

ANNUAL REPORT 2017



MEGATREND DIGITIZATION

PWO

COVER PHOTO LIGHTWEIGHT COMPONENTS WITH MAXIMUM PRECISION FROM PWO ATTACHED WITH LASER WELDING AT THE CUSTOMER'S FACILITY – THIS IS HOW ONE OF THE LIGHTEST METAL STRUCTURES FOR FRONT SEATS WORLDWIDE IS MANUFACTURED

PWO GROUP

FIVE-YEAR OVERVIEW OF KEY FIGURES

	2017	2016	2015	2014	2013
INCOME STATEMENT (EURk)					
Revenue	461,008	409,612	404,597	381,134	377,447
Total output	483,107	423,534	413,294	390,674	384,244
EBITDA	44,956	44,646	42,922	39,015	43,505
EBIT before currency effects ¹	23,358	21,598	17,055	14,887	--
EBIT including currency effects	20,527	19,725	18,090	16,665	22,313
Net income for the period	10,059	9,522	7,544	7,310	13,137
BALANCE SHEET (EURk)					
Total assets	393,725	359,419	352,430	341,460	299,384
Equity	113,116	106,536	103,111	96,100	102,461
Net debt ²	125,888	124,458	132,837	125,045	99,655
Equity ratio in %	28.7	29.6	29.3	28.1	34.2
Dynamic leverage ratio in years ³	2.8	2.8	3.1	3.2	2.3
CASHFLOW (EURk)					
Cash flow from operating activities	38,314	46,304	31,108	24,727	30,425
Cash flow from investing activities	-29,261	-28,803	-28,244	-34,534	-24,694
Free cash flow	4,332	13,049	-1,767	-14,666	1,569
Net change in cash and cash equivalents	12,825	-4,452	-2,036	-1,230	-6,482

¹ Prior year amounts restated due to the reclassification of currency effects as of 2016.

² Total of non-current + current financial liabilities less cash and cash equivalents.

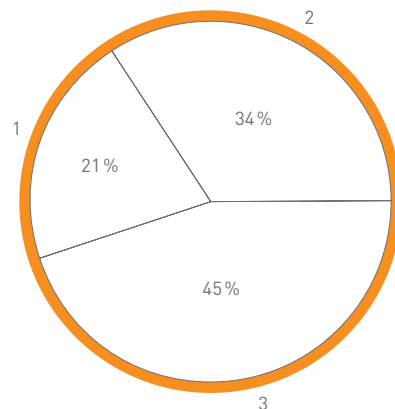
³ Net debt / EBITDA.

	2017	2016	2015	2014	2013
ORDER SITUATION (EUR MILLION)					
Lifetime volume (new business)	300	730	600	280	456
of which series orders	281	680	560	260	425
of which tool orders	19	50	40	20	31
NUMBERS PER SHARE (EUR)					
Earnings per share (diluted = basic)	3.22	3.05	2.41	2.34	4.20
Dividend per share	1.65 ¹	1.60	1.55	1.45	1.80
XETRA year-end closing price	46.51	39.99	36.45	34.99	43.90
EMPLOYEES (AS OF DEC. 31)					
PWO Group (incl. temporary employees and trainees)	3,404	3,229	3,049	3,125	3,103
thereof in Germany	1,645	1,538	1,492	1,549	1,584
thereof in international locations	1,759	1,691	1,557	1,576	1,519

¹ Proposal to the 95th Annual General Meeting.

PWO'S REVENUE BY PRODUCT AREA IN FISCAL YEAR 2017

100 % = EUR 461.0 MILLION



1 MECHANICAL COMPONENTS FOR ELECTRICAL AND ELECTRONIC APPLICATIONS

We design and manufacture a wide range of high precision circular components. These 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 in terms of the quantity of electric motor housings and the function and precision of other diverse housings. Our product range also includes components for electric drives, as well as housings for electronic control units.

2 SAFETY COMPONENTS FOR AIRBAG, SEATS, AND STEERING

We have been supplying components for air bags for over 20 years. Over the past 10 years, we have consistently strengthened 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 safety requirements. The same applies to the adjustment mechanisms for steering columns. In all 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 of our focal points is instrument panel carriers. These are manufactured and assembled at our locations around the world and together with cooperation partners who work for us. Components for air suspension systems are the secondary focus. These components are now becoming more common for mid-class vehicles. This will open up a new, large-volume market segment for us in the future.

AT PWO, WE HAVE A CLEAR FOCUS ON
PROCESS **DIGITIZATION** WHICH IS CARRYING
US TO NEW DIMENSIONS IN **MANUFACTURING
EFFICIENCY**. ABOVE ALL, WE ARE **PREPARING
OUR EMPLOYEES FOR THE DEMANDS OF
TOMORROW** AND INCREASING THEIR PRODUC-
TIVITY AND MOTIVATION THROUGH THE USE
OF MODERN **CHANNELS AND MEANS OF
COMMUNICATION**.

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4 TO OUR SHAREHOLDERS



LIGHTWEIGHT STRUCTURAL
COMPONENTS FOR FRONT
SEATS

One of the world's lightest metal structures for front seats has been made economically viable for series production by PWO: High-precision components made from ultra-high-strength steel and aluminum for a variety of luxury sports cars and other premium vehicles.

INTELLIGENT MANUFACTURING

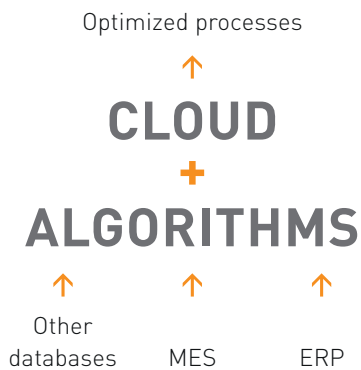
A DIGITALLY DOCUMENTED
PRODUCTION PROCESS

SUPPLY
TOOLS
PRESS
ASSEMBLY
DELIVERY

Real-time data scan

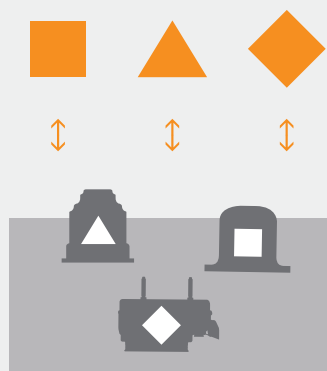


PROCESS OPTIMIZATION
USING BIG DATA



→ **OUR GOAL:** TO CREATE
A DIGITAL SHADOW OF
THE ENTIRE MANUFACTURING
PROCESS

THE TRACEABILITY OF EACH COMPONENT



In the future, the journey of each individual component through the production process will be entirely traceable.

LETTER FROM THE MANAGEMENT BOARD



THE MANAGEMENT BOARD OF PROGRESS-WERK OBERKIRCH AG: BERND BARTMANN, DR. VOLKER SIMON (SPEAKER), JOHANNES OBRECHT

DEAR SHAREHOLDERS

2017 was a year of tremendous growth for PWO! Call order volumes at all locations and across the entire product range were well above plan. As a result, we significantly increased our revenue and total output. We were not only able to handle the higher-than-anticipated call orders in a reliable manner but also at an economically reasonable expense, allowing us to generate an EBIT before currency effects well within the target range.

In addition to meeting the demand for high unit volumes, we also produced the largest volume of new tools required in the Company's history in preparation for the upcoming series startups. Meanwhile, we have completed the tool-related design and procurement, as well as a large portion of the production.

We also made significant progress in expanding our production and assembly capacity for series components in 2017. Beyond purchasing additional presses and assembly lines, which will be up and running shortly, we started the construction of two new assembly plants in Mexico and Czechia. We also expanded the logistics space near our production site in Germany and transformed it into a separate assembly location.

Our recent sales successes have filled our order books sufficiently enough to achieve the growth we have planned over the next three years. Our focus has now shifted to period significantly beyond that time. We received a new order for the production of instrument panel carriers, which means that we have now also gained entry with these components into the important American market segment of pickup trucks. In 2017, we achieved a lifetime volume of just over EUR 300 million and, once again, exceed our initial forecast at the start of the year of around EUR 250 million.

These orders also indicate that we are already seeing a benefit from the trend towards electromobility. Our current new orders, which will commence over the next two years and last an average of five to eight years, already fully incorporate the additional requirements accompanying electromobility.

Our success begins with our highly qualified and motivated workforce. Last year, our employees once again delivered record performance with their tireless commitment. We would like to express to them our utmost appreciation. We are confident that the PWO Group has the best future possible with this team.

We would also like to thank our shareholders for the trust they have placed in us. Over the past year, PWO has become even larger, stronger and more efficient – and we plan to continue down this road in the future.



Dr. Volker Simon
[CEO]



Bernd Bartmann



Johannes Obrecht

REPORT OF THE SUPERVISORY BOARD



In the 2017 fiscal year, the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft (the "Company") 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 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 also promptly and fully informed through the Management Board's 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 Group-wide risk and compliance management systems, as well as IT security and its further development. The Supervisory Board discussed the issue of data protection and particularly the Group's implementation of the EU General Data Protection Regulation (GDPR) applicable as of 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 2017 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 2017 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 2017 reporting year, the plenum met on five occasions: March 29, May 23, July 26, September 28 and December 13. The Supervisory Board meetings took place at the Company's headquarters, except for one meeting in 2017 that took place at one of the Group's international locations, in keeping with a longstanding tradition, and gave the Supervisory Board an opportunity to take a closer look at that particular location. In September, the Supervisory Board meeting took place at the Canadian subsidiary in Kitchener. All members of the Supervisory Board were present at all meetings, with one exception.

In all of its meetings, the Supervisory Board thoroughly concerned itself with 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. The following items were also on the respective meeting agendas:

At the meeting on March 29, 2017, the Supervisory Board dealt in detail with the audit committee report, the 2016 fiscal year financial statements, including the Management Board's dependency report, the report of the Supervisory Board, the 2016 Annual Report – particularly the Corporate Governance Report – and the agenda of the 94th Annual General Meeting on May 23, 2017. Questions concerning IT risk management and personnel issues were also discussed.

On May 23, 2017, the same day's Annual General Meeting 2017 took center stage in the discussions. In addition to regular agenda items, the first forecast for the current financial year 2017, including the related risk situation and compliance issues, and the report of the Audit Committee were also discussed. At the meeting on July 26, 2017, the Supervisory Board discussed issues such as financing, compliance, and data protection, in addition to regular agenda items. The session on September 28, 2017, was dedicated to the visit of the facility in Kitchener, Canada. In addition to the regularly discussed topics, the Supervisory Board addressed the second forecast for the 2017 financial year, rules of procedure including the resolution on own rules of procedure for the Audit Committee, the concept and the group-wide organization of the CSR reporting to be included in the 2017 financial year (so-called non-financial statement) as well as the implementation of further regulatory requirements.

At the meeting on December 13, 2017, the focus of discussion included, among others, the third forecast for the 2017 fiscal year, the Group's strategic direction – particularly the planning for the 2018-2022 fiscal years – and topics such as tool design 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. 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 www.progress-werk.de/en/group/corporate-governance/.

In the meeting on March 23, 2018, the Supervisory Board dealt extensively with the 2017 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 23, 2018. The Audit Committee reviewed these documents at its meeting on March 12, 2018.

The auditor was present at the meeting of the Audit Committee on March 12, 2018. At the Supervisory Board meeting on March 23, 2018, 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 23, 2018. No objections were raised following the conclusive results of the Supervisory Board's examination. The Supervisory Board approved the 2017 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 23, 2018, 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 2017 unappropriated earnings. The management will propose a dividend of EUR 1.65 per share (p/y: EUR 1.60) to the Annual General Meeting on May 23, 2018.

The Supervisory Board also dealt intensely with the objectives for its composition and the preparation of a competency profile. The Supervisory Board resolved on both issues on March 23, 2018. The relevant documents are available on the Company's website at www.progress-werk.de/en/group/supervisory-board/.

Additionally, the Supervisory Board reviewed the content of the "2017 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 chairs 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 2017 fiscal year: March 14 and November 23. All members were present at all meetings. The main subjects of the meetings were the cooperation within the Management Board and the extension of Bernd Bartmann's expiring Management Board contract.

Dr. Georg Hengstberger 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 appoints the auditor and agrees on the auditor's fee. The Audit Committee obtains the auditor's statement of independence according to 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 Audit Committee met on six occasions during the 2017 fiscal year: February 16, March 14, April 26, July 26, September 28 and October 25. All Audit Committee members were present at all meetings. The main topics discussed were the 2016 fiscal year financial statements, the 2017 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 2017. The Committee also dealt with internal audit issues and the approval of non audit-related services provided by the auditor and the Committee's own rules of procedure.

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)
- Ulrich Ruetz
- Dr. Gerhard Wirth

AUDIT COMMITTEE

- Dr. Georg Hengstberger (Chairman)
- Herbert König
- Ulrich Ruetz (financial expert as defined by Section 100 [5] AktG)
- Karl M. Schmidhuber

CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

There were no changes in the composition of the governing bodies in the reporting year.

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

We exceeded our new business targets in the 2017 fiscal year as in the previous year. We were also particularly successful in breaking into the important American pickup market with our instrument panel carriers. This success will secure our mid-term growth plans as well as our capacity utilization in the coming years. The reporting year also stands out in terms of profitability as demonstrated by the strong development of the Group's EBIT before currency effects. All locations contributed significantly to this positive performance with the exception of China.

The Supervisory Board would like to thank all employees worldwide for another year in which they have demonstrated their tremendous commitment and motivation. This applies, in particular, to their special effort in coping with the often higher-than-expected call order volumes. They have proven that PWO is able to meet the ever-growing challenges of the global automotive market, even under very demanding conditions. The Supervisory Board remains confident that the Management Board and our employees will continue to uphold PWO's standing as a reliable and innovative partner to customers. The Board expresses its gratitude to all those involved for their achievements and tremendous commitment in the 2017 fiscal year.

This report was thoroughly discussed and approved by the Supervisory Board at its meeting on March 23, 2018.

Oberkirch, March 23, 2018



Karl M. Schmidhuber
(Chairman of the Supervisory Board)

12 COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG



ELECTRIC MOTOR HOUSING
WITH AN ACCOMPANYING
FLANGE AND COVER FOR
ELECTROMECHANICAL BRAKE
BOOSTERS

The latest generation of braking systems provides shorter braking distances by increasing the pressure build-up depending on the situation, thereby making the system intelligent. What is more, the recovery of kinetic energy increases the range of electric and hybrid vehicles.

SMART JOB PROFILES

→ OUR EMPLOYEES SHOULD BE EMPOWERED TO USE THE **HIGH INNOVATION MOMENTUM** TO THEIR OWN BENEFIT.

NEW PERSPECTIVES FOR TALENTED EMPLOYEES

Nomination of talented employees



Successful participation
in advancement workshop



- **PROJECT-BASED CAREER PATHS**
- **MANAGEMENT CAREER PATHS**
- **PROFESSIONAL CAREER PATHS**

MORE OPPORTUNITIES FOR
PROMOTION AVAILABLE FOR
TRAINED AND UNTRAINED
EMPLOYEES ALIKE

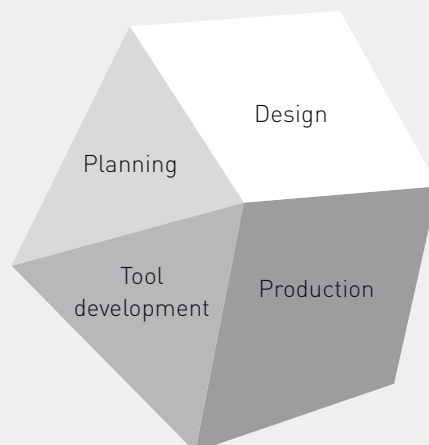
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EMPLOYEES ARE CURRENTLY ON
THEIR WAY TO RECEIVING THEIR
TRADE QUALIFICATION

CROSS-FUNCTIONAL COLLABORATION

8

interdisciplinary start-up teams control
the operational implementation of the
production start-up for series products.



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COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The combined management report for the 2017 fiscal year ending December 31, 2017, 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) 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. There have been no changes to the scope of consolidation in the reporting year.

GROUP PRINCIPLES

BUSINESS MODEL

ORGANIZATIONAL STRUCTURE OF THE GROUP

All of our business activities are geared toward maximum efficiency, which is why the Group maintains a simple and transparent structure. Prior to the reporting year, five production locations and one assembly location had formed the Group's main units. In the 2017 fiscal year, three more assembly locations were added, portions of which are still under construction.

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 are positioned with our customers as a premium supplier with global delivery capabilities.

We deliver to these customers worldwide using a combination of production and assembly locations. The Group's production locations include two locations in Europe – one in Oberkirch, Germany, and one in Valašské Meziříčí, Czechia. We also have sites in the NAFTA Area located in Kitchener, Canada, and Puebla, Mexico. Our sole production location in Asia is located in Suzhou, China.

One assembly facility is located in Shenyang, China, and in 2017, work began on setting up assembly locations in both Puebla, Mexico, and Valašské Meziříčí, Czechia. Due to the high capacity utilization of the production site in Oberkirch, existing logistics areas in nearby Renchen were expanded to form a separate assembly location. Each assembly location represents a separate operating facility of our subsidiaries in the respective countries.

We pool our forming capacities at our capital-intensive production sites, thereby concentrating our employees' high level of expertise that is necessary for ongoing process innovation. At our assembly locations, our individual components are put together into complex subsystems.

Innovation and process efficiency in our business are driven, among others, by tool design. Each innovative product solution requires components that need to be manufactured using a material-specific forming process. By developing the appropriate tools, we produce the highest quality parts and fastest production speeds at a competitive cost. The Group's largest tool design capacities are located in Germany and Czechia, and all locations are able to procure significant tool volumes from Chinese suppliers 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.

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 need for financial resources are made by the PWO Management Board. The four business segments – Germany, Rest of Europe, NAFTA Area 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.

PRODUCT AND SOLUTION EXPERTISE AND OPERATING PROCESSES

PRODUCTS

The PWO Group is one of the world's leading developers and manufacturers of advanced metal components and subsystems used in lightweight construction for automotive safety and comfort.

We are positioned 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.

We are the experts when it comes to the use of sophisticated joining technologies and the behavior of steel during the cold forming process. Today, we produce components

and subsystems made of steel – including high-strength, lightweight steel – stainless steel and aluminum.

Process innovation is inextricably linked with product innovation – especially during the production of a single series. The necessary tools and the entire production process are already conceived during the products' development phase. This is how we create innovations that make a key contribution to achieving the highest reliability and efficiency in series production possible and have a lasting impact on the PWO Group's profitability.

Naturally we rely on the opportunities presented by digitization, which means maximizing the use of modern information and communication technology in production. The highest potential for efficiency in our business can be found in the current state of technology in Smart Operations, which is the digitization of value streams within the Group; Smart Factories, which is the networking of all units; and Smart Products, which is the linking of products to an ever-growing amount of digital information from the production process. We do not see much of a need to make a fundamental change in our business model by adding new data-based or data-driven services.

In the past fiscal year, revenues were broken down into the following three strategic product areas:

The parts from the first two areas – mechanical components for electrical/electronic applications and safety components for airbags, seats and steering – are supplied predominantly to international Tier 1 suppliers, which in turn supply them to various automotive manufacturers as part of their own systems for numerous vehicle models. These two product areas respectively accounted for 21 and 34 percent of revenue in the reporting year.

The parts from the third area – 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 2017, we generated 45 percent of our revenue in this product area.

COMPREHENSIVE SOLUTIONS

Our competitive advantage is based on a large pool of expertise in several areas, which combined, allow us to provide first class service, which includes meeting the highest quality requirements, profitably realizing complex product functionality and reliably delivering to customers

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– not only promptly and in the correct quantities, but also at the quality requested.

Designing and producing high-performance, low-cost tools are other advantages that enable us to ensure our processes remain reliable, even at high production speeds. Our thorough technological understanding of the customer's systems and processes give us the necessary know-how to develop and explain the ideal process to the customer.

We combine our expertise in several areas so that we can design a customized and intelligent solution for each customer order. Our five core capabilities include cost leadership at all levels, the targeted use of available process technology, an understanding of the customer's value chain, innovative strength in the efficient combination of processes and reliable technical designs.

These capabilities give PWO the overall ability to provide comprehensive solutions across all areas.

COST-EFFICIENT LIGHTWEIGHT CONSTRUCTION

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.

The proven ability of our parent company and subsidiaries to design lightweight solutions with minimal material costs and stable production costs, while still offering the required functionality, is one of the key factors that differentiates the PWO Group from the competition.

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."

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, the outlook for long-term demand resulting from regulatory changes, are presented in the Risk Report. This report also describes the possible impact on our business from changes in the political environment.

MANAGEMENT SYSTEM

We are committed to the Group's sustainable growth, strengthening its profitability and financial position and limiting order-related and cyclical risks. In this current period of strong growth, the focus of our attention is on ensuring that we have the necessary resources when we need them.

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 main financial indicators are EBIT (earnings before interest and taxes) before currency effects, free cash flow (cash flow from operating activities less cash flow from investing activities less interest paid, plus interest received), the equity ratio (equity as a percentage of total assets) and the dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA).

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. We are striving for a balance between improving our financial ratios and taking advantage of unique market opportunities, which usually entail a temporary period of higher investment.

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

Global economic growth saw a marked acceleration in 2017. The International Monetary Fund (IMF) expects an increase in global GDP of 3.7 percent in real terms in 2017 (p/y: 3.2 percent). This forecast is essentially based on a pickup in growth in several industrialized countries. In Europe, higher growth should be mainly attributed to the eurozone (mainly Germany, France and Italy). After exiting a recession, Russia is anticipated to have grown 1.8 percent in 2017 (p/y: -0.2 percent).

The US economy is anticipated to have grown at a much faster rate of 2.3 percent year-on-year in 2017 (p/y: 1.5 percent). The growth of the Chinese economy proved to be steady with a rise of 6.8 percent (p/y: 6.7 percent). This is in contrast to a slight decline in growth expected in Spain and the United Kingdom, as a precursor to Brexit.

The German economy is in very good shape. Price-adjusted gross domestic product (GDP) increased by 2.2 percent in 2017 and even 2.5 percent on a calendar-adjusted basis (p/y: 1.9 percent). A visible recovery in the global economy was the primary driver of this increase and supported robust foreign trade. On the back of strong growth in employment and real wages, domestic demand also improved last year, mainly as a result of private consumption, construction and equipment investment. Investment in equipment was a direct result of the significant increase in industrial production in the wake of the export revival, which brought a significant increase in the industrial capacity utilization.

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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 2017	Change vs. 2016 (%)
Germany	3,441,262	+2.7
Western Europe (EU15 + EFTA)	14,323,100	+2.5
New EU Countries (EU13)	1,308,600	+12.8
Europe (EU28 + EFTA) ¹	15,631,700	+3.3
Russia ²	1,595,700	+11.9
USA ²	17,134,700	-1.9
China	24,171,400	+2.0

¹ Excluding Malta.

² Light Vehicles.

THE ENVIRONMENT IN THE INTERNATIONAL AUTOMOTIVE INDUSTRY

The automotive business performed well again worldwide in 2017, despite lower overall growth rates. In the reporting year, China was not able to match the tremendous growth rate achieved in the prior year that had been triggered by special tax effects (2.0 percent growth vs. 17.8 percent in 2016). A total of 24.2 million automobiles were sold in 2017.

Growth, too, slowed in Europe. However, with a total of 15.6 million units sold in 2017 for a year-on-year increase of 3.3 percent (p/y: 6.5 percent), passenger car sales were still able to reach their highest level since 2007. Sales in Great Britain were unable to maintain the high levels achieved in recent years due to uncertainty surrounding Brexit.

This was in contrast to Japan, which saw significantly more passenger vehicles sold in 2017 than in the prior year, with sales rising 6 percent to a total of 4.4 million new vehicles. After some severe downturns in 2016, the markets in Brazil and Russia also reported solid growth for the year on the back of overall better economic devel-

opment in these countries. In 2017, the market volume in Russia with 1.6 million new vehicles sold was 11.9 percent higher than in the prior year. The light vehicle market in Brazil last year increased 9 percent year-on-year and reached 2.2 million units.

Sales in the United States in 2017 declined slightly, following a year of just minor growth in 2016. Volumes in the light vehicle market (passenger cars and light trucks) fell 1.9 percent in 2017 to 17.1 million new vehicles. German manufacturers, on the other hand, were able to increase their sales of light vehicles in the US 2017 by just over 1 percent to 1.4 million new vehicles. This resulted in a 0.3 percent increase in their US market share to a total of 7.9 percent.

The German manufacturers gained market share in both the passenger car and light truck segments with their share in passenger cars rising from 11.8 percent to 12.7 percent and 4.9 percent to 5.2 percent for light trucks. The light truck segment accounts for 65 percent of the total US light vehicle market and grew 4 percent in 2017. German manufacturers, in comparison, achieved an increase in light truck sales of 11 percent.

BUSINESS DEVELOPMENT

ORDER SITUATION

Our sales activities are increasingly focused on the Group's medium-term growth prospects. This became very evident in the reporting year after our Canadian location won a new major order for instrument panel carriers. Our ability to translate the customer's requirements into efficient processes, together with our long history of proven quality and delivery reliability, played a decisive role in winning this contract.

Our Canadian location will start supplying two of Ford's vehicle models, the Bronco and the Ranger. This order provides us access to the important US market for pick-ups with our instrument panel carriers. This is the first time we are supplying a customer in this vehicle segment with these components.

Our Mexican site won a lower-volume but still significant order to indirectly supply a renowned US electric vehicle manufacturer with electromechanical components. We are also very pleased about an order received for seat components at our Czechia location.

Lastly, we see a growing effect on our business from the future shift in drivetrain technology. The announcements from international car manufacturers that they will be launching an increasing number of electrically driven

vehicles over the next few years mean that the orders awarded today already require that suppliers provide various drive solutions. For components such as instrument panel carriers, this shift will also bring about changes in passenger safety requirements when electric engines with large, high-performance batteries are installed in place of or in addition to internal combustion engines. We can offer customers flexible product solutions and manufacture them economically.

Last year, we were successful across our entire product range, which underscores again the Group's competitiveness. Germany, Canada and Czechia each accounted for a large part of our new business volume. We were more cautious in accepting orders for our locations in China and Mexico, which are operating at a high level of utilization with technological capabilities that have not yet reached their full potential in terms of performance.

The total new business generated in the reporting year has a lifetime volume of around EUR 300 million, which includes approx. EUR 19 million in related tool volumes. We are planning the start-up of the majority of our new series productions in the 2018 and 2019 fiscal years. In the years 2020 and 2022, we plan to start production of the order received by our Canadian site, which was described above. The estimated series runtime for our current new business is the usual period of 5 to 8 years.

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COMPARISON OF FORECAST TO ACTUAL BUSINESS RESULTS

	Actual results 2017	2017 forecast revised during the year	2017 forecast disclosed in 2016 Annual Report	Actual results 2016
Revenue	EUR 461.0 million	To be viewed as conservative	Approx. EUR 450 million	EUR 409.6 million
EBIT	EUR 23.4 million	To be viewed as secured (before currency effects)	EUR 23-24 million (before currency effects)	EUR 19.7 million (incl. currency effects)
Free cash flow	EUR 4.3 million		Positive	EUR 13.0 million
Equity ratio	28.7 percent	Achievable through lower current assets and limited investment	At prior-year level	29.6 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	2.8 years		At prior-year level	2.8 years
Investment according to segment report	EUR 32.8 million	Budget to not be fully exhausted	Approx. EUR 40 million	EUR 29.7 million
Lifetime volume of new business (series and tool orders)	EUR 300.4 million	More than EUR 300 million	Approx. EUR 250 million	Approx. EUR 730 million

FINANCIAL SITUATION

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE AND GROUP'S POSITION

2017 was a very challenging year due to our high level of capacity utilization. We have not yet fully mitigated the resulting risks. A continued increase in demand would be particularly challenging.

Still, we managed to not only supply all customers on time at all times in 2017 but also to reduce the related additional expenditure required to achieve this in the year and return to largely normal production processes.

This ability to take the correct action in an exceptional situation and return the Group to the targeted range of profitability in as little as a few quarters is something that distinguishes us from our competitors. It also serves as a basis for the target implementation of our plans for future expansion and higher profitability over the next few years. We firmly believe that this will also result in a corresponding and significant improvement in the balance sheet ratios.

Due to the high level of call orders from our customers, we were able to exceed our revenue target. Although material price effects also turned out to be more positive than expected, this was not the key reason for exceeding our target. Our strong growth, especially in the initial quarters, resulted in a significant amount of additional expenses. This, however, did not prevent us from achieving an EBIT before currency effects well within our forecast range.

Free cash flow, the equity ratio and the dynamic leverage ratio have all developed in line with our forecasts. This was achieved in the face of high upfront investments for tools due to the fact that we purposely limited our investments. We were also very successful in acquiring a higher volume of new business than originally planned at the start of the year.

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2017	in % of total output	2016	in % of total output
Revenue	461,008	95.4	409,612	96.7
Total output	483,107	100.0	423,534	100.0
Cost of materials	272,859	56.5	225,588	53.3
Staff costs	121,203	25.1	114,179	27.0
Other operating expenses	56,810	11.8	46,460	11.0
EBITDA	44,956	9.3	44,646	10.5
EBIT before currency effects	23,358	4.8	21,598	5.1
Currency effects according to the P&L	-2,831	-0.6	-1,873	-0.4
EBIT including currency effects	20,527	4.2	19,725	4.7
Net income for the period	10,059	2.1	9,522	2.2

RESULTS OF OPERATIONS

We were able to significantly increase our revenue and total output in the 2017 fiscal year, supported by our ability to pass on the roughly EUR 25 million in material price increases to our customers. We also received higher than expected call volumes from customers throughout the year at all of our locations. Tools revenue was also sharply higher in the run-up to major upcoming series start-ups. This was also the reason for the visible rise in finished goods and work-in-progress, which was primarily a result of unfinished tools that had not yet been invoiced.

The development of the EBIT figure contains currency effects included in other operating income and expenses and reported as a separate line item in the notes to this annual report.

Currency effects usually result primarily from translation-related impairments of group loans to finance our Chinese activities. We hedge only a portion of our inter-company loans because these translation effects are not accompanied by any economic risks. The comments that follow refer to EBIT before currency effects because this item reflects the Company's operating development.

In the reporting year, we were able to significantly increase EBIT before currency effects by 8.1 percent, which was in line with the growth in total output excluding the material price effects. We are very satisfied with this performance in light of the higher call orders that had posed significant challenges to our capacity. It took considerable effort in all areas to ensure that our customers received their deliveries on time.

This effort along with the tremendous commitment of our employees, an increased use of third-party services and a higher number of temporary employees, enabled us to meet our delivery requirements at all times. During this period we produced the highest volume of new tool orders in the Company's history. All this has resulted in tangible additional expenses impacting all line items on our income statement.

Slightly higher financial expenses and a somewhat lower tax rate led to an improvement of 5.6 percent in net income for the period to a level of EUR 10.1 million (p/y: EUR 9.5 million) and earnings per share of EUR 3.22 (p/y: EUR 3.05).

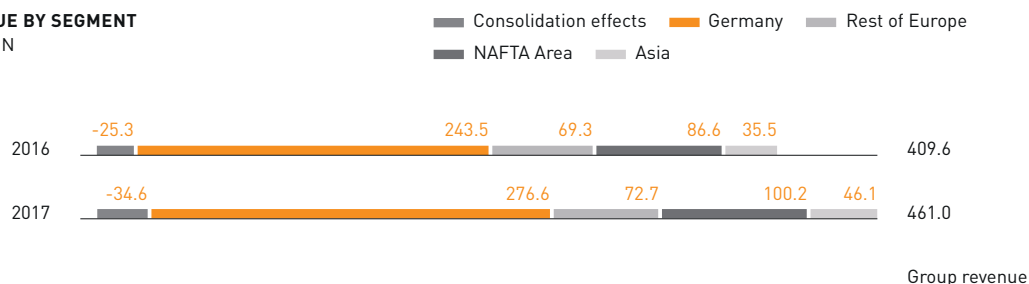
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SELECTED INFORMATION

EURk

	2017	in % of total output	2016	in % of total output
SEGMENT GERMANY				
Total revenue	276,620	94.6	243,472	96.6
External revenue	256,367	87.6	228,992	90.8
Total output	292,508	100.0	252,078	100.0
EBITDA	21,996	7.5	22,357	8.9
EBIT before currency effects	11,547	3.9	10,154	4.0
EBIT including currency effects	10,250	3.5	9,869	3.9
Net income for the period	6,739	2.3	14,526	5.8
Investment	12,062	--	18,905	--
SEGMENT REST OF EUROPE				
Total revenue	72,719	100.3	69,319	100.1
External revenue	68,399	94.4	65,430	94.5
Total output	72,482	100.0	69,253	100.0
EBITDA	12,188	16.8	10,332	14.9
EBIT before currency effects	7,659	10.6	6,295	9.1
EBIT including currency effects	7,685	10.6	6,298	9.1
Net income for the period	7,314	10.1	4,818	7.0
Investment	7,434	--	7,011	--
SEGMENT NAFTA AREA				
Total revenue	100,216	97.3	86,601	92.1
External revenue	100,109	97.2	86,474	92.0
Total output	103,018	100.0	94,015	100.0
EBITDA	10,433	10.1	9,404	10.0
EBIT before currency effects	5,438	5.3	4,612	4.9
EBIT including currency effects	4,927	4.8	3,521	3.7
Net income for the period	1,807	1.8	842	0.9
Investment	9,315	--	3,219	--
SEGMENT ASIA				
Total revenue	46,106	92.0	35,525	104.7
External revenue	36,133	72.1	28,716	84.6
Total output	50,136	100.0	33,942	100.0
EBITDA	914	1.8	2,964	8.7
EBIT before currency effects	-797	-1.6	944	2.8
EBIT including currency effects	-1,785	-3.6	408	1.2
Net income for the period	-3,234	-6.5	-1,162	-3.4
Investment	3,951	--	556	--

TOTAL REVENUE BY SEGMENT IN EUR MILLION



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 location of the Group's assets. Revenues are also allocated in this manner. The two plants in Mexico and Canada are included in the reportable NAFTA segment.

Internal revenue between the individual locations pertains mainly to deliveries of series-related parts and tools. Germany, Czechia and China, in particular, bill other locations for the manufacturing and supplying of tools.

Total revenue and total output at our home location in Oberkirch comprising the Germany segment increased significantly in the 2017 fiscal year, delivering performance that was similar to that of the Group. This market, where growth opportunities are sustainably lower than in the international markets, also experienced volumes that considerably exceeded the level of call orders expected.

In fact, a considerable amount of the tools in the reporting year were developed and manufactured in Germany. Generally lower margins are achieved with tools than on series productions, especially when they are left unbilled and accounted for as unfinished goods. This makes us all the more pleased that we increased our EBIT by 13.7 percent, despite the additional efforts necessary during the year.

The financial result in the reporting year amounted to EUR 1.5 million (p/y: EUR 8.4 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 2.3 million (p/y: EUR 9.3 million). Based on a higher tax rate, net income for the period fell to EUR 6.7 million (p/y: EUR 14.5 million).

The expansion at our location in Czechia, which forms the Rest of Europe segment, was more moderate than for the Group as a whole. Capacity utilization at this location is high following a robust period of growth that ended in 2015. This prompted us to accept a more modest level of orders and invest heavily in this location over the last two years to prepare ourselves for another period of rapid growth.

As a result, our focus in 2017 continued to be on reducing bottlenecks and securing our processes. The progress we have made in both of these areas led to a significant expansion in our EBIT margin compared to the prior year.

Net income for the period improved significantly to EUR 7.3 million (p/y: EUR 4.8 million) based on unchanged financial expenses of EUR 1.3 million and a refund from tax credits in the amount of EUR 1.0 million (p/y: tax burden of EUR 0.2 million).

The NAFTA Area segment comprises our locations in Canada and Mexico. In the 2017 fiscal year, this segment recorded strong growth and a higher EBIT margin. At our efficient and firmly established location in Canada, we managed to visibly improve the EBIT margin alongside moderate revenue growth.

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The start-up and ramp-up of series orders and high customer call orders resulted in a jump in growth at our Mexico location. Meanwhile, this location is almost a third larger than our location in Canada. However, growth was partly due to unusually high tool revenues which had resulted in higher finished goods in the prior year. Therefore, the growth in total output was lower than in revenue. Overall, Mexico has continuously improved its profitability and was able to increase its EBIT in 2017.

All signs are pointing to continued expansion, which is why we began construction of our first assembly plant in Mexico in the reporting year in Puebla where we already have a production facility.

The NAFTA Area segment recorded a sharp improvement in net income for the period in the reporting year reaching EUR 1.8 million (p/y: EUR 0.8 million). This figure includes financial expenses of EUR 2.2 million (p/y: EUR 1.9 million) and income tax expenses of EUR 1.0 million (p/y: EUR 0.8 million).

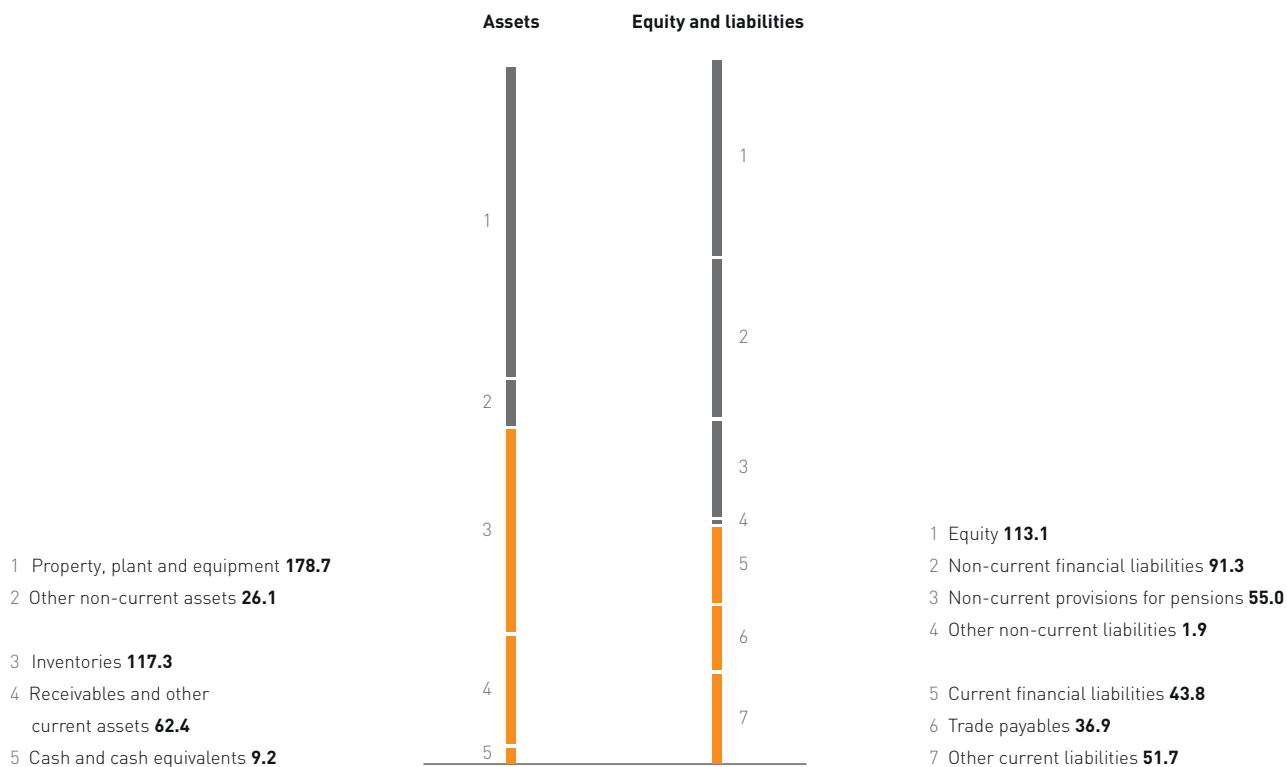
The Asia segment consists of the production location in Suzhou and the assembly location in Shenyang (both in China). The segment's total revenues in the reporting year increased by almost a third and total output rose by almost half and highlights the enormous demands that the Suzhou location, in particular, had to master last year.

This resulted in significant additional expenses, and in 2017 the segment once again ended the year with a visible loss in contrast to the original expectations. During the year, the location became better able to accommodate the high production volumes and, in the fourth quarter, the EBIT had already returned to break-even.

Financial expenses amounted to EUR 1.4 million in the reporting year. Because there were no taxes, the profit for the period amounted to EUR -3.2 million (p/y: EUR -1.2 million).

BALANCE SHEET STRUCTURE AS OF DECEMBER 31, 2017

TOTAL ASSETS: EUR 393.7 MILLION
IN EUR MILLION



NET ASSETS

Strong growth in tandem with the highest volume of new tools in the Company's history placed high demands on the control of the balance sheet, which we were capable of mastering very well:

At EUR 204.8 million, non-current assets remained at the previous year's level (p/y: EUR 201.5 million) as a result of strictly limiting our investments. Major investments were made in Germany, Mexico and Czechia. For details about our investment priorities, see the section entitled "Financial Position."

Receivables and other assets also showed only a slight increase and amounted to EUR 62.4 million (p/y: EUR 58.8 million). Trade receivables were slightly down on the previous year, while other financial assets increased significantly as of the reporting date.

The significant increase in the total assets to EUR 393.7 million (p/y: EUR 359.4 million) resulted from a EUR 20.2 million increase in inventories. This reflects the investment in tools. We financed EUR 12.2 million of this

increase by means of advance payment agreements with our customers.

Cash and cash equivalents as of the reporting date amounted to EUR 9.2 million (p/y: EUR 2.0 million).

Through this control, we were able to essentially maintain the financing structure of the balance sheet and saw only a slight decline in the equity ratio from 29.6 percent in the prior year to 28.7 percent. The dynamic leverage ratio remained unchanged at 2.8 years.

Net debt and pension provisions changed only marginally, and trade liabilities, which represent the third most significant source of refinancing, were only moderately higher. The diverging development of other liabilities and other financial liabilities were able to offset one another.

During the reporting year, there was no substantial change in the structure of financial liabilities, which bear interest rates between 0.89 percent and 7.90 percent and essentially consist of a syndicated loan and a promissory note consisting of several tranches. Floating rate tranches

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DEVELOPMENT OF EQUITY RATIO AND DYNAMIC LEVERAGE RATIO

EURK		
	2017	2016
Equity	113,116	106,536
Total assets	393,725	359,419
EQUITY RATIO = EQUITY IN % OF TOTAL ASSETS	28.7	29.6
Non-current financial liabilities	91,320	87,395
Current financial liabilities	43,763	39,077
Cash and cash equivalents	-9,195	-2,014
NET DEBT	125,888	124,458
EBITDA	44,956	44,646
DYNAMIC LEVERAGE RATIO IN YEARS = NET DEBT /EBITDA	2.8	2.8

totaling EUR 25 million have been repaid in the reporting year and successfully placed again largely at fixed interest rates with very favorable conditions for a period of up to seven years. A net EUR 5 million in additional liabilities was assumed in the course of this transaction. 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 adequately positioned on the refinancing side. We do not have any unusually high volumes of investments planned going forward that would require any major additional financing activities, such as large-volume capital

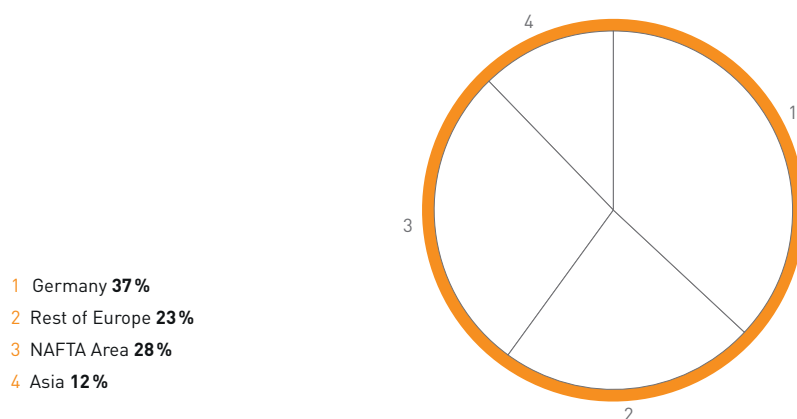
increases or bond issues. We periodically review our options to extend our existing agreements and consider the Group's medium-term financing secure overall.

FINANCIAL POSITION

By successfully controlling the balance sheet in the 2017 fiscal year, we were able to generate clearly positive free cash flow despite a wide range of challenges during the year. This was largely possible due to the fact that we were able to offset a significant amount of the additional funds tied up in current assets resulting from upfront investments in tools with higher advance payments, which sharply increased our level of current liabilities excluding financial liabilities. There was also a positive effect on cash flow

INVESTMENTS IN 2017 BY SEGMENT

100 % = EUR 32.8 MILLION



from other non-cash expenses/income after a negative effect in the previous year. As a result, it was possible to limit the decline in cash flow from operating activities to EUR 38.3 million (p/y: EUR 46.3 million).

At the same time, cash outflows from investing totaled EUR 29.3 million (p/y: EUR 28.8 million) and only marginally exceeded the previous year's level. After interest paid and received of EUR -4.7 million (EUR -4.5 million), free cash flow amounted to EUR 4.3 million (p/y: EUR 13.0 million).

Including dividend payments of EUR 5.0 million (p/y: EUR 4.8 million) and the assumption of loans totaling a net EUR 13.5 million (p/y: net repayment of loans of EUR 12.7 million), the change in cash and cash equivalents amounted to EUR 12.8 million (p/y: EUR -4.5 million).

In 2017, 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 financial management can be found in the notes.

Purchase commitments from investments in property, plant and equipment amounted to EUR 10.9 million as of the reporting date (p/y: EUR 8.7 million). The commitments are due in the year 2018 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 32.8 million (p/y: EUR 29.7 million) in the 2017 fiscal year. The difference to the cash flow from investing activities described above is a result of lease financing.

After moving into the new administrative building at our German location at the end of 2016, investments at that

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site in the reporting year were significantly below those in the previous year and amounted to EUR 12.1 million (p/y: EUR 18.9 million). A portion of this investment was made in building construction, but the majority was dedicated to production facilities for instrument panel carriers and seat components in preparation for major upcoming series start-ups.

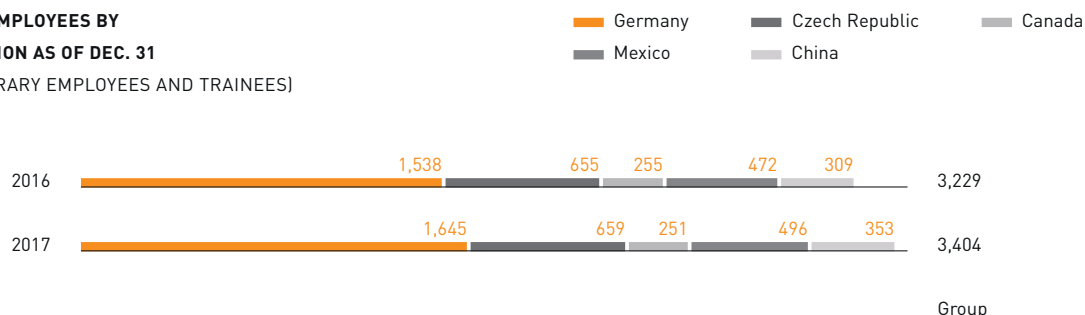
A further EUR 7.4 million (p/y: EUR 7.0 million) was invested in our location in Czechia in the reporting year. A significant proportion of this was invested in expanding the press facilities. We are also optimizing our assembly areas as part of this expansion in order to use our existing space even more efficiently. We also began construction of a separate assembly site.

Investments in the NAFTA Area segment were visibly higher than in the prior year and equaled EUR 9.3 million (p/y: EUR 3.2 million). A small portion of this investment was allocated to our well-established and profitable Canadian location. This is in contrast to Mexico where we are investing to increase our performance, realize productivity gains and set up the necessary capacity for the rapid expansion planned in the years ahead, which included the purchase of new forming presses, among others things.

As previously indicated, we invested a total of EUR 4.0 million (p/y: EUR 0.6 million) in our two locations in China in 2017. This was a significantly higher amount than invested there in the prior year. The investment funds were allocated mainly to our production site in Suzhou, which is operating at a high level of capacity utilization, and where we are currently in the process of rapidly expanding our press facilities.

NUMBER OF EMPLOYEES BY GROUP LOCATION AS OF DEC. 31

(INCL. TEMPORARY EMPLOYEES AND TRAINEES)



EMPLOYEES

We added a significant number of employees at several locations in 2017. This decision was made in light of the higher production volume in the reporting year, as well as in anticipation of the level of staff that will be required in the future. Generally, we begin our search for suitably skilled employees far in advance to give us a better chance at finding the right employees and allowing us ample time to train them. As of December 31, 2017, the PWO Group employed a total of 3,404 people (p/y: 3,229), including 157 trainees (p/y: 153).

After several years of slower job creation in Oberkirch, we were able to offer a moderately higher number of jobs during the reporting year. We try to employ temporary workers for easier tasks in the production areas as often as possible, so that we are flexible when it comes to fluctuations in customer call orders.

The number of employees at our Czechia location remained essentially unchanged and aligned to the somewhat more muted growth in 2017. At our two locations in the NAFTA

region, we increased the number of employees in Mexico, whereas the size of the total workforce in Canada at the end of the reporting year was slightly below the level of the prior year. We have also hired several new employees in Asia, both at the production site in Suzhou and the assembly site in Shenyang.

Training and further education have always been one of the Group's key priorities and continue to gain in importance given the shortage of skilled workers, unfavorable demographic trends and the challenges faced due to digitization. In addition to our wide range of offers, we provide an increasing array of career paths to allow the various talents of our employees to unfold in the best way possible. By spending EUR 3.7 million in the reporting year (p/y: EUR 3.3 million), we significantly increased our commitment to education and training.

The staff turnover rate in the PWO Group declined last year to 1.72 percent (p/y: 2.5 percent) and is now approaching the low level that had distinguished us in earlier years, after completing a variety of changes over the past few years.

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REPORT ON FORECASTS, OPPORTUNITIES AND RISKS

RISK REPORT

RISK PHILOSOPHY AND RISK POLICY

PWO's risk management seeks to optimize the Group's opportunity and risk profile and reduce 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.

We strive as far as possible to avoid the risk that does not necessarily result from our business operations – especially financial-related risk. Interest rate and currency

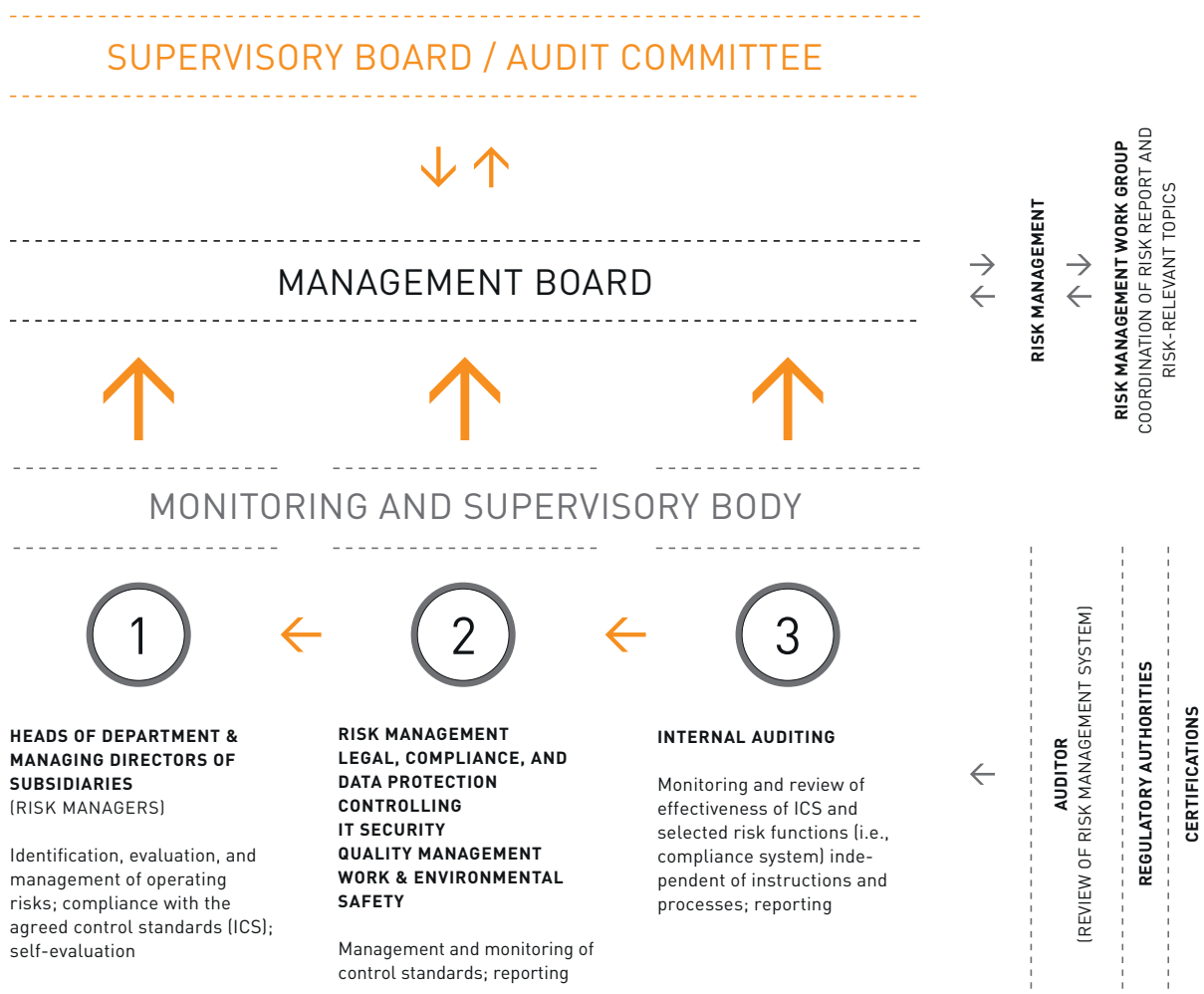
forecasts are generally not a part of our planning or control process since we determine the necessary actions we need to take and choose suitable hedging instruments based on our own internal assessment and the forecasts provided by banks.

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 are presented in the following diagram. They 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).

ORGANIZATION OF THE RISK MANAGEMENT SYSTEM WITHIN THE PWO GROUP



STATUS AND DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

Risk is generally defined as a potential event that can lead to either a positive or a negative deviation from the plan. All risks are allocated to their distinct risk owners and evaluated using different scenarios in terms of the amount of loss and probability of occurrence. All risks are reviewed and updated throughout the Group by those responsible as part of the planning and forecasting processes. This improves our planning stability.

In the 2017 fiscal year, we proceeded with our multi-year plan to steadily expand our Risk Management System. We continued integrating risk management into our existing project management and controlling systems in order to secure major projects. We also made a lasting improvement in our internal control system as part of a pilot project carried out in a selected department. The processes that were improved through this project will also be rolled out in other areas and at our subsidiaries.

The assessment of risk-bearing capacity based on risk indicators will increasingly gain importance as time goes on. The plan to facilitate this is to gradually identify, assess and record long-term opportunities and risks using a uniform methodology. The aim is to transform the Risk Management System into a strategic tool that allows the Management Board to steer the Group with the help of risk indicators.

COMPLIANCE MANAGEMENT AND INTERNAL AUDITING

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

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.

There was a targeted expansion of the CMS in the 2017 fiscal year. As part of this expansion we analyzed and documented the tremendous increase in compliance awareness at our Mexican location during the last few years. We intend to continue promoting this awareness. In interviews over the past year, the feedback from local employees was that they found our system very valuable to them personally and even a competitive advantage for

the PWO Group versus other employers. Any compliance incidents in the past year to be reported to the Group Compliance Officer were investigated, clarified and processed.

We are also currently making preparations to launch a group-wide anonymous whistle-blower system as an important part of the further expansion of the CMS.

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.

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,

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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 PWO Group's overall risk position was virtually unchanged for the 2017 fiscal year and for the 2018 budget. No material new risks have emerged. Discussions continued to be dominated by a potential acceleration in the transition to electric vehicles. During the forecast period, we do not expect any material effects from this on our business. In the years subsequent to the forecast period, we expect the opportunities to outweigh the risks. The report that follows contains our statements concerning individual medium-term risks and opportunities.

Some of the risks and opportunities presented in the previous year's report, which were mainly short-term in nature, have since lost their significance and are therefore no longer included in this report. In the table on page 34, we show an overview for the first time of the change in the rankings of the individual risk categories in a clear and easy-to-use format. Overall, the current risk situation is within the range typical for our business. The Management Board firmly believes that the risks described below are manageable for the Group and in no way jeopardize its continued existence.

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

The following presents the major risks and opportunities for our 2018 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

DEFINITION OF RISK SIGNIFICANCE

Description		Net expected value Risk category
	In % of the EBIT projected for 2018 of EUR 25 to 26 million	In EUR millions ¹
Low	≤ 5 %	≤ EUR 1.3 million
Moderate	> 5 % and < 15 %	> EUR 1.3 million and < EUR 3.8 million
High	≥ 15 %	≥ EUR 3.8 million

¹ Based on the middle of the forecast range, i.e., EUR 25.5 million.

and other risk. The order of the risk categories and the highest respective individual risks within each category presented below reflect our current assessment of the relative level of risk in descending order.

Our business is typically very predictable within a manageable margin of fluctuation. This is partly a result of the multi-year lead times of our orders and the five- to eight-year lifetimes of the series. This also, however, limits our short-term opportunities and is the reason the risks outweigh the opportunities in the following presentation of our 2018 operating plan.

All individual risks are evaluated according to their impact (amount of loss in relation to EBIT) and their likelihood of occurrence in 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. In this report, we indicate the risk significance of the individual categories for the first time. This is how we want to increase the transparency of the risk portfolio as a whole. The definition of risk significance is listed in the table above.

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, especially when customers require

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OVERVIEW OF RISK SIGNIFICANCE FOR THE RISK CATEGORIES

Risk	Risk significance (Net expected value)	Y-0-Y change in the risk ranking
Performance risk	High	Unchanged
Market risk	Moderate	Unchanged
Financial risk	Moderate	Unchanged
Regulatory risk	Low	Unchanged
Other risk	Low	Unchanged

higher volumes. The risk of a complete site failure, however, can almost be ruled out. Due to the continuing high level of capacity utilization at our locations, the significance of these risks has increased.

In order to limit risks, the PWO Group has effective business continuity management, which encompasses a very wide range of individual measures, in the event of business interruptions. These risks also currently have a high priority at the management level, which is why we would be able to react quickly if necessary.

Start-Up and Ramp-Up Risk

The start-up and ramp-up of new series productions involve a number of risks. For one, we are required to do upfront investments such as providing suitable capacity. This results in capacity utilization risk. In addition, the production process goes through a so-called learning curve in the start-up and ramp-up phases until the expected profitability is achieved.

Based on our recent, very successful acquisition of orders, we will have a number of new major series productions – some with very high degrees of complexity – in the years ahead. This not only applies to our home location in Germany but also to the less technologically mature locations in China and Mexico.

Ahead of the new start-ups, the tools required for production must be internally produced or procured externally. Since a significant proportion of new start-ups concerns instrument panel carriers that consist of an above-average number of individual parts, the highest tool volume in the Company's history is currently being processed.

This processing takes a considerable amount of human resources.

We have formed 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. Product liability risks and risks arising from product recalls in the automotive industry have also risen steadily in recent years.

We mitigate these risks using our quality management system that has been established and certified for many years. We are constantly expanding our components' scope of testing and documenting their impeccable quality before they leave our Company – especially in the context of various digitization projects. This is done to make sure that defective components can be recognized at an even earlier stage than in the past during the production process. We also want to achieve the complete traceability of every single component, so that possible errors can not only be assigned at the level of individual containers but also individual components. In addition, we have taken out insurance to cover our liability risk from product recalls.

MARKET RISK

Raw Materials

The raw materials required for our production processes mainly include steel and to a much lesser extent aluminum. We have not yet experienced any supply risk in this area and do not expect to in the future.

However, these risks have recently increased with regard to the sharp rise in volatility in commodity prices. So far, we have either been able to pass raw material price increases directly on to our customers via price escalation clauses, or we have negotiated acceptable solutions. We are confident that we be able to do this in the future, likely supported by an even closer integration of our sales and purchasing activities.

Fluctuations in Customer Call Orders (Fluctuations in Sales Volume)

In principle, utilization risks can arise from fluctuations in sales. For existing orders, these risks can result from fluctuations in demand from our end customers, often resulting from cyclical changes. For new orders, they can result from start-up delays on the part of vehicle manufacturers.

Because of the long-term nature of our business, we can only compensate for capacity reductions in the short term by making adjustments on the cost side. We believe our revenue planning is sound and do not see any material risks. However, if customer call orders exceed plans above all at our locations in China, Germany and Mexico, this can lead to further capacity bottlenecks. Although we have no delivery obligation above a contractually agreed range. However, as a reputed partner to the automotive industry, we are dedicated to making every effort to deliver our customers as reliably as possible in all economic phases.

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 and can only be offset to a limited extent by our current high level of capacity utilization.

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.

FINANCIAL RISKS

Impairments

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

While our subsidiary in China reported another EBIT loss last year due to its temporary capacity overload, our Mexican entity is now making a positive contribution to the Group's EBIT.

Both companies have very positive sales and earnings prospects for the coming years as a result of the current start-ups and ramp-ups of series production and the high volume of new orders on hand. This is underpinned by the gratifyingly high technological performance these locations have meanwhile achieved. In some areas, there are still bottlenecks in capacity as well as start-up and ramp-up risks. However, we believe the measures initiated keep these risks under control, and our plans confirm the carrying amounts of our assets.

Financing and Interest Rate Risk

There are no risks to finance the current business and planned investments. We counter interest rate risks by balancing our long-term and short-term funding. At the moment, we do not see any risks arising from the fact that financial institutions do not fulfill their obligations in connection with the investment of liquid assets and as counterparties to derivative financial assets.

Within the scope of the syndicated loan and the promissory note issued in 2014, we agreed on customary financial covenants. These are the focus of our control. At the moment, we continue to assume that we will be able to comply with all covenants.

Recently, fraud risks from so-called CEO fraud, fake president and other forms of cybercrime have clearly increased. In doing so, criminals operate with forged documents as well as fictitious identities to transfer significant amounts of money from companies to accounts abroad.

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However, a recent review of the control design of the payment processes of PWO AG led to satisfactory results. The insights gained were used to further refine the existing group-wide regulations and thereby reduce risks in this area. For example, we secure larger payment transactions via multi-level approval processes. Last but not least, there are clear instructions and reporting channels that ensure that even top executives cannot override internal rules of conduct.

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, Chinese renminbi and the Czech koruna.

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. For additional information about the risks of using financial instruments, please refer to the notes of this annual report.

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 long-standing product and industry expertise of our employees and our cooperation with an external patent attorney. There are currently no disputes.

As of May 25, 2018, the EU General Data Protection Regulation, which takes effect on that date, must also be observed. Alongside a sharp increase in data protection requirements (especially the duty to provide evidence and documentation for personal data processing officers) and a drastically increased range of fines for breaches of these requirements, this is accompanied by enormous

uncertainty as to interpretation issues regarding the new regulations.

Risks from Tax and Political Conditions

German tax law is indeed one of the most complex areas of the law, which is all the more true the more a company is internationally intertwined. For this reason, the Group's tax risks are generally increasing as is the risk of additional tax payments resulting from routine tax audits. PWO AG is currently undergoing an tax audit for the years 2012 to 2015. The result of this audit is still pending.

Risk also results from the further development of the tax environment in the US, which may affect the international value chain of the global economy. For example, in the wake of the US tax reform, which was passed shortly before Christmas 2017, the imposition of an excise tax on certain inputs and products purchased by American companies abroad was waived. Nevertheless, the law contains other regulations concerning cross-border trade, and future import taxes and countervailing duties for individual products and industries have already been announced.

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.

In terms of the political environment, the German automotive industry currently appears to be especially exposed to risk stemming from the United States and Great Britain. The risk related to the US concerns the NAFTA Area, in particular, and the renegotiation of the free trade agreement that is still on the agenda.

The risk related to Great Britain concerns the withdrawal of Great Britain from the European Union. Although PWO has only a small number of direct customer relations in this country, Great Britain is still the largest export market for the German automotive industry. As a result, German manufacturers are directly affected by the weak 2017 registration figures and the forecasts from market

experts for 2018. Nevertheless, we do not expect the above to have a material impact on the PWO Group during the 2018 forecast period.

OTHER RISKS

Availability of Skilled Personnel

The timely availability of skilled workers in sufficient numbers with the right qualifications poses a particular risk, especially with regard to the growth we have planned and the expected demographic development. We are currently experiencing bottlenecks at all of our locations, particularly as a result of the positive economic situation. It can also be difficult to recruit qualified employees in Germany and Czechia. Any resulting capacity bottlenecks will affect the risk scope of the performance risks.

One way we reduce risk is through the use of long-term planning and managing our need for skilled employees at the earliest stage possible. We do this, for example, through the training, extensive further education and qualification of our employees. We also manage our risk group-wide using sophisticated recruitment and employee retention strategies.

To ensure our flexibility, some of our personnel requirements are met through the use of temporary staff. There is a risk that German laws may make the use of temporary staff even more difficult in the future. The best response to such a development will depend on the relevant regulatory framework.

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 quality of our systems was confirmed in the reporting year through an external penetration test conducted by a well-respected consulting company. The aim of this test was to determine to what extent and through which weak points the Group's IT systems were vulnerable to an outside attack and which damage scenarios could result.

The test confirmed that PWO is protected by a high level of IT security.

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

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

IMPROVING COMPETITIVENESS THROUGH THE ADAPTATION OF INTERNAL PROCESSES

In breaking down our product range into separate business areas, we took the opportunity to also revise our internal processes. The pooling of product expertise and the even greater standardization of all processes enabled us to identify any potential for increasing efficiency and, thereby, our competitiveness. The potential we have identified should not only reduce the risk involved in managing our start-ups and ramp-ups but should also bring about positive earnings effects. We plan to achieve some noticeable improvement already with our major upcoming new series start-ups.

DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGIES

Permanent product and process innovation is the key factor in securing and expanding our competitive position in the industry. We develop product solutions with persuasive technology to help our customers comply with steadily increasing regulatory requirements in an effort to reduce the environmental impact caused by vehicles. We are able to profitably translate these requirements 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 one of the reasons why we continue to be very successful, which was clearly highlighted by our recent acquisition of instrument panel carriers.

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.

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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 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 resulting from increased electromobility or the potential full conversion to this type of drive system, since only very few of our solutions are 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.

We assume 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 been tackled.

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 on 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 semi-autonomous or fully autonomous driving will, in our view, further increase passenger comfort requirements. This means additional opportunities for the Group.

In addition, there are also quite new concepts in discussion, which present some added growth opportunities. For example, if passengers wish to turn their seats in several different directions during fully autonomous driving, the seat belts must still be able transfer the energy impact to the seats rather than the B-pillar in the event of an accident. The ability to achieve this will result in even more complex requirements for seating concepts in the future. Our extensive expertise in the forming of high-strength steels, already places us in an excellent position to provide this today.

Development of the Customer and Competitive Environment

The high capital intensity of the automotive industry, increasing competition in global markets and CO₂ reduction requirements are forcing global 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 the manufacturers' 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.

Extending PWO's Global Reach

Our five production sites, place us in a strong position in all of the relevant markets. In the future, we will increase our global reach by adding assembly locations. The first two of these locations are already operating successfully in Germany and China, and we are now building one assembly plant each in Mexico and Czechia. This structure enables us to reap an even greater reward from the trend of automakers shifting to suppliers who can deliver globally.

Tool Sourcing from China

In the course of preparing for the start-up of new major orders for instrument panel carriers, we are sourcing a substantial amount of tools from China and profit from the lower price level. 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 pickup in the global economy will continue with slightly higher overall growth rates in 2018 and 2019. Global real growth is estimated at 3.9 percent in both 2018 and 2019, outperforming 2017 by a tenth of a point.

In 2018, the global economic growth drivers will mainly be the developing countries and the United States. Positive short-term effects as a result of the recent tax reform will give the US economy 2018 additional impetus. According to the IMF, US GDP growth should be noticeably stronger than in 2017 and reach an estimated 2.7 percent but is expected to lose some steam again and drop to 2.5 percent in 2019. The Chinese economy, in contrast, will grow at a slightly lower rate this year and next year but will continue to grow at well over six percent. A slowdown in growth from 2.4 to 2.2 percent is expected in the eurozone in the current year.

The IMF expects lower growth rates, especially in Germany (2.3 percent vs. 2.5 percent), Italy (1.4 percent vs. 1.6 percent) and Spain (2.4 vs. 3.1 percent). The development in these countries should be similar in 2019. In France, however, continuous development is expected in both 2018 and 2019 (each 1.9 percent vs. 1.8 percent in 2017). Overall, growth in the eurozone is anticipated to slow down further to 2.0 percent in 2019.

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The general economic uncertainty caused by Brexit continues to cast a shadow over the British economy. The below-average growth last year is set to fall even further this year and next, with growth rates of 1.5 percent each year.

Against the backdrop of a reacceleration in the economic upswing in the final quarter of 2017, the German economy entered the year 2018 full of confidence and momentum. Several key sentiment indicators even reached record levels at the beginning of the year. For example, the Ifo Business Climate Index marked its highest level since the financial crisis in January, and the assessment of the current situation also reached a new record high. Consumer optimism picked up again at the beginning of the year. Consumer economic and income expectations, as well as the propensity to buy, continued to move higher.

Based on the above, the Federal Government is more optimistic than the IMF and expects German GDP to increase from 2.2 percent in the previous year to 2.4 percent in 2018. Supported by a further increase in employment and a renewed sharp rise in gross wages and salaries, domestic demand and, particularly, the sharp acceleration in investment in equipment and foreign trade remain the key drivers of the German upturn.

In 2018, the German Association of the Automotive Industry (VDA) expects the global passenger car market to grow 1 percent to 85.7 million units. The pan-European passenger car market is expected to maintain its level at 15.6 million units. In Western Europe, however, the forecast is for a slight decline in passenger cars of 1 percent to a good 14.2 million units caused by a projected decline of 5 percent in Great Britain.

According to the VDA, the German market will also decline slightly by 2 percent to a volume of new registrations of around 3.4 million following a strong year of car sales in 2017. The US market is expected to continue to lack momentum in 2018 with sales expected to fall by 2 percent to a good 16.8 million light vehicles. The VDA does, however, expect German manufacturers to increase their US market share in 2018. China is anticipated to maintain its growth trend from the prior year with an increase of 2 percent to a good 24.6 million passenger cars. Russia and Brazil, on the other hand, are still in the process of recovering.

Based on these projections, the German manufacturers' car production worldwide is expected to increase by 2 percent in 2018 to 16.7 million units. Domestic production should remain stable at 5.6 million cars as should exports which are expected to remain flat year-on-year at 4.3 million vehicles. Foreign production, in contrast, is expected to increase 3 percent to 11.1 million units.

BUSINESS DEVELOPMENT AND FUTURE DIRECTION

DEVELOPMENT OF THE PWO GROUP

Our 2018 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.

The Group's positive development is expected to continue in 2018. We expect revenue to increase by around 8 percent to EUR 500 million. Revenue growth will be supported by the invoicing of tools that had not yet been billed by the end of the reporting year. We expect material prices to remain largely unchanged.

In terms of the performance of our locations, we expect strong growth in Czechia and especially in Germany based on our current high level of customer call orders. In Czechia, the start-up and ramp-up of new orders are expected to propel this expansion. We will continue to vigorously increase the production of components and subsystems in China and Mexico. However, in comparison to 2017, which was an exceptional year, declining tool sales will temporarily slow the overall pace of growth. In Canada, we do not expect any major changes in our production portfolio.

EBIT before currency effects is expected to increase significantly to a range of EUR 25 – 26 million based on the currency exchange rates hedged at the end of 2017. This range would be equal to roughly a 20 percent increase over the EUR 21.5 million reported for 2017, which is the reference amount used in our planning for 2018. We expect exchange rates to have a neutral impact on EBIT in the coming planning period due to the high hedging ratio in place.

Despite the growth we have planned, we are reluctant to project continued growth in profitability at the locations based on the Group's high current level of capacity utilization. For this reason, our 2018 forecast assumes that the high additional expenses incurred in 2017 due to the growth in the Asia segment will no longer occur in 2018 allowing us to achieve a satisfactory EBIT margin in the Asia segment in the mid-single-digit percentage range. We also expect Mexico to continue its trend of ongoing improvement.

NET ASSETS AND FINANCIAL POSITION

For the 2018 fiscal year, we expect clearly positive free cash flow and an improvement in both the equity and dynamic leverage ratios also supported by the invoicing of tools from the past fiscal year. It should be noted however that we have already received prepayments for some of these tool volumes as mentioned above. We may also see some negative effects on cash flow in 2018 from our continued development and production of new tools for our further growth in future.

INVESTMENT

Last year, we significantly came in below our original investment budget, which is why we expect our investment volume to reach the upper end of our long-term range and amount to EUR 42 million in 2018. As a rule, our investment budgets are set for a period of three years. We currently require roughly EUR 110 million over that period of time to support our long-term growth.

In addition to the usual replacement investment, most of our investment in 2018 will be devoted to continuing to prepare for the start-up of production of instrument panel carriers at all locations. With the exception of Canada, new forming presses are in the pipeline for each production site. We are making these investments so that we can gradually soften the impact of the unfavorable high utilization rates we have currently and bring relief to the machinery where we have bottlenecks. The full relief will probably not be seen until 2019.

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ORDER SITUATION

There are no major awards of larger series production contracts expected in 2018. We will, therefore, focus on our preparing for new start-ups in upcoming years in addition to acquiring the volumes necessary for our growth targets. We expect new business in the 2018 fiscal year in the range of EUR 250 million to EUR 300 million. Aside from this amount, we are already very well positioned to win new contracts to be tendered in the years thereafter.

DIVIDEND POLICY

We plan to continue our shareholder-friendly dividend policy. Our general intention is to propose dividend increases only when it is probable that the scale of the distribution is expected to be maintained in the years that follow. Our shareholders should benefit from rising net income also in the form of higher dividends. However, in order to safeguard the future expansion of the PWO Group, we plan to continue gradually reducing the payout ratio in the future.

OVERALL STATEMENT ON FUTURE DEVELOPMENT

We reached important milestones in the reporting year in our preparation for future growth. The expansion required in our production and assembly capacity is in the process of being implemented. We have already increased our human resources and will continue to do so. More importantly,

our processes at our sites in China and Mexico gained further considerable stability despite their high utilization over the past year.

Based on these aspects, we are confident that we will be able to successfully manage the challenges posed by the upcoming start-ups and ramp-ups and will execute them efficiently. We have aligned our management and risk management to accomplish this, which is why we are confident that we will be able to significantly increase the Group's revenue, earnings power and balance sheet ratios over the next few years.

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. All shares are 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 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: The holding in the Company currently amounts to 46.62 percent.

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 non-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 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 www.progress-werk.de/en/group/corporate-governance/.

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MANAGEMENT BOARD REMUNERATION ACCORDING TO DRS 17

EURk

	Fixed remuneration						Performance-related remuneration				Total remuneration	
	Basic annual salary		Non-cash benefits		Other benefits		One-year variable remuneration		Multi-year variable remuneration			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Volker Simon, CEO ¹	320	300	17	14	0	0	132	127	148	140	617	581
Bernd Bartmann	216	198	33	35	0	0	103	99	107	97	459	429
Johannes Obrecht (since July 1, 2016) ²	168	154	18	6	0	0	88	0	97	0	371	160
Dr. Winfried Blümel (until June 30, 2016)	--	108	--	17	--	0	--	49	--	49	--	223
TOTAL	704	760	68	72	0	0	323	275	352	286	1,447	1,393

¹ Dr. Simon's 2017 basic annual salary includes EURk 50 (p/y: EURk 50) to establish a private retirement program.

² Mr. Obrecht's 2017 basic annual salary includes EURk 70 of variable remuneration, which was agreed 2016 as a fixed amount.

REMUNERATION REPORT

The remuneration report presents the Management Board's and Supervisory Board's remuneration pursuant to the applicable accounting principles of the German Commercial Code (HGB) and 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 methodology and amount of the Management Board's remuneration based on the proposal of the Personnel Committee. The criteria for defining remuneration include 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 both as a whole and with respect to its development over time. The overall remuneration structure is geared toward the Company'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 and pension benefits. The bonus represents the performance-based element of remuneration and is divided into one-year and multiple-year variable components. The one-year variable component is measured according to the net income of the Group for the previous fiscal year. The multiple-year variable component is measured according to the Group's average net income over a period of three years. The absolute level of performance-based remuneration is limited in its amount and structured so that multi-year components outweigh one-year components and ensures that both positive and negative corporate developments are 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.

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. The retirement pension is paid either upon reaching the

MANAGEMENT BOARD REMUNERATION ACCORDING TO DRS 17: PENSION COST

EURk

	Annual entitlement ¹		Present value of benefit obligations		Allocation to pension provisions	
	2017	2016	2017	2016	2017	2016
Dr. Volker Simon, CEO	0	0	0	0	0	0
Bernd Bartmann	72	72	1,434	1,292	105	98
Johannes Obrecht (since July 1, 2016)	0	0	0	0	0	0
Dr. Winfried Blümel (until June 30, 2016)	43	43	929	874	0	41
TOTAL	115	115	2,363	2,166	105	139

¹ At the start of pension at the age of 65 years based on the entitlements earned until December 31, 2017.

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.

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. The allowance for Mr. Obrecht is paid by the Company 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.

The Personnel Committee of the Supervisory Board regularly reviews the remuneration system for the Management Board in preparation for the resolution of the plenary. The last review was conducted in the 2016 fiscal year.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GAS 17 ACCOUNTING STANDARD

The total Management Board remuneration for the 2017 fiscal year amounted to EURk 1,447 (p/y: EURk 1,393). This includes performance-based remuneration of EURk 675 (p/y: EURk 561). Management Board members were granted non-cash benefits of EURk 68 (p/y: EURk 72), which mainly consist of company cars, phone bills, insurance premiums and non-cash benefits. The table on the page before shows the individual remuneration of the Management Board members.

The Company has recognized pension provisions for the future pension entitlement of Management Board member Bernd Bartmann. The allocation to pension provisions in

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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				Dr. Winfried Blümel Production and Materials Resignation 30/06/2016			
	2016	2017	2017	2017	2016	2017	2017	2017	2016	2017	2017	2017	2016	2017	2017	2017
			Min.	Max.			Min.	Max.			Min.	Max.			Min.	Max.
Fixed remuneration ¹	300	320	--	--	198	216	--	--	154	168	--	--	108	--	--	--
Non-cash benefits	14	17	--	--	35	33	--	--	6	18	--	--	17	--	--	--
TOTAL	314	337	--	--	233	249	--	--	160	186	--	--	125	--	--	--
Discretionary bonus ²	0	0	--	100	0	0	--	80	0	0	--	80	0	--	--	--
One-year variable remuneration ³	147	217	--	225	114	169	--	187	0	145	--	190	57	--	--	--
Multi-year variable remuneration (2016-2017)	0	0	--	--	0	0	--	--	0	135	--	210	0	--	--	--
Multi-year variable remuneration (2015-2016)	169	0	--	--	0	0	--	--	0	0	--	--	0	--	--	--
Multi-year variable remuneration (2015-2017)	0	201	--	275	0	146	--	213	0	0	--	--	0	--	--	--
Multi-year variable remuneration (2014-2016)	0	0	--	--	141	0	--	--	0	0	--	--	71	--	--	--
TOTAL	316	418	--	--	255	315	--	--	0	280	--	--	128	--	--	--
Pension expenses ⁴	0	0	--	--	118	125	--	--	20	40	--	--	51	--	--	--
TOTAL REMUNERATION	630	755	--	--	606	689	--	--	180	506	--	--	304	--	--	--

¹ Dr. Simon's basic annual salary includes EURk 50 to establish a private retirement program.

In the previous year, Mr. Obrecht's basic annual salary included EURk 70 of variable remuneration, which was agreed as a fixed amount.

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

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

³ In the previous year, Mr. Obrecht's one-year variable remuneration was agreed as a fixed amount and reported under his fixed remuneration for 2016.

⁴ In 2016, the pension expenses for Mr. Bartmann and Mr. Obrecht included a payment of EURk 20 each paid by the Company into a pension trust.

The 2016 pension expenses for Dr. Blümel included a payment of EURk 10 paid by the Company into a pension trust.

The 2017 pension expenses included payments into a pension trust (EURk 20 for Mr. Bartmann and EURk 40 for Mr. Obrecht).

the reporting year amounted to a total of EURk 105 (p/y: EURk 139). The allocation amount included what is known as service costs excluding interest costs.

Management Board members Dr. Volker Simon and Johannes Obrecht are not entitled to pension benefits,

but instead, Dr. Simon receives an annual fixed amount of EURk 50 to contribute to a private pension plan, and Mr. Obrecht receives an annual fixed amount of EURk 40, to be paid directly by the Company into a pension trust. In addition to the pension entitlement, an agreement was made for a fixed annual payment of EURk 20 to be

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		Dr. Winfried Blümel Production and Materials Resignation 30/06/2016	
	2016	2017	2016	2017	2016	2017	2016	2017
Fixed remuneration ¹	300	320	198	216	154	168	108	--
Non-cash benefits	14	17	35	33	6	18	17	--
TOTAL	314	337	233	249	160	186	125	--
Discretionary bonus ²	0	0	0	0	0	0	0	--
One-year variable remuneration ³	127	132	99	103	0	88	49	--
Multi-year variable remuneration (2016-2017)	0	0	0	0	0	97	0	--
Multi-year variable remuneration (2015-2016)	140	0	0	0	0	0	0	--
Multi-year variable remuneration (2015-2017)	0	148	0	107	0	0	0	--
Multi-year variable remuneration (2014-2016)	0	0	97	0	0	0	49	--
TOTAL	267	280	196	210	0	185	98	--
Pension expenses ⁴	0	0	118	125	20	40	51	--
TOTAL REMUNERATION	581	617	547	584	180	411	274	--

¹ Dr. Simon's basic annual salary includes EURk 50 to establish a private retirement program.

In the previous year, Mr. Obrecht's basic annual salary included EURk 70 of variable remuneration, which was agreed as a fixed amount.

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

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

³ In the previous year, Mr. Obrecht's one-year variable remuneration was agreed as a fixed amount and reported under his fixed remuneration for 2016.

⁴ In 2016, the pension expenses for Mr. Bartmann and Mr. Obrecht included a payment of EURk 20 each paid by the Company into a pension trust.

The 2016 pension expenses for Dr. Blümel included a payment of EURk 10 paid by the Company into a pension trust.

The 2017 pension expenses included payments into a pension trust (EURk 20 for Mr. Bartmann and EURk 40 for Mr. Obrecht).

paid directly into a pension trust for Management Board member Bernd Bartmann.

The table on page 45 shows the individual expense for pensions.

Former members of the Company's Management Board and their surviving dependents have received pension payments amounting to EURk 228 (p/y: EURk 223) during the reporting year. The corresponding pension provisions amounted to EURk 4,386 (p/y: EURk 4,308) on December 31, 2017.

In the event of termination of employment, no other benefits were promised to any member of the Management Board. In the 2017 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.

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.

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EURk

	Fixed remuneration		Attendance fees		Total remuneration	
	2017	2016	2017	2016	2017	2016
Karl M. Schmidhuber, Chairman (since May 31, 2016)	69	47	5	1	74	48
Dieter Maier, Chairman (until May 31, 2016)	0	29	0	3	0	32
Dr. Gerhard Wirth, Deputy Chairman	44	45	3	8	47	53
Dr. Georg Hengstberger	38	39	5	5	43	44
Herbert König	31	32	5	5	36	37
Ulrich Ruetz	38	37	5	5	43	42
Gerhard Schrempp (since May 31, 2016)	25	17	3	1	28	18
Franz Schmidt (until May 31, 2016)	0	10	0	2	0	12
TOTAL	245	256	26	30	271	286

The total remuneration granted to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,950 (p/y: EURk 1,720) for the 2017 fiscal year.

The total remuneration paid to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,612 (p/y: EURk 1,582) for the 2017 fiscal year.

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.

The 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.

PWO AG BUSINESS DEVELOPMENT

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 financial statements are prepared in accordance 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. There were no impairment charges for financial assets recognized in the reporting year following a total of EUR 6.9 million recognized in the prior year.

As of the reporting date, the number of employees of the Company, including temporary workers, increased to 1.645 (p/y: 1.538). This number includes 133 (p/y: 125) young people who are currently completing training.

Similar to the Group, revenue and total output at PWO AG increased sharply in the reporting year as a result of the very high level of customer call orders, as well as our ability to pass on higher material prices.

The visible increase in the cost of materials ratio in the reporting year was the result of three factors. First, the ability to pass on material prices, as already mentioned, resulted in an increase in the expense ratio that was

purely mathematical. Secondly, high upfront investments in tools were made that had not yet been invoiced as of the balance sheet date. And lastly, customer call orders were higher than planned and led to noticeable inefficiencies in the manufacturing processes.

Due to PWO AG's lower volume of investment in the reporting year, there was a slight decline in the absolute amount of depreciation and amortization in the 2017 fiscal year. We also recorded a reduction in the staff costs ratio, although, it should be noted that temporary employees accounted for the greater part of the increase in the number of employees during the reporting year. The expenses associated with temporary employees are recognized in other operating expenses, which increased significantly. However, this item was also strongly influenced by higher currency expenses, which were partially offset by significantly higher currency income.

The financial result remained virtually unchanged. Despite lower year-on-year income from investments from affiliated companies, it was not necessary to impair any financial assets.

Earnings before taxes decreased to EUR 10.2 million (p/y: EUR 12.6 million). Net income based on a higher year-on-year tax rate amounted to EUR 5.2 million (p/y: EUR 8.4 million).

Total assets rose to EUR 306.0 million in the reporting year (p/y: EUR 288.4 million). This increase was almost exclusively related to the upfront investments in tools already mentioned and recognized as work-in-progress.

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INCOME STATEMENT

SELECTED INFORMATION

EURk

	2017	in % of total output	2016	in % of total output
Revenue	280,170	94.6	247,015	96.6
Total output	296,058	100.0	255,621	100.0
Cost of materials	162,731	55.0	128,310	50.2
Staff costs	83,706	28.3	76,779	30.0
Depreciation and amortization	11,547	3.9	11,816	4.6
Other operating expenses	38,790	13.1	31,331	12.3
Financial result	1,157	0.4	1,169	0.5
Earnings before taxes	10,198	3.4	12,643	4.9
Net income	5,234	1.8	8,393	3.3
Unappropriated retained earnings	5,235	1.8	5,001	2.0

The other items on the assets side of the balance sheet showed only very slight changes.

We successfully agreed on advance payment arrangements with our customers for upfront investments in tools resulting in an increase in this item to EUR 9.4 million (p/y: EUR 0.6 million). Bank borrowings and other liabilities also increased slightly as of the reporting date. Equity remained largely unchanged at EUR 119.1 million (p/y: EUR 118.9 million), which resulted in an equity ratio on the balance sheet date of 38.9 percent (p/y: 41.2 percent).

With respect to future business development, the statements regarding the Group's risks and opportunities also apply to PWO AG. In 2018, we anticipate further increases in revenue. Above all, the invoicing of upfront investments in tools, which could not be billed at the end of the 2017 reporting year, will have a positive effect on revenue. Total output, in contrast, is expected to remain unchanged. In view of our high level of capacity utilization at the site, we are currently assuming only a slight increase in earnings before taxes. PWO AG's earnings are also largely influenced by dividend payments from our subsidiaries, which are not received on a regular basis.

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 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 13, 2018

The Management Board



Dr. Volker Simon
(CEO)



Bernd Bartmann



Johannes Obrecht

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LIGHTWEIGHT AIR STRUT
COMPONENTS FOR FRONT
AND / OR REAR AXLES

We achieve optimal price/weight ratios in aluminum, high-strength steel or combinations thereof for strut components – and all that while achieving maximum performance: our hybrid components transmit vertical forces of up to 22 kilonewtons.

INTELLIGENT COMMUNICATION

PROCESS-ORIENTED DATABASE
STORAGE STRUCTURE INCLUDING
THE USE OF **SOCIAL MEDIA**
FEATURES AND **METADATA**

INTEGRITY,
DISCRETION,
AVAILABILITY

PPC

Group-wide use of a PWO
private cloud, integrating
all IT services

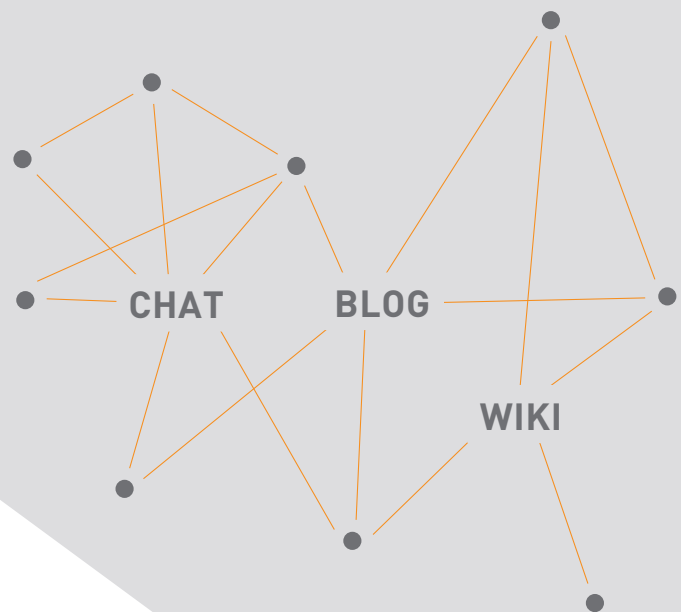
ISO

The Oberkirch location has already
been certified according to DIN ISO /
IEC 27001 for many years

EU

Implementation of the EU General
Data Protection Regulation

MODERN ENTERPRISE
CHANNEL COMMUNICATION



**COMMUNICATE SIMPLY, SAFELY AND
EFFICIENTLY → MORE PRODUCTIVITY
AND MOTIVATION**

CONSOLIDATED INCOME STATEMENT

EURk

Note no.		2017	2016
7	Revenue	461,008	409,612
	Change in finished goods and work-in-progress	20,858	13,202
8	Other own work capitalized	1,241	720
	TOTAL OUTPUT	483,107	423,534
9	Other operating income	12,721	7,339
	Cost of raw materials and supplies and merchandise purchased	-226,125	-188,001
	Cost of purchased services	-46,734	-37,587
	Cost of materials	-272,859	-225,588
	Wages and salaries	-100,429	-94,478
	Social security and post-employment costs	-20,774	-19,701
10	Staff costs	-121,203	-114,179
	Amortization of intangible non-current assets and depreciation of property, plant and equipment	-24,429	-24,921
11	Other operating expenses	-56,810	-46,460
	EARNINGS BEFORE INTEREST AND TAXES (EBIT)	20,527	19,725
	Financial income	401	399
12	Financial expenses	-6,225	-5,812
	Financial result	-5,824	-5,413
	EARNINGS BEFORE TAXES (EBT)	14,703	14,312
13	Income taxes	-4,644	-4,790
	NET INCOME FOR THE PERIOD ¹	10,059	9,522
14	Earnings per share in EUR (diluted = basic) based on net income attributable to the shareholders of PWO AG	3.22	3.05

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EURk

	2017	2016
NET INCOME FOR THE PERIOD	10,059	9,522
Net gains from cash flow hedges	5,867	1,460
Tax effect	-1,592	-359
Currency translation differences	-1,433	257
Items that may be reclassified to profit and loss in future periods	2,842	1,358
Actuarial losses from defined benefit pension plans	-1,845	-3,646
Tax effect	524	1,035
Items that will not be reclassified to profit and loss	-1,321	-2,611
OTHER COMPREHENSIVE INCOME AFTER TAX	1,521	-1,253
TOTAL COMPREHENSIVE INCOME AFTER TAX	11,580	8,269

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CONSOLIDATED BALANCE SHEET

ASSETS

EURk

Note no.		31/12/2017	31/12/2016
	Land and buildings	86,137	84,876
	Technical equipment and machinery	68,147	69,625
	Other equipment, operating and office equipment	10,232	12,176
	Prepayments and assets under construction	14,134	9,960
15	Property, plant, and equipment	178,650	176,637
	Contract and customer-related development services	3,426	3,329
	Industrial property rights and similar rights	2,721	2,723
	Goodwill	5,337	5,398
	Prepayments	148	2
16	Intangible assets	11,632	11,452
	Non-current portion of income tax receivables	0	0
	Deferred tax assets	14,511	13,400
	NON-CURRENT ASSETS	204,793	201,489
	Raw materials and supplies	26,027	25,549
	Work-in-progress	63,467	47,803
	Finished goods and merchandise	26,055	22,765
	Prepayments	1,794	987
17	Inventories	117,343	97,104
	Trade receivables and other receivables	48,261	49,208
	Other assets	10,163	9,283
	Other financial assets	3,455	192
	Income tax receivables	515	129
18	Receivables and other assets	62,394	58,812
19	Cash and cash equivalents	9,195	2,014
	CURRENT ASSETS	188,932	157,930
	TOTAL ASSETS	393,725	359,419

EURk

Note no.		31/12/2017	31/12/2016
	Subscribed capital	9,375	9,375
	Capital reserves	37,494	37,494
	Retained earnings	64,041	56,028
	Currency translation differences	2,206	3,639
20	TOTAL EQUITY	113,116	106,536
	Non-current financial liabilities	91,320	87,395
	Provisions for pensions	54,954	52,927
	Other provisions	1,908	1,732
	Non-current liabilities	148,182	142,054
	Trade payables	36,943	31,438
	Advance payments received on account of orders	16,396	4,246
	Current financial liabilities	43,763	39,077
	Other liabilities	23,142	16,953
	Other financial liabilities	8,420	14,878
	Income tax liabilities	475	1,466
	Current portion of provisions for pensions	1,541	1,540
	Current portion of other provisions	1,747	1,231
	Current liabilities	132,427	110,829
21	TOTAL LIABILITIES	280,609	252,883
	TOTAL EQUITY AND LIABILITIES	393,725	359,419

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, 2016	9,375	37,494	68,913	-12,003	3,382	-4,050	103,111
Net income for the period			9,522				9,522
Other comprehensive income				-2,611	257	1,101	-1,253
TOTAL COMPREHENSIVE INCOME			9,522	-2,611	257	1,101	8,269
Dividend payment			-4,844				-4,844
DECEMBER 31, 2016	9,375	37,494	73,591	-14,614	3,639	-2,949	106,536
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

CONSOLIDATED STATEMENT OF CASH FLOWS

EURk

Note no.		2017	2016
	Net income for the period	10,059	9,522
	Depreciation/amortization of property, plant and equipment and intangible assets	24,429	24,921
13	Income tax expense	4,644	4,790
12	Interest income and expenses	5,824	5,413
	Change in current assets	-23,620	-8,230
	Change in non-current assets	0	115
	Change in current liabilities (excluding interest-bearing borrowings)	17,771	14,575
	Change in non-current liabilities (excluding interest-bearing borrowings)	804	2,795
13	Income taxes paid	-7,390	-4,127
	Other non-cash expenses/income	5,885	-3,483
	Gain (p/y: loss) on disposal of property, plant and equipment	-92	13
	CASH FLOW FROM OPERATING ACTIVITIES	38,314	46,304
	Proceeds from disposal of property, plant, and equipment	947	634
	Payments for investments in property, plant, and equipment	-27,969	-27,471
	Payments for investments in intangible assets	-2,239	-1,966
	CASH FLOW FROM INVESTING ACTIVITIES	-29,261	-28,803
20	Dividends paid	-5,000	-4,844
	Interest paid	-4,790	-4,546
	Interest received	69	94
	Proceeds from borrowings	53,631	24,398
	Repayment of borrowings	-40,138	-37,055
	CASH FLOW FROM FINANCING ACTIVITIES	3,772	-21,953
	Net change in cash and cash equivalents	12,825	-4,452
	Effect of exchange rates on cash and cash equivalents	397	-22
	Cash and cash equivalents as of January 1	-11,782	-7,308
	CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	1,440	-11,782
19	of which cash and cash equivalents	9,195	2,014
21	of which bank borrowings due on demand	-7,755	-13,796

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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, 2017 to December 31, 2017 fiscal year were authorized by the Management Board on the basis of a resolution passed on March 13, 2018 and were subsequently submitted to the 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, 2017. Early application of the standards adopted into EU law 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
Amendments to IAS 7	Disclosure Initiative: Changes in liabilities arising from financing activities	Jan. 1, 2017	The amendment supplements IAS 7 by requiring additional disclosure relating to liabilities arising from financing activities.	Note 21 „Changes in liabilities arising from financing activities“ includes a reconciliation of liabilities from financing activities as of the beginning of the period to the amount as of the reporting date, differentiating between cash and non-cash changes. Prior year comparable information is not required upon first-time application. The amendments have no other effects.
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	Jan. 1, 2017	The amendments eliminate uncertainties relating to the accounting of deferred tax assets for debt instruments recognized at fair value.	This amendment has no effect on the Group because it is consistent with the previous accounting.

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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 9	Financial Instruments	Jan. 1, 2018	IFRS 9 introduces a uniform approach for the classification and measurement of financial assets. The standard also includes a new impairment model based on expected credit losses and provisions for hedge accounting aimed at better reflecting an entity's risk management system.	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.
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 items). 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.

EFFECTS OF THE APPLICATION OF IFRS 9: FINANCIAL INSTRUMENTS

Classification and measurement: The Group does not expect any material effects on the balance sheet or equity as a result of the application of the classification and measurement provisions under IFRS 9. It is assumed that the financial assets measured at fair value to date will continue to be measured at fair value.

Traditional trade receivables are held to collect the contractual cash flows. Cash flows are expected to be interest and principal payments only. For this reason, the Group expects these positions to continue to be recognized at amortized cost. The Group will analyze the contractual cash flows from the sale of receivables in detail in order to determine whether all trade receivables meet the criteria for measurement at amortized cost under to IFRS 9.

Impairment: IFRS 9 requires that the expected credit defaults for all debt securities, loans and trade receivables are assessed either on a 12-month basis or based on the total maturity. The Group expects to apply a simplified approach and calculate impairments for trade receivables on the basis of total maturity. No material impact on equity is expected. However, further detailed analyses are necessary taking into account appropriate and reliable information as well as future elements in order to determine the extent of the effects.

Hedge accounting: The Group assumes that all hedging relationships presented in an effective hedging relationship continue to qualify for hedge accounting under IFRS 9. Since IFRS 9 does not alter the previous general principles for the accounting of effective hedge relationships, the Group does not expect any significant effect on earnings from the application of IFRS 9. The Group will make a more detailed evaluation of potential changes in the recognition of the fair value of options, futures and cross-currency basis spreads. The Group may utilize the accounting option to continue applying IAS 39 in the 2018 fiscal year, meaning that there will be no effect on the income statement or equity in the current year.

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

In May 2014, the IASB published the new IFRS 15 standard "Revenue from Contracts with Customers." The objective of the new standard for the recognition of revenues is to combine the multitude of provisions that have previously been included in various standards and interpretations. At the same time, uniform basic principles are determined which are applicable to all sectors and all types of revenue transactions. The questions of the extent and the time or period of time when revenue is to be recognized must be answered using the 5-step model. The standard also contains a number of further regulations on detailed questions and the extension of the required information in the Notes. The amendment to IFRS 15, published in September 2015, postponed the mandatory first-time application date from January 1, 2017 to fiscal years beginning on or after January 1, 2018. First-time application is to be carried out retrospectively, but various simplification options are granted; earlier application is still permissible. In April 2016, several clarifications on IFRS 15 were published that particularly relate to the identification of separate performance obligations, principal versus agent considerations, as well as the recognition of licensing income.

In the fourth quarter of 2016, the PWO Group launched a detailed analysis of the effects and implementation aspects of IFRS 15. This project consists of three phases: the first project phase was used to analyze the existing contracts, specifically series and tool contracts with automotive manufacturers and payments to customers. The preliminary results of the impact analysis were subsequently discussed as to their potential effects at the Group level with the different specialist departments. On the basis of the domestic contract analysis carried out thus far, a second phase started in the first half of 2017 with the aim of reviewing the resulting effects for the parent company and developing a concept devised for the reconciliation of the revenue recognition to the new regulations of IFRS 15, which also included the necessary adjustments with regard to existing internal systems. The adaptation requirements identified will be implemented in the subsequent third phase. The accounting manuals with regard to IFRS 15 prepared by the parent company will now be distributed to the international entities in the context of a global roll-out and the resulting information is collected. The results of the global roll-out are expected in the first quarter of 2018.

Based on the results of the impact analysis carried out thus far, the following key statements may be made:

- Based on an analysis of PWO Group's revenues, the following types of revenue have been identified: development services, tool sales, services and series deliveries, whereby the area of series deliveries accounts for the predominant share of revenues.
- The first-time application of IFRS 15 will have no significant effect on development services because the Group does not render material order-related development services.
- Tool sales to customers ahead of series deliveries account for a material share of revenues. PWO has come to the conclusion that tool sales should continue to be recognized based on a certain point in time.

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- The first-time application of IFRS 15 has an insignificant effect only on services because the Group does not render material services.
 - When rendering series deliveries, revenue recognition is conceptually changed from a point in time to a time frame recognition. This will lead to earlier recognition of revenue compared to the previous model because parts of the finished and unfinished goods will be recognized as revenue. The effect on equity from the transition as of January 1, 2018 is expected to be a low single-digit million euro amount. No significant effects are expected in subsequent years.
 - Payments to customers will be capitalized as other assets in the future subject to certain conditions and recognized as a revenue deduction along with the revenue recognized for which these payments have been made. This will result in a change in the balance sheet, whereby intangible assets will decline and other assets will increase by the same amount. This effect will be in the low single-digit million euros. The reversal of the amounts will no longer be recorded as depreciation/amortization in the income statement but as a revenue deduction. This is not expected to have a significant effect on earnings.
 - The PWO Group does not grant customers any material guarantees and warranties beyond statutory provisions that would need to be recognized as separate performance obligations.
 - The changes in the opening balance sheet as of January 1, 2018 caused by IFRS 15 will result in a reduction in inventory and an increase in contract assets. The effect of this change is still being assessed. The effect on Group equity in the opening balance sheet as of January 1, 2018 is expected to be a single-digit euro million amount.

The PWO Group has not made use of the option to apply IFRS 15 early before the start of the 2018 fiscal year. The Group will apply the modified retrospective transition method.

EFFECTS OF THE APPLICATION OF IFRS 16: LEASES

In January 2016, the IASB published the new standard IFRS 16 "Leases," which is intended to replace the current leasing standard 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 a finance lease and operating lease agreements under IAS 17, therefore, will no longer apply to the lessee in the future. In accordance with IFRS 16, the lessee recognizes a lease liabilities in the balance sheet for all leases in the amount of the present value of future lease payments, and at the same time capitalizes a corresponding right of use for the underlying asset. During the term of the lease contract, the lease liability is deferred in a similar manner as 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 can continue to be accounted for under the previous provisions for operating leases and, therefore, remain off-balance sheet transactions. The PWO Group has not yet made the final decision as to whether it 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. The PWO Group has not yet finally decided which transition method it will use.

The new standard is expected to result in an increase in non-current assets and financial liabilities in a mid-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 21 "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
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 1, 2018	Regulates the point in time of the determination of the foreign currency exchange rate for transactions with advance payments in foreign currencies.	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.
Annual improvement project to IFRS	Annual improvements to IFRS 2014-2016		The amendment clarifies that the disclosure requirements of IFRS 12 also apply to entities classified as held-for-sale, with the exception of paragraphs B10 – B12.	"The amendment will have no effect on the Group because there are no entities classified as held-for-sale.
Amendments to IFRS 9:		Jan. 1, 2019	The amendment relates 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.	The amendment is not expected to have an effect on the Group because the Group currently does not classify financial assets with prepayment features and negative compensation.
Annual improvement project to IFRS	Annual improvements to IFRS 2015-2017	Jan. 1, 2019	Clarifications to IFRS 3/IFRS 11 and IAS 23/IAS 12. According to IAS 12.57A, all income tax effects from dividend payments should be recognized in the same manner as the income the dividends are based on, meaning in profit or loss, unless the dividend is based on income that was directly recognized in other operating income or other equity.	The clarifications to IFRS 3/IFRS 11 and IAS 23 do not apply to the Group and, therefore, have no effect. This amendment to IAS 12 will have no significant effect on the Group because it is consistent with the previous accounting.

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 (IAS 27). 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%	10,777	2,880
PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic	100%	33,214	7,314
PWO Holding Co., Ltd., Hong Kong, China	100%	-1,007	-39
PWO High-Tech Metal Components [Suzhou] Co., Ltd., Suzhou, China ¹	100%	8,990	-3,195
PWO de México S.A. de C.V., Puebla, Mexico ²	100%	1,282	-1,074

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

² indirect holding through PWO Canada Inc. for a total of 0.14%

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 exchange rate. 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	
		31/12/2017	31/12/2016	2017	2016
China	CNY	7.80	7.32	7.63	7.35
Canada	CAD	1.50	1.42	1.46	1.47
Mexico	USD	1.20	1.05	1.13	1.11

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

Income 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.

Revenue is recognized from the sale of products when the key opportunities and risks associated with the sold products pass from the seller to the buyer. This normally occurs when the goods are delivered.

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.

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 authority or paid to the taxation authority. 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.

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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 are recognized as part of the acquisition or production costs of an asset if they can be allocated directly to the acquisition or production of the asset and if a considerable period is required to render the asset in its intended usable or saleable condition. All other borrowing costs are recognized as an expense in the period they are incurred. Borrowing costs consist of interest costs and other costs incurred by a company in connection with the borrowing of funds. Borrowing costs were not capitalized in the reporting year or in the prior year.

CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities are not recognized on the balance sheet. 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 recognized in the financial statements 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 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.

Long-term corporate planning approved by the Management Board and acknowledged by the Supervisory Board extends until the end of the 2022 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Phase 1: Weighted average cost of capital (WACC)	12.56%	10.71%	8.97%	9.17%
Phase 2: Growth rate (in perpetuity)	1.65%	1.60%	1.44%	1.51%

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 entities. 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 automotive markets are generally used as a basis for determining the cash flows.

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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 8,517 (p/y: EURk 11,664) and PWO Czech Republic by EURk 35,207 (p/y: EURk 19,072), respectively.

Under the assumption that the capitalization rate remains unchanged, an impairment would be required if PWO Czech Republic's free cash flows were to be sustainably reduced by more than 41.36%. 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 10.13%.

Under the assumption that the capitalization rate remains unchanged, an impairment would be required if PWO Canada's free cash flows were to be sustainably reduced by more than 40.98%. 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 12.54%.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that create a financial asset for one entity and a financial liability or equity instrument for another entity (IAS 39). 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 how these instruments are allocated to the categories in accordance with IAS 39. They are either measured at fair value or amortized cost. IAS 39 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 2022 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.

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 at fair value through profit or loss at the time of their initial recognition.

In the case of financial liabilities, the Group has not yet made use of the option to designate these as 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 24.

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 a 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.

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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.

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 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:

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, 2017 was EURk 3,426 (p/y: EURk 3,329). 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 three continents: Europe, with the German location and the Company's headquarters in Oberkirch and in the Czech Republic in Valašské Meziříčí, 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, the NAFTA Area and Asia. The locations of Canada and Mexico were combined into the reporting segment "NAFTA Area." Further details are described in Note 30.

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.

ALLOWANCES FOR TRADE RECEIVABLES

Allowances for doubtful receivables involve 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 allowance from historical default rates, a decline in the volume of receivables reduces the amount of allowances and vice versa. Allowances for trade receivables and other receivables in the reporting year amounted to EURk 292 (p/y: EURk 310).

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 report. 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, 2017 was EURk 5,337 (p/y: EURk 5,398). 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, 2017, deferred tax assets of EURk 0 (p/y: EURk 191) relating to unutilized tax loss carryforwards and EURk 7,310 (p/y: EURk 6,684) relating to tax credits were recognized. Tax loss carryforwards in the prior year concerned PWO de México and the tax credits concerned PWO Czech Republic.

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Had the Group been able to capitalize all unrecognized deferred tax assets, the net income and equity would be EURk 7,845 (p/y: EURk 8,567) 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 the future tax planning strategies. On December 31, 2017, the recognized value of tax loss carryforwards translated into euros at the closing date was EURk 0 (p/y: EURk 637), and the unrecognized tax loss carryforwards, which may be utilized for a limited period, amounted to EURk 27,872 (p/y: EURk 30,530). Further details are described in Note 13.

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

EURk

	31/12/2017	31/12/2016
Within a period of 1 year	1,728	3,842
Within a period of 2 years	900	3,566
Within a period of 3 years	4,326	2,528
Within a period of 4 years	1,519	5,607
Within a period of 5 years	3,124	1,880
Subsequent years	16,275	13,107
TOTAL	27,872	30,530

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 21 in the section titled "Pension Provisions."

In the prior year, the previous method to determine interest rates was optimized in such a way that the yield curve is derived using what is known as the single-bond method instead of the sub-index method. In the case of the single-bond method, the yield curve for returns on high-grade corporate bonds is no longer determined on the basis of bundled index values, but on the basis of the yields on the individual bonds. Future cash flows from PWO are used to derive the interest rate instead of future cash flows from sample bond holdings.

FINANCIAL DERIVATIVES

The syndicated loan agreement concluded in 2016 and maturing in 2022 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 report (see Note 30).

8 OTHER OWN WORK CAPITALIZED

Own work capitalized consists of EURk 1,141 (p/y: EURk 668) 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 and steering components. Series orders are on hand for these projects.

9 OTHER OPERATING INCOME

Other operating income is divided as follows:

EURk

	2017	2016
Currency gains	8,507	4,920
Income from derecognition of accruals	429	32
Other income	3,785	2,387
TOTAL	12,721	7,339

Non-periodic income amounted to EURk 862 (p/y: EURk 565).

10 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk

	2017	2016
Wages and salaries	100,429	94,478
Social security and post-employment costs	20,774	19,701
TOTAL	121,203	114,179

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YEAR'S AVERAGE NUMBER OF EMPLOYEES BY DIVISION

	2017	2016
Development and sales	191	186
Production and materials	1,948	1,756
Tool center	451	454
Administration	132	130
PERMANENT WORKFORCE	2,722	2,526
Temporary employees	409	382
Trainees	133	128
Inactive employees in phased retirement	94	99
TOTAL WORKFORCE	3,358	3,135

11 OTHER OPERATING EXPENSES

Other operating expenses are divided as follows:

EURk

	2017	2016
Costs for temporary employees	14,781	13,190
Currency losses	11,338	6,787
Maintenance costs	6,788	6,331
Outgoing freight	4,790	3,348
Travel costs	2,205	1,743
Minimum lease payments under operating leases	1,768	1,605
Rental costs	1,413	1,234
Legal, audit and consultancy costs	1,343	1,557
Insurance premiums	1,247	1,197
Other expenses	11,137	9,468
TOTAL	56,810	46,460

Non-periodic expenses amounted to EURk 41 (p/y: EURk 94).

12 FINANCIAL EXPENSES

EURk

	2017	2016
Interest expenses paid to financial institutions	4,774	4,126
Interest expenses for interest-rate swaps	58	65
Interest expenses for interest accrued on pension provisions	1,077	1,237
Interest expenses under finance lease contracts	316	374
Interest expenses for interest accrued on other provisions	0	10
TOTAL	6,225	5,812

13 INCOME TAXES

Taxes recognized in other comprehensive income amounted to EURk -1,068 (p/y: EURk 676).
Income taxes recognized in the net income for the period are divided as follows:

EURk

	2017	2016
Actual taxes	6,012	5,220
Deferred taxes	-1,368	-430
TOTAL	4,644	4,790

Actual taxes in the reporting year included non-periodic tax expenses of EURk 1,257 whereas the prior year included non-periodic tax benefits of EURk 36.

In the reporting year, Progress-Werk Oberkirch AG was subject to a tax audit for the years 2012 to 2015, which was still ongoing as of the reporting date.

Deferred taxes resulted entirely from temporary differences.

Deferred taxes were not recognized for temporary differences in retained profits from subsidiaries totaling EURk 25,015 (p/y: EURk 17,367) 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

	2017	2016
EARNINGS BEFORE INCOME TAXES	14,703	14,312
Theoretical tax expense at 28.43% (p/y: 28.43%)	4,180	4,069
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-637	-571
Tax increase due to non-deductible expenses	1,022	1,048
Tax increase (+) / reduction (-) previous years	1,257	-36
Taxes on foreign dividends	73	347
Tax effects from tax credits	-2,195	-832
Effects from non-capitalized tax loss carryforwards	936	723
Other effects	8	42
INCOME TAXES	4,644	4,790

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 assets	
	2017	2016	2017	2016
Intangible assets and property, plant and equipment	26	33	4,136	4,734
Other assets	1,176	946	580	118
Tax loss carryforwards and tax credits	7,310	6,875	0	6
Provisions	9,892	9,286	0	0
Liabilities	684	1,571	579	453
SUBTOTAL	19,088	18,711	5,295	5,311
Netted amount	-4,577	-5,311	-4,577	-5,311
TOTAL RECORDED ON THE GROUP BALANCE SHEET	14,511	13,400	718	0

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 did not occur.

	2017	2016
Net income for the period in EURk	10,059	9,522
Average number of no-par value shares	3,125,000	3,125,000
Earnings per share in EUR	3.22	3.05

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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, 2016	107,795	254,251	43,413	9,904	415,363
Additions	9,759	6,215	2,315	9,436	27,725
Disposals	-719	-12,526	-3,107	0	-16,352
Reclassifications	4,209	4,935	350	-9,508	-14
Currency effects	371	1,393	480	51	2,295
AS OF DEC. 31, 2016	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 AT DEC. 31, 2017	124,421	261,167	39,667	14,134	439,389
DEPRECIATION					
As of Jan. 1, 2016	33,064	180,245	29,464	0	242,773
Additions	3,380	15,352	4,424	0	23,156
Disposals	-132	-12,493	-3,079	0	-15,704
Currency effects	227	1,539	389	0	2,155
AS OF DEC. 31, 2016	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
CARRYING AMOUNTS					
As of Dec. 31, 2016	84,876	69,625	12,253	9,883	176,637
As of Dec. 31, 2017	86,137	68,147	10,232	14,134	178,650

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.

The historical acquisition and production costs of property, plant and equipment that are fully depreciated but still in use, amount to EURk 160,676 (p/y: EURk 158,332).

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, 2016	8,608	15,956	6,744	1,137	452	32,897
Additions	668	1,298	0	0	0	1,966
Disposals	0	-1,674	0	0	0	-1,674
Reclassifications	0	465	0	0	-451	14
Currency effects	8	5	95	37	1	146
AS OF DEC. 31, 2016	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
AMORTIZATION						
As of Jan. 1, 2016	5,031	14,137	1,412	1,137	0	21,717
Additions	916	850	0	0	0	1,766
Disposals	0	-1,674	0	0	0	-1,674
Currency effects	8	14	29	37	0	88
AS OF DEC. 31, 2016	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
CARRYING AMOUNTS						
As of Dec 31, 2016	3,329	2,723	5,398	0	2	11,452
As of Dec 31, 2017	3,426	2,721	5,337	0	148	11,632

The useful life of software is 3 to 5 years.

Development costs of EURk 3,426 (p/y: EURk 3,329) 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.

The historical acquisition and production costs of intangible assets that are fully amortized but still in use, amount to EURk 17,266 (p/y: EURk 16,508).

As of December 31, 2017, the goodwill of PWO Canada amounted to EURk 1,007 (p/y: EURk 1,067), and the goodwill of PWO Czech Republic amounted to EURk 4,331 (p/y: EURk 4,331). The decrease at PWO Canada resulted from a change in the currency exchange rates.

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17 INVENTORIES

On the reporting date, the total amount of inventories of EURk 117,343 (p/y: EURk 97,104) included spare parts for tools in an amount of EURk 7,677 (p/y: EURk 7,676) accounted for at acquisition and production costs. In the reporting year, an impairment of EURk 830 (p/y: EURk 1,180) was recognized in profit or loss as was a reversal of an impairment loss of EURk 250 (p/y: EURk 250) due to the renewed use of tool spare parts that had previously been impaired.

18 RECEIVABLES AND OTHER ASSETS

As of December 31, 2017, the total allowances for trade receivables and other receivables amounted to EURk 292 (p/y: EURk 310). The carrying amount of trade receivables and other receivables before valuation allowances was EURk 48,553 (p/y: EURk 49,518). The following table shows the development of the valuation allowance account:

EURk		
	2017	2016
Valuation allowance as at Jan. 1	310	399
Additions	9	24
Utilization	-24	-47
Releases	-3	-66
VALUATION ALLOWANCE AS AT DEC. 31	292	310

For receivables of a relevant amount, allowances are provided for 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.

Allowances for doubtful accounts are regularly recorded on separate impairment accounts and lead to an impairment loss through profit or loss. The allocation to and the resulting increase in the valuation allowance during the year concerned only a few isolated cases. Definite defaults result in derecognition of the relevant receivable.

19 CASH AND CASH EQUIVALENTS

Deposits at banks bear interest at variable interest rates for short-term call deposits. On December 31, 2017, the Group had undrawn credit lines for which all necessary conditions for use are already met.

On December 31, 2017, for purposes of the consolidated statement of cash flows, the balance of cash and cash equivalents of EURk 9,195 (p/y: EURk 2,014) consisted of cash on hand and bank deposits net of bank borrowings due on demand. The carrying amount of these assets is equivalent to their fair value.

20 EQUITY

SUBSCRIBED CAPITAL

As of December 31, 2017, 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 EQUITY

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 2,206 (p/y: EURk 3,639) are reported separately.

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, 2017, PWO AG reported unappropriated retained earnings of EURk 5,235. 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:

	EURk
Payment of a dividend of EUR 1.65 per dividend-bearing share	5,156
Carried forward to new account	79

In fiscal year 2017, a total dividend of EURk 5,000 (EUR 1.60 per dividend-bearing share) was paid for the 2016 fiscal year. The dividend payment in the 2016 fiscal year for the 2015 fiscal year amounted to EURk 4,844 (EUR 1.55 per dividend-bearing share).

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

As of the balance sheet date December 31, 2017, 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, fell 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.

21 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 158 (p/y: EURk 157) and PWO Czech Republic in the amount of EURk 228 (p/y: EURk 198).

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 9,315 (p/y: EURk 8,650), 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 74 (p/y: EURk 66) 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

	2017	2016
Current service cost	1,224	1,174
Past service cost	-499	0
Interest expenses for defined benefit obligations	1,077	1,231
TOTAL	1,802	2,405

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

EURk

	2017	2016
Adjustments due to changes in demographic assumptions	0	0
Adjustments due to changes in financial assumptions	-2,106	-4,839
Experiential adjustments	261	1,193
TOTAL	-1,845	-3,646

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

EURk

	2017	2016
Present value of defined benefit obligations as of Jan. 1	54,467	50,008
Service cost	1,224	1,174
Past service cost	-499	0
Interest expenses	1,077	1,231
Pension payments rendered	-1,612	-1,529
Adjustments due to changes in assumptions	2,107	4,839
Experiential adjustments	-261	-1,193
Other adjustments	0	-54
Foreign currency differences	-8	-9
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AS OF DEC. 31	56,495	54,467

Of the recognized pension provisions, EURk 54,954 (p/y: EURk 52,927) are non-current and EURk 1,541 (p/y: EURk 1,540) are current.

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

	2017	2016
Interest rate	1.80%	2.00%
Employee turnover rate	2.50%	2.50%
Future salary trend > 40 Jahre	2.50%	2.50%
Future salary trend < 40 Jahre (career trend)	3.50%	3.50%
Future pension increases	1.75%	1.75%

The defined benefit obligations have an average remaining term of 19 years (p/y: 19.5 years) in the reporting year.

The following table shows a sensitivity analysis with the key assumptions as of December 31, 2017:

EURk

Assumption	Scenario			
	Increase of		Decline of	
Discount rate	1.00%	-9,409	1.00%	12,666
Staff turnover rate	0.50%	-137	0.50%	146
Future salary increases (income trend)	0.25%	88	0.25%	-86
Future salary increases (career trend)	0.50%	101	0.50%	-96
Future pension increases	0.25%	1,776	0.25%	-1,694
Average life expectancy	1 Jahr	2,079	--	--

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

	2017	2016
Within the next 12 months	1,541	1,546
Within 2 to 5 years	6,777	6,609
Within 5 to 10 years	10,063	9,660
TOTAL EXPECTED PAYMENTS	18,381	17,815

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.

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Other provisions have developed as follows:

EURk

	Personnel-related provisions		Provisions for contingent losses	
	2017	2016	2017	2016
As of Jan. 1	2,769	3,254	194	203
Utilization	-1,068	-1,142	0	-25
Reversal	-6	0	-14	0
Additions	1,063	657	0	16
of which accrued interest	0	10	0	0
AS OF DEC. 31	2,758	2,769	180	194
of which non-current	1,708	1,686	75	47
of which current	1,050	1,083	105	147

FINANCIAL LIABILITIES

EURk

	Current				Non-current		Total financial liabilities	
	< 1 year		1 to 5 year		> 5 years			
	2017	2016	2017	2016	2017	2016	2017	2016
Bank borrowings	41,719	37,083	21,793	20,759	369	2,539	63,881	60,381
Liabilities from promissory notes	0	0	39,889	59,877	24,930	0	64,819	59,877
Liabilities to leasing companies	2,044	1,994	2,749	2,584	1,590	1,636	6,383	6,214
TOTAL	43,763	39,077	64,431	83,220	26,889	4,175	135,083	126,472

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

EURk

	Dec. 31, 2016	Cash-effective changes	Non-cash changes		Dec. 31, 2017
			New lease contracts	Currency effects	
Non-current loans	83,175	4,351	0	-545	86,981
Current loans	37,083	5,486	0	-850	41,719
Lease liabilities	6,214	-2,385	2,554	0	6,383
TOTAL	126,472	7,452	2,554	-1,395	135,083

The financial management of the PWO Group is ensured through compliance with the 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 covenants. The covenants were met as of December 31, 2017.

Financial liabilities generally have interest rates between 0.89% and 7.90% (p/y: 0.80% and 7.75%). The higher interest rates are mainly on subordinated, local financing of individual subsidiaries.

Bank borrowings repayable on demand amounted to EURk 7,755 (p/y: EURk 13,796). Of the bank borrowings, EURk 6,744 (p/y: EURk 12,036) are secured by mortgages and EURk 8,491 (p/y: EURk 9,011) 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, 2017, the assets had a carrying amount of EURk 5,132 (p/y: EURk 3,814). 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.

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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	
	2017	2016	2017	2016
Residual term up to 1 year	2,358	2,280	2,044	1,994
Residual term 1 to 5 years	3,398	3,142	2,749	2,584
Residual term > 5 years	1,951	1,993	1,590	1,636
TOTAL MINIMUM LEASE PAYMENTS	7,707	7,415	6,383	6,214
Less interest cost	-1,324	-1,201	0	0
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	6,383	6,214	6,383	6,214

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 December 31, 2017, other financial obligations, including purchase commitments, totaled EURk 17,330 (p/y: EURk 14,013). 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	
	2018 ff.	2017 ff.	2018 ff.	2017 ff.	2018 ff.	2017 ff.	2018 ff.	2017 ff.
Residual term up to 1 year	1,787	1,640	10,884	8,652	19	0	180	175
Residual term 1 to 5 years	2,657	1,737	0	0	0	0	684	684
Residual term > 5 years	165	0	0	0	0	0	954	1,125
TOTAL	4,609	3,377	10,884	8,652	19	0	1,818	1,984

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

22 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, 2017, receivables with a nominal value of EURk 19,324 (p/y: EURk 17,275) were sold. The transferred receivables are current receivables where the carrying amount corresponds to the fair value of the assets transferred.

23 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

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 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, 2017, 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

	2017	2016
Trade receivables and other receivables	48,261	49,208
Protection from commercial credit insurance	-23,290	-26,498
MAXIMUM DEFAULT RISK	24,971	22,710
Derivative financial assets	3,455	192
Cash and cash equivalents	9,195	2,014

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On December 31, 2017, the analysis of overdue but not impaired trade receivables and other receivables breaks down as follows:

EURk

	2017	2016
TRADE RECEIVABLES AND OTHER RECEIVABLES	48,261	49,208
of which neither overdue nor impaired	43,198	43,776
of which < 30 days overdue (but not impaired)	4,005	4,405
of which > 30-90 days overdue (but not impaired)	341	401
of which > 90-180 days overdue (but not impaired)	111	78
of which > 180-360 days overdue (but not impaired)	472	13
of which > 360 days overdue (but not impaired)	134	535

As of the reporting date, there were no indications of impairment on any non-impaired trade receivables or other receivables.

LIQUIDITY RISK

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Bank borrowings	43,152	38,298	22,942	21,894	421	2,609	66,515	62,801
of which repayment of principal	41,719	37,083	21,793	20,759	369	2,539	63,881	60,381
of which interest payment	1,433	1,215	1,149	1,135	52	70	2,634	2,420
Liabilities from promissory notes	1,575	1,474	44,309	64,333	25,785	0	71,669	65,807
of which repayment of principal	0	0	39,889	59,877	24,930	0	64,819	59,877
of which interest payment	1,575	1,474	4,420	4,456	855	0	6,850	5,930
Liabilities to leasing companies	2,358	2,281	3,398	3,142	1,951	1,993	7,707	7,416
of which repayment of principal	2,044	1,994	2,749	2,584	1,590	1,636	6,383	6,214
of which interest payment	314	287	649	558	361	357	1,324	1,202
Trade payables	36,943	31,438	0	0	0	0	36,943	31,438
Derivative financial instruments with hedging relationship	0	3,004	0	1,798	0	0	0	4,802
Derivative financial instruments without hedging relationship	76	3,337	699	807	5	0	780	4,144
Other remaining financial liabilities	7,709	6,623	0	0	0	0	7,709	6,623

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash inflow	44,017	46,178	38,611	39,263	0	0	82,628	85,441
Cash outflow	-42,912	-49,182	-37,469	-41,061	0	0	-80,381	-90,243
NET BALANCE	1,105	-3,004	1,142	-1,798	0	0	2,247	-4,802
Foreign currency derivatives without hedging relationship								
	2017	2016	2017	2016	2017	2016	2017	2016
Cash inflow	32,167	35,350	12,753	2,687	0	0	44,920	38,037
Cash outflow	-31,595	-38,522	-13,315	-3,065	0	0	-44,910	-41,587
NET BALANCE	572	-3,172	-562	-378	0	0	10	-3,550

INTEREST RATE RISK

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, 2017 had been 100 basis points higher, earnings before taxes would have been EURk 16 higher (p/y: EURk 37). If market interest rates as of December 31, 2017 had been 100 basis points lower, earnings before taxes would have been EURk 399 lower (p/y: EURk 719).

CURRENCY RISK

Currency risk is the risk of foreign exchange rate-induced fluctuations in the value of balance sheet items. 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, exchange rate differences arising from the translation of financial statements into the Group's reporting currency (translation risk) are not considered.

According to IFRS, an exchange risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency. Therefore, in the case of derivative financial instruments, only the currency derivatives are included in the sensitivity analysis, since not all interest rate derivatives are exposed to currency risk. 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.

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%	
	2017	2016	2017	2016
EUR/CAD	-68	173	77	-211
EUR/CNY	-1,933	-1,806	1,582	1,477
EUR/CZK	101	194	-124	-237
EUR/USD	-950	2,932	1,017	-3,583
TOTAL	-2,850	1,493	2,553	-2,554

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%	
	2017	2016	2017	2016
EUR/CAD	49	186	-60	-228
EUR/CNY	0	0	0	0
EUR/CZK	-3,815	-3,329	4,663	4,069
EUR/USD	3,007	2,284	-3,675	-2,576
TOTAL	-759	-859	928	1,265

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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 high so that in the past there were no delivery bottlenecks. Going forward, we believe that we have secured the necessary supply through the appropriate arrangements, even though the relevant requirements have recently 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 escalation clauses or by coming to an acceptable solution with our customers.

Recently, the volatility of raw material prices has increased strongly. It is currently very difficult to hedge over longer-term framework contracts at economically feasible prices, which is why our related risks have increased.

CAPITAL MANAGEMENT

The key target of our capital management is to secure the Group's liquidity and a high credit rating, including the access to the capital markets at all times and the increase of the enterprise 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

	2017	2016
Financial liabilities	135,083	126,472
Less cash and cash equivalents	-9,195	-2,014
NET FINANCIAL LIABILITIES	125,888	124,458
EBITDA¹	44,956	44,646
DYNAMIC LEVERAGE RATIO (IN YEARS)	2.8	2.8

¹ Earnings before interests, taxes, depreciation and amortization

EQUITY RATIO

EURk

	2017	2016
Equity	113,116	106,536
Total assets	393,725	359,419
EQUITY RATIO	28.7%	29.6%

24 FINANCIAL INSTRUMENTS

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%	to 2022	-173
Interest rate floor of promissory note	3,000	0	3,000	0.00%	to 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

As of December 31, 2016, the following derivative financial instruments were not yet settled:

EURk

	Nominal value	Redemption 2016	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	4,837	417	3,795	1.55% to 2.19%	2018 to 2020	-70
Interest rate floor of syndicated loan	51,800	5,700	46,100	0,00 %	to 2021	-476
Currency hedging instruments without hedge accounting	41,587	0	41,587	--	2017 to 2019	-3,112
Currency hedging instruments with hedge accounting	87,499	0	87,499	--	2017 to 2020	-4,404

PWO AG's syndicated loan agreement concluded in the 2016 fiscal year and maturing in 2022 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2017, this embedded interest rate derivative has a nominal volume of EURk 26,000 (p/y: EURk 46,100) and a market value of EURk -173 (p/y: EURk -476).

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, 2017, this embedded interest rate derivative had a nominal volume of EURk 3,000 and a market value of EURk -28.

The market value changes of derivative financial instruments used to hedge future cash flows were recognized directly in equity and amounted to EURk 4,275 (p/y: EURk 1,101), including related tax effects.

As part of hedge accounting, EURk 350 (p/y: EURk 2,537) 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.

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

EURk

	Valuation category pursuant to IAS 39	2017	2016	2017	2016
ASSETS					
Trade receivables and other receivables	LaR	48,261	49,208	48,261	49,208
Other financial assets		3,455	192	3,455	192
of which derivatives with hedging relationship	n. a.	2,346	115	2,346	115
of which derivatives without hedging relationship	FAHfT	1,108	77	1,108	77
of which deposits > 3 months	LaR	0	0	0	0
Cash and cash equivalents	LaR	9,195	2,014	9,195	2,014
LIABILITIES					
Financial liabilities		135,083	126,472	143,559	134,864
Bank borrowings	FLAC	63,881	60,381	65,058	62,990
of which variable interest rate		14,273	24,257	14,273	24,257
of which fixed interest rate		49,608	36,124	50,785	38,733
Liabilities from promissory notes	FLAC	64,819	59,877	70,833	64,538
of which variable interest rate		2,992	24,949	2,992	24,949
of which fixed interest rate		61,827	34,928	67,841	39,589
Liabilities to leasing companies	n. a.	6,383	6,214	7,669	7,336
of which variable interest rate		0	0	0	0
of which fixed interest rate		6,383	6,214	7,669	7,336
Trade payables	FLAC	36,943	31,438	36,943	31,438
Other financial liabilities		8,420	14,878	8,420	14,878
of which derivatives with hedging relationship	n. a.	420	4,519	420	4,519
of which derivatives without hedging relationship	FLHfT	292	3,736	292	3,736
of which others	FLAC	7,709	6,623	7,709	6,623
OF WHICH AGGREGATED ACCORDING TO IAS 39 MEASUREMENT CATEGORIES:					
Loans and Receivables (LaR)		57,456	51,222	57,456	51,222
Financial Assets Held for Trading (FAHfT)		1,108	77	1,108	77
Financial Liabilities Measured at Amortised Cost (FLAC)		173,352	158,319	180,543	165,589
Financial Liabilities Held for Trading (FLHfT)		292	3,736	292	3,736

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

EURk

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
ASSETS CARRIED AT FAIR VALUE								
Other financial assets	0	0	3,454	192	0	0	3,454	192
of which derivatives with hedge relationship	0	0	2,346	115	0	0	2,346	115
of which derivatives without hedge relationship	0	0	1,108	77	0	0	1,108	77
ASSETS FOR WHICH A FAIR VALUE IS DISCLOSED								
Trade receivables and other receivables	0	0	48,261	49,208	0	0	48,261	49,208
Cash and cash equivalents	0	0	9,195	2,014	0	0	9,195	2,014
LIABILITIES CARRIED AT FAIR VALUE								
Other financial liabilities	0	0	8,247	14,402	173	476	8,420	14,878
of which derivatives with hedge relationship	0	0	420	4,519	0	0	420	4,519
of which derivatives without hedge relationship	0	0	118	3,260	173	476	291	3,736
of which other	0	0	7,709	6,623	0	0	7,709	6,623
LIABILITIES FOR WHICH A FAIR VALUE IS DISCLOSED								
Fixed-interest rate banks borrowings	0	0	50,785	38,733	0	0	50,785	38,733
Variable-interest rate bank borrowings	0	0	14,273	24,257	0	0	14,273	24,257
Fixed-interest rate liabilities from promissory notes	0	0	67,841	39,589	0	0	67,841	39,589
Variable-interest rate liabilities from promissory notes	0	0	2,992	24,949	0	0	2,992	24,949
Fixed-interest rate borrowings from leasing companies	0	0	7,669	7,336	0	0	7,669	7,336
Variable-interest rate borrowings from leasing companies	0	0	0	0	0	0	0	0
Trade payables	0	0	36,943	31,438	0	0	36,943	31,438

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 303 (p/y: EURk 275) 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	
	2017	2016	2017	2016
Recognized in the income statement:				
DERIVATIVES WITHOUT HEDGE RELATIONSHIP	90	0	431	-3,137
Recognized in equity:				
DERIVATIVES WITH HEDGE RELATIONSHIP	0	0	4,275	-1,436

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

	2017	2016
LOANS AND RECEIVABLES (LAR)	-5,740	-408
of which due to disposal	37	156
of which due to impairment/impairment reversal	18	53
of which due to currency effects	-5,795	-617
FINANCIAL ASSETS HELD FOR TRADING (FAHFT)	310	-23
of which due to disposal	220	-100
of which due to remeasurement	90	77
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (FLAC)	-1,046	-196
of which due to disposal	177	225
of which due to currency effects	-1,223	-421
FINANCIAL LIABILITIES HELD FOR TRADING (FLHFT)	3,825	-5,626
of which due to disposal	3,394	-2,489
of which due to remeasurement	431	-3,137

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

	2017	2016
FINANCIAL ASSETS		
Gross amount of financial assets recognized	52,371	49,873
Gross amounts of financial liabilities offset	-655	-473
REPORTED NET AMOUNTS OF FINANCIAL ASSETS	51,716	49,400
of which derivatives	3,455	192
of which trade receivables	48,261	49,208
Offsettable due to framework agreements	-3,455	-192
TOTAL NET AMOUNT OF FINANCIAL ASSETS	48,261	49,208
FINANCIAL LIABILITIES		
Gross amount of financial liabilities recognized	-61,932	-50,647
Gross amounts of financial assets offset	173	84
REPORTED NET AMOUNTS OF FINANCIAL LIABILITIES	-61,759	-50,563
of which derivatives	-711	-8,255
of which trade payables and prepayments received	-53,339	-35,685
of which other financial liabilities	-7,709	-6,623
Offsettable due to framework agreements	3,455	192
TOTAL NET AMOUNT OF FINANCIAL LIABILITIES	-58,304	-50,371

Liabilities of EURk 655 (p/y: EURk 473) were offset against financial assets and include 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 173 (p/y: EURk 84).

ADDITIONAL INFORMATION

25 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 9,128 (p/y: EURk 8,739) in contract- and customer-related development costs, EURk 1,141 (p/y: EURk 668) were capitalized as intangible assets.

26 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

	2017	2016
Audit	206	168
Other assurance services	9	13
Tax consultancy services	85	62
Other services	19	0
TOTAL	319	243

The auditor's fee consists of non-periodic expenses of EURk 26 (p/y: EURk 8). Other assurance services include the fee for the EMIR review. Other services mainly relate to valuation and assurance services in the context of the syndicated loan. No other assurance and valuation services were utilized.

27 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

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

EURk

	2017	2016
Short-term fixed remuneration	704	760
Non-cash benefits	68	72
Short-term variable remuneration	323	275
Long-term variable remuneration	352	286
Service costs for pension plans	165	189
TOTAL	1,612	1,582

The total remuneration of the Supervisory Board (short-term remuneration) in fiscal year 2017 amounted to EURk 271 (p/y: EURk 286). 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 228 (p/y: EURk 223). The corresponding pension provisions amounted to EURk 4,386 (p/y: EURk 4,308) as of the reporting date.

28 RELATED PARTY DISCLOSURES

Related parties include the Group's ultimate parent company as well as the members of the Management Board and Supervisory Board. In the course of the fiscal year, there were no transactions between the Group and the ultimate parent company. 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.

29 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 7,755 (p/y: EURk 13,796) have been included in the balance sheet item "current financial liabilities."

30 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, the NAFTA Area and Asia. The combination of the locations in Canada and Mexico in the "NAFTA Area" segment is based on the joint participation in the NAFTA free trade 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." This column also contains items that cannot be allocated to individual segments. 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. The Germany segment contains significant non-cash items in an amount of EURk 2,132 (p/y: EURk 1,382).

Of the reported revenue as of December 31, 2017, three customers accounted for more than 10% (EURk 55,767; EURk 54,529; and EURk 46,696) originating from all segments. In the previous year, two customers were identified who accounted for more than 10% of revenue (EURk 50,594 and EURk 46,310) across almost all segments.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2017

EURk

	Germany	Rest of Europe	NAFTA Area	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.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2016

EURk

	Germany	Rest of Europe	NAFTA Area	Asia	Consolidation effects	Group
Total revenue	243,472	69,319	86,601	35,525	0	434,917
Inter-segment revenue	-14,480	-3,889	-127	-6,809	0	-25,305
EXTERNAL REVENUE	228,992	65,430	86,474	28,716	0	409,612
TOTAL OUTPUT	252,078	69,253	94,015	33,942	-25,754	423,534
Other income (aggregated)	7,572	577	2,481	603	-3,894	7,339
Other expenses (aggregated)	237,293	59,498	87,092	31,581	-29,237	386,227
Depreciation and amortization	12,488	4,034	5,883	2,556	-40	24,921
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	9,869	6,298	3,521	408	-371	19,725
Interest income	3,711	71	0	2	-3,385	399
Dividend distributions from affiliated companies	9,299	0	0	0	-9,299	0
Interest expenses	4,590	1,381	1,868	1,410	-3,437	5,812
EARNINGS BEFORE TAXES (EBT)	18,289	4,988	1,653	-1,000	-9,618	14,312
Income taxes	3,763	170	811	162	-116	4,790
NET INCOME FOR THE PERIOD	14,526	4,818	842	-1,162	-9,502	9,522
Assets	192,968	82,088	81,341	50,472	-47,450	359,419
of which non-current assets ¹	76,222	45,504	37,267	29,212	-116	188,089
Liabilities	40,022	37,949	62,102	55,843	56,967	252,883
Investments	18,905	7,011	3,219	556	0	29,691

¹ Non-current assets do not include deferred taxes.

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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

	2017	2016
Mechanical components for electrical and electronic applications	95,735	82,246
Safety components for airbags, seats and steering	155,867	140,271
Structural components and subsystems for vehicle bodies and chassis	209,406	187,095
TOTAL	461,008	409,612

31 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 2017 is permanently available to shareholders via the Company’s website at www.progress-werk.de/en.

32 SUBSEQUENT EVENTS

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

33 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

Other mandates

- Hörnlein Beteiligungsverwaltung GmbH, Schwäbisch Gmünd, Member of the Advisory Board

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

Other mandates

- Düker GmbH, Karlstadt, Member of the Supervisory Board and Advisory Board

- Wolff & Müller Holding GmbH & Co. KG, Stuttgart, Member of the Advisory Board

Dr. Georg Hengstberger, Tübingen

Master's degree in mathematics, Managing Director of Consult Invest
Beteiligungsberatungs-GmbH, Böblingen

Other mandates

- Düker GmbH, Karlstadt, Chairman of the Supervisory Board

Herbert König, Renchen | Employee Representative

Industrial Clerk and Chairman of the Works Council of PWO AG

Ulrich Ruetz, Ludwigsburg

Former Chairman of the Management Board of BERU AG, Ludwigsburg

Other mandates

- 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 PWO AG

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)

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MANAGEMENT BOARD

Dr. Volker Simon, Offenburg | CEO

Responsible for markets and technology

Other mandates

- 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., Hong Kong, 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

Other mandates

- 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., Hong Kong, 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

Other mandates

- No other mandates.

34 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that PWO AG's unappropriated retained earnings of EURk 5,235 as of December 31, 2017 be used as follows:

Payment of a dividend of EUR 1.65 for each dividend-bearing share	EURk 5,156
Carried forward to new account	EURk 79

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 distribution of EUR 1.65 for each dividend-entitled share.

Oberkirch, March 13, 2018

The Management Board



Dr. Volker Simon
(CEO)



Bernd Bartmann



Johannes Obrecht

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INDEPENDENT AUDITOR'S REPORT

To Progress-Werk Oberkirch AG

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, consolidated statement of comprehensive income, consolidated balance sheet as of December 31, 2017, consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1 to December 31, 2017, 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, 2017.

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, 2017 and its results of operations for the fiscal year from January 1 to December 31, 2017, 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.

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.

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, 2017. 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:

RECOVERABILITY OF GOODWILL

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.

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.

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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.”

TIMING OF RECOGNITION OF REVENUE FROM TOOL SALES

Reason for Designation as a Key Audit Matter: The development and manufacturing of tools represents a key part of the Company’s business activities. The development and manufacturing of tools involve a higher risk that revenue in the financial statements is not recognized in the correct period due to the complex, customer-specific and tailored contractual arrangements for the transfer of risks and opportunities. This risk is further increased by the fact that there is a vast number of tools and customers. Revenue recognition for tools represented a key audit matter in our audit as a result of the significance of revenue and cost of materials for the financial statements and due to the fact that revenue and EBIT are key financial performance indicators for the Company’s management and forecasts.

Audit Approach: Because we are aware of the variety of individual and complex contractual arrangements and the related elevated risk of erroneous information in accounting, we reviewed the processes for revenue recognition implemented by the Company’s legal representatives. Our audit included detailed and analytical audit measures. Based on a mathematical and statistical selection process, we reviewed random samples to see if revenue had been recognized in the correct period according to the underlying transfer of risk specified in the underlying terms and conditions of delivery and performance and whether the proof of customer’s acceptance could be presented. We requested random confirmation of balances for tool receivables outstanding as of the reporting date. We also reviewed the general ledger in December for any unusual tool revenue invoicing in order to detect any irregularities.

Our audit has not resulted in any reservations as to the timing of the revenue recognition of tool sales.

Reference to Corresponding Information: With regard to the criteria for determining the period in which revenues are recognized, we refer to the information in the notes to the consolidated financial statements under the Item “Summary of Key Accounting Policies.”

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.

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;

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- 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, which was combined with the 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, trace 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, 2017 and commissioned by the Supervisory Board on September 27, 2017. 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 23, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner
Auditor

Scheppank
Auditor

IMPRINT

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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 3, 2018	Quarterly Statement 1st Quarter 2018
May 23, 2018	Annual General Meeting 2018
July 31, 2018	Interim Financial Report 2nd Quarter and Half-Year 2018
October 30, 2018	Quarterly Statement 3rd Quarter and 9 Months 2018
November 2018	German Equity Forum, Frankfurt/Main
May 22, 2019	Annual General Meeting 2019

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