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GRAMMER AG

ANNUAL REPORT 2019

GRAMMER

KEY FIGURES GRAMMER GROUP

ACCORDING TO IFRS

IN EUR M

	Q4 2019	Q4 2018	2019	2018
Group revenue	488.9	502.1	2,038.5	1,861.3
Automotive Division revenue	367.5	369.9	1,479.8	1,312.6
Commercial Vehicles Division revenue	132.8	143.8	607.4	599.8
Income statement				
EBITDA	35.2	37.4	159.8	101.0
EBITDA margin (%)	7.2	7.4	7.8	5.4
EBIT	12.6	20.8	74.5	48.7
EBIT margin (%)	2.6	4.1	3.7	2.6
Operating EBIT	17.8	19.2	77.0	75.8
Operating EBIT margin (%)	3.6	3.8	3.8	4.1
Earnings before taxes	22.8	13.1	63.6	34.5
Net profit	15.1	8.3	43.5	23.2
Consolidated statement of financial position				
Total assets	1,474.4	1,441.4	1,474.4	1,441.4
Equity	342.2	314.8	342.2	314.8
Equity ratio (%)	23	22	23	22
Net financial liabilities	285.0	253.3	285.0	253.3
Gearing (%)	83	80	83	80
Capital expenditure (without M&A and financial assets)	43.5	24.5	132.8	73.9
Depreciation and amortization	22.6	16.6	85.3	52.3
Employees (number, average)			14,910	13,439
Share data			**Dec. 31, 2019**	**Dec. 31, 2018**
Prices (Xetra closing price in EUR)			31.95	37.70
Market capitalization (EUR m)			402.8	475.3
Dividend per share (EUR)			0.11[1]	0.75
Earnings per share (EUR)			3.56	1.90

[1] Proposed.

AUTOMOTIVE DIVISION

IN EUR M

	2019	2018
Revenue	1,479.8	1,312.6
EBIT	51.0	37.7
EBIT margin (%)	3.4	2.9
Operating EBIT	48.9	36.8
Operating EBIT margin (%)	3.3	2.8
Capital expenditure (without M&A and financial assets)	70.2	39.8
Employees (number, average)	10,910	9,381

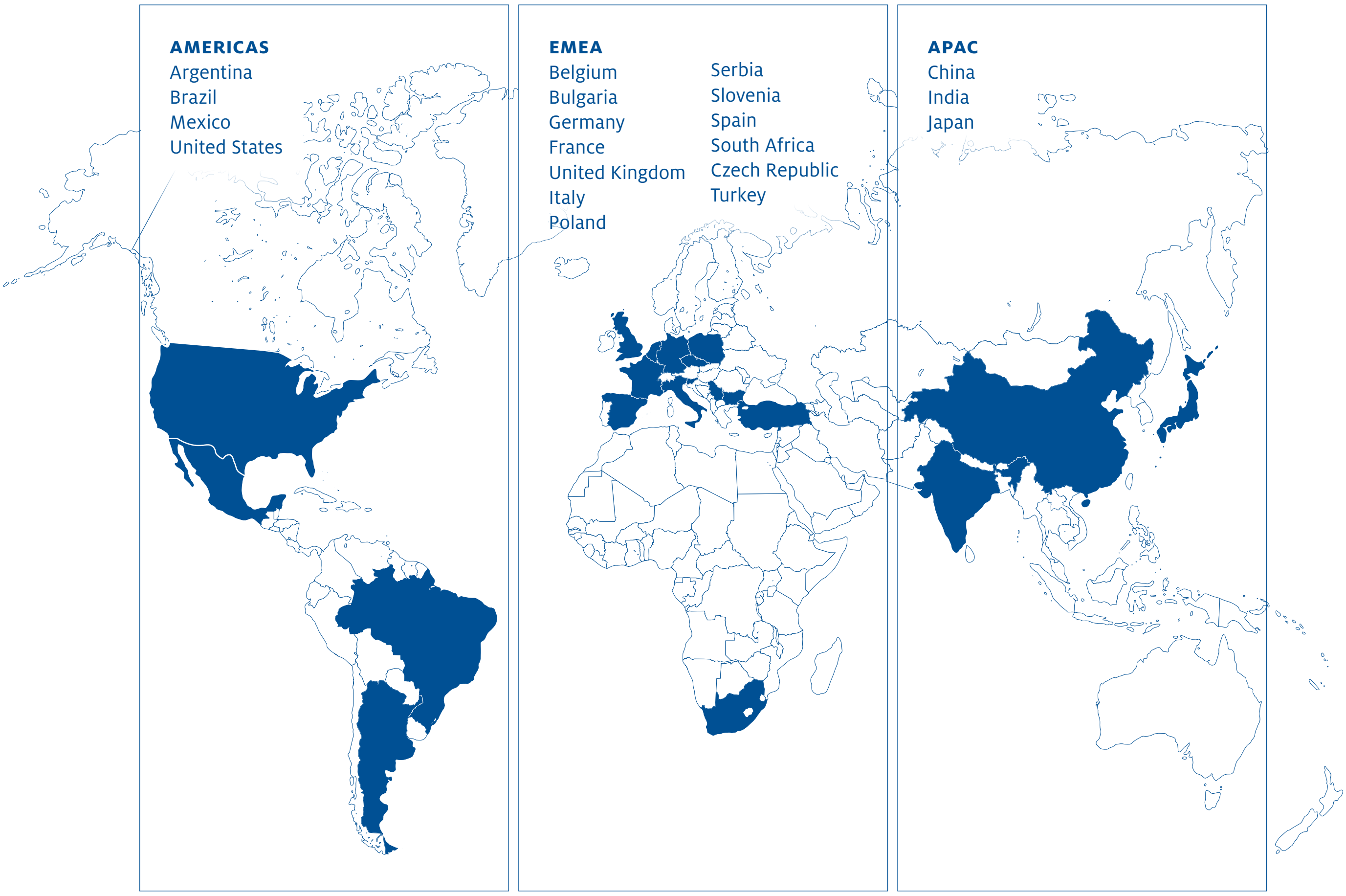
COMMERCIAL VEHICLES DIVISION

IN EUR M

	2019	2018
Revenue	607.4	599.8
EBIT	44.1	55.5
EBIT margin (%)	7.3	9.3
Operating EBIT	42.7	53.5
Operating EBIT margin (%)	7.0	8.9
Capital expenditure (without M&A and financial assets)	20.6	16.6
Employees (number, average)	3,786	3,775

GROUP PROFILE

GRAMMER AG is a globally active stock-listed manufacturer of seating systems and automotive interiors. The Commercial Vehicles Division develops and manufactures technologically sophisticated seating systems for commercial and offroad vehicles as well as for trains and buses. GRAMMER's Automotive Division engineers and produces high-quality headrests, center consoles, armrests and interior components as well as innovative thermoplastic solutions for passenger vehicle OEMS. GRAMMER has operations in 20 countries worldwide with a workforce of over 15,000 employees across its 42 subsidiaries.

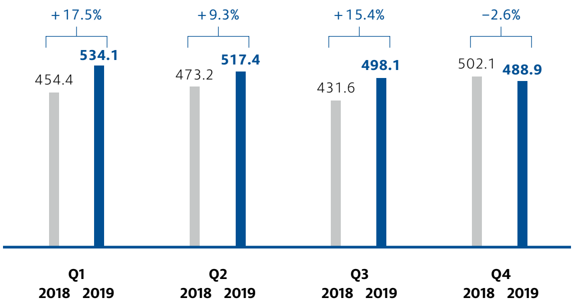


QUARTERLY OVERVIEW OF THE GROUP AND DIVISIONS

GROUP

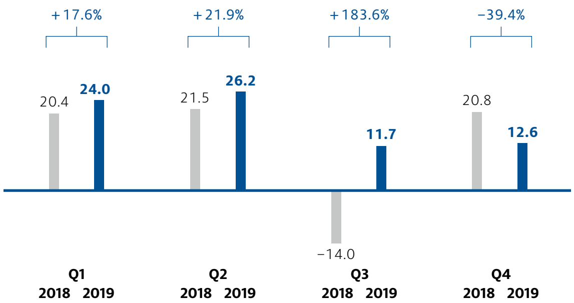
GROUP REVENUE DEVELOPMENT BY QUARTER

IN EUR M



GROUP EBIT DEVELOPMENT BY QUARTER

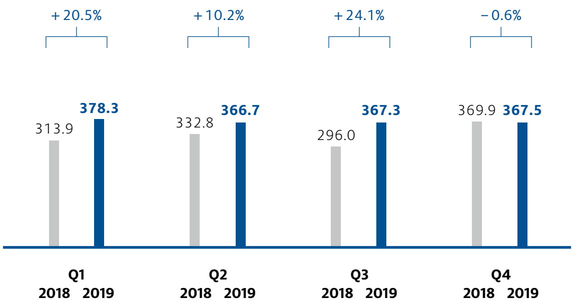
IN EUR M



AUTOMOTIVE

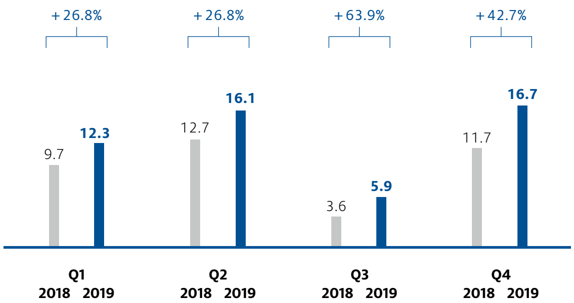
AUTOMOTIVE REVENUE DEVELOPMENT BY QUARTER

IN EUR M



AUTOMOTIVE EBIT DEVELOPMENT BY QUARTER

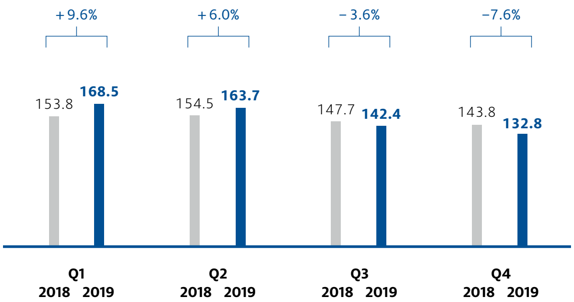
IN EUR M



COMMERCIAL VEHICLES

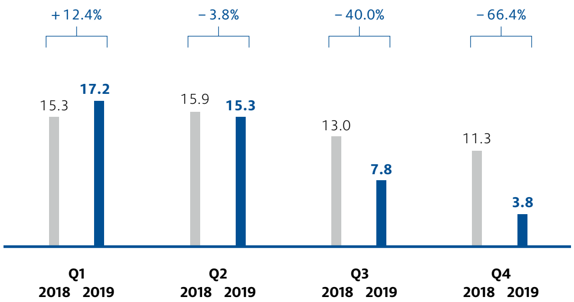
COMMERCIAL VEHICLES REVENUE DEVELOPMENT BY QUARTER

IN EUR M



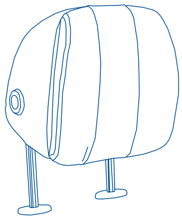
COMMERCIAL VEHICLES EBIT DEVELOPMENT BY QUARTER

IN EUR M

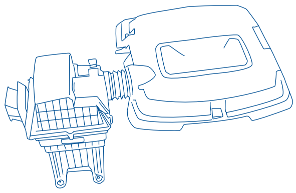


AUTOMOTIVE DIVISION

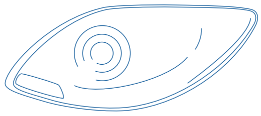
In the Automotive Division, we supply headrests, armrests, center consoles, high-quality interior components and control systems as well as innovative thermoplastic solutions to premium automakers and automotive Tier-1 suppliers. Our interior components feature top comfort, design and safety. Leading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



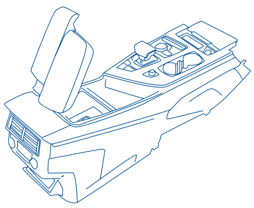
HEADRESTS



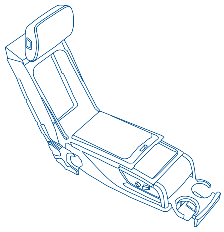
FUNCTIONAL PLASTICS



INTERIOR COMPONENTS



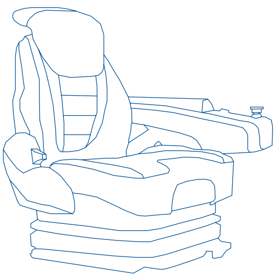
CENTER CONSOLES



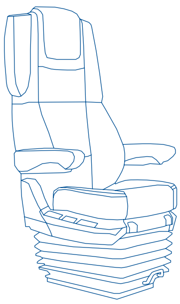
ARMRESTS

COMMERCIAL VEHICLES DIVISION

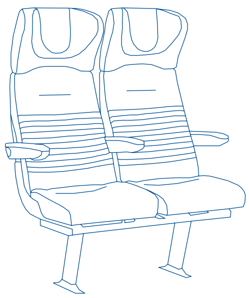
In the Commercial Vehicles Division GRAMMER develops and produces driver and passenger seats for agricultural and construction machinery, forklifts, trucks, buses and trains worldwide. With “Design for use”, GRAMMER Commercial Vehicles creates products that are ergonomic, user-friendly, comfortable and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



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



TRUCK
Driver seats for trucks



RAIL & BUS
Driver and passenger seats for trains and buses

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CONSOLIDATED FINANCIAL STATEMENTS

NAVIGATION GUIDE

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Foreword by the Executive Board

THORSTEN SEEHARS
CHIEF EXECUTIVE OFFICER (CEO)

Dear Sir or Madam,

It is my pleasure to present the Annual Report 2019 as new CEO of GRAMMER AG to you. The report contains not only a look back at the past year, but also a look forward at current developments in our industry and how we, as a company, are preparing ourselves for it.

The automotive industry is currently being confronted with significant challenges, both in terms of technology as well as from the market. This was the case even before the outbreak of the COVID-19 virus, whose increasing spread around the world is continuing to weaken the market demands for passenger cars and commercial vehicles.[1]

Although our company – with its products for vehicle interiors and seating solutions for commercial vehicles – is only indirectly affected by changes in the powertrain technology, the developments on the path toward autonomous driving and the increasing level of digitization will impact the future of our business. As a globally active system manufacturer for seats in on- and off-road vehicles, we will however benefit from the growing demand from the bus and rail sector and the high level of interest in professional solutions for use in agricultural, construction, and logistics vehicles. Accordingly, we have placed our focus on the two segments of Automotive and Commercial Vehicles clearly: the concentration on business operations and the strategic realignment of the company for the upcoming challenges are the top priority for myself and my fellow board members.

But please allow me to first look back at the last year. After stabilizing our shareholder and management structure in 2019, the GRAMMER Group began laying the foundation for its future direction. In the past fiscal year, our group revenue totaled 2,039 million euros and was thus significantly higher than in the year prior. The Automotive segment with its interior components for passenger cars contributed particularly to the revenue growth, mainly driven by the first-time full consolidation of the American supplier Toledo Molding & Die, Inc. (TMD), which we had acquired in October 2018.

[1] Addendum from March 22, 2020:
At the beginning of March, we had announced that consolidated earnings for the first three months of the new year would likely be well below the previous year, and that we expect less revenue and earnings for 2020 as a whole. As a result of the COVID-19 pandemic, which has continued to spread throughout Europe and the United States, all major car manufacturers announced in mid-March that they would temporarily halt their production. Due to this development, we – the Executive Board – decided on March 19, 2020, to also either limit or halt production at our European locations. At locations that supply customers outside of Europe or commercial vehicle manufacturers, production will be continued accordingly. In light of these exceptional circumstances, the economic impact on GRAMMER for the current fiscal year can neither be sufficiently determined nor reliably calculated.

The operating EBIT, which is more informative regarding the real performance of GRAMMER, met our expectations and totaled 77.0 million euros; return on operating EBIT was 3.8 percent. Overall, we achieved the our forecasted figures that had been adjusted during the reporting period. Earnings before interest and taxes (EBIT) in accordance with IFRS totaled 74.5 million euros and were impacted by special expenses, for example for relocations and production launches in Europe and China. Considering of the challenging market conditions, this result is satisfying for a start.

You can see that 2019 helped stabilize the GRAMMER Group; however, we must continue to systematically ensure the sustainability of the company and orient ourselves more on our customers, new products, and on strengthening our operations. What does that mean specifically? Let's start with ourselves: we will scrutinize our internal processes and workflows. We should be able to make and execute decisions faster. We have to think on a larger scale and as one corporation by sharing improvements and innovations with one another around the world, for example, as well as between our two segments and among the global functions. Externally, we must come closer to our customers: each customer has specific requirements and needs in their region that, in turn, can be understood and thus acted upon better by employees working in that same region. With regards to our products, we need to get ready for the future of mobile society. GRAMMER has plenty of great people and potential, which we are going to leverage through more clarity and focus.

We have also determined that GRAMMER should make some changes to its structure and set-up. We are an international company that works around the world with leading manufacturers of passenger cars as well as on- and off-road commercial vehicles. However, our thinking and management approach is still coming too much from Germany. This is going to change through the transfer of more responsibility to the regions, where our employees are in direct contact with the customers and the local operations. We plan – and need – to make better use of this proximity: the regions need to have more independent decision-making processes and full responsibility for the management of day-to-day operations in the future.

We also have to establish a more stable financial structure. We refinanced the acquisition of TMD in October 2018 – which was the largest in the company's history to date – within the framework of a new consortium loan in February of this year. To increase our flexibility to act considering the current challenges, we have decided to recommend a significantly lower dividend of € 0.11 per dividend-entitled share to the Annual General Meeting in July.

We will also have to make further improvements regarding our new products and the research and development activities. Regarding the seats for professional users, we want to solidify our strong market position and expand to new markets with new groups of customers. With the necessary focus on greater sustainability in all segments, our products can help us make a positive contribution in a myriad of ways, for example by using alternative materials. The topics of weight optimization and the longevity of our products even under heavy use are factors to ensure the GRAMMER's success over the long term. We also take environmentally friendly processes into account for our manufacturing processes and use recyclable materials whenever and wherever this is possible.

This year, we are going to make an innovative leap specifically in the automotive sector: as part of special TechDays events at our most important customers' facilities, we will present our concept for the vehicle interior of the future. As a partner for mobility solutions, with our study under the title of "PURE," we are taking the next step towards a development partnership with the car manufacturers. PURE puts our vision of the world of autonomous driving on display, when passengers can use driving time in a number of different ways.

This new strategic direction of the GRAMMER Group is accompanied by the completion of our campus site, with a large technology center and the company headquarters, in Ursensollen. The geographical merge of our employees from different functions also intends to improve the collaboration between the various divisions of the company.

All our plans are, of course, dependent upon a positive development of the global economy. The COVID-19 virus is causing significant distortions right now and, as of the beginning of March, it is still not possible to predict how long these effects will last and how deep their impact will be in 2020 and beyond.

Ladies and Gentlemen, the abovementioned measures are aimed at an ambitious goal: for GRAMMER to become the preferred provider of seating and interior solutions for the mobile world. For us, that specifically means offering innovative concepts for the interior of the future – while maintaining convenience and functionality as well as ergonomics and design. Those are our strengths and we will continue to use them in the future! I look forward to continuing this journey with you.

Finally, together with my two fellow board members, I would like to express my heartfelt thanks to all GRAMMER employees worldwide – thank you for your strong commitment and your excellent support in the global re-alignment of the GRAMMER Group. We would also like to thank our customers and suppliers for the reliable partnerships upon which we can always rely.

Yours sincerely,

Thorsten Seehars
Chief Executive Officer of GRAMMER AG

JENS ÖHLENSCHLÄGER
CHIEF OPERATING OFFICER (COO)

THORSTEN SEEHARS
CHIEF EXECUTIVE OFFICER (CEO)

JURATE KEBLYTE
CHIEF FINANCIAL OFFICER (CFO)

Highlights

Review of 2019

THE INTERIOR OF THE FUTURE

Autonomous driving, connectivity and digitalization – these are the major megatrends in the automotive industry. We have launched the "PURE" project to leverage these trends. The study on the automotive interior of the future focuses on the core issues of functionality, comfort and safety.

RESEARCH PROJECTS

GRAMMER is a member of "ISV Intelligent Safety View" research project consortium. The consortium has launched a research project whose results were presented to the public for the first time in November 2019 at Agritechnica the leading trade fair for agricultural machinery technology. The ISV project aims to enhance safety in the operation of agricultural machinery through the use of augmented reality. With the help of data goggles, information is superimposed over the user's field of vision, enabling the driver to look "through" visual obstructions and blind spots and to detect real dangers or obstacles.

EXPANSION OF THE PRODUCT PORTFOLIO

We returned to city and intercity bus business with a comprehensive range of passenger seats. In developing our sophisticated solutions, we were able to harness diverse synergistic effects with the Commercial Vehicles Division. The strategic goal is to evolve into a full-line supplier in the bus sector as well and to offer integrated solutions enhancing comfortable and safe travel by bus.

NEW MANAGEMENT TEAM

Since the summer of 2019, the GRAMMER Group Executive Board has been complete again following the appointment of Thorsten Seehars as the new CEO. At the same time, Jurate Keblyte also commenced her duties as Chief Financial Officer (CFO). Chief Operating Officer (COO) Jens Öhlenschläger took up his position at the beginning of 2019.

SUCCESSFUL YEAR FOR TRADE FAIRS

Once again, we participated in key trade fairs this year, presenting new products:

- Detroit Auto Show in January: GRAMMER showcased product innovations for the US market at the Detroit Auto Show
- Bauma in April: GRAMMER with new products and innovative ideas at the world's largest construction machinery fair
- Auto Shanghai in April: GRAMMER exhibited product innovations for the Chinese market
- Agritechnica in November: GRAMMER presented seating innovations for the agricultural sector

AWARD-WINNING PRODUCT DESIGN

GRAMMER was awarded the renowned Red Dot Award for good product design in recognition of the Roadtiger truck driver's seat. The jury attaches particular importance to criteria such as innovativeness, functionality, formal quality, durability and ergonomics. Only products that additionally exhibit outstanding design quality are eligible for the award.

INTERNATIONAL COMFORT CONGRESS

GRAMMER organized the International Comfort Congress in August 2019 in cooperation with three universities from Italy, Great Britain and the Netherlands for the second time. The participants discussed methods for assessing and quantifying comfort. In addition, systematic approaches and application examples were explored and developed in greater detail.

NEW JOINT VENTURE IN CHINA

In November 2019, we signed an agreement to establish a joint venture with Changchun FAWSN GROUP CO., LTD. The two parties each hold 50 percent of the joint venture GRAMMER FAWSN Vehicle Parts Co., Ltd., which will be developing and assembling a wide range of interior components for passenger vehicles. The establishment of this joint venture marks an important milestone in our growth strategy in China.

EULER HERMES ISSUES INVESTMENT GRADE BBB- RATING

In its latest report, Euler Hermes confirmed GRAMMER's investment grade rating but downgraded it to BBB-. The main rationale for this was the higher debt levels following the acquisition of Toledo Molding & Die Inc. and the mounting market challenges facing the Automotive Division.

SUCCESSFUL RELOCATION

In December 2019, the first employees moved to their workplaces on the new campus in Ursensollen. The new technology center, where both Divisions' research and development activities will be pooled at a single location for the first time, will be opened in mid-2020. More than 700 employees will then be working at the new site for GRAMMER Group, which has been developed and built with sustainability in terms of materials, energy consumption and emissions in mind.

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Recognizing challenges – providing answers and solutions

A CONVERSATION WITH THE EXECUTIVE BOARD

GRAMMER's Executive Board has been complete again since summer 2019. The Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer offer an outlook of the future strategy.

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MARKETS AND REGIONS

GRAMMER has been steadily widening its global presence. The task is now to focus more clearly on the specific characteristics of the various markets and regions and to reinforce the Group's local presence.

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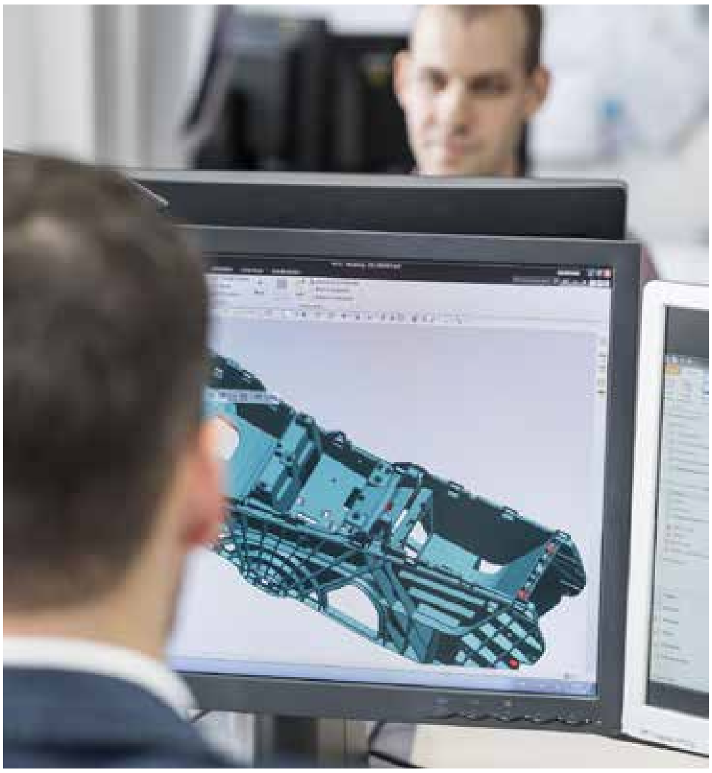

RESEARCH AND DEVELOPMENT

New products ensure our future viability. A number of awards testify to GRAMMER's high innovative strength.

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INTERVIEW WITH THE EXECUTIVE BOARD

"Getting GRAMMER on track for the future"

GRAMMER's Executive Board has been complete again since last summer. In December 2019, the new executive team made up of CEO Thorsten Seehars, CFO Jurate Keblyte, and COO Jens Öhlenschläger answered questions about the challenges faced by the industry, on the future strategy and reorganization of the group, and how the focus once again is to be placed more squarely on the customer and business operations.

Thorsten Seehars (CEO)

MR. SEEHARS AND MS. KEBLYTE, YOU'VE BEEN ON THE GRAMMER EXECUTIVE BOARD SINCE AUGUST, AND MR. ÖHLENSCHLÄGER, YOU'VE BEEN A MEMBER SINCE JANUARY 2019. WHAT ARE YOUR FIRST IMPRESSIONS?

Thorsten Seehars: GRAMMER is an innovative company with employees who are motivated and loyal. We have products that clearly benefit from the changes in our industry, because vehicle interiors and innovations in seating are becoming increasingly important. At the same time, however, we are seeing and hearing that, at GRAMMER, topics were always in the spotlight in recent years that aren't really a part of business operations. So we're now going to put the focus back on the actual core of our business as well as our customers.

Jurate Keblyte: I've gotten to know the company and in particular the different teams through a number of conversations and joint projects, and I am very pleased by what I've learned. But it would still seem that we think and manage from a primarily German perspective, although GRAMMER is a global company that is growing in particular through its local activities in other regions. We have to enable and promote this global thinking and local action across all levels.

Jurate Keblyte (CFO)

Jens Öhlenschläger: I've been with the company for a while, and I've been on the Executive Board since January 2019. It seems to me that the new management team brings a lot of momentum and new initiatives to the company, and they have also introduced a new, modern way of working together.

THE AUTOMOTIVE INDUSTRY IS FACED WITH SIGNIFICANT CHALLENGES: NEW DRIVE TECHNOLOGIES, SELF-DRIVING CARS, AND THE INCREASING NEED FOR LOCAL TRANSPORTATION. WHAT DO YOU SEE AS THE CHALLENGES FOR THE GRAMMER GROUP?

TS: GRAMMER has to reposition itself as part of this transformation. We not only have to be present in the different regions, but we also have to allow them greater responsibility and independence. Additionally, there is a need to grow closer to the local customers and to better understand their needs, which will enable us to increase the added value for our customers, all while improving GRAMMER's competitiveness.

JÖ: An increased ability to react quickly and greater flexibility in the group will come with giving the regions more local responsibility. We have to respond more quickly to our customers as well as to changes in the market. This also includes better communication throughout the entire company and among the divisions, regions, and departments. We sometimes get in our own way in this regard. We also have to push the local customer-oriented development in the regions. Our ultimate goal has to be that we are so flexible that we can even produce small orders – lot sizes as low as single orders – at attractive prices, which is why we are reviewing all development and production steps to determine what steps need to be taken. And it is extremely important to us that we don't make these changes to the detriment of our employees – we want to make the changes with them. That is the only way that we can continue be successful in the future.

Jens Öhlenschläger (COO)

AND HOW DO YOU PLAN TO ACHIEVE THAT?

TS: We rely on the empowerment of our employees, i.e. strengthening our employees' ability to make decisions on all levels. We can no longer afford to make all of the regional decisions centrally from Amberg. Our employees on-site are closer to the action – they are familiar with the local situations and talk to our customers, suppliers, and colleagues every day. We want to put more decision-making power in their hands, but this also requires a rethinking across all levels and a change in the processes involved. This local empowerment will significantly strengthen our company in the long run. The foundation has to be a clear strategy for the group as a whole that also allows the regions to decide how to implement this strategy in detail. Clear, coordinated, and above all comprehensible goals are a key requirement for this.

JK: These changes ultimately mean a fundamental shift of our corporate culture and the way we work. We started a program in the fall of 2019 to address employees across all levels by the name WoW: "Way of Working". Implementing this across the entire company promotes our shared values and improves collaboration. Our communication will excel through transparency, active dialogue, and regular exchange across countries and departments, which also includes sharing information and knowledge. And all of this has to take place in an environment of mutual respect and appreciation – Using our "Way of Working" program, we will transform the expertise and experience of all of our 15,000 employees into a competitive advantage, thereby making GRAMMER fit for the future.

AND WHAT DOES THAT MEAN FOR YOU AS THE EXECUTIVE BOARD?

TS: As the Executive Board, we have to set a good example: our communication is transparent, and we actively seek out dialogue and conversations with employees and all other stakeholders. As the new Executive Board, last year we sought to talk with the employees and managers in all of our regions and at many locations. Together with the global management team, we are taking these values to the regions, to each division, and to the individual departments. We see ourselves as role models for the whole company in this regard.

BEING FASTER IN RESEARCH AND DEVELOPMENT – WHAT DOES THAT MEAN?

JÖ: We currently have two divisions, Automotive and Commercial Vehicles, which operate largely independently. We want to integrate and optimize this structure. Expertise needs to be shared better between the departments, because we can benefit greatly from the knowledge of other divisions. The first big step in this direction is the joint technology center on the new campus in Ursensollen, where the two divisions will work together in the future to provide the organization with significant development impetus.

AND THEN DEVELOP BOTH SEGMENTS AT THE SAME TIME?

TS: That's a good question. To date, we haven't realized enough opportunities for synergy between the two divisions. We are often seen as an automotive supplier, although our market position and innovative strength in the commercial vehicles sector is surely perceived more strongly by those who know the industry. And even in the commercial vehicles sector itself we are sometimes seen primarily as a manufacturer of seats for trucks and tractor trailers. The market for off-road commercial vehicles and, in particular, our significant expertise in regional and long-distance rail and bus transportation are too often overlooked. But those are important global growth markets – so we will emphasize that more clearly in the future.

WHAT SHOULD THE INDUSTRY EXPECT WHEN IT COMES TO INNOVATIONS?

JÖ: Over the next year, in the Commercial Vehicles division, we'll be presenting new offers for public regional and long-distance transportation. The current debate surrounding mobility demonstrates the growing need for innovative solutions. Ergonomics in particular will take center stage when it comes to off-road vehicles.

JK: In the Automotive division, we generally work on orders from our customers. However, in 2020, we are going to present our own concept for passenger cars. This pioneering concept specifically addresses the future challenges associated with autonomous driving and the resulting problem areas – for example is motion sickness, which afflicts more than half of all vehicle passengers.

SO MORE THAN JUST DEVELOPING AND MANUFACTURING PRODUCTS?

TS: GRAMMER will continue to evolve. Strategically speaking, we want to not only remain a component manufacturer, but also offer concrete solutions in both divisions. The GRAMMER Group of the future is a mobility supplier: we offer solutions for both individual as well as so-called mass transportation. GRAMMER has the capability to transform itself from product supplier to provider of solutions, and both the Automotive and Commercial Vehicles divisions can benefit from this.

HOW DO YOU PLAN TO HANDLE THE TRANSITION?

JK: It's a classic question of the right allocation: we have to use the available capacities and resources in a more target-oriented way. In doing so, we benefit naturally from our already-excellent positioning on an international level and from the fact that our products are hardly be affected by the transition in terms of drive technologies. But the entire industry is currently in transition and is, to a certain extent, being viewed with skepticism. Access to resources is correspondingly challenging. In this regard, we already benefit from our position as a renowned provider in the commercial vehicles industry and our intended orientation as a provider of solutions for the mobility sector, as well as the synergy effects already mentioned between the two divisions. Within the GRAMMER Group, we have dubbed it "solutions for people on the move" – regardless of whether they're moving from A to B (individual or public transportation), or whether they're on a mission in an agricultural or construction vehicle or truck.

NINGBO JIFENG HAS BEEN A POWERFUL MAJOR SHAREHOLDER SINCE 2018. HOW IS THAT GOING?

TS: The collaboration is very positive. Ningbo Jifeng has provided us with additional opportunities to generate revenue on the important Chinese market. We are also able to benefit from the company's many years of experience in the development and production of certain products. For 2020, we are planning to expand our joint activities significantly on the basis of the existing business combination agreement (BCA).

THANK YOU VERY MUCH FOR YOUR TIME!

MARKETS AND REGIONS

Global network

AMERICAS

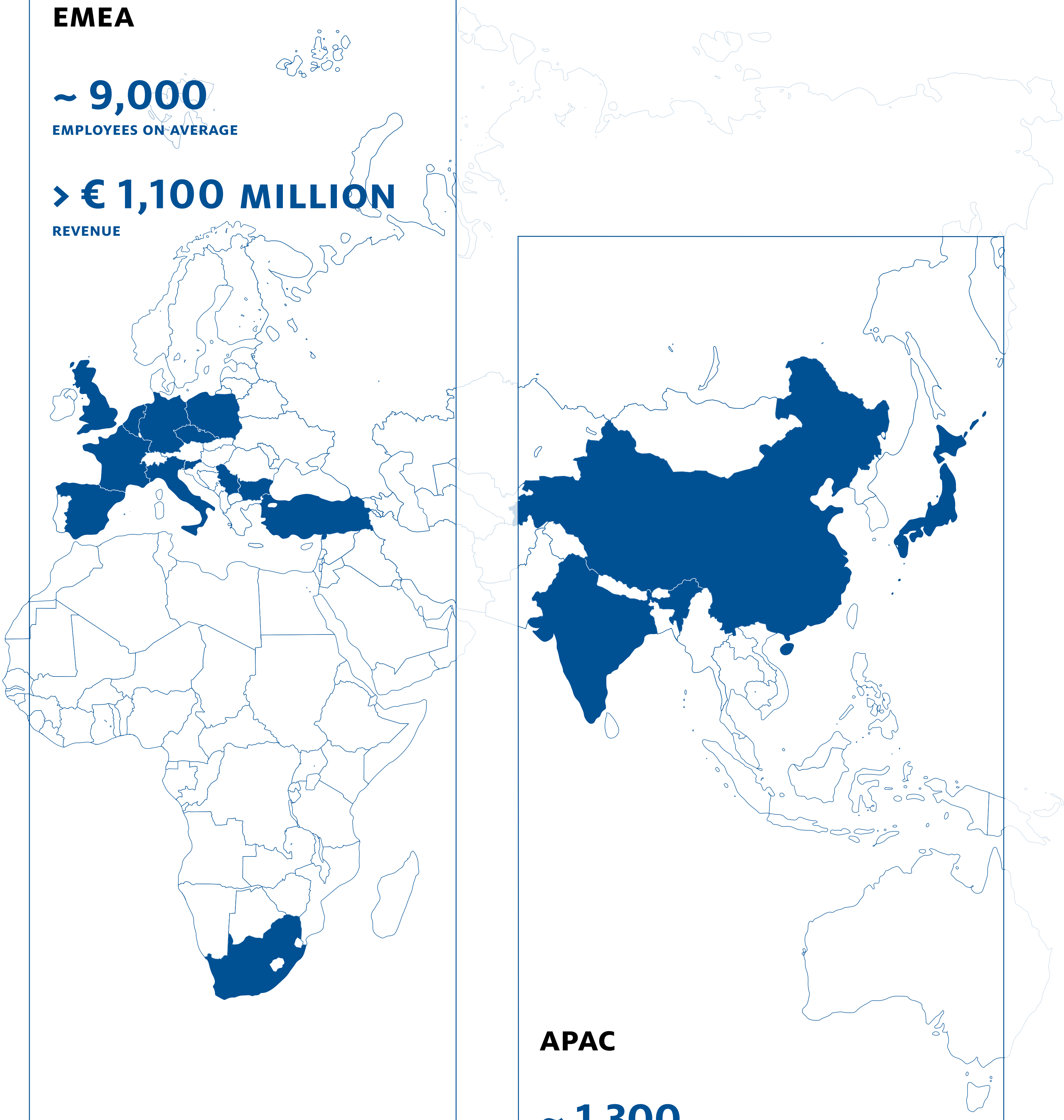
~ 4,600
EMPLOYEES ON AVERAGE

> € 600 MILLION
REVENUE

EMEA

~ 9,000
EMPLOYEES ON AVERAGE

> € 1,100 MILLION
REVENUE



APAC

~ 1,300
EMPLOYEES ON AVERAGE

> € 300 MILLION
REVENUE

NO REGION IS LIKE ANOTHER

LEVERAGING THE ADVANTAGES OF A GLOBAL FOOTPRINT

GRAMMER has adopted a course of internationalization in recent years and now has operations in the key regions of the Americas (North, Central and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia-Pacific). This includes not only production facilities but also all essential functions along the value chain such as purchasing, sales, project management and, above all, development capacities as it has become clear that a broad-based presence in worldwide growth hubs offers clear advantages. Components such as center consoles, headrests or seats for commercial vehicles can be adapted more easily to regional requirements, while lower labor costs yield competitive advantages. Our aim is to provide the local units with the competence and capacities that they require to implement the Group's strategic objectives independently and autonomously.

FLEXIBLE AND CREATIVE RESPONSE TO CUSTOMER REQUIREMENTS

After all, no one knows the local customer requirements better than the local GRAMMER employees. Their flexibility and creativity are essential prerequisites for providing our customers in the automotive and commercial vehicle industries with the best possible support during development, production start-ups and volume production. They are seeking partners such as GRAMMER that can supply parts not only worldwide but also for specific regional models. They must also be able to manage parallel developments on global platforms and the series start-ups in the various regions. GRAMMER has demonstrated that this complex task can be mastered reliably.

GRAMMER employees around the world implement the Group's guidelines independently and autonomously.

AMERICAS

Via its subsidiary TMD, GRAMMER has a solid mainstay in the world's second largest automotive market. Plastics and plastic composites, for which TMD is known, are increasingly being used.

The expertise of TMD Group employees in the area of thermoplastic components is strengthening GRAMMER's position in North America.

A SOUGHT-AFTER PARTNER TO THE AUTOMOTIVE INDUSTRY

The Americas comprise all GRAMMER companies in North, Central and South America, although our activities are clearly focused on the United States. In 2018, we completed an important step in our worldwide growth strategy with the acquisition of the automotive supplier TMD Toledo Molding & Die Inc. This acquisition now gives us additional production capacity in the northern United States, where the major US OEMS operate their production facilities.

The TMD Group also includes Toledo Molding de Mexico, which is located in Queretaro in the state of Central Mexico. This means that in addition to GRAMMER Automotive Puebla S.A., we now also have a further company in Mexico operating in the Automotive Division. By contrast, the GRAMMER subsidiary in Brazil is primarily active in seat production for commercial vehicles.

PLASTICS ON THE ADVANCE

The TMD Group has made a name for itself as a leading specialist in the development and production of thermoplastic components. Automotive OEMS are increasingly using these innovative and weight-saving materials, since more than 15 percent of a passenger vehicle is now made of plastic.

Including TMD, GRAMMER generates about 30 percent of its revenues in the Americas, primarily as a supplier to the automotive industry. As in many other developed countries, automotive OEMS are under constant pressure from stricter environmental and safety standards. Nevertheless, with annual sales of around 16 million light vehicles per year, the market is likely to remain in second place behind China in global terms.

FOCUS ON PROCESS OPTIMIZATION

GRAMMER is addressing these challenges by optimizing its operating processes and cost structures. With their greater autonomy, the local subsidiaries will also be able to operate successfully even in a more difficult market environment. New, up-and-coming producers of electric vehicles will offer additional business potential provided that we can leverage the high growth rates of these manufacturers by providing them with our innovative products. GRAMMER sees itself as being ideally positioned to meet the associated requirements with respect to innovation, flexibility and learning ability.

EMEA

Europe is and remains at the core of GRAMMER's activities. We are increasingly relying on interdisciplinary teams to better coordinate processes and procedures and to enhance the product range.

A STRONG PRODUCTION NETWORK

While the importance of the Americas and Asia is continuing to grow, the GRAMMER companies generating the greatest volume of revenue are still located in Western and Eastern Europe. In total, the EMEA region accounts for around 55 percent of Group revenue. Europe remains an important market for the German premium OEMs, who are among our main customers. Many manufacturers of trucks and off-road vehicles are also based here. Overall, one third of the revenue arising in the EMEA region is generated by the Commercial Vehicles Division and two thirds by the Automotive Division.

CROSS-SEGMENT COOPERATION

Over the years, GRAMMER has made great efforts to optimize its presence in Europe in order to improve its production network and lower product costs. The most recently reached milestone is the construction of our new campus and technology center in Ursensollen. For the first time, the development activities of the Automotive and Commercial Vehicles Divisions and the Group headquarters will now all be under a single roof, creating optimum conditions for cooperation between the various departments.

The new technology center will play an important role in securing and expanding our technology and innovation leadership. Our engineers will be conducting research into new materials as well as innovative new manufacturing processes. The interdisciplinary teams can play out their advantages when it comes to designing products, processes, procedures and the use of materials even more effectively. In addition, there will be a more intensive exchange between our two Divisions. Depending on requirements, the specifications defined by the teams will then be adapted in the light of the country-specific and customer-specific requirements at the local R&D centers based in China, the United States, Turkey and Brazil. This will makes it easier for us to prepare competitive offers in competition with local suppliers and also to work with our customers as a creative development partner and source of impetus.

GRAMMER's main headrest production plant for Europe is located in Česká Lípa in the Czech Republic.

APAC

China plays a special role in GRAMMER's strategic planning. Thanks to the close ties with our customers and joint ventures with local partners, we are able to drive market-specific developments and seize growth opportunities more swiftly.

Shaking hands to mark the commencement of a worthwhile partnership: The joint venture with the FAWSN Group will be building components for car interiors in the future.

GROWTH THROUGH PARTNERSHIPS

The APAC region with China, Japan and India has long played a special role in GRAMMER's growth ambitions. APAC is an important market, accounting for around 15 percent of revenue, partly because we have repositioned and expanded our plant network there in recent years. As a genuine local supplier, we can now respond to regional requirements to optimum effect. This applies both to the production of truck seats in the joint venture with Shaanxi Automobile Group, the fourth-largest manufacturer of heavy-duty trucks in China and to the Automotive Division. In 2017, we found a strategic partner in the Chinese automotive supplier Ningbo Jifeng which went on to become the majority shareholder of GRAMMER in 2018. Ningbo Jifeng specializes in the production and assembly of headrests as well as seat and door armrests predominantly for passenger vehicles. This partnership has given us better access to the Chinese market and opened up additional local potential.

NEW JOINT VENTURE EXPANDING CUSTOMER BASE

In 2019, we reached another milestone in our expansion in China with the establishment of a joint venture for automotive interior components. Our partner is Changchun FAWSN GROUP, a member of the FAW Group. As one of China's largest automotive OEMS, FAW produced more than 3.2 million passenger cars in 2018 for the domestic market and for export markets in Asia, Africa and Latin America. With FAWSN as its new partner, GRAMMER has gained an excellent platform for expanding its customer base in China while at the same time achieving greater penetration of other Asian markets.

NEW TECHNOLOGY CENTER IN INDIA

At the end of 2018, a new site was added in Pune, India, located some 150 kilometers from Mumbai. The AllyGram Systems and Technologies joint venture was opened as a tech center with our business partner AllyGrow, an engineering service provider for the automotive and aerospace industries. The joint venture is to engineer products and solutions for the automotive and commercial vehicle industry and thus make a significant contribution to boosting GRAMMER's global R&D performance. The team in Pune provide support for global GRAMMER product development in line with requirements and have so far been actively supporting projects in Germany, China, the United States and Brazil.

RESEARCH AND DEVELOPMENT

Our strengths: Ideas and expertise

INNOVATIONS AND MORE

What makes GRAMMER so appealing to automotive OEMS is the combination of a forward-looking source of ideas with broad-based expertise in implementing these ideas. We are working on numerous development projects in order to continue offering automotive OEMS innovative and high-quality solutions in the future. We focus on such aspects as the integration of electronic components, lightweight construction and surface finishing.

The fact that GRAMMER receives invitations to workshops and technology days is proof that the automotive OEMS see GRAMMER as a valued partner in the development of new ideas. The focus is not only on series development of a product but also on the necessary production processes. In this respect, the ability to bring together core competencies from different areas, as we will be doing at the new technology center in Ursensollen, offers a decisive advantage.

WE ARE DESIGNING THE "MOBILE LIVING ROOM"

In times of increasing digitalization, the customer experience beyond driving pleasure and body design is gaining importance in automotive engineering. The focus is on infotainment and communication systems as well as the comfort and look & feel of the vehicle interior. There is a growing trend towards autonomous vehicles. The more the driver is relieved of the need to actively drive the vehicle, the more he can devote himself to other tasks. Comfort and additional forms of use are turning the car into a "mobile living room".

MULTIFUNCTIONAL COMPONENTS IN DEMAND

These include surfaces with a pleasant look and feel as well as a cockpit in which decorative components are transformed into multifunctional components through the integration of sensors. GRAMMER is already installing more and more electronics in center consoles, replacing switches with touch-sensitive components. Electronics are also finding their way into headrests. Automatic motorized adjustment and displays for rear-seat passengers are virtually standard in the luxury car class these days. The next trend is communications equipment such as loudspeakers and microphones, which allow each passenger to use media individually.

Movable center console design for the future.

New standard in seating comfort: The pneumatic suspension fitted to the ROADTIGER driver seat for commercial vehicles leaves nothing to be desired.

DRIVER'S CAB OF THE FUTURE

In the Commercial Vehicles Division, GRAMMER is the market leader in the premium segment for suspension seating systems thanks to its groundbreaking products. Our developers are working to isolate the seats from cabin vibration even more effectively. In the interests of maximum customer benefits, we are maintaining an ongoing dialog with commercial vehicle OEMs to understand their needs even more closely. Weight reduction also plays an important role in components in the Commercial Vehicles Division. We possess great expertise in the use of high-strength steels and modern joining techniques. In addition, we use simulation methodologies to achieve high structural strength in the components right from the development stage. Ergonomic seating systems in which multifunctional electronic armrests are integrated are increasingly in demand.

We are working closely with universities to design the driver's cab of the future. The aim is to move into a completely new dimension in terms of the integration of vehicle and cab functions and in the ergonomic design of the driver's workplace.

THE FOLLOWING CASE STUDIES SHOW JUST SOME OF OUR MOST IMPORTANT INITIATIVES IN THE FIELD OF RESEARCH AND DEVELOPMENT.

CASE 1

GRAMMER has launched the PURE project in order to play a leading role in megatrends such as autonomous driving, connectivity and digitalization. Working together with an internationally acclaimed automotive design studio, we are developing the interior of the future.

Page 22

CASE 2

GRAMMER and the Indian tech service provider AllyGrow Technologies have joined forces to establish the joint tech center AllyGram in the city of Pune. Looking forward, it will be developing top-class products and solutions for the automotive and commercial vehicle industry.

Page 23

CASE 3

The new building in Ursensollen unites the development departments of the Automotive and Commercial Vehicles Divisions together with the Group headquarters under a single roof for the first time. With the new technology center, we are expanding our leading position as a provider of innovative solutions.

Page 24

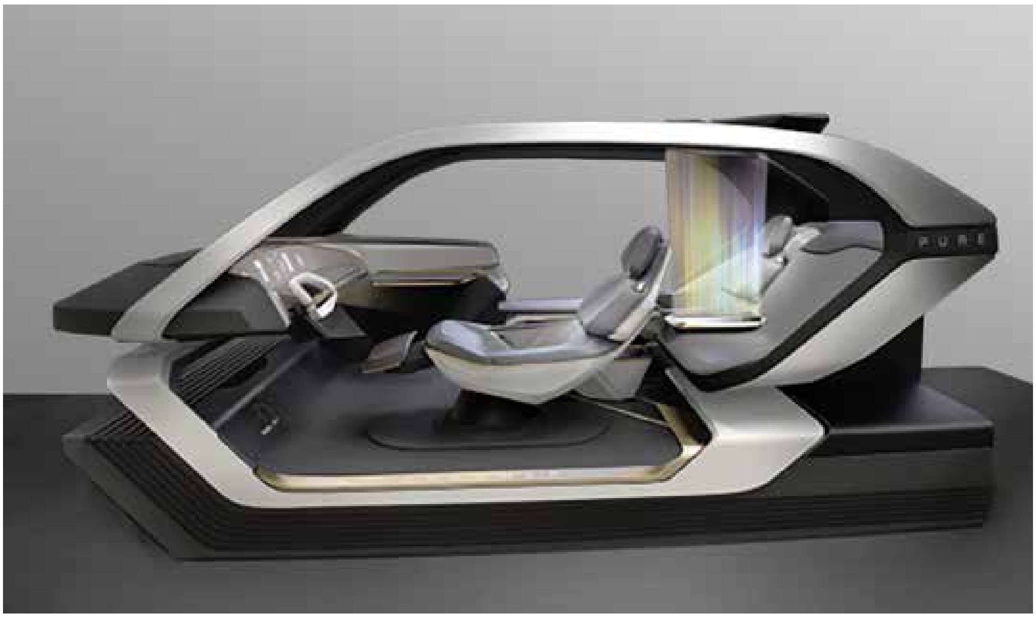
CASE 4

GRAMMER was once again able to display many impressive product innovations at numerous trade fairs and events last year. In the future, our expanded product portfolio will also include passenger seats for city and intercity buses.

Page 25

CASE 1

PURE – Rethinking mobility



The automotive interior of the future will have little in common with today's interior.

AUTONOMOUS CARS: THE DRIVER BECOMES A PASSENGER

The major automotive incumbents as well as industry newcomers are working intensely on self-driving vehicles in which technical systems autonomously perform all driving-related tasks. This means that the driver can sit back and work, sleep or relax.

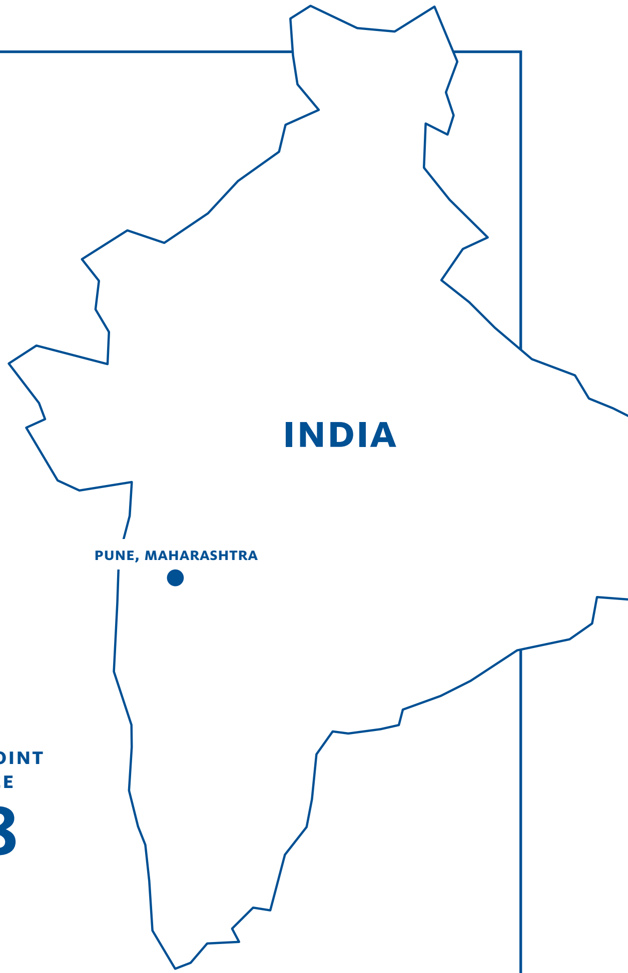
What is clear is that the interior of the future will take on a completely different look as a result. OEMs and components suppliers must develop solutions that meet the changing demands of users. Today, comfort and functionality are becoming more and more important as distinguishing features and competitive factors.

DESIGNING THE INTERIOR OF THE FUTURE TODAY

For this reason, GRAMMER launched the PURE project together with an acclaimed automotive design studio. We are contributing our expertise in the core competencies of comfort, ergonomics and safety together with ideas for the integration of multifunctional systems. The aim is to conduct research into the requirements for the modular design of interior components or the mobile workplace and to find solutions. One challenge in the age of automated and, later, autonomous driving, for example, is the problem of motion sickness, which afflicts around two thirds of all "passive" passengers in cars.

The knowledge gained from the project is not limited to the Automotive Division but will also flow into all business areas across the GRAMMER Group. This is because developments in autonomous driving will not stop at the driver's cabs fitted to commercial vehicles such as trucks or tractors. With PURE, GRAMMER is already preparing for the high demands that will be made of the interiors of autonomous vehicles.

CASE 2



Joint Technology Center in India

EXECUTING DEVELOPMENT PROJECTS EVEN MORE SWIFTLY

Flexible and efficient global research and development (R&D) structures are essential for GRAMMER to bring innovations to market as quickly as possible. Last year we took another important step in this direction with the establishment of the Ally-Gram joint technology center in Pune, with which we are broadening our skills. Our partner is the Indian company AllyGrow Technologies, an engineering service provider for the automotive and aviation industries, among others, with around 300 engineers based at six locations worldwide. Pune offers several advantages: Not only are numerous GRAMMER customers based there, but this large Indian metropolis also has many excellently trained engineers.

DEVELOPING EXPERTISE INTERNALLY INSTEAD OF SOURCING IT EXTERNALLY

The idea behind the joint venture is to consolidate and optimize our worldwide development projects. Pune is the center for external support. The team based there has a wide range of skills and will be handling design activities that until recently were sourced externally. The advantages are obvious: We are harnessing potential for lowering our costs, reducing our dependence on external service providers and amassing our own expertise, while at the same time becoming faster.

Under an employee exchange program, three employees from Pune will be sent to GRAMMER in Germany for a period of three months at a time. Here they can deepen their knowledge, build networks and use them in their project work. We are optimizing our development processes via our activities in India. At the same time, we are not only strengthening our competitive position in the important markets of Europe, Asia and North America but also expanding our market position with innovative products and technologies.

SUCCESSFUL JOINT VENTURE SINCE

2018

MORE THAN

90

EMPLOYEES

Our development team from Pune.

CASE 3

GRAMMER campus and technology center in Ursensollen

MORE THAN
700
EMPLOYEES

22,000m²
FOR OFFICE SPACE

47,000m²
OF LAND

OPTIMUM CO-OPERATION BETWEEN THE VARIOUS DEPARTMENTS

One milestone on GRAMMER's future trajectory is the new construction project in Ursensollen, about ten kilometers away from the former Amberg site. The result is a modern building complex that includes design and ergonomics laboratories in addition to administration. Consolidating the development activities of the Automotive and Commercial Vehicles Divisions as well as the corporate headquarters at a single site offers several advantages: The various departments can work together to optimum effect, while synergistic effects can be harnessed and the efficiency of the development process can be increased.

ATTRACTIVE WORKING ENVIRONMENT FOR MORE THAN 700 EMPLOYEES

With a budget of around EUR 75 million, the new building is the largest construction project in GRAMMER's history. This is a worthwhile investment, as we want to use the new campus to additionally expand our leading position for innovative interior and seat solutions. A total of more than 700 GRAMMER employees will be based in Ursensollen. The primary goal is to create an attractive, healthy, sustainable and modern environment in which employees can work efficiently. Professional sharing, spontaneous communications, short distances – this is what the new building in Ursensollen is all about. And, of course, it is a place of encounter that stimulates creativity and brings together different ways of thinking and working. The first employees were able to move into the building, which is designed for sustainable use, at the end of 2019.

CASE 4

New products

EXPANDED PORTFOLIO AND NEW DEVELOPMENTS

GRAMMER's innovative strength is undiminished, as the large number of new products shows. Take the United States, for example: At the industry-leading North American International Auto Show 2019 in Detroit, we presented enhanced multifunctional center consoles and a swivel single seat equipped with special functions for the premium car segment. Take China, for example: Auto Shanghai 2019 gave us an opportunity of presenting new interior components from the entire product range for the automotive and commercial vehicle industry. These included a hybrid glass design for loudspeaker covers and an instrument panel with an intelligent ventilation flap control. Take Europe, for example: At bauma 2019, the largest trade fair for the global construction machinery industry, GRAMMER unveiled the well-known Actimo Evolution driver seat in a new design and with new functions such as a more powerful seat climate control system.

ENTRY INTO THE BUS MARKET, CONTRACT FOR THE NEXT TGV

Last fall, we staged a return to city and intercity bus business with a wide range of passenger seats. GRAMMER showcased important innovations at Busworld Europe in Brussels at the end of October. Our goal is to evolve into a full-line supplier in the bus sector as well and to offer integrated solutions enhancing comfortable and safe bus travel. The market is promising, as local and long-distance public transport is set to grow in importance in view of the climate debate. In the rail segment, we will be developing an innovative passenger seat system for the next-generation French high-speed train TGV, setting new standards in comfort, ergonomics, weight reduction and life cycle costs.

MORE THAN
20
FAIRS AND TECHDAYS IN 2019

2
INTERNATIONAL AWARDS

At Bauma in Munich, GRAMMER unveils a new generation of driver seats for commercial vehicles.

COMBINED SEPARATE NON-FINANCIAL REPORT

Sustainability has many faces at GRAMMER Group. Everyone contributes to making the company more sustainable in the long term.

Combined separate non-financial report: www.grammer.com >Sustainability >Separate non-financial report

Further details of our business model can be found in the Management Report on page 60.

For us, sustainability begins with the people who work at our Company and are linked to it. It covers such aspects as research and development, procurement and production as well as the finished products and the end-of-life recycling of product components. With the expansion of our global presence and the Group's broad footprint, we are also supporting this message internationally.

This combined separate non-financial report (NFR) has been prepared in accordance with the requirements of sections 289 b to e and 315 c of the German Commercial Code (HGB). It contains the disclosures required by law on material matters pertaining to the environment, employees, social concerns, observance of human rights and anti-corruption and anti-bribery precautions. In addition, it discloses material risks in accordance with section 289c (3) No. 3 and 4 HGB where these are necessary for an understanding of the Group's business performance, results of operations and position as well as the impact on non-financial aspects. This report is the combined separate declaration for the GRAMMER Group and GRAMMER AG for 2019 in accordance with sections 289b and 315b HGB, which is made available to the general public at the Company's website under Company > Sustainability > Separate non-financial report. Unless otherwise stated, the contents refer to the entire GRAMMER Group including GRAMMER AG. In this report, the term GRAMMER Group also includes GRAMMER AG.

The GRAMMER Group has defined solely financial parameters and financially significant performance indicators. For this reason, there are no non-financial performance indicators pursuant to section 289c 3) No. 5 HGB that are of significance for the business activities of the GRAMMER Group. Detailed information on provisions can be found in the notes to the consolidated financial statements starting on page 91. Otherwise, there is no direct link between the amounts reported in the annual financial statements of the GRAMMER Group in accordance with section 289 c (3) No. 6 HGB and the non-financial aspects. In some cases, reference is made to the content of the Group management report in accordance with section 315 b (1) sentence 3 HGB. The NFR has been reviewed by the Supervisory Board, which has satisfied itself of its legality, propriety and suitability for its intended purpose.

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

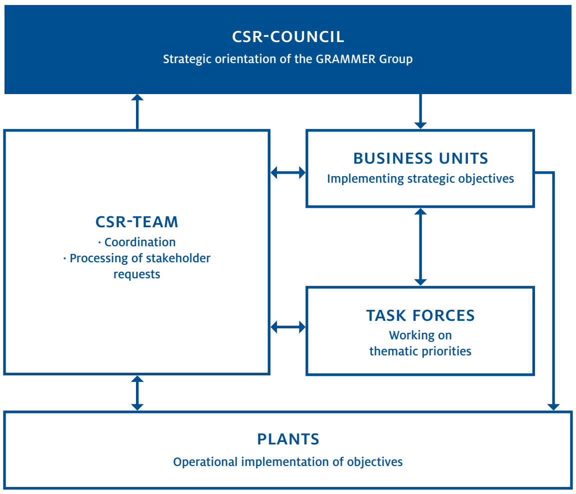
1 SUSTAINABILITY AT GRAMMER

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, buses and offroad commercial vehicles. GRAMMER is committed to sustainability and has firmly entrenched economic, ethical and ecological principles in its corporate guidelines. For us, accepting responsibility for people, society and the environment means minimizing strain on people and nature as far as possible and furthering their ability to regenerate. We seek to balance all our stakeholders' interests, further our employees' interests and strive for uniform environmental management at all locations. In its two divisions – Commercial Vehicles and Automotive – GRAMMER is already putting sustainability into practice.

1.1 ORGANIZATIONAL STRUCTURE OF SUSTAINABILITY

Sustainability forms part of GRAMMER's strategy as well as its operating activities. We have issued policies, installed management systems and created organizational structures to ensure the observance of our rules as a basis for coordinating sustainability aspects internationally across the entire GRAMMER Group. In view of its high importance for the GRAMMER Group's business activities, responsibility for sustainability is assigned directly to the Executive Board. The CSR team supports it, coordinating GRAMMER's activities in this area. A CSR council was established in 2015 to entrench sustainability even more firmly within the GRAMMER Group. This council includes executives from all relevant parts of the Group such as legal, accounting, finance, controlling, compliance, supplier management, human resources, R&D, communications, quality assurance, IT, environment and production. Institutionalized dialog and regular meetings ensure that sustainability as an overarching issue is firmly rooted in the Group and operationalized in accordance with the corporate strategy and business requirements. The individual business units represented on the CSR council are responsible for implementing the strategic CSR objectives. This involves close communications with the individual plants to operationalize the objectives.

CSR-ORGANIZATION



1.2 MATERIALITY ANALYSIS

Using a systematic multi-stage process, we have intensified the uniform Group-wide approach to sustainability matters. This was preceded by a materiality analysis in which GRAMMER identified the main aspects of relevance. As a result, this report now covers eight material matters, which are illustrated in the diagram on the following page. In addition to the matters defined as material, "social commitment" has been included as a further relevant issue in this separate combined non-financial report in order to provide information on social matters within the Company. GRAMMER considers social commitment to be a central part of its corporate strategy and systematically promotes it in its day-to-day activities. Sustainable procurement at GRAMMER is also described to provide a comprehensive overview.

A new materiality analysis will be conducted in 2020 to update these topics. To this end, three dimensions will be incorporated in the evaluation of these matters in the future. In order to involve the stakeholders even more closely in the process, an online survey will be conducted on the main aspects. In addition, the impact of the Company's activities on the environment, society and the economy as well as the relevance of the matters for GRAMMER are included in the evaluation.

1.3 SUPPORT FOR SUSTAINABLE DEVELOPMENT GOALS

As a company operating internationally, we actively contribute to the achievement of global sustainability goals. Adopted at the beginning of 2016, the United Nations' Sustainable Development Goals (SDGs) comprise 17 concrete objectives aimed at making the world more sustainable and fairer by 2030. In order to underline the relevance of the SDGs and to make our contribution to the individual sustainability goals visible, we have identified 13 SDGs on which we as a supplier of automotive components are able to exert influence. These are summarized in a table on the next page.

MATERIAL ASPECTS FOR THE GRAMMER GROUP

ASPECTS OF RELEVANCE FOR THE GRAMMER GROUP	MATERIAL ASPECTS	NON-FINANCIAL ASPECT
Economic stability	1. Economic performance	Cross-cutting issue
Corporate governance	2. Compliance	Cross-cutting issue particularly anti-corruption
Human rights	3. Child and forced labor	Observance of human rights
Environmental protection	4. Air/water/soil emissions	Environmental footprint
Product and process responsibility	5. Innovative product and process solutions	Cross-cutting issue
Employees	6. Employee satisfaction 7. Employee development (including development of young potentials) 8. Health and Safety	Employee matters

IMPACT OF MATERIAL ASPECTS ON SDGS

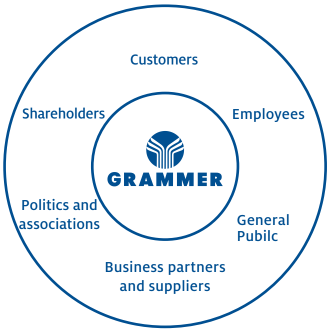
SDG-GOAL	ECONOMIC STABILITY	CORPORATE GOVERNANCE	HUMAN RIGHTS	ENVIRONMENTAL PROTECTION	PRODUCT AND PROCESS RESPONSIBILITY	EMPLOYEES
No poverty			○			○
Good health and well-being				○	○	●
Quality education						●
Gender equality						○
Clean water and sanitation				○		
Affordable and clean energy				○	○	
Decent work and economic growth	●	●	●		●	●
Industry, innovation and infrastructure					●	
Reducing inequality	○	○			●	●
Responsible consumption and production			○	●		
Climate action				●		
Life on land				○		
Peace, justice and strong institutions		●	○			

● Strong influence
○ Medium influence

1.4 INCLUSION OF ALL STAKEHOLDERS

GRAMMER attaches particular importance to dialog with and the inclusion of its various stakeholders. These communications are mostly handled by the relevant parts of the Group. By systematically tracking these activities, it is possible to access the results of such communications centrally in order to address corresponding inquiries from outside the Company or to convey messages from within the Company to the general public. As we maintain very close contact with our stakeholders, we were able to take account of the expectations and needs of the individual groups in the formulation of our sustainability goals.

THE GRAMMER GROUP'S STAKEHOLDERS



1.5 RISK EVALUATION OF NON-FINANCIAL MATTERS

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

Further information on our risk management process can be found in the Opportunity and Risk Report on page 82.

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

At the General Management Meeting, the CSR Award was presented to the plant managers for the first time.

CSR AWARD 2019

Corporate social responsibility, i.e. responsibility for employees, the environment and society, is of great importance for the GRAMMER Group and, moving forward, is to be additionally intensified. For this reason, a decision was made to introduce a GRAMMER Corporate Social Responsibility (CSR) Award starting in 2019.

This is an internal award to acknowledge our plants that have displayed a particularly high degree of initiative in the area of sustainability. In this way, GRAMMER is seeking to set an example for greater sustainability and acknowledge the strong commitment within the Group. Awards were presented in three categories: "Environment", "Employees" and "Society".

The projects on which the 2019 CSR Award was bestowed are described below.

ENVIRONMENT CATEGORY: GRAMMER DO BRASIL LTDA., ATIBAIA (BRAZIL)

Project: Recycling of water

A recycling process has been established to recycle the process water at the Atibaia plant after it has been used. The waste water is processed in a biological treatment plant so that it can be reused in sanitary facilities and for cleaning purposes. This promotes the careful use of natural resources.

EMPLOYEE CATEGORY: GRAMMER AD, TRUDOVETS (BULGARIA)

Project: Mutual help for the first day at school and books are precious

Two Bulgarian projects with a similar background were given awards. In the first project, the employees collected items such as sneakers, school bags, clothing etc., which were needed for the first day of school but which they personally no longer used. The items were then given to employees who needed them more urgently, thus helping disadvantaged families. The second project collected books which could be taken home as a gift for the family. This is a reminder of the importance of knowledge and the value of books.

SOCIETY CATEGORY: GRAMMER AUTOMOTIVE PUEBLA, S.A. DE C.V., QUERÉTARO (MEXICO)

Project: Christmas godparents

The "Christmas Godparents" project in which several companies participate is carried out year for year. All employees can voluntarily support a child from the local community who lives in poverty. For this purpose, GRAMMER employees pack gifts containing clothes, washing utensils and toys. At a charity event, the gifts are handed over in the hope of providing a little Christmas cheer.

2 RESPONSIBLE CORPORATE GOVERNANCE

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

2.1 ECONOMIC STABILITY

Day for day, GRAMMER works with the utmost care to supply the best possible products. What drives us as a company is our passion for developing new ideas. There are two thrusts to this: On the one hand, we set ourselves ambitious strategic goals to achieve a prominent position in the international market for automotive components. On the other hand, we work on improving comfort and safety for the people all around the world who use our products. Their trust in our quality makes a decisive contribution to our business success. We must respond flexibly and creatively to market requirements if we are to continue earning this trust. This we do by supplying exactly what gives our customers in the automotive industry as well as the final users the greatest possible added value. We are convinced that the combination of a global footprint and innovative high-quality products will assure the GRAMMER Group of long-term and profitable growth. At EUR 2,038.5 million, GRAMMER Group revenue was up 9.5% on the previous year (2018: EUR 1,861.3 million).

2.2 COMPLIANCE AND ANTI-CORRUPTION

Our binding Group-wide code of conduct defines the values and conduct expected of all employees. It forms the basis of our business activities. All new employees are briefed on this code of conduct, while existing ones undergo regular training to refresh their knowledge of its contents. The code of conduct is available in 16 different languages and is currently being revised.

To be published in 2020, the new version will focus even more keenly on aspects such as human rights, data protection and the rejection of forced labor and child labor in the future. GRAMMER attaches importance to observing all laws particularly those governing fair trade practices and anti-corruption. In addition, we are committed to the prohibition of insider trading, the confidential handling of information, the avoidance of conflicts of interest, protection of the environment, health protection, occupational safety and social responsibility.

20% of all employees

take part in the biannual compliance and cartel law training.

The Group takes different approaches for ensuring compliance with external rules and regulations as well as GRAMMER's own policies. Comprehensive measures have been firmly in place for many years. All specialist and management staff undergo regular anti-corruption and anti-bribery training including the appropriate response to such occurrences. In particular, decision-makers are required to take part in online training.

Our internal control system (ICS) safeguards the efficacy and economic viability of our business activities and ensures due and proper internal and external accounting operations and compliance with the applicable legal requirements. Moreover, regular compliance audits are performed by Internal Auditing to identify any compliance or corruption risks to which individual plants may be exposed. For this purpose, the Transparency International corruption index for specific countries provides an important indicator for determining the frequency of audits at individual locations. Should an audit conducted at a specific GRAMMER location give rise to initial suspicion, further investigations are performed and any necessary consequences taken.

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

TARGET

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

39 plants

underwent compliance audits in 2019 and 2018 (mostly in the form of self-audits).

Established whistleblowing mechanisms ensure that possible breaches can be readily reported. Thus, a code team has been established to accept any reports. Internal Auditing examines any specific suspicions in accordance with the instructions of the Executive Board or the code team. If investigations relate to individual employees, the findings are forwarded to the Human Resources department, which processes them and takes any necessary measures under employment law.

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

2.3 SUSTAINABLE PROCUREMENT

GRAMMER views its suppliers as an extension of the Company and as an important part of its value chain. We select suppliers who are committed to a clear system of values and to ethical principles. We expect our direct and indirect suppliers to comply with the solid business practices that we promote, observe laws and standards, perform their duties in accordance with the applicable rules and regulations and also provide documentary evidence of this. A supplier code of conduct was published and additionally integrated in the supplier portal in 2019 to address all sustainability criteria and to do justice to our stakeholders' extensive requirements.

In 2020, GRAMMER will be launching a new digital platform to integrate and network all components required for global procurement management. This will include aspects such as the observance of international legal and ethical standards, administrative requirements and our own corporate guidelines. The supplier's eligibility for bidding for new business opportunities depends on its compliance with and acceptance of the standards we have described in our value-based approach to sustainability in GRAMMER's global supply chain. Of the currently 1,400 suppliers of direct materials, only those that agree to comply with our sustainable procurement requirements will be able to remain part of our global supplier basis in the long term.

CSR guideline for suppliers: https://www.grammer.com/supplier-support/purchasing.html

In the fourth quarter of 2019, we established a new "Risk Management and Corporate Social Responsibility" position in our supply chain management system. This position, which was previously distributed across various functions within the procurement and supplier quality team, is responsible for implementing and ensuring compliance with all sustainability issues relevant to the supply chain.

In the past, we have used forums such as supplier partner and collaboration days to inform our suppliers of our expectations with respect to the observance of statutory, ethical and environmental requirements. Moving forward, we will continue to use such forums because channels for personal contact and communications are also essential in order to reach out to our very broad supplier base. Over time, however, we will increasingly also be making use of digitalization as the main tool for implementing corporate social responsibility across our supplier base as modern IT tools offer the swiftest and most effective method of communicating with all regions of the world in which we purchase components.

MSA Statement 2018: www.grammer.com > Company > Sustainability > Social Responsibility

In this connection, we will also be paying particular attention to what is known as "conflict minerals", such as zinc, tantalum, tungsten and gold, which are often mined in regions exposed to high conflict potential. We are working systematically on our processes to exclude the use of conflict materials, the financing of conflicts and the violation of human rights. The origin of the metals are determined in consultation with our suppliers as the materials concerned are not sourced directly from mines or smelters but may be contained in the products that we procure. An annual report based on the conflict mineral reporting template is prepared so as to create transparency across the supply chain. The results are made available to our customers on request.

2.4 OBSERVANCE OF HUMAN RIGHTS

Manufacturing companies are exposed to a greater risk of human rights violations than service companies. Risks of potential human rights violations may primarily arise along the previous value chain and in the procurement of resources. We are aware of our responsibility and have therefore adopted the industry-related code of conduct issued by the German Federal Association of Materials Management, Purchasing and Logistics (BME), which governs conduct with respect to the observance of human rights as well as child and forced labor. This code of conduct applies across the entire Group.

As already explained in Section 2.2, the forthcoming revision of the code of conduct will devote even more space and importance to the observance of human rights. In this way, GRAMMER wants to underscore the significance of human rights.

We are heightening our employees' awareness of human rights issues by means of the "Compliance" e-learning module and local training at our plants. GRAMMER provides its employees with more detailed information on the code of conduct via the Intranet. Moreover, we are committed to the core labor standards defined by the International Labour Organization (ILO) and the UN Universal Declaration of Human Rights.

TARGET
Employee awareness of human rights is to be raised in compliance training sessions (online and also through local training on all employee levels).

We also strive to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations and performing checks. At supplier days and meetings, our suppliers undergo training and are expressly informed of our Code of Conduct for suppliers and its relevance and contents. CSR guidelines for our suppliers were published and additionally integrated in the new supplier portal in 2019 to address all sustainability criteria in the code of conduct for suppliers and to do justice to our stakeholders' extensive requirements.

3 COMPANY ENVIRONMENTAL PROTECTION

3.1 OVERVIEW AND MANAGEMENT APPROACH

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

Overall responsibility for environmental management has been assigned to the Quality, Services and HSE, which reports to the Chief Operating Officer. This unit devises strategic parameters for environmental protection across the entire Group under the guidance of the Senior Manager, Health and Safety. A local environment, health and safety manager is assigned to each plant to implement the measures. We are also aiming to reduce business-induced environmental impacts as far as possible. Accordingly, material goals and measures relating to company environmental protection entail increased energy efficiency, a reduction in emissions from production and the value chain and the optimum use of resources along our value chain. The targets pursued by and the progress made in our environmental activities including observance of all relevant legal rules are regularly audited and assessed both internally and externally. By making appropriate adjustments, we are able to achieve continuous improvements in our environmental and energy management systems. 83% of all the Group's facilities around the world have already installed an environmental management system in accordance with ISO 14001 and defined local environmental targets and measures.

TARGET
We plan to have all GRAMMER facilities certified in accordance with ISO 14001 by the end of 2020.

Environmental and energy policy: www.grammer.com under Company > Sustainability

83%

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

We have already rolled out an energy management system in accordance with ISO 50001 at our German plants, thus ensuring compliance with the statutory requirements. With these measures, we are able to monitor, control and, if necessary, adjust energy consumption and identify potential for savings.

TARGET
We plan to have all GRAMMER facilities certified in accordance with ISO 50001 by the end of 2020.

91%

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

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

3.2 EMISSIONS

One important aspect concerns the emissions which enter the air, water or soil as a result of production activities. As part of its environmental management system, GRAMMER has implemented extensive measures at its facilities for reducing emissions and monitoring their implementation. In addition, we have individual plans at numerous facilities that take account of the specific nature of the local activities and processes as well as national requirements. We are currently pursuing the goal of documenting the various local approaches centrally, collecting historical data and defining uniform benchmarks.

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

One particular focus is on reducing air pollutants, such as CO_2 emissions and volatile organic compounds. These are continuously measured in the emission-intensive systems at our plants. In this context, we have calculated the CO_2 emissions of the sites according to the Greenhouse Gas Protocol (GHG Protocol) this year for the first time. This involves determining the Scope 1 emissions, i.e. direct emissions occurring during the Company's own energy production and the production process, as well as Scope 2 emissions, i.e. indirect emissions that, for example, arise when externally sourced electricity and heat are used. The calculation process will be undergoing further optimization and expansion over the next few years.

GRAMMER's Automotive Division uses emission-reduced foam materials in the EMEA, APAC and Americas regions to lower emissions of volatile hydrocarbons by up to 70% in some cases. Likewise, emissions from the use of water-based foam release agent have been cut by around 75%. This has been implemented at seven out of 18 plants, with further sites to follow in 2020.

Another project worthy of mention is the significant reduction of solvents at one site in Germany (Zwickau). By optimizing the processes and using water-based coatings in combination with solvent-based hardeners, it was possible to achieve a considerable reduction in emissions in the painting process for plastic parts for car interiors. In fact, with the improvements achieved it is now possible to dispense with exhaust gas treatment systems in the production process.

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

This year, our site in Bulgaria (Trudovets) took part in World Cleanup Day to raise awareness of the need for environmental protection, avoidance of waste and a healthy use of our natural resources worldwide. Thanks to the active support of the employees, the immediate vicinity of the plant site was cleared of rubbish and waste.

A significant reduction in solvents was achieved at one German site by changing the processes in a paint shop.

4 PROCESS AND PRODUCT RESPONSIBILITY

4.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group attaches key importance to process and product efficiency, quality and safety. Product responsibility commences in the development phase and continues during production (use of material) and subsequent utilization by the customer. Examples of important criteria include quality, resilience, safety, ergonomics, product innovation and sustainable procurement. Process responsibility addresses the question as to how processes are developed, rolled out and monitored. In this respect, the focus is on efficiency, compliance with standards, new and innovative production methods and high quality. These aspects must be intermeshed within the value chain at all times. Our high-quality seating systems and premium interior products are currently being produced at 48 (2018: 48) production and logistics facilities around the world. In order to meet the high quality requirements which our products must satisfy, we have also established a uniform quality management system. All our GRAMMER sites are regularly certified under the ISO 9001 quality management standard or the IATF 16949 quality management standard for the European and American automotive industry.

100%

of our production facilities are certified in accordance with ISO 9001, IATF 16949, ISO/TS 22163.

Innovations in products and production processes form a key determinant of the GRAMMER Group's business success. At the same time, they seek to minimize the strain on the environment. At EUR 64,119 thousand, non-capitalized research and development costs remained steady compared with the previous year (2018: EUR 60,634 thousand).

3.2%

was the share of non-capitalizable research and development costs in total revenue.

4.2 INNOVATIVE PROCESS SOLUTIONS

The assembly of high-quality seating systems and premium interior products calls for production excellence. To this end, GRAMMER has defined core processes and spent substantially on these in the last few years. At the same time, we are increasingly migrating our standardized core processes to the individual regions to achieve low local production costs, reduce logistics costs and minimize currency-translation effects. In addition, we are seeking to deploy the best technology available in order to reduce energy requirements and emissions in the production process.

For example, foaming, painting and gluing systems now use solvent-reduced materials on a large scale. At the same time, we are working on reducing the number of components in our products. Comprehensive testing on the basis of guidelines and internal specifications ensures that standards going beyond the legislative requirements are observed. In efforts to harmonize development, production and series standards and processes, it is necessary to take account of the differences in the individual segments. Whereas the Automotive Division must generally observe comprehensive OEM-specified requirements, the Commercial Vehicles Division has considerably more discretion of its own due to the large volume of proprietary developments.

The Industrial Engineering department continued to standardize production processes and equipment and developed or implemented innovation and automation initiatives step by step to secure the Company's ongoing competitiveness.

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

- the avoidance of unnecessary and unhealthy movements (ergonomic workplace design)
- the avoidance of unnecessary work steps (standardized work)
- the balanced distribution of processing steps (line balancing)

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

In order to accelerate the ongoing development and implementation of the GRAMMER Production System, a Lean Training Center was installed in each of the EMEA, Americas and APAC regions. The training centers address all elements of the GRAMMER production system by means of a "lean factory". In order to render the system tangible, we familiarize our employees with lean production, particularly by means of practical focus training, and jointly develop approaches for holistic implementation and continuous improvement.

TARGET
Continuous avoidance of waste in processes through Kaizen workshops and events.

The continuous improvement process (Kaizen) serves to optimize the organization as well as to enhance the GRAMMER Production System. Our employees are systematically involved in the improvement process. Kaizen workshops were held at all GRAMMER plants in 2019. The main focus here is on the identification and elimination of waste (muda) in our production processes and related areas. In addition to business factors, it also integrates measures aimed at motivating employees and furthering environmental protection. We place planning and implementation in the hands of our employees, who are supported by the management, in order to promote active participation at all levels.

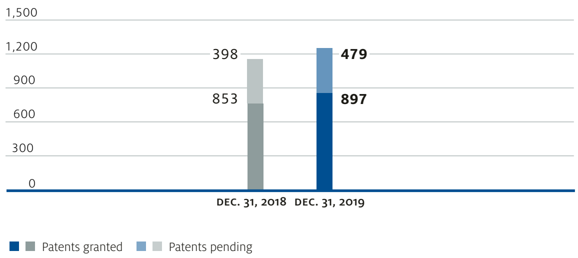
The "One Day in Production" initiative offers managers an opportunity of gaining insights into the production and logistics areas.

4.3 INNOVATIVE PRODUCT SOLUTIONS

The GRAMMER Group has established research and development (R&D) units in key regions in order to offer customers high-quality solutions meeting their requirements. Our engineers work on the further development of GRAMMER products at a total of 15 locations. In addition, R&D is present at selected production plants to provide the necessary support. The number of patents pending and granted rose by 10% to 1,376 in 2019 (2018: 1,251) as a result of this.

PATENTS

NUMBER



TARGET
The number of patents is to be increased and innovation performance reinforced in the long term. To quantify our innovation performance, we measured the number of innovations in the development process in a pilot phase in 2019. This number of new parts is systematically determined via our PDM (development document database) and SAP system and serves as a basis for achieving corresponding comparability in the following years.

In the interests of the continuous development of our product range, we use a modern innovation management system that has been adapted to our needs in recent years. At the core of this approach are semi-annual innovation camps ("InnoCamp" for short), which adapt our innovation activities to meet the constantly changing needs of the market. Product ideas are jointly coordinated in international teams consisting of product and process experts, employees from sales and purchasing as well as managers from the divisions and functions and incorporated in the decision-making process. This is professionally overseen by Strategic Product Planning "SPP" in close cooperation with R&D.

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

Rapid technological process is being accompanied by the steadily growing demands made of components suppliers by OEMs (original equipment manufacturers). Drive trains, vehicles concepts and the level of driving automation alongside safety and digital interfaces are defining the framework for future development. Thus, new developments in autonomous driving are also calling for a new approach to cabin and cockpit design. In addition, there is demand for heightened comfort in the truck and offroad segment together with a growing trend towards electronic integration of various functions in seats. Further challenges entail the human-machine interface, which calls for highly modern user interfaces, as well as the integration of different functions in more and more components. Thus, there is growing demand for components that are not only highly stable but also exhibit outstanding functional, aesthetic and haptic qualities. We are observing further progress in interior upgrading in new vehicle concepts and are able to offer appropriate innovative solutions.

LIGHT-WEIGHT CONSTRUCTION

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

RECYCLING

The seat structures made of high-strength steel are recyclable and the plastics used can be easily separated and recycled according to type at the end of their life cycles thanks to clear labelling. What is more, our "Smart Textile" project is conducting research into recycled textiles (e.g. materials made from recycled PET bottles and intimation leather made from fruit peels) for use in vehicle interiors and with seating systems in order to additionally lower resource requirements. In addition to recycling, measures aimed at increasing the service life of our products also help to ease the strain on the economy. In the case of driver seats, this means optimizing the kinematics and preventing any softening of the seat suspension as the product life cycle progresses despite the very high strain to which it is exposed. At the same time, we are continuing to explore the use of more robust textiles to overcome the effects of wear and tear on seats at an early stage.

ERGONOMICS

In our development activities, we attach particular importance to ensuring that the driver's health is preserved through ergonomically optimized products. Moreover, our headrests are an important safety feature for very largely preventing injury of or strain on the cervical spine in the event of an accident. Products that are not only height-adjustable but also permit the distance from the head to be modified and then store these personal settings in a memory function provide especially effective protection. In addition, our crash-active headrests protect passengers from the risk of whiplash injury. The ergonomic design of our multifunction armrests for commercial vehicles featuring an optimum arrangement of the control elements eases the strain on the spine, prevents overstraining of the forearm, shields the driver from excess mental pressure and heightens the seat comfort. Our suspension seating systems for all kinds of commercial vehicles also meet the highest ergonomic requirements, thus helping to preserve the driver's health. The GRAMMER Group regularly reviews the status of its products on the basis of customer feedback, internal testing, user studies and discussions with leading biomechanics and spine researchers.

In this connection, we use biomechanical measuring methods to test the impact of new features on the human body. Using electromyography (EMG), we measure electrical muscle activity in strain situations for example. Efficient and safe use of a vehicle calls for physically and mentally sound drivers. For this reason, the GRAMMER Group is particularly committed to promoting basic spine research. For this reason, we have established the GRAMMER European Spine Journal Award in recognition of outstanding research activities.

5 EMPLOYEES

5.1 OVERVIEW AND MANAGEMENT APPROACH

Our business success is above all the result of the commitment and dedication of our 14,779 employees around the world (6,591 women and 8,188 men as of December 31, 2019). We maintain a dialog with them characterized by mutual trust and involve them in the development of the GRAMMER Group. We respect their right to freedom of association and to engage in collective negotiations. Together with the line managers, Human Resources is responsible for staff development. Human Resources reports directly to the Chief Executive Officer and HR Director.

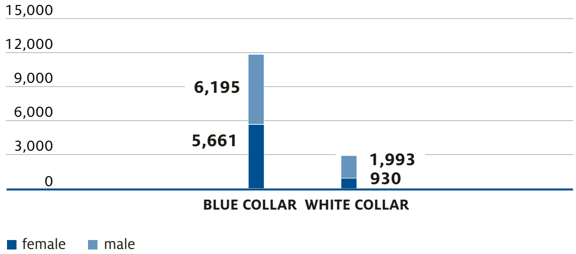
The human resources strategy reflects the GRAMMER Group's strategy. In addition to requirements planning and the further development of the human resources structures, the main focus is on the expansion of conceptual employee development, the encouragement of proactive collaboration and strengthening employer branding at GRAMMER. The sustainability concepts developed in the year under review are systematically linked with our human resources strategy and define further goals and measures in the following areas:

- Employee satisfaction
- Employee development and fostering
- Health and Safety

The GRAMMER Group has a global footprint with operations not only in Europe but particularly also in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, around 80% of our employees work in production. We seek a reasonable gender balance and actively support and encourage our female employees.

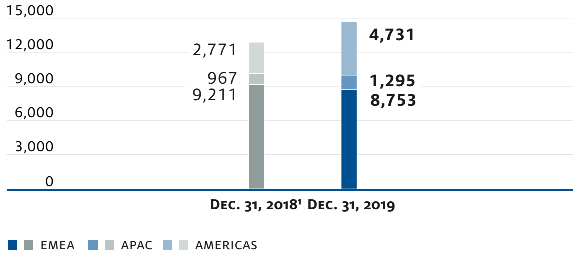
EMPLOYEES BY TYPE OF EMPLOYMENT 2019

NUMBER



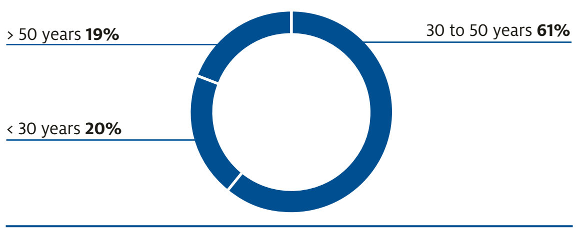
EMPLOYEES BY REGION

NUMBER



¹ Key figures excluding TMD-Group.

AGE STRUCTURE 2019



5.2 EMPLOYEE SATISFACTION

The satisfaction of our employees forms one of the basic pillars for productive and favorable working conditions at the GRAMMER Group. In 2017, we conducted an employee survey as a global feedback and strategic tool for corporate and organizational development. In this way, we want to regularly evaluate key parameters for employee loyalty and motivation around the world as a basis for defining specific measures. Various global, regional and local projects were initiated on the basis of the results of this evaluation. A new employee survey is planned for 2021 to monitor the effectiveness of the measures taken and to identify starting points for further projects to increase satisfaction. In doing so, we have set ourselves the goal of additionally reinforcing existing strengths and making greater use of existing potential.

TARGET
Regular systematic employee surveys as a basis for defining measures. Feedback rate (online and paper) of at least 65%. Local staff loyalty programs will be defined and implemented on the basis of the results of the employee survey by the time the next employee survey is held.

OPEN COMMUNICATIONS AND COOPERATION

With the introduction of the internal GRAMMERonline newsletter in 2018, we created a medium for keeping our employees updated worldwide and simultaneously about the latest news within GRAMMER Group. We are also using this platform to report regularly on the activities of our global plants and business units in areas such as corporate social responsibility and team development. In 2019, we reported on exemplary activities such as the team-building event of our Supplier Management in China, participation in the World Cleanup Day by our plant in Trudovets, Bulgaria and the “Beijing Economic-Technological Development Area Sports Meeting”. In order to additionally reinforce the feeling of togetherness and to heighten mutual understanding, the “Meet & Discuss” pilot project was launched in 2019 to give interested employees at the sites in the Amberg area an opportunity of getting to know the members of the Executive Board in personal discussions. In addition, the “Way of Working” program was launched in autumn 2019, which calls for and promotes international cooperation across divisions and departments.

WORK-LIFE BALANCE

We are working on three main aspects to improve employees’ work-life balance at GRAMMER: We continuously improve our managers’ leadership skills to ensure that these matters are firmly entrenched in our organizational structures. We are creating the necessary basis for flexible working time models (including part-time hours) and implementing numerous measures for promoting health, while also supporting career reintegration. In addition, we are improving the family/job balance by constantly working to improve support in the arrangement of childcare.

DIVERSITY

As one of the first signatories of the Diversity Charta in 2006, GRAMMER does not see diversity as a temporary trend but is committed to putting it into practice. As in previous years, we thus participated in the 7th German Diversity Day to highlight the diversity of our workforce and its importance for the Company’s sustained success. We also encourage cross-border exchange and networking within the GRAMMER Group through our international training programs and by constantly increasing our employees’ international mobility.

GRAMMER is active in 20 countries worldwide.

COMPANY PENSION SCHEME

The company pension scheme is a key pillar alongside statutory pensions and private retirement savings to safeguard employees' standard of living after they reach the age of retirement. We are promoting this sustainable retirement-saving scheme. For this reason, we rolled out a company pension scheme for employees in the Amberg region in 2018, additionally implementing it at the GRAMMER System GmbH plants in 2019. Looking ahead, we plan to introduce the company pension scheme at the GRAMMER Group's other German plants.

5.3 EMPLOYEE DEVELOPMENT AND ADVANCEMENT

New employees undergo appropriate on-boarding so that they are able to perform their duties and feel secure in their areas of responsibility without undue delay. Plant operatives receive training on the machinery that they are to operate. To this end, training centers have been established at several locations around the world. In the case of office staff, the responsible line manager devises an on-boarding plan before new recruits commence their duties. In this way, they are acquainted swiftly and systematically with the matters and interfaces of relevance for them. During the onboarding phase, new recruits are assigned a mentor, whom they can approach if they have any questions as a means of acquainting themselves with their new position. We have thus achieved our objective of developing an onboarding system for all employees. Looking forward, we will also be integrating elements of our learning management system (LMS) to place the onboarding process on an even more sustainable footing. In this way, it will be possible for employees to organize their learning units more independently in line with the availability of their time. This will also enable us to track the effectiveness of the learning units even more efficiently and, if necessary, to provide employees with additional training opportunities in accordance with their needs.

TARGET
The onboarding scheme for all employees is to undergo further improvement.

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

CAREER@GRAMMER

In order to fill key positions swiftly and thus contribute to the Company's sustained success, we support experienced managers as well as employees in their efforts to prepare for a leadership role in their career plans with the help of internal qualification programs. We have established GRAMMER Corporate Development Training worldwide under the name career@GRAMMER. It is made up of three modular programs (DRIVE, FAST LANE and TOP GEAR) aimed at strengthening cross-department and cross-location networking as well as reinforcing the necessary leadership skills and social competence among other things. With the availability of dedicated channels, employees have had avenues for many years for providing feedback and for reporting any problems openly and in good time. We conduct annual performance assessment talks with our pay-scale employees.

Non-pay-scale employees in Germany as well as all management positions in our grading system also undergo performance and potential analysis in the form of employee discussions. The annual appraisal interview for all employees included in the system constitutes an important instrument for securing a consensus on the performance benchmarks between managers and employees and for defining development targets. At the same time, employees are encouraged to assume responsibility for their own career development.

100%

of all non-pay-scale employees in Germany as well as all managers in our grading system are integrated in the appraisal process.

TARGET
Looking forward, the appraisal process will be enhanced within the framework of performance management and supplementary programs for employee development established.

LEARNING MANAGEMENT SOLUTION

In order to address the need for ongoing further education even more effectively, we adopted a learning management solution in 2019 to provide targeted learning opportunities regardless of the time and place. "E-learning" in the broadest sense encompasses all forms of learning involving electronic or digital assistance. With the ongoing internationalization of the GRAMMER Group, it is becoming increasingly more important to convey a uniform global understanding of products, production activities and processes for all employees. The implementation of a learning management system is supporting this from a strategic point of view. With LMS, we are pursuing the goal of improving the quality of information sharing and teaching on a sustained basis by implementing e-learning modules. At the same time, e-learning modules can standardize training and elicit a uniform understanding of processes in tandem with defined quality standards for all employees. In this way, the LMS is an answer to the requirements arising from the sharp growth in the Group's international footprint.

TARGET
75% of the defined specialist areas are to have access to the e-learning platform in 2020.

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

5.4 HEALTH AND SAFETY

Health and safety policy: www.grammer.com under Company > Sustainability > Employees

Safety is of paramount importance in a production company like GRAMMER. This stems from the need to avoid accidents and to encourage activities for preserving employees' health and ability to perform.

We have also adopted extensive measures for promoting health and safety. Examples include training and the organization of company sports. In accordance with the statutory requirements, GRAMMER has installed an occupational integration management system at its German sites and appointed an occupational integration management coordinator. In this way, we are able to help employees who were unable to work for more than six weeks over the previous twelve months to ease themselves back into working life. This also helps to prevent the employees from relapsing into illness and to preserve their long-term working capacity. In 2019, we additionally improved IT support in this process and are now able to provide our employees with even prompter and more targeted support. By simultaneously integrating the company physician, the employee representative council, representatives of people with disabilities and Human Resources in this process, we are achieving a high level of acceptance among our employees and thus creating optimum conditions for joint solutions. In addition, a health task force has been established in Germany to concentrate on employees' health matters. It develops specific proposals and ideas for furthering employee health. In addition to advice on occupational medicine, GRAMMER also offers voluntary solutions via its in-company medical center, such as annual flu vaccinations and eye tests.

The absence rate across all companies (excluding the newly acquired TMD Group) was 4.76% in 2019, thus reaching the goal of less than 5% in that year. As we move forward, we want to continue pursuing various measures to improve employee health in order to keep the absence rate at a low level.

4.76%

was the absence rate. [All companies (excluding TMD) as of December 31, 2019]

TARGET
The absence rate is to be kept consistently below 5%.

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

TARGET
The occupational safety and health management system certified in accordance with ISO 45001 is to be implemented at all sites by the end of 2020.

However, it was not possible to meet the original target date (end of 2019) due to the reorganization of the Management Systems unit. Nonetheless, it will be implemented in 2020 thanks to the new organizational structure and the steps that have already been commenced to roll out ISO 45001.

A global reporting and performance measurement system has been installed for occupational safety. The transparency and comparability achieved in this way will promote the networking of the individual sites. The synergistic effects gained as a result will improve occupational safety globally on a lasting basis and mark a major step towards achieving the zero accident target.

One particular aspect of this is the workplace design that seeks to minimize the strain on employees as far as possible. This particularly concerns noise and emissions as well as physical stress. With our comprehensive safety measures, we are actively promoting our employees' safety and health. For this reason, particular attention is being paid to the installation of ergonomic furniture and the creation of a healthy working environment at the newly constructed corporate headquarters.

6 CORPORATE CITIZENSHIP

At the GRAMMER Group we are aware of our responsibility as a corporate citizen and support charitable projects, voluntary activities and training facilities in the Upper Palatinate region in Germany and elsewhere around the world. In doing so, we always observe the principles enshrined in our code of conduct as well as our global sponsoring policy. In its donations and sponsoring activities, GRAMMER attaches particular importance to assisting social facilities and projects. Moreover, we support sports, concentrating in particular on young people in different team sports. GRAMMER does not provide any financial support for political parties and/or similar lobby groups.

In the area of secondary and tertiary education, GRAMMER takes part in various partnerships and development and sponsoring programs. This includes schools, vocational training centers and universities in the Amberg region as well as in other parts of Germany and the world. Our aim is to prepare young people for the employment market. To this end, we organize career information days for various target groups among other things. Site inspections and internships are offered at our sites in Germany and also in the Czech Republic for example. The “Manager for a day” initiative in Bulgaria gave school students an insight into various functions in the Company.

As in every year, our employees were able to apply for one of the coveted “sponsoring packages” in 2019 on behalf of their sports clubs, social projects, fire brigades, rescue services or care facilities and extensive use was made of this offer. In the year under review, sponsoring packages with a total value of EUR 20,000 were awarded.

Numerous social projects were also funded and implemented at international sites. In this way, hospitals, schools and other social institutions were supported not only financially but also through the commitment of our employees. One example is the project in Querétaro in Mexico, which received our internal CSR Award. Further information on the “Christmas godparents” project can be found in page 30.

GRAMMER presented a check to the SpVgg in Ebermannsdorf just one of the many winners of the sponsoring packages.

CORPORATE GOVERNANCE REPORT AND DECLARATION

CORPORATE GOVERNANCE AT GRAMMER

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

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

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

On December 11, 2019, the Executive Board and the Supervisory Board of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act (AktG) concerning conformity to the German Corporate Governance Code (the Code):

Declaration of conformity of GRAMMER AG dated December 11, 2019

The Executive Board and the Supervisory Board declare as follows:

Since the last declaration of conformity dated December 11, 2018, GRAMMER AG has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated February 7, 2017 from the day on which they were announced on April 24, 2017 by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger (the Code) and will continue to do so in the future, with two exceptions:

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

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

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

Amberg, December 11, 2019

The Executive Board and the Supervisory Board of GRAMMER AG

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

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

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

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

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

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

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

IMPLEMENTATION OF DIVERSITY TARGETS

Section 96 (2) AktG stipulates a male and female gender quota of at least 30% for GRAMMER AG's Supervisory Board. This statutory quota is the same as the target quota adopted by the Supervisory Board. This quota was fulfilled in 2019.

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

In defining these targets, GRAMMER AG as a technically oriented company must take account of specific sector-related factors as well as the current gender breakdown of its workforce. At its meeting in March 2017, the Supervisory Board reviewed the target for the Executive Board and set a figure of 33%. This target is to be reached by December 31, 2020. Achievement of the target quota is to be reviewed no later than at the last ordinary meeting of the Supervisory Board held in 2020.

The target was initially not reached in 2019 as the Executive Board was composed solely of two gentlemen, namely Mr. Manfred Pretscher and Mr. Jens Öhlenschläger.

Following the appointment of Ms. Jurate Keblyte and Mr. Thorsten Seehars effective August 1, 2019 and Mr. Pretscher's departure on August 31, 2019, GRAMMER AG's Executive Board was composed of two men and one woman from September 1, 2019. Mr. Jens Öhlenschläger was appointed to the position of Chief Operating Officer (COO) on the Executive Board effective January 1, 2019. Mr. Manfred Pretscher continued to hold the position of Chief Executive Officer (CEO), Chief Human Resources Officer (CHRO) and Chief Financial Officer (CFO) on an interim basis until July 31, 2019 and left GRAMMER AG's Executive Board as planned on August 31, 2019. At its meeting on March 15, 2019, the Supervisory Board of GRAMMER AG appointed Ms. Jurate Keblyte to the Executive Board for a period of three years effective from August 1, 2019 and assigned her to the position of Chief

Financial Officer (CFO). On April 25, 2019, the Supervisory Board of GRAMMER AG appointed Mr. Thorsten Seehars to the position of Chief Executive Officer of the Company also with effect from August 1, 2019. The gender quota defined for the Executive Board was achieved on September 1, 2019.

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

CURRENT TARGET ACHIEVEMENT AS OF DECEMBER 31, 2019[1]

	SENIOR MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15%	20%
Current quota (international)	15%	19%
Target quota (Germany)	10%	15%
Current quota (Germany)	12%	11%

[1] Excluding TMD Group; the TMD management levels are to be allocated to the management grading system in 2020.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the annual general meeting held on July 12, 2019, all shareholders were again able to exercise their voting rights on an equal basis and discuss all the items of the agenda with the members of the Executive Board and Supervisory Board. The invitation to the annual general meeting including the statutory reports and documents as well as the management report and the agenda were readily available to the shareholders on the Company's website in German and mostly also in English. All other relevant information was also disclosed on the GRAMMER website or sent on request. To assist absent shareholders in exercising their rights, two voting proxies attended the annual general meeting to exercise voting rights in accordance with the instructions issued. Shareholders were able to authorize and instruct these proxies at any time, who could be reached throughout the meeting. Shareholders who initially attended the annual general meeting, but left it early without exercising their voting rights were, able to issue voting instructions during the annual general meeting to the proxies named by GRAMMER. Details on voting proxies are announced in the invitation to each annual general meeting.

MANAGEMENT BY THE EXECUTIVE BOARD

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

The Executive Board of GRAMMER AG had the following members as of December 31, 2019:

- Thorsten Seehars, Chief Executive Officer (CEO), Chief Human Resources Officer, member of the Executive Board since August 1, 2019, appointed until July 31, 2022
- Jurate Keblyte, Chief Financial Officer (CFO), member of the Executive Board since August 1, 2019, appointed until July 31, 2022
- Jens Öhlenschläger, Chief Operating Officer (COO), member of the Executive Board since January 1, 2019, appointed until December 31, 2021

The basic elements of the remuneration system are described in the remuneration report.

WORK OF THE SUPERVISORY BOARD

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. The work of the Supervisory Board is governed by statutory requirements, the Articles of Association and the rules of procedure. There is also an Audit Committee, a Nomination Committee, a Strategy Committee, a Personnel and Mediation Committee and, since September 26, 2018, an Executive Committee. The Committees met regularly in the year under review. The chairman of the Audit Committee is independent and not simultaneously the chairman of the Supervisory Board and, as a financial expert, possesses special knowledge of and experience in the accounting principles and internal control processes required for this position. He was not a member of GRAMMER AG's Executive Board at any time.

The section in the 2019 annual report on the Supervisory Board and Executive Board contains more information on the composition of the Committees. Further details of how the Supervisory Board works and the number of Committee meetings and the main matters dealt with in 2019 can be found in the report of the Supervisory Board. The remuneration report describes the structure and amount of remuneration paid to the Supervisory Board.

The Supervisory Board reviews the efficiency of its work annually on the basis of a detailed questionnaire. Among other things, it reviews its efficiency in terms of the collaboration on the Supervisory Board, the availability of information and the processes for making decisions. It discusses scope for improvement on the basis of the results and adopts appropriate measures. The last review was carried out in July 2019, following which numerous measures were implemented to improve efficiency.

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

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of GRAMMER AG held five ordinary and five extraordinary meetings. Five ordinary meetings are planned for 2020. In addition, extraordinary meetings will be convened if necessary. The committees also meet regularly. In the absence of any mandatory statutory provisions to the contrary, the resolutions of the Supervisory Board shall be deemed to have been passed with a simple majority of the vote cast. In the event of a parity of votes, voting is repeated, in which case the chairman of the Supervisory Board holds two votes.

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

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	10/10	100%
Tanja Fondel[1]	7/7	100%
Wolfram Hatz	9/10	90%
Martin Heiß	10/10	100%
Ingrid Hunger	10/10	100%
Harald Jung	10/10	100%
Dr. Peter Merten	10/10	100%
Horst Ott (Deputy Chairman)	10/10	100%
Dr. Klaus Probst (Chairman)	10/10	100%
Lars Roder	10/10	100%
Prof. Dr. Birgit Vogel-Heuser	9/10	90%
Antje Wagner[1]	3/3	100%
Dr. Bernhard Wankerl	10/10	100%

[1] Ms. Tanja Fondel resigned from her office effective September 15, 2019 and Ms. Antje Wagner was appointed by court order effective June 16, 2019.

Strategy Committee		
Horst Ott (Deputy Chairman)	1/1	100%
Dr. Klaus Probst (Chairman)	1/1	100%
Lars Roder	1/1	100%
Dr. Bernhard Wankerl	1/1	100%

Personnel and Mediation Committee (in extended form from October 15, 2018 to May 10, 2019)		
Andrea Elsner[2]	4/4	100%
Dr. Peter Merten[2]	3/4	75%
Horst Ott (Deputy Chairman)	4/4	100%
Dr. Klaus Probst (Chairman)	4/4	100%
Lars Roder	4/4	100%
Dr. Bernhard Wankerl	4/4	100%

[2] Ms. A. Elsner and Dr. P. Merten have been members of the expanded Personnel Committee since October 15, 2018 until May 10, 2019.

Audit Committee		
Andrea Elsner	5/5	100%
Wolfram Hatz (Chairman)	5/5	100%
Martin Heiß	5/5	100%
Dr. Klaus Probst	5/5	100%

Executive Committee		
Dr. Klaus Probst (Chairman)	6/6	100%
Horst Ott (Deputy Chairman)	6/6	100%

COLLABORATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

COMPLIANCE MANAGEMENT SYSTEM

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

During the year under review, the Executive Board regularly dealt with the further development of the compliance management system and ensured that the necessary measures were taken. In the year under review, a project was continued with the support of external advisors to additionally develop the compliance management system and the risk management system. The project was originally to be completed in 2019. However, in view of the changes within the Company and in order to give the new management sufficient opportunity to deal with these matters, the project is now expected to be concluded in the course of 2020. The Executive Board as a whole is jointly responsible for compliance. Together with management, it ensures that each individual in the Company abides by the principles of compliance. In addition, a "Code Team" made up of internal experts has been established. The management of the GRAMMER Group is responsible for encouraging conduct that conforms to the requirements of compliance and for acting as a role model.

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

If employees become aware of any breach of statutory provisions or internal Company policies, they may report this to defined internal officers. Information on the internal whistleblower system is currently available to GRAMMER employees in 14 languages.

There is a high degree of familiarity across the Group as a whole with the basic values enshrined in GRAMMER's Code of Conduct. Compliance audits conducted by Internal Auditing as well as audits of the specialist departments are further elements of the compliance management system at GRAMMER.

TRANSPARENCY

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

ACCOUNTING AND STATUTORY AUDIT

The GRAMMER Group's consolidated financial statements for 2019 as well as the report on the first half of the year and the quarterly reviews were prepared in accordance with the International Financial Reporting Standards (IFRS). At the annual general meeting held on July 12, 2019, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg ("EY"), was elected as the statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. The proposal had been preceded by an independence check. This ruled out any business, financial, personal and other relations between the auditors, their corporate bodies as well as chief auditors on the one hand and GRAMMER AG as well as the members of its corporate bodies on the other hand liable to call into question the independence of the auditors. EY submitted a binding declaration of independence. The Supervisory Board also agreed with the statutory auditors that it was to be notified without delay of any findings and occurrences material to the duties of the Supervisory Board arising during the audit. Accordingly, the auditors undertake to advise the Supervisory Board or make a corresponding note in their audit report if any evidence is found indicating the presence of any misrepresentation in the Code declaration issued by the Executive Board and the Supervisory Board.

DIRECTORS' DEALINGS

All share transactions are published in accordance with article 19 of the European Market Abuse Directive as soon as they are disclosed to GRAMMER AG. No directors' dealings were reported in 2019.

Amberg, March 3, 2020

GRAMMER AG

For the Executive Board	For the Supervisory Board
Thorsten Seehars	Dr. Klaus Probst

REPORT OF THE SUPERVISORY BOARD

DR. KLAUS PROBST
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In 2019, the Supervisory Board fulfilled its duties with the utmost care in accordance with the Articles of Association, the rules of procedure, the German Corporate Governance Code and the applicable statutory requirements. It monitored the activities of the Executive Board on a thorough and ongoing basis, advising it on all matters of importance for the Company.

All important matters were discussed in detail during the meetings of the Supervisory Board on the basis of written reports submitted in advance by the Executive Board. Both the shareholder representatives and the employee representatives met before each ordinary meeting of the Supervisory Board for preliminary discussions. The Supervisory Board's approval was requested in all cases where this was required under the rules of procedure. The individual decisions were preceded by intense discussion normally on the basis of a corresponding submission or presentation by the Executive Board. The Supervisory Board and the Executive Board discussed decisions of fundamental importance such as strategic issues concerning corporate planning, business policy, business performance, the risk situation and risk management.

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

MAIN MATTERS DEALT WITH AT THE MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board held a total of five ordinary meetings and five extraordinary meetings in 2019.

No member of the Supervisory Board or its committees attended only half or fewer than half of the meetings. No conflicts of interests on the part of any of the members of the Supervisory Board in connection with the exercise of their duties were reported in the period under review.

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

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

In the fourth quarter, the Supervisory Board dealt in detail with the revised corporate budget. In this connection, the Executive Board addressed the volatility of the external environment and described in particular the risks posed by trade policy and the weaker economic forecasts for the individual markets. The possible impact of different risk scenarios was also presented. In view of the muted industry environment and the cautious outlook on the part of leading automobile and commercial OEMs for the coming years, the Executive Board proposed a comprehensive program to optimize operating processes and cost structures in all parts of the GRAMMER Group.

In light of this, the Executive Board presented the annual budget for the 2020 financial year, which the Supervisory Board also discussed in detail with the Executive Board and duly approved.

A further key aspect was the Supervisory Board's efficiency review, which took the form of a questionnaire and a detailed discussion with all members of the Supervisory Board at the meeting in question. Overall, the Supervisory Board's work was considered to be efficient and was rated favorably. Valuable feedback and suggestions for the further development of the Supervisory Board's work were received and will be implemented in the new year. Among other things, these measures include an annual strategy meeting and an executive session of the Supervisory Board in the absence of the Executive Board.

Key partnerships, such as the joint venture with the Changchun FAWSN Group Co., Ltd. for automotive interior components and the joint venture in India with AllyGrow Technologies were also discussed at length by the Supervisory Board.

At the first extraordinary meeting for 2019 held on January 21, 2019, which was attended by all members, the resolution concerning the multi-year budget was prepared A further important aspect concerned the replacements on the Executive Board for the positions of Chief Executive Officer and Chief Financial Officer. Following a broad-based selection process including internal and external candidates, the Supervisory Board deliberated on the shortlist of candidates at this meeting and agreed to hold a further telephone conference on January 23, 2019.

On January 23, 2019, the second extraordinary meeting of the Supervisory Board was held with the attendance of all members of the Supervisory Board as well as a representative of the personnel consulting company. At this meeting, a decision was made to fill the vacant positions with external candidates. At the same time, a favorite for each of the two positions was determined, with whom final negotiations were to be held promptly by the Chairman of the Supervisory Board on the basis of defined parameters.

The Supervisory Board held its first ordinary meeting for 2019 on January 31, 2019. This meeting was attended by all members of the Supervisory Board. The main item on the agenda for this meeting was the presentation of the corporate strategy for 2019 – 2023 by the Executive Board. After intense discussion, this was approved by the Supervisory Board. The Executive Board provided an update on the material asset restructuring project. In addition, the preliminary drafts of the report of the Supervisory Board for 2018, the corporate governance declaration and the combined separate non-financial were discussed. In addition, it was agreed to approve the budget for 2019 at the meeting of March 15, 2019.

All members attended the second ordinary meeting of the Supervisory Board on March 15, 2019, at which a resolution was passed to appoint Ms. Jurate Keblyte to GRAMMER AG's Executive Board for a period from August 1, 2019 until July 31, 2022. She assumed the position of Chief Financial Officer. In addition, Mr. Pretscher's appointment was extended until August 31, 2019 in the interests of a smooth transition. The final budget for 2019 was also approved at this meeting.

A further item on the agenda concerned the audit of the annual financial statements and the consolidated financial statements. In the presence of the statutory auditor, the Supervisory Board adopted the parent-company financial statements of GRAMMER AG for the year ending December 31, 2018 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2018 without any reservations.

In addition, the Supervisory Board dealt with the annual report for 2018 including the report of the Supervisory Board, the corporate governance report and the remuneration report as well as the dividend proposal and the agenda for GRAMMER AG's annual general meeting on July 12, 2019. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 0.75 per dividend-entitled share. The separate non-financial report published in GRAMMER AG's 2018 annual report was discussed at length by the Supervisory Board. The report was checked for its appropriateness, the implementation of the concepts and the internal due-diligence processes. The Supervisory Board was satisfied that the measures taken and the sustainability concepts applied are appropriate for addressing the risks and opportunities and are in line with the business model. The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from September 6 to December 31, 2018 was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued an unqualified audit opinion:

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

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

The dependent company report and the auditor's report were submitted to all members of the Supervisory Board in good time and discussed in detail at the meeting of the Audit Committee on March 1, 2019 and at the meeting of the Supervisory Board on March 15, 2019. The independent auditor was available at both meetings to answer questions and provide information on the dependent company report and the main findings of his audit. Following its own detailed review and discussion of the dependent company report, the Supervisory Board approved the results of the audit and determined that it had no objections to the declaration of the Executive Board appended to the dependent company report.

In addition, the Supervisory Board approved the GRAMMER Group's multi-year budget and discussed the risk report. A report was heard on the planned funding projects as well as the progress of construction in Ursensollen near Amberg.

The third extraordinary meeting of the Supervisory Board was held on April 25, 2019 and attended by 11 members. At this meeting, the Supervisory Board passed a resolution to appoint Mr. Thorsten Seehars as Chief Executive Officer of GRAMMER AG for a period from August 1, 2019 until July 31, 2022 and to additionally assign him the position of Human Resources Director. His service contract was discussed and duly approved.

The fourth extraordinary meeting of the Supervisory Board was held on July 1, 2019 and attended by 11 members. At this meeting, the Supervisory Board heard status reports on key projects as well as on the progress made in filling vacant top-management positions reporting directly to the Executive Board. An update was also provided on post-acquisition integration of the TMD Group, the new joint venture with Allygrow in India as well as the progress of construction of the new campus with the technology center and corporate headquarters in Ursensollen. At this meeting, the Supervisory Board also dealt in detail with the emerging downturn in the economic forecasts for the individual markets as well as the bridge finance for the TMD acquisition and the refinancing of the bonded loan issued in 2013.

The third ordinary meeting, which was held on July 11, 2019 and attended by all members of the Supervisory Board, primarily dealt with the execution of the efficiency review including the definition of appropriate measures and preparations for the annual general meeting taking place on the following day. The Supervisory Board also approved an amendment to Annex 1 of the Executive Board's rules of procedure. Accordingly, the allocation of responsibilities was approved upon the commencement by the new CEO and the new CFO of their duties.

The fourth ordinary meeting of the Supervisory Board was held on September 26, 2019 and attended by all members. Ms. Antje Wagner took part in a meeting of the Supervisory Board for the first time. The main topics of the meeting were updates on the status of the bridge finance for the TMD acquisition, the funding of the Campus project and the refinancing of the bonded loan which had been issued in 2013. The progress made in integrating Toledo Molding & Die, Inc. was also discussed at this meeting on the basis of a detailed report of visits by members of the Supervisory Board and the Executive Board.

The fifth extraordinary Supervisory Board meeting on November 26, 2019 was attended by 10 members. At this meeting, the Supervisory Board approved a new syndicated loan required to fund the Group on a long-term basis.

Waiving requirements with respect to deadlines and form, the Supervisory Board approved a syndicated loan contract comprising an A tranche for increased euro-denominated funding and a B tranche for USD-denominated funding.

The fifth ordinary meeting of the Supervisory Board was held on December 11, 2019 and attended by all members of the Supervisory Board. The main items on the agenda for this meeting were the budget for 2020, the medium-term budget for 2021 and the following years and the corporate strategy for the period 2020 – 2024. The budget for 2020 was discussed in detail, with the Supervisory Board granting its approval. After detailed and constructive discussion, the Executive Board and the Supervisory Board unanimously decided to revise the medium-term budget by the January meeting so as to take into account the latest market data and performance indicators. Similarly, approval of the corporate strategy for the period 2020– 2024 was postponed until 2020 to allow the new Executive Board to rebalance the priorities of the revised corporate strategy towards securing the Company's long-term and sustained success in its various sell-side markets. At this meeting, the Supervisory Board also dealt in detail with the application of the recommendations of the German Corporate Governance Code. The Executive Board and the Supervisory Board submitted their declaration of conformity with the German Corporate Governance Code on December 11, 2019. The wording of the declaration of conformity can be found in the corporate governance declaration.

ATTENDANCE AT THE MEETINGS OF THE SUPERVISORY BOARD

A member-by-member breakdown of participation in the meetings of the Supervisory Board and its committees can be found in the corporate governance report. [page 44 of the annual report]. Apologies were duly received from members unable to attend the meetings of the Supervisory Board or its committees, who generally cast their votes in writing.

The corporate governance report can be found on page 44 of this report.

CIRCULATORY RESOLUTIONS OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board of GRAMMER AG passed three circulatory resolutions in writing. On January 28, 2019, the Supervisory Board approved the service contracts with Ms. Keblyte and Mr. Seehars. The service contracts were subject to the condition precedent of the two persons notifying the Supervisory Board by no later than March 13, 2019 that they were able to commence their duties with GRAMMER AG on the agreed date. If such notification had not been received by that date or the commencement date for their duties had not been confirmed with binding effect, the service contract would have been void.

In a circular resolution dated May 10, 2019, the Supervisory Board passed a resolution to alter the structure of the USD-denominated finance for the acquisition of Toledo Molding & Die, Inc.

On May 17, 2019, the Supervisory Board approved a guarantee contract for the euro-denominated finance.

SUPERVISORY BOARD COMMITTEES

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees in the year under review, which had the following composition as of the reporting date (December 31, 2019):

Strategy Committee
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl
Personnel and Mediation Committee
Horst Ott
Dr. Klaus Probst (Chairman)
Lars Roder
Dr. Bernhard Wankerl
Dr. Peter Merten (until May 10, 2019)
Andrea Elsner (until May 10, 2019)
Audit Committee
Andrea Elsner
Wolfram Hatz (Chairman)
Martin Heiß
Dr. Klaus Probst
Nominating Committee
Wolfram Hatz
Dr. Klaus Probst (Chairman)
Dr. Bernhard Wankerl
Executive Committee (from September 26, 2018)
Horst Ott
Dr. Klaus Probst

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

The Strategy Committee advises the Executive Board on the development and implementation of the corporate strategy. It monitors the progress being made, prepares the consultations and resolutions of the Supervisory Board in connection with strategy-related matters and submits recommendations to it. The Committee met once in 2019.

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

It primarily dealt with the appointment of the new Chief Executive Officer and the new Chief Financial Officer. The Personnel and Mediation Committee had six members in the period from October 12, 2018 until April 25, 2019. This temporary increase in the number of Committee members was due to a resolution that had been passed by the Supervisory Board on October 9, 2018 to appoint Ms. Andrea Elsner and Dr. Peter Merten to the Committee pending the filling of the vacant positions on the Executive Board. Upon Mr. Seehars' appointment on April 25, 2019, this addition to the number of members of the Personnel and Mediation Committee was reversed. In addition, Ms. Keblyte's ancillary activities on the advisory board of Baltic Yachts OY Ab Ltd. and on the supervisory board of HAWE Hydraulik SE were approved.

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

In addition, the risk report was discussed and the Supervisory Board informed of the progress of the project for enhancing the risk management system. The Group Risk Manager also participated in the meeting for deliberations on this item of the agenda. In addition, the head of Internal Auditing presented the audit report for 2018. Furthermore, the Committee was informed by the Executive Board of the current funding projects as well as the material asset restructuring project. The Audit Committee met five times in 2019.

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

The task of the Executive Committee is to support the Chairman of the Supervisory Board in the performance of his duties, particularly the preparation of the meetings and the coordination of the Supervisory Board's activities as well as the preparation of the resolutions to be passed by the Supervisory Board. The Executive Committee is composed of the Chairman of the Supervisory Board and his deputy. The Executive Committee met before the ordinary meetings of the Supervisory Board to prepare these.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the annual general meeting held on July 12, 2019, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, was appointed as statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. At its meeting of July 30, 2019, the Audit Committee engaged the auditor for the 2019 annual financial statements and the consolidated financial statements. The auditor submitted the Statement of Auditor's Independence as required by the German Corporate Governance Code and disclosed the auditing and consulting fees charged during the fiscal year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited GRAMMER AG's annual financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements of GRAMMER Group prepared in accordance with IFRS as well as the management report for GRAMMER AG and the GRAMMER Group. The auditor issued an unqualified opinion for the annual financial statements and the consolidated financial statements for the period ending December 31, 2019. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the management report of GRAMMER AG and the GRAMMER Group provides a true and fair view of the Company and of the Group, as well as the opportunities and risks with regard to future development.

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

The reports and financial statement documents were submitted to the members of Supervisory Board by the auditor in a timely manner and examined thoroughly. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the key results of the audit during the meeting of the Audit Committee held on March 27, 2020 dealing with the annual financial statements and the consolidated financial statements and at the Supervisory Board meeting also held on March 27, 2020 to review the financial statements.

After thorough examination of the annual financial statements and the consolidated financial statements for 2019 as well as the management report of GRAMMER AG and the GRAMMER Group, the Supervisory Board raised no objections in this regard. The Supervisory Board thus endorsed the audit results established by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and approved the annual financial statements for GRAMMER AG and the Group for 2019. GRAMMER AG's annual financial statements were therefore duly approved. The Supervisory Board agreed with the Executive Board proposal for appropriation of net retained profits.

COMBINED SEPARATE NON-FINANCIAL REPORT

At its balance-sheet meeting of March 27, 2020, the Supervisory Board considered the Company's non-financial report. The combined separate non-financial report submitted by the Executive Board describes the Company's policies in respect of economic, social, ethical and environmental matters. The current separate non-financial report for the 2019 annual report can be found on page 26. The Supervisory Board satisfied itself that the report had been prepared and reviewed the appropriateness and implementation of its contents and the internal due diligence processes and determined that the measures taken and the concepts applied for sustainability are appropriate for addressing the risks and opportunities and are consistent with the business model. After careful examination, the Supervisory Board approved the GRAMMER Group's separate non-financial report.

DEPENDENT COMPANY REPORT

The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from January 1 to December 31, 2019 was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued an unqualified audit opinion:

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

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

The dependent company report and the auditor's report were submitted to all members of the Supervisory Board in good time and discussed in detail at the meeting of the Audit Committee on March 27, 2020 and at the meeting of the Supervisory Board on March 27, 2020. The independent auditor was available at both meetings to answer questions and provide information on the dependent company report and the main findings of his audit.

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

COMPOSITION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

The Supervisory Board appointed Mr. Thorsten Seehars to the position of Chief Executive Officer and Human Resources Director of the Company at its meeting of April 25, 2019. Mr. Seehars was appointed for the period from August 1, 2019 until July 31, 2022. In addition, the Supervisory Board decided at its meeting of March 15, 2019 to appoint Ms. Jurate Keblyte to the Executive Board for a period from August 1, 2019 until July 31, 2022. She assumed the position of Chief Financial Officer (CFO). In the interests of a smooth transition, Mr. Manfred Pretscher agreed to a further extension of his appointment until August 31, 2019. In August 2019, he remained an ordinary member of the Executive Board without any departmental responsibility of his own.

With the appointment of Mr. Thorsten Seehars as the new Chief Executive Officer as well as the appointments of Ms. Jurate Keblyte and Mr. Jens Öhlenschläger, we made crucial decisions concerning the Company's management in 2019. With these new appointments, all positions on GRAMMER AG's Executive Board have been filled on a long-term basis. We are delighted that we now have three experienced managers to continue and shape the Company's sustained successful development.

The Supervisory Board would like to express its thanks to the Executive Board, the employees and the employee representatives of GRAMMER AG for their great personal commitment and hard work, without which the favorable business performance would not have been possible. The Supervisory Board is also particularly grateful to Mr. Pretscher, who agreed to remain available to the Company during the transition period. Finally, the Supervisory Board would also like to convey its gratitude to the shareholders who placed their trust in GRAMMER AG's Executive Board and Supervisory Board last year.

Amberg, March 2020
On behalf of the Supervisory Board

Dr. Klaus Probst
Chairman

GRAMMER SHARE

TRENDS IN THE GERMAN STOCK MARKETS

2019 was an eventful year for global stock markets, with concerns such as Brexit, geopolitical uncertainties, punitive tariffs, discussions on interest rates and worries over growth exerting a heavy influence. The DAX, the German selection index tracking the 30 largest companies, entered 2019 at 10,559 points. With fears of a recession increasingly fading in the course of the year, equity markets launched a late-summer rally and closed 2019 only slightly below the high for the year. The DAX closed at 13,249 points on December 30, 2019, thus posting a full-year gain of 25%. The SDAX, a selection index of the 50 smaller listed companies in Germany, which also included GRAMMER up until 2018, also made headway. It closed the year at 12,512 points, up 32% on the end of the previous year.

THE GRAMMER SHARE IN 2019

The challenging conditions in the automotive industry also left traces on the GRAMMER share, which declined in the course of the year. After entering the year at EUR 37.70, it reached a high for the year of EUR 39.20 in April. At the end of 2019 it was trading at EUR 31.95, a decline of 15% over the beginning of the year. The market capitalization of the roughly 12.6 million shares stood at EUR 403 million.

KEY FIGURES FOR THE GRAMMER SHARE

On December 31, 2019, the share capital of GRAMMER AG totaled roughly EUR 32.3 million, divided into 12,607,121 bearer shares. Of this, the Company holds 330,050 of its own shares as treasury stock. GRAMMER shares are traded on the Frankfurt and Munich stock exchanges via the electronic trading system Xetra as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges.

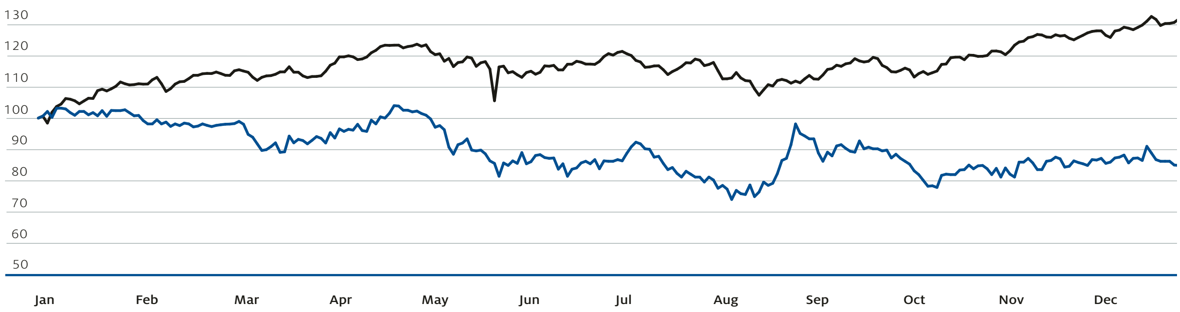
KEY FIGURES FOR THE GRAMMER SHARE

	DECEMBER 31, 2019	DECEMBER 31, 2018
Xetra closing price (EUR)	31.95	37.70
High for the year (EUR)	39.20	67.10
Low for the year (EUR)	27.90	30.02
Number of shares	12,607,121	12,607,121
Market capitalization (EUR m)	402.8	475.3
Earnings per share (in EUR)	3.56	1.90
Dividend per share (in EUR)	0.11[1]	0.75

[1] Proposed.

GRAMMER AG AND SDAX PERFORMANCE INDEX 2019 PRICE TREND

IN %



December 31, 2018 = 100%

GRAMMER AG

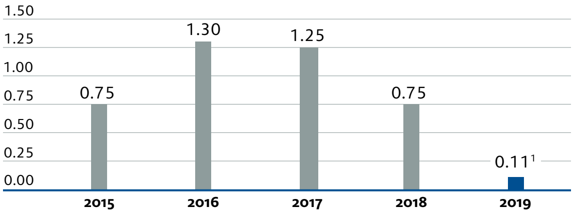
SDAX Performance Index

DIVIDEND

The Executive Board and the Supervisory Board will be recommending at the Annual General Meeting that the shareholders approve a dividend of EUR 0.11 per share for 2019 (previous year: EUR 0.75 per share).

DEVELOPMENT OF DIVIDENDS

IN EUR



[1] Proposed.

COVERAGE BY ANALYSTS

At the end of December 2019, the GRAMMER share was being covered by six different research companies. The consensus target price was around EUR 36 at the end of the year. Analysts gave interested parties a regularly updated assessment of the outlook for the GRAMMER shares.

ANALYST COVERAGE OF GRAMMER AG IN 2019

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

INVESTOR RELATIONS

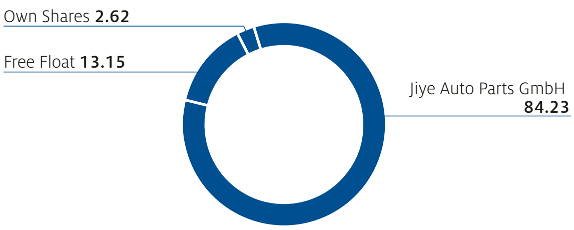
In 2019, we continued to keep institutional investors, analysts and private individuals informed of the Company's business performance, strategy and goals. We met institutional investors and analysts at roadshows held in financial centers in Europe and took part in national and international capital market conferences. Numerous one-on-one meetings were also held. Besides talks in person, capital market participants have numerous other options for keeping abreast of events at GRAMMER and the performance of the GRAMMER share. We regularly publish ad-hoc bulletins as well as press releases and voting right notifications. The annual report, the half-year report and the quarterly reviews also contain detailed information and are backed up with telephone conferences for multipliers such as analysts and journalists. These telephone conferences are recorded and made available on GRAMMER's website at www.grammer.com. Further information can be found on our website, where we report on all capital market activities in the Investor Relations section. In addition, the investor relations team can be reached by telephone or by e-mail.

SHAREHOLDER STRUCTURE

There were no changes in the shareholder structure in 2019 compared with the previous year. Once again, Jiye Auto Parts GmbH held 84.23% of the shares. Accordingly, Jiye Auto Parts GmbH is the main shareholder and has stabilized the shareholder structure on a long-term basis. The diagram below only includes shareholders who hold more than 3% of GRAMMER shares and have informed GRAMMER of this by means of a voting rights notice. In addition, it shows the number of shares held as treasury stock. The current shareholder structure and voting right notices can also be found in the Investor Relations section of the GRAMMER AG website.

SHAREHOLDER STRUCTURE[1]

IN %



[1] As of December 31, 2019.

INDEX GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Starting in the 2019 annual report, the Group is referred to as the GRAMMER Group. Rounding differences in the disclosures contained in the annual financial statements are possible.

REFERENCES

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

FORWARD-LOOKING STATEMENTS

This Group management report contains forward-looking statements based on current assumptions and estimates made by GRAMMER's management of future trends. Such statements refer to periods in the future or are characterized by terms such as "expect", "predict", "intend", "forecast", "plan", "estimate", "expect" or similar terms. Such statements are subject to risks and uncertainties which GRAMMER can neither estimate nor influence with any precision, e.g. future market conditions and the macroeconomic environment, the behavior of other market participants, the successful integration of newly acquired companies, the materialization of expected synergistic benefits and government actions. If any of these or other factors of uncertainty or 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.

1. BASIS OF THE GROUP

1.1 BUSINESS MODEL

The GRAMMER Group is a global group of companies specializing in the development and production of complex components and systems for automotive interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles. The Group's business performance correlates closely with the performance of its relevant markets and main customers. In the Automotive Division these are primarily the global passenger vehicle segment and in the Commercial Vehicles Division commercial vehicle business in the sell-side markets mentioned below.

The GRAMMER Group comprises two Divisions. In the Automotive Division, the GRAMMER Group operates as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. The Group sells these products to automotive OEMs and their Tier 1 suppliers.

In the Commercial Vehicles Division, GRAMMER operates as a supplier to the commercial vehicles industry, developing and manufacturing driver and passenger seats for trucks and driver seats for offroad vehicles (tractors, construction machinery and forklifts) and marketing these to commercial vehicle manufacturers or as an aftermarket supplier. The segment also develops and produces driver and passenger seats for sale to makers of busses and railway vehicles, as well as railway operators. The Commercial Vehicles Division encompasses the business segments Trucks and Offroad (tractors, construction machinery and forklifts) as well as Railway & Bus.

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

GRAMMER GROUP Revenue (2019): EUR 2,038 million Employees (2019): ø 14,910	
AUTOMOTIVE DIVISION Revenue: EUR 1,479.8 million Employees: ø 10,910	COMMERCIAL VEHICLES DIVISION Revenue: EUR 607.4 million Employees: ø 3,786

Consolidation effects on revenue between the Divisions came to EUR 48.7 million.

1.2 CORPORATE STRUCTURE

GRAMMER Aktiengesellschaft is the parent company within the GRAMMER Group, which is managed by an Executive Board composed of three members as of December 31, 2019. GRAMMER AG acts as an operating holding company, which includes the Executive Board members as well as business-relevant Group departments such as Legal & Internal Audit, Human Resources, Accounting, Taxes, Finance, Controlling, Research & Development, Communications & Marketing, Quality Assurance, IT, Environment and Production, Purchasing and Sales.

It operates 48 production and logistic plants worldwide, which manufacture and distribute high-quality products for the global vehicle industry in a highly integrated value chain. In addition to the parent company, GRAMMER AG, the Group includes 39 fully consolidated companies as well as two companies accounted for using the equity method (see also Note 3 (“Scope of consolidation”) in the notes to the consolidated financial statements). The GRAMMER Group is active in 20 countries worldwide. With its global footprint in the various regions, it chiefly follows its main customers.

GRAMMER shares are traded on the Frankfurt and Munich stock exchanges via the electronic trading system Xetra as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges. On December 31, 2019, the share capital of GRAMMER AG totaled roughly EUR 32.3 million, divided into 12,607,121 bearer shares. Of this, the Company holds 330,050 of its own shares. 84.23% of the shares issued are held by Jiye Auto Parts GmbH according to the notifications available on December 31, 2019 pursuant to section 33 WpHG (German Securities Trading Act) (see Section 2.5.3). The free float comprising the remaining shares currently stands at around 13.15%. Own shares account for 2.62%. Effective October 8, 2019, Jiye Auto Parts GmbH became an indirect subsidiary of Ningbo Jifeng Auto Parts Co., Ltd. following a change in its parent company’s shareholder structure. Accordingly, the GRAMMER Group is fully consolidated within the Ningbo Jifeng Group as of that date.

In addition, a decision was made to realign the GRAMMER Group’s structure from April 1, 2020. This entails a shift in focus in favor of the core regions EMEA (Europe, Middle East and Africa), the Americas (North, Central and South America) and China of relevance for the Company in order to strengthen the GRAMMER Group’s organizational structure at a local and regional level. The regions will be responsible for their own income statements, balance sheets and cash flows. The existing Automotive and Commercial Vehicles Divisions will be retained and focus on customer and product strategies. The global functions (Group departments) will continue to support the Divisions and regions by defining standards and offering specific services.

1.3 MANAGEMENT PROCESS SYSTEM

The GRAMMER Group’s internal value-based management process system is primarily aligned to the key management indicators revenue, earnings before interest and taxes (EBIT), operating earnings (operating EBIT) and GRAMMER return on capital employed (G-ROCE[1]).

The GRAMMER Group applies operating earnings (operating EBIT) as a key criterion for assessing its operating performance. Operating earnings (operating EBIT) are defined as consolidated earnings before tax, i.e. net of income taxes, finance income and finance expenses as well as other financial result adjusted for exceptionals (e.g. restructuring expenses, expenses under change-of-control clauses, transaction costs arising from corporate acquisitions and special expenses in connection with shareholder-related matters) and currency-translation effects. It is not a performance indicator defined in accordance with the International Financial Reporting Standard (IFRS) in the version endorsed by the EU. The GRAMMER Group uses it as it believes that it presents the Company’s earning situation more transparently and provides a better basis for comparison over time because it eliminates exceptional effects liable to adversely affect an assessment of its performance.

In 2017, G-ROCE was included in the remuneration system for the Executive Board and managers and has also been used in the Group management process system since 2018. Details of the calculation of G-ROCE can be found in the section outlining the principles of the remuneration system.

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

In addition, net financial liabilities, working capital, GEVA[1] (GRAMMER enterprise value added) and gearing (net financial liabilities divided by equity) are evaluated and monitored as further financial indicators. GEVA is also explained in the section entitled “Principles of the remuneration system”.

1.4 RESEARCH AND DEVELOPMENT

Alongside operating performance, the GRAMMER Group's research and development activities form the basis for its competitiveness and market position. The development of new products, applications and processes forms a key component of our strategy. More than 500 GRAMMER engineers and R&D employees work in the Group-wide research and development network with the aim of additionally enhancing the ergonomics, safety, functionality, quality and aesthetics of our products.

In recent years, we have been working continuously on optimizing our development network in order to position ourselves strategically in all core regions and to better understand customer expectations and incorporate them in our products. To this end, we have expanded technology centers in the Americas and APAC in addition to research and development in Europe.

To strengthen our position in the Chinese market, which is of crucial importance for us, we operate three local technology centers in China – in Changchun for the Automotive division, in Tianjin for Asian offroad business and in Shanghai for both divisions. The close proximity to the Chinese market in combination with the global coordination of project work will enable us to pursue closely interlocked, regional and global cooperation with our customers and to take specific national developments into account. We are confident that this market proximity and the cooperation with customers will in the development phase already strengthen GRAMMER's long-term competitiveness.

In addition, the global development network, development processes and costs are to be optimized with the establishment of the ALLYGRAM Systems and Technologies joint venture in Pune, India, in 2019. 79 engineers were already based there as of December 31, 2019.

Non-capitalized research and development expenses came to EUR 64,119 thousand in 2019 (2018: EUR 60,634 thousand), equivalent to 3.2% of total revenue (2018: 3.3%). In addition to meeting ongoing market and customer requirements, we have established a systematic innovation process in the R&D area. By closely linking strategic product planning and advanced engineering, we want to identify future trends and key developments in our markets at an early stage and systematically initiate and develop our own innovations in response to these.

Particularly noteworthy are new product designs in the Automotive and Commercial Vehicles Divisions in response to requirements arising from autonomous driving and e-mobility. We want to enhance our competitiveness by actively linking product and process development.

For many years now, light-weight construction has formed a major thrust of our development activities. The aim is to play an active role in the general trend towards weight reduction in automotive engineering as a means of cutting fuel consumption and carbon dioxide emissions. Looking forward, the use of sustainable ecologically sourced materials will also continue to grow in importance. In addition to enhancing our traditional products and core technologies, we are increasingly focusing on the integration of electronic subsystems in our products. With the combination of new electronic operating and control elements and our expertise in developing armrests, center consoles, headrests and seating systems, we are able to offer solutions for our customers. In addition to light-weight construction, the thrust of our development activities is targeted at designing high-quality and functional surfaces for our products as well as new kinematic solutions for consoles. Here, we are conducting research into materials as well as production processes. We are working continuously on advancing our technological capabilities in plastic injection molding processes for thermoplastic components and light-weight structures, surface finishing and metalworking. With integrated, innovative process and production technologies, GRAMMER plans to additionally develop its range – particularly in automotive interiors – swiftly and in line with future requirements. In addition, the GRAMMER Group is working on solutions for integrating new HMI (human-machine interface) solutions, which we will be offering to customers as integrated systems together with consoles and armrests in the future. With respect to headrests, the main focus of the development activities is on solutions for electric motors and

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

fully automatic adjustments as well as the integration of audio and comfort applications in the premium segment in particular. We are working on continuously enhancing existing technologies in the areas of safety, comfort, installation space, weight and adjustment mechanisms.

In the Commercial Vehicles Division, GRAMMER is steadily driving forward the further enhancement of its product portfolio with the development of solutions to respond to changing market requirements. In doing so, GRAMMER is benefiting from its many years of experience in engineering suspension seats and ergonomically solutions. With the addition of the electronics skills amassed over the last few years, GRAMMER is working on integrated and bespoke solutions providing optimum cabin comfort and covering all aspects of vehicle control. In the offroad segment, activities aimed at expanding the current range of HMI solutions are progressing according to schedule; at the same time, however, work on the next-generation integrated seat solutions is being stepped up. In the truck sector, we are working on improving the comfort, safety and functionality of our latest-generation truck driver seats by adding electric motor-driven adjustment functions. Looking forward to future generations of truck cabins, we expect demand for the integration of ergonomic seating systems with multifunctional electronic armrests to continue growing. We are working closely with universities and customers to design the driver cabin of the future. In this way, we are able to enter a whole new dimension in the integration of vehicle and cabin functions as well as the ergonomic design of the cockpit environment.

In 2019, GRAMMER was able to showcase its products at bauma and was awarded the Red Dot Award Product Design 2019:

At bauma 2019, GRAMMER exhibited the familiar Actimo Evolution driver's seat in a new design and with new functions. One key feature is the seat climate control system. The 2-stage seat heating function provides warmth, while the new climate control system fitted to the seat and back upholstery ensures an ideal seat climate. The new side contour adjustment in the back upholstery has also improved support and seating comfort for the driver.

The "Smart Cover", a ceramic 3-D hardcover, opens up new possibilities with regard to protection, durability and the optical design of seat cushions with imitation leather and fabric covers.

The integrated "Haptic Warning System" links the seat with the assistance systems fitted to the construction machine, thus serving as an output medium for these systems.

A design for a noise-canceling system for the construction machinery sector was also unveiled. To this end, loudspeakers are integrated in the headrest of the seat to create a quietwork environment.

GRAMMER is a shareholder in Commercial Vehicle Cluster Südwest (CVC), a communications platform for the conceptualization, development, production, service and operation of commercial vehicles. OEMs, suppliers, service providers, testers, researchers and politicians use this platform to share information.

GRAMMER won the Red Dot Award Product Design 2019. The "Roadtiger" truck driver's seat received the Red Dot, which the renowned jury only bestows on products featuring an outstanding design.

In the rail segment, we are continuing to establish ourselves as a full-line supplier addressing the entire segment, supplying our newly developed seating platforms for high-speed, long-distance and regional trains. GRAMMER presented important new additions to its innovative range of modern passenger seats to the public at Busworld Europe for the first time. In developing its sophisticated solutions, it was able to harness diverse synergistic effects from its Commercial Vehicles division.

2. ECONOMIC CONDITIONS

2.1 BUSINESS ENVIRONMENT

2.1.1 MACROECONOMIC ENVIRONMENT

The global economy experienced more muted growth in 2019. According to the International Monetary Fund (IMF), global growth slowed on a broad basis compared with the previous year to only 2.9% (2018: 3.6%). At the same time, underlying conditions increasingly deteriorated, prompting the IMF to successively scale back its forecast for 2019 in the course of the year.

The IMF cites growing trade barriers and geopolitical and structural factors as the main reason for the slowdown. These include lower productivity growth and the demographic trends of an ageing population in the industrialized countries. The more restrained momentum of the manufacturing sector and global trade was particularly noteworthy, with growth coming to only 1.0% in 2019 (2018: 3.7%), while the service sector held up well. Increasing protectionism and higher tariffs thus took their toll on investment activity. In addition, the automotive industry is shrinking due to specific factors such as new emission standards in the Eurozone and China.

Given the particular importance of the automotive industry in Germany, growth in that country fell by one percentage point year-on-year to 0.5% in 2019. As the decline in other major Eurozone countries was more moderate, the IMF's projections for the Eurozone as a whole assume that economic momentum will slow to 1.2% (2018: 1.9%). There are also unmistakable signs of more muted growth in the United States, where output rose by only 2.3% (2018: 2.9%). The IMF mentions weaker capital spending in the United States and a slump in the manufacturing sector but says that employment and consumption remained robust. The national economy is being spurred by reforms such as the tax cuts of 2017, which are stimulating growth, and the interest rate cuts by the US Federal Reserve.

More muted economic expansion is also evident in the emerging and developing countries, where growth slowed to 3.7% (2018: 4.5%). According to the IMF, the slower pace in China (6.1%, down from 6.6% in the previous year) is not only due to escalating punitive tariffs but also to sagging demand in the country. In Brazil, the largest economy in Latin America, gross domestic product contracted by 0.1 percentage points this year to 1.2%.

The political risks arising from the trade dispute and Brexit left traces in 2019. Towards the end of the year, however, most of these issues had been largely overcome. In addition, climate protection attracted intense interest in the financial markets.

2.1.2 SECTOR ENVIRONMENT

AUTOMOTIVE INDUSTRY IN REVERSE GEAR

The global automotive market experienced a significant decline in 2019. The main reasons for this were the trade conflict between the United States and China, the unresolved trade issues between the United States and the EU and the Brexit debate. According to the IHS, passenger vehicle output contracted by 5.8% worldwide. Following the slump in 2018, vehicle production in China suffered a further decline of 8.3% to 24.6 million vehicles in 2019. In North America, production figures also fell by 3.8% to 16.3 million vehicles. South America was also down 4.0%, while production in Europe shrank by 4.3%.

COMMERCIAL VEHICLE MARKET SOFTER

According to IHS, global production of commercial vehicles declined by 7% in 2019, although conditions varied from market to market. Thus, the Chinese market dropped by 10% and the European market by 4.9%, while output in South America climbed by 7.9%. North America also saw a 2.4% increase in production.

AGRICULTURAL MACHINERY

According to VDMA (German Mechanical and Plant Engineering Association e.V.), 28,979 tractors were registered for the first time in Germany between January and December 2019, 4.7% more than in the previous year. VDMA assumes that global sales in the agricultural machinery industry remained flat in 2019, with the German market down a slight 3% in all probability.

CONSTRUCTION MACHINERY SECTOR

VDMA's sales forecasts for construction machinery point to growth of 5% in Europe. In Germany, growth of as much as 6% is expected, while global growth is in a range between 0% and 5%.

MATERIAL HANDLING

The global market for storage technology contracted by 2% between January and September 2019 compared with the same period of the previous year. Growth in China was almost entirely eroded by softening demand in Europe. The 5% decline in the global market for battery-powered counterbalanced forklifts was also the result of weaker demand in Europe. The market for forklifts with internal combustion engines shrank by 7% due to lower orders from North America, Asia and Europe.

RAILWAY INDUSTRY

According to the German Railway Industry Association e.V. (VDB), the German railway sector achieved revenue of EUR 5.2 billion in the first half of 2019, marking a decline of 3.7 %. At EUR 8.1 billion, order intake exceeded the same period in the previous year by around 25%.

2.2 SIGNIFICANT EVENTS IN 2019

CHANGE IN THE EXECUTIVE BOARD

On December 20, 2018, the Supervisory Board of GRAMMER AG appointed Manfred Pretscher as interim CEO and CFO effective January 1, 2019 to replace CEO Hartmut Müller and CFO Gérard Cordonnier, who had resigned at the end of 2018 after exercising the change-of-control clauses in their contracts. At the same meeting, the Supervisory Board also appointed Jens Öhlenschläger to the Executive Board, assigning him the position of Chief Operating Officer and as successor to Manfred Pretscher in this position effective January 1, 2019. His contract has a duration of three years.

At its meeting on March 15, 2019, the Supervisory Board of GRAMMER AG decided to appoint Jurate Keblyte to the Executive Board and to assign her to the position of Chief Financial Officer with effect from August 1, 2019. At its meeting on April 25, 2019, the Executive Board passed a resolution to appoint Thorsten Seehars to the Executive Board and to assign him the position of CEO with effect from August 1, 2019. The CEO and CFO contracts were also entered into for a period of three years. As a result, all positions on the Executive Board have been successfully filled. Manfred Pretscher handed over the offices of CEO and CFO to the new members of the Executive Board on August 1, 2019, departing from the GRAMMER Group on August 31, 2019.

TECHNOLOGY CENTER AS AN ASSOCIATE ALLYGRAM IN INDIA

GRAMMER and Allygrow agreed upon in 2018 to found the associated company ALLYGRAM and with this laid a foundation stone for a new GRAMMER Technology Center in India, which will be providing development services for GRAMMER's global plants. Via "ALLYGRAM Systems and Technologies Private Limited", an associate set up in 2019, GRAMMER aims to optimize its development processes and enhance the efficiency of its global R&D capabilities. GRAMMER holds a 30% interest in the associate, which is consolidated using the equity method of accounting.

INVESTMENT GRADE RATING

In its June 2019 report, Euler Hermes Rating GmbH, Hamburg, Germany confirmed its investment grade rating for GRAMMER AG. The rating has been lowered from BBB to BBB-. The main rationale for this was the higher debt levels following the acquisition of Toledo Molding & Die Inc., Toledo (OH),USA, and the mounting market challenges facing the Automotive Division.

NEW CAMPUS IN URSENSOLLEN

The new building, which is being constructed on a plot of land measuring around 47,000 square meters in Ursensollen in the Upper Palatinate region in Germany, is the largest construction project in the Company's history. It is investing a total of more than EUR 75 million in two construction phases. The buildings in the first construction phase were completed in December 2019, with the Executive Board and part of the administration staff subsequently moving to the new premises. Looking forward, a total of more than 700 GRAMMER employees will be working at the new site in Ursensollen.

In addition to the corporate headquarters with office space of 22,000 square meters and the technology center, the GRAMMER Campus in Ursensollen will also comprise a design and ergonomics laboratory as well as a staff restaurant. For the first time, all research and development activities will be pooled in a single place at the technology center, thus providing the physical basis for optimum collaboration between the various departments.

GRAMMER's uppermost goal is to create an attractive, healthy, sustainable and modern working environment in which employees are able to work and communicate creatively and efficiently. This will be achieved by means of high and light offices, various meeting rooms and several communications hubs.

JOINT VENTURE AGREEMENT WITH FAWSN IN CHINA

On November 5, 2019, GRAMMER signed an agreement to establish a joint venture for automotive interior components with CHANGCHUN FAWSN GROUP CO., LTD., Changchun, China. FAWSN is affiliated with FAW Group Co., Ltd., one of the main automotive OEMS manufacturers in China. Under the terms of the agreement, GRAMMER will be holding 50% of the joint venture, which is to be known as GRAMMER FAWSN VEhicle Parts Co., Ltd. The remaining 50% will be held by CHANGCHUN FAWSN Group Co., Ltd. The joint venture will be developing and producing a wide range of interior components for passenger vehicles assembled by the FAW Group and its foreign partners. GRAMMER will be contributing its development and production expertise for consoles, interior components and thermoplastic products. Together with its new partner FAWSN Group, GRAMMER has a platform for expanding its customer base in China, while simultaneously achieving greater penetration of other Asian markets. The new joint venture in Changchun will support GRAMMER's growth targets in China. The joint venture company is expected to be incorporated in the first quarter of 2020 and to commence operations in the second quarter of 2020.

2.3 OVERVIEW OF KEY FIGURES AND BUSINESS PERFORMANCE

KEY FIGURES GRAMMER GROUP

EUR M

	GRAMMER GROUP			AUTOMOTIVE DIVISION			COMMERCIAL VEHICLES DIVISION		
	2019	2018	CHANGE	2019	2018	CHANGE	2019	2018	CHANGE
Revenue	2,038.5	1,861.3	9.5%	1,479.8	1,312.6	12.7%	607.4	599.8	1.3%
EBIT	74.5	48.7	53.0%	51.0	37.7	35.3%	44.1	55.5	−20.5%
EBIT margin (%)	3.7	2.6	1.1%-points	3.4	2.9	0.5%-points	7.3	9.3	−2%-points
Operating EBIT	77.0	75.8	1.6%	48.9	36.8	32.9%	42.7	53.5	−20.2%
Operating EBIT margin (%)	3.8	4.1	−0.3%-points	3.3	2.8	0.5 %-points	7.0	8.9	−1.9%-points
G-ROCE (%)[1]	8.4	10.5	−2.1%-points						
Capital expenditure (without M&A and financial assets)	132.8	73.9	79.7%	70.2	39.8	76.4%	20.6	16.6	24.1%
Employees (number, average)	14,910	13,439	10.9%	10,910	9,381	16.3%	3,786	3,775	0.3%

[1] G-ROCE is not reported on the level of divisions.

The GRAMMER Group generally performed well in 2019 despite the challenging macroeconomic backdrop, with the latest guidance confirmed despite the more muted macroeconomic and market conditions. The GRAMMER Group's results of operations, financial condition and net assets also painted a favorable overall picture last year. GRAMMER started 2019 with a stable first quarter. Group revenue at the end of March 2019 was up 17.5% on the same period of the previous year primarily as a result of the contribution made by TMD, which had been acquired in 2018, while the EBIT margin came to 4.5%, thus matching the previous year's figure of 4.5%. The second quarter of 2019 was also stable, with revenue rising by 13.4% over the same period in 2018. At the same time, the EBIT margin widened to 4.8%, exceeding the previous year's figure of 4.5%. However, with the global economy cooling and uncertainties emerging in markets around the world in the second half of 2019, there were considerable declines in some vehicle markets, which left traces on revenue in the Automotive Division as well as the Commercial Vehicles Division. Consequently, the third quarter painted a mixed picture for the GRAMMER Group, with the mounting tensions in automotive markets becoming evident. Despite this, the GRAMMER Group's revenue at the end of September 2019 was up 14.0% on the same period in the previous year thanks to the top-line contribution made by TMD. At 4.0%, the EBIT margin again exceeded the previous year's figure of 2.1%. The fourth quarter came under pressure from more muted growth in the wake of increasingly softer demand across all regions as well as further volatility in the sector environment. This caused a year-on-year decline in revenue in the Commercial Vehicles Division in the fourth quarter of 2019 in particular, an effect which pushed the EBIT margin in this Division down to 7.3%, compared with 9.3% in the fourth quarter of 2018.

The GRAMMER Group's revenue reached a historic high of EUR 2,038.5 million in 2019 thanks to the contribution made by the TMD Group after its acquisition in 2018. As a result, revenue in the Automotive Division climbed to EUR 1,479.8 million (2018: EUR 1,312.6 million), whereas revenue in the Commercial Vehicles Division (EUR 607.4 million) held steady at the previous year's level (2018: EUR 599.8 million).

Despite the mixed economic conditions in the year under review, the GRAMMER Group generated EBIT of EUR 74.5 million in 2019, an increase of 53.0% over the previous year's figure of EUR 48.7 million. Adjusted for exceptional expenses and currency effects operating EBIT came to EUR 77.0 million on December 31, 2019, marking an increase of 1.6% over the previous year's figure of EUR 75.8 million.

There were no significant exceptional expenses in 2019 compared with 2018. Whereas exceptional expenses of EUR 29.9 million had arisen in 2018 due to the takeover by Ningbo Jifeng, the acquisition of TMD, the resignation of the members of the Executive Board and the business discontinuation costs for the Langenfeld plant, a figure of only EUR 4.9 million was recorded in 2019. This was chiefly related to relocation and restructuring activities in Germany and China, the ex-post exercise of change-of-control rights by individual managers, non-recurring trailing legal and consulting costs following the successful takeover of the Company by the majority shareholder as well as project expenses for medium-term future restructuring efforts in response to the market situation (efficiency enhancement program). Exerting the opposite effect, non-operating exceptional income arose in 2019 from the recognition of double-taxation refund claims in connection with the quasi-VAT levies PIS and Confins (Programa de Integração Social / Contribuição para o Financiamento da Seguridade Social) in Brazil. The exceptional expenses are allocated to the individual Divisions on the basis of their origin. At EUR 2.5 million, net currency-translation gains came close to the previous year's figure of EUR 2.8 million.

With revenue rising by 12.7% over the previous year, the Automotive Division achieved a 35.3% increase in EBIT. Consequently, it was able to increase its contribution to Group earnings by EUR 13.3 million and cushion the effects of the decline in the EBIT margin in the Commercial Vehicles Division.

The Commercial Vehicles Division posted a 1.3% increase in revenue over the previous year, accompanied by an EBIT margin of 7.3% (2018: 9.3%). The decline in earnings over the previous year was due to lower revenue from the third quarter onwards in tandem with a deterioration of margins as a result of the product mix and various operating effects.

The GRAMMER Group responded to the signs of a deterioration in market conditions emerging in the third quarter by launching comprehensive programs to optimize operating processes and cost structures. In addition, it started to rebalance the priorities defined in the corporate strategy to safeguard the Company's long-term sustainable success in its various markets.

Capital expenditure on property, plant and equipment, intangible assets and financial assets reached a total of EUR 133.4 million in 2019, equivalent to an increase of 80.5% over the previous year. Among other things, this increase was due to the first-time application of IFRS 16, under which all leases meeting the defined criteria are recognized as assets from January 1, 2019. Adjusted for this effect, capital expenditure came to EUR 111.2 million and was thus comparable to the previous year's figure of EUR 73.9 million. The actual increase of EUR 37.3 million or 50.5% over the previous year was primarily due to capital expenditure by the TMD Group, which had been acquired effective October 1, 2018, as well as construction spending on the new GRAMMER headquarters and Technology Center in Ursensollen near Amberg, upper Palatinate, work on which began in 2018. Effects from the first-time application of IFRS 16 from January 1, 2019 were valued at EUR 56.0 million, which is not included in capital expenditure on property, plant and equipment, intangible assets and financial assets.

The average number of employees was 10.9% higher than in the previous year.

2.4 GRAMMER GROUP RESULTS OF OPERATIONS

2.4.1 REVENUE BY REGION

EUR M

	GRAMMER GROUP			AUTOMOTIVE DIVISION			COMMERCIAL VEHICLES DIVISION		
	2019	2018	CHANGE	2019	2018	CHANGE	2019	2018	CHANGE
EMEA	1,115.3	1,191.4	−6.4%	715.5	793.4	−9.8%	439.8	441.3	−0.3%
Americas	609.5	366.4	66.3%	534.6	287.6	85.9%	83.2	86.1	−3.3%
APAC	313.7	303.5	3.4%	229.7	231.6	−0.8%	84.4	72.5	16.5%
Revenue	**2,038.5**	**1,861.3**	**9.5%**	**1,479.8**	**1,312.6**	**12.7%**	**607.4**	**599.8**	**1.3%**

Group revenue came to EUR 2,038.5 million in 2019, exceeding the previous year's figure of EUR 1,861.3 million by EUR 177.2 million. This translates into revenue growth of 9.5% over 2018.

GRAMMER Group revenue includes revenues from development services totaling EUR 116.9 million (2018: EUR 105.3 million). This increase is due to rising development contracts in 2019 compared with 2018. This revenue is derived from development activities as well as the cost of supplies, tools and equipment incurred by the GRAMMER Group until the product in question reaches series production. It primarily arises in the Automotive Division.

The companies making the largest contributions to revenue are located in the EMEA region (Europe, Middle East, Africa). Within this region, revenue of EUR 1,115.3 million was generated, marking a decline of 6.4% or EUR 76.1 million over the previous year (2018: EUR 1,191.4 million) due to muted market conditions. The two Divisions performed disparately in this region. Whereas revenue from this region fall substantially in the Automotive Division by 9.8% to EUR 715.5 million (2018: EUR 793.4 million), the Commercial Vehicles Division sustained a small decline of 0.3% to EUR 439.8 million (2018: EUR 441.3 million).

In the Americas (North, South and Central America), revenue rose substantially by EUR 243.1 million (66.3%) to EUR 609.5 million (2018: EUR 366.4 million) due to the acquisition of the TMD Group effective October 1, 2018. Accordingly, the Americas was the region contributing the second highest revenue within the GRAMMER Group. Driven by the acquisition, revenue in the Automotive Division surged by 85.9% to EUR 534.6 million (2018: EUR 287.6 million). By contrast, the Commercial Vehicles Division sustained a minor 3.3% decline in revenue to EUR 83.2 million (2018: EUR 86.1 million), which was particularly evident in offroad and truck business.

APAC (Asia Pacific) posted a small increase of EUR 10.2 million (3.4%) in revenue to EUR 313.7 million (2018: EUR 303.5 million). There were differences in the two Divisions in this region as well. Whereas the Automotive Division had to contend with the consequences of market contraction in the Chinese automotive industry, resulting in a very slight decline of 0.8% in revenue to EUR 229.7 million (2018: EUR 231.6 million), the Commercial Vehicles Division was able to report a very encouraging increase of 16.5% in revenue to EUR 84.4 million (2018: EUR 72.5 million) in this region.

2.4.2 GRAMMER GROUP EARNINGS

CONDENSED INCOME STATEMENT FOR THE GRAMMER GROUP

EUR K

	2019	2018	CHANGE
Revenue	2,038,507	1,861,292	177,215
Cost of sales	−1,807,144	−1,649,485	−157,659
Gross profit	**231,363**	**211,807**	**19,556**
Selling expenses	−41,824	−37,769	−4,055
Administrative expenses	−136,875	−146,527	9,652
Other operating income	21,872	21,228	644
Earnings before interest and taxes (EBIT)	**74,536**	**48,739**	**25,797**
Financial income	3,460	1,506	1,954
Financial expenses	−21,502	−13,501	−8,001
Other financial result	−2,365	−2,276	−89
Financial result	**−20,407**	**−14,271**	**−6,136**
Share of earnings of joint ventures	9,438	0	9,438
Earnings before tax	**63,567**	**34,468**	**29,099**
Income taxes	−20,089	−11,256	−8,833
Net profit	**43,478**	**23,212**	**20,266**

The GRAMMER Group achieved earnings before interest and taxes (EBIT) of EUR 74.5 million as of December 31, 2019 (2018: EUR 48.7 million), equivalent to an increase of 53.0% (EUR 25.8 million) over the previous year.

In contrast to 2018, which had come under pressure from exceptional effects of EUR 29.9 million (see Section 2.3), exceptional effects in 2019 came to a total of EUR 4.9 million. These include expenses of EUR 1.7 million in connection with the ex-post exercise of change-of-control rights on the part of individual managers, non-recurring trailing legal and consulting costs of EUR 0.8 million in connection with the takeover of the Company by the majority shareholder, trailing transaction costs of less than EUR 0.1 million for the acquisition of TMD, as well as project expenses of EUR 1.0 million for medium-term future restructuring efforts in response to the market situation (efficiency enhancement program) and the resultant relocation and restructuring costs of EUR 3.3 million arising in Europe and China. These exceptional expenses were offset by exceptional income of EUR 2.0 million from refund claims relating to miscellaneous tax in Brazil. The EBIT margin came to 3.7% in 2019 (2018: 2.6%).

In addition, EBIT was affected by currency-translation gains of EUR 2.5 million in 2019. These particularly arose from the favorable exchange rate of the Mexican peso against the US dollar. In 2018, currency-translation gains of EUR 2.8 million had also exerted a positive effect on EBIT. These were very largely caused by the Mexican peso, the Turkish lira, the Japanese yen and the Czech koruna against the euro.

Adjusted for exceptional effects and currency-translation effects, operating EBIT came to EUR 77.0 million in 2019 (2018: EUR 75.8 million), thus exceeding the previous year by EUR 1.2 million (1.6%). The operating EBIT margin narrowed from 4.1% in 2018 to 3.8% in the year under review. The cost of sales increased by EUR 157.7 million or 9.6% to EUR 1,807.1 million (2018: EUR 1,649.5 million) largely as a result of the increased revenuearising from the inclusion of TMD Group, which had been acquired in 2018. At 11.3%, the gross margin was virtually unchanged (2018: 11.4%).

Sales expenses rose proportionately by EUR 4.0 million over the previous year to EUR 41.8 million (2018: EUR 37.8 million). As a percentage of revenue, they climbed slightly to 2.1% (2018: 2.0%).

Administrative expenses dropped by EUR 9.6 million or 6.6% to EUR 136.9 million (2018: EUR 146.5 million). These expenses were substantially lower than in the previous year primarily as a result of the aforementioned exceptional effects arising in 2018.

The staff costs included in the above items climbed by EUR 61.1 million to a total of EUR 486.3 million (2018: EUR 425.2 million) for business-related reasons and as a result of the consolidation of TMD. At 23.9%, the staff cost ratio was up on the previous year (2018: 22.8%) due to TMD's more personnel-intensive business model.

Other operating income increased by EUR 0.7 million from EUR 21.2 million in the previous year to EUR 21.9 million in 2019. This is due to higher income from the sale of steel scrap and the like as well as recharged handling costs compared with the previous year. This also includes the refund claim of EUR 2.0 million for miscellaneous taxes in connection with the double taxation in Brazil with respect to the two quasi-VAT levies "PIS and Confis".

At EUR 20.4 million, net finance expense was well up on the previous year's figure of EUR 14.3 million. The finance income included in this item rose by EUR 2.0 million to EUR 3.5 million (2018: EUR 1.5 million) particularly as a result of the positive interest effect in connection with the refund claim for miscellaneous taxes. Finance expenses increased by EUR 8.0 million to EUR 21.5 million (2018: EUR 13.5 million) primarily due to higher interest expenses of EUR 14.9 million (2018: EUR 9.7 million) for loans taken out to finance the acquisition of the TMD Group. At EUR 2.7 million, interest expenses on retirement benefit obligations were virtually unchanged over the previous year (2018: EUR 2.6 million). Currency-translation of foreign-currency items and Group loans had a negative effect on net finance income/finance expense of EUR 2.3 million (2018: EUR 2.3 million).

In 2019, a share of earnings of joint ventures of EUR 9.4 million was recognised. The loan to GRA-MAG LLC, a joint venture accounted for using the equity method, was written up to it's nominal value. At the end of 2019, a loan to the joint venture company GRA-MAG LLC was no longer classified as a net investment in a foreign operation due to future positive payment forecasts.

Earnings before tax rose by EUR 29.1 million from EUR 34.5 million in 2018 to EUR 63.6 million in 2019. This increase was due to the absence of the exceptional effects that had exerted strong pressure in 2018.

At EUR 20.1 million, tax expense was up on the previous year's figure of EUR 11.3 million, rising by EUR 8.8 million or 77.9%. This reflects the substantially higher earnings before tax compared to 2018, which had been characterized by exceptional effects. In addition, adjustments were made to deferred tax assets on unused tax losses in the amount of EUR 7.1 million. This affected companies in Belgium, in the United States, in China and Spain. At 31.6%, the tax rate fell short of the previous year's figure of 32.7%.

Net profit came to EUR 43.5 million in 2019, thus rising by EUR 20.3 million from EUR 23.2 million in 2018. Relative to revenue, the post-tax margin came to 2.1% (2018: 1.2%).

Basic earnings per share are calculated by reference to net profit for the year adjusted for non-controlling interests and stand at EUR 3.56 in 2019 (2018: EUR 1.90).

G-ROCE for 2019 came to 8.4% (2018: 10.5%). G-ROCE is calculated on the basis of operating EBIT and average operating assets over the last four quarters (see 3.3 Principles of the remuneration system for further details). The assets and liabilities acquired with the takeover of TMD were included in average operating assets in 2018. In the first three quarter of 2018, TMD's assets and liabilities were not included. Assuming that the fourth quarter of 2018 is used for calculating G-ROCE, the G-ROCE for 2018 stands at 8.4%. On the basis of this assumption, the G-ROCE for 2019 of 8.4% is unchanged over the previous year.

2.4.3 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. On December 31, 2019, GRAMMER AG posted net profit of EUR 37.7 million (2018: EUR 41.6 million). This includes profit of EUR 32.4 million carried forward and the net loss for the year of EUR 5.3 million. No profit was retained. The Executive Board of GRAMMER AG will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 0.11 (2018: EUR 0.75) per share be paid with a resulting total dividend of EUR 1.4 million and that the balance of EUR 36.3 million (2018: EUR 9.2 million) be carried forward. In this connection, allowance was made for the fact that Company holds a total of 330,050 of its own shares, which are not dividend-entitled. If the number of dividend-entitled shares changes before the date of the annual general meeting, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

2.4.4 AUTOMOTIVE DIVISION

Revenue in the Automotive Division rose by EUR 167.2 million or 12.7% over the previous year to EUR 1,479.8 million in the period under review (2018: EUR 1,312.6 million). The increase resulted primarily from the acquisition of the TMD Group, which had been consolidated for the first time in October 2018.

However, the Division's revenue contracted by 9.8% or EUR 77.9 million in EMEA for market-related reasons. Revenue in this region dropped from EUR 793.4 million to EUR 715.5 million. The main driver was Germany, where revenue fell by 10.4% or EUR 62.0 million from EUR 595.6 million to EUR 533.6 million.

In the Americas, the acquisition of the TMD Group in particular caused revenue to rise by 85.9% or EUR 247.0 million over the previous year. Accordingly, the Division's revenue in this region came to EUR 534.6 million.

Revenue in APAC dropped very slightly by 0.8% from EUR 231.6 million to EUR 229.7 million in 2019.

EBIT in the Automotive Division came to EUR 51.0 million in 2019, thus increasing by a gratifying EUR 13.3 million or 35.3% over the previous year's figure of EUR 37.7 million. Positive currency-translation effects of EUR 2.5 million (2018: EUR 0.9 million) and non-recurring exceptional expenses of EUR 0.6 million were recorded in 2019. The positive currency-translation effects in 2018 and 2019 were primarily caused by the exchange rates of the USD dollar, the Mexican peso and the Czech koruna. The exceptional expenses resulted from relocations in Germany. These measures were taken as a preliminary response to slower growth in the wake of increasingly softer demand in the automotive market.

Thus, operating EBIT adjusted for currency-translation and exceptional effects came to EUR 48.9 million in 2019, up EUR 12.1 million or 32.9% over the previous year's figure of EUR 36.8 million. Accordingly, the operating EBIT margin widened to 3.3% (2018: 2.8%) despite the tense situation of the automotive market.

2.4.5 COMMERCIAL VEHICLES DIVISION

In the period under review, revenue in the Commercial Vehicles Division rose by EUR 7.6 million or 1.3% over the previous year to EUR 607.4 million (2018: EUR 599.8 million). The increase was particularly underpinned by growth in the markets for driver and passenger seats for trucks and driver seats for offroad commercial vehicles (tractors, construction machinery and forklifts) in all regions, although stable growth was recorded in China. Growth was also recorded in Railway & Bus business, especially in Europe, although the market leveled off in the third quarter of 2019. Overall, China more than made up for the flat revenue in Europe and the Americas in the Commercial Vehicles Division.

Revenue in EMEA dropped slightly from EUR 441.3 million to EUR 439.8 million as a result of weaker demand on the part of key-account customers Daimler, DAF and MAN in the truck segment. However, revenue in Germany increased slightly by EUR 3.5 million from EUR 367.6 million in 2018 to EUR 371.1 million in 2019.

Despite contrary market trends revenue in the Americas dropped slightly by 3.3% from EUR 86.1 million to EUR 83.2 million due to lower volumes in Brazil in the truck segment.

Revenue in APAC climbed significantly by 16.5% from EUR 72.5 million in 2018 to EUR 84.4 million in 2019, driven in particular by the growth in truck business in China (Shaanxi) and in offroad business in China, Korea and Japan.

Division EBIT declined substantially by EUR 11.4 million or 20.5% from EUR 55.5 million to EUR 44.1 million in 2019, reflecting the tense situation in the international commercial-vehicle and offroad markets, particularly in the second half of the year. In addition to softening demand, the product mix as well as exceptional expenses arising from relocations in China and new product launches in the United States exerted pressure on the EBIT margin.

Operating EBIT fell by EUR 10.8 million or 20.2% from EUR 53.5 million in 2018 to EUR 42.7 million in 2019. Negative currency-translation effects came to EUR 0.2 million (2018: positive EUR 2.0 million). There were also non-recurring positive exceptional effects of EUR 1.6 million. The negative currency-translation effects particularly arose from trends in the exchange rates of the Chinese yuan, the Japanese yen, the Czech koruna and the Turkish lira. The positive special effects resulted from a non-recurring double taxation refund claim for VAT in Brazil, which also impacted EBIT. As a result of these effects, the operating EBIT margin contracted substantially to 7.0% (2018: 8.9%).

2.5 FINANCIAL POSITION

2.5.1 FINANCE AND LIQUIDITY MANAGEMENT

The syndicated loan contract taken out by GRAMMER AG in 2013 (EUR 180.0 million) has a term of five years plus two one-year renewal options. GRAMMER exercised the second renewal option in 2015. The term thus expires on October 31, 2020. The syndicated loan is divided into a facility of EUR 100.0 million (tranche A) for general corporate financing and a facility of EUR 80.0 million (tranche B) for acquisition finance, which was terminated as part of the acquisition of the TMD Group and the funding of this transaction. Negotiations to refinance the syndicated loan contract expiring on October 31, 2020 were commenced in 2019. The negotiations were successfully completed in February 2020 (see Note 36, Events subsequent to the reporting date).

In addition to the syndicated loan, GRAMMER's funding is secured by means of medium-term bonded loans, long-term private placements and bilateral loans. GRAMMER AG and two other domestic Group companies are parties to the syndicated loan agreement, under which each creditor has the right to demand premature repayment in the event of a change of control. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers.

As of December 31, 2019, the bonded loan had an outstanding value of EUR 137.0 million. As well as this, USD-denominated bonded loans of EUR 20.0 million were issued for the Group in 2019. In addition to a bilateral bank loan, these are components of the funding strategy for 2019 for the acquisition of TMD. EUR-denominated bonded loans of EUR 44.0 million expiring in 2019 were successfully refinanced and increased to EUR 55.0 million. Termination rights in the event of a change of control are also provided for in the agreements underlying the bonded loans and the private placements.

In connection with the acquisition of Toledo Molding & Die, Inc. (TMD), GRAMMER AG had taken outa bridge loan of USD 260 million with a term of 12 months with core banks in 2018, exercising the agreed six-month renewal option towards the end of the 2nd quarter of 2019. In addition, a USD-denominated loan of USD 25.0 million was raised in 2019.

A long-term mortgage-secured (development) loan of a total of EUR 50,0 million was disbursed for the purpose of funding the new GRAMMER Campus in Ursensollen near Amberg.

In pursuing funding activities, Group Finance attaches importance to timing aspects in the interest-rate structure so that short-term drawdowns are based on floating rates, while medium to long-term funding generally applies fixed rates based on matching maturities. Operating cash flows and the availability of adequate external capital are managed centrally by Group Treasury except in cases where legislation in a specific local jurisdiction limit the scope for doing this. The GRAMMER Group's main financial priority is to maintain its credit rating and to establish a balanced maturity structure and diversified funding portfolio to safeguard liquidity over the long term. Group Finance handles worldwide payment transactions and the administration of the cash pool in consultation with the local companies for ensuring adequate liquidity for GRAMMER AG's subsidiaries, as well as determining the extent to which the system is permitted and effective within the given legal and economic circumstances. For the purposes of managing financial risks, interest rate and currency risks are hedged centrally using customary derivative financial instruments.

At EUR 220.0 million, non-current financial liabilities were up EUR 58.0 million on the previous year (2018: EUR 162.0 million). At EUR 207.7 million, current financial liabilities were substantially lower than in the previous year (2018: EUR 295.7 million).

New financial liabilities of a total of EUR 148.2 million were raised in 2019. These primarily related to the funding of the GRAMMER Campus in Ursensollen, the long-term refinancing of a bonded loan and prorata refinancing of the bridge finance for the acquisition of TMD. This was offset by repayments of EUR 189.7 million, of which the partial repayment of the bridge finance for the acquisition of TMD accounted for the greatest portion.

The cash flow from operating activities declined by EUR 19.6 million (–13.6%) from EUR 143.6 million in 2018 to EUR 124.0 million in 2019 due to an increase in working capital. As the reduction in liabilities compared to the previous year exceeded the decline in receivables, there was an overall negative effect from working capital, which eroded the substantially positive effects from earnings before tax.

At EUR 103.8 million in 2019, the cash outflow from investing activities was substantially down on the previous year (2018: EUR 269.4 million). The previous year's figure had included outgoing payments of EUR 196.8 million for the acquisition of the TMD Group on October 1, 2018. In 2019, capital expenditure on property, plant and equipment exceeded the previous year substantially, coming to EUR 104.9 million (2018: EUR 68.2 million) due to further expansion of production facilities in both Divisions as well as the ongoing construction of the new GRAMMER Campus in Ursensollen. Capital expenditure on intangible assets came to EUR 5.7 million in 2019 and was thus unchanged over the previous year (2018: EUR 5.7 million).

All in all, there was a cash outflow of EUR 85.7 million from financing activities in 2019. In the previous year there had been a cash inflow of EUR 184.2 million particularly due to the loans raised for the acquisition of TMD.

Consequently, the GRAMMER Group had liquidity of EUR 142.7 million as of December 31, 2019 (2018: EUR 204.4 million). Overdraft facilities utilized (including current liabilities under factoring agreements) of EUR 19.0 million (2018: EUR 11.1 million) must be deducted from this. Accordingly, the cash flow components of cash and cash equivalents stood at EUR 123.7 million as of December 31, 2019 (2018: EUR 193.3 million).

2.5.2 CAPITAL STRUCTURE

As of December 31, 2019, the Company's share capital amounted to EUR 32,274,229.76 (2018: EUR 32,274,229.76) divided into 12,607,121 (2018: 12,607,121) shares. All shares (with the exception of treasury stock) accord the same rights; shareholders have a right to payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting.

At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue bonds with warrants and/or convertible bonds on or before May 27, 2019 subject to the exclusion of the shareholders' preemptive subscription rights. The share capital was increased on a contingent basis by up to EUR 14,777,182.72 for this purpose (Contingent Capital 2014/I). Following partial utilization, Contingent Capital 2014/I stood at EUR 12,057,318.40 as of December 31, 2018. The Executive Board did not make any further use of Contingent Capital 2014/I in 2019. Accordingly, the Executive Board's authorization to issue bonds with warrants and/or convertible bonds subject to the exclusion of the shareholders' preemptive subscription rights duly expired on May 27, 2019. No new authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2019.

The capital reserve amounted to EUR 129,796 thousand as of December 31, 2019 (2018: EUR 129,796 thousand) Accordingly, the capital reserve as of December 31, 2019 includes premiums from the capital increases in 1996, 2001, 2011 and 2017. The revenue reserve amounted to EUR 263,408 thousand (2018: EUR 228,920 thousand) as of December 31, 2019.

2.5.3 DISCLOSURE OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 33 WPHG

Under the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must immediately notify the Company and the Federal Financial Supervisory Authority. The lowest notification threshold is 3%. An overview of the current status of notified shareholdings that exceed the 3% threshold as of December 31, 2019 is included in the notes to the GRAMMER Group's consolidated financial statements.

2.5.4 OWN SHARES

The Annual General Meeting passed a resolution on May 28, 2014 to authorize the Executive Board to acquire treasury stock amounting to no more than 10% of the share capital on or before May 27, 2019. The Executive Board of GRAMMER AG did not make use of the authorization to acquire treasury stock in the year under review or in the previous year. Authorization to acquire treasury stock expired at the end of the day on May 27, 2019. No new authorization to acquire treasury stock was granted at the Annual General Meeting in the year under review. GRAMMER holds 330,050 treasury shares, all of which were acquired in 2006. These shares have a total value of EUR 844,928.00 and represent 2.618% of the share capital. The 330,050 shares held as treasury stock are non-voting and non-dividend-entitled.

2.5.5 CAPITAL EXPENDITURE

EUR M	2019	2018	CHANGE
GRAMMER Group[1]	133.4	73.9	80.5%
Acquired	111.2	73.9	50.5%
of which property, plant and equipment	104.9	68.2	53.8%
of which intangible assets	5.7	5.7	0.0%
of which financial assets	0.6	0.0	NA
Right-of-use assets (IFRS 16)	22.2	0.0	NA[2]

[1] First-time application effects of IFRS 16 of EUR 56.0 million as of January 1, 2019 not included.
[2] Not comparable due to the application of IFRS 16.

EUR M	2019	2018	CHANGE
Automotive	70.2	39.8	76.4%
Acquired	51.8	39.8	30.2%
of which property, plant and equipment	51.5	39.2	31.4%
of which intangible assets	0.3	0.6	−50.0%
of which financial assets	0.0	0.0	NA
Right-of-use assets (IFRS 16)	18.4	0.0	NA[2]

EUR M	2019	2018	CHANGE
Commercial Vehicles	20.6	16.6	24.1%
Acquired	18.3	16.6	10.2%
of which property, plant and equipment	13.6	13.4	1.5%
of which intangible assets	4.7	3.2	46.9%
of which financial assets	0.0	0.0	NA
Right-of-use assets (IFRS 16)	2.3	0.0	NA[2]

EUR M	2019	2018	CHANGE
Central Services	42.6	17.6	142.0%
Acquired	41.0	17.6	133.0%
of which property, plant and equipment	39.7	15.6	154.5%
of which intangible assets	0.7	2.0	−65.0%
of which financial assets	0.6	0.0	NA
Right-of-use assets (IFRS 16)	1.6	0.0	NA[2]

TOTAL CAPITAL EXPENDITURE

The GRAMMER Group's capital expenditure came to EUR 133.4 million in 2019, thus substantially exceeding the previous year's figure of EUR 73.9 million. One of the main reasons for the level of capital expenditure occurring in 2019 is the new accounting standard IFRS 16, which was applied for the first time from January 1, 2019. The effect of the standard for the lessee is that virtually all leases are recognized in the statement of financial position because the distinction between operating and finance leases provided for in the previous standard on lease accounting (IAS 17) has been eliminated. Under the new standard, assets (rights to use the leased asset) and financial liabilities for future lease payments or rentals are recognized during the term of the lease. These assets are shown as additions in the statement of changes in assets and thus form part of capital expenditure. In 2019, the GRAMMER Group recognized lease assets of a total of EUR 22.2 million in accordance with IFRS 16. A comparative figure for the previous year is not available as the GRAMMER Group applies the simplified transition method (modified retrospective method) and therefore did not retrospectively adjust the comparative information in the year of first-time application. Additions of lease assets recognized in accordance with IFRS 16 particularly relate to new long-term leases valued at EUR 16.0 million in China and the United States in 2019. In addition, total capital expenditure in 2019 does not include effects of EUR 56.0 million arising from initial application as of January 1, 2019. These effects from initial application include all former operating leases in existence as of December 31, 2018 required to be recognized under IFRS 16.

CAPITAL EXPENDITURE EXCLUDING RIGHT-OF-USE ASSETS UNDER IFRS 16

Capital expenditure excluding leased assets recognized under IFRS 16 came to EUR 111.2 million, thus exceeding the previous year's figure of EUR 73.9 million by EUR 37.3 million or 50.5%. Capital expenditure on property, plant and equipment stood at EUR 127.1 million in 2019. Adjusted for the right-of-use assets of EUR 22.2 million recognized under IFRS 16, capital expenditure on property, plant and equipment reached EUR 104.9 million and was consequently also well in excess of the previous year's figure of EUR 68.2 million. Of these additions to property, plant and equipment, the Automotive Division accounted for EUR 51.5 million (2018: EUR 39.2 million) and the Commercial Vehicles Division for EUR 13.6 million (2018: EUR 13.4 million). Capital expenditure on property, plant and equipment for Central Services came to EUR 39.7 million (2018: EUR 15.6 million).

Capital expenditure in the Automotive Division focused on Mexico, the Czech Republic and the United States. In Mexico, spending on the production of consoles and headrests was stepped up in Queretaro to accommodate the large number of new product launches. In the Czech Republic, investments were made in console production at the Zatech site. In the United States, further investments were made in Tennessee in the construction of a new production plant for plastic components. The TMD Tennessee plant in Fayetteville, Tennessee, United States, arose from the TMD Group. In addition, there was capital spending on plant and assembly equipment for console production at the Tupelo site in Mississippi, United States.

Capital spending in the Commercial Vehicles Division concentrated on Germany and the Czech Republic. In Germany, expansion and rationalization spending was again stepped up at the Haselmühl site in 2019. In the Czech Republic, seat production was expanded at the Tachov site.

As well as this, investments were made in site safety and environmental protection in both Divisions.

Capital expenditure in Central Services particularly related to the new GRAMMER Campus in Ursensollen near Amberg, construction of which commenced in 2018, and is the reason for the higher capital expenditure on property, plant and equipment. The GRAMMER Campus includes the construction of new headquarters with 22,000 square meters of office space, a technology center, a design and ergonomics lab and a staff restaurant. Construction expenses of EUR 55.1 million in 2019 were capitalized as of December 31, 2019 (see Section 2.2).

Capital expenditure on intangible assets came to EUR 5.7 million in 2019 and was thus unchanged over the previous year's figure of EUR 5.7 million. Of this, the Automotive Division accounted for EUR 0.3 million (2018: EUR 0.6 million) and the Commercial Vehicles Division for EUR 4.7 million (2018: EUR 3.2 million). Capital expenditure on intangible assets for Central Services came to EUR 0.7 million (2018: EUR 2.0 million). Intangible assets include patents, concessions as well as capitalized development activities.

2.6 NET ASSETS

CONDENSED BALANCE SHEET OF THE GRAMMER GROUP

EUR K

	DECEMBER 31, 2019	DECEMBER 31, 2018	CHANGE
Non-current assets[1]	825,623	696,332	129,291
Current assets[1]	648,826	745,085	−96,259
Assets	**1,474,449**	**1,441,417**	**33,032**
Equity	342,242	314,840	27,402
Non-current liabilities	490,050	359,956	130,094
Current liabilities	642,157	766,621	−124,464
Equity and liabilities	**1,474,449**	**1,441,417**	**33,032**

[1] Previous year's figures adjusted in accordance with IFRS 3.49, see Note 4. Business combinations.

As of December 31, 2019, the GRAMMER Group had total assets of EUR 1,474.4 million, up EUR 33.0 million or 2.3 % on December 31, 2018 (EUR 1,441.4 million). This increase is primarily due to the first-time application of new accounting guidance (IFRS 16 "Leases").

Non-current assets primarily comprise property, plant and equipment, intangible assets and deferred income tax assets as well as non-current contract assets. As of December 31, 2019, they increased by EUR 129.3 million to EUR 825.6 million (2018: EUR 696.3 million). This was primarily due to the increase of EUR 115.1 million in property, plant and equipment following the application of the new accounting guidance for recognizing right-of-use assets in connection with leases (IFRS 16 "Leases") as well as planned capital expenditure.

Current assets primarily include inventories, current trade accounts receivable, cash and short-term deposits, other current assets and current contract assets. As of December 31, 2019, they dropped by EUR 96.3 million to EUR 648.8 million (2018: EUR 745.1 million). This change was particularly due to a reduction of EUR 43.2 million in trade accounts receivable to EUR 206.8 million (2018: EUR 250.0 million) and a reduction of EUR 61.7 million in cash and short-term deposits to EUR 142.7 million (2018: EUR 204.4 million).

Equity rose by EUR 27.4 million to EUR 342.2 million (2018: EUR 314.8 million) as of December 31, 2019 due to the Group net profit of EUR 43.5 million (2018: EUR 23.2 million). The other comprehensive income of EUR –6.9 million (2018: EUR 3.3 million) caused a reduction in equity. Other comprehensive income comprises the positive currency-translation effects and resulting tax effects from net investments in foreign operations in Mexico of EUR 2.2 million (2018: EUR 2.1 million) and the positive effects from the currency translation of foreign subsidiaries of EUR 2.2 million (2018: EUR –3.9 million). This was counteracted by negative actuarial effects arising from adjustments of EUR 12.3 million (2018: EUR +5.1 million) to retirement benefits and similar obligations to allow for changed interest rates including deferred taxes. The dividend of EUR 9.2 million (2018: EUR 15.3 million) distributed by GRAMMER AG also reduced equity. Accordingly, the equity ratio increased to 23.2% (2018: 21.8%).

Reflecting efforts to optimize the Group's funding structure as well as the effects of the initial application of IFRS 16 "Leases", non-current liabilities climbed by EUR 130.1 million to EUR 490.1 million as of December 31, 2019 (2018: EUR 360.0 million). Non-current financial liabilities increased by EUR 58.0 million to EUR 220.0 million, while other financial obligations, which include lease liabilities, rose to EUR 64.4 million (2018: EUR 18.0 million). Retirement benefits and similar obligations rose by EUR 19.2 million to EUR 154.2 million (2018: EUR 135.0 million) due to the reduction in the discount rate from 1.9% (2018) to 1.2% (2019). Net deferred tax liabilities came to EUR 46.3 million (2018: EUR 41.9 million).

Current liabilities dropped by EUR 124.4 million to EUR 642.2 million as of December 31, 2019 (2018: EUR 766.6 million). Current trade accounts payable fell to EUR 309.0 million (2018: EUR 358.3 million). Current financial liabilities amounted to EUR 207.7 million (2018: EUR 295.7 million). Provisions climbed to EUR 23.4 million (2018: EUR 18.0 million).

3. SUPERVISORY BOARD AND EXECUTIVE BOARD

3.1 CHANGES IN THE EXECUTIVE BOARD

The rules for the appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG as well as article 8 et sec. of the Company's articles of incorporation. Manfred Pretscher stepped down from GRAMMER AG's Executive Board as planned on August 31, 2019. Jens Öhlenschläger was appointed to the Executive Board as Chief Operating Officer (COO) effective January 1, 2019 for a period of three years. At its meeting on March 15, 2019, the Supervisory Board of GRAMMER AG appointed Ms. Jurate Keblyte to the Executive Board for a period of three years effective from August 1, 2019 and assigned her to the position of Chief Financial Officer (CFO). On April 25, 2019, the Supervisory Board of GRAMMER AG appointed Thorsten Seehars to the position of Chief Executive Officer (CEO) of the Company for a period of three years with effect from August 1, 2019. Following this appointment, all positions on the Executive Board were successfully filled.

3.2 CHANGES IN THE SUPERVISORY BOARD

On September 12, 2019, Antje Wagner was appointed to GRAMMER AG's Supervisory Board by the Amberg Local Court to succeed Tanja Fondel, who resigned from the Supervisory Board effective September 15, 2019.

3.3 PRINCIPLES OF THE REMUNERATION SYSTEM

With effect from January 1, 2017, the Supervisory Board revised the remuneration system for the Executive Board of GRAMMER AG. This system, the principles of which are outlined below, was also applied in 2019. Annual total target remuneration comprising fixed remuneration, a target short-term incentive (STI) and a target long-term incentive (LTI) is agreed upon with each member of the Executive Board. The fixed remuneration is paid in twelve equal monthly instalments less any statutory deductions in arrears at the end of each month. The STI is calculated for each year and depends on the achievement of budget targets defined for two parameters – the operating earnings margin before tax (EBT margin) and GRAMMER return on capital employed (G-ROCE). These two factors are weighted evenly in the calculation of the STI, i.e. 50% of the target STI depends on the achievement of the budget target for the EBT margin and 50% on the achievement of the budget target for G-ROCE. The degree of achievement for the EBT margin and G-ROCE may be between zero (floor) and 200% (cap). Accordingly, the payout amount under the STI is between zero (floor) and 200% of the target amount (cap). The EBT margin is calculated on the basis of the consolidated financial statements as follows: Ratio of operating EBT for a given year to total revenue in the same year. This calculation is adjusted for currency-translation and exceptional effects. The EBT margin is expressed as a percentage. The degree of target achievement for the EBT margin is between 0% and 200%. Target achievement is 0% if the EBT margin calculated for a given financial year is one percentage point or more below the amount budgeted at the beginning of the financial year. Target achievement is 200% if the EBT margin calculated for a given financial year is one percentage point or more above the amount budgeted at the beginning of the financial year. Target achievement is 100% if the EBT margin calculated for a given financial year matches the amount budgeted at the beginning of the financial year. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. G-ROCE is the ratio of the operating EBIT reported in the consolidated financial statements for the year in question to average operating assets in the same year and is expressed as a percentage. The degree of target achievement for G-ROCE is between 0% and 200%. Target achievement is 0% if G-ROCE calculated for a given financial year is 3 percentage points or more below the amount budgeted at the beginning of the financial year. Target achievement is 200% if G-ROCE calculated for a given financial year is 3 percentage points or more above the amount budgeted at the beginning of the financial year. Target achievement is 100% if G-ROCE calculated for a given financial year matches the amount budgeted at the beginning of the financial year. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. The LTI is issued in annual tranches, each of which has a term (performance period) from January 1 of the respective year to December 31 of the third year following this year and is dependent on the achievement of enterprise value added ("GEVA") and total shareholder return ("TSR") targets, half of which are included in the calculation of the LTI, i.e. 50% of the target LTI depends on the achievement of the GEVA target and 50% on the achievement of the TSR target. The degree of target achievement for GEVA and TSR may be between zero (floor) and 200% (cap). Accordingly, the weighted aggregate target achievement for an LTI plan tranche is between 0% and 200%. The target payout amount for an LTI plan tranche is likewise between 0% and 200% of the target amount. Payment is made in the year following the final year of the performance period. The following parameters have been defined for the calculation of the LTI: GEVA equals G-ROCE less WACC (weighted average cost of capital) calculated on the basis of the methodology defined for the grant of a plan tranche for the financial years making up the performance period. G-ROCE is defined in the same way as for the STI. WACC expresses the expected return on the cost of capital employed. The degree of target achievement for GEVA is between 0% and 200%. Target achievement is 0% if the GEVA calculated for a given performance period is 2 percentage points or more below the amount budgeted at the beginning of the performance period. Target achievement is 200% if GEVA calculated for a given performance period is 2 percentage points or more above the amount budgeted at the beginning of the performance period. Target achievement is 100% if GEVA calculated for a given performance period matches the amount budgeted at the beginning of the performance period. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. Long-term target achievement is measured on the basis of the ratio of four-year average real GEVA to the average budget for the same period. TSR is calculated by comparing the performance of the GRAMMER share price in the four financial years of the performance period (TSR-GRAMMER) with the performance of the SDAX index in the same four financial years (TSR-SDAX). TSR-SDAX forms the 100% target for the TSR target in the LTI. To determine TSR target achievement, TSR-GRAMMER is compared with TSR-SDAX. If TSR-GRAMMER is a maximum of 85% of TSR-SDAX, target achievement equals 0% (TSR-SDAX minus 15%). If TSR-GRAMMER is at least 115% of TSR-SDAX (TSR-SDAX plus 15%), target achievement equals 200%. Target achievement is 100% if TSR-GAMMER calculated for a given performance period matches TSR-SDAX. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. In order to ensure a steady inflow of liquidity, an advance payment towards the disbursement of the LTI tranches is made in the second year of the performance period subject to an agreement between the Supervisory Board and the Executive Board member. After the end of the performance period, the advance payment is netted against the LTI payment amount free of any interest; any excess payments are applied to claims vesting under the STI. The budget targets for the STI and the LTI are set annually for all years in the performance period commencing in that year at the Supervisory Board's due discretion. In addition, the Supervisory Board regularly reviews the remuneration system for the Executive Board to ensure that it is in line with customary market practice and is appropriate. Remuneration of the Executive Board does not contain any further components with a long-term incentive effect, such as stock option or stock award programs. Furthermore, the Supervisory Board may decide in the event of extraordinary earnings or losses in the relevant year to adjust compensation at the end of the year in the form of a bonus or penalty comprising 10% of the fixed salary. The disclosures required under section 160 AktG are included in the notes to the consolidated financial statements. At the same time as the new remuneration system for the Executive Board of GRAMMER AG was introduced in 2017, the retirement benefit scheme for the members of the Executive Board was also revised. The Company pension scheme is structured as a capital account plan. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses.

In addition, the Supervisory Board made a decision in 2018 to revise the amount and composition of the remuneration system as well as the amount of the retirement benefits for the period after January 1, 2019 and, hence, for future members of the Executive Board. As well as this, corresponding new parameters were adopted for the remuneration system. Moreover, it was decided that future service contracts with members of the Executive Board should not provide for the payment of termination benefits in the event of a change of control. This was duly implemented in the service contracts entered into with Thorsten Seehars, Jurate Keblyte and Jens Öhlenschläger.

For each full year of membership, each member of the Supervisory Board receives fixed remuneration that is paid after the end of the year in question. Furthermore, the members of the Supervisory Board receive a fixed attendance fee for every physical meeting of the Supervisory Board and of every physical meeting of a committee of the Supervisory Board plus lump-sum reimbursement of expenses including any value added tax applicable, which is paid on the first working day following the Supervisory Board or committee meeting. The attendance fee is not paid for participation in meetings of the Nominating Committee. Members of the Supervisory Board who only belong to the board for part of the year receive fixed remuneration on a pro rata basis.

4. FURTHER PERFORMANCE INDICATORS

4.1 EMPLOYEES

AVERAGE EMPLOYEES

	2019	2018	CHANGE
GRAMMER Group	**14,910**	**13,439**	**1,471**
Commercial Vehicles	3,786	3,775	11
Automotive	10,910	9,381	1,529
Central Services	214	283	–69

The GRAMMER Group's annual average headcount stood at 14,910 (2018 Ø: 13,439).

Employee numbers in EMEA dropped by around 5% in 2019 to an average of 9,056 (2018 Ø: 9,515) due to trends in the markets addressed by the Divisions.

In APAC, the average increased to 1,267 (2018 Ø: 912), reflecting the favorable business performance in the Chinese market.

In the Americas, the average number of employee climbed to 4,587 (2018: 3,012) primarily as a result of the acquisition of TMD, whose business units had an average headcount of 1,637 in 2019. Elsewhere in the Americas, the workforce at the plants in Mexico was expanded again to accommodate new product launches.

The headcount in the Automotive Division rose significantly following the takeover of the TMD Group.

Employee numbers of the Commercial Vehicles Division were comparable to the previous year.

The average headcount in Central Services dropped by 24.4% in 2019 to 214 (2018: 283) primarily as a result of the relocation of central functions to the Divisions.

In 2020, we will be adjusting employee numbers in line with the trends emerging in our markets. At the same time, we will be decentralizing our organizational structure to a greater extent to enhance the speed of our processes as well as our proximity to markets and customers.

TRAINING, PROFESSIONAL DEVELOPMENT, HUMAN RESOURCES

Qualified and motivated employees are one of the key determinants of our success. Talent management plays a crucial role in securing and growing our internal skills. The Group seeks to develop all employees in the light of their potential and with a view to fulfilling competence profiles on a targeted basis and in line with requirements. Committed employees with new ideas and extensive knowledge play a decisive role in advancing our successful position and building on our competitive strengths in the international market. Our employer branding and talent management activities, which also include learning and training, are being systematically driven forward with various Group-wide programs. After a pilot phase in 2017, in which several corporate programs were rolled out worldwide for the first time under the "career@GRAMMER" umbrella, they entered the third round in 2019. Our corporate programs are divided into different segments: "GRAMMER Top Gear" focuses on strategic further education for middle management, while "GRAMMER Fast Lane" is primarily targeted at employees exhibiting very high potential, who have already gained preliminary management experience. "GRAMMER Drive" has been designed for employees who show great potential and are to be prepared to assume further responsibilities. With the assistance of an integrated location analysis, participants can define for themselves the career path they would like to pursue, whether in a specialist function or in a leadership role. All these programs aim to develop the high-potentials from within our own organizational structures to a large degree. In addition to management training, GRAMMER also offers training for experts as a means of providing highly qualified specialists with scope for professional development and deploying them to optimum effect as sources of knowledge and experience. Experts share their experience across the Divisions and the plants, thus helping to spread the valuable knowledge held by the Company on a global basis and applying best practices to leverage synergistic benefits. As a third pillar, we have established a project management career path that gives our project managers opportunities for developing in line with future requirements. In addition, the system also includes target-oriented training opportunities. The GRAMMER Group is a provider of vocational training and further education at its plants in Germany as well as at its global sites. We will continue to observe this commitment as we move forward. Our aim is to align all aspects of our training and continuing education program to future requirements internationally in order to offer the employees concerned career opportunities at all locations through training. In 2019, we continued to employ apprentices in many different parts of the Company in order to maintain a qualified pool of resources in fields that are becoming increasingly important for the future. We also hosted internships in Germany and elsewhere and offered students and postgraduates the possibility of completing their thesis or dissertation while gaining practical experience within our Company. In addition, we offer specialist staff who have trained in Germany the opportunity of gaining a global view of the Company. New conceptual approaches to the "internationalization of vocational training" are planned in the form of a pilot phase for 2020. Proven methods and standards are to be consistently established with the involvement of local employees on the basis of a condensed training course. The partnership with Ostbayerische Technische Hochschule (OTH), a local university of applied sciences, and with Duale Hochschule Baden-Württemberg (DHBW) offers an example of our commitment to forging links between business and tertiary education institutions. Via this network together with selected recruiting events at universities in Germany as well as in other countries we attempt to recruit highly qualified graduates.

4.2 PROCUREMENT MANAGEMENT

Procurement management is a key factor in the Group's success. Its main objective is to safeguard the constant availability of raw materials, components and services at defined high standards of quality to ensure that we are able to supply our customers to optimum effect. To this end, GRAMMER AG's supply chain management is coordinated centrally. One important task is to identify the appropriate vendors worldwide for our innovative products and broad product range. The key tasks of supply chain management are to coordinate relations with vendors and project procurement as well as to reduce supply chain risks and ensure observance of all ethical and legal requirements. Cost advantages can be gained by pooling Group-wide requirements and, thus, harnessing economies of scale and also by means of targeted local activities in the individual regions. Employees in the procurement organization, which is structured centrally by commodity type, hold global responsibility. Employees are also based regionally by segment to ensure greater penetration and a better understanding of the local markets. The strategic orientation in procurement management entails the further development of the ASTRA eSourcing platform with the core processes e-RFX (electronic request for proposals), e-Costing (electronic cost management) and e-Risk Management (electronic risk management) as well as the expansion of the e-Auction tool. Moreover, procurement activities are to be expanded in the emerging markets to generate positive contributions along our value chain and in our growth regions in the light of sustainability and "total cost of ownership" requirements. The programs launched in conjunction with development and production were continued in the year under review to strengthen design-to-cost and sourcing-for-innovation activities as a means of additionally reducing the cost-of-materials base. For one thing, purchasing will become more closely involved right from the development and project phase in this way. For another, the new structure will allow purchasing to play an even greater role in optimization measures for series production. As well as this, the introduction of cost engineering aims to allow all parts of the purchasing organization to substantially improve their efficiency thanks to an improved data base. To this end, cost engineering focuses on the management of product costs during the entire product life cycle. Our global supply chain management continues to help us in the strategic and ongoing development of our vendors. The aim is to leverage our vendors' potential and innovativeness profitably and to establish a solid basis for sourcing in all regions by means of qualified selection, further training and evaluation structures.

5. CORPORATE GOVERNANCE DECLARATION

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

6. COMBINED SEPARATE NON-FINANCIAL REPORT

In addition, the combined separate non-financial report pursuant to sections 289b (3) and 315b (3) HGB is published no later than four months after the reporting date on the Company's website at www.grammer.com under "Sustainability", "Non-financial report" in the part entitled "COMPANY".

7. STATEMENT PURSUANT TO SECTION 315A HGB (GERMAN COMMERCIAL CODE)

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

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

Direct or indirect shares in the share capital exceeding 10% of the voting rights: The notes to GRAMMER AG's annual financial statements for 2019 set out detailed information on the voting right notifications received in accordance with section 33 WpHG (German Securities Trading Act).

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

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

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

Executive Board's powers to issue or buy back shares: At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue bonds with warrants and/or convertible bonds on or before May 27, 2019 subject to the exclusion of the shareholders' preemptive subscription rights. The share capital has been increased on a contingent basis by up to EUR 14,777,182.72 for this purpose (Contingent Capital 2014/I). Following partial utilization, Contingent Capital 2014/I stood at EUR 12,057,318.40 as of December 31, 2018. The Executive Board did not make any further use of Contingent Capital 2014/I in 2019. Accordingly, the Executive Board's authorization to issue bonds with warrants and/or convertible bonds subject to the exclusion of the shareholders' preemptive subscription rights duly expired on May 27, 2019.

No new authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2019.

GRAMMER holds 330,050 shares as treasury stock, all of which were acquired in 2006. The 330,050 shares held as treasury stock are non-voting and non-dividend-entitled. No further treasury stock was acquired in 2019. The Company's authorization to acquire treasury stock in accordance with section 71 (1) No. 8 AktG (German Stock Corporation Act) and to use it for all the purposes specified in the authorization duly expired on May 27, 2019. No new authorization to acquire treasury stock was granted at the Annual General Meeting held in 2019.

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

Material company agreements contingent upon a change of control as a result of a takeover bid: GRAMMER AG and two other domestic Group companies are parties to a syndicated loan agreement, under which each creditor has the right to demand premature repayment in the event of a change of control. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers. Change-of-control clauses covering the full outstanding amount as described above are also provided for in the agreement governing USD-denominated acquisition finance, the bilateral loan agreements, the privately placed registered bonds and the agreements governing the bonded loans. If these repayment or termination rights were to be exercised - particularly on a joint basis - the funding required by the GRAMMER Group for its ongoing business operations could be jeopardized, meaning that alternative sources of funding would be required.

8. OPPORTUNITY AND RISK REPORT

8.1 RISK POLICIES AND PRINCIPLES

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

- The Group defines opportunities and risks in terms of risk management as both internal and external events that may have a positive or negative impact on the achievement of corporate objectives.
- Risk management thus contributes to value-based management of the Group. Value-based means that the Company deliberately accepts risks only when there is potential for enhancing its value by taking advantage of favorable business opportunities. As a general principle, the GRAMMER Group avoids all activities potentially entailing risks that are liable jeopardize its going-concern status.
- Core operational risks and, in particular, market risks such as macroeconomic risks, as well as risks arising from the development of new products are borne by the Group itself. As far as possible, the Group seeks to transfer other risks, particularly financial and liability risk to third parties.
- Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing measures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and, as far as possible, to avoid and minimize risks within their area of responsibility.
- The internal audit function also performs a review of the appropriateness and effectiveness of the risk management system at regular intervals. Each employee is required to contribute to active risk avoidance. All employees undertake to report all opportunities and risks arising during business operations to their responsible managers.

8.2 OPPORTUNITY AND RISK MANAGEMENT PROCESS

GRAMMER has implemented a uniform Group-wide risk management system to detect, avert or at least mitigate risks at an early stage and to analyze and assess their causes. The risk management process seeks to ensure early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage, monitor and control them. This particularly entails the early detection of risks to the Group's going-concern status. The risk management system coordinates identification, tracking, assessment, documentation and reporting activities for risks as well as opportunities.

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

The Finance department is currently responsible for coordinating risk management and uses an IT-based system for recording and tracking risks and the measures taken to address them. In this way, we gain an overview of the key opportunities and risks for the Group. Opportunities and risks are classified using a "risk atlas" specifically designed to meet the GRAMMER Group's requirements. These include strategic, market, financial and legal risks, as well as risks stemming from IT, human resources and production. The GRAMMER Group engages in opportunities management to record and evaluate opportunities for the Groupand to make the best possible use of them. Opportunities are defined as events with a positive impact on the achievement of corporate goals. Opportunities may inherently arise in all parts of the GRAMMER Group.

8.3 RISKS

In the following paragraphs, we describe risks and discuss their sometimes considerable impact on our business performance, net assets, financial position and earnings as well as our stock price and market reputation. Additional risks that we currently rate as slight or whose existence or potential effects are as yet unknown to us may likewise adversely affect our business activities. The assessment of the risks included here is applicable at least to the following year. One material aspect of the Group's risk management is the avoidance or minimization of risks to its going-concern status.

MARKET AND SECTOR SPECIFIC RISKS

As a company with worldwide operations, the GRAMMER Group is exposed to business conditions in its home market as well as markets across the globe. We address these risks by means of numerous different measures, while closely and continually monitoring developments in relevant markets and industries. We adjust our production and capacity accordingly when necessary. As part of effective risk management, the Group strives to react immediately to crises and any initial signs of slumps in revenue. Production and cost structures are proactively adjusted in the light of any changes to the revenue situation. We can generally expect to face sector specific revenue risks in the future. Our markets are become increasingly competitive, exposing us to more and more risks from factors including price pressure, short timeframes for development and times to market, product and process quality and rapidly changing conditions. 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 is equally true of both positive and negative trends. Further risks may arise for our markets in the wake of e-mobility. The technological transformation may cause unprecedented shifts in the structure of our customers and products. In the emerging markets of China in particular, a large number of new OEMs are arising and may take market shares away from our established customers. Although we are making every effort to supply them with our products, the extent to which this can also be achieved cannot be foreseen at present. In addition, growth in autonomous driving may likewise lead to product substitution or necessitate new approaches. Although GRAMMER AG is attempting to prepare for future trends accordingly, this may have a negative impact on its net assets, financial position and results of operations.

Additional risks may also arise in connection with Brexit, as some of our customers have their production facilities in the United Kingdom. Thus, following the United Kingdom's withdrawal from the European Union, a new trade agreement will need to be negotiated. This entails the risk of a future trade agreement possibly providing for less favorable conditions for trade with the United Kingdom. As the United Kingdom will no longer be bound by EU rules, the regulatory situation may also become adversely affected. The general effects on the European markets and economic growth cannot be estimated but could have a detrimental impact on the Company's net assets, financial position and results of operations.

Possible market and brand consolidation may lead to partial dependence on a small number of customers through their group structures. At the same time, vehicle manufacturers are increasingly passing on cost pressure to components suppliers. Against this backdrop, the lack of follow-up contracts may also exert pressure on us. In response, we are placing heavy emphasis on research and development alongside numerous process optimization measures to offset risk and increase cost efficiency, which will allow us to keep pace with customers' growing demands.

We are seeking to improve our market position in all segments in order to reduce these competition risks. For this reason, the Group relies on technical innovations and the enhancement of its existing products and processes. By stepping up research and development activities, we want to secure or reinforce the technological leadership of our products in order to gain a sustainable competitive lead as far as possible. The introduction of new products and technologies is also accompanied by risks and requires a strong commitment to research and development that in turn is tied to a substantial commitment of funds and technical resources. Despite our numerous patents and the protection of our intellectual property, competitors – especially in growth markets – generally cannot be prevented from independently developing products and services that are similar to our own.

Customarily, delivery contracts with the GRAMMER Group's principal customers provide in particular for legally binding commitments for a certain period for the delivery of specified products that have generally not yet been developed but not for the sourcing of a given product exclusively from GRAMMER Group companies. The specific products and quantities are ordered in separate calldowns which may apply to a shorter period but which constitute a specific obligation of acceptance. From a purely legal point of view, the GRAMMER Group's principal customers are fundamentally able to cancel even large contracts or product quantities in the medium term. This would have a detrimental effect on the Company's net assets, financial condition and results of operations.

However, as the cancellation of a contract during ongoing volume production entails heavy costs and resource requirements for the customer and also necessitates a considerable lead time, it is fairly unlikely that a customer would completely cancel all orders at once.

However, other factors such as the shareholder structure, may prompt our customers to exercise restraint in placing new orders and to withhold follow-up or new contracts. This may have a detrimental effect on the Company's net assets, financial condition and results of operations.

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

Our areas of activity increasingly also entail activities that are derived from our strategic portfolio policy affecting our business segments. Merger and acquisition activities are ordinarily subject to uncertainties. The risks not only relate to market reactions but also concern the integration of people, cultures and technologies as well as products and developments.

In addition, it is not possible to rule out risks in a implementation of the transaction. As is normally the case with such transactions, acquisition, integration and other costs that cannot be estimated at the beginning of the transaction may arise. In this connection, risks may also come from divestments that fail to produce the desired effects or are liable to place additional strains on the Company's net assets, financial condition and results of operations.

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

PROCUREMENT RISKS

The GRAMMER Group seeks to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the relevant commodity markets. As far as possible and appropriate, cost risks are hedged through long-term supply contracts. These, however, are currently difficult to achieve in the market given the strong demand and prevailing volatility in the factor prices of commodities such as steel, foam and plastics. Furthermore, there are supply chain risks which for various reasons may influence our product quality, ability to meet delivery schedules or, in a worst case scenario, product availability in general. Moreover, quality problems with suppliers that crop up from time to time with suppliers or disruptions in the supply chain cause risks to our productivity that may adversely affect the Company's net assets, financial condition and results of operations. Potential risks arising from non-delivery by suppliers are addressed by GRAMMER with a partial dual-sourcing strategy under a contingency plan as well as close monitoring of potentially critical suppliers along with swift reaction through the implementation of defined emergency and risk management measures. In order to protect our value chain, we pay close attention to our suppliers' financial strength.

QUALITY RISKS

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

In order to minimize risks arising from quality problems attributable to suppliers, GRAMMER engages in intensive supplier development and conducts regular supplier audits. Using system-based supplier evaluations we continuously analyze and grade specific suppliers for their quality and performance in the supply chain. The results of these activities provide the key criteria for the selection by GRAMMER of suppliers for project work and series production. Even so, we cannot completely exclude the possibility of individual risks arising and negatively impacting our financial position, earnings and assets.

FINANCIAL RISKS

The GRAMMER Group is exposed to interest, currency and liquidity risks on account of its worldwide activities and the economic risks described above. It must primarily manage currency risks arising from its exposure to the Czech koruna, the Polish zloty, the Mexican peso, the US dollar, the Turkish lira, the Brazilian real, the Japanese yen and the Chinese yuan. These risks stem from trade accounts receivable and payable as well as from local production. The Group addresses currency risks through "natural hedging," i.e. by increasing purchasing volumes in foreign currency regions and simultaneously increasing sales in same currency region. In addition, currency risks are hedged selectively via the financial market. Strong appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness. GRAMMER cannot completely shield itself from fluctuations in credit markets and this may pose risks to the Group's net assets, financial position and results of operations. It minimizes interest rate risks through long-term funding (e.g. private placements) and the use of derivatives. High priority is also given to ensuring adequate liquidity. In 2013, the Group's funding was placed on a firm footing with the signing of a syndicated loan agreement for a period of five years plus two one-year renewal options (see Note 36 of the notes to the consolidated financial statements). As the second renewal option was exercised in 2015, the syndicated loan is now available to us until the 4th quarter of 2020. Tranche A of the loan of EUR 100 million remains. The liquidity situation is monitored continuously in a rolling global-wide financial requirements plan. Possible risks in connection with a change of control are described in the section on the Group's financial condition. Despite the possible disadvantages in terms of interest rates, key importance is attached to widening our liquidity position; appropriate liquidity reserves are maintained. To a certain degree, this adversely affects interest result, a fact that we are willing to accept in order to maintain our strategic leeway and safeguard our liquidity position. Our customer structure limits credit risks, which are monitored through active receivables management. The funding status of our pension plans may be heavily influenced by interest rate uncertainties and risks inherent in the market. This may cause either an increase or decrease in the present value of the defined-benefit pension plans. Pension obligations are recognized on the basis of actuarial calculations in which the applicable interest rate plays an important role. The actual payouts can deviate from the computed values since assumptions regarding the main valuation parameters such as discount rates, salaries and inflation are all uncertain. Consequently, this may pose potential risks for our 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 net assets, financial position, earnings and assets.

LEGAL RISKS

GRAMMER is an internationally active Group that is subject to a variety of legal and regulatory requirements. The many legal rules and regulations and constant changes in tax rules, among other things, may give rise to risks that may adversely impact our financial position, earnings and assets. 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, business activities may be adversely impacted or impeded by export control regulations, trade restrictions and sanctions. Pending and threatened legal disputes are continuously monitored, analyzed, evaluated with regard to their legal and financial impact and taken into account in the calculation of the risk provisions reported in the balance sheet. However, as the outcome of legal disputes is uncertain, further risks may exist beyond the provisions recognized in the balance sheet and these could have a negative impact on the financial and earnings targets. A large number of company-wide standards, which are subject to continuous further development, are in place to avert legal risks. Examples include the standard terms and conditions, contract templates for various applications or internal guidelines and procedural instructions. In addition, we employ a system comprising intensive contract review and contract management, as well as systematic documentation and archiving. GRAMMER has sufficient insurance to cover normal and going-concern risks.

HUMAN RESOURCE RISKS

GRAMMER is dependent on highly qualified specialists and executives with international experience in all areas so that it is able to make efficient use of opportunities and extend its competitive lead. For this reason, focused, driven employee training and continuing upskilling programs for as many employees as possible at all levels and in all areas of the Company are a top priority. We also participate in recruiting events and job fairs at schools and universities in Germany and other countries to arouse interest in GRAMMER among motivated, young professionals and specialists. Despite all these efforts, there is no guarentee 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 business segment. Consequently, this may pose potential risks for our financial position, earnings and assets. Heightened fluctuation must particularly be expected in expansionary markets such as China and NAFTA on account of the heavy growth and the good employment opportunities for qualified experts.

IT AND INFORMATION RISKS

The security, protection and integrity of our data and IT infrastructure are indispensable for proper business operations. Statutory requirements and regulations stipulate that technical and organizational measures be taken to protect our data centers and ensure highly available and secure data transfers. In order to meet these requirements, GRAMMER operates a redundant system with the mission critical components of the IT infrastructure installed in two data centers. The electricity supply is guaranteed, even in emergencies, by separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Business continuity plans document the steps for ensuring the recovery of critical IT systems. GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, virus scanners and other activities are regularly reviewed to determine their efficacy and adjusted where necessary. A Group-wide IT security organization responsible for ensuring the efficacy of all protective measures and for neutralizing threats is also in place to ensure IT security. The IT services department's systems and security team along with the data protection officers and risk management team together make up the security/incident team, which is tasked with coordinating activities to improve IT security. Nonetheless, our worldwide activities, along with the general increase in threats and attacks, mean that our systems, networks, data and solutions are exposed to some level of risk. However, a negative impact on net assets, financial position and results of operations as a result of data loss, system disruption and loss of production is not considered likely. Even so, this may pose potential risks for the Company's net assets, financial position and results of operations. Risks from fraud or cyber attacks are defined as the risk of losses caused by the failure of internal processes (control risks), human error (personnel risks) or system vulnerabilities (IT risks). The growing digitization and electronic networking arising from developments such as the "Internet of Things", Industry 4.0 or "Smart Everything" expose the Group to cyber attacks and offer broad scope for eavesdropping, sabotaging business and administrative process or criminal enrichment at the expense of third parties. Cyber attacks involving malware or specific attacks on individual employees (e.g. attempted manipulation) may place GRAMMER AG's net assets, financial position and results of operations at risk. This risk is addressed by analyzing previous loss events that become publicly known, taking the necessary precautions and observing specialists' specific recommendations on such activities. In addition, these matters undergo continuous assessment and all relevant processes are checked for any vulnerabilities and suitably optimized. As well as this, employees are kept regularly informed of these matters to heighten their awareness of them.

ECOLOGICAL RISKS

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

OTHER RISKS

In addition, epidemics (e.g. SARS or the coronavirus) may pose considerable risks to the global economy. The rapid spread of diseases may have a major impact on the global economy and severely disrupt entire supply chains regardless of the industry. The widespread distribution of such new types of diseases may cause serious upheavals in the economic regions or sectors affected and quickly spread to the global economy. This could have a detrimental effect on a company's net assets, financial position and results of operations.

8.4 CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM

As a capital market-oriented corporation within the meaning of section 264d HGB, we are required under section 315 (4) HGB to describe the main characteristics of the internal control and risk management system as they relate to the Group's accounting process. There is no statutory definition of "the internal control and risk management system as they relate to the Group's accounting processes". We believe the internal control and risk management system to be a comprehensive system, and we base our definitions of the accounting related internal control and risk management system on those of the Institute of Public Auditors in Germany (IDW), Düsseldorf. Accordingly, an internal control system comprises the principles, processes and measures taken in the Company by its management for the organizational implementation of decisions made by management

- to ensure the effectiveness and viability of the Company's business activities (this also includes safeguarding assets, including prevention and detection of damage to assets);
- to ensure the propriety and reliability of internal and external accounting; and
- to comply with the legal regulations applicable to the Company.

As described above, the risk management system includes, in its entirety, all organizational rules and measures intended to identify risks and control the risks inherent in business activities. The Group has implemented the following structures and processes with respect to the internal control system for the accounting process: The Executive Board holds overall responsibility for the internal control and risk management system as it relates to the Company's accounting process. All strategic segments are integrated in this system by means of defined management and reporting structures. The principles, the operational and organizational structure and the processes involved in the accounting-related internal control and risk management system are documented for the entire Group in policies and operating procedures that are updated at regular intervals to reflect current external and internal developments. As they relate to the accounting process, we consider the main characteristics of the internal control and risk management system to be those that may materially affect financial reporting and the overall impression left by the annual and consolidated financial statements, including the group management report. These include the following elements in particular:

- Identification of the key risk and control areas relevant to the accounting process;
- Monitoring of the accounting process and results at the level of the Executive Board and at the level of the Divisions and responsible departments;
- Regular and preventive checks in the financial and accounting systems and in operational, performance-related business processes that generate material information for the preparation of the annual and consolidated financial statements, including the management report, plus a separation of functions and defined approval processes in relevant departments;
- Measures that ensure proper IT-based processing of information and data relating to accounting processes;
- Measures for monitoring the internal control and risk management system as it relates to accounting processes;
- Measures for ensuring due and proper completion of the consolidation process.

8.5 OPPORTUNITIES

MARKET OPPORTUNITIES

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

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

Growth in core regions – Generally speaking, the importance of North and Central America as well as China has continued to grow sharply for GRAMMER. In particular, GRAMMER's Automotive Division is increasingly operating as a components supplier for local OEMs as well as its European partners in the premium segment. Following the acquisition of the TMD Group, we have expanded our production capacities in North America in proximity to the OEMs and are confident of being able to gain new business as a result. At the same time, the TMD Group's products can now be offered worldwide and, for the first time, on a platform basis. In China, success in gaining contracts from global and local OEMs is giving rise to new opportunities. In the Commercial Vehicles Division, we operate local production facilities in the Chinese truck market for suspended seating systems and expect to generate additional growth on the strength of positive market effects. Among other things, ergonomics and safety as key product characteristics are also yielding opportunities.

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

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

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

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

STRATEGIC OPPORTUNITIES

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

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

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

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

8.6 ASSESSMENT OF RISKS AND OPPORTUNITIES

After a thorough review of the current risk situation, we have come to the conclusion that the precautions and measures taken by GRAMMER Group take appropriate account of the risks that have been identified. The risks currently known to us lead us to assume that we are not exposed to any factors that are liable to jeopardize our going-concern status and that additional risk-mitigating effects may arise from the opportunities available to us. In addition, the strategic partnership with Ningbo Jifeng can help us to expand our market position, especially in China. It is not yet possible to determine the extent to which the weakness afflicting the automotive industry will continue. However, a recovery in the passenger vehicle market is not expected in the near future. Due to the volatile forecasts, no conclusive assessment can be made as to the risks arising in the commodity markets as the possible scenarios entail both opportunities and risks. A further risk is being posed by the spread of the novel coronavirus. It is currently difficult to assess the extent to which this will feed through to the real economy. Weaker demand in the important sales market of China could exert pressure on the automotive industry. Assuming that the global economy continues to perform favorably in the future, this may yield additional opportunities.

9. BUSINESS DEVELOPMENT FORECAST

9.1 RECONCILIATION OF BUSINESS PERFORMANCE IN 2019 WITH THE OUTLOOK FOR 2018

The previous year's forecast for 2019 provided for revenue of over EUR 2.1 billion, EBIT substantially above the figure of EUR 48.7 million posted in 2018, an operating EBIT margin (adjusted for exceptional and currency-translation effects) in excess of the figure for 2018, which had come to 4.1%, and a G-ROCE likewise above the 2018 figure (10.5%).

The forecast was adjusted on November 12, 2019 in response to the challenging macroeconomic environment. In the quarterly statement for the period ending September 30, 2019, GRAMMER adjusted its full-year revenue target for 2019 to roughly EUR 2.0 billion (previously roughly EUR 2.1 billion) and its operating EBIT margin to 3.8% (previously at the 2018 level, i.e. 4.1%). The full-year forecast for EBIT in 2019 was not adjusted on the basis of the figure posted as of September 30, 2019 and therefore remained unchanged at over EUR 48.7 million.

In 2019, the GRAMMER Groupachieved all of the targets that had been modified on November 12, 2019.

FORECAST/ KEY FIGURES	FORECAST IN 2018 ANNUAL REPORT	FORECAST ADJUSTED IN QUARTERLY STATEMENT (Q3/2019)	ANNUAL REPORT 2019
Revenue	> EUR 2.1 bn	~ EUR 2.0 bn	EUR 2.0 bn
EBIT	> EUR 48.7 million	> EUR 48.7 million	> EUR 48.7 million
Operating EBIT margin	> 4.1%	~ 3.8%	3.8%
G-ROCE[1]	> 10.5%	> 10.5%	8.4%

[1] The figure of 10.5% in the first three quarters does not include the assets and liabilities acquired through the takeover of TMD.

G-ROCE for 2019 came to 8.4% (2018: 10.5%). G-ROCE is calculated on basis of operating EBIT and average operating assets for the last four quarters. In 2018, the acquisition of TMD had only had an impact on average operating assets in the final quarter. The figures for the previous three quarters had not included the acquisition of TMD. Assuming that the fourth quarter of 2018 is used for calculating G-ROCE, the G-ROCE for 2018 stands at 8.4%. On the basis of this assumption, the G-ROCE for 2019 of 8.4% is unchanged over the previous year.

9.2. EXPECTED ECONOMIC ENVIRONMENT

9.2.1 MACROECONOMIC ENVIRONMENT

In view of the slowdown in 2019 and the uncertain recovery, the International Monetary Fund (IMF) expects the global economy to generally remain unstable in 2020.

It forecasts only a moderate recovery in global economic growth from 2.9% to 3.3% in 2020. However, the developing and emerging markets in particular are likely to gain a little more momentum, with growth accelerating to 4.4% (3.7%). Growth in Brazil is expected to accelerate by 1 percentage point to 2.2%. In China, growth will slow to 6.0%, down from 6.1% in 2019. The outlook for the American market is also muted, with growth expected to slow by 0.3 percentage points to 2.0%.

The expected weaker growth in China will mainly affect industrialized countries such as Germany due to possibly lower exports to the People's Republic. Overall, Eurozone economic output should pick up from 1.2% in 2019 to 1.3% in 2020. The IMF forecasts an increase of 0.6 percentage points to 1.1% for Germany.

At the same time, it states in its forecast that the base scenario for 2020 may prove to be too optimistic due to various risks. Trade barriers and heightened geopolitical tensions as well as unresolved Brexit issues such as the question of a trade agreement with the United Kingdom could adversely affect international trade flows and hinder investment and growth. In the event of any protracted loss of confidence, the IMF also believes that risk appetite on the global markets could change abruptly and expose financial weaknesses in the global economy due to the low interest rates.

9.2.2 SECTOR ENVIRONMENT

AUTOMOTIVE DIVISION

NO IMMINENT RECOVERY IN THE PASSENGER VEHICLE MARKET

In its forecast, IHS does not expect any rapid recovery after the sharp decline in the global passenger vehicle market. Instead, it forecasts that 88.6 million vehicles will be produced worldwide in 2020, equivalent to a further year-on-year decline of 0.2% worldwide. China is expected to produce 0.6% fewer vehicles. However, an increase of 2.3% is expected for North America. According to forecasts, South America is also expected to end 2020 with a 4.2% increase in the production of passenger vehicles. However, a decline of 1.6% is projected for Europe.

COMMERCIAL VEHICLES DIVISION

COMMERCIAL VEHICLE MARKET FACING ANOTHER WEAKER YEAR

IHS anticipates a broad-based downturn in commercial vehicle production. Both North America and China are expected to see what in some cases will be sharp declines. Global production is likely to be down 5.6%. In China, production output will contract by 8.1%, with a decline of 16.8% also arising in North America. In South America, production output is expected to increase by 5.0%. Experts see stagnation for Europe compared to the previous year.

AGRICULTURAL MACHINERY INDUSTRY MUTED

Expectations in the agricultural machinery industry are rather cautious for 2020.

NEGATIVE SIGNS FOR CONSTRUCTION MACHINERY INDUSTRY

The forecasts for the construction machinery industry are negative for 2020. A decline of 10% is expected for Germany, while at 5% the contraction in Europe will not be as pronounced. A decline of 5% is also expected worldwide.

MATERIAL HANDLING

Due to the global political uncertainty and fluctuating expectations with regard to the global economy, one major OEM expects the world market for material handling equipment to remain flat.

UPBEAT OUTLOOK FOR THE RAILWAY INDUSTRY

The outlook for 2020 is favorable in view of the full order books and the German government's comprehensive plans to increase rail transport capacity and passenger numbers.

9.3 OUTLOOK FOR THE GRAMMER GROUP 2020

We expect the challenging economic conditions, particularly in the markets addressed by GRAMMER, to persist in 2020. In all likelihood, the market contraction emerging in the second half of 2019 will continue unchanged in the first half of 2020. In addition, the outbreak of the coronavirus has been exerting pressure on the global economy since January 2020, triggering further uncertainty. In view of this, the GRAMMER Group expects substantially lower revenue in 2020 (2019: EUR 2.0 billion), substantially lower EBIT (2019: EUR 74.5 million) and an operating EBIT margin on a par with the previous year.

Amberg, March 9, 2020

Thorsten Seehars Jurate Keblyte Jens Öhlenschläger
GRAMMER AG Executive Board

CONSOLIDATED FINANCIAL STATEMENTS INDEX

CONSOLIDATED STATEMENT OF INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

EUR K	NOTE	2019	2018
Revenue	7	2,038,507	1,861,292
Cost of sales	8.3	−1,807,144	−1,649,485
Gross profit		**231,363**	**211,807**
Selling expenses	8.3	−41,824	−37,769
Administrative expenses	8.3	−136,875	−146,527
Other operating income	8.1	21,872	21,228
Earnings before interest and taxes (EBIT)		**74,536**	**48,739**
Financial income	8.2	3,460	1,506
Financial expenses	8.2	−21,502	−13,501
Other financial result	8.2	−2,365	−2,276
Share of earnings of joint ventures	8.5	9,438	0
Earnings before taxes		**63,567**	**34,468**
Income taxes	9	−20,089	−11,256
Net profit		**43,478**	**23,212**
Of which attributable to:			
Shareholders of the parent company		43,676	23,304
Non-controlling interests		−198	−92
Net profit		**43,478**	**23,212**
Earnings per share			
Basic/diluted earnings per share in EUR	10	3.56	1.90

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

EUR K	2019	2018
Net profit	**43,478**	**23,212**
Amounts not recycled to profit and loss in future periods		
Actuarial gains/losses (–) under defined benefit plans		
Gains/losses (–) arising in the current period	–17,326	7,170
Tax expenses (–)/tax income	5,039	–2,098
Actuarial gains/losses (–) under defined benefit plans (after tax)	**–12,287**	**5,072**
Total amount not recycled to profit and loss in future periods	**–12,287**	**5,072**
Amounts recycled to profit and loss in future periods under certain conditions		
Gains/losses (–) from currency translation of foreign subsidiaries		
Gains/losses (–) arising in the current period	2,177	–3,964
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	**2,177**	**–3,964**
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	1,678	–1,062
Plus amounts recycled to the income statement through profit and loss	–263	1,182
Tax expenses (–)/tax income	–416	–6
Gains/losses (–) from cash flow hedges (after tax)	**999**	**114**
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	3,019	2,616
Tax expenses (–)/tax income	–788	–508
Gains/losses (–) from net investments in foreign operations (after tax)	**2,231**	**2,108**
Total amounts recycled to profit and loss in future periods under certain conditions	**5,407**	**–1,742**
Other comprehensive income	**–6,880**	**3,330**
Total comprehensive income (after tax)	**36,598**	**26,542**
Of which attributable to:		
Shareholders of the parent company	36,815	26,650
Non-controlling interests	–217	–108

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

ASSETS

EUR K

	NOTE	DECEMBER 31, 2019	DECEMBER 31, 2018
Property, plant and equipment	12	463,305	348,246
Intangible assets[1]	12	205,604	214,399
Investments measured at equity	5	611	0
Other financial assets	16	9,421	2,026
Deferred tax assets	9	44,900	40,344
Other assets	17	31,022	27,929
Contract assets	15	70,760	63,388
Non-current assets		**825,623**	**696,332**
Inventories	13	191,879	190,992
Current trade accounts receivable	14	206,821	250,009
Other current financial assets[1]	16	3,935	7,968
Current income tax receivables		5,455	11,458
Cash, cash equivalents and short-term deposits	18	142,651	204,373
Other current assets	17	37,314	28,438
Current contract assets	15	60,771	51,847
Current assets		**648,826**	**745,085**
Total assets		**1,474,449**	**1,441,417**

[1] Figures for previous year adjusted in accordance with IFRS 3.49, see Note 4 Business combinations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

EQUITY AND LIABILITIES

EUR K

	NOTE	DECEMBER 31, 2019	DECEMBER 31, 2018
Subscribed capital	19	32,274	32,274
Capital reserve	19	129,796	129,796
Treasury stock	19	−7,441	−7,441
Retained earnings	19	263,408	228,920
Cumulative other comprehensive income	19	−75,792	−68,931
Equity attributable to shareholders of the parent company		**342,245**	**314,618**
Non-controlling interests		−3	222
Equity		**342,242**	**314,840**
Non-current financial liabilities	21	219,976	162,004
Trade accounts payable	23	1,399	2,273
Other financial liabilities	24	64,375	17,957
Other liabilities	25	1,220	0
Retirement benefits and similar obligations	20	154,176	134,990
Deferred tax liabilities	9	46,298	41,933
Contract liabilities	15	2,606	799
Non-current liabilities		**490,050**	**359,956**
Current financial liabilities	21	207,735	295,676
Current trade accounts payable	23	309,000	358,332
Other current financial liabilities	24	20,524	6,181
Other current liabilities	25	73,003	82,693
Current income tax liabilities		7,331	5,079
Provisions	22	23,394	18,018
Current contract liabilities	15	1,170	642
Current liabilities		**642,157**	**766,621**
Total liabilities		**1,132,207**	**1,126,577**
Total assets		**1,474,449**	**1,441,417**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS	TREASURY STOCK
As of January 1, 2019	**32,274**	**129,796**	**228,920**	**–7,441**
Net profit	0	0	43,676	0
Other comprehensive income	0	0	0	0
Total comprehensive income for period	**0**	**0**	**43,676**	**0**
Dividend distributions	0	0	–9,208	0
Transaction involving non-controlling interests	0	0	20	0
As of December 31, 2019	**32,274**	**129,796**	**263,408**	**–7,441**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS	TREASURY STOCK
As of January 1, 2018 before adjustments	**32,274**	**129,796**	**254,960**	**–7,441**
Adjustment due to first-time application of IFRS 15 (after tax)	0	0	–33,633	0
Adjustment due to first-time application of IFRS 9 (after tax)	0	0	–365	0
As of January 1, 2018 (adjusted)	**32,274**	**129,796**	**220,962**	**–7,441**
Net profit	0	0	23,304	0
Other comprehensive income	0	0	0	0
Total comprehensive income for period	**0**	**0**	**23,304**	**0**
Dividend distributions	0	0	–15,346	0
Transaction involving non-controlling interests	0	0	0	0
As of December 31, 2018	**32,274**	**129,796**	**228,920**	**–7,441**

NOTE 19

Cumulative other comprehensive income						
CASH FLOW HEDGES	FOREIGN CURRENCY CONVERSION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS AND LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	CONSOLIDATED EQUITY
−332	**−11,092**	**−18,206**	**−39,301**	**314,618**	**222**	**314,840**
0	0	0	0	43,676	−198	43,478
999	2,196	2,231	−12,287	−6,861	−19	−6,880
999	**2,196**	**2,231**	**−12,287**	**36,815**	**−217**	**36,598**
0	0	0	0	−9,208	−20	−9,228
0	0	0	0	20	12	32
667	**−8,896**	**−15,975**	**−51,588**	**342,245**	**−3**	**342,242**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

EUR K	NOTE	2019	2018
1. Cash flow from operating activities			
Earnings before taxes		63,567	34,468
Reconciliation of earnings before tax with cash flow from operating activities			
Depreciation and impairment of property, plant and equipment	12	67,969	40,630
Amortization and impairments of intangible assets	12	17,296	11,674
Gains (–)/losses from the disposal of assets		27	530
Other non-cash changes[1]		15,447	12,972
Financial result	8.2	20,407	14,271
Share of earnings of joint ventures	8.5	−9,438	0
Changes in operating assets and liabilities			
Decrease/increase (–) in trade accounts receivable and other receivables[1]	14, 15, 16, 17	21,872	55,879
Decrease/increase (–) in inventories	13	−886	−19,752
Decrease (–)/increase in provisions and retirement benefit provisions	20, 22	−10,218	−7,939
Decrease (–)/increase in accounts payable and other liabilities	23, 24, 25	−53,332	15,915
Income taxes paid	9	−8,738	−15,081
Cash flow from operating activities		**123,973**	**143,567**
2. Cash flow from investing activities			
Purchases			
Purchase of property, plant and equipment	12	−104,861	−68,202
Purchase of intangible assets	12	−5,654	−5,737
Purchase of associated companies	5	−613	−1
Purchase of subsidiaries, less acquired cash and cash equivalents[1]	4	0	−196,848
Disposals			
Disposal of property, plant and equipment	12	4,595	572
Disposal of intangible assets	12	148	9
Payments made for the formation of plan assets	20	−1,326	−898
Interest received	8.2	3,460	1,506
Government grants received		477	225
Cash flow from investing activities		**−103,774**	**−269,374**
3. Cash flow from financing activities			
Dividend payments	19	−9,228	−15,363
Payments received from raising financial liabilities	21	148,228	247,763
Payments made for the settlement of financial liabilities	21	−189,725	−36,847
Decrease (–)/increase in lease liabilities	12	−20,101	−1,676
Interest paid	8.2	−14,861	−9,710
Cash flow from financing activities		**−85,687**	**184,167**
4. Cash flow components of cash and cash equivalents at the end of the period			
Changes cash and cash equivalents recognized in the cash flow statement (sub-total of items 1–3)		−65,488	58,360
Effects of exchange rate differences of cash flow components of cash and cash equivalents		−4,162	−3,088
Cash flow components of cash and cash equivalents as of January 1		193,304	138,032
Cash flow components of cash and cash equivalents as of December 31		**123,654**	**193,304**
5. Analysis of cash flow components of cash and cash equivalents			
Cash and cash equivalents	18	142,651	204,373
Bank overdrafts (including current liabilities under factoring contracts)	21	−18,997	−11,069
Cash flow components of cash and cash equivalents as of December 31		**123,654**	**193,304**

[1] Previous year's figures adjusted in accordance with IFRS 3.49, see Note 4. Business combinations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019

1 INFORMATION ABOUT GRAMMER GROUP AND BASIS OF REPORTING

GRAMMER AG is a public listed company incorporated under German law. The Company's registered office and business address is Georg-Grammer-Str. 2 in 92224 Amberg, Germany. The Company's shares have been traded on the Frankfurt/Main and Munich stock exchanges via the Xetra electronic trading platform since 1996.

GRAMMER AG is listed in the Prime Standard on the Frankfurt Stock Exchange.

International Securities Identification Number (ISIN): DE0005895403
German Securities ID (WKN): 589540
Common Code: 006754821
Ticker Symbol: GMM
Commercial register number: HRB 1182, Local Court of Amberg

GRAMMER is a global group specializing in the development and production of complex components and systems for automotive interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles. In 2019, the Company employed an average of 14,910 persons (excluding trainees, including 214 employees in Central Services) at 48 (2018: 48) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg.

The GRAMMER AG's Executive Board had three members as of December 31, 2019.

The GRAMMER Group has divided its activities into the Automotive and Commercial Vehicles segments. The segments are described in greater detail in Note 6. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the European Union. The consolidated financial statements of GRAMMER AG (the "Company") were prepared by the Executive Board in accordance with section 315 e (1) HGB (German Commercial Code) on March 9, 2020.

Since October 8, 2019, GRAMMER AG has been an indirectly held 84.23% subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo City, China, (Ningbo Jifeng) and is included in that company's consolidated financial statements. These can be viewed in Chinese at http://www.sse.com.cn. The direct parent company of GRAMMER AG is Jiye Auto Parts GmbH, Kitzingen.

2 ACCOUNTING POLICIES

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

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

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

ESTIMATES AND JUDGEMENTS (IAS 8)

In certain cases, it is necessary to apply assessments and judgments. For instance, in preparing the consolidated financial statements, discretionary decisions, assumptions and estimates have to be made to a certain degree, which have an impact on the measurement and recognition of reported assets and liabilities, income and expenses and contingent assets and liabilities of the reporting period. The assumptions and estimates are based on presumptions reflecting the currently available information. In addition, they may include estimates that could have been different in the same reporting period for equally plausible reasons. GRAMMER cautions that future events often differ from forecasts and that estimates are routinely subject to revision. Assumptions and estimates consistently relate to the parameters in effect at the time of preparation of the consolidated financial statements. As a result of market development and conditions outside Group control, however, these may change over time. Such changes are only taken into account when they have occurred. In particular, estimates and discretionary judgments are necessary in connection with impairment testing of goodwill, intangible assets and non-current assets and the recognition of deferred tax assets and unused tax losses as well as the definition of the assumptions underlying the actuarial calculations of retirement benefit expenses under defined benefit plans. Furthermore, estimates and discretionary judgments are applied to revenue from contracts with customers for the purpose of determining the transaction price and also to the formation of portfolios of financial instruments in the case of expected credit risks or losses. In addition, discretionary decisions must be made in assessing whether there is a legal or constructive obligation for which a provision must be recognized. In particular, all known circumstances, such as restructuring provisions, are taken into account to determine the existence of a constructive obligation. In connection with IFRS 16 “Leases”, estimates and discretionary judgments are particularly applied to determine the duration of the lease. At the inception of the lease, the Group assesses whether it is reasonably certain that a contractual option to extend or terminate the lease or to purchase the leased asset will be exercised. To this end, all relevant factors, such as relocation costs, significant leasehold improvements and contractual terms, that provide an economic incentive to exercise the option are considered. After the provision of the leased asset, the duration of the lease is redefined if a material event or change in circumstances occurs that is within GRAMMER’s control and affects the original determination of the duration of the lease.

PRINCIPLES OF CONSOLIDATION (IFRS 10)

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

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

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

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

BUSINESS COMBINATIONS (IFRS 3)

Business combinations are accounted for using the purchase method. Costs for the acquisition of a company are measured as the aggregate of the acquisition-date fair value of the consideration transferred and the amount of any minority interest.

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

In a business combination, all identifiable assets acquired, liabilities assumed and contingent liabilities of the acquiree are measured at their fair values at the acquisition date. Any agreed contingent consideration is also recognized at fair value as of the acquisition date. Any resulting difference is reported as goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment cost. Please refer to the section on goodwill for details of impairment testing. Subsequent changes to the fair value of a contingent consideration representing an asset or liability are either recognized in profit and loss or in other comprehensive income in accordance with IFRS 9. If a contingent consideration is classified as equity, the original amount is not remeasured and subsequent settlement is taken directly to equity.

Subsidiaries are included in the consolidated financial statements by offsetting the carrying amount of the shares in subsidiaries against the Group's share of the equity of the respective subsidiary. Non-controlling interests refer to the share of results of operations and net assets not attributable to the Group. Any profit or loss from this share is therefore recognized in the income statement separately from the share of results of operations attributable to the shareholders of the parent company. In the balance sheet, it is recognized directly in equity in a line item separate from the equity attributable to the shareholders of the parent company.

JOINT VENTURES (IFRS 11) AND ASSOCIATES (IAS 28)

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

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

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

Under the equity method, the shares in a joint venture or associate are initially recognized at historical cost. These costs are adjusted in subsequent periods to reflect any changes in the Group's share in the net assets of the joint venture or associate since the acquisition date. If the Group's share of net assets is negative, loss portions are recognized only if there is an obligation to offset losses. The Group determines on each reporting date whether there is any objective evidence suggesting that the share in the joint venture or the associate may be impaired. In the event of such evidence being found, the impairment equals the difference between the recoverable amount of the share in the joint venture or associate and the carrying amount, upon which the resultant loss is recognized through profit and loss within the share of earnings of joint ventures and associates. The carrying amount forms the upper limit of the impairment provided that there is no obligation to compensate for any losses.

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

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

CURRENT/NON-CURRENT CLASSIFICATION (IAS 1)

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

CURRENCY TRANSLATION (IAS 21)

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

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

		AVERAGE EXCHANGE RATE		END-OF-YEAR EXCHANGE RATE	
		2019	2018	2019	2018
Argentina	ARS	0.019	0.032	0.015	0.023
Brazil	BRL	0.227	0.233	0.221	0.225
China	CNY	0.129	0.128	0.128	0.127
United Kingdom	GBP	1.138	1.129	1.175	1.118
Japan	JPY	0.008	0.008	0.008	0.008
Mexico	MXN	0.046	0.044	0.047	0.044
Poland	PLN	0.232	0.235	0.235	0.232
South Africa	ZAR	0.062	0.065	0.063	0.061
Czech Republic	CZK	0.039	0.039	0.039	0.039
Turkey	TRY	0.159	0.183	0.150	0.165
USA	USD	0.892	0.848	0.890	0.873

REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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

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

REVENUE FROM SERIES DEVELOPMENT

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

REVENUE FROM SERIES DELIVERIES

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

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

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

CONTRACT ASSETS

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

CONTRACT LIABILITIES

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

TRADE ACCOUNTS RECEIVABLE (IAS 32, IFRS 9)

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

WARRANTY OBLIGATIONS (IAS 37)

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

RESEARCH AND DEVELOPMENT EXPENSES (IAS 38)

Research expenses are recognized as expense directly upon arising. Market-related development expenses are recognized as intangible assets if the conditions for recognition are satisfied and the Group is able to prove this:

- The technical feasibility of completing the intangible asset so that it will be available for internal use or sale,
- The intention to complete the intangible asset and use or sell it,
- How the intangible asset will generate probable future economic benefits,
- The availability of resources for purposes of completing the asset,
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

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

INTEREST INCOME AND EXPENSE (IAS 1, IAS 32)

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

DIVIDENDS (IAS 1)

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

GOVERNMENT GRANTS (IAS 20)

Government grants are recognized when there is reasonable assurance that the grants will be received and the eligible Group company complies with the conditions attached to them. Grants related to expenses are recognized as liabilities and systematically recorded as income over the period necessary to net it with the corresponding expenses. Government grants related to assets are presented in the balance sheet by setting up the grant as deferred income that is depreciated on a straight-line basis over the expected useful life of the asset. To the extent that loans or other subsidies from governments or their executive agencies are provided at an interest rate below the prevailing market rate, the resulting benefit is recognized as a government grant.

TAXES (IAS 12)

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

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

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

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

- Deferred tax assets arising from taxable temporary differences in connection with investments in subsidiaries and associates and interests in joint ventures are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income against which the temporary differences can be utilized.

Deferred tax assets are only recognized on unused tax losses if the corresponding tax advantages are likely to be utilized. In particular, the Group determines whether there has been a series of losses in the recent past.

Accordingly, a discretionary judgment by management is required to determine the amount of deferred tax assets on the basis of the expected timing and amount of the future taxable profit Reliable planning of future taxable results is also required. The recoverable value of deferred tax assets is reviewed annually.

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

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

Value-added tax refunded or paid is recognized under "other current assets" or "other current liabilities", as the case may be.

PROPERTY, PLANT AND EQUIPMENT (IAS 16, IAS 36)

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

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

Property, plant and equipment are depreciated pro rata temporis over the expected useful life using the straight-line method. Impairments are recognized when the carrying amount exceeds the value in use or the fair value less costs to sell of the assets. Should the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to the amount of the asset's original cost.

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

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

LEASES (APPLICATION OF IAS 17 UP UNTIL DECEMBER 31, 2018)

Leases in which GRAMMER AG or a subsidiary is the lessee are classified as either as operating leases or finance leases. The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time at which it is established and requires a judgment as to whether the performance of the contractual arrangement depends on the use of a specific asset and whether the arrangement conveys the right to use the asset. With regard to leased items of property, plant and equipment, the requirements of finance leases in accordance with IAS 17 are met when all significant risks and opportunities of ownership have been transferred to the respective Group company. In this case, economic ownership rests with the Group companies concerned and the asset is recognized at its fair value or, if lower, the present value of the minimum lease payments. Depreciation is recognized on the asset on a straight-line basis over its expected life or, if shorter, the duration of the lease. The corresponding lease payment is recognized as a liability and the repayment component of the lease payments already made is deducted.

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

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

LEASES (APPLICATION OF IFRS 16 FROM JANUARY 1, 2019)

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

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

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

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

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

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

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

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

The duration of the lease comprises the non-cancellable term of a lease together with the periods resulting from an option to extend or terminate the lease as well as a purchase option if it is reasonably certain that this option will be exercised. All relevant facts and circumstances that provide an economic incentive to exercise or not to exercise the option are taken into account, including any changes in those facts and circumstances that are expected to occur between the commencement date and the exercise of the option.

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

INTANGIBLE ASSETS (IAS 38)

Intangible assets are initially recognized at historical cost. The costs of such intangible assets acquired under business combinations equal their fair value on their date of acquisition. They are subsequently recorded at historical cost less cumulative amortization and any cumulative impairment expense. A distinction is drawn between intangible assets with a definite useful life and those with an indefinite useful life. With the exception of goodwill, the GRAMMER Group does not have any intangible assets with an indefinite useful life. Intangible assets with a definite useful life are amortized over their useful lives using the same method as for depreciation of property, plant and equipment. They are also tested for impairment as soon as there is any indication that they might be impaired. If the expected useful life of the asset or the expected amortization schedule has changed, a different amortization period or amortization method is chosen. Such changes constitute a change of estimate. Intangible assets include patents and licenses. Patents may be either generated internally or acquired and are recognized at historical cost. Licenses for the use of intellectual property are issued for individual use for a period of one to ten years. Patents and licenses are amortized on a straight-line basis over their respective useful life.

GOODWILL (IAS 38, IAS 36)

Goodwill arising from a business combination is initially measured at cost and is defined as the excess of cost over the Group's share in the fair values of the identifiable assets, liabilities and debt of the entity acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment expense. Goodwill is not subject to systematic amortization, but is tested for impairment annually or whenever there are any indications of impairment.

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

Impairment testing is carried out annually at the level of segments, which are the Group's cash-generating units and represent the lowest level at which goodwill is monitored for internal management purposes. This requires an estimate to be made of the value in use of the cash-generating units to which the goodwill has been attributed. In order to estimate the value in use, the Group must estimate the expected future cash flows from the cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. Forecasts of cash flows are based on historical data and management's best estimate of future events over the next three years. Cash flows beyond the forecast period are extrapolated on the basis of individual growth rates. The assumptions underlying the fair value less costs to sell and value in use entail estimated growth rates, weighted average cost-of-capital rates and tax rates. These estimates and the methods used to arrive at them may exert considerable influence on the applicable figures and ultimately also the amount of a possible impairment of goodwill.

INVENTORIES (IAS 2)

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

CASH, CASH EQUIVALENTS AND SHORT-TERM DEPOSITS (IAS 7)

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

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

TREASURY STOCK (IAS 32)

If the GRAMMER AG or a Group company acquires any treasury stock, this is carried at cost and deducted from equity. The purchase, sale, issue or cancellation of own shares is recognized directly in equity. Any differences between the carrying amount and the consideration paid are recognized in equity.

RETIREMENT BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (IAS 19)

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

Actuarial gains or losses result from changes in the number of beneficiaries and differences between actual trends (e.g. salary or pension increases) compared to the assumptions on which the calculations were based. They are reported within other comprehensive income and subsequently no longer recycled to profit and loss.
Current service cost, past service cost, gains and losses from plan curtailments and extraordinary plan settlements are recognized within cost of sales, administrative costs or selling costs depending on their function.

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

Actuarial calculations are based on material assumptions including on discount rates, expected wage and salary trends and mortality rates. The discount factors applied are determined on the basis of market yields on the reporting date on investment-grade corporate bonds with the appropriate maturity and currency denomination. Changes in market and economic conditions, particularly interest rates, may cause the underlying assumptions to differ from actual performance. Given the complexity of the measurements and their long-term nature, defined benefit obligations react extremely sensitively to any changes in the underlying assumptions. These assumptions are reviewed on each reporting date. The GRAMMER Group does not have any defined-contribution pension plans. Further details on retirement benefit obligations can be found in Note 20.

PROVISIONS (IAS 37)

In accordance with IAS 37, provisions are recognized insofar as the Group, as a result of a past event, has present obligations towards third parties that will likely cause an outflow of resources and a reliable estimate can be made with respect to the amount of the obligation.

Where the Group expects at least a partial reimbursement of a provision (e.g. in the case of an insurance policy) for a particular matter, the reimbursement is recognized as a separate asset when it is virtually certain that reimbursement will be received. The expense relating to the provision is presented in the income statement net of the amount recognized for the reimbursement. Where the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the risks specific to the liability. When discounting, the increase in the amount of a provision reflecting the time value of money is recognized as interest expense. Provisions for warranty costs are recognized at the time of sale of the relevant products or performance of the relevant services. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation.

The measurement of provisions for warranties and litigation is largely based on estimates and assumptions. For warranty estimates, a significant number of assumptions are made relating to technical disruptions, costs and possible claims, which to some extent rely on operating management's past experience. These may change over time as more specific information becomes available. Restructuring costs are provided for if the general criteria for the recognition of provisions in accordance with IAS 37 are satisfied. The Group is confronted with various legal disputes and regulatory processes in different countries. These can result in civil sanctions or monetary fines for the Group. The Group recognizes provisions for such litigation costs if it is probable that an obligation will arise from them that is likely to result in future cash outflows. If the Group has an onerous contract, the present contractual obligation is recognized and measured as a provision. However, before establishing a separate provision for an onerous contract, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the expected economic benefits. The unavoidable costs under a contract reflect the minimum net cost of exiting the contract, which is the lower of the cost of fulfilling it or any compensation or penalties arising from failure to fulfil it.

SHARE-BASED PAYMENT (IFRS 2)

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

FINANCIAL ASSETS (IFRS 9)

Financial assets are recognized on their settlement date.

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

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

Financial assets are assigned to the following categories:

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

"Financial assets at amortized cost (FAAC)" include cash, cash equivalents and short-term deposits, trade accounts receivable, loans and receivables (other financial assets). They are held for the purposes of the GRAMMER Group's business model of which is to hold assets to generate contractual cash flows. The cash flow criteria are met for these financial assets. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization. Subsequent to initial recognition, they are recognized at amortized cost using the effective interest rate method less possible impairment losses. Trade accounts receivable are recognized at their invoice amount.

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

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

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

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

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

FINANCIAL LIABILITIES (IFRS 9)

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

Financial liabilities are assigned to the following categories:

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

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

The financial liabilities assigned to this category are measured at fair value not only upon initial recognition but also in subsequent periods. Any resultant gains and losses are recorded through profit and loss. The portion of the fair value changes attributable to the change in the GRAMMER Group's own credit risk is not recognized through profit and loss but in other comprehensive income. In 2019, the Group did not make use of the option to allocate financial liabilities to this category.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group makes use of derivative financial instruments, such as currency forwards and interest rate swaps to hedge interest rate, exchange rate and other price risks. These derivative financial instruments are recognized at fair value at the time of agreement and remeasured at their fair value in subsequent periods. Depending on whether the fair value is positive or negative, they are recognized either as financial assets or as financial liabilities.

The GRAMMER Group classifies hedge relationships as cash flow hedges for accounting purposes. This hedges exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, a highly probable forecast transaction or the foreign currency risk attributable to an unrecognized firm commitment.

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

Hedges that meet all the criteria for hedge accounting are accounted for as follows: The effective portion of the gain or loss from a hedge is recognized in other comprehensive income, whereas the ineffective portion is recognized through profit and loss. Cumulative other comprehensive income is adjusted to the lower of the following amounts: the cumulative gain or loss on the hedge since its inception or the cumulative change in the fair value of the hedged item.

The Group uses forward exchange contracts to hedge the currency risk resulting from an expected transaction and forward commodity contracts to address the volatility risk of commodity prices. GRAMMER also uses interest rate swaps to hedge cash flows from variable-rate financial liabilities. As of the reporting date, the portfolio included forward exchange contracts and interest rate swaps, but no commodity futures contracts. In addition, there were fully effective hedging relationships for the interest rate swaps and forward exchange contracts. If the hedges do not satisfy the requirements of hedge accounting or they constitute the ineffective part of another effective hedge relationship, the change in fair value is recognized through profit and loss.

2.2 APPLICATION OF NEW IFRSS IN 2019

The IASB has published the following standards and interpretations, the application of which was not yet mandatory in 2019. Only those standards and interpretations of material relevance for GRAMMER's consolidated financial statements are described below. Other standards are not relevant for the Group and are therefore not included here.

IFRS 16: LEASES

GRAMMER has been applying the new guidance contained in IFRS 16 "Leases" since January 1, 2019, using the modified retrospective method. This means that cumulative conversion effects were recognized from the date of initial application on January 1, 2019, while the comparison periods were not restated. IFRS 16 replaces IAS 17 "Leases" and all interpretations relating to lease accounting (IFRIC 4; SIC-15 and SIC-27).

The main effects arising from initial application of IFRS 16 for the GRAMMER Group as a lessee arise from the fact that assets and liabilities are now recognized in lieu of the former operating leases (including rental contracts) for administration and production buildings, warehouses, vehicles and technical equipment and machinery.

In line with expectations, the impact on the consolidated income statement arises from the replacement of straight-line monthly expenses for operating leases with the depreciation of right-of-use assets and interest expenses from the recognition of lease liabilities.

For the purposes of the initial application of IFRS 16, GRAMMER is making use of the practical expedient and did not redetermine as of January 1, 2019 whether a contract constitutes or contains a lease. Furthermore, an impairment test was dispensed with. Instead, an assessment was made immediately before the date of initial application as to whether the contract was onerous. The initial direct costs were not taken into account in initial application. In the case of short-term leases (leases with a maximum duration of 12 months and no purchase option) and leases for low-value assets, GRAMMER recognizes the lease payments on a straight-line basis as expense through profit and loss. Furthermore, the practical expedient under which IFRS 16 is not applied to intangible assets is applied to all classes of intangible leased assets. In addition, use is made of the option of accounting for non-lease and lease components as a single lease component.

In the consolidated financial statements for 2018 GRAMMER recognized lease liabilities of EUR 55.6 million in accordance with the new definition on the basis of payments of EUR 68.3 million under operating leases as a lessee reported as of December 31, 2018. Including options to extend and terminate leases considered to be reasonably certain, lease liabilities of EUR 56.0 million were recognized in the opening balance sheet as of January 1, 2019.

The initial application of IFRS 16 had the impact described below on the following items of the statement of financial position as of January 1, 2019:

- Property, plant and equipment – increase of EUR 55,988 thousand
- Other financial liabilities – increase of EUR 43,384 thousand
- Other current financial liabilities – increase of EUR 12,604 thousand

The carrying amounts of assets and liabilities under former finance leases that existed in accordance with IAS 17 immediately before the date of initial adoption of IFRS 16 were not changed on the date of initial application and were accounted for in accordance with IFRS 16 from January 1, 2019. In connection with the first-time application of IFRS 16 to operating leases, the right-of-use assets were measured at the amount of the lease liability.

The operating lease obligations as of December 31, 2018 were reconciled as follows with the opening value of the lease liabilities as of January 1, 2019:

RECONCILIATION

EUR K

	JANUARY 1, 2019
Obligations under operating leases as of December 31, 2018	68,252
Practical expedients for short-term leases	−6,803
Practical expedients for minor-value leases	−215
Options to extend or terminate leases exercise of which is reasonably certain	417
Gross lease liabilities as of January 1, 2019	**61,651**
Discount	−5,663
Lease liabilities after initial application of IFRS 16 as of January 1, 2019	**55,988**
Present value of liabilities under finance leases as of December 31, 2018	21,087
Total lease liabilities as of January 1, 2019	**77,075**

The incremental borrowing rate was applied to measure the right-of-use assets as of the date of initial application. The weighted average incremental borrowing rate was 3.48%. To determine the incremental borrowing rate, the reference interest rates for corporate bonds for a period of up to 20 years were derived from risk-free interest rates (swap rate) and a risk premium (spread) matching that of the GRAMMER Group's credit rating in the applicable respective currency area. In the case of currency areas for which these figures were not available, interest rates of corporate bonds with ratings matching that of the GRAMMER Group were used. Where necessary, estimates were applied.

IFRIC 23: UNCERTAINTY OVER INCOME TAX TREATMENTS

The interpretation is effective for accounting periods beginning on or after January 1, 2019. The interpretation clarifies how the recognition and measurement requirements in IAS 12 "Income Taxes" should be applied if there are any uncertainties with regard to income tax treatments. In assessing uncertainty, an entity needs to determine whether the authority is likely to accept the uncertain tax treatment. An entity must decide whether to assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach chosen will be the one which permits a better prediction of the resolution of the uncertainty. The application of IFRIC 23 did not have any impact on the consolidated financial statements.

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

The amendments to IAS 19 relate to the recognition of plan amendments, curtailments and settlements. As a result of these amendments, the current service cost and the net interest for the remaining year must be recalculated using the current actuarial assumptions applied for the necessary remeasurement of the net liability (asset) when a defined benefit plan is amended, curtailed or settled. The amendments did not have any material impact on the Group as this calculation had already been applied in previous retirement benefit reports.

2.3 PUBLISHED STANDARDS WHICH ARE NOT YET SUBJECT TO MANDATORY APPLICATION

ENDORSED BY THE EU BUT NOT YET APPLIED

In 2019, the IASB published the following standards and interpretations which have already been integrated in EU law as part of the comitology procedures but for which application was not yet mandatory in 2019:

- Amendments to the cross-references to the framework in IFRS standards
- Amendments to IAS 1 and IAS 8 – Definition of materiality
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

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

AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7: INTEREST RATE BENCHMARK REFORM

The amendments to IFRS 9, IAS 39 and IFRS 7 relating to the interest rate benchmark reform were published in September 2019. They constitute the first phase of the IASB's work on the impact of the reform of interbank offered rates (IBOR). The reforms, which are being implemented internationally, triggered uncertainty as to the long-term viability of the previous IBOR. The amendments provide for temporary relief in IFRS 9 allowing hedge accounting to be retained in the period before the formal replacement of existing interest rate benchmarks with alternative, almost risk-free interest rates (RFR). The accounting conveniences apply to all hedging relationships that are directly affected by the interest rate benchmark reform. In determining the accounting treatment of a cash flow hedge, it can be assumed that the reforms will not result in any changes to the interest rate benchmarks. The same thing applies to an assessment of the economic relationship under IFRS 9. The amendments must be applied retrospectively for the first time from January 1, 2020. However, hedging relationships that have already been de-designated cannot be restored. GRAMMER has identified the IBOR-based contracts and is evaluating their effects on an ongoing basis and has already adjusted some of them.

NOT YET ENDORSED BY THE EU

The IASB published further standards and interpretations in 2019. However, these have not yet been integrated in EU law as part of the comitology procedures. As GRAMMER does not expect any material amendments, they are not listed below.

3 COMPANIES CONSOLIDATED

INFORMATION ON SUBSIDIARIES

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

NAME OF SUBSIDIARY	DOMICILE	MAIN ACTIVITY	EQUITY INTEREST % 2019	2018
1. Consolidated subsidiaries				
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/Commercial Vehicles	100.00	100.00
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	Distribution company	100.00	100.00
3. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	Commercial Vehicles	99.40	99.40
4. GRAMMER Inc.	Hudson (WI), USA	Automotive/Commercial Vehicles	100.00	100.00
5. GRAMMER CZ s.r.o.	Tachov, Czech Republic	Automotive/Commercial Vehicles	100.00	100.00
6. GRAMMER Japan Ltd.	Tokyo, Japan	Distribution company	100.00	100.00
7. GRAMMER AD	Trudovetz, Bulgaria	Commercial Vehicles	98.84	98.80
8. GRAMMER System GmbH	Amberg, Germany	Automotive	100.00	100.00
9. GRAMMER Automotive Metall GmbH	Amberg, Germany	Automotive	100.00	100.00
10. GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	Automotive	100.00	100.00
11. GRAMMER Automotive Española S.A.	Olérdola, Spain	Automotive	100.00	100.00
12. GRAMMER Industries Inc.	Greenville (SC), USA	Automotive	100.00	100.00
13. GRAMMER Automotive Puebla S.A. de C.V.	Puebla, Mexico	Automotive	100.00	100.00
14. GRAMMER Automotive Polska Sp. z o.o.	Bielsko-Biala, Poland	Automotive	100.00	100.00
15. GRAMMER Seating (Xiamen) Ltd.	Xiamen, China	Automotive	100.00	100.00
16. GRAMMER Interior (Tianjin) Co., Ltd.	Tianjin, China	Commercial Vehicles	100.00	100.00
17. GRAMMER Interior (Changchun) Co., Ltd.	Changchun, China	Automotive	100.00	100.00
18. GRAMMER Interior (Shanghai) Co., Ltd.	Shanghai, China	Automotive	100.00	100.00
19. GRAMMER System d.o.o.	Aleksinac, Serbia	Automotive	100.00	100.00
20. GRAMMER Railway Interior GmbH	Amberg, Germany	Commercial Vehicles	100.00	100.00
21. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Commercial Vehicles	100.00	100.00
22. GRAMMER Electronics N.V.	Aartselaar, Belgium	Commercial Vehicles	100.00	100.00
23. GRAMMER Interior (Beijing) Co., Ltd.	Beijing, China	Automotive	100.00	100.00
24. GRAMMER Automotive CZ s.r.o.	Česká Lípa, Czech Republic	Automotive	100.00	100.00
25. GRAMMER Seating (Jiangsu) Co., Ltd.	Jiangyin, China	Commercial Vehicles	100.00	100.00
26. GRAMMER Automotive South Africa (Pty) Ltd.	Bedfordview, South Africa	Automotive	100.00	100.00
27. GRAMMER Argentina S.A.	Buenos Aires, Argentina	Commercial Vehicles	99.96	99.96
28. GRAMMER Italia srl.	Jesi, Italy	Commercial Vehicles	100.00	100.00
29. GRAMMER Interior Components GmbH	Hardheim, Germany	Automotive	100.00	100.00
30. GRAMMER Seating (Shaanxi) Co., Ltd.	Weinan City, China	Commercial Vehicles	90.00	90.00
31. Toledo Molding & Die Inc.	Toledo (OH), USA	Automotive	100.00	100.00[1]
32. TMD Mexico LLC	Wilmington (DE), United States	Automotive	100.00	100.00[1]
33. TMD International Holdings LLC	Wilmington (DE), USA	Automotive	100.00	100.00[1]
34. TMD WEK LLC	Wilmington (DE), USA	Automotive	100.00	100.00[1]
35. TMD Tennessee LLC	Fayetteville (TN), USA	Automotive	100.00	100.00[1]
36. TMD Wisconsin LLC	Beloit (WI), USA	Automotive	100.00	100.00[1]
37. Toledo Molding de Mexico S. de R.L. de C.V.	Queretaro, Mexico	Automotive	100.00	100.00[1]
38. TMD CZR s.r.o.	Prague, Czech Republic	Automotive	100.00	100.00[1]
39. TMD WEK North LLC	Jefferson (OH), USA	Automotive	100.00	100.00[1]
2. Consolidated joint ventures and associated companies				
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	Commercial Vehicles	50.00	50.00
2. ALLYGRAM Systems and Technologies Private Limited	Pune, India	Development company	30.00[2]	–

[1] The TMD Group was acquired in full and consolidated for the first time effective October 1, 2018.
[2] Allygram Systems and Technologies Private Ltd. was included as a joint venture in the consolidated financial statements for the first time from August 29.

In addition to GRAMMER AG, five domestic and 34 foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IAS 10 are consolidated.

The companies accounted for at equity are the joint venture GRA-MAG Truck Interior Systems LLC, London, OH, United States (GRA-MAG LLC), in which GRAMMER AG holds 50% of the voting rights, and for the first time in 2019, the associate ALLYGRAM Systems and Technologies Private Limited, Pune, India (ALLYGRAM), in which GRAMMER AG holds 30% of the voting rights.

The uniform reporting date for all of the consolidated companies is December 31, 2019.

2019

	GERMANY	INTERNA-TIONAL	TOTAL
Fully consolidated companies (including GRAMMER AG)	6	34	40
Companies accounted for at equity	0	2	2
Companies	**6**	**36**	**42**

2018

	GERMANY	INTERNA-TIONAL	TOTAL
Fully consolidated companies (including GRAMMER AG)	6	34	40
Companies accounted for at equity	0	1	1
Companies	**6**	**35**	**41**

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

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

4 BUSINESS COMBINATIONS

Purchase price allocation in connection with the acquisition of Toledo Molding & Die, Inc. (TMD) was adjusted within a year of the acquisition date due to the availability of final information in accordance with IFRS 3.49. On May 22, 2018, GRAMMER AG signed a contract to acquire 100% of the shares in Toledo Molding & Die, Inc. (TMD), Toledo, Ohio, United States, and its subsidiaries. GRAMMER AG completed the acquisition of the TMD Group on October 1, 2018, as a result of which it was consolidated from this date. Further details on the acquisition of the TMD Group effective October 1, 2018 can be found in Note 4 of the annual report for 2018.

For the purposes of final purchase price allocation, the purchase price and, hence, historical costs were adjusted. The following overview sets out the fair value as of the date of first-time consolidation after provisional and final purchase price allocation for the TMD Group:

EUR K ASSETS	FINAL FAIR VALUE AT DATE OF ACQUISITION
Property, plant and equipment	83,184
Intangible assets	81,845
Deferred tax assets	1,447
Other assets	351
Non-current assets	**166,827**
Inventories	13,221
Current trade accounts receivable	45,161
Cash, cash equivalents and short-term deposits	9,870
Other current assets	9,075
Current contract assets	26,491
Current assets	**103,818**
Assets	**270,645**
Other financial liabilities	−66,399
Deferred tax liabilities (of which from remeasurement: EUR 16,429 thousand)	−27,192
Non-current financial liabilities	**−93,591**
Current trade accounts payable	−26,084
Other current liabilities	−17,128
Current liabilities	**−43,212**
Liabilities	**−136,803**
Total identifiable net assets at fair value	**133,842**
Goodwill from business combinations[1]	71,521
Consideration provided[1]	**205,363**
Cash and cash equivalents acquired with subsidiary	9,870
Outflow of cash and cash equivalents (before purchase price adjustment)	−206,719
Actual cash outflow as a result of business combination	**−196,849**

[1] Figures for previous year adjusted in accordance with IFRS 3.49.

Within the first twelve months after acquisition, the purchase price for the acquisition of the TMD Group as of October 1, 2018 was reduced as part of the final purchase price allocation in accordance with the terms of the purchase agreement. This resulted in a reduction of EUR 1,356 thousand in goodwill to EUR 71,521 thousand reported within intangible assets. USD exchange-rate changes resulted in a reduction of EUR 1,371 thousand as of December 31, 2018. At the same time, other receivables included in current other financial assets recognized in the consolidated statement of financial position increased by this amount as GRAMMER held a reimbursement claim for the purchase price payment already remitted as of this date (October 1, 2018). Accordingly, the correction was made retrospectively from October 1, 2018. For this reason, the comparison figures for 2018 were duly adjusted.

5 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

GRA-MAG LLC

GRAMMER AG holds a 50% share in the capital of GRA-MAG Truck Interior Systems LLC, London, OH, United States (GRA-MAG LLC), a jointly controlled entity in the United States, which is active in the Commercial Vehicles Division and primarily develops and assembles seats and seating systems for trucks. As in the previous year, the Group's shares in GRA-MAG LLC are recognized in accordance with equity method of accounting.

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

The summarized financial information corresponds to the amounts reported in the annual financial statements of the joint venture as of December 31, 2019 prepared in accordance with IFRS.

EUR K

INCOME STATEMENT 100%	2019	2018
Revenue	52,855	42,538
Cost of sales including systematic depreciation of EUR 105 thousand (2018: EUR 353 thousand)	−43,055	−34,457
Selling expenses	−11	−42
Administrative expenses	−4,383	−4,207
Interest expenses	−941	−926
Earnings before taxes	**4,465**	**2,906**
Income taxes	−65	−50
Net profit	**4,400**	**2,856**
Group's share of profit or loss (50%)	2,200	1,428

EUR K

STATEMENT OF FINANCIAL POSITION 100%	2019	2018
Non-current assets	938	484
Current assets	9,176	10,625
Assets	**10,114**	**11,109**
Non-current liabilities	21,554	25,409
Current liabilities	5,933	7,054
Liabilities	**27,487**	**32,463**
Equity	**−17,373**	**−21,354**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment in associate	0	0

The aforementioned items include cash, cash equivalents and short-term deposits of EUR 1,331 thousand (2018: EUR 459 thousand) as well as current financial liabilities of EUR 149 thousand (2018: EUR 4,321 thousand).

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

EUR K

UNRECOGNIZED GAINS/LOSSES (50%)	2019	2018
Unrecognized losses of GRA-MAG LLC as of January 1	−10,622	−12,050
Unrecognized gains of GRA-MAG LLC in the period under review	2,200	1,428
Unrecognized losses of GRA-MAG LLC as of December 31	**−8,422**	**−10,622**

As of December 31, 2019 and 2018, the joint venture did not have any contingent liabilities or capital commitments. The GRAMMER Group is not involved in any joint activities coming within the scope of IFRS 11.

OTHER IMMATERIAL INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

On November 16, 2018, GRAMMER signed an agreement with Allygrow Technologies Private Limited to establish an associated company for the provision of development services for GRAMMER's global plants. On August 29, 2019, GRAMMER acquired 30% of the share capital of EUR 613 thousand in ALLYGRAM Systems and Technologies Private Limited, Pune, India, through a capital increase. ALLYGRAM is accounted for at equity as an associate with a carrying amount of EUR 611 thousand as of December 31, 2019. Accordingly, pro rata net profit of EUR 28 thousand was recognized in profit and loss and foreign currency differences of EUR 30 thousand recognized in cumulative other comprehensive income.

6 SEGMENT REPORTING

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

The Automotive Division is the largest of the two reportable segments within the GRAMMER Group. Based on the total revenue of the two reporting segments (excluding eliminations across segments), 70.9% (2018: 68.6%) of revenue was generated in the Automotive Division in 2019. In this segment, the GRAMMER Group operates as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. The Group sells these products to automotive OEMs in the upper and premium segments in particular.

The Commercial Vehicles Division generated 29.1% of Group revenue in 2019 (2018: 31.4%). It develops and produces driver and passenger seats for trucks as well as driver seats for offroad vehicles (tractors, construction machinery and forklift drives), as well as seats and seating systems for trains and buses. In this segment, GRAMMER is active as a supplier to the commercial vehicle industry, marketing driver and passenger seats to commercial vehicle OEMs or as an aftermarket supplier. It also markets driver and passenger seats and markets them to bus and rolling stock OEMs, as well as railway operators.

The revenue and earnings before interest and tax (EBIT), operating EBIT and the operating EBIT margin generated by the operating segments are monitored separately by management in order to make decisions on resource allocation and determine the earnings strength of the units. Group financing (including financing income and expenses) as well as income taxes are managed uniformly and autonomously within the Group and not allocated to the individual segments. Similarly, expenses for the Central Service departments are not broken down by segment. The Central Services division carries out Group-wide functions in Financial Controlling, Corporate Communications, Procurement, Product Development, Operations, Finance, Internal Control, Investor Relations, Marketing, IT, Human Resources, Accounting and Legal Affairs.

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

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

REPORTING SEGMENTS

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

FISCAL YEAR ENDING DECEMBER 31, 2019

EUR K

	COMMERCIAL VEHICLES	AUTOMOTIVE	CENTRAL SERVICES	ELIMINATIONS	GRAMMER GROUP
Revenue from sales to external customers	572,702	1,465,805	0	0	**2,038,507**
Inter-segment revenue	34,736	13,947	0	−48,683	**0**
Revenue	**607,438**	**1,479,752**	**0**	**−48,683**	**2,038,507**
Segment EBIT	**44,107**	**50,968**	**−20,585**	**46**	**74,536**
Financial income					3,460
Financial expenses					−21,502
Other financial result					−2,365
Share of earning of joint ventures					9,438
Earnings before taxes					**63,567**
Income taxes					−20,089
Net profit					**43,478**
Other segment information					
Capital expenditure					
Property, plant and equipment	15,887	69,938	41,281	0	**127,106**
Intangible assets	4,729	272	654	0	**5,655**
Depreciation and amortization					
Depreciation	−14,260	−51,400	−2,309	0	**−67,969**
Amortization of intangible assets	−1,993	−13,775	−1,528	0	**−17,296**
Non-cash items					
Changes in retirement benefit provisions	5,011	1,428	924	0	**7,363**

YEAR ENDING DECEMBER 31, 2018

EUR K

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

INFORMATION ON GEOGRAPHIC AREAS

The following tables include information on externally generated revenue and non-current assets of the Group's geographical segments for the fiscal years ending December 31, 2019 and 2018. The geographical breakdown is based on the region of registration of the companies.

2019

EUR K

BY PLACE OF DOMICILE	EMEA	AMERICAS	APAC	GROUP
Automotive Division revenue	715,506	534,572	229,674	**1,479,752**
Commercial Vehicles revenue	439,766	83,233	84,439	**607,438**
Eliminations	−39,942	−8,344	−397	**−48,683**
Revenue	**1,115,330**	**609,461**	**313,716**	**2,038,507**
Non-current assets (property, plant and equipment as well as intangible assets)	340,688	285,454	42,767	**668,909**

2018

EUR K

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

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

The GRAMMER Group's revenue in Germany stands at EUR 905 million (2018: EUR 963 million); non-current assets in Germany were valued at EUR 232 million (2018: EUR 184 million).

7 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

2019

EUR K

POINT IN TIME OF REVENUE RECOGNITION	COMMERCIAL VEHICLES	AUTOMOTIVE	ELIMINATIONS	GRAMMER GROUP
Goods transferred at a specific point in time	604,773	1,362,494	−45,702	**1,921,566**
Goods and services transferred over time	2,665	117,258	−2,981	**116,941**
Intragroup transactions	−34,736	−13,947	48,683	**0**
Total revenue from contracts with customers	**572,702**	**1,465,805**	**0**	**2,038,507**

2018

EUR K

POINT IN TIME OF REVENUE RECOGNITION	COMMERCIAL VEHICLES	AUTOMOTIVE	ELIMINATIONS	GRAMMER GROUP
Goods transferred at a specific point in time	597,864	1,206,769	−48,632	**1,756,001**
Goods and services transferred over time	1,915	105,829	−2,453	**105,291**
Intragroup transactions	−38,185	−12,900	51,085	**0**
Total revenue from contracts with customers	**561,594**	**1,299,698**	**0**	**1,861,292**

The net contract liabilities of EUR 1,441 thousand reported as of December 31, 2018 were recognized in full as revenue in 2019 (2018: EUR 0 thousand).

In 2019 and 2018, there was likewise no material revenue from performance obligations which had been fulfilled in part or in full in earlier periods.

8 OTHER INCOME AND EXPENSES

8.1 OTHER OPERATING INCOME

Other operating income primarily included income from recharged handling costs of EUR 3,632 thousand (2018: EUR 4,586 thousand), income from the sale of metal waste of EUR 2,471 thousand (2018: EUR 2,871 thousand) and miscellaneous other income of EUR 5,750 thousand (2018: EUR 6,514 thousand). Other operating income additionally comprises government grants of EUR 972 thousand (2018: EUR 2,277 thousand) and income from recharged expenses and rental income of EUR 2,811 thousand (2018: EUR 486 thousand). It additionally includes a refund claim for miscellaneous taxes of EUR 2,002 thousand (2018: EUR 0 thousand) in connection with the quasi-VAT levies PIS and Confins (Programa de Integração Social/Contribuição para o Financiamento da Seguridade Social) in Brazil. The government grants were received for the acquisition of certain items of property, plant and equipment as well as in the form of income subsidies. The conditions for these grants were satisfied in full and there is currently no risk that they will not be observed in the future.

8.2 FINANCIAL RESULT

The following table breaks down financial result:

EUR K	2019	2018
Interest income on bank balances	1,157	973
Financial assets available for sale	2,284	178
Proceeds from loans	19	355
Financial income	**3,460**	**1,506**
Loans and overdrafts	−14,861	−9,710
Other interest costs	−105	−60
Interest cost of retirement benefit provisions	−2,720	−2,648
Loss from financial assets and liabilities at fair value through profit or loss	−410	−765
Interest element of lease payments	−3,406	−318
Financial expenses	**−21,502**	**−13,501**
Currency-translation gains/loss from cash at bank and in hand	−4,162	−3,088
Exchange-rate differences from intercompany finance	1,797	812
Other financial result	**−2,365**	**−2,276**
Financial result	**−20,407**	**−14,271**

The deterioration in the financial result is mainly due to the higher borrowing costs due to the financing of the acquisition of the TMD Group and the interest expenses on leases, which were recognized in 2019 for the first time following initial application of IFRS 16. Other financial assets include interest income on the refund claim for miscellaneous taxes of EUR 1,817 thousand (2018: EUR 0 thousand) in connection with the quasi-VAT levies PIS and Confins (Programa de Integração Social/Contribuição para o Financiamento da Seguridade Social) in Brazil. Further details can be found in Note 8.1.

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

COST OF SALES

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise of EUR 1,734.290 thousand (2018: EUR 1,579.798 thousand). 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. Expenses relating to the development and expansion of individual plant locations in preparation for forthcoming series production ("industrialization costs") are included in the cost of sales to the extent that these expenses cannot be deferred. Expenses in the Commercial Vehicles Division for "design to market" developments are also included here.

SELLING EXPENSES

The selling expenses of EUR 41,824 thousand (2018: EUR 37,769 thousand) relate to expenses of the sales and distribution function and primarily refer to costs incurred by the Sales, Advertising and Marketing departments as well as overheads allocated to these functions or activities. Freight, commissions and forwarding charges are also included in selling expenses.

ADMINISTRATIVE EXPENSES

Administrative expenses include all administrative expenditure which cannot be assigned directly to other functions, including expenditure on general administration, management and central departments. Other administrative expenses also include income from exchange rate movements in the amount of EUR 15,551 thousand (2018: EUR 24,473 thousand) and mainly relate to foreign exchange gains between the origination and settlement of foreign currency receivables and liabilities as well as foreign exchange gains resulting from measurement at the reporting date. Foreign exchange losses amounting to EUR 13,057 thousand (2018: EUR 21,681 thousand) are also recognized under other administrative expenses. Administrative expenses also include various special charges of EUR 6,915 thousand in 2019

(2018: EUR 29,886 thousand) arising from one-off business transactions. In 2019, these include expenses of EUR 1,744 thousand in connection with the ex-post exercise of change-of-control rights on the part of individual managers, non-recurring trailing legal and consulting costs of EUR 752 thousand in connection with the takeover of the Company by the majority shareholder, trailing transaction costs of less than EUR 90 thousand for the acquisition of TMD, as well as project expenses of EUR 1,067 thousand for medium-term future restructuring efforts in response to the market situation (efficiency enhancement program) and the resultant relocation and restructuring costs of EUR 3,262 thousand arising in Europe and China. In 2018, they included the non-recurring legal and consulting costs of EUR 12,893 thousand in connection with the successful takeover offer to the shareholders of GRAMMER AG by the majority shareholder. Also included were expenses of EUR 11,527 thousand resulting from the exercise of the change-of-control clause by members of GRAMMER AG's Executive Board, exceptional expenses of EUR 3,787 thousand in connection with the closure of the Langenfeld facility and non-recurring legal and consulting costs of EUR 1,679 thousand for the acquisition of the TMD Group.

AMORTIZATION AND DEPRECIATION

Amortization of intangible assets totaled EUR 17,296 thousand (2018: EUR 11,674 thousand) and is recognized in the income statement under the cost of sales, selling expenses and administrative expenses depending on origin. This item also contains capitalized development costs of EUR 2,290 thousand (2018: EUR 2,291 thousand) that are included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 67,969 thousand (2018: EUR 40,630 thousand), including systematic depreciation of EUR 18,864 thousand (2018: EUR 1,411 thousand) for right-of-use assets. This increase is due to the initial application of IFRS 16 from January 1, 2019. As in 2018, no impairment losses were recognized in 2019. Depreciation and amortization are recognized in the income statement under the cost of sales, selling expenses and general administrative expenses.

8.4 PERSONNEL EXPENSES

Personnel expenses are presented in the following table:

EUR K	2019	2018
Wages and salaries	395,137	349,887
Social security contributions	91,206	75,344
Employee benefit expenses	**486,343**	**425,231**

8.5 SHARE OF EARNINGS OF JOINT VENTURES

The loan provided to GRAMMER AG to the joint venture GRA-MAG LLC, which is accounted for using the equity method, was recognized in recent years as part of the net investment in foreign operations, as repayment was not planned or considered likely in the foreseeable future. As a result of the cumulative losses recorded, the carrying amount of the investment was EUR 0 in both 2019 and 2018 following the initial adoption of IFRS 11 in 2013 and the transition from proportionate consolidation to the application of equity method.

In view of the positive payment practices of GRA-MAG LLC with respect to receivables from operating activities in recent years and the favorable payment forecast for the future, repayment of the loan to GRAMMER AG is now planned and also probable. Since November 1, 2019, the loan has therefore no longer been included in the net investment in GRA-MAG LLC and is reported as a loan of EUR 9,438 thousand within other financial assets from this date. It is valued at EUR 9,371 thousand as of December 31, 2019 due to currency-translation effects.

9 INCOME TAXES

The key components of income taxes for 2019 and 2018 break down as follows:

EUR K	2019	2018
Consolidated Statement of Income		
Current income taxes		
Current tax expenses – Germany	−1,420	−917
Current tax expenses – international	−14,733	−8,962
Total current tax expenses	**−16,153**	**−9,879**
Deferred taxes		
Deferred tax liabilities (–)/deferred tax assets – Germany	−754	236
Deferred tax liabilities (–)/deferred tax assets – international	−3,182	−1,613
Deferred tax liabilities (–)/deferred tax assets	**−3,936**	**−1,377**
Tax income/expenses (–) reported in the consolidated statement of income	**−20,089**	**−11,256**

The increase in current income tax expense in Germany is attributable in particular to the significantly higher tax result of GRAMMER AG, which was impacted by the non-recurring effects arising in 2018.
The higher foreign income tax expense relates to a substantially higher tax result at several companies in APAC and several of the TMD Group companies.

Deferred tax assets of EUR 7.1 million, a large portion of which was attributable to a correction of the probable utilization of the unused tax losses of two US, one Chinese and two European companies, were adjusted in 2019. As the aforementioned companies have sustained a series of losses over the last three/four years, there is no substantive compelling evidence indicating that sufficient taxable income towards which the unused losses can be applied will arise in the future.
In 2018, the deferred tax liabilities outside Germany in 2018 arose from an impairment and partial non-recognition of deferred tax assets of EUR 2.3 million at subsidiaries in the United States. This was due to loss deduction restrictions under US tax regulations in the event of a change of control.

If the Group had been able to recognize all excluded deferred tax assets from 2019 and preceding years, net profit and equity would have increased by a total of EUR 13.5 million (2018: EUR 7.6 million).

Reconciliation between the income tax expenses reported in the consolidated income statement and the product of the reported net profit for the period and the applicable tax rate for the Group for fiscal years 2019 and 2018 is as follows:

EUR K	2019	2018
Earnings before tax	63,567	34,468
Income taxes at the effective rate in Germany of 29.2% (2018: 29.2%)	−18,561	−10,065
Effects from minimum taxation and withholding taxes	−1,366	−1,548
Current income taxes relating to previous years	1,178	529
Effects of the non-recognition of deferred taxes for the current year	−886	−3,201
Change in deferred taxes from previous years	−7,108	−247
Tax-exempt government grants/tax relief	1,291	61
Non-deductible expenses	−7,377	−2,479
Other tax effects	2,363	−449
Effects of changes in tax rate/legislation	467	−297
Share of earnings of joint ventures	2,749	0
Effect of foreign tax groups on tax rate	7,161	6,440
Income taxes at the effective tax rate of 31.6% (2018: 32.7%)	**−20,089**	**−11,256**

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

EUR K	2019	2018
Property, plant and equipment (excluding right-of-use assets, 2018: leased assets)[1]	−21,140	−21,142
Right-of-use assets (2018: leased assets)[1]	−6,439	0
Intangible assets	−26,737	−28,670
Other assets	−4,775	−4,587
Inventories	−1,042	−1,250
Current trade accounts receivable	6	−27
Contract assets	−1,380	−175
Other current financial assets	−136	−128
Non-current financial liabilities	−43	−73
Other current assets	−141	−300
Others	−859	−477
Deferred tax liabilities (non-netted)	**−62,686**	**−56,829**
Retirement benefits and similar obligations	26,913	21,430
Provisions	1,552	752
Tax losses carried forward	7,175	12,734
Other financial assets	365	346
Contract assets	1,316	4,360
Property, plant and equipment	2,851	2,918
Intangible assets	4,794	4,104
Other current liabilities[2]	745	3,260
Current trade accounts receivable	1,709	762
Other financial liabilities[3]	4,675	416
Other current financial liabilities[2]	1,520	37
Inventories[3]	4,013	2,203
Others[3]	3,659	1,918
Deferred tax assets (non-netted)	**61,288**	**55,240**
Net deferred tax liabilities(−)/deferred tax assets	**−1,398**	**−1,589**

[1] Right-of-use assets (2018: leased assets) included in property, plant and equipment in 2018.
[2] Other current financial liabilities included in other current liabilities in 2018.
[3] Other financial liabilities and inventories included in “Others” in 2018.

The change in deferred tax liabilities (gross) results primarily from the recognition of right-of-use assets of EUR 6.4 million as a result of the application of IFRS 16. The offsetting effect on deferred tax assets (gross) is included in other financial liabilities and other current financial liabilities.

The change in the deferred taxes is described below:

EUR K

	2019	2018
As of January 1	**−1,589**	**16,810**
Deferred tax liabilities (–)/deferred tax assets through profit and loss	−3,936	−1,376
Deferred tax liabilities(–)/tax income in the statement of comprehensive income	4,624	−2,103
Deferred taxes acquired through first-time consolidation	0	−25,745
Recognition of deferred taxes in retained earnings as a result of first-time application of IFRS 9 and IFRS 15	0	11,460
Currency-translation effects	−497	−635
As of December 31	**−1,398**	**−1,589**

The statutory rate of corporate income tax in Germany was 15% for the 2019 and 2018 assessment periods, plus a solidarity surtax of 5.5%. Together with municipal trade tax, which is not deductible as a business expense in Germany, this results in a tax rate of approximately 29.2% for 2019 (2018: 29.2%).

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the asset is realized or the liability settled. Deferred tax assets and liabilities were measured on the basis of the overall tax rate of 29.2% (2018: 29.2%). The local income tax rates for foreign entities varied between 10% and 34%. In the previous year, these were between 10% and 34%.

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 may change over time. Assessment of the value of deferred tax assets is based on the probability of measurement differences being reversed and the recoverability of unused tax losses that led to their creation.

The Group assumes that it will have sufficient taxable income to make use of existing unused tax losses for which deferred tax assets have been recognized. The unused tax losses in individual countries may be carried forward for periods of 5 to 20 years or also indefinitely and in some cases carried back.

Deferred income taxes were not recorded on outside basis differences (i.e. differences between net assets, incl. goodwill at subsidiaries or the relevant tax value of interests in subsidiaries), as reversal of differences, e.g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. The outside basis differences stand at EUR 146,546 thousand as of December 31, 2019 (2018: EUR 93,572 thousand). The distribution of dividends to the shareholders did not have any consequences for income tax in 2019 or 2018.

10 CONSOLIDATED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing consolidated net profit by the nominal number of shares outstanding during the fiscal year, less the Company's own shares that were bought back in 2006 (330,050 shares). The Company's share capital amounts to EUR 32,274,229.76 and is divided into 12,607,121 shares. All shares with the exception of treasury stock accord the same rights; shareholders have a right to receive payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting. The number of outstanding shares is calculated based on the weighted average. In addition to basic earnings per share, diluted earnings per share must be disclosed if a company has potential shares (i.e. financial instruments and other contracts entitling the holders to subscribe to no-par value shares of the Company, such as convertible bonds and options). As the GRAMMER Group did not issue any such financial instruments or enter into any such contracts as of December 31, 2019, its basic and diluted earnings per share are identical.

CONSOLIDATED EARNINGS PER SHARE

BASIC/DILUTED EARNINGS PER SHARE	2019	2018
Weighted average number of no-par value shares used to calculate basic/diluted earnings	12,277,071	12,277,071
Earnings in EUR k (excluding non-controlling interests)	43,676	23,304
Basic/diluted earnings per share in EUR	3.56	1.90

11 DIVIDENDS PAID AND PROPOSED

Appropriation of profit by GRAMMER Group is based on net profit/loss in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. On December 31, 2019, GRAMMER AG posted net profit of EUR 37.7 million (2018: EUR 41.6 million). This includes the profit of EUR 32.4 million carried forward from the previous year and the net profit for the year of EUR 5.3 million. The Executive Board and the Supervisory Board will be proposing to the shareholders that a dividend of EUR 0.11 (2018: EUR 0.75) per share will be distributed. This translates into a total dividend of EUR 1.4 million (2018: EUR 9.2 million), which was not recognized as a liability as of December 31, 2019. In this connection, allowance was made for the fact that Company holds a total of 330,050 of its own shares, which are not dividend-entitled. If the number of dividend-entitled shares changes before the expected date of the Annual General Meeting on July 8, 2020, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting. A dividend of EUR 9.2 million was paid in the year under review (2018: EUR 15.3 million).

Further details can be found in Note 19.

Dividends approved and distributed during the fiscal year:

DIVIDENDS ON ORDINARY SHARES

EUR K

	2019	2018
Dividend for 2019: EUR 0.11 (2018: EUR 0.75)	1,350	9,208

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

EUR K AMOUNT ON DECEMBER 31, 2019	HISTORICAL COST								
	AMOUNT ON JANUARY 1, 2019	ADJUSTMENT DUE TO INITIAL APPLICATION OF IFRS 16	AMOUNT ON JANUARY 1, 2019 (ADJUSTED)	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE-RATE DIFFERENCES	EFFECTS FROM BUSINESS COMBINATION	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2019
Land and buildings	**126,155**	0	**126,155**	11,647	−19	551	0	872	**139,206**
Manufacturing plant and equipment	**290,219**	0	**290,219**	32,585	−22,513	3,025	0	6,316	**309,632**
Operating and business equipment	**241,412**	0	**241,412**	19,061	−44,482	599	0	8,274	**224,863**
Prepayments made and assets under construction	**30,718**	0	**30,718**	41,568	−83	129	0	−15,321	**57,010**
Right-of-use assets	**25,759**	55,988	**81,747**	22,246	−3,541	1,144	0	−163	**101,433**
Property, plant and equipment	**714,263**	**55,988**	**770,251**	**127,107**	**−70,638**	**5,448**	**0**	**−23**	**832,145**
Concessions, industrial rights	**142,418**	0	**142,418**	997	−844	1,836	0	23	**144,430**
Goodwill	**121,187**	0	**121,187**	0	0	1,390	0	0	**122,577**
Capitalized development costs	**33,301**	0	**33,301**	4,657	−1	12	0	0	**37,969**
Prepayments made	**0**	0	**0**	0	0	0	0	0	**0**
Intangible assets	**296,906**	**0**	**296,906**	**5,654**	**−845**	**3,238**	**0**	**23**	**304,976**
Property, plant and equipment and intangible assets	**1,011,168**	**55,988**	**1,067,156**	**132,761**	**−71,483**	**8,686**	**0**	**0**	**1,137,121**

EUR K AMOUNT ON DECEMBER 31, 2018	HISTORICAL COST								
	AS OF JANUARY 1, 2018	ADJUSTMENT DUE TO INITIAL APPLICATION OF IFRS 15	AMOUNT ON JANUARY 1, 2018 (ADJUSTED)	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE-RATE DIFFERENCES[1]	EFFECTS FROM BUSINESS COMBINATION[1]	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2018
Land and buildings	**108,267**	0	**108,267**	2,708	0	−1,069	15,968	281	**126,155**
Manufacturing plant and equipment	**227,148**	0	**227,148**	21,231	−7,405	−1,129	46,075	4,299	**290,219**
Operating and business equipment	**226,287**	0	**226,287**	19,502	−4,368	−1,871	477	1,385	**241,412**
Prepayments made and assets under construction	**8,687**	0	**8,687**	24,761	−34	0	3,165	−5,861	**30,718**
Finance leases	**8,273**	0	**8,273**	0	−91	261	17,499	−183	**25,759**
Property, plant and equipment	**578,662**	**0**	**578,662**	**68,202**	**−11,898**	**−3,808**	**83,184**	**−79**	**714,263**
Concessions, industrial rights	**92,935**	−34,284	**58,651**	2,400	−1,240	680	81,845	82	**142,418**
Goodwill[1]	**48,879**	0	**48,879**	0	0	787	71,521	0	**121,187**
Capitalized development costs	**29,984**	0	**29,984**	3,334	0	−17	0	0	**33,301**
Prepayments made	**0**	0	**0**	3	0	0	0	−3	**0**
Intangible assets	**171,798**	**−34,284**	**137,514**	**5,737**	**−1,240**	**1,450**	**153,366**	**79**	**296,906**
Property, plant and equipment and intangible assets	**750,460**	**−34,284**	**716,176**	**73,939**	**−13,138**	**−2,359**	**236,550**	**0**	**1,011,169**

[1] Figures for previous year adjusted in accordance with IFRS 3.49, see Note 4 Business combinations.

	DEPRECIATION AND AMORTIZATION									CARRYING AMOUNT		
	AMOUNT ON JANUARY 1, 2019	ADJUSTMENT DUE TO INITIAL APPLICATION OF IFRS 16	AMOUNT ON JANUARY 1, 2019 (ADJUSTED)	ADDITIONS	DISPOSALS	WIRITE UP	EFFECTS FROM EXCHANGE-RATE DIFFERENCES	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2019	JANUARY 1, 2019	JANUARY 1, 2019 (ADJUSTED)	DECEMBER 31, 2019
	47,433	0	**47,433**	4,706	−19	0	37	−12	**52,145**	**78,722**	**78,722**	**87,061**
	136,721	0	**136,721**	27,105	−21,662	0	603	−2,119	**140,648**	**153,498**	**153,498**	**168,985**
	177,466	0	**177,466**	17,294	−43,889	0	242	2,220	**153,333**	**63,946**	**63,946**	**71,530**
	0	0	**0**	0	0	0	0	0	**0**	**30,718**	**30,718**	**57,010**
	4,397	0	**4,397**	18,864	−445	0	0	−102	**22,714**	**21,362**	**77,350**	**78,719**
	366,017	**0**	**366,017**	**67,969**	**−66,016**	**0**	**883**	**−13**	**368,840**	**348,246**	**404,234**	**463,305**
	50,498	0	**50,498**	15,006	−697	0	242	13	**65,062**	**91,920**	**91,920**	**79,369**
	10,636	0	**10,636**	0	0	0	0	0	**10,636**	**110,551**	**110,551**	**111,941**
	21,373	0	**21,373**	2,290	0	0	12	0	**23,675**	**11,928**	**11,928**	**14,294**
	0	0	**0**	0	0	0	0	0	**0**	**0**	**0**	**0**
	82,507	**0**	**82,507**	**17,296**	**−697**	**0**	**254**	**13**	**99,373**	**214,399**	**214,399**	**205,604**
	448,525	**0**	**448,525**	**85,265**	**−66,713**	**0**	**1,137**	**0**	**468,213**	**562,645**	**618,633**	**668,909**

	DEPRECIATION AND AMORTIZATION									CARRYING AMOUNT		
	AS OF JANUARY 1, 2018	ADJUSTMENT DUE TO FIRST-TIME APPLICATION OF IFRS 15	AMOUNT ON JANUARY 1, 2018 (ADJUSTED)	ADDITIONS	DISPOSALS	WIRITE UP	EFFECTS FROM EXCHANGE-RATE DIFFERENCES	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2018	JANUARY 1, 2018	JANUARY 1, 2018 (ADJUSTED)	DECEMBER 31, 2018
	43,924	0	**43,924**	3,936	0	0	−427	0	**47,433**	**64,343**	**64,343**	**78,722**
	125,585	0	**125,585**	19,523	−6,828	0	−1,618	59	**136,721**	**101,563**	**101,563**	**153,498**
	167,102	0	**167,102**	15,760	−3,877	0	−1,519	0	**177,466**	**59,185**	**59,185**	**63,946**
	0	0	**0**	0	0	0	0	0	**0**	**8,687**	**8,687**	**30,718**
	3,123	0	**3,123**	1,411	−91	0	13	−59	**4,397**	**5,150**	**5,150**	**21,362**
	339,734	**0**	**339,734**	**40,630**	**−10,796**	**0**	**−3,551**	**0**	**366,017**	**238,928**	**238,928**	**348,246**
	58,460	−16,020	**42,440**	9,383	−1,231	0	−94	0	**50,498**	**34,475**	**16,211**	**91,920**
	10,636	0	**10,636**	0	0	0	0	0	**10,636**	**38,243**	**38,243**	**110,551**
	19,098	0	**19,098**	2,291	0	0	−16	0	**21,373**	**10,886**	**10,886**	**11,928**
	0	0	**0**	0	0	0	0	0	**0**	**0**	**0**	**0**
	88,194	**−16,020**	**72,174**	**11,674**	**−1,231**	**0**	**−110**	**0**	**82,507**	**83,604**	**65,340**	**214,399**
	427,928	**−16,020**	**411,908**	**52,304**	**−12,027**	**0**	**−3,661**	**0**	**448,525**	**322,532**	**304,268**	**562,646**

12.1 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation is based generally on the following useful economic lives:

Land	No depreciation
Buildings and fixtures	10–40 years
Building fittings	5–40 years
Manufacturing plant and equipment	5–25 years
Other equipment, operating and business equipment	2–15 years
Leased assets (finance leases)	3–25 years
Concessions, industrial rights	3–12 years
Capitalized development costs	7–10 years

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

Intangible assets comprise concessions, industrial property rights, patents and customer orders. Capitalized development costs comprise internally generated patents, which are amortized on a straight-line basis over an average expected useful life of ten years. In 2019, total research and development costs stood at EUR 68,776 thousand (2018: EUR 63,967 thousand), including an amount of EUR 4,657 thousand (2018: EUR 3,334 thousand) which satisfied the criteria for recognition under IAS 38. Most of this amount was recognized in the income statement.

12.2 LEASES

GRAMMER has entered into various leases for buildings, manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between three and 25 years. Most of the leases do not provide for

EUR K AMOUNT ON DECEMBER 31, 2019	HISTORICAL COST								
	AMOUNT ON JANUARY 1, 2019	ADJUSTMENT DUE TO INITIAL APPLICATION OF IFRS 16	AMOUNT ON JANUARY 1, 2019 (ADJUSTED)	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE-RATE DIFFERENCES	EFFECTS FROM BUSINESS COMBINATION	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2019
Land and buildings	**18,400**	48,336	**66,736**	17,319	−1,498	1,070	0	0	**83,627**
Manufacturing plant and equipment	**5,335**	1,568	**6,903**	1,064	−1,550	29	0	−163	**6,283**
Operating and business equipment	**1,945**	2,326	**4,271**	713	−300	27	0	0	**4,712**
Motor vehicles	**79**	3,758	**3,837**	3,150	−194	18	0	0	**6,812**
Leased assets	**25,759**	**55,988**	**81,747**	**22,246**	**−3,541**	**1,144**	**0**	**−163**	**101,433**

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

any options for extending the lease or purchasing the leased asset, with the exception of buildings or limited items of equipment. In the case of buildings, these are largely standard renewal options, which provide either for a renewal option which may be unilaterally exercised by GRAMMER or for renegotiation for continued use after expiry of the lease. Expense of EUR 2,041 thousand for short-term leases and EUR 308 thousand for low-value leases was recognized through profit and loss in 2019. The right-of-use assets shown in Note 12 (2018: leased assets) under which GRAMMER has a right to use the corresponding assets in accordance with IFRS 16 (2018: which are attributable to GRAMMER for economic purposes under IAS 17) break down as follows:

DEPRECIATION AND AMORTIZATION						CARRYING AMOUNT		
AMOUNT ON JANUARY 1, 2019	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE-RATE DIFFERENCES	RECLASSIFICATIONS	AMOUNT ON DECEMBER 31, 2019	JANUARY 1, 2019	JANUARY 1, 2019 (ADJUSTED)	DECEMBER 31, 2019
481	13,492	−155	−4	0	**13,814**	**17,919**	66,254	**69,812**
2,815	1,776	−187	0	−62	**4,342**	**2,520**	4,088	**1,941**
1,066	1,285	−54	2	−40	**2,259**	**879**	3,205	**2,452**
35	2,311	−49	1	0	**2,298**	**44**	3,802	**4,514**
4,397	**18,864**	**−445**	**0**	**−102**	**22,714**	**21,362**	**77,350**	**78,719**

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

The following lease payments (including guaranteed residual values) are payable in subsequent periods under the right-of-use assets recognized (2018: finance leases):

EUR K	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
2019			
Lease payments	19,788	43,528	33,529
Less interest expense from discounting	−3,023	−7,679	−5,007
Present value (statement of financial position)	**16,765**	**35,849**	**28,522**
2018			
Lease payments	4,025	7,383	16,118
Less interest expense from discounting	−895	−2,634	−2,910
Present value (statement of financial position)	**3,130**	**4,749**	**13,208**

Possible future cash outflows of EUR 7,902 thousand for options to extend leases the exercise of which is not yet reasonably certain are not included in lease liabilities. Possible future cash outflows of EUR 400 thousand arise from leases that have not yet begun.

Under the former finance leases in accordance with IAS 17, the following payments (including guaranteed residual values) were due in subsequent periods in 2018:

EUR K	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
2018			
Lease payments	21,893	33,346	13,013

12.3 GOODWILL

The Commercial Vehicles Division and the Automotive Division are the reporting operational segments and the cash-generating units (CGUs[1]) of the GRAMMER Group. For the purposes of impairment testing in accordance with IAS 36, goodwill acquired in the past or recognized in Group accounting is allocated to the CGUs.

EUR K	CASH GENERATING UNIT	GOODWILL IN 2019	GOODWILL IN 2018	GROWTH RATE IN 2019[1]	GROWTH RATE IN 2018[1]	DISCOUNT FACTOR IN 2019	DISCOUNT FACTOR IN 2018
CGU I	Commercial Vehicles	4,423	4,423	1%	1%	5.9%	6.3%
CGU II	Automotive[2]	107,518	106,128	1%	1%	5.9%	6.3%
	Goodwill	**111,941**	**110,551**				

[1] Perpetual annuity.
[2] Figures for previous year adjusted in accordance with IFRS 3.49, see Note 4 Business combinations.

Goodwill attributable to the CGUs breaks down as follows as of December 31, 2019:

As described in Note 4, the goodwill attributable to CGU Automotive was adjusted retroactively from October 1, 2018 due to adjustments to the goodwill arising from the business combination with Toledo Molding & Die, Inc. (TMD), Toledo, Ohio, United States, in accordance with IFRS 3.49. Accordingly, the goodwill attributable to GCU Automotive was adjusted by an amount of EUR 1,371 thousand as of December 31, 2018.

Goodwill is generally tested for impairment at the level of the CGUs (cash generating unit) annually as of December 31. The recoverable amount from the cash-generating units is determined on the basis of the present value of estimated future cash flows less costs to sell based on the budgets approved by management for a period of three years. These budgets are particularly based on assumptions with respect to macroeconomic trends and trends in sell-side and commodity prices. In addition to these market forecasts, historical data is also taken into account. To arrive at the perpetual annuity extending beyond the three-year time horizon, the cash flow was extrapolated in the light of the expected sustainable growth rate of 1% (2018: 1%). The Group uses the same calculation methods and parameters for both segments when testing for impairment.

The key assumptions used in determining the value in use of a CGU are the free cash flows, the discount rate together with the related parameters and the sustainable growth rate. Free cash flows are calculated on the basis of the average budget of the last three years adjusted for expected efficiency improvements. The discounting factor is calculated on the basis of a cost of equity and a cost of debt rate. The cost of equity rate applied is based on a risk-free interest rate of 0.2% after tax (2018: 1.0%) and a risk premium for general market risks of 7.0% after tax (2018: 7.0%). For the determination of operating and leverage risks, individual beta factors are derived from a group of comparable companies (peer group) and used to measure the positive cash flows of the specific CGU. The cost of debt rate is determined by reference to the peer group of relevance for GRAMMER. The cash flows were discounted at a pre-tax interest rate of 5.9% (2018: 6.3%). A growth rate of 1% (2018: 1%) was assumed.

The impairment tests performed in 2019 confirm that the value of all goodwill is fully recoverable and that the goodwill attributable to the CGUs is not impaired.

Within the Automotive Division, an increase of 0.15 percentage points in the discount factor would result in the recoverable amount equaling the carrying amount. A reduction of 0.22 percentage points in the sustainable growth rate in this Division would result in a goodwill impairment. Within the Commercial Vehicles Division, a change of 3.33 percentage points in the discount factor would result in the recoverable amount equaling the carrying amount. A reduction in the sustainable growth rate in this Division to 0% would not result in any goodwill impairment.

[1] Cash generating units.

13 INVENTORIES

Inventories break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Raw materials, supplies and consumables	135,899	141,238
Work in progress	17,520	16,467
Finished goods and services	37,233	31,053
Prepayments made	1,227	2,234
Inventories	**191,879**	**190,992**

All inventories are carried at cost. Impairments of EUR 5.9 million (2018: EUR 5.6 million) were recognized for inventories.

14 TRADE ACCOUNTS RECEIVABLE

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

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Trade accounts receivable – gross	209,937	252,942
Impairment	−1,152	−1,128
Provisions for verity risks	−1,964	−1,805
Trade accounts receivable	**206,821**	**250,009**

The decline in trade accounts receivable is due to the greater use of factoring, among other things. As of the reporting date, trade accounts receivable of EUR 69,310 thousand (2018: EUR 42,301 thousand) were reduced as a result of non-recourse factoring. The risks arising from the factored receivables relevant for risk assessment are credit risk as well as the risk of delayed payment. With regard to a contract with a bank, the Group continues to recognize trade accounts receivable in the amount of its continuing exposure, i.e. the amount of the maximum default reserve and thus recognizes a corresponding liability. As of December 31, 2019, impairments of EUR 1,152 thousand (2018: EUR 1,128 thousand) were recognized on trade accounts receivable. There is also a provision for verity risks based on an individual valuation discount. Details are given in the table below:

EUR K

	IMPAIRMENT	PROVISIONS FOR VERITY RISKS	TOTAL
As of January 1, 2019	**1,128**	**1,805**	**2,933**
Additions	200	193	393
Utilization	−139	−34	−173
Write-backs	−24	0	−24
Effects from exchange-rate differences	−13	0	−13
As of December 31, 2019	**1,152**	**1,964**	**3,116**
As of January 1, 2018	**1,253**	**2,590**	**3,843**
Adjustment for initial application of IFRS 9	516	0	516
As of January 1, 2018 (adjusted)	**1,769**	**2,590**	**4,359**
Additions	281	140	421
Utilization	−513	0	−513
Write-backs	−342	−925	−1,267
Effects from exchange rate differences	−67	0	−67
As of December 31, 2018	1,128	1,805	2,933

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

EUR K

			NOT IMPAIRED BUT PAST DUE IN THE FOLLOWING PERIODS				
	TOTAL	NEITHER PAST DUE NOR IMPAIRED	UP TO 30 DAYS	31–60 DAYS	61–90 DAYS	91–180 DAYS	MORE THAN 180 DAYS
2019							
Trade accounts receivable – gross	**209,937**	187,021	13,513	3,435	1,332	1,148	3,488
Contract assets – gross	**131,531**	131,531	0	0	0	0	0
Impairment	**1,152**	306	30	34	31	20	732
2018							
Trade accounts receivable – gross	**252,942**	226,916	17,127	4,495	1,014	928	2,462
Contract assets – gross	**115,235**	115,235	0	0	0	0	0
Impairment	**1,128**	199	47	24	90	48	720

15 BALANCES OF CONTRACT ASSETS AND CONTRACT LIABILITIES

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

CONTRACT ASSETS

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Non-current contract assets	70,760	63,388
Current contract assets	60,771	51,847
Contract assets	**131,531**	**115,235**

As of December 31, 2019, performance obligations of EUR 77,590 thousand (2018: EUR 60,308 thousand) for series development were not satisfied in part or in full in line with plans. One third of these is expected to be recognized as revenue within one year.

CONTRACT FULFILMENT COSTS

In addition to the aforementioned balances of contract assets and contact liabilities, GRAMMER recognized an asset in connection with contract fulfilment costs for series deliveries. As of 31 December 2019, this was recognized at a value of EUR 4,774 thousand (2018: EUR 2,969 thousand). In 2019 and 2018, the contract fulfilment costs were not subject to any depreciation or impairment.

Contract liabilities break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Contract liabilities	2,606	799
Current contract liabilities	1,170	642
Contract liabilities	**3,776**	**1,441**

Contract liabilities arise from customer prepayments for series development activities.

16 OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Outstanding loans	9,371	0
Investments in associates	50	51
Other receivables	0	1,975
Non-current other financial assets	**9,421**	**2,026**
Other receivables[1]	2,724	7,700
Derivative financial assets	1,211	268
Current other financial assets	**3,935**	**7,968**

[1] Figures for previous year adjusted in accordance with IFRS 3.49, see Note 4 Business combinations.

In 2018, non-current other financial assets included the purchase price payments of EUR 1,975 thousand due in installments for the sale of the land and buildings in Immenstetten in 2015. These were reclassified in full as current other assets in 2019. Other receivables result primarily from current accounts receivable from associates, creditors with debit accounts and amounts due from employees. They are due for settlement in roughly 30 days. Financial assets are neither past due nor impaired. Loans include the loan to GRA-MAG LLC, a joint venture accounted for using the equity method, which was written up by EUR 9,438 thousand in 2019. It had a carrying amount of EUR 9,371 as of December 31, 2019 due to negative currency-translation effects of EUR 67 thousand. Further details can be found in Note 8.5.

17 OTHER ASSETS

Other assets break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Other assets	30,036	26,533
Deferrals	986	1,396
Non-current other assets	**31,022**	**27,929**
Current other assets	32,197	22,285
Deferrals	5,117	6,153
Current other assets	**37,314**	**28,438**

Other non-current assets include security deposit agreements, which are classified as long-term depending on the term of the underlying contract. This also include assets that have also been recognized for consideration paid to customers, which are recognized on a straight-line basis over the duration of the series as a reduction in revenue. If necessary, impairment is recognized. Other assets include consideration paid to customers of EUR 25,369 thousand (2018: EUR 24,480 thousand). The majority of these assets are classified as non-current other assets. Of these assets, an amount of EUR 5,431 thousand was recognized as a reduction in revenue in 2019 (2018: EUR 4,800 thousand).

Other current assets are chiefly made up of receivables of TEUR 25,070 thousand (2018: EUR 17,707 thousand) arising from pass-through taxes such as value added tax and other taxes as well as temporary security deposit agreements of EUR 200 thousand (2018: EUR 98 thousand).

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

18 CASH, CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

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

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash, cash equivalents and short-term deposits	142,651	204,373

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

The bank balances have variable interest rates and can be withdrawn on demand. Short-term deposits are made for various terms of between one day and three months depending on the Group's current liquidity requirements. The deposits accrue interest at the current interest rates for demand deposits.

For the purposes of the consolidated cash flow statement, holdings of cash and cash equivalents as of December 31 are as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash, cash equivalents and short-term deposits	142,651	204,373
Bank overdrafts (including current liabilities under factoring contracts)	−18,997	−11,069
Cash flow components of cash and cash equivalents	**123,654**	**193,304**

19 SUBSCRIBED CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

As of December 31, 2019, the subscribed capital of GRAMMER Group amounted to EUR 32,274 thousand (2018: EUR 32,274 thousand) divided into 12,607,121 no-par value shares (2018: 12,607,121). All shares accord the same rights. The shareholders have a right to payment of the approved dividend (with the exception of the Company's own shares) and may exercise one vote for each share at the Annual General Meeting.

CAPITAL RESERVE
The capital reserve totaled EUR 129,796 thousand as of December 31, 2019 (2018: EUR 129,796 thousand). It includes premiums from the capital increases in 1996, 2001, 2011 and 2017, less transaction costs.

RETAINED EARNINGS
Retained earnings comprises the statutory reserve of GRAMMER AG, which totaled EUR 1,183 thousand on both December 31, 2019 and 2018 and is not available for the payment of dividends.

Retained earnings additionally include income earned in the past by the consolidated companies not paid out as dividends. This item increased from EUR 228,920 thousand to EUR 263,408 thousand. The Company's net profit after tax of EUR 43,676 thousand (2018: EUR 23,212 thousand) is not fully reflected in retained earnings due to the dividend payment of EUR 9,208 thousand (2018: EUR 15,346 thousand).

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

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

TREASURY STOCK
As of December 31, 2019, GRAMMER AG holds a total of 330,050 shares as treasury stock, all of which were acquired in 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 844,928 and represent 2.618% of share capital.

ACQUISITION OF TREASURY STOCK
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 has been authorized by its shareholders to acquire up to 10% of its share capital, i.e. up to 1,049,515 of its own shares. The share repurchase is for the purposes set out in the resolution adopted by the Annual General Meeting, which provides for both the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares. This authorization was valid from August 16, 2006 until December 1, 2007. The repurchase of the shares under this Executive Board resolution complies with the safe haven rules of sections 14 (2), 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Commission Regulation (EC) no. 2273/2003 dated December 22, 2003. The 330,050 shares were purchased on the stock exchange at the price specified in the resolution of the Annual General Meeting and the transaction was published on the Company's website. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2019, 12,607,121 ordinary shares (2018: 12,607,121) were floating.

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

AUTHORIZATIONS
At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue bonds with warrants and/or convertible bonds on or before May 27, 2019 subject to the exclusion of the shareholders' preemptive subscription rights. The share capital was increased on a contingent basis by up to EUR 14,777,182.72 for this purpose (Contingent Capital 2014/I). Following partial utilization, Contingent Capital 2014/I stood at EUR 12,057,318.40 as of December 31, 2018. The Executive Board did not make any further use of Contingent Capital 2014/I in 2019. Accordingly, the Executive Board's authorization to issue bonds with warrants and/or convertible bonds subject to the exclusion of the shareholders' preemptive subscription rights duly expired on May 27, 2019. No new authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2019.

20 RETIREMENT BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

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

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

DBO MEASUREMENT PARAMETERS

IN %

	2019	2018
Interest rate	1.20	1.90
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.50	1.50

MEASUREMENT PARAMETERS FOR OTHER BENEFITS

IN %

	2019	2018
Interest rate	1.20–7.25	1.90–10.00
Salary trend	2.30–4.50	2.30–4.50
Inflation rate	1.50–13.00	1.50–13.00

The measurement parameters also include liabilities from other countries that tend to have higher interest rates than Germany due to different structures. For example, the interest rate is 7.25% (2018: 10.0%) and the salary trend 4.5% (2018: 4.5%) in Mexico, while Turkey has an interest rate of around 13.0% (2018: 13.0%).

As in the previous year, the AON Hewitt interest rate was applied in fiscal year 2019. This interest rate is derived from the vested obligations in the light of the specific structure of the payment flows. The calculation is based on the GRAMMER companies' retirement benefit obligations which underlie the retirement benefit provisions as of December 31.

The calculation of the interest rate is based on the yield structure curve of investment-grade EUR-denominated corporate bonds, the coupon yields of the iBoxx € Corporates AA index for various maturity classes and the yield structure curve for (fictitious) zero-coupon bonds with no credit risk (source: Deutsche Bundesbank). The calculations are performed on the basis of the end-of-day prices as of December 31, 2019.

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

In 2019, annuities were paid on retirement benefit commitments in an amount of EUR 3,707 thousand (2018: EUR 2,777 thousand). Other post-employment benefits paid totaled EUR 140 thousand (2018: EUR 579 thousand).

The following amounts were recognized in the income statement:

EUR K	PENSION PLAN	OTHER BENEFITS
2019		
Current service cost	3,786	828
Current service cost	3,883	828
Past service cost	−97	0
Net interest expense	2,617	103
Service cost and net interest expense	**6,403**	**931**

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

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

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

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

The following items were recorded within other comprehensive income

EUR K	PENSION PLAN	OTHER BENEFITS
2019		
Cumulative amount recognized in other comprehensive income as of January 1, 2019	55,482	0
Amount recognized in the year under review	17,326	0
Cumulative amount recognized in other comprehensive income as of December 31, 2019	**72,807**	**0**

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

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

EUR K	PENSION PLAN	OTHER BENEFITS
As of January 1, 2019	**136,383**	**3,074**
+ Current service cost	3,786	828
+ Interest expense	2,617	103
Changes in estimates: gains (–)/losses (+)	17,352	0
Changes in demographic assumptions	0	0
Changes in financial assumptions	17,775	0
Changes based on historical data	–423	0
– Current payments	–3,707	–140
Exchange rate differences	46	–262
As of December 31, 2019	**156,477**	**3,603**
As of January 1, 2018	**140,683**	**3,510**
+ Current service cost	3,221	863
+ Interest expense	2,544	104
Changes in estimates: Gains (–)/losses (+)	–7,320	0
Changes in demographic assumptions	117	0
Changes in financial assumptions	–6,050	0
Changes based on historical data	–1,387	0
– Current payments	–2,777	–579
Exchange rate differences	32	–824
As of December 31, 2018	**136,383**	**3,074**

Retirement benefits for the members of the Executive Board take the form of a capital account plan, to which the Company adds an annually calculated amount for each member of the Executive Board. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses.

The retirement benefit scheme for the members of the Executive Board is a defined benefit plan.

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

Similarly, the existing contractual trust agreement was extended in 2018 to include the new employees. As of December 31, 2019, the capital payments deposited in a trust account thus amounted to EUR 5,904 thousand (2018: EUR 4,467 thousand), which also includes an amount of EUR 4,407 thousand (2018: EUR 4,100 thousand) for present and former members of the Executive Board and management. This capital benefit represents plan assets and is netted with the retirement benefit obligations reported in the statement of financial position. The assets of the contractual trust agreement have been invested in a fund comprising global shares, fixed-income securities and cash. The funds are exposed to the general risks of the equity and fixed-income markets.

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

EUR K	2019	2018
Fair value of plan assets on January 1	**4,467**	**3,655**
Interest expenses on plan assets	85	66
Adjustments	26	–150
Contributions to plan assets	1,326	897
Fair value of plan assets on December 31	**5,904**	**4,467**

The material actuarial assumptions used to calculate the defined benefit obligation entail the discount rate, expected salary increases and mortality. The following sensitivity analyses have been performed in the light of the possible changes which may reasonably occur in the individual assumptions as of the reporting data, with all other assumptions remaining constant.

DISCOUNT FACTOR

EUR K

	2019	2019	2018	2018
	1% REDUCTION	1% INCREASE	1% REDUCTION	1% INCREASE
Effect on DBO	31,103	−23,843	26,414	−20,358
Effect on current service cost	530	−395	471	−354
Effect on net interest expense	−1,406	786	−1,048	696

FUTURE SALARY INCREASES

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Effect on DBO	−9,000	3,760	−3,006	3,407

INFLATION RATE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Effect on DBO	−9,600	10,619	−8,067	8,901

MORTALITY RATE

EUR K

	10% REDUCTION	10% INCREASE	10% REDUCTION	10% INCREASE
Effect on DBO	5,406	−4,790	4,352	−3,882

As most of the defined benefit obligations relate to the German companies, the sensitivity analysis is confined to these companies.

In the above sensitivity analyses, the present value of the defined benefit obligation was calculated using the projected unit credit method as of the reporting date, i.e. the same method as that used to calculate the defined benefit liability recorded in consolidated balance sheet.

It can be assumed that the above sensitivity analysis is not representative of the actual change which would occur in the defined benefit obligation as it is unlikely for deviations from the assumptions applied to arise in isolation in view of the fact that some of the assumptions are linked to each other.

The following table sets out the expected future cash outflows for the existing pension plans:

EXPECTED CASH OUTFLOWS

EUR K

	2019	2018
Short-term (<1 year)	3,155	2,898
Medium-term (1 to 5 years)	15,194	13,858
Long-term (>5 years)	132,602	115,099

21 FINANCIAL LIABILITIES

Financial liabilities break down as follows:

EUR K	CURRENT	NON-CURRENT	TOTAL
2019			
Bank overdrafts (including current liabilities under factoring contracts)	18,997	0	18,997
Loans	104,199	93,236	197,435
Bonded loans	84,539	126,740	211,279
Financial liabilities	**207,735**	**219,976**	**427,711**

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

The existing facility under the syndicated loan agreement of EUR 100.0 million (2018: EUR 180.0 million) entered into in 2013 secures GRAMMER's Group funding. The syndicated loan is divided into a facility of EUR 100.0 million (tranche A) for general corporate finance and a facility of EUR 80.0 million (tranche B) for acquisition finance, which was terminated in 2018 in connection with the acquisition of the TMD Group and the funding of this transaction. The syndicated loan contract was entered into between the main German GRAMMER companies and six commercial banks. The credit facility for general corporate finance can be drawn on either as an overdraft facility or in the form of fixed-rate loans with interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin. The syndicated loan contract has an original term of five years plus two one-year renewal options. The second renewal option was exercised in September 2015. The term thus expires on October 31, 2020. The participating GRAMMER Group companies bear joint and several liability for the credit facility. Beyond this, no other collateral backing exists.

The acquisition of Toledo Molding & Die, Inc. in 2018 was financed via a limited number of banks under the existing syndicated loan in 2018. The acquisition finance for USD 260.0 million had a term of 12 months plus one six-month renewal option to be exercised by GRAMMER. GRAMMER exercised the renewal option in 2019. Once they have been repaid, amounts disbursed cannot be drawn on again.

In addition, long-term, mortgage-backed (development) fixed-rate loans totaling EUR 50.0 million (2018: EUR 41.0 million) were taken out to finance the construction of the new GRAMMER campus and were disbursed in full in 2019.

OVERDRAFTS

Overdrafts are primarily amounts drawn under corresponding credit facilities as well as current bank borrowings under factoring agreements due for settlement within a very short space of time.

LOANS

This item includes short and medium-term bilateral loans. Depending on the facility, the loans are structured to allow revolving utilization.

BONDED LOANS

In addition to deferred interest and the discount, this item includes bonded loans and private placements of EUR 209.8 million (2018: EUR 181.0 million). The amount of the bonded loans increased in 2019 as they were successfully refinanced and topped up by means of long-term private placements upon falling due. The bonded loans have fixed or variable interest rates and differing maturity dates until 2025. Deferred interest for the existing bonded loans is included in the current part.

RECONCILIATION OF CHANGES IN FINANCIAL LIABILITIES FOR THE YEAR ENDING DECEMBER 31, 2019

EUR K

	DECEMBER 31, 2018	CHANGE RECOGNIZED IN THE CASH FLOW STATEMENT	RECLASSIFICA-TION	CHANGE DUE TO CURRENCY-TRANSLATION EFFECTS	OTHER NON-CASH CHANGES	EFFECTS FROM BUSINESS COMBINATION	DECEMBER 31, 2019
Current financial liabilities	284,608	−182,623	83,153	5,271	−1,671	0	188,738
Current financial liabilities from leases	3,130	−20,101	16,210	34	17,492	0	16,765
Non-current financial liabilities	162,004	141,125	−83,153	−85	85	0	219,976
Non-current financial liabili-ties from leases	17,958	0	−16,210	186	62,438	0	64,372
Total	**467,700**	**−61,600**	**0**	**5,406**	**78,344**	**0**	**489,851**

RECONCILIATION OF CHANGES IN FINANCIAL LIABILITIES FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018

EUR K

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

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

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

Financial liabilities under leases comprise other non-cash changes arising from the initial application of IFRS 16 of EUR 43,384 thousand in the case of non-current financial liabilities and EUR 12,604 thousand in the case of current financial liabilities under leases.

22 PROVISIONS

Provisions break down as follows:

EUR K	Amount on January 1, 2019	Addition	Utilization	Amounts not used and written back	Effects from exchange-rate differences	Amount on December 31, 2019	Current provisions 2019	Non-current provisions 2019
Market-related provisions	12,926	9,233	−3,366	−3,342	−65	15,386	15,386	0
Obligations relating to personnel	4,523	3,921	−851	−197	1	7,397	7,397	0
Other provisions	569	286	0	−251	7	611	611	0
Provisions	**18,018**	**13,440**	**−4,217**	**−3,790**	**−57**	**23,394**	**23,394**	**0**

EUR K	As of January 1, 2018	Addition	Utilization	Amounts not used and written back	Effects from exchange-rate differences	Amount on December 31, 2018	Current provisions 2018	Non-current provisions 2018
Market-related provisions	13,171	4,690	−1,483	−3,105	−347	12,926	12,926	0
Obligations relating to personnel	3,785	1,663	−925	0	0	4,523	4,523	0
Other provisions	530	160	0	−117	−4	569	569	0
Provisions	**17,486**	**6,513**	**−2,408**	**−3,222**	**−351**	**18,018**	**18,018**	**0**

Market-related obligations include provisions for post-development risks from the sale of parts and products. For the most part, this comprises warranty claims calculated on the basis of previous claims and estimated future claims.

These encompass Group liability for the proper functioning of the products sold and obligations to compensate buyers for damages and costs caused by use of the products. Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses. As of December 31, 2019, restructuring provisions of EUR 2,300 thousand were set aside.

Other provisions refer to a number of identifiable specific risks and contingent liabilities, for instance provisions for litigation costs, which are recognized at their probable amounts.

23 TRADE ACCOUNTS PAYABLE

Trade accounts payable break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Non-current trade accounts payable	1,399	2,273
Current trade accounts payable	309,000	358,332
Trade accounts payable	**310,399**	**360,605**

Trade accounts payable and other liabilities 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 have a term of up to 90 days. Non-current trade accounts payable in particular include 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.

24 OTHER FINANCIAL LIABILITIES

Other financial liabilities break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Derivative financial liabilities	377	851
Liabilities from leases	16,765	3,130
Liabilities to associated companies	1,871	1,042
Miscellaneous other current financial liabilities	1,511	1,158
Other current financial liabilities	**20,524**	**6,181**
Liabilities from leases	64,371	17,957
Liabilities to participations	4	0
Other non-current financial liabilities	**64,375**	**17,957**

Other financial liabilities mainly comprise non-current and current liabilities under leases. The increase over 2018 is mainly due to the initial application of IFRS 16. In the previous year, liabilities from finance leases had been recognized in accordance with IAS 17. Further details can be found in Note 2.2 and Note 12.2.

25 OTHER LIABILITIES

Other liabilities break down as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Other liabilities	55,642	59,982
of which personnel-related liabilities	35,044	42,598
of which liabilities for consulting	1,878	1,675
Liabilities from other taxes and charges	9,200	13,420
Prepayments received	363	374
Social security obligations	5,402	5,401
Deferred income	2,396	3,516
Other current liabilities	**73,003**	**82,693**
Miscellaneous other liabilities	1,220	0
Other non-current liabilities	**1,220**	**0**
Other liabilities	**74,223**	**82,693**

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

26 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 for non-cash expenses (primarily depreciation, amortization and impairment) and income. Cash flow from operating activities is calculated under consideration of the change in working capital. Investing activities comprise payments for property, plant and equipment, intangible assets and financial assets, but not additions to capitalized development costs and right-of-use assets. Financing activities include cash outflows for dividend payments and repayments of loans, as well as changes in other financial liabilities and lease liabilities. At the GRAMMER Group, the cash flow components of cash and cash equivalents consist of cash and short-term money market funds, less overdraft liabilities (including current liabilities under factoring contracts) to banks.

27 LEGAL DISPUTES

As protection against legal risks, a system of intensive contract review, contract management and systematic archiving is used. Sufficient insurance cover has been taken out for normal risks and risks to the Company's ability to continue as a going concern. In its capacity as shareholder Cascade International Investment GmbH ("Cascade") filed a lawsuit on June 26, 2017 to set aside or, alternatively, nullify the resolution adopted at the annual general meeting on May 24, 2017 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2016. On July 13, 2018, Cascade filed an action for rescission, or alternatively an action for nullity, against the resolution adopted at the annual general meeting on June 13, 2018 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2017 by way of an extension of the action. In addition, it sought the annulment of the negative resolutions passed at this annual general meeting regarding the dismissal of the meeting chairman and a special audit to review and assert claims for damages against the Executive Board and the Supervisory Board. The lawsuit was pending before the Regional Court of Nuremberg-Fürth. Cascade and GRAMMER AG have agreed on an out-of-court settlement to the dispute. Cascade declared the dispute settled in a notice served on the court on February 5, 2020. GRAMMER accepted this settlement declaration in a written statement of the same date. Thereupon, the Regional Court of Nuremberg-Fürth declared the dispute settled in a ruling dated February 6, 2020.

28 CONTINGENT LIABILITIES

Contingent liabilities break down as follows:

EUR K	2019	2018
Guarantees	2,546	1,911

Guarantees have been issued primarily as performance bonds.

29 RELATED PARTY DISCLOSURES

Information on the Group structure, subsidiaries and the parent company can be found in Note 3.

TERMS OF RELATED PARTY TRANSACTIONS

This section describes the sales to and purchases from related parties on arm's length terms. Outstanding amounts at the end of the fiscal year are unsecured, non-interest bearing and are settled by cash payment. No guarantees exist for receivables from or liabilities to related parties. An impairment test is performed annually by reviewing the financial position of the related party and the market in which it operates. As in the previous year, no impairment losses were recognized on accounts receivable from related parties as of December 31, 2019.

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

EUR K

RELATED PARTIES		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	ACCOUNTS FROM RELATED PARTIES	ACCOUNTS PAYABLE TO RELATED PARTIES
GRA-MAG Truck Interior Systems LLC	**2019**	9,879	0	9,863	0
	2018	10,255	0	4,700	0
Ningbo Jifeng Auto Parts Co., Ltd.	**2019**	2,894	298	2,701	2,809
	2018	772	261	104	1
Jiye Auto Parts GmbH	**2019**	–647	0	0	527
	2018	1,778	0	384	0
Jifeng Automotive Interior GmbH	**2019**	12	0	10	0
	2018	0	0	0	0
Jifeng Automotive Interior CZ s.r.o.	**2019**	0	200	0	152
	2018	0	12	0	7
Ningbo Jifeng Technologiy Co., Ltd	**2019**	0	2,520	0	1,218
	2018	0	1,856	0	685
ALLYGRAM Systems and Technologies Private Limited	**2019**	0	1,960	0	622
	2018	0	0	0	0

GRA-MAG TRUCK INTERIOR SYSTEMS LLC

The Group holds an interest of 50% in the capital of GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2018: 50%). GRA-MAG LLC had 60 employees as of December 31, 2019 (2018: 62). The receivables from GRA-MAG LLC include a loan of EUR 9,371 thousand. Further details can be found in Note 8.5 and Note 16.

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

Like GRAMMER AG's direct parent company (Jiye Auto Parts GmbH), Jifeng Automotive Interior CZ s.r.o., Ningbo Jifeng Technology Co., Ltd. and Jifeng Automotive Interior GmbH are controlled by Ningbo Jifeng Auto Parts Co., Ltd. In the previous year, these companies had been ultimately indirectly controlled by the Wang family. GRAMMER maintains direct relations for the delivery of goods and the provision of services with these companies.

In 2018 and 2019, Jiye Auto Parts GmbH, Ningbo Jiye Investment Co., Ltd. and GRAMMER AG entered into a cost coverage agreement with the Ningbo Jifeng Group for the reimbursement of expenses incurred in the provision and management of information in connection with the preparation of the annual financial statements as well as support for a due diligence audit of GRAMMER Group for submission to the Ningbo Jifeng Group. GRAMMER AG invoiced Ningbo Jifeng Auto Parts Co, Ltd. and Ningbo Jiye Investment Co, Ltd. for internal and external costs totaling EUR 2,697 thousand in 2019 (2018: EUR 1,778 thousand). No further billable costs arose in 2019. Accordingly, all internal costs and all external costs were recharged in full by GRAMMER AG. Internal costs are determined on the basis of the hours worked by the department concerned and external costs incurred.

JIYE AUTO PARTS GMBH

In 2019 and 2018, GRAMMER AG invoiced Jiye Auto Parts GmbH for internal and external costs arising from a contractual obligation under the business combination agreement to provide and manage information and support a due diligence review.

ALLYGRAM SYSTEMS AND TECHNOLOGIES PRIVATE LIMITED

The Group has held an interest of 30% in the capital of ALLYGRAM Systems and Technologies Private Limited (ALLYGRAM) since August 29, 2019. ALLYGRAM had 88 employees as of December 31, 2019.

DISCLOSURES RELATING TO THE EXECUTIVE BOARD/ SUPERVISORY BOARD

No companies in GRAMMER Group entered into any significant transactions with members of the Executive Board or the Supervisory Board of GRAMMER AG or with any companies on whose management or supervisory boards such persons are represented. This also applies to family members of such persons. The remuneration of the Management Board is presented in Note 33.

30 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows all of the Group's financial instruments classified according to measurement category, carrying amount and fair value:

EUR K

	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2019	Measured in accordance with IFRS 9			Measured in accordance with IAS 16	Fair value on December 31, 2019
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash, cash equivalents and short-term deposits	FAAC	142,651	142,651				**142,651**
Trade accounts receivable	FAAC	206,821	206,821				**206,821**
Other financial assets							
Loans and receivables	FAAC	12,097	12,097				**12,097**
Investments in associates	FVOCI	50		50			**50**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	1,211		1,211			**1,211**
Equity and liabilities							
Trade accounts payable	FLAC	310,399	310,399				**310,412**
Current and non-current financial liabilities	FLAC	427,711	427,711				**433,612**
Other financial liabilities							
Other financial liabilities	FLAC	3,386	3,386				**3,386**
Liabilities from finance leases	n.a.	81,136				81,136	**81,136**
Derivatives with no hedge relationship	FVtPL	0					**0**
Derivatives with hedge relationship	n.a.	377		377			**377**
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	361,569	361,569				**361,569**
Financial assets at fair value through other comprehensive income	FVOCI	50		50	0		**50**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and liabilities							
Financial liabilities at amortized cost	FLAC	741,496	741,496				**747,410**
Financial liabilities at fair value through profit and loss	FVtPL	0			0		**0**

EUR K	Measurement category IFRS 9	Carrying amount on December 31, 2018	Measured in accordance with IFRS 9			Measured in accordance with IFRS 17	Fair value on December 31, 2018
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash, cash equivalents and short-term deposits	FAAC	204,373	204,373				**204,373**
Trade accounts receivable	FAAC	250,009	250,009				**250,009**
Other financial assets							
Loans and receivables	FAAC	9,675[1]	9,675				**9,675[1]**
Investments in associates	FVOCL	51		51			**51**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	268		268			**268**
Equity and liabilities							
Trade accounts payable	FLAC	360,605	360,605				**360,552**
Current and non-current financial liabilities	FLAC	457,680	457,680				**459,342**
Other financial liabilities							
Other financial liabilities	FLAC	2,200	2,200				**2,200**
Liabilities from finance leases	n.a.	21,087				21,087	**19,415**
Derivatives with no hedge relationship	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	851		851			**851**
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	464,057[1]	464,057				**464,057[1]**
Financial assets at fair value through other comprehensive income	FVOCI	51		51			**51**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and liabilities							
Financial liabilities at amortized cost	FLAC	820,485	820,485				**822,094**
Financial liabilities at fair value through other comprehensive income	FVOCI	0		0			**0**
Financial liabilities at fair value through profit and loss	FLtPL	0			0		**0**

[1] Figures for previous year adjusted in accordance with IFRS 3.49, see Note 4 Business combinations.

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

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

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

Trade accounts payable and other liabilities usually have short residual maturities. Longer-term trade accounts payable 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, 2019:

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	1,211	0	1,211	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	0	0	0	0
Interest rate swaps	377	0	377	0
Liabilities recognized at fair value				
Interest-bearing liabilities				
Obligations under finance leases and hire purchase contracts	2,278	0	2,278	0
Current and non-current financial liabilities	433,612	0	433,612	0

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2018:

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

The levels of the fair value hierarchy reflect the level of judgment involved in estimating fair values. The hierarchy is broken down into three levels as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Valuation of assets or liabilities is based on direct or indirect market observables, which are not quoted prices in accordance with level 1.

Level 3: Valuation techniques are based upon inputs that are not observable in the market. There were no changes between Level 1 and Level 2 in the year under review.

No assets or liabilities were assigned to Level 3.

The following table shows the gains and losses on financial instruments:

EUR K	2019	2018
Financial assets at amortized cost	−4,628	2,232
Financial assets and financial liabilities at fair value through profit and loss	0	−42
Financial liabilities at amortized cost	2,839	−1,688
Net gains/losses from financial instruments	**−1,789**	502

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

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

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

The GRAMMER Group has entered into master contracts with several banks. The derivative assets and liabilities outstanding as of the reporting date do not satisfy the offsetting criteria provided for in IAS 32.42. Accordingly, they are reported separately in the balance sheet. However, the master contracts include offsetting arrangements that apply in the event of insolvency.

The following table sets out the carrying amounts of the financial instruments which are subject to these agreements.

EUR K	Gross and net amounts of financial instruments in the statement of financial position	Offsetting agreement	Net amount
December 31, 2019			
Financial assets			
Currency forwards	1,211	0	1,211
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	0	0	0
Interest rate swaps	−377	0	−377

EUR K	Gross and net amounts of financial instruments in the statement of financial position	Offsetting agreement	Net amount
December 31, 2018			
Financial assets			
Currency forwards	268	−86	182
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	−136	86	−50
Interest rate swaps	−715	0	−715

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

31 FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The main originated financial liabilities used in the Group encompass bonded loans, private placements, bank loans, overdrafts, finance leases and trade accounts payable. The Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

In addition, the Group has derivative financial instruments which it uses for risk management, primarily to hedge interest rate and currency risks.

FINANCIAL RISKS

The Group is exposed to market, credit and liquidity risks as well as currency and interest rate risks Consequently, the Executive Board has implemented a risk management system which is also monitored by the Supervisory Board. The risk management system is integrated in the Chief Financial Officer's area of responsibility while the Executive Board bears ultimate overall responsibility. The rules are designed to promote responsible treatment of risks and prudent actions among all Group employees. Management of risk is the responsibility of the Company management. Together with experts for financial risk, the management of the Company prepares a suitable framework for managing financial risks. This framework ensures that the activities of the Company that entail financial risk are carried out with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk.

All derivative transactions entered into for risk management purposes are managed by expert teams that have the necessary knowledge and experience and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management.

CREDIT RISK

Credit risk is defined as the risk of the Group suffering a loss (risk of default) because a counterparty fails to fulfill its obligations. The Group guidelines stipulate that transactions may only be entered into with creditworthy third parties to reduce the risks of non-performance. The creditworthiness of major customers, especially in the Automotive Division, is subject to particular monitoring due to risks from deliveries of goods. If no rating information is available, the Group uses other available financial information and its own records to assess major customers. Customers, who wish to conclude credit-based transactions for the first time, are also regularly subjected to a creditworthiness check. Receivables are monitored on an ongoing basis to ensure that the Group is not exposed to any material credit risk. The Group does not see any significant concentrations of credit risks as major transactions are characterized by short-term maturity structures and the high credit ratings of the key-account customers.

MARKET RISK

Market risk refers to the risk that the fair value or future cash flows of financial instruments vary due to fluctuations in market prices. Market risk encompasses the following three risk types: exchange rate risk, interest rate risk and other price risks, such as share price risk. Financial instruments exposed to market risks include interest-bearing loans, deposits, financial assets at fair value through other comprehensive income as well as derivative financial instruments. The sensitivity analyses in the sections below relate to the situation as of December 31, 2019 and 2018. They were prepared on the basis of the hedging transactions outstanding on December 31, 2019, subject to the assumption of constant figures for net gearing, the ratio of fixed to variable interest rates on liabilities and derivatives and the proportion of financial instruments denominated in foreign currencies.

All depictions of the potential financial effects are approximations and are based on the assumptions of the relevant sensitivity analyses and method. The actual effects on the Group may deviate considerably as a result of actual market developments.

COMMODITY PRICE RISK

Procurement prices, especially for commodities such as steel, foam and plastics, are subject to significant fluctuations depending on the market situation. As these cannot always be passed on to customers, this results in price risks. To hedge these risks, the Company seeks long-term supply contracts and consolidates volumes to limit volatility. Commodity futures contracts recognized as derivatives under IFRS 9 can also be transacted in order to hedge price risks arising from purchases of raw materials. The Group carefully monitors the development of markets as a basis for decision making about the implementation of hedging.

There were no commodity forwards for hedging price risks for raw materials as of the reporting date in 2019 or 2018, and no such contracts were concluded in either of these two years.

CURRENCY RISK

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

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

The risk is mitigated by the fact that business transactions are mainly settled in the respective functional currency of the invoicing unit. In addition, where it is possible and cost-effective, commodities and services are purchased in the corresponding foreign currency and production takes place in local markets. A shortfall or surplus of foreign currency holdings is hedged by means of forward exchange transactions after all the measures already mentioned have been carried out. The aim of hedging transactions is to offset the volatility that can arise from cash inflows and outflows.

The operating units are not permitted to raise or invest financial resources in foreign currencies for speculative purposes.

CASH FLOW HEDGES

During the reporting period, there were currency hedges in PLN and CZK for which the conditions for cash flow hedging were satisfied. The following foreign currency-related hedges broken down by maturity are held:

	DURATION		
	1–6 MONTHS	7–12 MONTHS	TOTAL
2019			
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR k)	29,991	27,489	**57,480**
Average forward exchange rate (EUR/CZK)	25,955	26,105	**–**
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR k)	7,639	7,302	**14,941**
Average forward exchange rate (EUR/PLN)	4,307	4,355	**–**
2018			
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR k)	31,850	29,867	61,717
Average forward exchange rate (EUR/CZK)	25,775	25,924	–
Currency forwards (sales expected with a high probability)			
Nominal amount (in EUR k)	8,147	8,096	16,243
Average forward exchange rate (EUR/PLN)	4,356	4,401	–

As of December 31, 2019, currency forwards with a positive market value of EUR 1,211 thousand (2018: EUR 132 thousand) were designated as cash flow hedges. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review. The effects of foreign currency-related hedges on the Group's net assets, financial position and results of operations are as follows:

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Carrying amount (other current financial assets)	1,211	268
Carrying amount (other current financial liabilities)	0	136
Nominal value	72,421	77,960
Hedge relationship[1]	1:1	1:1
Change in the fair value of outstanding hedges since January 1	1,211	132
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	−1,211	−132
Effect on cumulative other comprehensive income:	**2019**	**2018**
Cash flow hedge – amount on January 1	**172**	**340**
Change in the fair value of the hedge (effective part)	1,732	−709
Recycled from other comprehensive income to profit and loss	−655	431
Tax expenses (−)/tax income	−317	110
Cash flow hedge – amount on December 31	**932**	**172**

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

The sensitivity analysis of changes in currency is based on the following assumptions:

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.
- Changes in foreign exchange rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.
- Derivatives for the purpose of currency hedging that are designated as hedges 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 hedges in the context of cash flow hedges have an effect on period income and are taken account of accordingly in the sensitivity analysis.
- In order to determine sensitivity to exchange rate risks, a change in the exchange rate of +/− 10 (2018: +/− 10) percentage points on the reporting date is assumed. All other variables remain constant.

The following table shows the sensitivity of consolidated net income before taxes and equity to a reasonably possible change in the exchange rate:

EUR K	CHANGES IN THE USD EXCHANGE RATE	EFFECT ONEARNINGS BEFORE TAX	EFFECT ON EQUITY
2019	+10%	2,999	−1,378
	−10%	−2,996	1,378
2018	+10%	−13,412	−1,353
	−10%	13,410	1,352
	CHANGES IN THE TRY EXCHANGE RATE	**EFFECT ONEARNINGS BEFORE TAX**	**EFFECT ON EQUITY**
2019	+10%	310	0
	−10%	−310	0
2018	+10%	633	0
	−10%	−634	0
	CHANGES IN THE CZK EXCHANGE RATE	**EFFECT ONEARNINGS BEFORE TAX**	**EFFECT ON EQUITY**
2019	+10%	4,778	6,515
	−10%	−4,778	−5,330
2018	+10%	6,115	6,862
	−10%	−6,117	−5,614
	CHANGES IN THE PLN EXCHANGE RATE	**EFFECT ONEARNINGS BEFORE TAX**	**EFFECT ON EQUITY**
2019	+10%	−787	1,676
	−10%	787	−1,372
2018	+10%	66	1,823
	−10%	−66	−1,492
	CHANGES IN THE MXN EXCHANGE RATE	**EFFECT ONEARNINGS BEFORE TAX**	**EFFECT ON EQUITY**
2019	+10%	4,769	3,781
	−10%	−4,769	−3,781
2018	+10%	2,760	3,781
	−10%	−2,759	−3,781
	CHANGES IN THE CNY EXCHANGE RATE	**EFFECT ONEARNINGS BEFORE TAX**	**EFFECT ON EQUITY**
2019	+10%	843	0
	−10%	−826	0
2018	+10%	1,129	0
	−10%	−1,123	0

INTEREST RATE RISK

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. To achieve this, GRAMMER uses receiver interest rate swaps. The market rates prevailing on the date on which the loan is taken out apply in the case of loans, meaning that the interest rate risk is limited to fluctuations in the market on the date on which the loan is drawn. Interest on overdrafts is agreed on a roll-over basis. To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent permitted, GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

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

	DURATION			
	UNTIL 2019	UNTIL 2020	UNTIL 2022	TOTAL
2019				
Nominal amount (EUR k)	–	42,500	6,500	**49,000**
Weighted interest rate (%)	–	0.502	0.810	**0.543**
2018				
Nominal amount (EUR k)	26,000	42,500	6,500	**75,000**
Weighted interest rate (%)	1.013	0.502	0.810	**0.706**

As of December 31, 2019, there were interest rate swaps with a nominal volume of EUR 49 million (2018: EUR 75 million) in connection with the euro-denominated bonded loans issued to hedge the interest rate risks arising from the floating-rate tranches. These interest rate swaps qualify as cash flow hedges. As of December 31, 2019, interest rate swaps with a negative market value of EUR 377 thousand (2018: EUR 715 thousand) were designated as cash flow hedges.

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

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Carrying amount (other current financial liabilities)	377	715
Nominal value	49,000	75,000
Maturity date	2020, 2022	2019, 2020, 2022
Hedge relationship	1:1	1:1
Change in the fair value of outstanding hedges since January[1]	−338	−398
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	338	398
Weighted average hedge for the year	0.543%	0.706%
Effect on cumulative other comprehensive income:	**2019**	**2018**
Cash flow hedge - amount on January[1]	**−504**	**−786**
Change in the fair value of the hedge (effective part)	−54	−353
Recycled from other comprehensive income to profit and loss	392	751
Tax expenses (–)/tax income	−99	−116
Cash flow hedge – amount on December 31	**−265**	**−504**

The interest rate sensitivity analysis is based on the following assumptions:

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risks and thus not included in the sensitivity analysis.
- Variable-rate originated financial instruments, payments under which are not designated as hedged transactions for cash flow hedges against interest rate risks, have an effect on net profit for the period and are included in the sensitivity analysis.
- Variable-rate originated financial instruments, payments under which are designated as hedged items for effective cash flow hedges against interest rate risks, have synthetic fixed rates and thus are not subject to interest rate risks. Accordingly, they are not taken into account for sensitivity analysis.
- Interest rate derivatives not designated as cash flow hedges have an effect on net profit for the period and are thus included the sensitivity analysis.
- Interest rate derivatives that are designated as cash flow hedges have an affect on equity and are thus included in the sensitivity analysis.
- The interest rate risk from currency derivatives is deemed insignificant and thus not included in the sensitivity analysis.
- The determination of the sensitivity of interest rate derivatives assumes a parallel shift along the yield curve of +/– 50 (2018: +/– 50) basis points. The interest rate on deposits was reduced on interest-bearing current account balances to a minimal level of 0.001%.

The following table shows the sensitivity of consolidated profit before tax to a reasonably possible change in interest rates. All other parameters remain constant.

EUR K	INCREASE/REDUCTION (BASIS POINTS)	IMPACT ON EARNINGS BEFORE TAXES	EFFECT ON EQUITY
2019	–50	–51	–2
	50	342	116
2018	–50	151	–52
	50	565	295

INEFFECTIVENESS OF HEDGING RELATIONSHIPS

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

To hedge foreign currency transactions, the Group enters into hedging relationships in which the contractual terms of the hedge match those of the item hedged in the applicable month on average. The dollar offset method is used to assess the effectiveness of the hedging relationship.

Hedges of foreign currency transactions may be ineffective if the timing of the planned transaction changes from the original estimate or if there are any changes in the credit risk of GRAMMER or the counterparty to the derivative. In 2019 and 2018, there was no ineffectiveness with respect to foreign currency derivatives.

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

The ineffectiveness of hedges with interest rate swaps is assessed according to the same principles as for foreign currency sales. One reason for the ineffectiveness of a hedging relationship may be adjustments to the credit value/debit value adjustments of the parties to the interest rate swap that are not offset by changes in the value of the hedged loan. Differences in contractual terms between interest rate swaps and secured loans may also lead to ineffectiveness. In 2019 and 2018 there was no ineffectiveness with respect to interest rate swaps.

LIQUIDITY RISK

The Group manages liquidity risks by means of appropriate bank credit facilities of EUR 148.2 million (2018: EUR 417.0 million), by constantly monitoring projected and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The aim is to achieve a balance between covering the need for financial resources at all times and ensuring flexibility through the use of overdraft facilities, loans, bonds, factoring, leases (2018: finance leases) and closed-end leasing agreements.

As of December 31, 2019, the Group had unutilized credit facilities of EUR 134.9 million (2018: EUR 174.6 million), for which all the conditions required for drawing had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR K	CARRYING AMOUNT	CASH FLOW		
2019		**2020**	**2021–2023**	**2024 AND THEREAFTER**
Bonded loans	211,279	87,900	52,592	97,577
Bank loans	197,435	107,100	64,674	34,127
Bank overdrafts (including current liabilities under factoring contracts)	18,997	18,998	0	0
Current and non-current financial liabilities	**427,711**	**213,998**	**117,266**	**131,704**
Current and non-current trade accounts payable	**310,399**	**309,028**	**1,420**	**0**
Liabilities from finance leases	81,136	19,788	35,583	41,475
Other originated financial liabilities	3,386	3,382	4	0
Current and non-current other financial liabilities	**84,522**	**23,170**	**35,587**	**41,475**
Interest rate derivates	377	270	107	0
Derivatives	**377**	**270**	**107**	**0**
	823,008	**546,466**	**154,380**	**173,179**

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

All instruments in the portfolio on the reporting date for which payments were already contractually agreed were included. Budget figures for future new liabilities are not included. Amounts in foreign currency are converted at the spot rate on the reporting date. Financial liabilities repayable on demand are always allocated to the earliest maturity band. Variable interest payments under primary financial instruments were established on the basis of the interest rates last fixed before the reporting date. In the case of interest rate derivatives, the net payments are recorded based on calculation of payment flows on the variable side using the relevant forward interest rates.

For currency derivatives, both the payments made and corresponding payments received are recorded, since net cash settlement is not generally possible for these derivatives, which must be settled through provision of the countercurrency.

CAPITAL MANAGEMENT

Capital management serves the purpose of ensuring a high credit rating and establishing an appropriate return on equity. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

The Group monitors its capital structure by reference to leverage and gearing.

Net financial liabilities include current and non-current financial liabilities less cash, cash equivalents and short-term deposits. Gearing is defined as the ratio of net financial liabilities to equity. The syndicated loan agreement provides for financial covenants which the Group observed at all times during the reporting period.

EUR K	DECEMBER 31, 2019	DECEMBER 31, 2018
Non-current financial liabilities	219,976	162,004
Current financial liabilities	207,735	295,676
Cash, cash equivalents and short-term deposits	−142,651	−204,373
Net financial liabilities	**285,060**	**253,307**
Equity	**342,242**	**314,840**
Equity ratio	**23%**	**22%**
Gearing	**83%**	**80%**

32 DISCLOSURE OF SHAREHOLDINGS IN THE COMPANY IN ACCORDANCE WITH SECTION 33 WPHG

Under section 33 (1) or (2) of the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must notify the Company and the Federal Financial Supervisory Authority immediately, however in no less than four trading days. The lowest notification threshold is 3%. The Company was notified of the following shareholdings as of December 31, 2019 in accordance with section 33 WpHG (the percentage and number of shares shown refers to the share capital in existence as of the date of the notification; the number of shares is taken from the most recent notification served on GRAMMER AG and may therefore no longer apply).

In notices dated October 14, 2019 and December 11, 2019, Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG, China, informed us pursuant to section 33 (1) WpHG that their voting rights in GRAMMER AG (ISIN: DE0005895403) continued to exceed the 75% threshold and amounted to 84.23% (10,618,681 voting rights). Of this, 84.23% (10,618,681 voting rights) are attributable to Ms Bifeng WU, Mr Yiping WANG and Mr Jimin WANG pursuant to section 34 WpHG. Voting rights are allocated by the following company: Jiye Auto Parts GmbH, Kitzingen, Germany, an indirect subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo, China.
(published on December 16, 2019)

All notifications served on GRAMMER AG in accordance with sections 33 ff WpHG can be inspected at the Company's website and at the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

33 OTHER INFORMATION

EMPLOYEES

Annual average number of employees:

	2019	2018
Wage-earning employees	11,974	10,750
Salaried employees	2,936	2,689
Employees	**14,910**	**13,439**

HYPERINFLATION

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

Based on this assessment, we reviewed the effects of the application of IAS 29 from January 1, 2018. The application of IAS 29 resulted in an increase in revenue of EUR 0.3 million and a reduction in EBIT and net profit of EUR 0.1 million in the 2019 financial year. There was no material impact on the Group's net assets, financial condition or results of operations in 2018.

AUDITORS' FEES WITHIN THE MEANING OF SECTION 314 (1) NO. 9 HGB

Fees paid to the auditor of the consolidated financial statements, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Nuremberg, which are recognized as expenses in the reporting year, amounted to EUR 859.0 thousand, including an amount of EUR 227.5 thousand attributable to the previous year's audit. In the previous year, auditors' fees of EUR 678.8 thousand, including EUR 141.3 thousand attributable to the previous year's audit (2017) had been recognized. No fees for tax consulting or miscellaneous attestation or valuation services arose in the year under review or in the previous year. No miscellaneous services were provided in the year under review (2018: EUR 4.6 thousand).

Additional expenses for the group auditor Ernst & Young GmbH in connection with the audit of the consolidated financial statements for the Ningbo Jifeng Group amounted to EUR 105.0 thousand in 2019 and are not included in the auditor's fee as they were directly recharged to Ningbo Jifeng Auto Parts Co, Ltd, Nignbo, China.

EXECUTIVE BOARD AND SUPERVISORY BOARD REMUNERATION

The remuneration paid to the Executive Board and Supervisory Board is set out in the following table:

EUR K	2019	2018
Total remuneration paid to the Executive Board amounted to	808	2,906
The Supervisory Board received total remuneration of	557	631

Of the total remuneration paid to the Executive Board, EUR 85 thousand (2018: EUR 546 thousand) is attributable to performance-related components and EUR -372 thousand (2018: EUR 769 thousand) to components with a long-term incentive effect. The components with a long-term incentive effect amounting to EUR -372 thousand within the remuneration of the Executive Board represent a reduction in entitlement expected after the end of the performance period, i.e. 2021 at the earliest.

Individual remuneration paid to the members of the Executive Board was as follows in 2019 and 2018:

EUR K 2019	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL REMUNERATION	SETTLEMENT PAYMENTS	TOTAL INCLUDING SETTLEMENT PAYMENTS
Thorsten Seehars	238	23	0	261	0	261
Jurate Keblyte	141	13	0	154	0	154
Jens Öhlenschläger	335	32	0	367	0	367
Manfred Pretscher	381	17	−372	26	0	26
	1,095	**85**	**−372**	**808**	**0**	**808**

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

As of December 31, 2019, provisions of EUR 133 thousand were recognized for retirement benefit obligations to the members of GRAMMER AG's Executive Board appointed in 2019 backed by plan assets of EUR 133 thousand. As of December 31, 2019, provisions of EUR 3,549 thousand (2018: EUR 3,842 thousand) were recognized for retirement benefit commitments to former members of the Executive Board as of December 31, 2018, backed by plan assets of EUR 3,953 thousand (2018: EUR 3,787 thousand).

Payments of EUR 709 thousand (2018: EUR 271 thousand) were made to former members of the Executive Board and their surviving dependants under retirement benefit commitments. This includes the dissolution of the retirement benefit obligation of EUR 435 thousand (2018: EUR 0 thousand) towards the former Executive Board member Mr. Gerard Cordonnier in the year under review. In addition, a reduction in the entitlement to remuneration components with a long-term incentive effect amounting to EUR 1,154 thousand was recognized for former members of the Executive Board. This results from a scheduled annual assessment of the performance periods ending in 2020 and 2021. A final assessment of the entitlement will be made at the end of the performance period.

Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at a total of EUR 10,293 thousand (2018: EUR 6,140 thousand) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

In addition, current service costs of EUR 133 thousand arose for members of the Executive Board as of December 31, 2019 for additions to the retirement benefit provisions. Of this, an amount of EUR 45 thousand is attributable to Mr. Thorsten Seehars, EUR 26 thousand to Ms. Jurate Keblyte and EUR 62 thousand to Mr. Jens Öhlenschläger. Current service costs of EUR 495 thousand had arisen for former members of the Executive Board as of December 31, 2018 for additions to the retirement benefit provisions. Of this, EUR 230 thousand was for Mr. Hartmut Müller, EUR 181 thousand for Mr. Manfred Pretscher and EUR 84 thousand for Mr. Gérard Cordonnier. Executive Board members receive no loans from the Company. Advances on the components with a long-term incentive effect may be made.

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

The basic elements of the remuneration system for the members of the Executive Board are described in the section entitled "Principles of the remuneration system" in the 2019 remuneration report in the Group management report.

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

Whereas the remuneration actually received by the members of the Executive Board for 2019 and the previous year are set out above in the tables entitled "Executive Board remuneration", the following table shows the range of possible remuneration for a member of the Executive Board as well as the annual remuneration for 2018 for Mr. Manfred Pretscher in his capacity as Chief Operating Officer (COO).

IN EUR

	THORSTEN SEEHARS/CEO August 1, 2019 – December 31, 2019 (5 months)				THORSTEN SEEHARS/CEO (full-year remuneration)		
TARGET REMUNERATION	2019	2019 (MIN)	2019 (MAX)		2019	2019 (MIN)	2019 (MAX)
Target achievement for STI/LTI of	100%	0%	200%		100%	0%	200%
Fixed remuneration	229,167	229,167	229,167		550,000	550,000	550,000
STI (including bonus/penalty)	130,208	−22,917	283,334		312,500	−55,000	680,000
LTI	161,458	0	322,917		387,500	0	775,000
Total remuneration	**520,833**	**206,250**	**835,417**		**1,250,000**	**495,000**	**2,005,000**

IN EUR

	JURATE KEBLYTE/CFO August 1, 2019 – December 31, 2019 (5 months)				JURATE KEBLYTE/CFO (full-year remuneration)		
TARGET REMUNERATION	2019	2019 (MIN)	2019 (MAX)		2019	2019 (MIN)	2019 (MAX)
Target achievement for STI/LTI of	100%	0%	200%		100%	0%	200%
Fixed remuneration	132,000	132,000	132,000		316,800	316,800	316,800
STI (including bonus/penalty)	75,000	−13,200	163,200		180,000	−31,680	391,680
LTI	93,000	0	186,000		223,200	0	446,400
Total remuneration	**300,000**	**118,800**	**481,200**		**720,000**	**285,120**	**1,154,880**

IN EUR

TARGET REMUNERATION	JENS ÖHLENSCHLÄGER/COO January 1, 2019 – December 31, 2019 (12 months) 2019	2019 (MIN)	2019 (MAX)		JENS ÖHLENSCHLÄGER/COO (full-year remuneration) 2019	2019 (MIN)	2019 (MAX)
Target achievement for STI/LTI of	100%	0%	200%		100%	0%	200%
Fixed remuneration	316,800	316,800	316,800		316,800	316,800	316,800
STI (including bonus/penalty)	180,000	–31,680	391,680		180,000	–31,680	391,680
LTI	223,200	0	446,400		223,200	0	446,400
Total remuneration	**720,000**	**285,120**	**1,154,880**		**720,000**	**285,120**	**1,154,880**

IN EUR

TARGET REMUNERATION	MANFRED PRETSCHER/CEO/CFO until July 31, 2019; August 1, 2019 – August 31, 2019 MEMBER OF THE EXECUTIVE BOARD (8 months) 2019	2019 (MIN)	2019 (MAX)	2018	MANFRED PRETSCHER/CEO/CFO (full-year remuneration) 2019	2019 (MIN)	2019 (MAX)
Target achievement for STI/LTI of	100%	0%	200%	100%	100%	0%	200%
Fixed remuneration	366,667	366,667	366,667	404,000	550,000	550,000	550,000
STI (including bonus/penalty)	208,333	–36,667	453,334	171,450	312,500	–55,000	680,000
LTI	258,333	0	516,667	209,550	387,500	0	775,000
Total remuneration	**833,333**	**330,000**	**1,336,667**	**785,000**	**1,250,000**	**495,000**	**2,005,000**

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR K

	NET FIXED REMUNERATION	NET MEETING FEES	TOTAL
Dr.-Ing. Klaus Probst	60.0	28.0	88.0
Horst Ott	45.0	18.0	63.0
Andrea Elsner	30.0	16.0	46.0
M.A. Tanja Fondel (until September 15, 2019)	21.0	5.0	26.0
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	16.0	46.0
Martin Heiß	30.0	12.0	42.0
Lic. oec. HSG Ingrid Hunger	30.0	7.0	37.0
Dipl.-Betriebswirt (FH) Harald Jung	30.0	7.0	37.0
Dipl.-Kaufmann Dr. Peter Merten	30.0	10.0	40.0
Lars Roder	30.0	12.0	42.0
Prof. Dr.-Ing. Birgit Vogel-Heuser	30.0	7.0	37.0
Antje Wagner (from September 16, 2019)	9.0	2.0	11.0
Dr. Bernhard Wankerl	30.0	12.0	42.0
	405.0	**152.0**	**557.0**

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. The Supervisory Board did not receive any performance-based remuneration in 2019.

34 GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance statement pursuant to section 315d in connection with section 289f of the German Commercial Code (HGB) and the declaration of conformity with the German Corporate Governance Code (section 161 of the Stock Corporation Act (AktG)) have been released and are permanently available on the company website at www.grammer.com in the "Investor Relations" section under "Facts on the Company".

DISCLOSURES ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

MEMBERS OF THE EXECUTIVE BOARD

Dipl.-Ing. (FH) **MANFRED PRETSCHER,** Meine	Member of the Executive Board until August 31, 2019 CEO and CFO until July 31, 2019
Dipl.-Wirtschaftsingenieur **THORSTEN SEEHARS,** Munich	Member of the Executive Board (CEO) since August 1, 2019
Dipl.-Ing. **JENS ÖHLENSCHLÄGER,** Amberg	Member of the Executive Board (COO) since January 1, 2019
M.Sc. **JURATE KEBLYTE,** Munich	Member of the Executive Board (CFO) since August 1, 2019

MEMBERS OF THE SUPERVISORY BOARD

Dr.-Ing. **KLAUS PROBST,** Heroldsberg	Chairman of the Supervisory Board
HORST OTT, Königstein	Deputy Chairman of the Supervisory Board, employee representative
ANDREA ELSNER, Ebermannsdorf	Employee representative
M.A. **TANJA FONDEL,** Frankfurt a. M. (Member of the Supervisory Board until September 15, 2019)	Employee representative
Dipl.-Betriebswirt (FH) **WOLFRAM HATZ,** Ruhstorf a. d. Rott	
MARTIN HEISS, Sulzbach-Rosenberg	Employee representative
Lic. oec. HSG **INGRID HUNGER,** Lohr a. M.	
Dipl.-Betriebswirt (FH) **HARALD JUNG,** Nabburg	Employee representative
Dipl.-Kaufmann **DR. PETER MERTEN,** Heppenheim	
LARS RODER, Illschwang	Employee representative
Prof. Dr.-Ing. **BIRGIT VOGEL-HEUSER,** Garching	
ANTJE WAGNER, Frankfurt a. M. (Member of the Supervisory Board since September 16, 2019)	Employee representative
Dr. BERNHARD WANKERL, Bodenwöhr	

PROFESSIONS AND OTHER OFFICES OF THE MEMBERS OF THE EXECUTIVE BOARD WITHIN THE MEANING OF SECTION 285 (1) NO. 10 HGB

EXECUTIVE BOARD	
MANFRED PRETSCHER Chief Executive Officer (CEO), Chief Financial Officer (CFO) and HR Director until July 31, 2019 Member of the Executive Board until August 31, 2019	- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA until August 31, 2019
THORSTEN SEEHARS Chief Executive Officer HR Director (Member of the Executive Board since August 1, 2019)	- Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH)/USA since September 1, 2019
JENS ÖHLENSCHLÄGER Chief Operating Officer (Member of the Executive Board since January 1, 2019)	- Member of the Board of Directors of Allygram Systems and Technologies Private Limited, Pune/India since August 29, 2019 - Member of the Board of Directors of GRAMMER Japan Limited, Tokio/Japan since January 1, 2019 - Supervisory Board of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai/China since August 21, 2019 - Supervisory Board of GRAMMER Interior (Tianjin) Co., Ltd., Tianjin/China since July 26, 2019 - Supervisory Board of GRAMMER Seating (Jiangsu) Co., Ltd., Jiangyin/China since August 2, 2019 - Supervisory Board of GRAMMER Interior (Beijing) Co., Ltd., Beijing/China since August 1, 2019 - Supervisory Board of GRAMMER Seating (Shaanxi) Co., Ltd., Weinan City/China since August 2, 2019 - Member of the Board of Directors of GRAMMER Automotive South Africa (Pty) Ltd., Bedfordview/Southafrica until March 1, 2019 - Member of the Board of Directors of GRAMMER Automotive Puebla S.A. de C.V., Puebla/Mexico until February 12, 2019 - Member of the Board of Directors of GRAMMER Interior (Beijing) Co., Ltd., Beijing/China until Mai 30, 2019 - Member of the Board of Directors of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai/China until August 20, 2019
JURATE KEBLYTE Chief Financial Officer (Member of the Executive Board since August 1, 2019)	- Member of the Advisory Board of Baltics Yachts OY Ab Ltd., Jakobstad, Finnland - Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich

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

SUPERVISORY BOARD	OFFICES IN ACCORDANCE WITH SECTION 125 (1) SENTENCE 5 AKTG	OTHER OFFICES
Dr.-Ing. **KLAUS PROBST** Former Chief Executive Officer of LEONI AG	Chairman of the Supervisory Board of GRAMMER AG, Amberg Chairman of the Supervisory Board of LEONI AG, Nuremberg Member of the Supervisory Board of Zapp AG, Ratingen	Member of the Advisory Board of Lux-Haus GmbH & Co. KG, Georgensmünd Member of the Advisory Board of Deutsche Bank AG, Munich (southern region) Member of the Advisory Board of Diehl Stiftung & Co. KG, Nuremberg Member of the Advisory Board of Richard Bergner Holding GmbH & Co. KG, Schwabach
HORST OTT First Representative of IG Metall Amberg	Deputy Chairman of the Supervisory Board of GRAMMER AG, Amberg	No other offices
ANDREA ELSNER Business Management Assistant	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
M.A. **TANJA FONDEL** Trade union secretary, IG Metall Management Board (Member of the Supervisory Board until September 15, 2019)	Member of the Supervisory Board of GRAMMER AG, Amberg	Member of the Supervisory Board of DMG MORI AG, Bielefeld
WOLFRAM HATZ Chairman of the Advisory Board of Motorenfabrik Hatz GmbH & Co. KG	Member of the Supervisory Board of GRAMMER AG, Amberg	Member of the Advisory Board of Commerbank AG, Frankfurt a. M.
MARTIN HEISS Management assistant for data processing	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
INGRID HUNGER Chief Executive Officer of Walter Hunger GmbH & Co. KG and majority shareholder of the Hunger Hydraulik Group	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
HARALD JUNG Vice President Division Controlling Consoles & Armrests	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
Dr. PETER MERTEN Management consultant	Member of the Supervisory Board of GRAMMER AG, Amberg Member of the Supervisory Board of Nanogate SE, Göttelborn	Member of the Advisory Board of Deutsche Bank AG, Mannheim Member of the Advisory Board of KAMAX Holding GmbH & Co. KG, Homberg (Ohm)
LARS RODER Mechanical engineering technician	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
Prof. Dr.-Ing. **BIRGIT VOGEL-HEUSER** Electrical Engineer, Professor of automation and information systems at the Technical University of Munich	Member of the Supervisory Board of GRAMMER AG, Amberg Member of the Supervisory Board of SMS group GmbH, Düsseldorf and SMS Holding GmbH, Düsseldorf Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich	No other offices
ANTJE WAGNER Trade union secretary, IG Metall Management Board (Member of the Supervisory Board since September 16, 2019)	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices
Dr. BERNHARD WANKERL Attorney, law firm Dr. Wankerl and colleagues	Member of the Supervisory Board of GRAMMER AG, Amberg	No other offices

35 COMBINED SEPARATE NON-FINANCIAL REPORT

In addition, the combined separate non-financial report pursuant to sections 289b (3) and 315b (3) HGB is published no later than four months after the reporting date on the Company's website at www.grammer.com under "Sustainability", "Non-financial report" in the part entitled "COMPANY".

36 EVENTS SUBSEQUENT TO THE REPORTING DATE

The syndicated loan agreement obtained by GRAMMER AG in 2013 was successfully refinanced ahead of schedule in February 2020 and increased from EUR 100.0 million to EUR 150.0 million in a an A tranche. The B tranche of the new syndicated loan for USD 80 million constitutes the final component in the funding for the acquisition of TMD. The new syndicated loan contract has a term of five years plus two one-year renewal options.

"INDEPENDENT AUDITOR'S REPORT

To GRAMMER Aktiengesellschaft

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of GRAMMER AG, Amberg, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GRAMMER AG for the fiscal year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the Corporate Governance Report and Group Corporate Governance Declaration pursuant to Sec. 315d HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sec. 289f HGB, which are published on the Company's website and referred to in the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Corporate Governance Report or the Group Corporate Governance Declaration referred to above.

Pursuant to Sec. 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. IMPAIRMENT TESTING OF GOODWILL

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

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

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

AUDITOR'S RESPONSE

To assess the recoverable amounts of the cash-generating units determined by the executive directors, we examined the underlying processes for the determination of the recoverable amounts and performed substantive audit procedures. We also involved our valuation specialists in the audit in order to methodically and arithmetically assess the valuation model and the calculation inputs used. We examined whether the valuation models were applied consistently. We also examined whether the budget planning reflects general, regional and industry-specific market expectations. In our assessment, we considered the corresponding market expectations as well as the explanations given by management on the main value drivers underlying the budgets. To determine the reliability of the budgets, we compared historical budget data with actual figures on a sample basis. The inputs used in the determination of the recoverable amounts such as the estimated growth rates were assessed based on an analysis of general market indicators. We assessed the derivation of the weighted average cost of capital (WACC) by evaluating the beta factors used for the benchmark companies involved and comparing the interest rates for equity and debt with available market data. In order to detect possible impairment risks, we performed our own sensitivity analyses on the results of the impairment tests to determine the changes to certain measurement parameters that would result in a different opinion on the existence of an impairment at the level of the cash-generating unit.

As part of our audit procedures we especially assessed whether the effects from the first-time application of IFRS 16 "Leases" on impairment testing are in accordance with the requirements of IAS 36 "Impairment of Assets". Our audit procedures did not lead to any reservations regarding the impairment of goodwill.

REFERENCE TO RELATED DISCLOSURES

With respect to the accounting and measurement policies applied to goodwill and the related disclosures on the Executive Board's use of judgment and sources of estimation uncertainties, reference is made to the disclosure in Note 2.1 "Summary of significant accounting policies" and the disclosures on goodwill in Note 12.3 "Goodwill" of the notes to the consolidated financial statements.

2. REVENUE RECOGNITION OVER TIME FROM DEVELOPMENT CONTRACTS WITH CUSTOMERS

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

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

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

AUDITOR'S RESPONSE

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

For development contracts that were significant due to their technical or commercial complexity or their financial significance given the recognized assets from customer contracts, we also performed the substantive tests presented below:

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

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

REFERENCE TO RELATED DISCLOSURES

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

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

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

The revenue reported in the consolidated financial statements is one of the main financial performance indicators used by the executive directors of GRAMMER AG. As a general rule, revenue is recognized upon satisfaction of the respective performance obligation, namely the date on which the customer obtains control over the underlying asset.

The recognition of revenue is subject to the risk that revenue is recognized at a wrong time and thus, leads to a presentation in the wrong period, or the recognition of fictitious revenue. Revenue results from a range of individual transactions in the form of separate deliveries. Moreover, continuous price negotiations with customers lead to regular changes in transaction prices and, hence, to changes in the measurement of the revenue recognized. The recognition of revenue is exposed to the risk of material misstatement including the inherent risk of management bypass or override of the internal control system. As recognized revenue has a material impact on GRAMMER AG's consolidated financial statements, the recognition of revenue from serial production was considered a key audit matter.

AUDITOR'S RESPONSE

During our audit, we obtained an understanding of the contractual arrangements with the customers, especially the arrangements governing the time of obtaining control, as well as the arrangements regarding the billing procedure, and assesses them based on our understanding of the business and process. Against this backdrop, we examined the internal procedures and controls implemented for revenue recognition and the accrual basis of accounting and for recording the amount of revenue.

We performed tests of design and operating effectiveness in this context, examining the revenue recognized for the fiscal year from 1 January 2019 to 31 December 2019 with respect to how it was recorded in the accounts. We analyzed any deviations from our expectation regarding the posting logic by performing additional substantive audit procedures, obtaining audit evidence, for example proof of delivery or third-party confirmations, with regard to the transfer of control to the customer and the recording of the correct amount of revenue on an accrual basis. We checked that the revenue had been entered in the right amount in particular by comparing a sample of the transaction prices with their applicable contractual bases. We also determined whether the corresponding trade receivables had been settled by the customer by paying the invoice amount in the customary business cycle. At the same time, we checked a sample of incoming payments against the corresponding bank statements.

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

REFERENCE TO RELATED DISCLOSURES

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

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the Corporate Governance Report and the Group Corporate Governance Declaration pursuant to Sec. 315d HGB in conjunction with Sec. 289f. HGB. In all other respects, the executive directors are responsible for the other information.

The other information comprises the following components to which reference is made in the management report:

- the combined separate non-financial report pursuant to Sec. 289b (3) and Sec. 315b (3) HGB, and
- the Corporate Governance Report and Group Corporate Governance Declaration pursuant to Sec. 315d HGB in conjunction with Sec. 289f HGB.

The other information further comprises the following elements of the annual report, which were provided to us prior to us issuing this auditor's report:

- the section "GRAMMER Group Five-year Overview";
- the responsibility statement;
- the section "GRAMMER AG Financial Statements".

The other information also comprises the following remaining components of the annual report, which are expected to be provided to us after us issuing the auditor's report:

- the section "Key Figures";
- the section "Overview of Divisions";
- the section "Company Profile + Map of Locations";
- the section "Foreword of the CEO";
- the section "Highlights of 2019";
- the section "GRAMMER Image Section";
- the section "Report of the Supervisory Board";
- the section "GRAMMER Share";
- the section "Financial Calendar 2019 and Trade Fair Dates".

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it providesM;
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information;

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor of the consolidated financial statements by the Annual General Meeting on 12 July 2019. We were engaged by the Supervisory Board on 30 July 2019. We have been the group auditor of GRAMMER AG without interruption for at least 25 years. GRAMMER AG has been classified as a capital market-oriented company as defined by Sec. 264d HGB since fiscal year 1996.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee in accordance with Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Support services as component auditor for the audit of the consolidated financial statements of Ningbo Jifeng Auto Parts Co., Ltd. (China);
- Advisory and support services with regard to the planning of central processes and systems in the supply chain environment.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Oliver Sieger."

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amberg, March 9, 2020

GRAMMER AG
The Executive Board

GRAMMER GROUP MULTI-YEAR OVERVIEW IN ACCORDANCE WITH IFRS

IN EUR M	2019	2018	2017	2016	2015
Group revenue	**2,038.5**	**1,861.3**	**1,786.5**	**1,695.5**	**1,425.7**
Automotive Division revenue	1,479.8	1,312.6	1,291.2	1,270.8	1,008.1
Commercial Vehicles Division revenue	607.4	599.8	540.2	473.6	458.4
Income Statement					
Gross profit	231.4	211.8	215.1	198.7	152.1
EBIT	74.5	48.7	66.5	73	42.7
EBIT margin (in %)	3.7	2.6	3.7	4.3	3.0
Financial result	−20.4	−14.3	−10.6	−10.3	−6.9
Earnings before taxes	63.6	34.5	55.9	62.7	35.7
Income taxes	−20.1	−11.3	−23.5	−17.5	−11.9
Net profit	43.5	23.2	32.4	45.2	23.8
Consolidated statement of financial position					
Total assets	1,474.4	1,441.4	1,107.0	1,050.6	992.1
Non-current assets	825.6	696.3	372.3	379.6	373.7
Current assets	648.8	745.1	734.6	671.0	618.4
Equity	342.2	314.8	337.7	271.2	253.4
Equity ratio (in %)	23	22	31	26	26
Net financial liabilities	285.0	253.3	92.2	139.1	155.5
Statement of Cash Flows					
Capital expenditure (without M&A and financial assets)	132.8	73.9	59.1	56.2	47.9
Depreciation and amortization	85.3	52.3	49.5	47.2	40.5
Cash inflow/outflow from operating activities	124.0	143.6	69.2	85.8	28.8
Employees					
Annual average	14,910	13,439	12,483	12,144	10,995
Domestic employees	3,227	3,315	3,201	3,170	2,457
Non-domestic employees	11,683	10,124	9,282	8,974	8,538
Personnel costs	486.3	425.2	375.4	352.4	301.8
Share data					
Prices (Xetra closing price in EUR)	31.95	37.70	51.85	47.55	27.32
Market capitalization (EUR m)	402.8	475.3	653.7	548.9	315.4
Dividend (EUR)	0.11[1]	0.75	1.25	1.30	0.75
Earnings per share (EUR)	3.56	1.90	2.67	4.01	2.10

[1] Proposed.

[2] Adjusted in accordance with IFRS 3.49, see Note 4 in the 2016 annual report Business combinations.

[3] Adjusted in accordance with IFRS 3.49, see Note 4. Business combinations.

FINANCIAL STATEMENTS OF GRAMMER AG

GRAMMER AG'S RESULTS OF OPERATIONS

GRAMMER AKTIENGESELLSCHAFT STATEMENT OF INCOME[1] FOR THE YEAR FROM JANUARY 1 TO DECEMBER 31

EUR K

	2019	2018
Revenue	670,653	692,885
Increase in inventories of finished goods and work in progress	−2,562	−24,192
Other own work capitalized	45	64
Other operating income	17,612	12,141
Total revenues	**685,748**	**680,898**
Cost of materials	527,327	528,316
Personnel costs	92,987	106,194
Depreciation and amortization	7,897	8,472
Other operating expenses	84,903	91,019
Earnings before taxes	**−27,366**	**−53,103**
Net investment income -of which from affiliated companies EUR 13,044 thousand (2018: EUR 13,988 thousand)	13,044	13,988
Income from profit transfer agreements -of which from affiliated companies EUR 37,881 thousand (2018: EUR 54,189 thousand)	37,881	54,189
Income from other securities and loans of financial assets -of which from affiliated companies EUR 5,573 thousand (2018: EUR 3,938 thousand)	5,926	4,272
Other interest and similar income -of which from affiliated companies EUR 565 thousand (2018: EUR 384 thousand) -of which from discounting EUR 28 thousand (2018: EUR 87 thousand)	869	709
Impairment of financial assets and securities held as current assets	421	7
Expenditure from the absorption of loss -of which from affiliated companies EUR 2,508 thousand (2018: EUR 3,342 thousand)	2,508	3,342
Interest and similar expenses -of which to affiliated companies EUR 84 thousand (2018: EUR 67 thousand) of which discount factor unwind EUR 8,008 thousand (2018: EUR 7,467 thousand)	20,468	16,418
Income taxes	1,408	925
Net profit	**5,549**	**−637**
Other taxes	226	119
Net profit for the year (2018: net loss for the year)	**5,323**	**−756**
Profit carried forward from the previous year	32,351	42,315
Unappropriated surplus	**37,674**	**41,559**

[1] Financial statements prepared in accordance with German GAAP (HGB).

NET ASSETS OF GRAMMER AG

GRAMMER AKTIENGESELLSCHAFT STATEMENT OF FINANCIAL POSITION[1] AS OF DECEMBER 31 OF THE RESPECTIVE FISCAL YEAR

ASSETS

EUR K	2019	2018
A. Non-current assets		
I. Intangible assets	14,702	15,757
II. Property, plant and equipment	74,642	38,775
III. Financial assets	522,928	546,787
	612,272	**601,319**
B. Current assets		
I. Inventories	66,762	70,368
II. Receivables and other assets	145,041	141,640
III. Cash at bank and in hand	37,350	104,685
	249,153	**316,693**
C. Prepaid expenses	2,240	2,437
Total assets	**863,665**	**920,449**

EQUITY AND LIABILITIES

EUR K	2019	2018
A. Equity		
I. Subscribed capital	32,274	32,274
Notional amount of treasury stock	−845	−845
Issued capital (Contingent capital EUR 0 thousand; 2018: EUR 12,057 thousand)	0	31,429
II. Capital reserve	131,931	131,931
III. Retained earnings	94,484	94,484
IV. Unappropriated profit	37,674	41,559
	295,518	**299,403**
B. Provisions		
1. Provisions for retirement benefits	77,678	72,167
2. Tax provisions	447	362
3. Other provisions	19,600	23,951
	97,725	**96,480**
C. Liabilities		
1. Liabilities to banks	415,682	438,525
2. Prepayments received	0	414
3. Trade accounts payable	26,499	28,321
4. Liabilities to affiliated companies	22,547	45,264
5. Liabilities to companies in which an equity interest is held	502	0
6. Other liabilities	5,192	12,042
	470,422	**524,566**
Total assets	**863,665**	**920,449**

[1] Financial statements prepared in accordance with German GAAP (HGB).

FINANCIAL CALENDAR FOR 2020[1]

IMPORTANT DATES FOR SHAREHOLDERS AND ANALYSTS

Annual Report 2019	March 30, 2020
Analyst and financial press conference	March 30, 2020
Quarterly statement 1st quarter of 2020	April 29, 2020
Annual general meeting 2020 Venue: ACC (Amberger Congress Centrum), 92224 Amberg	July 8, 2020
Interim Report, 2nd quarter and 1st half of 2020	August 13, 2020
Quarterly Statement 3rd quarter of 2020	October 29, 2020

[1] All dates are tentative and subject to change. Subject to change without notice.

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