

IMBUING SUSTAINABILITY WITH LIFE

GRAMMER is a global group specializing in the development and production of components and systems for automotive interiors as well as driver and passenger seats for trucks, offroad commercial vehicles, trains and buses.

GRAMMER is committed to sustainability and has firmly entrenched economic, ethical and ecological principles in its corporate guidelines. For us, accepting responsibility for people, society and the environment means minimizing strain on people and nature as far as possible and furthering their ability to regenerate. We seek to balance all our stakeholders' interests, further our employees' interests and strive for uniform environmental management at all locations.

suppliers and OEMs must take steps to safeguard the future viability of their business models. We continue to see the GRAMMER Groups being well positioned for the future but realize that these changes also pose challenges for us. Thus, although our products will continue to be in demand regardless of the drive train, issues such as light-weight construction, environmental impact and autonomous driving are calling for new and enhanced solutions.

In its two divisions – Automotive and Commercial Vehicles – GRAMMER is already putting sustainability into practice. One example of this can be seen in the development of products, where certain materials are used to reduce weight or to lower the amount of energy required. Further aspects concern employee training and further education, health care, site safety and also local support for civil society.

This separate non-financial report for the GRAMMER Group (NFR) has been prepared in accordance with the requirements of sections 289b to e and 315b and c of the German Commercial Code (HGB). It contains the disclosures required by law on material matters relating to the environment, employees, social concerns, observance of human rights and anti-corruption and anti-bribery precautions and takes account of the principles of Global Reporting Initiative (GRI) standards. In addition, the NFR discloses material risks in accordance with section 289c (3) No. 3 and 4 HGB where these are necessary for an understanding of the Group's business performance, results of operations and position as well as the impact on non-financial aspects. The GRAMMER Group has defined financial parameters and the most significant financial performance indicators for controlling the Group. The most significant non-financial performance indicators as defined in section 289c (3) Nr. 5 HGB are not used to manage the Group, although GRAMMER applies a series of parameters and indicators for sustainability management purposes. Moreover, there is no direct link between the amounts reported in the annual financial statements in accordance with section 289c (3) No. 6 HGB and the five non-financial aspects. In some cases, reference is made to the content of the Group management report in accordance with section 315b (1) sentence 3 HGB. The NFR has been reviewed by the Supervisory Board, which has satisfied itself of its legality, propriety and suitability for its intended purpose.



Detailed information on the business model can be found in the Management Report on page 68.

1 SUSTAINABILITY IN THE GRAMMER GROUP

Sustainable activity forms a firm part of the GRAMMER Group's corporate traditions and underlying values. Strategic and operating decisions take account of ethical and ecological aspects alongside economic factors. Only in this way can we secure the Company's long-term success.

For us, sustainability begins with the people who work at our Company and are linked to it. It covers such aspects as research and development (R&D), procurement and production, the finished products and end-of-life recycling of the product components. With the expansion of our global presence and the Group's broad footprint, we are also communicating this message internationally. In this connection, sustainability has the same local and global importance. This is due to the growing realization around the world that motor vehicles must take account of heightened environmental awareness: This starts with the need to reduce vehicle fuel consumption but also entails the introduction of environmental-friendly drive systems and new approaches to traffic management as well as a reduction in individual transportation. New impetus can already be generated at the production stage through the use of light, innovative and recyclable materials and the implementation of the latest production processes. These trends mean that components

2 SUSTAINABILITY MANAGEMENT

Sustainability forms part of GRAMMER's strategy as well as its operating activities. We have issued policies, installed management systems and created organizational structures to ensure the observance of our rules as a basis for coordinating sustainability aspects internationally across the entire GRAMMER Group.

In view of its high importance for the GRAMMER Group's business activities, responsibility for sustainability is assigned directly to the Executive Board. A CSR-council was established in 2015 to entrench sustainability even more firmly within the GRAMMER Group. This council includes executives from all relevant parts of the Group such as accounting, compliance, human resources, R&D, communications, quality assurance, IT, environment and production. Institutionalized dialog and regular meetings ensure that sustainability as an issue is firmly rooted in the Group and implemented in accordance with the corporate strategy and business requirements.

Using a systematic multi-stage process, we have intensified the uniform Group-wide approach to sustainability matters. This was preceded by a materiality analysis in which GRAMMER identified the main aspects of relevance. Subsequently, we attached key importance to developing and formulating strategies and approaches aimed at additionally securing sustainability. This did not only involve the basic definition of goals but also entailed systematic formulation and detailing for the GRAMMER Group. Thus, we defined specific targets and activities for selected material aspects. The corresponding approaches are set out in the following sections.

In addition, we defined non-financial indicators and the methods for tracking them and will continue to develop them. These indicators and the trends that they revealed last year are described in the following sections.

2.1 MATERIALITY ANALYSIS

During the period under review, the GRAMMER Group worked on the Group-wide establishment, systematic implementation, documentation and monitoring of sustainability standards. These activities particularly focused on formulating and adopting various plans for the relevant sustainability aspects. The main and significant CSR matters had already been defined for the GRAMMER Group on this basis and are set out in the table on page 40. This entails all matters liable to exert a material influence on the decisions made by providers of capital that have a short, medium or long-term impact on the Company's ability to generate value.

A total of 13 material and nine important matters were identified in an extensive evaluation process. On the basis of a scale, the material matters were classified as very relevant, while the important matters were identified as being of moderate relevance. The analysis proceeded from a total of around 100 potential matters relevant to the Company and the sector in the areas of economy, ecology, society and ethics. These had been evaluated and adopted by management in 2015. In the upcoming reporting period, the CSR-Council will broaden the concepts and also undertake an impact evaluation.

NON-FINANCIAL ASPECT	ASPECTS OF RELEVANCE FOR THE GRAMMER GROUP	MATERIAL ASPECTS	IMPORTANT ASPECTS
Employee matters	<ul style="list-style-type: none"> • Employees 	<ul style="list-style-type: none"> • Employee satisfaction • Employee development and fostering (including development of young potentials) • Safety and health 	<ul style="list-style-type: none"> • Work-life balance/flexibilization
Observance of human rights	<ul style="list-style-type: none"> • Human rights 	<ul style="list-style-type: none"> • Child and forced labor 	
Environmental footprint	<ul style="list-style-type: none"> • Environmental protection 	<ul style="list-style-type: none"> • Energy • Air/water/soil emissions 	<ul style="list-style-type: none"> • Transport and logistics • Resource efficiency
Social concerns	<ul style="list-style-type: none"> • Corporate citizenship 		<ul style="list-style-type: none"> • Support for school and university training
Cross-cutting issue particularly anti-corruption	<ul style="list-style-type: none"> • Corporate governance 	<ul style="list-style-type: none"> • Compliance • Enterprise values and culture • Data protection and security • Stakeholder dialog 	
Cross-cutting issue	<ul style="list-style-type: none"> • Economic stability 	<ul style="list-style-type: none"> • Economic performance 	<ul style="list-style-type: none"> • Regional manufacturing input and employment
	<ul style="list-style-type: none"> • Product and process responsibility 	<ul style="list-style-type: none"> • Innovative product and process solutions • Customer orientation/satisfaction (including quality and safety) 	<ul style="list-style-type: none"> • Use of the best available techniques and processes (BAT) • Environmental-friendly products
	<ul style="list-style-type: none"> • Procurement 		<ul style="list-style-type: none"> • Supply chain management in accordance with environmental and social standards • Origin of resources

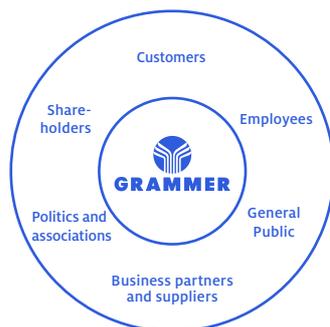
In addition to the matters defined as material or important, “diversity” has been included as a further relevant issue in this separate non-financial report. GRAMMER considers diversity to be a central part of its corporate strategy and systematically promotes it in its day-to-day activities.

2.2 INCLUSION OF ALL STAKEHOLDERS

GRAMMER attaches particular importance to dialogue with and the inclusion of different stakeholder groups. These communications are mostly handled by the relevant parts of the Group. By systematically tracking these activities, it is possible to access the results of such communications centrally in order to address corresponding inquiries from outside the Company or to convey messages from within the Company to the general public.

As we maintain very close contact with our stakeholders, we were able to take account of the expectations and needs of the individual groups in the formulation of our sustainability goals.

GROUP STAKEHOLDER GROUPS



2.3 RISK EVALUATION OF NON-FINANCIAL MATTERS

Business always entails opportunities as well as risks. Our risk strategy defines various principles relating to the Group's risk policy. In this connection, GRAMMER defines opportunities and risks in the context of risk management as any positive or negative deviations from a plan or target defined in circumstances of uncertainty. Risk management thus contributes to value-based management within the GRAMMER Group. GRAMMER Group has implemented a uniform Group-wide risk management system to detect risks at an early stage, to analyze and to assess their causes and to avert or at least mitigate them. The risk management process ensures early identification, analysis and assessment of risks, along with coordinated implementation of suitable measures to manage risk as well as risk monitoring and control. This also entails the early detection of risks to the Group's going-concern status.

Under the CSR Directive Implementation Act governing the disclosure of non-financial and diversity-related information, companies must not only report on the material matters but also explain the related risks. GRAMMER views risk in net terms, i.e. after risk mitigation. No material risks that are linked to the Company's own business, business relations or the products and are liable to have severely adverse effects on non-financial aspects



Detailed information can be found in the Opportunity and Risk Report of the Management Report on page 93 et seq.

have been identified in connection with non-financial aspects. However, there are fundamental risks which may impact individual non-financial aspects. Among other things, this applies to ecological risks which we address by implementing management systems in accordance with ISO 14001 and ISO 50001.

3 RESPONSIBLE CORPORATE GOVERNANCE

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

3.1 ECONOMIC STABILITY

Day for day, GRAMMER works with the utmost care to supply the best possible products. What drives us as a company is our passion for developing new ideas. This entails two thrusts: For one thing, we set ourselves ambitious strategic goals to achieve a prominent position in the international market for automotive components. For another, we work on improving comfort and safety for the people all around the world who use our products.

Their trust in our product quality makes a decisive contribution to our business success. We must respond flexibly and creatively to market requirements if we are to continue earning this trust. This we do by supplying exactly what gives our customers in the automotive industry as well as the final users the greatest possible added value. We are convinced that the combination of a global presence and innovative high-quality products will assure the GRAMMER Group of long-term and profitable growth.

At around EUR 1.79 billion, GRAMMER Group revenue was up 5.4 percent on the previous year in 2017 (2016: EUR 1.69 billion). This top-line growth in Group revenue confirmed the long-term strategy aimed at improving profitability.

3.2 COMPLIANCE AND ANTI-CORRUPTION

Our binding Group-wide code of conduct defines the values and conduct expected of all employees. It forms the basis of our business activities. All new employees are briefed on this code of conduct, while existing ones undergo regular training to refresh their knowledge of its contents.

The Group takes different approaches for ensuring compliance with external rules and regulations as well as GRAMMER's own policies. Comprehensive measures have been firmly in place for many years:

All specialist and management staff undergo regular anti-corruption and anti-bribery training including the appropriate response to such occurrences. In particular, decision-makers are required to take part in online training.

Our internal control system (ICS) safeguards the efficacy and economic viability of our business activities and ensures due and proper internal and external accounting operations and compliance with the applicable legal requirements.

Regular compliance audits are performed by Internal Auditing to identify any compliance or corruption risks to which individual facilities may be exposed. For this purpose, the Transparency International Corruption Index provides an important indicator for determining the frequency of audits at individual locations. The purchasing and accounting functions are regularly audited. If an audit conducted at a specific GRAMMER location gives rise to initial suspicion, further investigations are performed. In 2017 plant inspections did not give rise to any suspicions necessitating a more detailed examination.

Established whistleblowing mechanisms ensure that possible breaches can be readily reported. Thus, a code team has been established to accept any reports. Internal Auditing examines any specific suspicions in accordance with the instructions of the Executive Board or the code team. Information received in 2017 pertained to possible misconduct on the part of GRAMMER employees and was investigated by Internal Auditing. If investigations relate to individual employees, the findings are forwarded to the Human Resources department, which processes them and takes any necessary measures under employment law. In 2017, one case of discrimination was reported and investigated. No instances of corruption were reported or investigated.



Detailed information can be found in the Corporate Governance Report on page 52 et seq.



Detailed information can be found in the chapter "Reports of Operation" of the Management Report on page 75.

Together with our open corporate culture, the availability of points of contact for whistleblowers and regular training, we will continue to ensure in the future that any breaches of the code of conduct including the anti-corruption guidelines are detected and addressed within the GRAMMER Group with the appropriate response.

APPROACH TO SUSTAINABILITY FOR COMPLIANCE

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Business locations made aware of compliance/corruption risks	-	100% of the Group	Every 2-3 years
Compliance audits conducted at locations exposed to compliance/corruption risks	Percentage and number of audited sites exposed to compliance/corruption risks	-	2020

3.3 OBSERVANCE OF HUMAN RIGHTS

Manufacturing companies are exposed to a greater risk of human rights violations than service companies. Risks of potential human rights violations may primarily arise along the upstream value chain and in the procurement of resources. We are aware of our responsibility and have therefore adopted the industry-related code of conduct issued by the German Federal Association of Materials Management, Purchasing and Logistics (BME), which governs conduct with respect to human rights as well as child and forced labor. This code of conduct applies across the entire Group. It states, among other things, that no minor may be employed anywhere in the world except in accordance with the applicable statutory provisions, e.g. those applicable to apprentices in Germany.

We heighten our employees' awareness of human rights issues by means of the "Compliance" e-learning module. All managers also receive training and are kept regularly informed of compliance matters with the usual communications tools. GRAMMER provides its employees with more detailed information on the code of conduct via the Intranet. Moreover, we are committed to the core labor standards defined by the International Labour Organization (ILO) and the UN Universal Declaration of Human Rights.

We also strive to monitor and ensure the observance of human rights along our supply chain by imposing corresponding obligations on our suppliers.

3.4 DATA PROTECTION AND SECURITY

The GRAMMER Group has defined stringent data protection standards. A data protection organization reporting to GRAMMER's Executive Board has been in place for many years. The data protection officer is responsible for ensuring observance of the statutory requirements as well our data protection policy, which is binding on all employees. GRAMMER expects its employees to protect the business secrets and intellectual property rights held by GRAMMER as well as its business partners. Commercial property rights, business secrets and other privileged company information must be shielded from unauthorized disclosure.

GRAMMER employees' awareness of data protection concerns is regularly raised in circulars sent out by the data protection officer. In addition, regular data protection training is held for GRAMMER employees in accordance with the German Federal Data Protection Act. Under the data protection structure, inquiries by employees and managers are handled and corresponding solutions devised and implemented.

Regular IT security and authorization checks are performed in the light of the statutory data protection requirements.

The number of relevant data leaks was reduced to a single incident in the year under review. We are not aware of any legitimate complaints on the part of our customers, regulatory authorities or third parties with respect to data protection and data privacy.

APPROACH TO SUSTAINABILITY FOR HUMAN RIGHTS

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Raising awareness of human rights during compliance training sessions	-	-	Ongoing

A security incidence team was established nine years ago to coordinate IT security more efficiently. It is composed of the System & Security unit within Group IT, the data protection officer and GRAMMER Group risk management and the internal control department.

GRAMMER operates a system where critical components of the IT infrastructure are installed in two data centers. The electricity supply is safeguarded, even in emergencies, by separate emergency generators. All GRAMMER sites have redundant connections to the data centers. Business continuity plans document the steps for ensuring the recovery of critical IT systems.

GRAMMER has implemented appropriate security systems and taken measures to avert any intrusion. Firewalls, malware scanners and other activities are regularly reviewed to determine their efficacy and adjusted where necessary.

4 COMPANY ENVIRONMENTAL PROTECTION

4.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group assumes responsibility for the environment and, in doing so, takes an integrated approach. Nearly half of all the Group's facilities around the world have already installed an environmental management system in accordance with ISO 14001 and defined local environmental targets and measures. We plan to have all GRAMMER facilities certified by the end of 2018.

We are also aiming to reduce business-induced environmental impacts as far as possible. Accordingly, material goals and measures relating to company environmental protection entail increased energy efficiency, a reduction in emissions from production and logistics and the optimum use of resources along our logistics chain.

The targets pursued by and the progress made in our environmental activities including observance of all relevant legal rules are regularly audited and assessed both

internally and externally. By making appropriate adjustments, we are able to achieve continuous improvements in our environmental and energy management systems.

In order to achieve our goals, we encourage, train and motivate our employees by means of specific training measures, allowing them to perform their duties responsibly and in the light of our environmental targets. We keep our employees, customers and general public informed of the current status of our environmental and energy management systems with the aim of fostering open and transparent communications and cooperative relations with government authorities and the general public.

4.2 ENERGY

In 2015, we supported the plants and companies at all German sites with the establishment of an energy management system in accordance with ISO 50001, thus ensuring compliance with the statutory requirements. With these measures, we are able to monitor, control and, if necessary, adjust energy consumption and identify potential for savings. We collect consumption data for eight German production sites.

The pronounced awareness of our employees in the responsible use of energy forms the basis for sustained reductions in consumption. The GRAMMER Group supports its employees by offering regular training and access to corresponding information. By implementing the best available techniques at its production sites, the GRAMMER Group is able to harness additional savings potential.

Via our activities in the "Energy Efficiency Network for Companies in Bavaria", the GRAMMER Group is also involved in sharing knowledge on energy-related matters and the promotion of industry-wide standards.

Our employees are under instructions to use energy sparingly and receive corresponding instructions as part of safety and on-boarding training. For example, boards attached to the walls remind employees of the importance of saving energy in their day-to-day routines.

APPROACH TO SUSTAINABILITY FOR ENERGY

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Energy indicators, goals and measures for all ISO 14001/ISO 50001-certified GRAMMER locations to be recorded centrally	Percentage of certified locations tracked centrally	100%	By the end of June 2018
ISO 50001 recertification of the German locations	Recertification achieved	100% Germany-wide	2018

4.3 EMISSIONS

A further important aspect concerns the emissions which enter the air, water or soil as a result of production activities. As part of its environmental management system, GRAMMER has implemented extensive measures at its facilities for reducing emissions and monitoring their implementation. An environmental management system in accordance with ISO 14001 has already been implemented at a total of 16 GRAMMER facilities. It is to be extended across all other sites around the world in the short term.

In addition, we have individual plans at numerous facilities that take account of the specific nature of the local activities and processes as well as national requirements. We developed a comprehensive plan for the entire Group in 2016. In doing so, we are pursuing the goal of documenting the various local approaches centrally, collecting historical data and defining uniform benchmarks.

APPROACH TO SUSTAINABILITY FOR AIR/WATER/SOIL EMISSIONS

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Main emission indicators, goals and measures for all ISO 14001-certified GRAMMER locations to be recorded centrally	Extent of certified locations tracked centrally	100%	By the end of June 2018
ISO 14001 certification of all locations	Extent of coverage of environmental management system	100%	End of 2018

4.4 DEPLOYMENT OF RESOURCES AND MATERIALS

In all our production processes, we strive for minimum energy and resource use in order to avoid emissions and waste. As far as possible, unavoidable production waste is recycled or disposed of in a responsible way. During the development and production, we make sure that our products can be recycled as fully as possible at the end of their product life-cycle.

In addition to the economical use of energy, we attach importance to the efficient utilization of water and raw materials. In the selection of materials for our products, criteria such as quality, origin and environmental impact play a decisive role. In this connection, the focus is on making greater use of light and modern materials which are easier to recycle. We use our resources as efficiently as possible, thus minimizing waste, e.g. by means of programs for optimizing nesting, i.e. the space-saving storage of the templates used for cutting leather and materials. As well as this, we have increased the proportion of recycled materials, e.g. by selling injection-mold sprues or left-over leather.

This is illustrated, for example, by the progress made at our facility in Haselmühl, where we have been able to reduce the proportion of non-recyclable waste from 12.4 percent in 2000 to less than 5 percent. At the same time, water consumption of the paintshop measured in terms of coated surface has been cut by more than half.

4.5 TRANSPORT AND LOGISTICS

Ongoing improvements to our procurement and shipment logistics as well as supply chain optimization help to lessen the strain we exert on the environment. One example of how we optimize transportation is the use of “milk runs”, i.e. return trips with suppliers and customers to avoid empty runs. Through the use of front-end plants, we are located close to the customer, thus reducing transportation requirements.

We also include our environmental goals in the logistics contracts with our external service providers. The road haulage contracts stipulate the use of low-emission vehicles, systematic waste separation and measures to save energy.

We minimize the volume of logistics-related packaging by using a large proportion of re-usable packaging in Europe. From 2015, we also launched projects for recycling disposable packaging and for increasing packaging density.

5 PROCESS AND PRODUCT RESPONSIBILITY

5.1 OVERVIEW AND MANAGEMENT APPROACH

The GRAMMER Group attaches key importance to process and product efficiency, quality and safety. Product responsibility commences in the development phase and continues during production (use of material) and ultimate utilization by the customer. Examples of important criteria include quality, resilience, safety, ergonomics, product innovation and sustainable procurement. Process responsibility addresses the question as to how processes are developed, rolled out and monitored. In this respect, the focus is on efficiency, compliance with standards, new and innovative production methods and high quality. These aspects must be intermeshed within the value chain at all times. In connection with product and process responsibility, GRAMMER also systematically identifies and assesses opportunities and risks along the entire value chain.

Our high-quality seating systems and premium interior products are currently being produced at 40 (2016: 40) production and logistics facilities around the world. All our GRAMMER sites are certified under the ISO 9001 quality management standard or the IATF 16949 quality management standard for the European and American automotive industry. New locations undergo preliminary certification in accordance with the applicable rules to meet the high quality requirements of our customers.

Innovations in products and production processes form a key determinant of the GRAMMER Group's business success. At the same time, they seek to minimize the strain on the environment. Non capitalized research and development costs rose again to EUR 65,258 thousand compared with the previous year (2016: 61,705).

5.2 SUSTAINABLE PROCUREMENT

In the interests of integrated environmental protection, we source our raw materials, supplies and consumables in accordance with ecological criteria as far as possible and in the light of energy efficiency requirements. As far as possible, we give preference to suppliers located in the vicinity of our facilities. We take appropriate measures to encourage our business partners to orient themselves to our activities and to likewise obtain environmental and/or energy certification.

5.3 SUSTAINABLE PRODUCTION

The assembly of high-quality seating systems and premium interior products calls for production excellence. To this end, GRAMMER has defined core processes and spent substantially on these in the last few years. At the same time, we are increasingly migrating our standardized core processes to the individual regions to achieve low local production costs, reduce logistics costs and minimize currency-translation effects. Our environmental and energy management systems are based on compliance with all relevant legislative provisions. In addition, we are seeking to deploy the best technology available in order to reduce energy requirements and emissions in the production process. For example, the use of solvent-based coatings, foam components and adhesives has been heavily reduced in the course of the years. At the same time, we are working on reducing the number of components in our products. Comprehensive testing on the basis of guidelines and internal specifications ensures that standards going beyond the legislative requirements are observed. In efforts to harmonize development, production and series standards and processes, it is necessary to take account of the differences in the individual segments. Whereas the Automotive Division must generally observe comprehensive OEM-specified requirements, the Commercial Vehicles Division has considerably more discretion of its own due to the large volume of proprietary developments.

The purpose of the GRAMMER product system is to achieve a continuous improvement in our value flows by systematically reducing work and resource requirements. This is done through the improved use of material resources in order to reduce rejects (raw materials), inventories (space) and transportation (energy). At the same time, we structure workplaces to help our employees achieve the desired results with the least possible effort. This entails

- the avoidance of unnecessary and unhealthy movements (ergonomic workplace design)
- the avoidance of unnecessary work steps (standardized work)
- the balanced distribution of processing steps (line balancing)
- the use of specifications for operating materials.

Using Kaizen processes, we systematically integrate our employees in the continuous improvement process. At GRAMMER, “Kaizen” (Japanese for “change for the better”) is a process enabling continuous improvements and innovation within the Company. In addition to business factors, this also includes measures aimed at motivating employees and furthering environmental protection. In 2017, GRAMMER completed more than 2,700 “Kaizen events”. Planning and implementation always remain in our employees’ hands, thus encouraging active participation on all levels. The core of GRAMMER’s Kaizen philosophy is the avoidance of waste: transportation, inventories, poor ergonomics, waiting times, surplus production, process complexity and errors.

5.4 SUSTAINABLE PRODUCTS

The GRAMMER Group has established local research and development (R&D) units at some of its sites in order to offer customers high-quality solutions meeting their requirements. Our engineers work on the further development of GRAMMER products at a total of 16 locations. In addition, R&D has a presence in selected production plants to provide the necessary support. The number of patents pending and granted rose by 4 percent to 1,155 in 2017 (2016: 1,111) as a result of this.

PATENTS 2016/2017

	AS OF DECEMBER 31, 2017	AS OF DECEMBER 31, 2016
Patents granted	763	744
Patents pending	392	367

Rapid technological process is being accompanied by the steadily growing demands made of components suppliers by OEMs (original equipment manufacturers). Motor types, vehicles concepts and the degree of driving automation alongside safety and digital interfaces are defining the framework for future development.

Thus, new developments in autonomous driving are also calling for a new approach to cabin and cockpit design. In addition, there is demand for higher comfort in the truck and offroad segment together with a growing trend towards electronic integration of various functions in seats. A further challenge entails the human-machine interface, which calls for highly modern user interfaces, as well as the integration of different functions in more and more components. Thus, there is growing demand for components that are not only highly stable but also exhibit outstanding functional, aesthetic and haptic qualities.

The GRAMMER Group has already entrenched sustainability in the product development process. An internal environmental manual sets out the rules for environmentally friendly product development and includes, for example, stipulations concerning the use of materials as well as a list of banned substances and materials. In addition, we record all necessary materials and fabric components for a component to facilitate end-of-life recycling of our products.

LIGHT-WEIGHT CONSTRUCTION

Our products help our customers to act in an environmentally responsible manner. Innovations such as light-weight construction allow weight savings to be achieved as a means of reducing fuel consumption. Light-weight construction plays a key role in the development of center consoles, armrests and headrests. For one thing, reduced material requirements lowers resource input and, for another, cuts CO₂ emissions during the vehicle product life-cycle. We achieve weight reductions by means of function integration and design, for example. Moreover, material requirements can be reduced by means of foam injection molding and partial fiber reinforcement using fiber glass and/or renewable raw materials. Weight is additionally saved through the partial reduction of the density of PU foam parts.

We are currently testing the use of Organo Sheet (os) technology to substitute steel with composite products. In addition to their lower weight, such items require fewer process steps during the production process.

RECYCLING

Recycling rates for our products are in the high double digits. This is the case with our driver seats for example. There is no problem recycling the steel structure, while the PU foam can also be thermally recycled at the end of the product life. To this end, we are developing a "green" headrest and plan to make greater use of natural fibers in covers. In addition to recycling, measures aimed at increasing the service life of our products also help to ease the strain on the economy. In the case of driver seats, this means optimizing the kinematics and preventing any softening of the seat suspension as the product life-cycle progresses despite the very high strain to which it is exposed.

ERGONOMICS

In our development activities, we attach particular importance to ensuring that the driver's health is preserved through ergonomic and comfortable products. Moreover, our headrests are an important safety feature for preventing an injury of/ or strain on the cervical spine in the event of an accident. Headrests that are height-adjustable and permit a modification of the distance from the head and in addition store those personal settings in a memory function provides ideal protection. In addition, our crash-active headrests protect passengers from the risk of whiplash injury. The ergonomic design of our multifunction armrests eases the strain on the spine, shields the driver from mental pressure and heightens the seat comfort. Our suspension seating systems for all kinds of commercial vehicles also meet the highest ergonomic requirements, thus helping to preserve the driver's health.

The GRAMMER Group regularly reviews the status of its products on the basis of customer feedback, internal testing, user studies and discussions with leading biomechanics and spine researchers. In this connection, we use biomechanical measuring methods to test the impact of new features on the human body. Using electromyography (EMG), we measure electrical muscle activity in strain situations for example.

5.5 PRODUCT SAFETY

Ensuring the greatest possible product safety for the user, is the goal of our design and production activities. Suitable techniques and computer-based simulations are used to identify, evaluate and avert potential product risks and ensure that all aspects of product safety are duly taken into account. Management supports the preventive approach taken towards product safety, defining this as a leadership task.

All of the GRAMMER Group's products are developed on the basis of internal specifications and tested in accordance with strict ergonomic, comfort and safety criteria. Only products satisfying these strict criteria ultimately find their way into the market. In this connection, the criteria applied by GRAMMER exceed the statutory requirements or relevant standards.

5.6 CUSTOMER ORIENTATION, SATISFACTION AND QUALITY

In regular intervals, we ask our customers in the truck and offroad segments about their satisfaction with our products. This feedback is used as a basis for reviewing and, if necessary, adjusting our services and products.

An efficient and safe use of a vehicle calls for physically and mentally sound drivers. It is for this reason that the GRAMMER Group is committed to health concerns even after the sale of its products, offering customers and dealers aftermarket training on healthy sitting. The GRAMMER Group is particularly committed to promoting basic spine research. For this reason, we have established the GRAMMER European Spine Journal Award in recognition of outstanding research activities. We organized the Ergomechanics Congress 2017 as a public forum for leading experts to share knowledge on sitting-related matters. The results including basic information on health, back pain, safety, comfort and participation in working life are being published in a book and are also available on our website to the interested public.



The results of the Ergomechanics Congress can be found at www.grammer.com under "Products & Markets" > "Ergonomics" > "Ergomechanics"

6 EMPLOYEES

6.1 OVERVIEW AND MANAGEMENT APPROACH

Our business success is above all the result of the commitment and dedication of our 12,947 (2016: 12,250) employees around the world. We maintain a dialog with them characterized by mutual trust and involve them in the development of the GRAMMER Group. We respect their right to freedom of association and to engage in collective negotiations. The department Human Resources, which reports directly to our Chief Executive Officer and HR Director, Mr. Hartmut Müller, is responsible for employee development.

Our human resources strategy for the period through 2021 is a firm part of the GRAMMER Group's strategy. In addition to requirements planning and the further development of the human resources structures, the main focus is on further internationalization, the expansion of conceptual employee development and strengthening employer branding at GRAMMER.

Established in 2016, the Talent Management & Employer Branding unit is systematically pursuing this future-oriented approach. The aim is to develop training and further education models aligned to market requirements, to reinforce employee loyalty to our Company and to achieve a competitive position as an employer with a favorable outlook and scope for knowledge management. In this way, GRAMMER is systematically preparing for further internationalization and heightened competition in the future.

The sustainability concepts developed in the year under review are linked with our human resources strategy and define further goals and measures in the following areas:

- Employee satisfaction
- Employee development and recruitment
- Diversity
- Safety and health.

The GRAMMER Group has a global footprint with operations not only in Europe but particularly in the Americas and Asia. This is also reflected in the international composition of our workforce. As we are a production company, around 80 percent of our employees work in production. We seek a reasonable gender balance and actively support and encourage our female employees. All in all, GRAMMER employed 5,855 women and 7,092 men around the world as of December 31, 2017.

6.2 EMPLOYEE SATISFACTION

The satisfaction of our employees forms one of the basic pillars for productive and favorable working conditions at the GRAMMER Group.

In 2017, we established the staff survey as a global feedback instrument to obtain information from our employees. In this way, we want to regularly evaluate key parameters for employee loyalty and motivation around the world as a basis for defining specific measures. The survey was conducted in the first half of the year in hybrid form (i.e. online and paper) in 13 languages. A total of 57 questions covered twelve dimensions such as motivation, corporate climate or scope for personal development, with the responses evaluation on the basis of a scale.

We had already received a very high response rate of 75 percent when we performed the online survey for the first time.

The evaluation of the responses showed that the strong commitment of our staff and their customer orientation are particular strengths of the GRAMMER organization. The results in these categories are well above benchmark. We want to increase the return rate by a total of four percentage points in future surveys.

With the availability of dedicated communication channels, employees have had several possibilities for many years for providing feedback and for reporting any problems openly and in good time. In this connection, we offer all pay-scale employees of the GRAMMER Group annual performance assessment talks. Non-pay-scale employees in Germany as well as all management positions in our grading system also undergo performance and potential analysis in the form of employee discussions. This appraisal process is held once a year and assesses the employee's performance in the previous year. This process was implemented via the SAP system in 2015, thus ensuring that data is automatically available. Designed as a top-down process, it commences with a self-appraisal of top management at the end of the year. This is followed by an assessment by the responsible solid-line and, where applicable, dotted-line manager as well as a personal conversation, the results of which are also included in the evaluation. This procedure provides for a performance assessment based on standardized criteria and also offers the employee concerned an opportunity of contributing feedback.

In addition to this, the GRAMMER Group offers diverse global, regional and local opportunities for personnel development. Starting with the “Talent Days” in 2016, we have enhanced this concept, integrating it in a global program in line with plans. Career@GRAMMER is now composed of three different programs for systematically developing the talents that we identify and preparing them for their future duties. In addition, we offer outstanding career opportunities via various global projects.

We are working on three main aspects to improve employees' work-life balance at GRAMMER. We continuously improve our managers' leadership skills to ensure that these matters are firmly entrenched in our organizational structures. We drive the development of our employees and, in doing so, safeguard organizational skills and efficiency. In addition to this, we create the necessary basis in the form of flexible working time models (including part-time hours), career reintegration and numerous measures for promoting health.

At GRAMMER employee remuneration is in line with customary market levels. In addition, we offer many voluntary fringe benefits.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE SATISFACTION

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Regular systematic employee surveys and definition of measures based on the results	Return ratio	65%	Ongoing
Definition and implementation of local employee-retention projects	Results of the employee survey	-	2020

6.3 EMPLOYEE DEVELOPMENT AND RECRUITMENT

Well-trained employees are of crucial importance for GRAMMER as an innovative company that is heavily engaged in research and development. The greater the proximity of automotive OEMs and their components suppliers in a given region, the stronger the competition is for qualified employees. GRAMMER faces a fiercely contested employment market at many of its domestic and international locations.

Effective employer branding is therefore important for GRAMMER. We approach potential candidates at universities, on job platforms and via adverts based on specific job profiles, tasks and responsibilities and encourage them to work for our Company. After recruiting new employees, we ensure that they receive appropriate training so that they have the skills required to perform their current duties and to tackle new challenges. Our employee training activities cover the entire spectrum of statutory measures as well as those aimed at boosting quality and developing skills. This includes such elements as individual and team development, individual coaching and complex corporate programs. In this context, we developed the career@GRAMMER Corporate Management

Program and rolled it out worldwide in 2017. It is made up of three modular programs (DRIVE, FAST LANE and TOP GEAR) and gives employees with a leadership focus the management skills relevant for the level in question.

The annual appraisal process and the related individual talks with employees as well as annual successor planning and additional programs from the career@GRAMMER portfolio provide us with a global overview of employee potential, while giving employees the feedback that they require for orientation and their own further development. We plan relevant measures on an individual and organizational level on the basis of annual surveys in order to systematically develop our organizational structures.

As well as this, we are continuing to take measures to additionally drive forward internationalization within the GRAMMER Group and to improve working conditions for our employees. The focus here is on intensifying global knowledge sharing. We have successfully made foreign transfers more attractive and are seeking to encourage more employees to accept such assignments.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE DEVELOPMENT, FOSTERING AND RECRUITMENT

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Step-by-step installation of an appraisal process for a defined group of employees and establishment of employee development programs	Number of employees integrated in the process	100%	From 2018
Onboarding scheme for all employees	–	100%	Ongoing from 2018
Work on an e-learning strategy and implementation together with the operating departments	Share of departments with access to e-learning	75%	From 2018 until 2020

6.4 DIVERSITY

The GRAMMER Group has been taking diversity seriously for a long time. Indeed, with our international expansion, this aspect has grown in importance. We were one of the first signatories of the Diversity Charter, thus figuring among a group of particularly responsible companies committed to greater tolerance and openness. The aim is to ensure that all employees receive the same respect regardless of their gender, origin, nationality, ethnic background, religion, beliefs, physical condition, age and sexual orientation and identity. We had previously already appointed a diversity officer and issued a diversity policy within the Group.

The Diversity Charter stipulates that men and women have equal rights and plays a crucial role in our entire human resources life cycle process. Our code of conduct incorporates this matter, while our internal processes help our employees to appreciate the importance of respecting the principle of equal rights.

We also actively encourage women to consider a career in the automotive components industry by inviting them to take part in projects specifically targeted at potential future employees such as “Girls Day” and a camp specifically aimed at female researchers. This is particularly important in view of the traditionally very pronounced predominance of male employees in this sector.

We recorded a disabled-employees quota of 6.7 percent at our German facilities in 2017 (2016: 7.6), thus remaining substantially above the minimum statutory requirement. The GRAMMER Group supports the “Respect! No place for racism” initiative and is committed to workplace tolerance.

6.5 HEALTH AND SAFETY

Safety is of paramount importance in a production company like GRAMMER. This stems from the need to avoid accidents and to encourage activities for preserving employees’ health and ability to perform. One particular aspect of this is workplace design to minimize the strain on employees as far as possible. This primarily entails minimizing noise and emissions as well as physical strain. With our comprehensive safety measures, we are actively promoting our employees’ safety and health.

We have also established extensive preventive measures for promoting health and safety. Examples include health days within several plants, training and the organization of company sports. In accordance with the statutory provisions, GRAMMER has installed an occupational integration management system at its German plants. In this way, we are able to help employees who were unable to work for more than six weeks within the previous twelve months to ease themselves back into working life. This also helps to prevent the employees from relapsing into illness and to preserve their long-term working capacity.

In addition, a health task force has been established in Germany to concentrate on employees’ health matters. It develops specific proposals and ideas for furthering employee health. Projects were continued and new initiatives were launched at various locations around the world in 2017. Examples include a training session with Olympic medal winner Kati Wilhelm for employees in Amberg and physical exercises for promoting health during breaks at our plant in Shanghai, China. In addition to advice on occupational medicine, GRAMMER also offers voluntary solutions via its in-company medical center, such as flu vaccinations.



Information on the proportion of women in senior management can be found at www.grammer.com in “Corporate Governance” in the “About GRAMMER” section.

APPROACH TO SUSTAINABILITY FOR EMPLOYEE HEALTH AND SAFETY

GOALS/MEASURES	PERFORMANCE INDICATOR	TARGET	TIME HORIZON
Implementation of health and safety management systems in accordance with ISO 45001 (and conversion of OHSAS 18001 at two locations)	ISO 45001-certified locations	100% of the Group	From 2018 until the end of 2019
Reduction in absentee rate	Absentee rate	< 5%	Ongoing

7 CORPORATE CITIZENSHIP

At the GRAMMER Group we are aware of our responsibility as a corporate citizen and support charitable projects, voluntary activities and training facilities in the Upper Palatinate region in Germany and elsewhere around the world. In doing so, we always observe the principles contained in our code of conduct.

In its donations and sponsoring activities, GRAMMER attaches particular importance to assisting social facilities and projects. Moreover, we support sports, concentrating in particular on young people in different team sports. GRAMMER does not provide any financial support for political parties and/or similar lobby groups.

In the area of secondary and tertiary education, GRAMMER takes part in various partnerships, development and sponsoring programs. This includes schools, vocational training centers and universities in the Amberg region as well as in other parts of Germany and the world. Our aim is to prepare young people for the employment market. To this end, we organize career orientation days, open days and girls days etc. In addition, GRAMMER supports student initiatives such as the "Running Snail Racing Team", a project organized by OTH Amberg-Weiden, in which students independently develop a formula racing car.

As in every year, our employees were able to apply for one of the coveted "sponsoring packages" in 2017 on behalf of their sports clubs, social projects, fire brigades, rescue services or care facilities and extensive use was made of this offer. This year, 90 of our employees took part in the company race in Amberg. By sponsoring this sports event, GRAMMER seeks to express its support for efforts taken by its employees to maintain their health.

Corporate volunteering projects are also encouraged at international sites. In Mexico, GRAMMER employees made cash and non-cash donations and assumed voluntary duties for the "NEEDED" and "VILLA INFANTIL" rehabilitation projects for disadvantaged young people. In Brazil, employees took part in the "EDUCA GRAMMER" program to help disadvantaged young people gain solid professional qualifications.