Annual Report 2020

ONE GRAMMER

COLLABORATING FOR A SUSTAINABLE FUTURE

GRAMMER

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Letter from the Executive Board

Dear Sir or Madam,

2020 was an exceptional year in many respects – and not just for GRAMMER AG. All of us were affected by the COVID-19 pandemic, which impacted our personal lives, social interactions and, not least, our business activities. No one could have predicted the coronavirus outbreak or its rapid spread across the globe, or imagined the resulting global crisis. Among all of the challenges posed, protecting the health and safety of our employees was – and remains – our top priority. We took immediate action and quickly established numerous protective measures. By implementing extensive hygiene concepts at our plants and mobile working for employees, we kept infection rates within our Company at a very low level. This meant we remained operational at all times and made significant progress at GRAMMER despite the difficult environment. We are therefore able to report positively on 2020 overall. This challenging year has brought us closer together globally and we go into the new fiscal year confidently as a stronger Company.

Robust performance in a challenging environment

Let us first look back at our business performance. The COVID-19 pandemic brought the global automotive and commercial vehicle industries to an abrupt standstill during the first quarter of 2020. Lockdowns, economic uncertainty and consumer reticence further weakened the already troubled markets. Vehicle manufacturers reacted at an early stage, significantly scaling back their production. Consequently, revenue in the first half of 2020 was down 30% on the same period the previous year, at EUR 735.8 million. Fortunately, our business recovered swiftly and substantially in the second half of the year, even registering year-on-year growth again in the fourth quarter. Nevertheless, this result was unable to fully compensate for the weak first half. Our total revenue in 2020 amounted to EUR 1.7 billion, marking a decline of around 16% on 2019. While these figures show that we were unable to reverse the general industry trend, we are very proud to report that GRAMMER outperformed the market in both the Automotive and Commercial Vehicles segments.

"We showed robust performance in 2020 and continued to systematically implement our strategic realignment. Based on our global cooperation as one GRAMMER, our new Way of Working and the impressive commitment of each and every one of our employees, we have set the course for a positive future for GRAMMER."

Thorsten Seehars
Chief Executive Officer (CEO)

Our operating result was likewise heavily impacted by the sharp volume declines resulting from the global COVID-19 pandemic as well as negative one-time effects amounting to EUR 24 million in the first half of the year. However, we were able to reverse the earnings trend, too, as the year progressed. Thanks to the market recovery and our strict cost management, operating EBIT climbed to EUR 34.0 million in the second half of 2020. In contrast, the figure for the first half of the year was EUR –45.7 million.

Strengthening our competitiveness

In the past fiscal year, we made important decisions to further improve our cost structure and thus enhance our long-term competitiveness. These included the planned closure and consolidation of plant locations and job cuts in administrative positions, which are to be implemented by mid-2021. We also secured our liquidity headroom early on through optimized global cash flow management and various financing measures. These measures include refinancing ahead of schedule and increasing the amount of the syndicated loan agreement, raising a hybrid loan and adding a third tranche to the syndicated loan agreement. We additionally strengthened our equity position through a capital increase in the fourth quarter. Our main shareholder, Jiye Auto Parts GmbH, supported this transaction, further increasing its interest in GRAMMER AG. In this way, we secured total additional funding of around EUR 300 million.

Research and development play an important role in sharpening our competitive edge. In 2020, we launched a project in this field to digitalize product lifecycle management. This project aims to accelerate development cycles by means of simplified data processing and consistency in development, industrialization and ERP system interfaces.

Jurate Keblyte
Chief Financial Officer (CFO)

"We are proud of having successfully increased our liquidity headroom and sustainably strengthened our equity base under exceptional circumstances in 2020. Through these measures, we have laid a solid foundation for achieving operational excellence and lasting success. The results for the second half of the year demonstrate that our measures are already taking effect."

GRAMMER expands footprint in the future market of Asia
As the world's largest single market for passenger cars and commercial vehicles, China is highly important to GRAMMER. This is why we expanded our presence in the Chinese market in the past fiscal year, opening two new plants in Ningbo and Shenyang. Our network in APAC now includes a total of eight production and logistics sites as well as three development centers. In light of the continued growth in both the Automotive and Commercial Vehicles segments, we have significantly enhanced our position in order to expand our customer base in the fast-growing APAC region. This goal is further advanced by a number of projects in cooperation with our strategic partner Ningbo Jifeng, with whom we have been working closely since early 2020. Together, we aim to generate significant synergies in the areas of procurement and manufacturing, expand our product portfolio and improve market access in certain regions. We already successfully launched initial sub-projects in the past year.

Strengthening regional responsibility and promoting collaboration
As the Executive Board team, we aim to give GRAMMER fresh momentum for greater agility and decisiveness worldwide. We already made substantial progress toward these objectives in the past fiscal year. A major step was taken with the organizational realignment of the GRAMMER Group, which means that decisions are now made and implemented in situ – hence more rapidly and closer to the customer – all over the world. We are reducing complexity, fostering dialog across functions and strengthening regional responsibility. This lets us leverage local potential and even better harness regional expertise in meeting our customers' specific needs. In addition, we have systematically pursued the cultural shift we initiated in 2019 and are redesigning our "Way of Working" as part of this process. This describes how we work at GRAMMER, with a strong focus on collaboration and empowerment.

The Company reached another major milestone with the move to our new GRAMMER Campus in Ursensollen, Bavaria, whose open architecture and state-of-the-art facilities symbolize the new GRAMMER "Way of Working."

Innovative concepts for the interiors of the future
Acting faster and more flexibly means that we can not only benefit from market trends but also help influence them. We aim to actively shape the future of mobility. One major factor in terms of GRAMMER's product portfolio is that ever more automated driving functions will permanently transform expectations when it comes to vehicle interiors. Even today, the functionality and comfort requirements of manufacturers and users

"The automotive industry is evolving at an ever more rapid pace. We aim to actively help shape tomorrow's mobile world, focusing on the ergonomics, comfort and sustainability of our products."

are increasingly changing. We can harness this potential to our benefit. This is why, last year, we fine-tuned the GRAMMER "PURE" concept, a case study offering a glimpse into the future of the car's passenger compartment. Under a strategic alliance with our partner HARMAN, for example, we have been working on solutions for integrating optimized audio headrests into tomorrow's seating systems.

All in all, GRAMMER AG focused its investments in the past fiscal year on key projects, creating a solid foundation for its successful onward development even in times of pandemic and industry change. Thanks to the significant upturn in our business performance in the second half of 2020, we have started the new year with confidence. Our organizational realignment, our team's specialist expertise and our global presence all bring us closer to our ambitious goal of playing a major part in shaping the vehicle interiors of the future. With our innovative concepts, we want to become the preferred seating and interior solutions provider for the new world of mobility.

We wish to express our heartfelt thanks to all of our employees for their exceptional commitment and tireless staying power. Over the past twelve months, we achieved a great deal, of which we can all be very proud. The first year of the pandemic clearly demonstrated that GRAMMER has the team, the culture and the structures it takes to successfully navigate even times of crisis.

Our sincere thanks also go out to our shareholders, notably the Wang family as owners of Jiye Auto Parts GmbH, as well as to our customers and suppliers for their loyal and cooperative partnership with our Company.

Jens Öhlenschläger
Chief Operating Officer (COO)

This year, we have chosen to publish our Annual Report in a new format. We invite you to explore the GRAMMER world of today and tomorrow and learn how we plan to help shape the future of mobility.

We look forward to continuing our shared journey into a new era for the automotive and commercial vehicle industries.

Sincerely,

Thorsten Seehars
Chief Executive Officer
of GRAMMER AG

Jurate Keblyte
Chief Financial Officer
of GRAMMER AG

Jens Öhlenschläger
Chief Operating Officer
of GRAMMER AG

Our Year 2020

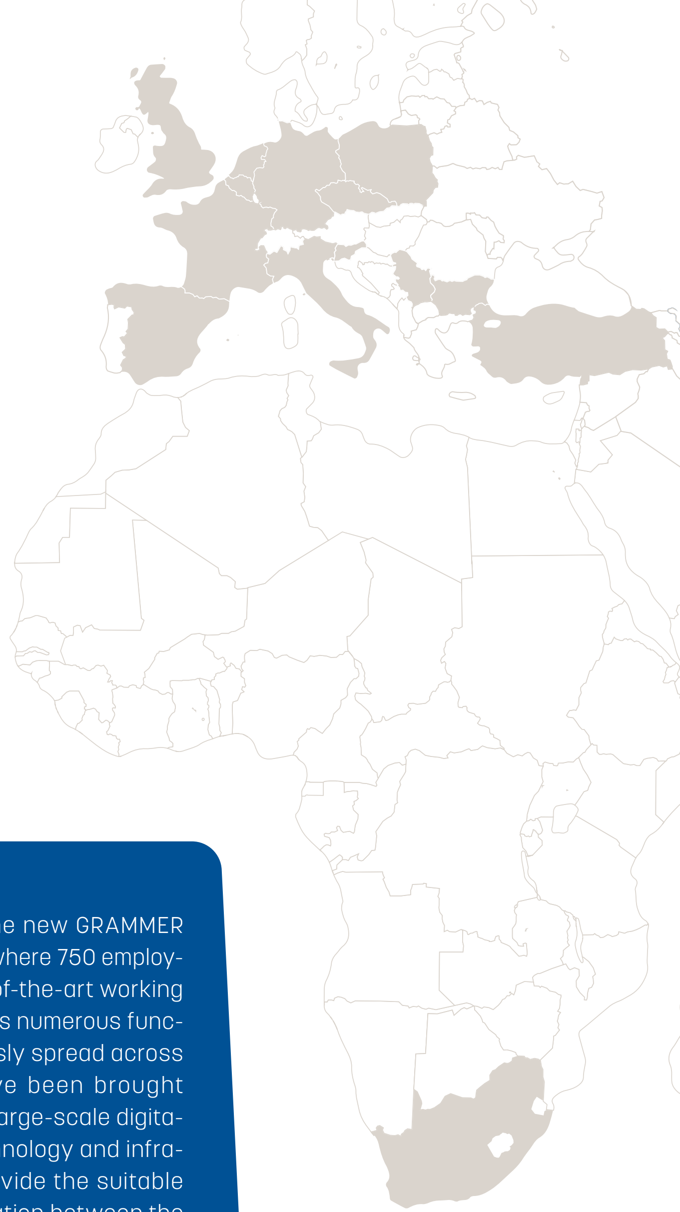
In a year that was shaped dramatically by the COVID-19 pandemic, GRAMMER mastered the manifold challenges well and, despite everything, achieved some successes both large and small. We won major orders from customers, established new partnerships and moved into our spacious and open campus in Ursensollen, Bavaria. In addition, we restructured the global organization of the GRAMMER Group and began the process of anchoring our new corporate culture – WoW@GRAMMER – at all levels of the Company.

ONE GRAMMER
Our executives from all regions came together at the GMM Meeting in January 2020.

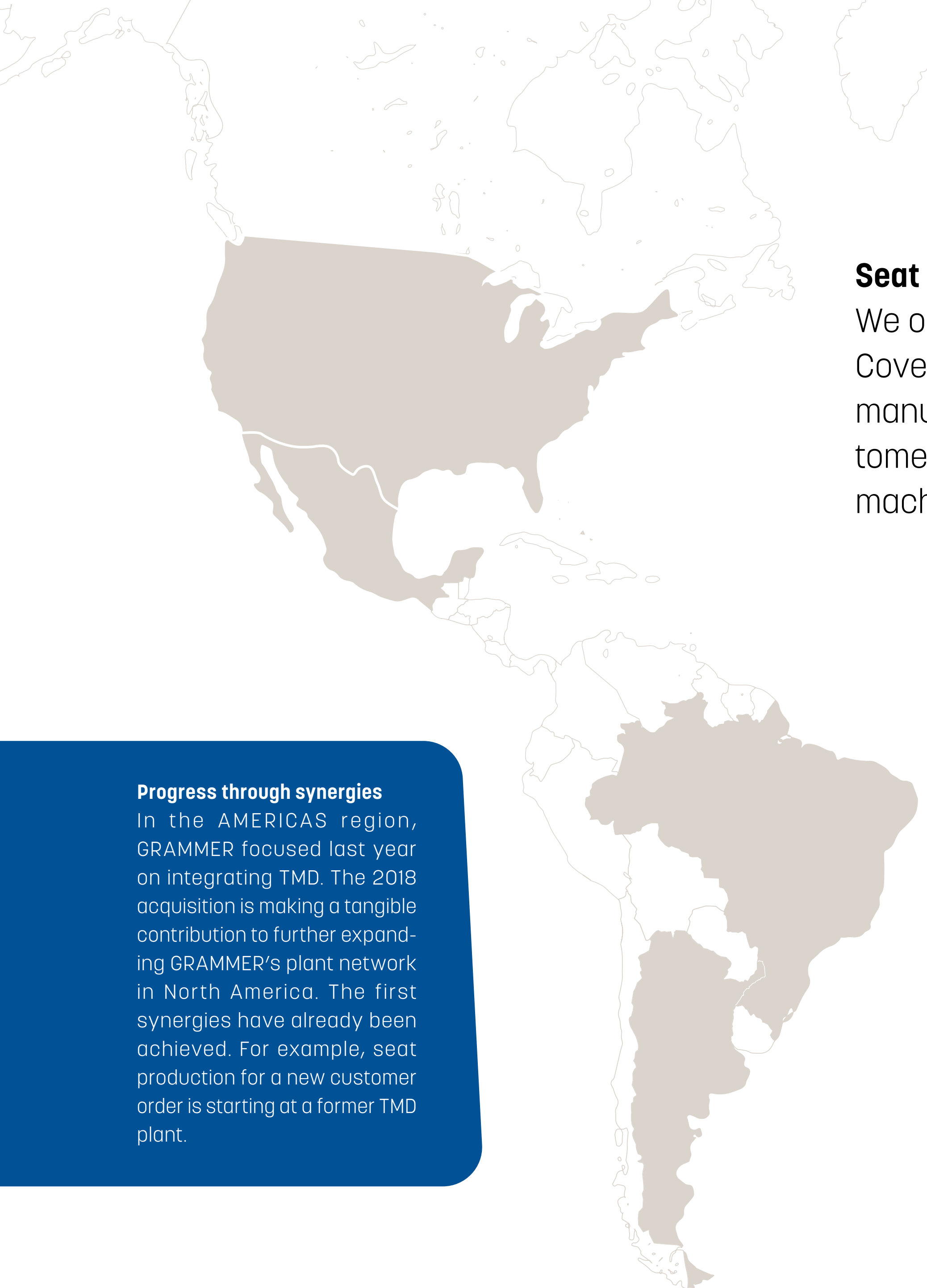
Innovation meets high speed
We are currently developing a novel seating system for Alstom, the French manufacturer of high-speed trains. Around 200 trains are to be fitted with these innovative seats.

Setting the course in EMEA

Despite what was a difficult year overall, we continued to press ahead with our major efficiency enhancement program. To that end, we have agreed with the social partners in Germany on a reduction of around 300 administrative positions by mid-2021 and opted to close three plants in Europe.



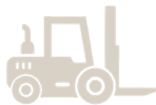
Collaboration 2.0
We have moved into the new GRAMMER Campus in Ursensollen where 750 employees now enjoy a state-of-the-art working environment. This means numerous functions that were previously spread across several locations have been brought together in one place. Large-scale digitalization, innovative technology and infrastructure to match provide the suitable framework for collaboration between the various teams and facilitate our new Way of Working.



Seat covers from Tetla

We opened Tetla II, a new sewing facility in Mexico. Covering an area of more than 9,000 m², the facility manufactures high-quality seat covers for our customers using seven laser cutters and 400 sewing machines. Production started in January 2020.

Progress through synergies
In the AMERICAS region, GRAMMER focused last year on integrating TMD. The 2018 acquisition is making a tangible contribution to further expanding GRAMMER's plant network in North America. The first synergies have already been achieved. For example, seat production for a new customer order is starting at a former TMD plant.



A stronger market presence

Since the middle of last year, GRAMMER has been a strategic supplier for the Hyster-Yale global forklift platform in the US and European markets.

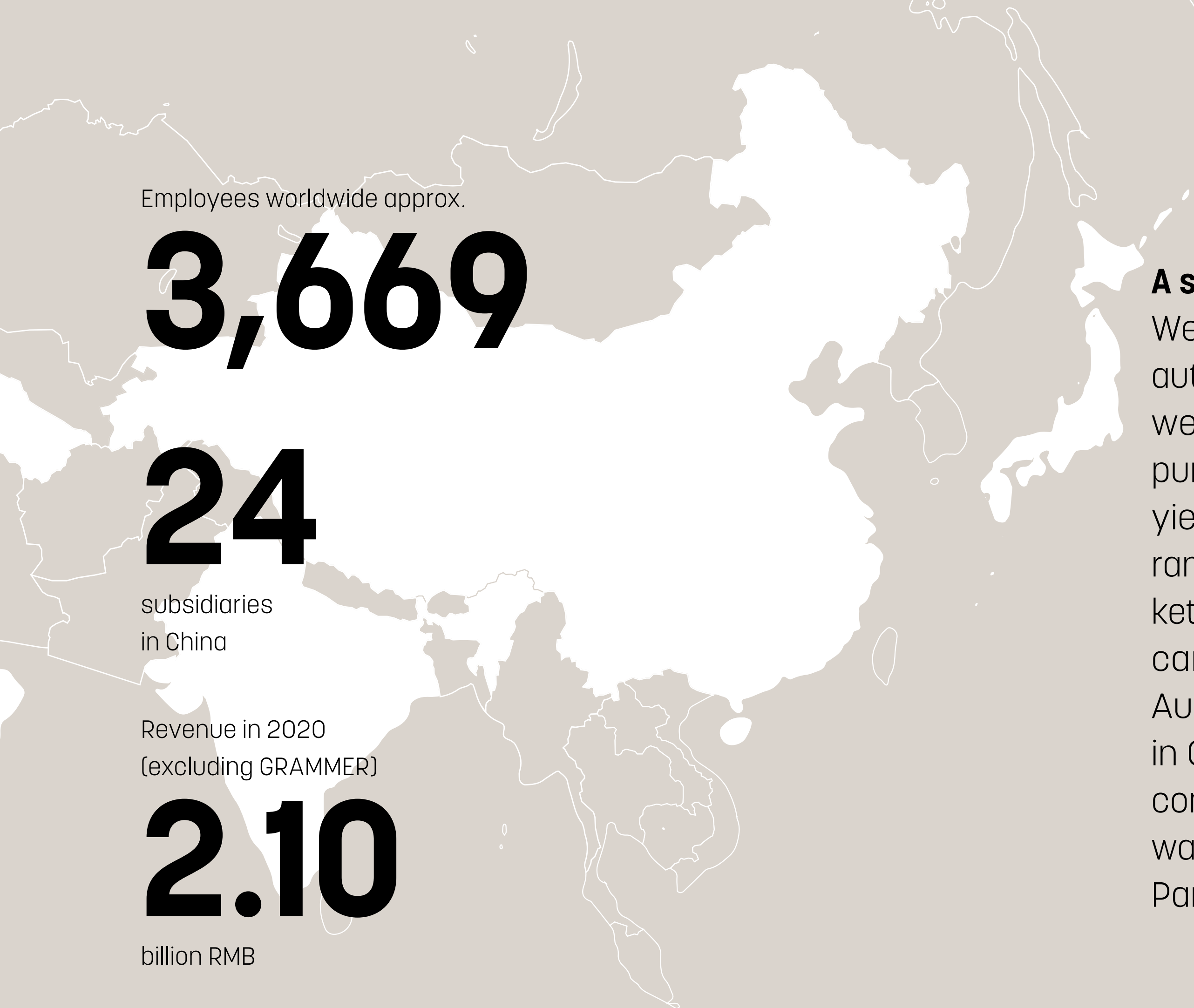
Compelling turnout
Held in Shanghai, bauma China is the leading trade show for the construction machinery industry in Asia. In 2020, GRAMMER participated in the event and had its own booth there. Particular eye-catchers among the products showcased were two high-end driver seats from our Maximo range.

Production start-ups in China

Production of MSG 90.6 truck seats started at our sites in Changchun, Tianjin, Ningbo and Shaanxi, China. Already marketed very successfully in Europe, these driver seats have been specially enhanced to meet the requirements of the Chinese market. This is how GRAMMER is addressing the growing demand for ergonomics and comfort functions in what is the world's largest truck market.

Growth in APAC

We are strengthening our presence in China with two new plants in Ningbo and Shenyang, where GRAMMER manufactures innovative products for the automotive and commercial vehicle industries.



继峰股份
JIFENG CO.,LTD.

Employees worldwide approx.

3,669

24

subsidiaries
in China

Revenue in 2020
(excluding GRAMMER)

2.10

billion RMB

A strong strategic partnership

We have had a strategic partnership with Chinese automotive supplier Ningbo Jifeng since 2018. In 2020, we launched two important joint ventures: a global purchasing cooperation, which GRAMMER expects to yield synergy effects in the double-digit million euro range, and a sales cooperation in the Japanese market designed to give us better access to the country’s carmakers. Moreover, our anchor shareholder Jiye Auto Parts GmbH now holds 86.2% of the shares in GRAMMER AG, an increase of 2 percentage points compared with the previous year. The reason for this was the capital increase in November 2020. Jiye Auto Parts GmbH is affiliated with Ningbo Jifeng.

+ Expanding presence in China

We will improve market access and penetration in China, accelerating our growth strategy in the world’s largest automotive market.

+ Expanding product offering for customers

As well as providing access to each other’s existing product portfolios, the two companies have agreed to collaborate on a new product line for vehicle interiors.

+ Leveraging economies of scale

To complement their purchasing collaboration, GRAMMER and Ningbo Jifeng are intensively working on optimized manufacturing concepts and make-or-buy strategies for various components.

Virtual meetings
An extraordinary year calls for exceptional formats: Due to the COVID-19 pandemic, the Annual General Meeting of GRAMMER AG was held virtually for the first time.

"My goal is to work with my colleagues and the Executive Board team in facilitating the onward development of GRAMMER. I look forward to supporting the Company through this exciting period of change."

Alfred Weber, Chairman of the Supervisory Board of GRAMMER AG

Creating financial headroom

We significantly strengthened our liquidity and equity ratio by way of various financing measures. This has improved the financial flexibility of GRAMMER AG, enabling us to safeguard the Company's success and the further development of the GRAMMER Group during and after the coronavirus pandemic.

REGIONAL STRENGTH

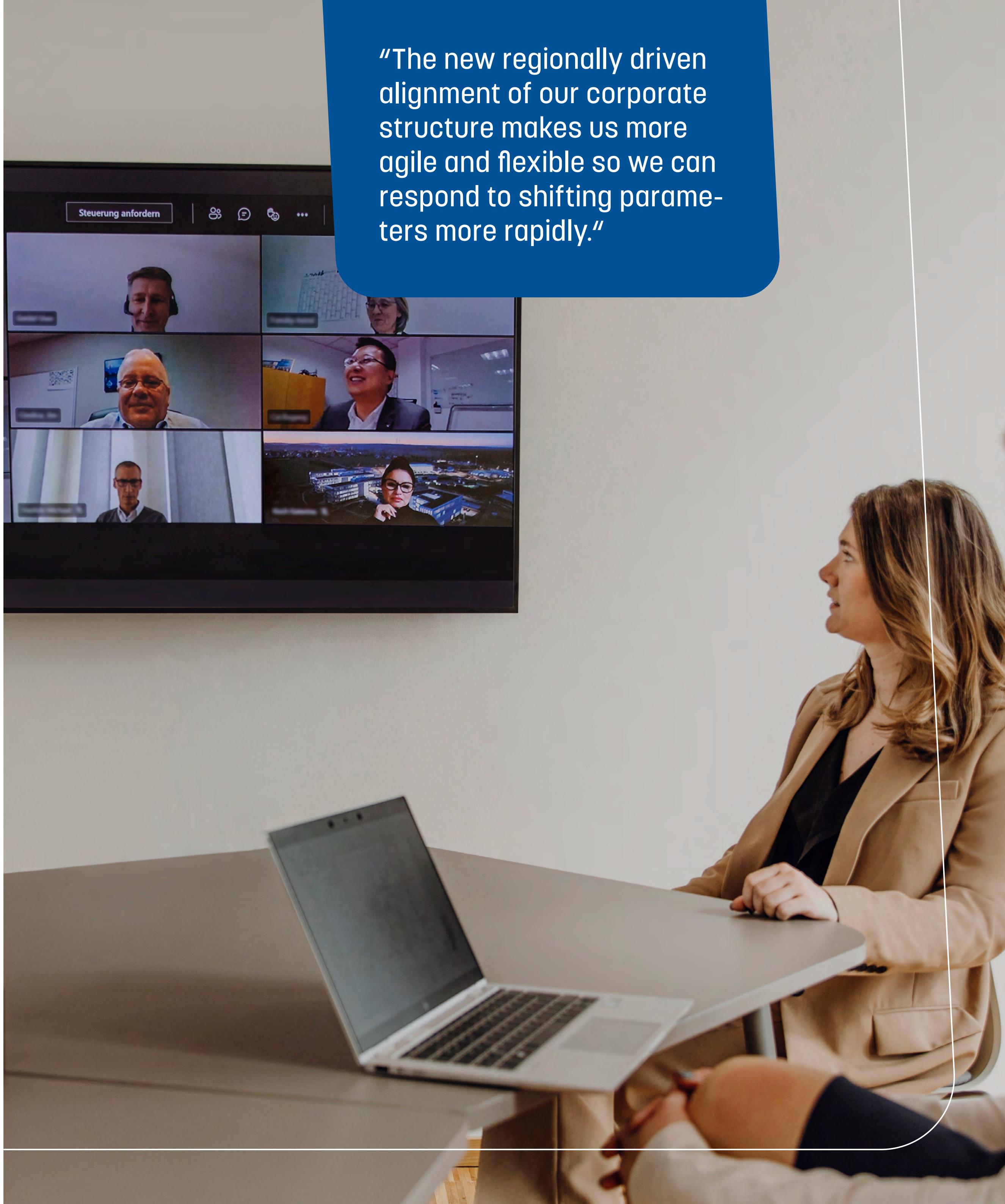
The organizational structure of the GRAMMER Group was fundamentally changed in 2020. Our goal was to give the three regions — Americas, EMEA and APAC — greater responsibility and decision-making powers.

Empowerment

Over recent decades, GRAMMER has evolved into a global company. Yet, it had always been steered centrally from Germany. In 2020, we began decentralizing the organizational structure in order to strengthen the regions and individual sites.

This has resulted in a great many advantages for GRAMMER, with local responsibility accelerating decision making and fostering agility and efficiency throughout the Company. At the same time, it lets us sharpen our focus on the local needs of our customers, suppliers and employees.

Moreover, this approach will help us deepen local value chains and achieve stronger regionalization in our supply chains, production as well as research and development. Looking ahead, this will enable GRAMMER to respond faster to different market challenges.



"The new regionally driven alignment of our corporate structure makes us more agile and flexible so we can respond to shifting parameters more rapidly."

> "At GRAMMER, we are currently sensing very clearly the great strength of will and energy to pull together in implementing these important changes."

Participation and cooperation

If we are to effectively implement the structural changes, we also need to change the way we work together. To this end, we have set up the new WoW@GRAMMER to promote collaborative thinking and global teamwork. This approach fosters collaboration between individual teams, the Group functions and, in particular, the three regions. The GRAMMER "Way of Working" facilitates the global, cross-divisional transfer of knowledge and promotes collaborative action – key elements designed to enhance efficiency and speedup decision making in every corner of the Company.

Way of Working @GRAMMER

C O D E

COLLABORATION
We support each other to achieve our common goals as one team.

OPENNESS
We communicate in a timely, transparent and respectful manner.

DRIVE
We are always working with energy, speed and the dedication to deliver.

EMPOWERMENT
We enable employees to take ownership.

BROAD CUSTOMER BASE

GRAMMER is investing consistently in research and development. We are constantly optimizing our products, relying on collaborative partnerships with existing and prospective customers to do so. This is how we are able to convince our customers around the world of the benefits of our product portfolio and gain access to new markets.

Pinpointing trends – growth markets in APAC and the Americas

In light of our customers' needs and the varying demand situation worldwide, 2020 was a very challenging year for GRAMMER. As a supplier to the global automotive and commercial vehicle industries, we, too, were severely affected by the fallout caused by pandemic-related production shutdowns. Yet, we managed to react swiftly to these changes and adjust our capacity planning to reflect actual demand. On the back of positive market trends and many production start-ups, we succeeded in generating 5.4% revenue growth in the Asia-Pacific region in 2020 compared with the prior-year figure.

GRAMMER's local know-how, plant network, expertise and strong customer focus enable us to continue tapping new sales opportunities. Our strategic partnership with Ningbo Jifeng and our two joint ventures in China, for example, give us access to other customers.

"We want to be the partner of choice when it comes to supplying innovative products of the highest quality."

We serve more than

4,000

customers in the Commercial Vehicles segment alone

Around

41.0 million

light vehicles were produced in the APAC region in 2020

"The Asian market is growing extremely fast. With our footprint in the region, this growth presents a fantastic opportunity for us."

"Precise knowledge of our customers' individual interests and requirements is crucial for us."

Identifying customer needs where they arise

Alongside our research and development activities in Europe, we expanded our technology centers in the APAC region and restructured our centers in the AMERICAS region in 2020. By optimizing our development network in all three regions, we are strengthening our resolve to gain a better understanding of our customers. The knowledge we gain helps us to constantly refine our entire development process and identify ways of achieving a more multifaceted market presence at an early stage.

Today, we operate three technology centers in the core Chinese market. Local research and development activities enable us to forge close-knit cooperation with our customers at both global and regional levels while taking country-specific developments into consideration.

ENHANCED PRODUCT PORTFOLIO

As an innovator, GRAMMER develops forward-thinking new components and systems for vehicle interiors that ensure sustainable growth and future viability for us and our customers. Throughout this process, we have an eye to the challenges posed by digitalization and automation as well as to the fundamental changes in mobility.

Developing the right solutions

Mobility is changing worldwide. Yet users' needs differ. In some regions, comfort and safety requirements are all but approaching Central European or North American standards. In other countries, environmental awareness, digitalization and increasing urbanization are generating entirely different customer expectations. Vehicle electrification and automated driving coupled with a growing focus on health and well-being present new challenges for the suppliers of interior products. Based on its years-long expertise and innovative strength, GRAMMER has the right answers to the questions arising from the new world of mobility – in both Automotive and Commercial Vehicles.

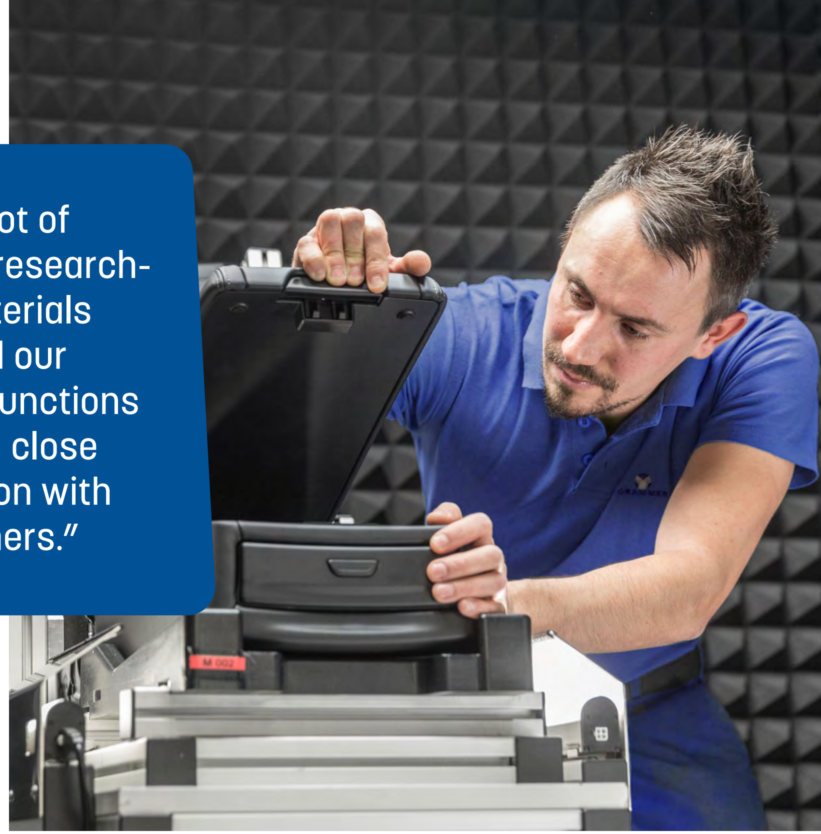
Sustainability is a particularly important issue for the Company. GRAMMER supports its customers in complying with new regulations by making its products more sustainable in terms of the materials and processes used. Thanks to the consistent use of lightweight construction methods, we are able to reduce vehicles' CO_2 emissions and fuel consumption over the entire product life cycle. In order to limit negative impacts on the environment, we are making increasing use of recycled materials or biopolymers which, unlike petroleum-based plastics, are biodegradable.

"Mobility will change fundamentally over the next few years. We provide our customers with the right solutions to respond to this change."

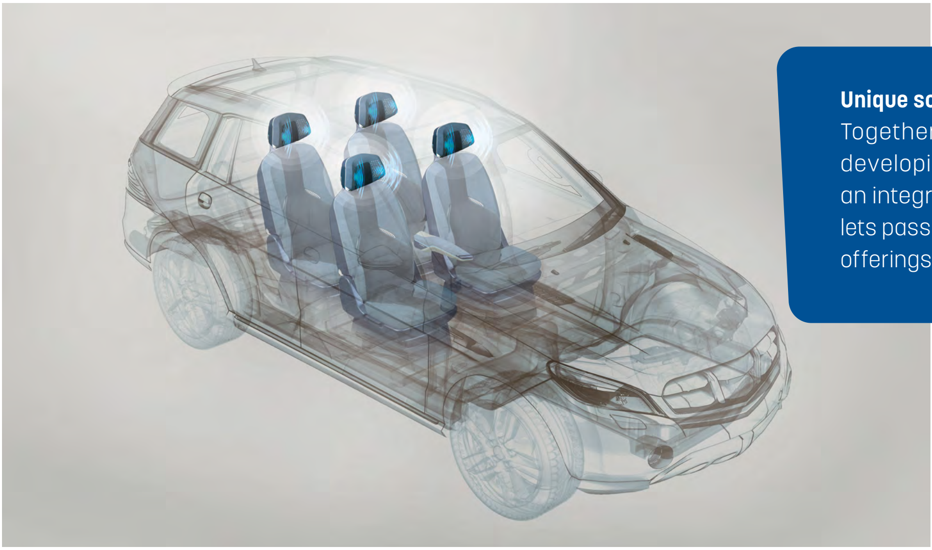
Rethinking vehicle interiors

To make autonomous driving and shared mobility attractive, we need to completely rethink vehicle interiors as we move forward. Requirements in terms of comfort, individual settings, flexibility and entertainment features will change fundamentally in the future and the demand for innovative, modular and functionally adaptable components will grow. Our most recent development project in this area is a collaboration with sound experts HARMAN to produce a headrest with integrated speakers which allow a passenger to personalize the sound to their individual preferences without encroaching on other vehicle occupants.

With over 20 years' experience in researching vehicle ergonomics, GRAMMER is also strong on comfort. We draw on this experience to devise safe and comfortable seating products for the drivers, front-seat passengers and other occupants of commercial vehicles, buses and trains.



"We put a lot of effort into researching the materials we use and our products' functions – always in close collaboration with our customers."



Unique sound
Together with HARMAN, we are developing a car headrest with an integrated audio solution that lets passengers personalize audio offerings individually.

Automotive
Headrests, armrests, center consoles, high-quality interior components, operating systems and innovative thermoplastic components: The Automotive Division offers solutions for passenger vehicle OEMs and Tier 1 suppliers across the global automotive industry.

Commercial Vehicles
Driver and passenger seats for agricultural and construction machinery, forklifts, trucks, buses and trains: With our "Design for use" approach, the Commercial Vehicles Division creates products that are ergonomic, user-friendly, comfortable and safe.

Revenue

1,710.7 EUR million

EBIT margin

-2.7%

Operating EBIT margin

-0.7%

Net profit

-64.7 EUR million

Free Cashflow

-36.3 EUR million

G-ROCE

-1.3%

Operating EBIT
Commercial Vehicles

36.0

EUR million

Operating EBIT
Automotive

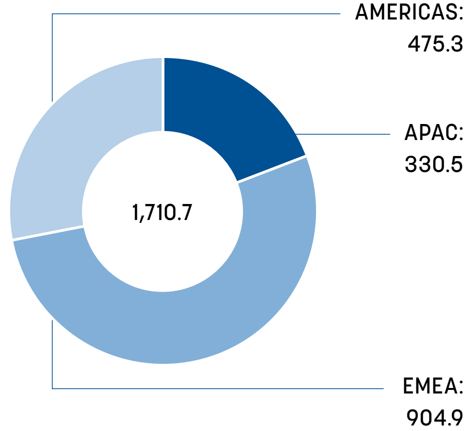
-42.5

EUR million

Company profile

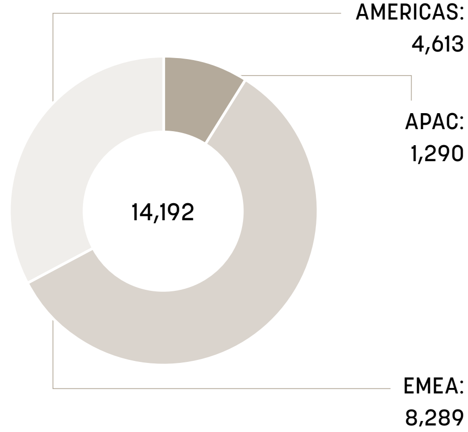
GRAMMER AG is a globally active stock-listed manufacturer of seating systems and automotive interiors. The Commercial Vehicles Division develops and manufactures technologically sophisticated seating systems for commercial and offroad vehicles as well as for trains and buses. GRAMMER's Automotive Division engineers and produces high-quality headrests, center consoles, armrests and interior components as well as innovative thermoplastic components for carmakers and their OEMs. GRAMMER serves its customers worldwide with a workforce of around 14,000 employees in 20 countries.

Revenue by region



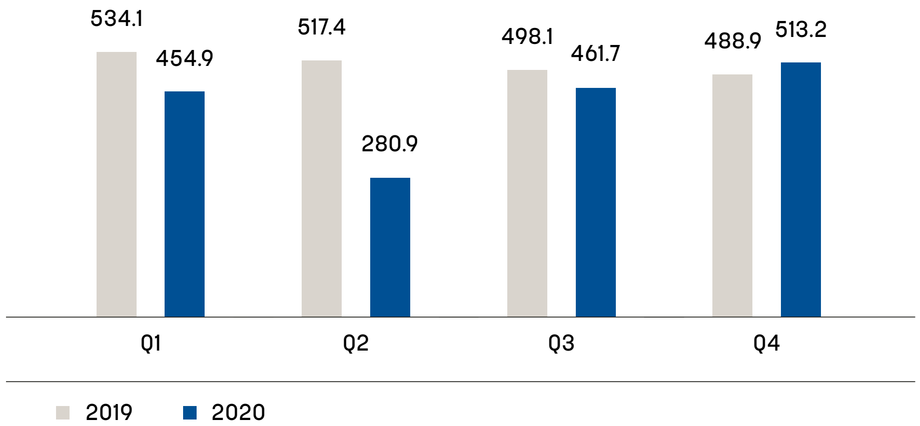
Employees by region

Annual average



Revenue by quarter

EUR million



Capital expenditure

83.8

EUR million

Equity ratio

22.0

%

EBIT

-46.1

EUR million

Combined separate non-financial report

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

This combined separate non-financial report (NFR) has been prepared in accordance with the requirements of sections 315b and 315c in conjunction with sections 289c to 289e of the German Commercial Code (HGB). It contains the disclosures required by law on material matters pertaining to the environment, employees, social concerns, observance of human rights and anti-corruption and anti-bribery precautions. In addition, it discloses material risks in accordance with section 289c (3) No. 3 and 4 HGB where these are necessary for an understanding of the Group's business performance, results of operations and position as well as the impact on non-financial aspects. This report is the combined separate declaration for the GRAMMER Group and GRAMMER AG for 2020 in accordance with sections 289b and 315b HGB, which is made available to the general public at the Company's website under Company > Sustainability > Non-financial report. Unless otherwise stated, the contents refer to the entire GRAMMER Group including GRAMMER AG. In this report, the term GRAMMER Group also includes GRAMMER AG. The GRAMMER Group has defined solely financial parameters and financially significant performance indicators. For this reason, there are no non-financial performance indicators pursuant to section 289c (3) No. 5 HGB that are of significance for the business activities of the GRAMMER Group. Detailed information on provisions can be found in the notes to the consolidated financial statements starting on page 96. Otherwise, there is no direct link between the amounts reported in the annual financial statements of the GRAMMER Group in accordance with section 289c (3) No. 6 HGB and the non-financial aspects. In some cases, reference is made to the content of the Group management report in accordance with section 315 b (1) sentence 3 HGB. The NFR has been reviewed by the Supervisory Board, which has satisfied itself of its legality, propriety and suitability for its intended purpose. The combined non-financial report has been prepared on the basis of the Global Reporting Initiative (GRI) standards. Looking forward, reporting in accordance with this standard is to be expanded step by step.

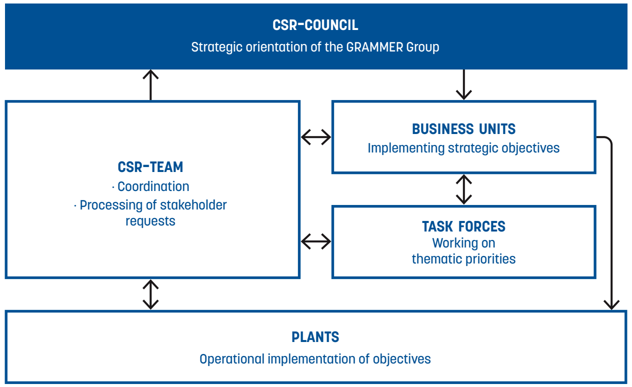
1. Sustainability at GRAMMER

The GRAMMER Group is a global group of companies specializing in the development and production of complex components and systems for automotive interiors as well as driver and passenger seats for offroad applications and trucks, buses and trains. GRAMMER is committed to sustainability and has firmly entrenched economic, ethical and ecological principles in its corporate guidelines. For us, accepting responsibility for people, society and the environment means minimizing strain on people and nature as far as possible and furthering their ability to regenerate. We seek to balance all our stakeholders' interests, further our employees' interests and strive for uniform environmental management at all locations.

1.1 Organizational structure of sustainability

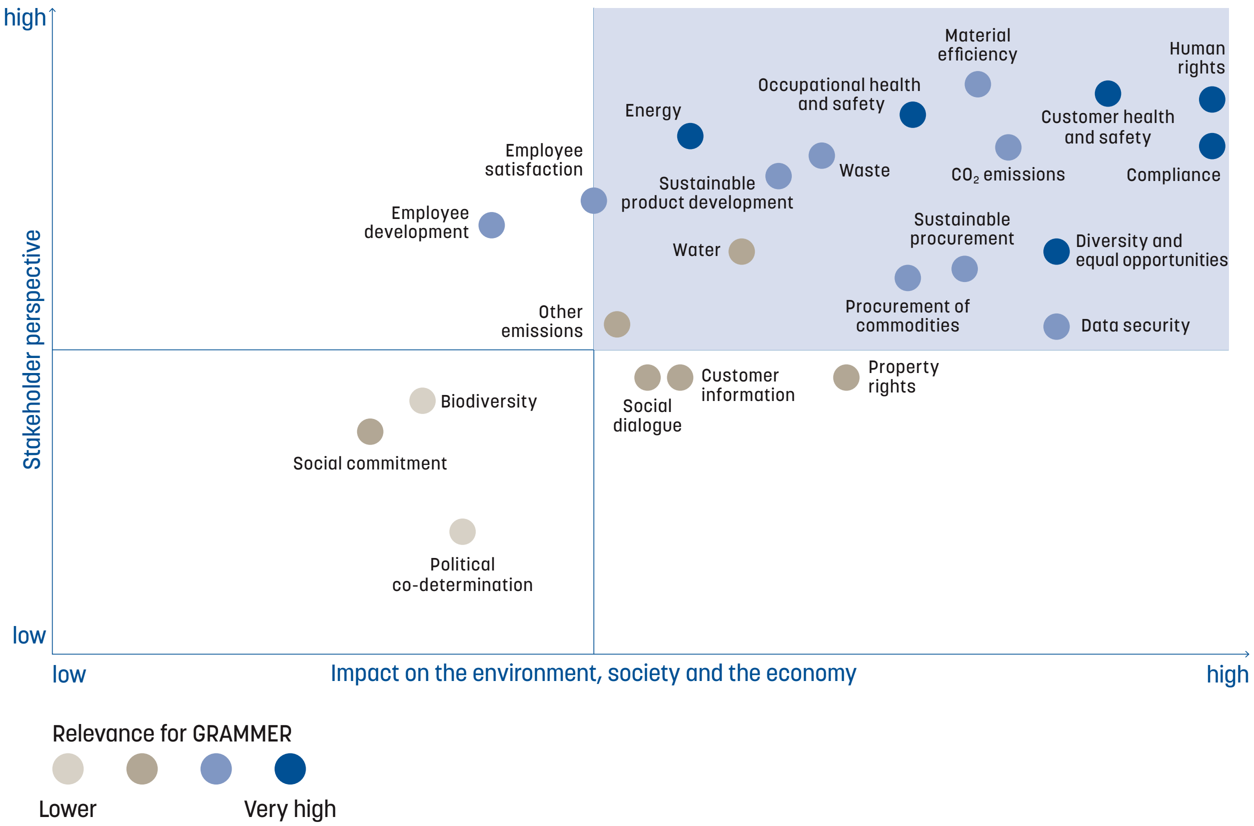
Sustainability forms part of GRAMMER's strategy as well as its operating activities. We have created organizational structures to ensure the observance of our rules as a basis for coordinating sustainability aspects internationally across the entire GRAMMER Group. In view of its high importance for the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

CSR organization



1.2 Materiality analysis

A new materiality analysis was carried out in 2020 in order to update the material sustainability aspects of the GRAMMER Group. It looked at the economic, ecological and social perspectives to evaluate the sustainability aspects. The stakeholder perspective was evaluated by internal experts. The survey was conducted using both written responses and workshops. In addition, the impact of the Company's activities on the environment, society and the economy as well as the relevance of the matters for GRAMMER were included in the evaluation. The results of the materiality analysis are shown in the following chart. All aspects in the light blue quadrant and whose relevance for GRAMMER was classified as high/very high (blue points) will be considered as relevant in the GRAMMER Group in the future.



As a result of the analysis, the fourteen material aspects listed in the chart will be reported subdivided into five aspects of relevance. In addition to the matters defined as material, "social commitment" has been included as a further relevant issue in this separate combined non-financial report in order to provide information on social matters within the Company.

Good corporate governance	Products	Environment	Supply chain	Social concerns and society
Compliance	Sustainable product development	CO_2 emissions	Working conditions and human rights	Employee satisfaction
Data security	Material efficiency	Energy and resources	Sustainable procurement	Occupational health and safety
	Customer health and safety	Waste	Procurement of commodities	Diversity and equal opportunities
				Responsibility as a Corporate citizenship

Aspects of relevance for the GRAMMER Group	Material aspect	Non-financial aspect
Good corporate governance	Compliance Data security	Cross-cutting issue, particularly anti-corruption
Products	Sustainable product development Material efficiency Customer safety and health	Environmental footprint, social concerns
Environment	CO_2 emissions Energy and resources[1] Waste	Environmental footprint
Supply chain	Working conditions and human rights Sustainable procurement of commodities	Cross-cutting issue, relates to all non-financial aspects
Social concerns and society	Employee satisfaction Health and safety Diversity and equal opportunities Responsibility as a Corporate citizenship[2]	Employee matters, social matters

[1] Energy and resources, incl. water.

[2] No material aspect; reporting is voluntary.

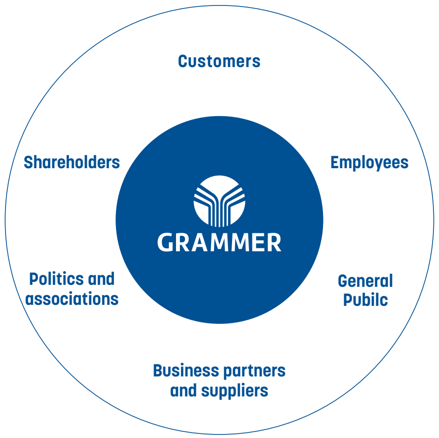
1.3 Support for sustainable development goals

As a company operating internationally, we actively contribute to the achievement of global sustainability goals. Adopted at the beginning of 2016, the United Nations' Sustainable Development Goals (SDGs) comprise 17 concrete objectives aimed at making the world more sustainable and fairer by 2030. In order to underline the relevance of the SDGs and to make our contribution to the individual sustainability goals visible, we have identified 10 SDGs on which we as a supplier of automotive components are able to exert influence. These are summarized in the adjacent table.

1.4 Inclusion of all stakeholders

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

The GRAMMER Group's stakeholders



SDG	Description	Corporate governance	Products	Environment	Supply chain	Social concerns and society
1	No poverty			Medium	Medium	Medium
2	No hunger					
3	**Health and well-being**		Strong			Strong
4	**Quality education**				Medium	Strong
5	**Gender equality**				Medium	Strong
6	Clean water and sanitation					
7	**Affordable and clean energy**		Medium	Strong		
8	**Decent work and economic growth**	Medium	Strong	Strong	Strong	Strong
9	**Industry, innovation and infrastructure**		Strong	Medium		
10	**Reducing inequality**	Strong			Medium	Strong
11	Sustainable cities and communities					
12	**Responsible consumption and production**		Strong	Strong	Medium	
13	**Climate action**			Strong	Medium	
14	Life below water					
15	Life on land			Medium		
16	**Peace, justice and strong institutions**	Strong			Strong	Strong
17	Partnerships to achieve the targets					

Strong influence
Medium influence

1.5 Risk evaluation of non-financial matters

Business always entails opportunities as well as risks. Our risk strategy defines various principles relating to the Group's risk policy. In this connection, GRAMMER defines opportunities and risks in the context of risk management as any positive or negative deviations from a plan or target defined in circumstances of uncertainty. Risk management thus contributes to value-based management of the Group. GRAMMER Group has implemented a uniform Group-wide risk management system to detect risks at an early stage, to analyze and assess their causes and avert or at least mitigate them. The risk management process ensures early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage risk as well as risk monitoring and control. This also entails the early detection of risks to the Group's going-concern status. Under the CSR Directive Implementation Act governing the disclosure of non-financial and diversity-related information, companies must not only report on the material aspects but also explain the related risks. The concept of risk has been expanded and integrated in risk management to map the non-financial risks in the process. Internal experts have assessed the qualitative impact of our corporate activities. GRAMMER views risk in net terms, i.e. after risk mitigation. No material risks that are linked to the Company's own business, business relations or products and are liable to have severely adverse effects on non-financial aspects have been identified in connection with non-financial aspects. However, there are fundamental risks which may impact individual non-financial aspects. Among other things, this applies to ecological risks which we address by implementing management systems in accordance with ISO 14001 and ISO 50001.

Green Company

GRAMMER has been promoting the expansion of its environmental management systems at all sites for many years. In future, it seeks to further its commitment to sustainability. For this reason, we launched the strategic initiative "Green Company" at the start of 2020. This initiative focuses on deepening and strengthening the awareness of environmental and sustainability aspects throughout the entire GRAMMER Group, assisted by specific measures led and monitored by the CSR Council. We have defined the following five areas of activity and guiding principles:

Energy and resource efficiency: We want to reduce energy consumption within our processes, promote the use of renewable sources of energy and use natural resources sparingly (further details see page 31 f).

Efficient use of materials: We optimize the efficient use of our production and non-production materials over the entire product lifecycle. Responsible handling of critical materials is a matter of course for us (further information on pages 30).

Avoidance of waste and recycling: We reduce our waste and minimize the use of dangerous waste materials. Furthermore we recycle more waste and ensure that the appropriate waste disposal and recycling methods are used (further information on page 32).

Reduction of emissions: We are aiming for the 1.5 degree Paris Agreement goal and are reducing greenhouse gases. Other emissions such as VOC or noise are being reduced to a minimum (further information on page 31 f).

Green products: We are exploring innovative and sustainable product solutions so we can offer our customers environmentally friendly alternatives in the future (further information on pages 29 f).

The five aspects allow the entire product lifecycle (from research and development through to procurement, transportation, production through to sales, use through to waste disposal) to be assessed and they help establish the "green company" philosophy across all processes. In addition, options for all employees to engage actively with this important aspect will be provided.

In 2020, long-term goals and measures were defined for every area of activity. A description of the goals can be found in the relevant chapter.

2020 CSR Award

Corporate social responsibility, i.e. responsibility for employees, the environment and society, is of great importance for the GRAMMER Group and, moving forward, is to be additionally intensified. For this reason, a decision was made to introduce a GRAMMER Corporate Social Responsibility (CSR) Award starting in 2019. The CSR is an internal award to acknowledge our plants that have displayed a particularly high degree of initiative in the area of sustainability. In this way, GRAMMER is seeking to set an example for greater sustainability and acknowledge the strong commitment of the individual sites within the Group. Awards are presented in three categories: "Environment", "Employees" and "Society". The projects which took the top spot in each category of the 2020 CSR Award are described below.

The diplomas were awarded virtually at the General Management Meeting.

Environment category: GRAMMER Interior Co. Ltd, Changchun (China) & GRAMMER System GmbH, Bremen (Germany)
In this category, the jury was unable to decide on who should get awarded the top spot; it therefore selected two projects as the winners.

Project: VOCs processing equipment upgrade
To comply with all regulations and ensure a better and healthy working environment for employees, the VOCs processing equipment was upgraded.

Project: WoW Environment Day
As part of a workshop, 180 ideas were generated to improve the carbon footprint. Ten of them are currently being implemented in projects.

Employee category: GRAMMER CZ s.r.o., Tachov (Czech Republic)
Project: Collection for a good cause
GRAMMER employees collected money in order to support a colleague whose five-year-old son suffers from muscular dystrophy. The collection raised around CZK 31,654 (approx. € 1,222.57). The money will be used to fund a rehabilitation program that is not covered by health insurance.

Social commitment category: GRAMMER Interior Components GmbH, Hardheim (Germany)
Project: GRAMMER Academy: A close-to-the-heart project to support the regional children's hospice in Mosbach
As part of a Christmas campaign, the GRAMMER Academy raised € 2,700 with handmade face masks and loops bearing the GRAMMER logo. All the takings were donated to the children's hospice in Mosbach.

2. Responsible corporate governance

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

2.1 Compliance and anti-corruption

Compliance with the rules and laws and with GRAMMER's own provisions is a central and important topic. Our binding Group-wide code of conduct defines the values and conduct expected of all employees. It forms the basis of our business activities. All new employees are briefed on this code of conduct, while existing ones undergo regular training to refresh their knowledge of its contents. The GRAMMER code of conduct is available in different languages. The GRAMMER code of conduct was revised in 2020 in order to enshrine in the code even more firmly aspects such as human rights, the rejection of forced labor and child labor, the freedom of association and data protection.

GRAMMAR attaches fundamental importance to observing all laws, particularly those governing fair trade practices and the avoidance of corruption. In addition, we are committed to the prohibition of insider trading, the confidential handling of information, the avoidance of conflicts of interest, protection of the environment, health protection, occupational safety and social responsibility. Comprehensive measures have been firmly in place for many years. All specialist and management staff undergo regular anti-corruption and anti-bribery training and training on fair trade practices, including the appropriate response to such occurrences. In particular, decision-makers are required to take part in training (including online training).

20% of all employees take part in the biannual compliance and cartel law training.

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

TARGET

Awareness of compliance and corruption risks is to be raised at 100% of GRAMMER sites every two years. In future, new employees will receive training immediately after joining GRAMMER. Moreover, compliance audits will be implemented at sites with compliance/corruption risks by the end of 2022.

39 plants underwent compliance audits between 2017 and 2019 (mostly in the form of self-audits).

Established whistleblowing mechanisms ensure that possible breaches can be readily reported. Thus, a code team and an internal whistleblower system have been established to accept any reports. Internal Auditing examines any specific suspicions after coordination with the Executive Board or the code team. If investigations relate to individual employees, the findings are forwarded to the Human Resources Department, which processes them and takes any necessary measures under employment law. Reports by whistleblowers were investigated in 2020 and, where the reports proved justified, measures were taken and implemented.

Together with our open corporate culture, the availability of points of contact for whistleblowers and regular training, we want to ensure that any breaches of the code of conduct within the GRAMMER Group are avoided. Should breaches of the GRAMMER code of conduct occur, we want to continue to ensure in the future that they are uncovered and penalized.

2.2 Data protection

The GRAMMER Group has high 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. Industrial property rights, business secrets and other confidential company information must be protected against unauthorized disclosure. In order to heighten employees' awareness of data protection, e-learning training is due to be implemented going forward.

TARGET

Germany-wide introduction of data protection training on the new e-learning platform by 2022.

As part of the data protection organization, inquiries from staff and managers will be processed and the corresponding solutions designed and implemented. Regular IT security tests and authorization checks are carried out while taking into account statutory data protection requirements.

2.3 Information security

Information security denotes the characteristics of (technical or non-technical) information-processing and storage systems that ensure confidentiality, availability and integrity. Its purpose is to provide protection from dangers and threats, to avert economic damage and to minimize risks. In practice, information security within IT security management is based on the international ISO/IEC 27000 series, among others.

GRAMMER considers it necessary to ensure information security along with all its requirements. The introduction of an information security management system (ISMS) at all sites of the GRAMMER Group is necessary in order to guarantee this in the context of IT security management. As with any roll-out of a new management system, initial certification of the central GRAMMER AG departments was completed before implementing the ISMS at all subsidiaries and locations. In December 2019, certification was achieved thanks to professional collaboration between all departments involved, resulting in successful ISO 27001 certification.

The requirements of an ISMS extend beyond the theoretical aspects and also include an evaluation of physical security. This ensures construction-related protection. Thus, for example, special requirements apply to the environment for product development as well as to access restrictions, the handling of prototype parts and much more.

3. Products

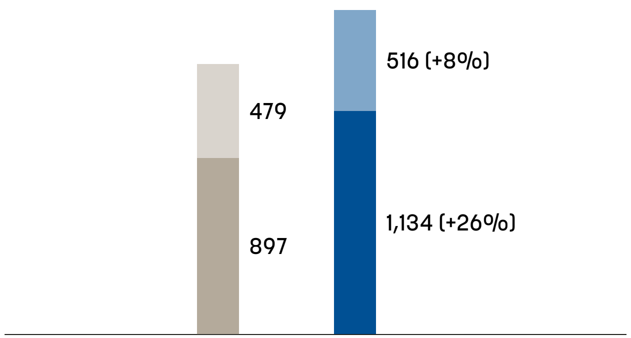
The GRAMMER Group attaches key importance to process and product efficiency, quality and safety. Product responsibility commences in the development phase and continues during production (use of material) and subsequent utilization by the customer. Examples of important criteria include quality, resilience, safety, ergonomics and product innovation. Our high-quality seating systems and premium interior products are currently being produced at 48 (2019: 48) production and logistics facilities around the world.

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 59,015 thousand, non-capitalized research and development costs remained steady compared with the previous year (2019: EUR 64,119 thousand).

3.4% was the share of non-capitalizable research and development costs in total revenue in 2020.

The GRAMMER Group has established research and development (R&D) units in key regions in order to offer customers high-quality solutions meeting their requirements. Our engineers work on the development of new, and further development of existing, GRAMMER products at a total of 15 development locations. The number of patents pending and granted rose by 20% to 1,650 in 2020 (2019: 1,376) as a result of this.

Patents
in %



In addition, the R&D function is present at the production plants to provide the necessary support directly and promptly.

3.1 Customer health and safety

All our construction- and manufacturing-related activities seek to provide users with the highest possible level of product security. Calculating, evaluating and reducing potential product risks through the use of appropriate technologies ensures that all aspects pertaining to product security are adequately taken into consideration.

Products are tested for their security, comfort and service life at our test labs worldwide. The test departments form part of our Competence Centers. The globally applicable standards for the corresponding product groups are ensured via three Competence Centers in Amberg (Germany), Hardheim (Germany) and Toledo (Ohio, United States) and are also certified by our customers. Certification governs general requirements for the competence of test and calibration laboratories. The laboratory scope of our test centers is moreover expanded continuously by a variety of different tests such as fire tests and various endurance tests.

For example, seat prototypes are tested in dynamic long-term tests on test benches, some of them developed by ourselves. To ensure impeccable quality over the entire lifecycle of a product, overall structures, seat cushions and backrests as well as operating elements and other elements are tested.

In order to meet the high quality requirements which our products must satisfy, GRAMMER has also established a uniform quality management system. All our GRAMMER sites are regularly certified under the ISO 9001 quality management standard, the IATF 16949 quality management standard for the automotive industry and the ISO/TS 22163 for the railway vehicle industry.

100% of our production facilities are certified in accordance with ISO 9001, IATF 16949, ISO/TS 22163.

The new robot test system in the Competence Center Amberg (Germany) is putting the seats through their paces.

Ergonomics

In our development activities, we attach particular importance to ensuring that the driver's health is preserved through ergonomically optimized products. Moreover, our headrests are an important safety feature for very largely preventing injury of or strain on the cervical spine in the event of an accident. Products that are not only height-adjustable but also permit the distance from the head to be modified and then store these personal settings in a memory function provide especially effective protection. In addition, our crash-active headrests protect passengers from the risk of whiplash injury.

The ergonomic design of our multifunction armrests for commercial vehicles featuring an optimum arrangement of the control elements eases the strain on the spine, prevents overstraining of the forearm, shields the driver from excess mental pressure and thus heightens the seat comfort. Our suspension seating systems for all kinds of commercial vehicles also meet the highest ergonomic requirements, thus helping to preserve the driver's health. The GRAMMER Group regularly reviews the status of its products on the basis of customer feedback, internal testing, user studies and discussions with leading biomechanics and spine researchers. In this connection, we use biomechanical measuring methods to test the impact of new features on the human body. Using electromyography (EMG), we measure electrical muscle activity in strain situations for example. Efficient and safe use of a vehicle calls for physically and mentally sound drivers. For this reason, the GRAMMER Group is particularly committed to promoting basic spine research. For this reason, we have established the GRAMMER European Spine Journal Award in recognition of outstanding research activities.

TARGET

We will continue to combine scientific findings with industrial application knowledge. For this reason we plan to hold our third international Ergomechanics Congress in 2022. We also foster young scientists working in the area of spine research through the European Spine Award.

3.2 Sustainable product development

In the interests of the continuous development of its product range, GRAMMER uses a modern innovation management system. Product ideas are jointly coordinated in international teams consisting of product and process experts, employees from sales and purchasing as well as managers from the two divisions and functions and incorporated in the Group's decision-making process. 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.

The issue of sustainable product development forms part of our strategic initiative "Green Company". As part of this initiative, we explore innovative and sustainable product solutions that allow us to offer our customers environmentally friendly alternatives. This includes light-weight construction, the use of recycled materials and of alternative sustainable materials.

Rapid technological progress is being accompanied by the steadily growing demands made of components suppliers by OEMs (original equipment manufacturers). Drive trains, vehicle concepts and the level of driving automation alongside safety and digital interfaces are defining the framework for future development. Further focal issues of the automotive industry include the use of recycled materials and achieving carbon neutrality throughout the entire value chain.

To move one step closer towards carbon neutrality GRAMMER launched a pre-development project titled "CO_2-neutral console" as part of the "Green Company" initiative in the fourth quarter of 2020. Our goal is to develop a CO_2-neutral product. To begin, a carbon footprint is used to establish the main influencing factors, allowing targeted measures for their reduction to be initiated.

Alternative sustainable materials

The patented POROLOFT® process investigates options for producing air channels based on fiber fabrics using sustainable materials, thereby reducing the cost of materials. Conventional processes use fiber fabrics which are pre-processed into mostly rectangular blanks. These are then heated and pressed into the desired shape. Excess material must be separated from the components in a further step along the process. In the POROLOFT® process, the fabric fibers are dissolved in a water-based suspension and then deposited on a porous negative mold of the target components. Different thicknesses and material strengths can be controlled via process parameters. This ensures savings in the production of blank mats and produces components free of excess material. Currently, different fiber materials are being tested for their suitability for use in the process together with their component properties. This involves both synthetic/thermoplastic materials and natural fibers from renewable resources (e.g. cellulose), which could even be composted at the end of their life cycle.

Light-weight construction

Our product 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 seats, center consoles, armrests and headrests. For one thing, reduced material requirements lower resource input and, for another, cut CO_2 emissions during the vehicle product life cycle. We achieve weight reductions by means of function integration and changes in the design, for example.

Recycling

The use of recycled materials in vehicle interiors and seating systems will additionally lower resource requirements. We are collaborating closely with our customers in this area to launch joint solutions. Examples include polyamide material blended with recycled carbon fibers or the use of recycled plastic for injection molding processing, especially in the area of console technology.

3.3 Efficiency of materials

Material efficiency within processes can be achieved through a variety of different approaches. For example, the use of materials can be minimized, surplus production avoided or waste within processes reduced. GRAMMER is pursuing two different approaches to promote material efficiency within the Company. First, the use of materials within core processes is minimized through new technologies. Secondly, innovative construction and material solutions are used to reduce the material use at a product level.

TARGET

Reduction in material use through the development of technologies, use of new production techniques and increased recycling of materials.

For example, foaming, painting and gluing systems now use solvent-reduced materials on a large scale. The Manufacturing Engineering Department continues to standardize production processes and equipment and developed or implemented innovation and automation initiatives step by step. The purpose of the GRAMMER production system GPS is to achieve a continuous improvement in our value flows by systematically minimizing work and resource requirements with the aim of achieving operational excellence.

To reduce the use of materials over the long term, three specific aspects have been defined as part of the Green Company initiative, which are due to be implemented over the coming years. A regranulation strategy for plastics is scheduled to be implemented to increase its recycling rate. Recyclates (recycled plastics) are already being used in some GRAMMER plants today and this will be stepped up at all locations worldwide as we move forward. To this end, we are already testing new material compositions in current development projects and are evaluating the potential for the use of natural-fiber-filled or -based thermoplastics in our GRAMMER products.

Moreover, the quantities of the chemicals polyol and isocyanate (polyurethane foams) used are to be reduced. To this end, best practice examples were collected and the first pilot projects defined in 2020.

Material or leather is also used for many of our products. Another important topic is therefore to increase the degree to which cover materials (leather, PVC, textiles) are used by deploying digitalization technology when cutting the raw material.

In recent years, the use of release agents during foaming has been reduced by more than 30% thanks to targeted technology initiatives. By coating foaming tools and additional process optimization (e.g. use of spray robots), the use of release agents by unit produced is scheduled to be reduced further over the coming years. In addition, electricity consumption was cut by 40% and the strain on employees in their proximity was reduced. As a further positive effect, energy consumption has been decreased, which has had an associated positive effect on CO_2 emissions.

4. Environment

The GRAMMER Group assumes responsibility for the environment and, in doing so, takes an integrated approach. Our mission statement defines active environmental protection as a key goal. Overall responsibility for environmental management has been assigned to Quality, Services and HSE, which reports to the Chief Operating Officer. This unit devises strategic parameters for environmental protection across the entire Group under the guidance of the Senior Manager, Health and Safety. A local environment, health and safety manager is assigned to each plant to implement the measures. We are also aiming to reduce business-induced environmental impacts as far as possible. Accordingly, material goals and measures relating to company environmental protection entail increased energy efficiency, a reduction in emissions from production and the value chain and the optimum use of resources along our value chain. We also analyze and optimize our production processes continuously in order to lower our water consumption. The targets pursued by and the progress made in our environmental activities including observance of all relevant legal rules are regularly audited and assessed both internally and externally. By making appropriate adjustments, we are able to achieve continuous improvements in our environmental and energy management systems. Due to the acquisition of the TMD Group (2018) and the fact that its sites are not fully certified, despite the further introduction of ISO 14001 at an existing site the percentage share fell slightly in 2020. 80% of all the Group's facilities around the world have already implemented an environmental management system in accordance with ISO 14001 and defined local environmental targets and measures. Accordingly, our goal is to certify all GRAMMER production sites in accordance with the environmental management system ISO 14001 by 2022.

TARGET

By 2022, certification of all GRAMMER production sites in accordance with the environmental management system ISO 14001.

2030: 30% reduction of CO_2 emissions in our global supply chain.

Key figures: 2021 baseline figure

4.1 Energy

GRAMMER seeks to reduce energy consumption within processes and promote the use of renewable energy sources and sparing use of natural resources. For this reason, an energy management system in accordance with ISO 50001 is scheduled to be implemented across all GRAMMER production sites by 2022. This measure will allow us to control, manage and, if necessary, adjust energy consumption. We have already rolled out an energy management system in accordance with ISO 50001 at all energy-relevant German plants, thus ensuring compliance with the statutory requirements.

100% All energy-relevant German production facilities are certified in accordance with ISO 50001.

To better identify savings opportunities, energy monitoring is due to be introduced at all production locations. At the start of 2020 the monitoring system was already implemented at all energy-relevant German locations. Initial savings measures resulting from this step have already been identified, such as unnecessary machinery and plants ready for operation during non-production time. In addition, plant-precise measuring and the existing material consumption data can be used to compare efficiency between similar plants and increase it.

2021 Implementation of a potential analysis including the definition of measures across all GRAMMER production sites worldwide.

The new GRAMMER AG Campus in Ursensollen.

2022 Rollout of an energy management system in accordance with ISO 50001 at all GRAMMER production sites worldwide, including energy monitoring.

We buy green electricity for our power supply. In addition, our new Campus has been built according to the latest energy standards.

4.2 CO_2 emissions

One particular focus is on reducing air pollutants, such as CO_2 emissions and volatile organic compounds (VOC). As part of the strategic initiative "Green Company", GRAMMER has decided to aim for the 1.5 degree goal of the Paris Agreement and to also reduce other emissions such as VOC to a minimum.

In this context, we have calculated the carbon emissions of the sites according to the Greenhouse Gas Protocol (GHG Protocol). This involves determining the Scope 1 emissions as well as Scope 2 emissions. Scope 1 emissions are direct emissions occurring during the Company's own energy production and the production process. Scope 2 emissions are indirect emissions that, for example, arise when externally sourced electricity and heat are used. The calculation process will be undergoing further optimization and expansion over the next few years. In order to make a material contribution to the reduction of climate-damaging materials, GRAMMER aims to reduce CO_2 emissions (Scope 1 & 2) by 50% by the year 2030. To achieve this goal, first the reduction potential within the processes will be analyzed over the coming years. We will focus on reducing energy consumption as this is the area where most CO_2 emissions are created.

TARGET

Reduction in CO_2 emissions (Scope 1 & 2) of 50% by 2030

(Baseline year 2019: Scope 1: 13,875 t & Scope 2: 133,594 t)

In addition, over the coming years the Scope 3 emissions are due to be determined. They include, for example, purchased (input) products, company travel, logistics processes or employee journeys to/from work. To calculate the CO_2 emissions within our supply chain, we will use existing digital tools to check and establish the carbon footprint of our suppliers. As set out in detail in the "Sustained product development" chapter, we will moreover for the first time calculate the carbon footprint of a center console system.

TARGET

Calculation of Scope 3 emissions by 2025.

Digitalization of the carbon footprint within the supply chain as part of the TCO procurement strategy.

As part of environmental management, GRAMMER has already initiated measures to reduce emissions and monitors their implementation at its sites. We furthermore have individual concepts in place at a large number of sites that are adapted to the activities and work processes on site and to local requirements. GRAMMER's Automotive Division uses emission-reduced foam materials in the EMEA, APAC and Americas regions, which can lower emissions of volatile hydrocarbons by up to 70% in some cases. Likewise, emissions from the use of water-based foam release agents have been cut by around 75%. This has been implemented at 7 out of 18 plants, with a further three sites to follow in 2021.

4.3 Waste

We are aiming to minimize the use of energy and resources in all production processes in order to avoid emissions and waste. In the interests of conserving resources, we apply a waste material hierarchy to minimize waste during the production phase. Seat upholstery materials are cut in such a way as to reduce wastage as far as possible. If it is not possible to recycle waste, it is disposed of properly.

GRAMMER seeks to reduce waste, minimize hazardous waste, increase the recycling of waste and ensure that appropriate waste disposal and recycling methods are applied. For this reason, the material aspect of waste has been included in the strategic initiative "Green Company".

Through the reuse of plastic waste by means of regranulation, the percentage of plastic waste could be reduced by at least 5%.

For example, packaging was optimized for in-house packaging used at the Hardheim site to dispense with the need for filling material, which thus no longer needs to be disposed of.

TARGET

Use of recyclable packaging material.

Increased in-house reuse of packaging material.

Reduction of in-house transport packaging and plastic waste.

To raise awareness of the need for environmental protection, avoidance of waste and a healthy use of our natural resources the sites took part in initiatives organized by charitable organizations, for example by donating recyclables that are sold to certified waste disposal companies or recycled. The proceeds generated benefit people in need or organizations in structurally weak regions.

5. Supply chain

GRAMMER views its suppliers as an extension of the Company and as an important part of its value chain. We select suppliers who are committed to a clear system of values and to ethical principles. We expect our direct and indirect suppliers to comply with the solid business practices that we promote, observe laws and standards, perform their duties in accordance with the applicable rules and regulations and also provide documentary evidence of this.

5.1 Supplier management and environmental & social standards

A supplier code of conduct was published and additionally integrated in the supplier portal in 2019 to address all sustainability criteria and to do justice to our stakeholders' extensive requirements.

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

In the past, we have used forums such as supplier partner and collaboration days to inform our suppliers of our expectations with respect to the observance of statutory, ethical and environmental requirements. Moving forward, we will continue to use such forums because channels for personal contact and communications are essential in order to reach out to our very broad supplier base. In 2020, we also established a supplier newsletter that will be communicated digitally to the entire supplier base two to three times a year. The content of the supplier newsletter is very broad: It includes topics such as relevant changes within the Company, legal adjustments and important elements of the operating business. Over time, however, we will increasingly also be making use of digitalization as the main tool for implementing corporate social responsibility across our supplier base as modern IT tools offer the swiftest and most effective method of communicating with all regions of the world in which we purchase components.

We have also established a risk management tool to uncover operational, geopolitical and macroeconomic forms of risk. This tool identifies such risks using artificial intelligence and through the ongoing screening of reliable sources.

TARGET

100% free from conflict minerals in the global supply chain.

100% of global suppliers confirm GRAMMER code of conduct.

In 2020, our tender portal implemented questions relating to the observance of international legal and ethical standards, administrative requirements and our own corporate guidelines. The suppliers' eligibility for bidding for new business depends on their compliance with and acceptance of the standards we have described in our value-based approach to sustainability in GRAMMER's global supply chain. Of the currently 1,400 suppliers of direct materials, only those that agree to comply with our sustainable procurement requirements will remain part of our global supplier basis in the long term.

5.2 Sourcing of commodities under environmental aspects

Generally speaking, we select our suppliers to ensure that they comply with our (environmental) requirements. For example, when procuring commodities (steel, plastic granulates and energy) we pay attention to ensuring that the code of conduct is adhered to and no conflict minerals are used.

When procuring plastic granulates we point out to our customers that their specifications should be environmentally sustainable. Likewise, the specifications of our customers ensure that we take the environmental aspect of plastic granulates into account, and we pursue the same goals in this respect.

To manage the materials data GRAMMER uses the collective, computer-based International Material Data System (IMDS). This system is employed by automotive producers to manage environmentally relevant aspects of the materials used in vehicles. The system enables the automotive industry to reconstruct the entire material flow. It is the responsibility of the data creator to ensure that the requirements are transmitted along the supply chain in order to guarantee compliance with the provisions and data reporting of the material formulation. For this reason, GRAMMER demands the use of this database both in its conditions of purchase and in the supplier code of conduct. Suppliers can consult the IMDS manual on the GRAMMER website for more information on this topic.

5.3 Conflict minerals

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

GRAMMER also expects its suppliers to source conflict minerals contained in the components, building parts or products produced by them from conflict-free sources, to introduce relevant guidelines for the procurement of conflict minerals and to communicate them to their own suppliers. We also expect our suppliers to collaborate with their own suppliers to trace conflict minerals at least to the smelter and to encourage the use of standard reporting procedures.

5.4 Working conditions and human rights

Manufacturing companies are exposed to a greater risk of human rights violations than service companies. Risks of potential human rights violations may primarily arise along the previous value chain and in the procurement of resources. We are aware of our responsibility and have therefore adopted the industry-related code of conduct issued by the German Federal Association of Materials Management, Purchasing and Logistics (BME), which governs conduct with respect to the observance of human rights as well as child and forced labor. This code of conduct applies across the entire Group. As already explained in Section 2.1, the revision of the GRAMMER code of conduct will devote even more space and importance to the observance of human rights, in order to underscore their significance. We are heightening our employees' awareness of human rights issues by means of the "Compliance" e-learning module. GRAMMER provides its employees with more detailed information on the code of conduct via the Intranet. Moreover, we are committed to the core labor standards defined by the International Labour Organization (ILO) and the UN Universal Declaration of Human Rights.

TARGET

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

100% Participation rate (online training)

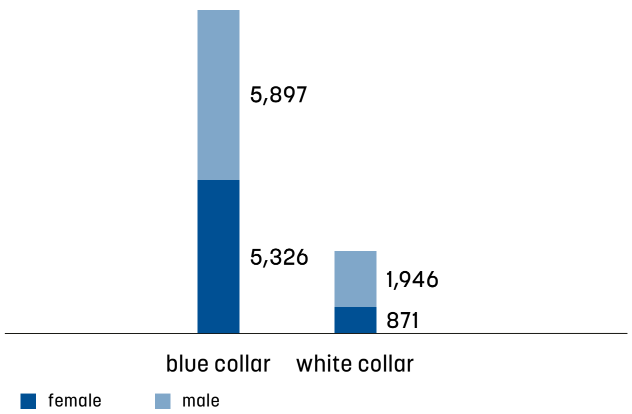
We also strive to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations and performing checks, through the supplier code of conduct implemented in 2019, among other things.

6. Social & community

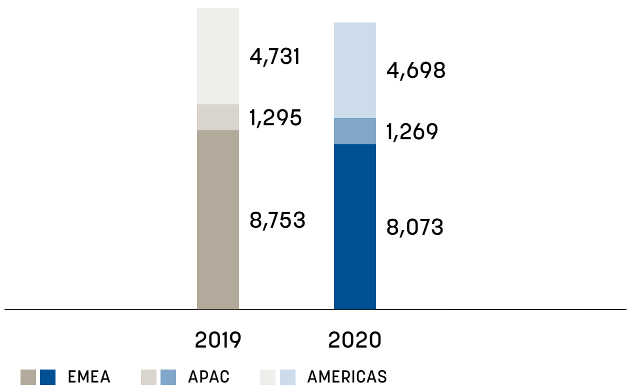
Our business success is above all the result of the commitment and dedication of our 14,040 employees around the world (6,197 women [44.14%] and 7,843 men [55.86%]; as of December 31, 2020). We maintain a dialog with them characterized by mutual trust and actively involve them in the development of the GRAMMER Group. Together with the line managers, Human Resources is responsible for staff development. Human Resources reports directly to the Chief Executive Officer and HR Director.

The GRAMMER Group has a global footprint with operations not only in Europe but particularly also in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, around 80% of our employees work in production, 47.5% of them are women and 52.5% men. We seek a reasonable gender balance and actively support and encourage our female employees.

Employees by type of employment



Employees by region



6.1 Employee satisfaction

The human resources strategy reflects and supports the GRAMMER Group's strategy and is systematically linked with our sustainability concepts. In addition to requirements planning and the further development of the human resources structures, the main focus is on the expansion of conceptual employee development and strengthening GRAMMER as an attractive employer brand. High employee satisfaction forms the basis of this.

The involvement of employees in resolving problems and making entrepreneurial decisions leads to better results and increases satisfaction. In 2017, we conducted an employee survey as a global feedback instrument and important tool for corporate and organizational development. In this way, we want to regularly evaluate key parameters for employee loyalty and motivation around the world as a basis for defining specific measures. Various global, regional and local projects were initiated on the basis of the results of this evaluation.

Moreover, to mark the change in the Executive Board detailed interviews were conducted with executives from all departments and regions in 2019. In the subsequent workshop series a Way of Working (WoW@GRAMMER) was derived. The WoW principle defines the principles of cooperation and leadership and ensures that they are applied through the participation of all employees in the definition and implementation of corporate strategy.

The principles of collaboration and leadership are based on collaboration, openness, drive and empowerment. The application of these characteristics is supported by a comprehensive concept consisting of training, coaching and accompanying workshops.

But the WoW characteristics and methods unfold their ultimate effect in the strategy process, which is seen as a regular series of workshops involving all regions, functions and levels of hierarchy. The Executive Board develops the overall strategy and tracks its implementation in regular workshops with the top management, which carries out the same process in its areas of responsibility with its own executives. The systematic application of WoW methods is secured by taking the program into account in the target system and its effectiveness analyzed as part of a specific survey conducted at regular intervals.

A new global employee survey is planned for 2021 to monitor the effectiveness of the measures taken in 2017 and the degree of implementation and effectiveness of WoW@GRAMMER and to identify starting points for further projects to increase satisfaction. In doing so, we have set ourselves the goal of reinforcing existing strengths and making greater use of existing potential.

TARGET

Conducting a systematic global employee survey at regular intervals, and deriving measures for action.

Increasing the employee satisfaction index from 73.4% to 75%.

65% should be the minimum feedback rate.

6.2 Employee development

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

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

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

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

TARGET

Looking forward, the performance management process will be enhanced and supplementary programs for employee development established.

6.3 Health and safety

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

The absence rate across all companies was 4.0% in 2020, thus reaching the goal of less than 5% in that year. As we move forward, we want to continue pursuing various measures to improve employee health in order to keep the absence rate at a low level.

4.0% was the absence rate. (All companies as of December 31, 2020.)

TARGET

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

The lost time injury frequency rate (LTIFR) is to be reduced consistently to below 7%.

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

TARGET

The occupational safety and health management system certified in accordance with ISO 45001 is to be implemented at all sites by the end of 2022.

8.8% of production sites are already certified in accordance with ISO 45001 as of December 31, 2020.

Thanks to the new organization and the completion of the documentation for ISO 45001, we are able to ensure its introduction in 2021 with the exception of the sites of the former TMD Group. A global reporting and performance measurement system has been installed for occupational safety. The transparency and comparability achieved in this way will promote the networking of the individual sites. The synergistic effects gained as a result will improve occupational safety globally on a lasting basis and mark a major step towards achieving the zero accident target.

One particular aspect of this is the workplace design that seeks to minimize the strain on employees as far as possible. This particularly concerns noise and emissions as well as physical stress. With our comprehensive safety measures, we are actively promoting our employees' safety and health. For this reason, particular attention has been paid to the installation of ergonomic furniture and the creation of a healthy working environment at the newly constructed GRAMMER Campus in Ursensollen. For example, every workstation has been equipped with a height adjustable desk to improve ergonomics. Moreover, thanks to the availability of Wi-Fi across the entire campus employees are able to work outside. The outdoor area in proximity to nature not only invites employees to go on walks during breaks, it also encourages them to pursue their activities in the fresh air. The GRAMMER Campus provides traditional meals as well as the "Job+Fit" offer to its employees. Moreover, organic certification is in preparation for the restaurant in Ursensollen.

The coronavirus pandemic

In the past year GRAMMER confronted the challenges posed by the coronavirus pandemic with a prevention system that was adjusted to the situation at all times. A comprehensive pandemic plan was drawn up even before the situation was classified as a pandemic. Thanks to these preparations, the global crisis teams were launched and the measures to be implemented to protect our employees and operating processes were put in place without any delays.

During Group crisis team meetings that were held on a regular basis with the Executive Board, the global infection data at the sites were evaluated weekly, the measures implemented reviewed in terms of their effectiveness and new measures tailored to the situation were decided upon.

Technical and personal protection measures were implemented within a very short period. In addition, binding hygiene provisions based on governmental and scientific parameters were implemented.

Working in close collaboration with the sites, uncontrolled infections within the Company were avoided. The strict compliance with and control of the infection protection measures, the prevention of an infection permeating the Company and the rapid detection of possible chains of infection made a decisive contribution in this regard.

Information campaigns were also organized to explain how to act during the coronavirus pandemic and recommendations were made to reinforce the same kind of conduct in employees' private lives.

The protection measures accompanying the coronavirus pandemic have been continued in 2021 and are being continuously monitored to make sure they are appropriate.

6.4 Diversity and equal opportunities

As one of the first signatories of the Diversity Charter in 2006, GRAMMER does not see diversity as a temporary trend but is committed to putting it into practice. Equal opportunities for all employees are enshrined in the code of conduct. We also condemn any forms of discrimination or harassment at work due to gender, race, disability, ethnic origin, religion or belief, age or sexual identity. Employees are able to report any incidents to the code team through an internal whistleblower system.

TARGET

Maintaining the proportion of women within the Group's workforce at 45% with a deviation of ±5%-points.

44% Proportion of women in 2020

Owing to the coronavirus pandemic, no Diversity Day was held at GRAMMER in 2020. However, a social media campaign took place in order to raise awareness of the diversity of our workforce and its importance for the sustained success of our Company.

"Stay as you are & stay healthy": a virtual smile was sent round the world on German Diversity Day.

We also encourage cross-border exchange and networking within the GRAMMER Group through our international training programs and by constantly increasing our employees' international mobility. By promoting international secondments and a transparent secondment and reintegration policy, we seek to increase networking between specialists and executives within our Group and thus further mutual understanding.

Work-life balance

We are working on three main aspects to improve employees' work-life balance at GRAMMER: We continuously improve our managers' leadership skills to ensure that these matters are firmly entrenched in our organizational structures. We are creating the necessary basis for flexible working time models (including part-time hours) and implementing numerous measures for promoting health, while also supporting career reintegration. In addition, we are improving the family/job balance by constantly working to improve support in the arrangement of childcare. In 2020, 127 employees at our German sites took parental leave (2019: 134).

With respect, joy and curiosity the children welcome Saint Nicholas at the nursery every year.

At our Hardheim site we have an integrated nursery for the children of our staff, where they can be looked after between 6:45 a.m. and 3:45 p.m. as needed. A variety of drop-off and collection times make it easier for parents to return to work life after their parental leave. While parents pursue their work, the children are well-occupied with games, fun and sport. During weekly design and technology lessons, led by trainees, children are able to gain hands-on experience of a range of exciting topics. But we also cultivate traditions: For example, every year Saint Nicholas visits the nursery and brings presents.

Company pension scheme

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

6.5 Responsibility as a corporate citizen

At the GRAMMER Group we are aware of our responsibility as a corporate citizen and support charitable projects, voluntary activities and training facilities at sites around the world. In doing so, we always observe the principles enshrined in our code of conduct as well as our global sponsoring policy. In its donations and sponsorship activities, GRAMMER attaches particular importance to assisting social facilities and projects. Moreover, we support sports, concentrating in particular on young people in different team sports. GRAMMER does not provide any financial support for political parties and/or similar lobby groups. In the area of secondary and tertiary education, GRAMMER takes part in various partnerships and development and sponsorship programs. This includes schools, vocational training centers and universities in the Amberg region as well as in other parts of Germany and the world. Our aim is to prepare young people for the employment market.

Special circumstances require extraordinary action: Due to the coronavirus pandemic, many donation and sponsorship activities that normally take place every year could not be held. But face masks to protect against the coronavirus pandemic were made at many GRAMMER sites. The face masks were then distributed to employees and donated to regional aid organizations that would not have been able to carry out their work without them.

The exceptional commitment demonstrated by many sites was recognized with the Corona Help Award.

Corporate governance report and declaration

Corporate governance at GRAMMER

GRAMMER is committed to ensuring responsible and transparent corporate governance on the basis of statutory provisions, its articles of incorporation, the rules of procedure of the Executive Board and the Supervisory Board and the German Corporate Governance Code (the Code), which are observed in all decision-making processes.

GRAMMER AG is subject to German stock corporation law and therefore has a dual management system consisting of an Executive Board and a Supervisory Board.

Executive Board

The Executive Board is responsible for the management of GRAMMER AG. As a management body, it is committed to furthering the Company's interests and to increasing its sustained enterprise value. To this end, it develops a suitable strategy, consults with the Supervisory Board and ensures that it is implemented.

The Executive Board is responsible for preparing the Company's quarterly reports and half-yearly financial report as well as the annual and consolidated financial statements and the management report for GRAMMER AG and the Group. Its duties also include implementing effective risk and opportunity management and supervision as well as ensuring compliance with statutory requirements and internal corporate policies throughout the entire Group.

The Supervisory Board has issued rules of procedure for the Executive Board, which include the definition of various areas of responsibility and the rules for cooperation both within the Executive Board and between the Executive Board and the Supervisory Board. The rules of procedure also determine the matters that are the responsibility of the Executive Board in its entirety and the required majorities for passing resolutions. The allocation of responsibilities was updated to reflect the changes in the Executive Board and adapted in the light of its composition and the new organizational structure.

The Executive Board and the Supervisory Board work closely together in the Company's best interests. In addition to the Supervisory Board meetings, which are attended by the members of the Executive Board, the Chief Executive Officer and the Chairman of the Supervisory Board discuss all relevant matters regularly as well as on an ad-hoc basis at short notice. This also applies to the Chief Financial Officer and the Chairman of the Audit Committee. The report of the Supervisory Board provides additional information on the collaboration between the Executive Board and the Supervisory Board.

The members of the Executive Board are subject to a comprehensive non-competition clause during their activities for GRAMMER AG. They undertake to act in the Company's best interests and may not pursue any personal interests when making decisions; in particular, they may not make use of any business opportunities arising for the Company for their own personal benefit. They may only engage in sideline activities, in particular, supervisory board mandates outside the GRAMMER Group, with the approval of the Supervisory Board. The Supervisory Board is responsible for deciding on how the remuneration received for sideline activities is to be treated. Each member of the Executive Board is under a duty to disclose to the Supervisory Board any conflicts of interest without delay.

As a rule, members of the Executive Board are initially appointed for a period of no more than three years. However, the Supervisory Board assesses each individual case on the basis of its own merits to determine the appropriate initial period of appointment.

In 2020, the Executive Board was composed of the following members:

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

The resumes of the members of the Executive Board are available on the Company's website. All information on the remuneration system for the Executive Board can be found in "Principles of the existing remuneration system".

Supervisory Board

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. It has 12 members. In accordance with the German Codetermination Act, it has an equal number of six members representing the shareholders and six members representing the employees. The members of the Supervisory Board representing the shareholders are elected at the Annual General Meeting by a simple majority. Elections to the Supervisory Board are regularly held in the form of individual elections. The employee representatives on the Supervisory Board are elected in accordance with the provisions of the German Codetermination Act.

The work of the Supervisory Board is governed by statutory requirements, the articles of association and the rules of procedure. At regular intervals, the Supervisory Board discusses the Company's business performance and planning as well as strategy and its implementation. It reviews the annual and consolidated financial statements, the management report of GRAMMER AG and the Group as well as the non-financial statement and the dependent company report. It adopts the annual financial statements of GRAMMER AG and approves the consolidated financial statements, based on the results of the preliminary review conducted by the Audit Committee and taking into account the external auditor's reports. The Supervisory Board passes a resolution concerning the Executive Board's proposal for the appropriation of the Company's net retained profits and submits a proposal for the election of the external auditor at the Annual General Meeting.

The Supervisory Board is also responsible for appointing the members of the Executive Board and determining their areas of responsibility. The Supervisory Board, acting on a proposal by the Personnel and Mediation Committee, decides on the system for the remuneration of the members of the Executive Board and sets the specific remuneration in accordance with this system. It defines the targets for variable remuneration and the respective total remuneration for the individual members of the Executive Board and reviews the appropriateness of the total remuneration as well as the remuneration system for the Executive Board on a regular basis.

In the absence of any mandatory statutory provisions to the contrary, the resolutions of the Supervisory Board shall be deemed to have been passed with a simple majority of the vote cast. In the event of a parity of votes, voting is repeated, in which case the Chairman of the Supervisory Board holds two votes.

The Supervisory Board usually meets five times a year and also regularly without the presence of the Executive Board. To prepare for the Supervisory Board meetings, the shareholder and employee representatives regularly meet separately. Each member of the Supervisory Board is under a duty to disclose any conflicts of interest to the Supervisory Board.

Supervisory Board self-assessment

The Supervisory Board and its committees regularly review, either internally or with the involvement of external advisors, how effectively the Supervisory Board as a whole and its committees are performing their duties. It discusses scope for improvement on the basis of the results and adopts appropriate measures. Individual suggestions are also taken up and implemented during the year. In December 2020, the Supervisory Board conducted an internal efficiency review and subsequently dealt at length with the findings.

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.

Supervisory Board committees

In order to increase the efficiency of its work, the Supervisory Board has an Audit Committee, a Personnel and Mediation Committee, a Nominating Committee, a Strategy Committee and an Executive Committee, all of which met regularly in 2020. Their duties, responsibilities and work processes comply with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code (the Code). The committee chairs regularly report to the Supervisory Board on their activities.

The Audit Committee consists of four members elected by the Supervisory Board – two of whom are shareholder representatives and two employee representatives – from whom the Committee appoints one member as its chair. The committee meets at least four times a year. The Chairman of the Audit Committee, Dr. Peter Merten, is independent and not simultaneously the Chairman of the Supervisory Board and, as a financial expert, possesses special knowledge of accounting and auditing. He has not been a member of GRAMMER AG's Executive Board in the last few years. The task of the Audit Committee is to discuss and review in advance the annual financial statements, the consolidated financial statements, the management report and the report of the Executive Board on relations with affiliated companies (dependent company report), as well as the Executive Board's proposal for the appropriation of profits. In addition, the Audit Committee discusses the half-year and any quarterly reports with the Executive Board. It deals with accounting and compliance issues, risk management, internal auditing and the internal control system, including a review of the effectiveness of the systems and measures in place. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting concerning the election of the auditor and submits a corresponding reasoned recommendation to the Supervisory Board. It also verifies the independence of the external auditor and obtains from him the corresponding declaration of independence. It issues the audit engagement to the external auditor and enters into the corresponding fee agreement, deals with the determination of the main focal points of the external audit and monitors the audit of the financial statements.

The Personnel and Mediation Committee is chaired by the Chairman of the Supervisory Board; other members include his first deputy as well as one shareholder representative and one employee representative. It meets at least twice a year. In particular, the Personnel and Mediation Committee prepares the resolution to be passed by the full Supervisory Board on the Executive Board remuneration system, including the implementation of the system in the contracts entered into, with the members of the Executive Board, sets the targets for variable remuneration, determines and reviews the appropriateness of the total remuneration of the individual members of the Executive Board and approves the annual remuneration report. In addition, it submits proposals to the Supervisory Board for the appointment or dismissal of members of the Executive Board.

In addition to the Chairman of the Supervisory Board, who also chairs it, the Nominating Committee includes two further members representing the shareholders. It has the task of proposing to the Supervisory Board suitable shareholder representatives for election to the Supervisory Board at the Annual General Meeting. In doing so, it duly takes into account the required knowledge, skills and professional experience (competence profile) of the proposed candidates, the objectives designated by the Supervisory Board for its composition and the approved diversity policy, in particular, independence and diversity, while attempting to complete the competence profile. Attention must be paid to ensuring appropriate representation of women and men in accordance with the statutory gender representation requirements and to ensuring that the members of the Supervisory Board as a whole are familiar with the sector in which the Company operates.

The Strategy Committee comprises three members elected by the Supervisory Board from the shareholder representatives and three from the employee representatives. It meets at least twice each calendar year and deliberates on the corporate strategy in an advisory and preparatory capacity. Key tasks include advising the Executive Board on the strategic development of the Company and reviewing it, preparing strategy meetings and decisions by the Supervisory Board on acquisitions, divestments, investments, organizational changes or restructuring requiring the Supervisory Board's approval and advising the Executive Board on corporate strategy issues and projects of strategic relevance.

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

Attendance at the meetings of the Supervisory Board

In the year under review, the Supervisory Board of GRAMMER AG held five ordinary, one constituent meeting and seven extraordinary meetings. Five ordinary meetings are planned for 2021. In addition, extraordinary meetings will be convened if necessary. The committees also meet regularly. 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 the meetings of the Supervisory Board

Supervisory Board	Attendance at meetings	Percentage attendance
Klaus Bauer (from September 1, 2020)	4/4	100%
Andrea Elsner	13/13	100%
Wolfram Hatz (until July 8, 2020)	8/8	100%
Ping He (from July 8, 2020)	5/5	100%
Martin Heiß	13/13	100%
Ingrid Hunger (until July 8, 2020)	8/8	100%
Harald Jung (until September 1, 2020)	8/9	89%
Peter Kern (from July 8, 2020)	5/5	100%
Jürgen Kostanjevec (from July 8, 2020)	5/5	100%
Dr. Peter Merten	12/13	92%
Horst Ott (Deputy Chairman)	13/13	100%
Dr. Klaus Probst (Chairman until July 8, 2020)	8/8	100%
Lars Roder (until July 8, 2020)	8/8	100%
Gabriele Sons (from July 8, 2020)	5/5	100%
Prof. Dr. Birgit Vogel-Heuser	11/13	85%
Antje Wagner	13/13	100%
Dr. Bernhard Wankerl (until July 8, 2020)	8/8	100%
Alfred Weber (Chairman from July 8, 2020)	5/5	100%
Strategy Committee		
Martin Heiß	1/1	100%
Dr. Peter Merten	1/1	100%
Horst Ott	2/2	100%
Dr. Klaus Probst (Committee Chairman)	1/1	100%
Lars Roder	1/1	100%
Dr. Bernhard Wankerl	1/1	100%
Alfred Weber (Committee Chairman)	1/1	100%
Personnel and Mediation Committee		
Martin Heiß	4/4	100%
Horst Ott	5/5	100%
Dr. Klaus Probst (Committee Chairman)	1/1	100%
Lars Roder	1/1	100%
Gabriele Sons	4/4	100%
Dr. Bernhard Wankerl	1/1	100%
Alfred Weber	4/4	100%
Audit Committee		
Andrea Elsner	5/5	100%
Wolfram Hatz (Committee Chairman)	3/3	100%
Martin Heiß	3/3	100%
Dr. Peter Merten (Committee Chairman)	2/2	100%
Dr. Klaus Probst	3/3	100%
Antje Wagner	2/2	100%
Alfred Weber	2/2	100%
Executive Committee		
Horst Ott (Deputy Chairman)	8/8	100%
Dr. Klaus Probst (Chairman)	3/3	100%
Alfred Weber (Chairman)	5/5	100%
Nominating Committee		
Wolfram Hatz	2/2	100%
Dr. Klaus Probst (Chairman)	2/2	100%
Dr. Bernhard Wankerl	2/2	100%

Further details of how the Supervisory Board works, the number of committee meetings and the main matters dealt with in 2020 can be found in the report of the Supervisory Board.

Collaboration between the Executive Board and the Supervisory Board

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

Directors' dealings

All members of the Executive Board and Supervisory Board and persons closely associated with them are required, subject to certain conditions, to disclose all share transactions without delay in accordance with Art. 19 of the European Market Abuse Directive (EU 596/2014). A process has been established to duly publish these transactions in the event of such notification. All share transactions are published in accordance with article 19 of the European Market Abuse Directive as soon as they are disclosed to GRAMMER AG. No transactions were reported in 2020.

Shareholders and Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. At the Annual General Meeting, the shareholders pass resolutions on the appropriation of profits, the ratification of the actions of the members of the Executive Board and the Supervisory Board and the election of the auditors, among other things. The shareholders pass resolutions on amendments to the articles of association and capital measures, which are duly implemented by the Executive Board. 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, who could be reached throughout the meeting, at any time. Shareholders may also cast their votes in writing or electronically (postal vote). They can submit motions on resolutions proposed by the Executive Board and Supervisory Board and contest resolutions passed at the Annual General Meeting.

The reports, documents and information required by law for the Annual General Meeting, including the annual report, are available on the Internet, as are the agenda for the Annual General Meeting and any countermotions or election proposals from shareholders that are required to be disclosed. When shareholder representatives are to be elected to the Supervisory Board, a detailed resume is published for each candidate.

The Annual General Meeting on July 8, 2020

was organized as an online format without the physical presence of the shareholders and their proxies in view of the special circumstances arising from the COVID-19 pandemic in accordance with section 1 (2) of the Act Governing Measures In Company Law, Laws On Cooperatives, Association Law, Foundation Law And Residential Property Law To Combat The Effects Of The COVID-19 Pandemic of March 27, 2020 (Bundesgesetzblatt I No. 14 2020, page 570) ("COVID-19 Act").

As part of our investor relations work, we provide comprehensive information on developments at the Company. Among other things, quarterly statements, half-yearly financial and annual reports, earnings reports, ad hoc announcements, analyst presentations, press releases and the financial calendar for the current year, which includes the publication dates that are important for financial communications and the date of the Annual General Meeting, are published on www.grammer.com.

Accounting and statutory audit

The GRAMMER Group's consolidated financial statements for 2020, as well as the report on the first half of the year and the quarterly reviews, were prepared in accordance with the International Financial Reporting Standards (IFRS). At the annual general meeting held on July 8, 2020, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, ("EY") was elected external auditor of the annual financial statements and the consolidated financial statements for the reporting year. The proposal had been preceded by an independence check. This ruled out any business, financial, personal and other relations between the auditors, their corporate bodies as well as chief auditors, on the one hand, and GRAMMER AG, as well as the members of its corporate bodies, on the other hand, liable to call into question the independence of the auditors. EY submitted a binding declaration of independence. The Supervisory Board also agreed with the external auditors that it was to be notified without delay of any findings and occurrences material to the duties of the Supervisory Board arising during the audit. Accordingly, the auditors undertake to advise the Supervisory Board, or make a corresponding note in their audit report, if any evidence is found indicating the presence of any misrepresentation in the Code declaration issued by the Executive Board and the Supervisory Board.

Compliance management system

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

During the year under review, the Executive Board regularly dealt with the further development of the compliance management system and ensured that the necessary measures were taken. The Executive Board as a whole is jointly responsible for compliance. Together with the entire management, it ensures that each individual in the Company abides by the principles of compliance. In addition, a Compliance Committee consisting of the members of the Executive Board and internal technical experts has been set up and regularly deals with compliance issues and the further development of the compliance management system. The management of the GRAMMER Group is responsible for encouraging conduct that conforms to the requirements of compliance and for acting as a role model. In addition to the extensive information available on the GRAMMER Group's Intranet, special web-based training modules on compliance-related issues are available for employees, who are awarded a certificate upon successfully completing the training. All new employees attend a face-to-face training course on the Code of Conduct.

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

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

Corporate governance statement pursuant to sections 289f and 315d HGB

The corporate governance statement pursuant to sections 289f and 315 HGB forms an integral part of the management report. Under section 317 (2) sentence 6 HGB, the external auditor's review of the disclosures pursuant to sections 289f and 315 HGB is limited to determining whether the disclosures have been made.

Declaration of conformity with the German Corporate Governance Code

On December 10, 2020, the Executive Board and the Supervisory Board of GRAMMER AG issued the following declaration in accordance with section 161 of the German Stock Corporation Act (AktG) concerning conformity to the German Corporate Governance Code (the Code).

Declaration of conformity of GRAMMER AG dated December 10, 2020

Since the last declaration of conformity dated December 11, 2019, GRAMMER AG ("Company") has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated February 7, 2017, ("2017 Code") announced by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger with the following exceptions:

1. Article 4.2.5 (3) and (4)

   Under Article 4.2.5 (3) and (4) of the 2017 Code, the remuneration report must present certain remuneration components separately for each member of the Executive Board on the basis of model tables attached to the 2017 Code.

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

2. Article 5.4.1 (2) Sentence 2

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

The Company conforms to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated December 16, 2019, ("2020 Code") announced on March 20, 2020, by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger and will continue to do so in the future, with the following exceptions:

1. Recommendation D.1 "Publication of the rules of procedure of the Supervisory Board"

   Publication of the rules of procedure of the Supervisory Board was recommended in the 2020 Code for the first time. The rules of procedure of the Company's Supervisory Board have so far not been published on the Company's website. At GRAMMER AG's Annual General Meeting on July 8, 2020, new shareholder representatives were elected to the Supervisory Board as the previous terms of office had duly expired. As four of the six previous shareholder representatives did not stand for re-election, there was a substantial change in the composition of the Supervisory Board. The newly composed Supervisory Board addressed issues relating to the future governance of the Company as a whole at its meetings in Q3 2020, Q4 2020 and Q1 2021. For this reason, the rules of procedure of the Supervisory Board were initially not reviewed or revised. The Supervisory Board will be adopting new rules of procedure in Q1 2021 and publishing them on the Company's website to ensure compliance with the recommendation in the future.

2. Recommendation G.I. "Remuneration system for the Executive Board and Executive Board remuneration"

Section G.I. of the 2020 Code includes new recommendations concerning the remuneration of the Executive Board compared with the previous version. Between the date on which the 2020 Code took effect on March 20, 2020 and the date of this declaration of conformity, no new remuneration system was adopted and submitted to the Annual General Meeting for approval within the meaning of section 120a AktG as amended by the Act on the Transposition of the Second Shareholder Rights Directive ("ARUG II") of December 12, 2019. In accordance with the statutory transition period, the remuneration system for the Executive Board must be approved at the Annual General Meeting for 2021 at the latest.

The last such resolution was passed at the Company's Annual General Meeting on June 13, 2018. The basic elements of the existing remuneration system for the members of the Executive Board are described in the section entitled "Principles of the remuneration system" in the 2019 remuneration report in the Group management report, meaning that the system does not comply in full with the recommendations of the 2020 Code.

The extent to which the new recommendations under section G.I. on remuneration are to be complied with in the future will be considered and determined by the Supervisory Board when the remuneration system is reviewed and revised, if necessary, on the basis of the relevant statutory requirements in the version amended by ARUG II (particularly section 87a AktG).

The Supervisory Board will pass a resolution on a revised remuneration system in good time before the invitation to the Annual General Meeting for 2021 and present it to the shareholders for approval at the Annual General Meeting in 2021 in accordance with the transitional provisions of section 26j of the Act to Introduce the German Stock Corporation Act (EGAktG).

Ursensollen, December 10, 2020

The Executive Board and the Supervisory Board of GRAMMER AG

GRAMMER AG voluntarily conforms to the non-obligatory Code recommendations with the following exception: The second half of the sentence in Article A.2 recommends installing a whistleblower system for third parties to report any breach of statutory provisions and internal corporate policies. Such a whistleblower system is currently only available for employees of the Company.

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

Objectives for the composition, competence profile and diversity policy for the Supervisory Board

The Supervisory Board of GRAMMER AG should be composed in such a way as to ensure that the Executive Board receives qualified supervision and advice from it. In this context, the complementary interaction of members with different personal and professional backgrounds as well as diversity in terms of internationality, age and gender is considered helpful.

Competence profile

Based on their knowledge, skills and experience, the candidates proposed for election to the Supervisory Board should be able to perform the duties of a Supervisory Board member in an internationally active and capital market-oriented company and appropriately represent it externally. The criteria are based on the current Code recommendations with regard to diversity and an appropriate proportion of women as well as the characteristics of independence, experience, international profile and expertise. Moreover, the members should possess the integrity, personality and commitment necessary for the duties of the Supervisory Board.

These criteria have been defined in a profile of competence and summarized in a corresponding questionnaire that forms a key basis of the examination to determine the suitability of a nominee.

The aim is to ensure that the Supervisory Board as a whole has all the knowledge and experience required to perform its duties – this applies in particular with regard to knowledge and experience of importance to GRAMMER concerning

- general corporate governance
- industries, markets, regions and business segments
- new technologies
- production and sales
- purchasing, logistics and finance
- legal (including compliance)
- human resources
- leadership in an internationally active company

The members of the Supervisory Board as a whole should be familiar with the sector in which the Company operates. At least one independent member of the Supervisory Board should have expertise in the fields of accounting or auditing as well as special knowledge and experience in the application of accounting principles and internal control procedures. Which of the desirable skills on the Supervisory Board is to be strengthened should be determined whenever a new candidate is to be elected to the Supervisory Board.

Diversity

Sufficient diversity should be ensured in the composition of the Supervisory Board. In addition to the appropriate representation of women, this also includes diversity with regard to cultural origins as well as the diversity of educational and professional backgrounds, experience and ways of thinking. When considering potential candidates for by-election or replacement for positions on the Supervisory Board that become vacant, the aspect of diversity should be given appropriate consideration at an early stage of the selection process. In accordance with the German Stock Corporation Act (AktG), the Supervisory Board must be composed of at least 30% women and 30% men.

Age limit

In accordance with the age limit specified by the Supervisory Board in its rules of procedure, only persons who are no older than 70 years of age are as a rule proposed for election as members of the Supervisory Board.

Independence

The Supervisory Board should have an appropriate number of independent members as determined by the shareholder representatives on the Supervisory Board. More than half of the shareholder representatives should be independent of the Company and the Executive Board. Significant conflicts of interest that are not merely temporary should be avoided. No more than two former members of GRAMMER AG's Executive Board are permitted to hold seats on the Supervisory Board. The members of the Supervisory Board should have sufficient time to exercise their mandate with the requisite regularity and diligence.

Implementation of the objectives for the composition, competence profile and diversity policy for the Supervisory Board; independent members of the Supervisory Board

The Supervisory Board as well as its Nominating Committee, take into account the objectives for the composition of the Supervisory Board and the requirements set out in the diversity policy during the selection process and the nomination of candidates for the Supervisory Board. Most recently, the Supervisory Board and the Nominating Committee took due account of the objectives, including the competence profile and the diversity policy, in the proposals for the shareholder representatives to be elected at the 2020 Annual General Meeting. The Supervisory Board believes that its current composition meets the targets with respect to composition and fulfills the competence profile and diversity policy. The members of the Supervisory Board have the professional and personal qualifications deemed necessary. The members of the Supervisory Board as a whole are familiar with the sector in which the Company operates and possess the knowledge, skills, capabilities, experience and international profile considered necessary for GRAMMER. In addition, the diversity of the professional and educational backgrounds of the individual members of the Supervisory Board can be seen in the resumes of its members, which are published on the GRAMMER AG website and updated annually.

Diversity is duly taken into account in the composition of the Supervisory Board. In 2020, the Supervisory Board had four female members, including two shareholder representatives and two employee representatives. In accordance with section 96 (2) sentence 1 AktG, the Company must have a Supervisory Board comprised of at least 30% women and 30% men. This quota must be fulfilled separately by the shareholder representatives and the employee representatives, respectively, as joint fulfilment has been rejected (separate fulfilment). The minimum representation requirement required under section 96 (2) sentence 1 AktG is therefore satisfied.

The Supervisory Board also includes an appropriate number of independent members. The Supervisory Board believes that all shareholder representatives are independent within the meaning of the Code. The defined age limit is also observed. No cap on the length of membership on the Supervisory Board has been defined.

Targets for the representation of women on the Executive Board and in the two management levels below the Executive Board; disclosure on compliance with minimum quota requirements in the composition of the Supervisory Board

At its meeting in March 2017, the Supervisory Board reviewed the target for the Executive Board and set a figure of 33%. This target was to be reached by December 31, 2020. Achievement of the target quota is to be reviewed no later than at the last ordinary meeting of the Supervisory Board held in 2020. The Supervisory Board has confirmed the target of 33% for the proportion of women on GRAMMER AG's Executive Board as of December 31, 2023, which GRAMMER met in 2020.

When filling management positions within the Company, the Executive Board pays attention to diversity and strives, in particular, to give appropriate consideration to women and an international background. The Executive Board of GRAMMER AG has defined a quota of 15% for the first management level below the Executive Board and 20% for the second level below the Executive Board. Achievement of this target is reviewed annually.

In the period under review, the composition of the Supervisory Board in terms of the representation of women and men complied with the statutory minimum representation requirements.

Diversity policy for the Executive Board and long-term succession planning

When selecting members of the Executive Board, the Supervisory Board looks at their personal suitability, integrity, the presence of convincing leadership qualities, international experience, professional qualifications for the area of responsibility to be taken on, past performance, knowledge of the Company and ability to adapt business models and processes in a changing world.

Diversity is an important selection criterion when Executive Board positions are filled and also includes aspects such as age, gender and educational and professional background. When selecting members of the Executive Board, the Supervisory Board also considers the following aspects in particular:

In addition to the specific technical knowledge and management and leadership experience required for the task in question, the members of the Executive Board should possess as broad a range of knowledge and experience as possible as well as educational and professional backgrounds.

With a view to the Company's international orientation, the composition of the Executive Board should take into account international profiles in the sense of different cultural backgrounds or international experience.

The Executive Board as a whole should have experience in the business segments that are important for GRAMMER, particularly the industrial and automotive sectors.

The Executive Board as a whole should have many years of experience in research and development, technology, purchasing, production and sales, finance, as well as legal matters (including compliance) and human resources.

When Executive Board positions are filled, the target set by the Supervisory Board for the representation of women on the Executive Board must be taken into account. The Supervisory Board has set a target of 33% for the representation of women on the Executive Board.

It is considered helpful to have different age groups represented on the Executive Board. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board has set an age limit for the members of the Executive Board. Consequently, members of the Executive Board should generally not be any older than 63 at the time of their initial or reappointment.

A decision on filling a specific position on the Executive Board is always based on the interests of the Company, taking into account all the circumstances of the individual case.

Implementation of the diversity policy for the Executive Board
The diversity policy for the Executive Board is implemented as part of the appointment process. The Supervisory Board and/or the Personnel and Mediation Committee observe the requirements set out in the diversity policy for the Executive Board when selecting candidates or proposing candidates for appointment to the Executive Board.

The members of the Executive Board possess a broad range of knowledge and experience, as well as educational and professional backgrounds and have international experience. The Executive Board as a whole possesses all the knowledge and experience considered essential in view of GRAMMER's activities. The Executive Board as a whole has experience in the business segments that are important for GRAMMER. The appropriate consideration of women is an essential component of long-term succession planning for the Executive Board. No member of the Executive Board is currently older than 63.

Long-term succession planning for the Executive Board
Together with the Personnel and Mediation Committee and with the support of the Executive Board, the Supervisory Board ensures long-term succession planning for the Executive Board. In addition to the requirements of the German Stock Corporation Act and the Code, long-term succession planning takes into account the target set by the Supervisory Board for the representation of women on the Executive Board as well as the criteria defined in the diversity policy adopted by the Supervisory Board for the composition of the Executive Board. Taking into account the specific qualification requirements and the aforementioned criteria, the Personnel and Mediation Committee prepares an ideal profile, on the basis of which it draws up a shortlist of available candidates. Structured interviews are conducted with these candidates. A recommendation is then submitted to the Supervisory Board. If required, the Supervisory Board and/or the Personnel and Mediation Committee are supported by external consultants in the definition of job profiles and the selection of candidates.

Report of the Supervisory Board

"My goal as Chairman of the Supervisory Board is to oversee and drive forward GRAMMER's future development together with the other members of the Supervisory Board by working closely and in a spirit of mutual trust with the Executive Board."

Alfred Weber
Chairman of the Supervisory Board

Dear shareholders,

2020 was a stress test for just about every company in almost every industry. The main reason for this was the COVID-19 pandemic – a situation that was new for all of us and posed enormous challenges. We think that the GRAMMER team mastered this test very well.

In close consultation with the Supervisory Board, the Executive Board took measures at an early stage to safeguard the Group's liquidity and to reduce costs as necessary.

The efficiency-enhancement program launched in the fourth quarter of 2019 to optimize operating processes and cost structures, was continued and stepped up in all areas in the year under review. A new, more regionally focused organization, which accelerates decision-making processes within the Group, as well as numerous measures to sustainably improve the Group's cost structure, were implemented in 2020 despite the COVID-19 pandemic.

In addition to early refinancing and an increase in the syndicated loan agreement together with the repayment of the bridge finance that had been arranged for the acquisition of TMD, GRAMMER obtained a hybrid loan with an equity character from its main shareholder Ningbo Jifeng in March. As well as this, the syndicated loan agreement signed in the first quarter was extended with the addition of a third tranche C in August. A further measure to strengthen the Company's equity base was the successful capital increase of 40 million euros using authorized capital subject to the shareholders' subscription rights.

This shows that there are many reasons for being confident that our Company will emerge stronger in the years ahead thanks to the measures that have been taken.

Monitoring and advisory activities of the Supervisory Board
In 2020, the Supervisory Board fulfilled its duties with the utmost care in accordance with the applicable statutory requirements, Articles of Association, the German Corporate Governance Code and the rules of procedure. It monitored the activities of the Executive Board on a thorough and ongoing basis, advising it on all matters of importance for the Company.

All important matters were discussed in detail during the meetings of the Supervisory Board on the basis of written reports submitted in advance by the Executive Board. Both the shareholder representatives and the employee representatives met before each ordinary meeting of the Supervisory Board for preliminary discussions.

The Supervisory Board's approval was requested in all cases where this was required under the rules of procedure. The individual decisions were preceded by intense discussion normally on the basis of a corresponding submission or presentation by the Executive Board. The Supervisory Board and the Executive Board discussed decisions of fundamental importance such as strategic issues concerning corporate planning, business policy, business performance, the risk situation and risk management.

The Supervisory Board also met regularly in the absence of the Executive Board to deal with matters relating either to the Executive Board itself or to internal Supervisory Board matters.

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

Main matters dealt with at the meetings of the Supervisory Board
In the year under review, the Supervisory Board of GRAMMER AG held five ordinary, one constituent meeting and seven extraordinary meetings.

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

At its ordinary quarterly meetings as well as its extraordinary meetings, the Supervisory Board dealt in detail with the Company's current business and financial condition. At these regular meetings, the Supervisory Board deliberated on the revenue and earnings performance 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 Executive Board reported to the Supervisory Board on a large number of other measures and business transactions, discussing them at length and in detail, for example, the impact of the COVID-19 pandemic on the Company and the measures taken in response to it.

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

A further key aspect was the Supervisory Board's self-assessment review, which took the form of an online questionnaire and a detailed discussion with all members of the Supervisory Board at the meeting in question. Overall, the Supervisory Board's work was considered to be efficient and was rated favorably. Individual suggestions are also taken up and implemented during the year. There was no indication of any fundamental need for change.

At the first extraordinary Supervisory Board meeting of the year held on January 15, 2020, which was attended by 10 members of the Supervisory Board, the allocation of responsibilities for the Executive Board of GRAMMER AG was updated and the currently planned financing projects presented. This was followed on January 30, 2020, by the second extraordinary meeting of the Supervisory Board, which was attended by 11 members of the Supervisory Board. The GRAMMER Group's multi-year planning was approved at this meeting. A further item concerned the early refinancing and increase of the syndicated loan agreement as well as the discharge of the bridge finance that had been arranged for the acquisition of TMD. The Supervisory Board held its third extraordinary meeting on February 12, 2020, with the attendance of 11 members. At this meeting, the press release published by the Frankfurt public prosecutor's office on February 11, 2020, was discussed. The fourth extraordinary meeting of the Supervisory Board was held on February 21, 2020 and attended by 11 members. At this meeting, the Board primarily deliberated on the potential impact of the COVID-19 pandemic on the Company and on current financing projects. At the fifth extraordinary meeting of the Supervisory Board, which was held on April 27, 2020 and attended by 12 members, the proposals for the shareholder representatives to be elected at the Annual General Meeting were approved. The sixth extraordinary meeting of the Supervisory Board was held on May 25, 2020 and attended by 12 members. At this meeting, the Supervisory Board primarily dealt with the impact of the COVID-19 pandemic on the Company and the measures taken in response to it. Among other things, the Executive Board provided an update on the addition of tranche C to the syndicated loan agreement with the participation of KfW. All members attended the seventh extraordinary meeting of the Supervisory Board on October 29, 2020. At this meeting, the Supervisory Board gave its approval to the Executive Board's resolution concerning partial utilization of authorized capital for a cash capital increase subject to the shareholders' subscription rights.

The Supervisory Board held its first ordinary meeting for 2020 on March 27 and was attended by all members of the Supervisory Board. One key item on the agenda of that meeting 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, 2019 and approved the consolidated financial statements of GRAMMER AG for the year ending December 31, 2019, without any reservations.

In addition, the Supervisory Board dealt with the annual report for 2019, including the report of the Supervisory Board, the corporate governance report and the remuneration report, as well as the dividend proposal and the agenda for GRAMMER AG's annual general meeting on July 8, 2020. In particular, it accepted the Executive Board's proposal to ask the shareholders to approve a dividend of EUR 0.00 per dividend-entitled share. The separate non-financial report published in GRAMMER AG's 2019 annual report was discussed at length by the Supervisory Board. The report was checked for its appropriateness, the implementation of the concepts and the internal due-diligence processes. The Supervisory Board was satisfied that the measures taken and the sustainability concepts applied are appropriate for addressing the risks and opportunities and are in line with the business model. The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from January 1 to December 31, 2019, was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued an unqualified audit opinion:

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

1. the factual statements made in the report are correct,

2. the consideration paid by the Company for the transactions listed in the report was not unreasonably high or disadvantages were compensated."

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

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

The Supervisory Board also deliberated on the invitation to the Annual General Meeting as well as the opportunity and risk report. At this meeting, the Supervisory Board also set the targets for the variable remuneration for the Executive Board for 2020.

The main topics discussed at the second ordinary meeting on July 7, 2020, which was attended by 12 members of the Supervisory Board, entailed the expansion of the syndicated loan agreement signed in the first quarter to include a third tranche C and further measures to strengthen the Company's equity base by means of a capital increase from authorized capital subject to the shareholders' subscription rights. The preparation of the Annual General Meeting, which took place on the following day, was also a subject of the meeting.

At the constituent meeting on July 8, 2020, which was attended by all members, Mr. Alfred Weber was elected Chairman of the Supervisory Board and Mr. Horst Ott Deputy Chairman. Likewise, new members were appointed to the committees at this meeting. A further item of the meeting was the onboarding presentation for the newly elected members of the Supervisory Board by the Executive Board of GRAMMER AG.

The third ordinary meeting, which was held on September 18, 2020 and attended by all members of the Supervisory Board, primarily dealt with the preparation of the efficiency review including a decision to shorten the period for the submission of the parent-company and consolidated financial statements for 2020. At this meeting, the Supervisory Board also approved the establishment of a new production site in Shenyang.

At an executive session, which was also the fourth meeting of the Supervisory Board, on November 19, 2020, all members of the Supervisory Board participated in a training session conducted by an external consultant covering the fundamentals of stock corporation law, the Corporate Governance Code and the GRAMMER AG rules of procedure. This executive session was part of the onboarding process for the newly elected members of the Supervisory Board.

The fifth ordinary meeting of the Supervisory Board was held on December 10, 2020 and attended by all members of the Supervisory Board. The main items on the agenda for this meeting were the budget for 2021, the medium-term budget and the corporate strategy, which were discussed in detail and duly approved. At this meeting, the Supervisory Board also dealt in detail with the application of the recommendations of the German Corporate Governance Code. The Executive Board and the Supervisory Board submitted their declaration of conformity with the German Corporate Governance Code on December 11, 2020. The wording of the declaration of conformity can be found in the corporate governance statement.

Circulatory resolutions of the Supervisory Board
In 2020, the Supervisory Board of GRAMMER AG passed two circulatory resolutions in writing.

On April 27, 2020, the Supervisory Board passed a resolution to hold the Annual General Meeting of GRAMMER AG on July 8, 2020, in virtual form without the physical presence of shareholders or their proxies due to the COVID-19 pandemic.

In a circular resolution dated December 17, 2020, the Supervisory Board approved the agreement on the deferral of the additions to retirement benefit expenses under the service agreements of the members of the Executive Board for 2020, waiving compliance with the relevant formal and minimum-period requirements.

Attendance at the meetings of the Supervisory Board
A member-by-member breakdown of participation in the meetings of the Supervisory Board and its committees can be found in the corporate governance report. 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. Reflecting the special circumstances arising from the COVID-19 pandemic, meetings were held in virtual or hybrid form from March 2020.

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 December 31, 2020:

Composition of the committees

Strategy Committee
Martin Heiß
Dr. Peter Merten
Horst Ott
Alfred Weber
Personnel and Mediation Committee
Martin Heiß
Horst Ott
Gabriele Sons
Alfred Weber (Chairman of the Personnel and Mediation Committee)
Audit Committee
Andrea Elsner
Dr. Peter Merten (Chairman of the Audit Committee)
Antje Wagner
Alfred Weber
Executive Committee
Horst Ott (Deputy Chairman of the Supervisory Board)
Alfred Weber (Chairman of the Supervisory Board)
Nominating Committee
Dr. Peter Merten
Gabriele Sons
Alfred Weber

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

The Strategy Committee advises the Executive Board on the development and implementation of the corporate strategy. It monitors the progress being made, prepares the consultations and resolutions of the Supervisory Board in connection with strategy-related matters and submits recommendations to it. The committee met twice in 2020.

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 five times in the year under review. In the second half of the year, it focused on the revision of the remuneration system for the Executive Board and the Supervisory Boards of GRAMMER AG.

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

In addition, the risk report was discussed and the Supervisory Board informed of the progress of the project for enhancing the risk management system. In addition, the head of Internal Auditing presented the audit report for 2019. Furthermore, it was briefed by the Executive Board of the current funding projects. The Audit Committee met five times in 2020.

The Nominating Committee is responsible for submitting the names of suitable nominees for the Supervisory Board to the annual general meeting as well as for defining in advance the requirements for the specific position to be filled. It met twice in the year under review.

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

Annual and consolidated financial statements

At the annual general meeting held on July 8, 2020, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, was appointed as statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. At its meeting of August 6, 2020, the Audit Committee engaged the auditor for the 2020 annual financial statements and the consolidated financial statements. The auditor submitted the Statement of Auditor's Independence as required by the German Corporate Governance Code and disclosed the auditing and consulting fees charged during the fiscal year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited GRAMMER AG's annual financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements of GRAMMER Group prepared in accordance with IFRS as well as the management report for GRAMMER AG and the GRAMMER Group. The auditor issued an unqualified opinion for the annual financial statements and the consolidated financial statements for the period ending December 31, 2020. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft determined that the management report of GRAMMER AG and the GRAMMER Group provides a true and fair view of the Company and of the Group, as well as the opportunities and risks with regard to future development.

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

The reports and financial statement documents were submitted to the members of the Supervisory Board by the auditor in a timely manner and examined thoroughly. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the primary results of the audit during the meeting of the Audit Committee held on March 30, 2021 dealing with the annual and consolidated financial statements and at the meeting of the Supervisory Board also held on March 30, 2021 reviewing the financial statements.

After thorough examination of the annual financial statements and the consolidated financial statements for 2020, as well as the management report of GRAMMER AG and the GRAMMER Group, the Supervisory Board raised no objections in this regard. The Supervisory Board thus endorsed the audit results established by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and approved the annual financial statements for GRAMMER AG and the Group for 2020. GRAMMER AG's annual financial statements were therefore duly approved. In view of the net loss for the year sustained by GRAMMER AG in the year under review, no dividend will be proposed. The retained loss as of December 31, 2020, will be carried forward.

Combined separate non-financial report

At its balance-sheet meeting of March 30, 2021, the Supervisory Board considered the Company's non-financial report. The combined separate non-financial report submitted by the Executive Board describes the Company's policies in respect of economic, social, ethical and environmental matters. The current separate non-financial report is included in the 2020 annual report. The Supervisory Board satisfied itself that the report had been prepared and reviewed the appropriateness and implementation of its contents and the internal due diligence processes and determined that the measures taken and the concepts applied for sustainability are appropriate for addressing the risks and opportunities and are consistent with the business model. After careful examination, the Supervisory Board approved the GRAMMER Group's separate non-financial report.

Dependent company report

The report prepared by the Executive Board on the Company's relationships with affiliated companies (dependent company report) for the period from January 1 to December 31, 2020, was audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued an unqualified audit opinion:

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

3. the factual statements made in the report are correct,

4. the consideration paid by the Company for the transactions listed in the report was not unreasonably high or disadvantages were compensated."

The dependent company report and the auditor's report were submitted to all members of the Supervisory Board in good time and discussed in detail at the meeting of the Audit Committee on March 30, 2021 and at the meeting of the Supervisory Board on March 30, 2021. The independent auditor was available at both meetings to answer questions and provide information on the dependent company report and the main findings of his audit.

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

On behalf of the Supervisory Board, I would like to thank all GRAMMER employees for their dedicated efforts over the past year. Thanks are equally due to the members of the Executive Board, who have guided the Company through a very difficult market environment. I would also like to thank our employee representatives and the works councils, who have always provided constructive support for GRAMMER's development. Finally, the Supervisory Board would also like to convey its gratitude to the shareholders, particularly the Wang family as the main shareholder, who placed their trust in GRAMMER AG's Executive Board and Supervisory Board last year.

Ursensollen, March 2021
On behalf of the Supervisory Board

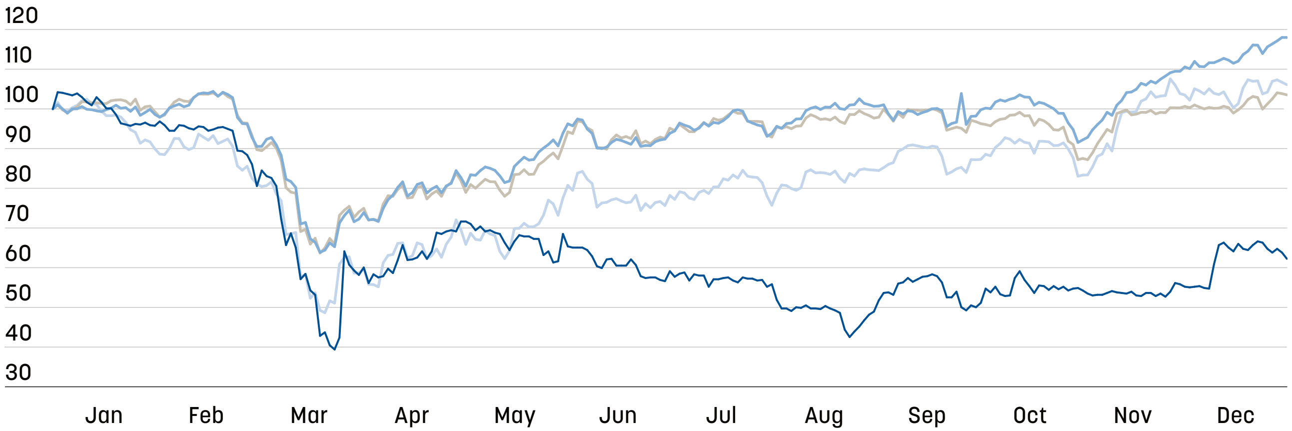
Alfred Weber
Chairman

GRAMMER share

"Transparent communications and an ongoing dialog with our stakeholders are top priorities for us, especially in this difficult market environment."

Jurate Keblyte (CFO)

Share price development 2020 – GRAMMER vs German share indices
in %



Index December 31, 2019 = 100%

GRAMMER AG — DAX — SDAX Performance Index — DAXsector Automobile (Performance)

Trends in the German stock markets
Capital markets volatile due to COVID-19
The COVID-19 pandemic was the dominant factor for the capital markets for much of 2020. Reflecting this, the German stock market exhibited a high degree of volatility in the course of the year. The blue-chip DAX index opened the trading year on January 2 at 13,233.71 points. Following the advancing spread of the pandemic from mid-February onwards, stock exchanges all over the world dropped sharply. In mid-March, the DAX was down as much as 36% on the end of 2019 at times, hitting a low for the year of 8,441.71 points on March 18, 2020. The reasons for this were, on the one hand, the record number of German companies that had to downgrade their own revenue and earnings forecasts in the first quarter and, on the other hand, the contact restrictions imposed by the German government to contain the pandemic. With the significant decline in COVID-19 infection figures in Germany, the DAX recovered over the course of the year, exceeding 13,000 points again in mid-July for the first time in five months. The renewed rapid rise in COVID-19 cases and mounting uncertainty over the outcome of the U.S. presidential election sent stock markets sharply down again in October. Following a rapid recovery in November and a phase of stabilization, the DAX continued its ascent in the second half of December, spurred, in particular, by the approval of COVID-19 vaccines and the commencement of vaccinations in Germany. Thus, the DAX reached a high for the year of 13,790.29 points on December 28, 2020 and closed at 13,718.78 points on the last trading day of the year, up 3.6% compared to the 2019 year-end closing price.

GRAMMER share price performance reflecting challenges facing the automotive industry
The performance of the GRAMMER share reflected the difficult conditions in the automotive and commercial vehicle sectors, caused, in particular, by the pandemic. On January 2, 2020, the share opened with a high for the year of EUR 33.30, falling to a low for the year on March 23, 2020, when it traded at EUR 12.60. Towards the end of the year, it rebounded, closing at EUR 19.90 and thus 37.7% below the year-end price for 2019 (EUR 31.95). The benchmark SDAX index rose by 18.0% over the same period, while the DAXsector Automobile sub-index gained only 6.1%.

GRAMMER basic share data

On December 31, 2020, GRAMMER AG's share capital totaled roughly EUR 39.0 million, divided into 15,237,922 bearer shares. Of this, the Company holds 330,050 treasury shares. GRAMMER shares are traded on the Frankfurt and Munich stock exchanges via the electronic trading system Xetra as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges.

Key figures for the GRAMMER share 2016 to 2020

	2016	2017	2018	2019	2020
Earnings per share (EUR)	4.01	2.67	1.90	3.56	–5.10
Year-end share price (Xetra, EUR)	47.55	51.85	37.70	31.95	19.90
High for the year (EUR)	56.65	61.90	67.10	39.20	33.30
Low for the year (EUR)	23.85	40.74	30.02	27.90	12.60
Dividend (EUR)	1.30	1.25	0.75	0.00	0.00[1]
Number of shares	11,544,674	12,607,121	12,607,121	12,607,121	15,237,922
Market capitalization (EUR m)	548.9	653.7	475.3	402.8	303.2

[1] No dividend is currently being proposed due to the net loss of GRAMMER AG for the fiscal year 2020.

Suspension of the dividend for 2020

In view of the difficulty of estimating the impact of the COVID-19 pandemic on our business performance, we widened our financial scope early on in 2020 by expanding our syndicated loan with the addition of a C tranche. In addition to our core banks, the KfW banking group also participated as a direct lender under the special KfW coronavirus program. In view of the net loss reported, no dividend will be distributed for 2020. The retained loss as of December 31, 2020, will be carried forward.

Transparent financial communications through ongoing stakeholder dialog

As a company listed in the Prime Standard of the German Stock Exchange, GRAMMER AG is subject to extensive transparency and disclosure requirements. The aim of our investor relations work is to make current and future developments at the GRAMMER Group transparent for all stakeholders. In 2020, we continued to maintain an intensive dialog with the capital market, providing regular and comprehensive information on the Company's current business performance. Our analyst conference was held by telephone this year in order to keep investors, analysts and members of the press abreast of the latest developments at the Company, even during the COVID-19 pandemic. In addition to regular financial reporting, we provided updates on recent business developments and other significant events during conference calls held to mark the publication of the GRAMMER Annual Report and the quarterly figures. In November 2020, we participated in Deutsches Eigenkapitalforum, the largest German investor conference. Further detailed information on our share is available at www.grammer.com, where we also publish recent financial news and reports as well as presentations and recordings of the conference calls.

Annual General Meeting held online for the first time

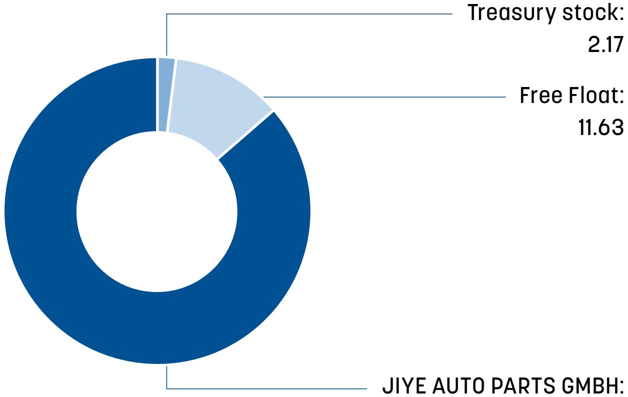
Due to the COVID-19 pandemic, our Annual General Meeting was held online for the first time on July 8, 2020. More than 86% of the voting share capital was represented at the meeting. In addition, elections for six shareholder representatives to the Supervisory Board were held as the previous terms of office had duly expired. The shareholders of GRAMMER AG accepted all of the proposals submitted by the Executive Board and Supervisory Board and, among other things, voted in favor of omitting a dividend for 2019. All items of the agenda were approved with large majorities.

Shareholder structure

There were virtually no changes in the shareholder structure in 2020 compared with the previous year. In connection with the capital increase successfully completed in November 2020, our main shareholder Jiye Auto Parts GmbH increased its share in GRAMMER AG by around 2 percentage points, thus holding 86.20% of its capital at the end of December 2020. The diagram below only shows shareholders who hold more than 3% of GRAMMER shares. In addition, it indicates 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.

Number of shares in 2020

in %



Index Group Management Report

Group Management Report

References

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

Forward-looking statements

This Group management report contains forward-looking statements based on current assumptions and estimates made by GRAMMER's management of future trends. Such statements refer to periods in the future or are characterized by terms such as "expect", "predict", "intend", "forecast", "plan", "estimate", "expect" or similar terms. Such statements are subject to risks and uncertainties which GRAMMER can neither estimate nor influence with any precision, e.g. future market conditions and the macroeconomic environment, the behavior of other market participants, the successful integration of newly acquired companies, the materialization of expected synergistic benefits and government actions. If any of these or other factors of uncertainty or imponderabilities occur or if any of the assumptions on which these statements are based prove to be incorrect, actual results could differ materially from the results expressed or implied in these statements. GRAMMER neither intends nor is under any obligation to update any forward-looking statements in the light of any changes occurring after the publication of this document.

Rounding differences in the disclosures contained in the annual financial statements are possible.

1. Basis of the Group

1.1 Business model

The GRAMMER Group is a global group of companies specializing in the development and production of complex components and systems for automotive interiors as well as driver and passenger seats for trucks, trains, railway vehicles and offroad commercial vehicles (construction machinery, forklifts and tractors). Our business performance correlates closely with the performance of the markets we address and our main customers. The global passenger car market is decisive for the Automotive Division and the onroad and offroad commercial vehicle sector in the main sell-side markets for the Commercial Vehicles Division.

In 2020, the GRAMMER Group was divided into two reporting segments.

In the Automotive Division, the GRAMMER Group operates as a supplier to the automotive industry, engineering and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. Our customers are automotive manufacturers and their Tier-1 suppliers.

In the Commercial Vehicles Division, GRAMMER operates as a supplier to the commercial vehicles industry, engineering and assembling driver and passenger seats for offroad vehicles and marketing these directly to commercial vehicle OEMs and in aftersales and spare-parts business. We also engineer and assemble driver and passenger seats, which we sell to bus and railway vehicle OEMs and railway operators. Alongside the two reportable Divisions, Central Services comprises the overarching general corporate functions.

GRAMMER Group

Revenue (2020): EUR 1,710.7 million
Employees (2020): Ø 14,192

Automotive Division	**Commercial Vehicles Division**
Revenue: EUR 1,219.3 million	Revenue: EUR 544.5 million
Employees: Ø 10,484	Employees: Ø 3,488

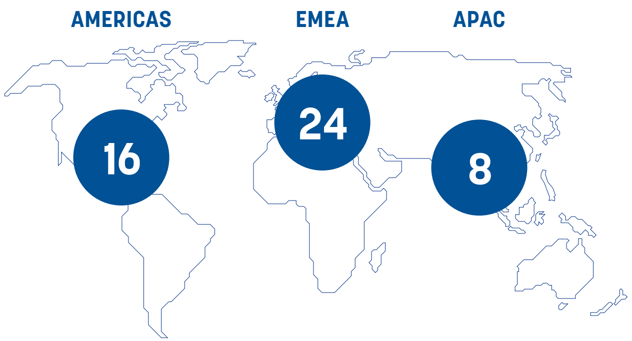
The consolidation effect of revenue generated between the Divisions within the Group amounted to EUR 53.1 million in the year under review. Central Services had an average of 220 employees in 2020 (2019: average of 214).

1.2 Corporate structure

GRAMMER AG is the parent company of GRAMMER Group and is managed by three members of the Executive Board. It acts as an operating holding company in which the Executive Board members and business-relevant Group departments Controlling, Purchasing, Finance, Research & Development, Investor Relations, IT, Communications, Marketing & CSR, Human Resources, Quality Management, Accounting, Legal & Internal Audit and Sales are based.

The number of production and logistics sites remained unchanged due to two plant closures and two new plant openings. Accordingly, it operates 48 production plants worldwide, which assemble and distribute high-quality products for the global vehicle industry with varying degrees of vertical integration.

Production and logistics sites



In addition to the parent company GRAMMER AG, the Group includes 35 fully consolidated companies as well as two joint ventures accounted for using the equity method (see also Note 3 "Companies consolidated" in the notes to the consolidated financial statements). The GRAMMER Group is active in 20 countries worldwide. With its presence in the various regions, it chiefly follows its main customers.

GRAMMER shares are traded on the Frankfurt and Munich stock exchanges via the electronic trading system Xetra as well as in over-the-counter trading at the Stuttgart, Berlin and Hamburg stock exchanges. On December 31, 2020, the share capital of GRAMMER AG totaled approximately EUR 39.0 million, divided into 15,237,922 bearer shares. Of this, the Company holds 330,050 of its own shares. Treasury stock accounts for 2.17%. The majority of the shares issued (86.20%) are held by Jiye Auto Parts GmbH. The free float currently stands at around 11.63%. Effective October 8, 2019, the majority shareholder Jiye Auto Parts GmbH became an indirect subsidiary of Ningbo Jifeng Auto Parts Co. Ltd. following a change in its parent company's shareholder structure. Accordingly, the GRAMMER Group is fully consolidated within the Ningbo Jifeng Group as of that date.

In 2020, the Executive Board initiated the global realignment of GRAMMER Group's organizational structure in order to respond more quickly and flexibly to changing customer needs and to make operational decisions on a local basis. Responsibility for operating business has been delegated on a decentralized basis to the three main regions EMEA (Europe, Middle East and Africa), the Americas (North, South and Central America) and APAC (Asia-Pacific). As a result of the new alignment, responsibility for the respective profit and loss, assets and liabilities as well as cash flows has also been transferred to the regions. Effective January 1, 2021, a fundamental change has been made to management and resource allocation at GRAMMER. The EMEA, Americas and APAC regions will become the main internal reporting structures and constitute the reportable operating segments in the future.

The previous reportable segments Automotive and Commercial Vehicles will be defined as divisions and focus on global market, customer and product strategies. The global functions (Group areas) continue to support the regions and divisions by providing systems, standards and guidelines as well as defined services, e.g. in the area of research and development.

1.3 Management process system

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

In 2020, revenue and operating earnings before interest and taxes (operating EBIT) were defined as the key management indicators. Operating EBIT is defined as consolidated earnings before interest and taxes, i.e. excluding income taxes, financial income, financial expense and other financial result, adjusted for foreign exchange effects and special items (e.g. restructuring expenses, expenses under change-of-control arrangements, transaction costs from company acquisitions and special expenses in connection with shareholder matters and, since 2020, the coronavirus protection and response measures). Operating EBIT is not a performance indicator defined in accordance with the International Financial Reporting Standard (IFRS) in the version endorsed by the EU. However, we use it for management purposes as we believe it presents GRAMMER Group's results of operations more transparently and in a more comparable manner over time, irrespective of special factors that may affect the assessment of the Company's performance.

In 2017, we adopted G-ROCE as an additional performance indicator in the compensation arrangements for the Executive Board and senior executives and also implemented it as a management tool for the Group in 2018. Details of the calculation of G-ROCE can be found in the section outlining the principles of the existing remuneration system.

In addition, we monitor and evaluate financial ratios such as net financial debt, working capital, GEVA[2] (GRAMMER Enterprise Value Added) and gearing (net financial debt divided by equity). GEVA is also explained in the section entitled "Principles of the existing remuneration system".

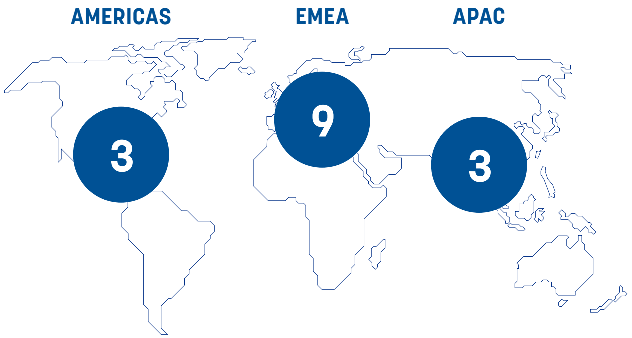
[1] G-ROCE is a business indicator defined by GRAMMER on the basis of the definition of ROCE.
[2] GEVA is a business indicator defined by GRAMMER on the basis of the definition of EVA.

1.4 Research and development

In addition to operating performance, research and development (R&D) at GRAMMER Group forms the foundation for the Company's competitiveness and market position. The development of new products, applications and processes is a key component of our strategy. Roughly 450 GRAMMER engineers and R&D employees work in the Group-wide research and development network with the aim of continuously enhancing the ergonomics, safety, functionality, quality and aesthetics of our products.

Non-capitalized research and development expenses came to EUR 59,015 thousand in 2020 (2019: EUR 64,119 thousand), equivalent to 3.4% of total revenue (2019: 3.2%).

Research and development centers



Expansion of regional technology centers

We are continuously working on optimizing our development network in order to strategically position ourselves in the best possible way in all core regions and, in this way, to better understand the requirements of our customers and incorporate them in the development process and in the creation of the end products. To strengthen our local presence, we expanded our technology centers in the APAC region and restructured them in the Americas region in 2020 in addition to research and development in Europe. To strengthen our position in the crucial Chinese market, we operate three local technology centers: in Changchun for the Automotive division, in Tianjin for Offroad business and in Shanghai for both divisions - Automotive and Commercial Vehicles. The local presence on the Chinese market in combination with the global coordination of project work will enable us to pursue closely interlocked, regional and global cooperation with our customers and to take specific national developments into account. We are confident that we will be able to strengthen GRAMMER's competitiveness in the long term through our presence in local markets and cooperation with local customers from the development phase onwards.

More efficient product development through digitization

In order to meet future requirements in the markets and regions, a project was launched to digitize the management of the entire product lifecycle (product lifecycle management or PLM). The aim is to achieve closer, digitally networked collaboration between different areas such as product and process development, project management, sales, purchasing and quality in order to meet the demand for shorter development cycles. In addition, our goal is to develop products with increased electronics and software content even more efficiently in the future. The IT infrastructure required for this will be available at all GRAMMER Group locations.

The expanded functions in all product areas are being accompanied by the growing mechatronization of the systems. This is leading to new requirements for the development processes and the software tools used. We are addressing these through the ongoing expansion of internally sourced skills and have also entered into a strategic cooperation with Systemtechnik LEBER GmbH & Co. KG. Through this joint initiative, we are leveraging LEBER's strengths in the development of electronic components for the automotive sector to develop a modern and standards-compliant systems engineering process and transfer it to the GRAMMER product development process. Preliminary ideas have already been implemented as part of ongoing development projects.

Continuous process management to strengthen innovation capability

The continuous review and optimization of R&D processes aims at sustainably strengthening our innovative power. To this end, we are focusing on the modular orientation of our product platforms, consistent design-for-manufacturing and heightened robustness in the development process.

To ensure that we not only address ongoing market and customer requirements but also sustainably strengthen our market position, we have revised our innovation management. By closely linking strategic product planning and advanced engineering, we are able to identify future trends and new developments as well as customer requirements in our markets at an early stage. Using this as a basis, we systematically drive forward our own innovations and initiate development in a timely and targeted manner.

New product concepts in the Automotive Division

With the increasing electrification of the drivetrain system as well as the further automation of driving functions, GRAMMER expects to see significant changes and upgrades to vehicle interiors in the coming generations of vehicles. Autonomous driving allows passengers to use driving time for other activities while raising expectations with respect to comfort and functionality. In this context, individual entertainment options will grow substantially in importance. It should be possible to do this comfortably without disturbing the other passengers. This could be implemented in the form of separate audio zones at each seat, for which headrests are an ideal installation space. In a strategic partnership with HARMAN International Industries, one of the leading suppliers of automotive audio systems, we are developing solutions for integrating optimized audio headrests into future interior systems. As specialists, we jointly want to offer best-in-class audio systems with new possibilities such as individual sound zones and noise cancellation in the future.

Expansion of the strong product portfolio in the Commercial Vehicles Division

In the area of seating systems for the various segments of the commercial vehicle market, the focus is on heightening driving comfort, safety, ergonomics and keeping vehicle occupants healthy. The next generation of active suspension systems currently under development will provide greatly improved vibration isolation, additionally protecting the spinal health of agricultural and construction equipment operators. In addition, new functions in the upper part of the seat provide increased comfort and additional safety. The concept of a mobilization system in the seat cushion, in which air pockets are sequentially actuated and provide continuous movement of the pelvis, has been investigated in initial subject trials with truck drivers. Positive influences on long-distance comfort as well as on driver alertness have been demonstrated. Accordingly, correspondingly equipped GRAMMER seats can actively contribute to safety in road traffic.

In the rail segment, we are continuing to establish ourselves as a full-line supplier addressing the entire segment and supplying our newly developed seating platforms for high-speed, long-distance and regional trains. We presented important new products from our innovative range of modern passenger seats to the public for the first time at Busworld Europe in 2019. In developing its sophisticated solutions, GRAMMER was able to harness diverse synergistic effects within its Commercial Vehicles division. In 2020, GRAMMER repeatedly received the ETM Verlag "Best Brand Awards" in the "Passenger Seats" category from customers and end users.

2. Economic conditions

2.1 Economic environment

2.1.1 Macroeconomic environment

Macroeconomic conditions in 2020 were largely shaped by the COVID-19 pandemic. Global gross domestic product (GDP) fell by 3.5% in 2020 according to the January 2021 forecast of the International Monetary Fund (IMF). In 2019, GDP had risen 2.8%.

The outlook clouded over in the first quarter of 2020 due to cyclical developments in global industry and the impact of the trade conflicts. The coronavirus-related lockdowns triggered economic downturns on a historic scale around the world, with different countries affected by the COVID-19 pandemic at different times and to different extents. Indeed, they are still feeling the effects.

In the summer months of 2020, the global economy returned to a growth trajectory after a muted first half. However, restrictions reintroduced in some countries to combat a new outbreak of the coronavirus dampened growth in the fourth quarter.

After being the world's first major economy to be severely affected by the spread of the coronavirus, China saw the emergence of a recovery at the end of the first quarter. China, for example, was the only major economy to achieve growth in 2020, with an increase of 2.3%.

In the Eurozone, the IMF expects the economy to contract by 7.2% in 2020. By contrast, the German economy achieved a turnaround as early as the summer. This translated into a single-digit percentage decline of 5.4% for 2020 as a whole.

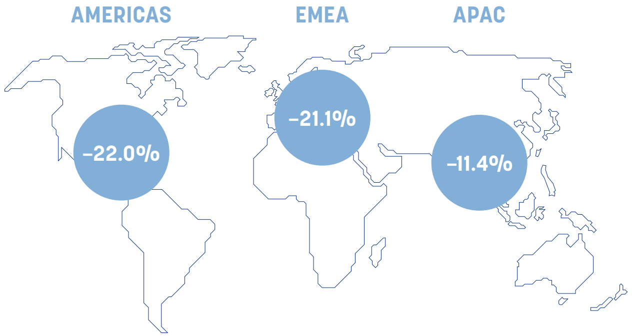
After being dragged down at almost the same time as Europe by the spread of the coronavirus, the United States, the world's largest economy, also contracted significantly. According to the IMF, GDP in the United States declined by 3.4% in 2020.

Other major economies such as Russia, Brazil, India and Japan were also significantly affected by the COVID-19 pandemic in 2020. The uncertainty accompanying the pandemic remains high, with the extent of the economic recovery varying sharply from country to country and from sector to sector.

2.1.2 Business environment

Automotive industry heavily impacted by the COVID-19 pandemic

Automotive production in 2020 compared with the previous year



The COVID-19 pandemic hit the automotive industry and its suppliers worldwide very hard, leading to massive sales declines in 2020. The uncertainties and restrictions resulting from the pandemic caused demand, which had already been softening since the second half of 2019, to plummet drastically, prompting OEMs and suppliers to scale back production sharply. This in turn necessitated the introduction of short-time working and other cost-cutting measures. According to IHS, global production of vehicles fell by 16.2% year-on-year in 2020. In the period under review, all regions addressed by GRAMMER contracted.

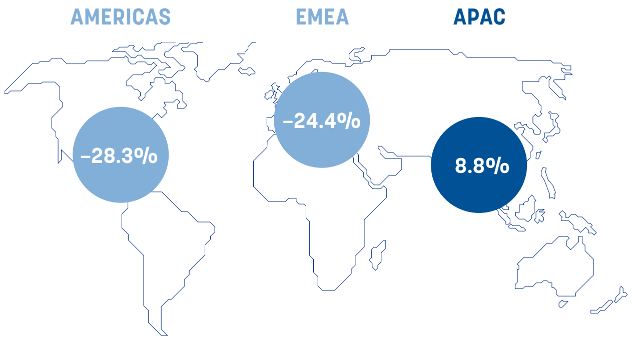
IHS expects that APAC sustained a year-on-year decline of 11.4% in production output during the period under review. After hitting a low in the first quarter, demand recovered step by step in this region, yielding to a substantial upswing in the following three quarters. The main driver behind this recovery was the expansion of the Chinese market, where production figures have been rising since May, even exceeding the previous year. For the year as a whole, China thus recorded only a single-digit percentage decline of 4.2% over the previous year.

EMEA saw a more pronounced decline in the year under review, with production contracting by 21.1%. In particular, the measures taken in March through May to contain the COVID-19 pandemic, such as the shutdown in April and May, triggered significant declines.

After experiencing the weakest months of the year in 2020 between March and June, the Americas rebounded in the second half of the year. Even so, full-year production was down a sharp 22.0% in 2020.

Commercial vehicle market: COVID-19 pandemic intensifying downturn

Commercial vehicle production in 2020 compared with the previous year



Even before the outbreak of the global COVID-19 pandemic, the heavy trucks segment of the commercial vehicle sector was already in a cyclical downswing phase. This contraction was substantially amplified by the COVID-19 crisis, although the regional impact of the declines varied in intensity. Global commercial vehicle production figures fell by 5.1% in 2020 according to LMC (LMC Automotive Ltd.).

However, a positive trend was discernible in the APAC region, where full-year production of commercial vehicles rose by 8.8% in 2020. China, the first country in the APAC region to be severely affected by the spread of the coronavirus, saw the emergence of a recovery from the second quarter. This was due in part to a government fleet renewal program that remained in effect through to the end of 2020.

In the EMEA region, the market for heavy trucks shrank by 24.4% over the year as a whole.

Exacerbated by the drastic deterioration of the macroeconomic situation, production output in the Americas fell by 28.3% year on year.

Agricultural machinery

According to VDMA (Verband Deutscher Maschinen- und Anlagenbau e. V. – German Engineering Federation), the German agricultural machinery industry closed 2020 with a gain of 5%, thus performing favorably despite the coronavirus crisis.

Construction machinery sector

The effects of the coronavirus crisis were also felt in the construction equipment sector, which had previously been experiencing a sustained boom phase. According to VDMA, a global decline in sales of 3% was recorded in the construction machinery markets in 2020.

Material handling

The coronavirus pandemic also left traces on this sector. According to VDMA, German intralogistics manufacturers assume that production volumes contracted by 10% in 2020.

Railway industry

VDB (Verband der Bahnindustrie in Deutschland e. V. – German Railway Industry Association) was upbeat in its assessment of the first half of 2020: with revenue reaching EUR 6.4 billion, the rail industry in Germany achieved a new record. Compared with the previous year, revenue increased by 25.5%.

2.2 Significant events in 2020

COVID-19

While the pandemic impacted our sell-side markets in different ways and with varying prospects for recovery in the short to long term, GRAMMER continued to prove itself as a reliable partner for its customers and suppliers. Nevertheless, we recorded significant declines in revenue as a result of the impact of the pandemic, particularly in the first and second quarters, which also left marked traces on earnings despite rapid and effective countermeasures.

The health and safety of our employees was our top priority in 2020. We implemented comprehensive protection and response measures early in the COVID-19 pandemic to protect all employees from the pandemic as effectively as possible.

Successful funding transactions

In addition to scheduled refinancing, 2020 saw numerous liquidity protection measures in response to the COVID-19 pandemic.

In February 2020, we signed an agreement for an increased syndicated loan for EUR 150 million ahead of schedule and before the outbreak of the pandemic. At the same time, the remaining bridge finance for the acquisition of TMD in 2018 was also successfully refinanced in an amount of USD 80 million.

As an early response to the global sales crisis triggered by COVID-19, we also succeeded in obtaining a hybrid loan with an equity character in an amount of EUR 19.1 million from our main shareholder Ningbo Jifeng in March.

In August, we extended the new syndicated loan agreement with the addition of a further tranche of EUR 235 million. In addition to our core banks, the KfW Banking Group also participated as a direct lender under the special KfW coronavirus pandemic program.

As a further component to secure liquidity, a capital increase of EUR 40.0 million using our authorized capital was completed with shareholder subscription rights in November 2020 to strengthen GRAMMER AG's equity base. For this purpose, 2,630,801 new bearer shares with dividend rights from January 1, 2020 were issued.

Thanks to the recovery in revenue in the third and fourth quarters of 2020 as well as cost and liquidity management efforts taken during the pandemic, GRAMMER succeeded in repaying a bonded loan for EUR 83.0 million in December.

Organizational realignment

The organizational realignment initiated at the beginning of the year, with a significant strengthening of powers and competences in the regions, proved its merits in the transition year of 2020 against the backdrop of the crisis situation triggered by the global pandemic and its different local permutations. Via the regionally responsible organizations, we are striving for greater proximity to our customers and an even better understanding of the markets, which should give us an edge in the focused development of our products. To this end, we are promoting cross-regional and cross-functional cooperation through our globally active organizational units in the two Divisions and the Group functions and with the new corporate culture.

This overarching collaboration is being supported by the "Way of Working" program. This program defines the principles of cooperation and leadership in the Company and ensures that they are applied through the participation of all employees in the design and implementation of corporate and divisional strategies. In Ursensollen, the new "Way of Working" is also being supported by our new campus with its open space concept.

Reduction in structural costs

A wide range of measures were put in place in 2020 to mitigate the economic impact of the coronavirus pandemic on the Company. In addition to personnel expenses, we significantly reduced variable costs and cut capital expenditures as far as possible. These temporary measures were based on the efficiency-enhancement program that had already been launched in the fourth quarter of 2019 to optimize operating processes and cost structures, which was continued and stepped up in all areas. In this connection, GRAMMER adopted numerous restructuring measures in the second half of 2020, including the consolidation of sites in Europe and North America and a reduction of roughly 300 jobs in indirect areas in Germany by mid-2021. Further restructuring measures to secure the Company's long-term competitiveness are currently being evaluated.

Expansion of footprint in APAC

As the world's largest single market for cars and commercial vehicles, China offers enormous potential for GRAMMER. With the establishment of a new plant in Shenyang and the relocation of truck seat and seat component production from Jiangsu to Changchun, Ningbo and Tianjin, we have expanded our presence in China and optimized our production footprint. A total of eight production and two research and development sites in China ensure GRAMMER of an outstanding platform for additionally expanding its customer base in APAC and supporting its growth targets in Asia.

Business transactions and partnerships

At the beginning of 2020, GRAMMER signed a broad-based contract to supply passenger seats for the next-generation high-speed trains produced by French rail vehicle manufacturer Alstom. Under this contract, we are equipping the new Avelia Horizon TGV high-speed trains with first and second-class passenger seats. Likewise, GRAMMER has forged a long-term partnership with HARMAN International Industries to provide integrated audio solutions for the passenger car market. Preliminary designs are to be presented to the industry in spring 2021. With our innovative seating solutions in the forklift segment, we have additionally qualified as a strategic supplier for Hyster-Yale's global forklift platform with assembly in EMEA and the Americas.

Expansion of strategic cooperation with Ningbo Jifeng

In 2020, GRAMMER was able to further strengthen its strategic partnership with Ningbo Jifeng by forging purchasing and sales partnerships. Since the beginning of the year, we had been evaluating a variety of opportunities for cooperating with Ningbo Jifeng to harness synergistic effects in purchasing, manufacturing, the product portfolio and market access in specific regions. At the end of the first quarter, we signed an agreement to establish a global purchasing partnership and plan to achieve savings in the double-digit millions over the next few years. In October, we forged a sales partnership for the Japanese market, which we are confident will give us better access to local automotive OEMs.

Bauma China

In 2020, we once again attended the Bauma China trade fair in Shanghai, where we showcased our comprehensive and market-leading range of seating solutions. As a producer of seating systems for commercial vehicles, GRAMMER offers innovative high-tech solutions for optimum suspension and seating comfort, even in extreme work situations. Comfortable, ergonomically designed driver seats are an essential factor in modern construction machinery. As a human/machine interface, they enable concentrated and fatigue-free operation even after extended use. Consequently, the often expensive machines with their high operating costs can be put to significantly better and more efficient use.

Customer events for the "PURE" interior concept

As a result of the COVID-19 pandemic, it was not possible for numerous events to take place in 2020 as planned. Even so, we were still able to hold some customer events. In particular, we presented "PURE: The freedom to move", our interior concept of the future, to additional audiences. The concept focuses on enhancing vehicle interior comfort for autonomous driving.

GRAMMER launched the "PURE" project in 2019 to leverage current megatrends such as autonomous driving, connectivity and digitalization at an early stage. Working with an internationally renowned automotive design studio, we are developing our mobility products for the future under this program. Our goal is to play an active role in shaping the interior of future generations of vehicles. "PURE" focuses mainly on comfort, ergonomics and safety, which are reflected in various aspects. Thus, on the one hand, we are working on increasing the sense of relaxation while driving, reducing the incidence of motion sickness and also on the possibility of using the vehicle interior as a mobile workplace. On the other hand, we are exploring the modularity of interior components, new functionalities and the use of sustainable materials.

Virtual Annual General Meeting

Due to the exceptional circumstances caused by the worldwide COVID-19 pandemic, the Annual General Meeting for 2020 differed fundamentally from those held in previous years. Thus, we held it online for the first time. The shareholders of GRAMMER AG approved with a large majority all the proposals submitted by the Executive Board and the Supervisory Board. In addition to the elections to the Supervisory Board, the agenda included the approval of new authorized capital and a proposal to omit the dividend for 2019.

2.3 Overview of key figures and business performance

GRAMMER Group Key figures

EUR m

	Grammer Group			Automotive Division			Commercial Vehicles Division		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
Revenue	1,710.7	2,038.5	–327.8	1,219.3	1,479.8	–260.5	544.5	607.4	–62.9
EBIT	–46.1	74.5	–120.6	–61.6	51.0	–112.6	24.8	44.1	–19.3
EBIT margin (%)	–2.7	3.7	–6.4 %-points	–5.1	3.4	–8.5 %-points	4.6	7.3	–2.7 %-points
Operating EBIT	–11.7	77.0	–88.7	–42.5	48.9	–91.4	36.0	42.7	–6.7
Operating EBIT margin (%)	–0.7	3.8	–4.5 %-points	–3.5	3.3	–6.8 %-points	6.6	7.0	–0.4 %-points
Capital expenditure (without financial assets)	83.8	132.8	–49.0	43.3	70.2	–26.9	20.9	20.6	0.3
Employees (number, average)	14,192	14,910	–718	10,484	10,910	–426	3,488	3,786	–298

GRAMMER Group business performance

Macroeconomic conditions in 2020 were largely determined by the COVID-19 pandemic. The drop in demand triggered by the pandemic coincided with sell-side markets that had already begun to weaken in the second half of 2019. The first quarter of 2020 was heavily impacted by the spread of the pandemic – initially in China and then in other countries and regions. In response to government orders issued to address the COVID-19 pandemic, we were forced to completely shut down our plants in China at the end of January and were only able to resume production step by step from March. However, the recovery in China was followed by shutdowns of GRAMMER's European and American plants as a result of production stops by customers in these markets.

The GRAMMER Group's revenue dropped by 14.8% in view of market contraction and production shutdowns, coming to EUR 454.9 million in the first quarter of 2020 (Q1 2019: EUR 534.1 million). In the wake of its own plant shutdowns and exceptional strains from currency-translation effects, the GRAMMER Group's earnings before interest and taxes (EBIT) fell to EUR –2.1 million (Q1 2019: EUR 24.0 million). Consequently, the EBIT margin contracted to –0.5% (Q1 2019: 4.5%). Adjusted for currency-translation effects of EUR 2.5 million, operating EBIT reached EUR 0.4 million (Q1 2019: EUR 23.0 million). Accordingly, the operating EBIT margin came to 0.1% in the first quarter (Q1 2019: 4.3%).

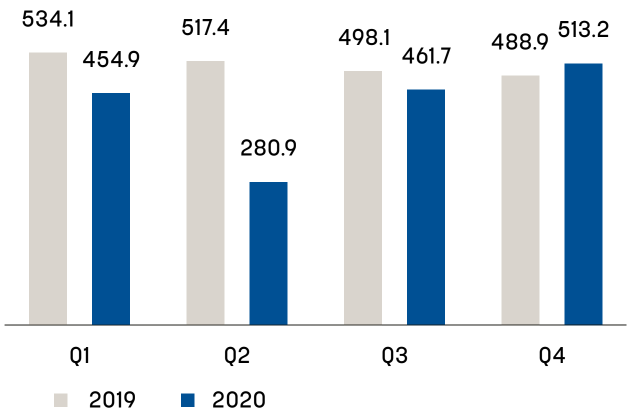
There were further declines in sales volumes in the second quarter. This was mainly due to the plant closures prompted by the COVID-19 pandemic and softer customer demand in almost all of our key sales regions. At EUR 280.9 million, the GRAMMER Group's revenue in the second quarter of 2020 was thus also down a very sharp 45.7% over the previous year (Q2 2019: EUR 517.4 million). The global decline in revenue caused by the COVID-19 pandemic as well as one-time effects of EUR 24.2 million in the second quarter of 2020 left significant traces on EBIT. Impairments of inventories (EUR 10.7 million), provisions for warranty claims (EUR 6.4 million), impairments of project assets (EUR 2.0 million) and, in this connection, the recognition of provisions for imminent loss (EUR 2.7 million) exerted a drag on the GRAMMER Group's EBIT in the second quarter. Moreover, impairments of receivables and the recognition of additional provisions (EUR 1.3 million) as well as impairments recognized on assets in connection with the relocation of a Chinese subsidiary (EUR 1.1 million) also took their toll on earnings. The above-mentioned one-time effects are not eliminated from operating EBIT as they are attributable to operating business. GRAMMER Group's EBIT came to EUR –50.9 million in the second quarter (Q2 2019: EUR 26.2 million). In addition to the negative currency-translation effects of EUR 1.5 million, operating earnings in the second quarter were adjusted for the directly attributable costs of the pandemic-related protection and response measures (EUR 3.0 million) as well as restructuring-related termination benefits (EUR 0.3 million). The operating EBIT margin thus came to –16.4% in the second quarter (Q2 2019: 5.2%).

In contrast to performance in the first two quarters, the third quarter of 2020 saw a recovery in customer demand in all major markets. Thus, revenue reached EUR 461.7 million, down only 7.3% on the previous year (Q3 2019: EUR 498.1 million). Compared with the previous quarter, the percentage decline in the third quarter was therefore much smaller. Restructuring provisions of a total of EUR 12.2 million were recognized in the third quarter of 2020. The GRAMMER Group posted EBIT of EUR 5.8 million (Q3 2019: EUR 11.7 million). This includes one-time effects of EUR 5.9 million mainly composed of impairments of inventories (EUR 1.5 million), provisions for warranty claims (EUR 3.4 million) and impairments of receivables (EUR 1.0 million). Driven by the recovery in revenue and the successful operating response taken at short notice, operating EBIT reached EUR 22.4 million (Q3 2019: EUR 9.1 million), thus substantially exceeding the previous year. The operating EBIT margin came to 4.9% in the third quarter (Q3 2019: 1.8%). In addition to the negative currency-translation effects (EUR 3.1 million), operating earnings in the third quarter were adjusted for the directly attributable costs of the pandemic-related protection and response measures (EUR 1.3 million) as well as expenses for restructuring-related termination benefits (EUR 12.2 million). The result reflects the extensive measures taken to address the global crisis triggered by COVID-19. In addition to the preventive and safety measures taken for employees at all locations, such as the increased use of mobile working, adjusted shift schedules, the introduction of flexible working time models and the greater utilization of vacation leave, we reduced the number of temporary and leased employees and implemented short-time working for our employees.

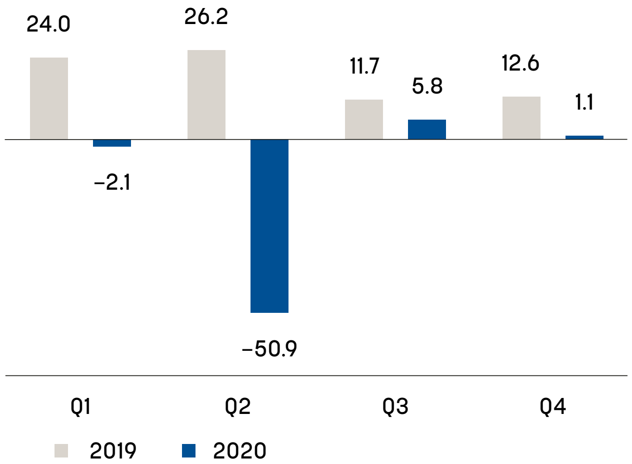
The recovery emerging in the third quarter continued in the fourth quarter. Driven by growth impetus in the automotive and commercial vehicle industry, GRAMMER Group posted a 5.0% increase in revenue to EUR 513.2 million, i.e. EUR 24.3 million up on the same quarter in the previous year. Group EBIT came to EUR 1.1 million (Q4 2019: EUR 12.6 million). This includes the following one-time effects of EUR 15.9 million: Impairments of inventories (EUR 0.9 million), provisions for warranty claims (EUR 7.1 million), impairments of project assets and, in this connection, the recognition of provisions for imminent loss (EUR 2.5 million) and impairments of receivables (EUR 5.4 million). Operating EBIT reached EUR 11.6 million (Q4 2019: EUR 17.8 million). In addition to the negative currency-translation effects of EUR 2.2 million, operating earnings were adjusted for the directly attributable costs of pandemic-related protection and response measures (EUR 0.2 million) as well as expenses for restructuring-related termination benefits (EUR 8.1 million).

In 2020 as a whole, GRAMMER Group's revenue fell to EUR 1,710.7 million (2019: EUR 2,038.5 million) due to COVID-19. Given the mixed economic conditions in the year under review, the GRAMMER Group generated EBIT of EUR −46.1 million in 2020, a decline of EUR 120.6 million over the previous year's figure of EUR 74.5 million. This includes one-time effects of EUR 46.0 million primarily attributable to impairments of receivables, inventories and project assets as well as the recognition of warranty provisions. Allowing for currency-translation effects and the costs of pandemic protection and response measures as well as expenses for restructuring-related termination benefits, operating EBIT amounted to EUR −11.7 million as of December 31, 2020, EUR 88.7 million below the previous year's figure of EUR 77.0 million.

GRAMMER Group revenue by quarter



GRAMMER Group EBIT by quarter



The Automotive Division sustained a significant year-on-year decline in revenue of 17.6% to EUR 1,219.3 million (2019: EUR 1,479.8 million), accompanied by a sharp drop in EBIT to EUR −61.6 million (2019: EUR 51.0 million). This is chiefly due to the effects of the COVID-19 pandemic in the first half of 2020 and coincided with the weakness that had already emerged in the second half of 2019 in the automotive markets.

The Commercial Vehicles Division posted revenue of EUR 544.5 million (2019: EUR 607.4 million), equivalent to a decline of 10.4% over the previous year. EBIT fell from EUR 44.1 million to EUR 24.8 million. The significant decline in this Division was also largely due to the consequences of the COVID-19 pandemic.

Extensive measures were taken to respond to the crisis in 2020. These temporary measures were based on the efficiency-enhancement program that had already been launched in the fourth quarter of 2019 to optimize operating processes and cost structures.

Overall, we reduced the average number of employees in 2020 by 718 or 4.8% over the previous year from 14,910 to 14,192.

In addition, GRAMMER AG's Executive Board waived all bonus payments for 2019 and 2020, while senior management waived the variable salary components from 2019.

In addition, government grants of EUR 11.8 million were received by the GRAMMER Group worldwide in 2020 to address the consequences of the COVID-19 pandemic. These were composed of social security refunds and further grants to preserve jobs, which were duly deducted from personnel expenses. In accordance with IAS 20, the short-time working grants of EUR 3.4 million additionally received in Germany are not classified as government grants. In the Americas, we were able to respond to the COVID-19-related decline in sales by temporarily furloughing our employees and reducing personnel expenses by EUR 1.0 million.

In order to secure and make optimum use of its liquidity, GRAMMER optimized global cash flow management within the Group, decided to omit the shareholder dividend, obtained a hybrid loan with an equity character and expanded the syndicated loan taken out in the first quarter by adding a C tranche for EUR 235 million. In addition to our core banks, KfW was also involved as a direct lender under the special "direct participation in syndicated finance" program.

By focusing on our main projects, we lowered capital expenditure to EUR 83.8 million in 2020 (2019: EUR 132.8 million).

2.4 GRAMMER Group results of operations

2.4.1 Revenue by region

GRAMMER Group revenue came to EUR 1,710.7 million in 2020, thus falling short of the previous year by 16.1% (2019: EUR 2,038.5 million). At the same time, the global fallout from the COVID-19 pandemic coincided with the weakness in sales markets that had already emerged in the second half of 2019.

Our revenue includes income from development services totaling EUR 93.3 million (2019: EUR 116.9 million). The year-on-year decrease resulted from lower total development orders in 2020. The cost of supplies, tools and equipment until the product in question reaches series production is allocated to this revenue, which primarily arises in the Automotive Division.

In 2020, all GRAMMER regions were impacted by the effects of the COVID-19 pandemic, with the APAC region showing initial signs of recovery as early as in March and seeing a year-on-year increase in revenue from the second quarter of 2020 onwards. At the beginning of the year, decisive measures were taken in China to contain the further spread of the coronavirus pandemic. In addition to extensive curfews, these also included the suspension of all production activities. Consequently, our revenue in APAC fell by 25.8% to EUR 53.6 million in the first quarter of 2020. However, production was gradually ramped up in China from March, already returning to pre-COVID-19 levels in April. Revenue in APAC reached EUR 86.1 million in the second quarter of 2020. With revenue coming to EUR 84.9 million, demand in this region remained strong in the third quarter of 2020 as well. In the fourth quarter, we were also able to increase revenue by 24.0% year-on-year to EUR 105.9 million. Total revenue in the APAC region amounted to EUR 330.5 million in 2020 (2019: EUR 313.7 million), 5.4% up on the previous year. The Automotive Division generated revenue of EUR 239.8 million due to the stabilization of the APAC markets, particularly China. The Commercial Vehicles Division even achieved an increase of 19.3% to EUR 100.7 million due to new product ramp-ups.

From mid-March, the rising number of new COVID-19 infections also led to the partial or full closure of production plants in Europe and the United States. The companies in the EMEA region, which generate the highest revenue in the Group, posted total revenue of EUR 904.9 million in 2020 (2019: EUR 1,115.3 million). The Automotive Division recorded revenue of EUR 559.8 million in EMEA, thus falling 21.8% short of the previous year. At 13.9%, the decline in the Commercial Vehicles Division was smaller, with revenue coming to EUR 378.6 million.

Revenue in the Americas fell by 22.0% to EUR 475.3 million primarily as a result of the COVID-19 pandemic. The Automotive Division generated revenue of EUR 419.7 million in this region (2019: EUR 534.6 million). The Commercial Vehicles Division was unable to match the previous year's performance in the Americas, posting revenue of EUR 65.2 million, down 21.6%.

Revenue by region

EUR m

	Grammer Group			Automotive Division			Commercial Vehicles Division		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
EMEA	904.9	1,115.3	–18.9%	559.8	715.5	–21.8%	378.6	439.8	–13.9%
Americas	475.3	609.5	–22.0%	419.7	534.6	–21.5%	65.2	83.2	–21.6%
APAC	330.5	313.7	5.4%	239.8	229.7	4.4%	100.7	84.4	19.3%
Revenue	**1,710.7**	**2,038.5**	**–16.1%**	**1,219.3**	**1,479.8**	**–17.6%**	**544.5**	**607.4**	**–10.4%**

2.4.2 GRAMMER Group earnings

Condensed income statement for the GRAMMER Group

EUR k

	2020	2019	Change
Revenue	1,710,714	2,038,507	–327,793
Cost of sales	–1,585,440	–1,807,144	221,704
Gross profit	**125,274**	**231,363**	**–106,089**
Selling expenses	–37,760	–41,824	4,064
Administrative expenses	–148,265	–136,875	–11,390
Other operating income	14,625	21,872	–7,247
Earnings before interest and taxes (EBIT)	**–46,126**	**74,536**	**–120,662**
Financial income	1,525	3,460	–1,935
Financial expenses	–23,962	–21,502	–2,460
Other financial result	–2,159	–2,365	206
Financial result	**–24,596**	**–20,407**	**–4,189**
Share of earnings of joint ventures	0	9,438	–9,438
Earnings before taxes	**–70,722**	**63,567**	**–134,289**
Income taxes	6,014	–20,089	26,103
Net profit/loss	**–64,708**	**43,478**	**–108,186**

The GRAMMER Group recorded earnings before interest and taxes (EBIT) of EUR –46.1 million as of December 31, 2020 (2019: EUR 74.5 million). This figure was strongly impacted by declining volumes and one-time effects in particular as well as restructuring expenses. The one-time effects of a total of EUR 46.0 million were composed of impairments of inventories (EUR 13.0 million), provisions for warranty claims (EUR 16.9 million), impairments of project assets and, in this connection, the recognition of provisions for imminent loss (EUR 7.2 million), impairments of receivables and the recognition of corresponding provisions (EUR 7.8 million) as well as impairments in connection with the relocation of a Chinese subsidiary (EUR 1.1 million). Whereas the recovery in revenue from the third quarter onwards and the successful implementation of short-term cost-cutting efforts had a positive effect on earnings, restructuring expenses, among other things, had a negative impact of EUR 20.6 million on EBIT. As of December 31, 2020, the GRAMMER Group had received government grants of EUR 11.8 million worldwide as support for handling the consequences of the COVID-19 pandemic. These were primarily composed of social security reimbursements and other government support and were deducted from personnel expense. The full-year EBIT margin came to –2.7% in 2020 (2019: 3.7%).

Operating EBIT of EUR –11.7 million (2019: EUR 77.0 million) and the operating EBIT margin of –0.7% (2019: 3.8%) were significantly below the previous year. Operating EBIT is adjusted for the provisions for restructuring measures, negative currency translation effects of EUR 9.3 million (2019: EUR +2.5 million) and directly attributable COVID-19 protection and response measures of EUR 4.5 million (2019: EUR 0 million). These one-time effects were not eliminated from operating EBIT as they are attributable to operating business.

The cost of sales dropped by EUR 221.7 million or 12.3% to EUR 1,585.4 million (2019: EUR 1,807.1 million). This decline is very largely due to the COVID-19-related decline in revenue. All in all, the gross margin contracted to 7.3% (2019: 11.3%), particularly due to one-time effects of EUR 46.0 million, restructuring expenses of EUR 6.9 million and the cost of the pandemic protection and response measures of EUR 3.8 million, which are included in the cost of sales.

Sales expenses fell by EUR 4.0 million over the previous year to EUR 37.8 million (2019: EUR 41.8 million). As a percentage of revenue, they climbed slightly to 2.2% (2019: 2.1%).

Administrative expenses rose to EUR 148.3 million (2019: EUR 136.9 million). These expenses were higher than in the previous year primarily as a result of negative currency-translation effects of EUR 9.3 million (2019: +2.5 million) and restructuring expenses, which are attributable to administrative expenses of EUR 13.7 million (2019: EUR 2.3 million). The personnel expense included in the above items dropped to a total of EUR 444.1 million (2019: EUR 486.3 million) for business-related reasons. At 26.0%, the personnel expense ratio was up on the previous year (2019: 23.9%) due to the more personnel-intensive business model.

Other operating income declined by 33.3% from EUR 21.9 million in the previous year to EUR 14.6 million in 2020. This is due to higher income from the sale of steel scrap and the like as well as recharged handling costs compared with the previous year. In the previous year, this item had included the refund claim of EUR 2.0 million for other taxes in connection with double taxation in Brazil with respect to the two quasi-VAT levies "PIS and COFINS".

At EUR –24.6 million, financial result was well down on the previous year's figure of EUR –20.4 million. This includes financial income, which dropped by EUR 2.0 million to EUR 1.5 million (2019: EUR 3.5 million). In the previous year there was interest income on the refund claim of EUR 1.8 million with respect to the two quasi-VAT levies "PIS and COFINS" included. Financial expenses increased by EUR 2.5 million to EUR 24.0 million (2019: EUR 21.5 million) primarily due to higher interest expenses for loans of EUR 18.1 million (2019: EUR 14.9 million) as a result of higher quasi-interest expenses under loan contracts. At EUR 2.4 million, interest expenses on retirement benefit obligations were virtually unchanged compared with the previous year (2019: EUR 2.7 million). The translation of foreign-currency items and Group loans had a negative effect on net financial income/financial expense of EUR 2.2 million (2019: EUR 2.3 million).

In 2020, no share of earnings was received from joint ventures (2019: EUR 9.4 million). At the end of 2019, a loan to the joint venture company GRA-MAG LLC, which is accounted for using the equity method, was no longer classified as a net investment in a foreign operation due to future positive payment forecasts. Accordingly, the loan was written up to its nominal value.

Earnings before taxes fell by EUR 134.3 million from EUR 63.6 million in 2019 to EUR –70.7 million in 2020.

As a result of unused tax losses, tax income of EUR 6.0 million (2019: tax expenses of EUR 20.1 million) was reported below earnings before taxes in 2020 (2019: tax expenses of EUR 20.1 million) in cases where these tax losses can be used in future periods to lower tax expense. Deferred tax assets on unused tax losses of EUR 16.2 million (2019: EUR 0.9 million) were not recognized. This particularly applied to the German tax group. Due to the non-recognition of deferred tax assets, the Group tax rate of +8.5% is lower than in the previous year (2019: –31.6%).

Net profit came to EUR –64.7 million in 2020, thus dropping by EUR 108.2 million from EUR 43.5 million in 2019. Relative to revenue, the net profit/loss margin came to –3.8% (2019: 2.1%).

Basic/diluted earnings per share are calculated by reference to net profit for the year adjusted for non-controlling interests and shares attributable to lenders of hybrid loans and equal EUR –5.10 in 2020 (2019: EUR 3.56).

G-ROCE for 2020 came to –1.3% (2019: 8.4%). G-ROCE is calculated on the basis of operating EBIT and average operating assets over the last four quarters (See 3.3 "Principles of the existing remuneration system" for further details).

2.4.3 Appropriation of profit

The appropriation of profit by the GRAMMER Group is based on the retained profit recorded in the financial statements of GRAMMER AG, which are prepared in accordance with the German Commercial Code. As of December 31, 2020, GRAMMER AG posted a retained loss of EUR 72.5 million (2019: retained profit of EUR 37.7 million). This includes the net loss for the year of EUR 72.5 million. At the Annual General Meeting held on July 8, 2020, the shareholders passed a resolution to allocate the retained profit of EUR 37.7 million of GRAMMER AG for the year ending December 31, 2019 to the retained earnings. In view of the retained loss for the year sustained by GRAMMER AG in the year under review, there will be no dividend proposal. The retained loss as of December 31, 2020 will be carried forward. No dividend was distributed in the year under review (2019: EUR 9.2 million).

2.4.4 Automotive Division

The Automotive Division sustained a 17.6% decline in revenue to EUR 1,219.3 million in 2020 chiefly as a result of the COVID-19 pandemic in the first half of 2020. This coincided with the contraction of vehicle markets that had already emerged in the second half of 2019. From the third quarter of 2020, there were signs of a significant recovery. In the EMEA region, revenue in the Automotive Division fell by 21.8% or EUR 155.7 million to EUR 559.8 million (2019: EUR 715.5 million) as a result of the pandemic. The main driver was Germany, which sustained a decline of EUR 109.9 million.

The Americas also contracted as a result of the pandemic, with revenue coming to EUR 419.7 million (2019: EUR 534.6 million). Revenue in APAC rose by EUR 10.1 million or 4.4% to EUR 239.8 million in 2020.

Government grants of EUR 9.1 million received in the Automotive Division to help address the effects of the COVID-19 pandemic were deducted from expense. However, the measures taken in response to the pandemic allayed the effects of the substantial decline in revenue only minimally. Moreover, extraordinary one-time effects of EUR 40.2 million impacted the Automotive Division. These included impairments of inventories (EUR 10.6 million), provisions to cover warranty claims (EUR 15.0 million), impairments of project assets and the recognition of provisions for imminent loss (EUR 7.2 million) as well as impairments of receivables and the recognition of other provisions (EUR 7.4 million). In addition, restructuring expenses of EUR 11.8 million arose in 2020. Reflecting this, EBIT came to EUR –61.6 million in the period from January through December (2019: EUR 51.0 million), equivalent to an EBIT margin of –5.1% (2019: 3.4%). Negative currency-translation effects (EUR 4.6 million), directly attributable costs for pandemic-related protection and response measures (EUR 2.7 million) and restructuring expenses (EUR 11.8 million) were eliminated from operating EBIT. Operating EBIT from January to December 2020 thus amounted to EUR –42.5 million (2019: EUR 48.9 million), corresponding to an operating EBIT margin of –3.5% (2019: 3.3%).

2.4.5 Commercial Vehicles Division

Revenue in the Commercial Vehicles Division fell by 10.4% to EUR 544.5 million in 2020. This significant decline was also primarily caused by the COVID-19 pandemic. It additionally reflects the extraordinarily high revenue recorded in the previous year, which had been driven by very strong demand in the Commercial Vehicles Division. From the third quarter of 2020 onwards, there were signs of a significant recovery compared with the first half of 2020. Government grants of EUR 2.0 million received in the Commercial Vehicles Division to help address the effects of the COVID-19 pandemic were deducted from expense. However, the measures taken in response to the COVID-19 pandemic were not sufficient to offset the substantial decline in revenue and the negative impact of the one-time effects of EUR 5.8 million. These were mainly composed of impairments of inventories (EUR 2.4 million) and assets due to a relocation in China (EUR 1.1 million) and the recognition of provisions for warranty claims (EUR 1.9 million). Moreover, restructuring expenses of EUR 5.6 million arose in 2020. Consequently, EBIT reached EUR 24.8 million (2019: EUR 44.1 million), with the EBIT margin coming to 4.6% (2019: 7.3%). Negative currency-translation effects (EUR 4.5 million), directly attributable costs for pandemic-related protection and response measures (EUR 1.1 million) and restructuring expenses (EUR 5.6 million) were eliminated from operating EBIT. Operating EBIT from January to December 2020 thus came to EUR 36.0 million (2019: EUR 42.7 million), corresponding to an operating EBIT margin of 6.6% (2019: 7.0%). Revenue in EMEA dropped slightly from EUR 439.8 million to EUR 378.6 million primarily as a result of softer demand in the wake of the COVID-19 pandemic.

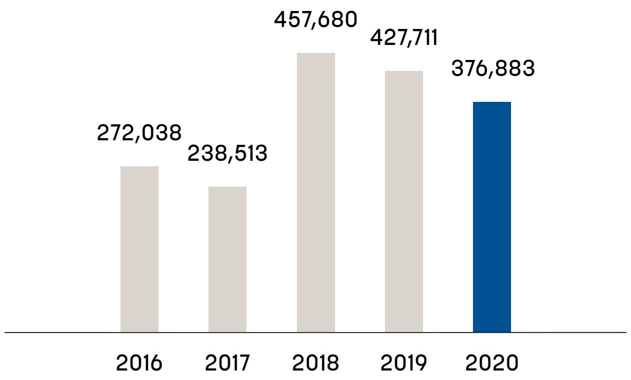
The Americas also contracted as a result of the pandemic, with revenue dropping by 21.6% to EUR 65.2 million (2019: EUR 83.2 million). Revenue in APAC rose substantially by 19.3% from EUR 84.4 million in 2019 to EUR 100.7 million in the year under review, driven in particular by growth in truck business in China and in offroad business in China, Korea and Japan.

2.5 Financial position

2.5.1 Finance and liquidity management

In implementing its funding activities, GRAMMER AG attaches importance to timing aspects in its interest-rate structure so that short-term drawdowns are based on floating rates, while medium to long-term funding generally involves fixed rates based on matching maturities. Operating cash flows and the availability of adequate external finance are managed centrally by Group Finance except in cases where legislation in a specific local jurisdiction limit the scope for doing this. As a general principle, the GRAMMER Group aims for an investment grade rating and, in conjunction with this, intends to achieve a balanced maturity structure with a diversified portfolio of financing instruments in order to secure its long-term liquidity. Group Finance handles worldwide payment transactions and the administration of the cash pool in consultation with the local companies. In this way, GRAMMER AG monitors and safeguards the liquidity of its subsidiaries to the extent that this is permissible and reasonable within the scope of legal and economic possibilities. Interest rate and currency risks are hedged centrally by means of customary derivative financial instruments to manage financial risks.

Current and non-current financial liabilities
EUR k



The GRAMMER Group's funding base was revised in 2020 through the successful early refinancing of and increase in the syndicated loan. Tranche A has a volume of EUR 150.0 million with a term of five years and two one-year renewal options. Tranche B amounts to USD 80.0 million and has a term of four years. It was used to fully discharge the funding raised for the TMD acquisition on schedule. In addition, the existing syndicated loan under the KfW "Direct Participation for Syndicated Financing (855)" program was extended in an amendment to the agreement to include a Tranche C with a volume of EUR 235.0 million for a three-year term. This means that our liquidity is secured in the long term despite the current difficult economic environment. Among other things, the KfW loan was tied to the stipulation that fresh equity of at least EUR 40.0 million was to be injected into the Group by the end of 2020. This was successfully done in the fourth quarter of 2020 in the form of a capital increase. In addition, GRAMMER received funds of around EUR 19.1 million as a financial instrument qualifying as equity (hybrid loan) from its principal shareholder in the first quarter of 2020. In addition to the syndicated loan, bilateral financing agreements, medium-term bonded loans and long-term private placements ensure that GRAMMER has sufficient funding. The syndicated loan agreement with GRAMMER AG as the sole borrower provides for the right of each lender to demand early repayment in the event of a change of control. For the purposes of this agreement, 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. Excluded from this is any direct or indirect acquisition of voting rights or control in the borrower by direct or indirect subsidiaries of the Wang family (Ningbo Jifeng).

The bonded loans have a total value of EUR 128.1 million as of December 31, 2020. This includes the USD-denominated bonded loans of USD 20.0 million. Termination rights in the event of a change of control are also provided for in the agreements underlying the bilateral loans, the bonded loans and the private placements.

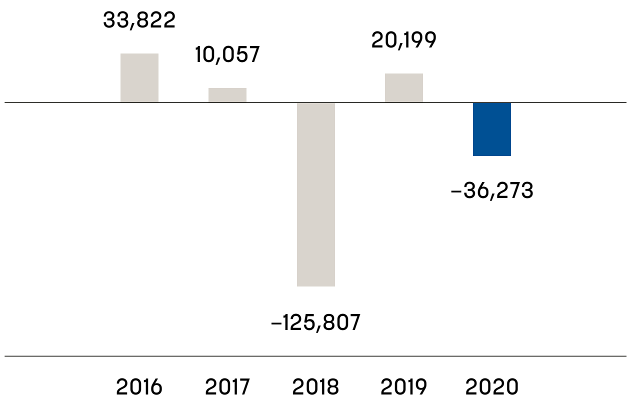
At EUR 253.3 million, non-current financial liabilities were up EUR 33.3 million on the previous year (2019: EUR 220.0 million). The current financial liabilities were valued at EUR 123.6 million (2019: EUR 207.7 million) and were thus substantially lower than in the previous year. New financial liabilities of a total of EUR 84.2 million were raised in 2020 following the amendments to the syndicated loan agreement. At the same time, repayments of EUR 143.7 million were made. The repayment of bonded loans of EUR 83.0 million maturing in December 2020 accounted for the largest proportion of these repayments. Among other things, these repayments were funded with the cash flow from GRAMMER AG's capital increase of around EUR 40.0 million in the fourth quarter of 2020.

The cash flow from operating activities dropped by EUR 92.9 million (–74.9%) to EUR 31.1 million in 2020 (2019: EUR 124.0 million) due to the lower earnings before taxes. The year-on-year increase in trade accounts receivable and other assets was significantly smaller than the decrease in liabilities, resulting in an overall positive effect from working capital. This was offset by the clearly negative effects from earnings before taxes.

At EUR –67.3 million in 2020, the cash outflow from investing activities was substantially down on the previous year (2019: EUR –103.8 million). In 2020, capital expenditure on property, plant and equipment was significantly lower than in the previous year due to the focus on the most important projects, coming to EUR 69.4 million (2019: EUR 104.9 million). Capital expenditure on intangible assets came to EUR 3.6 million in 2020 and was also lower than in the previous year (2019: EUR 5.7 million).

All in all, there was a cash outflow of EUR 38.1 million from financing activities in 2020 (2019: EUR 85.7 million). Consequently, the GRAMMER Group had liquidity of EUR 89.8 million as of December 31, 2020 (2019: EUR 142.7 million). Bank overdrafts facilities utilized (including current liabilities under factoring contracts) of EUR 34.5 million (2019: EUR 19.0 million) must be

Free cash flow
EUR k



Free cash flow is the sum total of cash flow from operating activities and cash flow from investing activities.

deducted from this. Accordingly, cash and cash equivalents stood at EUR 55.4 million as of December 31, 2020 (2019: EUR 123.7 million).

2.5.2 Capital structure

As of December 31, 2020, the Company's share capital amounted to EUR 39,009,080.32 (2019: EUR 32,274,229.76) divided into 15,237,922 (2019: 12,607,121) shares. All shares (with the exception of treasury stock) accord the same rights; shareholders have a right to payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting.

In accordance with a resolution passed at the Annual General Meeting of July 8, 2020, the Executive Board is authorized subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly by a total of up to EUR 16,137,113.60 by issuing bearer shares on a cash and/or non-cash basis on or before July 7, 2025 (Authorized Capital 2020). In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to exclude the shareholders' preemptive subscription rights in certain cases subject to the approval of the Supervisory Board.

Following partial utilization, Authorized Capital 2020 stood at EUR 9,402,263.04 as of December 31, 2020.

No authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2020.

The capital reserve amounted to EUR 163,033 thousand as of December 31, 2020 (2019: EUR 129,796 thousand) Accordingly, it includes premiums from the capital increases in 1996, 2001, 2011, 2017 and 2020 as of December 31, 2020. Retained earnings amounted to EUR 199,094 thousand as of December 31, 2020 (2019: 263,408).

2.5.3 Disclosure of shareholdings in accordance with section 33 WpHG

Under the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must immediately notify the Company and the Federal Financial Supervisory Authority. The lowest notification threshold is 3%. An overview of the current status of disclosed shareholdings that exceed the 3% threshold as of December 31, 2020 is included in the notes to the GRAMMER Group's consolidated financial statements.

2.5.4 Treasury stock

The Annual General Meeting passed a resolution on May 28, 2014 to authorize the Executive Board to acquire treasury stock amounting to no more than 10% of the share capital on or before May 27, 2019. Authorization to acquire treasury stock expired at the end of the day on May 27, 2019. No new authorization to acquire treasury stock was granted at the Annual General Meeting in the year under review. GRAMMER holds 330,050 treasury shares, all of which were acquired in 2006. These shares have a total value of EUR 844,928.00 and represent 2.166% (2019: 2.618%) of the share capital. The 330,050 shares held as treasury stock are non-voting and non-dividend-entitled.

2.5.5 Capital expenditure

Total capital expenditure

Capital expenditure in 2020 concentrated on the most important projects in order to preserve the Company's liquidity. For this reason, it came to EUR 83.8 million in 2020, thus falling substantially short of the previous year's figure of EUR 133.4 million. Of the total capital expenditure, EUR 10.7 million related to leased assets in accordance with IFRS 16 in the year under review. Capital expenditure excluding leased assets recognized under IFRS 16 came to EUR 73.1 million in 2020, thus falling short of the previous year's figure of EUR 111.2 million by EUR 38.1 million or 34.3%. Capital expenditure on property, plant and equipment was valued at EUR 80.2 million in 2020 (2019: EUR 127.1 million), including EUR 69.5 million for assets acquired (2019: 104.9 million) and EUR 10.7 million (2019: EUR 22.2 million) for right-of-use assets under IFRS 16. Of these additions to property, plant and equipment including right-of-use assets under IFRS 16, the Automotive Division accounted for EUR 43.0 million (2019: EUR 69.9 million) and the Commercial Vehicles Division for EUR 18.3 million (2019: EUR 15.9 million). Capital expenditure on property, plant and equipment for Central Services came to EUR 18.9 million (2019: EUR 41.3 million). The Automotive Division primarily invested in the construction of production and assembly facility for new product ramp-ups. In the Americas, the focus was on Queretaro (Mx.) and Tupelo (US) for plants producing consoles and headrests. At the Fayetteville (US) site, investments were made in the expansion of blow molding spray capacity. In EMEA, extensive investments were made in setting

Capital expenditure

EUR m

	2020	2019	Change
GRAMMER Group[1]	**83.8**	**133.4**	**−37.2%**
Acquired	73.1	111.2	−34.3%
of which property, plant and equipment	69.5	104.9	−33.7%
of which intangible assets	3.6	5.7	−36.8%
of which financial assets	0.0	0.6	−100.0%
Right-of-use assets (IFRS 16)	10.7	22.2	−51.8%

[1] First-time application effects of IFRS 16 of EUR 56.0 million as of January 1, 2019 not included

Capital expenditure

EUR m

	2020	2019	Change
Commercial Vehicles	**20.9**	**20.6**	**1.5%**
Acquired	15.9	18.3	−13.1%
of which property, plant and equipment	13.3	13.6	−2.2%
of which intangible assets	2.6	4.7	−44.7%
of which financial assets	0.0	0.0	0.0%
Right-of-use assets (IFRS 16)	5.0	2.3	117.4%

Capital expenditure

EUR m

	2020	2019	Change
Automotive	**43.3**	**70.2**	**−38.3%**
Acquired	38.6	51.8	−25.5%
of which property, plant and equipment	38.3	51.5	−25.6%
of which intangible assets	0.3	0.3	0.0%
of which financial assets	0.0	0.0	0.0%
Right-of-use assets (IFRS 16)	4.7	18.4	−74.5%

Capital expenditure

EUR m

	2020	2019	Change
Central Services	**19.6**	**42.6**	**−54.0%**
Acquired	18.6	41.0	−54.6%
of which property, plant and equipment	17.9	39.7	−54.9%
of which intangible assets	0.7	0.7	0.0%
of which financial assets	0.0	0.6	−100.0%
Right-of-use assets (IFRS 16)	1.0	1.6	−37.5%

up a plastic injection molding production facility at the Zatec site (CZ). In the Commercial Vehicles Division, capital expenditure mainly focused on China and entailed the construction of a new plant in Ningbo for metal structure production and the expansion of seat production at the Tianjin and Changchun sites. Investments were also made in forming tools to localize the production of seat structures. In the Americas, investments were effected at the Delphos (US) site for an assembly line for the production of commercial vehicle seats for the new customer Hyster Yale. Capital expenditure in EMEA focused on molds for a new seat generation in Haselmühl (D) and the expansion of assembly capacity for seats at the Tachov (CZ) site.

Capital expenditure in Central Services chiefly involved the completion of the construction and interior outfitting of the new GRAMMER campus in Ursensollen near Amberg. The CAMPUS is designed to accommodate approximately 750 employees and brings together staff from the sales, project management, design and planning departments at the Amberg, Immenstetten and Haselmühl sites. With 22,000 square meters of office space, it comprises new headquarters, a technology center and a design and ergonomics laboratory as well as a staff restaurant. All parts of the building and the relocation of employees to their new offices were completed in September 2020.

Capital expenditure on intangible assets came to EUR 3.6 million in 2020 and was thus substantially lower than the previous year's figure of EUR 5.7 million. In this connection, the Automotive Division invested EUR 0.3 million (2019: EUR 0.3 million) in intangible assets, while the Commercial Vehicles Division invested EUR 2.6 million (2019: EUR 4.7 million). Capital expenditure in the Commercial Vehicles Division was largely attributable to capitalized development costs. Capital expenditure on intangible assets for Central Services came to EUR 0.7 million (2019: EUR 0.7 million). Intangible assets include patents, concessions as well as capitalized development activities.

2.6 Net assets

Condensed balance sheet of the GRAMMER Group

EUR k

	2020	2019	Change
Non-current assets	799,583	825,623	–26,040
Current assets	576,841	648,826	–71,985
Assets	**1,376,424**	**1,474,449**	**–98,025**
Equity	302,210	342,242	–40,032
Non-current liabilities	524,189	490,050	34,139
Current liabilities	550,025	642,157	–92,132
Equity and liabilities	**1,376,424**	**1,474,449**	**–98,025**

As of December 31, 2020, the GRAMMER Group had total assets of EUR 1,376.4 million, down EUR 98.0 million or 6.6% on December 31, 2019 (EUR 1,474.4 million). The decline is mainly due to the consequences of the lower revenue caused in particular by the COVID-19 pandemic. Non-current assets primarily comprise property, plant and equipment, intangible assets and deferred income tax assets as well as non-current contract assets. They dropped by EUR 26.0 million to EUR 799.6 million as of December 31, 2020 (2019: EUR 825.6 million) as a result of the substantially lower capital expenditure. On the other hand, deferred tax assets increased due to the recognition of deferred taxes on loss carryforwards and the increase in temporary differences referring to the tax base.

Current assets primarily include inventories, current trade accounts receivable, cash and short-term deposits, other current assets and current contract assets. As of December 31, 2020, they dropped by EUR 72.0 million to EUR 576.8 million (2019: EUR 648.8 million). This change was particularly due to the reduction in and impairment of inventories and a reduction of EUR 52.9 million in cash and short-term deposits to EUR 89.8 million (2019: EUR 142.7 million).

The net loss of EUR –64.7 million (2019: EUR 43.5 million) and other comprehensive income of EUR –34.4 million (2019: EUR –6.9 million) led to lower equity in 2020. As of December 31, 2020, equity thus dropped to EUR 302.2 million (2019: EUR 342.2 million). A hybrid loan of EUR 19.1 million was granted by Ningbo Jifeng Auto Parts Co., Ltd., a member of the Ningbo Jifeng Group (the majority shareholder of GRAMMER AG), on March 30, 2020. Granted for an indefinite period, the hybrid loan has equity characteristic. In addition, there was a capital increase of EUR 40.0 million. As a result of the measures initiated at short notice in 2020, the equity ratio stands at 22.0% as of December 31, 2020 (December 31, 2019: 23.2%).

Other comprehensive income of EUR –34.4 million (2019: EUR –6.9 million) comprises the currency-translation effects and resulting tax effects of EUR –7.2 million (2019: EUR +2.2 million) from net investments in foreign operations in Mexico, the negative effects of EUR –20.8 million (2019: EUR +2.2 million) from the currency translation of foreign subsidiaries and actuarial losses of EUR –6.3 million (2019: EUR –12.3 million) from the interest-induced adjustment to retirement benefits and similar obligations including deferred taxes. GRAMMER AG did not distribute any dividend in 2020 (EUR 9.2 million), meaning that equity did not decline for that reason.

Reflecting efforts to optimize the Group's funding structure and the addition of the new syndicated loan, non-current liabilities rose by EUR 34.1 million to EUR 524.2 million as of December 31, 2020 (2019: EUR 490.1 million). The syndicated loan consists of two tranches. Tranche A is composed of a credit facility of EUR 150 million (December 31, 2019: EUR 100,0 million) for a period of five years plus two one-year renewal options. This tranche is to be used to refinance existing financial liabilities ahead of schedule and at the same time to top up the previous facility, which had a volume of EUR 100 million and was originally due to expire at the end of October 2020. In addition, the remaining purchase price for the acquisition of the US automotive components supplier TMD Inc. was funded via a second Tranche B for USD 80 million. This marks the scheduled completion of the funding for the largest acquisition in GRAMMER AG's history. As of December 31, 2020, the Group had unutilized credit facilities of EUR 303.7 million (2019: EUR 134.9 million), for which all the conditions required for drawing had been met.

Consequently, non-current financial liabilities rose by EUR 33.3 million to EUR 253.3 million. Other financial liabilities, which include non-current lease liabilities, were valued at EUR 54.4 million (2019: EUR 64.4 million). Retirement benefits and similar obligations rose by EUR 10.3 million to EUR 164.5 million (2019: EUR 154.2 million) due to the reduction in the discount rate from 1.2% (2019) to 0.7% (2020). Net deferred tax liabilities came to EUR 46.9 million (2019: EUR 46.3 million).

Current liabilities dropped by EUR 92.2 million to EUR 550.0 million as of December 31, 2020 (2019: EUR 642.2 million). Current trade accounts payable fell to EUR 250.9 million (2019: EUR 309.0 million). Current financial liabilities amounted to EUR 123.6 million (2019: EUR 207.7 million). Provisions climbed to EUR 57.9 million (2019: EUR 23.4 million).

3. Supervisory Board and Executive Board

3.1 Changes to the Executive Board

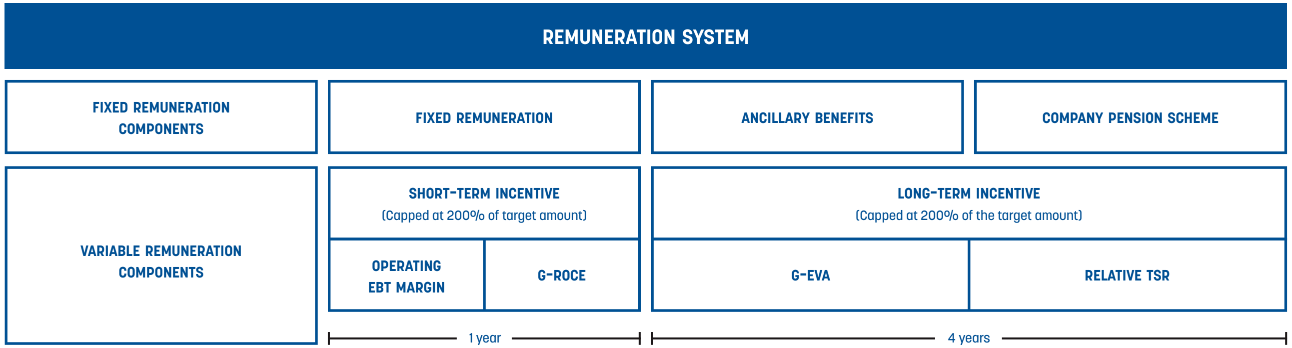
The rules for the appointment and dismissal of Executive Board members are based on the provisions of section 84 AktG as well as article 8 et sec. of the Company's articles of incorporation. There were no changes to the Executive Board in the year under review.

3.2 Changes to the Supervisory Board

At the Annual General Meeting, Dr.-Ing. Ping He, Dipl.-Ing. Jürgen Kostanjevec, Dr. Peter Merten, Gabriele Sons, Prof. Dr.-Ing. Birgit Vogel-Heuser and Alfred Weber were elected to the Supervisory Board as shareholder representatives. Mr. Wolfram Hatz, Ms. Ingrid Hunger, Dr. Klaus Probst and Dr. Bernhard Wankerl retired from the Supervisory Board as shareholder representatives. The term of office of the members leaving the Supervisory Board of GRAMMER AG expired upon the conclusion of the Annual General Meeting on July 8, 2020. Ms. Andrea Elsner, Mr. Martin Heiß, Mr. Harald Jung, Mr. Peter Kern, Mr. Horst Ott and Ms. Antje Wagner were elected by the employees and hold positions on the Supervisory Board as employee representatives. The employee representative Mr. Lars Roder left the Supervisory Board. At the Supervisory Board's constituting meeting, Mr. Alfred Weber was elected Chairman of the Supervisory Board and Horst Ott Deputy Chairman. After leaving the Company, Mr. Harald Jung stepped down from his office as a member of the Supervisory Board effective August 31, 2020. Effective September 1, 2020, Mr. Klaus Bauer was appointed to the Supervisory Board in a ruling of the Amberg Local Court.

3.3 Principles of the existing remuneration system

3.3.1 Basic principles



The principal elements of the remuneration system for the members of the Executive Board of GRAMMER AG in force since January 1, 2017 are described below.

Annual total target remuneration comprising fixed remuneration, a target short-term incentive (STI) and a target long-term incentive (LTI) is agreed upon with each member of the Executive Board. The Supervisory Board regularly reviews the remuneration system for the Executive Board to ensure that it is in line with customary market practice and is appropriate.

3.3.2 Fixed remuneration

The fixed remuneration is paid in twelve equal monthly instalments less any statutory deductions in arrears at the end of each month.

3.3.3 Ancillary benefits

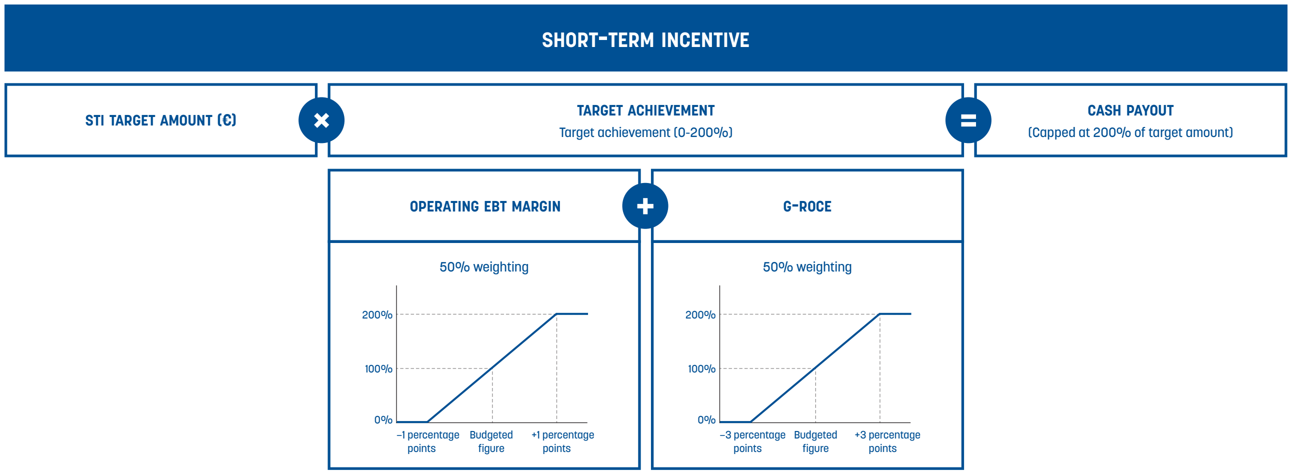
The Executive Board members are granted customary ancillary benefits (e.g. provision of a company car, which may also be used for private purposes).

3.3.4 Company pension scheme

At the same time as the existing remuneration system for the Executive Board of GRAMMER AG was introduced in 2017, the retirement benefit scheme for the members of the Executive Board was also revised. The Company pension scheme is structured as a capital account plan. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses. With retroactive effect from January 1, 2020, the company pension plan was replaced by a pension allowance.

3.3.5 Short-term incentive

STI is calculated for each year and is tied to the achievement of budget targets defined for two parameters – the operating earnings margin before taxes (operating EBT margin) and the GRAMMER return on capital employed (G-ROCE). These two factors are weighted evenly in the calculation of the STI, i.e. 50% of the target STI is tied to the achievement of the budget target for the operating EBT margin and 50% to the achievement of the budget target for G-ROCE. The degree of target achievement for the operating EBT margin and G-ROCE may be between zero (floor) and 200% (cap). Accordingly, the payout amount under the STI is between zero (floor) and 200 % of the target amount (cap).



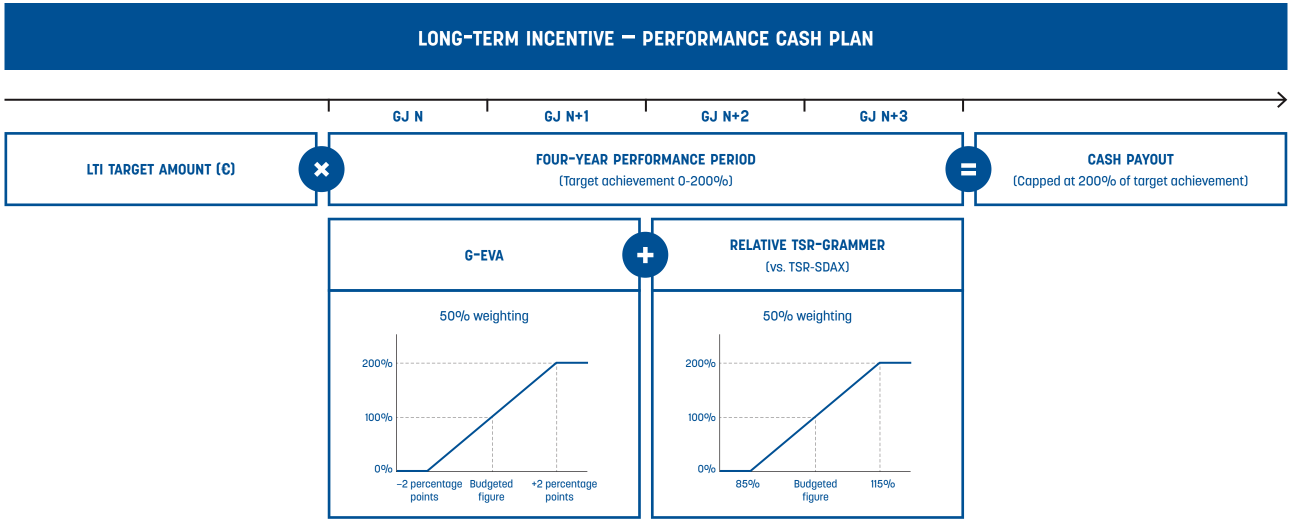
The operating EBT margin is calculated on the basis of the consolidated financial statements as follows: ratio of operating EBT for a given year to total revenue in the same year. This calculation is adjusted for currency-translation and exceptional effects. The operating EBT margin is expressed as a percentage. Target achievement is 0% if the operating EBT margin calculated for a given financial year is one percentage point or more below the amount budgeted at the beginning of the financial year. Target achievement is 200% if the operating EBT margin calculated for a given financial year is one percentage point or more above the amount budgeted at the beginning of the financial year. Target achievement is 100% if the operating EBT margin calculated for a given financial year matches the budgeted amount determined at the beginning of the financial year. The calculation of target achievement for all interim figures is interpolated on a straight-line basis.

G-ROCE is the ratio of the operating EBIT reported in the consolidated financial statements for the year in question to average operating assets in the same year and is expressed as a percentage. Target achievement is 0% if G-ROCE calculated for a given financial year is 3 percentage points or more below the amount budgeted at the beginning of the financial year. Target achievement is 200% if G-ROCE calculated for a given financial year is 3 percentage points or more above the amount budgeted at the beginning of the financial year. Target achievement is 100% if G-ROCE calculated for a given financial year matches the budgeted amount determined at the beginning of the financial year. The calculation of target achievement for all interim figures is interpolated on a straight-line basis.

The budgeted figures for the operating EBT margin and G-ROCE are set by the Supervisory Board at the beginning of the year in its own due discretion.

3.3.6 Long-term incentive

The LTI is issued in annual tranches, each of which has a term (performance period) from January 1 of the respective year to December 31 of the third year following that year and is tied to the achievement of enterprise value added ("G-EVA") and relative total shareholder return ("TSR") targets, half of which are included in the calculation of the LTI, i.e. 50% of the target LTI is tied to the achievement of the G-EVA target and 50% to the achievement of the TSR target. The degree of target achievement for G-EVA and TSR may be between zero (floor) and 200% (cap). Accordingly, the weighted aggregate target achievement for an LTI plan tranche is between 0% and 200%. The target payout amount for an LTI plan tranche is likewise between 0% and 200% of the target amount. Payment is made in the year following the final year of the performance period.



The following parameters have been defined for the calculation of the LTI:

G-EVA equals G-ROCE less WACC (weighted average cost of capital) calculated on the basis of the methodology defined for the grant of a plan tranche for the financial years making up the performance period. G-ROCE is defined in the same way as for the STI. WACC expresses the expected return on the cost of capital employed. Target achievement is 0% if the G-EVA calculated for a given performance period is 2 percentage points or more below the amount budgeted at the beginning of the performance period. Target achievement is 200% if G-EVA calculated for a given performance period is 2 percentage points or more above the amount budgeted at the beginning of the performance period. Target achievement is 100% if the G-EVA calculated for a given performance period matches the amount budgeted at the beginning of the performance period. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. Long-term target achievement is measured on the basis of the ratio of four-year average real G-EVA to the average budget for the same period.

The budgeted figures for G-EVA are set annually for all years in the performance period commencing in that year at the Supervisory Board's due discretion.

TSR is calculated by comparing the performance of the GRAMMER share price in the four financial years of the performance period (TSR-GRAMMER) with the performance of the SDAX index in the same four financial years (TSR-SDAX). TSR-SDAX forms the 100 % target for the TSR target in the LTI. To determine TSR target achievement, TSR-GRAMMER is compared with TSR-SDAX. If TSR-GRAMMER is a maximum of 85 % of TSR-SDAX, target achievement equals 0 % (TSR-SDAX minus 15 %). If TSR-GRAMMER is at least 115 % of TSR-SDAX (TSR-SDAX plus 15 %), target achievement equals 200 %. Target achievement is 100% if TSR-GAMMER calculated for a given performance period matches TSR-SDAX. The calculation of target achievement for all interim figures is interpolated on a straight-line basis. Remuneration of the Executive Board does not contain any further components with a long-term incentive effect, such as stock option or stock award programs.

3.3.7 Bonus/penalty rules

The Supervisory Board may decide in the event of extraordinary earnings or losses in the relevant year to adjust compensation at the end of the year in the form of a bonus or penalty comprising 10% of the fixed salary.

3.3.8 Remuneration system of the Supervisory Board

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

REMUNERATION FOR THE SUPERVISORY BOARD

FIXED REMUNERATION (time-proportion where applicable)	+	ATTENDANCE FEE FOR MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES	=	TOTAL REMUNERATION
PAID OUT AT THE END OF THE YEAR		PAID ON THE FIRST WORK DAY FOLLOWING THE MEETING		

3.4 Revised remuneration system for the members of the Executive Board of GRAMMER AG

In response to the amended regulatory requirements resulting from the implementation of the second European Shareholder Rights Directive (ARUG II), the Supervisory Board reviewed the remuneration system for the Executive Board of GRAMMER AG in detail from the fourth quarter of 2020 and revised it to ensure compliance with the German Stock Corporation Act (AktG) and the German Corporate Governance Code and to implement an ambitious incentive structure aligned with the corporate strategy.

The revised remuneration system for the members of the Executive Board of GRAMMER AG is to be submitted to the Annual General Meeting on June 23, 2021 for approval in accordance with the provisions of the second European Shareholder Rights Directive (ARUG II) as implemented in the German Stock Corporation Act (AktG) and will apply from 2021.

The future compensation system adopts a clear pay-for-performance approach, setting ambitious targets that are aligned with the corporate strategy. In addition, the long-term incentive has been revised. Among other things, the short-term incentive now includes ESG objectives, i.e. environmental aspects, social objectives and responsible corporate governance, in order to provide an incentive for sustainable and responsible development at GRAMMER AG.

A detailed description in accordance with the provisions of section 87a AktG will be published in the invitation to the Annual General Meeting for 2021.

4. Further performance indicators

4.1 Employees

Average employees

	2020	2019	Change
GRAMMER Group	**14,192**	**14,910**	**–718**
Commercial Vehicles	3,488	3,786	–298
Automotive	10,484	10,910	–426
Central Services	220	214	6

The GRAMMER Group's annual average headcount stood at 14,192 in 2020 (2019: Ø 14,910).

The Automotive Division and the Commercial Vehicles Division were both affected by this decline due to the generally weaker revenue performance in 2020.

By contrast, the average number of employees in Central Services remained virtually unchanged at 220 (2019: Ø 214).

Regionally, EMEA registered a significant decline of around 8.5% in 2020 to an average of 8,289 employees (2019: 9,056).

By contrast, the average headcount in APAC climbed to 1,290 (2019: Ø 1,267), reflecting the favorable business development in the Chinese market.

In the Americas, the average number of employees also increased slightly to 4,613 (2019: Ø 4,587).

Human resources development

Qualified and motivated employees are the essential building block for GRAMMER Group's success. The Personnel Development Department was established within Human Resources in order to secure and advance our internal skills. Its task is to further all employees in a targeted and needs-oriented manner in accordance with their potential and with a view to the competence profiles to be fulfilled. Committed employees with knowledge and highly developed skills play a decisive role in advancing our successful market position and in building on our competitive strengths in the international environment. The Personnel Development Department deals with matters such as training and continuing education, performance management and employee development. In this context, we have defined various personnel development measures and are implementing them consistently in various Group-wide programs. Our corporate programs for the development of GRAMMER talent are divided into three different segments: "GRAMMER Top Gear" focuses on strategic further education for middle management, while "GRAMMER Fast Lane" is primarily targeted at employees exhibiting very high potential who have already gained preliminary management experience. "GRAMMER Drive" has been designed for employees who show great potential and are supposed to be prepared for further responsibilities. With the assistance of an integrated location analysis, participants can define for themselves the career path they would like to pursue. In addition to management careers, GRAMMER also offers training for experts as a means of providing highly qualified specialists with scope for professional development and deploying them to optimum effect as sources of knowledge and experience. Experts share their experience across the locations, thus helping to spread the existing internal knowledge held by the Company on a global basis and applying best practices to leverage synergistic benefits.

All these programs aim to develop the high-potentials from within our own organizational structures to a large degree. Due to the constraints imposed by COVID-19, some of the development programs were held online in 2020.

As part of our organizational development, we intend to continuously expand the career and development programs described. In order to take better account of specific regional and cultural factors in the future, we will be intensively reviewing the current programs in 2021 and making meaningful adjustments. In doing so, we will be incorporating the experience gained from online training as well.

Against the backdrop of an increasingly dynamic business environment and rapidly changing conditions, we have also begun to simplify the individual elements of our performance management process in order to transform them into a modern, holistic process. Our goal is to support the implementation of our new corporate culture with this management tool by defining in greater detail the main GRAMMER "Way of Working" principles. This will be achieved through continuous dialog between employees and supervisors concerning goals, tasks and conduct. This revised performance process will be rolled out globally on a system-supported basis in 2021.

As an employer, GRAMMER invests in training and continuing education both in Germany and in all other locations. We will continue to observe this commitment as we move forward. Our aim is to gear our training and development measures internationally to future requirements in every respect to offer our employees further career prospects through advanced training programs. In 2020, we again hired trainees in promising occupational fields in various parts of the Company. We also hosted internships in Germany and elsewhere and offered students and postgraduates the possibility of completing their bachelor's or master's thesis or dissertation while gaining practical experience within our Company. However, this was scaled back due to the pandemic. In addition, we offer specialist staff who were trained in Germany the opportunity of gaining a global view of GRAMMER as a company by participating at an international exchange program.

In order to network as a business player with the university environment, we have forged partnerships with two universities Ostbayerische Technische Hochschule (OTH) and Duale Hochschule Baden-Württemberg (DHBW). Via a network, which encompasses Germany as well as other countries, we are attempting to ensure the recruitment of high qualified graduates. In addition, we have supported and used numerous recruiting events in the past to connect with potential employees. However, many such events were canceled in 2020 due to the COVID-19 pandemic. We will be making use of these recruitment opportunities again once the pandemic eases on a larger scale.

4.2 Procurement management

Procurement management is a key factor in the GRAMMER Group's success. It aims to ensure the availability of raw materials, externally sourced parts and services while maintaining high quality standards and at the same time taking economic aspects into account. In doing so, we offer our customers first-class service and a high level of competitiveness.

One important task is to identify and qualify the right vendors worldwide for our innovative and broad product range. The most important aspects of supplier management involve managing supplier development and project purchasing as well as minimizing the risks along the value chains. At the same time, steps must be taken to ensure that all international, ethical and legal regulations are adhered to – especially in times of the COVID-19 pandemic, which is resulting in different regional restrictions. In addition, the current acceleration of the digital environment calls for the implementation of new networked solutions to enable transparency and the efficient management of global material flows.

The GRAMMER Group's supply chain management is organized globally according to commodity groups. In this context, global category management (GCM) is responsible for establishing a globally applicable purchasing strategy for the relevant material and technology categories that is aligned with GRAMMER's corporate objectives.

In addition, this enables us to take into account global market developments, geopolitical influences and customer requirements affecting our costs in our Group strategy. Requirements for the same technological components are pooled in order to make use of cost-optimized volume effects. At the same time, efforts are made to localize procurement chains with the aim of responding more quickly to market conditions while simultaneously minimizing inventories along the value chains. This also enables us to take into account global market developments, geopolitical influences and customer requirements affecting our costs in our Group strategy.

Our operations are networked with regional supply chain teams and supported by purchasing and logistics experts. In this way, the globally oriented strategy can be successfully implemented in the daily management of the worldwide supply chain. The regional teams help suppliers launch new customer projects free of any errors and meet day-to-day needs in accordance with the defined quality, delivery and cost commitments. They ensure that the strategic goals are observed in the daily work of the local production sites. This strengthens procurement management in the development phase as well as in the project and operational phases.

The strategic orientation of procurement management also entails further digitalization of processes. With the e-procurement tools ASTRAS (procurement platform) and Risk Methods (risk management), core processes such as e-RFX (electronic tendering and auctions), e-Supplier Management (electronic supplier management), e-Costing (electronic cost management) and e-Risk Management (electronic risk management including internal and external risk factors) have already been established. In doing this, our goal is to expand digitalization in our procurement operations on a sustained basis in order to generate positive contributions along our value chain and in our growth regions in the light of sustainability and "total cost of ownership" requirements. We already manage a large proportion of our suppliers via digital systems, which will be further expanded in the future in the interests of even more efficient project planning. Our global supply chain management helps us to strategically and continuously expand the supplier network. Our aim is to make profitable use of the potential and innovative strength of our suppliers through qualified selection, further training and ongoing evaluation and to establish a solid procurement base in all regions.

5. Group corporate governance declaration

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

6. Combined separate non-financial report

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

7. Statement pursuant to section 315a HGB (German Commercial Code)

Composition of the subscribed capital: GRAMMER AG's subscribed capital amounts to EUR 39,009,080.32 and is divided into 15,237,922 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 attached to the shares. Jiye Auto Parts GmbH, the Company's principal shareholder, has undertaken in writing to refrain from selling before May 18, 2021 the 109,378 shares in the Company which it gained under the capital increase with shareholder subscription rights. The Executive Board is aware of no other restrictions concerning the transfer of shares.

Direct or indirect shares in the share capital exceeding 10% of the voting rights: The notes to GRAMMER Group's annual financial statements for 2020 set out detailed information on the voting right notifications received in accordance with section 33 WpHG (German Securities Trading Act).

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

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

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

Executive Board's powers to issue or buy back shares: In accordance with a resolution passed at the Annual General Meeting of July 8, 2020, the Executive Board is authorized subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly by a total of up to EUR 16,137,113.60 (Authorized Capital 2020) by issuing bearer shares on a cash and/or non-cash basis on or before July 7, 2025. In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to exclude the shareholders' preemptive subscription rights in certain cases subject to the approval of the Supervisory Board. Following partial utilization, Authorized Capital 2020 stood at EUR 9,402,263.04 as of December 31, 2020. The Executive Board of GRAMMER AG is not authorized to issue bonds with warrants and/or convertible bonds. GRAMMER holds 330,050 shares as treasury stock, all of which were acquired in 2006. The 330,050 shares held as treasury stock are non-voting and non-dividend-entitled. There is no authorization to acquire treasury stock in accordance with section 71 (1) No. 8 AktG.

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

Material company agreements contingent upon a change of control as a result of a takeover bid: The syndicated loan agreement with GRAMMER AG as the sole borrower provides for the right of each lender to demand early repayment in the event of a change of control. For the purposes of this contract, 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; excluded from this is any direct or indirect acquisition of voting rights or control in the borrower by direct or indirect subsidiaries of the Ningbo Jifeng Group. If these repayment or termination rights were to be exercised – particularly on a joint basis – the funding required by the GRAMMER Group for its ongoing business operations could be jeopardized, meaning that alternative sources of funding would be required.

8. Opportunity and risk report

8.1 Basic principles of risk management

Our risk policy aligns with our efforts to operate sustainably and to increase our enterprise value while managing appropriate risks and opportunities and avoiding inappropriate risks. As a company with an international focus and global operations, GRAMMER faces risks and opportunities that need to be addressed. Our risk strategy therefore sets out the following risk policy principles, among other things:

- GRAMMER defines opportunities and risks in terms of risk management as both internal and external events that may have a positive or negative impact on the achievement of its corporate objectives.
- Risk management thus contributes to value-based corporate governance. Value-based means that the Company consciously accepts risks only when it sees potential for enhancing its value by taking advantage of favorable business opportunities. As a general principle, the GRAMMER Group avoids all activities potentially entailing risks that are liable to jeopardize its going-concern status.
- GRAMMER bears its own core business risks, particularly market risks, e.g. those arising from macroeconomic trends, as well as risks that may arise from the development of new products. We aim to transfer other risks, particularly financial and liability risks, to third parties wherever possible.
- Risk management within the GRAMMER Group extends to all companies and organizational units. Identification of risks and implementation of value-enhancing measures are deemed by GRAMMER management to be ongoing and Group-wide tasks. All employees of the Company are required to identify and, as far as possible, to avoid and minimize risks within their area of responsibility.
- GRAMMER AG's internal audit department or an external service provider regularly reviews the appropriateness and effectiveness of the risk management system.

8.2 Opportunity and risk management process

GRAMMER has implemented a uniform Group-wide risk management system to detect, avert or at least mitigate risks at an early stage and to analyze and assess their causes. The risk management process permits early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage, monitor and control them. This particularly entails the early detection of risks to the Group's going-concern status. The risk management system coordinates identification, recognition, 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, while the Supervisory Board and the Audit Committee monitor and review the effectiveness of the systems and are kept regularly informed.

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

Group Central Controlling is responsible for coordinating risk management. In the second half of 2020, an Excel-based system was used to record risks and track actions due to revisions to the current system. As of January 1, 2021, the Excel-based application was migrated to an SAP-based system. In this way, we gain an overview of the key opportunities and risks for the Group. Opportunities and risks are classified using a "risk atlas" specifically designed to address the risk clustering to which the GRAMMER Group is exposed. In addition to strategic risks, it also includes market, financial and legal risks as well as risks from IT, human resources and performance. GRAMMER Group's opportunity management aims not only to identify opportunities, but also to benefit from them as effectively as possible.

8.3 Risks

In the following paragraphs, we describe risks and discuss their sometimes considerable impact on our business performance, net assets, financial position and earnings as well as our stock price and market reputation. Additional risks that we currently rate as slight or whose existence or potential effects are as yet unknown to us may likewise adversely affect our business activities. The assessment of the risks included here is applicable at least to the following year. One material aspect of the Group's risk management is the avoidance or minimization of risks to its going-concern status or to allow for them in the balance sheet. The order in which the risks are presented reflects the current assessment of the relative extent of risk for GRAMMER and therefore provides an indication of the current significance of these risks for us.

COVID-19 pandemic

The macroeconomic impact of the COVID-19 pandemic is now affecting all sell-side markets addressed by GRAMMER. The entire global economy was hit by the resultant adverse effects, experiencing what in some cases were drastic declines. The impact of the pandemic currently varies significantly between regions and industries. Governments and local authorities are working to contain the spread of COVID-19 by adopting various measures, ranging from recommending certain forms of limits on social contacts and adherence to minimum sanitary standards to broad-based lockdowns and restrictions to the opening of certain sectors of the economy. The key uncertainty of the COVID-19 pandemic stems from its duration, which hinges in part on possible further waves of infection or mutations of the coronavirus. The Act to Mitigate the Consequences of the COVID-19 Pandemic in Insolvency Law has been extended until April 30, 2021 in order to cushion the adverse effects of the pandemic on the economy. This could lead to a heightened incidence of insolvencies on the part of suppliers in 2021. In addition, further possible goodwill impairment tests may harbor risks. As the resultant volatility in the financial markets cannot be reliably assessed at this stage, GRAMMER currently assumes that financial risks will increase.

In light of these conditions, which are currently being materially influenced by the COVID-19 pandemic, the short to medium-term outlook for the GRAMMER Group's business performance is still subject to extraordinarily high uncertainty. At this stage, it is not possible to reliably foretell the future impact of the COVID-19 pandemic on the sell-side and supply-side markets of relevance for GRAMMER.

The measures taken to date within the Company to mitigate the COVID-19 pandemic have proven effective and will be continuously maintained, reviewed and adjusted as needed, with priority given to preserving the health and safety of our employees as well as to business continuity.

Procurement risks

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

Legal risks

GRAMMER is an internationally active Group that is subject to a variety of legal and regulatory requirements. The large number of legal requirements and regulations and constant changes to these, including tax rules, may give rise to risks that have a negative impact on our net assets, financial position and results of operations. Pending and threatened legal disputes are continuously monitored, analyzed, evaluated with regard to their legal and financial impact and taken into account in the calculation of the risk provisions reported in the balance sheet. However, as the outcome of legal disputes is always uncertain, further risks may exist beyond the provisions recognized in the balance sheet and these could have a negative impact on the financial and earnings targets. GRAMMER AG and its subsidiaries face warranty claims that are being asserted by customers on account of alleged product defects. Provisions have been set aside to cover possible warranty claims. Claims are being asserted in judicial proceedings on account of alleged defects in GRAMMER products. If these proceedings have a negative outcome for GRAMMER, this may necessitate compensation payments, repairs or other cost-intensive measures. As the outcome of these proceedings is subject to considerable uncertainty, the provisions that have been set aside may not be sufficient in some cases, leading to additional expenses. Restrictions of the Group's international activities through import or export controls, tariffs or other regulatory barriers to trade represent a risk that, because of the nature of its operations, it cannot escape. In addition, business activities may be adversely impacted or impeded by export control regulations, trade restrictions and sanctions. A large number of company-wide standards, which are subject to continuous further development, are in place to avert legal risks. Examples include the standard terms and conditions, contract templates for various applications or internal guidelines and procedural instructions. In addition, we employ a system comprising intensive contract review and contract management, as well as systematic documentation and archiving. GRAMMER has sufficient insurance to cover normal and going-concern risks.

Quality risks

GRAMMER attaches great importance to observing high external and internal quality standards together with the early identification of possible sources of errors and their avoidance. Nevertheless, it is not possible to entirely rule out quality risks. This applies in particular to development work on products with complex production structures. This risk is inherently exacerbated by the Group's global orientation as well as the networking of production activities across different continents. We have established appropriate action programs throughout the Group to address such risks. In order to minimize risks arising from quality problems attributable to suppliers, GRAMMER engages in intensive supplier development and conducts regular supplier audits. Using system-based supplier evaluations we continuously analyze and grade specific suppliers for their quality and performance in the supply chain. The results of these activities provide the key criteria for the selection of suppliers for project work and series production. Even so, we cannot completely exclude the possibility of individual risks arising and negatively impacting our net assets, financial position and results of operations.

Market and sector specific risks

As a company with worldwide operations, the GRAMMER Group is exposed to business conditions in its home market as well as markets across the globe. We address these risks by adopting a wide range of different measures. Thus, we closely and continually monitor developments in relevant markets and industries and adjust production and capacities accordingly. As part of effective risk management, the GRAMMER Group seeks to react immediately to crises and any initial signs of lower revenue by taking appropriate action. For example, production and cost structures are adjusted to the changed revenue situation at an early stage. We can generally expect to face sector specific revenue risks in the future. Our markets are become increasingly competitive, exposing us to more and more risks from factors including price pressure, short timeframes for development and times to market, product and process quality and rapidly changing conditions. Due to our exposure to the global markets with differing economic and demand cycles, we must track and interpret a broad range of factors. In addition, new competitors or companies are arising in or entering the emerging markets. The effects of crises in certain markets and regions also harbor risks that are no longer directly derived from our business segments. Market differentiation is also steadily increasing so that we can no longer necessarily draw conclusions about the effects of general developments on our business. This is equally true of both positive and negative trends. Further risks may arise for our markets in the wake of e-mobility. The technological transformation may cause unprecedented shifts in the structure of our customers and products. In the emerging markets of China in particular, a large number of new OEMs are arising and may take market shares away from our current customers. Although we are making every effort to supply these new OEMs with our products as well, the extent to which this can be achieved cannot be foreseen at present. There is also a risk that growth in autonomous driving will also lead the substitution of existing products or the development of new concepts. Although GRAMMER AG is attempting to prepare for future trends accordingly, this may have a negative impact on its net assets, financial position and results of operations.

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

We are seeking to improve our market position in all segments in order to mitigate these competition risks. To this end, the GRAMMER Group relies on technical innovations and the enhancement of its existing products and processes. By stepping up research and development activities, we want to secure or reinforce the technological leadership of our products in order to gain a competitive lead that is as sustainable as possible. However, 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 range.

Customarily, delivery contracts with the GRAMMER Group's principal customers contain legally binding commitments for a certain period for the delivery of specified products that have generally not yet been developed. However, these commitments do not entail exclusive delivery rights for a specific product on the part of GRAMMER Group companies. The specific products and quantities are ordered in separate calldowns which may apply to a shorter period but which constitute a specific obligation of acceptance. From a purely legal point of view, the GRAMMER Group's principal customers are fundamentally able to cancel even large contracts or reduce product quantities assigned to GRAMMER in the medium term. This would have a detrimental effect on the Company's net assets, financial position and results of operations. However, as the cancellation of a contract during ongoing volume production entails considerable costs and resource requirements for the customer and also necessitates a considerable lead time, it is fairly unlikely that a customer would completely cancel all orders at once.

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

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

In addition, risks arising from the execution of a corporate transaction cannot be ruled out. As is normally the case with such transactions, acquisition, integration and other costs that cannot be estimated at the beginning of the process may arise. In addition to this, risks may also come from divestments that fail to produce the desired effects or are liable to place additional strains on the Company's net assets, financial 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 exert additional strain and result in expenses that could not previously be foreseen due to a lack of knowledge and may adversely affect our net assets, financial position and results of operations.

Financial risks

The GRAMMER Group is exposed to interest-rate, currency and liquidity risks due to its worldwide activities and the economic risks described in the market and sector specific risks. It must primarily address currency risks arising from its exposure to the Czech koruna, the Polish zloty, the Mexican peso, the US dollar, the Turkish lira, the Brazilian real, the Japanese yen and the Chinese yuan. These risks stem from trade accounts receivable and payable as well as from local production. The GRAMMER Group addresses currency risks through "natural hedging," i.e. by increasing purchasing volumes in foreign currency regions and simultaneously increasing sales in same currency region. In addition, currency risks are hedged selectively via the financial market. Sharp appreciation in the euro against the currencies of other exporting nations could negatively impact the Group's competitiveness.

GRAMMER cannot completely shield itself from fluctuations in credit markets and this may pose risks to the Group's net assets, financial position and results of operations. It minimizes interest rate risks through long-term funding (e.g. private placements) and the use of derivatives.

High priority is also given to ensuring adequate liquidity. The GRAMMER Group's funding base was revised in 2020 through the successful early refinancing of and increase in the syndicated loan. Tranche A has a volume of EUR 150.0 million with a term of five years and two one-year renewal options. Tranche B amounts to USD 80.0 million and has a term of four years. It was used to fully discharge the funding raised for the TMD acquisition on schedule. In addition, the existing syndicated loan under the KfW "Direct Participation for Syndicated Financing (855)" program was extended in an amendment to the agreement to include a Tranche C with a volume of EUR 235.0 million and a three-year term. The liquidity situation is monitored continuously in a rolling global-wide financial requirements plan. Possible risks in connection with a change of control are described in the section on the Group's financial position. The GRAMMER Group's loan obligations include financial covenants requiring compliance with certain standard market financial ratios. If these financial covenants are breached, the GRAMMER Group's lenders have a special right of termination, which would entitle them to call in the loans immediately. Despite the possible disadvantages in terms of interest rates and similar factors, key importance is attached to widening our liquidity position; appropriate liquidity reserves are maintained. To a certain degree, this adversely affects interest result, a fact that we are willing to accept in order to maintain our strategic leeway and safeguard our liquidity position. Our customer structure limits credit risks, which are monitored through active receivables management. The funding status of our pension plans may be heavily influenced by interest rate uncertainties and risks inherent in the market. This may cause either an increase or decrease in the present value of the defined-benefit pension plans. Pension obligations are recognized on the basis of actuarial calculations in which the applicable interest rate plays an important role. The actual payouts may deviate from the computed values since assumptions regarding the main valuation parameters such as discount rates, salaries and inflation are subject to uncertainty. This may result in a risk to the Group's net assets, financial position and results of operations.

Group Finance tracks interest-rate, currency and liquidity risks centrally. Strategic treasury management, the effectiveness of which is reviewed regularly, is used to mitigate these risks. However, we cannot completely rule out the possibility of these risk adversely affecting our net assets, financial position and results of operations.

Cyber and information risks

The security, protection and integrity of our data and IT infrastructure are indispensable for proper business operations. Statutory requirements and regulations stipulate that technical and organizational measures be taken to protect our data centers and ensure highly available and secure data transfers. In order to meet these requirements, GRAMMER operates a redundant system with the mission-critical components of the IT infrastructure installed at 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 business-critical IT systems. GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, virus scanners and other protective measures are implemented, regularly checked for effectiveness and adjusted if necessary. A Group-wide IT security organization responsible for ensuring the efficacy of all protective measures and for neutralizing threats is also in place to ensure IT security. Nonetheless, our worldwide activities, along with the general increase in vulnerabilities and attacks, mean that our systems, networks, data and solutions are exposed to some level of risk. However, a negative impact on net assets, financial position and results of operations as a result of data loss, system disruption and loss of production is not considered likely. Even so, this may pose potential risks for the Company's net assets, financial position and results of operations. Risks from fraud or cyber attacks are defined as the risk of losses caused by the failure of internal processes (control risks), human error (personnel risks) or system vulnerabilities (IT risks). The growing digitization and electronic networking arising from developments such as the "Internet of Things", Industry 4.0 or "Smart Everything" expose the Group to cyber attacks and offer broad scope for eavesdropping, sabotaging business and administrative process or criminal enrichment at the expense of third parties. Cyber attacks involving malware or specific attacks on individual employees (e.g. attempted manipulation) may place GRAMMER AG's net assets, financial position and results of operations at risk. We address these risks by analyzing loss events that have come to our attention and by taking appropriate precautions and formulating specific recommendations for action with regard to such activities. In addition, these matters undergo continuous assessment and all relevant processes are checked for any vulnerabilities and duly optimized. Furthermore, employees are kept regularly informed of these matters to heighten their awareness of them.

Human resource risks

Competition for a diverse and highly qualified workforce, such as specialists and managers as well as experts and talent, remains very strong in the industries and regions in which GRAMMER operates. The future success of the GRAMMER Group also depends on the extent to which we succeed in recruiting, integrating and retaining highly qualified employees. This appears to be especially relevant given the emergence of a new, virtual work environment. Furthermore, we see the need to promote diversity, inclusion and a sense of belonging in our workforce. With this in mind, we are continuing to develop the way we work together and our leadership culture. Despite all these efforts, there is no guarantee that the Group will be able to recruit and retain the number of qualified employees and managers it needs in every business segment. This may result in a risk to its net assets, financial position and results of operations. Heightened fluctuation must particularly be expected in expansionary markets such as APAC and NAFTA on account of growth and the good employment opportunities for qualified experts.

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 and defines worldwide environmental and energy efficiency standards (e.g. environmental programs and targets and energy targets), which are further developed by local energy management and environmental officers at the GRAMMER sites and monitored in regular audits. In this way we minimize the occurrence of ecological risks. We are continuing to drive forward the certification of our production sites in accordance with the requirements of ISO 14001 and ISO 50001. Nonetheless, external circumstances or misconduct may arise, exposing the Group to risks. This may result in a risk to its net assets, financial position and results of operations.

8.4 Characteristics of the internal control system

As a capital market-oriented corporation within the meaning of section 264d HGB, we are required under section 315 (4) HGB to describe the main characteristics of the internal control and risk management system as they relate to the Group's accounting process. There is no statutory definition of the internal control and risk management system as it relates to the Group's accounting processes. We define the internal control and risk management system as a comprehensive system and 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 within the Company by its management for the organizational implementation of decisions made by management

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

As described above, the risk management system includes, in its entirety, all organizational rules and measures intended to identify and control the risks inherent in business activities. GRAMMER AG 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 management report. These include the following elements in particular:

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

8.5 Opportunities

Market opportunities

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

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

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

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 in new markets. To date, such opportunities have resulted in greater customer diversification in the Americas and APAC.

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

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

Autonomous driving and E-mobility: GRAMMER is a supplier of components for automotive interiors with its seating systems and consoles as well as other decorative and functional parts for vehicle interiors. In contrast to the situation with respect to drivetrain and engine systems, we expect the electrification of drivetrains to generate new opportunities in view of the demand for higher-quality and more functional interior components meeting new driving requirements.

Strategic opportunities

Alongside market opportunities, strategic opportunities may also arise for GRAMMER.

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 hinge on diverse 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 constantly on measures for improving our efficiency and on initiatives for cutting costs with a view to improving our strategic competitive position. In this connection, GRAMMER also regularly reviews its global development and production network.

Innovations: Projects in the research and development pipeline harbor opportunities for entering new market segments and/or widening market share provided that viable products arise from this pipeline in the future. Both Divisions are working on innovative new solutions aimed at helping our customers address the requirements of the future. GRAMMER is seeking to still be recognized as an innovative premium partner by its customers and to tap market potential by means of new developments.

8.6 Assessment of risks and opportunities

After a thorough review of the current risk situation, we have come to the conclusion that the precautions and measures adopted by the GRAMMER Group take appropriate account of the risks that have been identified. With the exception of the COVID-19 pandemic, the overall situation for GRAMMER has not changed significantly compared to the previous year. The order in which the risks are presented under 8.3 reflects our current assessment of the relative magnitude of the risk and therefore provides an indication of the current significance of these risks for us. However, the risks to GRAMMER Group's revenue and earnings will continue to be largely determined by the course of the COVID-19 pandemic and its impact on the global market. The risks currently known to us lead us to assume that we are not exposed to any factors that are liable to jeopardize our going-concern status and that additional risk-mitigating effects may arise from the opportunities available to us.

9. Business development forecast for the GRAMMER Group

9.1 Reconciliation of business performance in 2020 with the outlook given in 2019

In the forecast for 2020 made at the beginning of March for inclusion in the 2019 Annual Report, we assumed that the challenging economic conditions, particularly in the markets relevant for GRAMMER, would be sustained. Thus, the market contraction emerging in the second half of 2019 was expected to continue unabated in the first half of 2020. In addition, the COVID-19 pandemic has been exerting pressure on the global economy since January 2020, triggering further uncertainty in the first few months.

In view of this, the GRAMMER Group stated in its forecast for 2020 in the 2019 Annual Report that it expected substantially lower revenue (2019: EUR 2.0 billion), substantially lower EBIT (2019: EUR 74.5 million) and an operating EBIT margin on a par with the previous year in 2020. Business performance in 2020 and 2019 is based on the analysis contained in the economic conditions.

With the publication of the 2019 Annual Report, the Executive Board of GRAMMER AG withdrew the forecast for 2020 issued at the beginning of March due to the worldwide spread of the COVID-19 pandemic and the resulting drastic measures and strains. It was not possible to reliably estimate either the further course of 2020 or the economic impact on the Company.

In view of the extremely dynamic development of the COVID-19 pandemic and the economic uncertainty arising from it, it was not possible to issue any forecast concerning the Group's performance in the further course of 2020.

9.2 Expected economic environment

9.2.1 Macroeconomic environment

As of the end of 2020, infections resulting from to the COVID-19 pandemic were increasing again. Rising numbers of new infections and deaths were recorded in North America, Brazil, South Africa and Europe in particular. To contain the spread of the pandemic, many countries reimposed a lockdown or placed restrictions on public life. Meanwhile, the growing number of approved vaccines against the coronavirus is having a positive impact on global economic forecasts for 2021. However, they are still exposed to major risks and uncertainties. Looking forward, we assume that the further course of the COVID-19 pandemic will be the most important determinant for future economic conditions in the individual regions.

In its January 2021 forecast, the IMF expects global gross domestic product to grow by 5.5% in 2021.

Experts are forecasting growth of 5.1% for the US economy – provided, however, that the pandemic is contained and the pent-up consumption that has accumulated is released as public life returns to normal.

Economic growth of 4.2% is forecast for Europe, although the economic impact of the pandemic within the EU and thus also the prospects for recovery vary widely. For Germany, the IMF forecasts a year-on-year increase of 3.5% in its January 2021 forecast.

China is expected to grow by 8.1% in 2021.

9.2.2 Sector environment

Automotive Division

Passenger car market poised for a recovery

In its February 2021 forecast, IHS expects passenger car production figures to rise again in 2021. It assumes that 84.7 million vehicles will be produced worldwide in 2021, marking a notional increase of around 13.7% over 2020. Whereas production in EMEA is expected to rise by more than 14.3%, IHS forecasts an increase of around 8.7% in output in APAC. The Americas should also grow by 26.2% in 2021 according to the forecasts.

Commercial Vehicles Division

Strong growth in the Americas and EMEA

In the commercial vehicles sector, LMC expects a slight global downturn of –1.6% in 2021. On the other hand, the Americas should grow substantially by 26.4%. The same applies to the EMEA region, with a forecast increase of 16.2%. Following record sales in 2020, for the APAC region a decline of –11.7% is projected in China, the largest market.

Agricultural machinery industry with positive signals

VDMA expects growth in all regions for agricultural machinery in 2021.

Construction machinery industry

The forecasts for the construction machinery industry are also positive for 2021, with a global increase of 5% projected. Against the backdrop of the current favorable investment climate, growth of 5% is also forecast for Europe. However, VDMA expects Germany to remain flat.

Material handling

VDMA expects the production volume of German intralogistics manufacturers to widen by 8% year-on-year in 2021.

Railway industry

The impact of the coronavirus crisis on the economic situation of the railway industry is not expected to be foreseeable until later in 2021.

Further determinants

Macroeconomic and industry-specific conditions are of key importance for GRAMMER's business performance. In addition, however, a number of other factors also play an important role.

Thus, changes on the procurement side may have an impact on earnings. These include, in particular, fluctuations in raw material prices on the world market and bottlenecks in supplies of externally sourced parts. There are currently signs of increased demand for steel, which is driving prices upwards and could result in bottlenecks further down the supply chain. With respect to externally sourced parts, the automotive industry is currently facing significant shortages of semiconductors.

In recent years, the prices of the main raw materials, such as steel, and of crude oil-based foam and plastic products has risen, in some cases significantly. As macroeconomic conditions have remained virtually unchanged compared with the previous year, we expect raw material prices to continue fluctuating at a high level or – depending on the raw material – increase in 2021. The underlying uncertainties particularly arise from volatile demand for raw materials and possible political crises that could result in supply chain bottlenecks. Any resulting increases in raw material prices would have a negative effect on our margins and consequently also on our earnings.

In addition, personnel expenses in the countries in which we produce also have an impact on our business performance. They are just as much a factor in location decisions as reliable legal and political framework conditions are.

In addition, exchange rate fluctuations may also have an impact on revenue, which GRAMMER mitigates by means of suitable hedging transactions. However, very significant changes in currency parities may have effects on earnings in individual cases.

9.3 Outlook for the GRAMMER Group 2021

We expect the challenging macroeconomic conditions, particularly in the markets addressed by GRAMMER, to persist in 2021. Moreover, the further course of the COVID-19 pandemic in each country will have a significant impact on the projected economic recovery.

Overall, however, we expect revenue to recover to around EUR 1.8 billion in 2021 (2020: EUR 1.7 billion). On the basis of our budgets for three regions, we project operating EBIT of around EUR 65 million in 2021 (2020: EUR –11.7 million).

Operating EBIT will improve in 2021 primarily as a result of the economic recovery and the results of the efficiency and cost-cutting measures implemented. In 2020, by contrast, operating EBIT was very heavily impacted by the effects of the global COVID-19 pandemic; in addition, costs arose from the one-time effects already described.

Ursensollen, March 16, 2021

Thorsten Seehars Jurate Keblyte Jens Öhlenschläger

GRAMMER AG Executive Board

Consolidated Financial Statements Index

Consolidated Statement of Income

January 1 – December 31 of the respective fiscal year

EUR k	Note	2020	2019
Revenue	6	1,710,714	2,038,507
Cost of sales	7.3	–1,585,440	–1,807,144
Gross profit		**125,274**	**231,363**
Selling expenses	7.3	–37,760	–41,824
Administrative expenses	7.3	–148,265	–136,875
Other operating income	7.1	14,625	21,872
Earnings before interest and taxes (EBIT)		**–46,126**	**74,536**
Financial income	7.2	1,525	3,460
Financial expenses	7.2	–23,962	–21,502
Other financial result	7.2	–2,159	–2,365
Share of earnings of joint ventures	7.5	0	9,438
Earnings before taxes		**–70,722**	**63,567**
Income taxes	8	6,014	–20,089
Net profit/loss		**–64,708**	**43,478**
Of which attributable to:			
Shareholders of the parent company [1]		–63,883	43,676
Non-controlling interests		–825	–198
Net profit/loss		**–64,708**	**43,478**
Earnings per share			
Basic/diluted earnings per share in EUR	9	–5.10	3.56

[1] Of which EUR 431 thousand relates to compensation claims of the hybrid loan lender in 2020

Consolidated Statement of Comprehensive Income

January 1 – December 31 of the respective fiscal year

EUR k	2020	2019
Net profit/loss	**–64,708**	**43,478**
Amounts not recycled to profit and loss in future periods		
Actuarial gains/losses (–) under defined benefit plans		
Gains/losses (–) arising in the current period	–8,763	–17,326
Tax expenses (–)/tax income	2,494	5,039
Actuarial gains/losses (–) under defined benefit plans (after tax)	**–6,269**	**–12,287**
Total amount not recycled to profit and loss in future periods	**–6,269**	**–12,287**
Amounts recycled to profit and loss in future periods under certain conditions		
Gains/losses (–) from currency translation of foreign subsidiaries		
Gains/losses (–) arising in the current period	–20,754	2,177
Gains/losses (–) from currency translation of foreign subsidiaries (after tax)	**–20,754**	**2,177**

EUR k	2020	2019
Gains/losses (–) from cash flow hedges		
Gains/losses (–) arising in the current period	–1,484	1,678
Plus/less (–) amounts recycled to the income statement through profit and loss	1,215	–263
Tax expenses (–)/tax income	85	–416
Gains/losses (–) from cash flow hedges (after tax)	**–184**	**999**
Gains/losses (–) from net investments in foreign operations		
Gains/losses (–) arising in the current period	–9,622	3,019
Tax expenses (–)/tax income	2,385	–788
Gains/losses (–) from net investments in foreign operations (after tax)	**–7,237**	**2,231**
Total amounts recycled to profit and loss in future periods under certain conditions	**–28,175**	**5,407**
Other comprehensive income	**–34,444**	**–6,880**
Total comprehensive income (after tax)	**–99,152**	**36,598**
Of which attributable to:		
Shareholders of the parent company[1]	–98,333	36,815
Non-controlling interests	–819	–217

[1] Of which EUR 431 thousand relates to compensation claims of the hybrid loan lender in 2020

Consolidated Statement of Financial Position

as of December 31 of the respective fiscal year

Assets

EUR k

	Note	December 31, 2020	December 31, 2019
Property, plant and equipment	11	446,737	463,305
Intangible assets	11	180,959	205,604
Investments measured at equity	4	859	611
Other financial assets	15	6,871	9,421
Deferred tax assets	8	64,217	44,900
Other assets	16	36,702	31,022
Contract assets	14	63,238	70,760
Non-current assets		**799,583**	**825,623**
Inventories	12	154,620	191,879
Current trade accounts receivable	13	238,884	206,821
Other current financial assets	15	4,027	3,935
Current income tax receivables		5,349	5,455
Cash and short-term deposits	17	89,838	142,651
Other current assets	16	27,284	37,314
Current contract assets	14	56,839	60,771
Current assets		**576,841**	**648,826**
Total assets		**1,376,424**	**1,474,449**

Consolidated Statement of Financial Position

as of December 31 of the respective fiscal year

Equity and liabilities

EUR k

	Note	December 31, 2020	December 31, 2019
Subscribed capital	18	39,009	32,274
Capital reserve	18	163,033	129,796
Treasury stock	18	–7,441	–7,441
Retained earnings	18	199,094	263,408
Cumulative other comprehensive income	18	–110,242	–75,792
Equity attributable to shareholders of the parent company		**283,453**	**342,245**
Hybrid loan	18	19,579	0
Non-controlling interests	18	–822	–3
Equity		**302,210**	**342,242**
Non-current financial liabilities	20	253,255	219,976
Trade accounts payable	22	543	1,399
Other financial liabilities	23	54,443	64,375
Other liabilities	24	1,260	1,220
Retirement benefits and similar obligations	19	164,456	154,176
Deferred tax liabilities	8	46,859	46,298
Contract liabilities	14	3,373	2,606
Non-current liabilities		**524,189**	**490,050**

EUR k

	Note	December 31, 2020	December 31, 2019
Current financial liabilities	20	123,628	207,735
Current trade accounts payable	22	250,861	309,000
Other current financial liabilities	23	16,520	20,524
Other current liabilities	24	93,550	73,003
Current income tax liabilities		6,448	7,331
Provisions	21	57,858	23,394
Current contract liabilities	14	1,160	1,170
Current liabilities		**550,025**	**642,157**
Total liabilities		**1,074,214**	**1,132,207**
Total assets		**1,376,424**	**1,474,449**

Consolidated Statement of Changes in Equity

for the Fiscal Year ending December 31, 2020

EUR k

					Cumulative other comprehensive income							
	Subscribed capital	Capital reserve	Retained earnings	Treasury stock	Cash flow hedges	Foreign currency conversion	Net investments in foreign operations	Actuarial gains and losses from defined benefit plans	Total	Hybrid loan	Non-controlling interests	Consoli-dated equity
As of January 1, 2020	**32,274**	**129,796**	**263,408**	**–7,441**	**667**	**–8,896**	**–15,975**	**–51,588**	**342,245**	**0**	**–3**	**342,242**
Net profit/loss	0	0	–64,314	0	0	0	0	0	–64,314	431	–825	–64,708
Other comprehen-sive income	0	0	0	0	–184	–20,760	–7,237	–6,269	–34,450	0	6	–34,444
Total comprehensive income	**0**	**0**	**–64,314**	**0**	**–184**	**–20,760**	**–7,237**	**–6,269**	**–98,764**	**431**	**–819**	**–99,152**
Capital increase by issuing new shares	6,735	33,280	0	0	0	0	0	0	40,015	0	0	40,015
Transaction costs	0	–43	0	0	0	0	0	0	–43	0	0	–43
Dividend distributions	0	0	0	0	0	0	0	0	0	0	0	0
Transaction involving non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from hybrid loan	0	0	0	0	0	0	0	0	0	19,148	0	19,148
As of December 31, 2020	**39,009**	**163,033**	**199,094**	**–7,441**	**483**	**–29,656**	**–23,212**	**–57,857**	**283,453**	**19,579**	**–822**	**302,210**

Consolidated Statement of Changes in Equity

for the Fiscal Year ending December 31, 2019

EUR k

					Cumulative other comprehensive income							
	Subscribed capital	Capital reserve	Retained earnings	Treasury stock	Cash flow hedges	Foreign currency conversion	Net investments in foreign operations	Actuarial gains and losses from defined benefit plans	Total	Hybrid loan	Non-controlling interests	Consoli-dated equity
As of January 1, 2019	**32,274**	**129,796**	**228,920**	**−7,441**	**−332**	**−11,092**	**−18,206**	**−39,301**	**314,618**	**0**	**222**	**314,840**
Net profit/loss	0	0	43,676	0	0	0	0	0	43,676	0	−198	43,478
Other comprehen-sive income	0	0	0	0	999	2,196	2,231	−12,287	−6,861	0	−19	−6,880
Total comprehensive income	**0**	**0**	**43,676**	**0**	**999**	**2,196**	**2,231**	**−12,287**	**36,815**	**0**	**−217**	**36,598**
Capital increase by issuing new shares	0	0	0	0	0	0	0	0	0	0	0	0
Transaction costs	0	0	0	0	0	0	0	0	0	0	0	0
Dividend distributions	0	0	−9,208	0	0	0	0	0	−9,208	0	−20	−9,228
Transaction involving non-controlling interests	0	0	20	0	0	0	0	0	20	0	12	32
Proceeds from hybrid loan	0	0	0	0	0	0	0	0	0	0	0	0
As of December 31, 2019	**32,274**	**129,796**	**263,408**	**−7,441**	**667**	**−8,896**	**−15,975**	**−51,588**	**342,245**	**0**	**−3**	**342,242**

Consolidated Statement of Cash Flows

January 1 – December 31 of the respective fiscal year

EUR k

	Note	2020	2019
1. Cash flow from operating activities			
Earnings before taxes		–70,722	63,567
Reconciliation of earnings before taxes with cash flow from operating activities			
Depreciation and impairment of property, plant and equipment	11	71,281	67,969
Amortization and impairments of intangible assets	11	16,543	17,296
Gains (–)/losses from the disposal of assets		2,249	27
Other non-cash changes		31,310	15,447
Financial result	7.2	24,596	20,407
Share of earnings of joint ventures	7.5	0	–9,438
Changes in operating assets and liabilities			
Decrease/increase (–) in trade accounts receivable and other receivables	13, 14, 15, 16	–16,766	21,872
Decrease/increase (–) in inventories	12	37,259	–886
Decrease (–)/increase in provisions and retirement benefit provisions	19, 21	–15,879	–10,218
Decrease (–)/increase in accounts payable and other liabilities	14, 22, 23, 24	–39,474	–53,332
Income taxes paid	8	–9,333	–8,738
Cash flow from operating activities		**31,064**	**123,973**
2. Cash flow from investing activities			
Purchases			
Purchase of property, plant and equipment	11	–69,417	–104,861
Purchase of intangible assets	11	–3,599	–5,654
Acquisition of financial assets (2019: purchase of associated companies)	4	–12	–613

EUR k

	Note	2020	2019
Disposals			
Disposal of property, plant and equipment	11	3,449	4,595
Disposal of intangible assets	11	78	148
Disposal of financial assets	15	1,893	0
Payments made for the formation of plan assets	19	–1,664	–1,326
Interest received	7.2	1,525	3,460
Government grants received		410	477
Cash flow from investing activities		**–67,337**	**–103,774**
3. Cash flow from financing activities			
Dividend payments	18	0	–9,228
Payments received from hybrid loan	18	19,148	0
Inflow from the issue of new shares	18	40,015	0
Outflow from transaction costs due to the issue of new shares	18	–43	0
Payments received from raising financial liabilities	20	84,232	148,228
Payments made for the settlement of financial liabilities	20	–143,712	–189,725
Payments made for the settlement of lease liabilities	20	–19,651	–20,101
Interest paid	7.2	–18,086	–14,861
Cash flow from financing activities		**–38,097**	**–85,687**
4. Cash and cash equivalents at the end of the period			
Changes in cash and cash equivalents recognized in the cash flow statement (sub-total of items 1–3)		–74,370	–65,488
Effects of exchange rate differences of cash and cash equivalents		6,088	–4,162
Cash and cash equivalents as of January 1		123,654	193,304
Cash and cash equivalents as of December 31		**55,372**	**123,654**
5. Analysis of cash and cash equivalents			
Cash and short-term deposits	17	89,838	142,651
Bank overdrafts (including current liabilities under factoring contracts)	20	–34,466	–18,997
Cash and cash equivalents as of December 31		**55,372**	**123,654**

Notes to the Consolidated Financial Statements for the year ending December 31, 2020

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 Grammer-Allee 2, 92289 Ursensollen, Germany. The Company's shares have been traded on the Frankfurt/Main and Munich stock exchanges via the Xetra electronic trading platform since 1996.

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

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

The GRAMMER Group is a global group of companies specializing in the development and production of complex components and systems for passenger vehicle interiors as well as driver and passenger seats for trucks, trains and offroad commercial vehicles (tractors, construction machinery and forklifts). In 2020, the Company employed an average of 14,192 persons (excluding trainees, including 220 employees in Central Services) at 48 (2019: 48) production and logistics sites around the world as well as at GRAMMER Group Central Services in Amberg and Ursensollen.

GRAMMER AG is managed by an Executive Board composed of three members.

The GRAMMER Group has divided its activities into the Automotive and Commercial Vehicles segments. As a result of a change in the organizational structure, the EMEA, Americas and APAC regions will be the operating segments from 2021, and the Automotive and Commercial Vehicles Divisions, which are the reportable segments in 2020, will be defined as divisions and focus on customer and product strategies. The segments are described in greater detail in Note 5. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the European Union. The consolidated financial statements of GRAMMER AG (the "Company") were prepared by the Executive Board in accordance with section 315 a (1) HGB (German Commercial Code) on March 16, 2021.

Since October 8, 2019, GRAMMER AG has been an indirectly held subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo City, China, (Ningbo Jifeng) and is included in that company's consolidated financial statements. These are available in Chinese at http://www.sse.com.cn. Ningbo Jifeng indirectly holds 86.20% (2019: 84.23%) of the voting rights in GRAMMER AG and is the next highest parent company of GRAMMER AG that prepares consolidated financial statements. The direct parent company of GRAMMER AG is Jiye Auto Parts GmbH, Frankfurt am Main.

2. Accounting and valuation methods

2.1 Summary of significant accounting policies and use of estimates and judgements

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

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

Estimates and judgements (IAS 8)

In certain cases, it is necessary to apply assessments and judgments. For instance, in preparing the consolidated financial statements, discretionary decisions, assumptions and estimates have to be made to a certain degree, which have an impact on the measurement and recognition of reported assets and liabilities, income and expenses and contingent assets and liabilities of the reporting period. The assumptions and estimates are based on information currently available. In addition, they may include estimates that could have been different in the same reporting period for equally plausible reasons. GRAMMER cautions that future events often differ from forecasts and that estimates are routinely subject to revision.

Assumptions and estimates consistently relate to the parameters in effect at the time of preparation of the consolidated financial statements. As a result of market development and conditions outside Group control, however, these may change over time. Such changes are only taken into account when they have occurred.

The current uncertainties, particularly with regard to the ongoing COVID-19 pandemic and its economic impact on the future development of the business activities of GRAMMER and its subsidiaries, sell-side markets and supply chains, prices in the markets relevant for GRAMMER, interest rates and exchange rates mean that the assumptions and estimates in the consolidated financial statements are subject to additional uncertainty. The COVID-19 pandemic had an impact on the consolidated financial statements particularly with respect to government grants (Notes 7.1, 7.3 and 7.4), restructuring measures (Notes 7.3 and 21), the coronavirus protection and response measures (Note 7.3) and impairment losses on trade accounts receivable (Note 13).

In particular, estimates and discretionary judgments are necessary in connection with impairment testing of goodwill, intangible assets and non-current assets and the recognition of deferred tax assets and unused tax losses as well as the definition of the assumptions underlying the actuarial calculations of retirement benefit expenses under defined benefit plans. Furthermore, estimates and discretionary judgments are applied to revenue from contracts with customers for the purpose of determining the transaction price and also to the formation of portfolios of financial instruments in the case of expected credit risks or losses. In addition, discretionary decisions must be made in assessing whether there is a legal or constructive obligation for which a provision must be recognized. In particular, all known circumstances, such as restructuring provisions, are taken into account to determine the existence of a constructive obligation. Estimates and discretionary judgments are particularly applied to determine the duration of the lease. With respect to the inclusion of subsidiaries in the consolidated financial statements, GRAMMER also applies discretionary judgments in determining whether it has the de facto ability and possibility to determine the relevant activities as a controlling influence over the investee.

Principles of consolidation (IFRS 10)

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

The consolidated financial statements include GRAMMER AG as well as subsidiaries on which GRAMMER AG directly or indirectly exerts control. GRAMMER AG is deemed to control a subsidiary if it is able to exercise control over it, participates in positive and negative returns from these companies and is also able to use its power over the subsidiary to affect the amount of such returns. This involves an assessment of all circumstances that result in GRAMMER having the de facto ability and possibility to determine the relevant activities as a controlling influence over the investee.

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

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

Business combinations (IFRS 3)

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

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

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

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

Joint ventures (IFRS 11) and associates (IAS 28)

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

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

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

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

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

Accordingly, the consolidated statement of income includes the Group's share in the earnings of the joint venture or associate for the period under review. A loss attributable to GRAMMER is taken into account as long as it does not exceed the carrying amount of the investment in the joint venture or associate. Any adjustments recognized within the other comprehensive income of a subsidiary are likewise recognized in the Group's other comprehensive income. In addition, any changes are recorded directly in the equity of the joint ventures or associates in an amount equaling the share held by the Group and, as far as necessary, included in the statement of changes in equity. Unrealized gains and losses from transactions between the Group and the joint ventures or associates are eliminated in accordance with the shares held in the joint venture or associates.

Current/non-current distinction (IAS 1)

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

Currency translation (IAS 21)

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

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

		Average exchange rate		End-of-year exchange rate	
		2020	2019	2020	2019
Argentina	ARS	0.013	0.019	0.010	0.015
Brazil	BRL	0.173	0.226	0.157	0.221
China	CNY	0.127	0.129	0.125	0.128
United Kingdom	GBP	1.129	1.141	1.112	1.175
Japan	JPY	0.008	0.008	0.008	0.008
Mexico	MXN	0.041	0.046	0.041	0.047
Poland	PLN	0.225	0.233	0.219	0.235
South Africa	ZAR	0.054	0.062	0.055	0.063
Czech Republic	CZK	0.038	0.039	0.038	0.039
Turkey	TRY	0.126	0.158	0.110	0.150
United States	USD	0.875	0.892	0.815	0.890

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers is recognized when control over the goods or services passes to the customer. The revenue recognized equals the consideration that GRAMMER expects to receive upon the transfer of these goods or services. The five-step model is used to determine revenue recognition from contracts with customers. Within the scope of the identified contracts with customers, two independently definable performance obligations are identified with series development and series delivery, particularly for the Group, which are described separately below.

Revenue from series development

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

No significant financing components for these contracts were identified. Customer claims and obligations under contracts for series development are recognized as "contract assets" or "contract liabilities", respectively.

Revenue from series deliveries

In connection with series delivery, the production and delivery of series parts are bundled into a performance obligation known as "series delivery". GRAMMER transfers the power of control over the delivered series parts at a certain point in time and thus recognizes the revenue at the point in time at which the customer receives the power of control over these parts and derives the benefit from the series delivery. No significant financing components for these series delivery contracts were identified. In determining the transaction price for series deliveries, the Group considers the impact of consideration paid to customers. The consideration paid to a customer comprises amounts that GRAMMER pays to its customers that do not represent payment for an independently identifiable item or service delivered by the customer. The consideration paid to the customer is recognized by GRAMMER within other assets in an amount equaling the prepayment and deducted from the transaction price at the time at which the revenue in connection with the corresponding series delivery is recognized. Additional costs incurred in connection with the fulfillment of series supply contracts with customers are recognized as an asset if GRAMMER expects these costs to be generated. Capitalized costs are amortized on a straight-line basis over the period of the expected future benefit and recognized in the cost of sales.

Contract assets

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

Contract liabilities

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

Trade accounts receivable (IAS 32, IFRS 9)

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

Warranty obligations (IAS 37)

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

Research and development expenses (IAS 38)

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

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

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

Interest income and expense (IAS 1, IAS 32)

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

Dividends (IAS 1)

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

Government grants (IAS 20)

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

Taxes (IAS 12)

Tax items are calculated in the light of the applicable local tax legislation and tax rates. Due to their complexity, they may be subject to differences in interpretation between the tax payers and the local tax authorities. The Group recognizes provisions for potential effects from tax audits based on estimates. The calculation of these provisions is based on various factors, such as experience from previous tax audits and different official interpretations of tax rules by the authorities. Taxes referring to items that are recognized directly in equity are also recognized directly in equity. The liability method is used to calculate deferred tax assets and liabilities with an impact on future taxes arising from temporary differences between the carrying amounts of assets and liabilities recognized in the statement of financial position and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

- Deferred tax assets from deductible temporary differences, which arise from the initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction had no influence on the net profit for the period as reported in the financial statements or on the taxable income are not recognized.
- Deferred tax assets arising from taxable temporary differences in connection with investments in subsidiaries and associates and interests in joint ventures are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income against which the temporary differences can be utilized.

Deferred tax assets are only recognized on unused tax losses if the corresponding tax advantages are likely to be utilized. In particular, the Group determines whether there has been a series of losses in the recent past. In assessing the likelihood that taxable profit will be available against which unused tax losses can be utilized, particular consideration is given to whether there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity to give rise to taxable amounts against which the unused tax losses can be utilized.

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

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

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

Property, plant and equipment (IAS 16, IAS 36)

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

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

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

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

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

IFRS 16 “Leases”

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

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

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

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

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

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

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

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

The lease term comprises the non-cancelable term of a lease, taking into account options to extend or terminate it as well as purchase options, provided that it is reasonably certain that the option will be exercised. The assessment of whether it is reasonably certain that a contractual option will be exercised is made at the inception of the lease. Consideration is given to all relevant facts and circumstances that provide an economic incentive to exercise or not exercise the option, such as costs associated with relocation, material leasehold improvements and the contractual terms, including any changes in those facts and circumstances that are expected to occur from the commencement date to the date the option is exercised. After the provision of the leased asset, the duration of the lease is redefined if a material event or change in circumstances occurs that is within GRAMMER's control and affects the original determination of the duration of the lease.

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

Intangible assets (IAS 38)

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

Goodwill (IAS 38, IAS 36)

Goodwill arising from a business combination is initially measured at cost and is defined as the excess of cost over the Group's share in the fair values of the identifiable assets, liabilities and debt of the entity acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment expense. Goodwill is not subject to systematic amortization, but is tested for impairment annually or whenever there are any indications of impairment. In such a test, impairment is measured by establishing the recoverable amount of the cash-generating unit that relates to the goodwill. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. If the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. First, the carrying amount of the goodwill allocated to the cash-generating unit and then, in proportion to the total carrying amount of the cash-generating unit, the carrying amount of the other assets of the unit is impaired. Impairment losses on goodwill are not reversed. Impairment testing is carried out annually and additionally on an ad-hoc basis at the level of segments, which are the Group's cash-generating units and represent the lowest level at which goodwill is monitored for internal management purposes. This requires an estimate to be made of the fair value less costs to sell of the cash-generating units to which the goodwill has been attributed. In order to estimate the fair value less costs to sell, 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 five (2019: three) years. Cash flows beyond the forecast period are extrapolated on the basis of individual growth rates. The assumptions underlying the fair value less costs to sell and value in use entail estimated growth rates, weighted average cost-of-capital rates and tax rates. These estimates and the methods used to arrive at them may exert considerable influence on the applicable figures and ultimately also the amount of a possible impairment of goodwill.

Inventories (IAS 2)

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

Cash and short-term deposits (IAS 7)

Cash and short-term deposits, as reported in the balance sheet, include cash in hand, bank balances and short-term deposits with original terms to maturity of less than three months. These are recognized at amortized cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash and short-term deposits, as defined above, plus overdraft facilities that have been drawn on.

Treasury stock (IAS 32)

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

Hybrid loans (IAS 32)

The recognition of the hybrid loan depends on the specific structure of the instrument. A hybrid loan is accounted for and measured as an equity instrument if certain conditions are cumulatively met. These include the fact that the hybrid loan has no final maturity, the lender has no termination rights and distributions are made at the discretion of GRAMMER.

In this case, the loan is classified completely as equity in accordance with IAS 32. It is reported below the item "Equity attributable to shareholders of the parent company", as it was obtained by a subsidiary of GRAMMER AG. The hybrid loan is recognized at cost using the historical exchange rate. Changes in exchange rates over the historical exchange rate are recognized in other comprehensive income as a component of "Equity attributable to shareholders of the parent company". The hybrid loan lender's compensation claims are deducted from retained earnings and allocated to the hybrid loan.

Retirement benefits and other post-employment benefits (IAS 19)

The actuarial measurement of retirement benefit provisions is based on the projected unit credit method in respect of defined benefit plans in accordance with IAS 19 (revised 2011). This valuation method is based not only on retirement benefit payments and vested benefits known as of the reporting date but also reflects future salary and pension increases. Actuarial gains or losses result from changes in the number of beneficiaries and differences between actual trends (e.g. salary or pension increases) compared to the assumptions on which the calculations were based. They are reported within other comprehensive income (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 salary trends and mortality rates. The discount factors applied are determined on the basis of market yields on the reporting date on investment-grade corporate bonds with the appropriate maturity and currency denomination. Changes in market and economic conditions, particularly interest rates, may cause the underlying assumptions to differ from actual performance. Given the complexity of the measurements and their long-term nature, defined benefit obligations react extremely sensitively to any changes in the underlying assumptions. These assumptions are reviewed on each reporting date. The GRAMMER Group does not have any defined-contribution pension plans. Further details on retirement benefit obligations can be found in Note 19.

Provisions (IAS 37)

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

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

The measurement of provisions for warranties and litigation is largely based on estimates and assumptions. For warranty estimates, a significant number of assumptions are made relating to technical disruptions, costs and possible claims, which to some extent rely on operating management's past experience. These may specify and change over time as more specific information becomes available. Restructuring costs are provided for if the general criteria for the recognition of provisions in accordance with IAS 37 are satisfied. Termination benefits (IAS 19) are included in restructuring provisions. The Group is confronted with various legal disputes and regulatory processes in different countries. Warranty claims are also sometimes asserted in court proceedings. These can result in civil sanctions or monetary fines for the Group. The Group recognizes provisions for such litigation costs if it is probable that an obligation will arise from them that is likely to result in future cash outflows. If the Group has an onerous contract, the present contractual obligation is recognized and measured as a provision. However, before establishing a separate provision for an onerous contract, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract. This does not apply to contract assets as these represent services already transferred to the customer. An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the expected economic benefits. The unavoidable costs under a contract reflect the minimum net cost of exiting the contract, which is the lower of the cost of fulfilling it or any compensation or penalties arising from failure to fulfil it.

Share-based payment (IFRS 2)

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

Financial assets (IFRS 9)

Financial assets are recognized on their settlement date.

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

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

- Financial Assets at Amortized Cost (FAAC)
- Financial Assets at Fair Value through Other Comprehensive Income without recycling of the cumulative gains and losses on derecognition (equity instruments) (FVOCI)
- Financial Assets at Fair Value through Profit or Loss (FVtPL)

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

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

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

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

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

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

Financial liabilities (IFRS 9)

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

Financial liabilities are assigned to the following categories:

- Financial Liabilities at Amortized Cost (FLAC)
- Financial Liabilities at Fair Value through Profit or Loss (FLtPL)

"Financial Liabilities at Fair Value through Profit or Loss (FLtPL)" include financial liabilities held for trading purposes and other financial liabilities designated as measured at fair value through profit or loss upon initial recognition and derivates with a negative market value that are not designated as hedges or are ineffective as such.

Financial liabilities are classified as held for trading if they were entered into for the purpose of being repurchased in the near future. The financial liabilities assigned to this category are measured at fair value not only upon initial recognition but also in subsequent periods. Any resultant gains and losses are recorded through profit and loss. The portion of the fair value changes attributable to the change in the GRAMMER Group's own credit risk is not recognized through profit and loss but in other comprehensive income. In 2020, the Group did not make use of the option to allocate financial liabilities to this category.

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

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

Derivative financial instruments and hedge accounting

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

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

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

Hedges that meet all the criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss from a hedge is recognized in other comprehensive income, whereas the ineffective portion is recognized through profit and loss immediately. Cumulative other comprehensive income is adjusted to the lower of the following amounts: the cumulative gain or loss on the hedge since its inception or the cumulative change in the fair value of the hedged item.

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

2.2 Application of new IFRSs in 2020

The IASB has published the following standards and interpretations, application of which was mandatory the first time in 2020:

- Amendments to IFRS 3: Definition of a business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of material
- Amendments to the financial reporting framework
- Amendments to IFRS 16: COVID-19-related rent concessions

Only those standards and interpretations of material relevance for GRAMMER's consolidated financial statements are described below. Other standards are not relevant for the Group and are therefore not included here.

Amendments to IFRS 3: Definition of a business

The amendments to IFRS 3 Business Combinations are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to acquisitions of assets that occur on or after the beginning of that period. The amendment to IFRS 3 Business Combinations clarifies that an integrated group of activities and assets must include at least one input and one substantive process that together contribute significantly to the generation of output in order to qualify as a business. It also clarifies that a business may still arise even if the combination does not include all of the resource inputs and processes necessary to generate the output. These amendments had no impact on the consolidated financial statements but may have an impact in future periods if the Group completes any business combinations.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 are effective for annual accounting periods beginning on or after January 1, 2020. They provide for temporary relief in IFRS 9 allowing hedge accounting to be retained in the period before the formal replacement of existing interest rate benchmarks with alternative, almost risk-free interest rates (RFR) on account of the reform of interbank offered rates (IBOR). This allows hedging relationships that would otherwise have had to be terminated as a result of this uncertainty to be continued. The accounting conveniences apply to all hedging relationships that are directly affected by the interest rate benchmark reform. These hedging relationships can be identified by the fact that the reform leads to uncertainties regarding the timing and/or amount of the reference rate-based cash flows from the hedged item or hedging instrument. GRAMMER has hedging relationships for interest rate risks based on the relevant interbank offered rates. There is no impact on the Group as a result of the utilization of the accounting conveniences.

In connection with the aforementioned amendments to IFRS 9, disclosure requirements have been added to IFRS 7 relating in particular to the nature and extent of the entity's exposure to the reform of the reference interest rates.

Amendments to IAS 1 and IAS 8: Definition of material

The amendments must be applied for the first time to annual accounting periods commencing on or after January 1, 2020. "Amendments to IAS 1 and IAS 8: Definition of materiality" include a new definition of "material". Under this definition, information is material "if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality depends on the nature or extent of the information, either in isolation or in combination with other information, in the light of the financial statements as a whole. Incorrect information is material if, under normal circumstances, it can be expected to influence the decisions made by the primary users. The amendments did not result in any adjustment of the materiality thresholds used by GRAMMER in its consolidated financial statements and thus had no impact on them. The amendments are not expected to have any effect on the Group in the future, either.

Amendments to IFRS 16: COVID-19-related rent concessions

The IASB published "Amendments to IFRS 16: COVID-19-related rent concessions" on May 28, 2020 and the amendments were endorsed in European law on October 9 under the comitology procedure provided for this purpose. The amendment to IFRS 16 is effective for annual periods beginning on or after June 1, 2020. Application is retrospective. The amendments grant lessees relief in applying the guidance in IFRS 16 on accounting for lease modifications due to rent concessions resulting from the COVID-19 pandemic. As a practical expedient, a lessee may elect to suspend judgment as to whether a lessor's pandemic-related rent concession constitutes a lease modification. GRAMMER applies the practical expedient and thus accounts for any qualifying change in lease payments resulting from COVID-19-related rent concessions in the same way as it would account for the change under IFRS 16 if it had not resulted in a lease modification. On the one hand, the guidance only applies to payments which were deferred within 2020 and did not have any material impact on the consolidated financial statements. On the other hand, rental payments for buildings amounting to EUR 242 thousand were waived and recognized in profit or loss under cost of sales.

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 2020.

- Amendments to IFRS 4: Extension of the temporary exemption from applying IFRS 9
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

On August 27, 2020, the IASB issued the amendment standard "Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16)," with respect to the reform of benchmark interest rates (IBOR reform) - Phase 2. Whereas Phase 1 deals with issues prior to the IBOR reform, Phase 2 addresses questions related to the actual replacement of an existing reference rate. The amendments relate to the modification of financial assets, financial liabilities and lease liabilities and provide guidance on hedge accounting and disclosure requirements under IFRS 7 concerning the amendments relating to modifications and hedge accounting. The amendments must be applied for the first time to annual accounting periods commencing on or after January 1, 2021. No restatement of prior periods is required.

Not yet endorsed by the EU

The IASB published further standards and interpretations in 2020. However, these have not yet been integrated in EU law under the comitology procedures.

- IFRS 17 Insurance Contracts
- Amendments to IAS 1: Classification of liabilities as current or non-current
- Amendments to IFRS 3: Reference to the conceptual framework
- Amendments to IAS 16: Property, Plant and Equipment – proceeds before intended use
- Amendments to IAS 37: Onerous contracts – costs of fulfilling a contract
- Amendments to IFRS 1: Subsidiary as a first-time adopter
- Amendments to IFRS 9: Fees in the '10 per cent' test for derecognition of financial liabilities
- Amendments to IAS 41: Taxation in fair value measurements
- Annual improvements to IFRSs (2018–2020 cycle)

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

Amendments to IAS 1: Classification of liabilities as current or non-current

The IASB published "Amendments to IAS 1: Classification of liabilities as current or non-current" on January 23, 2020. The amendments concern paragraphs 69 to 76 of "IAS 1 Presentation of Financial Statements" and clarify the requirements for classifying liabilities as current or non-current. The amendments clarify the following:

- The right to defer the settlement of a liability is explained.
- The right to defer settlement of a liability must exist at the reporting date.
- For classification purposes, it is irrelevant whether the company expects to actually exercise this right.
- Only if a derivative embedded in a convertible debt instrument is an equity instrument that must be accounted for separately is it not necessary to take account of the terms of the debt instrument for classification purposes.

The amendments must be applied for the first time to annual accounting periods commencing on or after January 1, 2023 and are applicable retroactively. GRAMMER is currently assessing the impact the amendments will have on its current accounting practice.

Amendments to IAS 37: Onerous contracts – costs of fulfilling a contract

On May 15, 2020, the IASB published "Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contracts – cost of fulfilling a contract". The amendments specify the costs that must be included in an assessment of whether a contract is onerous. The amendment focuses on costs that relate directly to the contract (directly related cost approach). The costs associated with the performance of contracts for the supply of goods or the rendering of services include both the directly attributable (incremental) costs of fulfilling the contract and overheads that relate directly to contract fulfillment. General administrative costs are not directly related to the contract and therefore do not come within contract fulfilment costs, unless it is expressly stipulated in the contract that they are to be recharged to the customer. The amendments must be applied for the first time to annual accounting periods commencing on or after January 1, 2022. The Group will apply these amendments to contracts for which not all obligations have been settled at the beginning of the year in which it first applies the amendments. As a result of the amendment, the Group expects an increase in provisions for onerous contracts relating to projects for series development as additional costs, such as depreciation of project-related property, plant and equipment, must be taken into account.

Annual improvements to IFRSs (2018–2020 cycle)

The IASB published the annual improvements to IFRS in the 2018–2020 cycle on May 14, 2020. The annual improvements to IFRS 2018-2020 result in direct amendments to the following standards:

- IFRS 1: Subsidiaries as first-time users: The amendment permits a subsidiary that applies IFRS 1.D16(a) to measure cumulative foreign currency translation differences at the amounts recognized by its parent relating to the date of the parent's adoption of IFRSs.
- IFRS 9: Fees in the '10 per cent' test for derecognition of financial liabilities: The amendment clarifies that an entity may only consider such fees paid or received between the entity as a borrower and the lender under the so-called "10% test" when assessing whether to derecognize a financial liability.
- IFRS 16: Lease incentives: The amendment removes the presentation of lessor reimbursement of leasehold improvements from Explanatory Example 13 to IFRS 16 to eliminate any conceivable irritation regarding the treatment of lease incentives.

The amendments to IFRS 1 and IFRS 9 must be applied for the first time to annual accounting periods commencing on or after January 1, 2022. The amendment to IFRS 16 only concerned an explanatory example and consequently did not require an effective date.

3. Companies consolidated

Information on subsidiaries

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

	Name of subsidiary	Domicile	Main activity	Equity interest (%) 2020	2019
1. Consolidated subsidiaries					
1.	GRAMMER do Brasil Ltda.	Atibaia, Brazil	Automotive/Commercial Vehicles	100.00	100.00
2.	GRAMMER Seating Systems Ltd.	Bloxwich, United Kingdom	Distribution company	100.00	100.00
3.	GRAMMER Koltuk Sistemleri Sanayi ve Ticaret A.S.	Bursa, Turkey	Commercial Vehicles	99.40	99.40
4.	GRAMMER Inc.	Shannon (MS), United States	Automotive/Commercial Vehicles	100.00	100.00
5.	GRAMMER CZ s.r.o.	Tachov, Czech Republic	Automotive/Commercial Vehicles	100.00	100.00
6.	GRAMMER Japan Ltd.	Tokyo, Japan	Distribution company	100.00	100.00
7.	GRAMMER AD	Trudovetz, Bulgaria	Commercial Vehicles	98.84	98.84
8.	GRAMMER System GmbH	Amberg, Germany	Automotive	100.00	100.00
9.	GRAMMER Automotive Metall GmbH	Amberg, Germany	Automotive	100.00	100.00
10.	GRAMMER Automotive Slovenija d.o.o.	Slovenji Gradec, Slovenia	Automotive	100.00	100.00
11.	GRAMMER Automotive Española S.A.	Olérdola, Spain	Automotive	100.00	100.00
12.	GRAMMER Industries LLC[1]	Troy (MI), United States	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.[2]	Xiamen, China	Automotive	0.00	100.00
16.	GRAMMER Interior (Tianjin) Co., Ltd.	Tianjin, China	Commercial Vehicles	100.00	100.00
17.	GRAMMER Interior (Changchun) Co., Ltd.	Changchun, China	Automotive	100.00	100.00
18.	GRAMMER Interior (Shanghai) Co., Ltd.	Shanghai, China	Automotive	100.00	100.00
19.	GRAMMER System d.o.o.	Aleksinac, Serbia	Automotive	100.00	100.00
20.	GRAMMER Railway Interior GmbH	Amberg, Germany	Commercial Vehicles	100.00	100.00

21.	GRAMMER Technical Components GmbH	Kümmersbruck, Germany	Commercial Vehicles	100.00	100.00
22.	GRAMMER Electronics N.V.	Aartselaar, Belgium	Commercial Vehicles	100.00	100.00
23.	GRAMMER Interior (Beijing) Co., Ltd.	Beijing, China	Automotive	100.00	100.00
24.	GRAMMER Automotive CZ s.r.o.	Česká Lípa, Czech Republic	Automotive	100.00	100.00
25.	GRAMMER Seating (Ningbo) Co., Ltd. [3]	Ningbo City, China	Commercial Vehicles	100.00	100.00
26.	GRAMMER Automotive South Africa (Pty) Ltd.	Bedfordview, South Africa	Automotive	100.00	100.00
27.	GRAMMER Argentina S.A.	Buenos Aires, Argentina	Commercial Vehicles	99.96	99.96
28.	GRAMMER Italia srl.	Jesi, Italy	Commercial Vehicles	100.00	100.00
29.	GRAMMER Interior Components GmbH	Hardheim, Germany	Automotive	100.00	100.00
30.	GRAMMER Seating (Shaanxi) Co., Ltd.	Weinan City, China	Commercial Vehicles	90.00	90.00
31.	Toledo Molding & Die LLC [4]	Toledo (OH), United States	Automotive	100.00	100.00
32.	TMD Mexico LLC	Wilmington (DE), United States	Automotive	100.00	100.00
33.	TMD International Holdings LLC	Wilmington (DE), United States	Automotive	100.00	100.00
34.	TMD WEK LLC [5]	Wilmington (DE), United States	Automotive	0.00	100.00
35.	TMD Tennessee LLC [5]	Fayetteville (TN), United States	Automotive	0.00	100.00
36.	TMD Wisconsin LLC [5]	Beloit (WI), United States	Automotive	0.00	100.00
37.	Toledo Molding de Mexico S. de R.L. de C.V.	Queretaro, Mexico	Automotive	100.00	100.00
38.	Toledo Molding CZ s.r.o.	Prague, Czech Republic	Automotive	100.00	100.00
39.	TMD WEK North LLC [5]	Jefferson (OH), United States	Automotive	0.00	100.00
40.	Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd [6]	Changchun, China	Automotive	50.00	0.00

2. Consolidated joint ventures and associated companies

1.	GRA-MAG Truck Interior Systems LLC	London (OH), United States	Commercial Vehicles	50.00	50.00
2.	ALLYGRAM Systems and Technologies Private Limited	Pune, India	Development company	30.00	30.00

[1] Formerly GRAMMER Industries Inc.
[2] Grammer Seating (Xiamen) was liquidated on December 1, 2020.
[3] Formerly GRAMMER Seating (Jiangsu) Co., Ltd, Jiangyin, China.
[4] Formerly Toledo Molding & Die Inc.
[5] TMD WEK LLC, TMD Tennessee LLC, TMD Wisconsin LLC, and TMD WEK North LLC were merged into Toledo Molding & Die, LLC on January 1, 2020.
[6] Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd, Changchun, China, was included in the consolidated financial statements for the first time from December 1, 2020.

In addition to GRAMMER AG, five (2019: five) domestic and 30 (2019: 34) foreign companies that are directly or indirectly controlled by GRAMMER AG within the meaning of IFRS 10 are consolidated.

Effective January 1, 2020, four companies in the TMD Group – TMD WEK LLC, Wilmington (DE), United States; TMD Tennessee LLC, Fayetteville (TN), United States; TMD Wisconsin LLC, Beloit (WI), United States; TMD WEK North LLC, Jefferson (OH), United States – were merged with Toledo Molding & Die Inc., Toledo (OH), United States. This did not have any effect on the consolidated financial statements. GRAMMER Seating (Xiamen) Ltd., Xiamen, China, was liquidated effective December 1, 2020 and removed from the consolidated financial statements as of that date. Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. Changchun, China, a company newly established in 2019, commenced operations in 2020 and was included in the consolidated financial statements from December 1, 2020.

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

The uniform reporting date for all of the consolidated companies is December 31, 2020.

2020

	Germany	International	Total
Fully consolidated companies (including GRAMMER AG)	6	30	**36**
Companies accounted for at equity	0	2	**2**
Companies	**6**	**32**	**38**

2019

	Germany	International	Total
Fully consolidated companies (including GRAMMER AG)	6	34	40
Companies accounted for at equity	0	2	2
Companies	**6**	**36**	**42**

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

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

4. Investments in joint ventures and associates

GRA-MAG LLC

GRAMMER AG holds a 50% share in the capital of GRA-MAG Truck Interior Systems LLC, London, OH, United States (GRA-MAG LLC), a jointly controlled entity in the United States, which is active in the Commercial Vehicles Division and primarily develops and assembles seats and seating systems for trucks. As in the previous year, the Group's shares in GRA-MAG LLC are recognized in accordance with equity method of accounting. The share in GRA-MAG LLC is recognized at equity and has a value of EUR 0 as the cumulative losses exceed the carrying amount of the investment. As GRAMMER AG is not under any obligation to settle the loss, the negative equity is not recognized as a liability.

The summarized financial information corresponds to the amounts reported in the annual financial statements of the joint venture as of December 31, 2020 prepared in accordance with IFRS.

EUR k

Income statement 100%	2020	2019
Revenue	31,795	52,855
Cost of sales including systematic depreciation of EUR 139 thousand (2019: EUR 143 thousand)	–28,489	–43,055
Selling expenses	–4	–11
Administrative expenses	–1,133	–4,383
Interest expenses	–838	–941
Earnings before taxes	**1,331**	**4,465**
Income taxes	–46	–65
Net profit/loss	**1,285**	**4,400**
Group's share of profit or loss (50%)	643	2,200

EUR k

Statement of financial position 100%	2020	2019
Non-current assets	575	938
Current assets	7,758	9,176
Assets	**8,333**	**10,114**
Non-current liabilities	17,109	21,554
Current liabilities	5,882	5,933
Liabilities	**22,991**	**27,487**
Equity	**–14,658**	**–17,373**
Share held by the Group	50%	50%
Goodwill from first-time consolidation	2,043	2,043
Carrying amount of the investment in associate	0	0

The aforementioned items include cash and short-term deposits of EUR 1,562 thousand (2019: EUR 1.331 thousand) as well as current financial liabilities of EUR 287 thousand (2019: EUR 149 thousand).

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

EUR k

Unrecognized gains/losses (50 %)	2020	2019
Unrecognized losses of GRA-MAG LLC as of January 1	–8,422	–10,622
Unrecognized gains of GRA-MAG LLC in the period under review	643	2,200
Unrecognized losses of GRA-MAG LLC as of December 31	**–7,779**	**–8,422**

As of December 31, 2019 and 2020, the joint venture did not have any contingent liabilities or capital commitments. The GRAMMER Group is not involved in any joint activities coming within the scope of IFRS 11.

Other immaterial investments accounted for using the equity method

GRAMMER AG holds a 30% interest in the capital of ALLYGRAM Systems and Technologies Private Limited, Pune, India (ALLYGRAM). ALLYGRAM is an associate in India that provides development services for the global GRAMMER sites. As in the previous year, the Group's shares in ALLYGRAM are recognized in accordance with equity method of accounting. The equity in ALLYGRAM amounts to EUR 859 thousand as of December 31, 2020 (2019: EUR 611 thousand). Accordingly, pro rata annual net profit of EUR 335 thousand (2019: EUR 28 thousand) was recognized in profit and loss and foreign currency differences of EUR 87 thousand (2019: EUR 30 thousand) recognized in cumulative other comprehensive income.

5. Segment reporting

The segments described below cover the internal reporting and organizational structure of the GRAMMER Group in 2020. Determination of the Company's key management indicators is based on the data contained in the IFRS consolidated financial statements. For the purpose of management, the Group is organized into product segments by relevant products and services, comprising the following two reportable operating segments:

The Automotive Division is the larger one of the two reportable segments within the GRAMMER Group. Based on the total revenue of the two reporting segments (excluding eliminations across segments), 69.1% (2019: 70.9%) of revenue was generated in the Automotive Division in 2020. In this segment, the GRAMMER Group operates as a supplier to the automotive industry, developing and producing headrests, armrests, center console systems, high-quality interior components and operating elements as well as innovative thermoplastic solutions. The Group sells these products to automotive OEMs in the upper and premium segments in particular.

The Commercial Vehicles Division generated 30.9% of Group revenue in 2020 (2019: 29.1%). It develops and produces driver and passenger seats for trucks as well as driver seats for offroad vehicles (tractors, construction machinery and forklift drives), as well as seats and seating systems for trains and buses. In this segment, GRAMMER is active as a supplier to the commercial vehicle industry, marketing driver and passenger seats to commercial vehicle OEMs or as an aftermarket supplier. It also markets driver and passenger seats and markets them to bus and rolling stock OEMs, as well as railway operators.

Effective January 1, 2021, the organizational structure of GRAMMER Group has been realigned. Responsibility for operating business has been delegated locally to the three main regions EMEA (Europe, Middle East and Africa), the Americas (North, South and Central America) and APAC (Asia-Pacific). As a result of the new alignment, responsibility for the respective profit and loss, assets and liabilities as well as cash flows has been transferred to the regions. This means that the management and allocation of resources will be changed accordingly and internal reporting will be realigned to the regions from 2021. The EMEA, Americas and APAC regions will then form the reportable operating business segments. The segments Automotive and Commercial Vehicles previously reportable in 2020 will become two divisions and focus on global market, customer and product strategies.

The revenue and earnings before interest and taxes (EBIT), operating EBIT and the operating EBIT-margin generated by the operating segments are monitored separately by management in order to make decisions on resource allocation and determine the earnings strength of the units. Group financing (including financing income and expenses) as well as income taxes are managed uniformly and autonomously within the Group and not allocated to the individual segments. Similarly, expenses for the Central Service departments are not broken down by segment. The Central Services division carries out Group-wide functions in controlling, corporate communications, procurement, product development, operations, finance, internal control, investor relations, marketing, IT, human resources, accounting and legal affairs.

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

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

Reporting segments

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

2020

EUR k

	Commercial Vehicles	Automotive	Central Services	Eliminations	GRAMMER Group
Revenue from sales to external customers	510,059	1,200,655	0	0	**1,710,714**
Inter-segment revenue	34,487	18,642	0	–53,129	**0**
Revenue	**544,546**	**1,219,297**	**0**	**–53,129**	**1,710,714**
Segment EBIT	**24,792**	**–61,614**	**–9,613**	**309**	**–46,126**
Financial income					**1,525**
Financial expenses					**–23,962**
Other financial result					**–2,159**
Share of earnings of joint ventures					**0**
Earnings before taxes					**–70,722**
Income taxes					**6,014**
Net profit/loss					**–64,708**
Other segment information					
Capital expenditure					
Property, plant and equipment	18,339	42,988	18,825	0	**80,152**
Intangible assets	2,579	278	742	0	**3,599**
Depreciation and amortization					
Depreciation	–13,509	–53,068	–4,704	0	**–71,281**
Amortization of intangible assets	–2,302	–12,953	–1,288	0	**–16,543**
Non-cash items					
Changes in retirement benefit provisions	3,354	1,363	2,297	0	**7,014**

2019

EUR k

	Commercial Vehicles	Automotive	Central Services	Eliminations	GRAMMER Group
Revenue from sales to external customers	572,702	1,465,805	0	0	**2,038,507**
Inter-segment revenue	34,736	13,947	0	–48,683	**0**
Revenue	**607,438**	**1,479,752**	**0**	**–48,683**	**2,038,507**
Segment EBIT	**44,107**	**50,968**	**–20,585**	**46**	**74,536**
Financial income					**3,460**
Financial expenses					**–21,502**
Other financial result					**–2,365**
Share of earnings of joint ventures					**9,438**
Earnings before taxes					**63,567**
Income taxes					**–20,089**
Net profit/loss					**43,478**
Other segment information					
Capital expenditure					
Property, plant and equipment	15,887	69,938	41,281	0	**127,106**
Intangible assets	4,729	272	654	0	**5,655**
Depreciation and amortization					
Depreciation	–14,260	–51,400	–2,309	0	**–67,969**
Amortization of intangible assets	–1,993	–13,775	–1,528	0	**–17,296**
Non-cash items					
Changes in retirement benefit provisions	4,962	1,438	933	0	**7,333**

Information on geographic areas

The following tables include information on externally generated revenue and non-current assets of the Group's geographical segments for the fiscal years ending December 31, 2020 and 2019. The geographical breakdown is based on the region of registration of the companies:

2020

EUR k

By place of domicile	EMEA	Americas	APAC	Group
Automotive Division revenue	559,740	419,721	239,836	**1,219,297**
Commercial Vehicles revenue	378,627	65,162	100,757	**544,546**
Eliminations	–33,450	–9,570	–10,109	**–53,129**
Revenue	**904,917**	**475,313**	**330,484**	**1,710,714**
Non-current assets (property, plant and equipment as well as intangible assets)	328,036	259,231	40,429	**627,696**

2019

EUR k

By place of domicile	EMEA	Americas	APAC	Group
Automotive Division revenue	715,506	534,572	229,674	**1,479,752**
Commercial Vehicles revenue	439,766	83,233	84,439	**607,438**
Eliminations	–39,942	–8,344	–397	**–48,683**
Revenue	**1,115,330**	**609,461**	**313,716**	**2,038,507**
Non-current assets (property, plant and equipment as well as intangible assets)	340,688	285,453	42,767	**668,909**

The EMEA region (Europe, Middle East, Africa) comprises all European companies including the companies in Turkey and South Africa. The Americas include all companies in North, Central and South America, while APAC (Asia Pacific) is made up of all Chinese and Japanese companies. The GRAMMER Group's revenue in Germany stands at EUR 738 million (2019: EUR 905 million); non-current assets in Germany were valued at EUR 219 million (2019: EUR 232 million).

6. Revenue from contracts with customers

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

2020

EUR k

Point in time of revenue recognition	Commercial Vehicles	Automotive	Eliminations	GRAMMER Group
Goods transferred at a specific point in time	542,284	1,126,337	–51,159	**1,617,462**
Goods and services transferred over time	2,262	92,960	–1,970	**93,252**
Intragroup transactions	–34,487	–18,642	53,129	**0**
Total revenue from contracts with customers	**510,059**	**1,200,655**	**0**	**1,710,714**

2019

EUR k

Point in time of revenue recognition	Commercial Vehicles	Automotive	Eliminations	GRAMMER Group
Goods transferred at a specific point in time	604,773	1,362,494	–45,702	**1,921,566**
Goods and services transferred over time	2,665	117,258	–2,981	**116,941**
Intragroup transactions	–34,736	–13,947	48,683	**0**
Total revenue from contracts with customers	**572,702**	**1,465,805**	**0**	**2,038,507**

60% of the net contract liabilities of EUR 3,776 thousand reported as of December 31, 2019 were recognized as revenue in 2020 (2019: EUR 1,441 thousand recognized in full).

In 2020 and 2019, there was likewise no material revenue from performance obligations which had been fulfilled in part or in full in earlier periods.

7. Other income and expenses

7.1 Other operating income

Other operating income primarily included income from recharged handling costs of EUR 2,673 thousand (2019: EUR 3,632 thousand), income from the sale of metal waste of EUR 2,186 thousand (2019: EUR 2,471 thousand) and miscellaneous other income of EUR 3,651 thousand (2019: EUR 5,750 thousand). Other operating income additionally comprises government grants of EUR 1,270 thousand (2019: EUR 972 thousand) and income from recharged expenses and rental income of EUR 419 thousand (2019: EUR 2,811 thousand). In the previous year, it had additionally included a refund claim for other taxes of EUR 2,002 thousand in connection with the quasi-VAT levies PIS and COFINS (Programa de Integração Social / Contribuição para o Financiamento da Seguridade Social) in Brazil. The government grants were received for the acquisition of certain items of property, plant and equipment as well as in the form of income subsidies. The conditions for these grants were satisfied in full and there is currently no risk that they will not be observed in the future.

7.2 Financial result

The following table breaks down financial result:

EUR k	2020	2019
Interest income on bank balances	1,056	1,157
Income from other financial assets	436	2,284
Proceeds from loans	33	19
Financial income	**1,525**	**3,460**
Interest on loans and overdrafts	–18,086	–14,861
Other interest costs	–106	–105
Interest cost of retirement benefit provisions	–2,363	–2,720
Loss from financial assets and liabilities at fair value through profit or loss	–311	–410
Interest element of lease payments	–3,096	–3,406
Financial expenses	**–23,962**	**–21,502**
Currency-translation gains/ losses from cash at bank and in hand	6,088	–4,162
Exchange-rate differences from intercompany finance	–8,247	1,797
Other financial result	**–2,159**	**–2,365**
Financial result	**–24,596**	**–20,407**

The deterioration in the financial result was mainly due to higher interest-like expenses under loan agreements. The loss from financial assets and financial liabilities at fair value through profit and loss includes interest income on the refund claim for other taxes of EUR 24 thousand (2019: interest income from financial assets of EUR 1,817) in connection with the quasi-VAT levies PIS and COFINS (Programa de Integração Social / Contribuição para o Financiamento da Seguridade Social) in Brazil. Further details can be found in Note 7.1.

7.3 Amortization, depreciation and impairment; foreign exchange differences, historical cost and amortized cost

Cost of sales

The cost of sales includes the manufacturing costs attributable to sales and the cost of merchandise of EUR 1,517,140 thousand (2019: EUR 1,734,290 thousand). This item also includes costs for operating below capacity and any other production-related overheads and administrative expenses. The set up of reserves for warranty purposes is covered by this item as well. This item also includes the cost of additions to warranty provisions. Expenses relating to the development and expansion of individual plant locations in preparation for forthcoming series production ("industrialization costs") are included in the cost of sales to the extent that these expenses cannot be deferred. Expenses in the Commercial Vehicles Division for "design to market" developments are also included here. The cost of sales also includes exceptional expenses from non-recurring business transactions of EUR 10,756 thousand in 2020 (2019: EUR 0 thousand). In the year under review, this item includes restructuring expenses of EUR 6,922 thousand and directly attributable costs for coronavirus protection and response measures of EUR 3,834 thousand.

Selling expenses

The selling expenses of EUR 37,760 thousand (2019: EUR 41,824 thousand) relate to expenses of the sales and distribution function and primarily refer to costs incurred by the Sales, Advertising and Marketing departments as well as overheads allocated to these functions or activities. Freight, commissions and forwarding charges are also included in selling expenses.

Administrative expenses

Administrative expenses include all administrative expenditure which cannot be assigned directly to other functions, including expenditure on general administration, management and central departments. Other administrative expenses also include income from exchange rate movements in the amount of EUR 27,229 thousand (2019: EUR 15,551 thousand) and mainly relate to foreign exchange gains between the origination and settlement of foreign currency receivables and liabilities as well as foreign exchange gains resulting from measurement at the reporting date. Foreign exchange losses amounting to EUR 36,529 thousand (2019: EUR 13,057 thousand) are also recognized under other administrative expenses. Administrative expenses also include various exceptional expenses from non-recurring business transactions of EUR 14,401 thousand in 2020 (2019: TEUR 6,915 thousand). In 2020, this item includes restructuring expenses of EUR 13,635 thousand and directly attributable costs for coronavirus protection and response measures of EUR 766 thousand. In 2019, these included expenses of EUR 1,744 thousand in connection with the ex-post exercise of change-of-control rights on the part of individual managers, non-recurring trailing legal and consulting costs of EUR 752 thousand in connection with the takeover of the Company by the majority shareholder, trailing transaction costs of less than EUR 90 thousand for the acquisition of TMD, as well as project expenses of EUR 1,067 thousand for medium-term future restructuring efforts in response to the market situation (efficiency enhancement program) and the resultant relocation and restructuring costs of EUR 3,262 thousand arising in Europe and China. Restructuring expenses in 2020 include EUR 856 thousand attributable to the repayment of a government grant, as the conditions attached to the grant could no longer be met due to restructuring.

Amortization and depreciation

Amortization of intangible assets totaled EUR 16,543 thousand (2019: EUR 17,296 thousand) and is recognized in the income statement under the cost of sales, selling expenses and administrative expenses depending on origin. This item also contains capitalized development costs of EUR 2,604 thousand (2019: EUR 2,290 thousand) that are included in the cost of sales. Depreciation of property, plant and equipment amounted to EUR 71,281 thousand (2019: EUR 67,969 thousand), including systematic depreciation of EUR 18,964 thousand (2019: EUR 18,864 thousand) for right-of-use assets. Expenses due to a lower recoverable amount (impairment) of EUR 1,443 thousand were incurred in 2020 (2019: EUR 0 thousand), attributable to property, plant and equipment. Depreciation and amortization are recognized in the income statement under the cost of sales, selling expenses and general administrative expenses.

7.4 Personnel expenses

Personnel expenses are presented in the following table:

EUR k	2020	2019
Wages and salaries	366,363	395,137
Social security contributions	77,750	91,206
Employee benefit expenses	**444,113**	**486,343**

In 2020, personnel expenses include EUR 11,809 thousand in government grants to deal with the consequences of the COVID-19 pandemic, mainly consisting of reimbursements from social security funds and other government support payments.

7.5 Share of earnings of joint ventures

No share of earnings was received from joint ventures in 2020 (2019: EUR 9,438 thousand). In the previous year, recognition of the loan provided by GRAMMER AG to the joint venture GRA-MAG LLC as part of the net investment in foreign operations, which is accounted for using the equity method, was reversed as of November 1, 2019 and accounted for in other financial assets at that time.

8. Income taxes

The key components of income taxes for 2020 and 2019 break down as follows:

EUR k

	2020	2019
Consolidated Statement of Income		
Current income taxes		
Current tax expenses – Germany	–4,521	–1,420
Current tax expenses – international	–6,174	–14,733
Total current tax expenses	**–10,695**	**–16,153**
Deferred taxes		
Deferred tax liabilities (–)/ deferred tax assets – Germany	–397	–754
Deferred tax liabilities (–)/ deferred tax assets – international	17,106	–3,182
Deferred tax liabilities (–)/ deferred tax assets	**16,709**	**–3,936**
Tax expense(–)/income reported in the consolidated statement of income	**6,014**	**–20,089**

The increase in current income tax expense in Germany is mainly due to withholding taxes incurred abroad on dividends paid within the Group. The lower income tax expense outside Germany is mainly attributable to the decline in taxable earnings as a result of the COVID-19 pandemic.

Deferred tax assets on the losses for the current year of EUR 16.2 million in 2020 (2019: EUR 0.9 million) were not recognized. Most of this is attributable to the German tax group. There was no substantial evidence indicating that sufficient taxable income towards which the unused losses can be applied will arise in the future. In this connection, an impairment of deferred tax assets recognized in previous years for unused tax losses also arose.

The effect from changes in deferred taxes from earlier years totaled EUR 5.5 million (2019: EUR –7.1 million). This includes deferred taxes recognized for unused tax losses arising in earlier years, use of which was not considered to be probable in earlier years. As a result of the restructured shareholdings in the United States, several subsidiaries have been combined within a single tax group. As sufficient taxable temporary differences are available towards the same tax authority at the level of this tax group, from which sufficient taxable income is expected, deferred tax assets were recognized on these previously unused tax losses in 2020.

If the Group had been able to recognize all unconsidered deferred tax assets from 2020 and preceding years, net profit and equity would have increased by a total of EUR 25.7 million (2019: EUR 13.5 million).

Reconciliation between the income tax expenses reported in the consolidated income statement and the product of the reported net profit for the period and the applicable tax rate for the Group for fiscal years 2020 and 2019 is as follows:

EUR k

	2020	2019
Earnings before taxes	**–70,722**	**63,567**
Income taxes at the effective rate in Germany of 29.1% (2019: 29.2%)	20,580	–18,561
Effects from minimum taxation and withholding taxes	–2,991	–1,366
Current income taxes relating to previous years	995	1,178
Effects of the non-recognition of deferred taxes for the current year	–16,162	–886
Change in deferred taxes from previous years	5,527	–7,108
Tax reduction from tax-exempt income	–422	1,291
Non-deductible expenses	–4,421	–7,377
Other tax effects	698	2,363
Effects from changes to tax rate/ legislation	1,136	467
Share of earnings of joint ventures	0	2,749
Effect of foreign tax groups on tax rate	1,074	7,161
Income taxes at the effective tax rate of 8.5% (2019: 31.6%)	**6,014**	**–20,089**

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

EUR k	2020	2019
Property, plant and equipment (excluding right-of-use assets)	–23,001	–21,140
Right-of-use assets	–6,441	–6,439
Intangible assets	–22,103	–26,737
Other assets	–5,755	–4,775
Inventories	–90	–1,042
Trade accounts receivable, current	–54	6
Contract assets	–1,196	–1,380
Other current financial assets	–48	–136
Non-current financial liabilities	–2,471	–43
Other current assets	0	–141
Others	–2,643	–859
Deferred tax liabilities (non-netted)	**–63,802**	**–62,686**
Retirement benefits and similar obligations	29,656	26,913
Provisions	4,853	1,552
Tax losses carried forward	12,450	7,175
Other financial assets	1,262	365
Contract assets	0	1,316
Property, plant and equipment	2,930	2,851
Intangible assets	3,319	4,794
Other current liabilities	2,489	745
Current trade accounts receivable	3,382	1,709
Other financial liabilities	4,446	4,675
Other current financial liabilities	2,819	1,520
Inventories	3,227	4,013
Others	10,327	3,659
Deferred tax assets (non-netted)	**81,160**	**61,288**
Net deferred tax liabilities (–)/deferred tax assets	**17,358**	**–1,398**

The change in the deferred taxes is described below:

EUR k	2020	2019
As of January 1	**–1,398**	**–1,589**
Deferred tax liabilities (–)/ deferred tax assets through profit and loss	16,709	–3,936
Deferred tax liabilities (–)/ deferred tax assets through statement of comprehensive income	2,579	4,624
Currency-translation effects	–532	–497
As of December 31	**17,358**	**–1,398**

The statutory rate of corporate income tax in Germany was 15% for the 2020 and 2019 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 29.1% for 2020 (2019: 29.2%).

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the asset is realized or the liability settled. Deferred tax assets and liabilities were measured on the basis of the overall tax rate of 29.1% (2019: 29.2%). As in the previous year, the local income tax rates for foreign entities varied between 10% and 34%. Deferred tax assets are only recognized if the management deems their recoverability to be probable. Relevant value adjustments are based on all known positive and negative factors relating to future taxable income. The estimates made may change over time. Assessment of the value of deferred tax assets is based on the probability of measurement differences being reversed and the recoverability of unused tax losses that led to their creation.

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

Deferred taxes were not recorded on outside basis differences (i.e. differences between net assets, incl. goodwill at subsidiaries or the relevant tax value of interests in subsidiaries), as reversal of differences, e.g. through distributions, are taxable and because no significant tax effects are expected in the foreseeable future. The outside basis differences stand at EUR 229,398 thousand as of December 31, 2020 (2019: EUR 146,546 thousand). The distribution of dividends to the shareholders did not have any consequences for income tax in 2020 or 2019.

9. Consolidated earnings per share

Basic earnings per share are calculated by dividing consolidated net profit by the nominal number of shares outstanding during the fiscal year, less the Company's own shares that were bought back in 2006 (330,050 shares). The Company's share capital amounts to EUR 39,009,080.32 and is divided into 15,237,922 shares. All shares with the exception of treasury stock accord the same rights; shareholders have a right to receive payment of the approved dividend and may exercise one vote for each share at the Annual General Meeting. The number of outstanding shares is calculated based on the weighted average.

In addition to basic earnings per share, diluted earnings per share must be disclosed if a company has potential shares (i.e. financial instruments and other contracts entitling the holders to subscribe to no-par value shares of the Company, such as convertible bonds and options). As the GRAMMER Group did not issue any such financial instruments or enter into any such contracts as of December 31, 2020, its basic and diluted earnings per share are identical.

Consolidated earnings per share

Basic/diluted earnings per share	2020	2019
Weighted average number of no-par value shares used to calculate basic/diluted earnings	12,601,417	12,277,071
Earnings in EUR thousands (excluding non-controlling interests/hybrid loan lenders)	–64,314	43,676
Basic/diluted earnings per share in EUR	–5.10	3.56

The hybrid loan raised in 2020 is classified as equity (see Note 18). The related entitlement to compensation accruing to the lenders of the hybrid capital represents payments for a component of equity that reduces the earnings available for distribution to the shareholders of the parent company and has therefore been included in the determination of (basic / diluted) earnings per share.

10. 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. GRAMMER AG reported a net loss of EUR 72.5 million as of December 31, 2020 (2019: net profit of EUR 37.7 million). This includes the net loss for the year of EUR 72.5 million. At the Annual General Meeting held on July 8, 2020, the shareholders passed a resolution to retain in full the net profit of EUR 37.7 million shown in the annual financial statements of GRAMMER AG for the previous year. In view of the net loss for the year sustained by GRAMMER AG in the year under review, no dividend will be proposed. The net loss as of December 31, 2020 will be carried forward. No dividend was distributed in the year under review (2019: EUR 9.2 million).

Further details can be found in Note 18.

Dividends approved and distributed during the fiscal year:

Dividends on ordinary shares

EUR k

	2020	2019
Dividend for 2019: EUR 0.00 (2019: EUR 0.75)	0	9,208

11. Property, plant and equipment and intangible assets

EUR k

Amount on December 31, 2020	Historical cost					
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Reclassifications	Amount on December 31, 2020
Land and buildings	**139,206**	12,361	−627	−4,217	44,315	**191,038**
Manufacturing plant and equipment	**309,632**	23,754	−7,145	−17,342	10,083	**318,982**
Operating and business equipment	**224,863**	17,230	−8,438	−7,415	5,465	**231,705**
Prepayments made and assets under construction	**57,010**	16,072	−266	−492	−59,539	**12,785**
Right-of-use assets	**101,433**	10,735	−6,554	−5,186	−327	**100,101**
Property, plant and equipment	**832,145**	**80,152**	**−23,030**	**−34,652**	**−3**	**854,611**
Concessions, industrial rights	**144,430**	1,068	−1,102	−8,081	35	**136,350**
Goodwill	**122,577**	0	−5	−6,228	0	**116,344**
Capitalized development costs	**37,969**	2,499	0	−44	0	**40,424**
Prepayments made	**0**	32	0	0	−32	**0**
Intangible assets	**304,976**	**3,599**	**−1,107**	**−14,353**	**3**	**293,118**
Property, plant and equipment and intangible assets	**1,137,121**	**83,751**	**−24,137**	**−49,005**	**0**	**1,147,729**

EUR k

Amount on December 31, 2020	Depreciation and amortization						Carrying amount	
	Amount on January 1, 2020	**Additions**	**Disposals**	**Effects from exchange-rate differences**	**Reclassifications**	**Amount on December 31, 2020**	**January 1, 2020**	**December 31, 2020**
Land and buildings	**52,145**	5,333	–499	–1,241	8	**55,746**	**87,061**	**135,292**
Manufacturing plant and equipment	**140,648**	28,092	–5,992	–7,641	191	**155,298**	**168,985**	**163,684**
Operating and business equipment	**153,333**	18,892	–6,421	–4,817	–52	**160,935**	**71,530**	**70,770**
Prepayments made and assets under construction	**0**	0	0	0	0	**0**	**57,010**	**12,785**
Right-of-use assets	**22,714**	18,964	–4,421	–1,215	–147	**35,895**	**78,719**	**64,206**
Property, plant and equipment	**368,840**	**71,281**	**–17,333**	**–14,914**	**0**	**407,874**	**463,305**	**446,737**
Concessions, industrial rights	**65,062**	13,939	–1,023	–2,685	0	**75,293**	**79,369**	**61,056**
Goodwill	**10,636**	0	–5	0	0	**10,630**	**111,941**	**105,714**
Capitalized development costs	**23,675**	2,604	0	–44	0	**26,235**	**14,294**	**14,189**
Prepayments made	**0**	0	0	0	0	**0**	**0**	**0**
Intangible assets	**99,373**	**16,543**	**–1,028**	**–2,729**	**0**	**112,158**	**205,604**	**180,959**
Property, plant and equipment and intangible assets	**468,213**	**87,824**	**–18,361**	**–17,643**	**0**	**520,032**	**668,909**	**627,696**

EUR k

Amount on December 31, 2019	Historical cost								
	Amount on January 1, 2019	Adjustment due to initial application of IFRS 16	Amount on January 1, 2019 (adjusted)	Additions	Disposals	Effects from exchange-rate differences	Effects from business combination	Reclassifica-tions	Amount on December 31, 2019
Land and buildings	**126,155**	0	**126,155**	11,647	–19	551	0	872	**139,206**
Manufacturing plant and equipment	**290,219**	0	**290,219**	32,585	–22,513	3,025	0	6,316	**309,632**
Operating and business equipment	**241,412**	0	**241,412**	19,061	–44,482	599	0	8,274	**224,863**
Prepayments made and assets under construction	**30,718**	0	**30,718**	41,568	–83	129	0	–15,321	**57,010**
Right-of-use assets	**25,759**	55,988	**81,747**	22,246	–3,541	1,144	0	–163	**101,433**
Property, plant and equipment	**714,263**	**55,988**	**770,251**	**127,107**	**–70,638**	**5,448**	**0**	**–23**	**832,145**
Concessions, industrial rights	**142,418**	0	**142,418**	997	–844	1,836	0	23	**144,430**
Goodwill	**121,187**	0	**121,187**	0	0	1,390	0	0	**122,577**
Capitalized development costs	**33,301**	0	**33,301**	4,657	–1	12	0	0	**37,969**
Prepayments made	**0**	0	**0**	0	0	0	0	0	**0**
Intangible assets	**296,906**	**0**	**296,906**	**5,654**	**–845**	**3,238**	**0**	**23**	**304,976**
Property, plant and equipment and intangible assets	**1,011,168**	**55,988**	**1,067,156**	**132,761**	**–71,483**	**8,685**	**0**	**0**	**1,137,121**

EUR k

Amount on December 31, 2019	Depreciation and amortization									Carrying amount		
	Amount on January 1, 2019	Adjustment due to initial application of IFRS 16	Amount on January 1, 2019 (adjusted)	Additions	Disposals	Reversals	Effects from exchange-rate differences	Reclassifi-cations	Amount on December 31, 2019	January 1, 2019	January 1, 2019 (adjusted)	December 31, 2019
Land and buildings	**47,433**	0	**47,433**	4,706	–19	0	37	–12	**52,145**	**78,722**	**78,722**	**87,061**
Manufacturing plant and equipment	**136,721**	0	**136,721**	27,105	–21,662	0	603	–2,119	**140,648**	**153,498**	**153,498**	**168,985**
Operating and business equipment	**177,466**	0	**177,466**	17,294	–43,889	0	242	2,220	**153,333**	**63,946**	**63,946**	**71,530**
Prepayments made and assets under construction	**0**	0	**0**	0	0	0	0	0	**0**	**30,718**	**30,718**	**57,010**
Right-of-use assets	**4,397**	0	**4,397**	18,864	–445	0	0	–102	**22,714**	**21,362**	**77,350**	**78,719**
Property, plant and equipment	**366,017**	**0**	**366,017**	**67,969**	**–66,016**	**0**	**883**	**–13**	**368,840**	**348,246**	**404,234**	**463,305**
Concessions, industrial rights	**50,498**	0	**50,498**	15,006	–697	0	242	13	**65,062**	**91,920**	**91,920**	**79,369**
Goodwill	**10,636**	0	**10,636**	0	0	0	0	0	**10,636**	**110,551**	**110,551**	**111,941**
Capitalized development costs	**21,373**	0	**21,373**	2,290	0	0	12	0	**23,675**	**11,928**	**11,928**	**14,294**
Prepayments made	**0**	0	**0**	0	0	0	0	0	**0**	**0**	**0**	**0**
Intangible assets	**82,507**	**0**	**82,507**	**17,296**	**–697**	**0**	**254**	**13**	**99,373**	**214,399**	**214,399**	**205,604**
Property, plant and equipment and intangible assets	**448,525**	**0**	**448,525**	**85,265**	**–66,713**	**0**	**1,137**	**0**	**468,213**	**562,645**	**618,633**	**668,909**

11.1 Property, plant and equipment and intangible assets

Depreciation is based generally on the following useful economic lives:

Land	No depreciation
Buildings and fixtures	10–40 years
Building fittings	5–40 years
Manufacturing plant and equipment	5–25 years
Other equipment, operating and business equipment	2–15 years
Right-of-use assets (leased assets)	3–25 years
Concessions, industrial rights	3–12 years
Capitalized development costs	7–10 years

As in the past, property, plant and equipment are depreciated and intangible assets amortized using the straight-line method over the expected useful life of the assets in question.

Intangible assets comprise concessions, industrial property rights, patents and customer orders. Capitalized development costs comprise internally generated patents, which are amortized on a straight-line basis over an average expected useful life of ten years. In 2020, total research and development costs stood at EUR 61,514 thousand (2019: EUR 68,776 thousand), including an amount of EUR 2,499 thousand (2019: EUR 4,657 thousand) which satisfied the criteria for recognition under IAS 38. Most of this amount was recognized in the income statement.

A government grant of EUR 823 thousand (2019: EUR 0 thousand) was deducted from land and buildings in 2020. In addition, directly attributable interest of EUR 1,003 thousand on borrowings attributable to the period of construction of the GRAMMER Campus in Ursensollen was capitalized in 2020. The effective interest rate of the corresponding loan was used for this purpose.

11.2 Leases

GRAMMER has entered into various leases for buildings, manufacturing plant and equipment, other plant and equipment as well as motor vehicles with terms between three and 25 years. Most of the leases do not provide for any options for extending the lease or purchasing the leased asset, with the exception of buildings or limited items of equipment. In the case of buildings, these are largely standard renewal options, which provide either for a renewal option which may be unilaterally exercised by GRAMMER or for renegotiation for continued use after expiry of the lease. Expense of EUR 1,036 thousand (2019: EUR 2,041 thousand) for short-term leases and EUR 344 thousand (2019: EUR 308 thousand) for low-value leases was recognized through profit and loss in 2020. The right-of-use assets shown in Note 11.1 under which GRAMMER has a right to use the corresponding assets in accordance with IFRS 16 break down as follows:

EUR k

Amount on December 31, 2020	Historical cost					
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Reclassifications	Amount on December 31, 2020
Land and buildings	**83,627**	6,694	–3,652	–4,711	0	**81,957**
Manufacturing plant and equipment	**6,283**	451	–1,894	–126	–327	**4,387**
Operating and business equipment	**4,712**	973	–340	–156	0	**5,189**
Motor vehicles	**6,812**	2,617	–668	–193	0	**8,568**
Right-of-use assets	**101,433**	**10,735**	**–6,554**	**–5,186**	**–327**	**100,101**

EUR k

Amount on December 31, 2020	Depreciation and amortization						Carrying amount	
	Amount on January 1, 2020	Additions	Disposals	Effects from exchange-rate differences	Reclassifications	Amount on December 31, 2020	January 1, 2020	December 31, 2020
Land and buildings	**13,814**	13,701	–1,744	–940	–0	**24,831**	**69,812**	**57,126**
Manufacturing plant and equipment	**4,342**	1,262	–1,890	–78	–147	**3,490**	**1,941**	**897**
Operating and business equipment	**2,259**	1,312	–281	–87	0	**3,203**	**2,452**	**1,986**
Motor vehicles	**2,298**	2,689	–506	–110	0	**4,371**	**4,514**	**4,197**
Right-of-use assets	**22,714**	**18,964**	**–4,421**	**–1,215**	**–147**	**35,895**	**78,719**	**64,206**

EUR k Amount on December 31, 2019	Historical cost								
	Amount on January 1, 2019	Adjustment due to initial application of IFRS 16	Amount on January 1, 2019 (adjusted)	Additions	Disposals	Effects from exchange-rate differences	Effects from business combination	Reclassifica-tions	Amount on December 31, 2019
Land and buildings	**18,400**	48,336	**66,736**	17,319	–1,498	1,070	0	0	**83,627**
Manufacturing plant and equipment	**5,335**	1,568	**6,903**	1,064	–1,550	29	0	–163	**6,283**
Operating and business equipment	**1,945**	2,326	**4,271**	713	–300	27	0	0	**4,712**
Motor vehicles	**79**	3,758	**3,837**	3,150	–194	18	0	0	**6,812**
Right-of-use assets	**25,759**	**55,988**	**81,747**	**22,246**	**–3,541**	**1,144**	**0**	**–163**	**101,433**

EUR k Amount on December 31, 2019	Depreciation and amortization						Carrying amount		
	Amount on January 1, 2019	Additions	Disposals	Effects from exchange-rate differences	Reclassifica-tions	Amount on December 31, 2019	January 1, 2019	January 1, 2019 (adjusted)	December 31, 2019
Land and buildings	**481**	13,492	–155	–4	0	**13,814**	**17,919**	**66,254**	**69,812**
Manufacturing plant and equipment	**2,815**	1,776	–187	0	–62	**4,342**	**2,520**	**4,088**	**1,941**
Operating and business equipment	**1,066**	1,285	–54	2	–40	**2,259**	**879**	**3,205**	**2,452**
Motor vehicles	**35**	2,311	–49	1	0	**2,298**	**44**	**3,802**	**4,514**
Right-of-use assets	**4,397**	**18,864**	**–445**	**0**	**–102**	**22,714**	**21,362**	**77,350**	**78,719**

The following lease payments (including guaranteed residual values) are payable in subsequent periods under the right-of-use assets recognized:

EUR k

	Less than 1 year	1 to 5 years	More than 5 years
2020			
Lease payments	16,941	36,477	27,937
Less interest expense from discounting	–2,625	–5,904	–4,069
Present value (statement of financial position)	**14,316**	**30,573**	**23,868**
2019			
Lease payments	19,788	43,528	33,529
Less interest expense from discounting	–3,023	–7,679	–5,007
Present value (statement of financial position)	**16,765**	**35,849**	**28,522**

Possible future cash outflows of EUR 6,869 thousand (2019: EUR 7,902 thousand) for options to extend leases the exercise of which is not yet reasonably certain are not included in lease liabilities. In 2020, there were no future possible cash outflows from leases that had not yet commenced (2019: EUR 400 thousand).

11.3 Goodwill

The Commercial Vehicles Division and the Automotive Division are the reportable operating segments and the cash-generating units (CGUs[1]) of the GRAMMER Group and reflect the internal management structure of the GRAMMER Group in 2020. For the purposes of impairment testing in accordance with IAS 36, goodwill acquired in the past or recognized in Group accounting is allocated to the CGUs.

[1] Cash generating units.

Goodwill attributable to the CGUs breaks down as follows as of December 31, 2020:

EUR k

	Cash generating unit	Goodwill in 2020	Goodwill in 2019	Growth rate in 2020 [2]	Growth rate in 2019 [2]	Discount factor in 2020	Discount factor in 2019
CGU I	Commercial Vehicles	4,424	4,423	1%	1%	6.4%	5.9%
CGU II	Automotive	101,290	107,518	1%	1%	6.4%	5.9%
	Goodwill	**105,714**	**111,941**				

[2] Perpetual annuity.

Goodwill is generally tested for impairment at the level of the CGUs (cash generating unit) annually as of December 31. The recoverable amount from the cash-generating units is determined on the basis of the present value of estimated future cash flows less costs to sell based on the budgets approved by management for a period of five (2019: three) years. These budgets are particularly based on assumptions with respect to macroeconomic trends and trends in sell-side and commodity prices. These are subject to a high degree of uncertainty due to the protracted COVID-19 pandemic. In addition to these market forecasts, historical data is also taken into account. To arrive at the perpetual annuity extending beyond the five-year time horizon, the cash flow was extrapolated in the light of the expected sustainable growth rate of 1% (2019: 1%). The fair value calculated for the CGUs is assigned to Level 3 of the fair value hierarchy.

The extension of the planning horizon from three to five years in 2020 reflects GRAMMER's business model, particularly with regard to long-term series development contracts in the Automotive Division. The Group uses the same calculation methods and parameters for both segments when testing for impairment.

The key assumptions used in determining the fair value net of costs to sell of a CGU are the free cash flows, the discount rate together with the related parameters and the sustainable growth rate. Free cash flows are calculated on the basis of the average budget of the last five years adjusted for expected efficiency improvements. The discounting factor is calculated on the basis of a cost of equity and a cost of debt rate. The cost of equity rate applied is based on a risk-free interest rate of 0.2% after tax (2019: 0.2%) and a risk premium for general market risks of 7.5% after tax (2019: 7.0%). To determine operating and leverage risks, beta factors are derived from a group of comparable companies (peer group) and used to measure the positive cash flows of the specific CGU. The cost of debt rate is determined by reference to the peer group of relevance for GRAMMER. The cash flows were discounted at a pre-tax interest rate of 6.4% (2019: 5.9%). A growth rate of 1% (2019: 1%) was assumed.

The impairment tests performed in 2020 confirm that the value of all goodwill is fully recoverable and that the goodwill attributable to the CGUs is not impaired.

A scenario analysis of the recoverable amount of the Automotive CGU and the Commercial Vehicles CGU was carried out to determine the risk exposure of the cash flows. The scenario analysis is based on a variable market risk premium of between 4.0% and 7.5%. In the case of the Automotive CGU, this showed that the application of a discount factor of 6.5% triggers an impairment. In addition, an impairment loss would be recognized in the event of a 0.1 percentage-point reduction in the sustainable EBIT margin and a 2.4% reduction in sustainable revenue.

No impairments arose for the Commercial Vehicles CGU under the above discount factor range.

The GRAMMER Group is being reorganized to transfer greater responsibility to the regions. This means that the management and allocation of resources will be changed from 2021. The EMEA, Americas and APAC regions will become the main internal reporting structures and constitute the reportable operating segments in the future. The new reportable segments on the basis of the three regions from 2021 will also result in the determination of new CGUs and the reallocation of goodwill. Goodwill will be reallocated using the relative value approach on the basis of the fair values of the new CGUs determined as of December 31, 2020. The impairment tests performed immediately after the reallocation of goodwill for the new CGUs did not reveal any impairment.

12. Inventories

Inventories break down as follows:

EUR k	December 31, 2020	December 31, 2019
Raw materials, supplies and consumables	110,157	135,899
Work in progress	15,661	17,520
Finished goods and services	27,108	37,233
Prepayments made	1,694	1,227
Inventories	**154,620**	**191,879**

All inventories are carried at cost. Impairments of EUR 6.4 million (2019: EUR 5.9 million) were recognized for inventories.

13. Trade accounts receivable

Generally, trade accounts receivable are non-interest-bearing and have a term of 30 –60 days.

EUR k	December 31, 2020	December 31, 2019
Trade accounts receivable – gross	243,421	209,937
Impairment	–1,860	–1,152
Provisions for verity risks	–2,677	–1,964
Trade accounts receivable	**238,884**	**206,821**

The increase in trade accounts receivable is due to the slightly reduced use of factoring as well as the higher revenue in December 2020 compared with the previous year. As of the reporting date, trade accounts receivable of EUR 63,548 thousand (2019: EUR 69,310 thousand) were reduced as a result of non-recourse factoring. The risks arising from the factored receivables relevant for risk assessment are credit risk as well as the risk of delayed payment. With regard to a contract with a bank, the Group continues to recognize trade accounts receivable in the amount of its continuing exposure, i.e. the amount of the maximum default reserve and thus recognizes a corresponding liability. As of December 31, 2020, impairments of EUR 1,860 thousand (2019: EUR 1,152 thousand) were recognized on trade accounts receivable. There is also a provision for verity risks based on an individual valuation discount.

Details are given in the table below:

EUR k	Impairment	Provisions for verity risks	Total
Amount on January 1, 2020	**1,152**	**1,964**	**3,116**
Additions	1,591	1,663	**3,254**
Utilization	–661	–785	**–1,446**
Write-backs	–130	–153	**–283**
Effects from exchange-rate differences	–92	–12	**–104**
Amount on December 31, 2020	**1,860**	**2,677**	**4,537**
Amount on January 1, 2019	**1,128**	**1,805**	**2,933**
Additions	200	193	**393**
Utilization	–139	–34	**–173**
Write-backs	–24	0	**–24**
Effects from exchange-rate differences	–13	0	**–13**
Amount on December 31, 2019	**1,152**	**1,964**	**3,116**

The following table shows the default risk position for trade accounts receivable and contract assets determined using an impairment matrix:

EUR k			Past due in the following time bands				
	Total	Not overdue	Up to 30 days	31–60 days	61–90 days	91–180 days	More than 180 days
2020							
Trade accounts receivable – gross	**243,421**	220,681	15,497	2,095	1,289	1,327	2,532
Contract assets – gross	**120,077**	120,077	0	0	0	0	0
Impairment	**1,860**	495	100	114	77	142	932
2019							
Trade accounts receivable – gross	**209,937**	187,021	13,513	3,435	1,332	1,148	3,488
Contract assets – gross	**131,531**	131,531	0	0	0	0	0
Impairment	**1,152**	306	30	34	31	20	732

14. Balances of contract assets and contract liabilities

Contract assets as defined in IFRS 15 break down as follows:

EUR k	December 31, 2020	December 31, 2019
Non-current contract assets	63,238	70,760
Current contract assets	56,839	60,771
Contract assets	**120,077**	**131,531**

As planned, performance obligations of EUR 103,603 thousand as of December 31, 2020 (2019: EUR 77,590 thousand) for series development were not fulfilled in part or in full in line with plans. Around 40% of these is expected to be recognized as revenue within one year.

In the previous year, contract assets had included an asset of EUR 4,774 thousand in connection with contract fulfilment costs for series deliveries. As of December 31, 2020, this asset is included in other assets at a value of EUR 5,942 thousand.

Contract liabilities break down as follows:

EUR k	December 31, 2020	December 31, 2019
Non-current contract liabilities	3,373	2,606
Current contract liabilities	1,160	1,170
Contract liabilities	**4,533**	**3,776**

Contract liabilities arise from customer prepayments for series development activities.

15. Other financial assets

Other financial assets break down as follows:

EUR k	December 31, 2020	December 31, 2019
Outstanding loans	6,809	9,371
Investments in associates	62	50
Non-current other financial assets	**6,871**	**9,421**
Other receivables	3,232	2,724
Derivative financial assets	795	1,211
Current other financial assets	**4,027**	**3,935**

Other receivables result primarily from current accounts receivable from associates, creditors with debit accounts and amounts due from employees. They are due for settlement in roughly 30 days. Financial assets are neither past due nor impaired. Loans include the loan to GRA-MAG LLC, a joint venture accounted for using the equity method, of EUR 6,809 thousand (2019: EUR 9,371 thousand). The reduction is due to scheduled repayments.

16. Other assets

Other assets break down as follows:

EUR k	December 31, 2020	December 31, 2019
Other assets	35,467	30,036
Deferrals	1,235	986
Non-current other assets	**36,702**	**31,022**
Other assets	22,810	32,197
Deferrals	4,474	5,117
Current other assets	**27,284**	**37,314**

Other non-current assets include security deposit agreements, which are classified as long-term depending on the term of the underlying contract. Other assets also include consideration paid to customers of EUR 28,226 thousand (2019: EUR 25,369 thousand), which is recognized on a straight-line basis over the duration of the series as a reduction in revenue. If necessary, impairment is recognized. The majority of these assets are classified as non-current other assets. Of these assets, an amount of EUR 7,747 thousand (2019: EUR 5,431 thousand) was recognized as a reduction in revenue in 2020.

GRAMMER has included assets in connection with contract fulfillment costs for series deliveries in current (EUR 625 thousand) and non-current (EUR 5,317 thousand) other assets. As of December 31, 2019, these had been reported as contract assets. In 2020, depreciation of EUR 865 thousand (2019: EUR 0 thousand) was recognized on contract fulfilment costs. No other impairments were recognized.

Other current assets are chiefly made up of receivables of TEUR 16,478 thousand (2019: EUR 25,070 thousand) arising from pass-through taxes such as value added tax and other taxes as well as temporary security deposit agreements of EUR 868 thousand (2019: TEUR 200 thousand).

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

17. Cash and short-term deposits

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

EUR k	December 31, 2020	December 31, 2019
Cash and short-term deposits	89,838	142,651

The Group has balances at different banks in various currencies that are translated at the end-of-year exchange rate as of the reporting date.

The bank balances have variable interest rates and can be withdrawn on demand. Short-term deposits are made for various terms of between one day and three months depending on the Group's current liquidity requirements. The deposits accrue interest at the current interest rates for demand deposits.

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

EUR k	December 31, 2020	December 31, 2019
Cash and short-term deposits	89,838	142,651
Bank overdrafts (including current liabilities under factoring contracts)	–34,466	–18,997
Cash and cash equivalents	**55,372**	**123,654**

18. Equity

Subscribed capital

As of December 31, 2020, the subscribed capital of GRAMMER Group amounted to EUR 39,009 thousand (2019: EUR 32,274 thousand) divided into 15,237,922 no-par value shares (2019: 12,607,121). All shares accord the same rights. The shareholders have a right to payment of the approved dividend (with the exception of the Company's own shares) and may exercise one vote for each share at the Annual General Meeting.

In October 2020, the Executive Board of GRAMMER AG decided with the Supervisory Board's approval to use the Company's authorized capital to issue fresh equity of EUR 40 million subject to the shareholders' preemptive subscription rights. For this purpose, 2,630,801 new bearer shares with dividend rights from January 1, 2020 were issued at a nominal amount of EUR 2.56 per share in November 2020.

Capital reserve

The capital reserve totaled EUR 163,033 thousand as of December 31, 2020 (2019: EUR 129,796 thousand). It includes premiums from the capital increases in 1996, 2001, 2011, 2017 and 2020, less transaction costs.

Treasury stock

As of December 31, 2020, GRAMMER AG holds a total of 330,050 shares as treasury stock, all of which were acquired in 2006 for a total purchase price of EUR 7,441 thousand. These shares have a total value of EUR 844,928 and represent 2.166% (2019: 2.618%) of the share capital.

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 was authorized by its shareholders to acquire up to 10% of its share capital, i.e. up to 1,049,515 of its own shares. The share repurchase is for the purposes set out in the resolution adopted by the Annual General Meeting, which provides for both the acquisition of companies or participating interests, sale through the stock exchange or through an offer directed to all shareholders as well as the recall of shares. This authorization was valid from August 16, 2006 until December 1, 2007. The repurchase of the shares under this Executive Board resolution complied with the safe haven rules of sections 14 (2), 20a (3) of the old version of 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. The Executive Board has not yet proposed how the shares will be utilized.

As of December 31, 2020, 15,237,922 (2019: 12,607,121) ordinary shares were outstanding.

Retained earnings

Retained earnings comprises the statutory reserve of GRAMMER AG, which totaled EUR 1,183 thousand on both December 31, 2020 and 2019 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. They dropped from EUR 263,408 thousand to EUR 199,094 thousand due to the negative earnings after taxes of EUR 64,314 thousand (including the entitlement to compensation of EUR 431 thousand accruing to the lenders of the hybrid loan). In the previous year, this figure included the positive earnings after taxes of EUR 43,676 thousand less the dividend payment of EUR 9,208 thousand.

Cumulative other comprehensive income

Accumulated other comprehensive income mainly comprises adjustments arising from the currency translation of the financial statements of foreign subsidiaries and the effects of the subsequent measurement of financial instruments in equity, as well as the related deferred taxes.

In addition, it includes changes in connection with actuarial gains and losses in accordance with IAS 19 and the tax payable on these as well as cumulative foreign-currency translation effects in connection with the loans classified as net investments in a foreign operation in accordance with IAS 21 and the tax payable on these.

Hybrid loan

On March 30, 2020, a subordinated hybrid loan of EUR 19,148 million was granted indefinitely by Ningbo Jifeng Auto Parts Co., Ltd., a member of the Ningbo Jifeng Group (the majority shareholder of GRAMMER AG), to one of GRAMMER AG's Chinese subsidiaries, GRAMMER Interior (Shanghai) Co., Ltd., Shanghai, China. The hybrid loan has an indefinite term and was paid out in full to this subsidiary.

The hybrid loan bears interest at 3% p.a. and is not contractually limited in its term. The hybrid loan is allocated to the subsidiary's equity in accordance with IAS 32. It is at the sole discretion of the subsidiary to decide whether and when to repay the hybrid loan. The lender, Ningbo Jifeng Auto Parts Co., Ltd., has no ordinary right to terminate the loan agreement and unilaterally demand repayment of the loan. The timing of interest payments under the hybrid loan is determined solely at the discretion of GRAMMER. As of December 31, 2020, the hybrid loan was increased by EUR 431 thousand to a total of EUR 19,579 thousand equaling the interest that had accrued up to that date in accordance with the terms of the contract.

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, GRAMMER Seating (Shaanxi) Co. Ltd., China, GRAMMER Argentina S.A., Argentina, and Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd., China.

Authorizations

In accordance with a resolution passed at the Annual General Meeting of July 8, 2020, the Executive Board was authorized subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly by a total of up to EUR 16,137,113.60 by issuing bearer shares on a cash and/or non-cash basis on or before July 7, 2025 (Authorized Capital 2020). In this connection, the shareholders are fundamentally granted preemptive subscription rights. The statutory preemptive subscription rights may also be granted in such a way that the shares are underwritten by one or more banks or institutions with an equivalent standing as defined in section 186 (5) sentence 1 AktG subject to an obligation to offer them for subscription to shareholders. The Executive Board was authorized to exclude the shareholders' preemptive subscription rights subject to the approval of the Supervisory Board in certain cases.

Following partial utilization, Authorized Capital 2020 stood at EUR 9,402,263.04 as of December 31, 2020.

No new authorization to issue bonds with warrants and/or convertible bonds or to increase the Company's share capital on a contingent basis was granted at the Annual General Meeting held in 2020.

19. Retirement benefits and other post-employment benefits

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

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

In the case of the foreign subsidiaries, the provisions primarily contain other post-employment benefits.

The present value of the defined benefit obligations and the related current and past service cost have been calculated in accordance with IAS 19 (revised 2011) using the projected unit credit method. Under this method, the necessary expense for the accrued benefits is allocated to the period which is attributable to the unit of accrued benefits arising in the year in question in the light of vesting conditions.

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

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

DBO measurement parameters

%	2020	2019
Interest rate	0.70	1.20
Salary trend	2.30	2.30
Income trend for individual commitments	2.30	2.30
Inflation rate / pension trend	1.50	1.50

Measurement parameters for other benefits

%	2020	2019
Interest rate	0.70 – 6.75	1.20 – 7.25
Salary trend	2.30 – 4.50	2.30 – 4.50
Inflation rate	1.50 – 9.00	1.50 – 13.00

The measurement parameters also include liabilities from other countries that tend to have higher interest rates than Germany due to different structures. For example, the interest rate is 6.75% (2019: 7.25%) and the salary trend 4.5% (2019: 4.5%) in Mexico, while Turkey has an interest rate of around 9.0% (2019: 13.0%).

As in the previous year, the AON Hewitt interest rate was applied in fiscal year 2020. This interest rate is derived from the vested obligations in the light of the specific structure of the payment flows. The calculation is based on the GRAMMER companies' retirement benefit obligations which underlie the retirement benefit provisions as of December 31.

The calculation of the interest rate is based on the yield structure curve of investment-grade EUR-denominated corporate bonds, the coupon yields of the iBoxx € Corporates AA index for various maturity classes and the yield structure curve for (fictitious) zero-coupon bonds with no credit risk (source: Deutsche Bundesbank). The calculations are performed on the basis of the end-of-day prices as of December 31, 2020.

Mortality and disability are calculated on the basis of the 2018G Heubeck biometric tables or comparable foreign mortality tables. Reflecting the persistently low interest and inflation rates, the inflation rate/pension trend remained at the previous year's level of 1.5%. The probability of fluctuation was computed specifically for the Group.

In 2020, annuities were paid on retirement benefit commitments in an amount of EUR 4,451 thousand (2019: EUR 3,707 thousand). Other post-employment benefits paid totaled EUR 144 thousand (2019: EUR 140 thousand).

The following amounts were recognized in the income statement:

EUR k	Pension plan	Other benefits
2020		
Current service cost	3,997	653
Current service cost	4,023	653
Past service cost	-26	0
Net interest expense	1,899	464
Service cost and net interest expense	**5,896**	**1,117**

EUR k	Pension plan	Other benefits
2019		
Current service cost	3,786	828
Current service cost	3,883	828
Past service cost	-97	0
Net interest expense	2,617	103
Service cost and net interest expense	**6,403**	**931**

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

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

Service cost is generally contained in personnel costs in the different segments; interest expense for pension commitments is recognized in the financial result.

The following items were recorded within other comprehensive income:

EUR k	Pension plan	Other benefits
2020		
Cumulative amount recognized in other comprehensive income as of January 1, 2020	72,807	0
Amount recognized in the year under review	8,763	0
Cumulative amount recognized in other comprehensive income as of December 31, 2020	**81,570**	**0**

EUR k	Pension plan	Other benefits
2019		
Cumulative amount recognized in other comprehensive income as of January 1, 2019	55,482	0
Amount recognized in the year under review	17,326	0
Cumulative amount recognized in other comprehensive income as of December 31, 2019	**72,807**	**0**

The changes in the present value of the defined benefit obligations break down as follows:

EUR k	Pension plan	Other benefits
Amount on January 1, 2020	**156,477**	**3,603**
+ Current service cost	3,997	653
+ Interest expense	1,899	464
Changes in estimates: gains (–)/losses (+)	8,625	0
Changes in financial assumptions	13,912	0
Changes based on historical data	–5,287	0
Current payments	–4,451	–144
Disposal of obligations	–0	–7
Exchange rate differences	–132	–1,023
Amount on December 31, 2020	**166,415**	**3,547**
Amount on January 1, 2019	**136,383**	**3,074**
+ Current service cost	3,786	828
+ Interest expense	2,617	103
Changes in estimates: Gains (–)/losses (+)	17,352	0
Changes in financial assumptions	17,775	0
Changes based on historical data	–423	0
Current payments	–3,707	–140
Exchange rate differences	46	–262
Amount on December 31, 2019	**156,477**	**3,603**

Retirement benefits for the members of the Executive Board take the form of a capital account plan, to which the Company adds an annually calculated amount for each member of the Executive Board. Provided that the applicable conditions for eligibility are satisfied, retirement benefits are paid to the member of the Executive Board as retirement capital or invalidity capital and to the spouse in the form of surviving dependents capital. Named partners living in marriage-like cohabitation have the same status as spouses.

The retirement benefit scheme for the members of the Executive Board is a defined benefit plan, which applies to all GRAMMER employees at the German sites in different forms.

A Contractual Trust Agreement is in place for the members of the Executive Board and the employees who have joined the Company since 2018. As of December 31, 2020, the capital payments deposited in a trust account thus amounted to EUR 5,506 thousand (2019: EUR 5,904 thousand), which also includes an amount of EUR 2,650 thousand (2019: EUR 4,407 thousand) for present and former members of the Executive Board and management. This capital benefit represents plan assets and is netted with the retirement benefit obligations reported in the statement of financial position. The assets of the contractual trust agreement have been invested in a fund comprising global shares, fixed-income securities and cash. The funds are exposed to the general risks of the equity and fixed-income markets.

Changes in the fair value of the plan assets are shown in the following table:

EUR k	2020	2019
Fair value of plan assets on January 1	**5,904**	**4,467**
Interest expenses on plan assets	49	85
Adjustments	–138	26
Contributions to plan assets	1,355	1,326
Current payments	–1,664	0
Fair value of plan assets on December 31	**5,506**	**5,904**

The material actuarial assumptions used to calculate the defined benefit obligation entail the discount rate, expected salary increases and mortality. The following sensitivity analyses have been performed in the light of the possible changes which may reasonably occur in the individual assumptions as of the reporting data, with all other assumptions remaining constant.

Discount factor

EUR k	2020	2020	2019	2019
	1% reduction	**1% increase**	**1% reduction**	**1% increase**
Effect on DBO	33,195	–25,412	31,103	–23,843
Effect on current service cost	525	–391	530	–395
Effect on net interest expense	–1,658	1,126	–1,406	786

Future salary increases

EUR k	**0.5% reduction**	**0.5% increase**	**0.5% reduction**	**0.5% increase**
Effect on DBO	–2,913	3,268	–9,000	3,760

Inflation rate

EUR k	**0.5% reduction**	**0.5% increase**	**0.5% reduction**	**0.5% increase**
Effect on DBO	–10,447	11,573	–9,600	10,619

Mortality rate

EUR k	**10% reduction**	**10% increase**	**10% reduction**	**10% increase**
Effect on DBO	6,105	–5,383	5,406	–4,790

As most of the defined benefit obligations relate to the German companies, the sensitivity analysis is confined to these companies.

In the above sensitivity analyses, the present value of the defined benefit obligation was calculated using the projected unit credit method as of the reporting date, i.e. the same method as that used to calculate the defined benefit liability recorded in consolidated balance sheet.

It can be assumed that the above sensitivity analysis is not representative of the actual change which would occur in the defined benefit obligation as it is unlikely for deviations from the assumptions applied to arise in isolation in view of the fact that some of the assumptions are linked to each other.

The following table sets out the expected future cash outflows for the existing pension plans:

Expected cash outflows

EUR k	**Expected cash outflows in 2020**	**Expected cash outflows in 2019**
Short-term (<1 year)	3,372	3,155
Medium-term (1 to 5 years)	16,396	15,194
Long-term (>5 years)	140,709	132,602

20. Financial liabilities

Financial liabilities break down as follows:

EUR k	Current	Non-current	Total
2020			
Bank overdrafts (including current liabilities under factoring contracts)	34,466	0	**34,466**
Loans	86,892	127,404	**214,296**
Bonded loans	2,270	125,851	**128,121**
Financial liabilities	**123,628**	**253,255**	**376,883**

EUR k	Current	Non-current	Total
2019			
Bank overdrafts (including current liabilities under factoring contracts)	18,997	0	**18,997**
Loans	104,199	93,236	**197,435**
Bonded loans	84,539	126,740	**211,279**
Financial liabilities	**207,735**	**219,976**	**427,711**

A key element of the GRAMMER Group's external funding was successfully restructured with the early refinancing and increase of the syndicated loan agreement from 2013 and the bridge financing for the TMD acquisition in February 2020 for EUR 150.0 million and USD 80.0 million (2019: EUR 100.0 million). The syndicated loan is divided into a credit facility for general corporate financing of EUR 150.0 million (Tranche A) with a term of five years and two renewal options of one year each and a credit facility for financing the TMD acquisition in the amount of USD 80.0 million (Tranche B), which is repayable in installments over four years. Tranche B was used to fully discharge the funding raised to fund the TMD acquisition. In addition, the existing syndicated loan under the KfW program "Direct Participation for Syndicated Financing (855)" was extended with the addition of Tranche C in an amount of 235.0 EUR million with a three-year term in an amendment agreement, meaning that GRAMMER's liquidity is secured on a sustained basis despite the difficult economic environment. At the same time, Tranche B was reduced to USD 70.0 million. The euro credit facility under Tranche A was provided by five core banks and can be drawn on either as an overdraft facility or in the form of fixed-rate loans with interest periods of up to six months. Interest is charged on the basis of a money market rate plus a fixed margin. A small number of key GRAMMER companies are liable for the entire syndicated loan via guarantees.

In view of the modified contractual cash flows, losses from the contractual adjustment had to be recognized in profit or loss in accordance with IFRS 9. Details on the financial covenants can be found in Note 30 "Capital management". Qualitative information on the assessment of the nature and extent of risks associated with financial instruments to which GRAMMER is exposed as of the reporting date can be found in Section 8 "Opportunity and risk report" in the GRAMMER Group Management Report.

In addition, long-term, mortgage-backed (development) fixed-rate loans totaling EUR 50.0 million (2019: EUR 50.0 million) were taken out to finance the construction of the new GRAMMER campus.

Overdrafts

Overdrafts are primarily amounts drawn under corresponding credit facilities as well as current bank borrowings under factoring agreements due for settlement within a very short space of time.

Loans

This item includes short and medium-term bilateral loans. Depending on the facility, the loans are structured to allow revolving utilization.

Bonded loans

In addition to deferred interest and the discount, this item includes bonded loans and private placements of EUR 125.3 million (2019: EUR 209.8 million). The bonded loans decreased in 2020 mainly due to a scheduled repayment of EUR 83.0 million. The bonded loans have fixed or variable interest rates and differing maturity dates until 2025. Deferred interest for the existing bonded loans is included in the current part.

Reconciliation of changes in financial liabilities for the year ending December 31, 2020

EUR k

	December 31, 2019	Change recognized in the cash flow statement	Reclassification	Change due to currency-translation effects	Other non-cash changes	December 31, 2020
Current financial liabilities	**188,738**	–77,398	–17,818	–5,003	643	**89,162**
Current financial liabilities from leases	**16,765**	–19,651	14,925	–622	2,899	**14,316**
Non-current financial liabilities	**219,976**	17,918	17,818	–2,623	166	**253,255**
Non-current financial liabilities from leases	**64,372**	0	–14,925	–3,393	8,387	**54,441**
Total	**489,851**	**–79,131**	**0**	**–11,641**	**12,095**	**411,174**

Reconciliation of changes in financial liabilities for the year ending December 31, 2019

EUR k

	December 31, 2018	Change recognized in the cash flow statement	Reclassification	Change due to currency-translation effects	Other non-cash changes	December 31, 2019
Current financial liabilities	**284,608**	–182,623	83,153	5,271	–1,671	**188,738**
Current financial liabilities from leases	**3,130**	–20,101	16,210	34	17,492	**16,765**
Non-current financial liabilities	**162,004**	141,125	–83,153	–85	85	**219,976**
Non-current financial liabilities from leases	**17,958**	0	–16,210	186	62,438	**64,372**
Total	**467,700**	**–61,600**	**0**	**5,406**	**78,344**	**489,851**

In line with the presentation of changes in financial liabilities in the consolidated statement of cash flows, the current liabilities shown in the table do not include current account overdrafts or current liabilities under factoring agreements with banks.

The other non-cash changes arise from changes in discounts and interest as well as adjustments as a result of the modification of the loan agreements.

In 2019, financial liabilities under leases comprised other non-cash changes of EUR 43,384 thousand arising from the initial application of IFRS 16 in the case of non-current financial liabilities and EUR 12,604 thousand in the case of current financial liabilities under leases.

21. Provisions

Provisions break down as follows:

EUR k	Amount on January 1, 2020	Addition	Utilization	Amounts not used and written back	Reclassification	Effects from exchange-rate differences	Amount on December 31, 2020	Current provisions 2020
Market-related provisions	**15,386**	30,163	–5,078	–1,323	–43	–462	**38,643**	**38,643**
Obligations relating to personnel	**7,397**	17,737	–7,066	–353	44	–20	**17,739**	**17,739**
Other provisions	**611**	1,041	–82	–74	–1	–19	**1,476**	**1,476**
Provisions	**23,394**	**48,941**	**–12,226**	**–1,750**	**0**	**–501**	**57,858**	**57,858**

EUR k	Amount on January 1, 2019	Addition	Utilization	Amounts not used and written back	Effects from exchange-rate differences	Amount on December 31, 2019	Current provisions 2019
Market-related provisions	**12,926**	9,233	–3,366	–3,342	–65	**15,386**	**15,386**
Obligations relating to personnel	**4,523**	3,921	–851	–197	1	**7,397**	**7,397**
Other provisions	**569**	286	0	–251	7	**611**	**611**
Provisions	**18,018**	**13,440**	**–4,217**	**–3,790**	**–57**	**23,394**	**23,394**

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. In addition, provisions for impending losses from onerous contracts from series development are included. The additions relate to provisions for warranties of EUR 21,440 thousand (2019: EUR 4,541 thousand) and provisions for impending losses from onerous contracts from series development of EUR 7,129 thousand (2019: EUR 1,221 thousand).

Personnel provisions contain obligations related to personnel and social benefits such as anniversary bonuses. As of December 31, 2020, they include restructuring provisions of EUR 12,334 thousand (2019: EUR 2,300 thousand).

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

Trade accounts payable break down as follows:

EUR k	December 31, 2020	December 31, 2019
Non-current trade accounts payable	543	1,399
Current trade accounts payable	250,861	309,000
Trade accounts payable	**251,404**	**310,399**

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

23. Other financial liabilities

Other financial liabilities break down as follows:

EUR k	December 31, 2020	December 31, 2019
Derivative financial liabilities	233	377
Liabilities from leases	14,316	16,765
Liabilities to associated companies	930	1,871
Miscellaneous other current financial liabilities	1,041	1,511
Other current financial liabilities	**16,520**	**20,524**
Liabilities from leases	54,441	64,371
Liabilities to participations	2	4
Other non-current financial liabilities	**54,443**	**64,375**

Other financial liabilities mainly comprise non-current and current liabilities under leases. The decrease over 2019 is mainly due to the scheduled settlement of lease liabilities.

24. Other liabilities

Other liabilities break down as follows:

EUR k	December 31, 2020	December 31, 2019
Other liabilities	68,894	55,642
of which personnel-related liabilities	33,918	35,044
of which liabilities for consulting	1,024	1,878
Liabilities from other taxes and charges	14,753	9,200
Prepayments received	2,274	363
Social security obligations	6,067	5,402
Deferred income	1,562	2,396
Other current liabilities	**93,550**	**73,003**
Prepayments received	1,220	1,220
Miscellaneous other liabilities	40	0
Other non-current liabilities	**1,260**	**1,220**
Other liabilities	**94,810**	**74,223**

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. Cash Flow Statement

The cash flow statement presents the Group's cash flow situation broken down into cash inflows and outflows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification of the respective items. Cash flow from operating activities is derived indirectly from net profit before taxes, which is adjusted for non-cash expenses (primarily depreciation, amortization and impairment) and income. Cash flow from operating activities is calculated under consideration of the change in working capital. Investing activities comprise payments for property, plant and equipment, intangible assets and financial assets, but not additions to capitalized development costs and right-of-use assets. Financing activities include cash outflows for dividend payments, changes to other financial liabilities and lease liabilities as well as cash inflows from the receipt of hybrid loans and the issue of new shares under the capital increase. At the GRAMMER Group, cash and cash equivalents consist of cash and short-term money market funds, less bank overdrafts (including current liabilities under factoring contracts) to banks.

26. Legal disputes

A system comprising intensive contract review, contract management and systematic archiving is used to avert legal risks. Sufficient insurance cover has been taken out for normal risks and risks to the Company's ability to continue as a going concern. In its capacity as a shareholder Cascade International Investment GmbH ("Cascade") filed a lawsuit on June 26, 2017 seeking to set aside or, alternatively, nullify the resolution adopted at the Annual General Meeting on May 24, 2017 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2016. On July 13, 2018, Cascade filed an action for rescission, or alternatively an action for nullity, against the resolution adopted at the Annual General Meeting on June 13, 2018 to ratify the actions of the members of the Executive Board and the Supervisory Board for 2017 by way of an extension of the action. In addition, it sought the annulment of the negative resolutions passed at this Annual General Meeting regarding the dismissal of the meeting chairman and a special audit to review and assert claims for damages against the Executive Board and the Supervisory Board. The action was pending before the Regional Court of Nuremberg-Fürth. Cascade and GRAMMER AG agreed on an out-of-court settlement to the dispute. Cascade declared the dispute settled in a notice served on the court on February 5, 2020. GRAMMER accepted this settlement declaration in a written statement of the same date. Thereupon, the Regional Court of Nuremberg-Fürth declared the dispute settled in a ruling dated February 6, 2020.

In 2017, the German Federal Financial Supervisory Authority (BaFin) initiated administrative offense proceedings against GRAMMER AG for two allegedly late ad hoc disclosures. GRAMMER defended itself against these accusations in writing. An evaluation of evidence secured in February 2020 during a search of GRAMMER AG's premises in Ursensollen by the Frankfurt am Main public prosecutor's office revealed that the allegations made by BaFin were not justified. As expected, the public prosecutor's office in Frankfurt am Main therefore discontinued the proceedings on November 2, 2020, without imposing any conditions or fines.

GRAMMER AG and a US subsidiary are defendants in several lawsuits in the United States, which have been filed as class actions. A court decision on whether these lawsuits will be admissible as class actions has not yet been issued. Under the lawsuits, claims are being asserted for allegedly defective head restraints. The amount in dispute has not been set. GRAMMER is defending itself against these actions, although the outcome of the proceedings cannot be foreseen at present.

27. Contingent liabilities

Contingent liabilities break down as follows:

EUR k	2020	2019
Guarantees	2,607	2,546

Guarantees have been issued primarily as performance bonds.

28. Related parties disclosures

Information on the Group structure, subsidiaries and the parent company can be found in Note 3.

Terms of related party transactions

This section describes the sales to and purchases from related parties on arm's length terms. Outstanding amounts at the end of the fiscal year are unsecured, non-interest bearing and are settled by cash payment. No guarantees exist for receivables from or liabilities to related parties. An impairment test is performed annually by reviewing the financial position of the related party and the market in which it operates. As in the previous year, no impairment losses were recognized on accounts receivable from related parties as of December 31, 2020.

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

EUR k

Related parties		Sales to related parties	Purchases from related parties	Accounts receivable from related parties	Accounts payable to related parties
GRA-MAG Truck Interior Systems LLC	**2020**	6,414	0	7,868	0
	2019	9,879	0	9,863	0
Ningbo Jifeng Auto Parts Co., Ltd.	**2020**	421	1,599	498	1,236
	2019	2,894	298	2,701	2,809
Jiye Auto Parts GmbH	**2020**	0	0	0	0
	2019	–647	0	0	527
Jifeng Automotive Interior GmbH	**2020**	10	0	0	0
	2019	12	0	10	0
Jifeng Automotive Interior CZ s.r.o.	**2020**	146	0	107	0
	2019	0	200	0	152
Ningbo Jifeng Technology Co., Ltd	**2020**	0	2,000	0	375
	2019	0	2,520	0	1,218
ALLYGRAM Systems and Technologies Private Limited	**2020**	0	3,033	0	256
	2019	0	1,960	0	622

GRA-MAG Truck Interior Systems LLC

The Group holds an interest of 50% in the capital of GRA-MAG Truck Interior Systems LLC (GRA-MAG) (2019: 50%). GRA-MAG LLC had 54 employees as of December 31, 2020 (2019: 60). The accounts receivable from GRA-MAG LLC include a loan of EUR 6,809 thousand (2019: EUR 9,371 thousand).

Ningbo Jihong Investment Co., Ltd.

Ningbo Jihong Investment Co., Ltd., Ningbo City, China is the ultimate parent company of GRAMMER AG. There are no arrangements with Ningbo Jihong Investment Co., Ltd. for the delivery of goods and services. In accordance with recently received voting-right notifications in accordance with section 40 WpHG dated December 11, 2019, Ms. Bifeng WU in conjunction with Yiping WANG and Jimin WANG (Wang family) is the ultimate controlling party of the GRAMMER Group.

Ningbo Jifeng Auto Parts Co., Ltd./Jifeng Automotive Interior GmbH/Jifeng Automotive Interior CZ s.r.o./Ningbo Jifeng Technology Co., Ltd.

Like GRAMMER AG's direct parent company (Jiye Auto Parts GmbH), Jifeng Automotive Interior CZ s.r.o., Ningbo Jifeng Technology Co., Ltd. and Jifeng Automotive Interior GmbH are controlled by Ningbo Jifeng Auto Parts Co., Ltd. GRAMMER maintains direct relations for the delivery of goods and the provision of services with these companies.

In 2020 and 2019, Jiye Auto Parts GmbH, Ningbo Jiye Investment Co., Ltd. and GRAMMER AG entered into a cost coverage agreement with the Ningbo Jifeng Group for the reimbursement of expenses incurred in the provision and management of information in connection with the preparation of the annual financial statements. GRAMMER AG invoiced Ningbo Jifeng Auto Parts Co, Ltd. for internal and external costs totaling EUR 351 thousand in 2020 (2019: EUR 2,697 thousand). No other rechargeable costs arose in 2020. Accordingly, all internal costs and all external costs were recharged in full by GRAMMER AG. Internal costs are determined on the basis of the hours worked by the department concerned and external costs incurred.

On March 30, 2020, a hybrid loan of EUR 19,148 million was granted by Ningbo Jifeng Auto Parts Co., Ltd. to one of GRAMMER AG's Chinese subsidiaries. The hybrid loan was granted for an indefinite term and is classified as equity. The balance of the hybrid loan as of December 31, 2020 stands at EUR 19,579 thousand due to accrued interest.

Ningbo Jifeng Auto Parts Co., Ltd. and Grammer AG entered into a sales cooperation agreement for the Japanese market as well as a purchasing cooperation agreement in 2020. There are no direct service relationships between Ningbo Jifeng and GRAMMER AG as a result of the joint purchasing activities. The services provided in the sales cooperation take the form of consulting hours.

Jiye Auto Parts GmbH

In 2019, GRAMMER AG invoiced Jiye Auto Parts GmbH for internal and external costs incurred from a contractual obligation under the business combination agreement to provide and manage information. No costs were recharged in 2020.

ALLYGRAM Systems and Technologies Private Limited

The Group has held an interest of 30% in the capital of ALLYGRAM Systems and Technologies Private Limited (ALLYGRAM) since August 29, 2019. ALLYGRAM provides development services for GRAMMER Group, which are invoiced on the basis of hourly rates. ALLYGRAM had 99 (2019: 88) employees as of December 31, 2020.

Disclosures relating to the Executive Board/Supervisory Board

No companies in GRAMMER Group entered into any significant transactions with members of the Executive Board or the Supervisory Board of GRAMMER AG or with any companies on whose management or supervisory boards such persons are represented. This also applies to family members of such persons. The remuneration of the Management Board is presented in Note 32.

29. Additional information on financial instruments

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

EUR k

	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2020	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2020
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Assets							
Cash and short-term deposits	FAAC	89,838	89,838				**89,838**
Trade accounts receivable	FAAC	238,884	238,884				**238,884**
Other financial assets							
Loans and receivables	FAAC	10,041	10,041				**10,041**
Investments in associates	FVOCI	62		62			**62**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	795		795			**795**
Equity and liabilities							
Trade accounts payable	FLAC	251,404	251,404				**251,400**
Current and non-current financial liabilities	FLAC	376,883	376,883				**379,922**
Other financial liabilities							
Other financial liabilities	FLAC	1,973	1,973				**1,973**
Liabilities from leases	n.a.	68,757				68,757	**68,757**
Derivatives with no hedge relationship	FLTPL	0			0		**0**
Derivatives with hedge relationship	n.a.	233		233			**233**

EUR k

	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2020	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2020
			Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss		
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	338,763	338,763				**338,763**
Financial assets at fair value through other comprehensive income	FVOCI	62		62			**62**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and liabilities							
Financial liabilities at amortized cost	FLAC	630,260	630,260				**633,295**
Financial liabilities at fair value through profit and loss	FLTPL	0			0		**0**

EUR k	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2019	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2019
			Amortized cost	Fair value through other comprehen-sive income	Fair value through profit or loss		
Assets							
Cash and short-term deposits	FAAC	142,651	142,651				**142,651**
Trade accounts receivable	FAAC	206,821	206,821				**206,821**
Other financial assets							
Loans and receivables	FAAC	12,097	12,097				**12,097**
Investments in associates	FVOCI	50		50			**50**
Financial assets held for trading	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	1,211		1,211			**1,211**
Equity and liabilities							
Trade accounts payable	FLAC	310,399	310,399				**310,412**
Current and non-current financial liabilities	FLAC	427,711	427,711				**433,612**
Other financial liabilities							
Other financial liabilities	FLAC	3,386	3,386				**3,386**
Liabilities from leases	n.a.	81,136				81,136	**81,136**
Derivatives with no hedge relationship	FVtPL	0			0		**0**
Derivatives with hedge relationship	n.a.	377		377			**377**

EUR k	Measurement category in accordance with IFRS 9	Carrying amount on December 31, 2019	Measured in accordance with IFRS 9			Measured in accordance with IFRS 16	Fair value on December 31, 2019
			Amortized cost	Fair value through other comprehen-sive income	Fair value through profit or loss		
Of which aggregated by category in accordance with IFRS 9:							
Assets							
Financial assets at amortized cost	FAAC	361,569	361,569				**361,569**
Financial assets at fair value through other comprehensive income	FVOCI	50		50			**50**
Financial assets at fair value through profit and loss	FVtPL	0			0		**0**
Equity and liabilities							
Financial liabilities at amortized cost	FLAC	741,496	741,496				**747,410**
Financial liabilities at fair value through profit and loss	FVtPL	0			0		**0**

The maximum credit risk as of the reporting date corresponds to the carrying amount of each category of financial assets listed.

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

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

Trade accounts payable and other liabilities usually have short residual maturities. Longer-term trade accounts payable are determined on the basis of the respective yield curves and the risk premium applicable to GRAMMER.

The fair values of liabilities to banks, debenture bond and other non-current financial liabilities are determined as the present values of the payments associated with the liabilities calculated on the basis of the respective yield curves and the risk premium applicable for GRAMMER.

Fair value measurement

The following table sets out the quantitative parameters for measuring the fair value of the assets and liabilities on the basis of the fair value hierarchy as of December 31, 2020:

EUR k	Total	Level 1	Level 2	Level 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	795	0	795	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	126	0	126	0
Interest rate swaps	107	0	107	0
Liabilities for which a fair value is recognized				
Interest-bearing liabilities				
Liabilities under hire purchase contracts	1,394	0	1,394	0
Current and non-current financial liabilities	379,922	0	379,922	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, 2019:

EUR k	Total	Level 1	Level 2	Level 3
Assets recognized at fair value				
Derivative financial assets				
Currency forwards	1,211	0	1,211	0
Interest rate swaps	0	0	0	0
Liabilities recognized at fair value				
Derivative financial liabilities				
Currency forwards	0	0	0	0
Interest rate swaps	377	0	377	0
Liabilities for which a fair value is recognized				
Interest-bearing liabilities				
Liabilities under hire purchase contracts	2,278	0	2,278	0
Current and non-current financial liabilities	433,612	0	433,612	0

The levels of the fair value hierarchy reflect the level of judgment involved in estimating fair values. The hierarchy is broken down into three levels as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Valuation of assets or liabilities is based on direct or indirect market observables, which are not quoted prices in accordance with level 1.

Level 3: Valuation techniques are based upon inputs that are not observable in the market. There were no changes between Level 1 and Level 2 in the year under review.

No assets or liabilities were assigned to Level 3.

The following table shows the gains and losses on financial instruments:

EUR k	2020	2019
Financial assets at amortized cost	–2,608	–4,628
Financial liabilities at amortized cost	–10,159	2,839
Net gains/losses from financial instruments	**–12,767**	**–1,789**

Net gains or losses from financial assets at amortized cost include currency-translation gains or losses, changes to impairments through profit and loss, gains or losses from the derecognition of receivables and reversals of previously impaired receivables.

Net gains or losses from financial assets and liabilities measured at fair value through profit or loss include changes in the fair value of derivative financial instruments to which hedge accounting is not applied, including interest income and interest expenses.

The net gains or losses from financial liabilities at amortized cost primarily include currency-translation gains and losses from financial liabilities.

The GRAMMER Group has entered into master contracts with several banks. The derivative assets and liabilities outstanding as of the reporting date do not satisfy the offsetting criteria provided for in IAS 32.42. Accordingly, they are reported separately in the balance sheet. However, the master contracts include offsetting arrangements that apply in the event of insolvency.

The following table sets out the carrying amounts of the financial instruments which are subject to these agreements.

EUR k	Gross and net amounts of financial instruments in the statement of financial position	Offsetting agreement	Net amount
December 31, 2020			
Financial assets			
Currency forwards	795	–67	728
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	–126	67	–59
Interest rate swaps	–107	0	–107

EUR k	Gross and net amounts of financial instruments in the statement of financial position	Offsetting agreement	Net amount
December 31, 2019			
Financial assets			
Currency forwards	1,211	0	1,211
Interest rate swaps	0	0	0
Financial liabilities			
Currency forwards	0	0	0
Interest rate swaps	–377	0	–377

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

30. Financial derivatives and risk management

The main originated financial liabilities used in the Group encompass bonded loans, private placements, bank loans, overdrafts, finance leases and trade accounts payable. The Group has various financial assets such as trade accounts receivable and cash, which result directly from operating activities.

In addition, the Group has derivative financial instruments which it uses for risk management, primarily to hedge interest rate and currency risks.

Financial risks
The Group is exposed to market, credit and liquidity risks as well as currency and interest rate risks. Consequently, the Executive Board has implemented a risk management system which is also monitored by the Supervisory Board. The risk management system is integrated in the Chief Financial Officer's area of responsibility while the Executive Board bears ultimate overall responsibility. The rules are designed to promote responsible treatment of risks and prudent actions among all Group employees. Management of risk is the responsibility of the Company management. Together with experts for financial risk, the management of the Company prepares a suitable framework for managing financial risks. This framework ensures that the activities of the Company that entail financial risk are carried out with the relevant guidelines and procedures, and that financial risks are identified, assessed and managed in line with these guidelines, taking into account the Company's receptivity to risk.

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

Credit risk
Credit risk is defined as the risk of the Group suffering a loss (risk of default) because a counterparty fails to fulfill its obligations. The Group guidelines stipulate that transactions may only be entered into with creditworthy third parties to reduce the risks of non-performance. The creditworthiness of major customers, especially in the Automotive Division, is subject to particular monitoring due to risks from deliveries of goods. If no rating information is available, the Group uses other available financial information and its own records to assess major customers. Customers, who wish to conclude credit-based transactions for the first time, are also regularly subjected to a creditworthiness check. Receivables are monitored on an ongoing basis to ensure that the Group is not exposed to any material credit risk. The Group does not see any significant concentrations of credit risks as major transactions are characterized by short-term maturity structures and the high credit ratings of the key-account customers.

Market risk
Market risk refers to the risk that the fair value or future cash flows of financial instruments vary due to fluctuations in market prices. Market risk encompasses the following three risk types: exchange rate risk, interest rate risk and other price risks, such as share price risk. Financial instruments exposed to market risks include interest-bearing loans, deposits, financial assets at fair value through other comprehensive income as well as derivative financial instruments. The sensitivity analyses in the sections below relate to the situation as of December 31, 2020 and 2019. They were prepared on the basis of the hedging transactions outstanding on December 31, 2020, subject to the assumption of constant figures for net gearing, the ratio of fixed to variable interest rates on liabilities and derivatives and the proportion of financial instruments denominated in foreign currencies.

All depictions of the potential financial effects are approximations and are based on the assumptions of the relevant sensitivity analyses and method. The actual effects on the Group may deviate considerably as a result of actual market developments.

Commodity price risk
Procurement prices, especially for commodities such as steel, foam and plastics, are subject to significant fluctuations depending on the market situation. As these cannot always be passed on to customers, this results in price risks. To hedge these risks, the Company seeks long-term supply contracts and consolidates volumes to limit volatility. Commodity futures contracts recognized as derivatives under IFRS 9 can also be transacted in order to hedge price risks arising from purchases of raw materials. The Group carefully monitors the development of markets as a basis for decision making about the implementation of hedging.

There were no commodity forwards for hedging price risks for raw materials as of the reporting date in 2020 or 2019, and no such contracts were concluded in either of these two years.

Currency risk
As a consequence of its international focus and business activities, GRAMMER is exposed to currency risks. Currency risks primarily arise from sales transactions in the ordinary course of business in international markets outside the Eurozone and through the assets and liabilities of the GRAMMER Group. The main currencies in GRAMMER Group are the euro, the Czech koruna, the Polish złoty, the Mexican peso, the Serbian dinar,

the US dollar, the Turkish lira, the Brazilian real, the Japanese yen and the Chinese yuan. By transacting business in currencies other than the functional currencies of the respective Group companies, risks may arise from future payment flows. Exchange rate fluctuations may lead to unforeseeable and unfavorable earnings and cash flow volatilities.

Individual cash flows in the respective currency are aggregated in accordance with the GRAMMER Group's currency management guidelines, resulting in a net currency overhang or shortfall in periodic observations. Aggregated currency overhangs or currency requirements are hedged in advance on a rolling basis within the framework of the currency management guideline on the basis of the budgeted business plan. The hedging ratios of the respective currency exposures are increased over time.

The risk is mitigated by the fact that business transactions are mainly settled in the respective functional currency of the invoicing unit. In addition, where it is possible and cost-effective, commodities and services are purchased in the corresponding foreign currency and production takes place in local markets. A shortfall or surplus of foreign currency holdings is hedged by means of forward exchange transactions after all the measures already mentioned have been carried out. The aim of hedging transactions is to offset the volatility that can arise from cash inflows and outflows.

The operating units are not permitted to raise or invest financial resources in foreign currencies for speculative purposes.

Cash flow hedges

During the reporting period, there were currency hedges in MXN, PLN and CZK for which the conditions for cash flow hedging were satisfied. The following foreign currency-related hedges broken down by maturity are held:

	Duration		
	1–6 months	**7–12 months**	**Total**
2020			
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	18,174	17,969	**36,143**
Average forward exchange rate (EUR/CZK)	26.742	26.769	**–**
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	2,640	2,636	**5,276**
Average forward exchange rate (EUR/PLN)	4.469	4.477	**–**
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	3,886	0	**3,886**
Average forward exchange rate (EUR/MXN)	26.505	0	**–**
2019			
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	29,991	27,489	**57,480**
Average forward exchange rate (EUR/CZK)	25.955	26.105	**–**
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	7,639	7,302	**14,941**
Average forward exchange rate (EUR/PLN)	4.307	4.355	**–**
Currency forwards (sales expected with a high probability)			
Nominal amount in EUR k	0	0	**–**
Average forward exchange rate (EUR/MXN)	0	0	**–**

As of December 31, 2020, currency forwards with a positive market value of EUR 795 thousand (2019: EUR 1,211 thousand) and with a negative market value of EUR 126 thousand (2019: EUR 0) were designated as cash flow hedges. The settlement results are recognized under the financial result. There were no significant ineffective portions of hedging transactions to report in the income statement in the year under review.

The effects of foreign currency-related hedges on the Group's net assets, financial position and results of operations are as follows:

EUR k	December 31, 2020	December 31, 2019
Carrying amount (other current financial assets)	795	1,211
Carrying amount (other current financial liabilities)	126	0
Nominal value	45,305	72,421
Hedge relationship[1]	1:1	1:1
Change in the fair value of outstanding hedges since January 1	669	1,211
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	–669	–1,211

Effect on cumulative other comprehensive income:	**2020**	**2019**
Cash flow hedge amount on January 1	**932**	**172**
Change in the fair value of the hedge (effective part)	–1,484	1,732
Recycled from other comprehensive income to profit and loss	946	–655
Tax expenses (–)/tax income	164	–317
Cash flow hedge amount on December 31	**557**	**932**

[1] Currency forwards have the same currency as the highly probable future sales (accordingly 1:1 hedge relationship).

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

- All monetary financial instruments not held in the functional currency are taken into account. The analysis is based on the original balance sheet items of the subsidiaries subject to a significant risk from functional currencies other than the Group's.
- Changes in foreign exchange rates relating to financial instruments that are part of a net investment in foreign operations have an impact on equity.
- Derivatives for the purpose of currency hedging that are designated as hedges in the context of cash flow hedges have an effect on equity and are taken account of in the sensitivity analysis.
- Currency derivatives that are not designated as hedges in the context of cash flow hedges have an effect on period income and are taken account of accordingly in the sensitivity analysis.
- A change in the exchange rate of +/– 10 (2019: +/- 10) percentage points on the reporting date is assumed in order to determine sensitivity to exchange rate risks. All other variables remain constant.

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

EUR k

	Changes in the USD exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	3,396	–1,378
	–10%	–3,398	1,378
2019	+10%	2,999	–1,378
	–10%	–2,996	1,378

	Changes in the PLN exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	–243	573
	–10%	243	–469
2019	+10%	–787	1,676
	–10%	787	–1,372

	Changes in the TRY exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	219	0
	–10%	–219	0
2019	+10%	310	0
	–10%	–310	0

	Changes in the MXN exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	2,591	8,206
	–10%	–2,590	–8,121
2019	+10%	4,769	3,781
	–10%	–4,769	–3,781

	Changes in the CZK exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	4,472	4,078
	–10%	–4,472	–3,336
2019	+10%	4,778	6,515
	–10%	–4,778	–5,330

	Changes in the CNY exchange rate	Effect on earnings before taxes	Effect on equity
2020	+10%	576	0
	–10%	–565	0
2019	+10%	843	0
	–10%	–826	0

Interest rate risk

The Company pursues a strategy of hedging interest rate fluctuation arising from floating-rate non-current financial liabilities. To achieve this, GRAMMER uses receiver interest rate swaps. The market rates prevailing on the date on which the loan is taken out apply in the case of loans, meaning that the interest rate risk is limited to fluctuations in the market on the date on which the loan is drawn. Interest on overdrafts is agreed on a roll-over basis. To optimize interest expenses and minimize risk, Group Treasury manages this risk centrally for all companies in the Group. To the extent permitted, GRAMMER AG Group Treasury makes funding available to all Group companies in the form of loans.

The following interest-related hedges broken down by maturity are held:

	Duration		
	Until 2020	**Until 2022**	**Total**
2020			
Nominal amount (EUR k)	–	6,500	**6,500**
Weighted interest rate (%)	–	0.810	**0.810**
2019			
Nominal amount (EUR k)	42,500	6,500	**49,000**
Weighted interest rate (%)	0.502	0.810	**0.543**

As of December 31, 2020, there were interest rate swaps with a nominal volume of EUR 6.5 million (2019: EUR 49.0 million) in connection with the euro-denominated bonded loans issued to hedge the interest rate risks arising from the floating-rate tranches. These interest rate swaps qualify as cash flow hedges. As of December 31, 2020, interest rate swaps with a negative market value of EUR 107 thousand (2019: EUR 377 thousand) were designated as cash flow hedges.

The effects of interest-related hedges on the Group's net assets, financial position and results of operations of the Group are as follows:

EUR k

	December 31, 2020	December 31, 2019
Carrying amount (other current financial liabilities)	107	377
Nominal value	6,500	49,000
Maturity date	2022	2020, 2022
Hedge relationship	1:1	1:1
Change in the fair value of outstanding hedges since January 1	–270	–338
Change in the value of the hedged transaction to determine the effectiveness of the hedge relationship	270	338
Weighted average hedge for the year	0.810%	0.543%
Effect on cumulative other comprehensive income:	**2020**	**2019**
Cash flow hedge amount on January 1	**–265**	**–504**
Change in the fair value of the hedge (effective part)	0	–54
Recycled from other comprehensive income to profit and loss	270	392
Tax expenses (–)/tax income	–79	–99
Cash flow hedge amount on December 31	**–74**	**–265**

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

- Financial instruments measured at amortized cost with a fixed rate of interest are not subject to interest rate risks and thus not included in the sensitivity analysis.
- Variable-rate originated financial instruments, payments under which are not designated as hedged transactions for cash flow hedges against interest rate risks, have an effect on net profit for the period and are included in the sensitivity analysis.
- Variable-rate originated financial instruments, payments under which are designated as hedged items for effective cash flow hedges against interest rate risks, have synthetic fixed rates and thus are not subject to interest rate risks. Accordingly, they are not taken into account for sensitivity analysis.
- Interest rate derivatives not designated as cash flow hedges have an effect on net profit for the period and are thus included the sensitivity analysis.
- Interest rate derivatives that are designated as cash flow hedges have an affect on equity and are thus included in the sensitivity analysis.
- The interest rate risk from currency derivatives is deemed insignificant and thus not included in the sensitivity analysis.
- The determination of the sensitivity of interest rate derivatives assumes a parallel shift along the yield curve of +/–50 (2019: +/–50) basis points.
  The interest rate on deposits was reduced on interest-bearing current account balances to a minimal level of 0.001%.

The following table shows the sensitivity of consolidated profit before tax to a reasonably possible change in interest rates. All other parameters remain constant.

EUR k

	Increase/ reduction (basis points)	Impact on earnings before taxes	Effect on equity
2020	–50	6	–1
	50	–47	2
2019	–50	–51	–2
	50	342	116

Ineffectiveness of hedging relationships

The effectiveness of hedging relationships is determined at the inception of each hedging relationship and through regular prospective assessments to ensure that there is a commercial relationship between the hedged item and the hedge.

To hedge foreign currency transactions, the Group enters into hedging relationships in which the contractual terms of the hedge match those of the item hedged in the applicable month on average. The dollar offset method is used to assess the effectiveness of the hedging relationship.

Hedges of foreign currency transactions may be ineffective if the timing of the planned transaction changes from the original estimate or if there are any changes in the credit risk of GRAMMER or the counterparty to the derivative. In 2020 and 2019, there was no ineffectiveness with respect to foreign currency derivatives.

When interest rate risks are hedged, there is a commercial relationship between the floating-rate loan (the hedged item) and the interest rate swap (the hedge) as the terms of the interest rate swap correspond to those of the floating-rate loan (this applies to the notional amount, maturity, payment dates and repricing dates). The underlying risk of the interest rate swap is identical to that of the hedged risk component. Therefore, the hedging relationship has a hedging ratio of 1:1. The dollar offset method is also used to assess the effectiveness of the hedging relationship.

The ineffectiveness of hedges with interest rate swaps is assessed according to the same principles as for foreign currency sales. One reason for the ineffectiveness of a hedging relationship may be adjustments to the credit value/debit value adjustments of the parties to the interest rate swap that are not offset by changes in the value of the hedged loan. Differences in contractual terms between interest rate swaps and secured loans may also lead to ineffectiveness. In 2020 and 2019 there was no ineffectiveness with respect to interest rate swaps.

Liquidity risk

The Group manages liquidity risks by means of appropriate bank credit facilities of EUR 446.2 million (2019: EUR 148.2 million), by constantly monitoring projected and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The aim is to achieve a balance between covering the need for financial resources at all times and ensuring flexibility through the use of overdraft facilities, loans, bonds, factoring, leases and closed-end leasing agreements.

As of December 31, 2020, the Group had unutilized credit facilities of EUR 303.7 million (2019: EUR 134.9 million), for which all the conditions required for drawing had been met. The following table shows the contractually agreed (undiscounted) interest and principal payments from primary financial liabilities and derivative financial instruments with negative fair values:

EUR k	Carrying amount	Cash flow		
2020		**2021**	**2022–2024**	**2025 and thereafter**
Bonded loans	128,121	4,298	57,523	88,343
Bank loans	214,296	91,360	83,990	50,355
Bank overdrafts (including current liabilities under factoring contracts)	34,466	34,466	0	0
Current and non-current financial liabilities	**376,883**	**130,124**	**141,513**	**138,698**
Current and non-current trade accounts payable	**251,404**	**250,875**	**549**	**0**
Lease liabilities	68,757	16,941	29,778	34,635
Other originated financial liabilities	1,973	1,971	2	0
Current and non-current other financial liabilities	**70,730**	**18,912**	**29,780**	**34,635**
Interest rate derivates	107	53	53	0
Currency derivates	126	0	0	0
Incoming payments		5,176	0	0
Outgoing payments		–5,276	0	0
Derivatives	**233**	**–47**	**53**	**0**
	699,250	**399,864**	**171,895**	**173,333**

EUR k	Carrying amount	Cash flow		
2019		**2020**	**2021–2023**	**2024 and thereafter**
Bonded loans	211,279	87,900	52,592	97,577
Bank loans	197,435	107,100	64,674	34,127
Bank overdrafts (including current liabilities under factoring contracts)	18,997	18,998	0	0
Current and non-current financial liabilities	**427,711**	**213,998**	**117,266**	**131,704**
Current and non-current trade accounts payable	**310,399**	**309,028**	**1,420**	**0**
Lease liabilities	81,136	19,788	35,583	41,475
Other originated financial liabilities	3,386	3,382	4	0
Current and non-current other financial liabilities	**84,522**	**23,170**	**35,587**	**41,475**
Interest rate derivates	377	270	107	0
Currency derivates	0			
Incoming payments		0		
Outgoing payments		0		
Derivatives	**377**	**270**	**107**	**0**
	823,008	**546,466**	**154,380**	**173,179**

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

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

Capital management

Capital management serves the purpose of ensuring a high credit rating and establishing an appropriate return on equity. The Group manages its financial structure in line with this objective and, taking account of general economic conditions, adapts it to the objective.

The Group monitors its capital structure by reference to leverage and gearing. Leverage is the ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to net debt. Net financial liabilities are made up of current and non-current financial liabilities less cash and short-term deposits. Gearing is defined as the ratio of net financial liabilities to equity.

Financial covenants have also been agreed under loan agreements, mainly relating to the leverage ratio. Under the contractual amendments in 2020, compliance with the financial covenants was suspended as of the reporting date and adjusted for the periods ending December 31, 2022. The original contract conditions come into force again after that date at the latest.

EUR k	December 31, 2020	December 31, 2019
Non-current financial liabilities	253,255	219,976
Current financial liabilities	123,628	207,735
Cash and short-term deposits	–89,838	–142,651
Net financial liabilities	**287,045**	**285,060**
Equity	**302,210**	**342,242**
Equity ratio	**22%**	**23%**
Gearing	**95%**	**83%**

31. Disclosure of shareholdings in accordance with section 33 WpHG

Under section 33 (1) or (2) of the Securities Trading Act (WpHG), any person whose shareholding in a listed company reaches, exceeds or falls below certain percentages of the voting rights by purchase, sale or by any other means must notify the Company and the Federal Financial Supervisory Authority immediately, however in no less than four trading days. The lowest notification threshold is 3%. The Company was notified of the following shareholdings as of December 31, 2020 in accordance with section 33 WpHG (the percentage and number of shares shown refers to the share capital in existence as of the date of the notification; the number of shares is taken from the most recent notification served on GRAMMER AG and may therefore no longer apply):

In notices dated October 14, 2019 and December 11, 2019, Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG, China, informed us pursuant to section 33 (1) WpHG that their voting rights in GRAMMER AG (ISIN: DE0005895403) continued to exceed the 75% threshold and amounted to 84.23% (10,618,681 voting rights). Of this, 84.23% (10,618,681 voting rights) are attributable to Ms. Bifeng WU, Mr. Yiping WANG and Mr. Jimin WANG pursuant to section 34 WpHG. Voting rights are allocated by the following company: Jiye Auto Parts GmbH, Frankfurt am Main, Germany, an indirect subsidiary of Ningbo Jifeng Auto Parts Co., Ltd., Ningbo, China.

(published on December 16, 2019)

All notifications served on GRAMMER AG in accordance with sections 33 ff WpHG can be inspected at the Company's website and at the platform operated by Deutsche Gesellschaft für Ad-hoc-Publizität mbH.

32. Other disclosures

Employees

Annual average number of employees:

	2020	2019
Wage-earning employees	11,320	11,974
Salaried employees	2,872	2,936
Employees	**14,192**	**14,910**

Hyperinflation

IAS 29 "Financial Reporting in Hyperinflationary Economies" provides guidance on assessing whether the economy of a particular jurisdiction is hyperinflationary. However, the IASB does not name specific jurisdictions. The International Practices Task Force (IPTF) of the US Institute Centre for Audit Quality monitors the status of "high-inflation" countries. Its criteria for identifying such countries are similar to those for identifying "hyperinflationary economies" under IAS 29. Argentina was among those countries in which cumulative inflation over the last three years was forecast to exceed 100%.

Based on this assessment, the effects of the application of IAS 29 are reviewed annually. The application of IAS 29 resulted in an increase in revenue of EUR 0.2 million and a minor impact on EBIT and net profit of EUR 0.1 million in 2020. In 2019, this had resulted in an increase in revenue of EUR 0.3 million and a reduction in EBIT and net profit of EUR 0.1 million.

Auditors' fees within the meaning of section 314 (1) No. 9 HGB

Fees paid to the auditor of the consolidated financial statements, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Nuremberg, which are recognized as expenses in the reporting year, amounted to EUR 796.5 thousand, including an amount of EUR 107.1 thousand attributable to the previous year's audit. In the previous year, auditors' fees of EUR 859.0 thousand, including EUR 227.5 thousand attributable to the previous year's audit (2018) had been recognized. No fees for tax consulting or miscellaneous attestation, valuation or other services arose in the year under review or in the previous year.

Additional expenses for the group auditor Ernst & Young GmbH in connection with the audit of the consolidated financial statements for the Ningbo Jifeng Group amounted to EUR 62.6 thousand in 2020 (2019: 105.0 thousand) and are not included in the auditor's fee as they were directly recharged to Ningbo Jifeng Auto Parts Co, Ltd, Ningbo, China.

Executive Board and Supervisory Board remuneration

The remuneration paid to the Executive Board and Supervisory Board is set out in the following table:

EUR k	2020	2019
Total remuneration paid to the Executive Board amounted to	1,301	808
The Supervisory Board received total remuneration of	573	557

Of the total remuneration paid to the Executive Board, EUR 50 thousand (2019: EUR 85 thousand) is attributable to performance-related components and EUR 0 thousand (2019: EUR –372 thousand) to components with a long-term incentive effect. The components with a long-term incentive effect amounting to EUR –372 thousand in 2019 within the remuneration of the Executive Board represent a reduction in entitlement expected after the end of the performance period, i.e. 2021 at the earliest. The performance-related remuneration components and components with a long-term incentive effect are affected by the corresponding components from the prior year in an amount of EUR –68 thousand (2019: EUR –19 thousand) and EUR 0 thousand (2019: EUR –372 thousand), respectively.

Individual remuneration paid to the members of the Executive Board was as follows in 2020 and 2019:

EUR k

2020	Non-performance-related components	Performance-related components	Long-term incentive components	Total remuneration
Thorsten Seehars	569	32	0	601
Jurate Keblyte	344	18	0	362
Jens Öhlenschläger	338	0	0	338
	1,251	**50**	**0**	**1,301**

EUR k

2019	Non-performance-related components	Performance-related components	Long-term incentive components	Total remuneration
Thorsten Seehars	238	23	0	261
Jurate Keblyte	141	13	0	154
Jens Öhlenschläger	335	32	0	367
Manfred Pretscher	381	17	–372	26
	1,095	**85**	**–372**	**808**

As of December 31, 2020, provisions of EUR 362 thousand (2019: EUR 133 thousand) were recognized for retirement benefit obligations to the members of GRAMMER AG's Executive Board in 2020 backed by plan assets of EUR 134 thousand (2019: EUR 133 thousand).

Payments of EUR 1,215 thousand (2019: EUR 709 thousand) were made to former members of the Executive Board and their surviving dependants under retirement benefit commitments. In the year under review, this includes the dissolution of the retirement benefit obligation of a net EUR 932 thousand towards the former Executive Board member Manfred Pretscher. In the previous year, it had included the dissolution of the retirement benefit obligation of EUR 435 thousand towards the former Executive Board member Mr. Gerard Cordonnier.

Retirement benefit obligations towards former members of management and the Executive Board and their surviving dependents are valued at a total of EUR 9,379 thousand (2019: EUR 10,293 thousand) as of the reporting date and corresponding provisions have been recognized under IAS 19 (revised).

In addition, current service costs of EUR 232 thousand (2019: EUR 133 thousand) arose for members of the Executive Board as of December 31, 2020 for additions to the retirement benefit provisions. Of this, an amount of EUR 108 thousand (2019: TEUR 45 thousand) is attributable to Mr. Thorsten Seehars, EUR 62 thousand (2019: TEUR 26 thousand) to Ms. Jurate Keblyte and EUR 62 thousand (2019: EUR 62 thousand) to Mr. Jens Öhlenschläger. Executive Board members receive no loans from the Company. Advances on the components with a long-term incentive effect may be made.

Target remuneration in the Executive Board remuneration system: 100% target achievement, minimum and maximum remuneration

The basic elements of the remuneration system for the members of the Executive Board are described in the section entitled "Principles of the remuneration system" in the 2020 remuneration report in the Group management report.

Annual total target remuneration comprising fixed remuneration, a short-term incentive (STI) target and a long-term incentive (LTI) target is agreed upon with each member of the member of the Executive Board. The minimum remuneration equals the amount of the fixed remuneration. The degree of achievement for STI and LTI may be between zero ("floor") and 200% ("cap") of the target remuneration.

All members of the Executive Board voluntarily waived the STI and LTI for 2020.

The remuneration actually received by the members of the Executive Board for 2020 and the previous year are set out above in the tables entitled "Executive Board remuneration". The following table shows the range of possible remuneration for a member of the Executive Board:

Thorsten Seehars/CEO

	(presented for 5 months)	(presented as full-year remuneration)			
Target remuneration	**2019**	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Target achievement for STI/LTI of	100%	100%	100%	0%	200%
Fixed remuneration	229,167	550,000	550,000	550,000	550,000
STI (including bonus/penalty)	130,208	312,500	312,500	–55,000	680,000
LTI	161,458	387,500	387,500	0	775,000
Total remuneration	**520,833**	**1,250,000**	**1,250,000**	**495,000**	**2,005,000**

Jurate Keblyte/CFO

	(presented for 5 months)	(presented as full-year remuneration)			
Target remuneration	**2019**	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Target achievement for STI/LTI of	100%	100%	100%	0%	200%
Fixed remuneration	132,000	316,800	316,800	316,800	316,800
STI (including bonus/penalty)	75,000	180,000	180,000	–31,680	391,680
LTI	93,000	223,200	223,200	0	446,400
Total remuneration	**300,000**	**720,000**	**720,000**	**285,120**	**1,154,880**

Jens Öhlenschläger/COO

	(presented for 12 months)	(presented as full-year remuneration)			
Target remuneration	**2019**	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Target achievement for STI/LTI of	100%	100%	100%	0%	200%
Fixed remuneration	316,800	316,800	316,800	316,800	316,800
STI (including bonus/penalty)	180,000	180,000	180,000	–31,680	391,680
LTI	223,200	223,200	223,200	0	446,400
Total remuneration	**720,000**	**720,000**	**720,000**	**285,120**	**1,154,880**

Individualized remuneration for the Supervisory Board breaks down as follows:

EUR k	Net fixed remuneration	Net meeting fees	Total
Alfred Weber (from July 8, 2020)	29	22	**51**
Dr.-Ing. Klaus Probst (until July 8, 2020)	31	13	**44**
Horst Ott	45	23	**68**
Klaus Bauer (from September 1, 2020)	10	4	**14**
Andrea Elsner	30	13	**43**
Wolfram Hatz (until July 8, 2020)	15	9	**24**
Ping He (from July 8, 2020)	15	5	**20**
Martin Heiß	30	16	**46**
Ingrid Hunger (until July 8, 2020)	15	3	**18**
Harald Jung (until September 1, 2020)	20	3	**23**
Peter Kern (from July 8, 2020)	15	5	**20**
Jürgen Kostanjevec (from July 8, 2020)	15	5	**20**
Dr. Peter Merten	30	12	**42**
Lars Roder (until July 8, 2020)	15	5	**20**
Gabriele Sons (from July 8, 2020)	15	9	**24**
Prof. Dr.-Ing. Birgit Vogel-Heuser	30	6	**36**
Antje Wagner	30	10	**40**
Dr. Bernhard Wankerl (until July 8, 2020)	15	5	**20**
	405	**168**	**573**

No compensation was paid to former members of the Supervisory Board, and no such payments constitute a component of Supervisory Board remuneration. As in the previous year, the Supervisory Board did not receive any performance-based remuneration in 2020.

33. Group corporate governance declaration

The Group corporate governance statement pursuant to section 315d in connection with section 289f HGB and the declaration of conformity with the German Corporate Governance Code (section 161 AktG) have been released and are permanently available on the Company's website at www.grammer.com in the "Investor Relations" section under "Facts on the Company".

Disclosures on the Executive Board and the Supervisory Board

Members of the Executive Board

Dipl.-Wirtschaftsingenieur **Thorsten Seehars,** Munich (member of the Executive Board since August 1, 2019)	Chief Executive Officer HR Director
Dipl.-Ing. **Jens Öhlenschläger,** Amberg (member of the Executive Board since January 1, 2019)	Chief Operating Officer
M.Sc. **Jurate Keblyte,** Haar (member of the Executive Board since August 1, 2019)	Chief Financial Officer

Members of the Supervisory Board

Dipl.-Kaufmann Alfred Weber, Stuttgart (Member of the Supervisory Board since July 8, 2020)	Chairman of the Supervisory Board
Horst Ott, Königstein	Deputy Chairman of the Supervisory Board/ employee representative
Dipl.-Ing. Klaus Bauer, Ensdorf (Member of the Supervisory Board since September 1, 2020)	Employee representative
Andrea Elsner, Ebermannsdorf	Employee representative
Dr.-Ing. Ping He, Wenzenbach-Irlbach (Member of the Supervisory Board since July 8, 2020)	
Martin Heiß, Sulzbach-Rosenberg	Employee representative
Peter Kern, Kümmersbruck (Member of the Supervisory Board since July 8, 2020)	Employee representative
Dipl.-Ing. Jürgen Kostanjevec, Cologne (Member of the Supervisory Board since July 8, 2020)	
Dipl.-Kaufmann Dr. Peter Merten, Heppenheim	
Gabriele Sons, Berlin (Member of the Supervisory Board since July 8, 2020)	
Prof. Dr.-Ing. Birgit Vogel-Heuser, Garching	
Antje Wagner, Frankfurt am Main	Employee representative
Lic. oec. HSG Ingrid Hunger, Lohr a. M.	
Lars Roder, Illschwang	Employee representative
Dr. Bernhard Wankerl, Bodenwöhr	

Member of the Supervisory Board until July 8, 2020

Dr.-Ing. Klaus Probst, Heroldsberg	Chairman of the Supervisory Board
Dipl.-Betriebswirt (FH) Wolfram Hatz, Ruhstorf a.d. Rott	

Member of the Supervisory Board until September 1, 2020

Dipl.-Betriebswirt (FH) Harald Jung, Nabburg	Employee representative

Professions and other offices of the members of the Executive Board within the meaning of section 285 (1) no. 10 HGB

Executive Board

Thorsten Seehars Chief Executive Officer (CEO), Labor Director (Member of the Executive Board since August 1, 2019)	Board of Directors: – GRA-MAG Truck Interior Systems LLC – Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. (since February 19, 2020)
Jens Öhlenschläger Chief Operating Officer (COO) (Member of the Executive Board since January 1, 2019)	Board of Directors: – ALLYGRAM Systems and Technologies Private Limited Supervisory Board: – Grammer Interior (Beijing) Co., Ltd. – Grammer Interior (Shanghai) Co., Ltd. – Grammer Interior (Tianjin) Co., Ltd. – Grammer Seating (Ningbo) Co., Ltd. – Grammer Seating (Shaanxi) Co., Ltd. – Grammer Japan Ltd. – Grammer Vehicle Parts (Shenyang) Co., Ltd. (since September 8, 2020)
Jurate Keblyte Chief Financial Officer (CFO) (Member of the Executive Board since August 1, 2019)	Board of Directors: – Changchun GRAMMER FAWSN Vehicle Parts Co., Ltd. (since February 19, 2020) External mandates: – Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich

Professions and offices in accordance with section 125 paragraph 1 sentence 5 AktG and other offices held by members of the Supervisory Board

Supervisory Board	Offices in accordance with section 125 (I) sentence 5 AktG	Other offices
Dipl.-Kaufmann Alfred Weber Former chief executive officer of MANN+HUMMEL GmbH	– Chairman of the Supervisory Board of GRAMMER AG, Amberg (since July 8, 2020)	– Chairman of the Advisory Board of Südpack Verpackungen GmbH & Co. KG, Ochsenhausen – Member of the Advisory Board of Kurtz Holding GmbH & Co. Beteiligungs KG, Kreuzwertheim
Horst Ott First Representative of IG Metall Amberg	– Deputy Chairman of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
Dipl.-Ing. Klaus Bauer Plant Manager GRAMMER Technical Components GmbH	– Member of the Supervisory Board of GRAMMER AG, Amberg (since September 1, 2020)	– No other offices
Andrea Elsner Business management assistant	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
Dr.-Ing. Ping He Development engineer in the Powertrain Division of Continental AG (until December 31, 2020) Retired (since January 1, 2021)	– Member of the Supervisory Board of GRAMMER AG, Amberg (since July 8, 2020)	– No other offices
Martin Heiß Management assistant for data processing	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
Peter Kern Locksmith	– Member of the Supervisory Board of GRAMMER AG, Amberg (since July 8, 2020)	– No other offices
Dipl.-Ing. Jürgen Kostanjevec independent consultant	– Member of the Supervisory Board of GRAMMER AG, Amberg (since July 8, 2020)	– No other offices
Dr. Peter Merten Management consultant	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of Nanogate SE, Göttelborn	– Member of the Advisory Board of Deutsche Bank AG, Mannheim – Member of the Advisory Board of KAMAX Holding GmbH & Co. KG, Homberg (Ohm)
Gabriele Sons Attorney at Law in the Sons Law Firm	– Member of the Supervisory Board of GRAMMER AG, Amberg (since July 8, 2020) – Member of the Supervisory Board of ElringKlinger AG, Dettingen/Erms	– Member of the Board of Directors of TÜV Rheinland Berlin Brandenburg Pfalz e.V., Cologne

Prof. Dr.-Ing. Birgit Vogel-Heuser Electrical Engineer, Professor of automation and information systems at the Technical University of Munich	– Member of the Supervisory Board of GRAMMER AG, Amberg – Member of the Supervisory Board of SMS group GmbH, Düsseldorf and SMS Holding GmbH, Düsseldorf – Member of the Supervisory Board of HAWE Hydraulik SE, Aschheim/Munich	– No other offices
Antje Wagner Trade Union Secretary, IG Metall Management Board	– Member of the Supervisory Board of GRAMMER AG, Amberg	– No other offices
Member of the Supervisory Board until July 8, 2020		
Dr.-Ing. Klaus Probst Former Chief Executive Officer of LEONI AG	– Chairman of the Supervisory Board of GRAMMER AG, Amberg (until July 8, 2020) – Chairman of the Supervisory Board of LEONI AG, Nuremberg – Member of the Supervisory Board of Zapp AG, Ratingen (until June 25, 2020)	– Member of the Advisory Board of Lux-Haus GmbH & Co., Georgensmünd – Member of the Advisory Board of Deutsche Bank AG, Munich (southern region) – Deputy Chairman of the Advisory Board of Diehl Stiftung & Co. KG, Nuremberg – Chairman of the Advisory Board of Richard Bergner Holding GmbH & Co. KG, Schwabach
Wolfram Hatz Chairman of the Advisory Board of Motorenfabrik Hatz GmbH & Co. KG	– Member of the Supervisory Board of GRAMMER AG, Amberg (until July 8, 2020)	– Member of the Advisory Board of Commerzbank AG, Frankfurt am Main
Ingrid Hunger Chief Executive Officer of Walter Hunger GmbH & Co. KG and majority shareholder of the Hunger Hydraulik Group	– Member of the Supervisory Board of GRAMMER AG, Amberg (until July 8, 2020)	– No other offices
Lars Roder Mechanical engineering technician	– Member of the Supervisory Board of GRAMMER AG, Amberg (until July 8, 2020)	– No other offices
Dr. Bernhard Wankerl Attorney, law firm Dr. Wankerl and colleagues	– Member of the Supervisory Board of GRAMMER AG, Amberg (until July 8, 2020)	– No other offices
Member of the Supervisory Board until September 1, 2020		
Harald Jung Vice President Division Controlling Consoles & Armrests	– Member of the Supervisory Board of GRAMMER AG, Amberg (until September 1, 2020)	– No other offices

34. Combined separate non-financial report

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

Independent auditor's report

To GRAMMER Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of GRAMMER AG, Ursensollen, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January 2020 to 31 December 2020, the consolidated statement of financial position as of 31 December 2020, the consolidated statements of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2020 to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GRAMMER AG for the fiscal year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the group statement on corporate governance pursuant to Sec. 315d in conjunction with Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code], which is published on the website stated in the group management report and is part of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of 31 December 2020 and of its financial performance for the reporting year from 1 January 2020 to 31 December 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment testing of goodwill

Reasons why the matter was determined to be a key audit matter

Pursuant to IAS 36, goodwill is subject to an annual impairment test in which the carrying amount of the cash-generating unit, to which the goodwill is allocated, is compared with its recoverable amount. The basis for determining the recoverable amount is the present value of future cash flows of the cash-generating unit. Valuations are based on the budgets for every cash-generating unit, which in turn are based on the budgets approved by management and the Supervisory Board of GRAMMER AG and thus subject to judgment. They are discounted on the basis of the weighted average cost of capital (WACC) for the respective cash-generating unit. The inputs used to calculate the discount rate are partly based on estimated market expectations and are, therefore, also subject to judgment.

In light of the planning uncertainty resulting from the future-oriented nature of the measurement and also in view of the effects of the COVID-19 pandemic and the judgment exercised as part of the required impairment test, the impairment testing of goodwill was a key audit matter.

Auditor's response

To assess the recoverable amounts of the cash-generating units determined by the executive board, we examined the processes associated with the inspection and approval of planning as a key basis for the impairment tests and carried out substantive audit procedures.

In particular, we discussed the demarcation of cash-generating units as of 31 December 2020 with the executive directors of GRAMMER AG and assessed this in respect of its consistency with the internal reporting structure.

We also involved our valuation specialists in the audit in order to methodically and arithmetically assess the valuation model and the calculation inputs used. We examined whether the valuation models were applied consistently.

We also examined whether the budget planning reflects general, regional and industry-specific market expectations. In our assessment, we considered the corresponding market expectations as well as the explanations given by management on the main value drivers underlying the budgets, including any impact of the COVID-19 pandemic. To determine the reliability of the budgets, we compared historical budget data with actual figures on a sample basis. In this regard, effects attributable to the COVID-19 pandemic were also taken into consideration.

The inputs used in the determination of the recoverable amounts such as the estimated growth rates were assessed based on an analysis of general market indicators. We assessed the derivation of the weighted average cost of capital (WACC) by evaluating the beta factors used for the benchmark companies involved and comparing the interest rates for equity and liabilities with available market data. In order to identify a potential impairment risk, we additionally conducted sensitivity analyses on the results of the impairment test to determine which changes in specific valuation inputs would lead to a different assessment about the need to recognize an impairment loss the level of the cash-generating unit. Our audit procedures did not lead to any reservations regarding the impairment of goodwill.

Reference to related disclosures

With regard to the accounting policies applied in respect of goodwill and the related disclosures on judgment exercised by the Executive Board of GRAMMER AG and sources of estimation uncertainties, please refer to the disclosure in section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Estimates and judgments (IAS 8)" and "Goodwill (IAS 38, IAS 36)" and the disclosures on goodwill in section 11.3 "Goodwill" in the notes to the consolidated financial statements.

2. Revenue recognition over time from development contracts with customers

Reasons why the matter was determined to be a key audit matter

The GRAMMER Group companies generally fulfill their performance obligations from customer-specific development contracts over time and recognize the resulting amount of revenue arising pursuant to IFRS 15 "Revenue from Contracts with Customers", in accordance with the stage of completion of the respective performance obligation. The progress with regard to the satisfaction of the performance obligation in full is determined on an input basis and based on the costs incurred.

Revenue recognition over time is therefore highly dependent on the managements' estimation of total contract revenue and total contract costs and, through the determination of the stage of completion, has a significant impact on the items of the consolidated financial statements. We therefore considered the recognition of revenue from development contracts over time to be a key audit matter entailing the risk of material misstatement in the consolidated financial statements, including the inherent risk of management bypass or override of the internal control system.

Auditor's response

We performed tests of design and operating effectiveness for the significant controls implemented by the executive directors in contract acceptance and performance and in the accounting for customer contracts, especially in connection with the identification of performance obligations, the determination of the transaction price and its allocation to the identified performance obligations as well as the estimation of contract costs. In this context, we tested both transaction-level controls and entity-level controls, such as regular review meetings.

For development contracts that were significant due to their technical or commercial complexity or their financial significance given the recognized assets from customer contracts, we also performed the substantive tests presented below:

By questioning those responsible for group-wide project controlling, we gained an overview of the content of the contracts and the contracted development services, and the status of the respective fulfillment of the contract, the reasons for deviations between planned costs and actual costs and the current assessment of the costs still expected to be incurred up until the time of completion. We examined the information obtained to determine whether it was consistent with the available evidence, such as customer correspondence or contracts. In doing so, we assessed the executive directors' planning in respect of its consistency with the current development of the market and externally available sales forecasts for the underlying models of automobiles. We also examined the transaction price of the performance obligations by comparing this with the underlying contracts. If, based on the executive directors' planning, it was no longer to be expected that the unavoidable costs to fulfill the contractual obligation would be fully covered, we verified that a provision had been recognized for the onerous contract.

We analyzed the reported revenue from development contracts to determine, among other things, whether the planned and realized margin from the contracts is in line with our expectations, which we derived for the individual project or the performance of comparable projects. Our audit procedures did not lead to any reservations regarding the recognition of revenue from development contracts over time.

Reference to related disclosures

Regarding the information provided by the Company on the recognition of revenue over time, reference is made to section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Estimates and judgments (IAS 8)" and "Revenue from contracts with customers (IFRS 15)" and section 6 "Revenue from contracts with customers" as well as section 14 "Balances of contract assets and contract liabilities" of the notes to the consolidated financial statements.

3. Revenue recognition in relation to the delivery of serial products

Reasons why the matter was determined to be a key audit matter

The revenue reported in the consolidated financial statements is one of the main financial performance indicators used by the management of GRAMMER AG. As a general rule, revenue is recognized upon satisfaction of the respective performance obligation, namely the date on which the customer obtains control over the underlying asset.

The recognition of revenue is subject to the risk that revenue is recognized at a wrong time or that fictitious revenue is recognized. Revenue results from a range of individual transactions in the form of separate deliveries. In addition, ongoing price negotiations and adjustments with customers lead to frequent changes to transaction prices and consequently to an amended measurement of recognized revenue. The recognition of revenue is exposed to the risk of material misstatement including the inherent risk of management bypass or override of the internal control system. On account of the frequently changing transaction prices, revenue recognition is deemed to be complex, meaning that there is an increased risk of material misstatement. As recognized revenue has a material impact on GRAMMER AG's consolidated financial statements, we considered revenue recognition to be a key audit matter.

Auditor's response

During our audit, we obtained an understanding of the contractual arrangements with the customers, especially the arrangements governing the time of obtaining control, as well as the arrangements regarding the billing procedure, and assesses them based on our understanding of the business and process. Against this backdrop, we examined the internal procedures and controls implemented for revenue recognition and for recording the amount of revenue. We performed tests of design and operating effectiveness in this context,

examining the revenue recognized for the fiscal year from 1 January 2020 to 31 December 2020 with respect to how it was recorded in the accounts. We analyzed any deviations from our exceptions in the posting logic based on additional substantive audit procedures by obtaining audit evidence, for example on proof of delivery and incoming payments. In addition, our audit procedures also included obtaining external customer confirmations on a sample basis. We checked that the revenue had been entered in the right amount in particular by comparing a sample of the transaction prices with their applicable contractual bases. We also determined whether the corresponding trade receivables had been settled by the customer by paying the invoice amount in the customary business cycle. At the same time, we checked a sample of incoming payments against the corresponding bank statements.

In order to identify unexpected fluctuations in the gross margin reported, we performed a margin analysis at a monthly level. Our audit procedures did not lead to any reservations regarding the recognition of revenue from serial production.

Reference to related disclosures

The Company's disclosures on revenue recognized at a point in time are presented in section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Revenue from contracts with customers (IFRS 15)", and in section 6 "Revenue from contracts with customers" of the notes to the consolidated financial statements.

4. Recoverability of recognized deferred tax assets on unused tax losses

Reasons why the matter was determined to be a key audit matter

The entities within the GRAMMER Group carry out their business activities in numerous countries with varying local tax laws. In this regard, in some of these countries there are unused tax losses, for which, pursuant to IAS 12, a deferred tax asset should be recognized to the extent that it is probable that a future taxable profit will be available against which the unused tax losses can be utilized. This assessment is subject to a great deal of judgment and estimates by the executive directors, primarily in cases in which the affected companies have recognized a series of losses in the recent past, and consequently subject to judgment to a great extent in particular also in light of the effects of the COVID-19 pandemic.

In particular as a result of the restructuring under corporate law in the US that was carried out in fiscal year 2020, the executive directors of GRAMMER AG have recognized a deferred tax asset on unused tax losses in a material amount for the consolidated financial statements of GRAMMER AG. In light of this, the recoverability of recognized deferred tax assets was a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by the executive directors of GRAMMER AG and the accounting policies for determining the deferred tax assets to be recognized on unused tax losses, including impairment testing, to identify any risks of material misstatement and obtained an understanding of the process steps.

In respect of the assessment of the executive directors regarding the probability of whether a taxable result will be available, against which the unused tax losses can be utilized, we analyzed the corporate planning underlying the assessment by comparing the earnings generated in the past and current developments in business figures. In this regard, based on the responsibility statement, we verified that the unused tax losses result from identifiable causes which are unlikely to recur. For companies that have had several loss-making years in the recent past, we obtained evidence that there are convincing indications that sufficient taxable income will be available in the future. We analyzed the declarations and evidence received as to whether both positive and negative indications were taken into account equally. We also considered the changes in the market in the fiscal year and the forecasts made of its future development. In this regard, effects attributable to the COVID-19 pandemic were also taken into consideration.

In the case of tax planning measures such as the restructuring under corporate law in the US, we evaluated the measures that have been implemented, with the support of internal tax specialists with the appropriate knowledge of the respective local tax law, in respect of whether there is a restriction of the ability to utilize the unused tax losses. When assessing the likelihood of whether taxable income will be available, against which the unused tax losses can be utilized, taxable temporary differences in relation to the same tax authority and the same taxable entity were also taken into account, from which the taxable income, against which the unused tax losses can be utilized, will result. Our audit procedures did not lead to any reservations regarding the recoverability of recognized deferred tax assets on unused tax losses.

Reference to related disclosures

The Company's disclosures on deferred tax on unused tax losses recognized as assets are presented in section 2.1 "Summary of significant accounting policies and use of estimates and judgements", sub-section "Estimates and judgments (IAS 8)" and "Taxes (IAS 12)" as well as section 8 "Income taxes" in the notes to the consolidated financial statements.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the corporate governance report and declaration pursuant to Sec. 315d HGB in conjunction with Sec. 289f HGB. In all other respects, the executive directors are responsible for the other information. The other information comprises the corporate governance report and declaration referred to above and the combined separate non-financial report pursuant to Sec. 289b (3) HGB and Sec. 315b (3) HGB, which is referred to in the group management report. Furthermore, the other information comprises additional parts to be included in the annual report, of which we obtained a version prior to issuing this auditor's report, in particular:

- the responsibility statement
- the section "GRAMMER Group multi-year overview in accordance with IFRS"
- the section "Financial statements of GRAMMER AG"
- the section "Financial Calendar for 2021"

but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon.

Furthermore, the other information includes all remaining parts of the annual report, which we expect to be provided with after the auditor's report has been issued, in particular:

- the section "GRAMMER editorial part"
- the section "Report of the Supervisory Board"
- the section "GRAMMER Share"

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file "GRAMMER_AG_KA+KLB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the standards for the quality assurance system set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 8 July 2020. We were engaged by the Supervisory Board on 7 August 2020. We have been the group auditor of GRAMMER AG without interruption for at least 26 years. Since fiscal year 1996, GRAMMER AG has been classified as a corporation geared to the capital market within the meaning of Sec. 264d HGB.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Assurance services as a component auditor in relation to the reporting packages for the audit of the consolidated financial statements of Ningbo Jifeng Auto Parts Co., Ltd., China, which is required according to third country law
- Evaluation of the recognition of new financing in the form of a hybrid loan pursuant to IFRS

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Udo Schuberth.

Nuremberg, 16 March 2021

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Schuberth	Gabler
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 16, 2021

GRAMMER AG

The Executive Board

GRAMMER Group multi-year overview in accordance with IFRS

EUR m	2020	2019	2018	2017	2016
Group revenue	**1,710.7**	**2,038.5**	**1,861.3**	**1,786.5**	**1,695.5**
Automotive Division revenue	1,219.3	1,479.8	1,312.6	1,291.2	1,270.8
Commercial Vehicles Division revenue	544.5	607.4	599.8	540.2	473.6
Statement of Income					
Gross profit	125.3	231.4	211.8	215.1	198.7
EBIT	–46.1	74.5	48.7	66.5	73.0
EBIT margin (%)	–2.7	3.7	2.6	3.7	4.3
Financial result	–24.6	–20.4	–14.3	–10.6	–10.3
Earnings before taxes	–70.7	63.6	34.5	55.9	62.7
Income taxes	6.0	–20.1	–11.3	–23.5	–17.5
Net profit/loss	–64.7	43.5	23.2	32.4	45.2
Consolidated Statement of Financial Position					
Total assets	1,376.4	1,474.4	1,441.4	1,107.0	1,050.6
Non-current assets	799.6	825.6	696.3[2]	372.3	379.6
Current assets	576.8	648.8	745.1[2]	734.6	671.0
Equity	302.2	342.2	314.8	337.7	271.2
Equity ratio (%)	22	23	22	31	26
Net financial liabilities	287.1	285.0	253.3	92.2	139.1

EUR m	2020	2019	2018	2017	2016
Statement of Cash Flows					
Capital expenditure (without business combinations and financial assets)	83.8	132.8	73.9	59.1	56.2
Depreciation and amortization	87.8	85.3	52.3	49.5	47.2
Cash flow from operating activities	31.1	124.0	143.6	69.2	85.8
Employees					
Annual average	14,192	14,910	13,439	12,483	12,144
Domestic employees	3,026	3,227	3,315	3,201	3,170
Non-domestic employees	11,166	11,683	10,124	9,282	8,974
Personnel costs	444.1	486.3	425.2	375.4	352.4
Share data					
Prices (Xetra closing price in EUR)	19.90	31.95	37.70	51.85	47.55
Market capitalization (EUR m)	303.2	402.8	475.3	653.7	548.9
Dividend (EUR)	0.00[1]	0.00	0.75	1.25	1.30
Earnings per share (EUR)	–5.10	3.56	1.90	2.67	4.01

[1] No dividend is currently being proposed due to the net loss of GRAMMER AG for fiscal year 2020.
[2] Adjustment in accordance with IFRS 3.49, see Note 4 in the 2019 annual report Business combinations.

Financial Statements of GRAMMER AG

GRAMMER AG's results of operations

GRAMMER Aktiengesellschaft Statement of Income[1] for the year from January 1 to December 31

EUR k	2020	2019
Revenue	571,039	670,653
Decrease in inventories of finished goods and work in progress	–17,251	–2,562
Other own work capitalized	0	45
Other operating income	35,163	17,612
Total revenues	**588,951**	**685,748**
Cost of materials	457,736	527,327
Personnel costs	80,377	92,987
Depreciation and amortization	7,675	7,897
Other operating expenses	71,454	84,903
	–28,291	**–27,366**
Net investment income –of which from affiliated companies EUR 46,665 thousand (2019: EUR 13,044 thousand)	46,665	13,044
Income from profit transfer agreements –of which from affiliated companies EUR 9,693 thousand (2019: EUR 37,881 thousand)	9,693	37,881
Income from other securities and loans of financial assets –of which from affiliated companies EUR 5,476 thousand (2019: EUR 5,573 thousand)	5,791	5,926

EUR k	2020	2019
Other interest and similar income – of which from affiliated companies EUR 1,554 thousand (2019: EUR 565 thousand) – of which from discounting EUR 0 thousand (2019: EUR 28 thousand)	1,604	869
Impairment of financial assets and securities held as current assets	75,565	421
Expenditure from the absorption of loss – of which from affiliated companies EUR 5,900 thousand (2019: EUR 2,508 thousand)	5,900	2,508
Interest and similar expenses – of which to affiliated companies EUR 49 thousand (2019: EUR 84 thousand) – of which from discounting EUR 6,704 thousand (2019: EUR 8,008 thousand)	21,875	20,468
Income taxes	4,521	1,408
Net profit/loss	**–72,399**	**5,549**
Other taxes	73	226
Net loss for the year (2019: net profit for the year)	**–72,472**	**5,323**
Profit carried forward from the previous year	0	32,351
Net retained loss (2019: net retained profit)	**–72,472**	**37,674**

[1] Financial statements prepared in accordance with German GAAP (HGB).

Net assets of GRAMMER AG

GRAMMER Aktiengesellschaft Statement[1] of Financial Position[1] as of December 31 of the respective fiscal year

Assets

EUR k	2020	2019
A. Non-current assets		
I. Intangible assets	12,786	14,702
II. Property, plant and equipment	88,420	74,642
III. Financial assets	503,258	522,928
	604,464	**612,272**
B. Current assets		
I. Inventories	49,890	66,762
II. Receivables and other assets	135,104	145,041
III. Cash at bank and in hand	16,018	37,350
	201,012	**249,153**
C. Prepaid expenses	2,691	2,240
Total assets	**808,167**	**863,665**

Equity and liabilities

EUR k	2020	2019
A. Equity		
I. Subscribed capital	39,009	32,274
Treasury stock	–845	–845
Issued capital	38,164	31,429
II. Capital reserve	165,211	131,931
III. Retained earnings	132,158	94,484
IV. Net retained loss (2019: net retained profit)	–72,472	37,674
	263,061	**295,518**
B. Provisions		
1. Provisions for retirement benefits	77,997	77,678
2. Tax provisions	730	447
3. Other provisions	31,965	19,600
	110,692	**97,725**
C. Liabilities		
1. Liabilities to banks	379,581	415,682
2. Prepayments received	2,600	0
3. Trade accounts payable	15,377	26,499
4. Liabilities to affiliated companies	29,835	22,547
5. Liabilities to companies in which an equity interest is held	212	502
6. Other liabilities	6,719	5,192
	434,324	**470,422**
D. Deferred income	90	0
Total assets	**808,167**	**863,665**

[1] Financial statements prepared in accordance with German GAAP (HGB).

Financial Calendar for 2021[1]

Important dates for shareholders and analysts

Date	Event
31 March	Analyst and financial press conference
23 June	Annual General Meeting
31 March	Annual Report
12 August	Interim financial report on the first half of the year
28 April	Q1 statement
27 October	Q3 statement

[1] All dates are tentative and subject to change. Subject to change without notice.

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The photos taken for this year's Annual Report were produced in strict compliance with the hygiene regulations mandated to contain the COVID-19 pandemic. Some photos were produced before the start of the pandemic.

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