

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, GRAMMER AG's articles of incorporation, the rules of procedure for the Executive Board and 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 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 section 3.10 of the Code and section 289a HGB.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

On December 9, 2016, 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).

"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 (the Code) published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015 in the official section of Bundesanzeiger since the last declaration of conformity dated December 3, 2015 and will continue to do so in the future, with three exceptions:

1. Article 4.2.2 (2) Sentence 3

Article 4.2.2 (2) Sentence 3 of the Code includes a recommendation under which the Supervisory Board is to consider the relationship between the remuneration of the Executive Board and that of senior management and the staff overall, particularly in terms of its development over time and to determine how senior managers and the relevant staff are to be differentiated.

In the past, the target remuneration for the Executive Board and the target remuneration of the peer group was largely identical. However, as the service contracts provide for regular adjustments to the remuneration for the Executive Board, the Executive Board and the Supervisory Board hereby disclose an exception as a precautionary measure. Moreover, the Supervisory Board has not expressly drawn any distinction between the peer groups as it considers this to be superfluous in view of the GRAMMER job-grading system, which assigns remuneration to different levels.

2. Article 4.2.5 (3)

Under article 4.2.5 (3) and (4) of the Code, the remuneration report for financial years commencing after December 31, 2013 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. Consequently, the Executive Board and the Supervisory Board consider the previous presentation to be sufficiently transparent. Accordingly, no additional itemized breakdown is provided by means of model tables.

3. Article 5.4.1 (2) Sentence 1

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."

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 one exception: 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 via the Internet.

The Supervisory Board dealt at length with the remuneration system for the Executive Board in 2016. It is seeking to implement a new remuneration system that takes account of the requirements considered to be necessary by an external remuneration consultant.

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

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. Nominees for positions on the Supervisory Board should be able to successfully perform their duties as members of the Supervisory Board of an internationally successful industrial company on account of their experience, expertise, independence, willingness to perform, integrity and personal qualities. In the interests of successful joint activities on the entire Supervisory Board, nominees should be elected to ensure sufficient diversity in terms of career backgrounds, expertise and experience. The rules of procedure of the Supervisory Board provide for each member to possess the expert knowledge, ability, and experience required to properly complete his or her duties. Only nominees who are no older than 70 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. All members of the Supervisory Board satisfy these requirements.

The following section describing the diversity targets provides further details on the proportion of women on the Supervisory Board.

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.



Declarations of conformity:
<http://www.grammer.com/en/investor-relations/corporate-facts/corporate-governance.html>

IMPLEMENTATION OF DIVERSITY TARGETS

Section III (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. As well as this, section 96 (2) AktG stipulates that at least 30% of the GRAMMER AG's Supervisory Board must be men or women from January 1, 2016. Prior to this provision taking effect, the Supervisory Board had already determined that at least one third of its members should be women. It has determined that the target for the proportion of women and men on the Supervisory Board should be met separately by the shareholder representatives and the employee representatives. The employee representatives on the Supervisory Board already meet the statutory quota as they have elected two women. The shareholder representatives currently comprise only a single woman as the offices of the shareholder representatives commenced prior to the target quota taking effect, meaning that there was no opportunity for electing a further woman.

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 has taken account of specific sector-related factors as well as the current proportion of women in the workforce. At the level of GRAMMER AG itself, the Supervisory Board has defined a target of 20% for the Executive Board, which is to be met by March 31, 2017. This target has not yet been reached as the Executive Board currently comprises three men and no women. As no new members were appointed to the Executive Board in 2016, it has so far not been possible to achieve the target by appointing a woman. 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 to be achieved by March 31, 2017. A target of 10 percent for the first management level and 15% for the second management level has been defined for Germany.

CURRENT STATUS AS OF DECEMBER 31, 2016

	TOP MANAGEMENT	MIDDLE MANAGEMENT
Target quota (international)	15%	20%
Current quota (international)	15%	21%
Target quota (Germany)	10%	15%
Current quota (Germany)	10%	14%

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Each share in GRAMMER AG grants one voting right. At the Annual General Meeting of May 11, 2016, 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 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. Shareholders were able to authorize and instruct these proxies at any time, who could be reached throughout the meeting by all shareholders present.

MANAGEMENT BY THE EXECUTIVE BOARD

The Executive Board is responsible for the management of GRAMMER AG. It acts in the interests of the Company with the aim of raising its enterprise value on a lasting basis. To this end, it develops a suitable strategy, consults with the Supervisory Board on this strategy 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. The latter also govern the Executive Board's reporting and information duties and set out 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 rules of procedure of the Executive Board were adjusted in the year under review to allow for the European Market Abuse Directive. All information on the Executive Board remuneration system in force since August 1, 2010 can be found in the remuneration report.

There were no changes in the composition of the Executive Board in 2016. It has the following members:

- Hartmut Müller, Chief Executive Officer, Human Resources Director, member of the Executive Board since 2007, appointed until January 31, 2022
- Gérard Cordonnier, Chief Financial Officer, member of the Executive Board since 2015, appointed until May 31, 2018
- Manfred Pretscher, Chief Operating Officer, member of the Executive Board since 2010, appointed until July 31, 2018

WORK OF THE SUPERVISORY BOARD

The Supervisory Board of GRAMMER AG monitors and advises the Executive Board on the management of the Company. In accordance with the German Codetermination Act, it has an equal number of six members representing the shareholders and six members representing the employees. Its composition is oriented to the current Code recommendations with regard to diversity and a reasonable proportion of women as well as the criteria of independence, experience, internationalness and expertise. These criteria have been 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. The work of the Supervisory Board is governed by statutory requirements, the Articles of Association and the rules of procedure. In addition, an Audit Committee, a Personnel and Mediation Committee, a Nominating Committee and a Strategy Committee have been established, all of which met regularly in the year under review. An Ad-hoc Committee was also established for the first time in 2016. 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.

The section in the annual report on the Supervisory Board and Executive Board contains more information on the composition of the committees. Further details on how the Supervisory Board works and the number of Committee meetings and the main matters dealt with in 2016 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 rules of procedure of the Supervisory Board were adjusted in the year under review to allow for the European Market Abuse Directive.

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 performed in 2016.

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.



Detailed information on the activities of the Supervisory Board and its relations with the Executive Board can be found in the Report of the Supervisory Board (page 50).



A list of the current members of the Supervisory Board committees can be found on page 52 of this report.

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of GRAMMER AG held four ordinary and two extraordinary meetings. Four ordinary meetings are also planned for the current year. 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 are passed with a simple majority of the vote cast. In the event of a parity of votes, voting is repeated, in which case the chairman of the Supervisory Board holds two votes.

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

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD

SUPERVISORY BOARD	ATTENDANCE AT MEETINGS	PERCENTAGE ATTENDANCE
Andrea Elsner	5/6	83%
Tanja Fondel	5/6	83%
Wolfram Hatz	4/6	67%
Martin Heiss	6/6	100%
Ingrid Hunger	5/6	83%
Harald Jung	5/6	83%
Dr. Hans Liebler	5/6	83%
Dr. Peter Merten	4/6	67%
Horst Ott (Deputy Chairman)	5/6	83%
Dr. Klaus Probst (Chairman)	6/6	100%
Lars Roder	6/6	100%
Dr. Bernhard Wankerl	6/6	100%
STRATEGY COMMITTEE		
Horst Ott	5/5	100%
Dr. Klaus Probst (Chairman)	5/5	100%
Lars Roder	5/5	100%
Dr. Bernhard Wankerl	5/5	100%
PERSONNEL AND MEDIATION COMMITTEE		
Horst Ott	3/3	100%
Dr. Klaus Probst (Chairman)	3/3	100%
Lars Roder	3/3	100%
Dr. Bernhard Wankerl	3/3	100%
AUDIT COMMITTEE		
Andrea Elsner	4/4	100%
Wolfram Hatz (Chairman)	4/4	100%
Martin Heiß	4/4	100%
Dr. Klaus Probst	4/4	100%

ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD**AD-HOC COMMITTEE (FROM APRIL 11, 2016)**

Martin Heiß	16/16	100%
Dr. Hans Liebler	16/16	100%
Horst Ott	14/16	88%
Dr. Klaus Probst (Chairman)	14/16	88%
Lars Roder	15/16	94%
Dr. Bernhard Wankerl	16/16	100%

The Nominating Committee did not meet in 2016.

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

During the year under review, the Executive Board again dealt with the organization and further development of all compliance-related matters and ensured that the necessary measures were taken. In addition, the Audit Committee regularly deliberated on the content, organization and further development of compliance. Further information on compliance can be found in the Group management report.

TRANSPARENCY

GRAMMER AG kept shareholders, shareholder groups, financial analysts, the media and the general public comprehensively informed of the Company's business and material occurrences on a 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 conferences. 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 consolidated financial statements for 2016 as well as the abridged consolidated interim financial statements in the first-half and interim management statements published by GRAMMER AG were prepared in accordance with the International Financial Reporting Standards (IFRS). At the annual general meeting held on May 11, 2016, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, 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. Ernst & Young 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 carried out by members of the Executive Board and the Supervisory Board as well as parties related to them (Directors' Dealings pursuant to section 15a WpHG and article 19 of the European Market Abuse Directive) are published on GRAMMER AG's website as soon as they are disclosed. No directors' dealings were reported in 2016.

Amberg, March 28, 2017

GRAMMER AG

For the Executive Board
Hartmut Müller

For the Supervisory Board
Dr. Klaus Probst



Corporate
Website:
[https://
www.grammer.
com/investor-
relations.html](https://www.grammer.com/investor-relations.html)