Report by the Executive Board on the utilization in February 2017 of authorization granted at the Annual General Meeting of May 28, 2014 to issue mandatory convertible bonds subject to the exclusion of the shareholders' preemptive subscription rights.

The Executive Board was authorized at the Annual General Meeting on May 28, 2014 to issue subject to the Supervisory Board's approval bearer option bonds or convertible bonds in a total nominal amount of up to EUR 300,000,000.00 (say: three hundred million euros) with a term of no more than 20 years (hereinafter referred to as the **"Bonds"**) once or repeatedly on or before May 27, 2019 and to grant the holders of option bonds option rights or, as the case may be, the holders of convertible bonds conversion rights for up to 5,772,337 (say: five million seven-hundred and seventy-two thousand three-hundred and thirty-seven) new bearer shares in the Company with a proportionate share of the Company's share capital of a total of up to EUR 14,777,182.72 (say: fourteen million seven-hundred and seventy-seven thousand one hundred and eighty-two euros and seventy-two euro-cents) in accordance with the specific terms and conditions of the issue of the bonds. Different durations may be agreed for the bonds and, hence, the related conversion and option rights. The terms and conditions applicable to the option bonds or convertible bonds may also provide for an option or conversion obligation at the end of the term or on any other date.

In particular, the Executive Board is authorized subject to the Supervisory Board's approval to fully exclude the shareholders' preemptive subscription rights in respect of the bonds issued on a cash basis provided that the Executive Board is satisfied after due and proper consideration that the issue price of the bonds is not materially less than their hypothetical market value as calculated in accordance with acknowledged methods, particularly those which apply the principles of financial mathematics. However, this authorization to exclude the shareholders' preemptive subscription rights applies only to bonds with an option or conversion right or obligation with respect to shares representing a proportionate amount of the Company's share capital which does not exceed a total of 10% of the Company's share capital either on the date on which the authorization takes effect or – if this value is lower – on the date on which it is exercised.

Reference should be made to the resolution passed at the Annual General Meeting of May 28, 2014 for further details of this authorization.

Contingent capital has been created for the purposes of issuing the bonds. Under article 5 (4) of the Company's Articles of Association, the Company's share capital may be increased on a contingent basis by up to EUR 14,777,182.72 (say: fourteen million seven-hundred and seventy-seven thousand one hundred and eighty-two euros and seventy-two euro-cents) through the issue of up to 5,772,337 (say: five million seven-hundred and seventy-two thousand three-hundred and thirty-seven) new bearer shares with profit participation entitlement from the beginning of the year in which they are issued (**"contingent capital 2014/I"**). The contingent capital has been created so that shares can be granted to the bearers of bonds issued by the Company under the authorization granted at the Annual General Meeting of May 28,

2014 in accordance with item 8 of the agenda of that meeting. It will be utilized only as far as the conversion rights are exercised or the conversion obligations are settled under the aforementioned bonds.
On February 14, 2017, the Company made partial use of the authorization granted at the Annual General Meeting of May 28, 2014 and issued non-secured, non-subordinated mandatory convertible bonds with a total nominal amount of EUR 60,000,000.00 (hereinafter jointly referred to as the **“Mandatory Convertible Bonds 2017”**), divided into individual bonds with a nominal value of EUR 100,000.00 each, which may be converted into new and/or existing bearer shares of the Company.

The Mandatory Convertible Bonds 2017 were issued to JAP Capital Holding GmbH. The preemptive rights of the Company’s shareholders to subscribe to the Mandatory Convertible Bonds 2017 were excluded with the Supervisory Board’s consent. The Mandatory Convertible Bonds 2017 were issued at 100% of their nominal amount. They expire on February 14, 2018. Upon expiry, the Mandatory Convertible Bonds 2017 must be converted into shares in the Company unless the bond creditor exercises its conversion right at an earlier date. The coupon stands at 1.625% p.a. The initial conversion price is EUR 56.4734 per share.

The Company has made use of the possibility provided for by section 221 (4) sentence 2 AktG in connection with section 186 (3) sentence 4 AktG in the authorization granted at the Annual General Meeting of May 28, 2014 to exclude the shareholders’ preemptive subscription rights. The Executive Board and the Supervisory Board were satisfied that the conditions for excluding the shareholders’ preemptive subscription rights were fulfilled:

The Mandatory Convertible Bonds 2017 will initially be convertible into up to 1,062,447 new and/or existing bearer shares of the Company. This is equivalent to a proportion of around 9.2% of the Company’s share capital at the date on which the authorization takes effect and also on the date on which the authorization is exercised. The restriction provided for in the authorization granted at the Annual General Meeting of May 28, 2014 to the effect that the number of shares granted through the exercise of the Mandatory Convertible Bonds 2017 issued subject to the exclusion of the shareholders’ preemptive subscription rights must not exceed 10% of the Company’s share capital has thus been observed. Similarly, the requirements provided for in the authorization granted at the Annual General Meeting of May 28, 2014 with respect to the determination of the issue price of the Mandatory Convertible Bonds 2017 have been fulfilled. After due and proper consideration, the Executive Board is satisfied that the issue price of the Mandatory Convertible Bonds 2017 is not materially less than their theoretical market price calculated in accordance with generally acknowledged principles of financial mathematics as defined in sections 221 (4) sentence 2 and 186 (3) sentence 4 AktG. This has been confirmed in a corresponding statement by the underwriting bank. The shareholders’ interests have been duly taken into account as the price of the Mandatory Convertible Bonds 2017 comes close to their theoretical market value and their convertibility into shares of the Company is subject to a restriction of 9.2% of the Company’s share capital. This is because the availability of a liquid market means that shareholders are generally able to maintain the relative size of their share in the

Company by buying additional shares via the stock exchange on comparable terms. The issue of the Mandatory Convertible Bonds 2017 did not result in any significant economic dilution of the shareholders' holdings. The issue of the mandatory convertible bond 2017 to JAP Capital Holding GmbH was and remains in particular interests of the Company and its shareholders.
JAP Capital Holding GmbH is a subsidiary of JAP Capital Limited (Wanchai, Hong Kong), which in turn is a subsidiary of Wing Sing International Co., Ltd. with registered offices in Samoa (**"Wing Sing"**), which is affiliated with Ningbo Jifeng Auto Parts Co., Ltd. With registered offices in Ningbo, China (**"Jifeng"**). Jifeng specializes in producing headrests, central and door armrests for automotive OEMs. The decision to select Jifeng was preceded by an extensive and detailed process over an extended period of time to find a suitable strategic partner in China. The Company, Wing Sing and Jifeng have signed a letter of intent providing for the establishment of a strategic partnership between Jifeng and the Company, for the incorporation of a joint venture in the automotive segment in China and for the investor to enter the Company as a significant new shareholder. Under the future strategic alliance in China, it is intended that Jifeng will acquire a share in GRAMMER AG's subsidiaries in China via a joint venture. The planned alliance will allow both companies to additionally expand their presence in the crucial Chinese market and to gain improved access to local and international OEMs in China. China as the world's fastest-growing automotive market offers particular potential for GRAMMER AG. However, the Chinese automotive market contributes only 15% to the global revenue generated in the Automotive Division. The Executive Board and the Supervisory Board believe that the partnership with Jifeng will open up substantially broader access to the Chinese market for the Company. The parties have already signed a memorandum of understanding in which they have agreed on key elements of a future strategic alliance in the Chinese market.

The placement of the Mandatory Convertible Bonds 2017 with a company affiliated with Jifeng will form the basis for the establishment of a joint strategic alliance with Jifeng in the Chinese market. In addition, the Executive Board and the Supervisory Board believe that the issue of Mandatory Covertible Bonds 2017 will support allow the Company to secure a principal strategic shareholder that will support and safeguard the Company's successful corporate strategy. The Executive Board and the Supervisory Board therefore believe that the issue of the Mandatory Convertible Bonds 2017 to JAP Capital Holding GmbH and the resultant exclusion of the shareholders' preemptive subscription rights are justified in the light of the Company's interests.

The issue of Mandatory Convertible Bonds 2017 constitutes a form of finance that is in the Company's interests. The structure of the funding instrument as a convertible bond with a duty of conversion at the end of the bond period at the latest will strengthen the equity ratio and thus optimize the Company's balance sheet structure. This will protect its "investment grade" rating and thus ensure that GRAMMER AG remains able to fund itself flexibly and inexpensively in the capital market. At the same time, this enhanced funding flexibility will permit the GRAMMER Group to continue its successful strategy of exogenous growth.

The gross proceeds from the issue of the Mandatory Convertible Bonds 2017 equal EUR 60,000,000.00. The Company will use the net proceeds from the issue to further its strategic goals and for general business purposes. In particular, the issue of the Mandatory Convertible Bond 2017 will strengthen the Company's equity base, allowing it to finance the GRAMMER Group's domestic and international strategic growth. In addition to its organic growth, the GRAMMER Group has been engaging in targeted acquisitions over the last few years to expand its product range and technology in its core product segments and thus to decisively enhance its technological competitiveness. With the acquisition of the REUM Group in 2015, the range of innovative interior products was widened and valuable skills gained in key processes such as high-end surface-finishing and injection mold technology. In order to continue this successful exogenous growth strategy, the equity gained from Mandatory Convertible Bonds 2017 will be specifically used to reinforce the Group's product range, innovativeness and profitability via acquisitions both nationally and internationally. Among other things, the Company plans to use the proceeds from the issue of Mandatory Convertible Bonds 2017 for the following purposes:

- Acquisitions in the electronics segment to strengthen the GRAMMER Group's technological capabilities in this area and thus to secure a successful future for the Group against the backdrop of the growing importance of electronics in the automotive market and to widen its range and strengthen its global presence particularly in North America;

- Construction of a new development center and relocation of the Group headquarters to boost efficiency;

- Establishment of an R&D joint venture to strengthen expertise and efficiency in design, construction and project coordination activities.

In light of the factors outlined above, the exclusion of the shareholders' preemptive subscription rights in accordance with the requirements of the authorization granted at the Annual General Meeting of May 28, 2014 was objectively justified.