ANNUAL REPORT 2016

WE DELIVER

GRAMMER

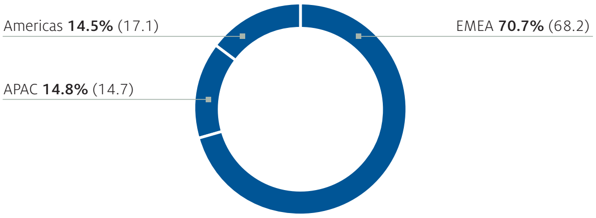
KEY FIGURES ACCORDING TO IFRS
GRAMMER GROUP

IN EUR M	Q4 2016	Q4 2015	2016	2015
Group revenue	430.2	369.7	1,695.5	1,425.7
Automotive revenue	329.7	267.2	1,270.8	1,008.1
Seating Systems revenue	113.0	115.0	473.6	458.4
Income statement				
EBITDA	35.0	24.3	120.2	83.2
EBITDA-margin (in %)	8.1	6.6	7.1	5.8
EBIT	23.4	13.0	73.0	42.7
EBIT-margin (in %)	5.4	3.5	4.3	3.0
Operating EBIT	20.6	12.3	68.1	39.0
Profit/loss (–) before income taxes	26.2	10.3	62.7	35.7
Net profit/loss (–)	19.6	7.1	45.2	23.8
Statement of financial position				
Total assets	1,050.6	992.1[2]	1,050.6	992.1[2]
Equity	271.2	253.4	271.2	253.4
Equity ratio (in %)	26	26	26	26
Net financial debt	139.1	155.5	139.1	155.5
Gearing (in %)	51	61	51	61
Investments (without M & A)	22.1	22.9	56.2	47.9
Depreciation and amortization	11.6	11.3	47.2	40.5
Employees (December 31)			12,250	11,397
Key share data				
Share price (Xetra closing price in EUR)			47.55	27.32
Market capitalization (in EUR m)			548.9	315.4
Dividend (in EUR)			1.30[1]	0.75
Earnings per share (in EUR)			4.01	2.10

[1] Proposal.
[2] Figures for the previous year adjusted in accordance with IFRS 3.49. See also Note 4 of the Notes to the Consolidated Financial Statements on business combinations.

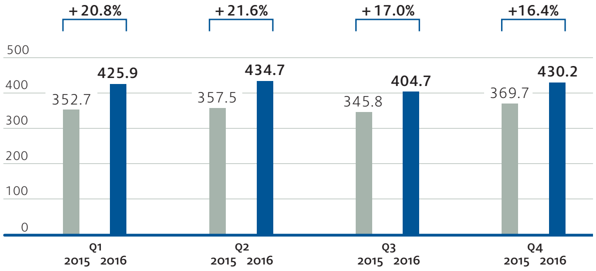
REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



GROUP REVENUE DEVELOPMENT BY QUARTER

IN EUR M



COMPANY PROFILE

GRAMMER AG is a globally active stock-listed manufacturer of seating systems and automotive interiors. The Seating Systems Division develops and manufactures technologically sophisticated seating systems for commercial and offroad vehicles as well as for trains and busses. In its Automotive Division, GRAMMER engineers and produces high-quality headrests, center consoles, armrests and interior components for OEMS.

With a workforce of more than 12,000 employees, GRAMMER operates in 19 countries worldwide via its 32 companies.

EMEA
Belgium
Bulgaria
Czech Republic
France
Germany
Great Britain
Italy
Poland
Serbia
Slovenia
South Africa
Spain
Turkey

AMERICAS
Argentina
Brazil
Mexico
USA

APAC
China
Japan

GRAMMER locations
GRAMMER locations with R&D activities
GRAMMER Group Headquarters

DIVISIONS

SEATING SYSTEMS

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

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

TRUCK & BUS
Driver seats for trucks and buses

RAILWAY
Passenger seats for trains
Train driver seats

IN EUR M

	2016	2015
Revenue	473.6	458.4
EBIT	39.1	27.8
EBIT-margin	8.3%	6.1%
Operating EBIT	35.8	25.4
Investments (without acquisitions)	9.3	11.6
Employees (December 31)	3,699	3,729

AUTOMOTIVE

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

HEADRESTS

ARMRESTS

CENTER CONSOLES

INTERIOR COMPONENTS

IN EUR M

	2016	2015
Revenue	1,270.8	1,008.1
EBIT	42.5	23.8
EBIT-margin	3.3%	2.4%
Operating EBIT	40.9	23.0
Investments (without acquisitions)	42.8	31.9
Employees (December 31)	8,272	7,400

WE DELIVER

GRAMMER focuses day for day on supplying the best possible products. What drives us as a company is our passion for developing new ideas. This entails two thrusts: 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 the quality of our products 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 presence and innovative products will assure the GRAMMER Group of long-term and profitable growth.

NAVIGATION GUIDE

Link to the report or online resources

Link to the Internet

CONTENT

HARTMUT MÜLLER
Chief Executive Officer

Dear Sir or Madam,

"We deliver" is the title of the latest annual report and provides a particularly proper description of our performance in 2016. One year ago, I wrote here that GRAMMER was well on its way towards achieving its ambitious growth and profitability goals to harness its high potential for boosting enterprise value on a sustained basis. The actual figures are even better than expected, with GRAMMER posting the highest profit in its history and reporting record revenue for the sixth consecutive year in 2016. As a result, its market capitalization doubled in the course of the year, peaking at a good EUR 650 million. At the same time, we will be asking our shareholders to approve a record dividend of EUR 1.30 per share. On the one hand, this very gratifying performance is due to the commitment and dedication of all our staff. On the other, we are now beginning to benefit from the systematic implementation of our growth and internationalization strategy after the substantial upfront costs of the last few years.

Over the last few years, we have transformed the Group comprehensively, turning it into an innovative global player. The company has repeatedly and transparently stated that the implementation of our long-term growth strategy would initially leave traces on earnings and profitability. Our goal was to position the GRAMMER Group in such a way that it is able to address our customers' requirements all around the world to optimum effect in the future and in the face of new challenges. This was the only way of ensuring that we would be included in contract awards for international automotive OEMs' increasingly important global platforms. Globalization is calling for great efforts on the part of nearly all automotive component suppliers. A glance at the German automotive components industry indicates that only very few companies have achieved a strategic development as impressive as GRAMMER's over the last few years.

We have done this through investments and by stepping up the spending on our global position, new plants, more efficient processes and research and development activities for innovative products. With this strategic and operating realignment we have turned a company with medium-sized structures into a corporation which hardly anyone could have envisioned in this form just a decade ago. Today, we are a genuine global player present in all main market regions and with a broad production, marketing, research and development network. Thanks to the success of the optimization measures that we have implemented, we have been able to boost profitability in particular, as was evident in 2016. This forms the basis for a further improvement in returns. GRAMMER has an excellent position along the entire value chain, a strong brand name and an excellent reputation with our customers. They appreciate our reliability and are pleased to make use of our expertise in ergonomics, safety and comfort. In this way, we have established ourselves as a dependable source of new ideas for our customers in the automotive and commercial vehicle industry.

"Over the last few years, we have transformed the Group comprehensively, turning it into an innovative global player."

Our successful performance in 2016 delivered convincing results vindicating our business policy. Thus, Group revenue including for the first time the REUM Group acquired in 2015 rose by 19 percent and, at EUR 1.70 billion, reached a new record as in previous years. At the same time, earnings before interest and taxes (EBIT) climbed by a disproportionately strong 71 percent to EUR 73 million thanks to the resolute implementation of cost-cutting and process-optimization measures. This also marks a new record, exceeding the previous high achieved in 2013 by more than one quarter. It is likewise reflected in the EBIT-margin, which widened by 1.3 percentage points to 4.3 percent. At EUR 4.01, earnings per share were also higher than ever before. Our shareholders are also benefiting from this very favorable performance. The GRAMMER share was the top performer in the SDAX last year with gains of more than 70 percent. In addition to the high growth in value, shareholders can also benefit from a record dividend of EUR 1.30 per share which the Executive Board and the Supervisory Board will be asking them to approve at the Annual General Meeting.

Once again, the strong top-line growth was materially underpinned by the Automotive Division, which posted a 26 percent increase in revenue to EUR 1.27 billion. This very favorable performance was particularly driven by sustained strong business in center consoles, the successful integration of surface finish specialist REUM and our superb international position. Profitability in this Division was also well up on the previous year in line with plans.

Growth was more modest in the Seating Systems Division, which felt the effects of continued very soft demand in the global agricultural machinery market and the slump in the Brazilian commercial vehicle market. Following the decline in the previous year, however, revenue rose slightly by 3.3 percent to around

EUR 474 million in 2016. By additionally optimizing cost structures, we were able to improve profitability substantially in this Division as well.

Most of our business was generated in Europe again in 2016, although the Americas and particularly also Asia are making a steadily growing contribution. Thus, China is already our second most important market after Germany. Over the last few years, we have repositioned ourselves and expanded and optimized our plant network comprehensively in China to operate as a genuine local supplier and to address the applicable requirements more effectively. In March 2016, we signed an agreement with Shaanxi Automobile Group Co. Ltd., the fourth largest heavy-duty truck OEM in China, for the establishment of a joint venture for truck seats. The new joint venture, in which GRAMMER holds a 90 percent interest, will be assembling a wide range of mechanical and air-suspended seats locally. The seats are primarily to be fitted to the more than 100,000 commercial vehicles produced by Shaanxi each year. The new local production facility at the Fuping industrial estate will allow GRAMMER to broaden its geographic footprint in the commercial vehicle segment and thus ensure close physical proximity to important customers in China, while simultaneously optimizing production and logistic costs in that country.

The search for a strategic partner for our automotive business that we commenced in 2015 has also been successful, as a result of which we were able to likewise strengthen our position in China in February 2017. After an intensive search, we have now found in automotive components supplier Ningbo Jifeng an ideal partner with whom we want to enter into a strategic partnership. The company specializes in the production and assembly of headrests as well as seat and door armrests predominantly for passenger vehicles. Via the planned partnership, both GRAMMER and Ningbo Jifeng will be able to additionally strengthen their presence in the crucial Chinese market and improve their range of products. At the same time, the strategic alliance will provide GRAMMER with access to local automotive OEMs as well as to improved sourcing terms. In connection with this partnership, a company affiliated with Ningbo Jifeng has subscribed to a mandatory convertible bond worth EUR 60 million. We will primarily be using the proceeds from this issue to finance further strategic growth in Germany and internationally and to broaden our technological capabilities. Upon the bond being converted, Ningbo Jifeng acting via its affiliate will become a significant shareholder in GRAMMER AG, thus reinforcing the strategic partnership that the two companies have forged. Key GRAMMER customers have welcomed the planned strategic partnership. For this reason, it plays an important role in safeguarding the business relations with our customers. As a future strategic anchor shareholder, Ningbo Jifeng will thus be expanding the company's shareholder base and ensuring that the company can continue its successful corporate strategy.

Looking forward, we expect to be able to report moderate revenue growth in 2017 despite the persistently volatile economic and political environment. We plan to substantially improve the Group's profitability again. The operating EBIT-margin is expected to come to around 5 percent, thus confirming the positive trend in line with plans. This will be based on several different factors: after investing heavily in expanding and optimizing our international presence over the last few years, we will now be able to scale back these expenditures. What is more, we have implemented such a lean cost structure in the problem-afflicted Brazilian market that we will be able to benefit from even only a small recovery in local truck demand. And, finally, our new plants have now left the cost-intensive start-up and ramp-up phase behind them, something that will leave positive traces on operating performance.

Yet, we also see risks to the Company's continued future success as a result of the changes in GRAMMER AG's shareholder structure. Operating via two entities Cascade International Investment GmbH and Halog GmbH & Co. KG, the Hastor family has indirectly gained more than 20 percent of GRAMMER AG's share capital. One criticism voiced by Cascade is that GRAMMER has not displayed the necessary vigor in addressing shrinking profit margins despite the increased revenue. However, this accusation fails to appreciate the long-term strategy that GRAMMER has adopted. Via these holding companies, the Hastor family is attempting to exert material influence on the composition of the Executive Board and the Supervisory Board. The goals that are being pursued with this investment in GRAMMER AG and the intended change of control are still not clear to this very day. Despite repeated offers on our part, all the parties involved have invariably refused to enter into any talks with us. GRAMMER AG's Executive Board and Supervisory Board are unequivocally committed to the continuation of the successful corporate strategy and independent corporate governance in the interests of all shareholders and stakeholders and therefore reject Cascade's demands. If these demands were to be accepted, this would ultimately result in a minority shareholder assuming control to the detriment of all other shareholders. In addition, a change of control in GRAMMER AG's currently independent governance bodies could exert appreciable strain on customer relations. As a result, it would not be possible to exclude potential risks to future orders and, hence, to the future performance of the entire GRAMMER Group.

In summary, the results of our business activity provide every reason for joy. As stated, we have restructured GRAMMER comprehensively over the last few years, turning it into an innovative global player. However, this successful business activity would be jeopardized by a change of control. Important customers of GRAMMER AG are observing the changes in the shareholder structure and holdings of the Hastor family in GRAMMER AG very closely. They have made it quite clear that they consider the independence of GRAMMER AG's existing governance bodies and the successful continuation of our operating and strategic business policy to be of paramount importance.

The successes that GRAMMER has achieved would be unthinkable without our employees all around the world who are committed and dedicated to our Group with their outstanding contributions. I would like to thank them most sincerely on behalf of the entire Executive Board. A vote of thanks also goes out to our customers and suppliers for the long-standing close relations. Finally, I wish to thank our shareholders for their interest and trust in our Company.

In conclusion, I would like to invite all shareholders to take part in GRAMMER AG's upcoming Annual General Meeting in the interests of a continuation of the successful corporate strategy and independent corporate governance. Moving forward, I trust that we will be able to jointly add to GRAMMER AG's success story.

Yours

Hartmut Müller
Chief Executive Officer of GRAMMER AG

MANFRED PRETSCHER HARTMUT MÜLLER GÉRARD CORDONNIER

EXECUTIVE BOARD GRAMMER AG

MANFRED PRETSCHER
Member of the Executive Board
(COO)
since August 2010

Group Operations,
Group Sales & Projects,
Group Quality & Group Services,
Group Research & Development

HARTMUT MÜLLER
Chief Executive Officer
(CEO)
since August 2010
Member of the Executive Board
since 2007

Corporate Development,
Group Internal Control & Legal,
Group Investor Relations,
Communications & Marketing,
Group Human Resources,
Group Strategic Product Planning

GÉRARD CORDONNIER
Member of the Executive Board
(CFO)
since June 2015

Group Finance,
Group Accounting,
Group Controlling,
Group Purchasing,
Group IT

WE DELIVER

Only suppliers to the global automotive industry that constantly come up with new **IDEAS** *to improve the safety, comfort and functionality of their products will ultimately be able to move forward in the future. The main determinants of our success are* **INNOVATIONS** *and our international* **PRESENCE** *that allow us to supply OEMs in all main growth regions. At the same time, we are systematically optimizing our* **PROCESSES** *to improve our competitiveness and to safeguard the* **QUALITY** *of our products.*

Ongoing innovation, high quality and competitive cost structures have always provided the underpinnings for success in our industry.

1 At GRAMMER, product development is also always team work.

2 CAD systems are used to implement technical requirements in computer models.

3 Technical draft of a center console: every detail counts.

CONVINCING IDEAS

Setting ourselves apart from the masses is the key to our success as a supplier to the international automotive industry. Companies wishing to do business with large international OEMs must come up with convincing ideas for the design, look and feel, functionality and integration of electronic components.

Ongoing innovation, high quality and competitive cost structures have always provided the underpinnings for success in our industry. Beyond this, suppliers to the premium OEMs must satisfy particular requirements to meet customers' high expectations, even if these concern only minor details such as the seams of a headrest. At the same time, the changes in our industry are making more and more demands of components suppliers. Aspects such as highly efficient product development and global start-up management are growing in importance. And the products must, of course, also offer genuine added value. That only works if you truly know your market and your customers.

In the automotive industry, we work with our customers closely from the outset in product development. We owe our success to our ability to detect important trends and to respond to them with innovative solutions. Light-weight construction, the greater use of "green" materials and the heightened integration of electronic components are only some of the themes currently dominating the industry

Global trends of the future

Electromobility and autonomous driving are the secular trends of the future. Before too long, suppliers of components for internal combustion engines or transmissions, for example, will have no choice but to adapt their business models. GRAMMER, by contrast, considers itself to be ideally positioned as the vehicle interior will play a key role in automotive OEMS' efforts to establish competitive differentiators in the future. This gives us the peace of mind of knowing that our business is not only growing but also gaining in value.

In the Seating Systems Division, we have built up a leading position in technologically sophisticated seating systems for trucks, buses and railways by means of creative and innovative ideas over many decades. In fact, GRAMMER is the global number one in offroad vehicles such as agricultural and construction machinery as well as forklift drives. This is due to our special "Design for use" concept based on ergonomic, user-friendly, comfortable and safe seat design. Here, we have been able to establish innovative trends by constantly expanding our expertise through partnerships with universities and research institutions. In this way, we are always able to directly incorporate the latest findings from accident and spine research, for example, in the development of our various seating systems.

Our proprietary "Ergomechanics®" concept demonstrates the extent to which we focus on humans and their individual needs in our product innovations. This concept is a combination of "ergonomics" and "biomechanics", which are mutually linked and provide an important approach in the development of driver and passenger seats. In this way, we minimize vibration strain in tandem with maximum comfort even on the bumpiest roads. In addition, we offer OEMS and after-market dealers training on how to sit properly to avoid back pain, so that they can pass on this important information to their final customers.

In order to support the latest ideas from spine research, GRAMMER presents the annual European Spine Journal Award together with the European Spine Journal. This award provides the world's highest endowment (EUR 20,000) for spine research. The Ergomechanics® Congress, which has already been held twice and will be taking place for a third time in 2017, is a public platform that allows researchers to share their knowledge with the industry. It gives outstanding scientists an opportunity of presenting the newest results of their spine research.

GRAMMER has been developing the "CAB Concept Cluster", the cabin of the future, since 2015.

Looking forward, vehicles will be designed from the inside out, something which offers great innovation potential for us.

Our measuring systems also incorporate the latest technology.

An employee is testing the flap response of a center console in a soundproof room.

20
locations with R&D activities worldwide.

INNOVATIVE PRODUCTS

Our innovation roadmap reflects the main trends in our sector. Our research and development activities primarily focus on safety, ergonomics and comfort, innovative materials and high-quality surfaces as well as the integration of electronic components in our products.

We must maintain the necessary development capacities with experienced engineers and project managers in our core regions of Europe, China and the United States in order to bid successfully on international projects or world platforms. It is with this in mind that we have expanded our international research and development capacities significantly over the last few years. We now have around 500 developers at 20 R&D centers around the world. In addition, we have four test centers at various levels in Germany, China and the Americas. Our engineers are currently working on more than 200 development projects around the world. Innovations can take the form of improved technology, heightened product functionality or more efficient production processes.

Suspension system being assembled: a good truck seat should help to ensure a safe and comfortable daily routine.

As the interior will become a major competitive differentiator for OEMs, vehicles will be designed and engineered from the inside out in the future – and not the other way round as is currently the case. This opens up enormous potential for innovative suppliers such as GRAMMER who are able to create an intelligent and multifunctional interior. New controls with intuitive human/machine interfaces as well as functional surfaces with haptic feedback will replace conventional switches and knobs.

Trend towards variable interiors

The drivers and passengers of the future will have greater scope for communicating, relaxing, moving or working. This will be reflected in variable interior components. Headrests will not only provide protection in an accident but also offer maximum comfort during the entire journey. Revolving seats or seats with a "relax" position will necessitate changes to the center console as the main operating and communications unit. It must become more variable and adapt to the individual positions or situations. Seats could conceivably also be fitted with a multifunctional electronic armrest. Our engineers are working very closely with our customers' development departments to actively help shape the latest trends.

Automated driving is also relevant for trucks and may even reach fruition earlier than with passenger vehicles. Rest breaks during the journey or the ability to handle administrative matters on a tablet or laptop will boost productivity substantially. And while these developments are still a long way off in the future, they are already being addressed by the industry today.

Detailed view of seat suspension and electronics.

367

patents registered in 2016

The suspension fitted to our truck seats incorporate the latest ergonomic developments and innovative solutions.

Together with the OEMs of commercial vehicles and in various projects with universities, we are trying to find answers to the questions to ensure that our product visions for the driver cabin of the future become reality. Our subsidiary GRAMMER Electronics gives us an ideal basis for fitting out our products with more electronic features. An electronics officer specifically appointed for this purpose for the entire GRAMMER Group is responsible for ensuring that GRAMMER Electronics is integrated even more effectively in the development process.

We presented an example of GRAMMER's innovative prowess at the international "bauma 2016" fair in Munich. Leading automotive components suppliers jointly developed the "CAB Concept Cluster" to demonstrate the technical capabilities available now as well as in the near future. This "driver cabin of the future" received the prestigious "bauma innovation award". In its role as the responsible cluster partner for the interior fittings, GRAMMER developed an ergonomically optimized integrated system comprising a driver's seat with spring suspension and electrically adjustable features, a multi-function armrest and a multi-touch display for controlling all vehicle and comfort functions. These innovative features underscore our Company's technological leadership in the Seating Systems Division.

OPTIMAL PROCESSES

If you want to turn ideas into marketable innovations, you must ensure high-quality products along the entire value chain without losing sight of the costs. GRAMMER has optimized its products with defined production methods and systems. They are implemented on a uniform global basis and undergo constant optimization as part of institutionalized continuous improvement processes. Energy efficiency, speed and quality are playing an increasingly important role in the production process.

We are steadily expanding our technological capabilities to ensure that our production processes always incorporate the latest developments. As a case in point, we pioneered the use of the mono-sandwich process for producing stable, yet substantially lighter center consoles. The process is now being used around the world and makes a contribution to lowering vehicle CO_2 emissions thanks to the weight savings gained. The latest processes are also being used for surface and metal finishing as well as joining technologies.

Our production processes are always state of the art.

At the heart of our process optimization efforts is our proprietary GRAMMER Production System (GPS), which sets global production standards for all products, thus ensuring uniformly high quality. All employees are integrated in the quality process via the GPQ (GRAMMER Produces Quality) quality system and program and can thus trigger improvements at any time.

Our GRAMMER Production System GPS ensures consistently high quality in our global production standards.

Innovative process expertise

Given the rising demand for trims with a high-quality look and feel, top priority is being given to the development of materials and processes. With the recent acquisition of the REUM Group, we have been able to additionally expand our core capabilities and technological leadership in this area. A specialist in interior components and surface finishing, it furnishes premium automotive OEMs and large Tier I suppliers with high-quality surfaces, panels and air vents for center consoles and instrument panels, air vents as well as ventilation and loudspeaker grilles from stainless steel and plastic. REUM's innovative process expertise includes plastic injection molding, surface and metal finishing and system joining technologies.

It is not only GRAMMER's Automotive Division that benefits from this expertise as many plants have production systems

The backrests are ready for assembly of the base structure.

working for both the Automotive and the Seating Systems Division. These "zebra plants" specialize in specific core capabilities such as metal, foam or plastic processing, thus generating the synergistic effects that are so crucial for us. At the same time, there is large scope for implementing many innovations, particularly in surface finishing and the integration of electronic functions, in both Divisions.

Global supply chain management

A further key determinant of success in the production process is Group-wide procurement management, which is based centrally within GRAMMER AG and organized according to commodity type. Our global presence and combined purchasing power allow us to harness synergistic effects that would not be available to a single segment. The most important task for procurement is to source commodities, parts and services of a defined quality and in sufficient quantities. In addition, it is required to coordinate relations with vendors and to cover project purchasing requirements. Global supply chain management supports us in the strategic and ongoing development of our vendors. Qualified selection, training and evaluation structures ensure that we are able to leverage our vendors' potential and innovativeness profitably and establish a solid basis for sourcing in all regions.

All employees are integrated in the quality process via the GRAMMER Produces Quality (GPQ) system.

Production line:
assembly of the
two seat parts.

GLOBAL PRESENCE

In our automotive business, we adopted at an early stage a strategy aimed at achieving an international presence not only in production but also in research and development. It is solely because of this that we are able to bid on the large world platforms that are produced by the major automotive OEMs in several regions. Peers that do not have a sufficient international presence cannot hope to compete.

All components are tested thoroughly before being integrated in the product.

With our strategic orientation, we have a full-scale value chain in place in the core regions of Europe, China and NAFTA as well in Brazil not only for production but for other Group functions such procurement, project management and particularly also development. This is also reflected in our staff structure: more than 80 percent of our more than 12,000-strong workforce are based outside Germany. All in all, the Group has operations in 19 countries via 32 companies and currently generates around one third of its business outside Europe.

Strong growth in the emerging markets

Looking forward, this proportion will increase in view of the growing role played by the emerging markets in the global automotive industry. Global secular trends such as demographic growth and greater prosperity as well as increasing urbanization will cause demand for passenger and commercial vehicles to grow at a disproportionately strong rate, with more and more OEMs relocating their production capacities to growth markets. Automotive components suppliers have no choice but to follow the OEMs to the emerging markets and build up their own

EUR **789.5** m.

Revenue outside of Germany 2016

As a typically male-dominated production company, GRAMMER has adopted various initiatives to interest women in what are traditionally "men's jobs".

Riveting machine: globally standardized production processes ensure the high quality of our products.

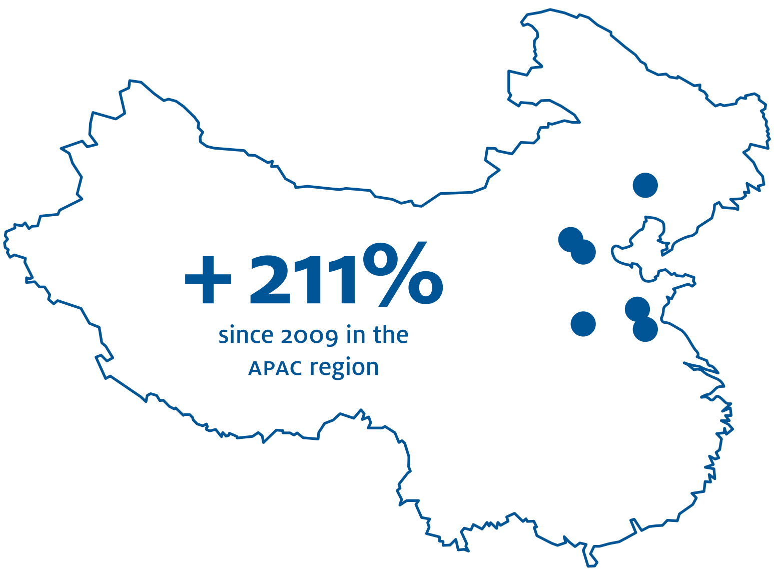
local production and sourcing structures. Otherwise they run the risk of losing their business to local competitors further down the road.

GRAMMER is ideally positioned with its development activities. We are able to gain new projects in the growth regions of Asia as well as NAFTA at our 20 plants with R&D activities and our four test centers without having to engage in extremely high investments for this purpose. The local R&D centers ensure that the necessary products for the specific market are offered.

More business in the world’s largest market

Business in China is growing in importance for GRAMMER. In the world’s largest market for commercial vehicles, almost three quarters of a million heavy-duty trucks are produced each year – equivalent to more than a third of the entire global output of trucks. After taking over the previous joint venture GRAMMER Seating (Jiangsu) Co. Ltd. in full in 2015, we

REVENUE IN THE APAC REGION



additionally widened our presence last year by establishing a new joint venture for truck seats. Looking forward, the joint venture with Shaanxi Automobile Group Co. Ltd., in which GRAMMER holds a 90 percent interest, will be assembling a large number of mechanical and air-suspension seats. The new local production facility at the Fuping industrial estate will ensure close physical proximity to important customers and simultaneously also optimize production and logistics costs.

With a new total of three facilities for the production of localized commercial vehicle seats in China, GRAMMER possesses an outstanding platform for additionally widening its customer base in China and achieving greater penetration of the Asian markets. As it is, GRAMMER generates around 15 percent of its Group revenue in China at a total of six facilities addressing the passenger vehicle and commercial vehicle segments.

Partner for global platforms

When it comes to the award of contracts for the supply of components for global platforms, GRAMMER's international footprint and good reputation in the areas of innovation, design and quality stand it in good stead. There is a need for partners who are able to assemble components and systems for different models on a global basis. We have demonstrated that we are able to simultaneously manage the parallel development and series start-ups for global platforms exhibiting a high degree of complexity and risk in different regions. Our internationalization strategy is still ongoing. Moving forward, we will be additionally improving our global position with the aim of implementing the entire value chain at a local level as far as possible, with a view to cut costs and reduce lead times.

Paintshop: the GRAMMER Production System GPS sets globally binding production standards, thus ensuring the consistently high quality of our products.

An employee preparing the quality control for a center console.

AUDITED QUALITY

All employees are integrated in our quality process.

GRAMMER owes its success to the consistently high quality and reliability of its products. They are developed on the basis of internal specifications and tested in accordance with strict ergonomic, comfort and safety criteria. Only products satisfying these strict standards ultimately find their way onto the market. In this connection, the criteria applied by GRAMMER exceed the statutory requirements or relevant standards. It is for this reason that our headrests combine top comfort with maximum safety, while the seating systems for commercial vehicles feature excellent ergonomics and functionality.

Uniform global product standards

We have developed our own quality system and program known as "GRAMMER Produces Quality" (GPQ) to ensure compliance with high standards. It is responsible for systematically improving the quality of our products and processes and ensuring uniform global standards. This is not a matter involving only a small number of specialists. On the contrary, all employees are involved in this process. Comprehensive training and upskilling activities give them the knowledge and capabilities that they require. In addition to team-building,

GRAMMER Produces Quality.

The naked center console is covered with artificial leather.

these activities also focus on statutory and quality-assurance activities.

With its innovative and functional seating systems, GRAMMER is one of the leading suppliers of components for commercial vehicles. We regularly review quality and benefits on the basis of customer feedback, internal trials and user studies as well as discussions with leading biomechanics and spine researchers. In this way, we are able to understand the requirements made of our products even better. In addition, we submit peer products to a systematic benchmarking process as a basis for objective comparisons. Finally, we use biomechanical measuring methods such as electromyography and multi-body simulation to test the impact of new features on the human body.

Demand for modular building-block systems

In the Automotive Division, it is becoming increasingly more important for us to position ourselves as a partner for the development of new ideas. In this connection, OEMs are increasingly placing store by top-quality modular building-block systems that can be used globally rather than individual components. This not only means predefined geometries and aesthetics but also imposes on the

As a successful components supplier we must ensure that the final products perform all functions and are able to withstand heavy strain.

components supplier responsibility for the material configuration, kinematics and joining technologies. They must not only guarantee compliance with static rigidity requirements but also ensure that the final products perform all functions and are able to withstand heavy strain.

The high requirements made of products and processes pose constant challenges in the heavily segmented automotive value chain. Each supplier must permanently make its own contribution to ensuring reliable quality of the final product. GRAMMER meets this challenge by defining quality as a living value that we must constantly nurture and develop.

Discussion on the team generates valuable ideas for further improvements to the production process.

WE DELIVER SUSTAINABILITY

GRAMMER is committed to a culture of attentiveness and has firmly entrenched the duty of sustainable ethical and ecological activity 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.

All employees are committed to sustainable activity in their day-to-day tasks.

1 SUSTAINABILITY IN THE GRAMMER GROUP

Sustainable activity forms a firm part of the GRAMMER Group's corporate traditions and underlying values. Strategic and operating decisions take account of ethical and ecological aspects alongside economic factors. Only in this way can we secure the Company's long-term success.

For us, sustainability begins with the people who work in our Company and are linked to it in some way. Sustainability covers such aspects as research and development (R&D), procurement and production, the finished products and end-of-life recycling of the product components. With the expansion of our global presence and the Group's broad footprint, we are also communicating this message internationally. In this connection, sustainability has the same local and global importance. We have defined worldwide requirements that must be implemented at all our facilities. At the same time, local and regional legal stipulations as well as the expectations and requirements of our customers call for specific adjustments. As part of our corporate strategy, the GRAMMER Group defines specific goals and measures and identifies opportunities and risks for the main sustainability aspects of relevance to it. At the apex of all this is good corporate governance. As we see it, corporate governance entails the supervision and collaboration of the Executive Board and the Supervisory Board and of the Executive Board and management as well as activity that always complies with all obligations and requirements. In addition to this, we have defined specific matters that we consider to be particularly important. This includes all matters liable to exert a material influence on the decisions made by providers of capital and that have a short, medium or long-term impact on the Company's ability to generate value.

Our sector and our customers are currently facing changes in the underlying conditions that will leave traces on their future ability to generate value. Great efforts are required to successfully address the related challenges. Around the world, there is a growing realization that motor vehicles must take account of heightened environmental awareness: This starts with the need to reduce vehicle fuel consumption but also entails the introduction of environment-friendly drive systems and new approaches to traffic management as well as a reduction in private transport. However, new impetus can also be generated at the production stage through the use of light-weight, innovative and recyclable materials and the implementation of the latest production processes. At the same time, these trends, which gained considerable momentum in 2016, also mean that components suppliers and OEMs must take steps to safeguard the future viability of their business models. We continue to see the GRAMMER Group as being well positioned for the future. By the same token, however, these changes also pose major challenges for us. Although our products are not dependent on the type of motor, matters such as light-weight construction, environmental impact and, for example, autonomous driving are calling for new and enhanced solutions.

In its two divisions – Seating Systems and Automotive – GRAMMER is already putting sustainability aspects into practice. One example of this can be seen in the development of products, where certain materials are used to reduce weight or to lower the amount of energy required. Further aspects concern employee training and upskilling, health care, site safety and also local support for society.

Last year, we stepped up our efforts at an organizational level to entrench sustainable activity even more firmly within the Company. Sustainability-related matters are now a firm part of the agenda of the meetings of the Supervisory Board and the Executive Board as well as our international management conferences. In addition, we have established the Corporate Social Responsibility (CSR) Council, which is responsible for overseeing our standards and processes as well as matters of current relevance on an ongoing basis.

2 SUSTAINABILITY MANAGEMENT

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. At the same time, the aforementioned CSR Council was established in 2015 to entrench sustainability even more firmly within the Group. This council includes executives from all relevant parts of the Group such as accounting, human resources, R&D, communications, quality assurance, IT, environment and production. Institutionalized dialog and regular meetings ensure that sustainability as an issue is firmly rooted in the Group and implemented in accordance with the corporate strategy and business requirements.

Via a systematic multi-stage process, the uniform Group-wide approach to sustainability matters was intensified again last year. These activities had been preceded by a materiality analysis in which GRAMMER identified the main aspects of relevance.

2.1 MATERIALITY AND STATUS-QUO ANALYSIS

During the period under review, the GRAMMER Group worked intensively on the Group-wide establishment, systematic implementation, documentation and monitoring of sustainability standards. These activities particularly focused on formulating and adopting various plans and goals for the relevant sustainability aspects on the basis of the main and significant CSR matters that had already been defined for the GRAMMER Group and are set out in the table below.

These 13 material and nine important aspects are the result of an extensive evaluation process that proceeded from a total of around 100 potential matters relevant to the Company and the sector in the areas of economy, ecology, society and ethics. They were evaluated, weighted and adopted by management in 2015. The next step entailed identifying existing activities, successes, critical factors and goals.

An analysis of the status quo was also completed in 2015. This formed the basis of a systematic review of quantitative and qualitative factors, a consideration of the existing strategic plans and the measures implemented in this connection as well as the situation at individual facilities or in individual regions.

The implementation of uniform processes and a consistent documentation system also forms the basis for transparent tracking of developments and events in the future.

ASPECTS OF RELEVANCE FOR THE GRAMMER GROUP	MATERIAL ASPECTS	IMPORTANT ASPECTS
ECONOMIC STABILITY	• Economic performance	• Regional manufacturing input and employment
PRODUCT AND PROCESS RESPONSIBILITY	• Innovative product and process solutions • Customer orientation/satisfaction (including quality and safety)	• Use of the best available techniques and processes • Environment-friendly products
PROCUREMENT		• Supply chain management in accordance with environmental and social standards • Origin of resources
EMPLOYEES	• Employee satisfaction • Employee development (including development of young potentials) • Safety and health	• Flexibilization
HUMAN RIGHTS	• Child and forced labor	
RESPONSIBILITY AS A CORPORATE CITIZEN		• Responsibility as a corporate citizen
ENVIRONMENTAL PROTECTION	• Energy • Air/water/soil emissions	• Transport and logistics • Resource efficiency
CORPORATE GOVERNANCE	• Compliance • Enterprise values and culture • Data protection and security • Stakeholder dialog	

2.2 APPROACHES TO SUSTAINABILITY AND INDICATORS

In the second half of 2016, we attached key importance to developing and formulating strategies and approaches aimed at additionally securing sustainability. This did not only involve the basic definition of goals but also entailed systematic formulation and detailing for the GRAMMER Group. Thus, we defined specific targets and activities for seven of the material aspects and assessed the corresponding opportunities and risks. The corresponding approaches are set out in the following sections.

In addition, we defined relevant non-financial indicators and the methods for tracking them on a preliminary basis and will continue to work on them in due course. Preliminary selected indicators and the trends that they revealed last year are also described in the following sections.

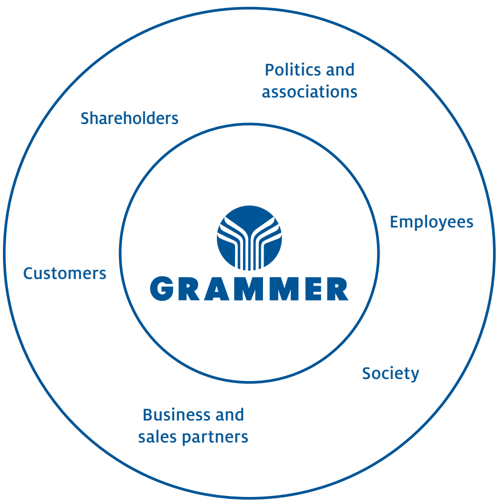
Code of Conduct: https://www.grammer.com/en/about-grammer/sustainability/code-of-conduct/code-of-conduct.html

2.3 INCLUSION OF ALL STAKEHOLDERS

GRAMMER attaches particular importance to dialog with and the inclusion of different stakeholders. These communications are normally handled by the relevant parts of the Group (e.g. communications, investor relations, human resources). 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.

GRAMMER GROUP STAKEHOLDER GROUPS



3 RESPONSIBLE CORPORATE GOVERNANCE

3.1 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 entrepreneurial activities in human resources, administration and production activities as well as our relations with business partners and customers. All new employees are briefed on this code of conduct, while existing ones undergo regular training on its content.

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.

As a general rule, all specialist and management staff undergo training on anti-corruption and bribery and the appropriate response to such occurrences in regular training sessions. 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.

During the preparation of the annual financial statements, all GRAMMER sites are reviewed by the statutory auditor. This review also addresses corruption and bribery issues as well as possible irregularities. In addition, the Transparency International Corruption Index provides an important indicator for determining the frequency of audits at certain locations. A compliance audit is performed once a year to identify any compliance or corruption risks to which individual facilities may be exposed. The audit conducted in 2016 focused on Article 5 of our code of conduct “Treatment of confidential information”. The purchasing and accounting functions are regularly audited. If an audit conducted at a specific GRAMMER location gives rise to initial suspicion, further investigations are performed. Plant inspections did not reveal any evidence warranting more detailed investigations in 2016.

Established whistleblowing mechanisms ensure that possible breaches can be readily reported. Thus, a code team with a dedicated e-mail address is available to accept any reports. Internal Auditing examines any concrete suspicions in accordance with the instructions of the code team or the Executive Board. Information received in 2016 pertained to possible misconduct on the part of GRAMMER employees and was investigated by Internal Auditing. 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. No incidences of corruption or discrimination were confirmed in 2016.

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

APPROACH TO SUSTAINABILITY FOR RESPONSIBLE CORPORATE GOVERNANCE

GOALS	TIME HORIZON
COMPLIANCE	
Business locations audited for compliance/corruption risks	Every 2–3 years
Compliance audits conducted at locations exposed to compliance/corruption risks	2020

3.2 OBSERVANCE OF HUMAN RIGHTS

Child and forced labor has little relevance for the GRAMMER Group on account of its positioning and corresponding internal guidelines. In addition, we do not have any operations at locations exposed to a heightened risk of child or forced labor.

As well as this, GRAMMER has signed the industry-related Code of Conduct of the German Federal Association of Materials Management, Purchasing and Logistics (BME), which governs conduct with respect to human rights as well as child and forced labor. It states, for example, that no minor may be employed anywhere in the world except in accordance with the applicable statutory provisions, e.g. those applicable to apprentices in Germany.

We also attempt to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations on our suppliers.

We heighten our employees' awareness of human rights issues by means of the "Compliance" e-learning module. All managers also receive training and are kept regularly informed of compliance matters. GRAMMER provides its employees with more detailed knowledge of the code of conduct via the Intranet.

3.3 DATA PROTECTION AND SECURITY

The GRAMMER Group has defined stringent data protection standards. A data protection organization reporting to GRAMMER's Executive Board has been in place for many years. The data protection officer is responsible for ensuring observance of the statutory requirements as well our data protection policy, which is binding on all employees. GRAMMER expects its employees to protect the business secrets and intellectual property rights held by GRAMMER as well as its business partners. Commercial property rights, business secrets and other privileged company information must be shielded from unauthorized disclosure.

GRAMMER employees' awareness of data protection matters is regularly raised in e-mails sent out by the data protection officer. In addition, regular data protection training is held for GRAMMER employees in accordance with the German Federal Data Protection Act. Under the data protection structure, inquiries by employees and managers are handled and corresponding solutions devised and implemented.

Regular IT security and authorization checks are performed in the light of the statutory data protection requirements. These are overseen by the data protection officer and applied on a Group-wide basis.

The number of relevant data leaks was reduced to a single incident in the year under review. We are not aware of any legitimate complaints on the part of our customers, regulatory authorities or third parties with respect to data protection and data privacy.

A security incidence team has been established to coordinate IT security more efficiently. It is composed of the System & Security unit within Group IT, the data protection officer and GRAMMER Group risk management.

GRAMMER operates a redundant system with the mission critical components of the IT infrastructure installed in two data centers. The electricity supply is safeguarded, 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.

BME Code of Conduct: http://www.bme.de/fileadmin/_horusdam/1472-BME-Code_of_Conduct_englisch.pdf

4 COMPANY ENVIRONMENTAL PROTECTION

4.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group assumes responsibility for the environment and, in doing so, takes an integrated approach. Nearly half 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. Further locations will be integrated step by step. We plan to have all GRAMMER facilities certified by the end of 2018.

International Organization for Standardization (ISO): http://www.iso.org

We are also aiming to reduce business-induced environmental impacts as far as possible. Accordingly, material goals and measures relating to company environmental protection concern increased energy efficiency, a reduction in emissions from production and logistics, optimum use of resources and security along our logistics 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 steady improvements in our environmental and energy management system. No significant contamination was reported in the year under review.

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 system with the aim of fostering open and transparent communications and cooperative relations with government authorities and the general public.

42%
of the GRAMMER locations had installed an environmental management system certified in accordance with ISO 14001 in 2016.

4.2 ENERGY

In 2015, we supported the plants and companies at all German sites with the establishment of an energy management system in accordance with ISO 50001, 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. We collect consumption data for eight German production sites that are certified in accordance with the ISO 50001 energy management system. We are systematically widening the central environment data recording system to include international locations.

The pronounced awareness of our employees in the responsible use of energy forms the basis for sustained reductions in consumption. The GRAMMER Group supports its employees by offering regular training and access to corresponding information. By implementing the best available techniques at its production sites, the GRAMMER Group is able to harness additional savings potential.

Via our activities in the "Energy Efficiency Network for Companies in Bavaria", the GRAMMER Group is also involved in sharing knowledge on energy-related matters and the promotion of industry-wide standards.

Our employees are under instructions to use energy sparingly and receive corresponding instructions as part of safety and on-boarding training. In addition, information and tips on saving energy were published in the "Grammerphon 3/2015" employee magazine. In day-to-day routine, stickers attached to the walls remind employees of the importance of saving energy.

Packaging must be planned in the light of economic and ecological considerations. The aim is to use recyclable packaging and to minimize the proportion of disposal packaging.

Extract from the packaging rules in the GRAMMER logistics manual.

4.3 EMISSIONS

A further 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 launched extensive measures at its facilities for reducing emissions and monitors 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 drew up a comprehensive plan for the entire Group in the year under review. In doing so, we are pursuing the goal of documenting the various local approaches centrally, collecting historical data and defining uniform benchmarks.

In addition to this, we have made measurable progress in reducing noise emissions at the Haselmühl plant.

4.4 DEPLOYMENT OF RESOURCES AND MATERIALS

In all our production processes, we strive for minimum energy and resource use in order to avoid emissions and waste. As far as possible, unavoidable production waste is recycled, or else disposed of responsibly. During the development and production, we make sure that our products can be recycled as fully as possible at the end of their lives.

In addition to the economical use of energy, we attach importance to the efficient utilization of water and raw materials. In the selection of materials, criteria such as quality, origin and environmental impact play a decisive role. In this connection, the focus is on making greater use of light and modern materials which are easier to recycle. We use our resources as efficiently as possible, thus minimizing waste, e.g. by means of programs for optimizing nesting, i.e. the space-saving arrangement of the templates used for cutting leather and materials. As well as this, we have increased the proportion of recycled materials, e.g. by selling injection-mold sprues or leftover leather.

This is illustrated, for example, by the progress made at our facility in Haselmühl, where we have been able to reduce the proportion of non-recyclable waste from 12.4% in 2000 to less than 5%. At the same time, water consumption of the paintshop measured in terms of coated surface has been cut by more than half.

4.5 TRANSPORT AND LOGISTICS

Ongoing improvements to our procurement and shipment logistics as well as supply chain optimization help to lessen the strain we exert on the environment. One example of how we optimize transportation is the use of “milk runs”, i.e. return trips with suppliers to avoid empty runs. Through the use of front-end plants, we are located close to the customer, thus reducing transportation requirements.

We also include our environmental goals in the logistics contracts with our external service providers. The road haulage contracts stipulate the use of low-emission vehicles, systematic waste separation and measures to save energy.

We minimize the volume of logistics-related packaging by using a large proportion of re-usable packaging in Europe. In 2015, we also launched a project for recycling disposable packaging and for increasing packaging density.

5 PROCESS AND PRODUCT RESPONSIBILITY

Innovative products and a sustainable approach to resources are rendering GRAMMER fit for the future.

5.1 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 ultimate 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. In connection with product and process responsibility, GRAMMER also systematically identifies and assesses opportunities and risks along the entire value chain.

Details of our R&D activities can be found on pages 60 ff. of the Management Report.

Our high-quality seating systems and premium interior products are currently being produced at 40 (2015: 38) production and logistics facilities around the world. In order to meet the high quality requirements which our products must satisfy, we have established a uniform quality management system also at the three new facilities.

All our GRAMMER sites are certified under the ISO 9001 quality management standard or the ISO/TS16949 quality management standard for the European and American automotive industry.

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 151,993 thousand (2015: 119,085), gross total R&D expenditure rose again over the previous year, accounting for 9.0% (2015: 8.3%) of revenue.

5.2 SUSTAINABLE PROCUREMENT

In the interests of integrated environmental protection, we source our raw materials, supplies and consumables in accordance with ecological criteria as far as possible and in the light of energy efficiency requirements. As far as possible, we give preference to suppliers located in the vicinity of our facilities. We take appropriate measures to encourage our business partners to orient themselves to our activities and to likewise obtain environmental and/ or energy certification.

5.3 SUSTAINABLE PRODUCTION

The assembly of high-quality seating systems and premium interior products calls for production excellence. To this end, GRAMMER has defined core processes, on which it has spent substantially in the last few years. At the same time, we are increasingly migrating our standardized core processes to the regional locations to achieve low local production costs, reduce logistics costs and minimize currency-translation effects. Our environmental and energy management system systematically complies with all relevant legal provisions. 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, the use of solvent-based lacquers/foam components/adhesives has been heavily reduced in the course of the years. 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 legal 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 very comprehensive OEM-specified requirements, the Seating Systems Division has considerably more discretion of its own due to the large volume of proprietary developments. The purpose of the GRAMMER product system is to achieve a continuous improvement in our value flows by systematically reducing 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. 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)
- the use of specifications for operating materials.

Using Kaizen processes, we systematically integrate our employees in the continuous improvement process.

5.4 SUSTAINABLE PRODUCTS

In the year under review, the GRAMMER Group continued to expand its R&D activities to offer customers high-quality solutions meeting their requirements. Consequently, a total of 20 GRAMMER sites are now working on innovations. The number of patents pending and granted also rose by 10.4% in the year under review to 1,111 (2015: 1,006).

Rapid technological process is being accompanied by the steadily growing demands made by OEMs of components suppliers. Motor types, vehicles concepts and the degree of driving automation alongside safety and digital interfaces are defining the framework for future development.

Details on our segments can be found on pages 69 ff.

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 segments together with a growing trend towards electronic integration of seat functions (CAN or LIN bus link). 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 feature outstanding aesthetics, functionality and haptics.

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.

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. Moreover, material requirements can be reduced by means of foam injection molding and partial fiber reinforcement using fiber glass and/or renewable raw materials. Weight is additionally saved through the partial reduction of the density of PU foam parts.

We are currently testing the use of Organo Sheet (OS) technology to substitute steel with composite products. In addition to their lower weight, such items require fewer process steps during the production process.

Globally standardized production processes ensure high product quality.

RECYCLING

Our products are up to 100% recyclable in some cases, e.g. driver seats. There is no problem recycling the steel structure, while the PU foam can also be thermally recycled at the end of the product life. To this end, we are developing a "green" headrest and plan to make greater use of natural fibers in covers. 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 extreme strain on the suspension performance.

ERGONOMICS

In our development activities, we attach particular importance to ensuring that the driver's health is preserved through ergonomic and comfortable products. Moreover, our headrests are an important safety feature for preventing injury of or strain on the cervical spine. 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 ideal protection. In addition, our crash-active headrests protect passengers from the risk of whiplash injury. The ergonomic design of our multifunction armrests eases the strain on the spine, shields the driver from mental pressure and heightens the seat comfort.

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.

One current thrust of our development activities concerns seats for offroad vehicles such as agricultural and construction machinery as well as fork-lift drives with the aim of integrating comfort functions with side-contour adjustments and a massage function in the seating systems.

PATENTS 2015/2016

	AS OF DEC. 31, 2016	AS OF DEC. 31, 2015
Patents granted	744	740
Patents pending	367	266
Total patents	**1,111**	**1,006**

5.5 PRODUCT SAFETY

Ensuring the greatest possible product safety for the user is the goal of our design and production activities. Suitable techniques are used to identify, evaluate and avert potential product risks and ensure that all aspects of product safety are duly taken into account. Management supports the preventive approach taken towards product safety, defining this as a leadership task.

All of the GRAMMER Group's products are developed on the basis of internal specifications and tested in accordance with strict ergonomic, comfort and safety criteria. Only products satisfying these strict criteria ultimately find their way into the market. In this connection, the criteria applied by GRAMMER exceed the statutory requirements or relevant standards.

5.6 CUSTOMER ORIENTATION, SATISFACTION AND QUALITY

In regular intervals, we ask our customers in the truck and offroad segments about their satisfaction with our products. The results of customer satisfaction surveys are used as a basis for reviewing and, if necessary, adjusting our service and products.

Efficient and safe use of a vehicle calls for physically and mentally capable drivers. It is with this in mind that the GRAMMER Group is committed to health concerns even after the sale of its products, offering customers and dealers aftermarket training on healthy sitting. 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. We organize the Ergomechanics Congress as a public forum for leading experts to share knowledge on sitting-related matters. The results including basic information on health, back pain, safety, comfort and participation in working life are available on our website.

Company website: https://www.grammer.com/en/products-markets/ergonomics.html

Employee training and upskilling a decisive competitive factor.

Details on human resources can be found in the Management Report on page 73 f.

6 EMPLOYEES

6.1 OVERVIEW AND MANAGEMENT APPROACH

Our business success is above all the result of the commitment and dedication of our 12,250 [2015: 11,397 (without former REUM Group 2015: 905)] employees around the world. We maintain a dialog with them characterized by mutual trust and involve them in the development of the GRAMMER Group. Our Human Resources department, which reports directly to our Chief Executive Officer and HR Director, Mr. Hartmut Müller, is responsible for employee development.

Our 2021 human resources strategy defines the main targets for the GRAMMER Group, measures for personnel management and development and recruitment activities. In addition to requirements planning and the further development of the human resources structures, the main focus is on internationalization, conceptual employee development and strengthening employer branding at GRAMMER.

At the same time, we have restructured talent management and employer branding within personnel development and adopted a new focus oriented to the future. The aim is to develop training and upskilling models systematically aligned to market requirements, to reinforce employee loyalty and to achieve a competitive position as an employer with a favorable outlook and scope for knowledge management. In this way, GRAMMER is systematically preparing for further internationalization and heightened competition in the future.

The sustainability concepts developed in the year under review are linked with our human resources strategy and define further goals and measures in the following areas:

- Employee satisfaction
- Employee development and recruitment
- Diversity
- Safety and health

The GRAMMER Group has a global footprint with operations not only in Europe but also in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, 79.0% of our employees are involved in the assembly of our products. We seek a reasonable gender balance and actively support and actively encourage our female employees.

6.2 EMPLOYEE SATISFACTION

Our employees' satisfaction is one of the prerequisites for productive and good collaboration within the GRAMMER Group. In order to gage the current situation, we are currently preparing a systematic employee survey to be carried out in 2017.

With the availability of specific channels, employees already have avenues for providing feedback and for reporting any problems openly and in good time. In this connection, we offer all pay-scale employees of the GRAMMER Group annual performance assessment talks. Non-pay-scale employees in Germany as well as management positions worldwide undergo performance and potential analysis in the form of employee discussions. This appraisal process is held once a year and assesses the employee's performance in the previous year. This process was implemented via the SAP system in 2015, thus ensuring that data is automatically available. Designed as a top-down process, it commences with a self-appraisal of top management at the end of the year. This is followed by an evaluation by the solid-line and, where applicable, dotted-line manager as well as a one-on-one conversation, the results of which are also factored into the evaluation. This procedure provides for a performance assessment based on standardized criteria and offers the employee concerned an opportunity of providing feedback.

In addition to this, the GRAMMER Group offers diverse local opportunities for personnel development. The regional "talent days" in China, the Americas and Europe, for example, give school-leavers and employees with less professional experience an opportunity for development and for assessing their own potential. Three such events were held in China, the Czech Republic and Mexico in 2016 and were attended by the Executive Board.

Employee remuneration at GRAMMER is in line with market standards around the world. In addition, we offer numerous voluntary benefits.

APPROACH TO SUSTAINABILITY FOR EMPLOYEES

GOALS	TIME HORIZON
EMPLOYEE SATISFACTION	
Implementation of a systematic employees survey and definition of measures	2017

6.3 EMPLOYEE DEVELOPMENT AND RECRUITMENT

Well-trained employees are of crucial importance for GRAMMER as an innovative company that is heavily engaged in research and development. The greater the proximity of automotive OEMs and their components suppliers in a given region, the stronger the competition is for qualified employees. GRAMMER faces a hotly contested employment market at many of its domestic and international locations.

Effective employer branding is therefore important for GRAMMER. We approach potential candidates at universities, on job platforms and via adverts based on specific job profiles, tasks and responsibilities and attempt to encourage them to work for our Company. After recruiting new employees, we ensure that they receive appropriate training on an ongoing basis so that they have the skills required to perform their current duties and to tackle new challenges. The annual appraisal process and the related individual talks with employees as well as annual successor planning and additional programs such as "talent days" provide us with a global overview of employee potential, while giving employees the feedback that they require for orientation and their own further development. We plan relevant measures on an individual and organizational level on the basis of annual surveys. Our employee training activities cover the entire spectrum of statutory measures as well as those aimed at boosting quality ranging from team development and coaching to complex executive programs. In this connection, we have developed the "career@Grammer-Move on up" concept. With its modular structure, it is offered to different employee groups and communicates the management skills relevant for the level in question.

APPROACH TO SUSTAINABILITY FOR EMPLOYEES

GOALS	TIME HORIZON
EMPLOYEE DEVELOPMENT (INCLUDING RECRUITMENT OF YOUNG TALENTS)	
Introduction of an appraisal process for a defined group of non-management employees and establishment of employee development programs	2018
Onboarding model for employees	2017
Work on an e-learning strategy and implementation together with the operating departments (75% of the operating departments)	2018

Diversity charter: http://www.charta-der-vielfalt.de/en/diversity-charter.html

6.4 DIVERSITY

The Group has been taking diversity seriously for a long time. Indeed, with our international expansion, this aspect has grown in importance. We were one of the first signatories of the Diversity Charter, thus figuring among a group of particularly responsible companies committed to greater tolerance and openness. The aim is to ensure that all employees receive the same respect regardless of their gender, origin, nationality, ethnic background, religion, beliefs, physical condition, age and sexual orientation and identity. We had previously already appointed a diversity officer and issued a diversity policy within the Group.

The Diversity Charter stipulates that men and women have equal rights and plays a relevant role in the recruiting process at GRAMMER. Our code of conduct, for example, stipulates that job descriptions must be worded in a gender-neutral style. In addition, candidates are always selected in the presence of a human resources employee who is specially trained in the observance of equal rights.

We also actively attempt to encourage women to apply for positions in the automotive components industry via activities such as participation in the "women in executive positions" project organized by the Bavarian metal and electrical engineering employers association (vbm), the "women&work" fair, "Girls Day" and a camp specifically targeted at female researchers. This is particularly important in view of the traditionally very pronounced predominance of male employees in this sector. We have defined clear goals for management under which the proportion of women in executive positions at the GRAMMER Group is to be widened to at least 15%. At the same time, we want to stabilize the already very good proportion of women of over 20% in lower and middle management. Three women – two representing the employees and one representing the shareholders – hold seats on the GRAMMER Group's Supervisory Board.

We recorded a disabled-employees quota of 7.6% at our German facilities in 2016 (2015: 6%), thus remaining above the minimum statutory requirement. The GRAMMER Group supports the "Respect! No place for racism" initiative and is committed to workplace tolerance.

We are currently taking measures to additionally drive forward internationalization within the GRAMMER Group and to improve working conditions for our employees. Our staff are already able to benefit from individual advice. Moreover, our new expat policy makes foreign assignments even more attractive and transparent. The goal is to achieve a significant increase in the number of expats (German employees assigned to sites in other countries) and impats (non-German employees assigned to sites in Germany) to reinforce the internationalization strategy.

Site safety enjoys top priority at all sites.

APPROACH TO SUSTAINABILITY FOR EMPLOYEES

GOALS	TIME HORIZON
DIVERSITY	
Target quota for the Executive Board: 20% women	2017
Target quota for the Supervisory Board: Four members should be women, at least two of whom are shareholder representatives and two employee representatives	2020
Target quota for the proportion of women on the two highest management levels beneath the Executive Board: Germany: Top 10%; MM 15% Group: Top 15%; MM 20%	2017
Optimization of working conditions for women (compatibility of work and family, equal opportunities)	Ongoing
Optimization of working conditions by means of individual measures with an international focus and 50% appointments to graded positions with persons from within the Group	2018
ACHIEVED	
Heightened visibility of diversity within the Company by participating in the German Diversity Day under the "Diversity Charter"	2016

Our commitment to supporting women and to the diversity charter ensure long-term diversity in our workforce.

6.5 SAFETY AND HEALTH

Safety plays a crucial role 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. One particular aspect of this is workplace design to minimize the strain on employees as far as possible. This primarily entails minimizing noise and emissions as well as physical strain. With our comprehensive safety measures, we are actively promoting our employees' safety and health. 33 on-site accidents were reported by the production plants in 2016. There were no deaths as a result of these accidents. The number of accident-free working days is displayed centrally and on panels at the plants. We are working actively on lowering on-site accidents and are committed to achieving a further reduction in the absentee rate.

We have also established extensive preventive measures for promoting health and safety. Examples include the plant health days, training and the organization of company sports. In accordance with the statutory provisions, GRAMMER has installed an occupational integration management system at its German plants. 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 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 2016, we also launched diverse employee initiatives at an international level, such as the health day at our Žatec plant in the Czech Republic and gymnastics at the beginning of the shift at the Tetla plant in Mexico. In addition to advice on occupational medicine, GRAMMER also offers voluntary health services via its in-company medical center, such as flu vaccinations.

APPROACH TO SUSTAINABILITY FOR EMPLOYEES

GOALS	TIME HORIZON
SAFETY AND HEALTH	
Group-wide implementation of health and safety management systems in accordance with ISO 45001 (and conversion of OHSAS 18001 at two locations)	2018
Reduction in absentee rate 2017: –2% 2020: –3%	 2017 2020

7 RESPONSIBILITY AS A CORPORATE CITIZEN

At the GRAMMER Group we are aware of our responsibility as a corporate citizen and support charitable projects, honorary activities and training facilities in the Upper Palatinate region in Germany and elsewhere around the world. As in every year, our employees were able to apply for one of the coveted "sponsoring packages" in 2016 on behalf of their sports clubs, social projects, fire brigades, rescue services or care facilities and extensive use was made of this offer. 70 of our employees took part in this year's company run in Amberg. By supporting this event, GRAMMER is showing is commitment to furthering its employees' health.

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, GRAMMER AG's articles of incorporation, the rules of procedure for the Executive Board and 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 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 section 3.10 of the Code and section 289a HGB.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

On December 9, 2016, the Executive Board and the Supervisory Board of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act (AktG) concerning conformity to the German Corporate Governance Code (the Code).

"GRAMMER AG has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 5, 2015 (the Code) published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015 in the official section of Bundesanzeiger since the last declaration of conformity dated December 3, 2015 and will continue to do so in the future, with three exceptions:

1. Article 4.2.2 (2) Sentence 3
   Article 4.2.2 (2) Sentence 3 of the Code includes a recommendation under which the Supervisory Board is to consider the relationship between the remuneration of the Executive Board and that of senior management and the staff overall, particularly in terms of its development over time and to determine how senior managers and the relevant staff are to be differentiated.

   In the past, the target remuneration for the Executive Board and the target remuneration of the peer group was largely identical. However, as the service contracts provide for regular adjustments to the remuneration for the Executive Board, the Executive Board and the Supervisory Board hereby disclose an exception as a precautionary measure. Moreover, the Supervisory Board has not expressly drawn any distinction between the peer groups as it considers this to be superfluous in view of the GRAMMER job-grading system, which assigns remuneration to different levels.

2. Article 4.2.5 (3)
   Under article 4.2.5 (3) and (4) of the Code, the remuneration report for financial years commencing after December 31, 2013 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. Consequently, the Executive Board and the Supervisory Board consider the previous presentation to be sufficiently transparent. Accordingly, no additional itemized breakdown is provided by means of model tables.

3. Article 5.4.1 (2) Sentence 1
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."

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 one exception: 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 currently does not offer this; nor does it currently have any plans to offer live transmission of the annual general meeting via the Internet.

The Supervisory Board dealt at length with the remuneration system for the Executive Board in 2016. It is seeking to implement a new remuneration system that takes account of the requirements considered to be necessary by an external remuneration consultant.

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

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. Nominees for positions on the Supervisory Board should be able to successfully perform their duties as members of the Supervisory Board of an internationally successful industrial company on account of their experience, expertise, independence, willingness to perform, integrity and personal qualities. In the interests of successful joint activities on the entire Supervisory Board, nominees should be elected to ensure sufficient diversity in terms of career backgrounds, expertise and experience. The rules of procedure of the Supervisory Board provide for each member to possess the expert knowledge, ability, and experience required to properly complete his or her duties. Only nominees who are no older than 70 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. All members of the Supervisory Board satisfy these requirements.

The following section describing the diversity targets provides further details on the proportion of women on the Supervisory Board.

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.

Declarations of conformity: http://www.grammer.com/en/investor-relations/corporate-facts/corporate-governance.html

IMPLEMENTATION OF DIVERSITY TARGETS

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. As well as this, section 96 (2) AktG stipulates that at least 30% of the GRAMMER AG's Supervisory Board must be men or women from January 1, 2016. Prior to this provision taking effect, the Supervisory Board had already determined that at least one third of its members should be women. It has determined that the target for the proportion of women and men on the Supervisory Board should be met separately by the shareholder representatives and the employee representatives. The employee representatives on the Supervisory Board already meet the statutory quota as they have elected two women. The shareholder representatives currently comprise only a single woman as the offices of the shareholder representatives commenced prior to the target quota taking effect, meaning that there was no opportunity for electing a further woman.

In defining the targets for the proportion of women on the Executive Board and the two management levels below it, GRAMMER AG as a technically oriented company has taken account of specific sector-related factors as well as the current proportion of women in the workforce. At the level of GRAMMER AG itself, the Supervisory Board has defined a target of 20% for the Executive Board, which is to be met by March 31, 2017. This target has not yet been reached as the Executive Board currently comprises three men and no women. As no new members were appointed to the Executive Board in 2016, it has so far not been possible to achieve the target by appointing a woman. 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 to be achieved by March 31, 2017. A target of 10 percent for the first management level and 15% for the second management level has been defined for Germany.

CURRENT STATUS AS OF DECEMBER 31, 2016

	TOP MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15%	20%
Current quota (international)	15%	21%
Target quota (Germany)	10%	15%
Current quota (Germany)	10%	14%

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the Annual General Meeting of May 11, 2016, 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 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 by all shareholders present.

MANAGEMENT BY THE EXECUTIVE BOARD

The Executive Board is responsible for the management of GRAMMER AG. It acts in the interests of the Company with the aim of raising its enterprise value on a lasting basis. To this end, it develops a suitable strategy, consults with the Supervisory Board on this strategy and ensures that it is implemented. Its duties 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. The latter also govern the Executive Board's reporting and information duties and set out 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 rules of procedure of the Executive Board were adjusted in the year under review to allow for the European Market Abuse Directive. All information on the Executive Board remuneration system in force since August 1, 2010 can be found in the remuneration report.

There were no changes in the composition of the Executive Board in 2016. It has the following members:

- Hartmut Müller, Chief Executive Officer, Human Resources Director, member of the Executive Board since 2007, appointed until January 31, 2022
- Gérard Cordonnier, Chief Financial Officer, member of the Executive Board since 2015, appointed until May 31, 2018
- Manfred Pretscher, Chief Operating Officer, member of the Executive Board since 2010, appointed until July 31, 2018

WORK OF THE SUPERVISORY BOARD

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. In accordance with the German Codetermination Act, it has an equal number of six members representing the shareholders and six members representing the employees. Its composition is oriented to the current Code recommendations with regard to diversity and a reasonable proportion of women as well as the criteria of independence, experience, internationalness and expertise. These criteria have been defined in a profile of requirements and summarized in a corresponding questionnaire that forms a key basis of the examination to determine the suitability of a nominee. The work of the Supervisory Board is governed by statutory requirements, the Articles of Association and the rules of procedure. In addition, an Audit Committee, a Personnel and Mediation Committee, a Nominating Committee and a Strategy Committee have been established, all of which met regularly in the year under review. An Ad-hoc Committee was also established for the first time in 2016. 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.

Detailed information on the activities of the Supervisory Board and its relations with the Executive Board can be found in the Report of the Supervisory Board (page 50).

The section in the annual report on the Supervisory Board and Executive Board contains more information on the composition of the committees. Further details on how the Supervisory Board works and the number of Committee meetings and the main matters dealt with in 2016 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 rules of procedure of the Supervisory Board were adjusted in the year under review to allow for the European Market Abuse Directive.

A list of the current members of the Supervisory Board committees can be found on page 52 of this report.

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 efficiency review was performed in 2016.

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.

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of GRAMMER AG held four ordinary and two extraordinary meetings. Four ordinary meetings are also planned for the current year. In addition, extraordinary meetings will be held if necessary. The committees also meet regularly. In the absence of any mandatory statutory provisions to the contrary, the resolutions of the Supervisory Board are 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:

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	5/6	83%
Tanja Fondel	5/6	83%
Wolfram Hatz	4/6	67%
Martin Heiss	6/6	100%
Ingrid Hunger	5/6	83%
Harald Jung	5/6	83%
Dr. Hans Liebler	5/6	83%
Dr. Peter Merten	4/6	67%
Horst Ott (Deputy Chairman)	5/6	83%
Dr. Klaus Probst (Chairman)	6/6	100%
Lars Roder	6/6	100%
Dr. Bernhard Wankerl	6/6	100%
STRATEGY COMMITTEE		
Horst Ott	5/5	100%
Dr. Klaus Probst (Chairman)	5/5	100%
Lars Roder	5/5	100%
Dr. Bernhard Wankerl	5/5	100%
PERSONNEL AND MEDIATION COMMITTEE		
Horst Ott	3/3	100%
Dr. Klaus Probst (Chairman)	3/3	100%
Lars Roder	3/3	100%
Dr. Bernhard Wankerl	3/3	100%
AUDIT COMMITTEE		
Andrea Elsner	4/4	100%
Wolfram Hatz (Chairman)	4/4	100%
Martin Heiß	4/4	100%
Dr. Klaus Probst	4/4	100%

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

AD-HOC COMMITTEE (FROM APRIL 11, 2016)		
Martin Heiß	16/16	100%
Dr. Hans Liebler	16/16	100%
Horst Ott	14/16	88%
Dr. Klaus Probst (Chairman)	14/16	88%
Lars Roder	15/16	94%
Dr. Bernhard Wankerl	16/16	100%

The Nominating Committee did not meet in 2016.

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 the 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

During the year under review, the Executive Board again dealt with the organization and further development of all compliance-related matters and ensured that the necessary measures were taken. In addition, the Audit Committee regularly deliberated on the content, organization and further development of compliance. Further information on compliance can be found in the Group management report.

TRANSPARENCY

GRAMMER AG kept shareholders, shareholder groups, financial analysts, the media and the general public comprehensively informed of the Company's business and material occurrences 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 German and English. Telephone conferences were offered in addition to the annual press and analyst conferences. 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 consolidated financial statements for 2016 as well as the abridged consolidated interim financial statements in the first-half and interim management statements published by GRAMMER AG were prepared in accordance with the International Financial Reporting Standards (IFRS). At the annual general meeting held on May 11, 2016, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, 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. Ernst & Young 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 execution of 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 carried out by members of the Executive Board and the Supervisory Board as well as parties related to them (Directors' Dealings pursuant to section 15a WpHG and article 19 of the European Market Abuse Directive) are published on GRAMMER AG's website as soon as they are disclosed. No directors' dealings were reported in 2016.

Corporate Website: https://www.grammer.com/investor-relations.html

Amberg, March 28, 2017

GRAMMER AG

For the Executive Board	For the Supervisory Board
Hartmut Müller	Dr. Klaus Probst

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 Heiß
Dr. Klaus Probst

NOMINATING COMMITTEE
Wolfram Hatz
Dr. Klaus Probst (Chairman)
Dr. Bernhard Wankerl

AD-HOC COMMITTEE (FROM APRIL 11, 2016)
Martin Heiß
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 Haselmühl plant and discussed possible solutions. At its third meeting on June 21, 2016, the Strategy Committee again dealt with the competitiveness of the Haselmühl 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 Wirtschaftsprüfungsgesellschaft, 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 Meting 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

GRAMMER SHARE

TRENDS IN THE GERMAN STOCK MARKETS

2016 was an eventful and turbulent year for global stock markets, defined by matters such as Brexit, the US presidential elections, discussion on interest rates and growth concerns. It was not until the end of the year that the DAX was able to post positive full-year performance. The DAX entered 2016 at 10,743 points. The German selection index composed of the 30 largest companies closed the year at 11,481 points on December 30, 2016, up almost 7%.

The SDAX, a selection index of the 50 smaller listed companies in Germany, in which GRAMMER is also included, also posted gains over the year as a whole, closing the year at 9,519 points, up 4.6% on the end of the previous year.

GRAMMER SHARE THE TOP SDAX PERFORMER IN 2016

The GRAMMER share was the top performer last year. The share rose from EUR 27.32 at the beginning of January to EUR 47.55 at the end of the year, thus almost doubling in the course of the year. This was impressive performance compared with the SDAX and the DAX, which posted substantially lower gains.

A daily average of around 81,000 GRAMMER AG shares was traded via the electronic XETRA trading system in 2016. Over the year as a whole, more than 20.6 million shares were traded via XETRA. GRAMMER thus ranks 2nd in terms of trading volumes and is therefore close to the top of Deutsche Börse's SDAX. With a closing price of EUR 47.55, year-end market capitalization stood at around EUR 548.9 million.

GRAMMER BASIC SHARE DATA

On December 31, 2016, the share capital of GRAMMER AG was unchanged at roughly EUR 29.6 million, divided into 11,544,674 bearer shares. Of this, the Company holds 330,050 of its own shares. GRAMMER shares are listed in the SDAX and 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

	2016	2015
Closing Xetra price (EUR, December 31)	47.55	27.32
High for the year (EUR)	56.65	37.86
Low for the year (EUR)	23.85	18.86
Number of shares (December 31)	11,544,674	11,544,674
Market capitalization (EUR million, December 31)	548.9	315.4
Earnings per share (in EUR)	4.01	2.10
Dividend per share (EUR)	1.30[1]	0.75

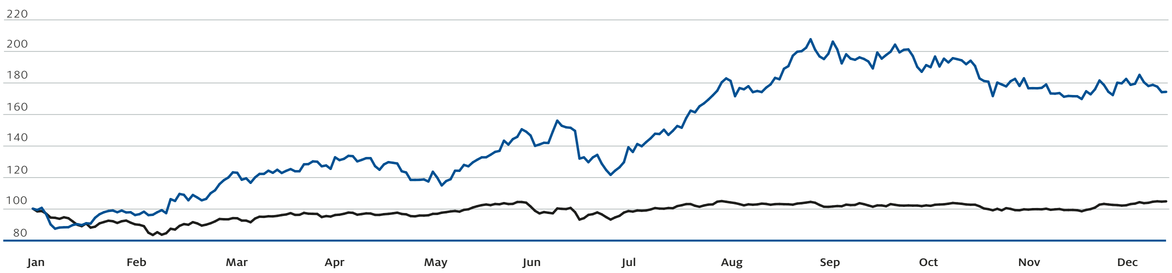
[1] Proposed

DIVIDEND CONTINUITY

Around 45% of the voting-entitled capital was again represented at GRAMMER AG's Annual General Meeting on May 11, 2016, constituting a significant portion of its share capital. The shareholders approved the proposal submitted by the Executive Board and the Supervisory Board for distribution of a dividend of EUR 0.75 per share. Accordingly, the dividend has risen continuously over the last few years.

GRAMMER AG AND SDAX PERFORMANCE INDEX 2016 PRICE TREND

IN %



December 31, 2015 = 100%

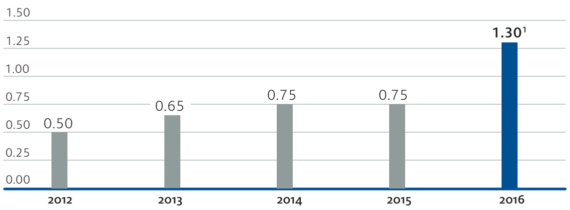
GRAMMER AG

SDAX Performance Index

The Executive Board and the Supervisory Board will be asking the shareholders to approve a record dividend of EUR 1.30 per share at the Annual General Meeting on May 24, 2017. This marks a further increase in the dividend, allowing our shareholders to participate in the Company's success.

DEVELOPMENT OF DIVIDENDS

IN EUR



[1] Proposal

REGULAR COVERAGE BY ANALYSTS

At the end of December 2016, the GRAMMER share was being covered by eight different research departments. Analysts published a total of more than 60 research reports in 2016, thus giving interested parties an updated assessment of the outlook for GRAMMER shares.

ANALYST COVERAGE OF GRAMMER AG IN 2016

BANKS AND RESEARCH COMPANIES
Baader Bank
Bankhaus Lampe
DZ Bank
Landesbank Baden-Württemberg
M.M. WARBURG
MONTEGA
Oddo Seydler
Quirin

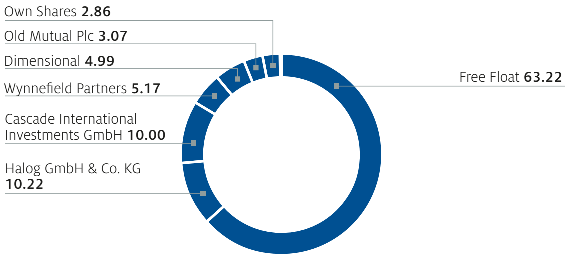
INVESTOR RELATIONS

In 2016, we continued to keep institutional investors, analysts and private individuals informed of the Company's business performance, strategy and goals. We met with institutional investors and analysts at numerous roadshows in financial centers in Europe and North America. As well as this, we took part in various international capital market conferences. In addition, we held more than 250 one-on-ones. 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: Press releases, ad-hoc releases and voting right notifications provide information on the latest developments at the GRAMMER Group with minimum delay. The annual report, the half-year report and the quarterly reviews 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. We also offer additional information via our website, which provides information 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

SHAREHOLDER STRUCTURE

IN %



as of December 31, 2016

The above chart only includes notifications relating to holdings of GRAMMER shares of greater than 3%. In addition, it shows the number of shares held as treasury stock. The current shareholder structure is also disclosed in the Investor Relations section of the GRAMMER AG website.

In 2016, GRAMMER AG received the following voting right notifications in accordance with section 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG):

VOTING RIGHT NOTIFICATIONS IN 2016

				Share of voting rights according to notification	
Date of change	Notifying shareholder	Threshold exceeded/ dropped below		Shares	In %
January 20	HALOG GmbH & Co. KG	Over	3%	371,759	3.22%
January 26	BNP Paribas Investment Partners S.A.	Under	3%	341,527	2.96%
February 1	HALOG GmbH & Co. KG	Over	5%	578,058	5.01%
February 26	HALOG GmbH & Co. KG	Over	10%	1,180,234	10.22%
June 2	Foyer Finance S.A.	Under	5%	553,194	4.79%
June 3	Foyer Finance S.A.	Under	3%	96,000	0.83%
June 3	J.P. Morgan Investment Management Inc.	Over	3%	550,949	4.77%
July 6	J.P. Morgan Investment Management Inc.	Under	3%	328,407	2.84%
July 28	Cascade International Investment GmbH	Over	5%	578,020	5.01%
August 15	Universal-Investment-Gesellschaft	Under	3%	334,413	2.90%
September 12	Old Mutual Plc	Over	3%	354,896	3.07%
September 16	EQMC Europe Development Capital Fund plc	Under	5%	574,920	4.98%
September 26	EQMC	Under	3%	345,117	2.99%
October 18	Dimensional Holdings Inc.	Under	5%	577,158	4.99%
December 08	Cascade International Investment GmbH	Over	10%	1,154,638	10.00%

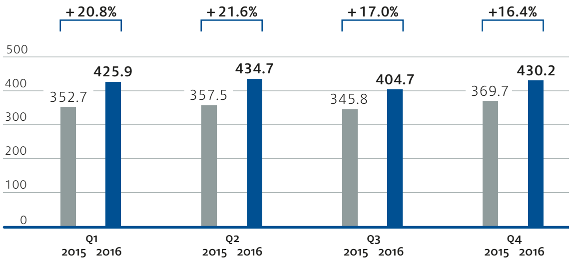
QUARTERLY OVERVIEW OF THE GROUP AND DIVISIONS

QUARTERLY OVERVIEW OF THE GROUP AND DIVISIONS

GROUP

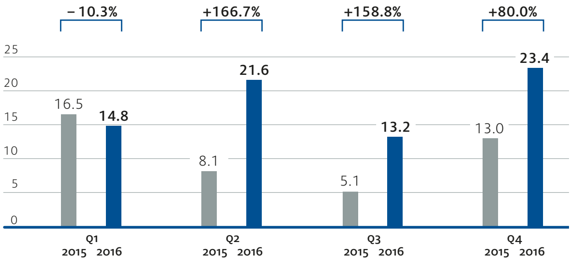
GROUP REVENUE DEVELOPMENT BY QUARTER

IN EUR M



GROUP EBIT BY QUARTER

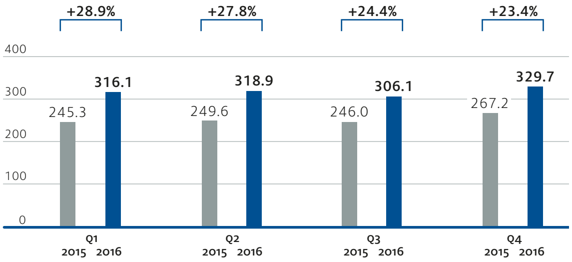
IN EUR M



AUTOMOTIVE

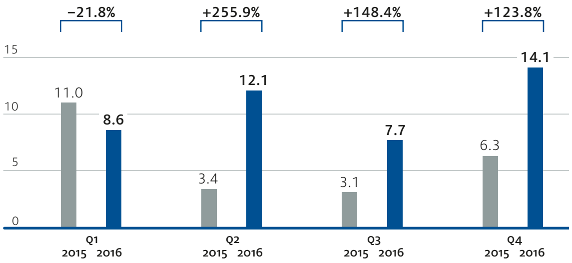
AUTOMOTIVE REVENUE DEVELOPMENT BY QUARTER

IN EUR M



AUTOMOTIVE EBIT DEVELOPMENT BY QUARTER

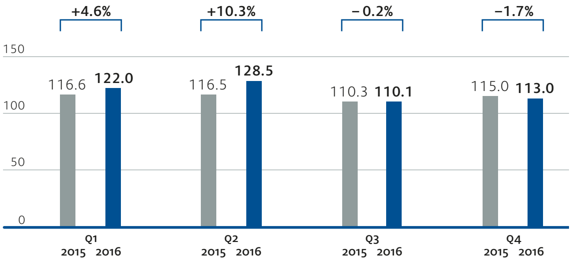
IN EUR M



SEATING SYSTEMS

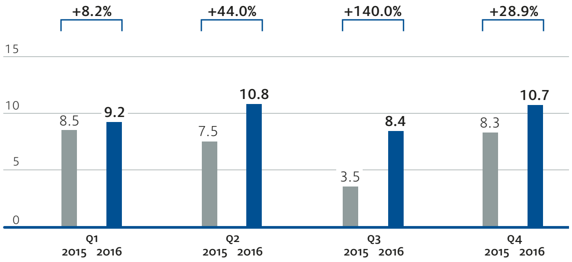
SEATING SYSTEMS REVENUE DEVELOPMENT BY QUARTER

IN EUR M



SEATING SYSTEMS EBIT DEVELOPMENT BY QUARTER

IN EUR M



GROUP MANAGEMENT REPORT INDEX

GROUP MANAGEMENT REPORT

- 18.9% increase in Group revenue to EUR 1.70 billion
- 71% increase in Group EBIT to EUR 73.0 million, up from EUR 42.7 million
- Net profit for the year almost doubled at EUR 45.2 million
- Dividend of EUR 1.30 per share proposed

BASIS OF THE GROUP

BUSINESS MODEL

GRAMMER is a global group specializing in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles. GRAMMER operates over 40 production plants and logistics facilities worldwide which manufacture and distribute high-quality products for the global vehicle industry with a high degree of value chain integration. In addition to the parent company, GRAMMER AG, the Group includes 31 fully consolidated companies as well as one joint venture accounted for using the equity method. The GRAMMER Group is represented in 19 countries worldwide. With its presence in the various regions, it chiefly follows its main customers. The main markets are the domestic European market, the NAFTA region, China and Brazil. The Group's business performance correlates closely with the performance of its relevant markets and main customers. In the Automotive Division these are primarily the premium passenger vehicle segment and in the Seating Systems Division commercial vehicle business in the aforementioned sell-side markets.

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

BUSINESS DIVISIONS

The GRAMMER Group comprises two divisions. In the Automotive Division, we supply headrests, armrests, center console systems and high-quality interior components and operating systems to premium automakers and automotive system suppliers. In the Seating Systems Division, the Company operates as both a Tier 1 and aftermarket supplier for complete seat units and seating systems. Here, GRAMMER supplies OEMS of commercial and off-road vehicles, including agricultural and forestry vehicles as well as construction machinery and material management vehicles. Other customer groups include railway transport OEMS, rail operators and in some markets bus manufacturers. In addition to the two Divisions, Central Services comprises the general corporate functions such as Global Operations, Global Quality, Research and Development, Central Purchasing, Marketing, Accounting, Controlling, Finance, Legal and Investor Relations.

MANAGEMENT PROCESS SYSTEM

GRAMMER's value-based management process system is primarily aligned to the key management indicators revenue and earnings before interest and taxes (EBIT). In addition, working capital, net financial liabilities, GEVA (GRAMMER Economic Value Added) and gearing (net financial liabilities divided by equity) are used as further key performance indicators. Details on the calculation of GEVA are provided in the section outlining the principles of the remuneration system.

RESEARCH AND DEVELOPMENT

Innovative products and production technologies holding promise for the future are decisive determinants of a company's business success in the automotive industry. Reflecting this, research and development for the creation of new and innovative products, applications and processes form a central element of the GRAMMER Group's corporate strategy. Over the last few years, we have been steadily broadening our international development network to maintain our technological lead with products offering potential for the future so as to position ourselves successfully in all core regions. This is to be aided by closer collaboration with our customers during the development phase. For this reason, we have established regional development offices in the growth regions of China and the Americas, for example. In addition, the existing sales office in Puebla, Mexico, has been converted into a full-scale project office, while the already independent development centers in China have been expanded. In this way, we are able to work closely with customers at the project level to execute tightly intermeshed global projects and to complete country-specific developments directly on site in close collaboration. This approach strengthens customer relationships and ultimately also the competitiveness of the entire GRAMMER Group.

In order to secure and reinforce the leading position that we hold in innovations and technology, we have more than 450 GRAMMER engineers and R&D employees working in the Group-wide research and development network with the aim of constantly improving the ergonomics, safety, functionality, quality, aesthetics and design of our products. In addition to meeting ongoing market and customer requirements, GRAMMER has established a systematic innovation process in the R&D area. By closely linking predevelopment and strategic product planning, we are able to identify future trends and key developments in our markets at an early stage and systematically initiate and develop our own innovations. The success of this strategy is reflected in the numerous new orders in all regions. The large number of series and predevelopment projects additionally testifies to the Company's high innovativeness.

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 CO_2 emissions. To this end, numerous activities – including ones with the external support of universities and specialist institutions – have been initiated and various designs, e.g. for truck passenger seats and the production of center consoles, presented. Looking forward, the use of sustainable materials will also continue to grow in importance.

In addition to enhancing our traditional products and core technologies, we are increasingly concentrating on the integration of electric and electronic subsystems in our products. At the same time, the steady global expansion of our electronics competence is a central determinant of the entire GRAMMER Group's future success. With the combination of new electronic operating and control elements and our long-standing expertise in the development of armrests, center consoles, headrests and seating systems, we are able to create innovative solutions for our customers, giving GRAMMER a decisive competitive edge.

In the Automotive Division, responsibility for developing new automotive components and systems is continuing to shift away from OEMs towards suppliers. Consequently, GRAMMER is continuing to strengthen its position as a development partner and innovation driver for customers in this area. In this context, a technological lead and innovative solutions give us an important competitive edge. In addition to the light-weight construction mentioned above, the thrust of our development activities is targeted at the production of high-quality surfaces for our products as well as new kinematic solutions for consoles. Here, we are conducting intensive research into materials as well as production processes. With the acquisition at the end of 2015 of the REUM Group (since renamed GRAMMER Interior Components companies), a specialist in surface, plastic and metal technology, we are specifically extending our own technological capabilities in plastic injection molding processes, surface finishing and metalworking. The integration of the GRAMMER Interior Components companies and the resultant accumulation of expertise within the entire GRAMMER Group were completed in the course of 2016. The newly integrated innovative process and production technologies will allow GRAMMER to further develop its range – particularly in automotive interiors – swiftly and in line with future requirements. In addition, we are working on solutions for integrating new HMI (human-machine interface) solutions, which are to be offered to customers as an integrated system together with the consoles in the future. With respect to headrests, the main development focus is on innovative solutions for electric drives and fully automatic adjustments in the premium segment as well as further enhancements to existing technologies with respect to safety, comfort, package space optimization, weight and adjustment mechanisms.

In the Seating Systems Division, GRAMMER is also working on enhancing its range and creating innovative solutions to address changes in requirements and market conditions. Looking ahead, new and innovative products will enable GRAMMER to meet customer requirements to a high degree and to additionally reinforce and broaden its market position. With the combination of many years of experience in the development of suspended seats and ergonomic solutions together with the electronic skills which it has amassed in the last few years, GRAMMER is able to offer 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; at the same time, however, work on the next-generation integrated seat solutions is being stepped up. As well as this, we are improving the comfort, safety and functionality of our latest generation of truck driver seats with adjustment functions fully controlled by electric motors. Looking forward to future generations of truck cabins, demand for the integration of ergonomic seating systems with multifunctional electronic armrests will increase. 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 cabin environment. In the railway segment, we are increasingly establishing ourselves as a full-line supplier for the entire segment, supplying new seating platforms for high-speed, long-distance and regional trains.

Looking ahead over the next few years, a further aspect of our innovation strategy alongside conventional product and technology-related developments will entail the continued expansion and reinforcement of development activities and R&D structures in the regional markets. In this way, we want to reinforce our global market position and safeguard our future growth.

ECONOMIC CONDITIONS

OVERALL ECONOMIC CONDITIONS AND DEVELOPMENTS

GLOBAL ECONOMY IN 2016

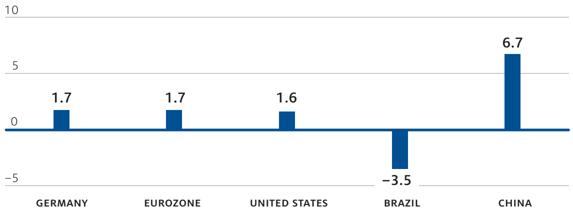
STATE OF THE GLOBAL ECONOMY

According to the International Monetary Fund IMF, the global economy lost momentum to some degree in 2016, expanding by only 3.1%, down from 3.2% in the previous year. Even years after the global financial crisis, as the IMF writes in its World Economic Outlook, the global economy remains anemic, something that is reflected in high unemployment rates, flat wages and growing economic imbalances. On a positive note, the global economy picked up noticeably from the middle of last year after slowing substantially in winter 2015/16. All told, however, this was only sufficient for moderate economic growth in the developed countries of 1.6% in 2016 as a whole (2015: 2.1). Germany achieved growth of 1.7%, while the United States expanded by 1.6%. At 1.7% and 2.0%, growth in the Eurozone and the United Kingdom, respectively, was somewhat stronger. With growth of 1.3% and 0.9%, respectively, Canada and Japan were the laggards among the large economies.

The fact that the global economy did not weaken even further is due solely to the emerging and developing countries, where economic growth came to 4.1% in 2016, thus repeating the previous year's level (2015: 4.1). At 6.3% (2015: 6.7), the emerging and developing markets of Asia once again exhibited the greatest momentum. China expanded by 6.7% and India by 6.6%. In Russia, the economy continued to decline although at 0.6% the contraction was substantially less pronounced in 2016 than it had been in the previous year (2015: −3.7). Latin America was also stuck in a recession, with economic output shrinking by 0.7%. With contraction of 3.5% (2015: −3.8), Brazil again suffered severely, while growth in Mexico slowed to 2.2% (2015: 2.6).

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) IN 2016 IN SELECTED COUNTRIES

IN %



Source: IMF

BUSINESS PERFORMANCE

CHANGES IN FISCAL YEAR 2016

On March 10, 2016, GRAMMER AG and Shaanxi Automobile Group Co. Ltd., the fourth largest heavy-duty truck OEM in China, entered into an agreement to establish a joint venture for the production and distribution of truck seats in China. GRAMMER AG holds 90% of the capital of the new joint venture GRAMMER Seating (Shaanxi) with registered offices in Fuping in the province of Shaanxi and thus exercises control. The remaining 10% is held by Shaanxi Automobile Group Co. Ltd. as the minority shareholder. In signing this agreement, GRAMMER AG passed a further important strategic milestone in its global growth strategy.

BUSINESS PERFORMANCE

KEY FIGURES GRAMMER GROUP

IN EUR M

	2016	2015	CHANGE
Revenue	1,695.5	1,425.7	18.9%
EBIT	73.0	42.7	71.0%
EBIT-margin (in%)	4.3%	3.0%	1.3%-points
Operating EBIT[1]	68.1	39.0	74.6%
Investments (without acquisitions)	56.2	47.9	17.3%
Employees (number, as of December 31)	12,250	11,397	7.5%

[1] The GRAMMER Group defines operating EBIT as EBIT adjusted for currency-translation and other exceptional effects.

BUSINESS PERFORMANCE AGAIN DRIVEN BY VERY STRONG REVENUE GROWTH

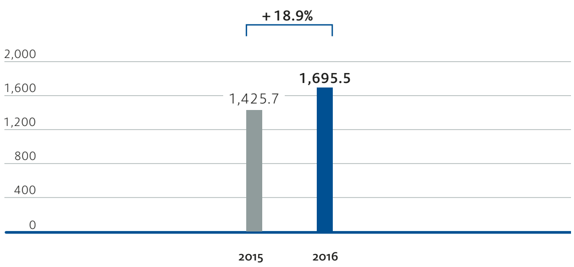
In the year under review, the GRAMMER Group achieved very strong revenue growth. This is due in part to the integration of the GRAMMER Interior Components companies as well as the performance of the Automotive Division whose console business in particular continued to expand sharply. Order intake also developed well, with the Automotive Division registering appreciable growth. The outstanding performance of this Division was driven by our favorable international position and the clear focus on customers in the premium segment. This customer group achieved rising sales volumes thanks to upbeat market conditions in Asia, North America and Europe. The Seating Systems Division also performed well, posting a slight increase in revenue despite the persistent weakness in Brazil and the difficult market environment in European agricultural machinery business. While, truck business in Europe remained stable, revenue declined in the Americas and APAC (Asia Pacific) for market-related reasons. Despite the protracted weakness of demand for agricultural machinery, revenue in the offroad segment was slightly up on the previous year, while the railway segment sustained further declines for project-related reasons. In 2016, operating profit came under pressure from further upfront costs in connection with the implementation of the global growth strategy as well as the protracted weakness of market conditions in the Seating Systems Division. However, these effects were more than offset by the optimization measures implemented, growth in the Automotive Division and the integration for the first time of the GRAMMER Interior Components companies. As a result, net profit almost doubled over the previous year, coming to EUR 45.2 million. Consequently, earnings per share stood at EUR 4.01, up from EUR 2.10 in 2015.

SUBSTANTIAL GROWTH IN REVENUE TO EUR 1.70 BILLION

In 2016, the GRAMMER Group generated total revenue of EUR 1,695.5 million (2015: 1,425.7), thus reaching a new record for the sixth consecutive year. Driven by the integration of the GRAMMER Interior Components companies and a further increase in the Automotive Division, Group revenue rose by 21.2% in the first half of the year in particular on top of the already very strong performance in the first half of 2015, while growth of 16.7% was recorded in the second half of the year. The GRAMMER Group continued to grow in all markets. Revenue in the EMEA market climbed substantially over the previous year, primarily due to the acquisition of the GRAMMER Interior Components companies. In percentage terms, revenue growth slowed slightly in the Americas due to the protracted economic crisis in Brazil. Substantial growth was achieved in Asia again despite slower growth rates in China and Japan. The appreciable macroeconomic influences in Brazil and China in particular continued to leave traces on the Seating Systems Division for the most part.

GROUP REVENUE DEVELOPMENT

IN EUR M



REVENUE BY REGION

Business growth varied from region to region, reflecting local market conditions.

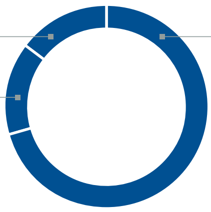
Revenue in EMEA rose by 23.3% or EUR 226.2 million to EUR 1,197.9 million in the reporting period. The growth in this core region was driven by the acquisition of the GRAMMER Interior Components companies as well as the high revenue generated in the Automotive Division. This reflected various new product launches in a stable environment, helping GRAMMER to additionally reinforce its market position. In the Seating Systems Division, revenue in Europe climbed by 4.1% despite soft demand in parts of the offroad segment. All in all, organic growth remained at a satisfactory level in Europe compared with the previous year. The share of EMEA business in total Group revenue widened significantly to 70.7% (2015: 68.2) due to the acquisition of the GRAMMER Interior Components companies.

Despite the more muted economic growth in China and Japan, revenue in APAC expanded by 19.5% to EUR 251.0 million (2015: 210.1). Thus, the Group recorded an increase in business in this region as well even though for the most part the Automotive Division posted high growth rates (22.6%) there. The Automotive Division benefited from strong order intake in all business segments. Despite the contraction of the Chinese truck market, the Seating Systems Division posted moderate growth. The region's share in total Group revenue widened from 14.7% in the previous year to 14.8% in 2016.

Although the economic crisis in Brazil is still continuing, revenue in the Americas expanded slightly by EUR 2.7 million to EUR 246.6 million in 2016, reflecting the still disparate conditions in the individual markets. The decline of 7.9% in the Seating Systems Division, which was due solely to the slump in demand for seating products in Brazil, was accompanied by growth of 4.6% in this region in the substantially larger Automotive Division, which was able to more than make up for the effects coming from the Seating Systems Division. All told, the proportion contributed by the Americas to total Group revenue shrank by 2.6 percentage points to 14.5%.

REVENUE BY REGIONS

PREVIOUS YEAR IN BRACKETS



IN EUR M

	2016	2015	CHANGE
APAC	251.0	210.1	19.5%
Americas	246.6	243.9	1.1%
EMEA	1,197.9	971.7	23.3%
Total	**1,695.5**	**1,425.7**	**18.9%**

ECONOMIC SITUATION

RESULTS OF OPERATIONS

CONDENSED INCOME STATEMENT FOR THE GRAMMER GROUP

IN EUR K

	2016	2015	CHANGE
Revenue	1,695,483	1,425,686	269,797
Cost of sales	−1,496,764	−1,273,577	−223,187
Gross profit	**198,719**	**152,109**	**46,610**
Selling expenses	−35,311	−30,803	−4,508
Administrative expenses	−102,808	−96,085	−6,723
Other operating income	12,448	17,434	−4,986
EBIT	**73,048**	**42,655**	**30,393**
Financial result	−10,317	−6,937	−3,380
Profit/loss (−) before income taxes	**62,731**	**35,718**	**27,013**
Income taxes	−17,508	−11,942	−5,566
Net profit/loss (−)	**45,223**	**23,776**	**21,447**

OUTSTANDING IMPROVEMENT IN EARNINGS – DESPITE FURTHER UPFRONT COSTS AND DIFFICULT MARKETS

Driven by the revenue growth and the successful efficiency-boosting measures, the GRAMMER Group was able to generate very good net profit of EUR 45.2 million in 2016 (2015: 23.8), thus almost doubling the previous year's figure, despite the persistent strain in individual market segments and the cost of further internationalization.

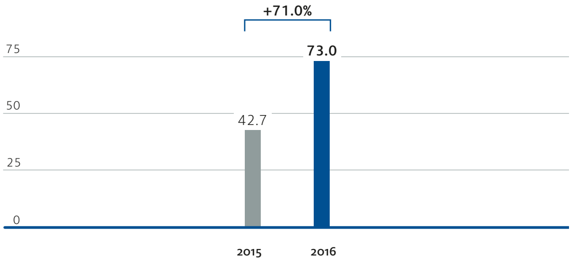
Consolidated earnings before interest and taxes (EBIT) came to EUR 73.0 million in 2016, very substantially higher than in the previous year (2015: 42.7), rising by more than 70%. Signs of the planned operating improvements from numerous individual measures are clearly visible despite the protracted market weakness in Brazil and in agricultural machinery. The first-time consolidation of the GRAMMER Interior Components companies also had a positive effect. This is also reflected in the Group EBIT-margin of 4.3%, which is well up on the previous year's figure of 3.0%. At the same time, EBIT was buoyed by currency-translation effects of EUR 4.9 million (2015: 3.7). Financial result came under pressure from the long-term strategic financing reserve and the currently extremely low interest rates on bank balances as well as the substantially lower positive currency-translation effects from internal Group financing.

At EUR 45.2 million, Group net profit was almost twice as high in the previous year (2015: 23.8).

All in all, the very favorable net profit caused earnings per share to rise very sharply by EUR 1.91 to EUR 4.01.

EBIT DEVELOPMENT GRAMMER GROUP

IN EUR M



COSTS

The cost of sales increased by 17.5% to EUR 1,496.8 million (2015: 1,273.6). This was largely due to the higher revenue as well as the first-time consolidation of the GRAMMER Interior Components companies in 2016. All in all, the gross margin relative to revenue widened by 1.0 percentage point to 11.7% (2015: 10.7), something that is reflected in the favorable performance of the operating production units.

Sales expenses were also up on the previous year, climbing to EUR 35.3 million (2015: 30.8) and accounting for 2.1% of revenue (2015: 2.2).

Administrative expenses rose to EUR 102.8 million (2015: 96.1). They were slightly up on the previous year due to the increased revenue and the expansion of business in the United States, the Czech Republic and China as well as the first-time consolidation of the GRAMMER Interior Components companies in 2016. As a percentage of revenue, administrative expenses contracted slightly by 0.6 percentage points over the previous year.

The staff costs included in the aforementioned items rose by EUR 50.6 million to a total of EUR 352.4 million (2015: 301.8) due to the first-time consolidation of the GRAMMER Interior Components companies as well as for business-related reasons and the upfront costs. The staff cost ratio narrowed marginally over the previous year to 20.8% (2015: 21.2).

OTHER OPERATING INCOME

Other operating income declined by 28.7% from EUR 17.4 million in the previous year to EUR 12.4 million in the year under review. This reflects the non-recurring income that had arisen in the previous year from the sale of land and buildings in Immenstetten, Amberg, in 2015.

FINANCIAL RESULT

The financial result deteriorated by EUR −3.4 million from EUR −6.9 million to EUR −10.3 million as of December 31, 2016 due to higher interest expenses arising from the retention of long-term strategic financing as well as negative currency-translation effects from internal Group financing. Moreover, GRAMMER AG had issued a bonded loan of EUR 120 million in 2015. The first tranche of EUR 81 million was issued at the end of December 2015 and the second one of EUR 39 million at the beginning of January 2016. Among other things, this resulted in increased interest expenses for long-term loans in 2016. The redemption of other bonded loans in August and September of the year under review in an amount of EUR 40 million had a slight opposing effect. Moreover, the currency translation effect from internal Group financing had a far less positive effect on other financial results compared with the previous year.

TAXES

At EUR 17.5 million, tax expense was substantially up on the previous year (2015: 11.9). This increase was due to the growth in operating profit in Germany as well as an increase in deferred tax liabilities in Germany in connection with the utilization of unused tax losses. In addition, international transfer pricing resulting from the reconciliation of differing interpretations of the local tax authorities and their views on our international transfer pricing applications had a positive effect on actual foreign income taxes. Slight strain arose from the growth in the earnings of subsidiaries that are subject to regionally higher tax rates.

EARNINGS

Despite the continued upfront costs in the year under review for the implementation of the global growth strategy and the market-induced decline in revenue in high-margin sub-markets within the Seating Systems Division, earnings before interest and taxes (EBIT) came to EUR 73.0 million and were thus substantially higher than in the previous year (2015: 42.7). The Group EBIT-margin reached 4.3% (2015: 3.0). At EUR 45.2 million, net profit was almost twice as high in the previous year (2015: 23.8) despite the slight deterioration in financial result.

Earnings per share are calculated on the basis of net profit for the year adjusted for non-controlling interests and stood at EUR 4.01 (2015: 2.10).

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. Compared with the previous year, GRAMMER AG posted a substantially higher unappropriated surplus of EUR 51.2 million as of December 31, 2016 (2015: 31.2). This includes the profit of EUR 22.8 million carried forward and the net profit for the year of EUR 56.9 million less retained earnings of EUR 28.5 million. The Executive Board of GRAMMER AG will be proposing to the Supervisory Board and the Annual General Meeting that a dividend of EUR 1.30 per share be paid (total dividend: EUR 14.6 million) and that the balance of EUR 36.7 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 on May 24, 2017, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

FINANCIAL POSITION

FINANCE AND LIQUIDITY MANAGEMENT

GRAMMER signed a new syndicated loan contract for EUR 180.0 million in 2013, thus securing the Group's long-term funding. The syndicated loan contract has a term of five years plus two one-year renewal options. GRAMMER exercised the second renewal option in 2015, with all participating banks renewing their share accordingly. The new term thus expires on October 31, 2020. GRAMMER AG and two other domestic Group companies are parties to this 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.

GRAMMER AG issued a new bonded loan in December 2015 with a total nominal value of EUR 120 million. The first tranche of EUR 81 million was issued in December 2015 and the second one of EUR 39 million in January 2016. Accordingly, the bonded loans have a total value of EUR 241.5 million as of December 31, 2016. As described above, the agreements governing the bonded loans include change-of-control clauses up to the full amount. If these termination rights are exercised individually or jointly, the funding required by the GRAMMER Group for its ongoing business operations may be jeopardized.

In implementing funding activities, GRAMMER AG Group Treasury 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 is generally based on fixed rates based on matching maturities.

Management of operating cash flows and adequate external capital are overseen centrally by Group Treasury except in cases where legislation in a specific jurisdiction would limit this. The Group's main financial priority is to further improve its credit rating and to establish a balanced maturity structure and diversified funding portfolio to ensure liquidity over the long term.

To the extent to which the system is permitted and effective within the given legal and economic circumstances, Group Finance, in consultation with the local companies, handles worldwide payment transactions and the administration of the cash pools by means of which the Group ensures and controls adequate liquidity of its subsidiaries. For the purposes of managing financial risks, interest rate and currency risks are hedged centrally using conventional external derivative financial instruments. The Group has always kept very close watch over these risks.

As of December 31, 2016, the Group holds EUR 133.0 million in cash and cash equivalents (2015: 127.3), which are primarily being used to fund the continued growth of its business activities and as a strategic reserve.

At EUR 216.8 million, non-current bank borrowings were unchanged over the previous year (2015: 218.7) due to strategic financing.

At EUR 55.3 million, current financial liabilities were substantially lower than in the previous year (2015: 64.1). The redemption of an older bonded loan of EUR 40.0 million that matured in August/September 2016 was funded via the cash flow as well as existing credit facilities.

Cash flow from operating activities rose sharply as a result of the substantially higher earnings before tax. Although the effects arising from the business-induced increase in trade accounts receivable exerted pressure on the cash flow from operating activities, they were largely offset by the simultaneous increase in trade accounts payable.

The cash flow from investing activities was well down on the previous year, which had been influenced by the payout of the purchase price for the REUM Group. Adjusted for this non-recurring effect, cash flow from investing activities was substantially higher than in the previous year. In the year under review, capital spending on property, plant and equipment increased over the previous year due to ongoing production expansion in the Automotive Division. Spending on intangible assets dropped by 16.8% or EUR 1.5 million over the previous year due to lower additions to concessions and industrial property rights among other things.

The cash flow from financing activities was substantially lower than in the previous year due to the settlement of financial liabilities in 2016, on which the non-recurring effect arising from the addition of long-term finance had a positive effect. Despite the acquisition of the REUM Group at the end of 2015, it was thus possible to retain a strategic financing reserve by raising long-term funding in an operation that was not completed until January 2016.

All in all, the Group continues to hold strong cash and cash equivalents available for funding further business expansion in the growth regions and as a strategic reserve.

CAPITAL STRUCTURE

As of December 31, 2016, the Company's share capital was unchanged at EUR 29,554,365.44, divided into 11,544,674 shares. All shares (with the exception of own shares) 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 new authorization to issue option bonds and/or convertible bonds with the possibility of excluding the shareholders' preemptive subscription rights, to create new Contingent Capital 2014/I and to make a corresponding amendment to the Company's Articles of Association: The Company's share capital was increased by up to EUR 14,777,182.72 on a contingent basis through the issue of up to 5,772,337 new bearer shares (Contingent Capital 2014/I). The contingent capital was issued so that shares can be granted to the bearers of convertible or option bonds issued in accordance with the corresponding authorization. The Executive Board may exercise this authorization with the Supervisory Board's approval on or before May 27, 2019 (see also Chapter 18 "Subscribed capital and reserves" in the notes to the consolidated financial statements).

The capital reserve amounted to EUR 74,444 thousand as of December 31, 2016 (2015: 74,444) and includes premiums from the capital increases in 1996, 2001 and 2011.

The revenue reserve amounted to EUR 236,268 thousand (2015: 199,698) as of December 31, 2016.

DISCLOSURE OF SHAREHOLDINGS SUBJECT IN ACCORDANCE WITH SECTION 21 WPHG

Under the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must immediately notify the Company and the Federal Financial Supervisory Authority. The lowest notification threshold is 3%. An overview of the current status of notified shareholdings that exceed the 3% threshold as of December 31, 2016 is included in the notes to the consolidated financial statements.

OWN SHARES

The Annual General Meeting passed a resolution on May 28, 2014 to authorize the Executive Board to acquire own shares amounting to no more than 10% of the share capital on or before May 27, 2019. Neither in the prior year nor in the year under review did the Executive Board of GRAMMER AG make use of the authorization to acquire the Company's own shares. GRAMMER holds 330,050 own shares, all of which were acquired in 2006. These shares have a total value of EUR 884,928.00 and represent 2.8589% of the share capital. The 330,050 own shares are non-voting and non-dividend-entitled.

ESSENTIAL CHANGES IN THE SHAREHOLDER STRUCTURE IN FISCAL YEAR 2016

On December 22, 2016, a request was served on the Executive Board by Cascade International Investment GmbH to convene an ordinary shareholder meeting in accordance with section 122 (1) AktG. The proposed items of the agenda concerned the dismissal of members of the Supervisory Board, the election of new members to the Supervisory Board and a vote of no-confidence by the shareholders in the Chief Executive Officer Hartmut Müller. The Executive Board examined this request in detail.

CAPITAL SPENDING

Adjusted for the acquisition of the former REUM Group (since renamed GRAMMER Interior Components companies), investments by the GRAMMER Group increased from EUR 47.9 million in 2015 to EUR 56.2 million. At EUR 48.9 million (2015: 39.1 million), investments on property, plant and equipment substantially exceeded the previous year.

In the Automotive Division, capital spending came to a total of EUR 42.8 million (2015: 31.9) and continued to concentrate on China, Poland, the United States, Mexico and Germany. In China, capital spending focused on new series start-ups for center consoles at the Shanghai and Changchun facilities. In Mexico, capital spending on production equipment was also required for the start-up of new projects. Capital spending at the Czech facilities focused on plant expansion to accommodate the projects that have been commenced there. A further key aspect was the production facility in Hardheim, where investments were made in rationalization as well as in a new technology center. In addition, work commenced on the construction of the new production hall in Sosnowiec (Poland). At the German facility in Schafhof, Bavaria, metal production was expanded to create capacity for new products, while production capacities in Bremen were also increased.

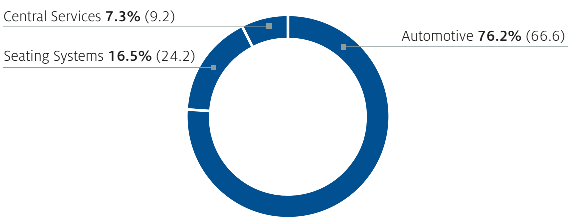
Capital spending in the Seating Systems Division totaled EUR 9.3 million in 2016 (2015: 11.6). In the United States, work continued on the establishment of a production facility in Tupelo, Mississippi. Following the certification of the new facility by the main customers and the successful start-up of seat production, preparations were initiated ahead of the commencement of automotive production. Consequently, the first center consoles for the local automotive market were produced at the Tupelo site from 2016. In addition, capital spending was channeled into the production of modified suspension systems for the offroad segment at the Tachov facility in the Czech Republic. Moreover, the German plants also executed major expansion and replacement spending. In the railway segment, assembly facilities for the new regional transportation platform were acquired. In addition, investments were made in site safety and environmental protection.

A total of EUR 4.1 million (2015: 4.4) was invested in Central Services, chiefly for software products and IT licenses. Moreover, the infrastructure of our development organization was reinforced.

In 2017, Group capital spending will remain unchanged at 2016 levels and concentrate on the expansion of production capacity in the Automotive Division and the continuation of measures aimed at boosting efficiency.

INVESTMENTS (WITHOUT ACQUISITIONS) BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



IN EUR M

	2016	2015	CHANGE
Automotive	42.8	31.9	34.2%
Seating Systems	9.3	11.6	−19.8%
Central Services	4.1	4.4	−6.8%
Capital spending	**56.2**	**47.9**	**17.3%**

NET ASSETS

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

CONDENSED BALANCE SHEET GRAMMER GROUP

IN EUR K

	2016	2015[1]	CHANGE
Non-current assets	379,557	373,719	5,838
Current assets	671,001	618,379	52,622
Assets	**1,050,558**	**992,098**	**58,460**
Equity	271,237	253,423	17,814
Non-current liabilities	397,397	382,824	14,573
Current liabilities	381,924	355,851	26,073
Equity and liabilities	**1,050,558**	**992,098**	**58,460**

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

On the reporting date, December 31, 2016, the GRAMMER Group had total assets of EUR 1,050.6 million (2015: 992.1). The increased business volumes and also ongoing production expansion led to a moderate increase of 5.9% in total assets.

NON-CURRENT ASSETS: UP ON THE PREVIOUS YEAR DUE TO EXPANDED PRODUCTION

Non-current assets totaled EUR 379.6 million on December 31, 2016 (2015: 373.7). Property, plant and equipment rose from EUR 221.1 million in the previous year to EUR 230.3 million largely as a result of capital spending on plant expansion in Tupelo, Mississippi, United States, in Sosnowiec, Poland, and in Hardheim, Germany. The decline in intangible assets to EUR 85.8 million (2015: 91.0) is primarily due to effects arising in the previous year from the remeasurement and resultant increase in the value of intangible assets in connection with the acquisition of the GRAMMER Interior Components companies. This effect resulted in greater amortization in 2016. Moreover, there was a decline in capital spending on concessions and industrial property rights. At EUR 3.9 million, other financial assets were slightly down on the previous year (2015: 4.0). These include discounted receivables in connection with the sale of the land and buildings at the Immenstetten, Amberg site. Other non-current assets climbed by EUR 1.2 million over the previous year to EUR 4.9 million. As in the previous year, this primarily comprised the sale-and-lease back transaction involving the land and buildings in Immenstetten, Amberg. At EUR 54.7 million, deferred income tax assets were slightly up on the previous year (2015: 53.9).

CURRENT ASSETS: INCREASE AS A RESULT OF GREATER BUSINESS ACTIVITY

Current assets increased to EUR 671.0 million in the year under review (2015: 618.4). Inventories climbed moderately by EUR 2.4 million to EUR 148.3 million (2015: 145.9). Accounts receivable also rose from EUR 187.4 million to EUR 206.6 million as a result of the substantial revenue growth. Other current financial assets grew by EUR 25.9 million over the previous year to EUR 153.0 million due to high upfront costs for projects.

Other current assets contracted slightly to EUR 23.6 million (2015: 24.4). At the end of the year, cash and cash equivalents stood at EUR 133.0 million (2015: 127.3). This increase was due to inflows from the higher cash flow from operating activities.

EQUITY: INCREASE PRIMARILY DRIVEN BY EARNINGS BEFORE TAX

As of December 31, 2016, equity stood at EUR 271.2 million (2015: 253.4). However, the increased profit after tax is not fully reflected in equity due to the dividend distribution of EUR 8.4 million and the netting of actuarial losses calculated on the reporting date on defined benefit pension plans as well as negative currency translation effects. The actuarial losses calculated on the reporting date on defined benefit pension plans including deferred taxes reduced equity by EUR 10.7 million. The increase in total assets, the higher current assets due to the growth in business activity as well as the retention of the strategic financing reserve and the measurement-related netting of pension obligations as of the reporting date caused the equity ratio to rise only slightly from 25.5% (2015) to 25.8%. Equity thus equals 71.5% (2015: 67.8) of non-current assets.

NON-CURRENT LIABILITIES: INCREASE IN RETIREMENT BENEFITS DUE TO LOWER DISCOUNT RATE

Non-current liabilities amounted to EUR 397.4 million on the reporting date (2015: 382.8). Non-current financial liabilities remained almost unchanged at EUR 216.8 million (2015: 218.7).

Retirement benefits and similar obligations increased to EUR 141.7 million (2015: 123.4) primarily due to the reduction in the discount rate in 2016. At EUR 30.8 million, deferred tax liabilities were down slightly on the previous year (2015: 32.5).

CURRENT LIABILITIES: TRADE ACCOUNTS PAYABLE UP ON THE PREVIOUS YEAR DUE TO INCREASED BUSINESS VOLUME

Current liabilities rose from EUR 355.9 million to EUR 381.9 million. Current trade accounts payable climbed by EUR 32.6 million to EUR 219.3 million due to increased business volumes. On the other hand, current financial liabilities dropped from EUR 64.1 million to EUR 55.3 million as two tranches of a bonded loan matured and were repaid in August and September 2016.

At EUR 69.4 million, other current liabilities were unchanged over the previous year (2015: 70.2). Provisions rose by EUR 18.7 million in the previous year to EUR 23.5 million primarily as a result of increased warranty provisions.

CONDITIONS IN THE DIVISIONS

AUTOMOTIVE DIVISION

GLOBAL AUTOMOTIVE INDUSTRY IN A STRONG CONDITION

According to the German Association of the Automotive Industry VDA, the international automotive industry performed well in 2016, underpinned by the three main markets China, the United States and Western Europe in the year under review. In these regions alone, passenger vehicle sales rose by a total of 4.4 million units. In the year as a whole, global new registrations of passenger vehicles are likely to have risen by 6% to 82.9 million units. China, the largest market, remained on its growth trajectory, reaching a new high, with new registrations rising by 18% to 23.7 million units. The market benefited from pre-buying effects as the Chinese government had decided to increase the rate of value added tax on vehicles with a capacity of up to 1.6 liters, which had been reduced in October 2015, although not to the original level. Of the other main Asian markets, India stood out with an increase of 7% in sales to 3.0 million passenger vehicles. On the other hand, new registrations in Japan dropped by 2% to 4.1 million units. In the United States, new registrations rose by 0.4% to 17.5 million light vehicles. With a decline of 9%, the US passenger vehicle segment was weak, while sales of light trucks rose by 7%. Sales of light vehicles in Canada increased by 3% to 1.9 million units, while Mexico recorded growth of 19% to 1.6 million vehicles. New registrations in the NAFTA market (Northern American free trade zone) climbed by a total of 2% to 21.0 million.

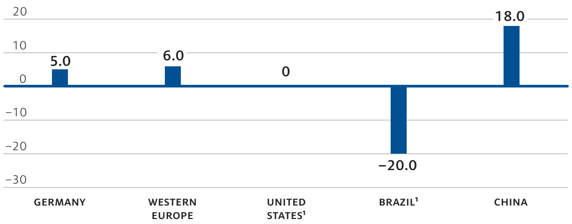
According to VDA, new registrations in Western Europe increased by 6% to 14 million units. With the exception of the Netherlands, which recorded a decline of 15%, and Switzerland, which recorded a decline of 2%, all markets expanded, with Ireland and the Southern European countries of Italy, Spain and Portugal achieving above-average growth rates. New registrations were up 5% in both Germany and France.

In the eastern EU countries, 1.2 million passenger vehicles were registered for the first time (up 16%). The three single largest markets – Poland (up 17%), the Czech Republic (up 12%) and Hungary (up 25%) – all achieved double-digit growth. The Russian market contracted again in 2016 as a whole by 11% to 1.4 million light vehicles. There was a sharp decline in new registrations in Brazil (down 20% to 2.0 million), the lowest level since 2006.

Production figures for the global market rose by 6% to 82.9 million passenger vehicles, thus almost exactly mirroring new registrations. In terms of individual countries, China led the way with growth of 18% to 23.8 million vehicles, followed by the United States (up 1% to 11.9 million light vehicles) and Germany (up 1% to 5.7 million passenger vehicles). Regionally, the EU-15 recorded growth of 3% to 13.1 million vehicles and the EU-28 (excluding Malta and Cyprus) likewise growth of 3% to 16.9 million units. Production in the Northern American free trade zone NAFTA climbed by 2% to 17.7 million light vehicles, including 6.7 million (down 4%) passenger vehicles and 11.0 million (up 6%) light trucks. Production in the South American Mercosur countries shrank by 11% to 2.6 million light vehicles.

CHANGE IN AUTOMOTIVE SALES VOLUMES 2016 IN SELECTED COUNTRIES YEAR ON YEAR

IN %



¹ including light vehicles
Source: VDA

STRONG GROWTH IN THE AUTOMOTIVE DIVISION

KEY FIGURES AUTOMOTIVE DIVISION

IN EUR M

	2016	2015	CHANGE
Revenue	1,270.8	1,008.1	26.1%
EBIT	42.5	23.8	78.6%
EBIT-margin	3.3%	2.4%	0.9%-points
Operating EBIT	40.9	23.0	77.8%
Investments (without acquisitions)	42.8	31.9	34.2%
Employees (number, as of December 31)	8,272	7,400	11.8%

Once again, the Automotive Division was the Group's growth driver. During the year under review, it expanded substantially as in earlier years. Driven by the first-time consolidation of the GRAMMER Interior Components companies as well as the strength of the automotive sector in all main markets as well as various new product launches, business volumes expanded by 26.1% to EUR 1,270.8 million (2015: 1,008.1). The premium OEMS, which GRAMMER primarily supplies, particularly benefited from the favorable market environment. This was reflected in rising sales figures, from which GRAMMER as a components supplier duly benefited. Segment operating profit exceeded the previous year substantially thanks to the considerable growth in revenue as well as the successful efficiency-boosting measures and the scheduled reduction in upfront costs. At EUR 42.5 million, EBIT was substantially up on the previous year (2015: 23.8), with the EBIT-margin coming to 3.3% (2015: 2.4). This substantially higher Division yield came under pressure from the costs incurred in the year under review for the planned implementation of the global growth strategy, which entailed a large number of new product launches as well as production expansion in all regions.

Although the Division posted revenue growth in all three regions, there were distinct differences in the individual growth rates. In EMEA, the region with the highest revenue in the Automotive Division, the first-time consolidation of the GRAMMER Interior Components companies, among other things, resulted in a substantial increase of 32.7%. In this way, GRAMMER was able to additionally broaden its market position in this region. Revenue in the Americas climbed by 4.6%. At 22.6%, growth in APAC gained considerable momentum again in the Automotive Division.

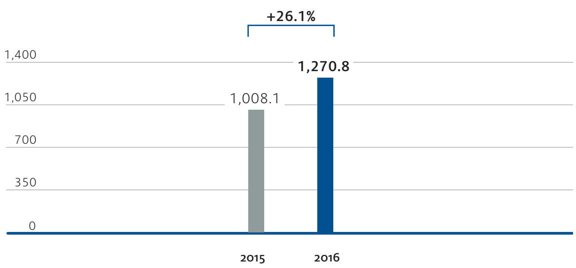
We registered growth across all product groups – headrests, center consoles and armrests – with center consoles achieving the highest growth rates.

Order intake in the year under review was again up on the previous year. Most of the new orders were received in EMEA under contract awards, although order intake in the Americas also grew more quickly than revenue. All business segments achieved notable new orders.

To additionally strengthen the Automotive Division's earnings situation, we continued implementing measures to improve profitability and cost efficiency along the entire value chain. The current process and structural enhancement initiatives are aimed at optimizing the worldwide production network and also entail programs for improving product costs. Among other things, production at the Česká Lípa facility in the Czech Republic was additionally strengthened, while capacity utilization at the Žatec plant was further increased due to series-related increases in volumes. With these measures in Europe, we are addressing the future growth requirements in the Automotive Division. The measures implemented in China are showing the desired effects, while work on expanding production at the Beijing site was completed on schedule. Substantial capacity expansion was also necessary at our facilities in Mexico and the United States. These measures led to considerable cost burdens, which left corresponding traces on the Division's operating profit.

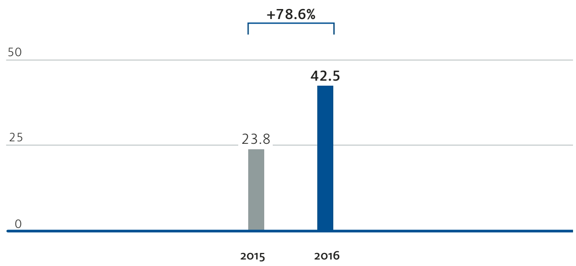
REVENUE DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



EBIT DEVELOPMENT AUTOMOTIVE DIVISION

IN EUR M



SEATING SYSTEMS DIVISION

COMMERCIAL VEHICLE MARKET IN EUROPE GROWING

According to VDA, global new registrations of commercial vehicles were flat across all size classes in the countries tracked, coming to 9.5 million units. The decline was particularly pronounced in Turkey (down 12%), the United States (down 11%) and Brazil (down 30%). New registrations in China, the world's largest market, dropped by 5% to 4.3 million vehicles. On the other hand, Europe was able to buck this negative trend, with growth of 11% to 2.2 million units in Western Europe.

New registrations were generally stronger for trucks over 6 t. Global new registrations in this category climbed by 8% to 2.2 million, with Western Europe achieving above-average growth of 11%. Germany saw an increase of 3% to 86,000 commercial vehicles. By contrast, a decline of 11% was recorded in the United States due solely to the heavy trucks category (down 23%). On the other hand, new registrations of medium trucks were up 4%. Total new registrations in NAFTA dropped by 10% to 479,000 vehicles, while Brazil reported a decline of 31%. On the other hand, new registrations were up 28% in China and up 7% in India (trucks over 7.5 t).

AGRICULTURAL MACHINERY WEAKER

On the basis of the figures published for the third quarter, demand for agricultural machinery in Europe is likely to have softened over 2016 as a whole. According to the Comiteé Européen des Groupements des Constructeurs de Machines Agricoles (CEMA), sales of agricultural tractors declined by 4.5% year on year in the first nine months of 2016. However, this decline slowed to 2.2% in the third quarter. Demand for most other main types of agricultural machinery was also weaker. Thus, full-year sales of combine-harvesters are likely to have dropped by 13% over the year as a whole. Despite the negative trend in the overall market, individual countries such as France and Spain performed reasonably well. On the other hand, Germany was presumably the weakest market in Europe in 2016 with a decline of 9%.

CONSTRUCTION MACHINERY INDUSTRY PAINTING A MIXED PICTURE

According to the German Mechanical and Plant Engineering Association (VDMA), global sales were probably flat over the previous year. However, the situation varied sharply from region to region in the first three quarters of 2016. At 35%, India achieved the greatest growth, while sales were also up 28% in Russia. China and Europe were both 8% up on the previous year. Declines, some of which were in double-digit territory, were recorded in Latin America (down 28%), the Middle East (down 23%), Africa (down 12%) and North America (down 9%).

GROWTH IN MATERIAL HANDLING EQUIPMENT IN 2016

The global market for material handling equipment (order receipts in units) rose by 6% to 877,000 units in the third quarter of 2016 (cumulative). Europe (up 14%) and China (up 9%) grew at above-average rates. Growth of 3% was also registered in North America. The other regions sustained declines of just under 6%. On the basis of the results for the first three quarters, full-year global order intake for material handling equipment is also likely to have risen.

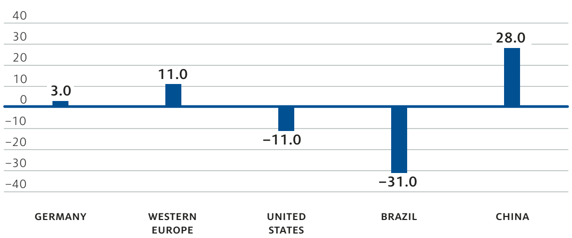
According to the German Association of Construction Machinery, Construction Equipment and Industrial Machinery (bbi), German sellers of material handling equipment expect total sales to rise by around 6% over the previous year in 2016. New machinery business expanded by an above-average rate of 9%.

RAILWAY INDUSTRY: RECORD REVENUE

The German railway industry closed the first half of 2016 with record revenue of EUR 5.5 billion, an increase of 5.8%. Thanks to brisk foreign demand, the export ratio climbed to 54%. After the record orders of EUR 15 billion achieved in 2015 as a whole, order books are well filled. Rolling stock business accounts for around three quarters of revenue. Foreign business is particularly important for the sector, rising by a good 9% to EUR 2.4 billion in the first half of the year. Domestic rolling stock business expanded slightly to EUR 1.7 billion.

CHANGE IN COMMERCIAL VEHICLE SALES VOLUMES 2016 (TRUCKS ABOVE 6 T) IN SELECTED COUNTRIES YEAR ON YEAR

IN %



Source: VDA

SEATING SYSTEMS ASSERTING ITSELF WELL IN A DIFFICULT MARKET ENVIRONMENT

KEY FIGURES SEATING SYSTEMS DIVISION

IN EUR M

	2016	2015	CHANGE
Revenue	473.6	458.4	3.3%
EBIT	39.1	27.8	40.6%
EBIT-margin	8.3%	6.1%	2.2%-points
Operating EBIT	35.8	25.4	40.9%
Investments (without acquisitions)	9.3	11.6	−19.8%
Employees (number, as of December 31)	3,699	3,729	−0.8%

In 2016, business in the Seating Systems Division was again exposed to very difficult market conditions in the individual business segments and regions. Against the backdrop of continued market contraction in Brazil and China, the Seating Systems Division achieved a gratifying 3.3% increase in revenue over the previous year in 2016. In absolute figures, revenue in the Seating Systems Division came to EUR 473.6 million, EUR 15.2 million up on the same period in the previous year. The offroad segment achieved moderate revenue growth in a difficult agricultural machinery market and a satisfactory construction machinery market. The slight decline in revenues in the truck segment arising from the sustained weak market conditions in Brazil and the still muted economy in China was thus made up for. Revenues in the rail segment were down for project-related reasons. Only the aftermarket segment performed well relative to the overall situation, achieving stable revenue.

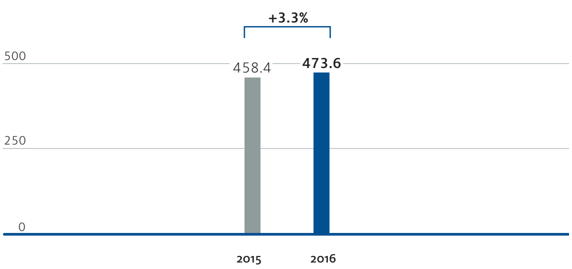
Moreover, revenue in the Americas fell well short of the previous year. Whereas business in offroad products was more or less stable in North America, conditions in the South American truck market remained muted. Due to its strong market position in Brazil, GRAMMER was unable to shrug off the effects of this trend.

Business in APAC was somewhat more encouraging, rising slightly over the previous year. Thus, the offroad segment achieved moderate growth, while there were no further market-induced declines in revenue in the truck segment.

Due to these market-induced shifts in the revenue structure and further optimization costs as well as the production start-up costs in Tupelo, we were able to achieve an increase in operating profit together with a wider operating margin thanks to the slight recovery in the EMEA market, growth in business segments with stronger margins and the cost-cutting measures that had been implemented. Earnings before interest and taxes (EBIT) in the Seating Systems Division came to EUR 39.1 million in the year under review (2015: 27.8). The Division achieved an EBIT-margin of 8.3% in the period under review (2015: 6.1).

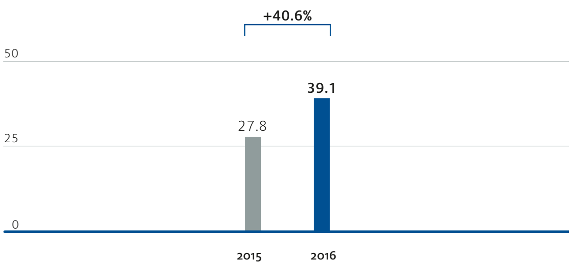
REVENUE DEVELOPMENT SEATING SYSTEMS DIVISION

IN EUR M



EBIT DEVELOPMENT SEATING SYSTEMS DIVISION

IN EUR M



APPRAISAL OF THE COMPANY'S ECONOMIC SITUATION

On the strength of the higher revenue and earnings achieved in 2016 as well as the solid funding structures, we continue to see the GRAMMER Group as being well positioned to achieve its goals and to tackle the economic and global challenges facing it despite the difficult conditions in some markets and the continued implementation of its growth strategy. We hold a good to very good market position in the individual business segments which we address and were again able to gain market share with our innovative and high-quality products in the year under review. Moving forward, GRAMMER will continue to be able to fund its organic growth internally and remain on its course of strategic expansion thanks to rising revenue, a substantial improvement in net profit and the positive cash flow from operating activities. Our balanced funding structure and an equity ratio of 26% despite significant strategic activities assure us of the flexibility which we require to act on opportunities arising in the market in the future. Accordingly, the Group's current economic condition can be considered to be very favorable.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

EMPLOYEES

INCREASE IN HEADCOUNT DUE TO THE POSITIVE BUSINESS DEVELOPMENT

As of December 31, 2016, the GRAMMER Group including the GRAMMER Interior Components companies, which were included for the first time, had a total of 12,250 employees (December 31, 2015:. 11,397[1]).

The number of employees rose as a result of the inclusion of the GRAMMER Interior Components companies. However, adjusted for this effect, it was down slightly due to optimization measures and adjustments in the light of market contraction. At the same time, the staff cost ratio remained largely stable. The annual average Group headcount stood at 12,144 (2015: 10,995[1]). This increase is due to the effect arising from the first-time inclusion of the GRAMMER Interior Components companies as well as new product launches.

The number of employees in the Automotive Division rose to 8,272 (2015: 7,400) as of the reporting date. In the course of the year, employee numbers increased due to the inclusion of the GRAMMER Interior Components companies and increased volumes particularly at the production sites in Mexico and China. The opposite effect came from optimization measures, as a result of which there was a disproportionately low increase in employee numbers.

The headcount in the Seating Systems Division dropped slightly to 3,699 (2015: 3,729). This was primarily due to the further decline in the Brazilian truck market that necessitated capacity adjustments at the Brazilian site. On the other hand, slight growth at the internal plant in Bulgaria arose due to new product launches.

At 279, the number of employees in Central Services rose slightly over the previous year (2015: 268).

Looking forward, we also expect a slight increase in headcount in 2017 in view of the increased volume of business and the planned new product launches.

TRAINING, PROFESSIONAL DEVELOPMENT, HUMAN RESOURCES

Talent management constitutes a significant factor for safeguarding and furthering our business success. 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. For this reason, GRAMMER offers numerous initiatives for employees in all areas and on all levels around the world. The Talent

[1] Excluding former REUM Group (2015: 905).

Management & Employer Branding unit was established in 2016 and the Group's personnel development programs were restructured and revamped. The purpose was to address more effectively requirements with respect to the motivation and further training of qualified staff in the future. An annually updated training catalog provides all employees with an overview of possible upskilling measures and contains standardized Group-wide training modules. Our integrated training program is divided into different segments: "GRAMMER Corporate Executive" focuses on strategic training for top management, while the "GRAMMER Senior Management Program" is aimed primarily at middle management with a special focus on production staff. The two modules "GRAMMER High Potentials" and "GRAMMER Talents" also have programs of their own to specifically prepare suitable employees for more demanding tasks. Preliminary pilot projects were launched for these integrated programs in Germany in 2016 and will be widened to include employees from the entire Group this year.

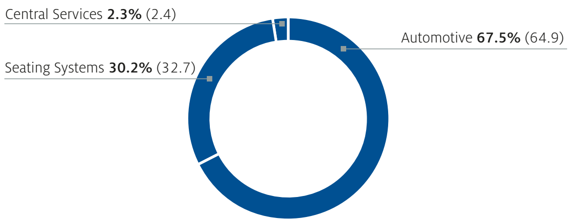
The underlying contents of the overall concept are oriented to the Group's mission statement, targets and strategy and focus heavily on the further internationalization of the Group.

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. In addition, a project management course was developed in 2016 and will be implemented in 2017.

The Group is a key provider of vocational training and further education in its region of Bavaria in Germany as well as at its global sites and will remain so in 2017. We attempt to orient all aspects of our training and continuing education program to future requirements internationally in order to offer the employees concerned the best career outlook at all locations. We are working on a modernized concept that includes the staff that have come to the GRAMMER Group from the former REUM Group at our Amberg facility, where we have our own training center and trainers and which has formed an important part of talent development for many years. We offer apprentices firm positions in our Company provided that this is in line with our personnel policy and we have sufficient vacancies. In 2016, we continued to employ motivated apprentices in many different parts of the Company in order to maintain a qualified pool of resources in fields that are becoming more 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. Highly qualified young professionals are also attracted through university recruiting events in Germany and in other countries or in cooperation with Ostbayerische Technologische Hochschule (OTH), a local university of applied sciences, offering a good example of our successful commitment to forging links between business and universities.

EMPLOYEES BY SEGMENTS

PREVIOUS YEAR IN BRACKETS



AS OF DECEMBER 31	2016	2015	CHANGE
Seating Systems	3,699	3,729	−0.8%
Automotive	8,272	7,400	11.8%
Central Services	279	268	4.1%
Employees	**12,250**	**11,397**	**7.5%**

SUPERVISORY BOARD AND 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. Mr. Hartmut Müller's appointment to the Executive Board was renewed until January 31, 2022 in a resolution passed by the Supervisory Board on March 22, 2016. Other than this, there were no changes to the Executive Board or the Supervisory Board in 2016.

PRINCIPLES OF THE REMUNERATION SYSTEM

Since August 1, 2010, Executive Board remuneration has entailed the following elements: The members of the Executive Board receive a fixed salary (70%) and performance-related remuneration (30%) as well as retirement benefits structured largely in the same manner as pension commitments to employees. The performance-related component comprises two elements – a short-term and a long-term one. The short-term bonus comprises 45% of the performance related remuneration, one third of which is based on revenue and two thirds on return on sales. The long-term bonus is calculated entirely on the basis of the increase of the

Company's enterprise value, GEVA (ROCE minus WACC). For this purpose, ROCE is the quotient of operating profit after tax and the capital required for operations, while WACC expresses the cost of capital employed. To ensure stable performance, the increase in enterprise value is calculated over the preceding three years, i.e. it is not finalized until three years have elapsed. An advance may be paid towards the long-term bonus to ensure income consistency, the amount and payment of which are determined by the Chairman of the Supervisory Board. Remuneration of the Executive Board contains no components with a long-term incentive effect, such as stock option or stock award programs. Furthermore, in the event of extraordinary earnings or losses in the relevant year, the Supervisory Board may decide to adjust compensation at the end of the year in the form of a bonus or penalty comprising 10% of the fixed salary. The disclosures required under section 160 AktG are included in the notes to the consolidated financial statements.

Changes to the remuneration of the Supervisory Board were authorized in a resolution passed at the Annual General Meeting on May 26, 2012. Accordingly, remuneration is now calculated as follows as of 2012: For each complete year of Supervisory Board membership, each member of the Supervisory Board receives fixed remuneration of EUR 30,000. The Chairman receives twice this amount as fixed annual remuneration and the Deputy Chairman receives one and a half of the above amount. Members of the Supervisory Board who only sit on the board for part of the year receive fixed remuneration on a pro rata basis. The fixed remuneration is payable after the end of each fiscal year. The members of the Supervisory Board also receive a fee of EUR 1,000 for each Board or committee meeting which they attend in person, plus reimbursed expenses. The chairman of a committee receives a further EUR 1,000 per committee meeting. The meeting fee is not paid for participation in meetings of the Nominating Committee. Expenses are reimbursed on the first business day following the Supervisory Board or committee meeting. The Company is authorized to take out financial loss insurance (D&O, directors and officers liability insurance) at reasonable conditions in line with the prevailing market rate, the premiums for which are covered by the Company. The Company will also reimburse members of the Supervisory Board for any VAT liability incurred on the remuneration paid and the lump-sum reimbursement of expenses. There are no variable or long-term incentive components, such as stock option or stock award programs, in the remuneration of the Supervisory Board.

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 achieve this, Group purchasing is based centrally within GRAMMER AG. One important task is to identify the appropriate vendors worldwide for our innovative products and broad product range. Key tasks of procurement are also to coordinate relations with vendors and to purchase project 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. The procurement organization is structured centrally according to commodities with global responsibility. Its employees are also based regionally to ensure greater penetration and a better understanding of the local markets. The strategic orientation in procurement management additionally entails the further development of the eSourcing platform and the ASTRAS platform with the core e-RFX (electronic request for proposals) processes and the expansion of the eAuction tool, which was successfully rolled out in the previous year, as well as the expansion of sourcing activities 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 previously launched in 2013 in conjunction with development and production to strengthen design-to-cost activities as a means of additionally reducing the cost-of-materials base were continued in the year under review. In addition, purchasing processes along the production chain are to be additionally optimized. For one thing, purchasing will become more closely involved right from the development and project phase. 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 will allow all parts of the purchasing organization to substantially improve their efficiency thanks to an improved data base.

Our global supply chain management continues to help us in the strategic and ongoing development of our vendors. Qualified selection, training and evaluation structures ensure that we are able to leverage our vendors' potential and innovativeness profitably and establish a solid basis for sourcing in all regions.

PRODUCTION

The GRAMMER Group produces and sells its products worldwide from 40 production and logistics facilities in 19 countries. Production sites in close proximity to our customers are a strategic necessity to lower costs and to improve our position in international competition. To this end, we have established new procurement structures based on local partners in the individual regions. Looking forward, we will continue to pursue the internationalization of our value chain and the steady expansion of our production capacities on a global basis (Mexico, the United States and China). A further key aspect for the GRAMMER Group is quality. This already commences in the development phase and continues through to the production process and the finished products. With uniformly defined, globally applicable standards for production processes and technology, plant technology and logistics along the entire value chain, we ensure consistently high quality in our products and services. In this way, we safeguard the high quality of our products regardless of where they are produced. The production methods and systems defined in this way are implemented on a uniform global basis and undergo constant optimization as part of institutionalized continuous improvement processes.

With the GRAMMER Production System (GPS), GRAMMER coordinates and controls production methods across the Group. In this way, the individual operating units have the production processes required to achieve the quality and delivery reliability expected by the customer at all times. The GPS is the manifestation of our methodological, process-oriented approach to implementing lean manufacturing throughout the Group. In order to steadily enhance the lean manufacturing approach, the Group has established a global training program incorporating each plant, unit and function; via the “Lean Academy” and the continuous learning process installed there, we are systematically implementing our benchmarks on a sustained basis.

Following the integration of the GRAMMER Interior Components companies, we have included further technologies in our portfolio, particularly surface finishing, which are to be internationalized.

All regions with the exception of Brazil have been additionally reinforced with the establishment or expansion of production capacities, improvements to the supply chain and the localization of suppliers and production technology.

QUALITY MANAGEMENT

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

SALES AND CUSTOMER MANAGEMENT

The GRAMMER Group organizes its segments and sales by product group. This ensures high product competence, which is required in the interests of the best possible customer relationship management. Sales and customer management are aligned to global responsibility. The sales force registers customer wishes, which are then implemented swiftly in the responsible Division. In doing so, we orient our actions very closely to the requirements of customers. Enduring customer relationships developed on this basis provide the foundations for our long standing success and growth.

Process specifications such as GRAMMER PDS (Product Development System) offer the underpinnings of systematic stable product development with the aim of delivering products to customers in the quality specified on the planned date and in the quantity ordered. The PDS also encourages joint activities with our customers and the search for innovative solutions.

EVENTS SUBSEQUENT TO THE REPORTING DATE

On February 13, 2017, a request submitted by Cascade International Investment GmbH for the grant of authorization in accordance with section 122 (3) AktG was served on GRAMMER AG by the Local Court of Amberg. The purpose of the request was to obtain authorization to call a meeting of the shareholders of GRAMMER AG. The items of the agenda for the shareholder meeting included the dismissal of members of the Supervisory Board, elections for new members of the Supervisory Board and a vote of no-confidence in the Chief Executive Officer, Mr. Hartmut Müller. Moreover, the court was asked to name a chairman of the meeting in accordance with section 122 (3) sentence 2 AktG. GRAMMER was given an opportunity of responding to this application by February 28, 2017.

On March 7, 2017, the Local Court of Amberg dismissed the petition by Cascade International Investment GmbH for authorization to convene a shareholder meeting on the grounds that its legal interests were not unduly at risk as it was reasonable for it to wait until the scheduled Annual General Meeting to represent its interests.

In accordance with our financial calendar for 2017, GRAMMER AG's Annual General Meeting will be taking place on May 24, 2017.

Acting with the consent of the Supervisory Board, the Executive Board of GRAMMER AG passed a resolution on February 14, 2017 to issue a mandatory convertible bond in a nominal amount of EUR 60 million subject to the exclusion of the shareholders' preemptive subscription rights. The contingent capital required for this purpose had been approved by the shareholders with the required majority under item 8 of the agenda at the annual general meeting for 2014 (minutes of the annual general meeting certified by notary Dr. Frank, deed number 1333/2014). The corresponding amendment to the articles of association was filed with the commercial register on June 16, 2014.

The mandatory convertible bond will be convertible into around 1,062,447 new shares issued by the Company, equivalent to around 9.2% of its share capital. The conversion price stands at EUR 56.4734 per share, while the bond has a coupon of 1.625%. The mandatory convertible bond must be converted into shares in the company after the expiry of a one-year period from the date of issue unless the bond creditor exercises its conversion right at an earlier date.

The mandatory convertible bond was placed with a company affiliated with Chinese automotive component supplier Ningbo Jifeng Auto Parts Co. Ltd. It forms a key element underlying the future strategic partnership between the two companies. This strategic alliance will improve the joint competitive position of the two internationally active automotive interior specialists – particularly in the Chinese market – thus securing future growth and enhancing their enterprise value.

CORPORATE GOVERNANCE

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

DISCLOSURES IN ACCORDANCE WITH SECTION 289 (4) AND SECTION 315 (4) HGB

Composition of the subscribed capital: GRAMMER AG's subscribed capital amounts to EUR 29,554,365.44 and is divided into 11,544,674 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 2016 set out detailed information on the voting right notifications received in accordance with section 21 WpHG.

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 and section 31 MitBestG). 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: The Executive Board is authorized to issue profit-participation rights with or without an option or conversion right or obligation and/or option and/or convertible bonds on or before May 27, 2019. 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). GRAMMER holds 330,050 own shares, all of which were acquired in 2006. The 330,050 own shares are non-voting and non-dividend-entitled. The Company is authorized until May 27, 2019 to acquire treasury stock in accordance with section 71 (1) No. 8 AktG and to use it for all the purposes specified in the authorization.

Company compensation agreements with the members of the Executive Board or employees in the event of a take-over bid: The service contracts entered into with the members of the Executive Board include a change-of-control clause, under which each member of the Executive Board has a special right of termination which may be exercised within three months of a change of control. If the special right of termination is exercised, the terminating party may claim 150% of the settlement cap agreed upon in the service contract equaling the total remuneration for a two-year period. In addition, there are change-of-control compensation agreements with individual members of the Company's senior management.

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 an agreement with a banking syndicate governing the provision of credit facilities of a maximum of EUR 180 million and giving each creditor the right to demand premature repayment in the event of a change of control. Corresponding provisions are also included in the agreements underlying the bonded loans issued by GRAMMER AG for a total of EUR 241.5 million. For the purposes of these contracts, a change of control is deemed to arise as soon as one or several persons acting jointly acquire at least 30% of the voting capital of GRAMMER AG or the other borrowers. If these termination rights are exercised individually or jointly, the funding required by the GRAMMER Group for its ongoing business operations may be significantly impaired.

OPPORTUNITY AND RISK REPORT

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 managed: Listed below are some of the principles defined in the GRAMMER Group risk strategy:

- Opportunities and risks in the context of risk management for GRAMMER encompass any positive or negative deviations from a plan or target defined in circumstances of uncertainty.
- Risk management thus contributes to value based management within GRAMMER Group. Value-based means that the Company deliberately accepts risks only when there is potential for enhancing its value by taking advantage of favorable business opportunities. GRAMMER must avoid any activities potentially entailing risks that are liable to jeopardize the further existence of the Company. Core operational risks and in particular market risks such as economic 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 risks to third parties. Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing measures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and minimize risks within their area of responsibility.
- At regular intervals, our internal audit function also performs a review of the sufficiency and effectiveness of our risk management system. All employees of the Company are under a duty to minimize risks to the extent possible within their area of responsibility and to actively contribute to risk avoidance. All employees undertake to report all opportunities and risks arising during business operations to their responsible managers.

RISK MANAGEMENT PROCESS

GRAMMER Group has implemented a uniform Group-wide risk management system to detect risks at an early stage, analyze and 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 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 all material risks liable to cause any unexpected deviations in earnings to central risk management. Every division and central service department has a responsible risk officer. In regular meetings with the various management levels of the divisions and central service departments, opportunities and risks are discussed along with measures to manage risk. A Group-wide reporting system ensures that decision makers regularly receive comprehensive information on the risk situation of the Company as well as the status of the measures implemented. For this purpose, an opportunities and risk report is prepared several times a year. Reports made to the risk management system are handled independently to ensure the broadest possible scope and reviewed in accordance with the "four eyes" principle. In addition, the GRAMMER Group has implemented a compliance e-mail address to give employees and non-Group externals the possibility of reporting any breaches of statutory provisions, basic values and ethical standards or the GRAMMER Group code of conduct. To the extent permitted by law, this channel can also be used to submit information anonymously on potential legal breaches such as corruption or any conduct in violation of the law or the code of conduct as well as on manipulation of any kind. Group Internal Auditing examines and assesses this information and, to the extent necessary, responds to it with the support of other functions.

Central risk management is contained within the Group Finance department and operates an IT-based risk management system, in which risks are managed centrally and appropriate measures for risk mitigation are initiated. This acclaimed software solution provides optimum support for risk management. In this way, we maintain an overview of the key opportunities and risks for the GRAMMER Group. 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.

RISKS

In the following paragraphs, we describe risks and discuss their sometimes considerable impact on our business performance, net assets, financial position and results of operations as well as our stock price and market reputation. Additional risks that we currently rate as slight or whose existence or potential effects are as 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 essential aspect of the Group's risk management is the avoidance of risks to its going concern status.

MARKET AND SECTOR SPECIFIC RISKS

As an enterprise with worldwide operations, the GRAMMER Group is affected by business conditions in its home market as well as markets across the globe. We address these risks by means of numerous different measures while closely and continually monitoring developments in relevant markets and industries. We adjust our production and capacity accordingly when necessary. As part of effective risk management, the

GRAMMER Group strives to react immediately to crises and any initial signs of revenue weakening. 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 also in the future. Our markets are becoming 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. Fluctuations in demand and sales volumes are increasing in frequency, and the volatility of those swings is on the rise. Due to our exposure to the global markets with differing economic and demand cycles, we must track and interpret a broad range of factors. In addition, new competitors are arising in or entering the emerging markets. The effects of crises in certain markets and regions harbor risks that can no longer be directly derived from our business segments. Market disparity is also steadily increasing so that we can no longer necessarily draw conclusions about the effects of general developments on our business. This applies to both positive and negative trends.

As our markets and the companies in them continue to consolidate, additional competitive risks will arise. At the same time, vehicle manufacturers are increasingly passing on cost pressure to components suppliers. Against this backdrop, the lack of follow-up contracts may 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.

Our goal is to improve our market position in all business segments as a way to reduce these competitive risks. Consequently, GRAMMER is focusing on technical innovation and advancement of existing products. Through an increase of R&D activities, we intend to strengthen our position as technology leader with respect to our core products in order to generate competitive advantages in the marketplace. The introduction of new products and technologies is also accompanied by risks and requires a strong commitment to research and development that in turn is tied to a substantial commitment of funds and technical resources. Despite our numerous patents and the protection of our intellectual property, competitors – especially in growth markets – generally cannot be prevented from independently developing products and services that are similar to our own.

Customarily, delivery contracts with the GRAMMER Group's principal customers in particular provide for legally binding commitments for a certain period to procure certain products that have generally not yet been developed or to accept certain (minimum) delivery volumes but not to source 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 generally able to withdraw even large contracts or product quantities in the medium term. However, as the withdrawal 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 very rare for a customer to completely withdraw all orders at once. Should this come to pass, it would have a detrimental effect on the Company's net assets, financial position and results of operations.

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

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

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

Given material changes in the shareholder structure and the resultant possibility of a change of control, risks may arise in the medium to long term with respect to customer loyalty and the ability to obtain new orders.

PROCUREMENT RISKS

GRAMMER aims to minimize planning risks resulting from fluctuations in commodity prices as much as possible. Particularly important in this regard is the market price of steel and petroleum-based foam and plastic products. GRAMMER continually monitors movements in the markets for these commodities. As far as possible and reasonable, cost risks are hedged through long-term supply contracts. These, however, are currently difficult to achieve in the market given the strong demand and prevailing volatility in steel, foam and plastics. Furthermore, there are supply chain risks which 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 that crop up from time to time or disruptions in the supply chain cause risks to our productivity that may adversely affect our net assets, financial position and results of operations.

Potential risks arising from non-delivery by suppliers are addressed by GRAMMER with a partial dual-sourcing strategy as part of a contingency plan as well as close monitoring of potentially critical suppliers along with a rapid 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

The GRAMMER Group attaches great importance to maintaining high external and internal quality standards together with the early identification of possible sources of errors and their avoidance. Despite this, it is not possible to entirely rule out potential quality risks arising from development and consultation with the customers for which GRAMMER is therefore responsible. This applies in particular to development work on products with complex production structures and cross-continental interdependencies that are inevitable given our global orientation and operation. We have adopted precautions to minimize such risks throughout the entire Group. In order to minimize risks arising from quality problems attributable to suppliers, GRAMMER engages in intensive supplier development and conducts regular supplier audits. Using system-based supplier evaluations we continuously analyze quality and performance in the supply chain for each supplier. The results of these activities provide the key criteria for the selection of suppliers for project work and series production by GRAMMER.

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

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. The GRAMMER Group must primarily manage currency risks originating from trade accounts payable/receivable and procurement costs denominated in Czech koruna, US dollars, Mexican pesos, the Brazilian real and the Chinese yuan. The Group addresses currency risks through "natural hedging," i.e. increasing purchasing volumes in foreign currency regions or increasing local production. In addition, currency risks are hedged selectively via the financial market. Strong appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

The GRAMMER Group cannot completely avoid fluctuations in credit markets and this may give rise to risks to our net assets, financial position and results of operations. The GRAMMER Group seeks to minimize interest rate risks through long-term funding (e.g. bonded loans) 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. As the second renewal option was exercised in 2015, the syndicated loan is now available to us until 2020. Liquidity risk is monitored on an ongoing basis and tracked continuously by Group-wide rolling planning of financial requirements. Possible risks in connection with a change of control are presented in the section on the financial situation. Additionally, investments are selectively concluded via leasing and rental agreements. Despite the possible disadvantages in terms of interest rates, key emphasis is placed on the expansion of our liquidity and the creation of appropriate liquidity reserves. To a certain degree, this adversely affects interest result, a fact that we are willing to accept in order to maintain our strategic leeway and safeguard our liquidity position. Our customer structure limits credit risks, which are controlled through active receivables management in Controlling/Accounting. The funded status of our pension plans is heavily influenced by interest rate uncertainties and risks in the market place as well as by changes in accounting rules that can mean both increases or decreases in the present value of the defined-benefit pension plans. Pension obligations are recognized on the basis of actuarial calculations in which the applicable interest rate plays an important role. The actual payments required can deviate from the computed values since assumptions regarding the main valuation parameters such as discount rates, salaries and inflation are all uncertain. Consequently, they may pose potential risks for our net assets, financial position and results of operations.

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. Even so, it is not possible to entirely preclude the moderate risks referred to above having an adverse effect on our net assets, financial position and results of operations.

LEGAL RISKS

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

HUMAN RESOURCE RISKS

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

IT AND INFORMATION RISKS

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

ECOLOGICAL RISKS

GRAMMER works with an environmental management system on the basis of ISO 14001 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 via regular audits to minimize ecological impact. We are also continuing to pursue certification of our production sites in accordance with ISO 14001 and 50001. Nonetheless, that external circumstances or misconduct may arise and result in risks for the Group which cannot be completely excluded.

CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM

As a capital market-oriented corporation within the meaning of section 264d HGB, we are required under section 289 (5) HGB to describe the main characteristics of the internal control and risk management system as they relate to the Group's accounting process. There is no statutory definition of "the internal control and risk management system as they relate to the Group's accounting processes". We 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 the safeguarding of assets, including prevention and detection of damage to assets);
- to ensure the propriety and reliability of internal and external accounting; and
- to comply with the legal regulations applicable to the Company.

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

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

OPPORTUNITIES MANAGEMENT

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

OPPORTUNITIES

MARKET OPPORTUNITIES

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

Global economy – Given the GRAMMER Group's global presence, it has an opportunity of continuing to benefit from 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 increased demand for its products.

Growth in core regions – Generally speaking, the importance of North and South America as well as China has continued to grow sharply for GRAMMER. GRAMMER's Automotive Division is increasingly operating as a components supplier for local OEMs as well as its European partners in the premium segment. In China, success in gaining contracts from global and local OEMs is giving rise to new opportunities. In the Seating Systems 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 innovative and attractive products, GRAMMER primarily focuses on the premium segment. As demand in this segment is less volatile than in the market as a whole due to the favorable macroeconomic scenarios, it may grow more sharply than in the volume segment. Accordingly, GRAMMER is endeavoring to make use of these market opportunities.

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

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 improving our efficiency and on cutting costs with a view to additionally enhancing our cost position and, hence, to improving our strategic competitive position. In this connection, GRAMMER also regularly reviews the appropriateness of its network of locations.

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.

ASSESSMENT OF RISKS AND OPPORTUNITIES

After a detailed review of the current risk situation, we have determined that the GRAMMER Group has implemented appropriate precautions to address the risks which have been identified. The risks that are currently known to us have no material impact on the Company's future net assets, financial position and results of operations. At this time, we see no risks liable to jeopardize the Group's going-concern status, while the opportunities may additionally help to mitigate risks. Due to volatile forecasts, no conclusive assessment can be made as to the risks arising from commodity prices, since the possible scenarios entail both opportunities and risks. The GRAMMER Group's growth, particularly in its core markets, was again supported by the stabilization of the global economy in 2016. Assuming that the global economy continues to perform favorably in the future, this may yield additional opportunities for the GRAMMER Group.

BUSINESS DEVELOPMENT FORECAST

OUTLOOK FOR 2017

GLOBAL ECONOMY GAINING MOMENTUM

The global economy bottomed out in 2016 and, looking forward, is likely to gain momentum. However, according to an assessment by the IMF, the UK's Brexit vote and protectionist tendencies in the United States and Europe pose considerable risks to the global economy. Although the economic impacts of last year's Brexit decision are still very unclear, the IMF considers the vote to be symptomatic of a global move towards greater economic isolation. Such tendencies could reduce investment activity and curtail the scope for creating new jobs.

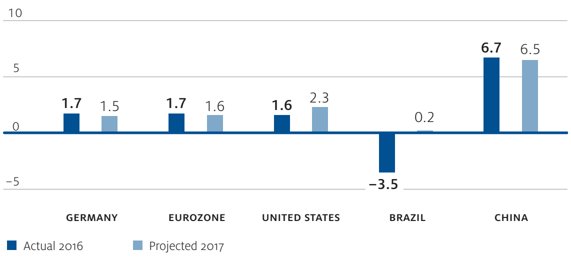
At the moment, it is particularly difficult to assess the outlook for the global economy as the new administration in the United States has announced a change in the country's political course for the near future. Moreover, the negative effects of the extremely accommodative monetary policy are coming into relief. In an environment of heightened political uncertainty, it is also becoming increasingly clear that monetary policy has reached its limits.

In its base scenario for 2017, the IMF projects growth of 3.4% for the global economy, i.e. 0.3 percentage points more than in the previous year. With growth coming to 1.9%, the upswing in the advanced economies will strengthen to some degree, driven by the generally still expansionary monetary policies, fiscal impetus and a gradual acceleration in the growth of wages and salaries. On the other hand, purchasing power will no longer be reinforced by declining energy costs. The US economy is likely to surge ahead with growth of 2.3%, underpinned by expansionary economy policy, declining real interest rates and decisive impetus from the government in the form of higher expenditures and reductions. In the Eurozone, by contrast, growth is expected to slow moderately to 1.6%. The unsolved structural problems in parts of the monetary union are continuing to place a damper on the outlook. As parliamentary elections will be held in four of the six largest Eurozone countries (Germany, France, Italy and the Netherlands) in 2017, there is considerable uncertainty over the future direction of economy policy. The IMF assumes that the Brexit vote will increasingly leave traces in the United Kingdom, causing economic growth to slow to 1.5%. The exchange-rate-driven increase in inflation and virtually flat growth in employment are likely place a damper on real incomes and, hence, consumer spending. There are also signs of restraint in capital spending as the outlook for sales is clouding over in view of the uncertainty surrounding the underlying conditions of the future. According to the IMF, growth should pick up to 1.9% in Canada, while Japan will probably expand only very slowly at a rate of 0.8% in 2017.

Expansion in the emerging and developing markets should continue to accelerate to 4.5%. Whereas growth in China is likely to slow again slightly to 6.5%, a consistently high level of 7.2% should emerge in India. Gross domestic product in Russia should also expand again slightly by 1.1%. Economic growth of 1.5% is expected for Germany and 1.6% for the Eurozone, while the United States expects a growth of 2.3%. On the other hand, there is no sign of any appreciable economic recovery in Brazil, where the economy is expected to expand by only 0.2% in 2017.

ECONOMIC GROWTH (GROSS DOMESTIC PRODUCT) IN SELECTED COUNTRIES

IN %



Source: IMF

OUTLOOK FOR THE AUTOMOTIVE DIVISION

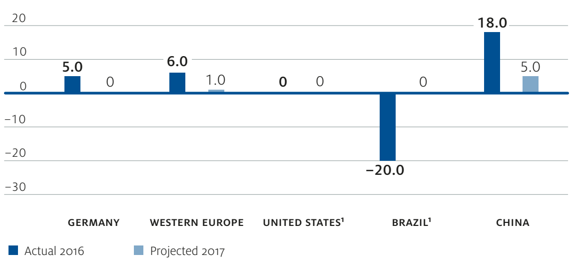
FURTHER SLIGHT GROWTH IN THE GLOBAL PASSENGER VEHICLE MARKET

The German Association of the Automotive Industry VDM is optimistic about the outlook for 2017 given the economic environment. Overall, global new registrations of passenger vehicles should rise by 3% to 85.0 million units in 2017. In this connection, VDM assumes that the two industrialized nations Brazil and Russia that are lagging behind will finally turn the corner. Russia is expected to achieve slight growth of 5% to 1.5 million passenger vehicles, while Brazil is likely to remain stuck at the previous year's low level of just under 2.0 million. Similarly, there is unlikely to be any real change in new registrations in Western Europe in 2017 (14.1 million). The recovery process in the Southern European countries should continue, while the German market will stabilize at a high level of 3.4 million passenger vehicles. VDM assumes that the United Kingdom will see a decline of 6% to 2.5 million passenger vehicles. The United States (17.5 million light vehicles) and the NAFTA as a whole (21.1 million) is likely to drift sideways. On the other hand, the Chinese passenger vehicle market will continue to expand, however less quickly (up 5% to 24.9 million). New registrations in the eastern EU countries (up 6% to 1.2 million), the ASEA countries (up 5% to 1.8 million) and India (up 9% to 3.2 million) should also make contributions to global growth.

Global production is also expected to increase by 2% to 85.0 million passenger vehicles. Stagnation in the EU-15 (13.1 million vehicles) and the EU-28 (16.9 million vehicles) will be accompanied by small declines in the United States (down 1% to 11.9 million light vehicles). Production of light vehicles in the Northern American free trade zone NAFTA as a whole should rise by 1% to 17.9 million units. Stronger growth should be achieved in Mercosur (up 3% to 2.6 million light vehicles), China (up 5% to 24.9 million) and India (up 7% to 3.9 million passenger vehicles).

CHANGES IN AUTOMOTIVE SALES VOLUMES IN SELECTED COUNTRIES

IN %



¹ including light vehicles
Source: VDA

OUTLOOK FOR THE SEATING SYSTEMS DIVISION

IMPROVED OUTLOOK FOR COMMERCIAL VEHICLE MARKET

VDA is guardedly optimistic in its forecast for the global commercial vehicle market, with new registrations expected to rise by 1% to 9.6 million commercial vehicles. Whereas growth of 3% should be achieved in Western Europe, double-digit declines are expected in Turkey (down 13%) and the United States (down 10%). Brazil (down 5%) and Japan (down 2%) will not be hit quite as hard. In China, the world's largest market, new registrations should drift sideways (4.3 million units), while India is likely to see strong growth of 15%.

According to VDA, global new registrations of commercial vehicles over 6 t are also likely to rise slightly by 1% to 2.2 million, chiefly underpinned by the large markets of China (up 3%) and India (up 5% for trucks over 7.5 t). On the other hand, the United States will probably report a decline of 5% this time, spread evenly across medium and heavy trucks. An increase of 5% is expected for Brazil, while new registrations in Western Europe should contract by 1%. An increase of 1% is forecast for Germany.

MUTED OUTLOOK FOR AGRICULTURAL MACHINERY INDUSTRY

According to CEMA, the outlook for 2017 is muted, just as actual performance was in 2016. Most agricultural machinery categories face lower or, at best, stabilized demand. The only highlight is Spain, which is expected to expand by 5%. On the other hand, sales look set to drop by 5% in France and by 2% in Germany. The UK market should stabilize. Even though the expectations for 2017 are not particularly encouraging, the CEMA Business Barometer has recently been recovering slowly from its record lows. CEMA interprets this as a sign that market conditions could improve in the course of 2017. In the December 2016 poll, 47% of companies said that they expected a slight increase in revenue, while only 30% projected a decline.

RECOVERY EXPECTED IN CONSTRUCTION MACHINERY INDUSTRY

The CECE Business Barometer, which tracks European construction machinery OEMs' sentiment, continued to improve in November. However, with the Brexit shock now evidently digested, the US election has triggered renewed uncertainty. According to CECE, expectations for North America have deteriorated substantially. Even so, most of the interviewed construction machinery OEMs said that they expected business to pick up over the coming six months.

MATERIAL HANDLING EQUIPMENT STILL STABLE AT A HIGH LEVEL

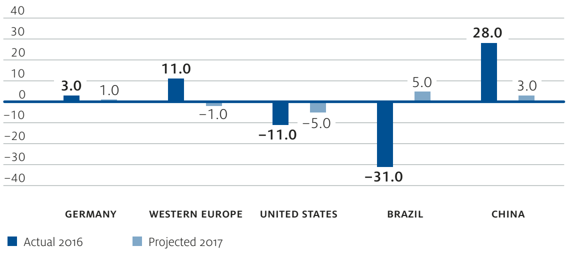
According to a poll conducted by bbi, the companies surveyed are optimistic about the future. Total revenue is expected to rise by 3% in 2017, following a strong year in 2016. New machinery business should expand by 2%.

UPBEAT CONDITIONS IN THE RAIL INDUSTRY

According to a study by the European Railway Industry Association (UNIFE), the global rail industry should expand by an annual rate of 2.6% between 2016 and 2021, additionally underpinned by the fourth EU rail package, which aims at overcoming existing obstacles and improving the competitiveness of the European rail network.

CHANGES IN COMMERCIAL VEHICLE SALES VOLUMES (TRUCKS OVER 6 T) IN SELECTED COUNTRIES

IN %



Source: VDA

OUTLOOK FOR THE GRAMMER GROUP

Last year, the GRAMMER Group was able to once again increase revenue substantially both organically and through strategic acquisitions. The previous year's forecast of revenue of EUR 1.6 billion was substantially exceeded particularly due to the significant increase in revenue in the Automotive Division. This growth was materially driven by the integration of the GRAMMER Interior Components companies and numerous new product launches. At the same time, however, pressure was exerted on earnings by the ongoing extension and optimization projects in the year under review. On the other hand, revenue in the Seating Systems Division increased only marginally in the period under review primarily as a result of the sustained market weakness in the agricultural machinery industry and in the Brazilian truck market. Despite further upfront costs and the persistent market weakness afflicting individual higher-margin segments in the Seating Systems Division, good operating profit was generated in the year under review. Against the backdrop of extremely weak conditions in some markets, the margin in the important Seating Systems Division was widened substantially thanks to the measures taken. Moreover, the efficiency measures taken in the Automotive Division unleashed a stronger effect, and the increased revenue also made a strong contribution to the disproportionately high earnings growth. As a result, the slight increase in earnings indicated in the previous year's forecast was substantially exceeded. The following forecast for the GRAMMER Group and its Divisions is based on the general trends expected for the global economy and the specific projections for the Automotive Division and the Seating Systems Division as outlined above.

In 2017, the Automotive Division will again be influenced by numerous product launches and new projects. Efforts are continuing to generate new project business across all of our product groups and regions to safeguard future growth. Given the product lifecycles of our order books and the marginally positive market forecasts, we expect to achieve a slight increase in revenue accompanied by a small improvement in operating profit in 2017. In addition, the newly acquired interior components segment will help to stabilize revenue. However, the Automotive Division is highly exposed to changes in the sales volumes of German premium OEMs in particular and would be unable to shield itself from the effects of a slower market in the upper market segment. At this stage, it is not possible to assess the effects that the continued exhaust discussion at one of our main customers, the Brexit negotiations and possible changes in free trade with the United States following the change of president may have on us.

The Seating Systems Division continues to face strong competitive pressure in our established markets. We expect revenue in this Division to remain stable in 2017 following the anticipated base formation in the core markets. Demand in the offroad markets in particular is expected to improve thanks to the marginally optimistic environment for agricultural machinery. At this stage, we assume that conditions for truck business will remain difficult due to low growth in Europe and contraction in the United States. We expect the Brazilian and Chinese markets to bottom out, followed by slight growth from the second half of the year. Against this backdrop, we assume that operating profit in this segment will improve slightly.

In its international business activities, the Group is exposed to currency translation effects particularly in the countries of material importance for its business such as Brazil, China, Mexico, the Czech Republic and the United States. Although we have been able to improve natural hedging effects all around the world through the ongoing localization of our production activities, significant exchange-rate changes between relevant currencies may still have an adverse effect on earnings. In addition, trends in production costs at our facilities – particularly in Germany – as well as in sell-side and buy-side prices may impact the GRAMMER Group. Risks from the commodity markets, particularly steel and oil prices, have risen recently.

In view of the GRAMMER Group's generally good order situation and additional customer projects in the Automotive Division, revenue is expected to continue climbing slightly this year assuming stable political and economic conditions. In addition, the package of efficiency measures introduced by the Executive Board in earlier years will continue to unleash its effects in 2017, enhancing profitability in both Divisions on a sustained basis. The current year will be influenced by numerous new start-ups and the stabilization of the ongoing expansion and optimization projects as well as conditions in the commodity markets, which could exert pressure on costs in the first half of the year in particular.

SUMMARY STATEMENT CONCERNING THE FORECAST OF THE EXECUTIVE BOARD

This year, we expect macroeconomic conditions to remain challenging, with the markets which we address painting a mixed picture. Specifically, we forecast slight growth in the global passenger vehicle market, very light expansion in the agricultural machinery market, continued uncertainty in the truck markets and difficult conditions in China for the market for seating systems. In the light of the current macroeconomic situation and the volatile conditions in the world markets together with the complex political developments, we are cautiously optimistic about the outlook for the GRAMMER Group in 2017 as a whole.

We expect a slight increase in revenue in the GRAMMER Group's core business. Assuming the currency parities remain largely unchanged, revenue should increase to over EUR 1.75 billion in 2017. Operating profit will be influenced by pressure from trailing costs in connection with the still ongoing expansion and optimization projects as well as a tendency towards weak market conditions in individual segments in the Seating Systems Division. On the other hand, we anticipate slight growth in the earnings contributed by the Automotive Division thanks to stronger business; however, this requires that the current public discussions on exhaust levels and trading obstacles in core markets do not have any major impact on ordering by our main OEM customers. Against this backdrop, we expect the GRAMMER Group to be able achieve once again a substantial positive EBIT in 2017, above the level of EUR 73 million reported in 2016, accompanied by continued growth in the operating profitability over the level recorded in the previous year.

This assessment is based on the above forecasts for the global economy as well as our main sell-side markets and OEM customers. Any deterioration in these underlying economic or political conditions may also have an adverse effect on GRAMMER's business and earnings. On the other hand, a recovery in the agricultural machinery markets and stabilization of the Brazilian and Chinese truck markets could leave positive traces on business performance. Moreover, the GRAMMER Group's business performance may also deviate from the forecast as a result of the opportunities and risks described in the risk and opportunity report. Looking ahead to next year, we project further growth in revenue and earnings assuming stable macroeconomic conditions.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current assumptions and estimates by GRAMMER's management of future trends. Such statements are subject to risks and uncertainties which GRAMMER can neither estimate nor influence with any precision, e.g. future market conditions and the macroeconomic environment, the behavior of other market participants, the successful integration of newly acquired companies, the materialization of expected synergistic benefits and government actions. Further disruptive elements may also arise in the environment in which a listed company operates and potentially affect the assumptions and assessments or material market participants. 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.

Amberg, March 15, 2017

GRAMMER AG
The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS INDEX

CONSOLIDATED STATEMENT OF INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	NOTE	2016	2015
Revenue	7	1,695,483	1,425,686
Cost of sales	8.3	–1,496,764	–1,273,577
Gross profit		**198,719**	**152,109**
Selling expenses	8.3	–35,311	–30,803
Administrative expenses	8.3	–102,808	–96,085
Other operating income	8.1	12,448	17,434
Earnings before interest and taxes (EBIT)		**73,048**	**42,655**
Financial income	8.2	1,506	1,151
Financial expenses	8.2	–13,517	–11,177
Other financial result	8.2	1,694	3,089
Profit/loss (–) before income taxes		**62,731**	**35,718**
Income taxes	9	–17,508	–11,942
Net profit/loss (–)		**45,223**	**23,776**
Of which attributable to:			
Shareholders of the parent company		44,981	23,604
Non-controlling interests		242	172
Net profit/loss (–)		**45,223**	**23,776**
Earnings per share	10		
Basic/diluted earnings/loss (–) per share in EUR		4.01	2.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EUR K	2016	2015
Net profit/loss (–)	**45,223**	**23,776**
Amounts not to be recycled in income in future periods		
Actuarial gains/losses (–) from defined benefit plans		
Gains/losses (–) arising in the current period	–15,167	9,100
Tax expenses (–)/Tax income	4,481	–2,658
Actuarial gains/losses (–) from defined benefit plans (after tax)	**–10,686**	**6,442**
Total amount not to be recycled in income in future periods	**–10,686**	**6,442**
Amounts recycled in income in future periods		
Gains/losses (–) from currency translation of foreign subsidiaries		
Gains/losses (–) arising in the current period	–126	598
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	**–126**	**598**
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	–1,366	116
Less transfers recognized in the Income Statement	952	1,221
Tax expenses (–)/Tax income	75	–360
Gains/losses (–) from cash flow hedges (after tax)	**–339**	**977**
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	–8,122	–1,627
Gains/losses (–) from net investments in foreign operations (after tax)	**–8,122**	**–1,627**
Total amount to be recycled in income in future periods	**–8,587**	**–52**
Other comprehensive income	**–19,273**	**6,390**
Total comprehensive income (after tax)	**25,950**	**30,166**
Of which attributable to:		
Shareholders of the parent company	25,713	30,001
Non-controlling interests	237	165

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K

	NOTE	DEC. 31, 2016	DEC. 31, 2015
Property, plant and equipment	12	230,270	221,109
Intangible assets	12	85,786	91,002[1]
Other financial assets	15	3,866	4,038
Income tax assets		0	11
Deferred tax assets	9	54,747	53,852
Other assets	16	4,888	3,707
Non-current assets		**379,557**	**373,719**
Inventories	13	148,253	145,905
Trade accounts receivable	14	206,589	187,376
Other current financial assets	15	152,968	127,086
Short-term income tax assets		6,623	6,272
Cash and short-term deposits	17	132,968	127,300
Other current assets	16	23,600	24,440
Current assets		**671,001**	**618,379**
Total assets		**1,050,558**	**992,098**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

EQUITY AND LIABILITIES

EUR K

	NOTE	DEC. 31, 2016	DEC. 31, 2015
Subscribed capital	18	29,554	29,554
Capital reserve	18	74,444	74,444
Own shares	18	−7,441	−7,441
Retained earnings	18	236,268	199,698
Accumulated other comprehensive income	18	−62,900	−43,632
Equity attributable to shareholders of the parent company		**269,925**	**252,623**
Non-controlling interests	18	1,312	800
Equity		**271,237**	**253,423**
Non-current financial liabilities	20	216,784	218,707
Trade accounts payable	22	2,983	1,325
Other financial liabilities	23	5,042	6,814
Other liabilities	24	100	54
Retirement benefit obligations	19	141,683	123,419
Deferred tax liabilities	9	30,805	32,505[1]
Non-current liabilities		**397,397**	**382,824**
Current financial liabilities	20	55,254	64,128
Current trade accounts payable	22	219,311	186,714
Other current financial liabilities	23	5,591	5,028
Other current liabilities	24	69,409	70,193
Current income tax liabilities		8,811	11,066
Provisions	21	23,548	18,722
Current liabilities		**381,924**	**355,851**
Total liabilities		**779,321**	**738,675**
Total equity and liabilities		**1,050,558**	**992,098**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2016

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES
As of January 1, 2016	**29,554**	**74,444**	**199,698**	**–7,441**
Net profit/loss (–)	0	0	44,981	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**44,981**	**0**
Dividends	0	0	–8,411	0
Transaction of non-controlling interests	0	0	0	0
As of December 31, 2016	**29,554**	**74,444**	**236,268**	**–7,441**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

EUR K	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES
As of January 1, 2015	**29,554**	**74,444**	**184,505**	**–7,441**
Net profit/loss (–)	0	0	23,604	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**23,604**	**0**
Dividends	0	0	–8,411	0
Transaction of non-controlling interests	0	0	0	0
As of December 31, 2015	**29,554**	**74,444**	**199,698**	**–7,441**

NOTE 18

ACCUMULATED OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS/ LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	GROUP EQUITY
–869	**–231**	**–7,972**	**–34,560**	**252,623**	**800**	**253,423**
0	0	0	0	**44,981**	242	**45,223**
–339	–121	–8,122	–10,686	**–19,268**	–5	**–19,273**
–339	**–121**	**–8,122**	**–10,686**	**25,713**	**237**	**25,950**
0	0	0	0	**–8,411**	–16	**–8,427**
0	0	0	0	**0**	291	**291**
–1,208	**–352**	**–16,094**	**–45,246**	**269,925**	**1,312**	**271,237**

ACCUMULATED OTHER COMPREHENSIVE INCOME						
CASH FLOW HEDGES	CURRENCY TRANSLATION	NET INVESTMENTS IN FOREIGN OPERATIONS	ACTUARIAL GAINS/ LOSSES FROM DEFINED BENEFIT PLANS	TOTAL	NON-CONTROLLING INTERESTS	GROUP EQUITY
–1,846	**–836**	**–6,345**	**–41,002**	**231,033**	**728**	**231,761**
0	0	0	0	**23,604**	172	**23,776**
977	605	–1,627	6,442	**6,397**	–7	**6,390**
977	**605**	**–1,627**	**6,442**	**30,001**	**165**	**30,166**
0	0	0	0	**–8,411**	–93	**–8,504**
0	0	0	0	**0**	0	**0**
–869	**–231**	**–7,972**	**–34,560**	**252,623**	**800**	**253,423**

CONSOLIDATED STATEMENT OF CASH FLOWS

JANUARY 1 – DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

NOTE 25

EUR K	2016	2015
1. Cash flow from operating activities		
Profit/loss (–) before income taxes	62,731	35,718
Reconciliation of earnings before tax with cash flow from operating activities		
Depreciation of property, plant and equipment	34,768	31,333
Amortization of intangible assets	12,460	9,153
Gains (–)/losses from the disposal of assets	943	46
Other non-cash changes	5,026	7,451
Financial result	10,317	6,937
Changes in operating assets and liabilities		
Decrease/increase (–) in trade accounts receivable and other assets	–46,174	–15,665
Decrease/increase (–) in inventories	–2,348	–7,769
Decrease (–)/increase in provisions and pension provisions	–7,680	–7,019
Decrease (–)/increase in accounts payable and other liabilities	33,589	–13,197
Income taxes paid	–17,865	–18,150
Cash flow from operating activities	**85,767**	**28,838**
2. Cash flow from investing activities		
Purchases		
Purchases of property, plant and equipment	–48,666	–37,834
Purchases of intangible assets	–7,253	–8,721
Purchases of subsidiaries (less acquired cash)	0	–44,103
Disposals		
Disposals of property, plant and equipment	1,527	7,466
Disposals of intangible assets	57	0
Disposals of financial assets	295	80
Interest received	1,506	1,151
Government grants received	589	3,299
Cash flow from investing activities	**–51,945**	**–78,662**
3. Cash flow from financing activities		
Dividend payments	–8,427	–8,504
Payments received from raising financial liabilities	43,244	123,856
Payments made for the settlement of financial liabilities	–54,349	–18,391
Decrease (–)/increase in lease liabilities	–2,105	–1,872
Interest paid	–8,554	–6,896
Cash flow from financing activities	**–30,191**	**88,193**
4. Cash and cash equivalents at end of period		
Net changes in cash and cash equivalents (sub-total of items 1–3)	3,631	38,369
Effects of exchange rate differences of cash and cash equivalents	1,729	1,483
Cash and cash equivalents as of January 1st	122,256	82,404
Cash and cash equivalents as of December 31st	**127,616**	**122,256**
5. Analysis of cash and cash equivalents		
Cash and short-term deposits	132,968	127,300
Bank overdrafts	–5,352	–5,044
Cash and cash equivalents as of December 31st	**127,616**	**122,256**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

1 INFORMATION ABOUT THE GRAMMER GROUP AND BASIS OF REPORTING

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

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

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

The GRAMMER Group is a leader in the development and production of components and systems for automotive interiors as well as driver and passenger seats for commercial vehicles (trucks and offroad), railway and buses. As of December 31, 2016, the Company employed 12,250 persons (excluding trainees and including 279 employees in Central Services) at 40 (2015: 38) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg.

The GRAMMER Group is managed centrally by a three members Executive Board.

GRAMMER Group has divided its activities into the Automotive and Seating Systems divisions. The segments are described in more detail in Note 6.

The consolidated financial statements and the Group management report of GRAMMER AG (the "Company") for the fiscal year ended December 31, 2016 were prepared in accordance with section 315a (1) HGB and approved by the Executive Board for submission to the Supervisory Board on March 15, 2017.

2 ACCOUNTING AND VALUATION METHODS

2.1 SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES AND JUDGEMENTS

These consolidated financial statements for GRAMMER AG were prepared in accordance with section 315a 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 are still valid.

The consolidated financial statements are prepared using the historical cost principal, except where the application of other methods of measurement is 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

In certain cases, it is necessary to apply estimates and assumptions. For instance, in preparing the consolidated financial statements, discretionary decisions, assumptions and estimates have to be made to a certain degree, which have an impact on the measurement and recognition of reported assets and liabilities, income and expenses and contingent liabilities of the reporting period. 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 deviate 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 after they have occurred.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of GRAMMER AG and the financial statements of the consolidated subsidiaries as of December 31 of the respective fiscal year. The financial statements of the parent company and the subsidiaries are prepared in accordance with uniform Group 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 all 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 balance sheet 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.

BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method in accordance with IFRS 3. Costs for the acquisition of a company are measured as the aggregate of the acquisition-date fair value of the consideration transferred and the amount of any minority interest.

Identifiable assets, liabilities and contingent liabilities acquired in the context of a business combination are initially recognized at their fair value on the acquisition date. The agreed contingent consideration is also measured at fair value on the acquisition date. The excess of the cost of acquisition over the fair value is recorded as goodwill. 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 IAS 39. If a contingent consideration is classified as equity, the original amount is not remeasured and subsequent settlement is taken directly to equity.

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 separate 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

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.

The GRAMMER Group's shares in such a joint venture are recognized in accordance with the equity method of accounting.

Under the equity method of accounting, the shares in a joint venture are initially recognized at historical cost. These costs are adjusted in subsequent periods to reflect any changes in the Group's share in the joint venture's net assets since the acquisition date. The Group determines on each reporting date whether there is any objective evidence suggesting that the share in the joint venture may be impaired. In the event of such evidence being found, the impairment equals the difference between the recoverable amount of the share in the joint venture and the carrying amount, upon which the resultant loss is recognized through profit and loss within the share of profits of joint ventures.

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

CURRENCY TRANSLATION

The Consolidated Financial Statements were prepared in Euro, which is GRAMMER AG's functional currency. The assets and liabilities of foreign subsidiaries whose functional currency is not the Euro are converted into the Group currency (Euro) on the basis of their functional currency. The functional currency of the subsidiaries is the corresponding local currency. It is translated using the modified end-of-year exchange 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 are shown in net income for the period upon disposal. Currency translation differences arising from foreign-currency loans to secure 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 RATE		END-OF-YEAR EXCHANGE RATE	
		2016	2015	2016	2015
Argentina	ARS	0.061	0.097	0.060	0.071
Brazil	BRL	0.261	0.274	0.292	0.232
China	CNY	0.137	0.143	0.137	0.142
United Kingdom	GBP	1.230	1.374	1.168	1.362
Japan	JPY	0.008	0.007	0.008	0.008
Mexico	MXN	0.049	0.057	0.046	0.053
Poland	PLN	0.229	0.239	0.227	0.235
Czech Republic	CZK	0.037	0.037	0.037	0.037
Turkey	TRY	0.301	0.332	0.270	0.315
USA	USD	0.908	0.899	0.949	0.919

REVENUES FROM CONSTRUCTION CONTRACTS

Customer-specific construction contracts are recognized using the percentage-of-completion method in accordance with IAS 11 on the basis of the ratio of costs already incurred to expected total contract costs ("cost-to-cost" method). This method entails a measured estimate of the stage of completion. To determine the percentage of completion, the Group must reliably estimate the total contract costs, the costs to complete, the total contract revenue, the contract risks and other assumptions. Management continually reviews these estimates and adjusts them as necessary. When the percentage-of-completion method is applied, such adjustments may result in an increase or decrease in revenue in the corresponding reporting period. If it is not possible to reliably estimate the results of a construction contract, the income from the contract is recorded at an amount equaling the contract costs which have arisen, meaning that this construction contract is recorded within equity. Contract costs are recognized as an expense in the period in which they arise. Any expected contract losses are recognized as provisions. The construction contracts are included with "other financial assets".

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are directly recognized as expense upon arising. Development expenses are capitalized as intangible assets if the conditions for recognition stated in IAS 38 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 if the asset has not yet been used or if there are any indications for impairment during the year.

RECOGNITION OF INCOME AND EXPENSES

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

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

In the case of long-term construction contracts (e.g. customer development contracts), revenue is recognized in accordance with the percentage of completion as of the reporting date. The percentage of completion is determined on the basis of the ratio of the accumulated contract costs as of the reporting date to the estimated total contract costs. If income from a construction contract cannot be estimated reliably, probable revenues are recognized in the amount of expenses incurred. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is immediately recognized in full as an expense in the period this became apparent.

INTEREST INCOME AND EXPENSE

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

DIVIDENDS

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

GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that the grants will be received and the beneficiary Group company complies with the conditions attached to them. Grants related to expenses are recognized as income on a systematic basis over the periods necessary to match with the related costs. Government grants related to assets are presented in the balance sheet by setting up the grant as deferred income that is depreciated on a straight-line basis over the expected useful life of the asset. 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

Tax items are calculated in the light of the respective 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. Accordingly, an estimate is required to determine the amount of deferred tax assets on the basis of the expected timing and amount of the future taxable profit as well as the future tax planning strategies. The recoverable value of the deferred tax assets is tested annually on the basis of planned taxable income.

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

Property, plant and equipment are carried at cost less straight-line depreciation and accumulated impairment losses (IAS 16). If the cost of certain components is significant in proportion to the overall cost of the item of property, plant and equipment and if these components are subject to regular replacement, the Group recognizes these separately and depreciates them individually 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 are 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. Impairment losses are recognized in accordance with IAS 36 when the carrying amount exceeds the value in use or the fair value less costs to sell of the assets. Should the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to the maximum amount of the asset’s amortized 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

Leases involving the Group as lessee are classified as operating leases or finance leases in accordance with IAS 17. 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 and the lease back of the same asset.

INTANGIBLE ASSETS

Intangible assets acquired – other than as a result of a business combination – are initially recognized at historical cost. The costs of such intangible assets acquired under business combinations equal their fair value on their date of acquisition. They are subsequently recorded at historical cost less cumulative amortization and 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. The amortization period and method applied to intangible assets with a definite useful life are reviewed at least annually. 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

Goodwill arising from a business combination is initially measured at cost and is defined as the excess of the acquisition costs 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 loss. Goodwill impairments are only identified through annual impairment testing.

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

Impairment testing is carried out annually at the level of segments, which are cash-generating units or groups of cash-generating units and represent the lowest level at which goodwill is monitored for internal management purposes. This monitoring requires an estimate to be made of the value in use of the cash-generating units to which the goodwill is allocated to. 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 underlying methods may exert considerable influence on the applicable figures and ultimately also the extent of a possible impairment of goodwill.

INVENTORIES

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

CASH AND SHORT-TERM DEPOSITS

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.

OWN SHARES

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

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

Actuarial gains or losses result from changes in the number of beneficiaries and differences between actual trends (e.g. salary or pension increases) compared to the assumptions on which the calculations were based. They are reported within other comprehensive income (retained earnings) and subsequently no longer 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 pension 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. Further details on the pension obligations can be found in Note 19.

PROVISIONS

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), 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, if applicable. In the event of discounting, the increase in provisions 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. 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.

FINANCIAL ASSETS

Current and non-current financial assets are assigned to the following categories:

- Loans and receivables (LaR)
- Financial assets at fair value through profit or loss (FVtPL)
- Financial assets held for trading (FAHfT)
- Available-for-sale financial assets (AfS)

Loans and receivables (LaR) are composed of cash and cash equivalents, financial receivables and trade accounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are not quoted on an active market. 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. Gains and losses are recognized as profit or loss in the period when they are derecognized or written down or are reduced through amortization.

Financial assets measured at fair value through profit or loss (FVtPL) are recognized at fair value in the balance sheet and any unrealized gains and losses are recognized through profit and loss in the financial result. This item includes embedded derivatives. If agreements contain embedded derivatives, they are accounted for separately from the underlying agreement when the economic attributes and risks of the embedded derivative are not closely connected to the economic attributes and risks of the underlying agreement. The Group establishes whether embedded derivatives are to be accounted for separately from the underlying agreement when it becomes a counterparty for the first time. The Group did not have any financial assets measured at fair value through profit and loss in the year under review or in the previous year.

Financial assets held-for-trading (FAHfT) comprise derivative financial instruments which do not satisfy the criteria for hedge accounting. They are measured at their fair value upon initial recogntion. Any changes in the fair value of the derivatives are reported through profit and loss in other financial income and expense. Financial assets are also classified as held for trading if they are purchased for the purpose of being sold in the near future. In contrast to the previous year, the Group did not have any derivatives not satisfying the criteria for hedge accounting in the year under review.

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

Following initial recognition, available-for-sale financial assets are measured at their fair value in subsequent periods provided that there is an active market. Unrealized gains or losses are recognized as other gains/losses in the reserve for available-for-sale financial assets within equity. No prices are quoted on an active market for the Group's held-for-sale financial assets. As their fair value can also not be reliably determined, they are measured at amortized cost. Upon such assets being derecognized, the cumulative gain or loss is recognized in other operating income. If an asset is impaired, the cumulative loss is recognized within financial expenses in the income statement and eliminated from the reserve for available-for-sale financial instruments. The same thing applies if equity instruments in this category exhibit a significant or persistent decline in their fair value to below historical cost. For this purpose, the "significant" criterion is assessed on the basis of the original cost, while the "persistent" criterion is based on the time period during which the fair value was lower than the historical cost. Here as well, the impairment is recorded through profit and loss. Impairments of equity instruments are not reversed through profit and loss; any subsequent rise in the fair value is recognized directly within equity.

Financial assets are recognized on their settlement date.

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 receivables and financial receivables are derecognized before the settlement date as soon as it is established that they are no longer recoverable.

In the event of objective evidence of an impairment of loans and receivables (LaR), impairment expense equaling the difference between the present value of the expected future cash flows and the carrying amount is calculated and recognized in a separate impairment account within profit and loss.

FINANCIAL LIABILITIES

Current and non-current financial liabilities are assigned to the following categories:

- Financial liabilities at fair value through profit or loss (FVtPL)
- Financial liabilities held for trading (FLHfT)
- Other financial liabilities at acquisition costs (FLAC)

Financial liabilities measured at fair value through profit or loss (FVtPL) include financial liabilities held for trading as well as financial liabilities designated as measured at fair value through profit or loss upon initial recognition. 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 Group did not make use of the possibility of assigning financial liabilities to this category in the year under review or in the previous year.

Financial liabilities held for trading (FLHfT) are derivatives with a negative market value, which were not designated as hedging instruments or are ineffective as such. Liabilities in this category are measured at fair value upon initial recognition as well as in subsequent periods. Any resultant gains and losses are reported through profit and loss. In contrast to the previous year, the Group did not have any derivatives not satisfying the criteria for hedge accounting in the year under review.

Other financial liabilities at acquisition costs (FLAC) comprise financial liabilities that are not assigned to any other category of financial liabilities. They are measured at amortized cost using the effective interest rate 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.

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 substantially 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. If the hedges do not satisfy the requirements of hedge accounting or if they constitute the ineffective part of an otherwise effective hedge relationship, the change in fair value is recognized through profit and loss.

The Group did not hold any currency or commodity forwards as of the reporting date. In addition, fully effective cash flow hedges were available for the interest rate swaps. Accordingly, any changes in the fair value of these financial instruments are initially allocated to retained earnings. They are recycled to profit and loss upon the recognition of the gains or losses from the hedged transaction.

2.2 APPLICATION OF IFRS STANDARDS

Several minor amendments to and clarifications of various standards were subject to mandatory application for the first time 2016. However, they did not have any material effect on the consolidated financial statements.

2.3 PUBLISHED STANDARDS WHICH ARE NOT YET SUBJECT TO MANDATORY APPLICATION

ENDORSED BY THE EU BUT NOT YET APPLIED

The IASB published the standards and interpretations listed below which have already been integrated into EU law as part of the comitology procedures but application of which was not yet mandatory in fiscal year 2016. Only those standards and interpretations of relevance for the consolidated financial statements are described below. The other accounting standards published by the IASB and IFRIC and endorsed by the EU are not relevant for the Group and are therefore not included here.

IFRS 9: FINANCIAL INSTRUMENTS

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement as well as all previous versions of IFRS 9. IFRS 9 combines the three project phases for accounting for financial instruments: "classification and measurement", "impairment" and "hedge accounting". IFRS 9 must be applied for the first time in accounting periods beginning on or after January 1, 2018. Earlier adoption is permissible. With the exception of hedge accounting, the standard must be applied retroactively, although the disclosure of comparative information is not required. Aside from a few exceptions, the guidance on hedge accounting must be applied prospectively. The GRAMMER Group intends to apply the new standard on the stipulated date. A preliminary assessment by the Group in 2016 indicated that it would not have any material effect on the consolidated statement of financial position or consolidated equity with the exception of the effects arising from the application of the guidance in IFRS 9 on impairments. The Group assumes that the hedge relationships previously designated as being effective will continue to satisfy the necessary criteria. This preliminary assessment is based on information that is currently available and may change following further more detailed analyses.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

Published in May 2014, IFRS 15 introduces a five-step model for accounting for revenue from contracts with customers. Under IFRS 15, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (transaction price as defined in IFRS 15). The new standard on revenue will be replacing all current guidance provided under IFRS for revenue recognition. In the case of accounting periods commencing on or after January 1, 2018, it must be applied either on a fully or a modified retrospective basis. Early adoption is permitted.

A number of clarifications on IFRS 15 were published in April relating in particular to the identification of distinct performance obligations. The clarifications have not yet been endorsed by the EU.

GRAMMER currently does not expect more than only minor changes to the total amount of revenues recognized from contracts with customers. Under a project commenced in 2016 and currently ongoing, GRAMMER is analyzing and preparing the implementation of IFRS 15. A preliminary phase initially entailed a detailed analysis of contracts with customers and the impacts of IFRS 15.

In a further phase, the business model was reviewed in general and on the basis of sample contracts in the light of the new guidance on revenue recognition. No new distinct performance obligations were identified. With respect to the development, prototype and tooling services which are currently recognized in accordance with the percentage-of-completion method, the vast majority of these performance obligations are expected to continue satisfying the conditions for over-time recognition of revenues. Similarly, no major changes are expected in the timing of revenues for certain performance obligations with variable remuneration components. Moreover, separate line items may be necessary in the statement of financial position (e.g. separate line items for assets and liabilities) as well as additional quantitative and qualitative disclosures in the notes. The Group does not expect any material change in the previous practice of point-in-time recognition of revenues. The Group intends to apply the new standard on the stipulated date.

EU ENDORSEMENT PENDING

The IASB has published the following standards and interpretations, the application of which was not yet mandatory in fiscal year 2016. These standards and interpretations have not yet been endorsed by the EU and are not applied by the Group.

IFRS 16 LEASES

The IASB published the new standard on leases in January 2016. Under this new standard, the lessee is required to recognize the rights to use the leased asset and a corresponding lease liability. On the other hand, there are only minor changes for lessors compared with the guidance in IAS 17 on classifying and accounting for leases. IFRS 16 stipulates additional disclosures in the notes for lessees and lessors.

IFRS 16 must be applied for the first time in accounting periods commencing on or after January 1, 2019. Early adoption is permissible provided that IFRS 15 Revenue from Contracts with Customers is already being applied or is adopted at the same time as IFRS 16. GRAMMER intends to apply the new standard from the effective date. A preliminary analysis has identified the following effects. However, the analysis has not yet been completed and will be updated by the Group to accommodate changes in the interpretation of IFRS 16.

The GRAMMER Group has to date predominantly used operating leases for equipment assets. Currently, the related payment obligations are only disclosed in the notes. In the future, however, it will be necessary to include the rights and obligations arising from these leases in the statement of financial position. GRAMMER expects this to produce an increase in total assets as well as a slight decrease in EBIT as of the date of first-time application. Reference should be made to Note 12 (property, plant and equipment) for details of the leases to be included in the statement of financial position in future periods.

AMENDMENT TO IAS 7: DISCLOSURE INITIATIVE

The amendment to IAS 7 Statement of Cash Flows forms part of the IASB's disclosure initiative and requires companies to make disclosures allowing users of the financial statements to follow cash and non-cash changes in debts arising from financing activities. It is not necessary to provide any comparison information for earlier reporting periods when the amendment is applied for the first time. This amendment is to be applied in accounting periods commencing on or after January 1, 2017. Early adoption is permitted. GRAMMER intends to apply the new standard from the effective date.

AMENDMENT TO IAS 12: RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALIZED LOSSES

The purpose of these amendments is to eliminate the uncertainty occurring in practice in connection with the recognition of deferred tax assets from unrealized losses arising from assets measured at fair value. The amendments must be applied for the first time to accounting periods commencing on or after January 1, 2017. Early adoption is permitted. This amendment is currently not expected to have any impact on the Group. The Group intends to apply the new standard on the effective date.

3 BASIS OF CONSOLIDATION

INFORMATION ON SUBSIDIARIES

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

NAME OF SUBSIDIARY	REGISTERED OFFICE	MAIN ACTIVITY	EQUITY INTEREST IN % 2016	2015
1. Fully consolidated subsidiaries				
1. GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/Seating Systems	100.00	100.00
2. GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	Sales company	100.00	100.00
3. GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	Seating Systems	99.40	99.40
4. GRAMMER Inc.	Hudson (WI), USA	Automotive/Seating Systems	100.00	100.00
5. GRAMMER CZ s.r.o.	Tachov, Czech Republic	Automotive/Seating Systems	100.00	100.00
6. GRAMMER Japan Ltd.	Tokyo, Japan	Sales company	100.00	100.00
7. GRAMMER AD	Trudovetz, Bulgaria	Seating Systems	91.46	90.23
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.	Olèrdola, 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	Seating Systems	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	Seating Systems	100.00	100.00
21. GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Seating Systems	100.00	100.00
22. GRAMMER Electronics N.V.	Aartselaar, Belgium	Seating Systems	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	Seating Systems	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	Seating Systems	99.96	99.96
28. GRAMMER Italia srl.	Jesi, Italy	Seating Systems	100.00	100.00
29. GRAMMER Interior Components GmbH[2]	Hardheim, Germany	Automotive	100.00	100.00
30. GRAMMER Interior Components Polska Sp. z o.o.[3]	Sosnowiec, Poland	Automotive	100.00	100.00
31. GRAMMER Seating (Shaanxi) Co., Ltd.	Weinan City, China	Seating Systems	90.00	[1]
2. Proportionately consolidated companies				
1. GRA-MAG Truck Interior Systems LLC	London (OH), USA	Seating Systems	50.00	50.00

[1] GRAMMER Seating (Shaanxi) Co., Ltd. was consolidated for the first time in July 2016.
[2] REUM Kunststoff- und Metalltechnik was renamed GRAMMER Interior Components GmbH effective June 1, 2016.
[3] REUM Polska Sp. z o.o. was renamed GRAMMER Interior Components Polska Sp. z o.o. effective May 31. 2016.

In addition to GRAMMER AG, five domestic and 26 foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IFRS 10 are consolidated.

The company accounted for at equity is the GRA-MAG joint venture, in which GRAMMER AG holds 50% of the voting rights.

The uniform reporting date for all of the consolidated companies is December 31, 2016.

2016

	NATIONAL	ABROAD	TOTAL
Fully consolidated companies (incl. GRAMMER AG)	6	26	**32**
Companies consolidated at equity	0	1	**1**
Companies	**6**	**27**	**33**

2015

	NATIONAL	ABROAD	TOTAL
Fully consolidated companies (incl. GRAMMER AG)	6	25	**31**
Companies consolidated at equity	0	1	**1**
Companies	**6**	**26**	**32**

The GRAMMER Group does not have any material shares in subsidiaries on which it does not exerting a controlling influence or in consolidated structured entities.

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

4 BUSINESS COMBINATIONS

Purchase price allocation in connection with GRAMMER Interior Components GmbH (formerly REUM Kunststoff- und Metalltechnik GmbH) and GRAMMER Interior Components Polska Sp. z o.o. (formerly REUM Polska Sp. z o.o.) was adjusted within a year of the acquisition date in accordance with IFRS 3.49.

GRAMMER AG signed a contract for the acquisition of the REUM Group on October 22, 2015. 100% of the shares in these two companies were acquired and recognized as shares in affiliated companies. The transaction was cleared by the competition authorities. On December 28, 2015, GRAMMER AG completed the acquisition of the REUM Group, as a result of which the REUM Group was consolidated from this date.

The following adjustments arose from the final purchase price allocation for the two companies.

The following table sets out the fair value as of the date of first-time consolidation after provisional and final purchase price allocation for GRAMMER Interior Components GmbH and GRAMMER Interior Components Polska Sp. z o.o.:

EUR K	PROVISIONAL FAIR VALUE ON ACQUISITION DATE	ADJUSTMENT	FINAL FAIR VALUE AT DATE OF ACQUISITION
Property, plant and equipment	29,516		29,516
Intangible assets	9,810	500	10,310
Inventories	9,807		9,807
Current trade accounts receivable	13,436		13,436
Other current financial assets	17,084		17,084
Cash and short-term deposits	5,897		5,897
Deferred tax assets	168		168
Accruals/deferrals	207		207
Assets	**85,925**	**500**	**86,425**
Provisions	–9,847		–9,847
Non-current financial liabilities	–760		–760
Current financial liabilities	–633		–633
Current trade accounts payable	–8,730		–8,730
Other current financial liabilities	–43		–43
Other current liabilities	–13,321		–13,321
Deferred tax liabilities (of which from remeasurement: EUR –3,208 thousand)	–4,672	–146	–4,818
Liabilities	**–38,006**	**–146**	**–38,152**
Total fair value of identifiable net assets	**47,919**	**354**	**48,273**
Goodwill from company acquisition	2,081	–354	1,727
Consideration paid	**50,000**	**0**	**50,000**
Cash acquired from new subsidiary	5,897		5,897
Cash outflow	–50,000		–50,000
Total cash outflow from company acquisition	**–44,103**		**–44,103**

Within the first twelve months after the acquisition date, the fair value of the intangible assets acquired (customer orders) rose by EUR 500 thousand as a result of final purchase price allocation, leading to an increase in deferred tax liabilities of EUR 146 thousand. On the other hand, goodwill declined by EUR 354 thousand.

5 SHARES IN A JOINT VENTURE

GRAMMER AG holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG LLC), a jointly controlled entity in the United States, which is active in the Seating Systems Division and mostly develops and produces seats and seating systems for trucks.

The Group's shares in GRA-MAG LLC are recognized in accordance with the equity method of accounting.

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

EUR K	2016	2015
Current assets	7,996	9,570
Non-current assets	577	852
Assets	**8,573**	**10,422**
Current liabilities	−7,625	−10,505
Non-current liabilities	−29,565	−30,173
Liabilities	**−37,190**	**−40,678**
Equity	**−28,617**	**−30,256**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment	0	0

The share in GRA-MAG LLC 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 above-mentioned assets and liabilities include the following amounts:

EUR K	2016	2015
Cash and cash equivalents	1,100	1,259
Current financial liabilities (net of trade accounts payable and other liabilities and provisions)	−5,568	−7,962
Non-current financial liabilities (net of trade accounts payable and other liabilities and provisions)	−29,565	−30,173

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

EUR K	2016	2015
Revenue	33,565	42,364
Cost of sales, including scheduled depreciation of EUR 433 thousand (2015: 445)	−26,079	−34,959
Administrative expenses	−3,822	−3,780
Interest income	0	0
Interest expenses	−1,085	−1,121
Profit/loss (−) before income taxes	**2,579**	**2,504**
Income taxes	−64	−79
Net profit/loss (−)	**2,515**	**2,425**
Group's share of profit or loss	1,258	1,212

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

EUR K	2016	2015
GRA-MAG LLC's unrealized losses as of January 1	−14,380	−15,592
Unrealized gains of GRA-MAG LLC in the period under review	1,258	1,212
Unrealized losses of GRA-MAG LLC as of December 31	**−13,122**	**−14,380**

As of December 31, 2016 and 2015, 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.

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 consolidated financial statements which have been prepared in accordance with IFRS. For the purpose of management, the Group is organized into product segments by relevant products and services, comprising the following two reportable segments:

The Automotive Division, which is the larger segment within the GRAMMER Group, contributed 72.8% (2015: 68.7) of total Group revenue in 2016. GRAMMER is active in this segment as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and complex operating elements. The Group sells these products to automotive OEMs primarily in the upper and premium segments and to their tier 1 suppliers.

The Seating Systems Division generated 27.2% of Group revenue in 2016 (2015: 31.3). The Seating Systems Division develops and produces driver and passenger seats for medium and heavy-weight trucks, off-road vehicles (agricultural and construction machinery, landscaping vehicles) and material handling equipment 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 to bus and rolling stock OEMs, as well as railway operators.

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

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

REPORTING SEGMENTS

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

FISCAL YEAR ENDED DECEMBER 31, 2016

EUR K

	SEATING SYSTEMS	AUTOMOTIVE	CENTRAL SERVICES/ RECONCILIATION	GRAMMER GROUP
Revenue from sales to external customers	434,975	1,260,508	0	**1,695,483**
Inter-segment revenue	38,665	10,262	−48,927[1]	**0**
Revenue	**473,640**	**1,270,770**	**−48,927**	**1,695,483**
Segment earnings (EBIT)	**39,124**	**42,462**	**−8,538**	**73,048**
Financial income				1,506
Financial expenses				−13,517
Other financial result				1,694
Profit/loss (−) before income taxes				**62,731**
Income taxes				−17,508
Net profit/loss (−)				**45,223**
Other segment information				
Investments				
Property, plant and equipment	8,576	38,804	1,559	**48,939**
Intangible assets	749	3,991	2,513	**7,253**
Amortization				
Depreciation of property, plant and equipment	−11,100	−22,264	−1,404	**−34,768**
Amortization of intangible assets	−2,678	−8,220	−1,562	**−12,460**
Non-cash items				
Changes in pension provisions	4,487	1,232	742	**6,461**

[1] Sales to and income from other segments comply with arm's length requirements.

FISCAL YEAR ENDED DECEMBER 31, 2015

EUR K

	SEATING SYSTEMS	AUTOMOTIVE	CENTRAL SERVICES/ RECONCILIATION	GRAMMER GROUP
Revenue from sales to external customers	425,513	1,000,173	0	**1,425,686**
Inter-segment revenue	32,846	7,968	−40,814[1]	**0**
Revenue	**458,359**	**1,008,141**	**−40,814**	**1,425,686**
Segment earnings (EBIT)	**27,833**	**23,759**	**−8,937**	**42,655**
Financial income				1,151
Financial expenses				−11,177
Other financial result				3,089
Profit/loss (−) before income taxes				**35,718**
Income taxes				−11,942
Net profit/loss (−)				**23,776**
Other segment information				
Investments				
Property, plant and equipment	10,255	25,865	3,014	**39,134**
Intangible assets	1,327	6,011	1,383	**8,721**
Amortization				
Depreciation of property, plant and equipment	−10,988	−18,693	−1,651	**−31,332**
Amortization of intangible assets	−2,292	−5,810	−1,052	**−9,154**
Non-cash items				
Changes in pension provisions	4,263	1,251	761	**6,275**

[1] Sales to and income from other segments comply with arm's length requirements.

RECONCILIATION

EUR K

	2016	2015
Segment earnings (EBIT)	**81,586**	**51,592**
Central Services[1]	−10,686	−8,518
Eliminations[2]	2,148	−419
Group earnings (EBIT)	**73,048**	**42,655**
Financial result	−10,317	−6,937
Profit/loss (–) before income taxes	**62,731**	**35,718**

[1] Central Services includes areas centrally administrated by the Group.
[2] Transactions between the segments are eliminated in the reconciliation statement.

INFORMATION ON GEOGRAPHIC AREAS

The following tables include information on externally generated revenues and non-current assets of the Group's geographical areas for the fiscal years ended December 31, 2016 and 2015. The geographical breakdown is based on the region of registration of the companies.

2016

EUR K

REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Revenue	1,197,921	246,585	250,977	**1,695,483**
Non-current assets (property, plant and equipment as well as intangible assets)	256,835	30,519	28,702	**316,056**

2015

EUR K

REGISTRATION OF THE COMPANIES	EMEA	AMERICAS	APAC	GROUP
Revenue	971,635	243,938	210,113	**1,425,686**
Non-current assets (property, plant and equipment as well as intangible assets)	256,848[1]	26,957	28,306	**312,111**

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

EMEA (Europe, Middle East, Africa) includes all European companies as well as the companies in Turkey and South Africa. The Americas include all companies in the United States 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 906 million (2015: 696).

7 REVENUE STRUCTURE OF THE GROUP

GRAMMER Group generates revenue primarily from the sale and delivery of its products to customers. The revenue structure of the reportable operating segments is described in the segment report.

Revenue of EUR 1,695,483 thousand (2015: 1,425,686) includes contract revenue of EUR 93,865 thousand (2015: 69,659) determined using the percentage-of-completion method. The related expenses primarily match the revenue due to the heavy competition and customers' price sensitivity. This revenue concerns development activities and supplies which the GRAMMER Group must prefinance until initial series revenue is generated. It primarily arises in the Automotive Division.

8 OTHER INCOME AND EXPENSES

8.1 OTHER OPERATING INCOME

Other operating income primarily includes income from handling costs of EUR 2,310 thousand (2015: 3,318), income from the sale of scrap metal and other income of EUR 5,778 thousand (2015: 7,700). The decline in other income is due to the non-recurring income of EUR 4.4 million which had arisen in the previous year from the sale of land and buildings under a sale-and-lease-back transaction. Other operating income additionally comprises government grants of EUR 1,229 thousand (2015: 3,191) and income from recharged expenses and rental income of EUR 114 thousand (2015: 651). 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 the financial result:

EUR K	2016	2015
Interest income on bank balances	770	752
Available-for-sale financial assets	340	27
Other loans	396	372
Financial income	**1,506**	**1,151**
Loans and overdraft	–8,554	–6,896
Other interest costs	–135	–20
Interest cost of pension provisions	–3,240	–2,904
Losses from financial assets and liabilities measured at fair value through profit and loss	–1,367	–1,134
Interest element of lease payments	–221	–223
Financial expenses	**–13,517**	**–11,177**
Other financial result	**1,694**	**3,089**
Financial result	**–10,317**	**–6,937**

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

Financial income includes interest of EUR 1,169 thousand (2015: 1,151) calculated using the effective interest method.

Financial expenses include the corresponding interest expense on loans and overdraft facilities of EUR 8,554 thousand (2015: 6,896). Of this, an amount of EUR 7,525 thousand (2015: 5,855) was calculated using the effective interest method.

Other financial result of EUR 1.7 million includes net losses from the measurement of borrowings and loans in foreign currencies of EUR –36 thousand in the year under review (2015: 1,606). They also include net measurement gains of bank balances and financial liabilities as of the reporting date of EUR 1,730 thousand in the year under review (2015: 1,483).

8.3 DEPRECIATION/AMORTIZATION EXPENSE, CURRENCY TRANSLATION DIFFERENCES AND HISTORICAL COSTS INCLUDED IN THE CONSOLIDATED INCOME STATEMENT

COST OF SALES

The cost of sales include the production costs for products and expense for merchandise of EUR 1,425,587 thousand (2015: 1,213,845) attributable to revenue. 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. The cost of sales also includes non-capitalized research and development costs in the amount of EUR 61,705 thousand (2015: 51,798) as well as the amortization of development costs. 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 Seating Systems Division for “design to market” developments are also included here.

SELLING EXPENSES

Selling expenses involve all sales-related costs and primarily refer to costs incurred by the Sales, Advertising and Marketing departments as well as overheads 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 for general administration, management and central departments. Other administrative expenses also includes income from exchange rate movements in the amount of EUR 26,185 thousand (2015: 23,156) which mainly relates to foreign exchange gains between the origination and settlement of foreign currency receivables and liabilities as well as foreign exchange gains resulting from measurement at the balance sheet date. Foreign exchange losses amounting to EUR 21,274 thousand (2015: 19,468) are also recognized under other administrative expenses. Cost components from the internal restructuring of the Group are also included.

AMORTIZATION AND DEPRECIATION

Amortization of intangible assets totaled EUR 12,460 thousand (2015: 9,153) 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 2,586 thousand (2015: 2,183) that are included in the cost of sales.

Depreciation of property, plant and equipment amounted to EUR 34,768 thousand (2015: 31,333). As in 2015, no impairment losses were recognized in fiscal year 2016.

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 analyzed in the following table:

EUR K	2016	2015
Wages and salaries	288,630	245,478
Social security contributions of which for pensions EUR 4,323 thousand (2015: 4,181)	63,774	56,299
Personnel expenses	**352,404**	**301,777**

9 INCOME TAXES

The key components of income taxes for fiscal years 2016 and 2015 break down as follows:

EUR K	2016	2015
Consolidated Statement of Income		
Current tax		
Current tax expenses Germany	–5,297	–3,659
Current tax expenses abroad	–9,908	–15,140
Total current tax expenses	**–15,205**	**–18,799**
Deferred tax		
Deferred tax expenses (–)/income Germany	–7,089	2,745
Deferred tax expenses (–)/income abroad	4,786	4,112
Deferred tax expenses (–)/income	**–2,303**	**6,857**
Tax expenses reported in the Consolidated Statement of Income	**–17,508**	**–11,942**

This increase was due to the growth in operating profit in Germany as well as an increase in deferred tax liabilities in Germany in connection with the utilization of unused tax losses. In addition, international transfer-pricing operations arising from differences in the interpretations by local tax authorities and administrative views on our international transfer-pricing expenses had a positive effect on actual foreign income taxes.

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 2016 and 2015 is as follows:

EUR K	2016	2015
Profit/loss (–) before income taxes	**62,731**	**35,718**
Income taxes at the effective rate in Germany of 29.2% (2015: 29.1)	–18,318	–10,394
Effects from minimum taxation and withholding taxes	–888	–1,278
Current income taxes relating to previous years	–282	–6,212
Effect of the non-recognition of deferred income taxes for the current year	–367	–236
Adjustment of deferred taxes arising in earlier years	–1,321	6,053
Tax-exempt government grants/Tax benefits	370	277
Non-deductible expenses	–2,812	–2,259
Other tax effects	2,426	732
Effects from different foreign tax rates	3,684	1,375
Income taxes at the effective tax rate of 27.9% (2015: 33.4)	**–17,508**	**–11,942**

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

EUR K	2016	2015
Property plant and equipment	–9,948	–8,833
Intangible assets	–11,353	–12,604[1]
Other assets	–768	–959
Inventories	–932	–1,395
Current trade accounts receivable	–32	–30
Other current financial assets	–4,779	–5,145
Non-current financial liabilities	–968	–1,007
Other current assets	–328	–1,517
Other	–1,697	–1,015
Deferred tax liabilities	**–30,805**	**–32,505[1]**
Pensions and similar liabilities	24,589	19,888
Provisions	1,354	1,014
Unused tax losses	19,717	23,061
Other financial assets	69	8
Property, plant and equipment	2,729	2,596
Other current liabilities	1,690	2,368
Current trade accounts receivable	1,079	1,044
Other	3,520	3,873
Deferred tax assets	**54,747**	**53,852**

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

The reconciliation of deferred taxes is set out below:

EUR K	2016	2015
As of January 1	21,347	22,311
Deferred tax expenses (–)/income in profit and loss	–2,303	6,857
Deferred tax expenses (–)/income in the statement of comprehensive income	4,556	–3,018
Deferred tax acquired through first-time consolidation	0	–4,650[1]
Currency-translation effects	342	–153
As of December 31	23,942	21,347[1]

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

The statutory rate of corporate income tax in Germany was 15% for the 2016 and 2015 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 2016 (2015: 29.1).

For the calculation of deferred tax assets and liabilities, the tax rates applicable at the point of utilization of the asset or fulfillment of the liability are used. Deferred tax assets and liabilities were measured on the basis of the overall tax rate of 29.2% (2015: 29.1). As in the previous year, the local income tax rates for foreign entities varied between 10% and 38%.

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

No deferred tax assets were recognized in the fiscal year 2016 on unused tax losses that were assumed to be non-recoverable (2015: 0.4). The Group assumes that it will have sufficient taxable income to make use of existing unused tax losses. The unused tax losses may be carried forward for periods of 10 to 20 years or also indefinitely and in some cases carried back.

Deferred taxes were not recorded on outside basis differences (i.e. differences between net assets incl. goodwill at subsidiaries and the relevant tax value of interests in subsidiaries), as reversal of differences, e.g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. The outside basis differences stand at EUR 83,897 thousand as of December 31, 2016 (2015: 85,715).

The distribution of dividends to the shareholders did not have any consequences for income tax in 2016 or 2015.

10 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 have been bought back (330,050 shares). The Company's share capital amounts to EUR 29,554,365.44 divided into 11,544,674 shares. All shares with the exception of treasury stock accord the same rights; shareholders have a right to 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 entered into any such contracts as of December 31, 2016, its basic and diluted earnings per share are identical.

EARNINGS PER SHARE

	2016	2015
Weighted average number of ordinary shares for calculating basic/diluted earnings	11,214,624	11,214,624
Earnings in EUR K (net of non-controlling interests)	44,981	23,604
Basic/diluted earnings/loss (–) per share in EUR	4.01	2.10

Acting with the consent of the Supervisory Board, the Executive Board of GRAMMER AG passed a resolution on February 14, 2017 to issue a mandatory convertible bond in a nominal amount of EUR 60 million subject to the exclusion of the shareholders' preemptive subscription rights. The mandatory convertible bond is convertible into shares that are equivalent to around 9.2% of GRAMMER AG's share capital. It has been issued to a company affiliated with the Chinese automotive component supplier Ningbo Jifeng Auto Parts Co. Ltd. ("Ningbo Jifeng").

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, 2016, GRAMMER AG posted net profit of EUR 51.2 million (2015: 31.2). This includes the profit of EUR 22.8 million carried forward, the allocation of EUR 28.5 million to retained earnings and the net profit for the year of EUR 56.9 million. The Executive Board and the Supervisory Board will be proposing to the Annual General Meeting that a dividend of EUR 1.30 per share be paid and that the balance of EUR 36.7 million be carried forward. In this connection, allowance was made for the fact that the 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 on May 24, 2017, the Executive Board and Supervisory Board of GRAMMER AG will present a duly adjusted dividend proposal to the meeting.

A dividend of EUR 8.4 million was paid in the year under review (2015: 8.4). Further details can be found in Note 18.

Dividends approved and distributed during the fiscal year:

DIVIDENDS ON NO-PAR VALUE SHARES

EUR K

	2016	2015
Dividend for 2015: EUR 0.75 (2014: EUR 0.75)	8,411	8,411

The shareholders will be asked to approve a dividend of EUR 1.30 (2015: 0.75) per share for 2016 at the annual general meeting. This amount was not recognized as a liability as of December 31.

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

EUR K AS OF DECEMBER 31, 2016	COSTS						
	AS OF JANUARY 1, 2016	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	EFFECTS FROM COMPANY ACQUISITION	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2016
Land and buildings	**101,913**	1,436	−3,009	201	0	519	**101,060**
Technical machines and equipment	**193,432**	18,050	−7,198	−2,753	0	4,530	**206,061**
Factory and office equipment	**200,260**	16,814	−5,914	−14	0	1,277	**212,423**
Advance payments and plant under construction	**9,099**	12,201	−1,203	−43	0	−6,691	**13,363**
Finance lease	**13,927**	438	0	22	0	−31	**14,356**
Property, plant and equipment	**518,631**	**48,939**	**−17,324**	**−2,587**	**0**	**−396**	**547,263**
Concessions, industrial rights	**79,693**	6,438	−1,356	−481	0	403	**84,697**
Goodwill	**48,879**	0	0	0	0	0	**48,879**
Capitalized development costs	**26,973**	814	−57	−72	0	0	**27,658**
Advance payments	**6**	1	0	0	0	−7	**0**
Intangible assets	**155,551**	**7,253**	**−1,413**	**−553**	**0**	**396**	**161,234**
Property, plant and equipment and intangible assets	**674,182**	**56,192**	**−18,737**	**−3,140**	**0**	**0**	**708,497**

EUR K AS OF DECEMBER 31, 2015	COSTS						
	AS OF JANUARY 1, 2015	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	EFFECTS FROM COMPANY ACQUISITION[1]	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2015[1]
Land and buildings	**103,505**	838	−19,301	−591	16,413	1,049	**101,913**
Technical machines and equipment	**175,584**	13,542	−6,708	−1,686	8,075	4,625	**193,432**
Factory and office equipment	**189,021**	13,759	−4,958	−1,701	1,648	2,491	**200,260**
Advance payments and plant under construction	**6,858**	9,695	−14	79	646	−8,165	**9,099**
Finance lease	**9,663**	1,300	−10	240	2,734	0	**13,927**
Property, plant and equipment	**484,631**	**39,134**	**−30,991**	**−3,659**	**29,516**	**0**	**518,631**
Concessions, industrial rights	**62,289**	7,047	−265	265	10,304	53	**79,693**
Goodwill	**47,152**	0	0	0	1,727	0	**48,879**
Capitalized development costs	**25,213**	1,632	0	128	0	0	**26,973**
Advance payments	**11**	42	0	0	6	−53	**6**
Intangible assets	**134,665**	**8,721**	**−265**	**393**	**12,037**	**0**	**155,551**
Property, plant and equipment and intangible assets	**619,296**	**47,855**	**−31,256**	**−3,266**	**41,553**	**0**	**674,182**

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

DEPRECIATION							CARRYING AMOUNT	
AS OF JANUARY 1, 2016	ADDITIONS	DISPOSALS	REVERSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2016	JANUARY 1, 2016	DECEMBER 31, 2016
39,930	3,551	−3,009	0	234	0	**40,706**	**61,983**	**60,354**
106,229	14,772	−6,201	0	−908	14	**113,906**	**87,203**	**92,155**
147,997	14,522	−5,576	0	168	−14	**157,097**	**52,263**	**55,326**
0	0	0	0	0	0	**0**	**9,099**	**13,363**
3,366	1,923	0	0	−5	0	**5,284**	**10,561**	**9,072**
297,522	**34,768**	**−14,786**	**0**	**−511**	**0**	**316,993**	**221,109**	**230,270**
39,557	9,874	−1,356	0	−136	0	**47,939**	**40,136**	**36,758**
10,636	0	0	0	0	0	**10,636**	**38,243**	**38,243**
14,356	2,586	0	0	−69	0	**16,873**	**12,617**	**10,785**
0	0	0	0	0	0	**0**	**6**	**0**
64,549	**12,460**	**−1,356**	**0**	**−205**	**0**	**75,448**	**91,002**	**85,786**
362,071	**47,228**	**−16,142**	**0**	**−716**	**0**	**392,441**	**312,111**	**316,056**

DEPRECIATION							CARRYING AMOUNT	
AS OF JANUARY 1, 2015	ADDITIONS	DISPOSALS	REVERSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	RECLASSIFI-CATIONS	AS OF DECEMBER 31, 2015	JANUARY 1, 2015	DECEMBER 31, 2015[1]
48,875	4,230	−12,781	0	−394	0	**39,930**	**54,630**	**61,983**
101,171	13,105	−6,154	0	−1,893	0	**106,229**	**74,413**	**87,203**
141,266	12,802	−4,544	0	−1,527	0	**147,997**	**47,755**	**52,263**
0	0	0	0	0	0	**0**	**6,858**	**9,099**
2,164	1,196	0	0	6	0	**3,366**	**7,499**	**10,561**
293,476	**31,333**	**−23,479**	**0**	**−3,808**	**0**	**297,522**	**191,155**	**221,109**
32,780	6,970	−265	0	72	0	**39,557**	**29,509**	**40,136**
10,636	0	0	0	0	0	**10,636**	**36,516**	**38,243**
12,050	2,183	0	0	123	0	**14,356**	**13,163**	**12,617**
0	0	0	0	0	0	**0**	**11**	**6**
55,466	**9,153**	**−265**	**0**	**195**	**0**	**64,549**	**79,199**	**91,002**
348,942	**40,486**	**−23,744**	**0**	**−3,613**	**0**	**362,071**	**270,354**	**312,111**

12.1 PROPERTY, PLANT AND EQUIPMENT

Depreciation is based generally on the following useful economic lives:

Buildings and fixtures	10 – 40 years
Leasehold improvements	5 – 40 years
Technical machines and equipment	5 – 25 years
Other plant and equipment	2 – 15 years
Leased assets (finance leasing)	3 – 25 years

Land is not depreciated.

12.2 INTANGIBLE ASSETS

Intangible assets comprise concessions, industrial property rights, patents and customer orders. The customer orders include items which were identified in connection with the acquisition of the former REUM Group in December 2015. Final purchase price allocation in accordance with IFRS 3.49 within one year of the acquisition date led to a small adjustment of EUR 500 thousand to the intangible assets (customer orders) acquired. This had an effect of EUR 354 thousand on goodwill via deferred taxes. As in the past, intangible assets are amortized using the straight-line method over an expected useful life of three to six years.

Capitalized development costs comprise internally generated patents, which are amortized on a straight-line basis over an average expected useful life of 10 years. In fiscal year 2016, total research and development costs stood at EUR 62,518 thousand (2015: 53,430), of which EUR 814 thousand (2015: 1,632) satisfied the criteria for capitalization under IAS 38. Most of this amount was recognized in the income statement.

12.3 LEASES

GRAMMER has entered into various finance and operating leases for buildings, manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between three and 25 years. Most of the leases do not provide for renewal or purchase options, with the exception of buildings and limited items of equipment. In the case of buildings, these are largely customary renewal options, which provide for renegotiation for continued use after expiry of the lease.

GRAMMER executed a sale-and-lease-back transaction in 2015 in connection with the sale of the buildings and land in Immenstetten. The buildings and lands were sold and leased back for the next few years under a simultaneously signed lease agreement. The buildings will be handed over to the buyer step by step over the next few years. The lease signed under the sale-and-lease-back transaction is classified as an operating lease. As

EUR K

AS OF DECEMBER 31, 2016	COSTS						
	AS OF JANUARY 1, 2016	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	EFFECTS FROM COMPANY ACQUISITION	RECLASSIFICATIONS	AS OF DECEMBER 31, 2016
Land and buildings	**2,264**	0	0	75	0	0	**2,339**
Technical machines and equipment	**10,141**	165	0	–52	0	–17	**10,237**
Factory and office equipment	**1,402**	197	0	0	0	0	**1,599**
Motor vehicles	**120**	76	0	–1	0	–14	**181**
Leased assets	**13,927**	**438**	**0**	**22**	**0**	**–31**	**14,356**

EUR K

AS OF DECEMBER 31, 2015	COSTS						
	AS OF JANUARY 1, 2015	ADDITIONS	DISPOSALS	EFFECTS FROM EXCHANGE RATE DIFFERENCES	EFFECTS FROM COMPANY ACQUISITION	RECLASSIFICATIONS	AS OF DECEMBER 31, 2015
Land and buildings	**2,030**	0	0	234	0	0	**2,264**
Technical machines and equipment	**7,430**	0	–10	2	2,719	0	**10,141**
Factory and office equipment	**100**	1,300	0	2	0	0	**1,402**
Motor vehicles	**103**	0	0	2	15	0	**120**
Leased assets	**9,663**	**1,300**	**–10**	**240**	**2,734**	**0**	**13,927**

the fair value of the land and buildings was higher than the directly attributable selling price, the difference was recognized as a prepaid expense and will be released in installments over the period of preferentially priced utilization until 2020. The lease expires in 2020 and does not provide for any renewal or buy-back option.

Gains from fair value measurement came to EUR 4.4 million in 2015. The outstanding accounts receivable, which are due for settlement by 2020, stand at EUR 4.0 million and were recognized at their discounted present value of EUR 3.8 million as of December 31, 2016.

The leased assets shown in the above table that are attributable to the Company for economic purposes under IAS 17 are as follows:

Depreciation						Carrying amount	
As of January 1, 2016	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2016	January 1, 2016	December 31, 2016
95	87	0	7	0	**189**	**2,169**	**2,150**
3,019	1,565	0	−12	0	**4,572**	**7,122**	**5,665**
146	270	0	0	0	**416**	**1,256**	**1,183**
106	1	0	0	0	**107**	**14**	**74**
3,366	**1,923**	**0**	**−5**	**0**	**5,284**	**10,561**	**9,072**

Depreciation						Carrying amount	
As of January 1, 2015	Additions	Disposals	Effects from exchange rate differences	Reclassifications	As of December 31, 2015	January 1, 2015	December 31, 2015
7	86	0	2	0	**95**	**2,023**	**2,169**
1,956	1,065	0	−2	0	**3,019**	**5,474**	**7,122**
98	45	0	3	0	**146**	**2**	**1,256**
103	0	0	3	0	**106**	**0**	**14**
2,164	**1,196**	**0**	**6**	**0**	**3,366**	**7,499**	**10,561**

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

EUR K	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
2016			
Lease payments	2,357	3,587	2,285
Less interest cost on a discounted basis	−162	−333	−497
Present value (Statement of financial position)	**2,195**	**3,254**	**1,788**
2015			
Lease payments	2,268	5,331	2,441
Less interest cost on a discounted basis	−234	−423	−535
Present value (Statement of financial position)	**2,034**	**4,908**	**1,906**

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

EUR K	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
2016			
Lease payments	17,524	34,426	14,419
2015			
Lease payments	17,515	36,378	17,048

12.4 GOODWILL

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

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

GRAMMER AG tests goodwill for impairment at least annually. The underlying assumptions on which the determination of the recoverable amount attributable to the CGUS as of December 31, 2016 is based include the sustainable (net) growth rate of the relevant positive cash flows and the discount factor. These are presented in the following table:

EUR K	CASH-GENERATING UNIT	2016 GOODWILL	2015 GOODWILL[2]	2016 GROWTH RATE[1]	2015 GROWTH RATE[1]	2016 DISCOUNT FACTOR	2015 DISCOUNT FACTOR
CGU I	Seating Systems	4,423	4,423	1%	1%	6.3%	7.2%
CGU II	Automotive	33,820	33,820[2]	1%	1%	6.3%	7.2%
	Goodwill	**38,243**	**38,243[2]**				

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

In connection with final purchase price allocation in connection with the acquisition of GRAMMER Interior Components GmbH (formerly REUM Kunststoff- und Metalltechnik GmbH) and GRAMMER Interior Components Polska Sp. z o.o. (formerly REUM Polska Sp. z o.o.) under IFRS 3.49, the goodwill in CGU II Automotive was retroactively adjusted. See section on business combinations for details.

BASIS OF CALCULATION

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

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

The total cost of capital is determined using the capital asset pricing model based on a risk-free interest rate of 0.5% after tax (2015: 1.5) and a risk premium for general market risks of 7.0% after tax (2015: 6.5). 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. Cost of capital is estimated taking into account the future financing conditions of GRAMMER AG and adjusted in line with market expectations. The cost of capital determined in this way reflects the interest rate effect and the specific risks of the CGU for which the estimated future cash flows were not adjusted.

Cash flows after this three-year period are extrapolated on the basis of a growth rate of 1% (2015: 1).

The impairment tests performed confirm that the value of all goodwill is fully recoverable. Changes in the terminal-value growth rate to 0 or in the growth rate in detailed planning period to 0 did not yield any evidence of impairments, and neither did an increase by 400 basis points in the interest rate on debt capital.

BASIC ASSUMPTIONS FOR CALCULATING FAIR VALUE

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

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

OPERATING PROFIT/LOSS

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

COMMODITY PRICE TRENDS

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

ASSUMPTIONS REGARDING MARKET SHARE

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

MARKET-BASED VIEW

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

As of December 31, 2016, GRAMMER AG's market capitalization was higher than the carrying amount of its consolidated equity, meaning that there was no evidence of any impairment of goodwill or any other assets.

EUR K	2016	2015
Market capitalization	548,949	315,400
Equity	271,237	253,423
Fixed assets	316,056	312,111[1]
Gearing	51%	61%
Closing price on December 31	**47.55**	**27.32**

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

13 INVENTORIES

Inventories break down as follows:

EUR K	DEC. 31, 2016	DEC. 31, 2015
Raw material and supplies	101,551	96,937
Work in progress	14,032	13,971
Finished goods and services	23,930	25,822
Advance payments	8,740	9,175
Inventories	**148,253**	**145,905**

All inventories are recognized at their historical cost. Impairments recognized on inventories in the light of their lower fair value stand at EUR 4.2 million (2015: 3.3).

14 TRADE ACCOUNTS RECEIVABLE

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

EUR K	DEC. 31, 2016	DEC. 31, 2015
Trade accounts receivable	**206,589**	**187,376**

As of the reporting date, trade accounts receivable of EUR 14,245 thousand (2015: 13,882) were reduced as a result of genuine factoring.

As of December 31, 2016, impairments of EUR 3,412 thousand (2015: 2,646) were recognized on trade accounts receivable. Details are given in the table below:

EUR K	ALLOWANCES FOR DOUBTFUL ACCOUNTS	PORTFOLIO-BASED ALLOWANCES	TOTAL
As of January 1, 2016	**1,607**	**1,039**	**2,646**
Additions	595	1,028	**1,623**
Utilization	–131	–62	**–193**
Write-backs	–618	0	**–618**
Effects from exchange rate differences	–46	0	**–46**
As of December 31, 2016	**1,407**	**2,005**	**3,412**
As of January 1, 2015	**1,643**	**1,039**	**2,682**
Additions	823	5	**828**
Utilization	–10	–5	**–15**
Write-backs	–862	0	**–862**
Effects from exchange rate differences	13	0	**13**
As of December 31, 2015	**1,607**	**1,039**	**2,646**

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

EUR K			NON-IMPAIRED AND 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 181 DAYS
2016							
Trade accounts receivable	**206,589**	185,542	14,444	3,756	894	1,134	819
Receivables from construction contracts	**146,013**	146,013	0	0	0	0	0
Other financial receivables	**10,770**	10,770	0	0	0	0	0
2015							
Trade accounts receivable	**187,376**	173,148	7,572	2,163	1,370	1,662	1,461
Receivables from construction contracts	**116,920**	116,920	0	0	0	0	0
Other financial receivables	**13,394**	13,394	0	0	0	0	0

The carrying amount of the receivables portfolio represents the maximum default risk. The amount under accounts up to 30 days past due primarily comprises payments pending at the reporting date for which payments are expected. On the reporting date, there were no indications with regard to the receivables that had neither been written down nor were in default that the debtors would not be able to fulfill their obligations.

15 OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

EUR K	DEC. 31, 2016	DEC. 31, 2015
Participating interests	50	129
Other receivables	3,816	3,760
Others	0	149
Non-current other financial assets	**3,866**	**4,038**
Receivables from construction contracts	146,013	116,920
Other receivables	6,955	9,485
Derivative financial assets	0	681
Current other financial assets	**152,968**	**127,086**

As in the previous year, non-current other financial assets include the purchase price payments of EUR 3,816 thousand (2015: 3,760) due in installments for the sale of the land and buildings in Immenstetten.

Receivables from construction contracts contain the net amount owed by customers for contract work determined using the percentage-of-completion method and not yet invoiced as of the reporting date.

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

16 OTHER ASSETS

Other assets break down as follows:

EUR K	DEC. 31, 2016	DEC. 31, 2015
Prepaid expenses	4,888	3,707
Non-current other assets	**4,888**	**3,707**
Current other assets	18,368	18,720
Current prepaid expenses	5,232	5,720
Current other assets	**23,600**	**24,440**

As in the previous year, the non-current prepaid expenses reported within non-current other assets include the sale-and-leaseback transaction of 2015 in connection with the land and building in Immenstetten.

Current other assets mainly include receivables arising from pass-through taxes such as value-added tax of EUR 13,798 thousand (2015: 11,693), temporary deposit agreements of EUR 1,037 thousand (2015: 962), creditors with debit accounts of EUR 765 thousand (2015: 761), receivables due from employees of EUR 327 thousand (2015: 368) and claims under investment grants totaling EUR 0 thousand (2015: 65).

There were no material ownership or alienation restrictions with respect to the other receivables and assets reported and no impairment losses were recognized.

17 CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits break down as follows as of the reporting date:

EUR K	DEC. 31, 2016	DEC. 31, 2015
Cash and short-term deposits	**132,968**	**127,300**

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 short-term deposits.

For the purposes of the consolidated cash flow statement, holdings of cash and cash equivalents as of December 31 are as follows:

EUR K	DEC. 31, 2016	DEC. 31, 2015
Cash and short-term deposits	132,968	127,300
Bank overdrafts	−5,352	−5,044
Cash and cash equivalents	**127,616**	**122,256**

18 SUBSCRIBED CAPITAL AND RESERVES

SUBSCRIBED CAPITAL

As of December 31, 2016, the subscribed capital of GRAMMER Group amounted to EUR 29,554 thousand (2015: 29,554) divided into 11,544,674 no-par value shares. 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 74,444 thousand (2015: 74,444) as of December 31, 2016. It includes premiums from the capital increases in 1996, 2001 and 2011, less transaction costs.

RETAINED EARNINGS

Retained earnings comprises the statutory reserve of GRAMMER AG, which totaled EUR 1,183 thousand on both December 31, 2016 and 2015 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 rose from EUR 199,698 thousand to EUR 236,268 thousand. However, the net profit is not fully reflected in retained earnings due to the dividend payment of EUR 8,411 thousand (2015: 8,411).

ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income mainly comprises adjustments arising from the currency translation of the financial statements of foreign subsidiaries in equity, the effects of cash flow hedges 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.

OWN SHARES

As of December 31, 2016, GRAMMER AG holds a total of 330,050 shares as own shares, all of which were acquired in 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 844,928 and represent 2.8589% of share capital.

ACQUISITION OF OWN SHARES

On August 16, 2006, the Executive Board of GRAMMER AG decided to make use of the authorization of the Annual General Meeting of June 28, 2006 to acquire treasury stock in accordance with section 71 (1) number 8 AktG. The Company may acquire up to 10% of its share capital, i.e. up to 1,049,515 of its own shares. 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, 2016, 11,544,674 ordinary shares (2015: 11,544,674) were outstanding.

NON-CONTROLLING INTERESTS

Non-controlling interests in equity relate primarily to shareholders in GRAMMER Koltuk Sistemleri Sanayi ye Ticaret A.S., Turkey, GRAMMER AD, Bulgaria and GRAMMER Seating (Shaanxi) Co. Ltd. GRAMMER Seating (Shaanxi) was consolidated for the first time in July 2016. GRAMMER AG holds 90% of the capital of the new joint venture GRAMMER Seating (Shaanxi), with registered offices in Fuping in the province of Shaanxi, and therefore exercises control. The remaining 10% is held by Shaanxi Automobile Group Co. Ltd. as the minority shareholder.

AUTHORIZATIONS

At the Annual General Meeting held on May 28, 2014, a resolution was passed to grant authorization to issue option bonds and/or convertible bonds with the possibility of excluding the shareholders' preemptive subscription rights, to create new Contingent Capital 2014/I and to make a corresponding amendment to the Company's Articles of Association: The Company's share capital was increased by up to EUR 14,777,182.72 on a contingent basis through the issue of up to 5,772,337 new bearer shares (Contingent Capital 2014/I). The contingent capital was issued so that shares can be granted to the bearers of convertible or option bonds issued in accordance with the corresponding authorization. The Executive Board may exercise this authorization with the Supervisory Board's approval on or before May 27, 2019.

19 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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 pension obligations are measured, assumptions regarding the relevant factors affecting the amount of the benefit are made. These assumptions are based on actuarial calculations performed by an actuary for the GRAMMER Group.

The calculation of the defined benefit obligation (DBO) for pension commitments is based primarily on the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS DBO

IN %

	2016	2015
Interest rate	1.80	2.60
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate/pension trend	1.70	1.90

ACTUARIAL ASSUMPTIONS OTHER BENEFITS

IN %

	2016	2015
Interest rate	1.80 – 9.00	2.60 – 6.75
Salary trend	2.30 – 4.50	2.30 – 4.50
Inflation rate	1.70 – 5.00	1.90 – 5.00

The actuarial assumptions also include obligations from other countries which tend to have higher interest rates than Germany due to different country structures. For example, the interest rate is 7.75% and the salary trend 4.5% in Mexico, while Turkey has an inflation rate of around 5.0%.

As in the previous year, the AON Hewitt interest rate was applied in fiscal year 2016. This interest rate is derived from the vested obligations in the light of the specific structure of the payment flows. The calculation is based on the GRAMMER companies' pension obligations which underlie the pension provisions as of December 31, 2016.

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, 2016.

Mortality and disability are calculated on the basis of the 2005 G Heubeck tables or comparable foreign mortality tables. Reflecting the persistently low interest and inflation rates, the inflation rate/pension trend was lowered from 1.9% in 2015 to 1.7% in 2016. The probability of fluctuation was computed specifically for the Group. No significant plan assets exist for the retirement benefit obligations recognized in the statement of financial position.

In fiscal year 2016, annuities were paid on pensions in the amount of EUR 2,448 thousand (2015: 2,323). Other post-employment benefits paid totaled EUR 349 thousand (2015: 335).

The following amounts were recognized in the income statement:

EUR K

	PENSION PLAN	OTHER BENEFITS
2016		
Service cost	2,407	814
Current service cost	2,407	814
Past service cost	0	0
Net interest expense	3,114	126
Net interest expense and service cost	**5,521**	**940**

EUR K	PENSION PLAN	OTHER BENEFITS
2015		
Service cost	2,622	742
Current service cost	2,622	742
Past service cost	0	0
Net interest expense	2,750	151
Net interest expense and service cost	**5,372**	**893**

Service cost includes current and past service cost. Past service cost corresponds to the gains or losses from plan adjustments or curtailments which are recognized immediately upon arising.

As there are no plan assets for funding future pension obligations under defined benefit plans, net interest expense for the defined benefit plans is identical to interest expense.

Service cost are generally contained in personnel costs in the different functional area; 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
2016		
Cumulative amount recognized in other comprehensive income as of January 1, 2016	48.728	0
Amount recognized in the current year	15.167	0
Cumulative amount recognized in other comprehensive income as of December 31, 2016	**63.895**	**0**

EUR K	PENSION PLAN	OTHER BENEFITS
2015		
Cumulative amount recognized in other comprehensive income as of January 1, 2015	57.825	0
Amount recognized in the current year	–9.097	0
Cumulative amount recognized in other comprehensive income as of December 31, 2015	**48.728**	**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, 2016	**119.794**	**3.930**
+ Reclassification	523	–523
+ Service cost	2,407	814
+ Interest expense	3,114	126
Changes in estimates: gains (–)/losses (+)	15,167	0
Changes in demographic assumptions	9	0
Changes in financial assumptions	15,643	0
Experience adjustments	–485	0
– Actual payments	–2,448	–349
– Disposal of obligations	0	–20
Changes in exchange rates	–69	–474
As of December 31, 2016	**138,488**	**3,504**
As of January 1, 2015	**125,851**	**3,753**
+ Service cost	2,622	742
+ Interest expense	2,750	151
Changes in estimates: gains (–)/losses (+)	–9,107	0
Changes in demographic assumptions	0	0
Changes in financial assumptions	–9,196	0
Experience adjustments	90	0
– Actual payments	–2,323	–335
– Disposal of obligations	0	–6
Changes in exchange rates	1	–375
As of December 31, 2015	**119,794**	**3,930**

A contractual trust agreement was entered into in the year under review for a single defined benefit commitment. Consequently, the obligation of EUR 306 thousand (2015: 309) from this commitment was added.

EUR K	2016	2015
Fair value of the plan assets on Jan. 1	**306**	**0**
Interest expense on the plan assets	8	4
Adjustments	–5	–10
Contributions to plan assets	0	312
Fair value of the plan assets on Dec. 31	**309**	**306**

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 date with all other assumptions remaining constant.

DISCOUNT FACTOR

EUR K

	2016	2016	2015	2015
	1% REDUCTION	1% INCREASE	1% REDUCTION	1% INCREASE
Impact on DBO	29,951	−22,791	25,022	−19,171
Impact on current service cost	635	−473	546	−410
Impact on net interest expense	−1,115	716	−774	485

FUTURE SALARY INCREASE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	−3,812	4,339	−3,275	3,705

INFLATION RATE

EUR K

	0.5% REDUCTION	0.5% INCREASE	0.5% REDUCTION	0.5% INCREASE
Impact on DBO	−8,660	9,571	−7,204	7,941

MORTALITY RATE

EUR K

	10% REDUCTION	10% INCREASE	10% REDUCTION	10% INCREASE
Impact on DBO	4,653	−4,154	3,783	−3,394

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 FUTURE CASH OUTFLOWS

EUR K

	2016	2015
Short-term (<1 year)	2,537	2,389
Medium-term (1 to 5 years)	12,503	11,453
Long-term (>5 years)	123,448	105,149

20 FINANCIAL LIABILITIES

INTEREST-BEARING LIABILITIES

EUR K	CURRENT	NON-CURRENT	TOTAL
2016			
Overdrafts	5,352	0	**5,352**
Loans	8,764	15,671	**24,435**
Bonded loans	41,138	201,113	**242,251**
Financial liabilities	**55,254**	**216,784**	**272,038**

EUR K	CURRENT	NON-CURRENT	TOTAL
2015			
Overdrafts	5,044	0	**5,044**
Loans	17,667	16,610	**34,277**
Bonded loans	41,417	202,097	**243,514**
Financial liabilities	**64,128**	**218,707**	**282,835**

GRAMMER signed a new syndicated loan contract for EUR 180 million in 2013, thus securing the Group's long-term funding. The syndicated loan contract was entered into between the main domestic GRAMMER companies and six commercial banks.

The cash credit facilities may be drawn on as an overdraft or as loans with fixed interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed credit margin. The syndicated loan contract has a term of five years plus two one-year renewal options. GRAMMER exercised the first renewal option in 2014 and the second one in September 2015. Accordingly, the new term expires on October 31, 2020.

GRAMMER Group companies bear joint and several liability for the credit facilities. Beyond this, no other collateral backing exists.

OVERDRAFTS

Overdrafts are primarily amounts drawn under corresponding credit facilities.

LOANS

This item includes bilateral loans to subsidiaries with short and medium terms. Depending on the facility, the loans are structured to allow revolving utilization. The KfW loan included in this item in the previous year was repaid in full in the year under review.

BONDED LOANS

In addition to deferred interest and the discount, this item includes bonded loans of EUR 241.5 million (2015: 242.5). The bonded loans have fixed or variable interest rates and differing maturity dates until 2027.

This includes a bonded loan with a total nominal amount of EUR 120 million issued by GRAMMER AG in 2015. The first tranche of EUR 81 million was issued on December 29, 2015 and the second one of EUR 39 million on January 4, 2016. This bonded loan comprises two tranches expiring in 2020, 2022 and 2025 with both fixed and variable interest rates. On the other hand, a tranche under the existing bonded loans of EUR 40 million was repaid in the year under review.

Deferred interest for the existing bonded loans is included in the current part.

21 PROVISIONS

EUR K

	AS OF JANUARY 1, 2016	ADDITIONS	UTILI-ZATION	RELEASES	EFFECTS FROM COMPANY ACQUISI-TION	EFFECTS FROM EXCHANGE RATE DIF-FERENCES	AS OF DECEMBER 31, 2016	CURRENT PROVISIONS 2016	NON-CURRENT PROVISIONS 2016
Market-related provisions	11,853	10,460	–4,377	–974	0	410	17,372	17,372	0
Obligations relating to personnel	6,018	263	–431	–123	0	0	5,727	5,727	0
Other provisions	851	0	–150	–252	0	0	449	449	0
Provisions	**18,722**	**10,723**	**–4,958**	**–1,349**	**0**	**410**	**23,548**	**23,548**	**0**

EUR K

	AS OF JANUARY 1, 2015	ADDITIONS	UTILI-ZATION	RELEASES	EFFECTS FROM COMPANY ACQUISI-TION	EFFECTS FROM EXCHANGE RATE DIF-FERENCES	AS OF DECEMBER 31, 2015	CURRENT PROVISIONS 2015	NON-CURRENT PROVISIONS 2015
Market-related provisions	7,193	3,811	–3,361	–424	5,279	–645	11,853	11,853	0
Obligations relating to personnel	3,513	838	–480	–147	2,228	66	6,018	6,018	0
Other provisions	1,363	48	–591	0	0	31	851	851	0
Provisions	**12,069**	**4,697**	**–4,432**	**–571**	**7,507**	**–548**	**18,722**	**18,722**	**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. Obligations under phased-retirement entitlement which had been netted with allocated plan assets of EUR 210 thousand in accordance with IAS 19 in the previous year were released in 2016.

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.

22 TRADE ACCOUNTS PAYABLE

EUR K

	DEC. 31, 2016	DEC. 31, 2015
Non-current trade accounts payable	2.983	1.325
Current trade accounts payable	219.311	186.714
Trade accounts payable	**222.294**	**188.039**

Trade accounts payable refer to outstanding payment obligations for goods and services. Outstanding invoices and liabilities for deliveries received are recognized in accordance with their characteristics under trade accounts payable. Generally, trade accounts payable are non-interest-bearing and have a term of up to 90 days. Non-current trade accounts payable in particular include liabilities under hire-purchase agreements with maturities of up to five years. Customary retention of title by suppliers applies in relation to trade payables.

23 OTHER FINANCIAL LIABILITIES

Other financial liabilities break down as follows:

EUR K

	DEC. 31, 2016	DEC. 31, 2015
Liabilities from derivatives	1,794	2,053
Liabilities from leases	2,195	2,034
Liabilities to affiliated companies	1,602	941
Other current financial liabilities	**5,591**	**5,028**
Liabilities from leases	5,042	6,814
Other non-current financial liabilities	**5,042**	**6,814**

24 OTHER LIABILITIES

Other liabilities break down as follows:

EUR K

	DEC. 31, 2016	DEC. 31, 2015
Social security obligations	3,258	3,492
Liabilities from other taxes and charges	10,181	8,545
Prepayments received	4,301	7,113
Other liabilities	46,656	45,789
of which liabilities to employees	29,969	25,619
of which customers with credit balances	2,311	1,617
of which liabilities for advisory services	1,111	1,207
Deferred income	5,013	5,254
Other current liabilities	**69,409**	**70,193**
Miscellaneous other liabilities	100	54
Other non-current liabilities	**100**	**54**
Other liabilities	**69,509**	**70,247**

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.

25 STATEMENT OF CASH FLOW

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 profit/loss before income 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 and financial assets, but not additions to capitalized development costs. Financing activities include cash outflows for dividend payments and repayments of loans, as well as changes in other financial liabilities. At GRAMMER Group, cash and cash equivalents consists of cash and short-term money market funds, less bank overdrafts.

26 LITIGATION

As protection against legal risks, we work with a system of intensive contract review, contract management and systematic archiving. Sufficient insurance cover has been taken out for normal risks and risks to the Company's ability to continue as a going concern. There were no significant legal disputes in the fiscal year.

27 CONTINGENT LIABILITIES

EUR K	2016	2015
Guarantees	1,418	600

Guarantees have been issued primarily as performance bonds.

28 RELATED PARTIES DISCLOSURE

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. 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 of December 31, 2016, the Group recognized impairment losses of EUR 0.4 thousand on accounts receivable from related parties (2015: 0.7).

The following table specifies the total amounts of transactions between related parties for the reporting year:

EUR K RELATED PARTIES		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	RECEIVABLES FROM RELATED PARTIES	LIABILITIES FROM RELATED PARTIES
GRA-MAG Truck Interior Systems LLC	2016	5.607	0	6.292	0
	2015	9.171	0	9.460	0

GRA-MAG TRUCK INTERIOR SYSTEMS LLC

The Group holds an interest of 50% in GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2015: 50%). GRA-MAG had 50 employees as of December 31, 2016 (2015: 56).

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.

29 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows all of the Group's financial instruments classified according to category, carrying amount and fair value:

EUR K

	VALUATION CATEGORY ACC. TO IAS 39	CARRYING AMOUNT ON DEC. 31, 2016	AMOUNT STATED IN BALANCE SHEET ACC. TO IAS 39				AMOUNT STATED IN BALANCE SHEET ACC. TO IAS 17	FAIR VALUE ON DEC. 31, 2016
			AMORTIZED COSTS	HISTORICAL COSTS	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE RECOGNIZED IN PROFIT OR LOSS		
Assets								
Cash and short-term deposits	LaR	132,968	132,968					**132,968**
Trade accounts receivable	LaR	206,589	206,589					**206,589**
Other financial assets								
Loans and receivables	LaR	10,770	10,770					**10,770**
Receivables from construction contracts	LaR	146,013	146,013					**146,013**
Financial assets available-for-sale	AfS	51		51				**51**
Financial assets held-for-trading	FAHfT	0						**0**
Derivatives with hedge relationship	n.a.	0						**0**
Liabilities								
Trade accounts payable	FLAC	222,294	222,294					**222,580**
Current and non-current financial liabilities	FLAC	272,038	272,038					**277,297**
Other financial liabilities								
Other financial liabilities	FLAC	1,602	1,602					**1,602**
Liabilities form finance leases	n.a.	7,237					7,237	**6,859**
Derivatives without hedge relationship	FLHfT	0						**0**
Derivatives with hedge relationship	n.a.	1,794			1,794			**1,794**
Of which aggregated by category in acc. with IAS 39:								
Loans and receivables	LaR	496,340	496,340					**496,340**
Financial assets available-for-sale	AfS	51		51				**51**
Financial assets held-for-trading	FAHfT	0						**0**
Financial liabilities at amortized cost	FLAC	495,934	495,934					**501,479**
Financial liabilities held-for-trading	FLHfT	0						**0**

EUR K

	Valuation category acc. to IAS 39	Carrying amount on Dec. 31, 2015	Amount stated in balance sheet acc. to IAS 39				Amount stated in balance sheet acc. to IAS 17	Fair value on Dec. 31, 2015
			Amortized costs	Historical costs	Fair value recognized in equity	Fair value recognized in profit or loss		
Assets								
Cash and short-term deposits	LaR	127,300	127,300					**127,300**
Trade accounts receivable	LaR	187,376	187,376					**187,376**
Other financial assets								
Loans and receivables	LaR	13,394	13,394					**13,394**
Receivables from construction contracts	LaR	116,920	116,920					**116,920**
Financial assets available-for-sale	AfS	129		129				**129**
Financial assets held-for-trading	FAHfT	23				23		**23**
Derivatives with hedge relationship	n.a.	658			658			**658**
Liabilities								
Trade accounts payable	FLAC	188,039	188,039					**188,045**
Current and non-current financial liabilities	FLAC	282,835	282,835					**286,177**
Other financial liabilities								
Other financial liabilities	FLAC	941	941					**941**
Liabilities form finance leases	n.a.	8,848					8,848	**8,594**
Derivatives without hedge relationship	FLHfT	43				43		**43**
Derivatives with hedge relationship	n.a.	2,010			2,010			**2,010**
Of which aggregated by category in acc. with IAS 39:								
Loans and receivables	LaR	444,990	444,990					**444,990**
Financial assets available-for-sale	AfS	129		129				**129**
Financial assets held-for-trading	FAHfT	23				23		**23**
Financial liabilities at amortized cost	FLAC	471,815	471,815					**475,163**
Financial liabilities held-for-trading	FLHfT	43				43		**43**

Because of the short-term nature of cash and short-term deposits, trade accounts receivable and other current receivables, it is assumed that the carrying amounts equate to their fair values.

The fair value of other non-current receivables with remaining terms of over one year equate to the present value of the payments associated with the assets taking account of the prevailing interest rate parameters.

Available-for-sale financial assets are non-listed equity instruments for which a fair value cannot be reliably determined. These instruments are therefore measured at historical cost. On the reporting date, the Group had no intention to sell these instruments.

Trade accounts payable and other liabilities usually have short residual maturities. Longer-term trade accounts payable were determined on the basis of the respective yield structure curve 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 structure curve 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, 2016:

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Derivative financial assets				
Currency forwards	0	0	0	0
Interest-rate swaps	0	0	0	0
Liabilities measured at fair value				
Derivative financial liabilities				
Currency forwards	0	0	0	0
Interest-rate swaps	1,794	0	1,794	0
Liabilities for which a fair value is disclosed				
Interest-bearing loans				
Obligations under finance leases and hire-purchase agreements	11,693	0	11,693	0
Current and non-current financial liabilities	277,297	0	277,297	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, 2015:

EUR K	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Derivative financial assets				
Currency forwards	681	0	681	0
Interest-rate swaps	0	0	0	0
Liabilities measured at fair value				
Derivative financial liabilities				
Currency forwards	74	0	74	0
Interest-rate swaps	1,979	0	1,979	0
Liabilities for which a fair value is disclosed				
Interest-bearing loans				
Obligations under finance leases and hire-purchase agreements	11,124	0	11,124	0
Current and non-current financial liabilities	286,177	0	286,177	0

The levels of the fair value hierarchy reflect the significance of the inputs employed 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	2016	2015
Loans and receivables	8,080	10,718
Financial assets and liabilities held-for-trading	−24	12
Financial liabilities measured at historical cost	1,614	−6,738
Net gains/losses from financial instruments	**9,670**	**3,992**

Net income from loans and receivables include currency gains or losses, changes to value adjustments recognized as income, gains or losses from derecognition of receivables and reversals of previously impaired receivables.

Net profit or loss from financial instruments held for trading includes changes in the market value of unhedged derivatives including interest income and expenses.

The net gains from financial liabilities recognized at fair value through profit or loss primarily include currency gains and losses from the translation of the Mexican peso and the US dollar.

The GRAMMER Group has transacted hedges 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 BALANCE SHEET	OFFSETTING AGREEMENT	NET AMOUNT
Dec. 31, 2016			
Financial assets			
Currency forwards	0	0	0
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	0	0	0
Interest-rate swaps	–1,794	0	–1,794

EUR K	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE BALANCE SHEET	OFFSETTING AGREEMENT	NET AMOUNT
Dec. 31, 2015			
Financial assets			
Currency forwards	681	–20	661
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	–74	20	–54
Interest-rate swaps	–1,979	0	–1,979

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

30 FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The primary financial liabilities used in the Group encompass debenture bonds, bank loans, overdrafts and finance leases as well as trade accounts payable. The Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

In addition, the Group enters into derivative financial instruments when required 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 in accordance with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk.

All derivative transactions entered into for purposes of risk management are managed by expert teams that have the necessary knowledge and experience, and are subject to adequate supervision. The guidelines for management of the risks set out below have been audited and approved by the Company management.

CREDIT RISK

Credit risk is defined as the risk of the Group suffering a loss (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 sector, is subject to particular monitoring due to risks from trade receivables. If no rating information is available, the Group uses other available financial information and its own records to assess major customers. Customers who wish to conclude credit-based transactions for the first time are also regularly subjected to a creditworthiness check. Receivables are monitored on an ongoing basis to ensure that the Group is not exposed to any material credit risk. There are no significant concentrations of credit risks in the Group 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 types of risk: exchange rate risk, interest rate risk and other price risks, such as share price risk. Instruments subject to market risk include interest-bearing loans, deposits, available-for-sale financial assets and derivatives. The sensitivity analyses in the sections below relate to the situation as of December 31, 2016 and 2015. They were prepared on the basis of the hedging transactions outstanding on December 31, 2016, 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 analysis 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, to be recognized as derivatives under IAS 39, can also be entered into to hedge price risks related to purchases of commodities. The Group carefully monitors the development of markets as a basis for decision making about the implementation of hedging.

There were no commodity forwards for hedging price risks for raw materials as of the reporting date in 2016 or 2015, and no such contracts were concluded in either of these two years.

CURRENCY RISK

As a consequence of its international focus and business activities, the Group is exposed to currency risks. Fluctuations in exchange rates may lead to unforeseeable and unfavorable volatility in net income and cash flow. By transacting business in currencies other than the functional currencies of the respective Group companies, risks may arise from future payment flows. The risk is reduced by the requirement to invoice business transactions generally in the respective functional currency. In addition, where it is possible and cost-effective, commodities and services are purchased in the corresponding foreign currency and production takes place in local markets. The operating units are not permitted to raise or invest financial resources in foreign currencies for speculative purposes.

CASH FLOW HEDGES

During the reporting period, currency hedges were in place in PLN, CZK, USD and TRY which satisfy the requirements for cash flow hedging. Moreover, currency forwards in USD were concluded which do not qualify for cash flow hedging.

As of December 31, 2016, no currency forwards were used for cash flow hedging; in the previous year, they had a market value of EUR 584 thousand. In the year under review, an amount of EUR –168 thousand (2015: 519) was recognized directly in equity. The resultant gain of EUR 416 thousand (2015: loss of 87) was recycled from equity to profit and loss for the period. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review.

The sensitivity analysis of changes in currency is based on the following assumptions:

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.
- Changes in foreign exchange rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.
- Derivatives for the purpose of currency hedging that are designated as hedging instruments in the context of cash flow hedges have an effect on equity and are taken into account of in the sensitivity analysis.
- Currency derivatives that are not designated as hedging instruments in the context of cash flow hedges have an effect on period income and are taken into account of accordingly in the sensitivity analysis.
- For the determination of sensitivity to exchange rate risks, a change in the exchange rate of +/– 10 percentage points on the reporting date (2015: 10) is assumed. All other variables remain constant.

The following table shows the sensitivity of consolidated net income before taxes and equity to a reasonably possible change in the exchange rate:

EUR K

	Changes in the USD exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	6,357	−1,469
	−10%	−6,352	1,468
2015	+10%	4,715	−1,422
	−10%	−4,613	1,635

	Changes in the TRY exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	−259	0
	−10%	259	0
2015	+10%	−436	1,076
	−10%	436	−880

	Changes in the CZK exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	5,747	0
	−10%	−5,747	0
2015	+10%	4,104	1,553
	−10%	−4,105	−1,349

	Changes in the PLN exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	−756	0
	−10%	757	0
2015	+10%	−712	519
	−10%	713	−424

	Changes in the MXN exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	777	3,781
	−10%	−777	−3,781
2015	+10%	3,036	1,291
	−10%	−3,037	−1,291

	Changes in the CNY exchange rate	Impact on profit before tax	Impact on equity
2016	+10%	3,039	0
	−10%	−3,039	0
2015	+10%	2,745	0
	−10%	−2,745	0

INTEREST RATE RISK

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. The market rates prevailing on the date on which the loan is taken out apply in the case of current loans, meaning that the interest rate risk is limited to fluctuations in the market on the date on which the loan is drawn. Interest on overdrafts is agreed on a rollover basis.

To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent permitted, GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

As of December 31, 2016, interest rate swaps with a total nominal volume of EUR 103 million (2015: 133) were in place in connection with the issue of the bonded loan to hedge interest rate changes affecting the floating-rate tranches; these have the same residual maturity range of between one and seven years as the underlying transactions. These interest rate swaps qualify as cash flow hedges. Consequently, EUR 1,225 thousand (2015: 458) was included directly in equity in connection with interest rate swaps. Of this, a loss of EUR –1,367 thousand (2015: –1,134) was taken to net profit for the period. The negative market value of EUR 1,794 thousand (2015: 1,936) is reported under other current financial liabilities. The Company recognizes changes in the market value in accumulated other comprehensive income.

The interest rate sensitivity analysis is based on the following assumptions:

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risks and thus not included in the sensitivity analysis.
- Floating-rate primary financial instruments, the payments from which are not designated as hedged transactions for cash flow hedges against interest rate risks, have an effect on period income and are taken account of in the sensitivity analysis.
- 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 hedging instruments in the context of a cash flow hedge have an effect on period income and are thus taken account of in the sensitivity analysis.
- Interest rate derivatives that are designated as hedging instruments in the context of cash flow hedges have an affect on equity and are taken account of accordingly in the sensitivity analysis.
- The interest rate risk from currency derivatives is deemed insignificant, and thus not included in the sensitivity analysis.
- For determination of the sensitivity of interest rate derivatives, a parallel shift of the yield curve by +/– 50 basis points (2015: 50) is assumed. 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 in basis points	Impact on profit before tax	Impact on equity
2016	–50	–146	–217
	50	399	100
2015	–50	–657	–132
	50	52	507

LIQUIDITY RISK

The Group manages liquidity risks by means of appropriate bank credit facilities of EUR 216.0 million (2015: 230.3), through constant monitoring of 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, finance leases and hire-purchase agreements.

As of December 31, 2016, the Group had unutilized credit facilities of EUR 198.1 million (2015: 204.7), for which all the conditions required for utilization had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR K 2016	CARRYING AMOUNT	CASH FLOW 2017	2018–2020	2021 AND THEREAFTER
Bonded loans	242,251	44,967	156,200	60,961
Bank loans	24,435	9,157	15,467	424
Overdrafts	5,352	5,352	0	0
Current and non-current financial liabilities	**272,038**	**59,476**	**171,667**	**61,385**
Current and non-current trade accounts payable	**222,294**	**219,878**	**2,023**	**513**
Liabilities from finance leases	7,237	2,357	3,352	2,520
Other original financial liabilities	1,601	1,601	0	0
Current and non-current other financial liabilities	**8,838**	**3,958**	**3,352**	**2,520**
Interest rate derivates	1,794	859	1,248	2
Currency derivates	0			
Incoming payments		0		
Outgoing payments		0		
Derivatives	**1,794**	**859**	**1,248**	**2**
	504,964	**284,171**	**178,290**	**64,420**

EUR K 2015	CARRYING AMOUNT	CASHFLOW 2016	2017–2019	2020 AND THEREAFTER
Bonded loans	243,514	45,366	111,699	107,005
Bank loans	34,277	18,261	16,551	527
Overdrafts	5,044	5,044	0	0
Current and non-current financial liabilities	**282,835**	**68,671**	**128,250**	**107,532**
Current and non-current trade accounts payable	**188,039**	**186,752**	**1,354**	**0**
Liabilities from finance leases	8,848	2,268	4,615	3,157
Other original financial liabilities	941	941	0	0
Current and non-current other financial liabilities	**9,789**	**3,209**	**4,615**	**3,157**
Interest rate derivates	1,979	1,352	1,488	–235
Currency derivates	74			
Incoming payments		6,966		
Outgoing payments		–7,022		
Derivatives	**2,053**	**1,296**	**1,488**	**–235**
	482,716	**259,928**	**135,707**	**110,454**

All instruments in the portfolio on the reporting date for which payments were already contractually agreed were included. Budget figures for future new liabilities are not included. Amounts in foreign currency are converted at the spot rate on the reporting date. Financial liabilities repayable on demand are always allocated to the earliest maturity band. Variable interest payments under primary financial instruments were established on the basis of the interest rates last fixed before the reporting date. In the case of interest rate derivatives, the net payments are recorded based on calculation of payment flows on the variable side using the relevant forward interest rates.

For currency derivatives, both the payments made and corresponding payments received are recorded, since net cash settlement is not generally possible for these derivatives, which must be settled through provision of the counter currency.

CAPITAL MANAGEMENT

Capital management serves the purpose of ensuring a high credit rating and establishing an appropriate equity ratio. 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 net financial liabilities 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	DEC. 31, 2016	DEC. 31, 2015
Non-current bank liabilities	216,784	218,707
Current bank liabilities	55,254	64,128
Cash and short-term deposits	–132,968	–127,300
Net financial liabilities	**139,070**	**155,535**
Equity	**271,237**	**253,423**
Equity ratio	**26%**	**26%**
Gearing	**51%**	**61%**

31 DISCLOSURE OF SHAREHOLDINGS IN THE COMPANY SUBJECT TO SECTION 21 WPHG

Under section 21 (1) 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 without undue delay and in any case in no more than four trading days. The lowest notification threshold is 3%. The Company was notified of the following shareholdings as of December 31, 2016 in accordance with section 21 (1) 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).

Wynnefield Capital Management LLC., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Wynnefield Capital Management LLC in accordance with section 22 (2) and also 3.92% (452,617 voting rights) in accordance with section 22 (1) sentence 1 number 1 WpHG:

Wynnefield Capital Inc., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.92% (452,617 voting rights) are attributable to Wynnefield Capital Inc. in accordance with section 22 (2) and 1.25% (144,436 voting rights) in accordance with section 22 (1) sentence 1 number 1 WpHG.

Wynnefield Small Cap Value Offshore Fund, Ltd., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.92% (452,617 voting rights) are attributable to Wynnefield Small Cap Value Offshore Fund, Ltd. in accordance with section 22 (2) WpHG.

Wynnefield Partners Small Cap Value L.P., New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 3.57% (412,697 voting rights) are attributable to Wynnefield Partners Small Cap Value L.P., in accordance with section 22 (2) WpHG.

Wynnefield Partners Small Cap Value L.P. I, New York, NY, United States, informed us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 2.85% (328,792 voting rights) are attributable to Wynnefield Partners Small Cap Value L.P. I, in accordance with section 22 (2) WpHG.

Joshua Landes, United States, notified us in accordance with section 21 (1) WpHG that his share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Joshua Landes in accordance with section 22 (2) and also section 22 (1) sentence 1 number 1 WpHG. He has been assigned voting rights by the following shareholder, whose share of the voting rights in Grammer AG is 3% or more: Wynnefield Capital Management LLC.

Nelson Obus, United States, notified us in accordance with section 21 (1) WpHG that his share of the voting rights in Grammer AG (ISIN: DE0005895403) had exceeded the threshold of 5% on May 29, 2012 and now stood at 5.17% (597,053 voting rights). Of this, 5.17% (597,053 voting rights) are attributable to Joshua Landes in accordance with section 22 (2) and also section 22 (1) sentence 1 number 1 WpHG. He has been assigned voting rights by the following shareholder, whose share of the voting rights in GRAMMER AG is 3% or more: Wynnefield Capital Management LLC.
(published on June 5, 2012)

Nmási Dinamia, S.A., Madrid, Spain, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had dropped below the threshold of 5% on September 16, 2016 and stood at 4.98% (574,920 voting rights) on that day. Of this, 4.98% (574,920 voting rights) are attributable to Nmási Dinamia S.A. in accordance with section 22 WpHG.
(published on October 25, 2016)

Dimensional Holdings Inc., Austin, Texas, United States, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had dropped below the threshold of 5% on October 18, 2016 and stood at 4.999% (577,158 voting rights) on that day. Of this, 4.999% (577,158 voting rights) are attributable to Dimensional Holdings Inc. in accordance with section 22 WpHG.
(published on October 25, 2016)

Old Mutual Plc, London, United Kingdom, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 3% on September 12, 2016 and stood at 3.07% (354,896 voting rights) on that day. Of this, 3.07% (354,896 voting rights) are attributable to Old Mutual Plc in accordance with section 22 WpHG.
(published on October 25, 2016)

Eastern Horizon Group Netherlands B.V., Amsterdam, Netherlands, notified us in accordance with section 21 (1) WpHG that its share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had exceeded the threshold of 10% on December 8, 2016 and stood at 10.001% (1,154,638 voting rights) on that day. Of this, 10.001% (1,154,638 voting rights) are attributable to it in accordance with section 22 WpHG. It has been assigned voting rights by the following shareholder, whose share of the voting rights in GRAMMER AG is 10% or more: Cascade International Investment GmbH, Frankfurt am Main, Germany.
(published on December 14, 2016)

Nijaz Hastor, Wolfsburg, Germany, notified us in accordance with section 21 (1) WpHG on January 24, 2017 that his share of the voting rights in GRAMMER AG (ISIN: DE0005895403) had dropped below the threshold of 10% on January 3, 2017 and stood at 0% on that day. Prior to that, 10.22% (1,180,234 voting rights) had been assigned to him in accordance with section 22 WpHG by the following shareholder who held 10% or more of the voting rights in GRAMMER AG: HALOG GmbH & Co. KG, Wolfsburg, Germany.
(published on January 26, 2017)

All notifications served on GRAMMER AG in accordance with sections 21 ff WpHG can be inspected at the Company's website and at the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

32 EVENTS AFTER THE REPORTING DATE

On February 13, 2017, a request submitted by Cascade International Investment GmbH for the grant of authorization in accordance with section 122 (3) AktG was served on GRAMMER AG by the Local Court of Amberg. The purpose of the request was to obtain authorization to call a meeting of the shareholders of GRAMMER AG. The items of the agenda for the shareholder meeting included the dismissal of members of the Supervisory Board, elections for new members of the Supervisory Board and a vote of no-confidence in the Chief Executive Officer, Mr. Hartmut Müller. Moreover, the court was asked to name a chairman of the meeting in accordance with section 122 (3) sentence 2 AktG. GRAMMER was given an opportunity of responding to this application by February 28, 2017.

On March 7, 2017, the Local Court of Amberg rejected the application submitted by Cascade International Investment GmbH for authorization to convene a shareholder meeting on the grounds that its legal interests were not at any risk as it could be reasonably expected to await the scheduled annual general meeting.

In accordance with our financial calendar for 2017, GRAMMER AG's annual general meeting will be taking place on May 24, 2017.

Acting with the consent of the Supervisory Board, the Executive Board of GRAMMER AG passed a resolution on February 14, 2017 to issue a mandatory convertible bond in a nominal amount of EUR 60 million subject to the exclusion of the shareholders' preemptive subscription rights. The contingent capital required for this purpose had been approved by the shareholders under item 8 of the agenda for 2014 (minutes of the annual general meeting certified by notary Dr. Frank, deed number 1333/2014). The corresponding amendment to the articles of association was filed with the commercial register on June 16, 2014.

The mandatory convertible bond will be convertible into around 1,062,447 new shares issued by the Company, equivalent to around 9.2% of its share capital. The conversion price stands at EUR 56.4734 per share, while the bond has a coupon of 1.625%. The mandatory convertible bond must be converted into shares in the company after the expiry of a one-year period from the date of issue unless the bond creditor exercises its conversion right at an earlier date.

The mandatory convertible bond has been placed with a company affiliated with Chinese automotive component supplier Ningbo Jifeng Auto Parts Co. Ltd. It forms a key element underlying the future strategic partnership between the two companies. This strategic alliance will improve the joint competitive position of the two internationally active automotive interior specialists – particularly in the Chinese market – thus securing future growth and enhancing their enterprise value.

33 OTHER INFORMATION

EMPLOYEES

Annual average number of employees:

	2016	2015
Wage-earning employees	9,653	8,847
Salaried employees	2,491	2,148
Employees	**12,144**	**10,995**

Breakdown of employees by Division as of December 31:

	2016	2015
Seating Systems	3,699	3,729
Automotive	8,272	7,400
Central Services	279	268
Employees	**12,250**	**11,397**

937 employees of the former REUM Group were included in the Group in 2016 for the first time (2015: 905).

AUDITORS' FEES WITHIN THE MEANING OF SECTION 314 (1) NO. 9 HGB

Including the first-time inclusion of GRAMMER Interior Components GmbH, fees for the auditor of the consolidated financial statements recognized as expenses in the reporting year amounted to EUR 658.0 thousand, of which EUR 168.0 thousand was attributable to the previous year's audit including auditing activities in connection with the acquisition of the REUM Group. In the previous year, auditors' fees of EUR 504.7 thousand, including EUR 97.0 thousand for the previous year's audit (2014) had been recognized. Tax consulting fees dropped to EUR 36.6 thousand (2015: 422.2). No expense for other attestation and evaluation services arose in the year under review (2015: 15.4). A fee of EUR 32.4 thousand (2015: 29.1) was charged for miscellaneous services.

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

	2016	2015
Total remuneration paid to the Executive Board amounted to	2,178	2,052
The Supervisory Board received total remuneration of	527	522

Of the total remuneration paid to the Executive Board, EUR 363 thousand (2015: 191) is attributable to performance-related components and EUR 309 thousand (2015: 343) to components with a long-term incentive effect.

Individual remuneration paid to the members of the Executive Board was as follows in fiscal year 2016 and 2015:

EUR K

2016	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL
Hartmut Müller	632	156	128	**916**
Gérard Cordonnier	452	103	96	**651**
Manfred Pretscher	422	104	85	**611**
	1,506	**363**	**309**	**2,178**

EUR K

2015	NON-PERFORMANCE-RELATED COMPONENTS	PERFORMANCE-RELATED COMPONENTS	LONG-TERM INCENTIVE COMPONENTS	TOTAL
Hartmut Müller	625	68	143	**836**
Gérard Cordonnier	263	27	54	**344**
Manfred Pretscher	419	46	95	**560**
Volker Walprecht	211	50	51	**312**
	1,518	**191**	**343**	**2,052**

Provisions of EUR 2,182 thousand (2015: 1,596) were recognized for retirement benefit obligations to current members of GRAMMER AG's Executive Board.

Executive Board members receive no loans or advances from the Company.

A further EUR 269 thousand (2015: 296) was paid to former members of management and the Executive Board and their surviving dependents.

Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at EUR 6,390 thousand (2015: 6,155) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

Moreover, current service cost of EUR 288 thousand (2015: 225) for allocations to retirement benefit provisions arose for active members of the Executive Board. Of this, EUR 129 thousand (2015: 108) was for Mr. Hartmut Müller, EUR 85 thousand (2015: 74) for Mr. Manfred Pretscher and EUR 74 thousand (2015: 43) for Mr. Gérard Cordonnier.

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR K	NON-PERFORMANCE-RELATED	NET MEETING FEES	TOTAL
Dr.-Ing. Klaus Probst	60.0	26.0	86.0
Horst Ott	45.0	13.0	58.0
Andrea Elsner	30.0	9.0	39.0
M.A. Tanja Fondel	30.0	5.0	35.0
Dipl.-Betriebswirt (FH) Wolfram Hatz	30.0	12.0	42.0
Martin Heiß	30.0	10.0	40.0
Lic. Oec. HSG Ingrid Hunger	30.0	5.0	35.0
Dipl.-Betriebswirt (FH) Harald Jung	30.0	5.0	35.0
Dipl.-Kaufmann Dr. Hans Liebler	30.0	5.0	35.0
Dipl.-Kaufmann Dr. Peter Merten	30.0	4.0	34.0
Lars Roder	30.0	14.0	44.0
Dr. Bernhard Wankerl	30.0	14.0	44.0
	405.0	**122.0**	**527.0**

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. In fiscal year 2016, as in the previous year, the Supervisory Board did not receive any performance-based remuneration.

34 CORPORATE GOVERNANCE

The Corporate Governance Statement pursuant to section 289a 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 under www.grammer.com/en/about-grammer/corporate-governance.

DISCLOSURES ON THE COMPANY'S MANAGEMENT

MEMBERS OF THE EXECUTIVE BOARD

M.Sc. BWL, Dipl.-Ing. (FH) **HARTMUT MÜLLER,** Darmstadt	Chief Executive Officer
Dipl.-Ing. (FH) **MANFRED PRETSCHER,** Meine	
Gradué en Sciences Juridiques **GÉRARD CORDONNIER,** Eupen, Belgium	

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.	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. HANS LIEBLER,** Gräfelfing	
Dipl.-Kaufmann **DR. PETER MERTEN,** Herrsching	
LARS RODER, Fensterbach	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	
HARTMUT MÜLLER Chief Executive Officer (CEO) HR Director	– Chairman of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria (until January 5, 2017) – Member of the Advisory Board of IFA ROTORION – Holding GmbH, Haldensleben, Germany – Member of the Supervisory Board of Wieland-Werke AG, Ulm
MANFRED PRETSCHER Chief Operating Officer (COO)	– Member of the Supervisory Board of GRAMMER AD, Trudovetz, Bulgaria (until January 5, 2017) – Member of the Supervisory Board of CVC Commercial Vehicle Cluster GmbH, Kaiserslautern (until April 19, 2016) – Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States
GÉRARD CORDONNIER Chief Financial Officer (CFO)	– Member of the Board of Directors of GRA-MAG Truck Interior Systems LLC, London (OH), United States – Member of the Board of Directors of GRAMMER Japan Limited, Tokyo, Japan (from January 19, 2016) – Member of the Board of Directors of GRAMMER Electronics N.V., Artselaar, Belgium – Member of the Supervisory Board of GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China – Member of the Supervisory Board of GRAMMER Interior (Tianjin) Co. Ltd., Tianjin, China – Member of the Supervisory Board of GRAMMER Interior (Changchun) Co., Ltd., Changchun, China – Member of the Supervisory Board of GRAMMER Seating (Jiangsu) Co., Ltd., Jiangyin, China – Member of the Supervisory Board of GRAMMER Interior (Beijing) Co., Ltd., Peking, China (from January 18, 2016) – Member of the Supervisory Board of GRAMMER Seating (Shaanxi) Co., Ltd., Weinan City – Shaanxi Province, China (from July 1, 2016)

PROFESSIONS AND OFFICES IN ACCORDANCE WITH SECTION 125 I SENTENCE 5 AKTG AND OTHER OFFICES HELD BY MEMBERS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	OFFICES IN ACCORDANCE WITH SECTION 125 I 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 – Member of the Supervisory Board of Zapp AG, Ratingen	– Member of the Advisory Board of Lux-Haus GmbH & Co., Georgensmünd – Member of the Advisory Board of Deutsche Bank AG, Munich (region south) – Deputy Chairman of the Advisory Board of Diehl Stiftung & Co. KG, Nuremberg (from June 1, 2016) – Member of the Advisory Board of Richard Bergner Holding GmbH & Co. KG, Schwabach (from July 1, 2016)
Horst Ott 1st Representative of IG Metall Amberg	– Deputy Chairman of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Christophorus Holding GmbH, Weiden (from January 7, 2016) – Member of the Supervisory Board of Luitpoldhütte AG, Amberg (until December 31, 2015)	– No further offices
Andrea Elsner Industrial business management assistant	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
Tanja Fondel Trade union secretary, IG Metall Management Board	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
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 Commerzbank AG, Frankfurt am Main
Martin Heiß Management assistant for data processing	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
Ingrid Hunger CEO of Walter Hunger GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
Harald Jung Vice President Division Controlling Consoles & Armrests	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices
Dr. Hans Liebler Managing Director of Lenbach Capital GmbH (since July 2016)	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Washtec AG, Augsburg – Member of the Supervisory Board of Autowerkstattgroup N.V., Maastricht, Netherlands	– No further offices
Dr. Peter Merten Member of the Executive Board of Rheinmetall Automotive AG (formerly KSPG AG)	– Member of the Supervisory Board of GRAMMER AG, Amberg	– 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 further offices
Dr. Bernhard Wankerl Attorney, law firm Dr. Wankerl and colleagues	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No further offices

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by GRAMMER Aktiengesellschaft, Amberg, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as they are to be applied in the EU, and the supplementary provisions of German commercial law in accordance with Section 315a (1) HGB are the responsibility of the Company's statutory representatives. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidation, the definition of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit, the consolidated financial statements comply with the IFRS as they are to be applied in the EU, the supplementary provisions of German commercial law in accordance with Section 315a (1) HGB and in the light of these provisions give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements, complies with the statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, March 15, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Sieger	Oßmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Amberg, March 15, 2017

GRAMMER AG
The Executive Board

GRAMMER GROUP FIVE-YEAR OVERVIEW ACCORDING TO IFRS

IN EUR M

	2016	2015	2014	2013	2012[1]
Group revenue	**1,695.5**	**1,425.7**	**1,365.9**	**1,265.7**	**1,133.0**
Automotive revenue	1,270.8	1,008.1	911.6	813.3	711.1
Seating Systems revenue	473.6	458.4	478.7	472.8	439.1
Income Statement					
Gross profit	198.7	152.1	158.3	155.9	141.7
EBIT	73.0	42.7	57.0	58.0	49.0
EBIT margin (%)	4.3	3.0	4.2	4.6	4.3
Financial result	−10.3	−6.9	−8.6	−15.6	−10.6
Profit/loss (−) before income taxes	62.7	35.7	48.4	42.4	38.3
Income taxes	−17.5	−11.9	−14.8	−12.8	−11.6
Net profit/loss (−)	45.2	23.8	33.6	29.6	26.8
Statement of Financial Position					
Total assets	1,050.6	992.1[3]	836.5	766.0	668.8
Non-current assets	379.6	373.7[3]	319.1	298.5	266.8
Current assets	671.0	618.4	517.4	467.4	401.9
Equity	271.2	253.4	231.8	224.7	210.3
Equity ratio (%)	26	26	28	29	31
Net financial debt	139.1	155.5	86.7	93.2	76.5
Statement of Cash Flows					
Investments (without M&A)	56.2	47.9	51.5	46.8	39.0
Depreciation and amortization	47.2	40.5	36.7	34.3	29.1
Cash inflow/outflow from operating activities	85.8	28.8	65.0	59.5	62.2
Employees					
Annual average	12,144	10,995	10,446	9,315	8,808
thereof in Germany	3,170	2,457	2,374	2,235	2,212
thereof abroad	8,974	8,538	8,072	7,080	6,596
Personnel expenses	352.4	301.8	282.2	251.6	232.3
Key share data					
Share price at year-end (XETRA, in EUR)	47.55	27.32	33.05	34.66	16.02
Market capitalization at year-end (in EUR m)	548.9	315.4	381.6	400.1	184.9
Dividend (in EUR)	1.30[2]	0.75	0.75	0.65	0.50
Earnings per share (in EUR)	4.01	2.10	3.09	2.67	2.38

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

GRAMMER AG FINANCIAL STATEMENTS

RESULTS OF OPERATIONS OF GRAMMER AG

GRAMMER AG INCOME STATEMENT[1] FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31

EUR K

	2016	2015	CHANGE
Revenue	587,893	583,967	3,926
Increase (2015: decrease) in inventories of finished goods and work in progress	24,879	–8,815	33,694
Other own work capitalized	150	32	118
Other operating income	4,776	13,004	–8,228
Total revenues	**617,698**	**588,188**	**29,510**
Material expenses	470,359	439,533	30,826
Personnel expenses	85,564	80,979	4,585
Depreciation and amortization	8,646	8,073	573
Other operating expenses	59,097	54,374	4,723
Financial result	68,470	30,408	38,062
Result of ordinary business activity	**62,502**	**35,637**	**26,865**
Extraordinary result	0	0	0
Income taxes	5,279	3,659	1,620
Other taxes	277	84	193
Net profit/loss (–)	**56,946**	**31,894**	**25,052**
Profit carried forward from the previous year	22,773	15,237	7,536
Additions to retained earnings	–28,473	–15,947	–12,526
Net retained profit/loss (–)	**51,246**	**31,184**	**20,062**

[1] Financial statements in accordance with HGB.

NET ASSETS OF GRAMMER AG

GRAMMER AG'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION[1] AS OF DECEMBER 31 OF THE RESPECTIVE FINANCIAL YEAR

ASSETS

EUR K	2016	2015	CHANGE
A. Fixed assets			
I. Intangible assets	14,353	13,099	1,254
II. Property, plant and equipment	27,660	30,530	−2,870
III. Financial assets	294,600	226,658	67,942
	336,613	**270,287**	**66,326**
B. Current assets			
I. Inventories	88,104	65,598	22,506
II. Receivables and other assets	153,379	182,452	−29,073
III. Cash at bank and in hand	64,538	76,855	−12,317
	306,021	**324,905**	**−18,884**
C. Prepaid expenses	840	685	155
Total assets	**643,474**	**595,877**	**47,597**

EQUITY AND LIABILITIES

EUR K	2016	2015	CHANGE
A. Equity			
I. Subscribed capital	29,555	29,555	0
Own shares	−845	−845	0
II. Capital reserve	74,651	74,651	0
III. Retained earnings	73,489	45,016	28,473
IV. Net retained profit	51,246	31,184	20,062
	228,096	**179,561**	**48,535**
B. Provisions			
1. Provisions for pensions	65,630	67,476	−1,846
2. Tax provisions	818	60	758
3. Other provisions	26,226	19,440	6,786
	92,674	**86,976**	**5,698**
C. Liabilities			
1. Liabilities to banks	256,500	260,000	−3,500
2. Prepayments received	3,429	3,306	123
3. Trade accounts payable	16,925	18,529	−1,604
4. Liabilities to related parties	39,713	40,291	−578
5. Liabilities to companies in which a participating interest is held	0	0	0
6. Other liabilities	6,137	7,214	−1,077
	322,704	**329,340**	**−6,636**
Total equity and liabilities	**643,474**	**595,877**	**47,597**

[1] Financial statements in accordance with HGB.

FINANCIAL CALENDAR 2017 AND TRADE FAIR DATES[1]

IMPORTANT DATES FOR SHAREHOLDERS AND ANALYSTS

Annual Report 2016	March 29, 2017
Annual analyst and press conference for 2016	March 29, 2017
Interim Report, first quarter of 2017	May 15, 2017
Annual General Meeting 2017 Venue: ACC (Amberger Congress Centrum), 92224 Amberg	May 24, 2017
Interim Report, second quarter and first half-year 2017	August 9, 2017
Interim Report, third quarter of 2017	November 13, 2017

IMPORTANT TRADE FAIR DATES

LAMMA Show, Peterborough, United Kingdom	January 18 – 19, 2017
SIMA, Paris, France	February 26 – March 2, 2017
ConExpo, Las Vegas, United States	March 7 – 11, 2017
Promat, Chicago, United States	April 3 – 6, 2017
Truck Grand Prix, Nürburgring, Germany	June 30 – July 2, 2017
Caravan Salon 2017, Düsseldorf, Germany	August 25 – September 3, 2017
GIE Expo 2017, Louisville, Kentucky, United States	October 18 – October 20, 2017
CeMAT 2017, Shanghai, China	October 31 – November 3, 2017
Agritechnica, Hannover, Germany	November 12 – 18, 2017
METS, Amsterdam, Netherlands	November 14 – 16, 2017

1 All dates are tentative and subject to change. Subject to change without notice.

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