

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 for the Executive Board as well as Supervisory Board and the German Corporate Governance Code (the Code), which are observed in all decision-making processes. In accordance with the statutory provisions relating to German stock corporations, GRAMMER AG has a dual governance system characterized by the distinction between the Executive Board as the management body and the Supervisory Board as the monitoring body with separate members in both cases.

We report below on our main corporate governance practices in accordance with article 3.10 of the Code and section 289f HGB.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

On December 11, 2018, 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 11, 2018

The Executive Board and the Supervisory Board declare as follows:

GRAMMER AG has conformed to all of the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 5, 2015 and the version dated February 7, 2017 from the day on which they were announced on April 24, 2017 published by the Federal Ministry of Justice and Consumer Protection in the official section of Bundesanzeiger (the Code) since the last declaration of conformity dated December 5, 2017 and will continue to do so in the future, with two exceptions:

1. Article 4.2.5 (3) and (4)

Under article 4.2.5 (3) and (4) of the 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 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.

Amberg, December 11, 2018

The Executive Board and the Supervisory Board of GRAMMER AG

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

GRAMMER AG voluntarily conforms to the non-obligatory Code recommendations with two exceptions: Article 2.3.3 of the Code recommends allowing shareholders to follow the Annual General Meeting via modern communications channels such as the Internet. GRAMMER AG currently does not offer this; nor does it currently have any plans to offer live transmission of the Annual General Meeting.

Article 4.1.3 second half of sentence 3 recommends installing a whistleblower system for third parties to report any breach of statutory provisions and internal company policies. Such a whistleblower system is currently only available for employees of the Company.

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

GRAMMER AG's Supervisory Board has a total of 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 Supervisory Board of GRAMMER AG is striving for a composition that ensures qualified supervision of and advice for the Executive Board of GRAMMER AG. Its composition is based on the current Code recommendations with regard to diversity and a reasonable proportion of women as well as the criteria of independence, experience, international profile and expertise. Moreover, the members should possess the integrity, personality and willingness to perform necessary for the duties of the Supervisory Board of an internationally active, capital market-oriented industrial company to be duly executed successfully. These criteria were defined in a profile of requirements and summarized in a corresponding questionnaire that forms a key basis of the examination to determine the suitability of a nominee. In the interests of successful collaboration on the entire Supervisory Board, its members should be chosen in such a way as to ensure sufficient diversity in terms of career backgrounds, expertise and experience. 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 the overall fulfilment was rejected (separate fulfilment).

Only nominees who are no older than 70 years on the date of their election or re-election are eligible to serve as members of the Supervisory Board. No cap on the length of membership on the Supervisory Board has been defined.

The Nominating Committee is responsible for searching for and evaluating possible nominees in the light of the requirements of the German Stock Corporation Act, the German Corporate Governance Code and the Supervisory Board's rules of procedure as well as the aforementioned targets with respect to the Supervisory Board's composition and its profile of skills.

IMPLEMENTATION OF DIVERSITY TARGETS

Section 96 (2) AktG stipulates a male and female gender quota at least 30% of GRAMMER AG's Supervisory Board. This statutory quota is the same as the target quota adopted by the Supervisory Board. This quota was fulfilled in 2018.

Section 111 (5) AktG stipulates that the Supervisory Board of a listed company must define targets for the proportion of women on its Executive Board. Under section 76 (4) AktG, the Executive Board is also required to define the target proportion of women on the two management levels below the Executive Board.

In defining the targets for the proportion of women on the Executive Board and the two management levels below it, GRAMMER AG as a technically oriented company must take account of specific sector-related factors as well as the current proportion of women in the workforce. At its meeting in March 2017, the Supervisory Board reviewed the target agenda for the Executive Board and set a figure of 33%. This target is 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.

This target was not reached in 2018 as the Executive Board comprised three men and no woman. Mr. Hartmut Müller (CEO) and Mr. Gérard Cordonnier (CFO) resigned from the Executive Board effective December 31, 2018. Mr. Jens Öhlenschläger was appointed to the position of Chief Operating Officer (COO) with effect from January 1, 2019, while Mr. Pretschner assumed the offices of CEO, CFO and HR Director on an interim basis.

The Executive Board of GRAMMER AG has defined an (international) quota of 15% for the first management level below the Executive Board and 20% for the second level below the Executive Board. A target of 10% for the first management level and 15% for the second management level has been defined for Germany. Achievement of this target is reviewed annually.

CURRENT TARGET ACHIEVEMENT AS OF DECEMBER 31, 2018

	TOP MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15 %	20 %
Current quota (international)	16.13 %	20 %
Target quota (Germany)	10 %	15 %
Current quota (Germany)	12 %	15.09 %

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the Annual General Meeting of June 13, 2018, all shareholders were again able to exercise their voting rights on an equal basis and discuss all the items of the agenda with the members of the Executive Board and Supervisory Board. The invitation to the Annual General Meeting including the statutory reports and documents as well as the management report and the agenda were readily available to the shareholders on the Company's website in German and mostly also in English. All other relevant information was also disclosed on the GRAMMER website or sent on request. To assist absent shareholders in exercising their rights, two voting proxies attended the Annual General Meeting to exercise voting rights in accordance with the instructions issued. At any time shareholders were able to authorize and instruct these proxies, who could be reached throughout the meeting. Shareholders who initially attended the Annual General Meeting but who wanted to leave early while still exercising their voting rights were able to issue voting instructions during the Annual General Meeting to the proxies named by GRAMMER. Details on voting proxies are announced in the invitation to each Annual General Meeting.

MANAGEMENT BY THE EXECUTIVE BOARD

The Executive Board is responsible for the strategy, governance and management of GRAMMER AG. It acts in the interests of the shareholders and all stakeholders with the aim of securing and raising the Company's enterprise value on a lasting basis. To this end, it develops a suitable strategy, consults with the Supervisory Board and ensures that it is implemented. Its duties also include implementing effective risk and opportunity management and supervision as well as ensuring compliance with statutory requirements and internal company policies throughout the entire Group. Collaboration and the allocation of duties to the members of the Executive Board are governed by statute, the Code and the Executive Board's rules of procedure, which also govern the Executive Board's reporting and information duties. They also contain the departmental responsibilities of the individual Executive Board members, matters that are the responsibility of the Executive Board in its entirety, the required majority as well as a list of transactions requiring the Supervisory Board's approval.

The Executive Board of GRAMMER AG had the following members as of December 31, 2018:

- Hartmut Müller, Chief Executive Officer, Human Resources Director, member of the Executive Board since 2007, appointed until January 31, 2022; resigned effective December 31, 2018
- Gérard Cordonnier, Chief Financial Officer, member of the Executive Board since 2015, appointed until May 31, 2021; resigned effective December 31, 2018
- Manfred Pretschner, Chief Operating Officer, member of the Executive Board since 2010, appointed until July 31, 2021. Mr. Pretschner was appointed to the positions of CEO, CFO and Human Resources Director effective January 1, 2019 and will remain with the Company until June 30, 2019 after exercising his change-of-control right.

Mr. Jens Öhlenschläger was appointed to the Executive Board effective January 1, 2019 for a period expiring on December 31, 2021. Mr. Jens Öhlenschläger has assumed the tasks of Chief Operating Officer.

The basic elements of the remuneration system are described in the remuneration report.

WORK OF THE SUPERVISORY BOARD

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. The work of the Supervisory Board is governed by statutory requirements, the Articles of Association and the rules of procedure. There is also an Audit Committee, a Nomination Committee, a Strategy Committee, a Personnel and Mediation Committee and, since September 26, 2018, an Executive Committee. The Ad-hoc Committee was disbanded with effect from September 26, 2018. The Committees met regularly in the year under review. The chairman of the Audit Committee is independent and not simultaneously the chairman of the Supervisory Board and, as a financial expert, possesses special knowledge of and experience in the accounting principles and internal control processes required for this position. He was not a member of GRAMMER AG's Executive Board at any time.

The section in the 2018 Annual Report on the Supervisory Board and Executive Board contains more information on the composition of the Committees. Further details of how the Supervisory Board works and the number of Committee meetings and the main matters dealt with in 2018 can be found in the report of the Supervisory Board. The remuneration report describes the structure and amount of remuneration paid to the Supervisory Board.

The Supervisory Board reviews the efficiency of its work annually on the basis of a detailed questionnaire. Among other things, it reviews its efficiency in terms of the collaboration on the Supervisory Board, the availability of information and the processes for making decisions. It discusses scope for improvement on the basis of the results and adopts appropriate measures. The last efficiency review was carried out in 2018 and numerous measures were implemented to improve efficiency.

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.

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of GRAMMER AG held four ordinary and ten extraordinary meetings. Five ordinary meetings are planned for 2019. In addition, extraordinary meetings will be held if necessary. The committees also meet regularly. In the absence of any mandatory statutory provisions to the contrary, the resolutions of the Supervisory Board 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, and in the event of a renewed parity of votes the chairman of the Supervisory Board holds two votes.

The Supervisory Board considers the individualized disclosure of attendance at the meetings of the Supervisory Board and the committees to form an element of good corporate governance:

PARTICIPATION IN THE MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	11/14	78 %
Tanja Fondel	13/14	93 %
Wolfram Hatz	14/14	100 %
Martin Heiß	13/14	93 %
Ingrid Hunger	14/14	100 %
Harald Jung	14/14	100 %
Dr. Peter Merten	14/14	100 %
Horst Ott (Deputy Chairman)	11/14	78 %
Dr. Klaus Probst (Chairman)	14/14	100 %
Lars Roder	14/14	100 %
Prof. Dr. Birgit Vogel-Heuser	12/14	86 %
Dr. Bernhard Wankerl	14/14	100 %
Strategy Committee		
Horst Ott	2/2	100 %
Dr. Klaus Probst (Chairman)	2/2	100 %
Lars Roder	2/2	100 %
Dr. Bernhard Wankerl	2/2	100 %
Personnel and Mediation Committee (expanded from October 15, 2018)		
Andrea Elsner ¹	7/7	100 %
Dr. Peter Merten ¹	7/7	100 %
Horst Ott	10/10	100 %
Dr. Klaus Probst (Chairman)	10/10	100 %
Lars Roder	10/10	100 %
Dr. Bernhard Wankerl	10/10	100 %

¹ Ms. A. Elsner and Dr. P. Merten have been members of the expanded Personnel Committee since October 15, 2018.

Audit Committee		
Andrea Elsner	6/6	100%
Wolfram Hatz (Chairman)	6/6	100%
Martin Heiß	6/6	100%
Dr. Klaus Probst	6/6	100%
Ad-hoc Committee		
Andrea Elsner	1/1	100%
Wolfram Hatz	1/1	100%
Martin Heiß	1/1	100%
Ingrid Hunger	1/1	100%
Harald Jung	0/1	0%
Horst Ott	0/1	0%
Dr. Klaus Probst (Chairman)	1/1	100%
Dr. Peter Merten	0/1	0%
Lars Roder	1/1	100%
Dr. Bernhard Wankerl	0/1	0%
Nominating Committee		
Wolfram Hatz	1/1	100%
Dr. Klaus Probst (Chairman)	1/1	100%
Dr. Bernhard Wankerl	1/1	100%
Executive Committee		
Horst Ott	1/1	100%
Dr. Klaus Probst (Chairman)	1/1	100%

COLLABORATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and the Supervisory Board of GRAMMER AG worked closely and in mutual trust for the benefit of the Company again in the year under review. The Executive Board's information and reporting duties were defined in its rules of procedure. During the meetings of the Supervisory Board, the Executive Board and Supervisory Board discussed all key strategic decisions as well as transactions requiring consent openly, in detail and subject to strict confidentiality. The Executive Board kept the Supervisory Board comprehensively informed on a regular and up-to-date basis on all key matters as well as the planning, business performance, the risk situation and compliance measures. In addition to the regular Supervisory Board meetings attended by the Executive Board, the Chief Executive Officer and the Chairman of the Supervisory Board discussed all

relevant matters on a regular basis. The report of the Supervisory Board provides additional information on the collaboration between the Executive Board and the Supervisory Board. In the year under review, the members of the Executive Board and the Supervisory Board were covered by D&O insurance with a deductible of at least 10% per claim and capped at one-and-a-half-times the fixed annual remuneration of the individual member.

COMPLIANCE MANAGEMENT SYSTEM

"Integrity forms the basis of our success" is the first statement in GRAMMER's Code of Conduct, which was first published in May 2006, laying the foundations for GRAMMER's 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. In the year under review a project was initiated with the assistance of external advisors to enhance the compliance management system and the risk management system. This project is expected to be completed in 2019. 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 "Code Team" made up of internal experts was established. 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 completing the training successfully. 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.

TRANSPARENCY

GRAMMER AG kept shareholders, shareholder groups, financial analysts, the media and the general public informed of the Company's business and material occurrences comprehensively informed on an equal basis, with minimum delay. As in earlier years, the Company used a variety of different media for this purpose. All mandatory disclosures as well as detailed additional information were published on the GRAMMER website with minimum delay. The publications, such as ad hoc announcements, media releases, interim and annual reports were always issued in both German and English. Telephone conferences were offered in addition to the annual press and analyst conference. The latest fiscal calendar, which provides information on the dates for all key releases and events, can also be viewed on the website.

ACCOUNTING AND STATUTORY AUDIT

The GRAMMER Group's consolidated financial statements for 2018 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 June 13, 2018, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, ("EY") was elected as the statutory auditor of the annual financial statements and the consolidated financial statements for the reporting year. The proposal had been preceded by an independence check. This ruled out any business, financial, personal and other relations between the auditors, their corporate bodies as well as chief auditors on the one hand and GRAMMER AG as well as the members of its corporate bodies on the other hand liable to call into question the independence of the auditors. EY submitted a binding declaration of independence. The Supervisory Board also agreed with the statutory auditors that it was to be notified without delay of any findings and occurrences material to the duties of the Supervisory Board arising during execution of the audit. Accordingly, the auditors undertake to advise the Supervisory Board or make a corresponding note in their audit report if any evidence is found indicating the presence of any misrepresentation in the Code declaration issued by the Executive Board and the Supervisory Board.

DIRECTORS' DEALINGS

All share transactions are published in accordance with article 19 of the European Market Abuse Directive as soon as they are disclosed to GRAMMER AG. The following transactions were reported in 2018: Dr. Klaus Probst – sale of 20,000 shares under the voluntary public takeover offer by Jiye Auto Parts GmbH on August 13, 2018.

Amberg, March 15, 2019

GRAMMER AG

For the Executive Board
Manfred Pretscher

For the Supervisory Board
Dr. Klaus Probst