# #onthemove

## GRAMMER AG
## INTERIM FINANCIAL REPORT
JANUARY TO JUNE 2020

GRAMMER

# COMPANY PROFILE

Domiciled in Ursensollen, Germany, GRAMMER AG specializes in the development and production of components and systems for automotive interiors as well as suspension driver and passenger seats for onroad and offroad vehicles. In the Automotive Division, we supply headrests, armrests, center consoles, high-quality interior components and control systems as well as innovative thermoplastic solutions to automotive OEMs and Tier-1 suppliers. The Commercial Vehicles Division comprises seats for the truck and offroad seat segments (tractors, construction machinery, forklifts) as well as train and bus seats.

With around 14,500 employees, GRAMMER operates in 20 countries around the world. GRAMMER shares are listed in the Prime Standard and traded on the Frankfurt and Munich stock exchanges and via the electronic trading system Xetra.

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# A | INTERIM GROUP MANAGEMENT REPORT

# 1. BUSINESS ENVIRONMENT

### THE GLOBAL ECONOMY AND THE IMPACT OF COVID-19

According to a study by the International Monetary Fund (IMF) dated June 24, 2020, the global economy will shrink to a far greater extent than previously assumed this year due to the global COVID-19 pandemic. The IMF has scaled back its forecast primarily for countries that are particularly affected by the pandemic, including France, Italy, Spain, the United Kingdom, Brazil and the United States. It now expects the global economy to contract by 4.9% in 2020, compared with its April forecast of a decline of 3.0%. The ensuing economic recovery is also likely to be flatter than hoped for.

The global spread of the coronavirus and the measures taken in response to it had already placed a heavy damper on economic activity in the first quarter – initially in China and subsequently also in Europe, the United States and other markets. This trend gained momentum in the second quarter. National shutdowns caused global economic output to shrink even more sharply over the previous year in the second quarter.

China, the first major economy to be affected by the coronavirus, came to a halt. However, a recovery emerged there in March, resulting in slight year-on-year growth in economic output in the second quarter. The IMF expects the world's second largest economy to expand by 1.0% in 2020.

In the Eurozone, the recession presumably bottomed out in April. Although leading indicators were pointing to a nascent recovery from May, economic output will still be substantially lower as a whole in the second quarter compared with the first three months of the year. The IMF assumes that the United Kingdom economy contracted by 10.2%. In Europe additionally France, Italy and Spain have been hit severely, with their economies expected to shrink by just under 13.0%.

With US growth also driven to a halt almost at the same time as in Europe following the spread of the coronavirus, the world's largest economy will also shrink significantly overall. The IMF expects the US economy to contract by 8.0% in 2020.

The corona crisis has also left deep traces on other major economies such as Russia, Brazil, India and Japan. In an effort to cushion the effects of this crisis, the central banks and governments initiated massive support efforts, the effects of which cannot yet be fully gaged.

The IMF stresses that its current estimates are subject to high uncertainty and that corrections are possible particularly depending on the number of new infections and the extent of the restrictions imposed on public life.

### UNDERLYING CONDITIONS IN THE AUTOMOTIVE INDUSTRY

The global automotive markets are continuing to come under heavy pressure from the COVID-19 pandemic. From January to June 2020, global demand for passenger vehicles and light commercial vehicles fell sharply over the previous year (down 34.5%). All regions were affected by this decline. Above-average drops were registered in the Americas (down 42.5%) and EMEA (down 40.8%). This market contraction, which had already emerged in the second half of 2019, also continued in the first half of 2020.

APAC was severely impacted by the COVID-19 pandemic in the first quarter of 2020, shrinking by 29.6% year-on-year according to IHS. After hitting a low in the first quarter, demand recovered step by step in this region. According to IHS, the region sustained a decline of 25.4% in the second quarter. APAC closed the first half 27.6% down on the previous year due to the drastic declines seen in the first quarter.

Following the imposition of lockdowns in April, EMEA hit a low in the second quarter, with the production of passenger cars and light commercial vehicles dropping by 64.0% over the previous year according to IHS figures. This translates into a decline of 40.8% in the period from January to June.

The Americas also experienced the weakest month in the current crisis in April. Automotive production was down 73.1% year-on-year in the second quarter. Over the first half of the year as a whole, the scale of the decline was slightly smaller due to the effects of the first quarter. However, production output was still 42.5% down on the previous year.

### UNDERLYING CONDITIONS FOR COMMERCIAL VEHICLES (TRUCKS AND BUSES)

Even before the outbreak of the global COVID-19 pandemic, the commercial vehicle sector was already in a cyclical downswing for heavy trucks. This contraction was further compounded by the COVID-19 crisis in the second quarter.

APAC was also unable to stop the downward trend, and according to LMC, 19.9% fewer commercial vehicles were produced in the first half of the year. China, the first country in the APAC region to be brought to a standstill by the spread of the coronavirus, saw the emergence of a recovery as early as in March. Accordingly, production in the second quarter was down only 13.1% year-on-year.

The market for heavy trucks in EMEA sustained a sharp decline of 57.5% in the second quarter. 41.2% fewer new vehicles were produced in the period from January to June compared with the previous year.

Exacerbated by the drastic deterioration of the macroeconomic situation, production output in the Americas fell by 46.8% year-on-year in the first half of 2020. In fact, a decline of 72.3% over the same quarter in the previous year was registered in the months from April to June.

In Brazil, demand for heavy trucks also increasingly came under pressure from the severe economic crisis, declining by 63.6% year-on-year in the second quarter.

Bus markets were also very weak in the face of the global COVID-19 pandemic. According to recent estimates, demand in EMEA as well as in Brazil also softened substantially in the second quarter.

## 2. BUSINESS PERFORMANCE IN THE FIRST HALF OF 2020

In the wake of the global decline in sales as a result of the weak demand on the part of customers and plant closures in nearly all of GRAMMER's main sell-side markets due to the COVID-19 pandemic, GRAMMER Group revenue came to EUR 735.8 million in the first half of 2020, thus falling short of the previous year by 30.0% (01–06 2019: EUR 1,051.5 million). At EUR 280.9 million, revenue in the second quarter of 2020 was also down a very sharp –45.7% over the previous year (Q2 2019: EUR 517.4 million) primarily as a result of COVID-19. The slump in demand triggered by the COVID-19 pandemic coincided with sell-side markets that had already begun to weaken in the second half of 2019.

The temporary plant closures commenced in China at the end of January, resulting in lower revenue in the first three months of the year. However, China was able to gradually resume production from the beginning of March, with clear signs of a recovery emerging in that market in the second quarter. The production stops by customers in this region were followed by plant lockdowns in Europe and the Americas. This is where the COVID-19 pandemic had the greatest impact on GRAMMER Group sales in percentage terms.

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 Group earnings before interest and taxes (EBIT). Impairments of inventories (EUR 10.7 million), provisions for product-liability and warranty claims (EUR 6.4 million), impairments of existing project assets (EUR 2.0 million) and, in this connection, the recognition of provisions for impending losses (EUR 2.7 million) exerted a drag on the GRAMMER Group's EBIT in the second quarter. Moreover, impairments of trade accounts 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. These factors are not eliminated from operating EBIT as they are attributable to operating business. However, as they exerted heavy pressure on earnings in the second quarter of 2020, they are described separately.

Accordingly, EBIT came to EUR –53.0 million in the first half of 2020, thus falling very substantially short of the previous year (01–06 2019: EUR 50.2 million). GRAMMER Group EBIT stood at EUR – 50.9 million in the second quarter (Q2 2019: EUR 26.2 million). Consequently, the EBIT margin contracted to –7.2% in the first half of the year (01–06 2019: 4.8%).

Operating EBIT fell to EUR –45.7 million in the first half of 2020 (01–06 2019: EUR 50.1 million) and EUR –46.1 million in the second quarter (Q2 2019: EUR 27.1 million), thus falling substantially short of the previous year. In addition to the negative currency-translation effects of EUR 4.0 million, operating earnings in the second quarter were adjusted for the directly attributable costs of corona-related protection and response measures (EUR 3.0 million) as well as termination benefits arising in connection with restructuring (EUR 0.3 million). The operating EBIT margin came to –6.2% in the first half of the year (01–06 2019: 4.8%).

GRAMMER took extensive measures in a swift response to the global crisis triggered by COVID-19. These included precautionary safety measures for employees at all GRAMMER sites, the greater use of mobile working, the utilization of working-hour account models, heightened use of vacation leave entitlement and the rapid introduction of short-time working arrangements in consultation with the employee representatives. To secure its financial position, GRAMMER is managing its global cash flows carefully and also making use of equity instruments such as a hybrid loan. In addition, 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.

## 3. KEY FIGURES GRAMMER GROUP

| EUR M | 01–06 2020 | 01–06 2019 |
|---|---|---|
| **Group revenue** | **735.8** | **1,051.5** |
| Automotive revenue | 499.1 | 745.0 |
| Commercial Vehicles revenue | 256.6 | 332.2 |
| **Income Statement** | | |
| EBITDA | −10.4 | 91.3 |
| EBITDA margin (in %) | −1.4 | 8.7 |
| EBIT | −53.0 | 50.2 |
| EBIT margin (in %) | −7.2 | 4.8 |
| Operating EBIT | −45.7 | 50.1 |
| Operating EBIT margin (in %) | −6.2 | 4.8 |
| Earnings before taxes | −68.9 | 39.6 |
| Net profit | −59.2 | 27.6 |
| **Consolidated Statement of Financial Position** | | |
| Total assets | 1,371.5 | 1,468.7 |
| Equity | 292.5 | 331.7 |
| Equity ratio (in %) | 21 | 23 |
| Net financial liabilities | 392.5 | 252.6 |
| Gearing (in %) | 134 | 76 |
| Capital expenditure (without M&A and financial assets) | 31.8 | 56.0 |
| Depreciation and amortization | 42.6 | 41.1 |
| **Employees (number, average)** | **14,465** | **14,995** |
| **Share data** | **June 30, 2020** | **June 30, 2019** |
| Prices (Xetra closing price in EUR) | 18.20 | 32.55 |
| Market capitalization (in EUR m) | 229.4 | 410.4 |
| Earnings per share (basic/diluted, in EUR) | −4.83 | 2.25 |

## 4. RESULTS OF OPERATIONS

### GROUP REVENUE

The substantial decline in sales resulting from the global consequences of the COVID-19 pandemic caused GRAMMER Group revenue to drop by 30.0% to EUR 735.8 million in the first half of 2020 (01–06 2019: EUR 1,051.5 million). At the same time, the global fallout from the COVID-19 pandemic coincided with the weakness in sell-side markets that had already emerged in the second half of 2019.

**REVENUE BY REGION**

EUR M

| | GRAMMER GROUP | | | AUTOMOTIVE DIVISION | | | COMMERCIAL VEHICLES DIVISION | | |
|---|---|---|---|---|---|---|---|---|---|
| | 01–06 2020 | 01–06 2019 | CHANGE | 01–06 2020 | 01–06 2019 | CHANGE | 01–06 2020 | 01–06 2019 | CHANGE |
| EMEA | 411.2 | 595.2 | −30.9% | 245.0 | 373.3 | −34.4% | 181.2 | 242.7 | −25.3% |
| Americas | 184.9 | 304.6 | −39.3% | 157.9 | 265.1 | −40.4% | 31.3 | 44.2 | −29.3% |
| APAC | 139.7 | 151.7 | −7.9% | 96.2 | 106.6 | −9.8% | 44.1 | 45.3 | −2.7% |
| Revenue | **735.8** | **1,051.5** | **−30.0%** | **499.1** | **745.0** | **−33.0%** | **256.6** | **332.2** | **−22.8%** |

### ALL REGIONS AFFECTED BY THE COVID 19 PANDEMIC

At the beginning of the year, decisive measures to contain the coronavirus were initially only necessary in China. In addition to extensive curfews, these also included the suspension of all production activities, resulting in a drastic slump in demand. Consequently, revenue in APAC (Asia Pacific) fell by 25.6% to EUR 53.6 million in the first quarter of 2020. However, production was gradually ramped up again in China from March, already returning to pre-COVID-19 levels in April. At EUR 86.1 million, revenue in APAC in the second quarter of 2020 exceeded the same quarter of the previous year (Q2 2019: EUR 79.4 million). This was the highest revenue ever achieved by GRAMMER in any second quarter in APAC, showing that demand in this region was recovering and demonstrating GRAMMER's ability to benefit disproportionately from gains in market share and its customer mix.

In mid-March, the rising number of new infections also led to the partial or full closure of production plants in Europe and the United States. As things currently stand, the recession in Europe presumably bottomed out in April. At EUR 184.0 million or 30.9%, EMEA (Europe, Middle East and Africa) was responsible for the greatest decline in revenue for the GRAMMER Group. Revenue in Germany dropped by –29.8% in the period under review, thus falling substantially short of the previous year.

In the AMERICAS (North, Central and South America), revenue declined by EUR 119.7 million or 39.3% primarily for COVID-19-related reasons.

**INCOME STATEMENT – CONDENSED**

EUR K

| | 01–06 2020 | 01–06 2019 | CHANGE |
|---|---|---|---|
| Revenue | 735,838 | 1,051,478 | −30.0% |
| Cost of sales | −711,867 | −921,761 | −22.8% |
| Gross profit | **23,971** | **129,717** | **−81.5%** |
| Selling expenses | −16,226 | −20,898 | −22.4% |
| Administrative expenses | −66,592 | −68,547 | −2.9% |
| Other operating income | 5,821 | 9,889 | −41.1% |
| Earnings before interest and taxes (EBIT) | **−53,026** | **50,161** | **−205.7%** |
| Financial result | −15,879 | −10,603 | 49.8% |
| Earnings before taxes | **−68,905** | **39,558** | **−274.2%** |
| Income taxes | 9,706 | −11,947 | −181.2% |
| Net profit | **−59,199** | **27,611** | **−314.4%** |

## GROUP PROFIT

The GRAMMER Group's profit came under heavy pressure from lower volumes in the first half of the year as well as one-time effects of EUR 24.2 million in the second quarter of the year.

- Inventory impairments: As a result of the smaller order backlog, inventories that were no longer required were eliminated as it was very unlikely that they could be sold to customers. This resulted in the recognition of extraordinary impairments of EUR 10.7 million. In this way, the strategy being pursued by the Company to additionally optimize storage space was implemented as part of its cost-cutting programs.

- Provisions for product-liability and warranty claims: Product-liability and warranty claims are being asserted against GRAMMER AG and its subsidiaries on account of alleged product defects. GRAMMER has set aside provisions of EUR 6.4 million to cover these issues.

- On the basis of new market data, project assets of EUR 2.0 million were eliminated and provisions for impending losses of EUR 2.7 million recognized as it is no longer expected for the project plan costs to be covered in full.

- In connection with the relocation of a plant in China, it was necessary to write off assets of EUR 1.1 million that can no longer be used at the new site.

- In addition, impairments of EUR 1.3 million were recognized on trade accounts receivables and other provisions.

As of June 30, 2020, government grants of EUR 7.0 million to address the consequences of the COVID-19 pandemic were deducted from personnel expense. These were primarily composed of social security refunds and further grants to preserve jobs.

Accordingly, Group earnings before interest and taxes (EBIT) came to EUR –53.0 million in the first half of 2020, falling very substantially short of the previous year (01–06 2019: EUR 50.2 million). GRAMMER Group EBIT stood at EUR –50.9 million in the second quarter (Q2 2019: EUR 26.2 million).

Operating EBIT reached EUR –45.7 million in the first half of 2020 (01–06 2019: EUR 50.1 million) and EUR –46.1 million in the second quarter (Q2 2019: EUR 27.1 million), thus remaining well short of the previous year. Negative currency-translation effects of EUR 4.0 million, directly attributable costs for corona-related protection and response measures (EUR 3.0 million) as well as termination benefits arising in connection with restructuring (EUR 0.3 million) were eliminated from operating EBIT.

The GRAMMER Group's financial result of EUR –15.9 million (01–06 2019: EUR –10.6 million) particularly came under pressure from foreign-currency translation effects. Thanks to lower interest rates on external finance, interest expense on loans and overdrafts dropped by EUR 1.6 million to EUR 6.6 million in the first half of 2020 (01–06 2019: EUR 8.2 million). In addition, fluctuation in the exchange rates for the Mexican peso, the Czech crown, the Brazilian real and the US dollar particularly also left traces.

As a result of tax losses incurred, tax income of EUR 9.7 million (01–06 2019: tax expense of EUR 11.9 million) was reported within net tax result in the first half of 2020 to the extent that the tax losses can be used to reduce taxes in future periods. A net loss of EUR –59.2 million was recorded in the first half of the year (01–06 2019: net profit of EUR 27.6 million).

# 5. AUTOMOTIVE DIVISION

**KEY FIGURES DIVISION AUTOMOTIVE**

EUR M

| | 01–06 2020 | 01–06 2019 | CHANGE |
|---|---|---|---|
| Revenue | 499.1 | 745.0 | −33.0 % |
| EBIT | −62.9 | 28.4 | −321.5 % |
| EBIT margin (%) | −12.6 | 3.8 | −16.4 %-points |
| Operating EBIT | −57.9 | 27.1 | −313.7 % |
| Operating EBIT margin (%) | −11.6 | 3.6 | −15.2 %-points |
| Capital expenditure (without M&A and financial assets) | 15.8 | 36.7 | −56.9 % |
| Employees (number, average) | 10,680 | 10,945 | −2.4 % |

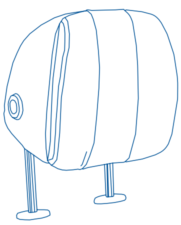
**SUBSTANTIAL DECLINE IN REVENUE AND EARNINGS IN THE AUTOMOTIVE DIVISION**

The Automotive Division sustained a 33.0% decline in revenue to EUR 499.1 million in the first half of 2020. This substantial drop is chiefly due to the effects of the COVID-19 pandemic and coincided with the weakness in the automotive markets that had already emerged in the second half of 2019.

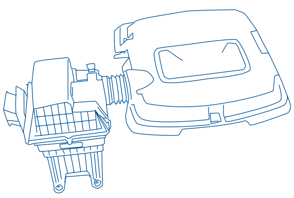
Government grants of EUR 5.0 million received in the Automotive Division to help address the effects of the COVID-19 pandemic were deducted from expense.

However, the measures taken in response to the COVID-19 pandemic were not sufficient to offset the substantial decline in revenue and the one-time effects of EUR 20.8 million in the second quarter of 2020. Impairments of inventories (EUR 8.8 million), provisions to cover product-liability and warranty claims (EUR 6.1 million), impairments of project assets and the recognition of provisions for impending losses (EUR 4.7 million), impairments of trade accounts receivables and the recognition of other provisions (EUR 1.2 million) exerted pressure on EBIT in the second quarter. Consequently, EBIT reached EUR −62.9 million in the first half of the year (01–06 2019: EUR 28.4 million), equivalent to an EBIT margin of −12.6% (01–06 2019: 3.8%).

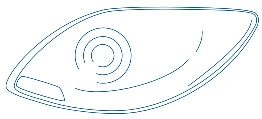
Negative currency-translation effects (EUR 2.9 million), directly attributable costs for corona-related protection and response measures (EUR 1.8 million) as well as termination benefits arising in connection with restructuring (EUR 0.3 million) were eliminated from operating EBIT. Consequently, operating EBIT came to EUR −57.9 million in the first half of 2020 (01–06 2019: EUR 27.1 million), equivalent to an operating EBIT margin of −11.6% (01–06 2019: 3.6%).



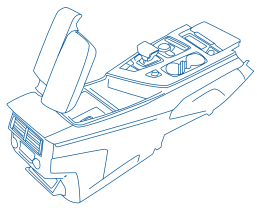
HEADRESTS



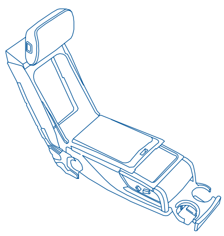
FUNCTIONAL COMPONENTS



INTERIOR COMPONENTS



CONSOLES



ARMRESTS

# 6. COMMERCIAL VEHICLES DIVISION

**KEY FIGURES DIVISION COMMERCIAL VEHICLES**

**EUR M**

| | 01–06 2020 | 01–06 2019 | CHANGE |
|---|---|---|---|
| Revenue | 256.6 | 332.2 | −22.8 % |
| EBIT | 12.8 | 32.5 | −60.6 % |
| EBIT margin (%) | 5.0 | 9.8 | −4.8 %-points |
| Operating EBIT | 14.5 | 32.3 | −55.1 % |
| Operating EBIT margin (%) | 5.7 | 9.7 | −4.1 %-points |
| Capital expenditure (without M&A and financial assets) | 5.9 | 8.8 | −33.0 % |
| Employees (number, average) | 3,570 | 3,829 | −6.8 % |

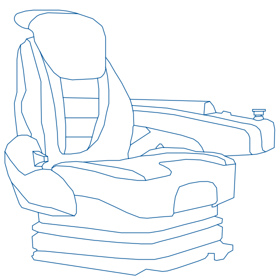
**SALES IN THE COMMERCIAL VEHICLES DIVISION SUBSTANTIALLY DOWN ON THE PREVIOUS YEAR**

Revenue in the Commercial Vehicles Division fell by 22.8% to EUR 256.6 million in the first half of the year. This was also primarily due to the global COVID-19 pandemic. It also reflects the extraordinarily high revenue achieved in the first half of 2019, which had been driven by very strong demand in the Commercial Vehicles Division.

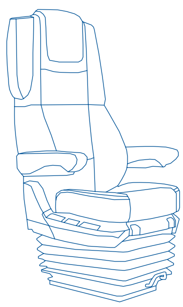
Government grants of EUR 1.0 million received in the Commercial Vehicles Division to help address the effects of the COVID-19 pandemic were deducted from expense.

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 3.3 million in the second quarter of 2020. Earnings in the second quarter of 2020 came under pressure from impairments of inventories (EUR 1.9 million), impairments of assets due to a relocation in China (EUR 1.1 million) and the recognition of provisions for product-liability and warranty claims (EUR 0.3 million). Consequently, EBIT reached EUR 12.8 million (01–06 2019: EUR 32.5 million), translating into an EBIT margin of 5.0% (01–06 2019: 9.8%).

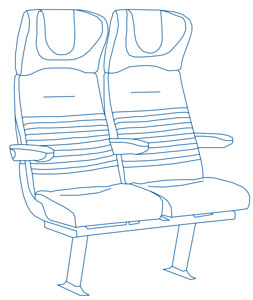
Negative currency-translation effects (EUR 1.1 million) and directly attributable costs for corona-related protection and response measures (EUR 0.6 million) were eliminated from operating EBIT. Consequently, operating EBIT came to EUR 14.5 million in the first half of 2020 (01–06 2020: EUR 32.3 million), equivalent to an operating EBIT margin of 5.7% (01–06 2019: 9.7%).



**OFFROAD**



**TRUCK & BUS**



**RAIL**

## 7. NET ASSETS AND FINANCIAL POSITION

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONDENSED

EUR K

| | JUNE 30, 2020 | DECEMBER 31, 2019 | CHANGE |
|---|---|---|---|
| Non-current assets | 800,889 | 825,623 | −3.0 % |
| Current assets | 570,653 | 648,826 | −12.0 % |
| **Assets** | **1,371,542** | **1,474,449** | **−7.0 %** |
| | | | |
| Equity | 292,531 | 342,242 | −14.5 % |
| Non-current liabilities | 540,058 | 490,050 | 10.2 % |
| Current liabilities | 538,953 | 642,157 | −16.1 % |
| **Equity and liabilities** | **1,371,542** | **1,474,449** | **−7.0 %** |

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The reduction of EUR 102.9 million or 7.0% in the GRAMMER Group's total assets to EUR 1,371.5 million is primarily attributable to the effects of the lower volume of orders as a result of COVID-19.

Non-current assets dropped by 3.0% to EUR 800.9 million (December 31, 2019: EUR 825.6 million) due to substantially lower capital expenditure. This decline was particularly evident in property, plant and equipment.

Deferred tax assets rose by EUR 6.3 million compared with December 31, 2019 primarily as a result of the additional recognition of deferred taxes on unused tax losses.

Within current assets, inventories fell by EUR 25.7 million as a result of impairments, with trade accounts receivable dropping by EUR 10.2 million due to the lower revenue. Cash and short-term deposits declined by EUR 56.6 million from EUR 142.7 million to EUR 86.1 million (June 30, 2019: EUR 154.5 million). All in all, current assets shrank by EUR 78.2 million to EUR 570.7 million.

The increase of EUR 9.2 million in current income tax receivables compared with December 31, 2019 is attributable to a loss carryback from the current year and high advance payments at the beginning of the year.

On March 30, 2020, 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). Granted for an indefinite period, the hybrid loan has a quasi-equity characteristic.

The negative earnings after taxes of EUR −59.2 million in the first half of 2020 as well as losses of EUR 11.7 million from net investments in foreign operations primarily as a result of the depreciation of the Mexican peso against the euro and the US dollar caused a total reduction of EUR 49.7 million in equity.

In the first quarter of 2020, interest rates for the measurement of retirement benefit obligations in accordance with international accounting standards had already increased over December 31, 2019 as a result of the COVID-19 pandemic, resulting in actuarial gains under defined benefit plans, which increased equity by EUR 21.8 million less deferred taxes as of March 31, 2020. As of June 30, these interest rates dropped back to the level recorded on December 31, 2019, meaning that there were no actuarial gains for inclusion in equity and the retirement benefit provisions.

The equity ratio shrank by a total of 1.9 percentage points over December 31, 2019 to 21.3% (December 31, 2019: 23.2%).

A new syndicated loan contract for EUR 150.0 million (December 31, 2019: EUR 100.0 million) and for USD 80.0 million was signed for a term of five years plus two one-year renewal options in February 2020. As a result, non-current financial liabilities rose to EUR 275.0 million (December 31, 2019: EUR 220.0 million), while current financial liabilities dropped to EUR 203.6 million (December 31, 2019: EUR 207.7 million). This caused non-current liabilities to increase by EUR 50.0 million to EUR 540.1 million.

Trade accounts payable fell by EUR 141.6 million as of the reporting date due to lower material requirements and cost-cutting effects, whereas other current liabilities increased due to deferred payments for tax and social security and outstanding liabilities for consideration payable to customers. Overall, current liabilities decreased by EUR 103.2 million to EUR 539.0 million.

## 8. CAPITAL EXPENDITURE

### CAPITAL EXPENDITURE

EUR M

| | 01–06 2020 | 01–06 2019 | CHANGE |
|---|---|---|---|
| Automotive | 15.8 | 36.7 | –56.9% |
| Commercial Vehicles | 5.9 | 8.8 | –33.0% |
| Central Services | 10.1 | 10.5 | –3.8% |
| Capital expenditure | **31.8** | **56.0** | **–43.2%** |

Capital expenditure was concentrated on the most important projects to preserve the Company's liquidity. This resulted in a reduction in capital expenditure in the first half of the year to EUR 31.8 million (01–06 2019: EUR 56.0 million).

In the first six months of 2020, the Automotive Division spent a total of EUR 15.8 million primarily on the production and assembly plants in Eastern Europe and the United States in preparation of new product ramp-ups. The capital expenditure of EUR 5.9 million in the Commercial Vehicles Division primarily entailed replacement spending on tools. Capital expenditure in Central Services chiefly involved the completion of the new GRAMMER campus in Ursensollen.

## 9. EMPLOYEES

As of June 30, 2020, GRAMMER had a global average of 14,465 (June 30, 2019: 14,995) employees, equivalent to a decline of 3.5% over the previous year. Of these, an average of 10,680 (June 30, 2019: 10,945) were employed in the Automotive Division and 3,570 (June 30, 2019: 3,829) in the Commercial Vehicles Division.

## 10. EVENTS SUBSEQUENT TO THE REPORTING DATE

### VIRTUAL ANNUAL GENERAL MEETING

At the virtual Annual General Meeting held on July 8, 2020, the shareholders of GRAMMER AG adopted the proposal of the Executive Board and Supervisory Board, passing with a large majority a resolution to omit a dividend for the 2019 financial year. The activities of the members of the Executive Board and of the Supervisory Board were ratified with majorities of 99.75% and 99.70%, respectively. In addition, elections for six shareholder representatives to the Supervisory Board were held at the Annual General Meeting as the previous terms of office had duly expired. In addition to the new chairman of the Supervisory Board, Mr. Alfred Weber, the shareholders elected Dr. Ping He, Mr. Jürgen Kostanjevec and Ms. Gabriele Sons at the proposal of the Supervisory Board with a large majority in each case. Dr. Peter Merten and Prof. Dr. Birgit Vogel-Heuser were re-confirmed in their offices likewise with large majorities. Ms. Andrea Elsner, Mr. Martin Heiß, Mr. Harald Jung, Mr. Peter Kern, Mr. Horst Ott and Ms. Antje Wagner were elected by the workforce and hold positions on the Supervisory Board as employee representatives. Mr. Ott will continue to act as Vice Chairman of the Supervisory Board in the future.

### DIVIDEND

At the Annual General Meeting held on July 8, 2020, a resolution was passed to omit the distribution of a dividend (2019: EUR 9.2 million) from the net retained profit with due allowance made for the non-dividend-entitled shares in the 2019 financial year (330,050 own shares). Accordingly, the net retained profits totaling EUR 37,674,496.36 as of December 31, 2019 will be allocated in full to the Company's other retained earnings.

### AUTHORIZED CAPITAL

The Authorized Capital 2011 created at the Annual General Meeting of May 26, 2011 in accordance with article 5 (3) of the Articles of Association expired on May 25, 2016.

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. Among other things, the Executive Board was also authorized to exclude the shareholders' preemptive subscription rights under certain conditions and in defined limits with the Supervisory Board's approval.

To date, no use has been made of Authorized Capital 2020.

### EXPECTED UTILIZATION OF AUTHORIZED CAPITAL 2020

The Executive Board currently plans to use Authorized Capital 2020 to improve the Company's equity resources in the second half of 2020 subject to the Supervisory Board's approval. The Company's principal shareholder, Jiye Auto Parts GmbH, a company affiliated with Ningbo Jifeng Auto Parts Co., Ltd., will subscribe to and support the planned capital increase, which is to generate fresh equity of at least EUR 40 million. The capital increase using Authorized Capital 2020 is to be implemented with subscription rights. As the shareholders would be granted preemptive subscription rights, all shareholders would be able to maintain their proportionate shareholdings by exercising the subscription rights. The Executive Board would determine subject to the Supervisory Board's approval the date on which Authorized Capital 2020 was to be utilized and particularly also the amount of the capital increase and, hence, the number of new shares to be issued, the subscription price and the subscription ratio as well as further details of the capital increase.

The Executive Board has not yet made any decision on the timing or nature of any steps to utilize Authorized Capital 2020.

### INCREASE IN EXISTING SYNDICATED LOAN

The negative impact of the COVID-19 pandemic on the global economy is also leaving traces on the GRAMMER Group's business performance. In order to safeguard the Group's liquidity on a sustained basis, the existing syndicated loan contract was extended with the addition of a "C" tranche and increased by EUR 235 million in August 2020. In addition to GRAMMER's core bank, the KfW banking group also participated as a direct lender under the special KfW corona program. Following the increase in the syndicated loan, the dividend will be omitted for the duration of the new three-year tranche. Under the amended terms of the syndicated loan contract originally signed in February 2020, the agreed financial covenants will be temporarily suspended or adjusted for the duration of the KfW corona support.

## 11. OPPORTUNITIES AND RISKS

The opportunities and risks liable to exert a material impact on the GRAMMER Group's net assets, financial condition and results of operations are described on pages 82–89 of our annual report for 2019. The assessment of the opportunities and risks for 2020 has changed as follows since the publication of the annual report for 2019 particularly against the backdrop of the 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 has been hit by this development, experiencing what in some cases are drastic declines. Risks arise from a possible worsening of the corona crisis, particularly in the event of a massive second global wave of infections necessitating a return to a broad-based lockdown. As a consequence of this, the risks to which GRAMMER is exposed would not only impact sales but could also have an adverse effect on production, procurement markets and the supply chains to an extent greater than currently assumed.

However, in the event of a substantially earlier end to the corona crisis and a swifter and stronger economic upswing, opportunities would arise in the form of improved sales and a swifter recovery in production, the procurement market and supply chains.

In light of these conditions, which are currently being materially influenced by the COVID-19 pandemic, the outlook for the GRAMMER Group's business performance is still subject to extraordinarily high uncertainty. At this stage, it is not possible to foretell the future impact of the COVID-19 pandemic on the sell-side and supply-side markets of relevance for GRAMMER. Consequently, further possible goodwill impairment tests may harbor additional 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 addition, GRAMMER AG and its subsidiaries face warranty claims that are being asserted by customers on account of alleged product defects. 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, leading to additional expenses.

Additional risks and opportunities which are currently unknown to us may also impact GRAMMER's business activities. We are currently not aware of any risks liable to jeopardize our going-concern status.

## 12. OUTLOOK

In the press release dated March 30, 2020, the forecast for 2020 which had been published in the Annual Report for 2019 was withdrawn. The assessments and expectations contained in the Annual Report are based on assumptions and internal analyses that were true at the beginning of 2020. In view of the extremely dynamic developments and the associated uncertainties arising from the COVID-19 pandemic and its economic fallout, it is currently not possible to issue any forecast concerning the Group's performance in the further course of 2020. GRAMMER assumes that revenue, EBIT and operating earnings will fall substantially short of the previous year. It will issue a specific full-year forecast for 2020 as soon as this can be done with sufficient certainty.

## 13. FORWARD-LOOKING STATEMENTS

This first-half 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.

## 14. RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements/interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group 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.

# B | CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF THE YEAR

# 15. CONSOLIDATED STATEMENT OF INCOME

## JANUARY 1 – JUNE 30 OF THE RESPECTIVE FINANCIAL YEAR

| EUR K | 01–06 2020 | 01–06 2019 |
|---|---|---|
| Revenue | 735,838 | 1,051,478 |
| Cost of sales | −711,867 | −921,761 |
| **Gross profit** | **23,971** | **129,717** |
| Selling expenses | −16,226 | −20,898 |
| Administrative expenses | −66,592 | −68,547 |
| Other operating income | 5,821 | 9,889 |
| **Earnings before interest and taxes (EBIT)** | **−53,026** | **50,161** |
| Financial income | 742 | 749 |
| Financial expenses | −9,609 | −11,207 |
| Other financial result | −7,012 | −145 |
| **Earnings before taxes** | **−68,905** | **39,558** |
| Income taxes | 9,706 | −11,947 |
| **Net profit** | **−59,199** | **27,611** |
| | | |
| Of which attributable to: | | |
| Shareholders of the parent company | −59,248 | 27,650 |
| Non-controlling interests | 49 | −39 |
| **Net profit** | **−59,199** | **27,611** |
| | | |
| **Earnings per share** | | |
| Basic/diluted earnings per share in EUR | −4.83 | 2.25 |

# 16. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### JANUARY 1 – JUNE 30 OF THE RESPECTIVE FINANCIAL YEAR

| EUR K | 01–06 2020 | 01–06 2019 |
|---|---|---|
| **Net profit** | **–59,199** | **27,611** |
| Amounts not recycled to profit and loss in future periods | | |
| Actuarial gains/losses (–) under defined benefit plans | | |
| Gains/losses (–) arising in the current period | –58 | –18,490 |
| Tax expenses (–)/tax income | 11 | 5,399 |
| Actuarial gains/losses (–) under defined benefit plans (after tax) | **–47** | **–13,091** |
| Total amount not recycled to profit and loss in future periods | **–47** | **–13,091** |
| 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 | 3,743 | 619 |
| Gains/losses (–) from currency translation of foreign subsidiaries (after tax) | **3,743** | **619** |
| Gains/losses (–) from cash flow hedges | | |
| Gains/losses (–) arising in the current period | –2,844 | 777 |
| Plus/less (–) amounts recycled to the income statement through profit and loss | 588 | 48 |
| Tax expenses (–)/tax income | 627 | –231 |
| Gains/losses (–) from cash flow hedges (after tax) | **–1,629** | **594** |
| Gains/losses (–) from net investments in foreign operations | | |
| Gains/losses (–) arising in the current period | –16,774 | 1,579 |
| Tax expenses (–)/tax income | 5,047 | –443 |
| Gains/losses (–) from net investments in foreign operations (after tax) | **–11,727** | **1,136** |
| Total amounts recycled to profit and loss in future periods under certain conditions | **–9,613** | **2,349** |
| Other comprehensive income | **–9,660** | **–10,742** |
| Total comprehensive income (after tax) | **–68,859** | **16,869** |
| Of which attributable to: | | |
| Shareholders of the parent company | –68,904 | 16,912 |
| Non-controlling interests | 45 | –43 |

# 17. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS OF JUNE 30, 2020 AND DECEMBER 31, 2019

### ASSETS

EUR K

| | JUNE 30, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| Property, plant and equipment | 447,261 | 463,305 |
| Intangible assets | 198,572 | 205,604 |
| Investments measured at equity | 778 | 611 |
| Other financial assets | 8,499 | 9,421 |
| Deferred tax assets | 51,204 | 44,900 |
| Other assets | 31,663 | 31,022 |
| Contract assets | 62,912 | 70,760 |
| **Non-current assets** | **800,889** | **825,623** |
| | | |
| Inventories | 166,189 | 191,879 |
| Current trade accounts receivable | 196,639 | 206,821 |
| Other current financial assets | 1,222 | 3,935 |
| Current income tax receivables | 14,623 | 5,455 |
| Cash and short-term deposits | 86,135 | 142,651 |
| Other current assets | 28,448 | 37,314 |
| Current contract assets | 77,397 | 60,771 |
| **Current assets** | **570,653** | **648,826** |
| | | |
| **Total assets** | **1,371,542** | **1,474,449** |

### EQUITY AND LIABILITIES

EUR K

| | JUNE 30, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| Subscribed capital | 32,274 | 32,274 |
| Capital reserve | 129,796 | 129,796 |
| Own shares | −7,441 | −7,441 |
| Retained earnings | 204,160 | 263,408 |
| Cumulative other comprehensive income | −85,448 | −75,792 |
| **Equity attributable to shareholders of the parent company** | **273,341** | **342,245** |
| Hybrid loan | 19,148 | 0 |
| Non-controlling interests | 42 | −3 |
| **Equity** | **292,531** | **342,242** |
| | | |
| Non-current financial liabilities | 274,989 | 219,976 |
| Trade accounts payable | 905 | 1,399 |
| Other financial liabilities | 59,359 | 64,375 |
| Other liabilities | 1,220 | 1,220 |
| Retirement benefits and similar obligations | 156,042 | 154,176 |
| Deferred tax liabilities | 45,629 | 46,298 |
| Contract liabilities | 1,914 | 2,606 |
| **Non-current liabilities** | **540,058** | **490,050** |
| | | |
| Current financial liabilities | 203,560 | 207,735 |
| Current trade accounts payable | 167,352 | 309,000 |
| Other current financial liabilities | 17,584 | 20,524 |
| Other current liabilities | 111,872 | 73,003 |
| Current income tax liabilities | 2,933 | 7,331 |
| Provisions | 34,367 | 23,394 |
| Current contract liabilities | 1,285 | 1,170 |
| **Current liabilities** | **538,953** | **642,157** |
| **Total liabilities** | **1,079,011** | **1,132,207** |
| | | |
| **Total equity and liabilities** | **1,371,542** | **1,474,449** |

# 18. CONSOLIDATED STATEMENT OF CASH FLOWS

## JANUARY 1 – JUNE 30 OF THE RESPECTIVE FINANCIAL YEAR

| EUR K | 01–06 2020 | 01–06 2019 |
|---|---|---|
| **1. Cash flow from operating activities** | | |
| Earnings before taxes | −68,905 | 39,558 |
| Reconciliation of earnings before taxes with cash flow from operating activities | | |
| Depreciation and impairment of property, plant and equipment | 34,104 | 32,233 |
| Amortization and impairment of intangible assets | 8,508 | 8,819 |
| Gains (–)/losses from the disposal of assets | 306 | 734 |
| Other non-cash changes | 10,731 | 4,558 |
| Financial result | 15,879 | 10,603 |
| Changes in operating assets and liabilities | | |
| Decrease/increase (–) in trade accounts receivable and other receivables | 11,133 | 4,657 |
| Decrease/increase (–) in inventories | 25,689 | −1,357 |
| Decrease (–)/increase in provisions and retirement benefit provisions | 584 | −2,118 |
| Decrease (–)/increase in accounts payable and other liabilities | −106,639 | −25,666 |
| Income taxes paid | −12,177 | −6,791 |
| Cash flow from operating activities | **−80,787** | **65,230** |
| **2. Cash flow from investing activities** | | |
| Purchases | | |
| Purchase of property, plant and equipment | −27,552 | −44,386 |
| Purchase of intangible assets | −1,075 | −2,237 |
| Disposals | | |
| Disposal of property, plant and equipment | 855 | 23 |
| Disposal of intangible assets | 43 | 1 |
| Disposal of financial assets | 962 | 0 |
| Interest received | 743 | 749 |
| Cash flow from investing activities | **−26,024** | **−45,850** |
| **3. Cash flow from financing activities** | | |
| Payments received from hybrid loans | 19,148 | 0 |
| Payments received from raising financial liabilities | 162,226 | 56,371 |
| Payments made for the settlement of financial liabilities | −98,014 | −95,928 |
| Payments made for the settlement of lease liabilities | −10,121 | −8,349 |
| Interest paid | −7,797 | −9,136 |
| Cash flow from financing activities | **65,442** | **−57,042** |
| **4. Cash and cash equivalents at the end of the period** | | |
| Net changes in cash and cash equivalents (sub-total of items 1–3) | −41,369 | −37,662 |
| Effects of exchange rate differences of cash and cash equivalents | −1,773 | −1,150 |
| Cash and cash equivalents as of January 1 | 123,654 | 193,304 |
| Cash and cash equivalents as of June 30 | **80,512** | **154,492** |
| **5. Analysis of cash and cash equivalents** | | |
| Cash and short-term deposits | 86,135 | 154,512 |
| Bank overdrafts (including current liabilities under factoring contracts) | −5,623 | −20 |
| Cash and cash equivalents as of June 30 | **80,512** | **154,492** |

# 19. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## AS OF JUNE 30, 2020

EUR K

| | | | | | Cumulative other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Capital reserve | Retained earnings | Own shares | Cash flow hedges | Currency translation | Net investments in foreign operations | Actuarial gains and losses from defined benefit plans | Total | Hybrid loan | Non-controlling interests | Consolidated 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 | 0 | 0 | −59,248 | 0 | 0 | 0 | 0 | 0 | −59,248 | 0 | 49 | −59,199 |
| Other comprehensive income | 0 | 0 | 0 | 0 | −1,629 | 3,747 | −11,727 | −47 | −9,656 | 0 | −4 | −9,660 |
| Total comprehensive income | 0 | 0 | −59,248 | 0 | −1,629 | 3,747 | −11,727 | −47 | −68,904 | 0 | 45 | −68,859 |
| Proceeds from hybrid loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 19,148 | 0 | 19,148 |
| As of June 30, 2020 | 32,274 | 129,796 | 204,160 | −7,441 | −962 | −5,149 | −27,702 | −51,635 | 273,341 | 19,148 | 42 | 292,531 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## AS OF JUNE 30, 2019

EUR K

| | | | | | Cumulative other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Capital reserve | Retained earnings | Own shares | Cash flow hedges | Currency translation | Net investments in foreign operations | Actuarial gains and losses from defined benefit plans | Total | Hybrid loan | Non-controlling interests | Consolidated 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 | 0 | 0 | 27,650 | 0 | 0 | 0 | 0 | 0 | 27,650 | 0 | −39 | 27,611 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 594 | 623 | 1,136 | −13,091 | −10,738 | 0 | −4 | −10,742 |
| Total comprehensive income | 0 | 0 | 27,650 | 0 | 594 | 623 | 1,136 | −13,091 | 16,912 | 0 | −43 | 16,869 |
| Proceeds from hybrid loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| As of June 30, 2019 | 32,274 | 129,796 | 256,570 | −7,441 | 262 | −10,469 | −17,070 | −52,392 | 331,530 | 0 | 179 | 331,709 |

# C | NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF THE YEAR

## GENERAL

GRAMMER AG prepared its Consolidated Financial Statements for fiscal year 2019 and these Interim Consolidated Financial Statements for the period ending June 30, 2020 in accordance with the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB).

In preparing the Interim Consolidated Financial Statements for the period ending June 30, 2020, and the comparative prior-year figures, the same accounting policies and principles of consolidation were applied as for the Consolidated Financial Statements for the year ending December 31, 2019. These principles and methods are described in detail in the notes to the Consolidated Financial Statements for 2019, which are published in full in the 2019 Annual Report and should therefore be read in conjunction with these Interim Consolidated Financial Statements on the first half of the year.

These Interim Consolidated Financial Statements for the first half of the year have not been audited and contain all customary and ongoing adjustments necessary to provide a true and fair view of the Company's business in the period under review. The results for first the half of the year/first six months of 2020 are not necessarily indicative of future business performance.

The consolidated financial statements for the first half of the year have been prepared in euros. Unless otherwise indicated, all figures are rounded to the nearest thousand (EUR thousand). Individual amounts and percentages may not exactly equal the aggregated amounts due to rounding differences.

The GRAMMER Group's business activities in the first half of 2020 came under heavy pressure from the spread of the COVID-19 pandemic. The limited forward visibility with respect to the consequences and the ongoing spread of the virus make it difficult to provide any forecast as to the duration and extent of the resultant impact on GRAMMER's net assets, financial condition and results of operations. The estimates, assumptions and discretionary judgements contained in the Consolidated Financial Statements for 2019 have been adjusted to the current situation. This particularly applies to impairment testing of goodwill, intangible assets and non-current assets as well as the recognition of deferred tax assets on current tax losses and unused tax losses for the purpose of determining the availability of tax advantages and the definition of the assumptions underlying the actuarial calculation of retirement benefit expenses under defined benefit plans, revenue from contracts with customers in connection with the determination of the transaction price, financial instruments in the event of expected credit risks or losses, provisions for restructuring costs, warranty obligations and legal disputes as well as onerous contracts for the purpose of determining current obligations and their amount.

In response to the lower order backlog, impairments were recognized on inventories no longer required, which in all likelihood can no longer be sold to customers and can no longer be utilized over the remaining period of the project or put to any other use or otherwise sold.

In the light of new market data, project planning costs for series production were reviewed and provisions for impending losses recognized where necessary.

Claims under product-liability legislation and contractual warranties are being asserted against GRAMMER AG and its subsidiaries on account of alleged product defects. GRAMMER has set aside provisions in the amount of the expected value.

As of June 30, 2020, government grants of EUR 7.0 million received by the GRAMMER Group to address the consequences of the COVID-19 pandemic were deducted from personnel expense. These were primarily composed of social security refunds and further grants to preserve jobs, which were duly deducted from personnel expenses. The short-working grants of EUR 3.0 million additionally received in Germany are not classified as government grants in accordance with IAS 20. The conditions for these grants were satisfied in full and there is currently no risk that they will not be observed in the future.

Due to the changed market conditions caused by the COVID-19 pandemic, the parameters for the calculation of expected credit losses for trade accounts receivable and contract assets, which are based on past credit-loss experience as well as forward-looking factors, were updated and additional impairments recognized for individual receivables exposed to the risk of default. Impairments of EUR 0.8 million were recognized in the first half of 2020.

Explanations of events and business transactions that have had a significant impact on net assets, the financial position and the results of operations since the end of the last financial year as well as the nature and amount of items affecting assets, liabilities, equity, net profit and cash flows which are unusual due to their nature, size and frequency are included in the Interim Group Management Report.

## COMPANIES CONSOLIATED

The following companies are included in the consolidated financial statements:

| | GERMANY | INTERNATIONAL | TOTAL |
|---|---|---|---|
| Fully consolidated companies (including GRAMMER AG) | 6 | 30 | **36** |
| Companies accounted for at equity | 0 | 2 | **2** |
| Companies | **6** | **32** | **38** |

In addition to GRAMMER AG, five domestic and 30 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. The companies accounted for at equity are the joint venture GRA-MAG Truck Interior Systems LLC, London, (OH), United States (GRA-MAG), in which GRAMMER AG holds 50% of the voting rights, and the associate ALLYGRAM Systems and Technologies Private Limited, Pune, India (ALLYGRAM), in which GRAMMER AG holds 30% of the voting rights. There were no other changes.

## INCOME TAXES

In the first half of 2020, deferred tax assets were not recognized for two US companies, one Chinese company and two European companies due to the improbable availability of unused tax losses. As the aforementioned companies have sustained a series of losses in the recent past, there is no substantive compelling evidence indicating that sufficient taxable income towards which the unused losses can be applied will arise in the future. The Group assumes that it will have sufficient taxable income to make use of existing unused and current tax losses for which deferred tax assets have been recognized.

As a result of the tax losses, tax income of EUR 9.7 million (01–06 2019: tax expense of EUR 11.9 million) was reported within net tax result in the first half of 2020 as far as tax losses can be used in future periods to lower tax expense. As deferred tax assets were not recognized in the case of five companies, the Group tax rate comes to a positive 14.1% (01–06 2019: negative 30.2%), thus deviating substantially from the tax rate of 29.2% in Germany.

Of the increase of EUR 6.3 million in deferred tax assets to EUR 51.2 million, unused tax losses account for EUR 7.7 million.

## FINANCIAL LIABILITIES

### NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities break down as follows:

| EUR K | JUNE 30, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| Bonded loans | 126,860 | 126,740 |
| Loans | 148,129 | 93,236 |
| Non-current financial liabilities | **274,989** | **219,976** |

Non-current financial liabilities rose through the addition of long-term loans under the new syndicated loan contact in February 2020.

### CURRENT FINANCIAL LIABILITIES

Current financial liabilities break down as follows:

| EUR K | JUNE 30, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| Bonded loans | 85,413 | 84,539 |
| Bank overdrafts (including current liabilities under factoring contracts) | 5,623 | 18,997 |
| Loans | 112,524 | 104,199 |
| Current financial liabilities | **203,560** | **207,735** |

Current financial liabilities came to a total of EUR 203.6 million and were therefore down slightly on the end of 2019 (2019: EUR 207.7 million). This decline was chiefly due to changes in the structure of external finance as a result of the new syndicated loan. The opposite effect arose from the additional liquidity requirements as a result of the negative earnings.

## EQUITY

Movements in the GRAMMER Group's equity are analyzed in the Consolidated Statement of Changes in Equity on page 19. There were no changes in subscribed capital or the capital reserve compared with December 31, 2019. Retained earnings dropped due to the negative earnings arising in the first half of 2020. Cumulative other comprehensive income chiefly comprises the differences recorded within equity resulting from currency translation in connection with foreign subsidiaries, losses from cash flow hedges and losses from net investments in foreign operations including related deferred or current taxes.

On March 30, 2020, 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), through one of GRAMMER AG's Chinese subsidiaries. The hybrid loan was granted for an undefined period and is classified as equity.

## IMPAIRMENT OF NON-FINANCIAL ASSETS

Against the backdrop of the global economic impact caused by the Corona crisis and its effects on the GRAMMER Group, there was evidence of a potential impairment of assets such as property, plant and equipment, intangible assets and goodwill. Examples of triggering events for impairments include material changes in the operating environment in which the asset in question is used. In our view and after appropriate testing, there is no evidence of any impairment of property, plant and equipment or intangible assets.

Goodwill is generally tested for impairment at the level of the CGUs (cash generating unit) annually as of December 31. The impact of the corona crisis was seen as constituting a triggering event as of June 30, 2020, necessitating impairment testing of the goodwill recognized at the level of the Commercial Vehicles and Automotive CGUs, which constitute our reportable segments.

The goodwill of the CGUs breaks down as follows as of June 30, 2020:

| EUR K | Cash generating unit | Goodwill June 30, 2020 | Goodwill December 31, 2019 | Growth rate[1] June 30, 2020 | Growth rate[1] December 31, 2019 | Discount factor June 30, 2020 | Discount factor December 31, 2019 |
|---|---|---|---|---|---|---|---|
| CGU I | Commercial Vehicles | 4,423 | 4,423 | 1 % | 1 % | 5.9 % | 5.9 % |
| CGU II | Automotive | 107,755 | 107,518 | 1 % | 1 % | 5.9 % | 5.9 % |
| | Goodwill | **112,178** | **111,941** | | | | |

[1] Perpetual annuity

This ad-hoc impairment test was based on an adjusted forecast approved by management that takes appropriate account of the current effects of the corona crisis and necessary restructuring measures but is subject to a high degree of uncertainty particularly with regard to the possibility of a second wave of coronavirus infections. 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 of a CGU are free cash flows, the discount rate together with the related parameters and the sustainable growth rate. The market risk premium as a significant component of the cost of capital was adjusted from 7.0% in the previous year to 7.5% to reflect the increased perceived risks in connection with the COVID-19 crisis. Due to changes in other capital cost parameters, in particular the risk-free interest rate, the discount factor remained virtually unchanged compared with December 31, 2019. The expected free cash flows were derived from the revised 3-year forecast, while the cost-of-debt rate was verified against current market estimates and a sustainable growth rate of an unchanged 1% assumed. In particular, various scenarios were examined on the basis of different assumptions regarding the EBIT margin in perpetual annuity and the cost-of-debt rate. For this purpose, the cost-of-debt rate was derived from the peer group based on current knowledge. The methodology applied in calculating impairments is the same as that used in annual impairment testing. Further details can be found in the Annual Report for 2019.

The tests performed as of June 30, 2020 confirmed the absence of any impairment of the goodwill of the CGUs.

A scenario analysis of the recoverable amount of the Automotive CGU and the Commercial Vehicles CGU was performed to text the risk exposure of the cash flows. The scenario analysis is based on a variation of the discount factor between 5.61% and 6.66%. In the case of the Automotive CGU the application of a discount factor of more than 6.66% results in an impairment loss.

In the case of the Commercial Vehicles CGU, there is no impairment loss below the above range of discount factors.

# FINANCIAL INSTRUMENTS

### ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows the fair values and carrying amounts of financial assets and liabilities:

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

| EUR K | Measurement category in accordance with IFRS 9 | Carrying amount on June 30, 2020 | Fair value on June 30, 2020 | Carrying amount on December 31, 2019 | Fair value on December 31, 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and short-term deposits | FAAC | 86,135 | 86,135 | 142,651 | 142,651 |
| Trade accounts receivable | FAAC | 196,639 | 196,639 | 206,821 | 206,821 |
| **Other financial assets** | | | | | |
| Loans and receivables | FAAC | 9,671 | 9,671 | 12,097 | 12,097 |
| Investments in associates | FVOCI | 50 | 50 | 50 | 50 |
| Financial assets held for trading | FVTPL | 0 | 0 | 0 | 0 |
| Derivatives with hedge relationship | n.a. | 0 | 0 | 1,211 | 1,211 |
| **Equity and liabilities** | | | | | |
| Trade accounts payable | FLAC | 168,257 | 168,257 | 310,399 | 310,412 |
| Current and non-current financial liabilities | FLAC | 478,549 | 478,549 | 427,711 | 433,612 |
| **Other financial liabilities** | | | | | |
| Other financial liabilities | FLAC | 597 | 597 | 3,386 | 3,386 |
| Lease liabilities | n.a. | 74,922 | 74,922 | 81,136 | 81,136 |
| Derivatives with no hedge relationship | FLtPL | 0 | 0 | 0 | 0 |
| Derivatives with hedge relationship | n.a. | 1,424 | 1,424 | 377 | 377 |
| **Of which aggregated by category in accordance with IFRS 9:** | | | | | |
| **Assets** | | | | | |
| Financial assets at amortized cost | FAAC | 292,445 | 292,445 | 361,569 | 361,569 |
| Financial assets at fair value through other comprehensive income | FVOCI | 50 | 50 | 50 | 50 |
| Financial assets at fair value through profit and loss | FVtPL | 0 | 0 | 0 | 0 |
| **Equity and liabilities** | | | | | |
| Financial liabilities at amortized cost | FLAC | 647,403 | 647,403 | 741,496 | 747,410 |
| Financial liabilities at fair value through profit and loss | FLtPL | 0 | 0 | 0 | 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 June 30, 2020:

| EUR K | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| **Assets recognized at fair value** | | | | |
| Derivative financial assets | | | | |
| Currency forwards | **0** | 0 | 0 | 0 |
| Interest rate swaps | **0** | 0 | 0 | 0 |
| **Liabilities recognized at fair value** | | | | |
| Derivative financial liabilities | | | | |
| Currency forwards | **1,181** | 0 | 1,181 | 0 |
| Interest rate swaps | **243** | 0 | 243 | 0 |
| **Liabilities for which a fair value is disclosed** | | | | |
| Interest-bearing loans | | | | |
| Obligations under hire purchase agreements | **1,810** | 0 | 1,810 | 0 |
| Current and non-current financial liabilities | **478,549** | 0 | 478,549 | 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 disclosed** | | | | |
| Interest-bearing liabilities | | | | |
| Obligations under hire purchase agreements | **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.

## SEGMENT REPORTING

### SEGMENT INFORMATION

Segment information is provided for the Automotive Division and the Commercial Vehicles Division.

Central items and the elimination of internal Group transactions are reported in the column headed "Central Services" and "Eliminations". Details on the areas of activity are also included in the Consolidated Financial Statements as of December 31, 2019.

### REPORTING SEGMENTS

**01–06 2020**

EUR K

| | COMMERCIAL VEHICLES | AUTOMOTIVE | CENTRAL SERVICES | ELIMINATIONS | GRAMMER GROUP |
|---|---|---|---|---|---|
| Revenue from sales to external customers | 243,644 | 492,194 | 0 | 0 | **735,838** |
| Inter-segment revenue | 12,944 | 6,885 | 0 | –19,829 | **0** |
| **Revenue** | **256,588** | **499,079** | **0** | **–19,829** | **735,838** |
| **Segment earnings (EBIT)** | **12,844** | **–62,940** | **–2,963** | **33** | **–53,026** |

**01–06 2019**

EUR K

| | COMMERCIAL VEHICLES | AUTOMOTIVE | CENTRAL SERVICES | ELIMINATIONS | GRAMMER GROUP |
|---|---|---|---|---|---|
| Revenue from sales to external customers | 313,995 | 737,483 | 0 | 0 | **1,051,478** |
| Inter-segment revenue | 18,253 | 7,549 | 0 | –25,802 | **0** |
| **Revenue** | **332,248** | **745,032** | **0** | **–25,802** | **1,051,478** |
| **Segment earnings (EBIT)** | **32,462** | **28,437** | **–10,758** | **20** | **50,161** |

### INFORMATION ABOUT GEOGRAPHIC SEGMENTS

The following table contains information on externally generated revenue broken down by the Group's geographic segments:

**01–06 2020**

EUR K

| BY PLACE OF DOMICILE | EMEA | AMERICAS | APAC | GROUP |
|---|---|---|---|---|
| Automotive revenue | 244,968 | 157,952 | 96,159 | **499,079** |
| Commercial Vehicles revenue | 181,197 | 31,277 | 44,114 | **256,588** |
| Eliminations | –14,930 | –4,374 | –525 | **–19,829** |
| **Revenue** | **411,235** | **184,855** | **139,748** | **735,838** |

**01–06 2019**

EUR K

| BY PLACE OF DOMICILE | EMEA | AMERICAS | APAC | GROUP |
|---|---|---|---|---|
| Automotive revenue | 373,396 | 265,086 | 106,550 | **745,032** |
| Commercial Vehicles revenue | 242,668 | 44,254 | 45,326 | **332,248** |
| Eliminations | –20,832 | –4,773 | –197 | **–25,802** |
| **Revenue** | **595,232** | **304,567** | **151,679** | **1,051,478** |

EMEA (Europe, Middle East, Africa) includes all European companies as well as the companies in Turkey and South Africa. The Americas include all companies in North, Central and South America, while APAC (Asia Pacific) is made up of all Chinese and Japanese companies.

### RELATED PARTIES DISCLOSURES

The following table sets out transactions with related parties as of June 30, 2020 and June 30, 2019:

| EUR K<br>RELATED PARTIES | | SALES TO RELATED PARTIES | PURCHASES FROM RELATED PARTIES | RECEIVABLES FROM RELATED PARTIES | LIABILITIES FROM RELATED PARTIES |
|---|---|---|---|---|---|
| GRA-MAG Truck Interior Systems LLC | **2020** | **2,340** | **0** | **9,324** | **0** |
| | 2019 | 4,847 | 0 | 3,399 | 0 |
| Ningbo Jifeng Auto Parts Co., Ltd. | **2020** | **358** | **119** | **435** | **28** |
| | 2019 | 200 | 1 | 6 | 1 |
| Jiye Auto Parts GmbH | **2020** | **0** | **0** | **0** | **0** |
| | 2019 | 2,387 | 0 | 2,508 | 0 |
| Jifeng Automotive Interior GmbH | **2020** | **0** | **0** | **0** | **0** |
| | 2019 | 1 | 0 | 0 | 0 |
| Jifeng Automotive Interior CZ s.r.o. | **2020** | **2** | **–16** | **18** | **0** |
| | 2019 | 0 | 21 | 0 | 8 |
| Ningbo Jifeng Technology Co., Ltd. | **2020** | **0** | **1,077** | **0** | **324** |
| | 2019 | 0 | 890 | 0 | 329 |
| ALLYGRAM Systems and Technologies Private Limited | **2020** | **0** | **1,260** | **0** | **243** |
| | 2019 | 0 | 0 | 0 | 0 |

Like GRAMMER AG's direct parent company (Jiye Auto Parts GmbH), the companies Ningbo Jifeng Auto Parts Co., Ltd., Jifeng Automotive Interior CZ s.r.o., Ningbo Jifeng Technology Co., Ltd. and Jifeng Automotive Interior GmbH are ultimately indirectly controlled by the Wang family. GRAMMER maintains direct relations for the delivery of goods and the provision of services with these companies.

### CONTINGENT LIABILITIES

Guarantees valued at EUR 2,683 thousand are outstanding as of June 30, 2020 and primarily take the form of performance guarantees for contract breaches.

# D | KEY FIGURES ACCORDING TO IFRS GRAMMER GROUP – QUARTERLY OVERVIEW

## KEY FIGURES ACCORDING TO IFRS

| EUR M | Q2 2020 | Q2 2019 | 01–06 2020 | 01–06 2019 | 01–12 2019 |
|---|---|---|---|---|---|
| **Group revenue** | **280.9** | **517.4** | **735.8** | **1,051.5** | **2,038.5** |
| Automotive revenue | 174.9 | 366.7 | 499.1 | 745.0 | 1,479.8 |
| Commercial Vehicles revenue | 114.2 | 163.7 | 256.6 | 332.2 | 607.4 |
| **Income Statement** | | | | | |
| EBITDA | −29.9 | 47.1 | −10.4 | 91.3 | 159.8 |
| EBITDA margin (in %) | −10.6 | 9.1 | −1.4 | 8.7 | 7.8 |
| EBIT | −50.9 | 26.2 | −53.0 | 50.2 | 74.5 |
| EBIT margin (in %) | −18.1 | 5.1 | −7.2 | 4.8 | 3.7 |
| Operating EBIT | −46.1 | 27.1 | −45.7 | 50.1 | 77.0 |
| Operating EBIT margin (in %) | −16.4 | 5.2 | −6.2 | 4.8 | 3.8 |
| Earnings before taxes | −54.8 | 22.8 | −68.9 | 39.6 | 63.6 |
| Net profit | −49.4 | 16.0 | −59.2 | 27.6 | 43.5 |
| **Consolidated Statement of Financial Position** | | | | | |
| Total assets | 1,371.5 | 1,468.7 | 1,371.5 | 1,468.7 | 1,474.4 |
| Equity | 292.5 | 331.7 | 292.5 | 331.7 | 342.2 |
| Equity ratio (in %) | 21.3 | 22.6 | 21.3 | 22.6 | 23.2 |
| Net financial debt | 392.5 | 252.6 | 392.5 | 252.6 | 285.0 |
| Gearing (in %) | 134.2 | 76.2 | 134.2 | 76.2 | 83.2 |
| Capital expenditure (without M&A and financial assets) | 12.3 | 23.6 | 31.8 | 56.0 | 132.8 |
| Depreciation and amortization | 21.0 | 20.9 | 42.6 | 41.1 | 85.3 |
| **Employees (number, average)** | | | **14,465** | **14,995** | **14,910** |
| **Share data** | | | **June 30, 2020** | **June 30, 2019** | **December 31, 2019** |
| Prices (Xetra closing price in EUR) | | | 18.20 | 32.55 | 31.95 |
| Market capitalization (in EUR m) | | | 229.4 | 410.4 | 402.8 |
| Earnings per share (basic/diluted, in EUR) | | | −4.83 | 2.25 | 3.56 |

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