

REPORT OF THE SUPERVISORY BOARD



DR. KLAUS PROBST
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In 2016, the Supervisory Board fulfilled its duties with the utmost care in accordance with the Articles of Association, the rules of procedure and the applicable statutory requirements. It monitored the activities of the Executive Board on an ongoing basis, advising it on all matters of importance for the Company. To this end, the Executive Board and the Supervisory Board worked closely together, maintaining regular contact with each other. The Executive Board briefed the Supervisory Board regularly, immediately and comprehensively both in writing and orally on all relevant matters within the Company as well as on its main business performance indicators. The Supervisory Board and the Executive Board discussed decisions of fundamental importance such as strategic issues concerning corporate planning, business policy, business performance, the risk situation and risk management.

Outside the meetings of the Supervisory Board, the Chairman of the Supervisory Board maintained intensive contact with the Chief Executive Officer in person and over the phone, in which he was kept informed of the Group's business performance and material transactions.

The Executive Board kept the Supervisory Board informed of the changes in the shareholder structure on an ongoing basis. A separate committee was established for regular close consultation and discussion on the Supervisory Board.

MAIN MATTERS DEALT WITH AT THE MEETINGS OF THE SUPERVISORY BOARD

At its ordinary quarterly meetings, the Supervisory Board dealt in detail with the Company's current business and financial condition. At its meetings, the Supervisory Board regularly 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. The Supervisory Board held a total of four ordinary meetings and two extraordinary meetings in 2016; in addition, the various committees were convened 28 times. No member of the Supervisory Board or any of its committees attended only half or fewer than half of the meetings. There were no conflicts of interests on the part of any of the members of the Supervisory Board in connection with the exercise of their duties in the period under review.

All members of the Supervisory Board attended the first meeting on March 22, 2016. The main item on the agenda concerned the audit of the annual financial statements and the consolidated financial statements. In the presence of the statutory auditor, the Supervisory Board adopted the parent-company financial statements of GRAMMER AG for the year ending December 31, 2015 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2015.

In addition, the Supervisory Board passed resolutions concerning GRAMMER AG's Annual General Meeting which was to take place on May 11, 2016. 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.

At its meeting of March 22, 2016, the Supervisory Board decided to renew the contract of Mr. Hartmut Müller, Chief Executive Officer and Human Resources Director, for a further five years (until January 31, 2022). The current status of M&A activities was outlined. In view of the changed shareholder structure, the possibility of establishing an ad-hoc committee by means of a circulatory resolution was also discussed. Finally, the Supervisory

Board in its regular review of the Executive Board compensation system determined that the work already commenced on revising the remuneration system was to be continued.

The main focus of the second ordinary meeting, which was held on May 10, 2016 and attended by ten members of the Supervisory Board, was on preparations for the Annual General Meeting taking place on the following day. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board additionally reviewed the efficiency of its activities and adopted measures to improve such efficiency. A further item on the agenda for the meeting entailed the presentation of plans to establish subsidiaries responsible for the Group's service business.

The first extraordinary meeting of the Supervisory Board in 2016, which was attended by eleven members, was held on June 22, 2016. Its main purpose was to discuss and deliberate on the options currently being pursued by the Executive Board for generating external growth via acquisitions, also in the light of the changed shareholder structure.

The second extraordinary meeting of the Supervisory Board was convened on August 17, 2016 and was attended by nine members. At this meeting, measures for external growth in line with the Company's strategy, including measures to reinforce equity as well as potential acquisition targets, were presented.

The third ordinary meeting of the Supervisory Board was held on September 21, 2016 in Hardheim at the offices of GRAMMER Interior Components GmbH, where the Supervisory Board was able to gain a detailed view of the production organization, technology, capital spending and current capacity utilization. Eleven members of the Supervisory Board attended the meeting and the tour of the plant. At this meeting, the GRAMMER Group's strategy for 2016 – 2021 was presented and confirmed in full by the Supervisory Board. In addition, a report on the current status of M&A activities was heard. The Chairman of the Supervisory Board, Dr. Probst reported to the meeting on the progress that had been made on revising the remuneration system for the Executive Board. An external remuneration expert had been mandated with an analysis of the external appropriateness of the remuneration system in its entirety as well as the individual remuneration components ("horizontal comparison") and consistency within the Company ("vertical comparison"). The meeting also passed a resolution to revise

the rules of procedure of the Executive Board and the Supervisory Board in the light of the European Market Abuse Directive and to update the list in the Executive Board's rules of procedure of the transactions requiring the Supervisory Board's approval.

Held on December 9, 2016, the Supervisory Board's fourth ordinary meeting was attended by ten members. The main focus of discussion was on the budget for the GRAMMER Group for 2017 that was duly approved by the Supervisory Board. This meeting discussed the results of the report prepared by an external consultant on the appropriateness of the remuneration system for the Executive Board. This report determined that parts of the current remuneration system are not appropriate and that both the total target remuneration and the mix of remuneration components must be revised. The revised declaration of conformity in accordance with the recommendations of the German Corporate Governance Code was adopted. The corporate social responsibility project, talent management within the GRAMMER Group and a staff survey to be conducted in 2017 were presented. In addition, the risk report on IT and data security was submitted.

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

An individualized list setting out the attendance at the meetings of the Supervisory Board and its committees can be found in the Corporate Governance Report. Members of the Supervisory Board who were unable to attend a meeting of the Supervisory Board or its committees duly sent their apologies and generally voted in writing.

CIRCULATORY RESOLUTIONS OF THE SUPERVISORY BOARD

In 2016, the Supervisory Board of GRAMMER AG passed four circulatory resolutions in writing.

The circulatory resolution of February 29, 2016 approved the establishment of a joint venture with Chinese partner Shanxi Automotive Group Co. Ltd. The subject matter of the circulatory resolution of March 29, 2016 concerned the establishment of an ad-hoc committee which had been discussed at the meeting of March 26, 2016. The circulatory resolution of April 20, 2016 approved amendments to the service contracts with the members of the Executive Board. The circulatory resolution of May 25, 2016 approved the incorporation of three wholly owned subsidiaries of GRAMMER AG in accordance with the plans that had been presented on May 10, 2016.

SUPERVISORY BOARD COMMITTEES

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees as of December 31, 2016:

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

AUDIT COMMITTEE

Andrea Elsner

Wolfram Hatz (Chairman)

Martin Hei

Dr. Klaus Probst

NOMINATING COMMITTEE

Wolfram Hatz

Dr. Klaus Probst (Chairman)

Dr. Bernhard Wankerl

AD-HOC COMMITTEE (FROM APRIL 11, 2016)

Martin Hei

Dr. Hans Liebler

Horst Ott

Dr. Klaus Probst (Chairman)

Lars Roder

Dr. Bernhard Wankerl

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 five times in 2016. All members attended these meetings.

At its first meeting on February 26, 2016, the Committee discussed the status of the GRAMMER Group's strategy for 2015–2020 as well as the current M&A projects. The second meeting of May 11, 2016 analyzed the competitiveness of the Haselmhl plant and discussed possible solutions. At its third meeting on June 21, 2016, the Strategy Committee again dealt with the competitiveness of the Haselmhl plant as well as current M&A projects and the related funding requirements. The focus of the fourth meeting held on July 29,

2016 was on the preparation of the meeting of the Supervisory Board on September 21, 2016 at which discussion of the strategy for 2016–2021 was on the agenda. The fifth meeting of the Strategy Committee was held on November 25, 2016. Among other things, it discussed the main elements of the Group's corporate strategy.

In addition to its duties under the German Codetermination Act, the [Personnel and Mediation Committee](#) performs tasks relating to Executive Board matters, prepares personnel decisions to be made by the Supervisory Board and negotiates service contracts with the members of the Executive Board. It met three times in the year under review. All members attended these meetings.

The agenda for the meetings on February 26, 2016 as well as November 25, 2016 included the review of the remuneration system for the Executive Board of GRAMMER AG as well as the company pension scheme. The remuneration system for the Executive Board was also discussed at the meeting held on December 2, 2016; This meeting dealt with possible revisions to the remuneration system. In particular, possible indicators for short-term and long-term remuneration and target achievement levels as well as the amount of remuneration and the remuneration mix were discussed.

The [Audit Committee](#) prepares the Supervisory Board's resolutions on accounting matters and monitors the efficacy of the internal control system, the risk management system and the internal auditing system. It also deals with compliance matters and engages the statutory auditor. The Chairman of the Audit Committee, Mr. Wolfram Hatz, is an independent financial expert and holds extensive professional knowledge and experience in accounting due to his training and professional practice.

The Audit Committee met four times in 2016 and all members attended these meetings. The main item on the agenda for the first meeting held on March 22, 2016 concerned the annual financial statements and consolidated financial statements for 2015. Representatives from Ernst & Young GmbH Wirtschaftsprfungsgesellschaft, which had been elected as statutory auditors for 2015 at the annual general meeting, were also present. Further topics included the risk and internal auditing report as well as the current status of currency-translation effects.

The second meeting held on April 29, 2016 considered the interim report for the first quarter ending March 31, 2016.

At its third meeting on July 29, 2016, the Audit Committee dealt with the GRAMMER Group's preliminary figures for the first half of the year ending June 30, 2016 and the engagement of the statutory auditor.

At its fourth meeting held on October 28, 2016, the Committee discussed the preliminary interim financial statements as of September 30, 2016 and the risk report.

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.

In accordance with the circulatory resolution of March 29, 2016, the Supervisory Board of GRAMMER AG duly established an Ad-hoc Committee. The constitutive meeting was held on April 11, 2016. The Ad-hoc Committee comprises six members of the Supervisory Board. Dr. Probst was elected chairman of the Ad-hoc Committee. The Committee met a total of 16 times in the year under review. The purpose of the Ad-Hoc Committee is to consult regularly and closely with the Executive Board and to advise it on the significant changes in the shareholder structure.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the Annual General Meeting held on May 11, 2016, 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 29, 2016, the Audit Committee engaged the auditor for the 2016 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 in both cases. 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 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 28, 2017 dealing with the annual and consolidated financial statements and at the Supervisory Board meeting also held on March 28, 2017 to review the financial statements.

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

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

There were no changes in the composition of the Executive Board or the Supervisory Board in 2016.

VOTE OF THANKS

The Supervisory Board would like to express its thanks to the Executive Board, the employees and the employee representatives of GRAMMER AG for their personal commitment and hard work without which the favorable business performance achieved in 2016 would not have been possible.

Amberg, March 2017

On behalf of the Supervisory Board



Dr. Klaus Probst

Chairman of the Supervisory Board