on IFRS 11 for a summary of the effects of the changes.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. The new standard replaces the provisions of the former IAS 27 Consolidated and Separate Financial Statements that addresses accounting for consolidated financial statements, and Interpretation SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model which applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significantly more judgment to determine which entities are controlled and whether these are therefore required to be included in the consolidated financial statements by a parent.

The Group early adopted IFRS 10 on January 1, 2013, in conjunction with the early adoption of IFRS 11 and IFRS 12.

Early adoption has so far not given rise to any consolidation changes.

Amendments to IFRS 10; IFRS 12 and IAS 27 – Investment Entities
The amendments to IFRS 10, IFRS 12 and IAS 27 were published in October 2012 and must be applied for the first time in accounting periods commencing on or after January 1, 2014. Early adoption is permitted. The new regulation demands that so-called investment entities be removed from the application scope of the consolidation regulations of IFRS 10 and that all investments controlled by them be valued at fair value through profit and loss. The exception are investments in subsidiaries which provide services for the investment entities; these remain covered by the consolidation regulations of IFRS 10. By contrast, the parent company of an investment entity which itself is not classified as an investment entity must consolidate all the companies controlled by the investment entity in its consolidated financial statements. An investment entity is defined as a company which procures funds from investors and offers investment management services to these investors, the objective being to achieve capital appreciation in the form of value increases and/or by generating investment returns. As there are no investment entities within the Group, the amendment did not have any effect.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures
IFRS 11 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. The standard replaces IAS 31 Interests in Joint Ventures and Interpretation SIC-13 Jointly-controlled entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. In the future, these entities will be accounted for solely at-equity in the consolidated financial statements.

The Group early adopted IFRS 11 on January 1, 2013.

Application of IFRS 11 affected the recognition of the Group's share in the joint venture GRA-MAG Truck Interior Systems LLC. The Group holds an interest of 50% in GRA-MAG Truck Interior Systems LLC, which specializes in the production of truck seats and is domiciled in the United States.

Prior to the application of IFRS 11, GRA-MAG Truck Interior Systems LLC had been classified as a jointly controlled company and the Group's share in its assets, liabilities, revenue, income and expenses had been consolidated on a proportionate basis. With the adoption of IFRS 11, the Group has classified its share in GRA-MAG Truck Interior Systems LLC as a joint venture and recognized it using the equity method of accounting. This reclassification was applied retroactively in accordance with IFRS 11. The carrying amount as of January 1, 2012 and the comparative information for the year ended December 31, 2012 have been adjusted in the consolidated financial statements.

The effects of the application of IFRS 11 are as follows:

Effect on income statement

EUR k	2012
Revenue	–10,594
Cost of sales	10,633
Gross profit	39
Administrative expenses	1,725
Other operating income	–49
Operating profit/loss (–)	1,715
Financial expenses	642
Profit/loss (–) before income taxes	2,357
Income taxes	0
Net profit/loss (–)	2,357

Effect on balance sheet

EUR k	Dec. 31, 2012	Jan. 1, 2012
Non-current assets	–7,777	–7,374
Current assets	–410	–1,828
Total assets	–8,187	–9,202
Equity	530	–1,356
Non-current liabilities	–7,241	–6,300
Current liabilities	–1,476	–1,546
Total liabilities	–8,717	–7,846
Total equity and liabilities	–8,187	–9,202

The amendment has virtually no impact on equity. With its proportionate assets and liabilities, GRA-MAG Truck Interior Systems LLC exhibits net equity under the previous method of recognition in the consolidated financial statements. Including allowance for a long-term loan to this joint venture, there was virtually no impact on equity.

The effects on earnings per share can be seen in Note 12.

Effects on cash flow statement

EUR k	2012
Cash flow from operating activities	–670
Cash flow from investing activities	670
Cash flow from financing activities	0
Change in cash and cash equivalents	–180
Change in cash flow	–180

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was published in May 2011 and is applicable for the first time in the fiscal year starting on or after January 1, 2014. The standard provides uniform guidance on the disclosure requirements for shares in subsidiaries, which were previously included in IAS 27, for joint arrangements and associates, which were previously included in IAS 31 and IAS 28, and for structured entities. The disclosure requirements with respect to subsidiaries are more extensive than before. This concerns, for example, subsidiaries whose parent company does not hold a majority of the voting rights (de facto control). The Group does not hold high shares in any material subsidiaries on which it does not exert a controlling influence. There are no non-consolidated structured entities.

The Group early adopted the regulations of IFRS 12 on January 1, 2013.

The disclosures required by IFRS 12 are contained in Note 3.

2.5 Published standards which are not yet subject to mandatory application

Endorsed by the EU but not yet applied

The IASB published the standards and interpretations listed below which have already been integrated into EU law as part of the comitology procedures but application of which was not yet mandatory in fiscal year 2013. The Group is not early adopting the following standard.

Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 32 and IFRS 7 were published in December 2011 and must be applied for the first time in the fiscal year beginning on or after January 1, 2014 and January 2013 respectively. The amendments are intended to address inconsistencies in current practice through additional guidelines for applying the offsetting criteria. However, the existing rules for the offsetting of financial instruments have been retained. The amendments also introduce additional disclosure requirements. They will most likely expand even further the volume of disclosures on financial instruments. However, they will not have any material influence on the recognition and valuation of assets and liabilities in the consolidated financial statements and the results in the future fiscal years.

Amendment to IAS 36 Disclosures on recoverable amount of non-financial assets.

The amendment to IFRS 36 was published in May 2013 and must be applied for the first time in accounting periods beginning on or after January 1, 2014. The amendment seeks to eliminate the unwanted consequences for disclosure requirements arising from the introduction of IFRS 13. Moreover, it requires disclosures on the recoverable amount for assets or cash-generating units for which an impairment has been recognized or reversed in the reporting period. The revisions are to be applied retrospectively. Early adoption is permitted. This currently does not have any material effects on the Group.

Amendment to IAS 39 Novation of OTC derivatives and continuation of hedge accounting

The amendment to IAS 39 and IFRS 9 was published in June 2013 and must be applied for the first time in accounting periods commencing on or after January 1, 2014. Under the amendment, hedge accounting may be continued under certain conditions in cases in which derivatives designated as hedges are transferred to a central clearing body (novation) on account of statutory or regulatory requirements. The revisions are to be applied retrospectively. Early adoption is permitted.

This currently does not have any material effects on the Group.

EU endorsement pending

The IASB has published the following standards and interpretations, the application of which was not yet mandatory in fiscal year 2013. These standards and interpretations have not yet been endorsed by the EU and are not applied by the Group.

Amendment to IAS 19 Contributions by employees

The amendment to IAS 19 was published in November 2013 and must be applied for the first time in accounting periods beginning on or after July 1, 2014. The amendment provides guidance on the recognition of contributions by employees or third parties to the pension plan as a reduction in past service cost provided that these reflect the service provided in the reporting period. The revisions are to be applied retrospectively. Early adoption is permitted. As this situation does not apply within the Group, this amendment does not have any impact.

IFRS 9 Financial Instruments: Classification and Measurement

The initial part of phase I in the process of drafting IFRS 9 Financial Instruments was published in November 2009. The standard contains amendments relating to the classification and valuation of financial assets. Accordingly, debt instruments, depending on their specific characteristics and taking into account the business model, are to be accounted for either at amortized cost or at fair value through profit or loss. Equity instruments are always accounted for at fair value. However, fluctuations in the value of equity instruments may be recognized under other comprehensive income on account of the instrument-specific option that can be exercised at the time of acquisition of the instrument. In this case, for equity instruments, only certain dividend income would be recognized as income. An exception to the rule are financial assets which are held for trading and which must be valued at fair value through profit or loss. In October 2010, the IASB completed the second part of phase I of the project. Thus, requirements in relation to financial liabilities were added to the standard, which sets forth that the existing classification and measurement rules continue to apply for financial liabilities with the following exceptions: Effects from the change of the company's credit risk under financial liabilities classified as at fair value through profit or loss must be recognized directly in equity and derivative liabilities on non-listed equity instruments may no longer be recognized at historical cost. IFRS 9 must be applied for the first time in the fiscal year beginning on or after January 1, 2015. The application of the first part of phase I will affect classification and valuation of the Group's financial assets. The second part of this project phase is not expected to have any material effect on the Group's net assets, financial position and results of operations. The Group will analyze and quantify the effects in conjunction with the other phases after publication.

IFRS 9 Financial Instruments: Hedging relationships

The publication of the provisions on hedge accounting in November 2013 marks the continuation of the IASB's project work on developing a new version of IFRS 9 Financial Instruments. The standard, which is designed to supplement and revise the existing version of IFRS 9, particularly contains new guidance on the designation of instruments and risks, the effectiveness requirements, adjustments to and dissolution of hedge relationships and, to some extent, the recognition of hedge relationships in the balance sheet in response to changes to the legal situation. It replaces IFRIC 9 Reassessment of Embedded Derivatives and additionally modifies a number of existing standards including IFRS 7, which provides guidance on the disclosure requirements for financial instruments, and the provisions in the versions of IFRS 9 published in 2009 and 2010. The standard is to be applied upon being published but only if IFRS 9 is applied in full; extensive transition guidance is provided. The Group will analyze the effects after publication.

Amendments to IFRS 7 and IFRS 9 Disclosures: Time Scope and Transitional Provisions

The amendments to IFRS 7 and IFRS 9 Disclosures were published in December 2011 and must be used for the first time in the fiscal year which begins on or after January 1, 2015. Early adoption is permitted. These amendments are intended to allow simultaneous application of all provisions of IFRS 9; in addition, no adjusted prior-year figures have to be disclosed for first-time adoption of IFRS 9 and a chronological order which successively schedules the prior year adjustments for the transition from IAS 39 to IFRS 9 is determined. The Group will analyze and qualify the effects in conjunction with the application of IFRS 9.

IFRIC 21 Levies

The IASB published IFRIC 21 in May 2013. This interpretation states that a company which is active in a certain market must recognize a liability for levies imposed on it by the authorities responsible for that market if the business activity in question causes the levy to be imposed. In the case of levies which are contingent, for example, upon a certain minimum volume being reached, the interpretation specifies that the liability may not be recognized until this minimum volume is reached. The interpretation must be applied for the first time in accounting periods commencing on or after January 1, 2014. Early adoption is permitted. The Group will analyze the effects after publication.

3 Companies consolidated

Information on subsidiaries

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

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

			Equity interest in %	
Name of subsidiary	Registered office	Main activity	2013	2012
1. Fully consolidated subsidiaries				
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/Seating Systems	100.00	99.99
2. GRAMMER Seating Systems Ltd.	Bloxwich, UK	Sales company	100.00	100.00
3. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	Seating Systems	99.40	99.40
4. GRAMMER Inc.	Hudson (WI), USA	Seating Systems	100.00	100.00
5. GRAMMER Wackersdorf GmbH	Wackersdorf, Germany	Automotive	100.00	100.00
6. GRAMMER CZ s.r.o.	Tachov, Czech Republic	Automotive/Seating Systems	100.00	100.00
7. GRAMMER Japan Ltd.	Tokyo, Japan	Sales company	100.00	100.00
8. GRAMMER AD	Trudovetz, Bulgaria	Seating Systems	90.23	90.23
9. GRAMMER System GmbH	Amberg, Germany	Automotive	100.00	100.00
10. GRAMMER Automotive Metall GmbH	Amberg, Germany	Automotive	100.00	100.00
11. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	Automotive	100.00	100.00
12. GRAMMER Automotive Española S.A.	Olèrdola, Spain	Automotive	100.00	100.00
13. GRAMMER Industries Inc.	Greenville (SC), USA	Automotive	100.00	100.00
14. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	Automotive	100.00	100.00
15. GRAMMER Automotive Polska sp. z.o.o.	Bielsko-Biala, Poland	Automotive	100.00	100.00
16. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	Automotive	100.00	100.00
17. GRAMMER Interior (Tianjin) Co. Ltd.	Tianjin, China	Seating Systems	100.00	100.00
18. GRAMMER Interior (Changchun) Co. Ltd.	Changchun, China	Automotive	100.00	100.00
19. GRAMMER Interior (Shanghai) Co. Ltd.	Shanghai, China	Automotive	100.00	100.00
20. GRAMMER System d.o.o.	Aleksinac, Serbia	Automotive	100.00	100.00
21. GRAMMER Railway Interior GmbH	Amberg, Germany	Seating Systems	100.00	100.00
22. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Seating Systems	100.00	100.00
23. GRAMMER EiA Electronics N.V.	Aartselaar, Belgium	Seating Systems	100.00	100.00
24. GRAMMER Interior (Beijing) Co., Ltd.[1]	Beijing, China	Automotive	100.00	[1]
25. GRAMMER Automotive CZ s.r.o.[2]	Česká Lípa, Czech Republic	Automotive	100.00	[2]
26. GRAMMER Seating (Jiangsu) Co., Ltd.[3]	Jiangyin, China	Seating Systems	60.00	[3]
27. GRAMMER Automotive South Africa Ltd.[4]	Johannesburg, South Africa	Automotive	100.00	[4]
2. Proportionately consolidated companies				
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	Seating Systems	50.00	50.00
2. Ningbo nectec Jifeng Automotive Parts Company Limited[5]	Ningbo, China	Automotive	50.00	[5]

[1] GRAMMER Interior Beijing Col, Ltd. was consolidated for the first time in January 2013.
[2] nectec Automotive s.r.o. was consolidated for the first time in February 2013. Following the acquisition, it was renamed GRAMMER Automotive CZ s.r.o.
[3] GRAMMER Seating (Jiangsu) Co., Ltd. was consolidated for the first time in April 2013.
[4] GRAMMER Automotive South Africa Ltd. was consolidated for the first time in December 2013.
[5] Ningbo nectec Jifeng Automotive Parts Company, Limited was consolidated for the first time in February 2013 with the acquisition of nectec Automotive s.r.o.

With the exception of GRAMMER Seating (Jiangsu) Co., Ltd., the GRAMMER Group does not have any material shares in subsidiaries on which it does not exerting a controlling influence or consolidated structured entities.

4 Business combinations

On December 10, 2012, GRAMMER AG signed a contract for the takeover of nectec Automotive s.r.o., under which GRAMMER acquired 100 % of the share capital from Fehrer Group. The transaction, which was subject to approval by antitrust authorities, received full approval in February 2013. On February 21, 2013, GRAMMER AG acquired nectec Automotive s.r.o. The purchase price totaled EUR 18.1 million. In addition, shareholder loans of EUR 4.0 million were settled. No other contingent considerations or compensation claims exists. nectec is being integrated into the Automotive Division.

nectec Automotive s.r.o. develops and produces head rests at its facility in Česká Lípa in the Czech Republic and primarily targets the premium car market. The company was founded in 2008 by Fehrer Group, and grew rapidly to become one of the leading suppliers of headrests in Europe. In total, it employs roughly 240 people and generated revenue of EUR 41.4 million in fiscal year 2013. Following the acquisition, it was renamed GRAMMER Automotive CZ s.r.o. Under the terms of the transaction, GRAMMER also acquired a 50 % stake in a joint venture with Chinese automotive supplier NingBo Jifeng Auto Parts Co., Ltd., China. This share is to be sold to the joint venture partner in the course of 2014. nectec Automotive s.r.o.'s product range and production location make it an ideal fit with the existing structure of the Company. The takeover further expands the Group's strongest revenue-generating segment and reinforces its leading position in Europe's headrest market. At the same time, the integration of nectec Automotive s.r.o. strengthens the Group's competence in the area of active head rest technologies, resulting in an even larger spectrum of innovative products. Its production location also brings additional production space that the Group requires for the expansion of its business activities.

The historical costs of the net assets acquired in nectec Automotive s.r.o. came to EUR 18.1 million. In connection with the acquisition, costs of EUR 329 thousand were recorded in the income statement within administrative expenses in 2013.

As of the date of acquisition, the net assets acquired break down as follows:

EUR k	Fair value on the date of acquisition
Assets	
Property, plant and equipment	8,194
Intangible assets	15,231
Financial assets	131
Inventories	1,706
Trade accounts receivable	4,499
Other current financial assets	1,149
Cash and short-term deposits	214
Accruals/deferrals	427
	31,551
Liabilities	
Provisions	–588
Non-current financial liabilities	–2,390
Current financial liabilities	–4,101
Current trade accounts payable	–5,963
Other current liabilities	–443
Accruals/deferrals	–426
Deferred tax liabilities (of which from remeasurement: EUR –1,925 thousand)	–2,262
	–16,173
Total fair value of identifiable net assets	**15,379**
Goodwill from company acquisition	2,701
Consideration paid	**18,080**
Cash outflow from company acquisition	
Cash acquired from new subsidiary	214
Cash outflow	–18,080
Total cash outflow from company acquisition	**–17,866**

All assets and liabilities acquired were recognized at their fair value on the date of acquisition. Additional intangible assets (customer relations and similar rights) which had previously not been included in the acquired companies' balance sheets were duly recognized. Allowance was made for related deferred income tax liabilities. Customer relations were measured using the multi-period excess earnings method. There are no material differences between the gross value and carrying amount of the receivables. There are no non-controlling interests. On the basis of the fair value of the net assets acquired, goodwill which cannot be amortized for tax purposes stands at EUR 2,701 thousand. In accordance with IFRS 3, goodwill is not systematically amortized. The goodwill is determined by the opportunities for growth arising from the acquisition. With the acquisition of nectec Automotive s.r.o., the Group is able to broaden and solidify its services for customers and enrich them with additional components.

In the reporting period starting with the date of acquisition, nectec Automotive s.r.o. generated revenue of EUR 41,412 thousand and sustained a post-tax loss of EUR –97 thousand.

5 Shares in a joint venture

GRAMMER AG holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC). GRA-MAG LLC is a jointly controlled entity in the United States, which is active in the segment Seating Systems.

Under the terms of the acquisition of nectec Automotive s.r.o., GRAMMER AG also acquired the 50% stake in a joint venture with Chinese automotive supplier Ningbo Jifeng Auto Parts Co., Ltd., China.

The Group's shares in GRA-MAG LLC are recognized in accordance with equity method of accounting. Ningbo nectec Jifeng Automotive Parts Company, Limited was recognized in the consolidated financial statements using the equity method of accounting pending classification in accordance with IFRS 5.

As the shares held by the Group in Ningbo nectec Jifeng Automotive Parts Company, Limited are classified as non-current assets held for sale in accordance with IFRS 5, the following disclosures apply only to GRA-MAG Truck Interior Systems LLC.

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

EUR k	2013	2012
Current assets	7,516	6,900
Non-current assets	1,284	1,900
	8,800	**8,800**
Current liabilities	–10,018	–8,996
Non-current liabilities	–23,735	–22,458
	–33,753	**–31,454**
Equity	**–24,952**	**–22,654**
Share held by Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment	0	0

The share in GRA-MAG LLC has a value of EUR 0 in accordance with the equity method of accounting as the 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 above-mentioned assets and liabilities include the following amounts:

EUR k	2013	2012
Cash and cash equivalents	1,388	361
Current financial liabilities (net of trade accounts payable and other liabilities and provisions)	–7,816	–5,857
Non-current financial liabilities (net of trade accounts payable and other liabilities and provisions)	–23,735	–22,458

GRA-MAG LLC's income statement includes the following amounts:

EUR k	2013	2012
Revenue	21,556	21,188
Cost of sales, including scheduled depreciation and amortization of EUR 554 thousand (2012: 316)	–20,868	–21,266
Administrative expenses	–2,995	–3,351
Interest income	0	0
Interest expense	–1,387	–1,283
Earnings before tax	**–3,694**	**–4,712**
Income taxes	0	0
Earnings from continuing operations	**–3,694**	**–4,712**
Group share in earnings	–1,847	–2,356

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

EUR k	2013	2012
Non-recognized losses of GRA-MAG LLC as of January 1	–13,293	–10,937
Non-recognized losses of GRA-MAG LLC in the reporting period	–1,847	–2,356

As of December 31, 2013 and December 2012, the joint venture did not have any contingent liabilities or capital commitments.

The GRAMMER Group is not involved in any joint activities.

6 Restructuring expenses

In 2013, the Group executed various production restructuring and relocation measures, which primarily concerned optimization of the production plants in the Czech Republic and expected obligations from the relocation of production activities within the United States. These expenses included employment termination costs and other relocation costs and totaled EUR 1.6 million.

7 Segment reporting

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

The Automotive Division, which is the largest segment within the GRAMMER Group, contributed 63.2 % (2012: 61.8) of total Group revenue in fiscal year 2013. GRAMMER is active in this segment as a supplier to the automotive industry, developing and producing headrests, armrests and center console systems. The Group sells these products primarily to automakers in the upper and premium segments and to their tier 1 suppliers.

The Seating Systems Division generated 36.8 % of Group revenue in 2013 (2012: 38.2). In this segment, GRAMMER is active as a supplier to the commercial vehicles industry, developing and manufacturing driver and passenger seats for trucks and driver seats for offroad vehicles (agricultural machinery, construction machinery and forklifts) and markets these to commercial vehicle manufacturers or as an aftermarket supplier.

The segment also develops and produces driver and passenger seats for sale to makers of busses and railway vehicles, as well as railway operators. The Seating System segment encompasses the business segments Trucks, Busses and Offroad (agricultural machinery, construction machinery and forklifts) as well as Railway.

Profit before income tax generated by the operating segments is monitored separately by the management, in order to make decisions on resource allocation and determine the earnings strength of the units. Segment performance is assessed on the basis of profit before income tax and is assessed in the consolidated financial statements on the basis of profit before income tax. Group financing (including financing income and expenses) as well as income taxes are managed uniformly and autonomously within the Group and not allocated to the individual segments. Similarly, expenses for the Central Service departments are not broken down by segment. The Central Services division carries out Group-wide functions in financial controlling, corporate communications, procurement, product development, operations, finance, internal control, investor relations, marketing, IT, human resources, accounting and legal affairs.

Transfer prices between the Group's operating segments are based on market prices established at arm's length. Segment income, segment expenses and segment earnings include transfers between business segments. These transfers are eliminated upon consolidation.

Reporting segments
The following tables include information on income and earnings as well as selected information on assets and liabilities of the Group's business segments for the fiscal years ending December 31, 2013 and 2012.

Fiscal year as of December 31, 2013

EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	452,862	812,798	0	**1,265,660**
Inter-segment revenue	19,931	502	–20,433	**0**
Total revenue	**472,793**	**813,300**	**–20,433**	**1,265,660**
Segment earnings (Operating profit/loss (–))	**37,588**	**33,091**	**–12,669**	**58,010**
Financial income				**1,662**
Financial expenses				**–13,191**
Other financial result				**–4,066**
Profit/loss (–) before income taxes				**42,415**
Income taxes				**–12,829**
Net profit from continuing operations				**29,586**
Discontinued operations				
Net profit after tax from discontinued operations				**23**
Net profit/loss (–)				**29,609**
Other segment information				
Investments:				
Property, plant and equipment	14,307	23,325	508	**38,140**
Intangible assets	1,497	6,535	601	**8,633**
Depreciation of property, plant and equipment	–10,945	–15,269	–538	**–26,752**
Amortization of intangible assets	–2,040	–5,080	–394	**–7,514**
Non-cash items				
Changes in pension provisions	1,587	442	294	**2,323**

Fiscal year as of December 31, 2012[1]

EUR k	Seating Systems	Automotive	Central Services/ Reconciliation	GRAMMER Group
Revenue to external customers	421,922	711,040	0	1,132,962
Inter-segment revenue	17,168	109	–17,277	0
Total revenue	439,090	711,149	–17,277	1,132,962
Segment earnings (Operating profit/loss (–))	26,431	30,529	–7,993	48,967
Financial income				2,024
Financial expenses				–11,941
Other financial result				–718
Profit/loss (–) before income taxes				38,332
Income taxes				–11,553
Net profit from continuing operations				26,779
Discontinued operations				
Net profit after tax from discontinued operations				0
Net profit/loss (–)				26,779
Other segment information				
Investments:				
Property, plant and equipment	11,410	21,302	494	33,206
Intangible assets	1,989	3,520	288	5,797
Depreciation of property, plant and equipment	–11,129	–13,293	–519	–24,941
Amortization of intangible assets	–1,528	–2,277	–392	–4,197
Non-cash items				
Changes in pension provisions	15,781	4,913	3,428	24,122

[1] adjusted prior-year figures

Reconciliation

EUR k	2013	2012[1]
Segment earnings (Operating profit)	70,679	56,960
Central Services	–10,542	–6,217
Elimination	–2,127	–1,776
Group earnings (Operating profit)	58,010	48,967
Financial result	–15,595	–10,635
Profit/loss (–) before income taxes	42,415	38,332

[1] adjusted prior-year figures

The item Central Services reflects areas centrally administrated by the Group headquarters. Transactions between the segments are eliminated in the reconciliation.

Information about geographical segments

The following tables include information on externally generated revenues and non-current assets of the Group's geographical segments for the fiscal years ending December 31, 2013 and 2012. The geographical breakdown is based on the region of registration of the companies.

2013 EUR k Registration of the companies	Europe[1]	Americas	Far East/Others	Group
Revenue	851,078	233,624	180,958	**1,265,660**
Non-current assets (= Property, plant and equipment and intangible assets)	205,379	18,769	31,162	**255,310**

2012 EUR k Registration of the companies	Europe[1]	Americas	Far East/Others	Group[2]
Revenue	743,119	222,468	167,375	**1,132,962**
Non-current assets (= Property, plant and equipment and intangible assets)	184,214	15,860	23,101	**223,175**

[1] Member states after additions as of January 1, 2007
[2] adjusted prior-year figures

8 Revenue structure of the Group

GRAMMER Group generates revenue primarily from the sale and delivery of its products to customers. Please refer to the segment report for an overview of the revenue structure of the operating and business segments.

Revenue of EUR 1,265,660 thousand (2012: 1,132,962) includes contract revenue of EUR 55,086 thousand (2012: 33,022) determined using the percentage-of-completion method. The expenses incurred corresponded to revenues. These revenues relate to development activities as well as working capital that must be engaged and financed by GRAMMER Group until a product reaches serial production and generates initial revenues. These primarily relate to the Automotive segment. In the Seating Systems Division, percentage-of-completion revenues were generated due to the new projects for truck seat production.

9 Other income and expenses

9.1 Other income

Other operating income primarily includes income from the sale of scrap metal, materials handling costs as well as rental income of EUR 5,298 thousand (2012: 4,401) and income from the reversal of provisions amounting to EUR 992 thousand (2012: 2,346). This item also contains government grants of EUR 2,580 thousand (2012: 1,402) and income from recharged miscellaneous costs of approximately EUR 28 thousand (2012: 357). It also includes income from the sale of property, plant and equipment of EUR 162 thousand (2012: 493). The government grants were issued for the acquisition of certain items of property, plant and equipment. The conditions for these grants were satisfied in full and there are currently no risks that it may not be possible to satisfy these conditions in the future.

9.2 Financial result

EUR k	2013	2012[1]
Financial income		
Interest income from bank balances	965	1,003
Available-for-sale financial assets	76	17
Other loans	621	355
Financial assets and liabilities measured at fair value through profit or loss	0	649
Total financial income	**1,662**	**2,024**
Financial expenses		
Loans and overdraft	–8,515	–6,883
Other interest costs	–171	–120
Interest cost of pension provisions	–3,355	–3,464
Net loss from financial assets and liabilities measured at fair value through profit or loss	–944	–1,330
Interest element of lease payments	–206	–144
Total financial expenses	**–13,191**	**–11,941**
Other financial result	**–4,066**	**–718**
Financial result	**–15,595**	**–10,635**

[1] adjusted prior-year figures

Financial income chiefly comprises surpluses from active cash management which are deposited in short-term investments.

Financial income includes interest income of EUR 1,662 thousand (2012: 1,375) calculated using the effective interest rate method.

Financial expenses include the corresponding interest expense on loans and overdraft facilities of EUR 8,515 thousand (2012: 6,883). Of this, an amount of EUR 7,399 thousand (2012: 6,308) was calculated using the effective interest method. The increase is primarily due to the issue of a new debenture bond and non-recurring fees and commission in connection with a new syndicated loan contract.

Other financial result primarily relates to gains or losses from measurement of borrowing and loans in foreign currency terms and measurement of financial assets and liabilities at the reporting date.

9.3 Amortization, depreciation and impairment; foreign exchange differences and cost of inventories included in the consolidated income statement

Cost of sales
The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise. This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. The set up of reserves for warranty purposes is covered by this item as well. This item also includes the cost of additions to warranty provisions. The cost of sales also includes non-capitalized research and development costs of EUR 47,411 thousand (2012: 36,094) as well as amortization of development costs. Expenses relating to the development and expansion of 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. Development in the Seating Systems Division is generally performed on a "design to market" basis, with the corresponding costs included here accordingly. The costs of inventories, which are recognized as an expense in cost of sales, amount to EUR 1,055,028 thousand (2012: 949,304).

Selling expenses
Selling expenses involve all sales-related costs and primarily refer to costs incurred by the Sales, Advertising and Marketing departments as well as overheads allocable to these departments or activities. Freight, commissions and forwarding charges are also included in selling expenses.

Administrative expenses
Administrative expenses include all administrative expenditure which cannot be assigned directly to other functions, including expenditure for general administration, management and central departments. Other administrative expenses also include income from exchange rate movements of EUR 15,403 thousand (2012: 14,196) 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 balance sheet date. Foreign exchange losses amounting to EUR 16,014 thousand (2012: 14,833) are also recognized under other administrative expenses. Cost components from the internal restructuring of the Group are also included.

Amortization and depreciation
Amortization of intangible assets totaled EUR 7,514 thousand (2012: 4,197) and is recognized in the income statement under cost of sales, selling expenses and administrative expenses. This includes EUR 2,074 thousand (2012: 1,540) for capitalized development costs included in cost of sales.

Depreciation of property, plant and equipment amounted to EUR 26,752 thousand (2012: 24,941).

As in 2012, no impairment losses were incurred in fiscal year 2013.

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

9.4 Personnel expenses

Personnel expenses are analyzed in the following table:

EUR k	2013	2012[1]
Wages and salaries	208,690	188,741
Social security contributions of which for pensions EUR 812 thousand (2012: 4,271)	42,913	43,598
	251,603	**232,339**

[1] adjusted prior-year figures

10 Income taxes

The key components of income taxes for fiscal years 2013 and 2012 break down as follows:

EUR k	2013	2012[1]
Consolidated Statement of Income		
Current tax		
Current tax expenses – Germany	–1,625	–2,465
Current tax expenses – abroad	–8,572	–5,135
Total current tax expenses	–10,197	–7,600
Deferred tax		
Deferred tax income/expenses Germany	–4,367	–2,516
Deferred tax income/expenses abroad	1,735	–1,437
Deferred tax income/expenses	–2,632	–3,953
Tax income/expenses reported in the Consolidated Statement of Income	–12,829	–11,553

[1] adjusted prior-year figures

Reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rate for the Group for fiscal 2013 and 2012 is as follows:

EUR k	2013	2012[1]
Earnings before income taxes (relating to continuing operations)	42,415	38,332
Income taxes at the effective rate in Germany at 29.1 % (2012: 29.06)	–12,342	–11,139
Effects from minimum taxation and withholding taxes	–288	–1,290
Adjustments to current income tax incurred in the previous year	128	–107
Tax reduction due to losses carried forward/deferred taxes	1	1,548
Tax exempt government grants	87	385
Non-deductible expenses	–984	–1,049
Other tax effects	82	452
Effects from different tax rates	487	–353
Income taxes at the effective tax rate of 30.2 % (2012: 30.1)	–12,829	–11,553

[1] adjusted prior-year figures

Deferred income tax comprised the following as of the relevant reporting dates:

EUR k

	2013 Consolidated Statement of Financial Position	2012[1] Consolidated Statement of Financial Position	Change
Deferred tax liabilities			
Property, plant and equipment	–7,374	–6,361	–1,013
Intangible assets	–6,001	–4,490	–1,511
Goodwill	–4,839	–4,614	–225
Finance lease	–268	–264	–4
Other assets	0	–1	1
Receivables	–4,938	–3,734	–1,204
Others	–1,877	–824	–1,053
	–25,297	**–20,288**	**–5,009**
Deferred tax assets			
Pension provisions	13,106	12,068	1,038
Other provisions	1,316	1,730	–414
Tax losses carried forward	19,476	21,112	–1,636
Financial assets	277	207	70
Others	8,059	7,279	780
	42,234	**42,396**	**–162**

[1] adjusted prior-year figures

The statutory rate of corporate income tax in Germany was 15 % for the 2012 and 2013 assessment periods, plus a solidarity surtax of 5.5 %. Together with municipal trade tax, which is not deductible as a business expense segment in Germany, this results in a tax rate of approximately 29.10 % for 2013 (2012: 29.06).

For calculation of deferred income tax assets and liabilities, the tax rates applicable at the point of utilization of the asset or fulfillment of the liability are used. Deferred income tax assets and liabilities were assessed on the basis of the overall tax rate of 29.10 % (2012: 29.06). The local income tax rates for foreign entities varied between 10 % and 43 %.

Deferred tax assets are only recognized if the management deems their recoverability to be probable. Relevant value adjustments are based on all known positive and negative factors relating to future taxable income. The estimates made can change over time. Assessment of the value of deferred tax assets is based on the probability of measurement differences being reversed and the recoverability of tax loss carry-forwards that led to their creation. Based on past experience and anticipated income levels, it is assumed that the corresponding benefits can be realized.

No deferred tax assets were recognized on tax loss carry-forwards assumed to be non-recoverable (2012: EUR 1.9 million). With respect to the existing tax loss carry-forwards, the Group assumes that it will have sufficient taxable income for recovery as the losses are primarily attributable to the financial crisis and start-up costs. The tax losses carried forward may be carried forward, for periods of 10 to 20 years or indefinitely, and in some cases carried back.

Deferred taxes were not recorded on outside basis differences (i. e. differences between net assets, incl. goodwill at subsidiaries and the relevant tax value of interests in subsidiaries), as reversal of differences, e. g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. As of December 31, 2013, outside basis differences totaled EUR 71,832 thousand.

In 2013, tax loss carry-forwards of EUR 18,626 thousand from previous years were realized (2012: 15,855). The expenses recorded in the income statement for deferred income taxes came to EUR 2,631 thousand in the year under review (2012: 3,953).

11 Non-current assets held for sale

Under the terms of the acquisition of nectec Automotive s.r.o., the Group also acquired the 50% stake in a joint venture with Chinese automotive supplier NingBo Jifeng Auto Parts Co., Ltd., China. This share is recognized in accordance with IFRS 5 as it is to be resold to the joint venture partner in the course of 2014. The corresponding effects are therefore shown separately in both the balance sheet and the income statement to enhance the presentation.

12 Earnings per share

Basic earnings per share are calculated by dividing consolidated net income/net loss by the nominal number of shares outstanding during the fiscal year, less own shares that have been bought back. The Company's share capital amounts to EUR 29,554,365.44 divided into 11,544,674 shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend (with the exception of own shares) 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 for no-par value shares of the company, such as convertible bonds and options). Since GRAMMER Group has not issued any such financial instruments or entered into any such contracts, its basic and diluted earnings per share are identical.

	2013	2012[1]
Weighted average number of no-par value shares used to calculate basic/diluted earnings per share	11,214,624	11,214,624
Consolidated net profit/loss (in EUR thousand)	29,996	26,741
Basic/diluted earnings per share in EUR	2.67	2.38

[1] adjusted prior-year figures

No transactions involving no-par value shares or potential no-par value shares of the Group were effected in the period between the reporting date and preparation of the consolidated financial statements.

13 Dividends paid and proposed

Appropriation of profit by GRAMMER Group is based on net profit/loss in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. On December 31, 2013, GRAMMER AG posted net profit of EUR 15.4 million (2012: 15.4). This takes into account the profit of EUR 9.8 million carried forward, the allocation of EUR 5.6 million to retained earnings and annual profit of EUR 11.2 million. The Executive Board will propose to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.65 be paid per share and that the balance of EUR 8.2 million be carried forward. This decision takes into account that the Company holds a total of 330,050 own shares, which are not dividend bearing. If the number of dividend-entitled shares changes before the date of the Annual General Meeting on May 28, 2014, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

A dividend of EUR 5.6 million was paid in the reporting year (2012: 4.5). For further details, please refer to Note 21.

Dividends resolved and distributed during the fiscal year:

Dividends on no-par value shares
EUR k

	2013	2012
Dividend for 2012: 0.50 EUR (2011: 0.40 EUR)	5,608	4,486

Dividends proposed for approval by the Annual General Meeting (not recognized as a liability as of December 31)

Dividends on no-par value shares
EUR k

	2013	2012
Dividend for 2013: 0.65 EUR (2012: 0.50 EUR)	7,290	5,608

14 Property, Plant and Equipment

EUR k

	Land and buildings	Manufacturing plant and equipment	Other plant and equipment	Advance payments and plant under construction	Finance leasing	Total
Cost						
As of January 1, 2013	92,822	149,791	172,814	6,387	7,541	429,355
Additions	886	14,097	10,087	9,089	3,981	38,140
Disposals	–186	–2,430	–4,138	–50	–3,275	–10,079
Effects of exchange rate differences	–2,905	–5,158	–4,304	–192	–70	–12,629
Effects from company acquisition	4,270	2,399	165	1,360	0	8,194
Reclassification	1,670	2,981	2,146	–6,797	0	0
As of December 31, 2013	96,557	161,680	176,770	9,797	8,177	452,981
Depreciation						
As of January 1, 2013	44,338	88,900	125,701	0	4,212	263,151
Additions	2,808	10,894	12,160	0	890	26,752
Disposals	–182	–2,328	–3,797	0	–3,269	–9,576
Reversals	0	0	0	0	0	0
Effects of exchange rate differences	–989	–3,574	–2,927	0	–50	–7,540
Reclassification	0	–14	14	0	0	0
As of December 31, 2013	45,975	93,878	131,151	0	1,783	272,787
Carrying amount on January 1, 2013	48,484	60,891	47,113	6,387	3,329	166,204
Carrying amount on December 31, 2013	50,582	67,802	45,619	9,797	6,394	180,194
Cost						
As of January 1, 2012	90,180	152,938	160,002	5,615	6,158	414,893
Changes in accounting methods	0	–1,260	–1,710	0	0	–2,970
As of January 1, 2012 (adjusted[1])	90,180	151,678	158,292	5,615	6,158	411,923
Additions	488	12,534	10,723	6,185	3,276	33,206
Disposals	–434	–8,886	–6,528	–48	0	–15,896
Effects of exchange rate differences	–89	–603	561	65	188	122
Effects from company acquisition	0	0	0	0	0	0
Reclassification	2,677	–4,932	9,766	–5,430	–2,081	0
As of December 31, 2012 (adjusted[1])	92,822	149,791	172,814	6,387	7,541	429,355
Depreciation						
As of January 1, 2012	41,642	93,602	115,931	0	4,038	255,213
Changes in accounting methods	0	–1,260	–982	0	0	–2,242
As of January 1, 2012 (adjusted)	41,642	92,342	114,949	0	4,038	252,971
Additions	2,969	9,517	11,889	0	566	24,941
Disposals	–119	–8,064	–6,162	0	0	–14,345
Impairment reversals	0	0	0	0	0	0
Effects of exchange rate differences	–154	–583	284	0	37	–416
Reclassification	0	–4,312	4,741	0	–429	0
As of December 31, 2012 (adjusted[1])	44,338	88,900	125,701	0	4,212	263,151
Carrying amount on January 1, 2012	48,538	59,336	44,071	5,615	2,120	159,680
Carrying amount on January 1, 2012 (adjusted[1])	48,538	59,336	43,343	5,615	2,120	158,952
Carrying amount on December 31, 2012	48,484	60,891	47,113	6,387	3,329	166,204

[1] adjusted prior-year figures

Depreciation is based generally on the following useful economic lives:

Buildings and fixtures	10–40 years
Land improvements	5–40 years
Manufacturing plant and equipment	5–25 years
Other plant and equipment	2–15 years
Leased assets (finance leasing)	3–12 years

Land is not depreciated.

GRAMMER has entered into various finance and operating leases for buildings, manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between three and twelve years. Most of the leases do not provide for renewal or purchase options, with the exception of buildings and limited items of equipment. For the buildings, these relate largely to customary renewal options, which provide for a renegotiation for continued use after expiry.

The leased assets to be recognized by the Company under IAS 17 are as follows:

EUR k	Manufacturing plant and equipment	Other plant and equipment	Motor vehicles	Total
Cost				
As of January 1, 2013	6,978	125	438	7,541
Additions	3,981	0	0	3,981
Disposal	–3,040	–27	–208	–3,275
Effects of exchange rate differences	–49	3	–24	–70
Reclassification	0	0	0	0
As of December 31, 2013	7,870	101	206	8,177
Depreciation				
As of January 1, 2013	3,676	106	430	4,212
Additions	858	10	22	890
Disposal	–3,040	–27	–202	–3,269
Effects of exchange rate differences	–13	7	–44	–50
Reclassification	0	0	0	0
As of December 31, 2013	1,481	96	206	1,783
Carrying amount on January 1, 2013	3,302	19	8	3,329
Carrying amount on December 31, 2013	6,389	5	0	6,394
Cost				
As of January 1, 2012	5,604	127	427	6,158
Additions	3,276	0	0	3,276
Disposal	0	0	0	0
Effects of exchange rate differences	179	–2	11	188
Reclassification	–2,081	0	0	–2,081
As of December 31, 2012	6,978	125	438	7,541
Depreciation				
As of January 1, 2012	3,576	93	369	4,038
Additions	492	15	59	566
Disposal	0	0	0	0
Effects of exchange rate differences	37	–2	2	37
Reclassification	–429	0	0	–429
As of December 31, 2012	3,676	106	430	4,212
Carrying amount on January 1, 2012	2,028	34	58	2,120
Carrying amount on December 31, 2012	3,302	19	8	3,329

Under the finance leases, the following payments (including guaranteed residual values) are due in subsequent periods:

EUR k	up to 1 year	1 to 5 years	more than 5 years
2013			
Lease payments	1,463	4,609	333
Less interest cost on a discounted basis	–161	–284	–10
Present value (Statement of financial position)	**1,302**	**4,325**	**323**
2012			
Lease payments	768	2,766	0
Less interest cost on a discounted basis	–125	–217	0
Present value (Statement of financial position)	**643**	**2,549**	**0**

Under the operating leases, the following payments (including guaranteed residual values) are due in subsequent periods:

EUR k	up to 1 year	1 to 5 years	more than 5 years
2013			
Lease payments	14,780	33,477	24,238
2012[1]			
Lease payments	13,437	24,996	5,539

[1] adjusted prior-year figures

The future lease payments include components subject to a straight-line cost escalation clause.

15 Intangible assets

EUR k	Concessions and industrial rights	Goodwill	Capitalized development costs	Advance payments	Total
Cost					
As of January 1, 2013	32,420	44,447	20,371	2	97,240
Additions	6,990	4	1,582	57	8,633
Disposals	–115	0	0	0	–115
Effects of exchange rate differences	–1,231	0	–26	0	–1,257
Effects from company acquisition	15,231	2,701	0	0	17,932
Reclassification	59	0	0	–59	0
As of December 31, 2013	53,354	47,152	21,927	0	122,433
Amortization					
As of January 1, 2013	21,686	10,636	7,947	0	40,269
Additions	5,440	0	2,074	0	7,514
Disposals	–107	0	0	0	–107
Impairment reversals	0	0	0	0	0
Effects of exchange rate differences	–331	0	–28	0	–359
Reclassification	0	0	0	0	0
As of December 31, 2013	26,688	10,636	9,993	0	47,317
Carrying amount on January 1, 2013	10,734	33,811	12,424	2	56,971
Carrying amount on December 31, 2013	26,666	36,516	11,934	0	75,116
Cost					
As of January 1, 2012	29,640	47,006	18,069	3	94,718
Changes in accounting methods	–46	–2,554	0	0	–2,600
As of January 1, 2012 (adjusted[1])	29,594	44,452	18,069	3	92,118
Additions	3,446	0	2,315	36	5,797
Disposals	–703	–5	0	0	–708
Effects of exchange rate differences	46	0	–13	0	33
Effects from company acquisition	0	0	0	0	0
Reclassification	37	0	0	–37	0
As of December 31, 2012 (adjusted[1])	32,420	44,447	20,371	2	97,240
Amortization					
As of January 1, 2012	19,760	11,147	6,418	0	37,325
Changes in accounting methods	–46	–511	0	0	–557
As of January 1, 2012 (adjusted[1])	19,714	10,636	6,418	0	36,768
Additions	2,657	0	1,540	0	4,197
Disposals	–709	0	0	0	–709
Impairment reversals	0	0	0	0	0
Effects of exchange rate differences	24	0	–11	0	13
Reclassification	0	0	0	0	0
As of December 31, 2012 (adjusted[1])	21,686	10,636	7,947	0	40,269
Carrying amount on January 1, 2012	9,880	35,859	11,651	3	57,393
Carrying amount on January 1, 2012 (adjusted[1])	9,880	33,816	11,651	3	55,350
Carrying amount December 31, 2012	10,734	33,811	12,424	2	56,971

[1] adjusted prior-year figures

Concessions and industrial rights comprise patents and customer orders which were identified in connection with the acquisition of nectec Automotive s.r.o. The patents are being written down over ten and the customer orders over six years. All other intangible assets are amortized, as in the past, using the straight-line method over an expected useful life of three to six years.

Capitalized development costs relate to internally generated patents and are amortized on a straight-line basis over an expected useful life of 1 to 19 years. In fiscal year 2013, total research and development costs stood at EUR 48,993 thousand (2012: 38,409), of which EUR 1,582 thousand (2012: 2,315) satisfied the criteria for capitalization under IAS 38.

15.1 Goodwill

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

For purposes of impairment testing in accordance with IAS 36, goodwill acquired in the past and recognized in Group accounting is allocated to the CGUs.

GRAMMER AG tests goodwill for impairment at least once annually in accordance with the process outlined in section 2.3. The fundamental assumptions on which the determination of the recoverable amount attributable to the CGUs as of December 31, 2013 include the sustainable (net) growth rate of the relevant positive cash flows and the discount factor. These are presented in the following table.

EUR k

	Cashgenerating unit	2013 Goodwill	2012 Goodwill	2013 Growth rate[1]	2012 Growth rate[1]	2013 Discount factor	2012 Discount factor
CGU I	Seating Systems	4,423	4,419	1 %	1 %	9.7 %	9.8 %
CGU II	Automotive	32,093	29,392	1 %	1 %	9.7 %	9.9 %
	Total	**36,516**	**33,811**				

[1] perpetual annuity

Basis of calculation

The recoverable amount from the cash-generating units is determined on the basis of the present value of estimated future cash flows less costs to sell.

Estimated cash flows are forecast for a three-year period using budgets authorized by company management and take into account past performance, current operating profit, best management forecasts of future performance as well as market expectations and market assumptions.

The total cost of capital is determined using the capital asset pricing model assuming a risk-free interest rate of 2.75 % before tax (2012: 2.3) and a risk premium for general market risks of 6.0 % before tax (2012: 5.5). For determination of operative and leverage risks, individual beta factors are derived from a group of comparable companies (peer group) and used for measurement of the positive cash flows of the specific CGU. Cost of capital is estimated taking into account the future financing conditions of GRAMMER AG and adjusted in line with market expectations. The cost of capital determined in this way reflects the time value of money and the specific risks of the CGU for which the estimated future cash flows were not adjusted.

Cash flows after this three-year period are extrapolated on the basis of a growth rate of 1 % (2012: 1).

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

Basic assumptions for calculating fair value
In calculating the fair value of the two segments Seating Systems and Automotive, the underlying assumptions are subject to estimation uncertainty with respect to:

- operating profit,
- commodity price trends,
- market share in the reporting period.

Operating profit
Operating profit is derived from multi-year planning based on projected figures for revenues and expenses. Current figures, modified by future changes, are used to forecast manufacturing costs. Sales planning is based on information from GRAMMER Group customers as well as market forecasts from various information services.

Commodity price trends
Estimates are based on published price indices in countries from which commodities are purchased as well as data relating to specific commodities. Forecast data is used if it is publicly accessible - otherwise actual past trends in commodity prices are used as an indicator for future price trends.

Assumptions regarding market share
These assumptions are important in as much as the Company's management assesses how the position of the cash-generating unit might change in comparison with its competitors in the forecast period. The management expects that the Seating Systems segment will solidify its market share during the period covered by the budget and that the Automotive segment will improve its position internationally.

Market-based view
For the assessment as to whether indications exist that goodwill has been impaired, the Group also takes into account the relationship between market capitalization and the carrying amount of the shareholders' equity of GRAMMER Group.

As of December 31, 2013, GRAMMER AG's market capitalization was higher than the carrying amount of the consolidated equity, meaning that there was no evidence of any impairment of goodwill or any other assets.

EUR k

	2013	2012
Market cap	400,138	184,946
Equity	224,671	210,250
Fixed assets	255,310	223,175
Gearing	41 %	36 %
Closing price on December 31	**34.66**	**16.02**

16 Inventories

Inventories break down as follows:

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Raw material and suppliers	68,208	65,714
Work in progress	11,409	11,811
Finished goods and services	27,591	22,074
Advance payments	8,441	7,300
Total inventories	**115,649**	**106,899**

[1] adjusted prior-year figures

All inventories are carried at cost. There were no significant write-downs to the lower fair value. Impairments of EUR 3.0 million (2012: 2.3) were recognized on inventories.

17 Trade accounts receivable

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Trade accounts receivable	153,928	140,858

[1] adjusted prior-year figures

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 – 120 days.

As of December 31, 2013, trade accounts receivable of EUR 15,687 thousand (2012: 4,353) were reduced as a result of genuine factoring.

As of December 31, 2013, impairments of EUR 2,882 thousand (2012: 2,804) were recognized on trade accounts receivable. Details are given in the table below:

EUR k

	Specific bad debt allowances	Portfolio-based allowances	Total
As of January 1, 2013	952	1,852	2,804
Additions	895	76	971
Utilization	–19	–26	–44
Write-backs	–386	–332	–718
Effects from exchange rate differences	–131	0	–131
As of December 31, 2013	1,311	1,571	2,882
As of January 1, 2012	1,245	1,958	3,203
Additions	175	0	175
Utilization	–21	–8	–29
Write-backs	–476	–98	–574
Effects from exchange rate differences	29	0	29
As of December 31, 2012	952	1,852	2,804

The following table shows non-current and current financial receivables, which have neither been written down nor are overdue on the balance sheet date, as well as overdue receivables, which have not been written down:

EUR k

	Total	Neither past due nor impaired	Non-impaired and past due in the following periods				
			up to 30 days	31–60 days	61–90 days	91–180 days	more than 181 days
2013							
Trade accounts receivable	153,928	130,081	14,268	4,423	1,203	2,541	1,412
Receivables from construction contracts	74,523	74,523	0	0	0	0	0
Other financial receivables	11,521	11,521	0	0	0	0	0
2012[1]							
Trade accounts receivable	140,858	118,023	14,733	4,017	1,908	1,138	1,039
Receivables from construction contracts	54,550	54,550	0	0	0	0	0
Other financial receivables	9,770	9,770	0	0	0	0	0

[1] adjusted prior-year figures

The carrying amount of the receivables portfolio represents the maximum default risk. The amount under accounts up to 30 days past due primarily comprises payments pending at the balance sheet date. In certain cases, the past-due accounts relate to project business beyond the balance sheet date and related procedures for acceptance testing and payment of tools.

On the reporting date, there were no indications with regard to the receivables that had neither been written down nor were in default that the debtors would not be able to fulfill their obligations.

18 Other financial assets

Other financial assets break down as follows:

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Non-current		
Outstanding loans	147	81
Participation interests	442	800
Others	276	331
	865	**1,212**
Current		
Receivables from construction contracts	74,523	54,550
Other receivables	11,098	9,358
Non-derivate financial assets	582	15
	86,203	**63,923**

[1] adjusted prior-year figures

Loans comprise loans to affiliated companies. Other non-current financial assets include loans to third parties and employees of EUR 276 thousand (2012: 331).

Receivables from construction contracts contain the asset-side balance relating to customers for contract work determined using the percentage-of-completion method.

Other receivables result primarily from current receivables from associates with a term of 30 to 90 days.

19 Other current assets

Other current assets break down as follows:

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Other assets	13,039	13,154
Prepaid expenses	2,430	1,651
	15,469	**14,805**

[1] adjusted prior-year figures

Other assets mainly include receivables arising from pass-through taxes such as value-added tax of EUR 7,868 thousand (2012: 8,866), temporary deposit agreements of EUR 1,257 thousand (2012: 945), receivables due from creditors with debit balances of EUR 1,177 thousand (2012: 1,925), receivables due from employees of EUR 300 thousand (2012: 382) and claims under investment grants totaling EUR 161 thousand (2012: 592).

No material restrictions on ownership or disposition existed for the other receivables and assets reported and no impairment losses were recognized.

20 Cash and short-term deposits

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Cash and short-term deposits	**91,315**	**73,133**

[1] adjusted prior-year figures

The Group has bank balances at different banks in various currencies.

The bank balances have variable interest rates and can be withdrawn on demand. Short-term deposits are made for various terms of between one day and three months depending on the Group's current liquidity requirements. The deposits accrue interest at the current interest rates for demand deposits.

For the purposes of the consolidated cash flow statement, holdings of cash and cash equivalents as of December 31, are as follows:

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Cash and short-term deposits	91,315	73,133
Bank overdrafts	–12,396	–1,914
	78,919	**71,219**

[1] adjusted prior-year figures

21 Subscribed capital and reserves

Subscribed capital

As of December 31, 2013, the subscribed capital of GRAMMER Group amounted to EUR 29,554 thousand divided into 11,544,674 no-par value shares. All shares accord the same rights; shareholders have a right to payment of the defined dividend (with the exception of own shares) and may exercise one vote for each share at the Annual General Meeting.

Capital reserve

The capital reserve totaled EUR 74,444 thousand (2012: 74,444) as of December 31, 2013. It includes premiums from the capital increases in 1996, 2001 and 2011, less transaction costs.

Retained earnings

The statutory reserve of GRAMMER AG totaled EUR 1,183 thousand on both December 31, 2013 and 2012 and are not available for the payment of dividends.

Retained earnings reflect income earned in the past by the companies included in consolidation, provided such income was not paid out as dividends. This item rose from EUR 135,035 thousand to EUR 159,423 thousand. However, the growth in the Company's earnings is not fully reflected in retained earnings due to the dividend payment of EUR 5,608 thousand.

Accumulated other comprehensive income

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

In addition, it includes changes arising from the application of the new guidance in IAS 19 with respect to actuarial gains and losses. Accumulated currency-translation effects on loans classified as net investments in a foreign operation in accordance with IAS 21 including the currency-translation effects accruing up until adjustments under IFRS 11 to the loan to GRAMAG are also included in this item.

Own shares

As of December 31, 2013, GRAMMER AG holds a total of 330,050 shares as own stock, all of which were acquired in fiscal year 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 844,928 of the share capital and represent 2.8589 % of share capital.

Acquisition of own shares

On August 16, 2006, the Executive Board of GRAMMER AG decided to make use of the authorization of the Annual General Meeting of June 28, 2006 to acquire treasury stock in accordance with section 71 (1) number 8 AktG. The Company may acquire up to 10 % of its share capital, i. e. up to 1,049,515 of its own shares as own stock. The share repurchase is for the purposes set out in the resolution adopted by the Annual General Meeting, which provides for both the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares. This authorization was valid from August 16, 2006 until December 1, 2007. The repurchase of the shares under this Executive Board resolution complies with the safe habor rules of sections 14 (2), 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's website. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2013, 11,544,674 ordinary shares (2012: 11,544,674) were in circulation.

Non-controlling interests

Non-controlling interests in equity relate primarily to share holdings in GRAMMER Seating (Jiangsu) Co., Ltd., China, which was established in the year under review, GRAMMER Koltuk Sistemleri Sanayi ye Ticaret A.S., Turkey and GRAMMER AD, Bulgaria.

Authorizations

The Annual General Meeting on May 28, 2009 approved a conditional increase in share capital in the amount of EUR 13,434 thousand. The conditional capital increase will be carried out only to the extent that holders of options or conversion rights exercise their rights, or the bond holders who are under the obligation to convert their bonds or exercise their options comply with such obligation under bonds with warrants or convertible bonds issued or guaranteed by the Company until May 27, 2014 on the basis of the authorization given to the Executive Board, and provided no other forms of performance are implemented with respect to the condition (conditional capital 2009).

Moreover, the Annual General Meeting on May 26, 2011 also granted approval until May 25, 2016 for new authorized capital in the amount of EUR 14,777 thousand (authorized capital 2011). The Executive Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the Company once or more than once by up to a total of EUR 14,777 thousand through the issue of shares against cash contribution and/or contribution in kind. A general shareholder subscription right applies to the new shares. The shares may also be underwritten by one or more banks subject to an obligation to offer them for subscription to shareholders. The Executive Board is, however, authorized, subject to the approval of the Supervisory Board, exclude shareholders' statutory subscription rights,

a) provided this is necessary to eliminate fractional amounts;

b) if the shares are issued against contribution in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company;

c) if a capital increase made against a cash contribution does not exceed 10 % of share capital and the issue price of the new shares is not substantially lower than the exchange price (section 186 (3) sentence 4 AktG); if use is made of the authorization in conjunction with an exclusion of shareholder rights in accordance with section 186 (3) sentence 4 AktG, the exclusion of subscription rights under other authorizations is to be taken into account pursuant to section 186 (3) sentence 4 AktG.

With the resolution on May 18, 2011, the Executive Board of GRAMMER AG declared its intent:

(1) to make no use of authorization under the new section (3) of the Articles of Association to increase the share capital of the Company against cash and/or contributions in kind with statutory subscription rights for shareholders during the term of the authorization if this would lead to issuance of an amount of shares in GRAMMER AG in excess of 30% of existing share capital;

(2) to limit use of the authorization to exclude shareholders' statutory subscription rights in the event that shares are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or for the purpose of acquiring receivables payable by the Company during the term of the authorization to no more than 20% of the Company's existing share capital;

(3) to ensure that the sum of any capital increases from authorized capital excluding shareholder subscription rights during the term of the authorization does not exceed 20% of existing share capital.

22 Pensions and other post-employment benefits

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

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

The present value of the defined benefit obligations, 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.

IAS 19 (revised 2011) was applied for the first time in fiscal year 2013 in the GRAMMER Group. The previous year's figures were restated accordingly.

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

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

Measurement parameters DBO

in %

	2013	2012
Interest rate	3.70	3.60
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.90	1.90

Measurement parameters other benefits

in %

	2013	2012
Inflation rate	3.70–7.50	3.60–6.50
Salary trend	2.30–5.31	2.30–5.31
Inflation rate	1.90–7.48	1.90–6.16

Whereas in the previous year the interest rate published by Mercer was used, the AON Hewitt interest rate was applied in 2013. This interest rate is derived from the vested obligations in the light of the specific structure of the payment flows. The calculation is based on the GRAMMER companies' pension obligations which underly the pension provisions as of December 31, 2013. As Mercer also specifies an interest rate of 3.7% on the basis of the process applied in the previous year for calculating the interest rates as of December 31, 2013, the change of calculation method does not have any material impact on the present value of the obligation.

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, 2013.

Mortality and disability are calculated on the basis of the 2005 G Heubeck tables or comparable foreign mortality tables. The probability of fluctuation was computed specifically for the Group. There are no plan assets for pension obligations recognized in the balance sheet.

In fiscal year 2013, annuities were paid on pensions in the amount of EUR 1,994 thousand (2012: 1,809). Other post-employment benefits paid totaled EUR 99 thousand (2012: 329).

The following amounts were recognized in the income statement:

EUR k

	Pension plan	Miscellaneous benefits
Service cost	–1,638	448
Current service cost	1,867	448
Past service cost	–3,505	0
Net interest expense	3,239	116
Total 2013	**1,601**	**564**

EUR k

	Pension plan	Miscellaneous benefits
Service cost	1,435	913
Current service cost	1,427	908
Past service cost	7	5
Net interest expense	3,331	133
Total 2012[1]	**4,766**	**1,045**

[1] adjusted prior-year figures

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

As there are no plan assets for funding future pension obligations, net interest expense 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

2013	Pension plan	Miscellaneous benefits
Cumulative amount recognized in other comprehensive income as of January 1,2013	25,832	0
Amount recorded in the current year	2,859	0
Cumulative amount recognized in other comprehensive income as of December 31, 2013	**28,691**	**0**

EUR k

2012	Pension plan	Miscellaneous benefits
Cumulative amount recognized in other comprehensive income as of January 1, 2012[1]	5,394	0
Amount recorded in the current year	20,438	0
Cumulative amount recognized in other comprehensive income as of December 31, 2012	**25,832**	**0**

[1] adjusted prior-year figures

In a decision dated May 15, 2012 (3 AZR 11/10), the German Federal Labor Court ruled that in the case of pension plans which were established before RVAltGrAnpG took effect on January 1, 2008 the originally contractual age limit of 65 years regularly equals the standard age of retirement in the statutory pension scheme. After a conclusive legal appraisal, GRAMMER adopted the effects of this ruling in 2013 in Germany and recognizes pension obligations on the basis of the standard statutory age of retirement. The positive effect of this change to pension obligations, which is reported within past service cost, was more than offset by other measurement effects (e.g. salary trends).

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

EUR k	Pension plan	Miscellaneous benefits
As of January 1, 2013	90,850	3,157
+ Service cost	–1,638	448
+ Interest expense	3,239	116
Changes in estimates: gains (–)/losses (+)	2,859	0
Changes in financial assumptions	–1,654	0
Changes in historical data	4,513	0
– Actual payments	–1,994	–99
– Disposal of obligations	0	–11
Changes in exchange rates	–8	–589
As of December 31, 2013	93,308	3,022
As of January 1, 2012	67,484	2,399
+ Service cost	1,435	913
+ Interest expense	3,331	133
Changes in estimates: gains (–)/losses (+)	20,438	0
Changes in financial assumptions	19,765	0
Changes in historical data	673	0
– Actual payments	–1,809	–329
– Disposal of obligations	–4	–59
Changes in exchange rates	–24	100
As of December 31, 2012	90,850	3,157

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.

In accordance with IAS 19.173(b), no comparative information is provided for these annual financial statements for the purposes of the sensitivity analysis.

Discount factors

EUR k	1% reduction	1% increase
Impact on DBO	18,691	–14,429
Impact on current service cost	458	–345
Impact on net interest costs	–413	239

Future salary increases

EUR k	0.5% reduction	0.5% increase
Impact on DBO	–2,673	3,031

Inflation rate

EUR k	0.5% reduction	0.5% increase
Impact on DBO	–5,249	5,763

Mortality rate

EUR k	10% reduction	10% increase
Impact on DBO	2,616	–2,368

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:

EUR k	Expected cash outflow
Short term (< 1 year)	2,089
Medium term (1 to 5 years)	7,535
Long term (> 5 years)	83,144

23 Financial liabilities

Interest-bearing liabilities

EUR k	Current	Non-current	Total
2013			
Overdrafts	12,395	0	12,395
Loans			
EUR loan	3,291	5,836	9,127
CNY loan	2,395	0	2,395
BRL loan	39	0	39
Debenture bond	19,562	140,952	160,514
Total Financial Liabilities	37,682	146,788	184,470

EUR k	Current	Non-current	Total
2012			
Overdrafts	1,914	0	1,914
Loans			
EUR loan	2,612	7,500	10,112
CNY loan	6,082	0	6,082
BRL loan	47	47	94
Debenture bond	62,167	69,231	131,398
Total Financial Liabilities	72,822	76,778	149,600

GRAMMER AG has improved its available liquidity and expanded the strategic liquidity reserve following the issue of a new debenture bond in May 2013. One tranche of EUR 18.0 million of the debenture bond issued in 2006 falls due in September 2014. The GRAMMER Group has access to adequate liquidity through the large cash position and approved credit lines to service the tranches of the debenture bond that fall due in September 2014.

A syndicated bilateral loan contract providing for a facility of EUR 180.0 million was signed between domestic GRAMMER companies and six commercial banks in 2013. It expires on October 30, 2018 unless GRAMMER AG exercises the two one-year renewal options. The cash credit facilities may be drawn on as an overdraft or as loans with fixed interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin.

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

Overdrafts

Overdrafts are primarily amounts drawn under corresponding credit facilities.

Loans

This item includes a KfW loan of EUR 7.5 million, which is being repaid in half yearly installments of EUR 1,250 thousand at a floating EURIBOR-based rate.

Additionally, foreign subsidiaries have loans maturing in or before February 2016. Current loans denominated in the local Chinese currency entail tranches maturing in October 2014, which will also be prolonged on a revolving basis taking into account the amount of funding deemed necessary for one year.

Debenture bonds

In addition to deferred interest and the discount, this item includes debenture bonds of EUR 159.5 million (2012: 141.0).

It includes a non-current debenture bond issued in 2006 with a total nominal value of EUR 60.0 million. Of this, an amount of EUR 18.0 million has been reclassified as a current liability as it is due for repayment in September 2014. This debenture bond is subject to both fixed and floating interest rates and has differing maturities of five and seven years. A renewed part of the 2006 debenture bond of EUR 9.5 million is also classified as a non-current liability.

In addition, GRAMMER AG issued a new debenture bond in May 2013 with a total nominal value of EUR 73.5 million and renewed part of the 2006 debenture bond in an amount of EUR 16.5 million. This resulted in a reclassification of current financial liabilities in this amount as non-current financial liabilities. The new debenture bond comprises four tranches of up to 6 years with both fixed and floating interest rates.

Current financial liabilities, which also include deferred interest and the discount, come to a total of EUR 19.6 million due to the changes in the debenture bonds and are therefore well below the previous year (2012: 62.2). The current part of the debenture bond of EUR 44.0 million was redeemed at the end of August 2013.

24 Provisions

EUR k

	Market related provisions	Obligations relating to personnel	Other provisions	Total
As of January 1, 2013	8,374	827	433	9,634
Additions	3,021	1,720	1,672	6,413
Utilization	–2,956	–518	–18	–3,492
Releases	–274	0	0	–274
Effects from exchange rate differences	–730	0	–5	–735
As of December 31, 2013	7,435	2,029	2,082	11,546
Current provision 2013	7,435	2,029	2,082	11,546
Non-current provisions 2013	0	0	0	0
As of January 1, 2012	7,999	547	513	9,059
Additions	6,093	923	51	7,067
Utilization	–3,738	–643	–87	–4,468
Releases	–1,724	0	–48	–1,772
Effects from exchange rate differences	–256	0	4	–252
As of December 31, 2012	8,374	827	433	9,634
Current provision 2012	8,374	827	433	9,634
Non-current provisions 2012	0	0	0	0

Market-related provisions relate to all risks from the sale of parts and products, including development. 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. This item also includes provisions for rebates, bonuses etc. that must be granted based on legal or constructive obligations and are payable after the reporting date but caused by sales prior to the reporting date.

Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses. The allocated plan assets and obligations from early retirement entitlements were netted in the amount of EUR 104 thousand in accordance with IAS 19.

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.

25 Trade accounts payable

EUR k	Dec. 31, 2013	Dec. 31, 2012[1]
Non-current trade accounts payable	2,320	5,254
Current trade accounts payable	150,381	114,094
Trade accounts payable	**152,701**	**119,348**

[1] adjusted prior-year figures

Trade accounts payable refer to outstanding payment obligations for goods and services and well as running costs. 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 are due for settlement in less than 90 days. Non-current trade accounts payable contain liabilities under closed-end leasing agreements with maturities of up to five years. Customary retention of title by suppliers applies in relation to trade payables.

26 Other financial liabilities

Other financial liabilities break down as follows:

EUR k	Dec. 31, 2013	Dec. 31, 2012[1]
Current		
Liabilities from derivatives	1,739	2,560
Liabilities from leases	1,302	643
Liabilities to participations	39	0
Liabilities to associated companies	704	1,204
Other current financial liabilities	0	7,605
Other current financial liabilities	**3,784**	**12,012**
Non-current		
Liabilities from leases	4,648	2,548
Non-current loan to affiliated company	0	0
Liabilities to participations	0	0
Other financial liabilities	**4,648**	**2,548**

[1] adjusted prior-year figures

27 Other liabilities

Other liabilities break down as follows:

EUR k	Dec. 31, 2013	Dec. 31, 2012[1]
Current		
Social security obligations	2,607	2,438
Tax liabilities	6,550	3,813
Prepayments received	2,302	6,740
Other liabilities	38,261	30,664
Deferred income	7,169	4,646
Other current liabilities	**56,889**	**48,301**
Non-current		
Tax liabilities	93	0
Miscellaneous other liabilities	0	0
Other liabilities	**93**	**0**
Total other liabilities	**56,982**	**48,301**

[1] adjusted prior-year figures

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, as well as obligations under redundancy plans. The item also includes liabilities relating to value-added tax and for short-term accrued expenses.

Tax liabilities relating to other taxes and charges principally comprise outstanding wage taxes and similar charges for fiscal year 2013.

28 Cash flow statement

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 to include 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 and investments in property, plant and equipment and financial assets, but not additions to capitalized development costs. Financing activities include cash outflows for dividend payments and repayments of loans, as well as changes in other financial liabilities. At GRAMMER Group, cash and cash equivalents consists of cash and short-term money market funds, less current account liabilities to banks.

29 Legal disputes

As protection against legal risks, we work with a system of intensive contract review, contract management and systematic archiving. Sufficient insurance coverage has been taken out for normal risks and risks to the Company's ability to continue as a going concern. There were no significant legal disputes in the fiscal year.

30 Contingent liabilities

EUR k

	2013	2012
Guarantees	1,256	1,377

Guarantees have been issued primarily for rented business premises and performance bonds.

31 Related party disclosures

Information on the Group structure, subsidiaries and the parent company can be found in Note 3.

Conditions for related party transactions

Sales to and purchases by related parties are conducted at arm's length. Outstanding amounts at the end of the fiscal year are unsecured, non-interest bearing and are settled by cash payment. No guarantees exist for receivables or liabilities due from related parties. The Group did not recognize any impairment losses for accounts receivable from related parties as of December 31, 2013 (2012: 0). An impairment test is performed annually by reviewing the financial position of the related party and the market in which the related party operates.

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

EUR k

Related parties		Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities from related parties
Jointly-controlled entities in which the parent is a venturer: GRA-MAG Truck Interior Systems LLC	2013	4,854	0	8,841	0
	2012[1]	1,973	0	6,150	25

[1] adjusted prior-year figures

GRA-MAG Truck Interior Systems LLC Limited

GRAMMER AG holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2012: 50%). GRA-MAG had 45 employees as of December 31, 2013 (2012: 52).

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.

32 Additional information on financial instruments

The following table shows all of the Group's financial instruments classified according to category, carrying amount and fair value:

EUR k

	Valuation category acc. to IAS 39	Carrying amount Dec. 31, 2013	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value Dec. 31, 2013
			Amortized costs	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	91,315	91,315					91,315
Trade accounts receivable	LaR	153,928	153,928					153,928
Other financial assets								
Loans and receivables	LaR	11,521	11,521					11,521
Receivables from construction contracts	LaR	74,523	74,523					74,523
Financial assets available-for-sale	AfS	442		442				442
Financial assets held-for-trading	FAHfT	1				1		1
Derivatives with hedge relationship	n. a.	581			581			581
Liabilities								
Trade accounts payable	FLAC	152,701	152,701					152,724
Current and non-current liabilities to banks	FLAC	184,470	184,470					185,897
Other financial liabilities								
Other financial liabilities	FLAC	743	743					743
Liabilities from finance leases	n.a.	5,950					5,950	6,039
Derivatives without hedge relationship	FLHfT	0				0		0
Derivatives with hedge relationship	n.a.	1,739			1,739			1,739
Of which aggregated by valuation category in acc. with IAS 39:								
Loans and receivables	LaR	331,287	331,287					331,287
Financial assets available-for-sale	AfS	442		442				442
Financial assets held-for-trading	FAHfT	1				1		1
Financial liabilities measured at amortized costs	FLAC	337,914	337,914					339,364
Financial liabilities held-for-trading	FLHfT	0				0		0

EUR k

	Valuation category acc. to IAS 39	Carrying amount Dec. 31, 2012[1]	Balance sheet measures acc. to IAS 39				Balance sheet measures acc. to IAS 17	Fair Value Dec. 31, 2012[1]
			Amortized costs	Historical costs	Fair Value recognized in equity	Fair Value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	73,133	73,133					**73,133**
Trade accounts receivable	LaR	140,858	140,858					**140,858**
Other financial assets								
Loans and receivables	LaR	9,770	9,770					**9,770**
Receivables from construction contracts	LaR	54,550	54,550					**54,550**
Financial assets available-for-sale	AfS	800		800				**800**
Financial assets held-for-trading	FAHfT	15				15		**15**
Derivatives with hedge relationship	n. a.	0			0			**0**
Liabilities								
Trade accounts payable	FLAC	119,348	119,348					**120,867**
Current and non-current liabilities to banks	FLAC	149,600	149,600					**155,117**
Other financial liabilities								
Other financial liabilities	FLAC	1,205	1,205					**1,205**
Liabilities from finance leases	n.a.	3,191					3,191	**3,191**
Derivatives without hedge relationship	FLHfT	0				0		**0**
Derivatives with hedge relationship	n.a.	2,560			2,560			**2,560**
Of which aggregated by valuation category in acc. with IAS 39:								
Loans and receivables	LaR	278,311	278,311					**278,311**
Financial assets available-for-sale	AfS	800		800				**800**
Financial assets held-for-trading	FAHfT	15				15		**15**
Financial liabilities measured at amortized costs	FLAC	270,153	270,153					**277,189**
Financial liabilities held-for-trading	FLHfT	0				0		**0**

[1] adjusted prior-year figures

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

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

Available for sale financial assets are non-listed equity instruments for which a fair value cannot be reliably determined. These instruments are therefore measured at cost. On the reporting date, the Group had no intention to sell these instruments.

Trade accounts payable and other liabilities usually have short residual maturities. Longer-term trade accounts payable were determined on the basis of the respective yield curves and the risk premium applicable for GRAMMER.

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

Fair value measurement

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2013.

Quantitative disclosures on the measurement of the fair value of assets and liabilities by hierarchical level as of December 31, 2013

EUR k

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Derivative financial assets				
Currency forwards	38	0	38	0
Interest-rate swaps	544	0	544	0
Liabilities measured at fair value				
Derivative financial liabilities				
Currency forwards	1,686	0	1,686	0
Interest-rate swaps	53	0	53	0
Liabilities for which a fair value is disclosed				
Interest-bearing loans				
Obligations under finance leases and rental contracts	11,280	0	11,280	0
Current and non-current financial liabilities	185,897	0	185,897	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.

GRAMMER AG utilized the accounting conveniences provided for in IFRS 13.C3 to report fair values in accordance with IFRS 13. However, the fair-value hierarchy for financial instruments measured at fair value has been disclosed for 2012 as it was also included in the consolidated financial statements for fiscal year 2012 in accordance with the provisions of IFRS 7.27A, which had previously applied. These disclosures were only necessary for financial instruments measured at fair value.

The following table sets out the fair value hierarchy for financial instruments measured at fair value as of December 31, 2012:

EUR k

2012	Carrying amount	Level 1	Level 2	Level 3
Financial assets recognized at fair value				
Derivates				
with hedge relationship	0	0	0	0
without hedge relationship	15	0	15	0
Financial liabilities recognized at fair value				
Derivates				
with hedge relationship	2,560	0	2,560	0
without hedge relationship	0	0	0	0

The following table shows the gains and losses on financial instruments:

EUR k

	Net income 2013	Net income 2012
Loans and receivables	1,867	–3,601
Financial assets and liabilities held-for-trading	35	–513
Financial liabilities measured at amortized costs	–6,542	2,495
	–4,640	**–1,619**

Net income from loans and receivables include currency gains or losses, changes to value adjustments recognized as income, gains or losses from derecognition of receivables and reversals of previously impaired receivables.

Net income from financial instruments held for trading includes changes in the market value of unhedged derivatives including interest income and expenses.

The net income from financial liabilities recognized at fair value through profit or loss include primarily currency gains and losses.

The GRAMMER Group entered into master contracts for financial derivatives with several banks. The derivtive financial assets and liabilities in existence as of the reporting date do not satisfy the offsetting conditions set out in IAS 32.42. Accordingly, they are reported separately on the face of the balance sheet. However, the contracts in question provide for offsetting arrangements in the event of insolvency.

The following table sets out the carrying amounts of the financial instruments recorded which are subject to the aforementioned contracts:

EUR k	Gross and net amounts of financial instruments in the balance sheet	Offsetting agreement	Net amount
Dec. 31, 2013			
Financial assets			
Interest rate swaps	544	–534	10
Currency forwards	38	–1	37
Financial liabilities			
Interest rate swaps	–1,686	534	–1,152
Currency forwards	–53	1	–52

EUR k	Gross and net amounts of financial instruments in the balance sheet	Offsetting agreement	Net amount
Dec. 31, 2012			
Financial assets			
Interest rate swaps	0	0	0
Currency forwards	15	0	15
Financial liabilities			
Interest rate swaps	–2,560	0	–2,560
Currency forwards	0	0	0

33 Financial derivatives and risk management

The primary financial liabilities used in the Group encompass debenture bonds, bank loans, overdrafts and finance leases as well as trade accounts payable. The main purpose of these financial liabilities is to finance operating activities. The Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

The Group also has derivative financial instruments, used by the Group for risk management, primarily to hedge interest rate and currency risks resulting from Group's operating activity and its sources of finance. These derivatives are used for the hedging of existing transactions, and serve to reduce currency, interest rate and commodity price risks.

Financial management risks

The Group is subject to market, credit and liquidity risks, as well as the currency and interest rate risks described above. Consequently, the Executive Board has implemented a risk management system which is monitored by the Supervisory Board. The risk management system is integrated in the Chief Financial Officer's area of responsibility while the Executive Board bears ultimate overall responsibility. The rules are designed to promote responsible treatment of risks and prudent actions among all Group employees. Management of risk is the responsibility of the Company management. Together with experts for financial risk, the management of the Company prepares a suitable framework for managing financial risks. This framework ensures that the activities of the Company that entail financial risk are carried out with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk.

All derivative transactions entered into for purposes of risk management are managed by expert teams that have the necessary knowledge and experience, and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management.

Credit risk

Credit risk is defined as the risk of the Group suffering a loss (default risk) 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. As a result of the financial crisis, management of default risk has grown in importance. The creditworthiness of major customers, especially in the Automotive sector, is subject to particular monitoring due to risks from trade receivables. If no rating information is available, the Group uses other available financial information and its own records to assess major customers. Customers, who wish to conclude credit-based transactions for the first time, are also regularly subjected to a creditworthiness check. Receivables are monitored on an ongoing basis to ensure that the Group is not exposed to any material default risk. There are no significant concentrations of default risks in the Group, because major transactions are balanced as a result of short-term maturity structure and broad customer groups.

Market risk

Market risk refers to the risk that the fair value or future cash flows of financial instruments vary due to fluctuations in market prices. Market risk encompasses the following three types of risk: exchange rate risk, interest rate risk and other price risks, such as share price risk. Instruments subject to market risk include interest-bearing loans, deposits, available-for-sale financial assets and derivatives. The sensitivity analyses in the sections below relate to the situations as of December 31, 2013 and 2012. The sensitivity analyses were prepared on the basis of the hedging transactions existing on December 31, 2013, 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. The analyses do not account for any effects of changes in market variables on the carrying amounts of pension obligations and other post-employment benefits, provisions and non-financial assets and liabilities of foreign operations.

Fluctuations in the market price can result in significant cash flow and earnings risks for the Company. Changes in the exchange rates and interest rates applicable to foreign currencies impact ongoing operations as well as financing and investment activities. 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 income of the Group may deviate considerably as a result of actual market developments.

Commodity price risk

Procurement prices, especially for commodities such as steel and oil are subject to significant fluctuations depending on the market situation. These cannot always be passed on to customers, which results in commodity price risks. To hedge against these risks, the Company endeavors to conclude long-term supply contracts and consolidate volumes as a way to limit volatility. Commodity futures contracts, to be recognized as derivatives under IAS 39, can also be entered into to hedge price risks related to purchases of commodities. The Group carefully monitors the development of markets as a basis for decision making about the implementation of hedging.

There were no commodity forwards for hedging of price risks in raw materials procurement reported at the balance sheet date in 2013 or 2012, an no such contracts were concluded in these periods.

Currency risk

As a consequence of its international focus and business activities, the Group is exposed to currency risks. Fluctuations in exchange rates on markets may lead to unforeseeable and unfavorable volatility in net income and cash flow. By transacting business in currencies other than the functional currencies of the respective Group companies, risks may arise from future payment flows. The risk is reduced by the requirement to invoice business transactions generally in the respective functional currency. In addition, where it is possible and cost-effective, commodities and services are purchased in the corresponding foreign currency and production takes place in local markets. The operating units are not permitted to raise or invest financial resources in foreign currencies for speculative purposes.

Cash flow hedges

During the reporting period, currency hedges were in place in PLN, CZK and USD, which satisfy the requirements for cash flow hedging. Moreover, currency forwards in USD were concluded but do not qualify for cash flow hedging.

As of December 31, 2013, currency forwards with a negative market value of EUR –16 thousand were designated as cash flow hedging instruments. These forward transactions will be maturing in 2014. Consequently, EUR 1,015 thousand was included directly in equity in connection with currency hedging. Of this amount, a loss of EUR 1,413 thousand (2012: gain of 199) was taken to the net profit for the period. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review.

The sensitivity analysis of changes in currency is based on the following assumptions:

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.
- Changes in foreign exchange rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.
- Derivatives for the purpose of currency hedging that are designated as hedging instruments in the context of cash flow hedges have an effect on equity and are taken account of in the sensitivity analysis.
- Currency derivatives that are not designated as hedging instruments in the context of cash flow hedges have an effect on period income and are taken account of accordingly in the sensitivity analysis.
- For the determination of sensitivity to exchange rate risks, a change in the exchange rate of +/– 10 percentage points on the reporting date (2012: 10) is assumed. All other variables remain constant.

The following table shows the sensitivity of consolidated net income before taxes and equity to a reasonably possible change in the exchange rate:

EUR k

	Changes in the price of the USD	Impact on profit before tax	Impact on equity
2013	+10%	4,030	−1,123
	−10%	–4,030	1,123
2012	+10%	4,996	−1,173
	−10%	–4,997	1,174

	Changes in the price of the TRY	Impact on profit before tax	Impact on equity
2013	+10%	–748	0
	−10%	749	0
2012	+10%	–463	0
	−10%	463	0

	Changes in the price of the CZK	Impact on profit before tax	Impact on equity
2013	+10%	2,189	−1.525
	−10%	−2,189	1.864
2012	+10%	1,634	0
	−10%	−1,634	0

	Changes in the price of the PLN	Impact on profit before tax	Impact on equity
2013	+10%	–460	–436
	−10%	460	534
2012	+10%	–391	0
	−10%	391	0

	Changes in the price of the MXN	Impact on profit before tax	Impact on equity
2013	+10%	1,967	1,291
	−10%	−1,967	−1,291
2012	+10%	1,729	1,291
	−10%	−1,729	−1,291

	Changes in the price of the CNY	Impact on profit before tax	Impact on equity
2013	+10%	1,996	0
	−10%	−1,995	0
2012	+10%	0	0
	−10%	0	0

Interest rate risk

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. The market rates in force when the loan is taken out apply in the case of current loans, meaning that the interest rate risk is limited to fluctuations in the market on the date on which the loan is drawn. Interest on overdrafts is agreed on a rollover basis.

To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent that this is not limited by country-specific regulations, Group Treasury makes financing available to all divisions and affiliated companies in the form of loans.

As of December 31, 2013, interest rate swaps with a total nominal volume of EUR 98.5 million (2012: 52) were in place in connection with the issue of the debenture bond to hedge interest rate changes affecting the floating-rate tranches and have the same residual maturity range of between one and six years as the underlying transactions. These interest rate swaps qualify as cash flow hedges. The negative market value of EUR 1,686 thousand (2012: 2,560) is reported under other current financial liabilities. The positive market value of EUR 544 thousand (2012: 0) is reported under other current financial assets. The Company recognizes changes in the market value in accumulated other comprehensive income.

The interest rate sensitivity analysis is based on the following assumptions:

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risks and thus not included in the sensitivity analysis.

- Floating-rate primary financial instruments, the payments from which are not designated as hedged transactions for cash flow hedges against interest rate risks, have an effect on period income and are taken account of in the sensitivity analysis.

- Floating-rate primary financial instruments, the payments from which are designated as hedged transactions for effective cash flow hedges against interest rate risks, have synthetic fixed rates and thus are not subject to interest rate risks. Accordingly, they are not taken into account for sensitivity analysis.

- Interest rate derivatives not designated as hedging instruments in the context of a cash flow hedge have an effect on period income and are thus taken account of in the sensitivity analysis.

- Interest rate derivatives that are designated as hedging instruments in the context of cash flow hedges have an affect on equity and are taken account of accordingly in the sensitivity analysis.

- The interest rate risk from currency derivatives is deemed insignificant, and thus not included in the sensitivity analysis.

- For determination of the sensitivity of interest rate derivatives, a parallel shift of the yield curve by +/50 basis points (2012: 50) is assumed. The interest rate on deposits was reduced on interest-bearing current account balances to a minimal level of 0.001 %. As a result of the current low interest rate, a minimal basic rate of interest of 0.0000001 % was assumed for derivative financial instruments and otherwise a minimal basic rate of 0.001 % was applied.

The following table shows the sensitivity of consolidated profit before tax to a reasonably possible change in interest rates. All other parameters remain constant.

EUR k	Increase/ reduction in basis points	Impact on profit before tax	Impact on equity
2013	–50	22	–844
	50	314	826
2012	–50	–239	–844
	50	159	826

Liquidity risk

The Group manages liquidity risks by holding appropriate reserves, lines of credit of EUR 192.3 million (2012: 113.3) with banks and through constant monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The aim is to achieve a balance between covering the need for financial resources at all times and ensuring flexibility through the use of overdraft facilities, loans, bonds, factoring, finance leases and closed-end leasing agreements.

The GRAMMER Group has access to adequate liquidity through the large cash position and approved credit lines to service the tranches of the 2011 debenture bond that fall due in September 2014.

As of December 31, 2013, the Group had unutilized lines of credit in the amount of EUR 172.7 million (2012: 105.3), for which all the conditions required for utilization had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

Liquidity risk

EUR k

	Carrying amount	Cash flow		
2013		2014	2015–2017	2018 and thereafter
Current and non-current financial liabilities				
Debenture bonds	160,514	22,404	93,417	62,085
Bank loans	11,561	6,022	5,956	0
Overdrafts	12,395	12,395	0	0
Current and non-current trade accounts payable	**152,701**	**150,525**	**2,419**	**0**
Current and non-current other financial liabilities				
Liabilities form finance leases	5,950	1,463	4,388	554
Other original financial liabilities	743	743	0	0
Derivatives				
Interest rate derivates	1,686	861	1,099	32
Currency derivates	53	0	0	0
Incoming payments	0	–16,819	0	0
Payments in advance	0	16,865	0	0
		194,459	107,279	62,671

EUR k

	Carrying amount	Cash flow		
		2013	2014–2016	2017 and thereafter
2012[1]				
Current and non-current financial liabilities				
Debenture bonds	131,398	65,575	63,015	12,328
Bank loans	16,288	9,273	7,770	0
Overdrafts	1,914	1,914	0	0
Current and non-current trade accounts payable	**119,348**	**114,255**	**5,049**	**355**
Current and non-current other financial liabilities				
Liabilities form finance leases	3,191	768	2,021	745
Other original financial liabilities	8,810	8,810	0	0
Derivatives				
Interest rate derivates	2,560	687	1,972	144
Currency derivates	15	0	0	0
Incoming payments	0	–3,411	0	0
Payments in advance	0	3,395	0	0
		201,266	79,827	13,572

[1] adjusted prior-year figures

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 balance sheet 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 countercurrency.

Capital management

In its management of capital, the Group tries to ensure that it achieves both a good credit rating and an equity ratio that is sufficient to support its operating activity and to optimize its value approach. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

To monitor its financial structure, the Group uses net gearing, which is also a key financial parameter used by third parties to determine the ratio of net financial liabilities to equity. Net financial liabilities include current and non-current liabilities to banks as well as liabilities from finance leasing, less cash and equivalents, securities and short-term deposits. Equity comprises the equity attributable to the parent company's shareholders. In the credit facilities the following covenants have been defined: financial leverage (net financial debt to EBITDA) and the gearing ratio (net financial debt to equity). In the period under review, the Company was able to maintain the conditions set out by third parties for retention of financing.

EUR k

	Dec. 31, 2013	Dec. 31, 2012[1]
Non-current bank liabilities	146,788	76,778
Current bank liabilities	37,682	72,822
Liabilities from finance lease	5,950	3,191
Cash and securities	–91,315	–73,133
Net financial liabilities	99,105	79,658
Equity before minority interests	222,159	209,728
	123,054	130,070
	44.6%	38.0%

[1] adjusted prior-year figures

34 Events after the balance sheet date

Effective January 31, 2014, Ms. Tanja Jacquemin, an employee representative, stepped down from the Supervisory Board. She was replaced by employee representative Ms. Tanja Fondel effective February 8, 2014. Similarly, Mr. Bernhard Hausmann, who had replaced Mr. Martin Bodensteiner and had stepped down from the Supervisory Board on January 21, 2014, returned to the Supervisory Board again on February 8, 2014 as an employee representative.

On January 29, 2014, GRAMMER signed a memorandum of understanding governing the conditions for the receipt of a government grant for the construction of a new plant in the United States. Located in Tupelo, Mississippi, it is logistically ideally positioned to supply our customers in the United States and to support our local growth strategy in connection with the Mexican sites. In this connection, the seat production activities in Hudson, Wisconsin, will be closed and relocated in Tupelo.

Disclosure of shareholdings in the Company subject to section 21 WpHG

"JP Morgan Asset Management (UK) Limited, London, United Kingdom, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005985403) had dropped below the threshold of 3% on March 11, 2014 and now stands at 2.41% (278,794 voting rights). Of this, 2.41% (278,794 voting rights) are attributable to JP Morgan Asset Management (UK) Limited under section 22 (1) sentence 1 number 6 WpHG." (published on March 14, 2014)

35 Other information

Employees

On average, GRAMMER Group had the following numbers of employees:

	2013	2012[1]
Wage-earning employees	7,384	6,983
Salaried employees	1,931	1,825
Total	9,315	8,808

[1] adjusted prior-year figures

The individual Group divisions had the following numbers of employees on the December 31 balance sheet date:

	2013	2012[1]
Seating Systems	3,729	3,088
Automotive	6,101	5,279
Central Services	252	253
Total	10,082	8,620

[1] adjusted prior-year figures

Auditors' fees within the meaning of section 314 (1) No. 9 HGB

Fees for the auditor of the consolidated financial statements recognized as expenses in the reporting year amounted to EUR 417.5 thousand (2012: 310.9) for the audit, of which EUR 66.2 thousand (2012: 0) was attributable to the previous year's audit. The fees for other audit and assessment services come to EUR 131.8 thousand (2012: 103.4) and for other services EUR 31.5 thousand (2012: 6.2).

Executive Board and Supervisory Board remuneration

EUR k

	2013	2012
Total remuneration paid to the Executive Board amounted to	2,314	2,019
The Supervisory Board received total remuneration of	490	497

Of the total remuneration of the Executive Board, EUR 543 thousand (2012: 229) is attributable to performance-related components and EUR 328 thousand (2012: 487) to components with a long-term incentive effect. The performance-related remuneration components and components with a long-term incentive effect are affected by the corresponding components from the prior year in the amount of EUR 70 thousand (2012: 9) and EUR –64 thousand (2012: 131) respectively.

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2013:

Provisions of EUR 950 thousand (2012: 541) were recognized for pension obligations to current members of the GRAMMER AG Executive Board.

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

A further EUR 278 thousand (2012: 282) was paid to former members of the management and the Executive Board and their surviving dependents.

Pension obligations towards former members of the management and the Executive Board and their surviving dependents are valued at EUR 5,059 thousand (2012: 4,956) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

Moreover, current service cost of EUR 206 thousand (2012: 141) for allocations to pension provisions arose for active members of the Executive Board. Of this, EUR 79 thousand were for Mr. Hartmut Müller, EUR 58 thousand for Mr. Manfred Pretscher and EUR 70 thousand for Mr. Volker Walprecht.

EUR k

	Non-performance-related components	Performance-related components	Long-term incentive components	Total
Hartmut Müller	610	245	132	987
Manfred Pretscher	409	163	84	656
Volker Walprecht	424	135	112	671
	1,443	543	328	2,314

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR k

	Non-performance related components	Meeting fees	Total
Dr.-Ing. Klaus Probst	60.0	14.0	**74.0**
Martin Bodensteiner[1]	10.7	1.0	**11.7**
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	12.0	**42.0**
Bernhard Hausmann[2]	15.2	3.0	**18.2**
Lic. oec. HSG Ingrid Hunger	30.0	4.0	**34.0**
Dipl.-Kauffrau Tanja Jacquemin	30.0	5.0	**35.0**
Dipl.-Betriebswirt (FH) Harald Jung	30.0	4.0	**34.0**
Anton Kohl	30.0	4.0	**34.0**
Dipl.-Betriebswirt Georg Liebler	30.0	9.0	**39.0**
Dr. Hans Liebler, Dipl.-Kaufmann	30.0	4.0	**34.0**
Horst Ott	45.0	8.0	**53.0**
Wolfgang Rösl	30.0	13.0	**43.0**
Dr. Bernhard Wankerl	30.0	8.0	**38.0**
	400.9	**89.0**	**489.9**

[1] Member from August 23, 2013
[2] Member from February 21, 2013 to August 23, 2013

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. In fiscal year 2013, the Supervisory Board was not paid any performance-based remuneration.

36 Corporate governance

The Corporate Governance Statement pursuant to section 289 a of the German Commercial Code (HGB) along with the Declaration of Conformity with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG)) are reproduced in the 2013 Annual Report and are permanently available on the company website under www.grammer.com/en/about-grammer/corporate-governance.

Boards

Members of the Executive Board and the Supervisory Board

Executive Board

M.Sc. BWL, Dipl.-Ing. (FH) **Hartmut Müller**, Darmstadt	Chief Executive Officer
Dipl.-Ing. (FH) **Manfred Pretscher**, Meine	
Dipl.-Kaufmann **Volker Walprecht**, Essen	

Supervisory Board

Dr.-Ing. **Klaus Probst**, Heroldsberg	Chairman of the Supervisory Board
Horst Ott, Königstein	Deputy Chairman of the Supervisory Board, employee representative
Martin Bodensteiner, Freudenberg	Employee representative Member of the Supervisory Board from August 23, 2013 until January 21, 2014
M.A. **Tanja Fondel**, Frankfurt a. M.	Employee representative Member of the Supervisory Board from February 8, 2014
Dipl.-Betriebswirt (FH) **Wolfram Hatz**, Ruhstorf a.d. Rott	
Bernhard Hausmann, Amberg	Employee representative Member of the Supervisory Board from February 21, 2013 until August 23, 2013, re-appointed on February 8, 2014
Lic. oec. HSG **Ingrid Hunger**, Lohr am Main	
Dipl.-Kauffrau **Tanja Jacquemin**, Frankfurt a. M.	Employee representative Member of the Supervisory Board until January 31, 2014
Dipl.-Betriebswirt (FH) **Harald Jung**, Nabburg	Employee representative
Anton Kohl, Hahnbach	Employee representative
Dipl.-Betriebswirt **Georg Liebler**, Möglingen	
Dipl.-Kaufmann **Dr. Hans Liebler**, Gräfelfing	
Wolfgang Rösl, Sulzbach-Rosenberg	Employee representative
Dr. Bernhard Wankerl, Schwandorf	

Executive Board member professions and other offices within the meaning of section 285 (1) no. 10 HGB

Executive Board

Hartmut Müller Chief Executive Officer	– Chairman of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria – President of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla, Mexico (until June 14, 2013) – Member of the Supervisory Board of GRAMMER Interior (Changchun) Co., Ltd., Changchun, China – Member of the Supervisory Board of GRAMMER Interior (Tianjin) Co., Ltd., Tianjin, China (until May 31, 2013) – Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China (until September 20, 2013) – Member of the Advisory Board of IFA ROTORION – Holding GmbH, Haldensleben, Germany (from October 29, 2013)
Manfred Pretscher Member of the Executive Board HR Director	– Chairman of the Board of Directors of GRAMMER Koltuk -Sistemleri Sanayii ve Ticaret A.S., Bursa, Turkey (until May 7, 2013) – Member of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria – Chairman of the Board of Directors of GRAMMER Industries Inc., Greenville (SC), United States (until April 1, 2013) – Chairman of the Board of Directors of GRAMMER Inc., Hudson (WI), United States (until April 1, 2013) – Member of the Board of Directors of GRAMMER Interior (Tianjin) Co., Ltd., Tianjin, China (until May 31, 2013) – Member of the Supervisory Board of GRAMMER Interior (Tianjin) Co., Ltd., Tianjin, China (from June 1, 2013) – Chairman of the Board of Directors of GRAMMER Interior (Changchun) Co. Ltd., Changchun, China (until November 22, 2013) – Chairman of the Board of Directors of GRAMMER Interior (Shanghai) Co., Shanghai, China (until May 20, 2013) – Member of the Supervisory Board of GRAMMER Interior (Beijing) Co., Ltd., Beijing, China (until May 15, 2013) – Member of the Supervisory Board of GRAMMER Seating (Jiangsu) Co., Ltd., Jiangsu, China (from April 1, 2013) – President of the Board of Directors of GRAMMER Japan Ltd., Tokyo, Japan (until May 8, 2013) – Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States – Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern, Germany
Volker Walprecht Chief Financial Officer	– Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States (from February 1, 2013) – Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China (from September 21, 2013) – Member of the Supervisory Board of GRAMMER Interior (Beijing) Co., Ltd., Beijing, China (from May 16, 2013)

Positions and other offices held by members of the Supervisory Board

Dr.-Ing. Klaus Probst Chief Executive Officer of LEONI AG	– Member of the Advisory Board of Lux-Haus GmbH & Co., Georgensmünd – Member of the Supervisory Board of Zapp AG, Ratingen – Member of the Advisory Board of Deutsche Bank AG, Munich (region south)
Horst Ott First Representative of IG Metall Amberg	– No further offices
Martin Bodensteiner Supplier Development Commodity Coverings (Member of the Supervisory Board from August 23, 2013 until January 21, 2014)	– No further offices
Tanja Fondel Trade union secretary, IG Metall Vorstand, Frankfurt a. M. (Member of the Supervisory Board from February 8, 2014)	Member of the Supervisory Board of Harman Becker Automotive Systems GmbH, Karlsbad
Wolfram Hatz Self-employed businessman, executive director of Motorenfabrik Hatz GmbH & Co. KG and Hatz Holding GmbH	– Member of the Advisory Board of Commerzbank AG, Frankfurt am Main
Bernhard Hausmann Team leader Intercompany Processing (Member of the Supervisory Board from February 21, 2013 until August 23, 2013, re-appointed on February 8, 2014)	– No further offices
Ingrid Hunger Management chairperson and majority shareholder of HUNGER Hydraulik Gruppe	– No further offices
Tanja Jacquemin Political Secretary of IG Metall Frankfurt/Main (Member of the Supervisory Board until January 31, 2014)	– Member of the Supervisory Board of Porsche Holding Stuttgart GmbH, Stuttgart (from February 4, 2013) – Member of the Supervisory Board of Vinci Energies Deutschland GmbH, Frankfurt am Main (from May 7, 2013)
Harald Jung Director Division Controlling Center Consoles	– No further offices
Anton Kohl Foreman	– No further offices
Georg Liebler Consultant, owner of Georg Liebler Consulting Services, Former member of the Executive Board of KSPG AG	– No further offices
Dr. Hans Liebler Independent Investment Advisor	– Chairman of the Supervisory Board of Investunity AG, Munich (until September 8, 2013) – Deputy Chairman of the Supervisory Board of Augusta Technologie AG, Munich – Member of the Supervisory Board of Jean Pierre Rosselet Cosmetics AG, Bremen – Member of the Supervisory Board of autowerkstattgroup N.V., Maastricht, Netherlands – Member of the Supervisory Board of WashTec AG, Augsburg
Wolfgang Rösl, Industrial Electrician	– Member of the Advisory Board of AOK, Amberg
Dr. Bernhard Wankerl, Attorney, law firm Dr. Wankerl and colleagues	– No further offices

Auditor's report

We issued the following opinion with respect to the Consolidated Financial Statements and the Group Management Report, which has been combined with the Parent Company's Management Report:

"We have audited the consolidated financial statements prepared by Grammer Aktiengesellschaft, Amberg, comprising the income statement, the statement of comprehensive income, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as they are to be applied in the EU, the supplementary provisions of German commercial law in accordance with Section 315 (1) HGB are the responsibility of the Company's statutory representatives. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidation, the definition of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives as well as evaluating the overall presentation of the consolidated financial statements. We believe that our review provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit, the consolidated financial statements comply with IFRS as they are to be applied in the EU, the supplementary provisions of German commercial law in accordance with Section 315a (1) of the German Commercial Code and in the light of these provisions give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Nuremberg, March 20, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Sieger Wirtschaftsprüfer	Oßmann Wirtschaftsprüfer

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amberg, March 20, 2014

GRAMMER AG
The Executive Board

GRAMMER Group Five-year Overview according to IFRS

in EUR m	2013	2012[1]	2011	2010	2009
Group revenue	**1,265.7**	**1,133.0**	**1,093.5**	**929.7**	**727.4**
Automotive revenue	813.3	711.1	680.3	610.2	495.5
Seating Systems revenue	472.8	439.1	438.0	341.9	247.1
Income statement					
Gross profit	155.9	141.7	142.5	119.6	76.0
EBIT	58.0	49.0	49.4	32.9	–23.9
EBIT margin (in %)	4.6	4.3	4.5	3.5	–3.3
Financial result	–15.6	–10.6	–15.1	–12.3	–7.6
Profit/loss (–) before tax	42.4	38.3	34.3	20.6	–31.5
Income taxes	–12.8	–11.6	–12.2	–4.2	3.3
Net profit/loss (–)	29.6	26.8	22.1	16.3	–28.2
Balance sheet					
Total assets	766.0	668.8	625.2	559.4	500.4
Non-current assets	298.5	266.8	260.6	245.9	228.0
Current assets	467.4	401.9	364.6	313.5	272.4
Equity	224.7	210.3	211.2	173.1	151.0
Equity ratio (in %)	29	31	34	31	30
Net financial debt	93.2	76.5	92.1	113.8	106.2
Cash flow statement					
Capital expenditure (without M&A)	46.8	39.0	37.6	38.1	32.7
Depreciation and amortization	34.3	29.1	27.5	26.3	26.5
Cash flow from operating activities	59.5	62.2	58.0	38.0	1.7
Employees					
Annual average	9,315	8,808	8,429	7,745	7,474
thereof in Germany	2,235	2,212	2,177	2,147	2,354
thereof outside Germany	7,080	6,596	6,252	5,598	5,120
Personnel expenses	251.6	232.3	229.6	208.4	199.1
Key share data					
Share price at year-end (XETRA, in EUR)	34.66	16.02	13.02	18.30	6.05
Market capitalization at year-end (in EUR m)	400.1	184.9	150.3	192.1	63.5
Dividend (in EUR)	0.65[2]	0.50	0.40	0.00	0.00
Earnings per share (in EUR)	2.67	2.38	2.02	1.60	–2.77

[1] adjusted prior-year figures
[2] proposal

Financial calendar 2014 and trade fair dates[1]

Important dates for shareholders and analysts

Annual Report 2013	Mar. 31, 2014
Annual analyst and press conference for 2013	Mar. 31, 2014
Interim Report, first quarter of 2014	May 7, 2014
Annual General Meeting 2014 Location: ACC (Amberger Congress Centrum), 92224 Amberg	May 28, 2014
Interim Report, second quarter of 2014 and first half of 2014	Aug. 6, 2014
Interim Report, third quarter of 2014	Nov. 12, 2014

Important Trade Fair Dates

BOOT 2014, Dusseldorf, Germany	Jan. 18, 2014 – Jan. 26, 2014
CONEXPO 2014, Las Vegas, USA	Mar. 4, 2014 – Mar. 8, 2014
MODEX 2014, Atlanta, USA	Mar. 17, 2014 – Mar. 20, 2014
CEMAT 2014, Hanover, Germany	May 19, 2014 – May 23, 2014
Innotrans 2014, Berlin, Germany	Sep. 23, 2014 – Sep. 26, 2014
IAA Nutzfahrzeuge, Hanover, Germany	Sep. 25, 2014 – Oct. 2, 2014
IBEX 2014, Tampa, USA	Sep. 30, 2014 – Oct. 2, 2014
IZB 2014, Wolfsburg, Germany	Oct. 14, 2014 – Oct. 16, 2014
GIE EXPO 2014, Louisville, USA	Oct. 22, 2014 – Oct. 24, 2014
EIMA, Bologna, Italy	Nov. 12, 2014 – Nov. 16, 2014
METS 2014, Amsterdam, Netherlands	Nov. 18, 2014 – Nov. 20, 2014
Bauma China 2014, Shanghai, China	Nov. 25, 2014 – Nov. 28, 2014

[1] All dates are tentative and subject to change.

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