

ANNUAL REPORT 2018



100 YEARS OF PIONEERING

PWO

PWO-GROUP

FIVE-YEAR OVERVIEW OF KEY FIGURES

	2018	2017	2016	2015	2014
INCOME STATEMENT (EURk)					
Revenue	485,012	461,008	409,612	404,597	381,134
Total output	478,048	483,107	423,534	413,294	390,674
EBITDA	42,737	44,956	44,646	42,922	39,015
EBIT before currency effects	19,611	23,358	21,598	17,055	14,887
EBIT including currency effects	18,463	20,527	19,725	18,090	16,665
Net income for the period	6,666	10,059	9,522	7,544	7,310
BALANCE SHEET (EURk)					
Total assets	405,607	393,725	359,419	352,430	341,460
Equity	113,868	113,116	106,536	103,111	96,100
Net debt ¹	131,359	125,888	124,458	132,837	125,045
Equity ratio in %	28.1	28.7	29.6	29.3	28.1
Dynamic leverage ratio in years ²	3.1	2.8	2.8	3.1	3.2
CASHFLOW (EURk)					
Cash flow from operating activities	38,451	38,314	46,304	31,108	24,727
Cash flow from investing activities	-25,605	-29,261	-28,803	-28,244	-34,534
Free cash flow	8,070	4,332	13,049	-1,767	-14,666
Net change in cash and cash equivalents	4,658	12,825	-4,452	-2,036	-1,230

¹ Total of non-current + current financial liabilities less cash and cash equivalents.

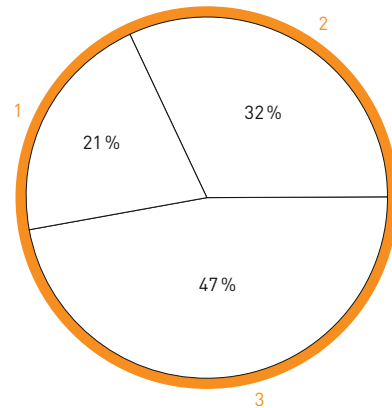
² Net debt / EBITDA.

	2018	2017	2016	2015	2014
ORDER SITUATION (EUR MILLION)					
Lifetime volume (new business)	304	300	730	600	280
of which series orders	280	281	680	560	260
of which tool orders	24	19	50	40	20
NUMBERS PER SHARE (EUR)					
Earnings per share (diluted = basic)	2.13	3.22	3.05	2.41	2.34
Dividend per share	1.35 ¹	1.65	1.60	1.55	1.45
XETRA year-end closing price	24.50	46.51	39.99	36.45	34.99
EMPLOYEES (AS OF DEC. 31)					
PWO Group (incl. temporary employees and trainees)	3,426	3,404	3,229	3,049	3,125
thereof in Germany	1,656	1,645	1,538	1,492	1,549
thereof in international locations	1,770	1,759	1,691	1,557	1,576

¹ Dividend of EUR 1.10 per share and an additional anniversary dividend of EUR 0.25 per share. Proposal to the 96th Annual General Meeting.

PWO'S REVENUE BY PRODUCT AREA IN FISCAL YEAR 2018

100 % = EUR 485.0 MILLION



1 MECHANICAL COMPONENTS FOR ELECTRICAL AND ELECTRONIC APPLICATIONS

We design and manufacture a wide range of high precision circular components that are among today's most complex parts produced from sheet steel by deep drawing. We are among one of the world's leaders in this area measured by the quantity of electric motor housings and the function and precision of other diverse housings. Our product range also includes components for electric drives and housings for electronic control units.

2 SAFETY COMPONENTS FOR THE AIRBAGS, SEATS AND STEERING

For more than 20 years, we have been supplying components for air bags. During the past 10 years, we have been consistently strengthening our position in seat and steering systems. We design and manufacture not only the seat structures but also seat locks and adjusters – all components demanding the highest level of required safety. The same applies to the adjustment mechanisms for steering columns. With all of these applications, we focus exclusively on our core expertise in metal forming.

3 STRUCTURAL COMPONENTS AND SUBSYSTEMS FOR VEHICLE BODIES AND CHASSIS

Our third product segment covers a wide range of components. One focus is instrument panel carriers, which we manufacture and assemble at our locations around the world and together with cooperation partners who work for us. A second focus is placed on components for air suspension systems, which are now becoming more common for mid-class vehicles. This will open up a new, large-volume market segment for us in the future.

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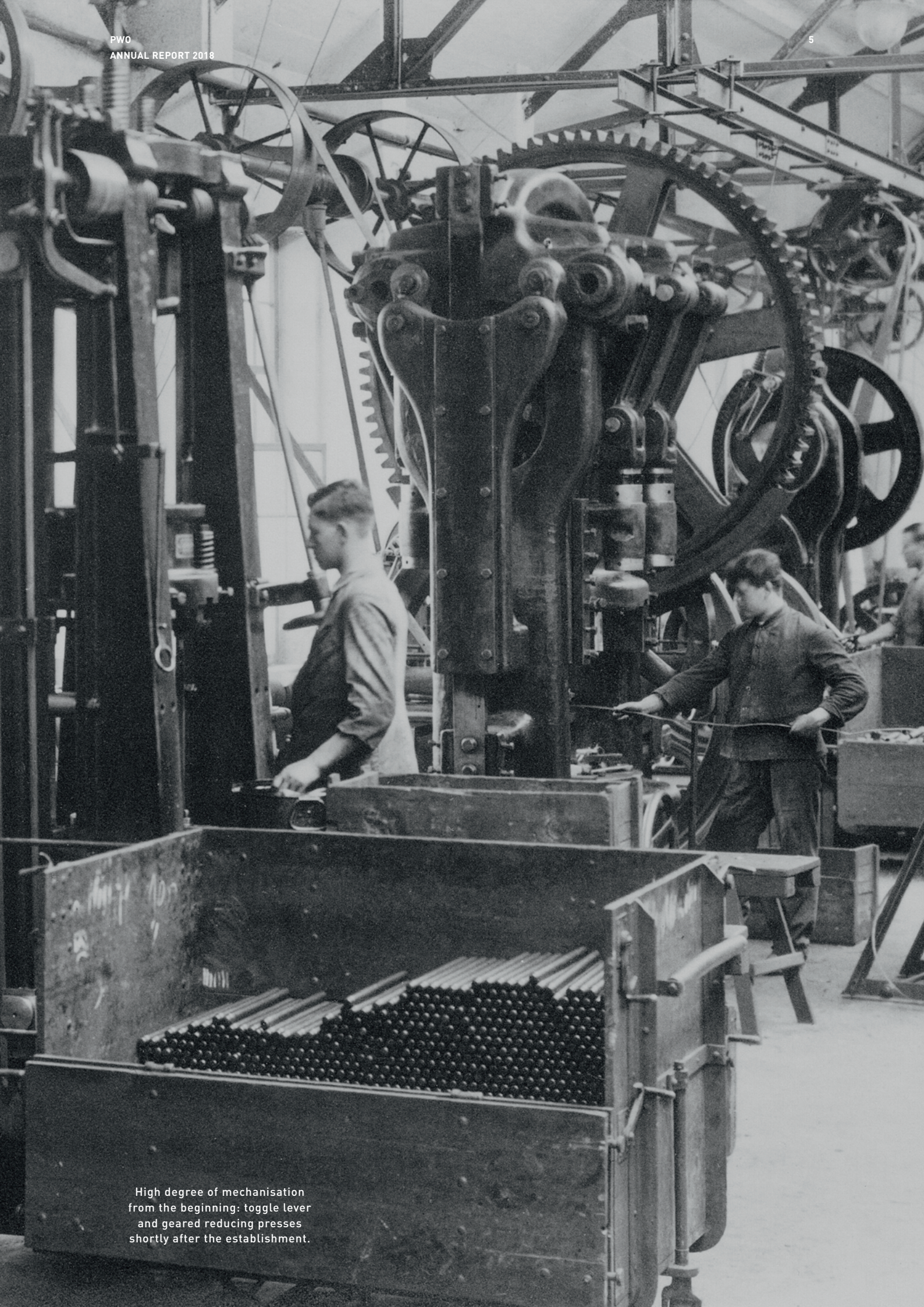
100 YEARS OF PIONEERING

From humble beginnings to supplier to the international automotive industry with a global presence. This was made possible by our ability to recognise change in time. In short:
100 years of pioneering.

However, the company's history did not always follow a straight path. There were also some extremely critical stages to cope with – The Great Depression of the 1920s, the Second World War, the end of the Cold War. We have succeeded at that – with quality, innovative power and the courage to undertake consistent strategic realignments.

**„Progreß-Werk Oberkirch
Aktiengesellschaft at Stadelhofen
(Baden). The purpose of the
enterprise is the manufacture,
acquisition and distribution of
all kinds of metal goods“**

**EXCERPT FROM THE ENTRY IN THE COMMERCIAL REGISTER
NOVEMBER 7, 1919**



High degree of mechanisation
from the beginning: toggle lever
and geared reducing presses
shortly after the establishment.

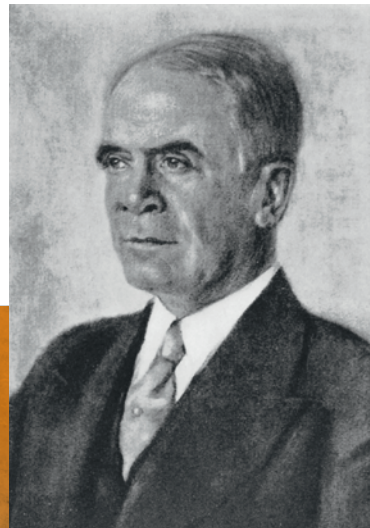
100 YEARS OF PWO – FROM BADEN MILL ...

1919

ESTABLISHMENT OF
“PROGRESS-WERK
OBERKIRCH”



On September 6, 1919 – shortly after the end of World War I – seven Swabian entrepreneurs established the plant “Progreß-Werk Oberkirch”. The location they selected was the old mill at Stadelhofen. However, since the neighbouring town was much better known they named the company after it. So they already thought ahead when naming the company.



1921

BANKER
JOSEPH
ANTON FRISCH

For many years, Stuttgart banker Joseph Anton Frisch was a major shareholder and member of the supervisory board. Frisch, as well as his brothers, daughters and sons-in-law shaped PWO right into the 1990s. Long-term thinking and acting is in our genes.



1920s & 1930s

GLOBAL MARKET LEADER FOR AIR PUMPS

During the "Roaring Twenties" the demand for air pumps increased worldwide since now it was not only bicycles that rode on pneumatic tyres but also motor vehicles. PWO supplied air pumps all over the world at an early stage which made it a global market leader for this product.



1933–1945

PART OF THE NAZI ARMAMENTS COMPLEX

Both the military and rearmament were at the centre of Nazi economic policy. PWO also became part of the Nazi armaments complex. The production range included, among others, ammunition boxes, heads of projectiles and gas traps for the "Sturmgewehr 44" assault rifle.



Bild 2
M. P. 43/44 ohne Werkzeug zerlegt

1950s

TOP SELLER PWO FIELD KITCHEN



For more than forty years, PWO field kitchens were top sellers. Before a new model went into series production, it was extensively demonstrated and tested on the plant premises – including the food prepared. Food from the PWO mobile kitchen was served at stockholders' meetings, too.

... TO INTERNATIONAL CORPORATION

1950s

THE FLEET OF PWO MOTOR SCOOTERS

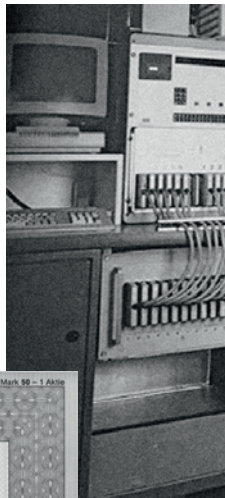


During the years of the German "Wirtschaftswunder" PWO produced motor scooters such as the "Strolch" ("Rascal") and its successor, the "Progress". With its own "motor scooter fleet" PWO also presented the scooters at events.

1978

INITIAL PUBLIC OFFERING

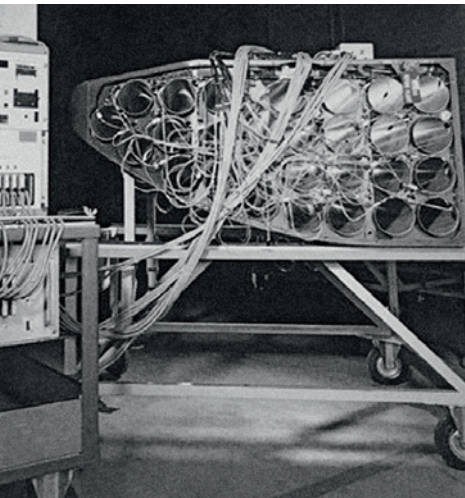
In June 1978 PWO went public at the Stuttgart stock exchange. On the first day, its shares were traded at about double their par value of 50 DM. Exemplary: Both the management and the workers' council had agreed that each employee should be given the option to purchase 25 stocks.



Since the 1990s

COMPLETE FOCUS ON AUTOMOTIVE

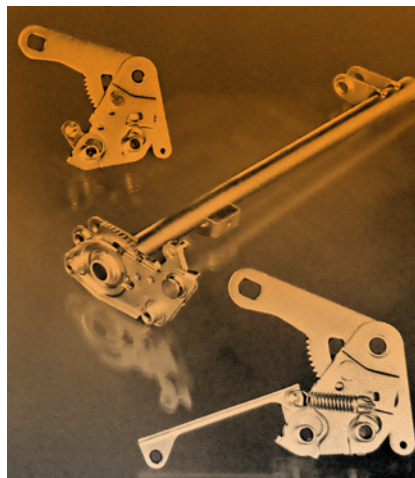
PW0 has been a supplier to the automotive industry since the 1950s. After German reunification we set our focus completely on the automotive sector.



1980s

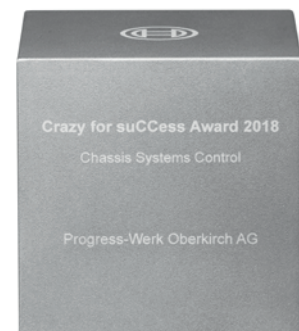
PRODUCT RANGE DEFENCE TECHNOLOGY

During the Cold War era, "defence technology" was one core area of the PW0 product range. The company produced transport and storage containers for both ammunition and the "Mehrzweckwaffe 1", a multi-purpose weapon, for which PW0 also took over the packing and assembly of cable harnesses. The MW-1 was part of the armament of Bundeswehr combat aircraft.



2019

PW0 AS GLOBAL PLAYER



Today, PW0 is a partner for the global automotive industry in the development and manufacture of high-precision metal components and subsystems in lightweight construction. This positioning is acknowledged regularly by awards such as the one granted recently by our customer Bosch.

PWO AT STADELHOFEN: DEEP LOCAL ROOTS

In 2019, Stadelhofen – which has been a part of Oberkirch since 1974 – is inconceivable without PWO, and the same goes for PWO without Stadelhofen. For 100 years we have been strongly linked to our home location. Both Stadelhofen and its people are part of the secret of our success.



In the early years the entire production fitted into one single hall.

THE PLANT AT THE MÜHLBACH (MILLSTREAM)

The PWO head office has been at the same location since 1919. The premises of the old mill at Stadelhofen became the nucleus of what remains the company's major location to this day. Initially, it hardly seemed to offer any benefits to an industrial enterprise because it lacked the infra-structure such as a rail connection. It proved to be a wise choice, however: There was a half-finished factory building at the millstream and it was possible to utilise hydropower. Moreover, there was a large supply of manpower available in the region.

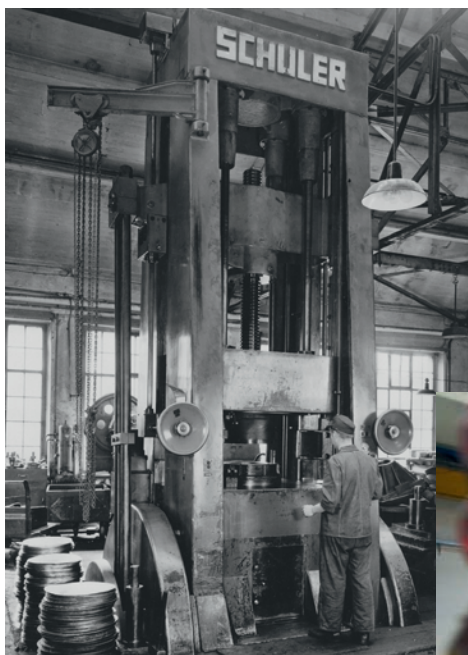
Over the years the plant was extended continually, for example as early as 1922 with new buildings and a hydropower turbine. During the Second World War, this was followed by a new transformer station plus an additional storage and production building. In 1954 a new production facility for motor scooters was built. In addition the factory halls were continuously modified and enlarged or new ones were built – in 1976 alone the production space increased by approx. 3,000 sq. metres. The administration building inaugurated in 2016 unites the purchase, development, distribution and administration departments, which had been scattered across the premises before, under one roof.



These days, production and logistics take up nearly 80,000 sq. metres.

HYDROPOWER

Hydropower played an important part in the choice of location for PW0. In the early years the millstream drove a shaft via a turbine and the shaft in turn drove all machines via belt and geared wheel transmission systems. Later the millstream also generated electricity with a generator and, step by step, the machines were switched to electric drive systems. However, the power thus generated was soon no longer able to cover the growing energy demands of the expanding company which meant that hydropower lost its practical importance for PW0.



The 1940s press above looks outright tiny contrasted against the **modern 1,250 tonnes press on the right**. However, the manufacturer is the same.



THE PWO STAFF – SOURCE OF SUCCESS

With their knowhow, their experience and their commitment, the employees have significantly contributed towards the success of PWO over 100 years. Mutual appreciation has created a productive and innovative working environment and atmosphere.



100 YEARS LIKE “ONE SMALL FAMILY”

The great significance which its employees have for PWO has been a constant in the company's history spanning 100 years. During the initial decades almost all staff members came from the Renchtal area, the valley of the River Rensch – in 1969, for example, this was the case in more than ninety percent. In the meantime PWO has become the employer of choice for people from all over Germany as well as from France. In the course of the expansion the headcount increased from 25 in 1920 and over 550 at the company's 50th anniversary in 1969 to 3,426 at the end of the 2018 fiscal year – including 1,656 at the Oberkirch plant.

A spirit of co-operation and respect is deeply rooted in the company's history with the result that it feels like “one small family” – to quote a former staff member. We

have committed ourselves to keeping all trainees and apprentices at the end of their training period if possible and to offer them secure employment. To this day we give all our employees, regardless of the qualifications they had when joining the company, the opportunity of a career within the worldwide corporation.

Older employees sometimes reminisce about the old days when they would take a small boat to row on the ponded millstream during their lunch break. Football is another type of sport which has lasted over the decades and is still actively played within the company today. Besides that, PWO offer its employees opportunities for further education, health management and sports. All these things contribute to the fact that staff members have related with the company over decades, sometimes across several generations and that they put their hearts and souls into working for PWO.



The photo above from 1935 shows that there were already outings to the countryside in a hired coach during the interwar period.



Company meetings are much more international today. In June, 2013 the purchase departments of PWO locations from all over the world gathered for the first time.

Popular with both players and spectators for more than fifty years: **The PWO football team.** Before the match against another local works football team...



„FAMILY BUSINESS“

Thirty, forty, fifty years working for the company – PWO regularly congratulates employees who celebrate round anniversaries working for the company. The ties between staff members and “their Progress plant” are not only close but also long-lasting. Since PWO’s establishment it has not been unusual to stay “at the Progress” for several decades or even for one’s entire working life. If one were to count not individual staff members but whole families where the grandfather, father, his children, nephews and nieces have worked for us, PWO would frequently be celebrating seventy, eighty, or ninety years of them working here.

... and today as part of a **comprehensive offer of company sports activities** which includes not only football, beach volleyball, jogging and walking but also other types of sport as well as events such as the Family Day or Fitness Day.

PWO AND THE CAR – PIONEERING IN THE SERVICE OF MOBILITY

The automotive sector has successfully developed into a focal point of production and core area of expertise. Whether it is motor scooters, diesel or petrol vehicles, or the new hybrid and electric cars: PWO offers components and sub-systems for a wide variety of applications and for an equally wide variety of vehicle types regardless of their drive systems.



PWO management board member Edmund Hess (left) presents the "Strolch" motor scooter to **German Minister for Transport Hans-Christoph Seebohm** (2nd from left) at the International Bicycle and Motorcycle Fair in 1953.

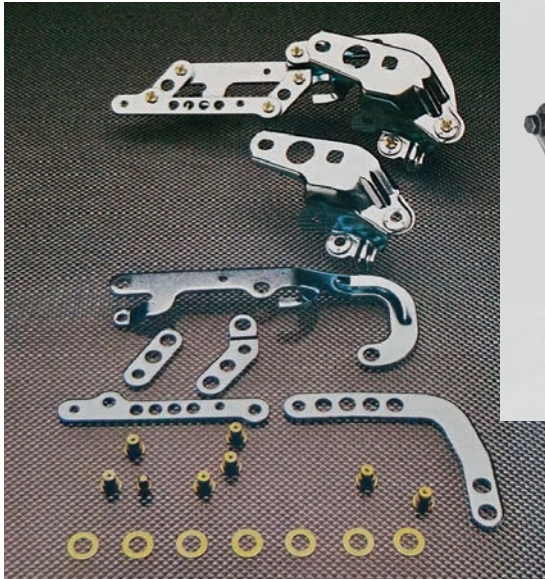
FROM AIR PUMPS AND MOTOR SCOOTERS TO WORLD-WIDE SUPPLIER TO THE AUTOMOTIVE INDUSTRY

PWO entered the automotive sector thanks to a good feeling for a market niche: Following the First World War, pneumatic tyres for motor vehicles gradually prevailed over solid tyres – and PWO had suitable air pumps in its product range. Moreover, the company already produced first automotive components at that time such as wings and exhaust system parts.

During the 1950s PWO were among the pioneers of individual mobility for the "man in the street", manufacturing two popular motor scooter types, the "Strolch" ("Rascal") and the "Progress 200". Both of these shaped the company's public perception during the era of the "Wirtschaftswunder". At the end of the 1950s the company again proved that it had the right hunch as well as good planning when it discontinued the production of motor scooters and re-

aligned the production towards supplying the automotive industry. Pedal groups for Daimler were among the first key products at that time. Later, this was followed by items such as airbag and indicator housings which were fitted to vehicles produced by many well-known manufacturers.

In the late 1990s the production was focused completely on the automotive sector. Today we produce a very broad range of mechanical components for electrical systems and electronics, of safety and structural components as well as subsystems for vehicle bodywork and chassis – increasingly in cost-efficient lightweight design, one of our unique selling propositions, to save weight and thus consumption. In the last few years, dashboard supports which provide stability and safety have gained significantly in importance as well as motor housings for more and more electrical functions from seat adjustment to window regulators.



The significance of the automotive sector increased from the 1950s and 1960s onwards. Besides metal parts PWO also manufactured complex finished parts such as pedal groups – like the ones on the right from the 1950s – or engine bonnet hinges – like the one on the left from the 1980s.

As a supplier solely to the automotive industry PWO focuses on the **International Motor Show Germany** today. The photo was taken in 2015.



In former times, PWO presented itself and its products regularly at important trade fairs – such as the **Hanover Fair** which was still one of the key international industrial fairs then. Shown here is the booth from 1991.

PIONEERING IN STEEL EXPERTISE

PWO focused on deep drawing as early as the 1920s. This was ground breaking: Deep drawing developed into one of our core areas of expertise which was constantly enhanced and perfected. This enables us to process demanding materials such as ultra-high-strength steel, aluminium or coated materials with maximum precision and speed today and to guarantee zero-defect quality thanks to our strict quality assurance.

FROM STADELHOFEN INTO THE WHOLE WORLD

PWO has had international links from the beginning. Although the company sold air pumps worldwide they solely produced at Stadelhofen. With the full concentration on being a supplier to the international automotive industry PWO also began to internationalise its production in the 1990s. Today, we produce in Europe, North America and Asia as well as in other parts of the world using cooperation partners.

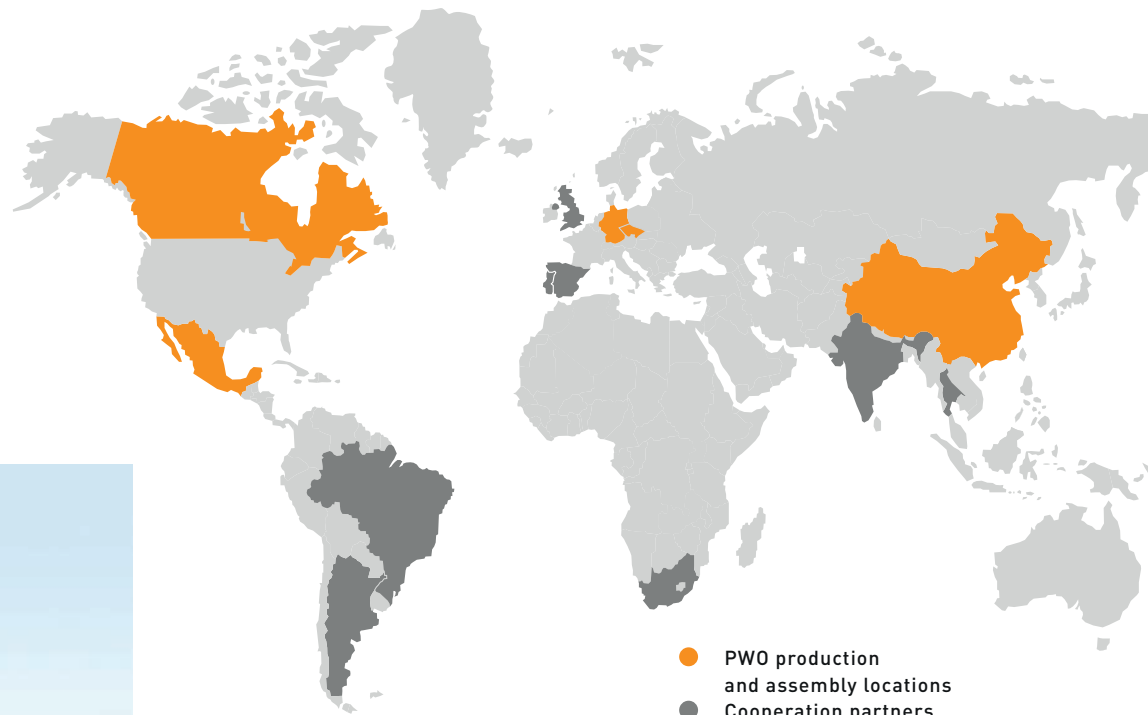
INTERNATIONAL SINCE ITS FOUNDATION

PWO was already international at the start of the company's history. In the 1930s the company produced 500,000 air pumps per month which were exported to all parts of the world. After the Second World War PWO exported mainly defence technology. Field kitchens were among the most important products. The wide variety of dishes and preparation methods presented the engineers with great challenges.

At the threshold to the new millennium the first step was taken towards an international expansion of the production. It started in 1997 with the acquisition of a stake in Canada which was fully integrated in the group as PWO CANADA in 1999. The positioning in Eastern Europe was executed in 2005 with the acquisition of former toolmaker UNITOOLS in Czechia which has in the meantime developed into the second largest production site within the group. In May, 2008 CARTEC in Mexico was taken over completely after PWO had already acquired a stake the year before. The last step in our international expansion so far has been our successful market positioning in China: we have produced in Suzhou since 2009 and in Shenyang since 2015.



Since 2009 there has been a **PWO subsidiary in Suzhou**, a Chinese boom-town with a strong focus on automotive manufacturing.



- PWO production and assembly locations
- Cooperation partners

WHERE CARS ARE BUILT

There are PWO production sites all over the world, and they are located where cars are produced: in Germany, China, Canada, Mexico and Czechia. This is where our capital-intensive metal forming capacities are concentrated and the great expertise of our staff members is brought together which is necessary for continuous process innovation. In addition, the assembly plants are used to combine individual components to complex sub-systems. We also cooperate with partners in Argentina, Brazil, Great Britain, India, Portugal, Spain, South Africa, and Thailand.

Portabagajes
PROGRESS

RLO

plancha-portadora
prensada de una sola pieza

con borde ininterrumpido

barnizado de primera clase
brillante o sin lustre

dimensiones de la plancha portado
13 x 36 cm

sin estirio de tensión
precio por

con estirio de tensión elástico
(plano) precio por

To sell internationally means to advertise internationally, for example, with a Spanish language newspaper advertisement for bicycle luggage racks.

THE MOTOR CYCLE 22 March 1950

"Progress" The Max's Size MOTOR Scooter

A Star Performer with outstanding features

* UNDISPASSABLE FOR SAFETY, COMFORT, STABILITY AND PERFORMANCE.

* POWERED BY "MACHS" ENGINE FAMOUS FOR POWER & LONG NO-THROUSE LIFE.

* BIG (16") "BETTER-RIED" WHEELS & GRASS FINE RARE FOOT CHANGE.

* DUPLEX STEEL CHASSIS FRAME, STRENGTH AND BALANCED WEIGHT DISTRIBUTION.

* ELEGANT STREAMLINED STYLING, EXCELLENT ALL ROUND FINISH, COMPLETE ACCESSIBILITY & FULL EQUIPMENT.

Choice of 3 Models
STANDARD "175"
2361 P. Tax £54.12. 9.
MAJOR "200"
2376 P. Tax £61.15. 1.
SPECIAL OUTRIDER "200"
2385 P. Tax £61.15. 1.
Self-starter. Windshield.
Balanced wheels. Tuned engine.
2385 P. Tax £61.15. 1.
P. Tax £61.15. 1.

Inspection & demonstration in Central London till 7 p.m. Incl. Sale at THE SMO GARAGE, 21, SMO SQUARE, LONDON, E.C.1. (near "Asteria" Cinema, Charing X Road). CHEVRO 6678-9.

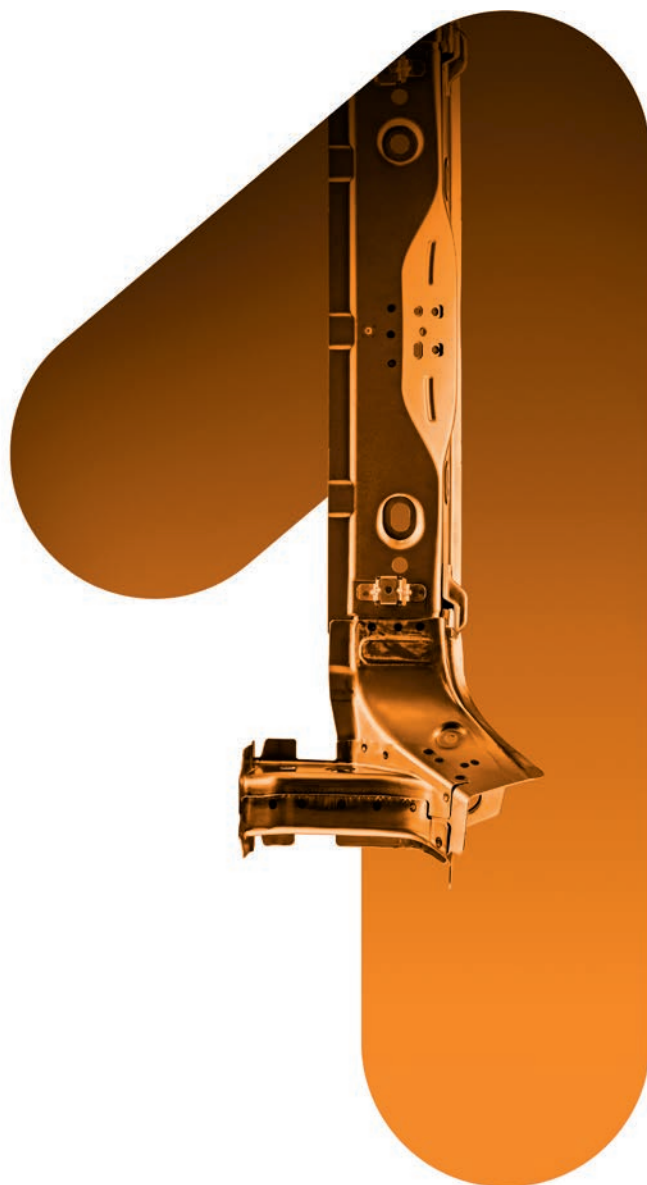
CARR BROS GARAGES LTD

BRITISH CONCESSIONAIRES
PURLEY SURREY
HIGH ST
Telegraphic Address: CARR BROS, CROYDON UPLANDS 48H

In the 1950s PWO motor scooters were also distributed internationally, as illustrated by this advertisement for the "Progress 200" from a British magazine.

TO OUR SHAREHOLDERS

18



„We offer our customers innovative solutions with efficient processes and thus achieve the highest efficiency possible. We will be entering a new dimension in the years ahead with our new 2,500-ton forming press at our Czechia location.“

**DR. VOLKER SIMON
CHIEF EXECUTIVE OFFICER (CEO)**

LETTER FROM THE MANAGEMENT BOARD

DEAR SHAREHOLDERS

The year 2019 will be a very special year for PWO. On September 6, the company will turn one hundred years old! We are very fortunate to be able to look back on a century of pursuing opportunities with boldness and creativity and turning them into success with perseverance throughout our history.

From the beginning, we have focused on the future and on progress. Instead of manufacturing kitchen utensils and similar metal-made products – which was the plan at the time of our foundation – our product range in the early 1920s was already distinguished by air pumps for bicycles, motorcycles and automobiles. After the First World War, air-filled tires became the choice for motor vehicles – and we featured the corresponding air pumps in our product range.

We have remained true to our roots of stamping, forming and drawing metal; today we are enjoying the benefits of our extensive experience in the processing of metal sheets. It is this experience that makes it possible for us to offer our customers innovative solutions with efficient processes and achieve the highest cost efficiency possible.

We will be entering a new dimension in the years ahead: a new forming press with a force of 2,500 tons will be put into operation at our Czech location. This press exerts significantly more force as the largest presses operated by the Group today. For the first time, we will be able to manufacture components made of high-strength and ultra-light steel in parallel production.

We also plan to continue to expand regionally, with growth being driven primarily by our locations in Mexico and, particularly, China. We already have the required customer base to achieve our targets and a future-proof product portfolio. We critically monitor both of these aspects internally and regularly. During the past fiscal year, we hired a renowned consulting firm to review our organization and its structures. The results came back fully validating our strategic position.

However, this past fiscal year has made it clear again how important it is for us to continually evolve and secure what we have achieved, and thereby set the course for future expansion. In some areas, we were severely hit by the effects of the weaker sales of the international car manufacturers after the summer break. We have large and complex series productions currently in the process of starting and ramping up at many of our sites, and the processes have not yet reached the required level of stability. The drop in customer calls orders shortly before the end of the year therefore had a visible impact on the Group's profitability, leading to pressure in many areas of the Group. As a result, we brought down our revenue and EBIT (before currency effects) expectations for the 2018 fiscal year. We also reduced our medium-term forecast significantly. Therefore, the Management Board and the Supervisory Board will propose a dividend of EUR 1.10 per share and an additional anniversary dividend of EUR 0.25 for a total dividend of EUR 1.35 (p/y: EUR 1.65) to the Annual General Meeting on May 22, 2019.

Meanwhile, we initiated far-reaching and comprehensive cost-cutting measures at all our locations – particularly due to the fact that future call orders from our customers are currently more uncertain than usual in our business. We are therefore prepared for the possibility that we have to make adjustments once more.

At our Czech and Canadian locations, the necessary measures are being implemented with a steady hand. In Mexico, we have made solid progress and believe that this will filter through to our results as the site grows in the future. Our Chinese activities made the leap into profitability last year.

Currently, our greatest need for adjustment is at the Oberkirch location. The currently low profitability at that location poses a challenge. Contributing to this are restrained market growth prospects, high wages in Germany and the supplemental collective agreement that includes the agreement to safeguard jobs. In the past fiscal year, we have intensively addressed this with our employees and have defined common goals and identified and already realized some of the potential.

The experience, professionalism and motivation of our employees throughout the Group are the basis for our success. Their dedication has been extraordinary and remains so today, and for this we are extremely grateful. We firmly believe that with our current team, PWO will be able to seize the opportunities in yet another market phase and set out on its way to another 100 years of success.

We would like to thank you, our shareholders, for your trust you have placed in us and invite you to accompany us to experience the Group's further development.



Dr. Volker Simon
(CEO)



Bernd Bartmann



Johannes Obrecht



DR. JOCHEN RUETZ

Member of the Supervisory Board

CARSTEN CLAUS

Member of the Supervisory Board

KARL M. SCHMIDHUBER

Chairman of the Supervisory Board

BERND BARTMANN

Member of the Management Board

DR. VOLKER SIMON

Speaker of the Management Board



GERHARD SCHREMPF
Member of the Supervisory Board

JOHANNES OBRECHT
Member of the Management Board

HERBERT KÖNIG
Member of the Supervisory Board

DR. GEORG HENGSTBERGER
Deputy Chairman of the
Supervisory Board

REPORT OF THE SUPERVISORY BOARD



In the 2018 fiscal year, the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft (the “Company” or “PWO”) carried out its duties as defined by law, the Company’s Articles of Association and Rules of Procedure. The Supervisory Board and Management Board continuously cooperated and maintained a close dialog on all major issues concerning the Company’s and the Group’s strategic development. The Supervisory Board regularly advised the Management Board and monitored the Company’s management in terms of its legality, practicality and efficiency.

The Supervisory Board was always directly involved in Management Board decisions that were of fundamental importance to the Company and the Group. The Supervisory Board was promptly and fully informed through the Management Board’s detailed verbal and written reports on all significant issues relating to the Company’s and Group’s relevant markets, current state of business and situation. Detailed reports on current development projects and investments, short- and long-term corporate planning were also thoroughly discussed by the Supervisory Board. In addition, the Management Board reported on the liquidity and risk situation, the status and development of the Group-wide risk and compliance management systems, as well as on IT security and data protection. Data protection was specifically discussed during the Group-wide implementation of the applicable EU General Data Protection Regulation (GDPR) that has been in effect since May 25, 2018. Deviations in business performance from the forecasts and targets and any counteractive measures were discussed in detail by the Management Board and reviewed by the Supervisory Board.

The Supervisory Board critically reviewed the Management Board’s reports for their plausibility and checked the risk and compliance systems for their suitability and effectiveness. The Supervisory Board confirmed that the subject and scope of the Management Board’s reports fully met the Supervisory Board’s requirements. After a thorough examination and discussion, the Supervisory Board approved the reports and resolutions of the Management Board to the extent required by legal and statutory provisions. Matters requiring the Supervisory Board’s approval were submitted for resolution by the Management Board in a timely manner.

During the 2018 fiscal year, the chairman of the Supervisory Board was in regular and close personal contact with the Management Board in the periods outside of the Supervisory Board meetings, particularly with the CEO. The chairman also advised the Management Board with respect to strategy, planning, business development, risk situation, risk management and compliance issues and was always informed of current business developments and all material business transactions. Outside of the Supervisory Board meetings, the chairman also briefed the other Supervisory Board members and discussed the current developments with these members.

The Supervisory Board chairman was always provided with information concerning special business transactions that were deemed vital to the assessment of the situation, progress and management of the Company and the Group. He was also promptly kept informed by the Management Board through verbal and written reports.

There were no conflicts of interest in the 2018 fiscal year that involved Management Board or Supervisory Board members that would require immediate disclosure to the Supervisory Board and the notification of the Annual General Meeting.

THE WORK OF THE PLENARY

During the 2018 reporting year, the plenum met on seven occasions: March 23, May 23, July 25-26, September 26, October 25 and December 13. The October meeting was convened extraordinarily following the ad hoc announcement on October 19 on the adjustment to the outlook for the 2018 fiscal year. The Supervisory Board meetings were held at the Company's registered office, with one exception. In keeping with a longstanding tradition one meeting in 2018 took place at one of the Group's international locations, giving the Supervisory Board an opportunity to take a closer look at that particular location. The September meeting of the Supervisory Board was held at the Company's subsidiary in Valašské Meziříčí, Czechia. All members of the Supervisory Board were present at all meetings, with one exception.

At all of its meetings, the Supervisory Board thoroughly dealt with the corporate strategy, current market conditions, ongoing development projects and the status of investments. The Supervisory Board routinely discussed the Management Board's situation and earnings reports concerning the business performance and business environment. One focus in this context was an analysis of the ongoing measures to improve earnings at various Group locations.

The chairman of the Supervisory Board authorized the appointment of the auditor and the agreement of his fee. He also requested the statement of independence of the auditor in accordance with Item 7.2.1 of the German Corporate Governance Code. No issues arose during the reporting year that would cast doubt on the auditor's independence.

The following items were also on the respective meeting agendas:

At the meeting on March 23, 2018, the Supervisory Board dealt in detail with the audit committee report, the 2017 fiscal year financial statements, including the Management Board's dependency report, the report of the Supervisory

Board, the 2017 Annual Report and, particularly, the Corporate Governance Report. The agenda of the 95th Annual General Meeting on May 23, 2018 was also discussed as was the nomination proposals of the Supervisory Board for the election of shareholder representatives to the Supervisory Board. Further discussions dealt with the objectives of the Supervisory Board with respect to its composition and skills profile.

On May 23, 2018, the same day's 2018 Annual General Meeting took center stage in the discussions. In addition to regular agenda items, the Board discussed the first forecast for the current 2018 fiscal year, including the related risk situation, the strategic development of the Chinese locations, data protection issues and the report of the Audit Committee.

At the meeting on July 25, 2018, the focus was a discussion of the Group's strategic positioning and outlook. In relation to this, the Supervisory Board discussed an external expert opinion commissioned by the Management Board and the development of the locations in Germany, China and Mexico. The Data Protection Officer's report was also received and discussed in detail.

At its meeting on July 26, 2018, the Supervisory Board dealt with the regular agenda items and the Group's current development, specifically with respect to market developments, development projects, investment plans, financing and the earnings situation. The reports of the Compliance Officer and the Audit Committee were also received and discussed in detail.

The meeting on September 26, 2018 was dedicated to visiting the Czechia location where the usual topics were addressed and the second forecast for the 2018 fiscal year and the reports of the Audit and Personnel Committees were discussed. In addition, the Supervisory Board extended the contract of former deputy Management Board member Johannes Obrecht for a further five years with effect from July 1, 2019 and appointed him as a full member of the Management Board until June 30, 2024.

At an extraordinary meeting on October 25, 2018, the Supervisory Board dealt with the report of the Audit Committee but, above all, with the earnings report of the Management Board as of September 30, 2018. Far-reaching measures for securing earnings were thoroughly discussed in light of the significant declines in customer call orders in October from a variety of negative factors affecting the automotive

industry. The Supervisory Board also dealt intensively with the Management Board's reassessment of the Group's current business development and the need to adjust the previous 2018 forecast as well as the medium-term forecast published for the period up to 2020.

At the meeting held on December 13, 2018, the Supervisory Board concentrated on the current business development reflected in the third forecast for the 2018 fiscal year and the revision of the annual budgets for the years 2019 to 2023. In relation to this, the Supervisory Board held a detailed discussion on earnings, the balance sheet, financing, the development of key financial figures, the Group's further plans for development, investments, personnel development and the risk situation. Also discussed were the report of the Audit Committee, and issue related to tool production and corporate governance. The last point was especially focused on the adoption of the Declaration of Conformity pursuant to Section 161 AktG on the recommendations of the "Government Commission German Corporate Governance Code" in its version of February 7, 2017 and any deviations from these recommendations, as well as the efficiency review carried out by the Supervisory Board and the annual reports on compliance, risk management and internal audit. Further information on corporate governance can be found in the Company's Corporate Governance Report and the Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code. Both of these documents are available on the Company's website at <https://www.progress-werk.de/en/group/corporate-governance/>.

In the meeting on March 28, 2019, the Supervisory Board dealt extensively with the 2018 financial statements and consolidated financial statements, including the combined management report for the Company and the Group, the Management Board's proposal for the appropriation of unappropriated earnings and the Management Board's dependency report under Section 312 of the Stock Corporation Act. The consolidated financial statements were prepared by the Management Board in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with applicable regulations pursuant to Section 315e (1) of the German Commercial Code (HGB).

The accounting, financial statements, consolidated financial statements, combined management report for the Company and the Group and the dependency report were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and furnished with an unqualified audit opinion. The audit opinion given by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft on the dependency report is as follows: "In accordance with our due audit and assessment, we hereby confirm that the actual disclosures specified in the report are accurate."

The financial statements and consolidated financial statements, the combined management report for the Company and the Group, the Management Board's proposal for the appropriation of unappropriated earnings, the dependency report and the audit reports prepared by the auditor were provided to the Supervisory Board members in advance of the meeting on March 28, 2019. The Audit Committee reviewed these documents at its meeting on March 14, 2019.

The auditor was present at the meeting of the Audit Committee on March 14, 2019. At the Supervisory Board meeting on March 28, 2019, the auditor gave a report of the material results of the audit.

The Supervisory Board examined the financial statements, the consolidated financial statements, the combined management report for the Company and the Group and the Management Board's proposal for the appropriation of unappropriated earnings. At the recommendation of the Audit Committee, the Supervisory Board agreed with the auditor's results at the meeting on March 28, 2019. No objections were raised following the conclusive results of the Supervisory Board's examination. The Supervisory Board approved the 2018 financial statements and consolidated financial statements thereby adopting the financial statements for the 2017 fiscal year. The Supervisory Board also approved the Report of the Supervisory Board, the Corporate Governance Report and the Remuneration Report.

At the meeting on March 28, 2019, the Supervisory Board also examined and approved the dependency report and confirmed the results of the auditor's examination. There

were no objections to the Management Board's statement at the end of the dependency report following the conclusive results of the Supervisory Board's examination.

The Supervisory Board also agreed with the Management Board's proposal for the appropriation of the 2018 unappropriated earnings. In light of the disappointing development in the automotive industry in the past year, which also led to a decline in PWO's earnings, the management will propose to the Annual General Meeting on May 22, 2019 a lower dividend of EUR 1.10 per share and an additional anniversary dividend of EUR 0.25 for a total dividend of EUR 1.35 (p/y: EUR 1.65) be distributed for the 2018 fiscal year.

Additionally, the Supervisory Board reviewed the content of the "2018 non-financial statement according to Sections 289c and 315c HGB". The Management Board explained the statement to the Supervisory Board in detail. The review did not give rise to any objections by the Supervisory Board.

THE WORK OF THE COMMITTEES

To efficiently perform its duties and in accordance with its Rules of Procedure, the Supervisory Board has established a Personnel Committee and an Audit Committee. The Supervisory Board has granted these committees certain decision-making powers to the extent permissible by law. These committees prepare the relevant issues for the consideration of the plenary. The chairpersons of these committees regularly report to the plenary on the deliberation and resolutions of the respective committee.

The chairman of the Supervisory Board heads the Personnel Committee. The Personnel Committee prepares the personnel decisions of the Supervisory Board. The Personnel Committee, rather than the Supervisory Board, decides on the Company's representation in dealings with the Management Board members, the consent to any outside or competing offices held by Management Board members, and the granting of loans to Management Board or Supervisory Board members. The Personnel Committee also submits proposals to the Supervisory Board for the compensation system and for the total remuneration of the

individual Management Board members. The Personnel Committee met on two occasions in the 2018 fiscal year: March 12 and September 14. All members were present at all meetings. The main subjects of the meetings were the cooperation within the Management Board, the appointment of the deputy Management Board member, Johannes Obrecht, as a full member of the Management Board and the extension of his employment contract.

Carsten Claus is the chairman of the Audit Committee. He possesses special knowledge and experience in the area of accounting. The Audit Committee rather than the Supervisory Board assumes the tasks of previewing the financial statements and consolidated financial statements, the management report, the Group management report and audit report furnished by the auditor. The Audit Committee also prepares the report to be submitted by the Supervisory Board in accordance with Section 171 AktG. In addition to monitoring the accounting, the Audit Committee also concerns itself with overseeing the accounting process, the effectiveness of internal control and audit systems, the risk management system, the audit, compliance and the compliance management system.

The Audit Committee met on five occasions in the 2018 fiscal year: February 15, March 12, April 25, July 26, and October 25. All Audit Committee members were present at all meetings. The main topics discussed were the 2017 fiscal year financial statements, the 2018 fiscal year interim financial report and quarterly statements and the recommendation for the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor for fiscal year 2018. The Committee also dealt with internal audit issues and the approval of non audit-related services provided by the auditor.

Additionally, the Audit Committee paid close attention to the Company's business development. This included receiving reports from the Management Board and paying special attention to the current development of the Company's and Group's profitability. Moreover, the Committee discussed questions regarding the Company's financing, the measurement of equity interests, corporate management and accounting principles. The Audit Committee regularly reviewed the Company's and the Group's current

development and compared it to the corresponding plan in order to determine the need for any action.

In the reporting year, the committees were comprised of the following members:

PERSONNEL COMMITTEE

- Karl M. Schmidhuber (Chairman)
- Dr. Jochen Ruetz (as of May 23, 2018)
- Dr. Georg Hengstberger (as of May 23, 2018)
- Ulrich Ruetz (until May 23, 2018)
- Dr. Gerhard Wirth (until May 23, 2018)

AUDIT COMMITTEE

- Carsten Claus (Chairman as of May 23, 2018; financial expert as defined under Section 100 [5] AktG)
- Dr. Georg Hengstberger (Chairman until May 23, 2018)
- Herbert König
- Karl M. Schmidhuber
- Ulrich Ruetz (Member until May 23, 2018)

CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

The terms of office of the members of the Supervisory Board elected by the Annual General Meeting ended with the close of the Annual General Meeting on May 23, 2018. It was therefore necessary to elect new shareholder representatives for the Supervisory Board. The Annual General Meeting on May 23, 2018, elected Carsten Claus, Dr. Georg Hengstberger, Dr. Jochen Ruetz and Karl M. Schmidhuber as shareholder representatives on the Supervisory Board. New to the Supervisory Board were Carsten Claus and Dr. Jochen Ruetz. After serving 21 and 15 years on the Supervisory Board, Ulrich Ruetz and Dr. Gerhard Wirth did not stand for re-election. On the same day, the newly elected Supervisory Board appointed Karl M. Schmidhuber as its chairperson and Dr. Georg Hengstberger as his deputy.

With effect from July 1, 2019, the Supervisory Board appointed Johannes Obrecht as a full member of the

Management Board and extended his current employment contract, which expires on June 30, 2019, for a further five years. He is thus appointed as a member of the Management Board until June 30, 2024 and is responsible for Production and Materials Management.

CONFLICTS OF INTEREST

The Supervisory Board continuously monitored the existence of conflicts of interest during the year under review. Conflicts of interest were not identified by the Supervisory Board during the reporting year nor were they brought to its attention by members of either the Management Board or Supervisory Board.

A WORD OF THANKS

After two successful years – each of which generated new business that exceeded initial forecasts and where important inroads were made into areas such as the American pick-up market – the second half of the 2018 fiscal year turned out to be increasingly difficult, after starting the year on a positive note. The entire automotive industry faced significant problems and pressures in 2018, which have yet to be resolved; namely, the diesel issue, trade conflicts and higher tariff barriers: Last but not least, the slow conversion to the WLTP test cycle for new cars caused difficulties, which in some cases led to major production losses throughout the entire automotive value chain. This also affected PWO and prompted the Group to adjust its annual and medium-term forecasts in October 2018, which the stock market acknowledged with a sharp decline in the share price. Because we are not seeing any signs of a noticeable short-term improvement in the market conditions, the Management Board has been working closely with the Supervisory Board to develop various site-specific and Group-wide measures, which were implemented as of the fourth quarter of 2018. The focus of these measures is on achieving a continued improvement in all of our processes to increase our flexibility, quality and efficiency even further and, at the same time, reduce costs.

The Supervisory Board is well aware that these measures will again require a high degree of motivation and commitment from all those involved. Still, the Board is confident that these challenges will once again be addressed and mastered. As in prior years, when repeatedly excessively high call order volumes required additional effort on the part of our employees, they have proven that PWO is able to meet the ever-growing challenges of the global automotive market, even under very demanding conditions. Our customers honored our efforts by presenting us with several supplier awards in 2018.

The Supervisory Board would like to sincerely thank all of the PWO Group's employees for their extraordinary commitment during the past fiscal year. It would also like to express its firm belief that the Management Board and the employees will continue to ensure that PWO is a reliable and innovative partner for our customers in our 2019 anniversary year and beyond.

This report was thoroughly discussed and approved by the Supervisory Board at its meeting on March 28, 2019.

Oberkirch, March 28, 2019

A handwritten signature in black ink, appearing to be 'K. Schmidhuber'.

Karl M. Schmidhuber
(Chairman of the Supervisory Board)

COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG



„In the face of the numerous challenges in the global automotive industry, we are now focusing on strengthening our profitability through a variety of cost reductions and far-reaching process improvements.“

**JOHANNES OBRECHT
CHIEF OPERATING OFFICER (COO)**

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COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The combined management report for the January 1 through December 31, 2018 fiscal year contains the reports for Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, ("PWO" or "PWO AG") and the PWO Group ("Group"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union, and the supplementary provisions of the German Commercial Code (HGB). PWO AG conducts its accounting according to the provisions of the HGB in its currently valid version and the supplementary provisions of the German Stock Corporation Act (AktG).

The composition of the scope of consolidation is described in detail in the notes to the consolidated financial statements. The scope of consolidation did not change in the reporting year.

GROUP PRINCIPLES

BUSINESS MODEL

ORGANIZATIONAL STRUCTURE OF THE GROUP

The PWO Group has a simple and transparent structure to maximize efficiency. We manufacture components made of sheet steel at five production sites for the international automotive industry. We also have four assembly locations with additional space that we can use for projects when needed.

PWO AG, headquartered in Oberkirch, Germany, is the Group's main location. The management of the Group is

carried out from this head office. Most of the Company's international locations are direct subsidiaries whereas, in China, PWO has established an intermediate holding company based in Hong Kong. This holding company is currently a non-operating company.

PWO AG is led by a Management Board consisting of three members. A six-member Supervisory Board forms the supervisory body. The Supervisory Board has delegated some of its tasks to committees. These tasks are described in detail in the Report of the Supervisory Board.

SALES MARKETS, LOCATIONS, AND SEGMENTS

We strive to be one of the few leading suppliers to all our customers. Repeated awards from our customers underscore our positioning, which includes being able to deliver to our customers at all of their locations – worldwide.

In order to provide this, we use a combination of production and assembly locations. The Group has two production locations in Europe – one in Oberkirch, Germany, and one in Valašské Meziříčí, Czechia, as well as two locations in North America, with one located in Kitchener, Canada, and a second in Puebla, Mexico. Our sole production location in Asia is located in Suzhou, China.

We also operate additional assembly locations in Germany, Mexico and Czechia located near our production areas. We are also reducing the distance to our customers in China for large-volume instrument panel carriers with our assembly location in Shenyang. Assembly locations are always separate facilities belonging to our subsidiaries in the respective countries.

We pool our forming capacities at our capital-intensive production sites, in order to focus the wide-ranging expertise of our employees necessary for ongoing process innovation. Individual components are assembled together into complex subsystems at our assembly locations.

Innovation and process efficiency in our business are driven, above all, by tool design. Each innovative product solution requires components that need to be manufactured using a material-specific forming process. Only by developing the appropriate tools can we offer the best possible combination of the highest quality in parts at the fastest production speed. This is what stands at the core of our competitive strength. The Group's largest tool design capacities are located in Germany and Czechia, and all locations are able to procure significant tool volumes via our subsidiary in China.

Because production locations are very capital intensive, deciding where to build and develop a production site is a fundamental task of the Group's management. The local market must offer enough potential to maintain long-term capacity utilization with high unit numbers. In markets that do not meet our criteria, we often choose to collaborate on specific projects with local cooperation partners. This is how we are able to ensure delivery to our customers worldwide while preserving our internal resources.

All five of the Group's production locations are responsible for acquiring their own orders and managing their operations in line with the Group's overriding objectives. Decisions with respect to a location's long-term growth potential or its need for financing are made by the PWO AG Management Board. The four business segments – Germany, Rest of Europe, North America and Asia – are defined along the lines of the prevailing internal organizational structure and correlate to the sales markets where our operating sites are located.

POSITIONING, EXPERTISE AND PROCESSES

PWO IN THE INTERNATIONAL AUTOMOTIVE MARKET

The PWO Group has established itself in the international automotive market as one of the leading developers and manufacturers of advanced metal components and subsystems using lightweight construction. These components and subsystems are explicitly focused on automotive safety and comfort, which is why the type of drive system plays a minor role in the Group.

We have positioned ourselves as a strategic outsourcing partner for our customers and tailor-make solutions for large series with unit volumes that sometimes stretch into the millions. In doing so, we cover the entire value chain

from development and tool design to series production. Our revenues in the past fiscal year were broken down into our three strategic product areas:

Our first two strategic areas are comprised of mechanical components for electrical/electronic applications and safety components for airbags, seats and steering, all of which are supplied predominantly to international Tier 1 suppliers who, in turn, deliver these parts to various automotive manufacturers as part of their own systems for numerous vehicle models. These two product areas respectively accounted for 21 and 32 percent of revenue in the reporting year.

Our third strategic area is comprised of structural components and subsystems for vehicle bodies and chassis – are usually manufactured directly on behalf of the vehicle manufacturer, depending on the model. However, the range of applications is also continually increasing as a result of the increasing use of platform concepts, which form the basis for the manufacturer's different vehicle models. In fiscal year 2018, we generated 47 percent of our revenue in this product area.

ALWAYS THE IDEAL SOLUTION

When it comes to the characteristics of steels, particularly high-strength, lightweight steels, stainless steel and aluminum, we have extensive know-how in the cold forming process as well as in the application of sophisticated joining technologies. Our core expertise also includes designing and producing high-performance, low-cost tools, while ensuring that our processes remain reliable, even at high production speeds.

Aside from a product's functionality and quality and the supplier's global delivery capabilities, weight is increasingly becoming a fourth key consideration for our customers when awarding orders. We established our position in the market for lightweight solutions early on and today enjoy an outstanding reputation in this area. Lightweight solutions and their cost-effectiveness are inextricably linked, which is why we developed the principle of cost-efficient lightweight solutions.

Our competitive strength is built upon a large pool of individual areas of expertise. We develop a suitable custom solution from a combination of this know-how for each customer order. This represents PWO's overall competence: providing comprehensive solutions across all relevant services while maintaining a clear focus on forward-looking requirements. All in all, this results in a best-in-class offer that meets the highest in quality standards and implementing even complex product functions

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economically, while providing reliable delivery both in terms of speed and quantity. In other words: we have the know-how to map and develop the ideal process for the customer.

Our method and process expertise across the entire life cycle of a product solution, from design to series production, is one of our key USPs for our customers. We think, plan and produce holistically through the comprehensive design of the necessary tools and complete production processes, right from the start. Here it is essential to not only have a deep understanding of customer-specific requirements but also of the systems and processes, right down to the customer's entire product philosophy.

Our promise and our dedication to always finding the ideal solution for our customers and to guarantee them the highest efficiency and reliability in series production, while ensuring the desired quality at all times, can be summarized quite simply: we create trust. We are proud

that we achieve our customers' highest approval ratings in terms of quality, reliability and trust.

RESEARCH AND DEVELOPMENT

We design and manufacture our components and subsystems exclusively tailored to the customer's specifications. Consequently, the majority of our product development costs are tied to customer projects. Product development activities for the Group's own purposes are of secondary importance. The use of third-party services for these activities is also immaterial, and we do not conduct any research.

EXTERNAL FACTORS AFFECTING OPERATIONS

Some of the key external factors influencing PWO's operations in the near term include changes in the political, macroeconomic and industry-specific environments. These factors are discussed in the sections "Macroeconomic Environment" and "The International Automotive Industry Environment."

OUR KEY UNIQUE SELLING POINTS



Other external influential factors and their impact, such as the industry's ongoing price pressure, fluctuations in customer call orders, changes in material prices and exchange rates, as well as the outlook for long-term demand resulting from regulatory changes, are presented in the Risk Report.

MANAGEMENT SYSTEM

Our objective is to maintain sustainable growth for the Group, enhance its profitability and financial strength and limit any order-related and cyclical risks. Seizing above-average market opportunities may temporarily require a higher investment. Setting the course in favor of long-term regional growth can also place short-term pressure on our balance sheet.

We always keep our eye on these opportunities and prospects and assess them continuously in consideration of the Group's current and future market position. However, in light of today's volatile market environment, the management is placing near-term profitability and the quality of the balance sheet as its clear priorities.

Financial key indicators have been defined within the management system as the sole primary management parameters for the Group. Non-financial performance indicators are monitored internally from a sustainability perspective. However, aside from ensuring our full compliance with legal and regulatory requirements, the development of these indicators is subordinate to the financial control of the Group. The non-financial performance indicators are, therefore, not important for understanding the business development and position of the Group.

Our primary financial performance indicators are EBIT (earnings before interest and taxes) before currency effects, free cash flow, the equity ratio and the dynamic leverage ratio. The definitions of these key figures are presented in the sections on the results of operations, net assets and financial position.

We aim is to continually increase our revenues and EBIT margin. Positive free cash flow should also be generated so that the combined effect of these various performance indicators reduces the dynamic leverage ratio and improves the balance sheet ratios.

Our mid-term plans are based on our new business, which consists of the lifetime volume of newly acquired orders over their entire term, based the orders' contractual agreements and past experience.

New business volume should offset the yearly volume of phased-out series productions and still provide additional room for revenue growth. Volumes may, however, fluctuate greatly from year to year because customers make their order decisions at different times and large orders are not always awarded every year in our market segment.

REPORT ON BUSINESS DEVELOPMENT

MACROECONOMIC ENVIRONMENT

The global economy cooled off in the course of the 2018 fiscal year, particularly in the second half. It was at this time that there was growing uncertainty from, above all, political issues such as the tariff dispute with China from a more restrictive US trade policy and the unclear terms of Great Britain's imminent exit from the EU.

Added to this were country-specific factors, such as the sharp decline in production in the German automotive industry from the delayed transition to the new WLTP test cycle. Further problems, such as the persistent diesel issue, contributed significantly to a growth slowdown in an industry that is of key importance to the German economy.

After showing strong optimism with respect to 2018 as the year began, the International Monetary Fund (IMF) found itself in the process of making several revisions to its expectations. Revisions were made especially in the forecasts for the major eurozone countries, Great Britain and selected developing countries.

The IMF has maintained, however, its original forecasts for the United States, but for different reasons. At least in the short term, the United States was expected to receive some support from the tax reform program adopted in 2018, which is particularly favorable for companies. The originally forecast growth in the global economy of 3.9 percent for 2018 (2017: 3.7 percent) failed to materialize. In its January 2019 update, the IMF now even expects that the growth of the global economy declined slightly by 0.1 percentage points in 2018, compared to growth of 3.8 percent that was achieved in 2017.

Regardless of the trade conflicts, which primarily affect the export industry, the German economy ended 2018 with the ninth year of solid consecutive growth fueled by a robust domestic economy. Employment, incomes and, consequently, household consumption increased just as much as corporate investment.

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NEW REGISTRATIONS/SALES OF PASSENGER VEHICLES IN UNITS
SOURCES: GERMAN ASSOCIATION OF THE AUTOMOTIVE INDUSTRY,
GERMAN FEDERAL MOTOR TRANSPORT AUTHORITY

Region	Full-year 2018	Change vs. 2017 (%)
Germany	3,435,800	0.0
Western Europe (EU15 + EFTA)	14,210,900	-0.8
New EU Countries (EU13) ¹	1,413,600	+8.0
Europe (EU28 + EFTA) ¹	15,624,500	0.0
Russia ²	1,800,600	+12.8
USA ²	17,215,200	+0.5
China	23,256,300	-3.8

¹ Excluding Malta.

² Light Vehicles.

According to the German Federal Statistics Office, in 2018 the price-adjusted gross domestic product (GDP) increased by 1.5 percent compared to 2.2 percent in the prior year. The unemployment rate fell from 5.7 percent to 5.2 percent. The contribution of foreign trade to GDP growth in 2018 turned negative at -0.2 percentage points. Domestic demand rose by 1.8 percent compared to 2.0 percent in the prior year, largely as a result of the strong pickup in capital equipment investment.

THE ENVIRONMENT IN THE INTERNATIONAL AUTOMOTIVE INDUSTRY

The development in the automotive business also varied worldwide in 2018. The European passenger car market (EU28+EFTA) was able to maintain the high level achieved in the prior year, while the US recorded a slight increase. Following the severe slump in 2016, the markets in Brazil and Russia posted strong growth rates again in 2018, similar to the previous year. China, the world's largest car market, in contrast, saw its first decline. A total volume of 98.9 million automobiles was sold worldwide in 2018, amounting to a slight 0.2 percent decline in volume compared to the prior year.

In Europe, the number of units fell short of the previous year's level of 15.6 million units by just a few thousand cars. This stagnation, however, was based on a high level as car sales in 2017 had reached their highest level since 2007. In Great Britain, the strong negative trend of the

previous year continued as a result of the persistent uncertainties caused by the Brexit discussion. After a decline of 5.7 percent in 2017, new registrations fell by a further 6.8 percent in 2018. In Germany, 5.1 million passenger cars were produced in full-year 2018, corresponding to a decline of 9 percent. One of the main reasons for this development was the special situation created by the WLTP test cycle, which will be explained in more detail below. The total number of passenger cars exported by German manufacturers to customers worldwide reached 4.0 million (-9 percent).

With an increase of 6 percent, significantly more vehicles were sold in the Japanese passenger car market in 2017 than in the prior year. In 2018, this level was merely maintained. In Russia, a total of 1.8 million new light vehicles were sold in 2018, corresponding to an increase of 12.8 percent. This even exceeded the strong development in the prior year (+11.9 percent).

Sales in the United States in 2018 were slightly higher year-on-year, increasing by +0.5 percent to 17.2 million units. This followed a decline of 1.9 percent in 2017. As a result, the US market trended sideways again. In 2018, German manufacturers sold 1.3 million light vehicles in the United States, matching their previous year's level in line with the market as a whole. German passenger car brands maintained their market share at an unchanged level of just under 8 percent.

GERMAN AUTOMOBILE MARKET: SPECIAL FACTOR WLTP

The new WLTP ("Worldwide Harmonized Light Vehicles Test Procedure") has been mandatory in the European

Union since September 1, 2018, and applies to initial registrations of passenger cars with petrol and diesel engines. The new method should provide more realistic data for exhaust emissions and fuel consumption. Compared to the previous test method, this method is based on empirically collected data in road traffic. Although this method yields more representative results, the process is also much more complicated.

In the summer of 2018, it had already become apparent that the capacity available on the test stands would be limited, and not all of the German automotive manufacturer's models would be approved using the new procedure on time on September 1, 2018. Some manufacturers responded to this by curbing their production. As a result, production in the automotive and automotive parts industry declined 8.0 percent in the third quarter on a sequential basis.

In the run-up to the transition from the old to the new test procedure, the number of newly registered passenger cars rose sharply until August 2018, only to fall even more sharply in September with a month-to-month drop of more than 40 percent. The extremely high volatility of German automobile production has had a noticeable impact on the supply industry and on the PWO Group.

The events in the automotive industry were clearly evident on a macroeconomic level. The German Federal Ministry of Economics estimates that the collapse in production is likely to have reduced gross domestic product by up to 0.4 percentage points in the third quarter of 2018 contributing to an overall decline in gross domestic product in the third quarter of 0.2 percent versus the second quarter. In the final quarter of 2018, new orders in the motor vehicle industry visibly recovered, and production had bottomed. The business climate for motor vehicle producers also became brighter by the end of 2018.

BUSINESS DEVELOPMENT

ORDER SITUATION

All of our locations during the past fiscal year successfully acquired orders across the Group's entire product range. Individual orders included a large volume order in Mexico for electronic control unit components and an order for instrument panel carriers in Canada.

We are also particularly pleased with a new large order for the production of seat components in Czechia. Starting in 2020, various seat components for a customer's platform concept will be manufactured there during a 10-year contract period. Due to the special requirements

of these components, a number of forming steps are required. This was part of the reason we were awarded the contract because of our expertise and strong reputation in the development and production of complex tools. Our exceptional delivery reliability and quality during the series runtime were also considerations in awarding us this contract.

The components are made of high-strength steel to save weight. To ensure the highest possible production speed, we will sometimes use parallel production to manufacture two of the components at the same time. Because we will be using high-strength steel for two of the tools, this will require a press with a press force of 2,500 tons. The addition will strengthen the market position of our Czech location, which functions as our performance center for seat components.

During the reporting year, we generated new business with a lifetime volume totaling roughly EUR 304 million, of which around EUR 24 million was related tool volumes. The start of production for our current new business is scheduled primarily in 2019 and 2020. Nevertheless, we are already looking increasingly at the time beyond this. For example, the new order in Mexico will begin in the 2021 fiscal year. The lifetimes of most of our recently won series orders tend to exceed the average production period of 5 to 8 years.

FINANCIAL SITUATION

OVERALL STATEMENT OF BUSINESS PERFORMANCE AND GROUP'S POSITION

After strong capacity utilization in the 2017 fiscal year, we were fully prepared for growth in 2018 and had adjusted our capacities accordingly. As a result, the abrupt decrease in the manufacturer's sales figures, without any early warning from changes in customer call orders, weighed heavily on us. This is all the more true as a whole list of large series productions are currently in the start-up and ramp-up phases and, therefore, their processes are not yet running at their optimum. The adjustments that needed to be made as a result placed a considerable burden on all of the Group's areas and have not yet been completed.

Nevertheless, these are tasks that need to be and can be solved internally, and we have already begun to vigorously address them. Everyone involved with the PWO Group is highly motivated to achieve a visible improvement in a short period of time.

We are in constant, constructive exchange with our long-term financing partners. Our fundamental market position in terms of our range of services, our material expertise,

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COMPARISON OF FORECAST TO ACTUAL BUSINESS RESULTS

	Actual results 2018	2018 forecast revised during the year	2018 forecast disclosed in 2017 Annual Report	Actual results 2017
Revenue	EUR 485.0 million	EUR 475 – 480 million	around EUR 500 million	EUR 461.0 million
EBIT before currency effects	EUR 19.6 million	EUR 18 – 19 million	EUR 25 – 26 million	EUR 23.4 million
Free cash flow	EUR 8.1 million	breakeven	significantly positive	EUR 4.3 million
Equity ratio	28.1 percent	largely unchanged	improved	28.7 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	3.1 years	largely unchanged	improved	2.8 years
Investment according to segment report	EUR 35.3 million	EUR 35 million	EUR 42 million	EUR 32.8 million
Lifetime volume of new business (series and tool orders)	EUR 304 million	will presumably exceed forecast	EUR 250 – 300 million	EUR 300 million

and our customer and country penetration, however, remains visionary and correct. We have always believed this and, in the past year, this belief was confirmed again by an independent external review.

Weak sales in the automotive industry prevented us from reaching our targets for the 2018 fiscal year. The forecasts from the 2017 Annual Report were withdrawn with an ad hoc announcement on October 19, 2018, and the new expectations were then specified with the announcement of the third quarter results.

In the final weeks of the reporting year, business performance exceeded our expectations, helping us to slightly exceed the revised forecasts for revenue and EBIT before currency effects. Due to the postponement of a large number of investments into 2019, we also achieved a significantly positive – and thus higher than previously expected – free cash flow despite the weaker EBIT. By contrast, the equity ratio and the dynamic leverage ratio could not be maintained at the previous year's level. The lifetime volume of new business, as communicated during the reporting year, slightly exceeded the range published in the 2017 Annual Report.

RESULTS OF OPERATIONS

We increased our revenue significantly in the reporting year. This rise came exclusively, however, from invoicing

upfront investment in tools, which had been largely completed in 2017 but not yet invoiced. In 2018, we were able to reduce our tool inventories again, which even brought total output to slightly below the previous year's level, reflecting the decline in the volume of higher-margin series revenues in the year under review.

The development of EBIT was influenced by currency effects, which are included in other operating income and expenses and reported as separate line items in the notes to this annual report.

Currency effects are usually attributable to the translation-related value depreciation of Group loans to finance our Chinese activities. As there are no economic risks associated with these translation effects, we hedge inter-company loans only to a limited extent. In the following explanations, we are referring to EBIT before currency effects, as this figure most clearly reflects our operating performance.

While our revenue growth was still in line with our plan for the first half of 2018 coupled with very high capacity utilization in some areas, the usual seasonal recovery after the summer break initially failed to materialize in September, and customers started to reduce their call orders for the months that followed. This was true not only for our ongoing production but also for our current

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2018	in % of total output	2017	in % of total output
Revenue	485,012	101.5	461,008	95.4
Total output	478,048	100.0	483,107	100.0
Cost of materials	265,207	55.5	272,859	56.5
Staff costs	127,229	26.6	121,203	25.1
Other operating expenses	53,569	11.2	56,810	11.8
EBITDA	42,737	8.9	44,956	9.3
EBIT before currency effects	19,611	4.1	23,358	4.8
Currency effects according to the P&L	-1,148	-0.2	-2,831	-0.6
EBIT including currency effects	18,463	3.9	20,527	4.2
Net income for the period	6,666	1.4	10,059	2.1

start-ups and ramp-ups. The measures taken to reduce costs shortly before the end of the fiscal year yielded only some improvement.

Nevertheless, we were already able to record visible cost reductions in the fourth quarter. Overall, other operating expenses, excluding currency losses, remained just below the previous year's level. Excluding the fees for external strategic consultation received early in the 2018 fiscal year, expenses would have declined even further. Profitability also benefited greatly from the reduction in the cost of materials ratio in the 2018 fiscal year, due to the lower year-on-year level of upfront investment in tools, as mentioned above.

Only a limited amount of adjustments could be made in the personnel area, however. This resulted in part from the high number of current start-ups and ramp-ups within the Group, which required more personnel. We had also lost some of our flexibility to make staff adjustment due to the current supplementary collective agreement at our Oberkirch location. As a result of these factors, the staff cost ratio in 2018 exceeded the previous year's level.

Profitability was positively affected, however, by an extraordinary effect from the conclusion of negotiations with customers, as well as an adjustment to the accounting of tool inventories. Overall, EBIT before currency

effects reached EUR 19.6 million in the 2018 fiscal year (p/y: EUR 23.4 million) and was well below the previous year's level. EBIT including currency effects amounted to EUR 18.5 million (p/y: EUR 20.5 million).

Next to a slight increase in financial expenses, net income for the period was also burdened by a significantly higher tax rate. This was the result of a tax audit at Progress-Werk Oberkirch AG, completed in the reporting year. Overall, net income for the period dropped to EUR 6.7 million (p/y: EUR 10.1 million) and earnings per share to EUR 2.13 (p/y: EUR 3.22).

SEGMENTS

The individual production locations are aligned with the Group's internal management and form the basis for the segment reporting by sales market. The segments are defined according to the locations of the Group's assets. Revenues are also allocated in this manner. The two plants in Mexico and Canada are included in the reporting segment North America (previously called the NAFTA Area).

Internal revenue between the individual locations pertains mainly to deliveries of series-related parts and tools. With respect to the current start-up and ramp-up of large-scale series productions of instrument panel carriers, tools are being manufactured and invoiced particularly by Germany, Czechia and Germany for other locations.

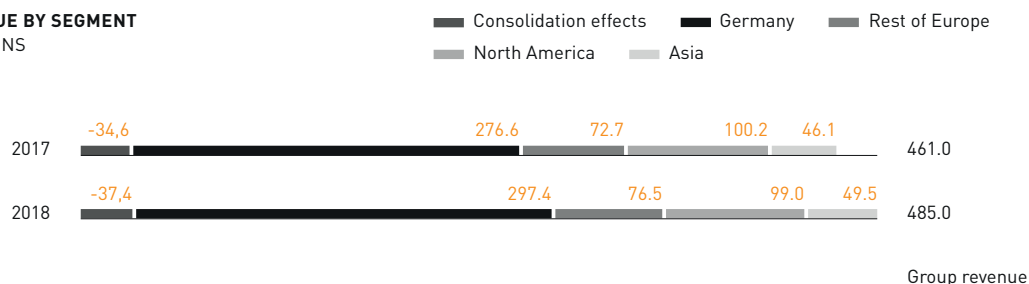
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SELECTED INFORMATION

EURk

	2018	in % of total output	2017	in % of total output
SEGMENT GERMANY				
Total revenue	297,398	105.5	276,620	94.6
External revenue	278,334	98.7	256,367	87.6
Total output	281,860	100.0	292,508	100.0
EBITDA	18,372	6.5	21,996	7.5
EBIT before currency effects	7,208	2.6	11,547	3.9
EBIT including currency effects	6,384	2.3	10,250	3.5
Net income for the period	8,839	3.1	6,739	2.3
Investment	11,640	--	12,062	--
SEGMENT REST OF EUROPE				
Total revenue	76,530	100.7	72,719	100.3
External revenue	69,517	91.5	68,399	94.4
Total output	76,000	100.0	72,482	100.0
EBITDA	11,718	15.4	12,188	16.8
EBIT before currency effects	7,170	9.4	7,659	10.6
EBIT including currency effects	7,188	9.5	7,685	10.6
Net income for the period	4,580	6.0	7,314	10.1
Investment	8,463	--	7,434	--
SEGMENT NORTH AMERICA				
Total revenue	99,018	93.0	100,216	97.3
External revenue	98,783	92.8	100,109	97.2
Total output	106,482	100.0	103,018	100.0
EBITDA	8,348	7.8	10,433	10.1
EBIT before currency effects	3,070	2.9	5,438	5.3
EBIT including currency effects	3,290	3.1	4,927	4.8
Net income for the period	479	0.4	1,807	1.8
Investment	10,112	--	9,315	--
SEGMENT ASIA				
Total revenue	49,488	95.8	46,106	92.0
External revenue	38,378	74.3	36,133	72.1
Total output	51,676	100.0	50,136	100.0
EBITDA	4,860	9.4	914	1.8
EBIT before currency effects	2,710	5.2	-797	-1.6
EBIT including currency effects	2,162	4.2	-1,785	-3.6
Net income for the period	169	0.3	-3,234	-6.5
Investment	5,118	--	3,951	--

TOTAL REVENUE BY SEGMENT IN EUR MILLIONS



Our home base in Oberkirch, which forms the Germany segment, gave a particularly clear reflection of how the market developed in 2018. At EUR 281.9 million, total output was below the previous year's level by a good 3 percent, or EUR 10 million. This poses considerable challenges for the location, which had already had unsatisfactory profitability in the past.

In light of this, we initiated further changes in our processes in the 2018 fiscal year on top of the cost-cutting measures that were already being implemented for a long time. In addition to reducing various expenses, increasing insourcing, reducing overtime and similar measures, we are concentrating on increasing the organization's efficiency due to restrictions of the aforementioned supplementary collective agreement.

Our aim is to achieve higher business volumes than to date with the existing team by optimizing processes. A key initial step in this direction is eliminating existing production process inefficiencies that mainly result from the current, complex start-ups and ramp-ups. The processes will also be checked in all other units of the Group. Increasing the profitability of this location, as planned, is challenging given the non-recurring extraordinary effects mentioned in the previous section, which brought relief to the Oberkirch location in 2018.

The financial result in the reporting year amounted to EUR 6.0 million (p/y: EUR 1.5 million) and contains not only financial expenses but also interest income from loans to subsidiaries as well as distributions from subsidiaries to the German parent company in the amount of EUR 7.0 million (p/y: EUR 2.3 million). Overall, net income for the period amounted to EUR 8.8 million (p/y: EUR 6.7 million).

Our location in Czechia, which forms the Rest of Europe segment, was able to record a gratifying increase in its revenue and total output last year and was less affected by lower call orders. The EBIT margin declined but remained at a high and very solid level.

In the 2018 fiscal year, the focus continued to be on reducing bottlenecks and safeguarding processes. Beyond this, however, we have already initiated our next extensive investment program. We will invest in a new forming press with a much higher press force than any previous press at the PWO Group and the related infrastructure. This press will enable us to use parallel production to produce sophisticated seat components made of high-strength steel for the first time.

Net income for the period amounted to EUR 4.6 million (p/y: EUR 7.3 million) based on virtually unchanged financial expenses of EUR 1.1 million and tax expenses of EUR 1.5 million (p/y: tax credits of EUR 1.0 million).

The North America segment consists of our two locations in Canada and Mexico. Both locations were affected by weaker than expected revenue in the reporting year, which had a corresponding impact on the EBIT. The situation at the two locations is still very different.

In Canada, series productions are phasing out as scheduled, but the start-up of new productions has been delayed by the customers. In the year under review, the trend could still be compensated in total output by a buildup in tool inventories. As a result, this location was forced to adjust its costs to the temporarily lower volume of business. Relying on the extensive experience and high process efficiency at this site, cost reduction will be made as best as possible.

In Mexico, the location's technological performance has continuously improved, and the stability of its processes has now reached a significantly better level. We are now satisfied with the location's current development and optimistic about continuing to increase its profitability.

The segment's net income for the period in the reporting year reached EUR 0.5 million (p/y: EUR 1.8 million). This figure includes financial expenses of EUR 2.5 million (p/y: EUR 2.2 million) and a reduction in income tax expenses to EUR 0.3 million (p/y: EUR 1.0 million).

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The Asia segment consists of the production site in Suzhou and the assembly site in Shenyang, which are both located in China. After a sharp increase in revenue in the previous year, the development of revenue and total output in the 2018 fiscal year was more moderate as expected. The efforts made in recent years to improve the profitability of our Chinese locations are now paying off and led to a visibly positive EBIT before currency effects of EUR 2.7 million, following an EBIT of EUR -0.8 million in the prior year. Our successful tool sourcing strategy made a major contribution to this performance.

Financial expenses amounted to EUR 2.0 million (p/y: EUR 1.4 million) in the reporting year. There were no taxes in the reporting year, and net income for the period improved to EUR 0.2 million (p/y: EUR -3.2 million).

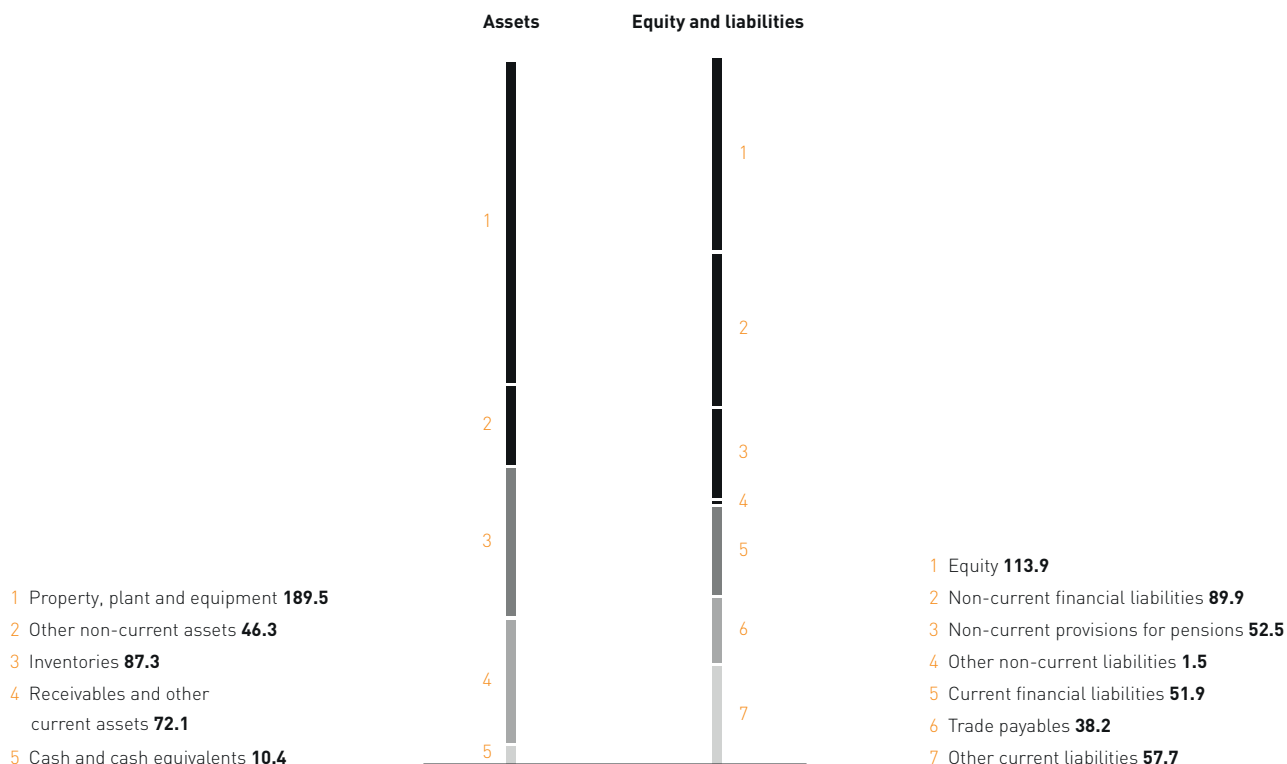
NET ASSETS

As of January 1, 2018, amendments came into effect in the form of newly applicable IFRS standards. The changes to the balance sheet that resulted from these amendments were recognized in equity as of January 1, 2018. In accordance with IFRS 15, some of the inventory was reclassified as contract assets.

Total assets increased to EUR 405.6 million in the 2018 fiscal year (p/y: EUR 393.7 million). There was an increase in non-current assets due to the aforementioned reclassifications resulting from IFRS 15 along with the ongoing investments in expanding our locations. Major investments were made in our sites in Germany, Czechia and North America. The focus of our investment is explained in detail in the section entitled "Financial position".

BALANCE SHEET STRUCTURE AS OF DECEMBER 31, 2018

TOTAL ASSETS: EUR 405.6 MILLION
IN EUR MILLIONS



Current assets, in contrast, were significantly lower than in the previous year. This was due to lower inventories from a reduction in upfront investments for tools. The reported decline however is exaggerated by the reclassifications undertaken in accordance with IFRS 15. Trade receivables were also lower than in the previous year.

By controlling our balance sheet, we were able to essentially maintain our financing structure. The equity ratio declined only marginally from 28.7 percent in the prior year to 28.1 percent. The dynamic leverage ratio amounted to 3.1 years (p/y: 2.8 years).

Net debt increased to EUR 131.4 million (p/y: EUR 125.9 million). Pension provisions and trade payables, our two other important refinancing sources, changed only marginally. We are pleased that – despite the reduction in tool inventories and receivables – the prepayments for tool orders exceeded the prior year's level.

During the reporting year, there was no substantial change in the structure of financial liabilities, which bear interest rates between 0.88 percent and 7.75 percent and

essentially consist of a syndicated loan and a promissory note consisting of several tranches. A few higher-interest bilateral loans still exist with fixed interest rates that are not scheduled to expire for another few years. The higher interest rates mentioned above are primarily on subordinate local financing of individual subsidiaries.

We remain satisfactorily positioned on the refinancing side. We periodically review our options to extend our existing agreements and plan the Group's medium-term financing in close cooperation with our financing partners.

FINANCIAL POSITION

Although net income for the period in fiscal year 2018 remained significantly below the previous year's level, the tight management of payments and proceeds resulted in little change in our cash flow from operating activities, which amounted to EUR 38.5 million in the reporting year (p/y: EUR 38.3 million). Whereas the increase in current assets still presented a burden of EUR 23.6 million in the previous year, the additional funds tied up in current and non-current assets decreased in 2018 (due to the reclassifications, these two items are viewed together) to

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DEVELOPMENT OF EQUITY RATIO AND DYNAMIC LEVERAGE RATIO

EURk		
	2018	2017
Equity	113,868	113,116
Total assets	405,607	393,725
EQUITY RATIO = EQUITY IN % OF TOTAL ASSETS	28.1	28.7
Non-current financial liabilities	89,851	91,320
Current financial liabilities	51,890	43,763
Cash and cash equivalents	-10,382	-9,195
NET DEBT	131,359	125,888
EBITDA	42,737	44,956
DYNAMIC LEVERAGE RATIO IN YEARS = NET DEBT / EBITDA	3.1	2.8

EUR 2.6 million. This was largely the result of the reduction in upfront investments in tools already explained. This was offset by the change in current liabilities (excluding financial liabilities), which amounted to EUR -2.9 million in the year under review (p/y: EUR 17.8 million). In 2017, the advance payments agreed with customers had led to considerable cash inflows.

We postponed our investments until 2019 as much as possible, particularly the investment planned in new forming presses, resulting in cash flow from this area of EUR 25.6 million (p/y: EUR 29.3 million). After interest paid and received of EUR -4.8 million (p/y: EUR -4.7 million), free cash flow amounted to EUR 8.1 million (p/y: EUR 4.3 million).

Including dividend payments of EUR 5.2 million (p/y: EUR 5.0 million) and the assumption of loans totaling a net EUR 1.7 million (p/y: EUR 13.5 million), the change in cash and cash equivalents amounted to EUR 4.7 million (p/y: EUR 12.8 million).

In 2018, no significant financing measures were undertaken. Securing sufficient liquidity for the PWO Group is always at the center of our financial management, and we manage our liquidity efficiently.

Substantial bank accounts balances are allotted on a daily basis to maintain a liquidity reserve and meet ongoing payment obligations. At the same time, we strive to limit the utilization of short-term credit lines as much as possible and offset them with excess liquidity. More information on the principles and objectives of our cash and financial management can be found in the notes.

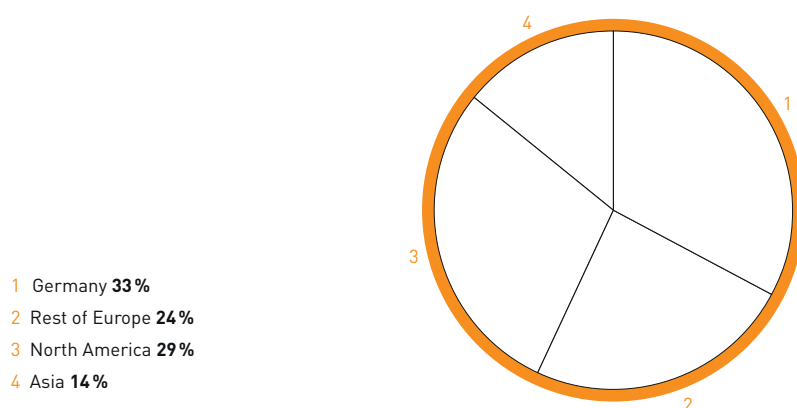
Purchase commitments from investments in property, plant and equipment amounted to EUR 17.5 million as of the reporting date (p/y: EUR 10.9 million). The commitments are due in the year 2019 and are to be financed from current operating cash flow and existing credit facilities.

As shown in the segment report, we invested a total of EUR 35.3 million (p/y: EUR 32.8 million) in the 2018 fiscal year. The difference to the cash flow from investing activities described above is a result of lease financing which is higher in the 2018 fiscal year than in other years, as a large proportion of the investments in the reporting year were made to purchase new forming presses. In this case, lease finance is often an attractive alternative.

Investments at our German location were slightly below the level in the prior year and amounted to EUR 11.6 million (p/y: EUR 12.1 million). Investments mainly related

INVESTMENTS IN 2018 BY SEGMENTS

100 % = EUR 35.3 MILLION



to prepayments for a new forming press, a new degreasing plant and manufacturing equipment for production of different series of instrument panel carriers.

Czechia was another focal point of investment with EUR 8.5 million (p/y: EUR 7.4 million) invested there in the year under review. By increasing our forming capacity, we are reducing capacity bottlenecks at this location, which is still operating at high capacity utilization.

Investments in North America increased to EUR 10.1 million (p/y: EUR 9.3 million). The Canadian site continued to require only a low volume of investment, while Mexico accounted for the greater part. Here we made necessary project-related investments including the purchase of a new forming press as we are preparing this site for further growth.

Investment in our two Chinese locations also increased to EUR 5.1 million (p/y: EUR 4.0 million). Most of the investment was made in our highly utilized production site in Suzhou, where we are rapidly expanding the press area and have added two new forming presses.

EMPLOYEES

The number of the Group's employees at the end of the 2018 fiscal year was not much different than in the previous year. In terms of individual locations, Czechia had the smallest change and in Canada, we filled only selected positions. In Mexico, however, the number of employees increased slightly in preparation for the future growth that is expected.

The two Chinese locations were able to achieve their output volume with a slightly lower number of employees. This highlights the success of the process improvements achieved at these locations, which has contributed to the sharp increase in our profitability in China.

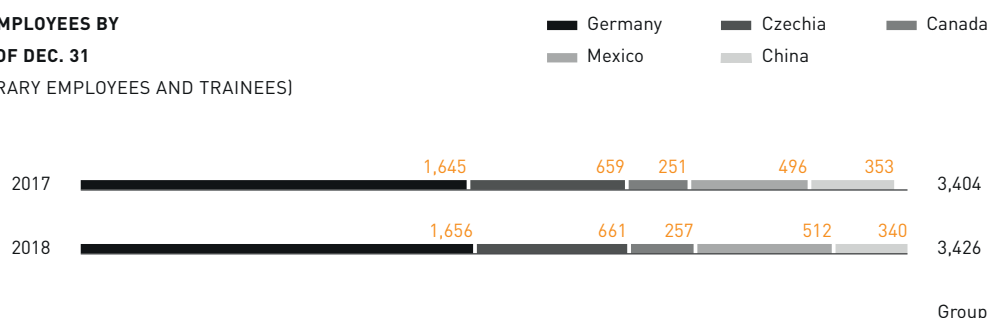
Although the total number of employees increased slightly year-on-year in Germany, there were significant fluctuations during the year as a result of declining call orders. Given the high level of capacity utilization at the beginning of the year and the need to support our foreign subsidiaries with their start-ups, in the first quarters of 2018 we had initially added personnel. Therefore, at the end of September 2018, we had 1,680 employees.

In the final three months of the fiscal year, we significantly changed direction and reduced the number of employees to 1,656 by the end of the fiscal year. This decline included employees who left this location and were not replaced, employees with fixed-term contracts that were not renewed, as well as temporary workers. The number

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**NUMBER OF EMPLOYEES BY
LOCATION AS OF DEC. 31**

(INCL. TEMPORARY EMPLOYEES AND TRAINEES)



of trainees, on the other hand, increased in the fourth quarter in line with the usual seasonal fluctuations.

In view of last year's lower earnings, we also promptly reduced our training and further education expenses to EUR 3.2 million compared to EUR 3.7 million in the prior year. This decline will only be temporary. We continue to invest heavily in our employees and, in this context, to diversify our management tools so that our employees feel appreciated on a daily basis and recognize that they are the

key to our success. Beyond offering a variety of services aimed at their personal well-being, we systematically and structurally provide them with a positive career outlook and support them in their professional development.

The staff turnover rate in the PWO Group continued to decline last year to 1.4 percent (p/y: 1.7 percent) as we were able to achieve a greater degree of stability in our workforce, especially at our locations in Canada and Mexico.

REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

RISK REPORT

RISK PHILOSOPHY AND RISK POLICY

PWO's risk management continues to focus on optimizing the Group's opportunity and risk profile and reducing risk-related costs as much as possible. This includes, above all, avoiding risks that may jeopardize the Company's viability, as well as the limiting and managing both strategic and operating risks.

Operational budget risks are routinely hedged. The hedges are always based on the underlying transaction. Speculative hedges are not entered into. Interest rate and currency forecasts are, as a rule, not part of our planning or management processes. Based on the market situation, corresponding forecasts from banks and our own estimates, we determine the measures necessary at an early stage and employ the appropriate hedging instruments.

PWO'S RISK MANAGEMENT SYSTEM

ORGANIZATION OF THE PWO GROUP'S RISK MANAGEMENT SYSTEM

The organization and reporting lines of PWO's Risk Management System correspond to the internationally accepted "Three Lines of Defense Model" recommended for stock corporations and required as a basic element by the European Confederation of Institutes of Internal Auditing (ECIIA).

It includes operational checks by risk owners, the review and monitoring of the control standards by independent units such as Internal Audit risk management and risk hedging. These three monitoring and control bodies report to the Management Board, who in turn reports to the Supervisory Board and its Audit Committee. Auditors, regulators and certification bodies check the system from an external perspective.

STATUS AND DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

Risks are generally defined as potential events that can lead to both a positive as well as a negative deviation to the plan. All risks are clearly assigned to owners and are assessed using scenario distributions with regard to the amount of damage and the probability of occurrence. They are reviewed and updated throughout the Group as part of the planning and extrapolation processes by all those

responsible. In this way, the stability of the planning is sustainably improved.

PWO risk management is continually being developed further and refined. In the three-year period from 2017 to 2019, we have been focusing on the ever-closer integration of risk management with planning, the expansion of project risk management, a more detailed display of the internal control system with a review of the existing processes, as well as the further expansion of business continuity management. In the 2018 fiscal year, the risk management system started monitoring non-financial risks as well.

COMPLIANCE MANAGEMENT AND INTERNAL AUDITING

Compliance is a high priority at PWO. As a globally operating Group, PWO has therefore established a Group-wide Compliance Management System (CMS) with its own Code of Conduct. The CMS is closely linked to the Risk Management System.

In the 2018 fiscal year, structures were specifically introduced to implement the requirements of the new EU General Data Protection Regulation. An anonymous whistleblower system was also implemented and non-financial compliance risks were documented by means of qualitative management surveys.

In addition, Internal Auditing monitors proper compliance with laws and policies in accordance with a risk-based audit plan. Internal auditing is set up in accordance with the rules and standards of the German Institute of Internal Auditors e. V. We also work regularly with external consultants to supplement our internal process knowledge with benchmarking experience.

CONTROL AND RISK MANAGEMENT IN THE FINANCIAL REPORTING PROCESS

The control and risk management in the financial reporting process constitute an integral part of group risk management in that all operating units are integrated by a precisely defined management and reporting structure. This structure has a clear separation of duties and applies the principle of double-checking.

Controlling and risk management are based on written principles, procedures, regulations and actions that were explicitly introduced for those purposes. Their compliance and proper implementation are reviewed by Internal Audit as part of its risk-based audit plan.

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The policies, procedures, regulations and actions are aimed at the following objectives:

- securing the effectiveness and efficiency of business activities, including the protection of assets,
- ensuring the accuracy and reliability of internal and external accounting,
- complying with applicable legal regulations, in particular, the compliance of the consolidated financial statements and the group management report with the respective standards.

The consolidated financial statements are prepared by qualified staff in a multi-step process with automated or manual controls embedded at all levels.

The PWO Group's IFRS accounting policies ensure that the companies included in the consolidated financial statements apply uniform accounting and measurement standards. Underlying these policies is a uniform Group-wide system of accounts. The operating units' business transactions are recorded in a uniform manner in an SAP-based booking system. The access rights for this system are clearly defined.

The following measures and controls are implemented, evaluated and developed regularly in a structured process to ensure the effectiveness of the entire organization, as well as the accuracy of the accounting and overall presentation of the consolidated financial statements including the management report:

- analysis of the regulatory environment and, if necessary, integration of new laws, accounting standards and other official pronouncements in the process,
- identification and analysis of the essential areas of risk and control,
- monitoring and plausibility checks to oversee the processes and their results at the level of the Management Board and the operating business units,
- preventive control measures in finance and accounting, as well as the essential operational business processes for accounting,
- measures to ensure the proper, complete, and timely IT-based processing of accounting-related matters and data,

- measures to monitor the accounting-related control and risk management systems, as well as to overcome any weaknesses in control,

- documentation of the control process.

DEVELOPMENT OF THE OVERALL RISK POSITION

The overall risk position for the PWO Group increased in the 2018 fiscal year – also in terms of the forecasts for 2019. Although there was no addition of any significant new risks, the automotive industry was forced to adjust to a much weaker sales situation in 2018 that we believe will also impact the 2019 fiscal year. This environment resulted from a cumulation of a wide variety of influential factors.

These factors include the diesel issue and the resulting driving bans in cities, the discussion about the possible acceleration of the transition to electric drives for motor vehicles, the switch to the WLTP test cycle, political risks from possible trade wars and, last but not least, weaker demand in the Chinese sales market. The sum of these factors caused uncertainty among end customers, leading to postponements and changes in purchasing decisions. This resulted in an increase in the volatility of call orders for systems and components on the part of automotive manufacturers. Consequently, we are currently assigning a higher weighting to market risk rather than performance risks, especially in terms of near-term risks and opportunities.

The change in the ranking of the individual risk categories is clearly and conveniently shown in the table below. Overall, the Management Board is convinced that all of the necessary measures have already been taken and that the increase in risk for the Group are manageable and, in our view, do not pose a threat to the Group's continued existence.

The following report contains our statements concerning individual medium-term risks and opportunities.

PRESENTATION OF RISKS AND OPPORTUNITIES MAINLY HAVING A SHORT-TERM EFFECT

The following presents the major risks and opportunities for our 2019 operating planning based on the scenario assessment and taking into account any risk mitigating measures. We continue to classify risk in the following risk categories: financial, performance, market, regulatory and other risk. The order of the risk categories and the order of the highest respective individual risks within each category presented below, reflect our current assessment of the relative level of risk in descending order.

OVERVIEW OF RISK SIGNIFICANCE FOR THE RISK CATEGORIES

Risk	Risk significance (net expected value)	Y-o-Y change in the risk ranking
Market risk	High	Increased
Performance risk	High	Decreased
Financial risk	High	Unchanged
Other risk	Moderate	Increased
Regulatory risk	Low	Decreased

Our business is characterized by long-term contracts. New orders sometimes require lead times of several years. During the series lifetime of 5 to 8 years, customers usually stay with the same supplier. On the one hand, this aspect of our business contributes to our planning certainty; on the other hand, it limits our short-term opportunities. Therefore, in terms of our operational planning for the year 2019, the risks outweigh the opportunities.

All individual risks are evaluated according to their impact (amount of loss in relation to EBIT) and their likelihood of occurrence during the planning period. The sum of the net expected values of the individual risks of a particular category yields their net expected value. Portfolio and correlation effects are not taken into account. The risk significance of the individual categories is defined in the table below.

MARKET RISK

Fluctuations in Customer Calls Orders (Sales Volume Fluctuations)

Sales fluctuations can lead to utilization risks. For existing orders, fluctuations can result from declines in demand from end customers – which we currently see more than usual. In our business, when it comes to new orders, we also need to keep in mind that vehicle manufacturers are known to change the schedules for start-ups. In the 2019 fiscal year, our Canadian site will be affected by this.

Last but not least, short-term declines in call orders also occurred recently due to a changing and increasingly abrupt behavior of customers. This can lead to interim underutilization. This is currently placing additional demands on our planning and on the elasticity of our operational processes.

Because of the long-term nature of our business, we can only compensate for a reduction in capacity utilization by

making adjustments to our costs. At the German location, this is more challenging due to the supplementary collective agreement in effect that includes an agreement to safeguard jobs. Accordingly, we have taken extensive measures in many areas to secure the location's profitability even in the current market environment. These specifically include fixed target agreements for cost savings, the achievement of which is closely monitored.

It is also more difficult for all locations to adapt to abrupt periods of peak capacity. Although we are not obligated to deliver above a contractually agreed range, we still make every effort, as a reputable partner to the automotive industry, to deliver to our customers with the same level of reliability as usual.

Risk of Price Declines

The unwavering increase in competition and price pressure is one of the inherent risks of the automotive supply industry. This risk fundamentally affects the profitability of the PWO Group. Currently, we do not see any increase in price risk beyond the customarily high level in our business. Nevertheless, in periods of weaker profitability, it is always expected that automotive manufacturers will try to pass on part of their margin pressure to the supply chain.

Our innovative strength and global delivery capabilities give us a good starting point for regular negotiations with our customers. Nevertheless, it is still necessary to constantly increase the efficiency of all operational processes at all locations and, in addition, generate a visible increase in revenue every year to secure our profitability.

Raw Materials

The raw materials required for our production processes are steel and, to a much lesser extent, aluminum. So far, there have not been any supply risks, and we do not expect any to arise in the future.

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DEFINITION OF RISK SIGNIFICANCE

Description	Net expected value Risk category	
	In % of the EBIT projected for 2019 of EUR 18 to 19 million ¹	In EUR millions
Low	≤ 5 %	≤ EUR 0.9 million
Moderate	> 5 % and < 15 %	> EUR 0.9 million and < EUR 2.8 million
High	≥ 15 %	≥ EUR 2.8 million

¹ Based on the mid-point of the forecast range of EUR 18.5 million.

We also do not see any particularly pronounced risk in passing on rising commodity prices. So far, we have been able to pass on price increases in raw materials either directly to our customers via escalation clauses, or we have come to mutually acceptable agreements with them. We are confident that we will also be able to continue to do this in the future. Even closer interaction between sales and purchasing should also help us achieve this.

PERFORMANCE RISK

Business Interruption in Production

Business interruption risk results mainly from damage to a manufacturing line or tool or their failure. Depending on the extent of damage and the duration of the failure, this can prevent timely delivery to our customers. This risk category also includes necessary short-term relocations due to bottlenecks. The risk of a complete site failure, however, can almost be ruled out. The significance of these risks has recently increased in general as a result of the increased volatility of customer call orders. This particularly applies to production areas where our processes have not yet reached the required stability.

In order to limit risks, the PWO Group has effective business continuity management (BCM), which encompasses a very wide range of individual measures, in the event of business interruptions. In addition, further measures are planned for 2019 to ensure that the BCM keeps pace with any changes in requirements. These risks also currently have a high priority at the management level, which is why we are able to react quickly when necessary.

Start-Up and Ramp-Up Risk

The start-up and ramp-up of new series production carry a number of risks. First of all, we have to make upfront investments, for example, by providing adequate capacity. This results in utilization risk. The tools required for

production must also be designed, manufactured and tested. This results in cost risk. Last but not least, during start-up and ramp-up, production goes through a so-called learning curve until the expected profitability is achieved.

Presently, all of our locations, with the exception of our site in Canada, have large-scale series production with sometimes a very high degree of complexity in the start-up or ramp-up phase. New start-ups will get underway 2019. These start-ups will not only place a strain on our technologically even less mature locations in China and Mexico but also on the German location, which provides support to our subsidiaries.

A significant number of new start-ups concerns instrument panel carriers, which consist of an above-average number of individual parts. The start of series production of all these components with the corresponding test runs of the numerous tool sets continues to make heavy use of our human resources.

We have assembled dedicated start-up teams of experienced professionals to help limit the resulting temporal and economic risks. They accompany the start-ups and ramp-ups beyond the customary coordination of the locations. We are also increasingly fine-tuning our project management and, in the medium term, believe that this should result in visible earnings opportunities, which are explained in the corresponding section below.

Quality, Product Liability and Recall Risks

The quality requirements in the automotive industry, which are already high, continue to increase significantly. Quality risks also tend to rise with increasing capacity utilization and sudden changes in customer call orders. Product liability risks and risks arising from product recalls in the automotive industry have also risen steadily in recent years.

We limit these risks with our longstanding and certified quality management system. The effectiveness of our system was reaffirmed in 2018 – and again in Oberkirch at the beginning of 2019 – with the successful completion of the new certification under the new IATF 16949 standard, which sets out the essential requirements for quality management systems for series as well as spare part production in the automotive industry.

In addition, we are continually expanding the scope of testing for our components – particularly within the scope of various digitization projects – and documenting their flawless quality before they leave the company. In doing this, we want to make sure that any defective components are recognized even earlier in the production process than before. We also want to ensure that there is complete traceability of every single component, so that possible errors can be assigned at the level of the individual batches, as well as at the container level. Further to this, we have taken out insurance for liability risks from recall campaigns.

FINANCIAL RISK

Impairments

The risk of an impairment of non-current assets exists particularly when plan targets have not been achieved, the earnings outlook deteriorates or the discount rate applied to future expected cash flows increases.

These risks particularly affect our subsidiaries in Mexico and China. Both companies have very positive sales and earnings outlooks for the years ahead as a result of the current start-ups and ramp-ups of series productions and the high volume of new orders. Still, they will need to seize these opportunities and actually realize the profits.

While the Mexico location is now well on its way, the Chinese production site is still facing some risk due to its smaller size and not yet sufficiently stable production processes. We believe the measures initiated will keep all these risks under control. Our internal planning therefore confirms the carrying amounts of our assets.

Financing and Interest Rate Risk

Sufficient funds are available to finance our current business and planned investments. We counter interest rate risks by balancing our long-term and short-term funding.

For the syndicated loan and the promissory note, we have agreed to the customary financial covenants. In the case of the syndicated loan, these covenants provide for a reduction in the dynamic leverage ratio in the 2019 fiscal year compared to 2018, which represents a challenge

for the Group's balance sheet management and for the monitoring of the measures taken to increase profitability. The management has therefore placed its focus here, and we are convinced we will be able to manage the Group well and securely in close cooperation with our financing partners through the currently volatile market phase.

At this time, we do not see any risk that financial institutions will not fulfill their obligations in connection with the investment of liquid assets or as counterparties to derivative financial assets.

Currency Risk

All of the PWO Group's locations are subject to currency risk in terms of translation risk (translating the subsidiaries financial statements in euro) and transaction risk (sales and procurement). The Group's main currencies are the euro, Canadian dollar, US dollar, the Czech koruna, the Mexican peso and the Chinese renminbi.

We use hedging to avoid these risks with the aim of securing currency parities and thereby the expected contribution margins when entering into contracts. We only partially hedge the translation risk of the loans provided by the parent company to foreign locations because the loans' associated currency fluctuation does not represent an actual economic risk.

Currency fluctuations do, however, affect the reported EBIT and the earnings before and after taxes, which in turn affects the Group's valuation. We have therefore started to replace our existing intercompany loans at the Chinese location – which typically fluctuate the most – with loans in renminbi and hedge these out of Germany. We will continue to do this going forward in an economically viable way. For more information about the risks associated with financial instruments, please refer to the notes of this annual report.

OTHER RISKS

Contributions to Social Security Agencies

Private sector enterprises are classified by employers' liability insurance associations according to tariff classes that are responsible for helping to determine the annual contributions. Among others, these classifications are based on the average risk of accidents; in other words, the insurance risk. For the year 2019, we received a new assessment notice placing us in a higher classification. Since neither the risk situation nor the number of actual accidents at PWO has increased in recent years, we have objected to this assessment and are confident that we will be able to attain a more favorable classification.

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Availability of Skilled Personnel

The timely availability of skilled personnel with adequate qualifications and in sufficient numbers is a particular risk. Currently, there are bottlenecks in the areas surrounding all of our locations. Furthermore, in Germany and Czechia, it is already difficult at times to recruit unqualified employees. The capacity bottlenecks that result have an effect on our performance risk.

This risk has continued to increase as a result of the additional demands being placed on employees from weaker and more volatile sales in the automotive industry. However, due to the extensive hiring freeze at the Oberkirch location, this risk has been reduced temporarily.

To reduce our risks, we try to plan for and manage our staff for the long-term and do this as early as possible, for example, through training, comprehensive further education and the qualification of our employees. We also manage our risks across the Group through broad-based recruitment and employee retention concepts, which are continually expanding. Our aim is to offer employees attractive options for their personal and professional development and always let them know they are appreciated. We believe that this is how we can successfully differentiate ourselves from the competition in our search for skilled workers.

IT Risk

Open IT structures that make processes available worldwide and at the same time ensure the confidentiality of information and data security, are now one of the basic prerequisites for lasting corporate success. For years, we have been committed to the consolidation of all IT services in a PWO Private Cloud. We are also continually developing our certified information management system (IMS) at our Oberkirch location. The processes and structures established in this context are implemented at the subsidiaries as required.

REGULATORY RISK

Compliance Risk

We counter compliance risks with our compliance management system, which was presented at the beginning of this Risk Report. We control the risk of possible patent infringements closely through the longstanding product and industry expertise of our employees and our cooperation with an external patent attorney. As in the prior year, there are no current disputes.

On May 25, 2018, the EU General Data Protection Regulation entered into force. We have completely and carefully prepared for the additional requirements under this regulation and have reduced our risks in this area accordingly.

Risks from the Tax and Political Environments

German tax law is indeed one of the most complex areas of the law, which is all the more true the more a Group is internationally intertwined. It follows that the Group's tax risks are generally increasing with its international activities as is the risk of additional tax payments resulting from routine tax audits. We have been able to reduce our existing risks with the completion in the reporting year of PWO AG's most recent tax audit. A variety of measures in this area are intended to further improve our risk management in the future.

With the conclusion of the new United States-Mexico-Canada Agreement (USMCA) at the government level, the regulatory risk of the failure of these negotiations has also now diminished. The political risks for the global economy have increased, however, as the policies of individual governments are increasingly influenced by actual or perceived short-term benefits. This inclination places even today's global trade system under pressure, not only in the form of concrete economic risks such as a potential trade war between the US and China and the import tariffs on automobiles currently being considered by the US government but also by creating an overall heightened uncertainty that paralyzes global economic development.

Just as important for the risk environment is the complete lack of clarity surrounding the structure of Britain's exit from the European Union. Both an unregulated exit and a postponement of the exit, and even a second referendum are currently conceivable. PWO has only a limited number of direct and indirect customers in this country. Great Britain is, however, the largest importer for the German automotive industry so that an impact on the industry overall is to be expected, which could be a very serious one. The decline in new car sales in Great Britain of almost seven percent in the past fiscal year, clearly shows the uncertainty among British consumers. Last year's decline represents the largest decline since the 2008 financial crisis and is already the second decline in a row. A burden on the macroeconomic flow of goods between the European Union and the United Kingdom is also expected.

In addition, Mexico and China, two sites where we have invested heavily, are countries with less stable political, social and legal conditions than, for example, in Europe.

We limit these risks by carefully scrutinizing the legal and regulatory framework before making any major decisions. We also work closely with experienced consultants to prepare ourselves for any potential developments.

PRESENTATION OF RISKS AND OPPORTUNITIES HAVING A PREDOMINANTLY MEDIUM- OR LONG-TERM EFFECT

The following provides an overview of the Group's strategic risks and opportunities in the medium-term, which is defined as a period within at least three years. The order of presentation in the section reflects our momentary assessment of their relative importance for the PWO Group.

IMPROVING COMPETITIVENESS THROUGH ADAPTATION OF INTERNAL PROCESSES

Price and performance pressure on automotive suppliers is continuously increasing and requires us to continually adapt our structures and internal processes to ensure our current orders are profitable and that we stay competitive when bidding in tenders. Accomplishing this requires adapting the Group's organizational structures and the stability and efficiency of the production processes. The recent market weakness has increased the pressure to take action. If the sales figures of the automotive industry do not significantly recover, then this poses a considerable risk to the Group's profitability.

To address this risk, we have greatly increased our efforts to raise profitability this past fiscal year. Meanwhile, the entire organization has a renewed and tremendous awareness when it comes to costs. The success of the measures already initiated is monitored on a systematic and timely basis. Additional measures are consistently requested by the respective departments and especially across departments along the entire process chain. We are therefore confident that we will not only be able to secure the profitability of the PWO Group over the next few years despite the increasing challenges but also to significantly increase it.

REGIONAL EXPANSION

Through our five production locations, we are positioned in all relevant markets. Measured by market size, however, we are far away from exhausting our growth potential in

Mexico and China, in particular. This is why we continually explore the options available to us to expand our footprint and unlock further substantial market potential.

To do this, we continue to favor the construction of assembly locations in all countries. In China, we are also likely to build a new production site in the medium term, as there is no further room to grow at our current location. Our goal is to first complete our present orders at the current location and then to construct a new location for future growth. Beyond this, we are not excluding the possibility of adding more production capacity in another region in China.

Our ongoing regional expansion involves both costs and risks. Still, we stand to gain even more from the growing tendency of automotive manufacturers placing their focus more on those suppliers with a global reach.

DEVELOPMENT OF HIGHLY EFFICIENT PRODUCTION PROCESSES

Permanent product and process innovation is the key factor in securing and expanding our competitive position in the industry. Our customers need product solutions with persuasive technology to be able to comply with the ever-growing regulatory requirements to reduce the environmental impact caused by vehicles. We are able to profitably translate these solutions into innovative and efficient processes. We also speak the language of our customers, so we can make commitments that last throughout an entire development and manufacturing cycle. This is the foundation of our long-term success.

DEVELOPMENT OF LONG-TERM DEMAND

With our product and service portfolio, our innovative strength, and our global presence we are well positioned to simultaneously take advantage of multiple demand trends in the automotive industry.

Energy-Saving Mobility and Electromobility

One of the essential challenges to today's automotive industry is reducing the weight of the vehicle's components to lower fuel consumption. We will continue to exploit the opportunities in this area that arise as a result of our leading expertise in lightweight construction.

Here we are very successful with our concept of cost-optimized lightweight construction. We expect the share of weight-reduced parts and components to continue to grow

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significantly over the next few years, which will present us with opportunities to grow our market share.

Currently, we are not faced with any risks to our production range from increased electromobility or the potential full conversion to this type of drive system currently in discussion, since only very few of our solutions can be used exclusively for vehicles with internal combustion engines.

On the contrary, increasing e-mobility creates additional opportunities for the near future, because hybrid drives will be necessary as a bridging technology for the gradual switch to electromobility. These not only require previously installed components but also those for the electric drive. The necessary coordination of the two separate drive technologies also requires new and much more complex solutions, which could translate into additional orders for PWO.

We are working under the assumption that the changeover phase to electromobility will require a longer period of time because the establishment of a recharging infrastructure and the discussion of all related issues in many European countries have barely taken off.

The opposite would be the case if, in the course of increasing electromobility, many small providers gained a foothold in the market and jeopardized the position of today's mass producers. However, because our strength lies in mass production, we do not expect to see such a shift in the market.

More Automotive Comfort and Safety

Increasing comfort and higher safety in the automobile continue to be key requirements for vehicle buyers. We concentrate our product solutions mainly in these two areas. For example, when it comes to vibration reduction through instrument panel carriers and components for the increasing number of electrically driven functionalities or safety-related performance features such as the higher absorption of energy in the event of an impact.

The trend toward partially or fully autonomous driving also means additional degrees of freedom for drivers and passengers. This means the demands on a vehicle's equipment will continue to rise, and new concepts will

be developed for vehicle interiors, resulting in even more complex requirements for the necessary components and subsystems. With our extensive expertise in the forming of high-strength steels, we are already excellently prepared.

Development of the Customers and Competitive Environment

The high capital intensity of the automotive industry, increasing competition in global markets and the ever-growing CO₂ reduction requirements are forcing globally operating automakers to increasingly use outside expertise and obtain substantial portions of their value chain from suppliers. We are confident that we will be able to benefit tremendously from this trend through our innovation, proven delivery quality and reliability and our global delivery capabilities.

This could be counteracted by a stronger trend toward insourcing if jobs were to be lost to a greater extent by digitization in the manufacturers' production facilities or by a faster than expected switch to electric drives in their engine plants. However, this would require a significant amount of additional investment in forming capacities and in the specific skills of employees. Presently, there are no signs of such a development.

Tool Sourcing from China

In the course of preparing for the start-up of new major orders for instrument panel carriers, we have recently been able to source a substantial number of tools from China and profited from the lower price levels. We intend to continue and expand this strategy. The development thus far makes us confident that we can exceed our medium-term expectations. We, therefore, see greater opportunities than risks for our earnings development in this area over the next few years.

Development of Currency Exchange Rates

Hedging instruments against currency fluctuations are generally not available for the entire duration of series production. The effect of hedging transactions can be extended by roll-overs beyond the term of the individual transaction. There still may be some fundamental changes in exchange rates over the medium term for the PWO Group's key currencies. This can result in both risks and opportunities for our earnings development.

REPORT ON FORECASTS AND OUTLOOK

EXPECTED GENERAL ECONOMIC AND INDUSTRY DEVELOPMENT

According to the IMF, the global economic upturn will continue at a slower pace in 2019, resulting in lower than previously expected growth rates, which had still been based on a continuation of the performance seen in 2018 (3.7 percent). The IMF also refers in detail to the existing political risks to world trade, the unresolved issues surrounding Brexit and a number of other fiscal risks.

In its update from January 2019, the IMF significantly reduced its expectations for the current year for the eurozone, and Germany in particular. Real global growth is now expected to be 3.7 percent in 2018 and 3.5 percent in 2019.

In 2019, the global economic growth drivers are expected once again to be the developing countries and the United States. The positive effects of the US tax reform in 2018 are expected to last into 2019 before they lose their influence later in the year. According to the IMF, US GDP is therefore projected to continue to grow significantly more than 2.0 percent (IMF estimate: 2.5 percent) in the current year, after growing 2.9 percent in the prior year, before slowing down. The development in the emerging markets in 2019 will remain close to the prior year's level, whereas the Chinese economy is expected to settle at a comparatively moderate level of 6.2 percent.

The IMF expects lower growth rates in Europe, and especially in Germany (1.3 percent in 2019 after 1.5 percent in 2018), Italy (0.6 percent after 1.0 percent) and Spain (2.2 percent after 2.5 percent). The German Federal Ministry of Economics also adjusted its expectations for the German economy downwards at the end of January 2019. In its Annual Economic Report 2019, the ministry is assuming real growth of only 1.0 percent. Domestic demand is to remain the pillar in the eleventh year of the German economic upturn. The domestic economy is expected to lose some of its momentum, however, as a result of the slowdown in investment in equipment, meaning that the negative impact of external trade in 2019 will be even stronger than in the previous year.

At the moment, though, the development in Germany remains mixed and thus difficult to assess. While the figures for the Ifo Business Climate Index for January had even signaled a general economic downturn in Germany, consumer confidence rebounded recently based on the continued strengths in the labor market, the ongoing shortage of skilled workers and the associated expectation of rising wages. According to the IMF, in 2019, France will continue its recent development (1.5 percent in 2019 after 1.5 percent in 2018), and the overall growth in the eurozone will continue to slow to 2.0 percent.

The general economic uncertainty caused by Brexit will remain a determining factor for the British economy in 2019 as well. The below-average growth rate of 1.4 percent last year is unlikely to pick up this year, based on this year's growth forecast of 1.5 percent.

In 2019, the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA) expects the global passenger vehicle market to grow by 1 percent to a total of 85.9 million units. The pan-European passenger car market is also expected to rise 1 percent to 15.8 million units. Great Britain, on the other hand, is expected to continue to experience difficult market conditions. Light vehicles in the US market are expected to reach 17.2 million units, which is a similar level to the prior year. The growth pause in China is not expected to continue, and after a decline of 1 percent to 23.9 million passenger cars in 2018, the VDA expects slight growth of 2 percent to 24.4 million units in the current 2019 fiscal year.

In Germany, after almost no change in new registrations in 2018, the VDA expects a decline of 1 percent to just under 3.4 million units in 2019. Domestic passenger car production is expected to rise again in 2019 by 2 percent to a solid 5.2 million units, after the drop of 9 percent in 2018 to just over 5.1 million units. After a decline of 8 percent to 4 million units in 2018, car exports are also projected to increase by a minor 2 percent to 4.1 million in the current year. German manufacturers' foreign passenger car production, in contrast, increased by 5 percent in 2018 to a volume of around 11.4 million units. From this base, a further increase of 3 percent to 11.7 million units is expected for 2019. As a result, there is a chance in the current 2019 fiscal year that the global automotive

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production of the German brands will reach 17 million units for the first time after 16.5 million units in 2018. Similar to the IMF, the VDA is also basing its forecasts on the assumption that there will be no further escalation in the risks related to the current global trade policy.

BUSINESS DEVELOPMENT AND FUTURE DIRECTION DEVELOPMENT OF THE PWO GROUP

Our 2019 plan assumes that the Group's scope of consolidation will remain unchanged. Our planning is also based on detailed individual assessments of the volumes of current series productions and the upcoming and start-ups, ramp-ups and phase-outs.

Due to the current volatility seen in customer call orders, the forecast for the 2019 fiscal year is subject to heightened uncertainty. We are also currently assuming that the overall subdued market development in the second half of 2018 will continue in 2019. We do however expect various new start-ups and ramp-ups to contribute to stable revenue and EBIT. Based on this assumption, we expect revenue in 2019 to amount to EUR 480 to 490 million and EBIT before currency effects in the range of EUR 18 to 19 million.

In terms of the performance of our locations, we expect total output to significantly decline in Canada due to later than originally planned start-ups of new series productions and a reduction in upfront investments for tools. The remaining locations combined are expected to compensate for this and essentially meet or surpass their current levels of total output.

EBIT before currency effects is expected to be in the range of EUR 18 to 19 million in 2019. At the German location, the cost-cutting measures that have been initiated will gradually take effect. Due to our limited ability to make adjustments in our number of employees, as well as the non-recurrence of the positive one-off effects of the prior

year in the 2019 fiscal year as described in the section "Results of Operations", this turnaround can only take place at a gradual pace.

In China, we expect a further improvement in EBIT, and in Mexico we expect to see a significant increase in EBIT now that this location has achieved such a satisfying level of performance. This improvement, however, will be offset by a visible slowdown in EBIT in Canada. The location in Czechia may also see a slightly lower EBIT in the 2019 fiscal year compared to 2018.

INVESTMENTS

To maintain the balance sheet at a steady level, we will limit our investments – particularly those in forming presses – to the greatest extent possible in the near term and are, therefore, planning an investment volume for 2019 for the Group that is only slightly above the volume invested in 2018. After the recently low level of investment in Germany, it is planned to return to a higher level of investment in 2019. In contrast, we may temporarily reduce our investments in other regions such as China and Mexico.

In addition to the requirements for the series start-ups currently planned, we are keeping the PWO Group's medium-term market position in mind and will continue to budget our investment over a three-year period. For our long-term growth, we are currently estimating an investment volume of around EUR 110 million over the next three years.

NET ASSETS AND FINANCIAL POSITION

In light of the subdued growth expected in revenue and total output and the moderate improvement forecasted for EBIT, we are placing our emphasis on controlling all balance sheet items in addition to limiting capital expenditures. We still intend to generate positive free cash flow and,

consequently, achieve a slight improvement in the equity ratio and the dynamic leverage ratio compared to 2018.

ORDER SITUATION

The development of our new business depends on the time we receive the orders from our customers and, therefore, typically fluctuates significantly from year to year. After two very strong years in 2015 and 2016, when we won all the tenders and key orders for the production of instrument panel carriers, the years 2017 and 2018 brought two years of lower volumes. Now, in 2019, we are seeing more potential in the market for new orders and are therefore targeting new business in 2019 of around EUR 400 million. Developments over the past few years and our 2019 targets underpin our medium-term growth plans.

DIVIDEND POLICY

We intend to continue our shareholder-friendly dividend policy and to generally propose increases only when we are likely to be able to maintain that level of distribution in the years thereafter. Our shareholders should also benefit from rising net income in the form of higher dividends. To secure the future expansion of the PWO Group, we plan to gradually reduce the payout ratio in the future.

OVERALL STATEMENT ON FUTURE DEVELOPMENT

In view of the current weakness and uncertainty in the development of the automotive industry in the coming quarters, we are turning our focus even more toward strengthening our profitability through internal measures. We are convinced that with this approach and our highly qualified workforce, we will be able to safely steer the Group through the current market phase.

A wide-ranging cost reduction program and comprehensive process optimization were launched throughout the entire organization during the past fiscal year. Additional potential was identified and pursued with a strong commitment.

This path will be supported by the achieved and foreseeable improvements in the performance of our locations in China and Mexico, and as a result of the ramp-up of major cross-member orders at all locations, which will gradually reach their period of profitability after their complex start-up phase.

DEPENDENCY REPORT

With respect to the legal transactions and measures described in the section on related parties and based on the circumstances known at the time, the transactions were executed or measures taken or not taken, our Company received appropriate compensation for every transaction and was not disadvantaged by any of the measures taken or not taken.

TAKEOVER-RELATED DISCLOSURES PURSUANT TO SECTIONS 289A (1) AND 315A (1) HGB

The information required under Sections 289a (1) and 315a (1) HGB is detailed and explained below.

The share capital of PWO AG is EUR 9,375,000.00 and is divided into 3,125,000 no-par value bearer shares. They carry identical rights and convey one vote each at the Annual General Meeting. Reference is made to the provisions of the German Stock Corporation Act regarding the rights and obligations related to the holding of shares.

There are no restrictions on the voting rights or the transfer of shares, and the Management Board is not aware of any

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such arrangements agreed between shareholders. There is no participation of employees who do not exercise their control rights directly.

Consult Invest Beteiligungsberatungs-GmbH, Böblingen, Germany, has notified us of its interest exceeding 10 percent of the voting rights in PWO AG. As of December 31, 2018, it held 46.62 percent (p/y: 46.62 percent) of the voting rights and is the main shareholder.

The appointment and dismissal of the members of the Management Board are governed in accordance with Sections 84 and 85 AktG in conjunction with Section 6 of the Articles of Association of PWO AG.

Pursuant to Section 179 (1) and Section 119 (1), No. 5 AktG, each amendment to the Articles of Association requires a shareholder resolution of the Annual General Meeting. In deviation from Section 179 (2), sentence 1 AktG, Section 15 of the Articles of Association provides the adoption of resolutions on amendments to the Articles of Association by the Annual General Meeting by a simple majority of the voting capital if a larger majority is not legally required. The Supervisory Board is authorized to adopt amendments to the Articles of Association that relate only to their wording.

Subject to the consent of the Supervisory Board, the Management Board is authorized to increase the Company's share capital once or several times by up to a total of EUR 4,687,500.00 (Authorized Capital 2015) by issuing new no-par bearer shares against contribution in cash and/or in kind until and including the date of May

18, 2020. Generally, subscription rights must be granted to shareholders. Further details of the authorization are contained in the resolution of the Annual General Meeting of May 19, 2015.

In the case of a change in control resulting from a takeover offer, no other agreements have been made except for the usual extraordinary rights of termination contained in credit agreements and agreements with customers. Compensation agreements that favor the Management Board or employees do not exist.

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289F AND 315D HGB

The Corporate Governance Statement of PWO AG is part of the corporate governance report, which is published on the Company's website under <https://www.progress-werk.de/en/group/corporate-governance/>.

NON-FINANCIAL GROUP STATEMENT PURSUANT TO SECTIONS 289B, 315B-C HGB

The non-financial group statement was published in the form of a separate non-financial group report at <https://www.progress-werk.de/en/group/corporate-governance/>.

REMUNERATION REPORT

The remuneration report presents the Management and Supervisory Boards' remuneration pursuant to the provisions of the German Commercial Code (HGB), the German Accounting Standards (GAS 17) and the recommendations of the German Corporate Government Code (GCGC) in the valid version dated February 7, 2017.

REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

The Supervisory Board determines the remuneration system for the Management Board, as well as the total remuneration for the individual Management Board members based on the proposal of the Personnel Committee. The criteria for defining remuneration include the Company's and the Group's financial situation, success and outlook, the duties and personal performance of the individual Board members, the prevailing level of compensation at peer companies and the Company's remuneration structure. In doing so, the Supervisory Board takes into account the relation of the Management Board's compensation and the remuneration of senior management and the workforce as a whole and with respect to its development over time. The overall remuneration structure is geared toward the Group's sustainable development.

Total remuneration consists of fixed and performance-related components.

The fixed components include the basic annual salary paid in twelve equal monthly payments, non-cash benefits, pension benefits and contributions to build up a private pension.

In the 2018 fiscal year, the system of performance-related remuneration for the members of the Management Board was redesigned. The previous one-year variable and multi-year variable components have been combined into one remuneration component and continues to be measured against the Group's net income for the period which, in the opinion of the Supervisory Board, reflects the combined performance of the Management Board and the

workforce to secure jobs at the Company and the ability to pay a dividend. The calculation is based on 10 percent of the Group's net income for the period of two years prior, 20 percent of the prior year and 70 percent of the new fiscal year – making 70 percent of this remuneration forward-looking. The proportion of variable remuneration to the Group's net income for the period, as well as the maximum achievable amount, varies among the individual members of the Management Board and is due for payment upon the adoption of the annual financial statements of the new financial year under this calculation basis. The new regulation applies to Management Board members Dr. Volker Simon and Bernd Bartmann as of January 1, 2018 and applies to Johannes Obrecht as of January 1, 2019.

The previous system for performance-based remuneration consisted of one-year and multiple-year variable components. The one-year variable component was measured according to the net income of the Group for the previous fiscal year. The multiple-year variable component was measured according to the Group's average net income over a period of three years. The absolute level of performance-based remuneration was limited in its amount and structured, so that multi-year components outweighed one-year components and ensured that both positive and negative corporate developments were taken into account.

The existing employment contracts also provide for a discretionary bonus, whereby the Supervisory Board may consider extraordinary positive and negative developments at its discretion up to a limited annual maximum amount. The maximum amount for the CEO is different than for the other Management Board members. Starting as of the 2018 fiscal year, the development of free cash flow, the dynamic leverage ratio and net debt over a 3-year period based on the planning from the beginning of the respective fiscal year are deemed to be multi-year assessment components.

Management Board members do not receive separate remuneration for their work as members of bodies at the Company's subsidiaries.

Management Board member Bernd Bartmann is entitled to receive retirement, disability and survivor pension.

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MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD

EURk

	Dr. Volker Simon (CEO)		Bernd Bartmann		Johannes Obrecht		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017
FIXED REMUNERATION								
Basic annual salary ¹	270	320	216	216	192	168	678	704
Non-cash benefits	25	17	34	33	19	18	78	68
TOTAL	295	337	250	249	211	186	756	772
PERFORMANCE-RELATED REMUNERATION								
NEW REMUNERATION SYSTEM								
Variable remuneration	240	--	180	--	--	--	420	0
PREVIOUS REMUNERATION SYSTEM								
One-year variable remuneration	--	132	--	103	65	88	65	323
Multi-year variable remuneration	--	148	--	107	86	97	86	352
TOTAL	240	280	180	210	151	185	571	675
TOTAL REMUNERATION	535	617	430	459	362	371	1,327	1,447

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

The retirement pension is paid either upon reaching the current retirement age of 65 or through early retirement from the Company at 60 years of age, provided a full retirement pension is being drawn simultaneously from the statutory pension scheme. The monthly amount of the retirement pension for Mr. Bartmann is set out in his retirement contract. When drawing benefits prematurely, this amount is reduced during the length of pension payment by 0.25 percent per month from the start of early retirement until reaching 65 years of age. Future retirement benefits of the present members of the Management Board are adjusted in line with changes in the cost of living for a four-person household of hourly and salaried workers with an average income as defined by the Federal Statistics Office. Furthermore, Mr. Bartmann receives a fixed annual payment of EURk 20 as a subsidy for the establishment of a private pension which, at the request of Mr. Bartmann, the Company makes directly to a pension trust.

Management Board members Dr. Volker Simon and Johannes Obrecht are not entitled to pension benefits but, as set out in their Management Board contracts, instead receive a fixed annual benefit for a private retirement

scheme that is also paid by the Company, at the request of both gentlemen, directly into a pension trust.

The Company has concluded a financial loss liability insurance policy (D&O insurance) for the members of the Management Board. This policy has a deductible of 10 percent of the loss up to the amount of one and a half times the Management Board member's fixed remuneration.

The current Management Board contracts provide that when a Management Board member's contract is terminated prematurely, any payments to members, including fringe benefits, shall not exceed the value of two year's remuneration and shall not be higher than the remuneration for the remaining term of the contract (severance payment cap). In accordance with the Management Board contracts, the calculation of severance payment caps is based on the total remuneration of the previous fiscal year and, if applicable, also the expected total remuneration for the current fiscal year. If the Management Board member is responsible for the termination of his contract for good cause as defined by Section 626 of the German Civil Code (BGB), then no payments will be made to the Management Board member.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD: PENSION EXPENSES

	Annual entitlement ¹		Present value of benefit obligations		Allocation to pension provisions	
	2018	2017	2018	2017	2018	2017
Dr. Volker Simon, CEO	0	0	0	0	0	0
Bernd Bartmann ²	72	72	1,308	1,434	107	105
Johannes Obrecht	0	0	0	0	0	0
TOTAL	72	72	1,308	1,434	107	105

¹ At the start of pension at the age of 65 years based on the entitlements earned until December 31, 2018.

² The allocation to the pension provisions for Bernd Bartmann does not include the fixed annual payment of EURk 20 into a pension trust that is agreed upon in addition to his pension benefits.

The Personnel Committee of the Supervisory Board regularly reviews the remuneration system for the Management Board in preparation for the resolution of the plenary. As previously mentioned, the last review was conducted in the 2018 fiscal year.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GAS 17 ACCOUNTING STANDARD

The total Management Board remuneration for the 2018 fiscal year amounted to EURk 1,327 (p/y: EURk 1,447). This includes performance-based remuneration of EURk 571 (p/y: EURk 675). Added to this amount were non-cash benefits of EURk 78 (p/y: EURk 68), which mainly consisted of company cars, phone bills, insurance premiums and non-cash benefits. The table on page 60 shows the individual remuneration of the Management Board members.

The Company has recognized pension provisions for the future pension entitlement of Bernd Bartmann. The allocation to pension provisions in the reporting year amounted to a total of EURk 107 (p/y: EURk 105). The allocation amount included what is known as service costs excluding interest costs.

There are no pension entitlements for the benefit of Dr. Volker Simon or Johannes Obrecht. To establish a private pension plan, Dr. Simon and Mr. Obrecht instead receive fixed annual payments of EURk 50 and EURk 40, respectively, which the Company pays directly into a pension fund at the request of both gentlemen. A fixed annual benefit of EURk 20 for Bernd Bartmann was agreed in addition to the

pension commitment. The payment is also made directly to a pension trust at the request of Bernd Bartmann.

The table above shows the individual expenses for pensions.

Former Management Board members and their surviving dependents have received pension payments amounting to EURk 233 (p/y: EURk 228) during the reporting year. The corresponding pension provisions amounted to EURk 4,107 (p/y: EURk 4,386) on December 31, 2018.

A provision amounting to EURk 884 (p/y: EURk 929) was recognized in the 2018 fiscal year for current pensions and entitlements for former members of the Management Board.

In the event of termination of employment, no other benefits were promised to any member of the Management Board. In the 2018 fiscal year, no members of the Management Board had received any payments or promises from a third party in connection with their work as Management Board members.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to the recommendations of the German Corporate Governance Code as amended on February 7, 2017, both the benefits granted and the payments are presented using the sample tables.

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MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GCGC: BENEFITS GRANTED DURING THE REPORTING YEAR

EURk

	Dr. Volker Simon (CEO) Market and Technology Entry: 01/07/2014				Bernd Bartmann Administration and Finance Entry: 01/01/2005				Johannes Obrecht Production and Materials Entry: 01/07/2016			
	2017	2018	2018	2018	2017	2018	2018	2018	2017	2018	2018	2018
			Min.	Max.			Min.	Max.			Min.	Max.
Fixed remuneration ¹	320	270	--	--	216	216	--	--	168	192	--	--
Non-cash benefits	17	25	--	--	33	34	--	--	18	19	--	--
TOTAL	337	295	--	--	249	250	--	--	186	211	--	--
Discretionary bonus ²	0	0	--	100	0	0	--	80	0	0	--	80
NEW REMUNERATION SYSTEM												
Variable remuneration (2016-2018)	--	456	--	500	--	342	--	400	--	--	--	--
PREVIOUS REMUNERATION SYSTEM												
One-year variable remuneration	217	--	--	--	169	--	--	--	145	140	--	190
Multi-year variable remuneration (2017-2018)	0	--	--	--	0	--	--	--	0	158	--	210
Multi-year variable remuneration (2016-2017)	0	--	--	--	0	--	--	--	135	--	--	--
Multi-year variable remuneration (2016-2018)	0	--	--	--	0	--	--	--	0	--	--	--
Multi-year variable remuneration (2015-2017)	201	--	--	--	146	--	--	--	0	--	--	--
TOTAL	418	456	--	--	315	342	--	--	280	298	--	--
Pension expenses ³	0	50	--	--	125	127	--	--	40	40	--	--
TOTAL REMUNERATION	755	801	--	--	689	719	--	--	506	549	--	--

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

² At its own discretion, the Supervisory Board may decide to grant special remuneration in cases of extraordinary performance or success in the amounts shown above.

In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

³ Pension expenses include payments into a pension trust (Dr. Simon: EURk 50; Mr. Bartmann: EURk 20; Mr. Obrecht: EURk 40).

In the table titled "Benefits granted," the amounts budgeted for one- and multiple-year variable remuneration are shown as opposed to GAS 17. The minimum and maximum values that can be achieved are also reported. The pension expenses shown in the table under "Individual pension expenses" as an allocation to pension provisions, is also included in the total remuneration. The fixed annual payments to a pension trust in addition to the pension commitments are also included.

The total remuneration granted to the Management Board in accordance with the German Corporate Governance Code reached EURk 2,069 (p/y: EURk 1,950) for the 2018 fiscal year.

The total remuneration paid to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,544 (p/y: EURk 1,612) for the 2018 fiscal year.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GC/GC: BENEFITS PAID DURING THE REPORTING YEAR

EURk

	Dr. Volker Simon (CEO) Market and Technology Entry: 01/07/2014		Bernd Bartmann Administration and Finance Entry: 01/01/2005		Johannes Obrecht Production and Materials Entry: 01/07/2016	
	2017	2018	2017	2018	2017	2018
Fixed remuneration ¹	320	270	216	216	168	192
Non-cash benefits	17	25	33	34	18	19
TOTAL	337	295	249	250	186	211
Discretionary bonus ²	0	0	0	0	0	0
NEW REMUNERATION SYSTEM						
Variable remuneration (2016-2018)	--	240	--	180	--	--
PREVIOUS REMUNERATION SYSTEM						
One-year variable remuneration	132	--	103	--	88	65
Multi-year variable remuneration (2017-2018)	--	--	--	--	--	86
Multi-year variable remuneration (2016-2017)	0	--	0	--	97	--
Multi-year variable remuneration (2016-2018)	0	--	0	--	0	--
Multi-year variable remuneration (2015-2017)	148	--	107	--	0	--
TOTAL	280	240	210	180	185	151
Pension expenses ³	0	50	125	127	40	40
TOTAL REMUNERATION	617	585	584	557	411	402

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

² At its own discretion, the Supervisory Board may decide to grant special remuneration in cases of extraordinary performance or success in the amounts shown above.

In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

³ Pension expenses include payments into a pension trust (Dr. Simon: EURk 50; Mr. Bartmann: EURk 20; Mr. Obrecht: EURk 40).

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board members is described in Section 11 of the Company's Articles of Association essentially as follows:

Each Supervisory Board member receives fixed annual remuneration of EURk 25. The Chairman of the Supervisory Board receives double this amount and the Deputy Chairman receives one and a half times this amount. Each Supervisory Board member receives a 25 percent bonus based on their fixed remuneration for their membership in committees, and the chairperson of the committee receives a bonus of 50 percent. The total annual remuneration of a Supervisory Board member may not exceed twice the member's fixed remuneration or three times

the fixed remuneration in the case of the Supervisory Board chairperson.

Members of the Supervisory Board also receive an attendance fee of EUR 500 for each meeting of the Supervisory Board and its committees the members personally attend. This also applies to the participation in telephone or video conferences and the visual and/or acoustic participation in a physical meeting of the Supervisory Board and its committees. This fee is paid only once per meeting day, even if several meetings are attended in the course of one day.

Supervisory Board members, who have been members for only part of the fiscal year, receive one-twelfth of the yearly compensation for the start of each month they were present. The Company also reimburses the Supervisory Board members for their expenses as well as for any value added tax payable on their remuneration and expenses.

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	Fixed remuneration		Attendance fees		Total remuneration	
	2018	2017	2018	2017	2018	2017
Karl M. Schmidhuber, Chairman	69	69	5	5	74	74
Dr. Georg Hengstberger, Deputy Chairman (since May 23, 2018)	46	38	5	5	51	43
Dr. Gerhard Wirth, Deputy Chairman (until May 23, 2018)	18	44	2	3	20	47
Carsten Claus (since May 23, 2018)	25	0	3	0	28	0
Herbert König	31	31	5	5	36	36
Dr. Jochen Ruetz (since May 23, 2018)	21	0	3	0	24	0
Ulrich Ruetz (until May 23, 2018)	16	38	3	5	19	43
Gerhard Schrempp	25	25	3	3	28	28
TOTAL	251	245	28	26	279	271

Compensation is payable at the end of the fiscal year.

The members of the Supervisory Board are covered by the Company's existing financial loss liability insurance policy (D&O insurance). The policy's premiums are paid by the Company. A deductible has been agreed that amounts to half of the fixed annual remuneration of the Supervisory Board member.

Also in this reporting year, the Company did not pay any remuneration to Supervisory Board members for activities performed outside of their supervisory role.

The individual remuneration of the Supervisory Board members is shown in the table above.

BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG

PWO AG is located in Oberkirch, Baden-Württemberg. The parent company forms the Group's headquarters and is its largest production location. To limit risk, the Company also closely monitors the international locations, particularly in the areas of legal, finance and controlling. The international locations are generally responsible for acquiring their own orders and for their operational management. The Company's annual financial statements are prepared in accordance with the HGB.

The general statements of the combined management report also apply to PWO AG, particularly in the areas of the market, strategy, management and the opportunities and risks inherent in its business activities. The Company is less affected by currency risk than the Group. The risk of impairment mainly applies to the Company's financial assets.

As of the reporting date, the number of employees of the Company, including temporary workers, increased to 1,656 (p/y: 1,645). This number includes 152 (p/y: 133) young people who are currently completing training.

The increase in PWO AG's revenue in the reporting year resulted from the invoicing of upfront investments in tools made in the prior year. As a result, finished goods and work-in-progress declined by EUR 9.3 million (p/y: increase of EUR 14.7 million) and total output remained below the previous year's level. These results reflect the decline in higher-margin series revenues in the 2018 fiscal year, which placed a burden on the Company's profitability.

The lower volume of upfront investment resulted in a significant decline in the cost of materials ratio. However, staff costs experienced a noticeable rise despite the decline in total output. This rise was the result of two factors: more staff was required to secure the current,

large-volume start-ups and ramp-ups than at a later stage in the series production process; and the existing supplementary collective agreement limited our ability to adapt our personnel resources to changes in the volume of production.

The modest level of investment at PWO AG in the 2018 fiscal year led to essentially the same level of depreciation and amortization as in the previous year. The decline in other operating income resulted mainly from fewer currency gains, which were offset by a similar amount of lower currency losses and reported under other operating expenses. The balance of other operating income and expenses still increased in the reporting year, as additional cost-cutting measures introduced in the second half of the year had taken only partial effect by the end of the fiscal year.

The financial result improved to EUR 6.1 million (p/y: EUR 1.2 million), as income from investments of EUR 7.0 million (p/y: EUR 2.3 million) was well above last year. Earnings before taxes decreased overall to EUR 8.7 million (p/y: EUR 10.2 million). After taxes, net income amounted to EUR 5.9 million (p/y: EUR 5.2 million).

Total assets in the reporting year rose to EUR 313.8 million (p/y: EUR 306.0 million). This increase originated primarily from a higher level of outstanding accounts receivable from affiliated companies on the reporting date. Bank balances were also higher than at the end of the 2017 fiscal year. Non-current assets, in contrast, declined slightly as a result of the aforementioned low level of investment. Inventories were reduced visibly by the invoicing of upfront tool investments. At EUR 119.8 million (p/y: EUR 119.1 million), equity remaining virtually unchanged, and the equity ratio as of the reporting date equaled 38.2 percent (p/y: 38.9 percent).

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INCOME STATEMENT

SELECTED INFORMATION

EURk

	2018	in % of total output	2017	in % of total output
Revenue	292,937	102.6	280,170	94.6
Total output	285,380	100.0	296,058	100.0
Cost of materials	149,756	52.5	162,731	55.0
Staff costs	90,464	31.7	83,706	28.3
Depreciation and amortization	11,553	4.0	11,547	3.9
Other operating expenses	36,784	12.9	38,790	13.1
Financial result	6,072	2.1	1,157	0.4
Earnings before taxes	8,657	3.0	10,198	3.4
Net income	5,872	2.1	5,234	1.8
Unappropriated retained earnings	4,251	1.5	5,235	1.8

With respect to our future business development, we kindly refer you to the statements made regarding the opportunities and risks of the Group. These statements also essentially apply to PWO AG. We expect our total output to essentially remain at the current level. We also expect cost reductions and process improvements

initiated to gradually take effect. The turnaround in the profitability however will only develop slowly over a period of several years. Furthermore, earnings before taxes are significantly influenced by the dividend payments of the subsidiaries, which occur irregularly.

RESPONSIBILITY STATEMENT

„We declare to the best of our knowledge, and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, and furthermore that the group management report, which is combined with the management report of Progress-Werk Oberkirch Aktiengesellschaft, includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.“

Oberkirch, March 28, 2019

The Management Board



Dr. Volker Simon
(CEO)



Bernd Bartmann



Johannes Obrecht

CONSOLIDATED FINANCIAL STATEMENTS

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„We are convinced that, together with our highly qualified employees, we will be able to steer the PW0 Group safely through the current market phase.“

**BERND BARTMANN
CHIEF FINANCIAL OFFICER (CFO)**

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CONSOLIDATED INCOME STATEMENT

EURk

Note no.		2018	2017
7	Revenue	485,012	461,008
	Change in finished goods and work-in-progress	-8,709	20,858
8	Other own work capitalized	1,745	1,241
	TOTAL OUTPUT	478,048	483,107
9	Other operating income	10,694	12,721
	Cost of raw materials and supplies and merchandise purchased	-222,812	-226,125
	Cost of purchased services	-42,395	-46,734
	Cost of materials	-265,207	-272,859
	Wages and salaries	-104,661	-100,429
	Social security and post-employment costs	-22,568	-20,774
10	Staff costs	-127,229	-121,203
	Amortization of intangible non-current assets and depreciation of property, plant and equipment	-24,274	-24,429
11	Other operating expenses	-53,569	-56,810
	EARNINGS BEFORE INTEREST AND TAXES (EBIT)	18,463	20,527
	Financial income	76	401
12	Financial expenses	-6,649	-6,225
	Financial result	-6,573	-5,824
	EARNINGS BEFORE TAXES (EBT)	11,890	14,703
13	Income taxes	-5,225	-4,644
	NET INCOME FOR THE PERIOD ¹	6,666	10,059
14	Earnings per share in EUR (diluted = basic) based on net income attributable to the shareholders of PWO AG	2.13	3.22

¹ The net income for the period is entirely attributable to the shareholders of PWO AG.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EURk

Note no.		2018	2017
	NET INCOME FOR THE PERIOD	6,666	10,059
25	Net losses (p/y: net gains) from cash flow hedges	-2,212	5,867
	Tax effect	560	-1,592
	Currency translation differences	-1,140	-1,433
	Items that may be reclassified to profit and loss in future periods	-2,792	2,842
22	Actuarial gains (p/y: losses) from defined benefit pension plans	3,111	-1,845
	Tax effect	-884	524
	Items that will not be reclassified to profit and loss	2,227	-1,321
	OTHER COMPREHENSIVE INCOME AFTER TAX	-565	1,521
	TOTAL COMPREHENSIVE INCOME AFTER TAX	6,101	11,580

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CONSOLIDATED BALANCE SHEET

ASSETS

EURk

Note no.		31/12/2018	31/12/2017
	Land and buildings	82,996	86,137
	Technical equipment and machinery	84,146	68,147
	Other equipment, operating and office equipment	7,915	10,232
	Prepayments and assets under construction	14,439	14,134
15	Property, plant, and equipment	189,496	178,650
	Contract and customer-related development services	4,262	3,426
	Industrial property rights and similar rights	1,425	2,721
	Goodwill	5,301	5,337
	Prepayments	2	148
16	Intangible assets	10,990	11,632
17	Contract assets	22,925	0
	Non-current portion of income tax receivables	0	0
	Deferred tax assets	12,437	14,511
	NON-CURRENT ASSETS	235,848	204,793
	Raw materials and supplies	30,505	26,027
	Work-in-progress	56,471	63,467
	Finished goods and merchandise	0	26,055
	Prepayments	306	1,794
18	Inventories	87,282	117,343
	Trade receivables and other receivables	42,090	48,261
17	Contract assets	16,663	0
	Other assets	12,047	10,163
	Other financial assets	510	3,455
	Income tax receivables	785	515
19	Receivables and other assets	72,095	62,394
20	Cash and cash equivalents	10,382	9,195
	CURRENT ASSETS	169,759	188,932
	TOTAL ASSETS	405,607	393,725

EQUITY AND LIABILITIES

EURk

Note no.		31/12/2018	31/12/2017
	Subscribed capital	9,375	9,375
	Capital reserves	37,494	37,494
	Retained earnings	79,967	78,650
	Other reserves	-12,968	-12,403
21	TOTAL EQUITY	113,868	113,116
	Non-current financial liabilities	89,851	91,320
	Provisions for pensions	52,509	54,954
	Other provisions	1,481	1,908
	Non-current liabilities	143,841	148,182
	Trade payables	38,208	36,943
	Advance payments received on account of orders	18,998	16,396
	Current financial liabilities	51,890	43,763
	Other liabilities	26,330	23,142
	Other financial liabilities	9,580	8,420
	Income tax liabilities	81	475
	Current portion of provisions for pensions	1,602	1,541
	Current portion of other provisions	1,209	1,747
	Current liabilities	147,898	132,427
22	TOTAL LIABILITIES	291,739	280,609

TOTAL EQUITY AND LIABILITIES	405,607	393,725
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EURk

Equity attributable to PWO AG shareholders							
	Subscribed capital	Capital reserves	Retained earnings	Defined benefit pension plans	Currency translation differences	Cash flow hedges	Total
JANUARY 1, 2017	9,375	37,494	73,591	-14,614	3,639	-2,949	106,536
Net income for the period			10,059				10,059
Other comprehensive income				-1,321	-1,433	4,275	1,521
TOTAL COMPREHENSIVE INCOME			10,059	-1,321	-1,433	4,275	11,580
Dividend payment			-5,000				-5,000
DECEMBER 31, 2017	9,375	37,494	78,650	-15,935	2,206	1,326	113,116
JANUARY 1, 2018 BEFORE IFRS 15 ADOPTION	9,375	37,494	78,650	-15,935	2,206	1,326	113,116
Effect of the adoption of IFRS 9 and IFRS 15 ¹			-193				-193
JANUARY 1, 2018	9,375	37,494	78,457	-15,935	2,206	1,326	112,923
Net income for the period			6,666				6,666
Other comprehensive income				2,227	-1,140	-1,652	-565
TOTAL COMPREHENSIVE INCOME			6,666	2,227	-1,140	-1,652	6,101
Dividend payment			-5,156				-5,156
DECEMBER 31, 2018	9,375	37,494	79,967	-13,708	1,066	-326	113,868

¹ of which EURk 177 was attributable to the adoption of IFRS 15 and EURk 16 to the adoption of IFRS 9.

CONSOLIDATED STATEMENT OF CASH FLOWS

EURk

Note no.		2018	2017
	Net income for the period	6,666	10,059
	Depreciation/amortization of property, plant and equipment and intangible assets	24,275	24,429
13	Income tax expense	5,225	4,644
12	Interest income and expenses	6,573	5,824
	Change in current assets	20,360	-23,620
	Change in non-current assets	-22,925	0
	Change in current liabilities (excluding financial liabilities)	-2,872	17,771
	Change in non-current liabilities (excluding financial liabilities)	7,739	804
13	Income taxes paid	-4,773	-7,390
	Other non-cash expenses/income	-1,712	5,885
	Gain (p/y: loss) on disposal of property, plant and equipment	-105	-92
	CASH FLOW FROM OPERATING ACTIVITIES	38,451	38,314
	Proceeds from disposal of property, plant, and equipment	401	947
	Proceeds from disposal of intangible assets	1,172	0
	Payments for investments in property, plant, and equipment	-25,459	-27,969
	Payments for investments in intangible assets	-1,719	-2,239
	CASH FLOW FROM INVESTING ACTIVITIES	-25,605	-29,261
21	Dividends paid	-5,156	-5,000
	Interest paid	-4,852	-4,790
	Interest received	76	69
	Proceeds from borrowings	24,477	53,631
	Repayment of borrowings	-22,733	-40,138
	CASH FLOW FROM FINANCING ACTIVITIES	-8,188	3,772
	Net change in cash and cash equivalents	4,658	12,825
	Effect of exchange rates on cash and cash equivalents	-38	397
	Cash and cash equivalents as of January 1	1,440	-11,782
	CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	6,060	1,440
20	of which cash and cash equivalents	10,382	9,195
22	of which bank borrowings due on demand that are included in the Group's cash management	-4,322	-7,755

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NOTES TO THE PWO GROUP'S FINANCIAL STATEMENTS

GENERAL INFORMATION

Progress-Werk Oberkirch AG is a listed stock corporation headquartered at Industriestraße 8, 77704 Oberkirch, Germany. The Company is registered and recorded in the commercial register of the District Court of Freiburg under HRB 490007. The currently applicable Articles of Association are those in the version dated May 26, 2015. The Company's fiscal year corresponds to the calendar year.

The consolidated financial statements of Progress-Werk Oberkirch AG (PWO) and its subsidiaries for the January 1, 2018 through December 31, 2018 fiscal year were authorized by the Management Board on the basis of a resolution passed on March 28, 2019 and were subsequently submitted to the Audit Committee and Supervisory Board for examination.

The main business activities of the PWO Group are described in detail in the group management report in the chapter titled "Group principles."

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

The consolidated financial statements of Progress-Werk Oberkirch AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the European Union and the supplementary provisions of the German Commercial Code (HGB) under Section 315e (1) HGB. The distribution of profits is governed by the Articles of Association.

The consolidated financial statements are prepared using the historical cost principle, except in the case of derivative financial instruments and foreign currency receivables/payables. Derivative financial instruments are carried at fair value, and foreign currency receivables/payables are carried at amortized acquisition costs using the closing exchange rates prevailing on the balance sheet date. The income statement has been prepared on the basis of the nature of cost method. The consolidated financial statements are presented in thousands of euros. Unless otherwise indicated, all values are rounded up or down to the nearest euro thousands (EURk) according to the commercial method.

2 CHANGES IN ACCOUNTING POLICIES

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting methods applied remained unchanged compared to the prior year with the exception of the following list of amendments to the standards that require mandatory application as of January 1, 2018. Early application of the standards endorsed but not yet mandatory is not intended. The following is an overview of all standards relevant for the Group.

New and amended standards and interpretations mandatory in the EU

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	AMENDMENTS	IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IFRS 9	Financial Instruments	Jan. 1, 2018	IFRS 9 introduces new provisions for the recognition and measurement of financial assets and replaces IAS 39.	Detailed information on the effects of the application of IFRS 9 is provided in the section following the table.
IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	The new standard includes a single, comprehensive model and extensive guidance on how entities shall recognize revenue from contracts with customers. The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue and the related interpretations.	Detailed information on the effects of the application of IFRS 15 is provided in the section following the table.
Clarifications to IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	These clarifications address three issues (identification of performance obligations, principal-agent relationships and intellectual property licenses). The clarifications strive for transition simplifications for modified and concluded contracts.	The effects of the clarifications are described together with the information on the effects of IFRS 15 following the table.
Annual improvement project	Annual improvements to IFRS 2014-2016	Jan. 1, 2018		The amendments to IFRS 1 and IAS 28 are applicable for fiscal years beginning on or after January 1, 2018.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 1, 2018	IFRIC 22 regulates which exchange rate is to be used for the first-time recognition of foreign currency transactions when the entity has received or extended advance considerations before the related asset, expense or income has been recognized. The point in time in which the non-monetary asset or liability resulting from the advance consideration is recognized for the first-time is decisive for the determination of the foreign currency exchange rate for the underlying asset, expense or income.	No material effect.

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EFFECTS OF THE APPLICATION OF IFRS 9: FINANCIAL INSTRUMENTS

Classification and measurement: The first-time application of the classification and measurement provisions under IFRS 9 did not have any material effect on the Group's balance sheet or equity. The existing measurement methods for financial instruments will be largely maintained according to the underlying business model pursuant to the classification provisions of IFRS 9. Financial instruments previously allocated as "Financial Assets" or "Liabilities Held for Trading" will be recorded as "Fair Value through Profit and Loss" and continued to be measured at fair value. Standard trade receivables are held to collect the contractual cash flows from interest and principal payments. Therefore, financial instruments previously allocated as "Loans and Receivables" and "Financial Liabilities Measured at Amortized Cost" will be classified as at "Amortized Cost" and continued to be measured at amortized cost.

Impairment: IFRS 9 requires that the expected credit defaults for all debt securities, loans and trade receivables are assessed on either a 12-month basis or based on the total term. The Group determines and recognizes impairment under IFRS 9 based on the total term and by using the simplified approach. The revaluation of trade receivables under the "Expected Credit Loss Model" resulted in adjustments to equity of EURk 16 as of January 1, 2018.

Hedge accounting: IFRS 9 has not altered any of the previous general accounting principles for effective hedge relationships. All hedge relationships previously reported in an effective hedge relationship continue to qualify for hedge accounting under IFRS 9. For the 2018 fiscal year, the Group has utilized an accounting option for the continuation of the provisions of IAS 39 so that, for the time being, no effects on the income statement or equity have been taken into account. The Group will assess possible changes with regard to the fair value accounting of options, forward components and cross-currency basis spreads in more detail in the future.

IMPACT OF THE APPLICATION OF IFRS 15: REVENUE FROM CONTRACT WITH CUSTOMERS

IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue and the related interpretations. IFRS 15 applies to all revenue from contracts with customers with very few exceptions. The standard introduces a five-level model for the accounting of revenue from contracts with customers. Under this regulation, revenue is recognized in the amount of consideration that a company is expected to receive in exchange for the transfer of the promised goods or services to the customer.

IFRS 15 requires entities to make judgments at each level of the model for contracts with customers and consider all relevant facts and circumstances. The standard also governs the accounting of additional costs for initiating the contract, as well as the costs directly related to fulfilling the contract. IFRS 15 also contains extensive disclosure provisions.

The PWO Group opted for the modified retrospective transition method when applying IFRS 15 for the first time. Prior-year figures were not adjusted in accordance with the transitional provisions of the standard. In addition, the Group is making use of the simplification options and does not re-assess contracts that have been met or amended prior January 1, 2018, which is the date of first-time adoption.

The PWO Group generates revenue primarily through series deliveries and tool sales to customers, which are made in advance of series production. To a lesser extent, the Group also provides contract-related development services and other services.

REMEASUREMENTS AND RECLASSIFICATIONS FROM THE FIRST-TIME ADOPTION OF IFRS 15:

A significant transition effect from the first-time application of IFRS 15 occurs with respect to the provision of series deliveries whose revenue recognition was changed from a certain point in time to a period of time. As a result, revenues are recognized earlier in comparison to the previous model. Since some of the finished goods are now already recognized as revenue, as of January 1, 2018, inventories amounting to EURk 26,055 were reclassified as contract assets. There was a transitional effect in equity in the amount of EURk -177, net of deferred taxes.

With regard to the consolidated income statement, the application of IFRS 15 resulted in an increase in revenue of EURk 12,177 and an improvement in earnings of EURk 895 in the 2018 fiscal year. This also increased earnings per share.

A further change in recognition was made for payments to customers that are capitalized as other assets in accordance with IFRS 15 when certain conditions are met. Previously, these payments in the amount of EURk 1,172 have been recognized in this same amount as intangible assets. In the statement of income, the reversed amounts are no longer recorded as amortization but as a reduction to revenues.

The following table summarizes the impact of the first-time adoption of IFRS 15 on the consolidated balance sheet:

EURk

	Consolidated balance sheet Dec. 31, 2018			Consolidated balance sheet Jan. 1, 2018		
	before IFRS 15 adoption	IFRS 15 adjustments	after adjustments	before IFRS 15 adoption	IFRS 15 adjustments	after adjustments
TOTAL ASSETS	405,784	-177	405,607	393,725	-177	393,548
of which intangible assets	12,162	-1,172	10,990	11,632	-1,172	10,460
of which current contract assets	0	22,925	22,925	0	18,457	18,457
of which non-current contract assets	0	16,663	16,663	0	8,523	8,523
of which finished goods	38,663	-38,663	0	26,055	-26,055	0
of which tax effects	0	70	70	0	70	70
TOTAL EQUITY	114,045	-177	113,868	113,116	-177	112,939

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Standards and interpretations adopted by the EU but not yet mandatory

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	ANTICIPATED AMENDMENTS	ANTICIPATED IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IFRS 16	Leases	Jan. 1, 2019	New regulation for the accounting of leases: In accordance with IFRS 16, the lessee must now also account for all leases (exceptions are short-term leases or low-value lease assets). The accounting of leases by the lessor remains virtually unchanged.	Detailed information on the effects of the application of IFRS 16 is provided in the section following the table.
IFRS 9	Amendments to IFRS 9: Prepayment features with negative compensation	Jan. 1, 2019	The amendments relate to a limited adjustment in the relevant assessment criteria for the classification of financial assets. Subject to certain conditions, financial assets with prepayment features and negative compensation may be recognized at amortized cost or at fair value in other comprehensive income rather than at fair value through profit or loss.	No material effect.
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	The interpretation clarifies the recognition and measurement of uncertain income tax items.	No material effect.

EFFECTS OF THE APPLICATION OF IFRS 16: LEASES

In January 2016, the IASB published the new IFRS 16 "Leases" standard, which replaced the previous leasing standard IAS 17. IFRS 16 establishes new principles for recognizing, measuring, presenting and disclosing leases and requires lessees to recognize all leases based on a single model similar to the accounting of finance leases under IAS 17. The basic idea of the new standard is that all leases and the related contractual rights and obligations are to be recognized in the lessee's balance sheet. The previous distinction between finance lease and operating lease agreements under IAS 17 will therefore no longer apply to the lessee. In accordance with IFRS 16, the lessee recognizes lease liabilities in the balance sheet for all leases amounting to the present value of future lease payments and, at the same time, capitalizes a corresponding right to use for the underlying asset. During the term of the lease contract, the lease liability is deferred in a manner similar to that under the previous IAS 17 for finance leases, while the right to use is amortized as scheduled. IFRS 16 provides simplifications for lease contracts with terms of up to 12 months and for low-value assets that can be used independently. These contracts may continue to be accounted for under the previous provisions for operating leases and, therefore, remain off-balance sheet transactions. The PWO Group will make use of these simplifications.

The new standard is mandatory for fiscal years beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15 is also applied. The PWO Group will apply the standard for the fiscal year starting on January 1, 2019, by using the modified retrospective transition method.

The new standard is expected to result in an increase in non-current assets and financial liabilities in a single-digit euro million amount as well as a slight rise in depreciation/amortization and interest expenses, partially offset by a reduction in other operating expenses. The net effect is expected to result in higher EBIT and EBITDA. A slightly positive effect is also expected on the cash flow from operating activities in the cash flow statement as lease payments (interest and principal payments) for capitalized rights of use will be recorded under cash flow from financing activities in the future.

We also refer to the obligations from the non-cancellable operating lease and rental agreements recorded under Note 22 "Contingent liabilities and other financial obligations."

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IASB published standards and interpretations not yet adopted into EU law

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	ANTICIPATED AMENDMENTS	ANTICIPATED IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IAS 28	Amendments to IAS 28: Non-current Investments in Associates and Joint Ventures	Jan. 1, 2019	Clarification that an entity is required to apply the provisions of IFRS 9, including the rules on impairment, for the measurement of long-term investments in an associate or joint venture that are part of the net investment in that associate or joint venture but are not included in the consolidated financial statements using the equity method.	This change is not applicable to the Group and therefore has no effect.
Annual improvement project	Annual improvements to IFRS 2015-2017	Jan. 1, 2019	Clarifications to IFRS 3, IFRS 11, IAS 23 and IAS 12. IAS 23 Borrowing costs: Clarification that outstanding borrowings initially raised specifically to finance a qualifying asset are accounted for as part of the overall funds raised when the asset becomes operational. IAS 12 Income Taxes: Clarification that under IAS 12.57A, all income tax consequences of dividend payments are to be recognized in the same way as the income on which the dividends are based. That is, they must be recognized in profit or loss, unless the dividend is based on income recognized directly in other comprehensive income or other equity.	The clarifications to IFRS 3 and IFRS 11 are not applicable to the Group and therefore have no effect. The amendments to IAS 23 and IAS 12 will have no material impact on the Group.
IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	Jan. 1, 2019	Clarification that the net interest expense for the period after a plan amendment, curtailment or settlement is to be recalculated using updated actuarial assumptions.	The clarification leads to a shift in income or expenses between comprehensive income (revaluations) and the income statement in the case of plan events.
IFRS 3	Amendments to IFRS 3: Business Combinations	Jan. 1, 2020	Clarification of when to account for a transaction as a business combination or as an acquisition of assets. For this purpose, the minimum requirements for a business operation were clarified and supplemented using explanatory examples.	No material effect.
Conceptual Framework	Amendments to References to the Conceptual Framework in the IFRS standards	Jan. 1, 2020	The framework concept, revised in March 2018, is not subject to the endorsement process. However, the cross-references to the framework made in IFRSs must be endorsed.	The cross-references adapted to the new framework concept will not have any material impact on the Group.
IAS 1 / IAS 8	Amendments to IAS 1 and IAS 8: Definition of Material	Jan. 1, 2020	Clarification that information is essential if the omission, misrepresentation or concealment of that information could reasonably influence the decision of the primary addressee.	No material effect.

3 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements (IFRS 10) include the financial statements of Progress-Werk Oberkirch AG and its subsidiaries for each fiscal year ending December 31. Subsidiaries are included in the scope of consolidation as of the date control was assumed by the Group. Consolidation ends as soon as the parent company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared using uniform accounting methods for the identical reporting periods used for the financial statements of the parent company.

Business combinations are accounted for by applying the purchase method (IFRS 3). The acquisition costs of the business combination are allocated to the acquired identifiable assets, liabilities and contingent liabilities, at their fair values applicable on the acquisition date. Insofar as the remaining difference is positive, it is then reported as goodwill; insofar as it is negative, it is recognized in profit or loss following a further reassessment. Revenues, expenses and income, as well as receivables and payables between consolidated entities, are offset against one another. Deferred taxes are recognized for consolidation measures affecting income taxes.

4 SCOPE OF CONSOLIDATION

The consolidated financial statements include 5 foreign entities held either directly or indirectly. Details relating to ownership interests, equity, and net income of the consolidated entities are outlined below:

EURk

	Interest in capital	Equity	Net income
PWO Canada Inc., Kitchener, Canada	100%	11,198	2,179
PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic	100%	29,716	4,580
PWO Holding Co., Ltd., Hong Kong, China	100%	-1,050	-43
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China ¹	100%	8,664	212
PWO de México S.A. de C.V., Puebla, Mexico ²	100%	507	-1,700

¹ indirect holding through PWO Holding Co., Ltd., for a total of 100%.

² indirect holding through PWO Canada Inc. for a total of 0.15%.

There were no changes to the scope of consolidation in the reporting year.

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5 SUMMARY OF KEY ACCOUNTING POLICIES

CURRENCY TRANSLATION

The consolidated financial statements are presented in euros, which is the functional currency of the parent company.

The financial statements of the companies included in the consolidated financial statements, which are prepared using foreign currencies, are translated according to the functional currency concept (IAS 21). Each company within the Group determines its own functional currency. The items contained in the financial statements of the respective companies are measured using this functional currency. All balance sheet items of the consolidated foreign entity were translated into euros by applying the relevant mean rate of exchange at the reporting date. Expenses and income in the Group income statement were translated using the year's average year-to-date exchange rates. The net income for the period from the translated income statement was transferred to the balance sheet. Differences are recognized directly in equity as a currency translation difference.

Foreign currency transactions are initially translated into the functional currency and the foreign currency at the spot rate prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the closing rate. All exchange rate differences are recorded in the net income or net loss for the period. Non-monetary items that are measured in foreign currency at historical purchase or production cost are translated at the foreign exchange rate prevailing on the transaction date. Non-monetary items in a foreign currency that are measured at fair value are translated at the rate prevailing at the time the fair value was determined.

Goodwill relating to the acquisition of a foreign operation and adjustments in the fair value of the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The consolidated financial statements used the following exchange rates for currency translation purposes:

		Year-end exchange rate		Average exchange rate	
		31/12/18	31/12/17	2018	2017
China	CNY	7.88	7.80	7.81	7.63
Canada	CAD	1.56	1.50	1.53	1.46
Mexico	USD	1.15	1.20	1.18	1.13

PWO de México uses the US dollar as the functional currency because the principal business relationships are settled in US dollars.

REVENUE AND EXPENSE RECOGNITION

Revenue is recognized when separately identifiable goods or services are transferred to the customer, that is, when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from an asset. The prerequisite is that a contract exists with enforceable rights and obligations and, among others, the receipt of the consideration is probable while taking the creditworthiness of the customer into account.

The amount of revenue corresponds to the transaction price PWO is likely to be entitled to. This usually corresponds to the agreed price. A small number of customers receive payments that are recognized as other assets and reduce the sales recognized in accordance with the service performed. If the period between the transfer of the goods or services and the time of payment exceeds 12 months and the client or PWO benefits significantly from the financing, the consideration is adjusted for the time value of money.

The PWO Group generates revenue from contracts with customers mainly from series deliveries, as well as tool sales to customers that are made in advance of series production. To a lesser extent, the Group also provides contract-related development services and other services.

Revenue from series deliveries is realized based on a period of time. Revenue from tool sales is recognized at the point in time when the power of disposal is transferred to the purchaser which, generally, is upon delivery of the tools. Revenue from order-related development services is realized in accordance with the provision of services. Invoices are issued in accordance with the terms of payment in the ordinary course of business.

Income other than income from contracts with customers is recognized when it is likely that the economic benefit of the transaction will accrue to the Group and when the amount of income can be reliably determined, regardless of the time of payment. Income is measured at the fair value of the consideration received or claimable and in accordance with the contractual payment terms stipulated, net of taxes or other duties.

Interest income from financial instruments carried at amortized cost is recognized on the basis of the effective interest rate. This is the rate that discounts future expected cash payments or receipts precisely to the net carrying amount of the financial asset or financial liability throughout the expected term of the financial instrument or, when appropriate, for a shorter period. Interest income is reported as part of financial income in the income statement.

Operating expenses are recognized in the consolidated income statement when the performance is received or at the time of origination.

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INCOME TAXES AND DEFERRED TAXES

Actual tax refund claims and tax liabilities for the current period are calculated based on the amount expected to be refunded by the taxation authorities or paid to the taxation authorities. The calculation of the amount is based on the tax rates and tax laws in force on the reporting date in the countries where the Group operates and generates taxable profit.

Deferred taxes are recognized using the balance sheet liability method for all temporary differences existing on the reporting date between the recognition of an asset or liability in the balance sheet and the tax valuation rates. Deferred taxes are recognized for all taxable temporary differences, excluding non-tax-deductible goodwill and temporary differences originating from initial recognition of an asset or a liability in a business transaction which is not a business combination, and which at the time of the transaction influences neither IFRS results for the period or the taxable results. In accordance with the tax regulations of the respective countries, deferred taxes are recognized for tax loss carryforwards to the extent that it is probable that these can be used.

The carrying amount of deferred tax assets is reviewed as of each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can at least partially be used. Unrecognized deferred tax assets are reviewed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be realized.

Deferred tax assets and liabilities are measured on the basis of the expected applicable tax rates for the period in which an asset's value will be realized, or the liability will be settled. The basis used is the tax rates (and tax laws) applicable as of the balance sheet date.

Deferred taxes attributable to items accounted for directly in equity are recognized in equity rather than through the income statement.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and if these relate to the income taxes of the same taxable entity and are imposed by the same taxation authority.

LEASES

The decision of whether an agreement contains a lease is based on the economic content of the agreement at the time the agreement was concluded. The determination also requires an assessment of whether the performance of the contractual agreement depends on the utilization of a specific asset or assets and whether the agreement grants a right to the use of the assets even if this right is not expressly stated in an agreement.

Upon initial recognition, finance lease arrangements where nearly all risks and opportunities associated with the ownership of the transferred assets are transferred to the Group, are recognized at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between financial expenses and the repayment of the outstanding lease liability so that a fixed and variable interest rate will be applied to the remaining residual carrying amount of the lease liability. Leased assets are depreciated over the useful life of the asset. If, however, the transfer of the asset to the Group is not guaranteed to occur at the end of the lease period, the leased asset is completely depreciated over the shorter of either the expected useful life or the lease term.

Lease payments under operating leases are recognized as expenses on a straight-line basis over the term of the lease.

BORROWING COSTS

Borrowing costs directly related to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially available for their intended use or sale. Qualified assets are assets that take a substantial period of time to prepare for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they occur. No borrowing costs were capitalized in the reporting year and in the previous year.

CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities are not accounted for. They are disclosed in the Notes unless they cannot be reliably measured or when it is highly unlikely that there will be an outflow of resources with economic benefits. Contingent assets are not accounted for but are disclosed in the Notes if an inflow of economic benefits is probable and can be reliably measured.

PROPERTY, PLANT AND EQUIPMENT

The items in property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is generally performed on the basis of the straight-line method. Certain items of machinery, as well as contract-related tools, were depreciated according to the units of production method, based on the number of units produced in the reporting year, and calculated in terms of the total number of items specified or planned in the order.

INTANGIBLE ASSETS

Purchased intangible assets are measured at acquisition cost less cumulative amortization and impairment losses. Intangible assets include goodwill, patents, customer-related development services, software, customer relations, non-competitive clauses, licenses and similar rights. The Group applies the straight-line method to amortize intangible assets with finite useful lives over the expected useful life to the estimated residual value. Customer-related development services, which are amortized based on their volume, are excluded. Goodwill is not amortized on a scheduled basis, but instead, is subject to an annual impairment test. With the exception of goodwill, the Group has not identified any intangible assets with indefinite useful lives.

Development costs are capitalized if the recognition criteria of IAS 38 are fulfilled. This specifically relates to the existence of specific customer orders for development services. After initial capitalization, the asset is carried at cost less accumulated amortization and impairment losses. Capitalized development costs include all directly attributed individual costs as well as proportional overhead, and are amortized over the planned product lifespan (5 to 7 years). The amortization of capitalized development costs forms part of the production costs.

An impairment test relating to goodwill is performed annually. An impairment test is performed for other intangible assets with a finite useful life, as well as for property, plant and equipment if there are specific indications that an asset may be impaired. Impairment is recognized in profit or loss under the expense item "Depreciation and Amortization" included in the income statement if the recoverable amount of the asset is less than its carrying amount. The recoverable amount must be determined for each asset unless the asset does not generate cash inflows that are largely independent of those of other assets or other groups of assets. The recoverable amount is the higher of an asset's net realizable value and its value in use. The net realizable value is the amount that can be realized from the sale of an asset in a normal market transaction, less selling costs. Value in use is calculated using the discounted cash flow method on the basis of the estimated future cash flows expected to arise from the continuing use of an asset and its disposal. The cash flows are derived from long-term corporate planning that takes into account historical developments and macroeconomic trends. The value in use of the relevant cash-generating unit is customarily considered in order to calculate the intrinsic value of the goodwill. The cash-generating unit represents the respective location.

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Long-term corporate planning approved by the Management Board and acknowledged by the Supervisory Board extends until the end of the 2023 detailed planning period. Long-term corporate planning is sensitive to the key assumptions regarding the development of new business, commodity prices and increases in productivity. These developments were assessed and determined on the basis of past experience using publicly available data, existing project agreements and measures decided internally.

Cash flows are discounted to the reporting date by applying risk equivalent capitalization rates (pre-tax). The determination of the intrinsic value of the goodwill of PWO Canada Inc. and PWO Czech Republic a.s. is based on the assumptions shown in the following table:

	PWO Canada		PWO Czech Republic	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Phase 1: Weighted average cost of capital (WACC) before taxes	8.34%	12.56%	9.33%	8.97%
Phase 2: Growth rate (in perpetuity)	1.61%	1.65%	1.44%	1.44%

The total cost of capital used for discounting is based on the risk-free interest rate and a market premium. This also takes the items beta factor, cost of debt and the Group's capital structure into account, which were derived from a relevant peer group for each of the cash-generating units. Specific tax rates and country risks are also taken into consideration when determining the total cost of capital.

The revenue growth rates of the relevant local automotive markets are generally used as a basis for determining the cash flows.

Assumptions that have been made are subject to a certain level of sensitivity. While based on reasonable judgment, a change to one of the assumptions made in determining the value in use for PWO Canada and PWO Czech Republic is possible; we believe it is not likely that the carrying amount of goodwill of these units could significantly exceed its recoverable amount. The actual recoverable amounts exceed the carrying amount of PWO Canada by EURk 17,615 (p/y: EURk 8,517) and PWO Czech Republic by EURk 11,972 (p/y: EURk 35,207), respectively.

Under the assumption that the capitalization rate (after taxes) remains unchanged, impairment would be required if PWO Czech Republic's free cash flows were to be sustainably reduced by more than 20.40%. Conversely, under the assumption that the planned free cash flow remains unchanged, an impairment would be required if the capitalization rate were to increase to more than 8.71%.

Under the assumption that the capitalization rate (after taxes) remains unchanged, impairment would be required if PWO Canada's free cash flows were to be sustainably reduced by more than 45.00%. Conversely, under the assumption that free cash flows remain unchanged, an impairment would be required if the capitalization rate were to increase to more than 9.33%.

CONTRACT ASSETS AND RECEIVABLES

If one of the parties to the contract with the customer has fulfilled its contractual obligations, a contract asset, contract liability or receivable is recognized, depending on the relationship between PWO's performance and the customer's payment.

Contract assets are recognized for conditional claims for consideration in exchange for already delivered goods or services. Receivables (see Financial Instruments) are recognized if the right to receive the consideration is no longer subject to a condition.

Contract liabilities are recognized for prepayments received from customers before contractually agreed services are performed. Upon fulfillment of the performance obligations, these contract liabilities are recognized as revenues.

Impairments based on credit risk have been recognized since January 1, 2018, in accordance with IFRS 9.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that create a financial asset for one entity and a financial liability or equity instrument for another entity. In the case of financial assets where the trade and the settlement can occur on different dates, the settlement date is used for the purpose of initial recognition. Financial instruments are measured at cost on initial recognition; transaction costs are generally included in the initial measurement. The subsequent measurement of financial instruments is dependent on the underlying business model and how these instruments are allocated to the IFRS 9 categories. They are either measured at fair value through profit or loss or at amortized cost. IFRS 9 differentiates between primary and derivative financial instruments.

Primary financial instruments relate specifically to trade receivables and payables, other financial assets, cash and cash equivalents, bank borrowings, liabilities from promissory notes and other financial liabilities. These items are measured at amortized cost. In the case of trade receivables and payables and other liabilities as well as cash and cash equivalents, the carrying amount mainly corresponds to the fair value.

Currency-related derivatives in the form of interest rate swaps, foreign exchange swaps, options and foreign exchange forward contracts are employed to hedge interest rate and exchange rate risks. These are carried at fair value at the time of purchase and for subsequent measurements. In the case of derivative financial instruments that do not fulfill the criteria of a hedging transaction, the gains or losses from changes in the fair value are reported immediately in profit or loss. Changes in the market values of derivative financial instruments used to hedge future cash flows (cash flow hedges) are recognized directly in equity according to the amount of the effective share of equity, while the ineffective share is immediately recognized in profit or loss. When the hedged transaction takes place, the derivative is transferred from equity to profit or loss. The fair value of exchange-listed derivatives corresponds to the positive or negative market value. If no market values are available, these are calculated using recognized actuarial valuation models, e.g., the discounted cash flow model or the option price model.

The syndicated loan agreement concluded in the 2016 fiscal year and maturing in 2023 contains an interest rate floor of 0.00%. This embedded interest rate derivative was recognized at fair value at the time of acquisition and subsequent measurements. Gains or losses from changes in fair value were immediately recognized in profit and loss.

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In the case of current financial assets and financial liabilities, the carrying amount is a reasonable approximation of the fair value. On each reporting date, the Group determines whether there is objective evidence of an impairment of a financial asset or group of financial assets.

The fair value of fixed rate liabilities to banks, liabilities from promissory notes, and liabilities to leasing companies is determined on the basis of the discounted cash flow model using interest rates with the appropriate maturity and credit rating.

The Group has not yet made use of the option to designate financial assets or financial liabilities at fair value through profit or loss at the time of their initial recognition.

MEASUREMENT OF FAIR VALUE

Derivative financial instruments are valued at their fair value as of each reporting date. The fair values of financial instruments carried at amortized cost are described in Note 25.

The fair value is the amount to be achieved upon the sale of an asset in an orderly business transaction between market participants on the valuation date or the amount to be paid for the transfer of a liability. A measurement of fair value assumes that the transaction leading to the sale of the asset or the transfer of the liability takes place in the asset's principal market or the principal market for the transfer of the liability or, if such a principal market is not available, on the most favorable market for the asset or transfer of the liability. The Group must have access to either the principal market or the most favorable market.

The fair value of an asset or liability is determined on the basis of assumptions that market participants would take into consideration when pricing the asset or liability. It is assumed that market participants act in their own best economic interest.

The Group uses valuation techniques that are appropriate for the respective circumstances and for which sufficient data are available for measuring the fair value. The use of relevant, observable input factors should be kept as high as possible, and the use of unobservable input factors should be kept as low as possible.

All assets and liabilities, for which fair value is determined or reported in the financial statements, are allocated to the fair value hierarchy described below based on the input parameters of the lowest level relevant for the overall measurement of the fair value:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value, is either directly or indirectly observable in the market.
- Level 3: Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value is not observable on the market.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether reclassifications between the hierarchy levels have taken place. The Group does this by reviewing the classification (based on the input parameters of the lowest level relevant for the overall measurement of the fair value) at the end of each reporting period.

INVENTORIES

Inventories of raw materials and supplies are recognized at the lower of the average purchase price or realizable values. Unsaleable or obsolete materials are impaired accordingly. Work-in-progress and finished goods are measured at the lower of cost or net realizable value using item-by-item calculations based on current operational accounting. Production costs include not only directly attributable material and production costs but also appropriate portions of material and production overheads as well as production-related depreciation and production-related administration costs. Costs arising from general administration and borrowing costs are not capitalized.

Tooling and development contracts are measured at acquisition and production costs. In this context, a loss-free valuation considers the maximum cost to be recognized as the selling price plus revenue generated via series production.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and short-term bank deposits that have an initial remaining term of less than 90 days.

PROVISIONS

In the case of defined benefit plans, provisions for pensions and similar obligations are measured using the projected unit credit method in accordance with IAS 19. This method takes into account pensions and vested rights known on the balance sheet date as well as future expected salary and pension increases. Actuarial gains and losses are recognized entirely in the year they occur through other comprehensive income in equity. Any past service cost is recognized immediately in profit or loss and reported under staff costs together with the current service cost. The interest portion of the additions to provisions is recognized in the financial result.

For defined contribution plans, the payments at maturity are recognized as an expense and included in staff costs.

Other provisions are recognized when the Group has a current legal or factual obligation with respect to third parties or where a future outflow of resources is probable, and a reliable estimate of the amount of the obligation can be made. If the interest effect is relevant, provisions are discounted.

To the extent that the Group expects, at least, partial reimbursement for a provision carried as a liability, the reimbursement is recognized as a separate asset, provided the inflow of the reimbursement is likely.

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6 KEY JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, the Management Board makes judgments, estimates and assumptions that affect the level of income, expenses, assets, liabilities and contingent assets and liabilities reported at the end of the reporting period. The uncertainty relating to these assumptions and estimates could lead to results that may require material adjustments to the carrying amounts of the relevant assets and liabilities in the future.

ACCOUNTING JUDGMENTS

When applying Group accounting policies, the Management Board has made the following judgments that materially affect the consolidated financial statements:

REVENUES FROM CONTRACTS WITH CUSTOMERS

PWO made the following discretionary decisions that have a material impact on determining the amount and timing of revenue from contracts with customers:

- Determining the date of revenue recognition for series deliveries

PWO has come to the conclusion that revenue from series deliveries should be recognized over a period of time because assets are produced that have no alternative uses, and PWO has a legal right to the payment for the performance already provided. Revenues are recognized when the series parts are delivered.

- Methods to determine the stage of completion for series deliveries

PWO has come to the conclusion that the output-based method is best suited for determining the stage of completion for series deliveries because this method directly reflects the relationship between the value of the previously transferred goods and the value of the remaining contractually promised goods.

DEVELOPMENT COSTS

Development costs are capitalized in accordance with the accounting policy described. The initial capitalization of costs is based on the Group's assessment that technical and economic feasibility has been established. To determine the amounts to be capitalized, the Group makes assumptions as to the project's future cash flows, the applicable discount rates and the period over which the expected future benefit will accrue. The carrying amount of capitalized development costs on December 31, 2018 was EURk 4,262 (p/y: EURk 3,426). These development costs mainly consisted of investments in the development of instrument panel carriers and steering components. Series orders are on hand for these projects.

AGGREGATION OF BUSINESS SEGMENTS

With five production locations worldwide as the Group's key units, the Group's structure ensures fast decision-making and thus the effective management of the Group. The individual locations also have flat hierarchies and are spread across Europe, with the German location and the Company's headquarters in Oberkirch and the Czech location in Valašské Meziříčí, North America with the Canadian location in Kitchener and the location in Puebla, Mexico and Asia with the location in Suzhou, China. These locations result in the breakdown of the operating business and the business segments into Germany, Rest of Europe, North America and Asia. The locations of Canada and Mexico were combined into the reporting segment "North America." Further details are described in Note 31.

ESTIMATES AND ASSUMPTIONS

The most important forward-looking assumptions and other key sources of estimation uncertainties existing on the reporting date that result in a significant risk that a material adjustment to the carrying amounts of assets and liabilities will be required within the next fiscal year are discussed below:

IMPAIRMENT OF TRADE RECEIVABLES

Impairment of doubtful receivables involves a significant degree of judgment and an assessment of the individual receivables based on the creditworthiness of the relevant customers, current economic trends and an analysis of historical receivables. If the Company derives the impairment from historical default rates, a decline in the volume of receivables reduces the amount of impairment and vice versa. Impairment of for trade receivables and other receivables in the reporting year amounted to EURk 63 (p/y: EURk 292). The default risk is therefore generally low.

IMPAIRMENT OF GOODWILL

The Group performs impairments tests for goodwill at least once a year. This requires making estimates with regard to the value in use of cash-generating units to which goodwill is allocated. Cash-generating units are defined as the production locations in accordance with the segments reporting. For the purpose of estimating value in use, the Group is required to estimate the projected future cash flows associated with the relevant cash-generating unit, as well as to select an appropriate discount rate in order to determine the present value of the aforementioned cash flows. The carrying amount of goodwill on December 31, 2018 was EURk 5,301 (p/y: EURk 5,337). For information on sensitivity, please refer to Note 5 and the section titled "Intangible Assets."

TAXES

Deferred tax assets are recognized for all unutilized tax loss carryforwards and tax credits, to the extent that, based on tax planning, it is probable that future taxable profit will be available against which the unused tax losses and tax credits can actually be utilized. As of December 31, 2018, deferred tax assets of EURk 631 (p/y: EURk 0) relating to unutilized tax loss carryforwards and EURk 6,520 (p/y: EURk 7,310) relating to tax credits were recognized. Tax loss carryforwards concern PWO de México and the tax credits concern PWO Czech Republic.

Had the Group been able to capitalize all unrecognized deferred tax assets, the net income for the period and equity would be EURk 5,692 (p/y: EURk 7,845) higher.

It is assumed that the deferred tax assets will retain their value due to the planned business development for the subsequent years. Determining the amount of deferred tax assets requires a significant amount of estimation with regard to the timing and the amount of future taxable profit and future tax planning strategies. On December 31, 2018, deferred tax assets recognized for tax loss carryforwards translated into euros at the closing date amounted to EURk 2,105 (p/y: EURk 0), and the unrecognized tax loss carryforwards, which may be utilized for a limited period, amounted to EURk 19,997 (p/y: EURk 27,872). Further details are described in Note 13.

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The expiration of the unrecognized tax loss carryforwards, which may be utilized for a limited period, is presented below:

EURk

	31/12/2018	31/12/2017
Within a period of 1 year	4,218	1,728
Within a period of 2 years	320	900
Within a period of 3 years	1,602	4,326
Within a period of 4 years	0	1,519
Within a period of 5 years	0	3,124
Subsequent years	13,857	16,275
TOTAL	19,997	27,872

DEFINED BENEFIT PLANS

Expenses related to post-employment defined benefit plans are determined on the basis of actuarial methods. The actuarial valuation is conducted on the basis of assumptions about discount rates, staff turnover, future wage and salary increases (income and career trends), future pension increases and mortality. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are described in Note 22 in the section titled "Pension Provisions."

In accordance with IAS 19, the discount rate is calculated based on high-quality corporate bonds as of the reporting date. For this purpose, a yield curve is calculated based on the yields of bonds available on the market with a rating of AA. The average discount rate is derived by applying the yield curve to PWO's future cash flows.

FINANCIAL DERIVATIVES

The syndicated loan agreement concluded in 2016 and maturing in 2023 contains an interest rate floor of 0.00%. The nominal volume for this embedded interest rate derivative is based on a proper estimate based on financial planning.

NOTES TO THE INCOME STATEMENT

7 REVENUE

The breakdown of Group revenue by location and product area from the sale of goods is shown in the segment reporting (see Note 31).

8 OTHER OWN WORK CAPITALIZED

Own work capitalized consists of EURk 1,719 (p/y: EURk 1,141) of development costs subject to mandatory capitalization according to IAS 38. These development costs mainly relate to investments in the development of instrument panel carriers. Series orders are on hand for these projects.

9 OTHER OPERATING INCOME

Other operating income is divided as follows:

EURk		
	2018	2017
Currency gains	7,398	8,507
Income from derecognition of accruals	444	429
Other income	2,852	3,785
TOTAL	10,694	12,721

Non-periodic income amounted to EURk 696 (p/y: EURk 862) in the reporting year.

10 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk		
	2018	2017
Wages and salaries	104,661	100,429
Social security and post-employment costs	22,568	20,774
TOTAL	127,229	121,203

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YEAR'S AVERAGE NUMBER OF EMPLOYEES BY DIVISION

	2018	2017
Development and sales	203	191
Production and materials	1,975	1,948
Tool center	473	451
Administration	139	132
PERMANENT WORKFORCE	2,790	2,722
Temporary employees	408	409
Trainees	142	133
Inactive employees in phased retirement	104	94
TOTAL WORKFORCE	3,444	3,358

11 OTHER OPERATING EXPENSES

Other operating expenses are divided as follows:

EURk

	2018	2017
Costs for temporary employees	15,754	14,781
Currency losses	8,546	11,338
Maintenance costs	6,597	6,788
Outgoing freight	4,178	4,790
Travel costs	2,135	2,205
Minimum lease payments under operating leases	1,955	1,768
Rental costs	1,706	1,413
Legal, audit and consultancy costs	2,265	1,343
Insurance premiums	1,310	1,247
Other expenses	9,123	11,137
TOTAL	53,569	56,810

The increase in expenses for temporary workers is a result of wage increases and higher demand for better qualified temporary workers for the temporary support of contract- and customer-related development projects. The increase in legal, audit and consulting costs is attributable to strategic advice received at the beginning of the 2018 fiscal year.

Non-periodic expenses amounted to EURk 129 (p/y: EURk 41).

12 FINANCIAL EXPENSES

EURk

	2018	2017
Interest expenses paid to financial institutions	5,224	4,774
Interest expenses for interest-rate swaps	84	58
Interest expenses for interest accrued on pension provisions	1,007	1,077
Interest expenses under finance lease contracts	334	316
TOTAL	6,649	6,225
of which interest expenses for financial instruments classified as "amortized cost"	4,052	3,798

13 INCOME TAXES

Taxes recognized in other comprehensive income amounted to EURk -324 (p/y: EURk -1,068).

Income taxes recognized in the net income for the period are divided as follows:

EURk

	2018	2017
Actual taxes	4,138	6,012
Deferred taxes	1,087	-1,368
TOTAL	5,225	4,644

Due to the tax audit for the years 2012 to 2015 carried out at Progress-Werk Oberkirch AG, which had started in the 2017 fiscal year and was completed in the year under review, non-periodic taxes totaled EURk 626 (p/y: EURk 1,257). The non-periodic actual income taxes amounted to EURk 975, in contrast to the recognition of deferred tax income of EURk 349.

Deferred taxes resulted entirely from temporary differences.

Deferred taxes were not recognized for temporary differences in retained profits from subsidiaries totaling EURk 24,586 (p/y: EURk 25,015) because these profits will be used to fund the further business expansion of the individual locations.

The differences between the expected income tax expense based on the calculated tax rate and the actual income tax expense have been outlined in the following reconciliation. The tax rate applied is based on the domestic income tax rate.

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EURk

	2018	2017
EARNINGS BEFORE INCOME TAXES	11,890	14,703
Theoretical tax expense at 28.43% (p/y: 28.43%)	3,380	4,180
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-717	-637
Tax increase due to non-deductible expenses	2,153	1,022
Tax increase (+) / reduction (-) previous years	626	1,257
Taxes on foreign dividends	100	73
Tax effects from tax credits	344	-2,195
Effects from non-capitalized tax loss carryforwards	-661	936
Other effects	0	8
INCOME TAXES	5,225	4,644

The domestic income tax rate consists of the corporate tax rate of 15% (p/y: 15%) plus a solidarity surcharge of 5.5% (p/y: 5.5%) and a trade tax rate of 12.60% (p/y: 12.60%). The trade tax rate is derived from the average trade tax rate multiplier of 360% (p/y: 360%).

Deferred tax assets and deferred tax liabilities for each balance sheet item are shown in the following table:

EURk

	Deferred tax assets		Deferred tax liabilities	
	2018	2017	2018	2017
Intangible assets and property, plant and equipment	0	26	4,845	4,136
Other assets	7,513	1,176	7,422	580
Tax loss carryforwards and tax credits	7,151	7,310	0	0
Provisions	8,857	9,892	0	0
Liabilities	1,505	684	322	579
SUBTOTAL	25,026	19,088	12,589	5,295
Netted amount	-12,589	-4,577	-12,589	-4,577
TOTAL RECORDED ON THE GROUP BALANCE SHEET	12,437	14,511	0	718

For further details, please refer to Note 6.

14 EARNINGS PER SHARE

Earnings per share are computed by dividing net income for the period attributable to PWO AG shareholders by the weighted average number of shares outstanding during the fiscal year. Dilution effects from stock options or convertible preferred shares did not occur.

	2018	2017
Net income for the period in EURk	6,666	10,059
Average number of no-par value shares	3,125,000	3,125,000
Earnings per share in EUR	2.13	3.22

NOTES TO THE BALANCE SHEET

15 PROPERTY, PLANT AND EQUIPMENT

EURk

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Prepayments and assets under construction	Total
ACQUISITION AND PRODUCTION COSTS					
As of Jan. 1, 2017	121,415	254,268	43,451	9,883	429,017
Additions	5,846	10,720	2,519	11,438	30,523
Disposals	-1,478	-3,523	-5,054	0	-10,055
Reclassifications	1,135	5,613	243	-6,991	0
Currency effects	-2,497	-5,911	-1,492	-196	-10,096
AS OF DEC. 31, 2017	124,421	261,167	39,667	14,134	439,389
Additions	825	17,908	1,410	12,964	33,107
Disposals	-593	-6,024	-4,146	0	-10,763
Reclassifications	254	12,757	22	-13,033	0
Currency effects	-149	220	159	374	604
AS AT DEC. 31, 2018	124,758	286,028	37,112	14,439	462,337
DEPRECIATION					
As of Jan. 1, 2017	36,539	184,643	31,198	0	252,380
Additions	3,829	14,813	4,258	0	22,900
Disposals	-1,455	-3,177	-4,942	0	-9,574
Currency effects	-629	-3,259	-1,079	0	-4,967
AS OF DEC. 31, 2017	38,284	193,020	29,435	0	260,739
Additions	4,119	14,761	3,752	0	22,632
Disposals	-593	-5,767	-4,127	0	-10,487
Currency effects	-48	-132	137	0	-43
AS OF DEC. 31, 2018	41,762	201,882	29,197	0	272,841
CARRYING AMOUNTS					
As of Dec. 31, 2017	86,137	68,147	10,232	14,134	178,650
As of Dec. 31, 2018	82,996	84,146	7,915	14,439	189,496

The useful life of buildings is 25 to 50 years. The useful life of technical equipment and machinery is 2 to 10 years and 3 to 14 years for other equipment, operating and office equipment. The useful life of IT hardware is 3 to 5 years.

No impairment losses were recognized on property, plant and equipment in both the reporting and the prior year.

16 INTANGIBLE ASSETS

EURk

	Contract and customer-related development services	Industrial property rights and similar rights	Goodwill	Other intangible assets	Prepayments	Total
ACQUISITION AND PRODUCTION COSTS						
As of Jan. 1, 2017	9,284	16,050	6,839	1,174	2	33,349
Additions	1,141	951	0	0	146	2,238
Disposals	-558	-78	0	0	0	-636
Currency effects	-7	-65	-172	-142	0	-386
AS OF DEC. 31, 2017	9,860	16,858	6,667	1,032	148	34,565
Additions	1,719	509	0	0	0	2,228
Disposals	-122	-60	0	0	0	-182
Reclassifications	0	147	0	0	-147	0
IFRS 15 adjustment	0	-1,283	0	0	0	-1,283
Currency effects	-5	64	2	49	0	110
AS OF DEC. 31, 2018	11,452	16,235	6,669	1,081	1	35,438
AMORTIZATION						
As of Jan. 1, 2017	5,955	13,327	1,441	1,174	0	21,897
Additions	594	935	0	0	0	1,529
Disposals	-107	-78	0	0	0	-185
Currency effects	-8	-47	-111	-142	0	-308
AS OF DEC. 31, 2017	6,434	14,137	1,330	1,032	0	22,933
Additions	883	759	0	0	0	1,642
Disposals	-122	43	0	0	0	-79
IFRS 15 adjustment	0	-111	0	0	0	-111
Currency effects	-6	-18	38	49	0	63
AS OF DEC. 31, 2018	7,189	14,810	1,368	1,081	0	24,448
CARRYING AMOUNTS						
As of Dec. 31, 2017	3,426	2,721	5,337	0	148	11,632
As of Dec. 31, 2018	4,263	1,425	5,301	0	1	10,990

The useful life of software is 3 to 5 years.

Development costs of EURk 4,262 (p/y: EURk 3,426) that required capitalization under IAS 38 are amortized using the units of production method as soon as development is complete, and production of series parts commences.

As of December 31, 2018, the goodwill of PWO Canada in the "North America" segment amounted to EURk 970 (p/y: EURk 1,007), and the goodwill of PWO Czech Republic in the "Rest of Europe" segment amounted to EURk 4,331 (p/y: EURk 4,331). The decrease at PWO Canada resulted from a change in foreign exchange rates.

17 CONTRACT BALANCES

With the implementation of the new IFRS 15 standard, contract assets were capitalized for the first time.

EURk

	2018	2017
As of Jan. 1	0	0
Addition to non-current contract assets	22,925	0
Addition to current contract assets	16,663	0
AS OF DEC. 31	39,588	0

Contract assets result from customer-specific tool sales in the run-up to a series delivery, which are compensated for as of the start of the series delivery. At the time of completion of the tools, revenues are recognized in full and deferred as contract assets over the period of series delivery. Impairment losses were not required for the contract assets in the reporting year or in the previous year.

Contract liabilities represent prepayments received for customized finished goods, which have not yet been delivered to the customer.

18 INVENTORIES

The decline in inventories from EURk 117,343 in the previous year to EURk 87,282 in the year under review is due to the first-time application of IFRS 15. As a result of the transition, finished goods of EURk 39,588 were reported as contract assets in 2018. Adjusted for additions to for, sales and profit, this value was included in inventories until 2017.

CHANGE IN ESTIMATES ACCORDING TO IAS 8.32

Inventories include OEM-related tool spare parts in the amount of EURk 10,546 (p/y: EURk 7,677). In the 2018 fiscal year, a write-up in the amount of EURk 1,166 (p/y: impairment of EURk 830) and a reversal of impairment due to the continued use of already impaired tool spare parts in the amount of EURk 250 (p/y: EURk 250) were carried out. The write-up is essentially based on a change in the assumptions used to estimate the expected net realizable value.

The Company carried out an internal analysis in the 2018 fiscal year which, based on increasing empirical values, showed that individual impairment of tool spare parts after effective scrapping more accurately reflects the amount that is expected to be recoverable for the tool spare parts than the impairment made so far on the basis of the estimated marketability.

The impact of the revised assumptions for future fiscal years cannot be assessed, as the scrapping of tool spare parts depends on customer clearance.

19 RECEIVABLES AND OTHER ASSETS

As of December 31, 2018, impairment on trade receivables and other receivables amounted to EURk 63 (p/y: EURk 292). The carrying amount of trade receivables and other receivables before impairment was EURk 42,140 (p/y: EURk 48,553). The following table shows the development of the valuation allowance account:

EURk		
	2018	2017
Impairment losses as of Jan. 1	292	310
Additions under IFRS 9	20	0
Additions	21	9
Utilization	0	-24
Releases	-269	-3
IMPAIRMENT LOSSES AS OF DEC. 31	63	292

For receivables of a relevant amount, allowances are recognized according to uniform standards and at the level of the incurred loss. Potential impairment is assumed in the presence of various factors such as late payments over a specified period, the initiation of compulsory measures, threat of default or insolvency, the filing or commencement of insolvency proceedings, or the failure of restructuring measures.

Impairment on doubtful accounts is regularly recorded on separate impairment accounts and lead to an impairment loss through profit or loss, which is recognized in other operating expenses. The allocation to and resulting increase in the impairment losses during the year concerned only a few isolated cases. Definite defaults result in derecognition of the relevant receivables. Due to the first-time application of IFRS 9, a portfolio-based impairment on the basis of the expected loss rate was recognized in the reporting year that was derived from a custom-related credit rating model.

20 CASH AND CASH EQUIVALENTS

Deposits at banks bear interest at variable interest rates for short-term call deposits. On December 31, 2018, the Group had undrawn credit lines for which all necessary conditions for use are already met.

On December 31, 2018, for purposes of the consolidated statement of cash flows, the balance of cash and cash equivalents of EURk 10,382 (p/y: EURk 9,195) consisted of cash on hand and bank deposits net of bank borrowings due on demand that are part of the Group's cash management. The carrying amount of these assets is equivalent to their fair value.

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21 EQUITY

SUBSCRIBED CAPITAL

As of December 31, 2018, fully paid-in subscribed capital amounted to EURk 9,375 (p/y: EURk 9,375) divided into 3,125,000 no-par value shares (p/y: 3,125,000 shares).

AUTHORIZED CAPITAL

Subject to the consent of the Supervisory Board, the Management Board is authorized by resolution of the Annual General Meeting on May 19, 2015 to increase the Company's share capital once or several times by up to a total of EUR 4,687,500.00 (Authorized Capital 2015) by issuing new no-par value bearer shares against payment in cash and/or in kind until and including the date of May 18, 2020.

CAPITAL RESERVES

Capital reserves include the premium from the issuance of shares.

RETAINED EARNINGS AND OTHER RESERVES

Current and previous years' earnings of PWO AG and the consolidated subsidiaries, which have not yet been distributed, have been allocated to retained earnings.

Differences resulting from the earnings-neutral currency translation of the financial statements of foreign subsidiaries in the amount of EURk 1,066 (p/y: EURk 2,206) are reported separately in the statement of changes in equity.

In addition, the portion of the profit or loss is recognized when it results from a cash flow hedging instrument, which has been determined as an effective hedge, as well as the actuarial gains and losses from defined benefit retirement plans.

PROPOSED AND DISTRIBUTED DIVIDENDS

On December 31, 2018, PWO AG reported unappropriated retained earnings of EURk 4,251. The calculation of distributable profits is based on the provisions of the German commercial law.

It has been proposed to the Annual General Meeting that PWO AG's unappropriated retained earnings be used as follows:

	TEUR
Payment of a dividend of EUR 1.10 per dividend-bearing no-par value share	3,438
Payment of an anniversary dividend of EUR 0.25 per dividend-bearing no-par value share	781
Carried forward to new account	32

In fiscal year 2018, a total dividend of EURk 5,156 (EUR 1.65 per dividend-bearing share) was paid for the 2017 fiscal year. The dividend payment in the 2017 fiscal year for the 2016 fiscal year amounted to EURk 5,000 (EUR 1.60 per dividend-bearing share).

NOTIFICATIONS PURSUANT TO SECTION 33 WPHG (UNTIL JANUARY 2, 2018: SECTION 21 WPHG)

As of the balance sheet date December 31, 2018, the Company has received the following notifications concerning shareholdings in Progress-Werk Oberkirch AG. When shareholdings repeatedly exceeded or fell below reporting thresholds, only the most recent release of the person required to notify is listed. Changes in the voting rights not required to be reported to the Company may have occurred after the dates indicated.

On August 1, 2016, we were notified by Delta Lloyd N.V., Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.88% (89,877 voting rights) on July 27, 2016.

On July 8, 2016, we were notified by Delta Lloyd Europees Deelnemingen, Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.96% (92,444 voting rights) on July 5, 2016.

On June 2, 2016, we were notified by Delta Lloyd N.V., Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 5% threshold and amounted to 4.97% (155,337 voting rights) on May 30, 2016.

On February 19, 2016, we were notified by Delta Lloyd Europees Deelnemingen, Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 5% threshold and amounted to 4.97% (155,452 voting rights) on February 17, 2016.

On February 4, 2016, we were notified by Delta Lloyd L SICAV, Luxembourg, Grand Duchy of Luxembourg, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.99% (93,525 voting rights) on February 2, 2016.

On May 23, 2012, we were notified by Consult Invest Beteiligungsberatungs-GmbH, Böblingen, Germany, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 50% threshold and amounted to 46.65% (1,458,048 voting rights) on May 18, 2012.

On May 21, 2012, we were notified by Sparkasse Offenburg/Ortenau, Offenburg, Germany, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, exceeded the 5% threshold and amounted to 5.88% (183,667 voting rights) on May 18, 2012.

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22 LIABILITIES

PENSION PROVISIONS

DEFINED CONTRIBUTION PLANS

The Group has defined contribution plans. These resulted in recognized staff costs at PWO Canada Inc. in the amount of EURk 157 (p/y: EURk 158) and PWO Czech Republic in the amount of EURk 255 (p/y: EURk 228).

The Group also contributes to statutory pension insurance schemes in the amount of currently applicable percentage of the employer's share of obligatory pension compensation totaling EURk 9,989 (p/y: EURk 9,315), which were also included in staff costs. The statutory pension system also constitutes a defined contribution plan.

DEFINED BENEFIT PLANS

The Group maintains defined benefit plans, whereby the majority of obligations for defined benefit plans concern PWO AG. Total provisions of EURk 95 (p/y: EURk 74) are attributable to PWO de México. The provision to be recognized pursuant to Mexican law includes obligations for employee benefits, depending upon their length of employment and the salary received during their service.

Provisions for pensions and similar obligations are recognized on the basis of pension plan entitlements for retirement, invalidity and survivor dependent benefits. The retirement benefits are based on salary and length of service. The obligations include those arising from current pensions as well as benefits for pensions and retirement allowances payable in the future. Plan assets to meet pension obligations do not exist.

The following tables present the components of the expenses for retirement benefits recognized in the income statement and the amounts recognized in the balance sheet.

The amounts recognized in the income statement consist of the following:

EURk

	2018	2017
Current service cost	1,288	1,224
Past service cost	0	-499
Interest expenses for defined benefit obligations	1,007	1,077
TOTAL	2,295	1,802

The following table presents the adjustments recognized in other comprehensive income:

EURk		
	2018	2017
Adjustments due to changes in demographic assumptions	438	0
Adjustments due to changes in financial assumptions	-4,275	-2,106
Experiential adjustments	727	261
TOTAL	-3,110	-1,845

The changes in the present value of defined benefit obligations are as follows:

EURk		
	2018	2017
Present value of defined benefit obligations as of Jan. 1	56,495	54,467
Service cost	1,288	1,224
Past service cost	0	-499
Interest expenses	1,007	1,077
Pension payments rendered	-1,570	-1,612
Adjustments due to changes in demographic assumptions	438	0
Adjustments due to changes in financial assumptions	-4,275	2,107
Experiential adjustments	727	-261
Foreign currency differences	2	-8
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AS OF DEC. 31	54,112	56,495

Of the recognized pension provisions, EURk 52,509 (p/y: EURk 54,954) are non-current and EURk 1,602 (p/y: EURk 1,541) are current.

The adjustments from the change in demographic assumptions result from the first-time application of the new RT Heubeck 2018 G mortality tables from Prof. Dr. Klaus Heubeck for the 2018 fiscal year.

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The measurement of the defined benefit obligations is based on the following actuarial assumptions:

	2018	2017
Interest rate	2.20%	1.80%
Employee turnover rate	2.50%	2.50%
Future salary trend > 40 years	2.50%	2.50%
Future salary trend < 40 years (career trend)	3.50%	3.50%
Future pension increases	1.75%	1.75%
Mortality	RT Heubeck 2018 G	RT Heubeck 2005 G

The defined benefit obligations have an average remaining term of 19 years (p/y: 19 years) in the reporting year.

The following table shows a sensitivity analysis with the key assumptions as of December 31, 2018:

EURk

	Scenario			
Assumption	Increase of		Decline of	
Discount rate	1.00%	-8,758	1.00%	11,762
Staff turnover rate	0.50%	-129	0.50%	-55
Future salary increases (income trend)	0.25%	-30	0.25%	-159
Future salary increases (career trend)	0.50%	0	0.50%	-189
Future pension increases	0.25%	1,613	0.25%	-1,725
Average life expectancy	1 year	2,245	--	--

The DBO sensitivity analyses for the relevant actuarial assumptions were carried out using the same measurement procedure (the projected unit credit method) used to determine the obligations for employee benefits following a termination of the employment relationship recorded in the balance sheet. The effect of changes in assumptions was determined separately and, therefore, possible correlation effects were not analyzed.

The following amounts are expected to be paid as current pensions over the next few years as part of the defined benefit obligation:

EURk

	2018	2017
Within the next 12 months	1,619	1,541
Within 2 to 5 years	7,052	6,777
Within 5 to 10 years	10,803	10,063
TOTAL EXPECTED PAYMENTS	19,474	18,381

OTHER PROVISIONS

Other provisions consist of necessary amounts for employee-related expenses and other identifiable obligations and risks. The provisions recognized in the balance sheet include mainly provisions for employees (obligations for phased retirement and anniversary bonuses) and provisions for contingent losses. It is expected that the total amount of obligations for phased retirement will accrue within five years after the reporting date.

Other provisions have developed as follows:

EURk

	Personnel-related provisions		Provisions for contingent losses	
	2018	2017	2018	2017
As of Jan. 1	2,758	2,769	180	194
Utilization	-1,043	-1,068	0	0
Reversal	0	-6	-18	-14
Additions	813	1,063	0	0
AS OF DEC. 31	2,528	2,758	162	180
of which non-current	1,426	1,708	55	75
of which current	1,102	1,050	107	105

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FINANCIAL LIABILITIES

EURk

	Current				Non-current		Total financial liabilities	
	< 1 year		1 to 5 year		> 5 years			
	2018	2017	2018	2017	2018	2017	2018	2017
Bank borrowings	34,540	41,719	27,450	21,793	3,276	369	65,266	63,881
Liabilities from promissory notes	14,968	0	24,947	39,889	24,948	24,930	64,863	64,819
Liabilities to leasing companies	2,382	2,044	7,359	2,749	1,871	1,590	11,613	6,383
TOTAL	51,890	43,763	59,756	64,431	30,095	26,889	141,741	135,083

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

EURk

	01/01/2018	Cash-effective changes	Change due to maturity	Non-cash changes		31/12/2018
				New lease contracts	Currency effects	
Non-current loans	86,981	8,427	-14,968	0	181	80,621
Current loans	41,719	-7,190	14,968	0	11	49,508
Lease liabilities	6,383	-2,925	0	8,155	0	11,613
TOTAL	135,083	-1,688	0	8,155	192	141,741

EURk

	01/01/2017	Cash-effective changes	Change due to maturity	Non-cash changes		31/12/2017
				New lease contracts	Currency effects	
Non-current loans	83,175	4,351	0	0	-545	86,981
Current loans	37,083	5,486	0	0	-850	41,719
Lease liabilities	6,214	-2,385	0	2,554	0	6,383
TOTAL	126,472	7,452	0	2,554	-1,395	135,083

Current bank liabilities of EURk 4,322 (previous year: EURk 7,755) included in current loans are allocated to cash funds.

The financial management of the PWO Group is ensured through compliance with internal financing regulations. The Group's financing is secured in the long term by sufficient unutilized credit lines and is primarily based on a syndicated loan and promissory notes with market-based interest rates and customary financial covenants. The financial covenants were met as of December 31, 2018.

Financial liabilities generally have interest rates between 0.88% and 7.75% (p/y: 0.89% and 7.90%). The higher interest rates are mainly on subordinated, local financing of individual subsidiaries.

Bank borrowings repayable on demand amounted to EURk 4,322 (p/y: EURk 7,755). Of the bank borrowings, EURk 5,984 (p/y: EURk 6,744) are secured by mortgages and EURk 11,613 (p/y: EURk 8,491) by assignment as security. In addition, the usual retention of proprietary rights exists for the supply of raw materials, supplies and merchandise.

FINANCE LEASES AND HIRE-PURCHASE AGREEMENTS

Finance leases are used for various technical equipment and machinery. In some cases, these leases contain a purchase option for the lessee. As of December 31, 2018, the assets had a carrying amount of EURk 10,846 (p/y: EURk 5,132). Due to the structure of the leases, the assets are depreciated over their expected useful life, pursuant to IAS 17.28, rather than according to the term of the lease agreement.

The future minimum lease payments under finance leases and hire-purchase agreements are reconciled to their present value as follows:

EURk

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	2018	2017
Residual term up to 1 year	2,670	2,358	2,383	2,044
Residual term 1 to 5 years	8,023	3,398	7,359	2,749
Residual term > 5 years	2,054	1,951	1,871	1,590
TOTAL MINIMUM LEASE PAYMENTS	12,747	7,707	11,613	6,383
Less interest portion	-1,134	-1,324	0	0
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	11,613	6,383	11,613	6,383

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CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

A guarantee to secure phased retirement credits amounted to EURk 1,400 (p/y: EURk 1,400) as of the reporting date.

As of December 31, 2018, other financial obligations, including purchase commitments, totaled EURk 30,169 (p/y: EURk 17,330). The following amounts apply to subsequent fiscal years according to maturity:

EURk

	Obligations from non-cancellable operating lease and rental agreements		Order commitments from investments in property, plant and equipment		Order commitments from investments in intangible assets		Other financial obligations	
	2019 ff.	2018 ff.	2019 ff.	2018 ff.	2019 ff.	2018 ff.	2019 ff.	2018 ff.
Residual term up to 1 year	2,206	1,787	17,500	10,884	58	19	171	180
Residual term 1 to 5 years	4,381	2,657	0	0	0	0	684	684
Residual term > 5 years	4,387	165	0	0	0	0	783	954
TOTAL	10,974	4,609	17,500	10,884	58	19	1,638	1,818

In some cases, the existing operating leases contain extension and call options.

23 OFF-BALANCE SHEET TRANSACTIONS

The Group continuously sells trade receivables to generate the liquid assets required to finance the operating business and facilitate better liquidity planning. All material risks have been transferred to the factor. As of December 31, 2018, receivables with a nominal value of EURk 19,538 (p/y: EURk 19,324) were sold. The transferred receivables are current receivables where the carrying amount corresponds to the fair value of the assets transferred.

24 FINANCIAL RISK MANAGEMENT

The Group's financial risk management system is focused on the uncertainty of future financial market developments and aims at the minimization of adverse effects for the overall financial strength of the Group. The Management Board has the lead responsibility for this risk management system and also sets out the general principles for risk management and defines the procedures. All significant concentrations of risk are shown in the Notes and the management report.

The key risks are described in the following:

CREDIT RISK

Credit risk arises when counterparties fail to fully meet their obligations upon the maturing of financial instruments. The credit risk from trade receivables and other receivables is controlled by PWO AG and its subsidiaries based on uniform standards, procedures and controls. The creditworthiness of the customer is regularly checked using credit reports and historical data. The customer's individual credit limits are set on the basis of these findings. Outstanding trade receivables and other receivables are regularly monitored by diligently managing receivables. Furthermore, commercial credit insurance was concluded for additional securing of a significant portion of the receivables. The need for valuation allowances is analyzed at each reporting date, and appropriate allowances are made. With the introduction of IFRS 9, a portfolio-based impairment is also recognized.

With regard to investments of cash and cash equivalents as well as the portfolio of derivative financial assets, the Group is exposed to potential losses from credit risks to the extent that financial institutions do not fulfill their obligations. PWO manages the resulting risk exposure through policies and guidelines of the Group Treasury as well as through diversification and the careful selection of financial institutions. In addition, all financial institutions are reviewed at regular intervals, particularly with the aim of quantifying their default risk. Currently, there are no cash and cash equivalents nor derivative financial assets which are overdue or impaired resulting from default.

As of December 31, 2018, the maximum credit risk of financial assets in the event of counter-party default was equivalent to the carrying amount of those instruments. Additional commercial credit insurance is being deducted for trade receivables and other receivables.

EURk

	2018	2017
Trade receivables and other receivables	42,090	48,261
Protection from commercial credit insurance	-22,178	-23,290
MAXIMUM DEFAULT RISK	19,912	24,971
Derivative financial assets	510	3,455
Cash and cash equivalents	10,382	9,195

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On December 31, 2018, the analysis of overdue but not impaired trade receivables and other receivables breaks down as follows:

EURk

	2018	2017
TRADE RECEIVABLES AND OTHER RECEIVABLES	42,090	48,261
of which neither overdue nor impaired	35,751	43,198
of which < 30 days overdue (but not impaired)	5,735	4,005
of which > 30-90 days overdue (but not impaired)	428	341
of which > 90-180 days overdue (but not impaired)	0	111
of which > 180-360 days overdue (but not impaired)	66	472
of which > 360 days overdue (but not impaired)	111	134

For overdue and unimpaired trade receivables and other receivables that are not subject to commercial credit insurance, portfolio-based impairment based on expected default rates in accordance with IFRS 9 were recognized as of the reporting date.

LIQUIDITY RISK

Liquidity risk arises when Group companies are unable to meet their financial obligations. There are sufficient credit lines available from a number of banks for our current level of business. Financing risks are limited by an appropriate combination of current and non-current liabilities. Long-term customer contracts and the related investments and pre-financing of services are generally financed on a long-term, project-specific basis. The Group has secured over half of its financing needs with long-term financing at fixed interest rates. Additional derivative interest rate hedges have been concluded when necessary.

The following table shows the maturities of the undiscounted cash flows resulting from the Group's financial liabilities as of the reporting date:

EURk

	< 1 year		1 to 5 years		> 5 years		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Bank borrowings	36,100	43,152	29,411	22,942	3,327	421	68,838	66,515
of which repayment of principal	34,540	41,719	27,450	21,793	3,276	369	65,266	63,881
of which interest payment	1,561	1,433	1,961	1,149	50	52	3,572	2,634
Liabilities from promissory notes	16,544	1,575	28,272	44,309	25,379	25,785	70,195	71,669
of which repayment of principal	14,968	0	24,947	39,889	24,948	24,930	64,863	64,819
of which interest payment	1,575	1,575	3,325	4,420	431	855	5,331	6,850
Liabilities to leasing companies	2,670	2,358	8,023	3,398	2,054	1,951	12,747	7,707
of which repayment of principal	2,383	2,044	7,359	2,749	1,871	1,590	11,613	6,383
of which interest payment	287	314	664	649	183	361	1,134	1,324
Trade payables	38,208	36,943	0	0	0	0	38,208	36,943
Derivative financial instruments with hedging relationship	617	0	0	0	0	0	617	0
Derivative financial instruments without hedging relationship	1,862	76	2,626	699	3	5	4,491	780
Other remaining financial liabilities	4,750	7,709	0	0	0	0	4,750	7,709

The amounts of derivative financial instruments presented in the maturity overview correspond to the undiscounted cash flows on a gross basis.

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The following table shows the undiscounted cash inflows and outflows of foreign currency derivatives with and without a hedging relationship:

EURk

Foreign currency derivatives with hedging relationship								
	< 1 year		1 to 5 years		> 5 years		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash inflow	49,516	44,017	47,453	38,611	0	0	96,969	82,628
Cash outflow	-50,133	-42,912	-47,445	-37,469	0	0	-97,578	-80,381
NET BALANCE	-617	1,105	8	1,142	0	0	-609	2,247
Foreign currency derivatives without hedging relationship								
	2018	2017	2018	2017	2018	2017	2018	2017
Cash inflow	39,352	32,167	14,410	12,753	0	0	53,762	44,920
Cash outflow	-40,910	-31,595	-16,275	-13,315	0	0	-57,185	-44,910
NET BALANCE	-1,558	572	-1,865	-562	0	0	-3,423	10

INTEREST RATE RISK

Interest rate risk arises when the fair value of financial instruments fluctuates due to changes in the market interest rate. In order to assess risks arising from changes in interest rates, as a matter of principle, financial instruments must be categorized as either fixed or variable interest rates, in accordance with IAS 32. Risks arising from changes in interest rates exist in the case of variable interest rate bank borrowings. These risks are addressed using interest rate swaps. Interest rate risks are determined by means of a sensitivity analysis. This shows the effects of changes in market interest rates on interest payments, interest income and expense, other income components and where applicable, the effects on equity.

The interest rate sensitivity analysis is based on the following assumptions:

Changes in the market interest rates of primary financial instruments with fixed interest rates only affect income if these instruments are measured at fair value. Accordingly, all financial instruments with fixed interest rates measured at amortized cost are not subject to interest rate risks as defined by IFRS 7. Currency derivatives are not accounted for due to their immateriality in the interest rate sensitivity analysis.

PWO is subject to interest rate risk at all locations. If the market interest rates at December 31, 2018 had been 100 basis points higher, earnings before taxes (EBT) would have been EURk 208 higher (p/y: EURk 16). If market interest rates as of December 31, 2018 had been 100 basis points lower, earnings before taxes (EBT) would have been EURk 689 lower (p/y: EURk 399).

CURRENCY RISK

The PWO Group's global orientation exposes the Group to a number of currency risks, whereby there is a distinction made between transaction and translation risks.

TRANSACTION RISK

Transaction risks arise for all PWO companies as a result of exchange rate-induced changes in the value of primary financial instruments and the conclusion of transactions with international counterparties, to the extent that they result in future cash flows in foreign currencies that are not denominated in the functional currency of the respective company.

Within the scope of the Group's financial risk management process, currency risks are monitored in accordance with the Global Foreign Currency Directive and controlled by Group Treasury with appropriate countermeasures. The objective of risk management is to limit the impact of currency risks on future cash flows to an acceptable level. Part of the currency risk is mitigated by sourcing merchandise, commodities and services in the relevant foreign currencies and producing in local markets. Appropriate hedging transactions are concluded to reduce the remaining risks. Within the PWO Group, hedging transactions are permitted only to the extent that the corresponding underlying transactions exist at the time of the hedging decision and can be proven to be a highly probable forecast of demand.

The PWO companies are responsible for identifying, assessing and monitoring their own transaction-related foreign currency risks. However, depending on the maturity, the net foreign currency position of the respective PWO company is never hedged by more than 100% within defined bandwidths. Group-internal financing of PWO companies in the respective functional currency is given priority and hedged at a level of 100% at the Group level.

Hedge accounting in accordance with IAS 39 (Cash Flow Hedges) is used for derivative hedges for underlying transactions with future expected but not yet offsetting cash flows in foreign currencies.

TRANSLATION RISK

Some PWO companies are operating outside the eurozone. Since the consolidated financial statements are prepared in euros, the Group translates the financial statements of these companies into euros, which may result in exchange-rate-related differences. The hedging of these differences is not the primary objective of currency risk management.

A sensitivity analysis is conducted for each currency that constitutes a significant risk for the Company. This analysis is based on the following assumptions:

For the sensitivity analysis, the Group takes into account all monetary financial instruments that are not denominated in the functional currency of the respective separate entities. Thus, translation currency risk is not considered. The hypothetical effect on profit or loss and equity for each separate primary item included in the sensitivity analysis is determined by comparing the carrying amount (calculated on the basis of the closing rate) with the translation amount, which in turn is determined by applying a hypothetical exchange rate. Exchange rate effects from the hedging of intra-group financing through currency swaps or cross-currency swaps are not included because they are directly offset by currency fluctuations from underlying loans to affiliated companies.

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The following tables illustrate the currency risk with regard to the most important Group currencies.

SENSITIVITY OF EARNINGS BEFORE TAXES VERSUS A CHANGE IN EXCHANGE RATES

EURk

	Exchange rate development +10 %		Exchange rate development -10 %	
	2018	2017	2018	2017
EUR/CAD	-158	-68	148	77
EUR/CNY	-1,312	-1,933	1,078	1,582
EUR/CZK	122	101	-149	-124
EUR/MXN	37	25	-45	-30
EUR/USD	-900	-950	1,015	1,017
TOTAL	-2,211	-2,825	2,046	2,523

SENSITIVITY OF NET GAINS/LOSSES FROM CASH FLOW HEDGES RECOGNIZED IN EQUITY VERSUS A CHANGE IN EXCHANGE RATES

EURk

	Exchange rate development +10 %		Exchange rate development -10 %	
	2018	2017	2018	2017
EUR/CAD	6	49	-7	-60
EUR/CNY	0	0	0	0
EUR/CZK	-4,152	-3,815	5,074	4,663
EUR/MXN	-606	-373	741	456
EUR/USD	4,250	3,007	-5,195	-3,675
TOTAL	-502	-1,132	614	1,383

RAW MATERIAL PRICE RISK

The raw materials necessary for our production processes include primarily steel and, to a much lesser extent, aluminum. We purchase these metals on the world market from our long-time suppliers. The availability of raw materials is generally sufficient so that in the past there were no delivery bottlenecks. Going forward, we believe that we will be able to secure the necessary supply through the appropriate arrangements, even though the relevant requirements have risen.

In the past, we have always been able to pass on price increases in raw materials that have exceeded the range of fluctuation agreed to in our customer contracts through either customer-specific escalation clauses or by coming to an acceptable solution with customers.

Most of the framework contracts for raw materials were concluded for a period of 12 months. Only about 25% of demand was hedged through 6-month contracts. In doing so, we orientate ourselves to the duration of the contracts with the customers.

CAPITAL MANAGEMENT

The key target of our capital management is to secure the Group's liquidity and a high credit rating, including access to the financing markets at all times and the increase of the Group's value. Achievement of these targets includes the optimization of the capital structure, dividend policy, equity measures and reduction of liabilities.

Capital monitoring at PWO is based on the dynamic leverage ratio (financial liabilities less cash in relation to EBITDA) and the equity ratio (equity as a percentage of total assets). Under our financial strategy, the Group targets a dynamic leverage ratio of less than three years and an equity ratio of 30%.

DYNAMIC LEVERAGE RATIO

EURk

	2018	2017
Financial liabilities	141,741	135,083
Less cash and cash equivalents	-10,382	-9,195
NET FINANCIAL LIABILITIES	131,359	125,888
EBITDA¹	42,737	44,956
DYNAMIC LEVERAGE RATIO (IN YEARS)	3.1	2.8

¹ Earnings before interests, taxes, depreciation and amortization

EQUITY RATIO

EURk

	2018	2017
Equity	113,868	113,116
Total assets	405,607	393,725
EQUITY RATIO	28.1%	28.7%

25 FINANCIAL INSTRUMENTS

As of December 31, 2018, the following derivative financial instruments were not yet settled:

EURk

	Nominal value	Redemption 2018	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	1,250	2,737	548	1.67%	until 2020	-15
Interest rate floor of syndicated loan	51,800	0	28,500	0.00%	until 2023	-274
Interest rate floor of promissory note	3,000	0	3,000	0.00%	until 2024	-32
Cross currency swaps	4,762	0	4,762	2.80% to 6.90%	until 2023	-177
Currency hedging instruments without hedge accounting	57,185	0	57,185	--	2019 to 2021	-2,105
Currency hedging instruments with hedge accounting	98,510	0	98,510	--	2019 to 2023	-1,717

As of December 31, 2017, the following derivative financial instruments were not yet settled:

EURk

	Nominal value	Redemption 2017	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	4,584	385	3,236	1.55% to 2.19%	2018 to 2020	-30
Interest rate floor of syndicated loan	51,800	20,100	26,000	0,00%	until 2022	-173
Interest rate floor of promissory note	3,000	0	3,000	0,00%	until 2024	-28
Currency hedging instruments without hedge accounting	44,910	0	44,910	--	2018 to 2020	1,043
Currency hedging instruments with hedge accounting	81,767	0	81,767	--	2018 to 2022	1,927

PWO AG's syndicated loan agreement concluded in the 2016 fiscal year and maturing in 2023 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2018, this embedded interest rate derivative has a nominal volume of EURk 28,500 (p/y: EURk 26,000) and a market value of EURk -274 (p/y: EURk -173).

PWO AG's promissory note concluded in the 2017 fiscal year and maturing in 2024 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2018, this embedded interest rate derivative had a nominal volume of EURk 3,000 (p/y: EURk 3,000) and a market value of EURk -32 (p/y: EURk -28).

Cross-currency swaps were concluded in 2018 to hedge non-current loans to affiliated companies.

The market value changes of derivative financial instruments used to hedge future cash flows were recognized directly in equity and amounted to EURk -1,652 (p/y: EURk 4,275), including related tax effects.

As part of hedge accounting, EURk -447 (p/y: EURk 350) was derecognized from equity and recognized in profit or loss.

As of the reporting date, the assumption is that all planned transactions will occur. Furthermore, hedged cash flows are expected within the period specified in the table and would affect profits and losses.

Should transactions not materialize as planned, hedges may become ineffective. To avoid this, the Group uses hedging instruments that are adapted within a rolling hedging strategy.

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The following table lists the carrying amounts and fair values according to valuation categories and classes:

EURk

	Category		Carrying amount		Fair Value	
	IAS 39	IFRS 9 ¹	2018	2017	2018	2017
ASSETS						
Trade receivables and other receivables	LaR	AC	42,090	48,261	42,090	48,261
Other financial assets			510	3,455	510	3,455
of which derivatives with hedging relationship	n. a.	n. a.	203	2,346	203	2,346
of which derivatives without hedging relationship	FAHfT	FVtPL	307	1,108	307	1,108
of which deposits > 3 months	LaR	AC	0	0	0	0
Cash and cash equivalents	LaR	AC	10,382	9,195	10,382	9,195
LIABILITIES						
Financial liabilities			141,741	135,083	151,284	143,559
Bank borrowings	FLAC	AC	65,266	63,881	69,070	65,058
of which variable interest rate			6,470	14,273	6,470	14,273
of which fixed interest rate			58,796	49,608	62,600	50,785
Liabilities from promissory notes	FLAC	AC	64,863	64,819	69,834	70,833
of which variable interest rate			2,994	2,992	2,994	2,992
of which fixed interest rate			61,869	61,827	66,840	67,841
Liabilities to leasing companies	n. a.	n. a.	11,613	6,383	12,380	7,669
of which variable interest rate			0	0	0	0
of which fixed interest rate			11,613	6,383	12,380	7,669
Trade payables	FLAC	AC	38,208	36,943	38,208	36,943
Other financial liabilities			9,580	8,420	9,580	8,420
of which derivatives with hedging relationship	n. a.	n. a.	1,919	420	1,919	420
of which derivatives without hedging relationship	FLHfT	FVtPL	2,911	292	2,911	292
of which others	FLAC	AC	4,750	7,709	4,750	7,709
OF WHICH AGGREGATED ACCORDING TO MEASUREMENT CATEGORIES						
Loans and Receivables	LaR	AC	52,472	57,456	52,472	57,456
Financial Liabilities Measured at Amortized Cost	FLAC	AC	173,087	173,352	181,862	180,543
Financial Assets Held for Trading	FAHfT	FVtPL	307	1,108	307	1,108
Financial Liabilities Held for Trading	FLHfT	FVtPL	2,911	292	2,911	292

¹ AC: Amortized Cost | FVtPL: Fair Value through Profit & Loss

Financial instruments measured at fair value were classified in the fair value hierarchy as follows:

EURk

	Level 1		Level 2		Level 3		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS MEASURED AT FAIR VALUE								
Other financial assets	0	0	510	3,454	0	0	510	3,454
of which derivatives with hedge relationship	0	0	203	2,346	0	0	203	2,346
of which derivatives without hedge relationship	0	0	307	1,108	0	0	307	1,108
ASSETS FOR WHICH A FAIR VALUE IS DISCLOSED								
Trade receivables and other receivables	0	0	42,090	48,261	0	0	42,090	48,261
Cash and cash equivalents	0	0	10,382	9,195	0	0	10,382	9,195
LIABILITIES MEASURED AT FAIR VALUE								
Other financial liabilities	0	0	9,306	8,247	274	173	9,580	8,420
of which derivatives with hedge relationship	0	0	1,919	420	0	0	1,919	420
of which derivatives without hedge relationship	0	0	2,637	118	274	173	2,911	291
of which other	0	0	4,750	7,709	0	0	4,750	7,709
LIABILITIES FOR WHICH A FAIR VALUE IS DISCLOSED								
Fixed-interest rate banks borrowings	0	0	62,600	50,785	0	0	62,600	50,785
Variable-interest rate bank borrowings	0	0	6,470	14,273	0	0	6,470	14,273
Fixed-interest rate liabilities from promissory notes	0	0	66,840	67,841	0	0	66,840	67,841
Variable-interest rate liabilities from promissory notes	0	0	2,994	2,992	0	0	2,994	2,992
Fixed-interest rate borrowings from leasing companies	0	0	12,380	7,669	0	0	12,380	7,669
Variable-interest rate borrowings from leasing companies	0	0	0	0	0	0	0	0
Trade payables	0	0	38,208	36,943	0	0	38,208	36,943

Level 3 contains the market value of the embedded interest rate floor from the syndicated loan agreement.

In the reporting year, a total of EURk 101 (p/y: EURk 303) from fair value changes were recognized as interest income in profit and loss.

There were no reclassifications between assessments at fair value of Level 1 and Level 2 and no reclassifications into or from values at fair value of Level 3.

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The following total comprehensive income and expenses resulted from the fair value measurement of financial instruments held in the portfolio:

EURk

	Assets		Liabilities	
	2018	2017	2018	2017
Recognized in the income statement:				
DERIVATIVES WITHOUT HEDGE RELATIONSHIP	152	90	1,407	431
Recognized in equity:				
DERIVATIVES WITH HEDGE RELATIONSHIP	0	0	-1,652	4,275

The income and expenses resulting from the fair value measurement of derivatives without a hedge relationship are reported in other operating income or other operating expenses.

The following table shows the net gains or losses on financial instruments, which are recognized in the income statement (excluding derivative financial instruments included in hedge accounting):

EURk

	Category			
	IAS 39	IFRS 9 ¹	2018	2017
LOANS AND RECEIVABLES	LaR	AC	2,801	-5,740
of which due to disposal			15	37
of which due to impairment/impairment reversal			-145	18
of which due to currency effects			2,931	-5,795
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	FLAC	AC	-26	-1,046
of which due to disposal			218	177
of which due to currency effects			-244	-1,223
FINANCIAL ASSETS HELD FOR TRADING	FAHfT	FVtPL	309	310
of which due to disposal			157	220
of which due to remeasurement			152	90
FINANCIAL LIABILITIES HELD FOR TRADING	FLHfT	FVtPL	3,635	3,825
of which due to disposal			2,228	3,394
of which due to remeasurement			1,407	431

¹ AC: Amortized Cost | FVtPL: Fair Value through Profit & Loss

The table below provides an overview of the offsetting of financial assets and financial liabilities undertaken in the balance sheet. The table also shows the extent offsetting agreements exist as a result of framework agreements that do not lead to the recognition of the offset amounts in the balance sheet. At the PWO Group, offsetting agreements relate only to derivative financial instruments whose framework agreements with the banks provide for offsetting in the event of default of the mutual receivables and liabilities at that time.

EURk

	2018	2017
FINANCIAL ASSETS		
Gross amount of financial assets recognized	43,244	52,371
Gross amounts of financial liabilities offset	-644	-655
REPORTED NET AMOUNTS OF FINANCIAL ASSETS	42,600	51,716
of which derivatives	510	3,455
of which trade receivables	42,090	48,261
Offsettable due to framework agreements	-510	-3,455
TOTAL NET AMOUNT OF FINANCIAL ASSETS	42,090	48,261
FINANCIAL LIABILITIES		
Gross amount of financial liabilities recognized	-62,232	-61,932
Gross amounts of financial assets offset	195	173
REPORTED NET AMOUNTS OF FINANCIAL LIABILITIES	-62,037	-61,759
of which derivatives	-4,830	-711
of which trade payables and prepayments received	-57,207	-53,339
of which other financial liabilities	-4,750	-7,709
Offsettable due to framework agreements	510	3,455
TOTAL NET AMOUNT OF FINANCIAL LIABILITIES	-61,527	-58,304

Liabilities of EURk 644 (p/y: EURk 655) were offset against financial assets and included outstanding credits to customers as of the balance sheet date. The assets offsetting financial liabilities are receivables in the form of credits to suppliers in the amount of EURk 195 (p/y: EURk 173).

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ADDITIONAL INFORMATION

26 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 9,370 (p/y: EURk 9,128) in contract- and customer-related development costs, EURk 1,719 (p/y: EURk 1,141) were capitalized as intangible assets.

27 AUDITOR'S FEE

The auditor's fee that was recognized as an expense according to Section 314 (1) no. 9 HGB consists of the following:

EURk		
	2018	2017
Audit	184	206
Other assurance services	11	9
Tax consultancy services	128	85
Other services	63	19
TOTAL	386	319

The auditor's fee consists of non-periodic expenses of EURk 27 (p/y: EURk 26). The other assurance services relate to the fee for the EMIR audit and assurance services related to the syndicated loan. The fees for other services mainly consist of technical support in connection with regulatory requirements. Further assurance and valuation services were not used.

28 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The following table shows the total remuneration of the Management Board:

EURk		
	2018	2017
Short-term remuneration ¹	821	1,095
Other long-term remuneration ²	506	352
Post-employment benefits ³	217	165
TOTAL	1,544	1,612

¹ This item includes basic annual salary, fringe benefits and one-year variable remuneration under the previous remuneration system.

² The amounts include the multi-year variable remuneration under the previous remuneration system and the variable remuneration under the new remuneration system.

³ This item includes the service costs for pension entitlements and the fixed payments into a pension trust.

The total remuneration of the Supervisory Board (short-term remuneration) amounted to EURk 279 (p/y: EURk 271). Loans and advances were not granted to members of governing bodies.

The group management report contains the remuneration report along with the individual remuneration of the Management Board and Supervisory Board.

Pension payments to former members of the Management Board of PWO AG and their surviving dependents amounted to EURk 233 (p/y: EURk 228). The corresponding pension provisions under IFRS amounted to EURk 4,107 (p/y: EURk 4,386) as of the reporting date.

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29 RELATED PARTY DISCLOSURES

Related parties include the Group's major shareholder, Consult Invest Beteiligungsberatungs-GmbH, Böblingen, as well as the members of the Management Board and Supervisory Board. In the reporting period, there were no transactions between the Group and the major shareholder, Consult Invest Beteiligungsberatungs-GmbH, Böblingen, except for the dividend payment. There were no relationships with related parties with regard to the supply of goods or the rendering of services. Please refer to the final declaration in the dependency report, which is included in the combined group management report.

According to IAS 24, reportable compensation of related parties of the Group includes the remuneration of the Management Board and the Supervisory Board. The combined group management report contains the remuneration report along with the individual remuneration of the Management Board and Supervisory Board.

30 ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash funds reported in the cash flow statement comprise cash and cash equivalents as well as bank borrowings due on demand. Bank borrowings payable on demand amounting to EURk 4,322 (p/y: EURk 7,755) have been included in the balance sheet item "current financial liabilities."

31 SEGMENT REPORTING

In line with the Group's internal management system, the individual production locations provide the basis for the segment reporting. The Group's main decision-making body is defined as the Management Board of PWO AG. The segments are defined according to the location of the Group's assets. The revenues of these segments are also allocated according to the location of assets. The regions are categorized as Germany, Rest of Europe, North America and Asia. The combination of the locations in Canada and Mexico in the "North America" segment is based on the joint participation in the new USMCA trade agreement (previously: NAFTA agreement) and due to the similarity and long-term comparability of the economic characteristics of the business, the type of products and production processes, the type of customer relationships, as well as the methods of the sales organization.

Earnings, assets, liabilities, depreciation and amortization among the individual segments are eliminated in the column titled "consolidation effects." The segment data is calculated in accordance with the accounting policies applied in the consolidated financial statements.

The segment assets and segment liabilities correspond to the values in the financial statements of the individual Group companies.

Of the reported revenue as of December 31, 2018, four customers accounted for more than 10% of the Group's revenue (EURk 61,132; EURk 57,922; EURk 55,452; EURk 52,518) originating from all segments. In the previous year, three customers were identified who accounted for more than 10% of revenue (EURk 55,767; EURk 54,529 and EURk 46,696) across almost all segments.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2018

EURk

	Germany	Rest of Europe	North America	Asia	Consolidation effects	Group
Total revenue	297,398	76,530	99,018	49,488	0	522,434
Inter-segment revenue	-19,064	-7,013	-235	-11,110	0	-37,422
EXTERNAL REVENUE	278,334	69,517	98,783	38,378	0	485,012
TOTAL OUTPUT	281,860	76,000	106,482	51,676	-37,970	478,048
Other income (aggregated)	9,376	616	2,806	1,939	-4,043	10,694
Other expenses (aggregated)	272,864	64,898	100,940	48,755	-41,452	446,005
Depreciation and amortization	11,988	4,530	5,058	2,698	0	24,274
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	6,384	7,188	3,290	2,162	-561	18,463
Interest income	3,788	18	4	5	-3,739	76
Dividend distributions from affiliated companies	7,000	0	0	0	-7,000	0
Interest expenses	4,755	1,097	2,542	1,994	-3,739	6,649
EARNINGS BEFORE TAXES (EBT)	12,417	6,109	752	173	-7,561	11,890
Income taxes	3,578	1,529	273	4	-160	5,225
NET INCOME FOR THE PERIOD	8,839	4,580	479	169	-7,402	6,666
Assets	218,550	82,521	100,636	61,377	-57,477	405,607
of which non-current assets ¹	74,270	52,367	43,203	30,716	-70	200,486
of which contract assets	25,936	4,179	6,788	2,891	-206	39,588
Liabilities	47,637	37,961	81,008	64,064	61,069	291,739
Investments	11,640	8,463	10,112	5,118	0	35,333

¹ Non-current assets do not include deferred taxes.

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SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2017

EURk

	Germany	Rest of Europe	North America	Asia	Consolidation effects	Group
Total revenue	276,620	72,719	100,216	46,106	0	495,661
Inter-segment revenue	-20,253	-4,320	-107	-9,973	0	-34,653
EXTERNAL REVENUE	256,367	68,399	100,109	36,133	0	461,008
TOTAL OUTPUT	292,508	72,482	103,018	50,136	-35,037	483,107
Other income (aggregated)	12,809	485	2,575	1,517	-4,665	12,721
Other expenses (aggregated)	283,321	60,779	95,160	50,739	-39,127	450,872
Depreciation and amortization	11,746	4,503	5,506	2,699	-25	24,429
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	10,250	7,685	4,927	-1,785	-550	20,527
Interest income	3,921	46	1	2	-3,569	401
Dividend distributions from affiliated companies	2,327	0	0	0	-2,327	0
Interest expenses	4,757	1,379	2,157	1,451	-3,519	6,225
EARNINGS BEFORE TAXES (EBT)	11,741	6,352	2,771	-3,234	-2,927	14,703
Income taxes	5,002	-962	964	0	-360	4,644
NET INCOME FOR THE PERIOD	6,739	7,314	1,807	-3,234	-2,567	10,059
Assets	208,778	84,274	85,824	58,196	-43,347	393,725
of which non-current assets ¹	75,795	48,434	37,431	28,713	-91	190,282
Liabilities	50,557	34,166	63,953	62,083	69,850	280,609
Investments	12,062	7,434	9,315	3,951	0	32,762

¹ Non-current assets do not include deferred taxes.

The following table shows the breakdown of external revenues into the three strategic product areas. The product areas are discussed in the group management report in the section “Group Principles.”

SEGMENT INFORMATION BY PRODUCT AREA REVENUE

EURk

	2018	2017
Mechanical components for electrical and electronic applications	101,536	95,735
Safety components for airbags, seats and steering	155,953	155,867
Structural components and subsystems for vehicle bodies and chassis	227,523	209,406
TOTAL	485,012	461,008

32 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG issued by the Management Board and Supervisory Board in December 2018 is permanently available to shareholders via the Company’s website at www.progress-werk.de/en/group/corporate-governance/.

33 SUBSEQUENT EVENTS

No events of significant importance to the net assets, financial position or results of operations have occurred after the end of the fiscal year that require reporting.

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34 COMPOSITION AND MANDATES OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Karl M. Schmidhuber, Alzenau | Chairman of the Supervisory Board
Former Chief Executive Officer of Progress-Werk Oberkirch AG

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- Hörnlein Beteiligungsverwaltung GmbH, Schwäbisch Gmünd |
Member of the Advisory Board (until June 30, 2018)

Dr. Georg Hengstberger, Tübingen | Deputy Chairman of the Supervisory Board (since May 23, 2018)
Master's degree in mathematics, Managing Director of Consult Invest Beteiligungsberatungs-GmbH, Böblingen

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- Düker GmbH, Karlstadt | Chairman of the Supervisory Board

Dr. Gerhard Wirth, Stuttgart | Deputy Chairman of the Supervisory Board (until May 23, 2018)
Attorney, Of Counsel for the law firm Gleiss Lutz Hootz Hirsch,
Partnerschaftsgesellschaft von Rechtsanwälten, Steuerberatern

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- Düker GmbH, Karlstadt | Member of the Supervisory Board and Advisory Board
- Wolff & Müller Holding GmbH & Co. KG, Stuttgart | Member of the Advisory Board

Carsten Claus, Aidlingen (since May 23, 2018)
Former Chairman of the Management Board of Kreissparkasse Böblingen

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Herbert König, Renchen | Employee Representative
Industrial Clerk and Chairman of the Works Council of Progress-Werk Oberkirch AG

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Dr. Jochen Ruetz, Stuttgart (since May 23, 2018)
Managing Director/CFO and member of the Administrative Board of GFT Technologies SE, Stuttgart

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- G. Elsinghorst Stahl und Technik GmbH, Bocholt | Member of the Supervisory Board

Ulrich Ruetz, Ludwigsburg (until May 23, 2018)

Former Chairman of the Management Board of BERU AG, Ludwigsburg

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

- Düker GmbH, Karlstadt | Deputy Chairman of the Supervisory Board
- Wüstenrot Holding AG | Ludwigsburg, Member of the Supervisory Board

Gerhard Schrempp, Renchen | Employee Representative

Buying agent for stamping and forming tools and Member of the Works Council of Progress-Werk Oberkirch AG

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Dieter Maier, Stuttgart | Honorary Chairman of the Supervisory Board

Former Member of the Executive Board of the Baden-Württembergische Bank AG, Stuttgart
(Chairman of the Supervisory Board of Progress-Werk Oberkirch AG from 1989 until 2016)

MANAGEMENT BOARD

Dr. Volker Simon, Offenburg | Responsible for markets and technology

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic | Member of the Supervisory Board
- PWO Holding Co., Ltd., Hongkong, China | Director
- PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China | Chairman of the Board of Directors
- PWO de México S.A. de C.V., Puebla, Mexico | Chairman of the Board of Directors

Bernd Bartmann, Schutterwald | Responsible for administration and finance

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic | Chairman of the Supervisory Board
- PWO Holding Co., Ltd., Hongkong, China | Director
- PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China | Member of the Board of Directors
- PWO de México S.A. de C.V., Puebla, Mexico | Member of the Board of Directors
- Sparkasse Offenburg/Ortenau, Offenburg | Member of the Advisory Board
- avenit AG, Offenburg | Deputy Chairman of the Supervisory Board

Johannes Obrecht, Oberkirch | Responsible for production and materials

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

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35 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that PWO AG's unappropriated retained earnings of EURk 4,251 as of December 31, 2018 be used as follows:

Payment of a dividend of EUR 1.10 per dividend-bearing no-par value share	EURk 3,438
Payment of an anniversary dividend of EUR 0.25 per dividend-bearing no-par value share	EURk 781
Carried forward to new account	EURk 32

The number of dividend-entitled shares may change before the resolution for the appropriation of retained earnings through the purchase of the Company's own shares (cf. Section 71b AktG). In this event, the Management Board and Board of Directors would make an amended resolution proposal to the Annual General Meeting on the appropriation of retained earnings, which would provide for an unchanged total distribution of EUR 1.35 for each dividend-bearing no-par value share.

Oberkirch, March 28, 2019

The Management Board



Dr. Volker Simon
(CEO)



Bernd Bartmann



Johannes Obrecht

INDEPENDENT AUDITOR'S REPORT

To Progress-Werk Oberkirch Aktiengesellschaft

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

AUDIT OPINION

We have audited the consolidated financial statements of Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, and its subsidiaries ("Group"), consisting of the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2018, the consolidated balance sheet as of December 31, 2018, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report, which was combined with the management report of Progress-Werk Oberkirch Aktiengesellschaft, for the fiscal year from January 1 to December 31, 2018. The "Responsibility Statement" contained in the management report was not reviewed for content in accordance with German statutory provisions.

In our opinion and based on our audit findings

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as applicable in the EU and the supplementary provisions of German commercial law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets and financial position of the Group as of December 31, 2018 and its results of operations for the fiscal year from January 1 to December 31, 2018, in accordance with these requirements; and
- the accompanying group management report as a whole provides an accurate view of the Group's position. The group management report is consistent with the consolidated financial statements in all material respects, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not include the content of the "Responsibility Statement" mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we state that our audit has not led to any reservations with respect to the regularity of the consolidated financial statements and the group management report.

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BASIS FOR AUDIT OPINION

We conducted our audit of the consolidated financial statements and group management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014; hereinafter referred to as "EU Audit Regulation") and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Our responsibilities under those regulations and guidelines are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and group management report" section of our audit report. We are independent of the Group companies in accordance with the requirements of European Union law, German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10 (2) (f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5 (1) EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In the following section, we describe what we believe were the key audit matters:

REVENUE RECOGNITION TAKING INTO ACCOUNT THE IMPACT OF THE FIRST-TIME APPLICATION OF THE NEW IFRS 15 STANDARD

Reason for Designation as a Key Audit Matter: An essential part of the Group's business activities is the production of series parts, the development and production of tools, as well as contract-related development services. In the 2018 fiscal year, the first-time application of the new "International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15)" accounting standard had a significant impact on the presentation of the individual revenue streams in the consolidated financial statements. The first-time application of the new IFRS 15 standard required a reassessment of existing customer contracts throughout the Group. This specifically included the assessment of the accounting of payments to customers and the related changes in the accounting by the parent company as the preconditions for the recognition of revenue over a period of time or at a specific point in time based on the revenue streams identified by the parent company. This entailed higher risk due to the variety of different contractual customer relationships, as well as the continuously changing price models and the associated complexity. The first-time application of IFRS 15 also led to an increase in the disclosures required in the notes to the consolidated financial statements.

Revenue recognition represents a key audit matter because of the significance of revenues and the related effects on earnings, and due to the fact that revenues and earnings before interest and taxes (EBIT) are key financial performance indicators in the Group's management and planning.

Audit Approach: Based on our understanding of the business and processes, we reviewed the contractual basis agreed with the various customers in the course of our audit and, particularly, the contractual provisions for the time risk is transferred and the rules for the invoicing procedure. In this context, we also looked at the processes set up by the legal representatives to implement the first-time application of the new IFRS 15 standard. In assessing the first-time application of IFRS 15, we have acknowledged the contract analysis conducted by the legal representatives. In assessing the Group-wide contract analysis conducted by the legal representatives, we focused on those regulations for which we anticipated accounting effects in view of the Group's business model.

We acknowledged the parent company's assessment of the impact of the new IFRS 15 standard on the individual revenue streams and the implications for the consolidated financial statements. In doing so, we paid special attention to contracts of the Group companies chosen randomly to determine whether contracts met the requirements for recognizing revenue at a point time or over a period of time. We reviewed the preconditions for the period-related revenue recognition in the provision of series deliveries, specifically through our assessment of the extent to which there are no alternative uses for series parts and if a right to payment exists.

On the basis of the contracts and the associated series deliveries, we reviewed to what extent payments to customers should be capitalized as other assets and as a reduction of revenues according to the realized revenues for which these payments were made. For tool-related revenue streams, we have assessed the recognition and the amount of the contract assets based on internal calculations over the product life cycle of the series delivery. We have also reviewed the disclosures on the effects of the first-time application of IFRS 15 in the notes to the consolidated financial statements.

Our audit has not resulted in any reservations as to the recognition of revenue, particularly in light of the first-time application of the new IFRS 15 standard.

Reference to Corresponding Information: For information on the accounting policies applied for revenue recognition taking into account the impact of the first-time adoption of the new IFRS 15 standard, please refer to the disclosures in the notes to the consolidated financial statements.

RECOVERABILITY OF GOODWILL

Reason for Designation as a Key Audit Matter: Under IFRS, goodwill is not amortized on a scheduled basis, but instead, is subject to an annual impairment test. The impairment test is based on the present value of future cash flows of the relevant cash-generating units to which goodwill was allocated. The valuations are derived from the forecasts of the affiliated companies, which are based on the financial plans adopted by the Management Board and acknowledged by the Supervisory Board. The valuation results depend particularly on the entities' future cash flows estimated by the legal representatives and the discount rates used and are, therefore, discretionary. The reporting year was also marked by the general weakening of the automotive environment, which varied in degree in the different geographic regions in which the Company operates. In this context, the recoverability of goodwill was a particularly important audit matter.

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Audit Approach: We reviewed the legal representatives' underlying processes for determining fair value. We understood the methodology and results of the underlying valuation models for determining fair value by consulting with internal valuation experts. We also analyzed whether the underlying plans reflected general and sector-specific market expectations. We conducted a random target/actual comparison of past plan data with actual results in order to assess the accuracy of historical forecasts. The valuation parameters used to estimate fair value, such as expected growth rates and weighted average cost of capital, were compared with generally available market data and assessed with regard to the change of significant assumptions, including future market conditions.

Our audit has not resulted in any reservations as to the assessment of the recoverability of goodwill.

Reference to Corresponding Information: With regard to the accounting and valuation policies used to determine the recoverability of financial assets, we refer to the information in the notes to the consolidated financial statements under the Item "Key Judgments, Estimates and Assumptions."

OTHER INFORMATION

Pursuant to Section 171 (2) AktG, the Supervisory Board is responsible for the Report of the Supervisory Board and, the legal representatives are responsible for other information. Other information includes the responsibility statement of the legal representatives and other parts of the annual report included in the combined group management report that are expected to be made available to us after issuing the audit opinion and, particularly, the Report of the Supervisory Board, the Letter from the Management Board and the special chapter "100 years of PWO."

Our audit opinions on the consolidated financial statements and the group management report do not extend to the other information, and therefore, we do not express an audit opinion or any other form or audit conclusion on these sections.

As part of our audit, we are responsible for reading and assessing whether the other information

- is materially inconsistent with the consolidated financial statements, the group management report and our knowledge obtained during the audit; or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with IFRS as applicable in the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB in all material respects, and that the consolidated financial statements give a true and fair view of the net assets, financial positions and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. The legal representatives are also responsible for disclosing, as applicable, matters related to going concern. In addition, the legal representatives are responsible for ensuring that accounting is performed on a going concern basis unless the intention is to liquidate the Group or cease operations, or when there is no other realistic alternative to doing so.

The legal representatives are also responsible for preparing the group management report, which, as a whole, provides an accurate view of the Group's position and is consistent in all material respects with the consolidated financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) as they deem necessary to enable the preparation of a group management report in compliance with the applicable requirements of German commercial law and to provide sufficient and appropriate evidence for the statements made in the group management report.

The Supervisory Board is responsible for monitoring the Group's financial reporting process used in preparing the consolidated financial statements and the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatements due to either fraud or error; whether the group management report, as a whole, provides an accurate view of the Group's position and is consistent in all material respects with the consolidated financial statements and our audit findings and complies with German statutory requirements; suitably presents the opportunities and risks of future development, and finally, to issue an auditor's report that includes our opinion of the consolidated financial statements and the group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if individually or together could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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As part of our audit, we exercise professional judgment and maintain critical stance throughout the audit. We also

- identify and assess the risk of material misstatements in the consolidated financial statements and the group management report from either fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls;
- obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of the arrangements and measures relevant to the audit of the group management report, in order to design audit procedures that are appropriate for the circumstances but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company;
- evaluate the appropriateness of the accounting policies used, as well as the feasibility of accounting estimates and related disclosures made by the legal representatives;
- make a conclusion as to the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to this fact in our auditor's report to the related disclosures in the consolidated financial statements and group management report or, if such disclosures are inadequate, to modify our particular opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the Group's net assets, financial position, and results of operations in accordance with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;
- evaluate the consistency of the group management report with the consolidated financial statements, its legal compliance and the presentation of the Group's position;
- perform audit procedures on the prospective information presented by the legal representatives in the group management report. Based on sufficient and appropriate audit evidence, we hereby, in particular, review the significant assumptions used by the legal representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships or other matters that may reasonably be thought to have a bearing on our independence or any related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance during the audit of the consolidated financial statements of the current period and, therefore, represent the key audit matters. We describe these matters in our auditor's report unless laws or other legal provisions preclude public disclosures on the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

OTHER DISCLOSURES PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were appointed as group auditors at the Annual General Meeting held on May 23, 2018 and commissioned by the Supervisory Board on June 7, 2018. We have been engaged as group auditors of Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, continuously since the 1990 fiscal year.

We declare that the audit opinion in this auditor's report is consistent with the additional report to the Audit Committee referred to in Article 11 of the EU Audit Regulation (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the engagement is Mr. Frank Göhner.

Stuttgart, March 28, 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner
Auditor

Scheppank
Auditor

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Figures in this annual report are typically presented in EURk and EUR million. Differences in the individual figures versus the actual amounts may emerge due to rounding. Such differences are not of a significant nature. For reasons of better readability, the generic masculine form is used in addition to gender-specific forms but expressly refers to all genders.

FINANCIAL CALENDAR

May 8, 2019	Quarterly Statement 1st Quarter 2019
May 23, 2019	Annual General Meeting 2019
August 5, 2019	Interim Financial Report 2nd Quarter and Half-Year 2019
November 7, 2019	Quarterly Statement 3rd Quarter and 9 Months 2019
November, 25 – 27, 2019	German Equity Forum, Frankfurt/Main
May 27, 2020	Annual General Meeting 2020

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