

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

In 2017, 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 in both 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 its meetings, the chairman of the Supervisory Board consulted with the Chief Executive Officer several times a month in intensive discussions both in person and over the phone, obtaining information on the Company's business performance and main 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 on this matter.

MAIN MATTERS DEALT WITH AT THE MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board held a total of four ordinary meetings and three extraordinary meetings in 2017. At its ordinary quarterly meetings, the Supervisory Board dealt in detail with the Company's current business and financial condition. At these regular meetings, the Supervisory Board deliberated on revenue, earnings and capacity utilization as well as the financial condition and liquidity situation of GRAMMER AG and the GRAMMER Group. In addition, the members of the Supervisory Board discussed and passed resolutions on numerous matters as well as measures requiring their consent.

In addition, the Supervisory Board's activities in the year under review were characterized by the request submitted by a shareholder for an extraordinary shareholder meeting to be convened and by discussion between the members of the Executive Board and the Supervisory Board. Prior to his resignation, effective June 30, 2017, Dr. Hans Liebler attended only one of the four meetings of the Supervisory Board. No other member of the Supervisory Board or its committees attended only half or fewer than half of the meetings. No conflicts of interests on the part of any of the members of the Supervisory Board in connection with the exercise of their duties were reported in the period under review.

The Supervisory Board's first extraordinary meeting in 2017 was held on January 9, 2017 and attended by eleven members. The main item on the agenda for this meeting was the request by a shareholder for a shareholder meeting at which five members of the Supervisory Board were to be dismissed and replacement members elected. The extraordinary meeting of the Supervisory Board was used to apprise the members of other significant developments, particularly with respect to the Company's business activities in China and the plans to issue a convertible bond as a further source of funding. This meeting also passed a resolution to alter the composition of the Ad-hoc Committee. Moreover, a decision was made to include an additional, more detailed provision in the existing change-of-control clause contained in the service contracts entered into with the members of the Executive Board.

The second extraordinary meeting of the Supervisory Board was held on March 18, 2017 as a telephone conference, in which all members of the Supervisory Board participated. The main item of business concerned preliminary discussion of the agenda of GRAMMER AG's Annual General Meeting to be held in May 2017.

Eleven members attended the first ordinary meeting of the Supervisory Board on March 28, 2017. 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, 2016 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2016. In addition, the Supervisory Board passed resolutions concerning GRAMMER AG's Annual General Meeting which was to take place on May 24, 2017. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 1.30 per dividend-entitled share. The Supervisory Board's report and the corporate governance report for 2016 were approved. In addition, the gender quota targets for the Executive Board and the Supervisory Board were

reviewed. The Supervisory Board defined a target of 33 percent for the proportion of women on the Executive Board, which is to be achieved by December 31, 2020. The statutory gender quota of 30 percent was confirmed for the Supervisory Board. The Supervisory Board reviewed the Executive Board's performance in 2016 in its absence and passed a resolution approving the payment of a bonus.

The main focus of the second meeting, which was held on May 23, 2017 and attended by eleven members of the Supervisory Board, was on preparations for the Annual General Meeting taking place on the following day. In addition, the Supervisory Board was briefed by the Head of Human Resources on the current progress of the project to convert the remuneration system for the Executive Board and managers and the company pension scheme. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board additionally reviewed the efficiency of its own activities and adopted measures to improve such efficiency. In addition, a resolution was passed at this meeting to modify the Articles of Association following the issue of new shares.

The third extraordinary meeting of the Supervisory Board was held on July 10, 2017 and attended by nine members of the Supervisory Board. Dr. Hans Liebler's resignation from the Supervisory Board and Prof. Dr.-Ing. Birgit Vogel-Heuser's nomination as his replacement were announced. The main focus of this meeting was a review of the Annual General Meeting. At this meeting, the Supervisory Board decided to implement the new remuneration system and the defined-contribution retirement benefit scheme for the members of GRAMMER AG's Executive Board. Further items of business included the structure of the strategic partnership with Ningbo Jifeng, the current status of M&A activities as well as the changes to the German Corporate Governance Code and their impact on the work of the Executive Board and the Supervisory Board.

The third ordinary meeting of the Supervisory Board was held on September 26, 2017 and attended by all members. Prof. Dr. Birgit Vogel-Heuser took part in a meeting of the Supervisory Board for the first time. The main items of business entailed updates on the structure of the strategic partnership in China and on current M&A projects. The results of the staff survey were also presented. Furthermore, the Supervisory Board decided to renew the service contracts of the Executive Board members Mr. Cordonnier and Mr. Pretschner for a further three years.

Held on December 5, 2017 at GRAMMER System GmbH in Bremen, the Supervisory Board's fourth ordinary meeting was attended by all of its members. In a detailed tour of the plant, the Supervisory Board was briefed by local management on products, production processes and new developments at the site. The main focus of discussion was on the GRAMMER Group's strategy for 2018–2022 and the budget for 2018 that was duly approved by the Supervisory Board. The Supervisory Board's profile of skills was revised and its rules of procedure duly amended. The Supervisory Board adopted a resolution stipulating that the appropriate number of independent members of the Supervisory Board as a whole should stand at no less than ten and approved the revised version of the declaration of conformity. A comprehensively revised questionnaire for preparing the 2018 efficiency review was presented. In addition, there was an update on current M&A projects and the structure of the strategic partnership in China.

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

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

CIRCULATORY RESOLUTIONS OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board of GRAMMER AG passed one circulatory resolution in writing.

In a circulatory resolution dated April 25, 2017, the joint statement issued by the Executive Board and the Supervisory Board in response to the request by Cascade Investment International GmbH to add supplementary motions to the agenda (motion to dismiss shareholder representatives, to elect three new shareholder representatives and to recover damages from the Supervisory Board) was approved for publication in "Bundesanzeiger".

SUPERVISORY BOARD COMMITTEES

To facilitate the efficient discharge of its duties, the Supervisory Board established the following five committees in the year under review, which had the following composition as of the reporting date (December 31, 2017):

STRATEGY COMMITTEE

Horst Ott
 Dr. Klaus Probst (Chairman)
 Lars Roder
 Dr. Bernhard Wankerl

PERSONNEL AND MEDIATION COMMITTEE

Horst Ott
 Dr. Klaus Probst (Chairman)
 Lars Roder
 Dr. Bernhard Wankerl

AUDIT COMMITTEE

Andrea Elsner
 Wolfram Hatz (Chairman)
 Martin Hei
 Dr. Klaus Probst

NOMINATING COMMITTEE

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

AD-HOC COMMITTEE

Andrea Elsner
 Wolfram Hatz
 Martin Hei
 Ingrid Hunger
 Harald Jung
 Dr. Peter Merten
 Horst Ott
 Dr. Klaus Probst (Chairman)
 Lars Roder
 Dr. Bernhard Wankerl

The various committees held a total of 22 meetings in 2017. The business dealt with by the committees was reported to the Supervisory Board at the latter's next meeting.

The [Strategy Committee](#) advises the Executive Board on the development and implementation of the corporate strategy. It monitors the progress being made, prepares the consultations and resolutions of the Supervisory Board in connection with strategy-related matters and submits recommendations to it. The committee met twice in 2017. Both meetings were attended by all committee members. The meeting of February 14, 2017 was held as a telephone conference. Approval was granted for the issue of a mandatory convertible bond in a nominal amount of EUR 60,000,000 subject to the exclusion of the shareholders' preemptive subscription rights. The main focus of the meeting of October 26, 2017 was to prepare the meeting of the Supervisory Board of December 5, 2017 at which the GRAMMER Group's strategy for 2017–2022 was on the agenda. As well as this, the highlights and trends at IAA 2017 were discussed.

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

The agenda for the meetings held on February 2, 2017 and on March 27, 2017 included the restructuring of the remuneration system and retirement benefits for GRAMMER AG's Executive Board as well as deliberations on the preparations for decisions on the contract renewals for Mr. Cordonnier and Mr. Pretscher. The adjustments to the service contracts with the members of the Executive Board were discussed at the meeting held on September 26, 2017.

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

The Audit Committee met four times in 2017 and all members attended these meetings. The main item on the agenda for the first meeting held on March 28, 2017 concerned the annual financial statements and consolidated financial statements for 2016. Representatives from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which had been elected as statutory auditors for 2016 at the Annual General Meeting, were also present. The risk and internal auditing report was also dealt with. The second meeting held on April 27, 2017 considered the interim report for the first quarter ending March 31, 2017. At its third meeting on July 26, 2017, the Audit Committee deliberated on the GRAMMER Group's preliminary figures for the first half of the year ending June 30, 2017 and the engagement of the statutory auditor. At its fourth meeting held on October 26, 2017, the Committee discussed the preliminary interim financial statements as of September 30, 2017.

The **Nominating Committee** is responsible for submitting the names of suitable nominees for the Supervisory Board to the Annual General Meeting as well as for defining in advance the requirements for the specific position to be filled. One meeting was held in the year under review on June 8, 2017 at which a resolution concerning the judicial appointment of the replacement for Dr. Hans Liebler was passed and Prof. Dr. Birgit Vogel-Heuser nominated as the new member of the Supervisory Board.

In the year under review, the **Ad-hoc Committee**, which had a changed composition from January 9, 2017, met a total of 15 times. The Ad-hoc Committee is responsible for ensuring regular close consultation with and advising the Executive Board on recent developments and events; these were particularly related to the significant changes in the shareholder structure in the year under review.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the annual general meeting held on May 24, 2017, 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 26, 2017, the Audit Committee engaged the auditor for the 2017 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 suitable monitoring system that meets the statutory requirements for an early warning system for the early detection of risks to 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 20, 2018 dealing with the annual and consolidated financial statements and at the Supervisory Board meeting also held on March 20, 2018 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.

SEPARATE NON-FINANCIAL GROUP REPORT

At its balance-sheet meeting of March 20, 2018, the Supervisory Board considered the Company's non-financial report. The background to this is an EU directive that has been transposed into German law under the CSR Directive Implementation Act. The separate non-financial Group report submitted by the Executive Board describes the Company's approach to economic, social, ethical and environmental matters. It is published together with the annual financial statements for 2017 for the first time and can be found on page 38 et seq. of this annual report. The Supervisory Board reviewed the existence of the report, the appropriateness and implementation of its contents and the due diligence processes and was satisfied that the measures taken and the concepts applied for sustainability are appropriate for addressing the risks and opportunities and correspond to the business model. After careful examination, the Supervisory Board approved the GRAMMER Group's separate non-financial Group report.

COMPOSITION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

There were no changes in the composition of the Executive Board in 2017. At its meeting of September 26, 2017, the Supervisory Board decided to renew the service contracts of the Executive Board members Mr. Cordonnier and Mr. Pretscher for a further three years. There was one change in the composition of the Supervisory Board in the year under review: Prof. Dr.-Ing. Birgit Vogel-Heuser was appointed to GRAMMER AG's Supervisory Board effective July 26, 2017 to replace Dr. Hans Liebler, who had stepped down from the Supervisory Board effective June 30, 2017.

The Supervisory Board would like to express its thanks to the Executive Board, the employees and the employee representatives of GRAMMER AG for their great personal commitment and hard work and for identifying so impressively with the Company, without which the favorable business performance achieved in the turbulent year of 2017 with its difficult underlying conditions would not have been possible. The Supervisory Board would also like to convey its gratitude to the shareholders who placed their trust in GRAMMER AG's Executive Board and Supervisory Board last year and voted so clearly at the 2017 Annual General Meeting in favor of the continuation of the Company's successful business strategy in the interests of all stakeholders.

Amberg, March 2018

On behalf of the Supervisory Board



Dr. Klaus Probst
Chairman