ANNUAL REPORT
2019

STRAIGHT TO THE POINT

PWO

PWO-GROUP
FIVE-YEAR OVERVIEW OF KEY FIGURES

	2019	2018 after adjustment [1]	2017	2016	2015
INCOME STATEMENT (EURk)					
Revenue [1]	458,624	476,267	461,008	409,612	404,597
Total output	459,928	478,012	483,107	423,534	413,294
EBITDA	45,976	42,701	44,956	44,646	42,922
EBIT before currency effects	22,205	19,575	23,358	21,598	17,055
EBIT including currency effects	19,929	18,427	20,527	19,725	18,090
Net income for the period	9,101	6,640	10,059	9,522	7,544
BALANCE SHEET (EURk)					
Total assets	391,592	390,046	393,725	359,419	352,430
Equity	118,058	116,450	113,116	106,536	103,111
Net debt [2]	132,473	131,359	125,888	124,458	132,837
Equity ratio in %	30.1	29.9	28.7	29.6	29.3
Dynamic leverage ratio in years [3]	2.9	3.1	2.8	2.8	3.1
CASHFLOW (EURk)					
Cash flow from operating activities	47,948	38,451	38,314	46,304	31,108
Cash flow from investing activities	-27,820	-25,605	-29,261	-28,803	-28,244
Free cash flow	14,952	8,070	4,332	13,049	-1,767
Net change in cash and cash equivalents	-14,218	4,658	12,825	-4,452	-2,036

[1] Adjustments due to changes in accounting (see Note 5 in section "Inventories").
[2] Total of non-current + current financial liabilities less cash and cash equivalents.
[3] Net debt / EBITDA.

	2019	2018	2017	2016	2015
ORDER SITUATION (EUR MILLION)					
Lifetime volume (new business)	510	304	300	730	600
of which series orders	475	280	281	680	560
of which tool orders	35	24	19	50	40
NUMBERS PER SHARE (EUR)					
Earnings per share (diluted = basic)	2.91	2.12	3.22	3.05	2.41
Dividend per share	0.00 [1]	1.35	1.65	1.60	1.55
XETRA year-end closing price	24.30	24.50	46.51	39.99	36.45
EMPLOYEES (AS OF DEC. 31)					
PWO Group (incl. temporary employees and trainees)	3,208	3,426	3,404	3,229	3,049
thereof in Germany	1,531	1,656	1,645	1,538	1,492
thereof in international locations	1,677	1,770	1,759	1,691	1,557

[1] Proposal to the 97th Annual General Meeting.

WE FOCUS ON THE ESSENTIAL AND CONCENTRATE ON OUR FACTORS FOR SUCCESS: **EXPANDING OUR MARKET POSITION**, ESPECIALLY IN OUR INTERNATIONAL MARKETS, **HIGH INNOVATION** IN PRODUCTS AND PROCESSES, AND **CONTINUED COST REDUCTIONS** TO SECURE OUR PROFITABILITY AND COMPETITIVENESS. THIS IS HOW WE ARE STEERING THE GROUP NOT ONLY THROUGH THE CURRENT SALES WEAKNESS IN THE AUTOMOTIVE INDUSTRY, BUT ALSO THROUGH ITS ONGOING STRUCTURAL CHANGE.

CONTENT

4 TO OUR SHAREHOLDERS

14 COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

46 CONSOLIDATED FINANCIAL STATEMENTS

LETTER FROM THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,

The automotive industry is currently undergoing a profound structural change. During this process, a number of shifts are taking place, where it is difficult to predict whether they are just temporary adjustments or the beginning of a new long-term trend.

In this period of elevated uncertainty, we are focusing on the central pillars of our success. This includes, first and foremost, our market success. In the 2019 fiscal year, we significantly exceeded our initial forecast for new business volume, gaining a lifetime volume of more than EUR 500 million, instead of the expected EUR 400 million. We are just as proud of this achievement as we are of the awards we regularly receive from our customers.

To solidify and further expand our market position, we rely on continuous innovation. We used the International Motor Show in Frankfurt am Main as an opportunity to present a wide array of product and process innovations. This included two processes for the production of instrument panel carriers for which we have applied for patents.

Our corporate success is also decisively supported by ongoing cost reductions and efficiency improvements. We have firmly established clear structures for continuous control and performance monitoring and succeeded in achieving broadly stable business performance in a very challenging 2019 fiscal year.

And finally, as we can all observe climate change for ourselves and recognize the need for climate protection measures, we have decided to make an even greater contribution to this in the future. Our home location in Oberkirch plans to operate on a CO_2-neutral basis starting in 2026, and the Group intends to do this as of 2030.

We must vigilantly continue our efforts in all areas in the 2020 fiscal year. To accomplish this, we came to an agreement at the end of last year with the IG Metall trade union to realize savings in the personnel area at the Oberkirch location in a mid-single-digit million euro range. These savings should materialize as early as the 2020 fiscal year by means of new supplementary collective wage agreements.

All these measures serve to increase our competitiveness and, thereby, secure the future of the Oberkirch location. This belief is shared by the management and employees alike. And only on this basis will we be able to master the challenges ahead.

A new development in March of the current fiscal year was the challenges arising from the outbreak of the Corona pandemic. This is associated with serious economic consequences. In particular, however, it is important to protect the health of our employees and business partners. In this extraordinary situation, pragmatic and creative solutions are now required.

We would like to thank our employees for their extraordinary commitment during this past fiscal year, which has been even more necessary since March. Many things now need to be rethought and, once again, one of the special strengths of our team – its flexibility – is showing through.

We would like to thank you, our shareholders, for the trust you have placed in us. We are convinced that we will be able to use the transformation in the automotive industry to further strengthen our market position.

Dr. Volker Simon (CEO)	Bernd Bartmann	Johannes Obrecht

JOHANNES OBRECHT
Member of the Management Board

DR. VOLKER SIMON
Speaker of the Management Board

BERND BARTMANN
Member of the Management Board

REPORT OF THE SUPERVISORY BOARD

In the 2019 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 a close dialog. 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 and the Management Board discussed and closely coordinated all key issues relating to the strategic development of the Company and the Group. In particular, the Supervisory Board was always directly involved in Management Board decisions that were of fundamental importance to the Company and the Group. The Supervisory Board was promptly and fully informed through the Management Board's detailed verbal and written reports on all significant issues relating to the Company's and Group's relevant markets, current state of business and situation. Detailed reports on the current development of projects and investments, short- and long-term corporate planning were also thoroughly discussed by the Supervisory Board.

In addition, the Management Board reported on the liquidity and risk situation, the status and development of the Group-wide risk and compliance management systems, as well as on IT security and data protection.

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 2019 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 2019 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 2019 reporting year, the plenum met on March 21, March 28, April 12, May 21-22, July 29-30, September 25, October 31 and December 11-12. All meetings of the Supervisory Board were held at the Company's registered office. All members of the Supervisory Board were present at all meetings, with one exception.

The meeting on March 21 was an extraordinary meeting convened as a conference call and dealt with the sole item on the agenda, namely the provision of information by the Management Board to the Supervisory Board regarding the current status of plans for the "100 years of PWO" anniversary celebration. The meetings in April and October were also convened on an extraordinary basis.

The meetings of the Supervisory Board regularly and thoroughly dealt with the corporate strategy, current market conditions, ongoing development projects, the status of investments and the Management Board's reports on the current business situation, results, operating performance and business environment. One of the key items in this context was the additional ongoing and intended measures to cut costs and improve earnings at various Group locations, particularly at the Oberkirch location.

Based on the relevant resolutions of the Supervisory Board and the Audit Committee, the chairman of the Supervisory Board appointed the auditor and agreed on the auditor's fee. The chairman also requested the statement of independence of the auditor in accordance with Item 7.2.1 of the German Corporate Governance Code. No issues arose during the reporting year that would cast doubt on the auditor's independence.

The following items were also on the respective meeting agendas:

At its meeting on March 28, 2019, the Supervisory Board dealt in detail with the reports of the Audit and Personnel Committees, the report of the auditor, the 2018 fiscal year financial statements, including the Management Board's dependency report, the report of the Supervisory Board, the 2018 Annual Report, the Corporate Governance Report and the review of the content of the Non-Financial Statement 2018. The agenda for the 96th Annual General Meeting on May 22, 2019, and the Management Board's proposal to the shareholders on the appropriation of unappropriated earnings were also discussed, and the latter was approved by the Supervisory Board.

On April 12, 2019, the discussions focused on the current and planned measures to achieve a sustained improvement in earnings at the Oberkirch location.

At the two-day meeting on May 21 and 22, 2019, the Supervisory Board addressed the usual topics for discussion, as well as the initial forecast for the earnings in 2019 presented by the Management Board, the course of the Annual General Meeting, the reports by the Audit Committee and Compliance, and the Group's IT security and digitization.

At another two-day meeting on July 29 and 30, 2019, the Supervisory Board focused on strategic issues, including the further development of activities in China. Also on the agenda were the current status and future measures planned to improve earnings at several Group locations. The reports from the Audit Committee and on data protection were received and discussed in detail.

At the meeting on September 25, 2019, in addition to the usual topics, the Supervisory Board discussed the second forecast for the 2019 fiscal year, as well as the reports of the Audit Committee and Personnel Committee. The Management Board informed the Supervisory Board about its thoughts to possibly withdraw from the Südwestmetall employers' association along with the collective wage agreement with IG Metall in connection with the efforts to restore the competitiveness of the Oberkirch site.

At its meeting on October 31, 2019, the Supervisory Board dealt not only with the Audit Committee's report but also with the Management Board's earnings report as of September 30, 2019. At this meeting, too, the current status of the measures to improve earnings and other related projects, particularly at the German and Chinese sites, were discussed in detail. Based on an external analysis, the Board discussed the efforts in the German automotive supply industry to improve performance amid the current challenges. The Management Board informed the Supervisory Board that the Company would terminate its membership in the Südwestmetall employers' association with effect from January 1, 2020 and its intention to conclude a company collective agreement.

At the meeting held on December 11 and 12, 2019, the focus was on the current business development as part of the presentation of the third forecast for 2019 and the annual planning for the years 2020 through 2024. In this context, the Supervisory Board thoroughly discussed the earnings, balance sheet and finance planning, in addition to the development of key financial figures, plans for the Group's further development, the investments, personnel development and the risk situation. The Supervisory Board also again discussed the current status of the measures to improve earnings at the Oberkirch and Chinese locations. There was a detailed discussion on how to resolve the current wage dispute at the Oberkirch site.

On the recommendation of the Audit Committee, the Supervisory Board also passed a resolution to propose the Stuttgart branch of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to the 2020 Annual General Meeting as the auditor of the financial statements and consolidated financial statements for the 2020 fiscal year.

Also discussed were the report of the Audit Committee and issues related to corporate governance. The last point was especially focused on the adoption of the Declaration of Conformity pursuant to Section 161 AktG on the recommendations of the "Government Commission German Corporate Governance Code" in its version of February 7, 2017 and any deviations from these recommendations, as well as the efficiency review carried out by the Supervisory Board and the annual reports on compliance, risk management and internal audit.

Further information on corporate governance can be found in the Company's Corporate Governance Report and the Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code. Both of these documents are available on the Company's website at https://www.progress-werk.de/en/group/corporate-governance/.

At an extraordinary meeting of the Supervisory Board on February 14, 2020, the Supervisory Board discussed the Audit Committee's report, the preliminary financial statements for 2019, the business development in 2020 and the status of negotiations on the supplementary wage agreement for the Oberkirch location.

In a conference call held on March 6, 2020, the Supervisory Board discussed the new status of negotiations on the supplementary wage agreement for the Oberkirch location, the impact of the spread of the corona virus in China on business development at PWO's sites there, as well as issues relating to the 2020 Annual General Meeting and the current development of PWO's share price.

In the meeting on March 26, 2020, which was a conference call convened on short notice due to the corona pandemic, the Supervisory Board dealt extensively with the 2019 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.

A further agenda item was the impact of the current corona pandemic on the PWO Group. The Supervisory Board received the Management Board's report on its short-term Group-wide measures to protect the health of all employees and business partners. The Management Board and Supervisory Board agree that PWO should make the health of its employees the top priority above any economic considerations.

There was also a detailed discussion concerning the economic challenges posed by the pandemic, including the related measures already implemented (such as production adjustments, shorter work schedules and home office solutions) as well as the possible scenarios for future development. The Management Board is continually and comprehensively monitoring the situation. It is informing the Supervisory Board – particularly the chairman of the Supervisory Board – on an ongoing basis about all of the measures introduced in connection with the crisis to secure the Group's future viability.

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 26, 2020. The Audit Committee reviewed these documents at its meeting on March 13, 2020. The resolution adopted by the Management Board on March 20, 2020 on the appropriation of the 2019 unappropriated retained earnings was naturally not discussed at this meeting of the Audit Committee. The auditor was present at the meeting of the Audit Committee on March 13, 2020 and took part in the Supervisory Board meeting on March 26, 2020 by telephone, and reported on the material findings 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 26, 2020. No objections were raised following the conclusive results of the Supervisory Board's examination.

The Supervisory Board approved the financial statements and consolidated financial statements thereby adopting the financial statements for the 2019 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 26, 2020, 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 noted with approval the decision of the Management Board, made on March 20, 2020, to postpone the ordinary Annual General Meeting, previously scheduled for May 27, 2020, due to the corona pandemic. Depending on the further wave of infection and the measures ordered by the responsible authorities, the Company aims to hold the Annual General Meeting within the legally required eight-month period which extends until the end of August 2020.

The Supervisory Board also discussed in detail the proposal for the appropriation of retained earnings resolved by the Management Board on March 20, 2020. The Supervisory Board and Management Board agreed that this proposal made by the Management Board is not a fundamental departure from the Company's previous dividend policy, but rather an exceptional precautionary measure in a crisis that is not yet foreseeable to its full extent, caused by the effects of the corona pandemic. As part of the comprehensive measures to ensure sufficient liquidity in the current fiscal year, the unappropriated retained earnings for the 2019 fiscal year will initially be carried forward in full, contrary to earlier considerations. On the basis of the further development of business, the Management Board and Supervisory Board may adopt a resolution on a possible new proposal for the appropriation of retained earnings, including the distribution of a dividend for 2019, in due time before a new date for the Annual General Meeting. The Management Board and Supervisory Board have agreed to this procedure.

Additionally, the Supervisory Board reviewed the content of the 2019 Non-Financial Statement according to Sections 289c and 315c HGB, and the Management Board explained the statement to the Supervisory Board in detail. This review did not give rise to any objections by the Supervisory Board.

THE WORK OF THE COMMITTEES

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

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

Committee met on five occasions in the 2019 fiscal year. All members were present at all but one of the meetings. The key matters discussed at the meetings concerned Management Board issues and succession planning.

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

The Audit Committee met on ten occasions in the 2019 fiscal year. All Audit Committee members were present at each and every meeting. The main topics discussed were the 2019 fiscal year financial statements, the 2019 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 the 2020 fiscal year.

The Committee also discussed the 2019 annual reports on compliance, risk management and internal audit, the changes in international financial reporting and their impact on PWO, the approval of and compensation for non-auditing services by the audit firm, and the tender for the auditor's mandate as of the 2020 fiscal year (rotation of the auditor pursuant to Article 17 of Regulation [EU] No. 537/2014). The Audit Committee also dealt with the audit of systems in accordance with Section 32 of the German Securities Trading Act (WpHG) for non-financial counterparties (EMIR).

Additionally, the Audit Committee intensively discussed the Company's business development. This included receiving reports from the Management Board and paying special attention to the current development of the Company's and Group's profitability. Moreover, the Committee discussed questions regarding the Company's financing, the measurement of equity interests, corporate management and accounting principles. The Audit Committee regularly reviewed the Company's and the Group's current development and compared it to the corresponding plan in order to determine the need for any action.

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

PERSONNEL COMMITTEE

- Karl M. Schmidhuber (Chairman)
- Dr. Jochen Ruetz
- Dr. Georg Hengstberger

AUDIT COMMITTEE

- Carsten Claus (Chairman; financial expert as defined under Section 100 (5) AktG)
- Dr. Georg Hengstberger
- Herbert König
- Karl M. Schmidhuber

CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

There were no changes to the governing bodies in the 2019 fiscal year.

CONFLICTS OF INTEREST

The Supervisory Board continuously monitored the existence of conflicts of interest during the reporting year. 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

The automotive industry continues to face considerable industry-specific headwinds and difficulties. In addition to the customarily intense competition in the industry, there continues to be an uninterrupted increase in the demand for more environmentally friendly products and processes, which requires an enormous effort and investment from automotive manufacturers and suppliers.

In addition to the customary challenges faced by our industry, we are currently confronted with a global crisis of unprecedented proportions. The reluctance of a climate-sensitive clientele to make purchases, which was already apparent, has recently assumed dramatic proportions in view of the corona pandemic. Starting in China, new car sales worldwide came to a virtual standstill in the first quarter of 2020, resulting in extensive production cutbacks by the international automotive manufacturers. Despite a partial resumption of production in China and the provision of global government aid programs of historic proportions, the further development is not foreseeable. The experts believe that the global economy will be severely negatively affected by the pandemic.

PWO is well-positioned when it comes to the CO_2 debate, as our product range is virtually independent of any particular drivetrain. Nevertheless, the general economic crisis triggered by the pandemic affects us just as directly as all other companies in our industry. During this past fiscal year, we had already significantly increased our efforts to restore the profitability necessary for sustainable employment, and we will continue to do so even in the current phase of unprecedented challenges.

Irrespective of this, the Management Board and Supervisory Board assure all employees of the PWO Group and all of its business partners that their health and safety are given absolute priority in all measures taken by PWO.

The far-reaching cost-cutting measures at the Oberkirch site already initiated in 2019 could only be agreed in close cooperation with of our employees and their trade union representatives. The common goal is to ensure the competitiveness of the location and its jobs. To accomplish this, negotiations are being conducted on supplementary collective wage agreements. Knowing full well that major concessions are demanded of the staff while remaining mindful of our responsibility, the Supervisory Board would like to thank all of the representatives of employer and employee organizations involved, as well as the Management Board and the Works Council for their willingness to find a viable solution.

The Supervisory Board is confident that the sum of the measures planned and introduced will strengthen the PWO Group's competitiveness and enable us to better overcome this very difficult business phase. At the same time, we must all be aware that, depending on the further development of the corona pandemic, previous measures may require flexible, short-term adjustments or supplementation at any time.

The Supervisory Board would like to express its sincere appreciation to all of the PWO Group's employees for their renewed extraordinary commitment throughout the 2019 fiscal year and their continued effort to master the current challenges.

We wish you and your families all the best during this difficult phase, and good health to you all.

This report was thoroughly discussed and approved by the Supervisory Board at its meeting on March 26, 2020.

Oberkirch, March 26, 2020

Karl M. Schmidhuber
(Chairman of the Supervisory Board)

COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The combined management report for the January 1 through December 31, 2019 fiscal year contains the reports for Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, ("PWO," "PWO AG," the "Company") and the PWO Group ("Group"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union, and the supplementary provisions of the German Commercial Code (HGB). PWO AG conducts its accounting according to the provisions of the HGB in its currently valid version and the supplementary provisions of the German Stock Corporation Act (AktG).

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

GROUP PRINCIPLES

BUSINESS MODEL

ORGANIZATIONAL STRUCTURE OF THE GROUP

The PWO Group manufactures components made of steel and aluminum sheets for the international automotive industry at five production sites. We also have four assembly locations with additional space that we can use for projects when needed.

PWO AG, headquartered in Oberkirch, Germany, is the Group's main location. The management of the Group is carried out from this head office. Most of the Company's international locations are direct subsidiaries. In China, PWO has established an intermediate holding company based in Hong Kong. This holding company continues to be 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

To deliver to our customers worldwide, we use a combination of production and assembly locations. The Group is represented worldwide through two production locations in Europe (Oberkirch, Germany, and Valašské Meziříčí, Czechia), two locations in North America (Kitchener, Canada, and Puebla, Mexico) and one location in Asia (Suzhou, China).

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

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

Each and every innovative product solution requires a forming process specific to the material used. This requires the development of tools that allow the required quality and quantity of parts to be produced economically. Tool design is therefore an integral part of our business structure. The Group's largest tool design capacities are located in Germany and Czechia. All of our locations also purchase tools from our Chinese subsidiary.

Because production locations are 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 to deliver to our customers.

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

POSITIONING, EXPERTISE AND PROCESSES

PWO IN THE INTERNATIONAL AUTOMOTIVE MARKET

We have positioned ourselves as an 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 value chain from development and tool design to series production. We concentrate on the cold formation of steels, including high-strength lightweight steels, and to a lesser extent stainless steel and aluminum. We assemble the individual manufactured components into subsystems using sophisticated joining technologies. Our focus is on providing solutions for automotive safety and comfort.

The Group's revenues in the past fiscal year were broken down into our three strategic product areas:

Our first two strategic areas are comprised of mechanical components for electrical/electronic applications and safety components for airbags, seats and steering, all of which are supplied predominantly to international Tier 1 suppliers who go on to deliver these components to various automotive manufacturers as part of their own systems for numerous vehicle models. These two product areas respectively accounted for 22 percent and 30 percent of revenue in the reporting year.

Our third strategic area is comprised of structural components and subsystems for vehicle bodies and chassis – are usually manufactured directly on behalf of the vehicle manufacturer, depending on the model. However, the range of applications is also continually expanding as a result of the increasing use of platform concepts, which form the basis for the manufacturer's different vehicle models. In fiscal year 2019, we generated 48 percent of our revenue in this product area.

RESEARCH AND DEVELOPMENT

We design and manufacture our components and subsystems individually to the customer's specifications. Consequently, the majority of our product and process development costs are incurred within the scope of customer projects. PWO-internal development activities, as well as the use of third-party services for these purposes, are of secondary importance and accounted for roughly 2 percent of our total output in the reporting year. We do not engage in research and have maintained this strategy for the Group for many years. We will continue using this approach despite our patent applications in the 2019 fiscal year for two processes related to the manufacture of instrument panel carriers.

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, as well as the outlook for long-term demand resulting from regulatory changes, are presented in the risk report.

MANAGEMENT SYSTEM

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

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

Financial key indicators have been defined within the management system as the sole primary management parameters for the Group. Non-financial performance indicators are, therefore, not important for understanding the business development and position of the Group.

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

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

Our mid-term plans are based on our new business, which consists of the lifetime volume of newly acquired orders over their entire term, according to the orders' contractual agreements, as well as our 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

According to the International Monetary Fund (IMF), the global economy cooled down significantly across the board during the 2019 fiscal year. Real economic growth was only 2.9 percent (p/y: 3.6 percent). Both the advanced economies and the developing regions recorded declining growth rates, as did the eurozone.

Economic growth also continued to slow down in China and Russia. Global economic weakness was particularly evident when looking at the volume of world trade, where the growth rate slumped from 3.7 percent in 2018 to just one percent in 2019. Weakness was particularly noticeable in export-oriented countries such as Germany, where growth almost slowed down to one-third.

Global economic weakness continued to spread, especially in the second half of the year, when factors that had already been unsettling for some time, such as international trade conflicts and the UK's withdrawal from the EU, were joined by new challenges that included social unrest in several countries and weather- and climate-related disasters.

Despite the strong headwinds for the global economy, the IMF noticed a degree of stabilization in the leading indicators during the final quarter of the year from the lower level that had since been reached. One of the key reasons for this stability was considered to be the persistent and, in many countries, greater degree of expansion in the monetary and interest rate policies of central banks, especially of the US Federal Reserve.

At 0.6 percent (p/y: 1.5 percent) in 2019, the German economy recorded its weakest growth since 2013, and less than half of its ten-year average growth rate from 2008 to 2018. In the manufacturing sector, there was even a sharp, broad-based decline in gross value added and local manufacturing companies slipped into a recession in 2019.

Weak economic growth was mainly a result of the poor development of exports and investment in equipment. Private and public consumption, in contrast, continued to increase significantly. Despite the weakness in the overall economy, consumer confidence was maintained by the labor market and income prospects, which were very favorable until recently. As a result, consumption continued to be a key pillar of economic growth in Germany during the 2019 reporting year.

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

Region	Full-year 2019	Change vs. 2018 (%)
Germany	3,607,200	+5.0
Western Europe (EU15 + EFTA)	14,304,100	+0.7
New EU Countries (EU13) [1]	1,501,600	+6.2
Europe (EU28 + EFTA) [1]	15,805,700	+1.2
Russia [2]	1,759,500	-2.3
USA [2]	16,965,200	-1.4
China	21,045,000	-9.5

[1] Excluding Malta.
[2] Light vehicles.

THE ENVIRONMENT IN THE INTERNATIONAL AUTOMOTIVE INDUSTRY

The global automotive business development continued to vary in 2019. Some regions recovered slightly following the weakness in the prior year, while elsewhere the development remained weak or continued the phase of consolidation that started in 2018. The European passenger car market (EU28 & EFTA) performed positively overall and was 1.2 percent stronger than in the prior year after its earlier stagnation. The passenger car market in new EU countries stood out, once again, recording a 6.2 percent increase in new registrations and extended the solid performance recorded in 2018 (+8.0 percent).

After a year of "zero growth" in 2018, primarily caused by problems associated with the conversion to the new WLTP emission testing standard, the German car market also recorded visible growth of 5.0 percent again in 2019. The strongest increases were recorded in the SUV (+21.0 percent) and off-road vehicle (+20.3 percent) segments.

A total of 15.8 million new passenger cars were registered in Europe in 2019 with varying performance in the high-volume markets. While Germany and France (+2 percent) expanded their market volume, new registrations in Italy remained flat. The UK (-2 percent) and Spain (-5 percent), on the other hand, recorded declines. Of the approximately 30 European regional markets, 20 countries were able to close the year with positive growth.

By comparison, the restrained development over the past few years in the USA (2017: -1.9 percent; 2018: +0.5 percent) continued in 2019 with a 1.4 percent decline in new registrations of light vehicles. As a result, the US market was not able to exceed the 17 million threshold for the first time since 2014. Sales of passenger cars fell sharply (-11 percent), while sales in the light truck segment (SUVs, CUVs, pickups and vans), which now accounts for 72 percent of the total market, rose by 2.8 percent.

Despite the overall decline in new registrations of US light vehicles, US sales of the German brands increased by almost 2 percent to 1.37 million new vehicles. As a result, the market share of German manufacturers increased to 8.1 percent (p/y: 7.8 percent). German manufacturers were able to gain market share in both the passenger car and light truck segments. In the light truck segment in 2019, German manufacturers grew 11.2 percent – four times as fast as the entire light truck market.

The Asian markets also developed poorly overall. The Japanese new car market in 2019 was 2.0 percent lower than in the prior year. An increase in the value-added tax in October 2019 had a particularly negative impact in the fourth quarter of 2019.

China, Japan and India were each below the previous year's level. In China, the volume of passenger cars actually declined for the second year in a row as an exaggerated reaction to China's weaker overall economic growth. After two years of strong growth, the Russian market also resumed its decline recently.

COMPARISON OF FORECAST TO ACTUAL BUSINESS RESULTS

	Actual results 2019	2019 interim revised forecast	2019 forecast given in 2018 Annual Report	Actual results 2018
Revenue	EUR 458.6 million	Lower end of forecast range	EUR 480 – 490 million	EUR 485.0 million
EBIT before currency effects	EUR 22.2 million	Unchanged forecast	EUR 18 –19 million	EUR 19.6 million
Free cash flow	EUR 15.0 million	Unchanged forecast	Positive	EUR 8.1 million
Equity ratio	30.1 percent	Ambitious target	Slight improvement	28.1 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	2.9 years	Ambitious target	Slight improvement	3.1 years
Investment according to segment report, excluding effect of first-time application of IFRS 16 [1]	EUR 33.9 million	Approx. EUR 32 million	Just above prior year	EUR 35.3 million
Lifetime volume of new business (series and tool orders)	Approx. EUR 510 million	Presumably to exceed EUR 500 million	Approx. EUR 400 million	EUR 304 million

[1] See Note 2 in section "Effects of the application of IFRS 16: Leases", page 54).

BUSINESS DEVELOPMENT

ORDER SITUATION

New business in the 2019 fiscal year exceeded our expectations and enabled us to increase our full-year forecast with the publication of the interim financial report for the first half-year. Our total new business, including associated tool volumes of around EUR 35 million, increase to around EUR 510 million.

A good two-thirds of the new orders will be processed by our two largest locations: Germany and Czechia. The remaining volume was distributed among our locations in China, Canada and Mexico.

In addition to instrument panel carriers, we were successful in obtaining orders for housings for a wide range of different automotive applications. Our location in Czechia managed to acquire a high volume of orders for seat components, including an order to supply the premium vehicles of a renowned manufacturer, which is scheduled to start in 2022.

Other new orders will also increasingly stretch out beyond fiscal years 2020 and 2021, and we are now planning series start-ups for 2022. The lifetimes of the new series continue to largely exceed the average term of five to eight years.

FINANCIAL SITUATION

OVERALL STATEMENT OF BUSINESS PERFORMANCE AND GROUP'S POSITION

Over the past fiscal year, we steered PWO safely through a period of weak sales, uncertainty and volatility in the international automotive industry. This accomplishment was supported by a wide range of efforts across all areas of the entire Group, and particularly by our cost-cutting initiatives, which began in fall 2018 and have continued without interruption ever since. We are satisfied with this development.

At the end of the reporting year, the Group's net risk position improved significantly in almost all risk categories. Our stringent risk management, market changes and increased opportunities contributed to this improvement. The latter led to a calculated reduction in net expected values. With the outbreak of the corona pandemic which started in February 2020, the Group's net risk position significantly increased again. At present, we are still at the beginning of this development and its further course is not foreseeable. We are reassessing the situation daily and adjusting our processes accordingly.

The comparability of the forecast with the figures actually achieved is limited, in part, by the adjustments in IFRS accounting, particularly in the case of revenue. The

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2019	in % of total output	2018 after adjustment [1]	in % of total output
Revenue [1]	458,624	99.7	476,267	99.6
Total output	459,928	100.0	478,012	100.0
Cost of materials	246,969	53.7	265,207	55.5
Staff costs	128,464	27.9	127,229	26.6
Other operating expenses	46,751	10.2	53,569	11.2
EBITDA	45,976	10.0	42,701	8.9
EBIT before currency effects	22,205	4.8	19,575	4.1
Currency effects according to the P&L	-2,276	-0.5	-1,148	-0.2
EBIT including currency effects	19,929	4.3	18,427	3.9
Net income for the period [2]	9,101	2.0	6,640	1.4
No. of employees as of Dec. 31, including temporary employees	3,208	--	3,426	--

[1] Adjustments due to changes in accounting (see Note 5 in section "Inventories", page 65).
[2] The net income for the period is attributable in full to shareholders of PWO AG.

volume of investments should also be viewed excluding the first-time application of IFRS 16, as this formed the basis for the forecast for the fiscal year. Although the investment volume remained below the previous year – as communicated during the course of the year – it slightly exceeded the target of around EUR 32 million.

In the case of all other key performance indicators, we met and, in some cases, exceeded our targets. With regard to the equity ratio, the improvement compared to the adjusted value of the previous year was less significant than the reported value shown in the table that was originally reported for the 2018 fiscal year. Exceeding the forecast for EBIT before currency effects was positively impacted by several extraordinary effects, which resulted among others from the aforementioned adjustments to IFRS accounting. Without these non-recurring effects, EBIT before currency effects would have been within the forecast range. We are particularly pleased with our level of new business, which significantly exceeded our original expectations.

RESULTS OF OPERATIONS

As previously described, adjustments in IFRS accounting resulted in some changes to the prior-year figures. The following explanations refer exclusively to the adjusted values.

EBIT development was impacted by currency effects, similar to prior years. Currency effects are included in other operating income and expenses and reported as a separate line item in the notes to this Annual Report. In the following explanations, we refer to EBIT before currency effects, as this figure most clearly reflects our operating performance.

In the 2019 reporting year, Group revenues and total output were visibly lower than in the previous year, due to the weaker market and an associated decline in the volume of call orders from customers as well as significantly lower tool volumes.

At the end of the 2018 fiscal year and the beginning of the reporting year, we established a modified set of procedures to reduce costs and improve efficiency at all levels and in all locations and to systematically monitor their implementation.

The cost of materials ratio declined significantly, among other things due to better material cost efficiency for parts and lower external tool services. The other operating expense ratio also showed a noticeable decline, which was even stronger than the figure reported in the income statement if the lower currency losses in 2019 compared

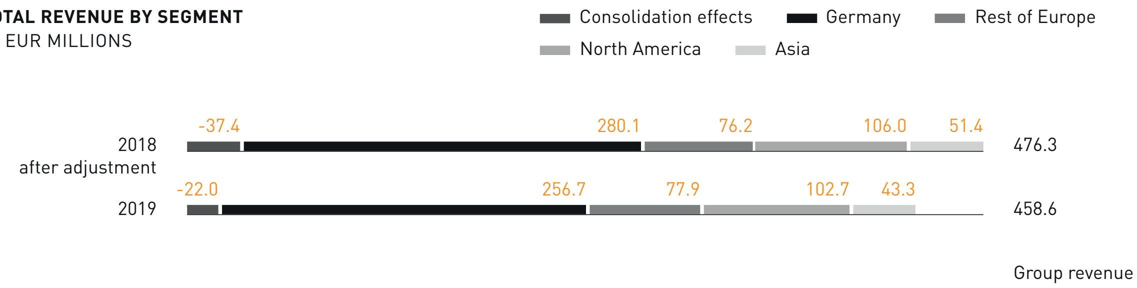
SELECTED INFORMATION

EURk

	2019	in % of total output	2018 after adjustment [1]	in % of total output
SEGMENT GERMANY				
Total revenue [1]	256,704	99.5	280,104	99.4
External revenue	242,258	93.9	261,040	92.6
Total output	257,994	100.0	281,840	100.0
EBITDA	21,490	8.3	18,352	6.5
EBIT before currency effects	9,624	3.7	7,188	2.6
EBIT including currency effects	7,592	2.9	6,364	2.3
Net income for the period	8,818	3.4	8,825	3.1
Investment	14,468	--	11,640	--
No. of employees on Dec. 31, incl. temporary employees	1,531	--	1,656	--
SEGMENT REST OF EUROPE				
Total revenue [1]	77,916	100.0	76,182	100.2
External revenue	75,337	96.7	69,169	91.0
Total output	77,928	100.0	75,995	100.0
EBITDA	11,512	14.8	11,713	15.4
EBIT before currency effects	6,684	8.6	7,165	9.4
EBIT including currency effects	6,638	8.5	7,183	9.5
Net income for the period	4,741	6.1	4,577	6.0
Investment	12,380	--	8,463	--
No. of employees on Dec. 31, incl. temporary employees	643	--	661	--
SEGMENT NORTH AMERICA				
Total revenue [1]	102,717	100.0	105,975	99.5
External revenue	102,628	99.9	105,740	99.3
Total output	102,717	100.0	106,475	100.0
EBITDA	8,106	7.9	8,341	7.8
EBIT before currency effects	2,669	2.6	3,063	2.9
EBIT including currency effects	2,601	2.5	3,283	3.1
Net income for the period	-309	-0.3	474	0.4
Investment	8,947	--	10,112	--
No. of employees on Dec. 31, incl. temporary employees	723	--	769	--
SEGMENT ASIA				
Total revenue [1]	43,345	100.0	51,428	99.5
External revenue	38,401	88.6	40,318	78.0
Total output	43,346	100.0	51,672	100.0
EBITDA	6,047	14.0	4,856	9.4
EBIT before currency effects	3,227	7.4	2,706	5.2
EBIT including currency effects	3,097	7.1	2,158	4.2
Net income for the period	850	2.0	166	0.3
Investment	3,536	--	5,118	--
No. of employees on Dec. 31, incl. temporary employees	311	--	340	--

[1] Adjustments due to changes in accounting (see Note 5 in section "Inventories", page 65).

TOTAL REVENUE BY SEGMENT
IN EUR MILLIONS



with 2018 are taken into account. Savings were realized in almost every sub-item within other operating expenses.

By comparison, there was a significant increase in the staff costs ratio despite a decline in the number of employees. This was true at almost all locations, as we try to retain the qualified employees who are necessary for the Group's long-term development, even in phases of market weakness. The increase in the staff costs ratio was especially noticeable at our Oberkirch site mainly due to the existing job security. This factor has further challenged our earnings at this site. We have also seen an increase in our depreciation/amortization ratio as a result of our continued investment in our locations.

On balance, we succeeded in increasing our EBIT to EUR 22.2 million (p/y: EUR 19.6 million). As mentioned, a variety of positive extraordinary effects contributed to this development.

The financial result was essentially unchanged. There was a significant reduction in the tax position following the completion of the tax audit at the Oberkirch location in 2018, reducing the Group's tax rate to 30.2 percent (p/y: 44.0 percent). As a result, net income for the period rose to EUR 9.1 million (p/y: EUR 6.6 million) and earnings per share increased to EUR 2.91 (p/y: EUR 2.12).

SEGMENTS

Our five production locations form the basis for our segment reporting by sales market in line with the organization of the Group's internal management. The segments are defined according to the locations of the Group's assets. Group revenues are also allocated in this manner. The two plants in Mexico and Canada are included in the North America reporting segment. Internal revenue between the individual locations concerns first and foremost the deliveries of series-related parts and tools.

Our home base in Oberkirch, which forms the Germany segment, clearly reflected the market's development in 2019. At EUR 258.0 million, total output was again visibly below the previous year's level by almost 10 percent, or close to EUR 25 million.

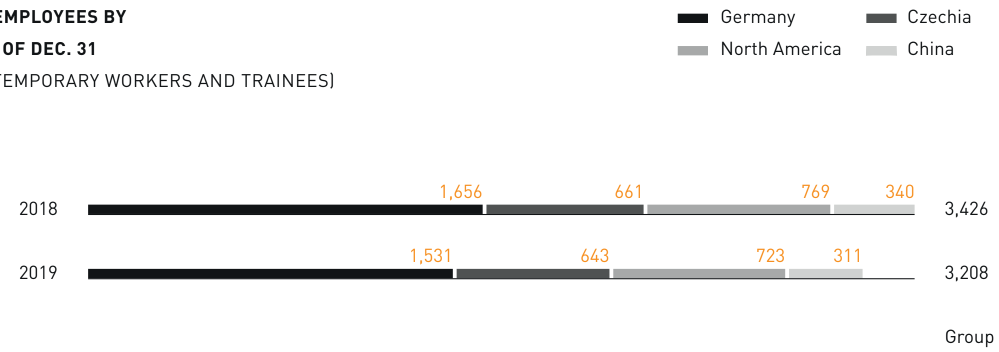
In order to limit the negative effects of this performance, the majority of our efforts to reduce costs and increase efficiency are focused on this location, which had recently shown below-average profitability within the Group. During the 2019 fiscal year, we achieved successes in several areas and were even able to increase our segment EBIT. However, the extraordinary effects already mentioned had made a significant contribution to achieving the results at this location. The necessary viable level of segment earnings required has not yet been achieved.

Looking ahead, this location will be able to reduce costs in some areas when the current start-up phase of complex orders for instrument panel carriers is completed. Nevertheless, it is foreseeable that the further earnings potential from one-time effects and increased insourcing is limited. It is therefore imperative that we also achieve an overall reduction in our staff costs.

At the end of the reporting year, we reached an agreement with the Works Council and IG Metall trade union on the intention to conclude more specifically tailored supplementary wage agreements no later than the end of the first quarter of 2020. This step enabled PWO to remain a member of the employers' association of the Baden-Württemberg metal and electrical industry.

The financial result of the Oberkirch location amounted to EUR 4.4 million in the year under review (p/y: EUR 6.0 million). In addition to financial expenses, this item includes interest income from loans to subsidiaries and distributions from subsidiaries to the German parent company amounting to EUR 5.0 million (p/y: EUR 7.0 million). Overall, the result for the period was EUR 8.8 million (p/y: EUR 8.8 million).

NUMBER OF EMPLOYEES BY LOCATION AS OF DEC. 31
(INCLUDING TEMPORARY WORKERS AND TRAINEES)



Our location in Czechia, which forms the Rest of Europe segment, was able to keep total revenues and output at a stable level in the 2019 fiscal year and was little affected by lower call orders. The segment's EBIT declined slightly but still remained at a level above the Group's average.

The Czechia location acquired a high volume of new orders in the 2019 fiscal year, as described in the section "Order situation." At the same time, we want to continue to optimize the capacity and infrastructure at that location in the future in order to be able to meet the expected production volumes. Basically, this location is already operating at high capacity utilization and the availability of additional skilled workers on the labor market is limited. We are still confident, however, that with the appropriate management, we will be able to continue to grow at that location in the future.

Financial expenses remained unchanged in the reporting year and amounted to EUR 1.1 million (p/y: EUR 1.1 million). Tax expenses fell to EUR 0.8 million (p/y: EUR 1.5 million). Our investment program is having a positive effect on taxes. Net income for the period rose to EUR 4.7 million in (p/y: EUR 4.6 million).

The North America segment comprises our two locations in Canada and Mexico. These locations developed very differently in the reporting year. The Canadian location continued to experience a temporary business slowdown, as already communicated. In the current market phase, customers are rapidly reducing their call orders for expiring series, while only gradually increasing their call orders for new series. Accordingly, the location's EBIT declined significantly in the year under review and was just above breakeven.

The Mexican location, in contrast, continued to perform positively. Successful start-ups and ramp-ups have been contributing to a significant increase in total revenue and output. Meanwhile, significant and sustainable process improvements have been implemented at the site, resulting in another visible rise in EBIT. This location is now on the way to attaining satisfactory profitability.

The North America segment in the 2019 fiscal year incurred financial expenses of EUR 3.0 million (p/y: EUR 2.5 million) and, based on low tax expenses, posted a net loss for the period of EUR -0.3 million (p/y: EUR 0.5 million).

Total revenue and output in the Asia segment suffered from lower market volumes in the reporting year and declined as a result. Despite this, a significant increase in the segment's EBIT was again achieved, as the site continued to work consistently on increasing its profitability. Process optimization also led to a significant improvement in performance. In the 2019 fiscal year, the profitability of the Asia segment almost reached the level of our highly profitable Czechia location.

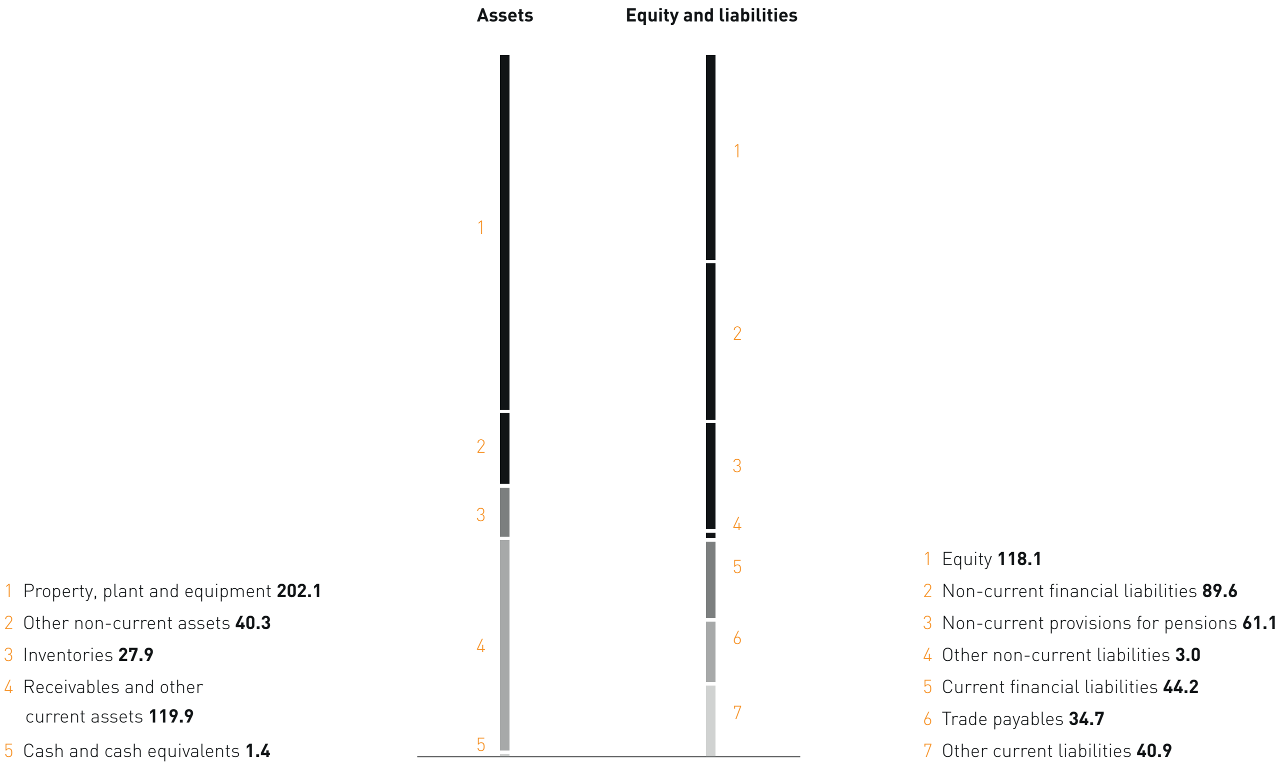
Financial expenses amounted to EUR 2.2 million in the reporting year (p/y: EUR 2.0 million). No taxes were incurred due to the use of loss carryforwards, and the net income for the period improved to EUR 0.9 million (p/y: EUR 0.2 million).

NET ASSETS

In the 2019 fiscal year, total assets were largely unchanged at EUR 391.6 million (p/y: EUR 390.0 million). Ongoing investments in the expansion of our sites resulted in an increase in property, plant and equipment. Major investments were made in our locations in Germany, Czechia and North America. The investment priorities are explained in detail in the section entitled "Financial Position."

There was a significant decrease in non-current contract assets, which was contrasted by a similar increase in current contract assets.

BALANCE SHEET STRUCTURE AS OF DECEMBER 31, 2019
TOTAL ASSETS: EUR 391.6 MILLION
IN EUR MILLIONS



In addition to this very significant change, current assets also experienced a reduction in raw materials and supplies and other assets.

Overall, we succeeded in improving our financing structure. The equity ratio rose slightly to 30.1 percent (p/y: 29.9 percent) and the dynamic leverage ratio improved to 2.9 years (p/y: 3.1 years).

At EUR 132.5 million (p/y: EUR 131.4 million), net debt remained at the previous year's level. Important to note is that the new rules for lease accounting under IFRS 16 led to an increase in net debt of EUR 5.4 million as of January 1, 2019. Excluding this effect, net debt based solely on our operating business development would have declined by EUR 4.3 million as of the December 31, 2019 reporting date compared to December 31, 2018.

On the liabilities side of the balance sheet, pension provisions recorded a significant increase. The higher valuation of pension provisions resulted from a lower discount rate due to the change in capital market interest rates. At the same time, various items in current liabilities remained below their prior-year levels, which affected trade payables, among other items. Together with pension provisions, the latter represent the two other significant sources of refinancing.

During the reporting year, there was no substantial change in the structure of financial liabilities that bear interest rates between 0.89 percent and 7.75 percent and essentially consist of a syndicated loan and a promissory note consisting of several tranches.

A few higher-interest bilateral loans still exist with fixed interest rates that are not scheduled to expire for another few years. The higher interest rates mentioned in the range above are primarily on subordinate local financing of individual subsidiaries. In view of the currency sensitivity of the Group's refinancing, internal Group loans to the Chinese location have now been largely replaced with financing in renminbi and hedged from Germany.

We remain satisfactorily positioned on the refinancing side. We periodically review our options to extend our

DEVELOPMENT OF EQUITY RATIO AND DYNAMIC LEVERAGE RATIO

EURk

	2019	2018 after adjustment
Equity	118,058	116,450
Total assets	391,592	390,046
EQUITY RATIO = EQUITY IN % OF TOTAL ASSETS	**30.1**	**29.9**
Non-current financial liabilities	89,633	89,851
Current financial liabilities	44,207	51,890
Cash and cash equivalents	-1,367	-10,382
NET DEBT	**132,473**	**131,359**
EBITDA	**45,976**	**42,701**
DYNAMIC LEVERAGE RATIO IN YEARS = NET DEBT /EBITDA	**2.9**	**3.1**

existing agreements and plan the Group's medium-term financing in close cooperation with our financing partners.

FINANCIAL POSITION

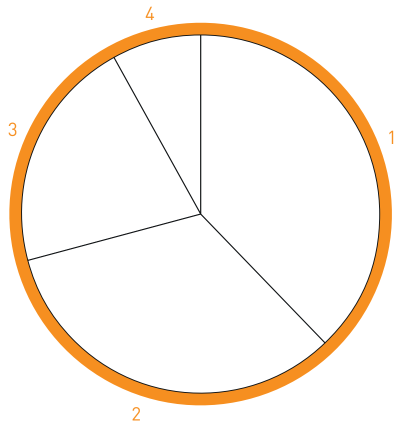
The improved net income for the period of EUR 9.1 million (p/y: EUR 6.6 million) had a positive effect on cash flow from operating activities, which rose to EUR 47.9 million (p/y: EUR 38.5 million). In addition, the change in current and non-current liabilities (excluding financial liabilities) resulted in a cash inflow of EUR 7.8 million (p/y: EUR 2.3 million). Changes in other items resulted from various changes with limited amounts.

Our efforts to limit the necessary investment volumes again had a positive effect, so that cash flow from investing activities was again very low at EUR 27.8 million (p/y: EUR 25.6 million). After interest paid and received of EUR -5.2 million (p/y: EUR -4.8 million), free cash flow amounted to EUR 15.0 million (p/y: EUR 8.1 million).

Including dividend payments of EUR 4.2 million (p/y: EUR 5.2 million) and the net repayment of loans and lease liabilities of EUR 25.0 million for (p/y: net assumption of loans of EUR 1.7 million), the change in cash and cash equivalents amounted to EUR -14.2 million (p/y: EUR 4.7 million).

In 2019, no significant financing measures were undertaken. Securing sufficient liquidity for the PWO Group is always at the center of our financial management. We strive to maintain a liquidity reserve beyond ongoing payment obligations. At the same time, we intend to limit the utilization of short-term credit lines as much as possible and offset them with excess liquidity. For more information on the principles and objectives of our cash and financial management, please refer to the notes to the financial statements.

INVESTMENTS IN 2019 BY SEGMENT
100 % = EUR 39.3 MILLION



1 Germany **37 %**
2 Rest of Europe **31 %**
3 North America **23 %**
4 Asia **9 %**

As shown in the segment report, we invested a total of EUR 39.3 million (p/y: EUR 35.3 million) in the 2019 fiscal year. The difference to the cash flow from investing activities described above is a result of the effect of EUR 5.4 million from the first-time application of IFRS 16 and newly contracted lease financing. This lease financing was higher in the 2019 fiscal year than in previous fiscal years, as a result of the investment in new forming presses at all five locations. Lease finance is often an attractive alternative for the purchase of new presses.

At our German location, investments amounted to EUR 14.5 million (p/y: EUR 11.6 million), and were above the prior year's level. These investments were made above all in manufacturing equipment for the start-up and ramp-up of orders for instrument panel carriers, smaller construction measures and a new degreasing plant that will gradually take over the operations of two older plants.

The Czechia location was another major focus of investment in the reporting year, with EUR 12.4 million (p/y: EUR 8.5 million). In the 2019 fiscal year, we inaugurated a new 2,500-ton press for the production of seat components made of high-strength steel. A new measuring machine will also contribute to an improvement in our production efficiency.

In North America, investments were slightly lower again at EUR 8.9 million (p/y: EUR 10.1 million) following the high level of investment in the prior year. We also invested in production equipment at both of the North American locations for the start-up and ramp-up of instrument panel carrier orders. Only a limited volume of investment was required at the Canadian location, while the greater part was directed to the Mexican location, where we expect further significant growth in the future.

Investments also visibly declined below the prior year's level at our Chinese location to EUR 3.5 million (p/y: EUR 5.1 million). In view of the current market weakness, we are taking a somewhat more cautious approach to our current investments; although this does not mean that we have lowered our long-term growth expectations for this immense market.

REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

RISK REPORT

RISK PHILOSOPHY AND RISK POLICY

For PWO, risk management is a central component of corporate management. The focus of risk management is derived from the corporate goals and strategy. Risk management is designed to support full compliance with the legal rules and regulations relevant to PWO. It is also used as a control instrument. PWO's risk management activities continue to focus on balancing the Group's opportunities and risks and, where possible, on reducing risk costs. This focus includes, above all, the avoidance of risks that could endanger the company's existence, as well as the limitation and management of strategic and operational risks.

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

PWO'S RISK MANAGEMENT SYSTEM

ORGANIZATION OF THE PWO GROUP'S RISK MANAGEMENT SYSTEM

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

It includes operational checks by risk owners, the review and monitoring of the control standards by independent units such as Internal Audit risk management and risk hedging. These three monitoring and control bodies report to the Management Board, who in turn, reports to the Supervisory Board and its Audit Committee. The risk management system is also subject to external auditing.

STATUS AND DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

Risks are generally defined as potential events that can lead to both positive as well as negative deviations to the plan. All risks are clearly assigned to owners and are assessed using scenario distributions with regard to the amount of damage and the probability of occurrence.

PWO's risk management system is developed and fine-tuned on an ongoing basis. In the 2019 fiscal year, we prepared for a reorganization and further upgrading of our risk management, and in the 2020 fiscal year, this division will be merged with the Controlling division and placed under new management.

COMPLIANCE MANAGEMENT AND INTERNAL AUDITING

PWO has established a Group-wide compliance management system (CMS) with its own Code of Conduct. The CMS is closely linked to the risk management system.

PWO's compliance management is also expanding and was reinforced by additional employees in the spring of 2020. In the 2019 fiscal year, an e-learning system was also introduced, which will initially be used at the Oberkirch location and rolled out to the international locations in the future. The anonymous whistleblower system implemented in the prior year was presented and introduced at the locations in China and Mexico. In the course of this, the local Business Partner Codes of Conduct were also revised.

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. As of 2020, Internal Audit will continue to be organizationally assigned as a staff unit to the Management Board member, who is responsible for PWO's administration and finance activities. We also work regularly with external consultants to supplement our internal process knowledge with benchmarking experience.

CONTROL AND RISK MANAGEMENT IN THE FINANCIAL REPORTING PROCESS

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

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

The policies, procedures, regulations and actions are geared towards 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 in a multi-step process. The PWO Group's IFRS accounting policies form the foundation of the accounting and measurement standards for the entities included in the consolidated financial statements. Underlying these internal 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.

DEVELOPMENT OF THE OVERALL RISK POSITION

At the end of the reporting year, the overall risk situation of the PWO Group improved significantly in almost all risk categories, as well as with respect to planning for the 2020 fiscal year. The elimination of risks contributed to this, as did the successful implementation of risk-limiting measures for lasting risks. For example, the ramp-up of large and complex series production is now largely completed. In addition, an agreement on the amount of future contributions was reached with the employers' liability insurance association. We also have included risks arising from supplier dependencies and contract design for the first time in this report. The greatest single influence on the overall risk situation at the end of the reporting year resulted from the high degree of uncertainty about future market developments, both for the 2020 fiscal year and the medium term.

With the outbreak of the corona pandemic from February 2020, the overall risk situation has worsened considerably. As of the preparation of this report at the end of March 2020, we are at the beginning of the development and its further course is not foreseeable and therefore not quantifiable. Depending on whether and how successfully the spread of the virus can be contained with the current official measures, only some or many of the risks described below may be affected. The following risk ranking is therefore still based on the situation prior to the outbreak of the pandemic.

The spectrum of possible future developments is very broad. While in China, where the pandemic began earlier than in Western countries, production is now gradually ramping up after a standstill at the beginning of 2020, Germany and Europe are only now introducing drastic measures. Not only is social life being restricted, but also goods and commuter traffic is affected by waiting times due to border controls. Business and leisure travel is also being massively reduced. All of the automotive manufacturers that we supply directly have temporarily suspended their production.

We have set up a crisis team to assess the situation on a daily basis and align the Company's organization accordingly. Our top priority is to ensure the health of our employees, business partners and their families as best we can. In light of this we have implemented the recommendations of the Robert Koch Institute, Berlin, among other measures. Closing schools and daycare facilities for children also poses a particular challenge for the families affected and for the Oberkirch site. Here we are focusing on pragmatic solutions.

The changes in the ranking of the individual risk categories in comparison to the prior year's annual report are clearly and conveniently shown in the table on page 30. A higher assessment of risk categories compared with the previous year is not so much the result of an increase in the risks summarized in those categories but instead reflects the sharper decline in the risks in the other categories.

Overall, the Management Board is convinced that all of the necessary measures have been initiated to make the risks for the Group manageable. In our view, there is no threat to the Group's continued existence.

The following report contains our statements concerning the Group's individual medium-term risks and opportunities.

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

The following presents the major risks and opportunities for our 2020 operating planning based on the scenario assessment and taking into account any risk mitigating measures. We continue to classify risk in the following risk categories: financial, performance, market, regulatory and other risks. The order of the risk categories and the order of the highest respective individual risks within each category presented below, reflect our current assessment of the relative level of risk in descending order.

Our business is characterized by long-term contracts. New orders sometimes require lead times of several years. During the series lifetime of 5 to 8 years, customers usually stay with the same supplier. On the one hand, this aspect of our business contributes to our planning certainty; on the other hand, it limits our short-term opportunities. Therefore, in terms of our operational planning for the year 2020, the risks outweigh the opportunities.

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

FINANCIAL RISK

Impairments

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

These risks affect our subsidiaries in China and Mexico. We have implemented extensive process improvements and cost reductions at both locations, resulting in a significant improvement in their profitability in the past fiscal year. The latest uncertainties concerning the medium-term market development in both countries, however, is increasing the risk. We do however believe that all risks are being controlled by the measures that have been initiated, and therefore our internal planning confirms the carrying amounts assigned to our assets.

Financing and Interest Rate Risk

The funds required to finance current business and planned investments are more than covered by secured financial resources. We counter interest rate risks through a balanced mix of our long-term and short-term financing resources.

We have financial covenants in place in connection with our syndicated loan and promissory note. Due to the high degree of uncertainty about future market developments in the automotive industry, there is a risk that we might fail to meet these covenants. A further reduction in capital market interest rates could also lead to a higher valuation of pension provisions and thereby burden our equity ratio. Our measures to secure and increase the profitability of our locations and limit our capital expenditures mitigate these risks.

We currently do not see any risks that could arise from financial institutions failing to meet their obligations in connection with the investment of liquid funds or in their role as counterparties to derivative financial assets.

Currency Risk

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

DEFINITION OF RISK SIGNIFICANCE

Description	In % of the EBIT before currency effects expected in 2020 of EUR 19 to 20 million[1]	Net expected value Risk category In EUR millions
Low	≤ 5 %	≤ EUR 1.0 million
Moderate	› 5 % and ‹ 15 %	› EUR 1.0 million and ‹ EUR 2.9 million
High	≥ 15 %	≥ EUR 2.9 million

[1] Based on the mid-point of the forecast range of EUR 19.5 million.

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 they represent intercompany obligations.

The currency fluctuations of these loans do, however, affect the reported EBIT and the earnings before and after taxes, which in turn affects the Group's valuation. We have therefore largely replaced our existing intercompany loans to the Chinese location – which typically fluctuate the most – with loans in renminbi and hedged these out of Germany. For more information about the risks associated with financial instruments, please refer to the notes of this annual report.

MARKET RISKS

Sales Volume Fluctuations

Capacity utilization risk can arise from fluctuations in sales volumes. In the case of existing orders, this risk can result from a decline in demand from end customers. In our business, it is common to expect the start-ups of new orders to be postponed by vehicle manufacturers. Although we have taken the economic risks of this into account in our planning, it is currently more difficult in our industry to make this projection. In addition, the weakening economy, particularly in Germany and China, is a cause for concern for 2020.

Due to the long-term nature of our business, we can only compensate for reductions in capacity utilization by making cost adjustments. This is more difficult to implement in the short-term at our German location due to the existing supplementary collective agreement, which also includes an agreement on safeguarding jobs.

Accordingly, we have already implemented extensive measures in many areas to ensure the site's profitability, even in the current market environment. This includes fixed target agreements on cost savings, the achievement of which is closely monitored. These measures have already had a visible positive effect. From a purely operational point of view, however, that is, without the positive one-off effects mentioned above it has so far only been possible to slow down the further weakening of profitability.

Further cost reductions will therefore be implemented in fiscal 2020. New supplementary collective agreements are to be concluded by the end of the first quarter of 2020 at the latest, among other things.

Sales Price Reductions

The permanent increase in competitive and price pressures are everyday risks in the automotive supply industry and have a general impact on the profitability of the PWO Group. When auto manufacturers are in phases of weaker profitability – as is currently the case – price pressure increases as customers seek to pass on some of their margin pressure to the supply chain. This is all the more true for the 2020 fiscal year and will continue to be a factor in the years ahead as manufacturers are faced with additional burdens from reduced CO_2 limits on newly registered vehicles in the European Union.

We therefore focus on maintaining the highest possible delivery quality and loyalty over the entire contract period to ensure we have a strong position in regular negotiations with our customers. Still, we have to permanently increase the efficiency of all our operating processes at all locations in order to counteract the usual annual cost increases and customer demands for price adjustments – even in market phases that do not permit growth – to secure or improve our profitability.

OVERVIEW OF RISK SIGNIFICANCE FOR THE RISK CATEGORIES

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

Dependence on Suppliers
The risk of a strategic supplier defaulting due to financial difficulties has increased only recently as a result of the market's current weakness. We manage this risk by regularly checking the credit standing of our respective partners and establishing business relationships with new additional suppliers when deemed appropriate.

Raw Materials
The raw materials required for our production processes include first and foremost steel and, to a much lesser extent, aluminum. Until today we have not been faced with supply risk and we are not expecting this risk to emerge in the future.

In our business, we are generally exposed to earnings risks from changes in raw material prices. When prices increase, there is a risk that this increase cannot be passed on to customers. When prices fall, there is a risk that customers will demand higher or faster throughput than stipulated in our purchasing agreements. In the past, we have always been able to negotiate acceptable solutions with our customers, and we are confident that we will be able to continue to do this in the future. The close integration of our sales and purchasing department is also expected to contribute to making this possible.

REGULATORY RISKS

Compliance Risks
We counter compliance risks with the compliance management system described at the beginning of this risk report. We closely manage the risk of possible patent infringements through the many years of product and industry expertise of our employees and through cooperation with an external patent attorney. There are still no disputes at present. We had carefully prepared ourselves for the requirements of the EU General Data Protection Regulation before it came into force. We regularly monitor the further developments in its application, and our processes in this area are now well established.

Contractual Risks
Newly added to this report are the risks arising from unfavorable contractual arrangements, which include time differences between contractually agreed material and production releases and the throughput times of actual procurement and production. Such differences can lead to considerable risk in the event of a steep, short-term drop in demand. Consequently, we are working on making the appropriate contractual adjustments, as well as on perfecting the scheduling processes.

Tax and Political Risks
The PWO Group operates in countries on three continents with very different tax environments. In some cases, this results in extensive requirements, the complexity of which is also tending to increase.

The political risks for the global economy have steadily increased in recent years, as presumed or actual short-term benefits increasingly influence the political actions of individual governments. Now even the existing world trade order is coming under pressure, resulting not only in concrete economic risks from possible trade wars but also an overall higher level of uncertainty paralyzing global economic development.

It continues to be entirely unclear what the consequences of Britain's further withdrawal from the European Union will be following the recent Brexit. We have only limited customer relationships in this country. For the German automotive industry, however, Great Britain is the largest export market, which means an effect on the industry as a whole is to be expected, which could be very serious. The general economic flow of goods between the European Union and Great Britain is also expected to come under pressure.

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

We limit all 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.

OTHER RISKS

Personnel Risks

The timely availability of skilled workers in sufficient numbers and qualifications continues to pose a special risk. Currently, there are bottlenecks in the vicinity of all our locations. Due to the market's weakness and the cost-cutting programs, only a limited number of new hires are planned for 2020, which momentarily reduces this risk.

One of the ways to reduce risk is to plan and manage the need for skilled workers as early on as possible and on a long-term basis through education and extensive continued training, employee qualification and other initiatives. Risk throughout the Group is also managed by means of broad-based personnel recruitment and employee retention concepts, which are optimized on an ongoing basis.

IT Risks

Open IT structures, which make processes available worldwide and at the same time, always guarantee the confidentiality of information and data security, are among the basic requirements for sustainable corporate success today. For years, we have been focusing on consolidating all IT services in a PWO Private Cloud. We also continuously expand our certified information security management system (IMS) at the Oberkirch site. The processes and structures established in this context are implemented in the subsidiaries as required. Based on these activities, we remain confident that we are well-positioned in this area.

PERFORMANCE RISKS

Business Interruption in Production

Business interruption risks can result primarily from damage to or failure of a production system or tool. Depending on the extent of the damage and the duration of the breakdown, this may impair timely delivery to customers. Shifts that become necessary on short notice due to bottlenecks are also part of this risk category. The risk of the failure of an entire location can be virtually ruled out. Business interruption risks have been reduced as a result of the market's weakness, as this frees up the capacities of the forming presses.

Quality Risks/Product Liability and Recall Risks

Customers in the automotive industry traditionally have very high quality requirements, and product liability risk and risks resulting from product recalls have increased continuously in recent years.

We limit these risks with our quality management system, which has been established and certified for many years. The effectiveness of our system was again confirmed in 2019 with the successful completion of re-certification in accordance with the IATF 16949 standard, which defines the basic requirements for quality management systems for series and spare parts production in the automotive industry.

We are also continuously expanding the scope of testing for our components – especially in a variety of digitization projects – and document the zero-defect quality of these components before they leave our premises. Not only do we want to ensure that faulty components are detected at an even earlier stage in the production process than before but we also want to have the complete traceability of each separate component, so that any errors can be assigned not only at the level of individual batches but also at the container level. This approach reduces the total loss amount of a potential recall. We have also taken out insurance policies to cover liability risks from recall campaigns.

Start-up and Ramp-up Risks

The start-up and ramp-up of new series production involve a number of risks. The first risk being the upfront investments, for example, by making a sufficient amount of capacity available. This leads to capacity utilization risks. In addition, the tools required for production must be designed, manufactured and tested, which leads to cost risks. The production then goes through a so-called learning curve during start-up and ramp-up phases until the expected profitability is achieved.

To limit the time and economic risks resulting from this process, we have formed dedicated start-up teams of experienced specialists who accompany the start-ups and ramp-ups above and beyond the customary coordination of the locations.

During the reporting year, all locations successfully launched large series productions – some of them with a very high degree of complexity, posing a noticeable challenge for the Group. As these start-ups have now been largely completed, the relevant risks have also come down again significantly.

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

The following provides an overview of the Group's strategic risks and opportunities over the medium term, which is defined as a period of at least three years. In the following section, these risks and opportunities are discussed in accordance with our momentary assessment of their relative importance for the PWO Group.

IMPROVING COMPETITIVENESS THROUGH ADAPTATION OF INTERNAL PROCESSES

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

Consequently, we have greatly increased our efforts during the past fiscal year to adjust our personnel and cost structures to the current market environment. The success of measures already introduced is monitored promptly and systematically. Additional measures are continuously being requested by the respective departments and especially across departments within the process chain. We are therefore confident that we will be able to not only secure the PWO Group's profitability over the next few years despite the growing challenges but to be able to increase it significantly.

REGIONAL EXPANSION

With our five production sites, we are positioned in all of our relevant markets. Our market share, especially in China and Mexico, is still very low. To improve this, we are always examining options to tap additional substantial market potential.

To achieve this, we intend to continue focusing on setting up assembly locations in all of the regions in which we operate. When it comes to the other production sites, our current focus is primarily on China, while still examining the opportunities emerging in other regions.

In China, we are likely to build a new production site in the medium term, as there is no further room to grow at our current location. Our goal is to first complete our present orders at the current location and then to construct a new location for future growth. Beyond this, we are not ruling out the possibility of adding more production capacity in another region in China.

DEVELOPMENT OF HIGHLY EFFICIENT PRODUCTION PROCESSES

Permanent product and process innovation is the key factor in securing and expanding our competitive position in the industry. Our customers need product solutions with persuasive technology to be able to comply with the ever-growing regulatory requirements to reduce the environmental impact caused by vehicles.

We are in a position to offer innovative solutions that can be produced economically by efficient processes. Evidence of our ability to do this can be seen by the new processes we have for the production of instrument panel carriers, for which we applied for a patent in the past fiscal year.

We also speak the particular language of our customers and can therefore make promises that last throughout an entire development and production cycle. This is the basis for our long-term success.

DEVELOPMENT OF LONG-TERM DEMAND

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

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 take advantage of emerging opportunities, especially those 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 material risks to our production range from increased electromobility or the potential full conversion to this type of drive system currently in discussion, since only very few of our solutions can be used exclusively for vehicles with internal combustion engines. Lower vehicle weight is also relevant for electric vehicles, for example, to increase their range.

More Automotive Comfort and Safety

Increasing comfort and higher safety in the automobile continue to be key requirements for vehicle buyers. Our product solutions are concentrated mainly in these two areas.

The trend towards partially or fully autonomous driving also means additional degrees of freedom for drivers and passengers. This will further increase the demands on vehicle equipment leading to the development of new concepts for the interiors of the future. As a result, the requirements for the necessary components and subsystems will become even more complex. We are convinced that we are well-positioned to benefit from this trend in the future.

Development of the Customers and Competitive Environment

The high capital intensity of the automotive industry, coupled with the ever-increasing competition in global markets and continuously rising demands for CO_2 reduction, are placing considerable burdens on global automobile manufacturers. Consequently, we expect these developments to contribute to manufacturers sourcing further significant sections of their value chain from suppliers in the future. We are confident that we will benefit from this trend more than our competitors given our innovative strength, recognized delivery quality and reliability, and our global delivery capabilities.

This trend could be muted by a stronger tendency towards insourcing if jobs are lost to a greater extent from the digitization of manufacturers' production facilities or a faster than expected switch to electric drives in their engine plants. This would also however require a significant amount of additional investment in forming capacities and in the specific skills of employees.

Tool Sourcing from China

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

REPORT ON FORECASTS AND OUTLOOK

EXPECTED GENERAL ECONOMIC AND INDUSTRY DEVELOPMENT

Against the background of the corona pandemic, the previous forecasts for global economic development in 2020 are now largely outdated. The further development cannot be foreseen at the present time and, as a result, no updated forecasts by the economic research institutes or the VDA are yet available.

To cushion the economic consequences of the corona crisis, the German government has launched an unlimited financial aid program at short notice for those companies that may come under pressure. The program essentially provides aid to secure liquidity, including the unbureaucratic and rapid granting of short-time compensation and possibilities for tax deferrals. This program does not rule out the possibility of the state taking equity stakes in companies to rescue them should they get into distress.

Hope is currently focused on the economy returning to its previous growth path in a V- or U-shaped development by the end of the current fiscal year after a massive slump in the spring of 2020. In the following paragraphs, we present the forecasts made to date.

According to the IMF, the global economy should take a slightly more vertical growth path in 2020 than in 2019. The IMF's January 2020 updated forecast assumes real growth of 3.3 percent in 2020 compared to 2.9 percent in the prior year.

The IMF's previous forecast had already been based on a poor foundation. Experts had warned specifically about the unchanged (trade conflicts USA/China, USA/Europe) and newly added political and social risks (USA/Iran, increasing social conflicts in several countries) for world trade, the still unresolved issues surrounding the recent Brexit, as well as a number of other financial policy risks.

The emerging countries were expected to be among the growth drivers of the global economy again in 2020. Based on the January outlook, growth in these countries was expected to increase from 3.7 percent in 2019 to 4.4 percent in 2020. A noticeable recovery was expected, above all, in the Middle East (2.8 vs. 0.8 percent) and Russia (1.9 vs. 1.1 percent). A lower growth rate, on the other hand, was expected in Japan (0.7 vs. 1.0 percent).

According to the IMF, the increase in US GDP was anticipated to fall in 2020 to 2.0 percent after 2.3 percent in 2019, as the interim boost following the tax reform ran out of steam and the Federal Reserve was no longer expected to take any further accommodative monetary or interest rate policy measures after the three interest rate cuts in the second half of 2019.

The IMF expected a wide range of growth in Europe, with growth rates overall remaining at low levels. In Germany (1.1 percent in 2020 vs. 0.6 percent in 2019) as well as in Italy (0.5 percent vs. 0.2 percent) and the UK (1.4 percent vs. 1.3 percent), growth was expected to increase slightly, while the French economy was expected to grow again by 1.3 percent in the current year. In Spain, however, growth was expected to decline (1.6 percent vs. 2.0 percent).

For the German Association of the Automotive Industry (VDA), the global automotive industry is in the midst of a fundamental structural change with enormously high investment requirements and a simultaneous slowdown in market momentum. An essential part of the innovation strategy of German manufacturers is their electric model offensive. Manufacturers intend to invest EUR 50 billion in electromobility and another EUR 25 billion in digitization by 2024.

According to the VDA, the economic scope overall is becoming narrower, with manufacturers and suppliers adjusting their capacities, increasing their efficiency, streamlining their product portfolio and improving their cost structures. In some companies, adjustment measures are also being done on the employment side over the medium term due to declining capacity utilization. Fixed-term employment contracts are not being extended and the instrument of short-time work is on the rise. The VDA therefore expects the number of employees in the core workforce to decline. After expecting a year-on-year decline in 2019, the VDA now expects this decline to intensify in 2020.

The VDA had not been very optimistic about the outlook for the automotive industry in 2020. Although the Chinese market was expected to stabilize again after a weak 2019, new registrations were still expected to fall by 2 percent to 20.5 million passenger cars in 2020. The forecast for the US market was similar: a decline of 3 percent to a volume of 16.5 million light vehicles and a continued move by the market away from the 17-million-unit threshold, which was not exceeded in 2019 for the first time since 2014.

In Europe, the VDA saw obstacles to growth – particularly the CO_2 regulation. For 2020, the Association expected 15.3 million newly registered passenger cars, representing a year-on-year decline of 2 percent. The German passenger car market was expected to be even weaker in 2020 with a projected decline of 4 percent to 3.4 million new passenger car registrations.

The global passenger car market overall was expected to contract by 1 percent to 78.9 million new registrations in 2020, which is only slightly above the level of registrations recorded in 2015 (78.2 million passenger cars).

BUSINESS DEVELOPMENT AND FUTURE DIRECTION

DEVELOPMENT OF THE PWO GROUP

The following forecast reflects our assessment before the outbreak of the corona pandemic. It will be updated as soon as the further course of the pandemic allows a reliable assessment of the foreseeable business development.

Our 2020 plan assumes that the Group's scope of consolidation will remain unchanged. As outlined in the risk report, the forecast for the future development of the various sales markets is overshadowed by several factors. Until now, we were assuming a consolidation in China, the world's largest automobile market. In view of the outbreak of the coronavirus, this has become uncertain. For the PWO Group, however, the resulting effects should be manageable, as our activities in Asia account for less than 10 percent of the Group's revenues.

We expected slight declines in the other important markets in Europe and North America. Various start-ups and ramp-ups, however, were expected to help us to achieve Group revenues of around EUR 450 million, which would have been close to the 2019 level. We expected EBIT before currency effects to be in the range of EUR 19 to 20 million. Extensive cost savings were expected to not be able to fully compensate for the absence of the positive extraordinary effects in 2019 or the slightly declining revenues and the price pressure in the automotive industry.

In terms of our locations, we expected a significant increase in revenue at our Czechia location based on project-related tool invoicing. For the same reason, a disproportionately high decline in revenue was expected at the Canadian and Mexican locations. In absolute terms, total output was expected to be significantly lower than in the previous year, particularly at our German location, while an increase was expected to be achieved at the international locations as a whole.

Cost reductions and better efficiency should mitigate the pressures mentioned at all locations. At the Oberkirch site in particular, however, it will not be possible to compensate for the absence of the positive one-off effects recognized in the 2019 fiscal year. For this reason, we are implementing especially extensive measures at this location to gradually stabilize and then increase the location's profitability again in the future.

INVESTMENTS

To strengthen our balance sheet, we continue to plan to limit our investments as far as economically and commercially reasonable. For the 2020 fiscal year, we previously planned to reduce our investments to just under EUR 30 million. Following last year's high level of investment, lower investments at the Czech location, in particular, will contribute to this reduction, while a sharp temporary increase in the budget compared to 2019 is planned for the Canadian location.

In addition to the requirements arising from the series production start-ups currently scheduled, we continue to keep an eye on the PWO Group's medium-term market positioning. We generally continue to budget investments based on a three-year period. As a result of the recently implemented and further planned efficiency enhancements and process optimizations, we currently estimate the investment needed for our long-term growth in such a period at around EUR 100 million, compared with around EUR 110 million previously.

FINANCIAL POSITION AND NET ASSETS

Due to the planned reduction in capital expenditures and the continued close management of all balance sheet items, we intended to generate clearly positive free cash flow again in fiscal year 2020. As a result, the equity ratio and the dynamic leverage ratio were expected to improve further compared to 2019.

ORDER SITUATION

With new business of around EUR 510 million, including tool orders, in 2019, we exceeded our original forecast for the 2019 fiscal year by more than 25 percent. In 2020 we wanted to stabilize at this level and acquire new business again of more than EUR 500 million. This level should help to secure the Group's medium-term growth targets.

GENERAL STATEMENT ON FUTURE DEVELOPMENT

Following the market slump in the fall of 2018, we entered the 2019 fiscal year with great caution. We continuously followed the development of our customers' call orders and the ongoing and frequently negative news flow from the automotive industry and evaluated these factors with respect to PWO.

Meanwhile, we have demonstrated our success achieved through the measures we have taken to safeguard the Group's profitability. Further extensive cost-savings and efficiency-enhancement programs are on their way for 2020. Still, the development in the 2020 fiscal year will be largely determined by the global economic distortions resulting from the corona pandemic. We are focusing all our energies on adjusting to the respective situation promptly and consistently.

DEPENDENCY REPORT

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

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

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

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

There are no restrictions on the voting rights or the transfer of shares, and the Management Board is not aware of any 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. As of December 31, 2019, it held 46.62 percent (p/y: 46.62 percent) of the voting rights and is the main shareholder.

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

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

Subject to the consent of the Supervisory Board, the Management Board is authorized to increase the Company's share capital once or several times by up to a total of EUR 4,687,500.00 (Authorized Capital 2015) by issuing new no-par bearer shares against contribution in cash and/or in kind until and including the date of May 18, 2020. Generally, subscription rights must be granted to shareholders. Further details of the authorization are contained in the resolution of the Annual General Meeting of May 19, 2015.

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

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

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

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

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

REMUNERATION REPORT

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

REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

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

Total remuneration consists of fixed and performance-related components.

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

The system of performance-related remuneration for the members of the Management Board was redesigned in the 2018 fiscal year. The previous one-year variable and multi-year variable components have been combined into one remuneration component and continues to be measured against the Group's net income for the period which, in the opinion of the Supervisory Board, reflects the combined performance of the Management Board and the workforce to secure jobs at the Company and the ability to pay a dividend. The calculation is based on 10 percent of the Group's net income for the prior two years, 20 percent of the prior year and 70 percent of the new fiscal year – making 70 percent of this remuneration forward-looking. The proportion of variable remuneration to the Group's net income for the period, as well as the maximum achievable amount, varies among the individual members of the Management Board and is due for payment upon the adoption of the annual financial statements of the new fiscal year under this calculation basis.

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

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

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

Management Board members Dr. Volker Simon and Johannes Obrecht are not entitled to pension benefits but, as set out in their Management Board contracts, instead receive a fixed annual benefit for a private retirement scheme that is also paid by the Company, at the request of both gentlemen, directly into a pension trust.

The Company has concluded a financial loss liability insurance policy (D&O insurance) for the members of the

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD

EURk

	Dr. Volker Simon (CEO)		Bernd Bartmann		Johannes Obrecht		Total remuneration	
	2019	2018	2019	2018	2019	2018	2019	2018
FIXED REMUNERATION								
Basic annual salary	276	270	234	216	192	192	702	678
Fringe benefits	25	25	34	34	17	19	76	78
TOTAL	**301**	**295**	**268**	**250**	**209**	**211**	**778**	**756**
PERFORMANCE-RELATED REMUNERATION								
NEW REMUNERATION SYSTEM [1]								
Variable remuneration	292	240	219	180	185	--	696	420
PREVIOUS REMUNERATION SYSTEM								
One-year variable remuneration	--	--	--	--	--	65	--	65
Multi-year variable remuneration	--	--	--	--	--	86	--	86
TOTAL	**292**	**240**	**219**	**180**	**185**	**151**	**696**	**571**
TOTAL REMUNERATION	**593**	**535**	**487**	**430**	**394**	**362**	**1.474**	**1.327**

[1] The new remuneration system is applicable for Dr. Volker Simon and Bernd Bartmann as of January 1, 2018; for Johannes Obrecht as of January 1, 2019.

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 stipulate 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. As previously mentioned, the last review was conducted in the 2018 fiscal year.

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

EURk

	Annual entitlement [1]		Present value of benefit obligations		Allocation to pension provisions	
	2019	2018	2019	2018	2019	2018
Dr. Volker Simon, CEO	0	0	0	0	0	0
Bernd Bartmann [2]	72	72	1.603	1.308	94	107
Johannes Obrecht	0	0	0	0	0	0
TOTAL	**72**	**72**	**1.603**	**1.308**	**94**	**107**

[1] With the pension event occurring at the age of 65 on the basis of the entitlements acquired up to December 31, 2019.
[2] The allocation to the pension provision for Mr. Bartmann does not include the fixed annual payment of EURk 20 agreed made to a pension trust in addition to the pension commitment.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GAS 17 ACCOUNTING STANDARD

The total Management Board remuneration for the 2019 fiscal year amounted to EURk 1,474 (p/y: EURk 1,327). This includes performance-based remuneration of EURk 696 (p/y: EURk 571). Added to this amount were non-cash benefits of EURk 76 (p/y: EURk 78), which mainly consisted of company cars, phone bills, insurance premiums and non-cash benefits. The table on page 38 shows the individual remuneration of the Management Board members.

The Company has recognized pension provisions for the future pension entitlement of Bernd Bartmann. The allocation to pension provisions in the reporting year amounted to a total of EURk 94 (p/y: EURk 107). The allocation amount included what is known as service costs, excluding interest costs.

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

The table above shows the individual expenses for pensions.

Former Management Board members and their surviving dependents have received pension payments amounting to EURk 236 (p/y: EURk 233) during the reporting year. The corresponding pension provisions amounted to EURk 4,391 (p/y: EURk 4,107) on December 31, 2019.

A provision amounting to EURk 1,034 (p/y: EURk 884) was recognized in the 2019 fiscal year for current pensions and entitlements for former members of the Management Board.

In the event of termination of employment, no other benefits were promised to any member of the Management Board. In the 2019 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 ACCORDING TO THE GCGC: TABLE 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			
	2018	**2019**	**2019**	**2019**	**2018**	**2019**	**2019**	**2019**	**2018**	**2019**	**2019**	**2019**
			Min.	**Max.**			**Min.**	**Max.**			**Min.**	**Max.**
Fixed remuneration	270	276	--	--	216	234	--	--	192	192	--	--
Fringe benefits	25	25	--	--	34	34	--	--	19	17	--	--
TOTAL	**295**	**301**	**--**	**--**	**250**	**268**	**--**	--	**211**	**209**	**--**	**--**
Discretionary bonus [1]	-60	0	--	100	-48	0	--	80	-48	0	--	80
NEW REMUNERATION SYSTEM [2]												
Variable remuneration (2017-2019)	--	355	--	500	--	266	--	400	--	225	--	400
Variable remuneration (2016-2018)	456	--	--	--	342	--	--	--	--	--	--	--
PREVIOUS REMUNERATION SYSTEM												
One-year variable remuneration	--	--	--	--	--	--	--	--	140	--	--	--
Multi-year variable remuneration (2017-2018)	--	--	--	--	--	--	--	--	158	--	--	--
TOTAL	**396**	**355**	**--**	**--**	**294**	**266**	**--**	**--**	**250**	**225**	**--**	**--**
Pension expenses [3]	50	66	--	--	127	114	--	--	40	40	--	--
TOTAL REMUNERATION	**741**	**722**	**--**	**--**	**671**	**648**	**--**	**--**	**501**	**474**	**--**	**--**

[1] 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 variable remuneration may be reduced in the amounts shown above.

[2] The new remuneration system is applicable for Dr. Volker Simon and Bernd Bartmann as of January 1, 2018; for Johannes Obrecht as of January 1, 2019.

[3] The pension expenses include payments into a pension trust (Dr. Simon: EUR 50k for 2018 / EUR 66k for 2019; Mr. Bartmann: EUR 20k; Mr. Obrecht: EUR 40k).

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. The fixed annual payments to a pension trust in addition to the pension commitments are also included.

The total remuneration granted to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,844 (p/y: EURk 1,913) for the 2019 fiscal year.

The total remuneration paid to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,694 (p/y: EURk 1,388) for the 2019 fiscal year).

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GCGC: TABLE 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	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Fixed remuneration	270	276	216	234	192	192
Fringe benefits	25	25	34	34	19	17
TOTAL	**295**	**301**	**250**	**268**	**211**	209
Discretionary bonus [1]	-60	0	-48	0	-48	0
NEW REMUNERATION SYSTEM [2]						
Variable remuneration (2017-2019)	--	292	--	219	--	185
Variable remuneration (2016-2018)	240	--	180	--	--	--
PREVIOUS REMUNERATION SYSTEM						
One-year variable remuneration	--	--	--	--	65	--
Multi-year variable remuneration (2017-2018)	--	--	--	--	86	--
TOTAL	**180**	**292**	**132**	**219**	**103**	185
Pension expenses [3]	50	66	127	114	40	40
TOTAL REMUNERATION	**525**	**659**	**509**	**601**	**354**	434

[1] 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 variable remuneration may be reduced in the amounts shown above.
[2] The new remuneration system is applicable for Dr. Volker Simon and Bernd Bartmann as of January 1, 2018; for Johannes Obrecht as of January 1, 2019.
[3] The pension expenses include payments into a pension trust (Dr. Simon: EUR 50k for 2018 / EUR 66k for 2019; Mr. Bartmann: EUR 20k; Mr. Obrecht: EUR 40k).

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.

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

EURk

	Fixed remuneration		Attendance fees		Total remuneration	
	2019	2018	2019	2018	2019	2018
Karl M. Schmidhuber, Chairman	69	69	11	5	79	74
Dr. Georg Hengstberger, Deputy Chairman	50	46	11	5	61	51
Carsten Claus	38	25	10	3	47	28
Herbert König	31	31	9	5	40	36
Dr. Jochen Ruetz	31	21	6	3	37	24
Gerhard Schrempp	25	25	5	3	30	28
Ulrich Ruetz (until May 23, 2018)	0	16	0	3	0	19
Dr. Gerhard Wirth (until May 23, 2018)	0	18	0	2	0	20
TOTAL	**244**	**251**	**50**	**28**	**294**	**279**

(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 monitors the international locations, particularly in the areas of legal, finance and controlling. The international locations are generally responsible for acquiring their own orders and for their operational management. The Company's annual financial statements are prepared in accordance with the HGB.

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

As of the reporting date, the number of employees at the Company, including temporary staff, was 1,531 (p/y: 1,656), which was lower than in the previous year. This figure includes 139 (p/y: 152) young trainees, who are currently completing their training. The decline in the number of employees included both temporary staff and permanent employees. In the latter case, fewer people were employed on the reporting date than in the previous year, especially in the areas of production, logistics and tool design.

In 2018, PWO AG invoiced customers for a considerably high volume of tools. This was not repeated to the same extent in the 2019 reporting year and resulted in a year-over-year decline in revenue. In addition, the 2019 fiscal year was negatively impacted by weak sales in the international automotive industry. This is reflected in the lower total output in the reporting year, which better reflects the development of our series business than revenues.

During the 2019 fiscal year, we initiated extensive cost-reduction programs and were able to successfully limit the impact on PWO AG's earnings from the decline in total output. Nevertheless, in absolute terms, the Company is still far from a viable level of earnings.

The reduction in the number of permanent employees mentioned above contributed to our ability to maintain a stable level of staff costs, despite the annual collective wage increases. The lower number of temporary employees was the main reason for the decline in other operating expenses. The improvement in the cost of materials ratio was achieved by significantly limiting purchased services through a greater degree of insourcing. PWO AG's earnings before financial result were able to stabilize at EUR 2.2 million (p/y: EUR 2.6 million).

In addition to financial expenses, the financial result includes interest income from loans to subsidiaries and fell to EUR 4.5 million (p/y: EUR 6.1 million). This decline

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2019	in % of total output	2018	in % of total output
Revenue	265,149	101.4	292,937	102.6
Total output	261,524	100.0	285,380	100.0
Cost of materials	127,731	48.8	149,756	52.5
Staff costs	90,379	34.6	90,464	31.7
Depreciation and amortization	12,386	4.7	11,553	4.0
Other operating expenses	34,012	13.0	36,784	12.9
Financial result	4,512	1.7	6,072	2.1
Earnings before taxes	6,694	2.6	8,657	3.0
Net income	4,746	1.8	5,872	2.1
Unappropriated retained earnings	4,778	1.8	4,251	1.5

was primarily a result of the lower year-on-year investment income of EUR 5.0 million (p/y: EUR 7.0 million).

Earnings before taxes fell to EUR 6.7 million (p/y: EUR 8.7 million). Excluding distributions from subsidiaries, PWO AG was again able to achieve earnings just above the breakeven level in the 2019 fiscal year, illustrating the continuing pressure to improve the Company's cost situation. After taxes, net income amounted to EUR 4.7 million (p/y: EUR 5.9 million).

We reduced our total assets to EUR 304.7 million (p/y: EUR 313.8 million) as of the reporting date. There was an increase in non-current assets resulting from an increase in loans to affiliated companies. This increase was offset by a decrease in receivables from affiliated companies of the same magnitude. Inventories, and especially work-in-progress, were also significantly lower than in the previous year.

Within equity and total liabilities, provisions for pensions and other employee benefits increased due to valuation effects. Other provisions mainly concerned employee vacation entitlements and were lower year-on-year as employees were encouraged to take their holidays. With regard to liabilities, all items were reduced with the exception of "other liabilities." Equity remained essentially unchanged at EUR 120.3 million (p/y: EUR 119.8 million), resulting in an equity ratio as of the reporting date of 39.5 percent (p/y: 38.2 percent).

With regard to future business development, the statements on the Group's opportunities and risks also essentially apply to PWO AG.

In view of the weakness of the European automotive industry, we expect a further decline in revenues and total output in a mid-single-digit percentage range in 2020, which will negatively impact our earnings. Earnings before taxes will also be significantly influenced by the dividend payments of the subsidiaries, which do not occur on a regular basis.

CONSOLIDATED INCOME STATEMENT

EURk

Note no.		2019	2018 after adjustment
7	Revenue [1]	458,624	476,267
8	Change in finished goods and work-in-progress [1]	0	0
9	Other own work capitalized	1,304	1,745
	TOTAL OUTPUT	**459,928**	**478,012**
10	Other operating income	8,232	10,694
	Cost of raw materials and supplies and merchandise purchased	-213,053	-222,812
	Cost of purchased services	-33,916	-42,395
	Cost of materials	**-246,969**	**-265,207**
	Wages and salaries	-105,599	-104,661
	Social security and post-employment costs	-22,865	-22,568
11	**Staff costs**	**-128,464**	**-127,229**
	Amortization of intangible non-current assets and depreciation of property, plant and equipment	-26,047	-24,274
12	Other operating expenses	-46,751	-53,569
	EARNINGS BEFORE INTEREST AND TAXES (EBIT)	**19,929**	**18,427**
	Financial income	213	76
13	Financial expenses	-7,101	-6,649
	Financial result	**-6,888**	**-6,573**
	EARNINGS BEFORE TAXES (EBT)	**13,041**	**11,854**
14	Income taxes [1]	-3,940	-5,214
	NET INCOME FOR THE PERIOD [2]	**9,101**	**6,640**
15	Earnings per share in EUR (diluted = basic) based on net income attributable to the shareholders of PWO AG	2.91	2.12

[1] Adjustments due to change in accounting (see Note 5, section "inventories", page 65).
[2] The net income for the period is entirely attributable to the shareholders of PWO AG.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EURk

Note no.		2019	2018 after adjustment
	NET INCOME FOR THE PERIOD [1]	**9,101**	**6,640**
26	Net gains (p/y: net losses) from cash flow hedges	1,655	-2,212
	Tax effect	-373	560
	Currency translation differences	1,061	-1,140
	Items that may be reclassified to profit and loss in future periods	**2,343**	**-2,792**
23	Actuarial losses (p/y: gains) from defined benefit pension plans	-7,848	3,111
	Tax effect	2,231	-884
	Items that will not be reclassified to profit and loss	**-5,617**	**2,227**
	OTHER COMPREHENSIVE INCOME AFTER TAX	**-3,274**	**-565**
	TOTAL COMPREHENSIVE INCOME AFTER TAX	**5,827**	**6,075**

[1] Adjustments due to change in accounting (see Note 5, section "inventories", page 65).

CONSOLIDATED BALANCE SHEET

ASSETS

EURk

Note no.		31/12/2019	31/12/2018	01/01/2018
	Land and buildings	84,659	82,996	86,137
	Technical equipment and machinery	102,710	84,146	68,147
	Other equipment, operating and office equipment	7,403	7,915	10,232
	Prepayments and assets under construction	7,350	14,439	14,134
16	**Property, plant, and equipment**	**202,122**	**189,496**	**178,650**
	Development services	4,113	4,262	3,426
	Industrial property rights and similar rights	1,175	1,425	1,549
	Goodwill	5,368	5,301	5,337
	Prepayments	35	2	148
17	**Intangible assets**	**10,691**	**10,990**	**10,460**
18	**Contract assets** [1]	**16,569**	**49,641**	**42,736**
	Deferred tax assets	**13,084**	**12,437**	**14,581**
	NON-CURRENT ASSETS	**242,466**	**262,564**	**246,427**
	Raw materials and supplies	27,662	30,505	26,027
	Work-in-progress [1]	0	0	0
	Finished goods and merchandise	0	0	0
	Prepayments	194	306	1,794
19	**Inventories**	**27,856**	**30,811**	**27,821**
	Trade receivables and other receivables	41,401	42,090	48,245
18	Contract assets [1]	67,407	30,857	34,767
	Other assets	9,252	12,047	10,163
	Other financial assets	459	510	3,455
	Income tax receivables	1,384	785	515
20	**Receivables and other assets**	**119,903**	**86,289**	**97,145**
21	**Cash and cash equivalents**	**1,367**	**10,382**	**9,195**
	CURRENT ASSETS	**149,126**	**127,482**	**134,161**
	TOTAL ASSETS	**391,592**	**390,046**	**380,588**

[1] Adjustments due to change in accounting (see Note 5, section "inventories", page 65).

EQUITY AND LIABILITIES

EURk

Note no.		31/12/2019	31/12/2018	01/01/2018
	Subscribed capital	9,375	9,375	9,375
	Capital reserves	37,494	37,494	37,494
	Retained earnings [1]	87,431	82,549	81,065
	Other reserves	-16,242	-12,968	-12,403
22	**TOTAL EQUITY**	**118,058**	**116,450**	**115,531**
	Non-current financial liabilities	89,633	89,851	91,320
	Provisions for pensions	61,126	52,509	54,954
	Other provisions	1,642	1,481	1,908
	Deferred tax liabilities [1]	1,345	844	844
	Non-current liabilities	**153,746**	**144,685**	**149,026**
	Trade payables	34,717	38,208	36,943
	Advance payments received on account of orders [1]	0	0	0
	Current financial liabilities	44,207	51,890	43,763
	Other liabilities	24,967	26,330	23,142
	Other financial liabilities	12,465	9,580	8,420
	Income tax liabilities [1]	641	92	475
	Current portion of provisions for pensions	1,678	1,602	1,541
	Current portion of other provisions [1]	1,113	1,209	1,747
	Current liabilities	**119,788**	**128,911**	**116,031**
23	**TOTAL LIABILITIES**	**273,534**	**273,596**	**265,057**
	TOTAL EQUITY AND LIABILITIES	**391,592**	**390,046**	**380,588**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EURk

	Equity attributable to PWO AG shareholders						
				Other reserves			
	Subscribed capital	Capital reserves	Retained earnings	Defined benefit pension plans	Currency translation differences	Cash flow hedges	Total
JANUARY 1, 2018	**9,375**	**37,494**	**78,457**	**-15,935**	**2,206**	**1,326**	**112,923**
Adjustments [1]			2,608				2,608
JANUARY 1, 2018	**9,375**	**37,494**	**81,065**	**-15,935**	**2,206**	**1,326**	**115,531**
Net income for the period			6,640				6,640
Other comprehensive income				2,227	-1,140	-1,652	-565
TOTAL COMPREHENSIVE INCOME			**6,640**	**2,227**	**-1,140**	**-1,652**	**6,075**
Dividend payment			-5,156				-5,156
DECEMBER 31, 2018	**9,375**	**37,494**	**82,549**	**-13,708**	**1,066**	**-326**	**116,450**
JANUARY 1, 2019	**9,375**	**37,494**	**82,549**	**-13,708**	**1,066**	**-326**	**116,450**
Net income for the period			9,101				9,101
Other comprehensive income				-5,617	1,061	1,282	-3,274
TOTAL COMPREHENSIVE INCOME			**9,101**	**-5,617**	**1,061**	**1,282**	**5,827**
Dividend payment			-4,219				-4,219
DECEMBER 31, 2019	**9,375**	**37,494**	**87,431**	**-19,325**	**2,127**	**956**	**118,058**

[1] Adjustments due to change in accounting (see Note 5, section "inventories", page 65).

CONSOLIDATED STATEMENT OF CASH FLOWS

EURk

Note no.		2019	2018 after adjustment
	Net income for the period [1]	9,101	6,640
	Depreciation/amortization of property, plant and equipment and intangible assets	26,047	24,274
14	Income tax expense [1]	3,940	5,214
13	Interest income and expenses	6,888	6,573
	Change in current assets [1]	-30,659	7,866
	Change in non-current assets [1]	32,425	-6,905
	Change in current liabilities (excluding financial liabilities) [1]	-1,440	-2,872
	Change in non-current liabilities (excluding financial liabilities) [1]	9,280	5,136
14	Income taxes paid	-3,382	-4,773
	Other non-cash expenses/income [1]	-4,473	-2,597
	Loss (p/y: gain) on disposal of property, plant and equipment	221	-105
	CASH FLOW FROM OPERATING ACTIVITIES	**47,948**	**38,451**
	Proceeds from disposal of property, plant, and equipment	203	401
	Proceeds from disposal of intangible assets	0	1,172
	Payments for investments in property, plant, and equipment	-25,858	-25,459
	Payments for investments in intangible assets	-2,165	-1,719
	CASH FLOW FROM INVESTING ACTIVITIES	**-27,820**	**-25,605**
22	Dividends paid	-4,219	-5,156
	Interest paid	-5,176	-4,852
	Interest received	0	76
	Proceeds from borrowings	7,007	24,477
	Repayment of borrowings	-27,598	-19,808
	Repayment of lease liabilities	-4,360	-2,925
	CASH FLOW FROM FINANCING ACTIVITIES	**-34,346**	**-8,188**
	Net change in cash and cash equivalents	-14,218	4,658
	Effect of exchange rates on cash and cash equivalents	-115	-38
	Cash and cash equivalents as of January 1	6,060	1,440
	CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**-8,273**	**6,060**
21	of which cash and cash equivalents	1,367	10,382
23	of which bank borrowings due on demand that are included in the Group's cash management	-9,640	-4,322

[1] Adjustments due to change in accounting (see Note 5, section "inventories", page 65).

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 through December 31, 2019 fiscal year were authorized by the Management Board on the basis of a resolution passed on March 26, 2020 and were subsequently submitted to the Audit Committee and Supervisory Board for examination.

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

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

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

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, 2019. Early application of the standards endorsed but not yet mandatory is not intended. The following is an overview of all standards relevant to the Group.

New and amended standards and interpretations mandatory in the EU

ANNOUN-CEMENT	TITLE	APPLICABLE TIME FRAME	AMENDMENTS	IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IFRS 16	Leases	January 1, 2019	New regulation for the accounting of leases. In accordance with IFRS 16, the lessee must now also account for all leases (exceptions are short-term leases or low-value lease assets). The accounting of leases by the lessor remains virtually unchanged.	Detailed information on the effects of the application of IFRS 16 is provided in the section following the table.
IFRS 9	Amendments to IFRS 9: Prepay-ment Features with Negative Compensation	January 1, 2019	The amendments relate to a limited adjustment in the assessment criteria relevant for the clas-sification of financial assets. Subject to certain conditions, financial assets with prepayment features and negative compensation may be recognized at amortized cost or at fair value in other comprehensive income rather than at fair value through profit or loss.	No material effect.
IAS 28	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	January 1, 2019	Clarifies that an entity shall apply the provisions of IFRS 9, including the impairment provisions, to measure long-term interests in associates or joint ventures that are part of the net invest-ment in the associate or joint venture but are not accounted for in the consolidated financial statements using the equity method.	This amendment is not applica-ble to the Group and therefore has no effect.
IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019	The amendment clarifies the accounting of spe-cial events in defined benefit plans. At the time of the special event, the actuarial assumptions must be updated and the net liability and the ex-pense for the remaining period of the reporting year recalculated.	The clarification leads to a shift in income or expenses between comprehensive income (revaluations) and the income statement in the case of plan events. This amendment has no material effect.
Various	Annual impro-vements to IFRS (2015-2017 cycle)	January 1, 2019	Clarifications to IFRS 3, IFRS 11, IAS 23 and IAS 12. IAS 23 Borrowing costs: Clarifies that outstan-ding borrowings initially raised specifically to finance a qualifying asset are accounted for as part of the overall funds raised when the asset becomes ready for use. IAS 12 Income Taxes: Clarifies that under IAS 12.57A, all income tax consequences of dividend payments must be recognized in the same way as the income on which the dividends are based. That is, they must be recognized in profit or loss, unless the dividend is based on income recognized directly in other comprehensive income or other equity.	The clarifications to IFRS 3 and IFRS 11 are not applicable to the Group and therefore have no effect. The amendments to IAS 23 and IAS 12 do not have any material impact on the Group.
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	The interpretation clarifies the recognition and measurement of uncertain income tax items.	No material effect.

EFFECTS OF THE APPLICATION OF IFRS 16: LEASES

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

The new standard is mandatory for fiscal years beginning on or after January 1, 2019. The PWO Group has used the modified retrospective approach for the transition from IAS 17 to IFRS 16, according to which the comparative figures of the previous year have not been adjusted. The new regulations under IFRS 16 have not been applied for leases whose term ends within twelve months of the date of the first-time application. These leases are accounted for as short-term leases and recognized as expenses from current leases. PWO also uses the simplification provision and refrains from reassessing whether existing agreements constitute a lease under IFRS 16 that were not classified as leases under IAS 17 "Leases" in conjunction with IFRIC 4 "Determining whether an Arrangement Contains a Lease."

Based on the operating lease obligations as of December 31, 2018, the reconciliation to the carrying amount of lease liabilities in the opening balance sheet as of January 1, 2019 is as follows:

EURk

	01/01/2019
Operating lease obligations as of December 31, 2018	10,974
Simplification provisions (including effect from discounting) for short-term and low-value leases	-5,540
TOTAL OPERATING LEASE OBLIGATIONS AS OF JANUARY 1, 2019	**5,434**
Minimum lease payments (net present value) of finance lease liabilities as of December 31, 2018	11,613
TOTAL LEASE LIABILITIES AS OF JANUARY 1, 2019	**17,047**

Lease liabilities are discounted using the incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate equaled 4.04%.

The right-of-use from operating leases was generally measured with the value of the lease liability as of the date of first-time application whereby initial direct costs were not taken into account according to IFRS 16.C10(d). The Group also uses the simplification provision and adjusts the asset's right-of-use for any provisions for onerous leases, which had been recognized immediately before the transition to IFRS 16.

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 IAS 39 IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	January 1, 2020	The amendments are a response to the impact of the reform of the Interbank Offered Rates (IBOR) for financial reporting. They provide temporary simplifications when applying hedge accounting.	No material effect.
IAS 1 IAS 8	Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	Clarifies that information is material if omitting, misstating or obscuring that information could reasonably be expected to influence the decision of the primary users.	No material effect.
Various	Amendment of references to the IFRS conceptual framework	January 1, 2020	This amendment updates the cross-references in the respective standards and interpretations to the newly revised conceptual framework.	No material effect.

Standards and interpretations published by the IASB 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
IFRS 17	Insurance Contracts	January 1, 2021	IFRS 17 governs the accounting of insurance contracts and replaces IFRS 4.	No material effect.
IFRS 3	Amendments to IFRS 3: Business Combinations	January 1, 2020	Clarifies when to account for a transaction as a business combination or as an acquisition of assets. For this purpose, the minimum requirements for a business operation were specified and supplemented using explanatory examples.	No material effect.
IAS 1	Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	January 1, 2022	Clarifies the requirements for the classification of liabilities as current or non-current.	No material effect.

3 PRINCIPLES OF CONSOLIDATION

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

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

4 SCOPE OF CONSOLIDATION

The consolidated financial statements include five 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%	12,695	-78
PWO Czech Republic a.s., Valašské Meziříčí, Czechia	100%	30,361	4,741
PWO Holding Co., Ltd., Hong Kong, China	100%	-1,093	-43
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100%	9,725	894
PWO de México S.A. de C.V., Puebla, Mexico [2]	100%	635	-231

[1] indirect holding through PWO Holding Co., Ltd., for a total of 100%.
[2] indirect holding through PWO Canada Inc. for a total of 0.15%.

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

5 SUMMARY OF KEY ACCOUNTING POLICIES

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

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

Foreign currency transactions are initially translated at the spot rate of the foreign currency and functional currency 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 recognized in the net income or net loss for the period. Non-monetary items measured at historical purchase or production cost in foreign currency are translated at the foreign exchange rate prevailing on the transaction date. Non-monetary items measured at fair value in a foreign currency 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	
		31/12/2019	31/12/2018	2019	2018
China	CNY	7.82	7.88	7.73	7.81
Canada	CAD	1.46	1.56	1.49	1.53
Mexico	USD	1.12	1.15	1.12	1.18

PWO de México's functional currency is the US dollar because the principal business relationships are settled in US dollars.

REVENUE AND EXPENSE RECOGNITION

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

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

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

Revenue from series deliveries is realized over a period of time. Revenue from customer-specific tool manufacture and order-related development services are also realized over a period of time according to their stage of completion. Invoices are issued in accordance with the terms of payment in the ordinary course of business.

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

Interest income from financial instruments carried at amortized cost is recognized on the basis of the effective interest rate. This is the rate that discounts future expected cash payments or receipts precisely to the net carrying amount of the financial asset or financial liability throughout the expected term of the financial instrument or, when appropriate, for a shorter period. Interest income is reported under 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 authorities or paid to the taxation authorities. The calculation of the amount is based on the tax rates and tax laws in force on the reporting date in the countries where the Group operates and generates taxable profit.

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

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

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

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

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

LEASES

At the inception of an agreement, the Group assesses whether the agreement constitutes or contains a lease. This is the case if the contract gives the Group the right to control the use of an identified asset for a specified period of time in return for the payment of a fee.

All leases are recognized and measured using a single model except for short-term leases and low-value leases (≤ EURk 5,000). Liabilities for lease payments and rights-of-use for the right to use the underlying asset are recognized.

Rights-of-use are determined at the date they are available (i.e. the date on which the underlying lease asset is ready for use). Rights-of-use are measured at cost less any accumulated amortization and any accumulated impairment losses and are adjusted for any revaluation of the lease liabilities. The costs of rights-of-use include the recognized lease liabilities, the initial direct costs incurred, and the lease payments made at or before the date on which the lease asset is ready for use, less any incentives received. Rights-of-use are amortized on a straight-line basis over the shorter of the lease term and the expected useful life of the lease as follows: buildings (25 to 50 years), technical equipment and machinery (2 to 10 years) and operating and office equipment (3 to 14 years). In cases where ownership of the lease asset is transferred to the Group at the end of the lease term, or where the cost includes the exercise of a purchase option, amortization is determined based on the expected useful life of the lease asset. Rights-of-use are included in the balance sheet line items 'Property, plant and equipment' and 'Intangible assets'.

On the date the lease asset is available, lease liabilities are recognized at the present value of the lease payments to be made over the term of the lease. Lease payments comprise fixed payments less any incentives to be received that are index-linked or interest-rate based as well as the amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the Group will actually exercise it and penalties for termination of the lease if the lease term reflects the fact that the termination option may be exercised.

In calculating the present value of the lease payments, each subsidiary uses its incremental borrowing rate at the inception date of the lease if the interest rate underlying the lease cannot be readily determined. After the date the lease asset is available, the amount of lease liabilities is increased or decreased to reflect the increase in interest expense or lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there are changes in the lease, the lease term, in lease payments (for example, changes in future lease payments resulting from a change in the index or interest rate used to determine those payments) or a change in the assessment of a purchase option for the underlying asset.

Lease liabilities are included in interest-bearing loans in the balance sheet items "current and non-current financial liabilities."

For short-term leases of machinery and equipment, the exemption for short-term leases (i.e. leases with a maximum term of twelve months from the date of provision) is applied. For low-value leases of operating and office equipment, the exemption for low-value leases is applied. Lease payments for short-term leases and low-value leases are expensed on a straight-line basis over the term of the lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

Until December 31, 2018, leases were accounted for in accordance with the provisions of IAS 17. In accordance with the superseded standard, leases in which the PWO Group as lessee bore substantially all the risks and rewards incidental to ownership of the lease asset were accounted for as finance leases. The lease asset was recognized at the lower of fair value and the present value of the minimum lease payments. A liability was recognized in the same amount. The capitalized lease asset was depreciated over the shorter of the economic life and the term of the lease. In subsequent periods, the liability was repaid and measured using the effective interest method. All other leases in which the PWO Group was the lessee were classified as operating leases. In the case of operating leases, the lease installments were recognized directly as expenses in the income statement.

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

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

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

INTANGIBLE ASSETS
Purchased intangible assets are measured at acquisition cost less cumulative amortization and impairment losses. Intangible assets include goodwill, patents, 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 except for development services, which are amortized based on their volume. 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. After initial capitalization, the asset is carried at cost less accumulated amortization and impairment losses. Capitalized development costs include all directly attributed individual costs, as well as proportional overhead, and are amortized over the planned product lifespan (5 to 7 years). The amortization of capitalized development costs forms part of the production costs.

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

Long-term corporate planning approved by the Management Board and acknowledged by the Supervisory Board extends until the end of the 2024 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	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Phase 1: Weighted average cost of capital (WACC) before taxes	8.99%	8.34%	10.90%	9.33%
Phase 2: Growth rate (in perpetuity)	1.61%	1.61%	1.44%	1.44%

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

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

Assumptions that have been made are subject to a certain level of sensitivity. While based on reasonable judgment, a change to one of the assumptions made in determining the value in use for PWO Canada and PWO Czech Republic is possible; we believe it is not likely that the carrying amount of goodwill of these units could significantly exceed its recoverable amount. The actual recoverable amounts exceed the carrying amount of PWO Canada by EURk 11,266 (p/y: EURk 17,615) and PWO Czech Republic by EURk 5,127 (p/y: EURk 11,972), respectively.

Under the assumption that the capitalization rate (after taxes) remains unchanged, impairment would be required if PWO Czech Republic's free cash flows were to be sustainably reduced by more than 10.68%. 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 9.50%.

Under the assumption that the capitalization rate (after taxes) remains unchanged, impairment would be required if PWO Canada's free cash flows were to be sustainably reduced by more than 36.19%. Conversely, under the assumption that free cash flows remain unchanged, an impairment would be required if the capitalization rate were to increase to more than 9.06%.

CONTRACT ASSETS AND RECEIVABLES

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

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

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

Since January 1, 2018, impairments for credit risk have been recognized in accordance with IFRS 9.

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

MEASUREMENT OF FAIR VALUE

Derivative financial instruments are valued at their fair value as of each reporting date. The fair values of financial instruments carried at amortized cost are described in Note 26.

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

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

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

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

– Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

– Level 2: Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value, is either directly or indirectly observable in the market.

– Level 3: Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value is not observable on the market.

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

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

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

PWO has changed the accounting of work-in-progress as of December 31, 2019. In the transition to IFRS 15, as a result of low profit margins in customer-specific tool production and customer-specific development services, the recognition at a specific point in time in line with the cost-to-cost approach was retained with separate disclosure of changes in work-in-progress in the income statement and the balance sheet. However, the industry comparison of consolidated financial statements for the year in which IFRS 15 was first applied showed a predominant presentation of such performance obligations as contractual assets due to the revenue recognition over a period of time. Therefore, the accounting policy has been adjusted retrospectively and the comparative amounts for the previous period have been presented as if the financial statements had always been prepared in this manner in order to provide users of the financial statements with more relevant information for a better industry comparison. In the balance sheet, this requires a reclassification of the relevant customer-specific products and services from inventories to contract assets, net of the contractual obligations previously reported as advance payments received on account of orders. In the statement of income, instead of a change in work-in-progress, revenues (including any profit margins) are now recognized. The effects of the change in accounting method were recognized directly in retained earnings in the amount of EURk 2,608 net of deferred taxes as of January 1, 2018. The effects on the total comprehensive income for 2018 amounted to EURk -26 and earnings per share decreased by EUR 0.01 per share to EUR 2.12 per share.

The effect on the balance sheet is as follows:

	January 1, 2018 before adjustment	Adjustment[1]	January 1, 2018 after adjustment	December 31, 2018 before adjustment	Adjustment[1]	December 31, 2018 after adjustment
Non-current contract assets	8,523	34,213	42,736	22,925	26,716	49,641
Current contract assets	18,457	16,310	34,767	16,663	14,194	30,857
Work-in-progress	63,467	-63,467	0	56,471	-56,471	0
Deferred tax assets	14,581	0	14,581	12,437	0	12,437
ASSETS		**-12,944**			**-15,561**	
Retained earnings	78,457	2,608	81,065	79,967	2,582	82,549
Advance payments received on account of orders	16,396	-16,396	0	18,998	-18,998	0
Deferred tax liabilities	0	844	844	0	844	844
Income tax liabilities	475	0	475	81	11	92
EQUITY AND LIABILITIES		**-12,944**			**-15,561**	

[1] Adjustments due to change in accounting (see Note 5, section „inventories", page 65).

The effect on the statement of income is as follows:

	2018 before adjustment	Adjustment[1]	2018 after adjustment
Revenue	485,012	-8,745	476,267
Change in working capital	-8,709	8,709	0
Total output	478,048	-36	478,012
Income tax	-5,225	11	-5,214
Net income for the period	6,666	-26	6,640
TOTAL COMPREHENSIVE INCOME	6,101	-26	6,075

[1] Adjustments due to change in accounting (see Note 5, section „inventories", page 65).

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.

Payments under defined contribution plans are recognized as staff costs upon maturity.

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 a partial reimbursement for a provision carried as a liability, this 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 assets and liabilities reported at the end of the reporting period. The uncertainty relating to these assumptions and estimates could lead to results that may require material adjustments to the carrying amounts of the relevant assets and liabilities in the future.

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

REVENUES FROM CONTRACTS WITH CUSTOMERS

- Determining the date of revenue recognition for series deliveries.

  PWO has concluded that revenue from series deliveries should be recognized over a period of time because assets are produced that have no alternative use, and PWO has a legal right to the payment for the performance already provided. Revenues are recognized according to their stage of completion and not only after delivery of the series parts.

- Methods to determine the stage of completion for series deliveries.

  PWO has concluded that the output-based method is best suited for determining the stage of completion for series deliveries because this method directly reflects the relationship between the value of the previously transferred goods and the value of the remaining contractually promised goods. Revenue from customer-specific tool manufacture and customer-specific development services are realized over a period of time. The stage of completion is determined based on input and according to the proportion of incurred contract costs as of the reporting date versus the overall expected contract costs (cost-to-cost method).

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, 2019 was EURk 4,113 (p/y: EURk 4,262). These development costs mainly consisted of investments in the development of instrument panel carriers and steering and air suspension components. Series orders are on hand for these projects.

AGGREGATION OF BUSINESS SEGMENTS

With five production locations worldwide as the Group's key units, the Group's structure ensures fast decision-making and thus the effective management of the Group. The individual locations also have flat hierarchies and are spread across Europe, with the German location and the Company's headquarters in Oberkirch and the Czech location in Valašské Meziříčí, North America with the Canadian location in Kitchener and the location in Puebla, Mexico and Asia with the location in Suzhou, China. These locations result in the breakdown of the operating business and the business segments into Germany, Rest of Europe, North America and Asia. The locations of Canada and Mexico were combined into the reporting segment "North America." Further details are described in Note 32.

DETERMINING THE TERM OF LEASES WITH EXTENSION AND TERMINATION OPTIONS

The Group determines the term of the lease on the basis of the non-cancellable basic term of the lease and including the periods resulting from an option to extend the lease if it is reasonably certain that it will exercise this option or the periods resulting from an option to terminate the lease if it is reasonably certain that it will not exercise this option.

Several lease agreements concluded contain extension and termination options. Discretionary decisions are made when assessing whether there is sufficient certainty that the option to extend or terminate the lease will be exercised or not, i.e., all relevant factors that represent an economic incentive to exercise the extension or termination option are taken into account. After the date the lease asset is available, the Group reassesses the lease term if a significant event or change in circumstances occurs that is within its control and affects whether or not the renewal or termination option is exercised.

The Group has included the renewal period in the lease terms of leases of technical equipment and machinery with shorter non-cancellable terms (i.e. 3 to 5 years). The option to extend these leases is usually exercised as it would have a significant negative impact on production if a replacement asset would not be available in time. In addition, the extension options for leases of motor vehicles are not included in the lease term, as the Group generally leases the vehicles for a maximum period of 5 years and, consequently, does not exercise extension options. Furthermore, periods arising from a termination option are only included in the lease term if it is sufficiently certain that the option will not be exercised.

ESTIMATES AND ASSUMPTIONS

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

IMPAIRMENT OF TRADE RECEIVABLES

Impairment of doubtful receivables involves a significant degree of judgment and an assessment of the individual receivables based on the creditworthiness of the relevant customers, current economic trends and an analysis of historical receivables. If the Company derives the impairment from historical default rates, a decline in the volume of receivables reduces the amount of impairment and vice versa. Impairment of for trade receivables and other receivables in the reporting year amounted to EURk 49 (p/y: EURk 63). The default risk is therefore low overall.

IMPAIRMENT OF GOODWILL

The Group performs impairments tests for goodwill at least once a year. This requires making estimates with regard to the value in use of cash-generating units to which goodwill is allocated. Cash-generating units are defined as the production locations in accordance with the segments reporting. For the purpose of estimating value in use, the Group is required to estimate the projected future cash flows associated with the relevant cash-generating unit, as well as to select an appropriate discount rate in order to determine the present value of the aforementioned cash flows. The carrying amount of goodwill on December 31, 2019 was EURk 5,368 (p/y: EURk 5,301). 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, 2019, deferred tax assets of EURk 0 (p/y: EURk 631) relating to unutilized tax loss carryforwards and EURk 6,029 (p/y: EURk 6,520) relating to tax credits were recognized. The tax credits concern PWO Czech Republic.

Had the Group been able to capitalize all unrecognized deferred tax assets, the net income for the period and equity would be EURk 5,777 (p/y: EURk 5,692) higher.

It is assumed that the deferred tax assets will retain their value due to the planned business development for the subsequent years. Determining the amount of deferred tax assets requires a significant amount of estimation with regard to the timing and the amount of future taxable profit and future tax planning strategies. On December 31, 2019, deferred tax assets recognized for tax loss carryforwards translated into euros at the closing date amounted to EURk 0 (p/y: EURk 2,105), and the unrecognized tax loss carryforwards, which may be utilized for a limited period, amounted to EURk 20,320 (p/y: EURk 19,997). Further details are described in Note 14.

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

EURk

	31/12/2019	31/12/2018
Within a period of 1 year	4,250	4,218
Within a period of 2 years	322	320
Within a period of 3 years	1,614	1,602
Within a period of 4 years	183	0
Within a period of 5 years	1,967	0
Subsequent years	11,984	13,857
TOTAL	**20,320**	**19,997**

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 23 in the section titled "Pension Provisions."

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

FINANCIAL DERIVATIVES

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

NOTES TO THE INCOME STATEMENT

7 REVENUE

The breakdown of Group revenue from the sale of goods by location and product area is shown in the segment reporting (see Note 32). The previous year's figures were adjusted due to the change in accounting for work-in-progress, and the resulting effects on the income statement explained in Note 5 (section "inventories", page 65).

8 WORK-IN-PROGRESS

Due to the change in accounting (see Note 5, section "inventories", page 65), rather than a change in work-in-progress, revenue was recognized in both the reporting and the previous year.

9 OTHER OWN WORK CAPITALIZED

Own work capitalized consists of EURk 1,698 (p/y: EURk 1,719) 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 as well as steering and air suspension components. Series orders are on hand for these projects.

10 OTHER OPERATING INCOME

Other operating income is divided as follows:

EURk

	2019	2018
Currency gains	4,831	7,398
Income from derecognition of accruals	1,184	444
Other income	2,217	2,852
TOTAL	**8,232**	**10,694**

No non-periodic income was recognized in the reporting year (p/y: EURk 696).

11 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk

	2019	2018
Wages and salaries	105,599	104,661
Social security and post-employment costs	22,865	22,568
of which post-employment costs	2,327	2,195
TOTAL	**128,464**	**127,229**

FISCAL YEAR'S AVERAGE NUMBER OF EMPLOYEES BY DIVISION

	2019	2018
Development and sales	222	203
Production and materials	1,909	1,975
Tool center	441	473
Administration	141	139
PERMANENT WORKFORCE	**2,713**	**2,790**
Temporary employees	339	408
Trainees	147	142
Inactive employees in phased retirement	101	104
TOTAL WORKFORCE	**3,300**	**3,444**

12 OTHER OPERATING EXPENSES

Other operating expenses are divided as follows:

EURk

	2019	2018
Costs for temporary employees	13,263	15,754
Currency losses	7,107	8,546
Maintenance costs	6,030	6,597
Outgoing freight	2,996	4,178
Legal, audit and consultancy costs	1,847	2,265
Rental costs	1,739	1,706
Travel costs	1,352	2,135
Insurance premiums	1,276	1,310
Expenses for operating leases [1]	907	1,955
Other expenses	10,234	9,123
TOTAL	**46,751**	**53,569**

[1] Expenses in 2019 only relate to short-term and low-value leases; in 2018 they relate to the total expenses from operating leases.

Non-periodic expenses amounted to EURk 395 (p/y: EURk 129).

13 FINANCIAL EXPENSES

EURk

	2019	2018
Interest expenses paid to financial institutions	4,969	5,224
Interest expenses for interest-rate swaps	512	84
Interest expenses for interest accrued on pension provisions	1,178	1,007
Interest expenses from leases	442	334
TOTAL	**7,101**	**6,649**
of which interest expenses for financial instruments classified as "amortized cost"	3,591	4,052

14 INCOME TAXES

According to the statement of comprehensive income, other comprehensive income includes taxes of EURk 1,858 (p/y: EURk -324).

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

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
Actual taxes	3,344	4,127	4,138
Deferred taxes	596	1,087	1,087
TOTAL	**3,940**	**5,214**	**5,225**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

Actual taxes in the reporting year included non-periodic expenses of EURk -7. The previous year included non-periodic benefits of EURk 975 resulting from the tax audit completed in 2018.

Deferred taxes resulted entirely from temporary differences.

Deferred taxes were not recognized for temporary differences in retained profits from subsidiaries totaling EURk 25,300 (p/y: EURk 24,586) because these retained 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.

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
EARNINGS BEFORE INCOME TAXES	**13,041**	**11,854**	**11,890**
Theoretical tax expense at 28.43% (p/y: 28.43%)	3,708	3,369	3,380
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-554	-717	-717
Tax increase due to non-deductible expenses	1,150	2,153	2,153
Tax increase (+) / reduction (-) previous years	-142	626	626
Taxes on foreign dividends	71	100	100
Tax effects from tax credits	-115	344	344
Effects from non-capitalized tax loss carryforwards	-213	-661	-661
Other effects	35	0	0
INCOME TAXES	**3,940**	**5,214**	**5,225**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

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

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

EURk

	Deferred tax assets		Deferred tax liabilities		
	2019	2018	2019	2018 after adjustment [1]	2018 before adjustment
Intangible assets and property, plant and equipment	0	0	4,404	4,845	4,845
Other assets	11,267	7,513	13,754	8,266	7,422
Tax loss carryforwards and tax credits	6,029	7,151	0	0	0
Provisions	10,662	8,857	0	0	0
Liabilities	2,227	1,505	288	322	322
SUBTOTAL	**30,185**	**25,026**	**18,446**	**13,433**	**12,589**
Netted amount	-17,101	-12,589	-17,101	-12,589	-12,589
TOTAL RECORDED ON THE GROUP BALANCE SHEET	**13,084**	**12,437**	**1,345**	**844**	**0**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

For further details, please refer to Note 6.

15 EARNINGS PER SHARE

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

	2019	2018 after adjustment [1]	2018 before adjustment
Net income for the period in EURk	9,101	6,640	6,666
Average number of no-par value shares	3,125,000	3,125,000	3,125,000
Earnings per share in EUR	2.91	2.12	2.13

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

NOTES TO THE BALANCE SHEET

16 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, 2018	124,421	261,167	39,667	14,134	439,389
Additions	824	17,908	1,410	12,964	33,106
Disposals	-593	-6,024	-4,146	0	-10,763
Reclassifications	254	12,757	22	-13,033	0
Currency effects	-148	220	159	374	605
AS OF DEC. 31, 2018	**124,758**	**286,028**	**37,112**	**14,439**	**462,337**
Additions [1]	4,699	23,834	3,090	5,543	37,166
Disposals	-466	-8,079	-2,494	673	-10,366
Reclassifications	1,244	12,272	101	-13,617	0
Currency effects	916	975	280	312	2,483
AS AT DEC. 31, 2019	**131,151**	**315,030**	**38,089**	**7,350**	**491,620**
DEPRECIATION					
As of Jan. 1, 2018	38,284	193,020	29,435	0	260,739
Additions	4,118	14,761	3,752	0	22,631
Disposals	-593	-5,767	-4,127	0	-10,487
Currency effects	-47	-132	137	0	-42
AS OF DEC. 31, 2018	**41,762**	**201,882**	**29,197**	**0**	**272,841**
Additions	4,485	16,500	3,703	0	24,688
Disposals	-89	-7,658	-2,453	0	-10,200
Currency effects	334	1,596	239	0	2,169
AS OF DEC. 31, 2019	**46,492**	**212,320**	**30,686**	**0**	**289,498**
CARRYING AMOUNTS					
As of Dec. 31, 2018	82,996	84,146	7,915	14,439	189,496
As of Dec. 31, 2019	84,659	102,710	7,403	7,350	202,122

[1] Includes the transition effect of EURk 5,434 from the application of IFRS 16.

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.

17 INTANGIBLE ASSETS

EURk

	Development services	Industrial property rights and similar rights	Goodwill	Other intangible assets	Prepayments	Total
ACQUISITION AND PRODUCTION COSTS						
As of Jan. 1, 2018	9,860	16,858	6,667	1,032	148	34,565
Additions	1,719	509	0	0	0	2,228
Disposals	-122	-60	0	0	0	-182
Reclassifications	0	147	0	0	-147	0
IFRS 15 adjustment	0	-1,283	0	0	0	-1,283
Currency effects	-5	64	2	49	0	110
AS OF DEC. 31, 2018	**11,452**	**16,235**	**6,669**	**1,081**	**1**	**35,438**
Additions	1,698	433	0	0	34	2,165
Disposals	-1,256	-1,067	0	0	0	-2,323
Currency effects	0	-41	83	21	0	63
AS OF DEC. 31, 2019	**11,894**	**15,560**	**6,752**	**1,102**	**35**	**35,343**
AMORTIZATION						
As of Jan. 1, 2018	6,434	14,137	1,330	1,032	0	22,933
Additions	882	759	0	0	0	1,641
Disposals	-122	43	0	0	0	-79
IFRS 15 adjustment	0	-111	0	0	0	-111
Currency effects	-4	-18	38	49	0	65
AS OF DEC. 31, 2018	**7,190**	**14,810**	**1,368**	**1,081**	**0**	**24,449**
Additions	667	691	0	0	0	1,358
Disposals	-76	-1,067	0	0	0	-1,143
Currency effects	0	-49	16	21	0	-12
AS OF DEC. 31, 2019	**7,781**	**14,385**	**1,384**	**1,102**	**0**	**24,652**
CARRYING AMOUNTS						
As of Dec. 31, 2018	4,262	1,425	5,301	0	1	10,989
As of Dec. 31, 2019	4,113	1,175	5,368	0	35	10,691

The useful life of software is 3 to 5 years.

Development costs of EURk 4,113 (p/y: EURk 4,262) that required capitalization under IAS 38 are amortized using the units of production method as soon as development is complete, and production of series parts commences.

As of December 31, 2019, the goodwill of PWO Canada in the "North America" segment amounted to EURk 1,037 (p/y: EURk 970), and the goodwill of PWO Czech Republic in the "Rest of Europe" segment amounted to EURk 4,331 (p/y: EURk 4,331). The increase at PWO Canada resulted from a change in foreign exchange rates.

18 CONTRACT BALANCES

Contract assets result from revenue recognition from series deliveries over a period of time in which series parts are recognized as revenue before their delivery to customers. Contract assets also result from the revenue recognition of customer-specific tools sales and customer-specific development services over a period of time.

Credit-related impairment losses were not required for contract assets in the reporting year or the previous year.

Contract liabilities represent prepayments received for customized tools for which the power of control had not yet been transferred to the customer. Prepayments received and services rendered are netted on the basis of the individual contract as a result of the change in accounting for customer-specific tools and customer-specific development services (see Note 5, section "inventories", page 65). The prior-year figures were adjusted accordingly.

Capitalize contract assets under IFRS 15 were as follows as of December 31, 2019:

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
As of January 1	80,498	77,503	26,980
Change in non-current contract assets	-33,072	6,061	-1,794
Change in current contract assets	36,550	-3,066	14,402
AS OF DECEMBER 31	**83,976**	**80,498**	**39,588**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

The transaction prices allocated to the unfulfilled or partially fulfilled performance obligations result predominantly from customer-specific tool contracts with an expected original term of more than one year. For this amount of EURk 52,000 as of December 31, 2019, the majority of revenues are expected to be realized within the next year. PWO has made use of the simplification provision under IFRS 15 and has exempted contracts with an expected original term of no more than one year from the disclosure requirement.

19 INVENTORIES

Raw materials and supplies include OEM-related tool spare parts in the amount of EURk 10,525 (p/y: EURk 10,546). In the 2019 fiscal year, impairment in the amount of EURk 2,348 (p/y: write-up of EURk 1,166) and a reversal of impairment due to the continued use of already impaired tool spare parts in the amount of EURk 250 (p/y: EURk 250) were recognized.

An internal analysis carried out in the 2018 fiscal year and based on increasing empirical values showed that individual impairment of tool spare parts after effective scrapping more accurately reflected the amount that is expected to be recoverable for the tool spare parts than the impairment made so far on the basis of the estimated marketability. The Group continued to apply the individual impairment method in the reporting year.

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

20 RECEIVABLES AND OTHER ASSETS

As of December 31, 2019, impairment on trade receivables and other receivables amounted to EURk 49 (p/y: EURk 63). The following table shows the development of the valuation allowance account:

EURk

	2019	2018
Impairment losses as of Jan. 1	63	292
Additions from first-time application of IFRS 9	0	20
Additions	9	21
Utilization	-17	0
Reversals	-6	-269
IMPAIRMENT LOSSES AS OF DEC. 31	**49**	**63**

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

Impairment on doubtful accounts is regularly recorded on separate impairment accounts and lead to an impairment loss through profit or loss, which is recognized in other operating expenses. The allocation to and resulting increase in the impairment losses during the year concerned only a few isolated cases. Definite defaults result in derecognition of the relevant receivables. Due to the application of IFRS 9, a portfolio-based impairment on the basis of the expected loss rate was recognized in the reporting year that was derived from a custom-related credit rating model. The assumed default probability amounted to roughly 0.4% (p/y: 0.4%).

21 CASH AND CASH EQUIVALENTS

Deposits at banks bear interest at variable interest rates for short-term call deposits. On December 31, 2019, the Group had undrawn credit lines for which all necessary conditions for use are already met.

22 EQUITY

SUBSCRIBED CAPITAL
As of December 31, 2019, fully paid-in subscribed capital amounted to EURk 9,375 (p/y: EURk 9,375) divided into 3,125,000 no-par value shares (p/y: 3,125,000 shares).

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

CAPITAL RESERVES
Capital reserves include the premium from the issuance of shares.

RETAINED EARNINGS AND OTHER RESERVES
Current and previous years' earnings of Progress-Werk Oberkirch 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 2,127 (p/y: EURk 1,066) 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, 2019, Progress-Werk Oberkirch AG reported unappropriated retained earnings of EURk 4,778. 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 Progress-Werk Oberkirch AG's unappropriated retained earnings be used as follows:

	EURk
No payment of a dividend	0
Carried forward to new account	4,778

In fiscal year 2019, a total dividend of EURk 4,219 was paid for the 2018 fiscal year (EUR 1.35 per dividend-bearing share). The dividend payment in the 2018 fiscal year for the 2017 fiscal year amounted to EURk 5,156 (EUR 1.65 per dividend-bearing share).

23 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 166 (p/y: of EURk 157) and PWO Czech Republic in the amount of EURk 280 (p/y: EURk 255).

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 10,149 (p/y: EURk 9,989), which were also reported under staff costs. The statutory pension system also constitutes a defined contribution plan.

DEFINED BENEFIT PLANS

The majority of obligations for defined benefit plans concern Progress-Werk Oberkirch AG. Total provisions of EURk 133 (p/y: EURk 95) 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

	2019	2018
Current service cost	1,290	1,288
Past service cost	-6	0
Interest expenses for defined benefit obligations	1,178	1,007
TOTAL	**2,462**	**2,295**

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

EURk

	2019	2018
Adjustments due to changes in demographic assumptions	0	438
Adjustments due to changes in financial assumptions	7,885	-4,275
Experiential adjustments	-37	727
TOTAL	**7,848**	**-3,110**

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

EURk

	2019	2018
Present value of defined benefit obligations as of Jan. 1	54,112	56,495
Service cost	1,290	1,288
Past service cost	-6	0
Interest expenses	1,178	1,007
Pension payments rendered	-1,621	-1,570
Adjustments due to changes in demographic assumptions	0	438
Adjustments due to changes in financial assumptions	7,885	-4,275
Experiential adjustments	-37	727
Foreign currency differences	3	2
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AS OF DEC. 31	**62,804**	**54,112**

Of the recognized pension provisions, EURk 61,126 (p/y: EURk 52,509) are non-current and EURk 1,678 (p/y: EURk 1,602) are current.

The adjustments from the change in demographic assumptions in the 2018 fiscal year resulted from the application of the new RT Heubeck 2018 G mortality tables from Prof. Dr. Klaus Heubeck.

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

	2019	2018
Interest rate	1.50%	2.20%
Employee turnover rate	2.50%	2.50%
Future salary trend › 40 years	2.50%	2.50%
Future salary trend ‹ 40 years (career trend)	3.50%	3.50%
Future pension increases	1.75%	1.75%
Mortality	RT Heubeck 2018 G	RT Heubeck 2018 G

The defined benefit obligations have an average remaining term of 21 years (p/y: 19 years) in the reporting year.

The following table shows a sensitivity analysis with the key assumptions as of December 31, 2019:

EURk

				Scenario
Assumption		Increase of		Decline of
Discount rate	1.00%	-10,771	1.00%	14,704
Staff turnover rate	0.50%	-175	0.50%	-82
Future salary increases (income trend)	0.25%	-67	0.25%	-197
Future salary increases (career trend)	0.50%	-1	0.50%	-261
Future pension increases	0.25%	1,966	0.25%	-2,131
Average life expectancy	1 Jahr	2,775	—	—

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 the 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

	2019	2018
Within the next 12 months	1,678	1,619
Within 2 to 5 years	7,327	7,052
Within 5 to 10 years	11,186	10,803
TOTAL EXPECTED PAYMENTS	**20,191**	**19,474**

OTHER PROVISIONS

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

Other provisions have developed as follows:

EURk

	Personnel-related provisions		Provisions for contingent losses	
	2019	2018	2019	2018
As of Jan. 1	2,528	2,758	162	180
Utilization	-1,133	-1,043	0	0
Reversal	-11	0	0	-18
Additions	1,168	813	41	0
AS OF DEC. 31	**2,552**	**2,528**	**203**	**162**
of which non-current	1,533	1,426	109	55
of which current	1,019	1,102	93	107

FINANCIAL LIABILITIES

EURk

	Current		Non-current				Total financial liabilities	
	‹ 1 year		1 to 5 years		› 5 years			
	2019	2018	2019	2018	2019	2018	2019	2018
Bank borrowings	40,367	34,540	23,350	27,450	1,485	3,276	**65,202**	**65,266**
Liabilities from promissory notes	0	14,968	49,899	24,947	0	24,948	**49,899**	**64,863**
Liabilities to leasing companies	3,840	2,382	10,622	7,359	4,277	1,871	**18,739**	**11,613**
TOTAL	**44,207**	**51,890**	**83,871**	**59,756**	**5,762**	**30,095**	**133,840**	**141,741**

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

EURk

	31/12/2018	IFRS 16 transition effect	01/01/2019	Cash-effective changes	Change due to maturity	Non-cash changes		31/12/2019
						New lease contracts	Currency effects	
Non-current loans	80,621	0	80,621	195	-9,433	0	-155	71,228
Current loans	49,508	0	49,508	-15,467	9,433	0	399	43,873
Lease liabilities	11,613	5,434	17,047	-4,360	0	5,874	178	18,739
TOTAL	**141,741**	**5,434**	**147,175**	**-19,632**	**0**	**5,874**	**422**	**133,840**

EURk

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

Current bank liabilities of EURk 9,640 (previous year: EURk 4,322) included in current loans are allocated to cash funds.

The financial management of the PWO Group is ensured through compliance with internal financing regulations. The Group's financing is secured in the long term by sufficient unutilized credit lines and is primarily based on a syndicated loan and promissory notes with market-based interest rates and customary financial covenants. The financial covenants were met as of December 31, 2019. The Management Board assumes that the agreed financial covenants will also be complied with in the 2020 fiscal year.

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

Bank borrowings repayable on demand amounted to EURk 9,640 (p/y: EURk 4,322). Of the bank borrowings, EURk 4,067 (p/y: EURk 5,984) are secured by mortgages and EURk 18,739 (p/y: EURk 11,613) by assignment as security. In addition, the usual retention of proprietary rights exists for the supply of raw materials, supplies and merchandise.

LEASES

Leasing agreements have been concluded for various land and buildings, technical equipment and machinery, other equipment, operating and office equipment. Several leasing agreements contain extension and termination options.

The Group has also entered into leases for machinery and equipment with a term of twelve months or less and for office equipment of minor value. The Group applies to these leases the practical remedies applicable to short-term leases and low-value leases.

The following table shows the carrying amounts of the rights-of-use recognized for the reporting year:

EURk

	Intangible assets	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
AS OF JANUARY 1	**0**	**5,700**	**9,818**	**1,529**	**17,047**
Additions	0	990	4,480	404	5,874
Amortization	0	-1,029	-2,257	-896	-4,182
AS OF DECEMBER 31	**0**	**5,661**	**12,041**	**1,037**	**18,739**

The following amounts were recognized in profit or loss in the reporting year:

EURk

	2019
Amortization of rights-of-use	-4,182
Interest expenses from lease liabilities	442
Expenses for short-term leases	1,744
Expenses for low-value leases	282
TOTAL AMOUNT RECOGNIZED IN PROFIT OR LOSS	**-1,714**

The Group's cash outflows for leases amounted to EURk 2,468 in the year under review (excluding repayments). In addition, the Group reported non-cash additions to rights-of-use and lease liabilities of EURk 11,484 in 2019 (including the transition effect from the application of IFRS 16).

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS
As of December 31, 2019, other financial obligations, including purchase commitments, amounted to EURk 15,436 (p/y: EURk 30,169).

A guarantee to secure phased retirement credits amounted to EURk 1,150 (p/y: EURk 1,400) as of the reporting date.

24 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, 2019, receivables with a nominal value of EURk 18,223 (p/y: EURk 19,538) were sold. The transferred receivables are current receivables where the carrying amount corresponds to the fair value of the assets transferred.

25 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 summarized key risks are described in the following:

CREDIT RISK

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

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

As of December 31, 2019, 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

	2019	2018
Trade receivables and other receivables	41,401	42,090
Protection from commercial credit insurance	-21,459	-22,178
MAXIMUM DEFAULT RISK	**19,942**	**19,912**
Derivative financial assets	459	510
Cash and cash equivalents	1,367	10,382

On December 31, 2019, the analysis of overdue but not impaired trade receivables and other receivables breaks down as follows:

EURk

	2019	2018
TRADE RECEIVABLES AND OTHER RECEIVABLES	**41,401**	**42,090**
of which neither overdue nor impaired	36,030	35,751
of which ‹ 30 days overdue (but not impaired)	4,227	5,735
of which › 30-90 days overdue (but not impaired)	524	428
of which › 90-180 days overdue (but not impaired)	368	0
of which › 180-360 days overdue (but not impaired)	143	66
of which › 360 days overdue (but not impaired)	109	111

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

LIQUIDITY RISK

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

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

EURk

	‹ 1 year		1 to 5 years		› 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Bank borrowings	41,790	36,100	24,612	29,411	1,497	3,327	67,899	68,838
of which repayment of principal	40,367	34,540	23,350	27,450	1,485	3,276	65,202	65,266
of which interest payment	1,423	1,561	1,262	1,961	12	50	2,697	3,572
Liabilities from promissory notes	1,170	16,544	52,485	28,272	0	25,379	53,655	70,195
of which repayment of principal	0	14,968	49,899	24,947	0	24,948	49,899	64,863
of which interest payment	1,170	1,575	2,586	3,325	0	431	3,756	5,331
Liabilities to leasing companies	4,467	2,670	12,307	8,023	5,014	2,054	21,788	12,747
of which repayment of principal	3,840	2,383	10,622	7,359	4,277	1,871	18,739	11,613
of which interest payment	627	287	1,685	664	737	183	3,049	1,134
Trade payables	34,717	38,208	0	0	0	0	34,717	38,208
Derivative financial instruments with hedging relationship	0	617	0	0	0	0	0	617
Derivative financial instruments without hedging relationship	2,407	1,862	3,013	2,626	0	3	5,420	4,491
Other remaining financial liabilities	8,498	4,750	0	0	0	0	8,498	4,750

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

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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cash inflow	38,232	49,516	38,148	47,453	0	0	76,380	96,969
Cash outflow	-37,814	-50,133	-37,043	-47,445	0	0	-74,857	-97,578
NET BALANCE	**418**	**-617**	**1,105**	**8**	**0**	**0**	**1,523**	**-609**
	Foreign currency derivatives without hedging relationship							
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cash inflow	41,539	39,352	16,680	14,410	0	0	58,219	53,762
Cash outflow	-43,383	-40,910	-18,591	-16,275	0	0	-61,974	-57,185
NET BALANCE	**-1,844**	**-1,558**	**-1,911**	**-1,865**	**0**	**0**	**-3,755**	**-3,423**

INTEREST RATE RISK

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

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

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

PWO is subject to interest rate risk at all locations. If the market interest rates at December 31, 2019 had been 100 basis points higher, earnings before taxes (EBT) would have been EURk 499 higher (p/y: EURk 208). If market interest rates as of December 31, 2019 had been 100 basis points lower, earnings before taxes (EBT) would have been EURk 1,209 lower (p/y: EURk 689).

CURRENCY RISK

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

TRANSACTION RISK

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

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

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

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

TRANSLATION RISK

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

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

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

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%	
	2019	2018	2019	2018
EUR/CAD	-157	-158	155	148
EUR/CNY	-859	-1,312	710	1,078
EUR/CZK	111	122	-136	-149
EUR/MXN	47	37	-58	-45
EUR/USD	-595	-900	681	1,015
SUMME	**-1,454**	**-2,211**	**1,352**	**2,046**

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%	
	2019	2018	2019	2018
EUR/CAD	0	6	0	-7
EUR/CNY	0	0	0	0
EUR/CZK	-3,640	-4,152	4,449	5,074
EUR/MXN	-664	-606	812	741
EUR/USD	3,087	4,250	-3,773	-5,195
SUMME	**-1,217**	**-502**	**1,488**	**614**

RAW MATERIAL PRICE RISK

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

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

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

CAPITAL MANAGEMENT

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

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

DYNAMIC LEVERAGE RATIO

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
Financial liabilities	133,840	141,741	141,741
Less cash and cash equivalents	-1,367	-10,382	-10,382
NET FINANCIAL LIABILITIES	**132,473**	**131,359**	**131,359**
EBITDA [2]	**45,976**	**42,701**	**42,737**
DYNAMIC LEVERAGE RATIO (IN YEARS)	**2.9**	**3.1**	**3.1**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).
[2] Earnings before interests, taxes, depreciation and amortization.

EQUITY RATIO

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
Equity	118,058	116,450	113,868
Total assets	391,592	390,046	405,607
EQUITY RATIO	**30.1%**	**29.9%**	**28.1%**

[1] Adjustment due to change in accounting (see Note 5, section „inventories", page 65).

26 FINANCIAL INSTRUMENTS

As of December 31, 2019, the following derivative financial instruments were not yet settled:

EURk

	Nominal value	Redemption 2019	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	1,250	156	392	1.67%	until 2020	-7
Interest rate floor of syndicated loan	51,800	0	45,000	0.00%	until 2023	-589
Interest rate floor of promissory note	3,000	0	3,000	0.00%	until 2024	-38
Cross currency swaps	10,808	0	10,808	2.80% to 6.93%	until 2024	-11
Currency hedging instruments without hedge accounting	61,974	0	61,974	--	2019 to 2022	-2,582
Currency hedging instruments with hedge accounting	80,420	0	80,420	--	2019 to 2023	-268

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

EURk

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

Progress-Werk Oberkirch AG's syndicated loan agreement maturing in 2023 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2019, this embedded interest rate derivative has a nominal volume of EURk 45,000 (p/y: EURk 28,500) and a market value of EURk -589 (p/y: EURk -274).

Progress-Werk Oberkirch AG's promissory note maturing in 2024 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2019, this embedded interest rate derivative had a nominal volume of EURk 3,000 (p/y: EURk 3,000) and a market value of EURk -38 (p/y: EURk -32).

Cross-currency swaps were concluded in 2019 to hedge non-current loans to affiliated companies.

The market value changes of derivative financial instruments used to hedge future cash flows were recognized directly in equity and amounted to EURk 1,282 (p/y: EURk -1,652), including related tax effects.

As part of hedge accounting, EURk 176 (p/y: EURk -447) was derecognized from equity and recognized in profit or loss. The resulting tax effect amounts to EURk 40 (p/y: EURk -113).

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

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

In determining hedging quotas, PWO distinguishes between risk positions from series (parts) business, project business (tools, investments) and financing. As series business generally has a longer duration and the accuracy of planning decreases over time due to the planning horizon, risk positions are hedged within the framework of the (falling) hedging quotas defined in our guidelines. As the cash flows from short-term project business (tool production) and from intra-Group loans or borrowings in foreign currency are easy to plan, higher hedging quotas are provided for in accordance with our guidelines.

The average forward or exercise rates of the currency hedging instruments are as follows: EUR/USD: 1.2131; EUR/CZK: 26.4942; EUR/CAD: 1.4688; USD/CAD: 1.2915; USD/MXN: 21.7042; USD/CNY: 6.9437. The average rates refer to the entire hedged timeline, which can extend to 2023.

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

EURk

	Category		Carrying amount		Fair Value	
	IAS 39	IFRS 9 [1]	2019	2018	2019	2018
ASSETS	LaR	AC	41,401	42,090	41,401	42,090
TRADE RECEIVABLES AND OTHER RECEIVABLES			459	510	459	510
Other financial assets	n. a.	n. a.	420	203	420	203
of which derivatives with hedging relationship	FAHfT	FVtPL	39	307	39	307
of which derivatives without hedging relationship	LaR	AC	0	0	0	0
of which deposits › 3 months	LaR	AC	1,367	10,382	1,367	10,382
Cash and cash equivalents						
LIABILITIES						
FINANCIAL LIABILITIES			133,840	141,741	141,932	151,284
Bank borrowings	FLAC	AC	65,202	65,266	68,722	69,070
of which variable interest rate			10,032	6,470	10,032	6,470
of which fixed interest rate			55,170	58,796	58,690	62,600
Liabilities from promissory notes	FLAC	AC	49,899	64,863	53,848	69,834
of which variable interest rate			2,994	2,994	2,994	2,994
of which fixed interest rate			46,905	61,869	50,854	66,840
Liabilities to leasing companies	n. a.	n. a.	18,739	11,613	19,362	12,380
of which variable interest rate			0	0	0	0
of which fixed interest rate			18,739	11,613	19,362	12,380
TRADE PAYABLES	FLAC	AC	34,717	38,208	34,717	38,208
Other financial liabilities			12,465	9,580	12,465	9,580
of which derivatives with hedging relationship	n. a.	n. a.	702	1,919	702	1,919
of which derivatives without hedging relationship	FLHfT	FVtPL	3,265	2,911	3,265	2,911
of which others	FLAC	AC	8,498	4,750	8,498	4,750
OF WHICH AGGREGATED ACCORDING TO MEASUREMENT CATEGORIES:						
Loans and Receivables	LaR	AC	42,768	52,472	42,768	52,472
Financial Liabilities Measured at Amortized Cost	FLAC	AC	158,316	173,087	165,785	181,862
Financial Assets Held for Trading	FAHfT	FVtPL	39	307	39	307
Financial Liabilities Held for Trading	FLHfT	FVtPL	3,265	2,911	3,265	2,911

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

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

EURk

	Level 1		Level 2		Level 3		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
ASSETS MEASURED AT FAIR VALUE								
Other financial assets	0	0	459	510	0	0	459	510
of which derivatives with hedge relationship	0	0	420	203	0	0	420	203
of which derivatives without hedge relationship	0	0	39	307	0	0	39	307
ASSETS FOR WHICH A FAIR VALUE IS DISCLOSED								
Trade receivables and other receivables	0	0	41,401	42,090	0	0	41,401	42,090
Cash and cash equivalents	0	0	1,367	10,382	0	0	1,367	10,382
LIABILITIES MEASURED AT FAIR VALUE								
Other financial liabilities	0	0	11,876	9,306	589	274	12,465	9,580
of which derivatives with hedge relationship	0	0	702	1,919	0	0	702	1,919
of which derivatives without hedge relationship	0	0	2,676	2,637	589	274	3,265	2,911
of which other	0	0	8,498	4,750		0	8,498	4,750
LIABILITIES FOR WHICH A FAIR VALUE IS DISCLOSED								
Fixed-interest rate banks borrowings	0	0	58,690	62,600	0	0	58,690	62,600
Variable-interest rate bank borrowings	0	0	10,032	6,470	0	0	10,032	6,470
Fixed-interest rate liabilities from promissory notes	0	0	50,854	66,840	0	0	50,854	66,840
Variable-interest rate liabilities from promissory notes	0	0	2,994	2,994	0	0	2,994	2,994
Fixed-interest rate borrowings from leasing companies	0	0	19,362	12,380	0	0	19,362	12,380
Variable-interest rate borrowings from leasing companies	0	0	0	0	0	0	0	0
Trade payables	0	0	34,717	38,208	0	0	34,717	38,208

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 315 (p/y: EURk 101) from fair value changes were recognized as interest expense in profit and loss.

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

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

EURk

	Assets		Liabilities	
	2019	**2018**	**2019**	**2018**
Recognized in the income statement:				
DERIVATIVES WITHOUT HEDGE RELATIONSHIP	**990**	**152**	**1,317**	**1,407**
Recognized in equity:				
DERIVATIVES WITH HEDGE RELATIONSHIP	**0**	**0**	**1,655**	**-1,652**

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

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

EURk

	Category			
	IAS 39	**IFRS 9** [1]	**2019**	**2018**
LOANS AND RECEIVABLES	LaR	AC	**-1,913**	**2,801**
of which due to disposal			73	15
of which due to impairment/impairment reversal			-42	-145
of which due to currency effects			-1,944	2,931
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	FLAC	AC	**589**	**-26**
of which due to disposal			419	218
of which due to currency effects			170	-244
FINANCIAL ASSETS HELD FOR TRADING	FAHfT	FVtPL	**1,254**	**309**
of which due to disposal			264	157
of which due to remeasurement			990	152
FINANCIAL LIABILITIES HELD FOR TRADING	FLHfT	FVtPL	**1,718**	**3,635**
of which due to disposal			401	2,228
of which due to remeasurement			1,317	1,407

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

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

EURk

	2019	2018
FINANCIAL ASSETS		
Gross amount of financial assets recognized	42,248	43,244
Gross amounts of financial liabilities offset	-388	-644
REPORTED NET AMOUNTS OF FINANCIAL ASSETS	**41,860**	**42,600**
of which derivatives	459	510
of which trade receivables	41,401	42,090
Offsettable due to framework agreements	-459	-510
TOTAL NET AMOUNT OF FINANCIAL ASSETS	**41,401**	**42,090**
FINANCIAL LIABILITIES		
Gross amount of financial liabilities recognized	-38,766	-43,234
Gross amounts of financial assets offset	82	195
REPORTED NET AMOUNTS OF FINANCIAL LIABILITIES	**-38,684**	**-43,039**
of which derivatives	-3,967	-4,830
of which trade payables and prepayments received	-34,717	-38,208
of which other financial liabilities	-8,498	-4,750
Offsettable due to framework agreements	459	510
TOTAL NET AMOUNT OF FINANCIAL LIABILITIES	**-38,225**	**-42,529**

Liabilities of EURk 388 (p/y: EURk 644) were offset against financial assets and included outstanding credits to customers as of the balance sheet date. The assets offsetting financial liabilities are receivables in the form of credits to suppliers in the amount of EURk 82 (p/y: EURk 195).

ADDITIONAL INFORMATION

27 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 9,532 (p/y: EURk 9,370) in development costs, EURk 1,698 (p/y: EURk 1,719) were capitalized as intangible assets.

28 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

	2019	2018
Audit	204	184
Other assurance services	11	11
Tax consultancy services	150	128
Other services	56	63
TOTAL	**421**	**386**

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

29 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

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

EURk

	2019	2018
Short-term remuneration [1]	778	821
Other long-term remuneration [2]	696	506
Post-employment benefits [3]	220	217
TOTAL	**1,694**	**1,544**

[1] This item includes basic annual salary and fringe benefits.
In the prior year, it also included the one-year variable remuneration under the previous remuneration system.
[2] The amounts include the multi-year variable remuneration under the new remuneration system.
In the prior year, they also included the multi-year variable remuneration under the previous remuneration system.
[3] This item includes the service costs for pension entitlements and the fixed payments into a pension trust.

The total remuneration of the Supervisory Board (short-term remuneration) amounted to EURk 294 (p/y: EURk 279). 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 Progress-Werk Oberkirch AG and their surviving dependents amounted to EURk 236 (p/y: EURk 233). The corresponding pension provisions under IFRS amounted to EURk 4,391 (p/y: EURk 4,107) as of the reporting date.

30 RELATED PARTY DISCLOSURES

Progress-Werk Oberkirch AG is the parent company of the PWO Group and its subsidiaries listed in Section 4 "Scope of consolidation." Consult Invest Beteiligungsberatungs-GmbH, Böblingen, is the principle shareholder of Progress-Werk Oberkirch AG. Its major shareholder, Dr. Klaus-Georg Hengstberger, represents the ultimate controlling party of the PWO Group. As in the previous year, there were no transactions between the Group and Consult Invest Beteiligungsberatungs-GmbH, Böblingen, and its related parties except for the dividend payment.

Related parties of the PWO Group also include the members of the Management Board and Supervisory Board of Progress-Werk Oberkirch AG and their close family members. Reportable compensation of management holding key positions according to IAS 24 is presented in Note 29. No other transactions occurred during the reporting year. The combined group management report contains the remuneration report along with the individual remuneration of the members of governing bodies according to Section 314 (1) No. 6a) sentence 5 HGB.

31 ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash funds reported in the cash flow statement comprise cash and cash equivalents. These include cash on hand and bank deposits with an initial term of less than 3 months, less any bank borrowings due on demand that are part of the Group's cash management and regularly feature fluctuation between credit and debit balances. Bank borrowings payable on demand amounting to EURk 9,640 (p/y: EURk 4,322) are included in the balance sheet item "current financial liabilities."

32 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 Progress-Werk Oberkirch AG. The segments are defined according to the location of the Group's assets. The revenues of these segments are also allocated according to the location of assets. The regions are categorized as Germany, Rest of Europe, North America and Asia. The combination of the locations in Canada and Mexico in the "North America" segment is based on the joint participation in the new USMCA trade agreement (previously: NAFTA agreement) and due to the similarity and long-term comparability of the economic characteristics of the business, the type of products and production processes, the type of customer relationships, as well as the methods of the sales organization.

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

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

Of the reported revenue as of December 31, 2019, four customers accounted for more than 10% of the Group's revenue (EURk 61,933; EURk 59,695; EURk 56,947; EURk 51,618) originating from all segments. In the previous year, four customers were identified who accounted for more than 10% of revenue (EURk 61,132; EURk 57,922; EURk 55,452; EURk 52,518).

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2019

EURk

	Germany	Rest of Europe	North America	Asia	Consolidation effects	Group
Total revenue	256,704	77,916	102,717	43,345	0	480,682
Inter-segment revenue	-14,446	-2,579	-89	-4,944	0	-22,058
EXTERNAL REVENUE	**242,258**	**75,337**	**102,628**	**38,401**	**0**	**458,624**
TOTAL OUTPUT	**257,994**	**77,928**	**102,717**	**43,346**	**-22,057**	**459,928**
Other income (aggregated)	9,910	459	2,238	699	-5,074	8,232
Other expenses (aggregated)	246,414	66,875	96,849	37,998	-25,952	422,184
Depreciation and amortization	13,898	4,874	5,505	2,950	-1,180	26,047
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	**7,592**	**6,638**	**2,601**	**3,097**	**1**	**19,929**
Interest income	4,855	0	7	4	-4,653	213
Dividend distributions from affiliated companies	5,000	0	0	0	-5,000	0
Interest expenses	5,499	1,054	2,950	2,251	-4,653	7,101
EARNINGS BEFORE TAXES (EBT)	**11,948**	**5,584**	**-342**	**850**	**-4,999**	**13,041**
Income taxes	3,130	843	-33	0	0	3,940
NET INCOME FOR THE PERIOD	**8,818**	**4,741**	**-309**	**850**	**-4,999**	**9,101**
Assets	198,463	85,213	98,631	54,884	-45,599	391,592
of which non-current assets [1]	74,318	59,619	48,130	30,815	-69	212,813
of which contract assets	40,684	8,771	26,241	8,280	0	83,976
Liabilities	40,337	34,231	75,103	62,706	61,157	273,534
Investments	14,468	12,380	8,947	3,536	0	39,331
of which due to the application of IFRS 16	1,705	1,239	1,768	722	0	5,434

[1] Non-current assets do not include deferred taxes.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2018

EURk

	Germany	Rest of Europe	North America	Asia	Consolidation effects	Group
Total revenue [1]	280,104	76,182	105,975	51,428	0	513,689
Inter-segment revenue	-19,064	-7,013	-235	-11,110	0	-37,422
EXTERNAL REVENUE	**261,040**	**69,169**	**105,740**	**40,318**	**0**	**476,267**
TOTAL OUTPUT	**281,840**	**75,995**	**106,475**	**51,672**	**-37,970**	**478,012**
Other income (aggregated)	9,376	616	2,806	1,939	-4,043	10,694
Other expenses (aggregated)	272,864	64,898	100,940	48,755	-41,452	446,005
Depreciation and amortization	11,988	4,530	5,058	2,698	0	24,274
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	**6,364**	**7,183**	**3,283**	**2,158**	**-561**	**18,427**
Interest income	3,788	18	4	5	-3,739	76
Dividend distributions from affiliated companies	7,000	0	0	0	-7,000	0
Interest expenses	4,755	1,097	2,542	1,994	-3,739	6,649
EARNINGS BEFORE TAXES (EBT)	**12,397**	**6,104**	**745**	**169**	**-7,561**	**11,854**
Income taxes [1]	3,572	1,527	271	3	-159	5,214
NET INCOME FOR THE PERIOD	**8,825**	**4,577**	**474**	**166**	**-7,402**	**6,640**
Assets	215,758	77,579	93,342	59,464	-56,097	390,046
of which non-current assets [2]	74,270	52,367	43,203	30,716	-70	200,486
of which contract assets	43,186	6,741	22,029	8,748	-206	80,498
Liabilities	44,124	32,797	73,436	62,169	61,070	273,596
Investments	11,640	8,463	10,112	5,118	0	35,333

[1] Adjustments due to change in accounting (see Note 5, section „inventories", page 65).
[2] Non-current assets do not include deferred taxes.

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

SEGMENT INFORMATION BY PRODUCT AREA
REVENUE

EURk

	2019	2018 after adjustment [1]	2018 before adjustment
Mechanical components for electrical and electronic applications	99,576	99,705	101,536
Safety components for airbags, seats and steering	140,712	153,141	155,953
Structural components and subsystems for vehicle bodies and chassis	218,336	223,421	227,523
TOTAL	**458,624**	**476,267**	**485,012**

[1] Adjustments due to change in accounting (see Note 5, section „inventories", page 65).

33 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Conformity with the German Corporate Governance Code in its version of February 7, 2017 issued by the Management Board and Supervisory Board in December 2019 pursuant to Section 161 AktG is permanently available to shareholders via the Company's website at www.progress-werk.de/en/group/corporate-governance/.

34 SUBSEQUENT EVENTS

The outbreak of the corona pandemic has resulted in massive economic disruption worldwide. The further course of the pandemic is not currently foreseeable. All of the automotive manufacturers that PWO supplies directly have temporarily suspended their production. As a result, PWO will also significantly scale back production in Oberkirch and adjust the capacity at its subsidiaries to the respective local market conditions. PWO has applied for shorter work schedules for all employees at the Oberkirch site. These shorter schedules are expected to reduce work time by almost 100 percent, at least for a temporary period. On March 20, 2020, the Management Board issued an ad hoc notification stating that is impossible at present to adequately assess and reliably quantify the effects of the pandemic on the PWO Group. The Management Board also withdrew the forecast for the 2020 fiscal year and, for now, will refrain from providing a new forecast for the 2020 fiscal year. In addition, the Management Board resolved on its proposal for the appropriation of retained earnings, according to which no dividend shall be distributed to shareholders for the 2019 fiscal year. In contrast to the Company's prior dividend policy, the unappropriated retained earnings for the 2019 fiscal year shall be carried forward. This step is intended to help improve liquidity. The Management Board intends to review the dividend proposal based on the developments taking place in the weeks ahead and may submit an updated proposal to the Annual General Meeting.

35 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

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

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

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

Carsten Claus, Aidlingen
Former Chairman of the Management Board of Kreissparkasse Böblingen

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

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

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

Dr. Jochen Ruetz, Stuttgart
Managing Director/CFO and member of the Administrative Board of GFT Technologies SE, Stuttgart

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

Gerhard Schrempp, Renchen | Employee Representative
Buying agent for stamping and forming tools and
Member of the Works Council of Progress-Werk Oberkirch AG

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

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

MANAGEMENT BOARD

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

Membership in other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises
- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czechia | 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

Membership in other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises
- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czechia | 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

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

36 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that Progress-Werk Oberkirch AG's unappropriated retained earnings of EURk 4,778 as of December 31, 2019 be used as follows:

No payment of a dividend	EURk 0
Carried forward to new account	EURk 4,778

The aforementioned dividend proposal takes into account the operational and financial challenges and adverse economic effects on the current year's business performance resulting from the spread of the coronavirus, and is intended to improve liquidity by waiving the distribution of the dividend. The Management Board is continually and thoroughly monitoring the situation and, based on the developments in the weeks to come and the resulting impact on the Company's business performance, the Management Board will review the proposal and may submit an updated proposal to the Annual General Meeting.

Oberkirch, March 26, 2020

The Management Board

Dr. Volker Simon (CEO)

Bernd Bartmann

Johannes Obrecht

INDEPENDENT AUDITOR'S REPORT

To Progress-Werk Oberkirch Aktiengesellschaft

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

AUDIT OPINION

We have audited the consolidated financial statements of Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, and its subsidiaries ("Group"), consisting of the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from January 1 to December 31, 2019, the consolidated balance sheet as of December 31, 2019, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1 to December 31, 2019, 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, 2019. In accordance with German statutory provisions, we have not reviewed the content of the "Responsibility Statement" contained in the group management report or the Corporate Governance Statement published on the website, whose webpage is referenced in the management report and which is a part of the group management report.

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, 2019 and its results of operations for the fiscal year from January 1 to December 31, 2019, in accordance with these requirements; and

- the accompanying group management report as a whole provides an accurate view of the Group's position. The group management report is consistent with the consolidated financial statements in all material respects, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not include the content of the "Responsibility Statement" and the content of the Group Statement on Corporate Governance both mentioned above.

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

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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

REVENUE RECOGNITION UNDER IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS
Reason for Designation as a Key Audit Matter: An essential part of the Group's business activities is the production of series parts, the development and production of tools, as well as contract-related development services. In the 2018 fiscal year, the first-time application of the new "International Financial Reporting Standard 15 – Revenue from Contracts with Customers (IFRS 15)" accounting standard had a significant impact on the presentation of the individual revenue streams in the consolidated financial statements. This specifically includes the assessment of the preconditions for the recognition of revenue over a period of time or at a specific point in time, the accounting of payments to customers and the related presentation on the balance sheet based on the revenue streams identified. A more detailed analysis resulted in retrospectives changes to the presentation of work-in-progress under IFRS 15 in the 2019 fiscal year. We refer to the explanations in the notes to the consolidated financial statements. Due to the variety of different contractual relationships with customers, the continuously changing pricing models and the related complexity, the issue of revenue recognition is subject to elevated risks and therefore represents a key audit matter.

Audit Approach: Based on our understanding of the business and processes, we reviewed the contractual basis agreed with the various customers in the course of our audit and, particularly, the contractual provisions for the time risk is transferred and the rules for the invoicing procedure. In this context, we also looked at the processes set up by the legal representatives for the application of IFRS 15.

We paid special attention to contracts chosen randomly to determine whether contracts met the requirements for recognizing revenue at a point time or over a period of time. We reviewed the preconditions for the period-related revenue recognition in the provision of series deliveries, the development and production of tools and contract-related development services, specifically through our assessment of the extent to which there are no alternative uses and if a right to payment exists.

On the basis of the contracts, we reviewed to what extent payments to customers should be capitalized as other assets and as a reduction of revenues according to the realized revenues for which these payments were made. For revenue streams from tools and development services, we have assessed the recognition and the amount of the contract assets based on internal calculations over the product life cycle of the series delivery.

Our audit has not resulted in any reservations as to the recognition of revenue under IFRS 15.

Reference to Corresponding Information: For information on the IFRS 15 accounting policies applied for revenue recognition, please refer to the disclosures in the notes to the consolidated financial statements.

RECOVERABILITY OF GOODWILL

Reason for Designation as a Key Audit Matter: Under IFRS, goodwill is not amortized on a scheduled basis, but instead, is subject to an annual impairment test. The impairment test is based on the present value of future cash flows of the relevant cash-generating units to which goodwill was allocated. The valuations are derived from the forecasts of the affiliated companies, which are based on the financial plans adopted by the Management Board and acknowledged by the Supervisory Board. The valuation results depend particularly on the entities' future cash flows estimated by the legal representatives and the discount rates used and are, therefore, discretionary. The reporting year was also marked by the general weakening of the automotive environment, which varied in degree in the different geographic regions in which the Company operates. In this context, the recoverability of goodwill was a particularly important audit matter.

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 the expected growth rates and weighted average cost of capital, were compared with generally available market data and assessed with regard to the change of significant assumptions, including future market conditions.

Our audit has not resulted in any reservations as to the assessment of the recoverability of goodwill.

Reference to Corresponding Information: With regard to the accounting and valuation policies used to determine the recoverability of financial assets, we refer to the information in the notes to the consolidated financial statements under the Item "Key Judgments, Estimates and Assumptions.

OTHER INFORMATION
Pursuant to Section 171 (2) AktG, the Supervisory Board is responsible for the Report of the Supervisory Board and, the legal representatives are responsible for other information. Other information includes the responsibility statement of the legal representatives included in the combined group management report, the Group Statement on Corporate Governance mentioned above, the Non-financial Group Statement published on the Internet and other parts of the annual report that are expected to be made available to us after issuing the audit opinion.

Our audit opinions on the consolidated financial statements and the group management report do not extend to the other information. Therefore, we do not express an audit opinion or any other form of audit conclusion on these sections.

As part of our audit, we are responsible for reading and assessing whether the other information

- is materially inconsistent with the consolidated financial statements, the group management report and our knowledge obtained during the audit; or

- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with IFRS as applicable in the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB in all material respects. They are also responsible for ensuring 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 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 RESPONSIBILITY 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 a critical stance throughout the audit. We also

- identify and assess the risk of material misstatements in the consolidated financial statements and the group management report from either fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls;

- obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the group management report, to design audit procedures that are appropriate for the circumstances but not to express 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, maintain responsibility for the direction, supervision and performance of the Group audit and 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; and

- perform audit procedures on the prospective information presented by the legal representatives in the group management report. Based on sufficient and appropriate audit evidence, we hereby, in particular, review the significant assumptions used by the legal representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships or other matters that may reasonably be thought to have a bearing on our independence or any related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance during the audit of the consolidated financial statements of the current period and, therefore, represent the key audit matters. We describe these matters in our auditor's report unless laws or other legal provisions preclude public disclosures on the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

OTHER DISCLOSURES PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were appointed as group auditors at the Annual General Meeting held on May 22, 2019 and commissioned by the Supervisory Board on July 1, 2019. 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 26, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner
Auditor

Scheppank
Auditor

RESPONSIBILITY STATEMENT

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

Oberkirch, March 26, 2020

The Management Board

Dr. Volker Simon (CEO)	Bernd Bartmann	Johannes Obrecht

IMPRINT

INVESTOR RELATIONS CONTACTS

BERND BARTMANN
Member of the Management Board
(Administration and Finance)

Telephone: +49 7802 84-844
Fax: +49 7802 84-789
ir@progress-werk.de

CHARLOTTE FRENZEL
Investor Relations

Telephone: +49 7802 84-844
Fax: +49 7802 84-789
ir@progress-werk.de

DESIGN:
Büro Schramm für Gestaltung GmbH,
bueroschramm.de

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, gender-neutral as well as gender-specific forms are used. Hereby all genders are expressly meant.

FINANCIAL CALENDAR

May 11, 2020	Quarterly Statement 1st Quarter 2020
To be announced	Annual General Meeting 2020
August 3, 2020	Interim Financial Report 2nd Quarter and Half-Year 2020
November 9, 2020	Quarterly Statement 3rd Quarter and 9 Months 2020
November, 16 – 18, 2020	German Equity Forum, Frankfurt/Main
May 19, 2021	Annual General Meeting 2021

PROGRESS-WERK OBERKIRCH AG
P.O. BOX 1344
77697 OBERKIRCH
GERMANY

TELEPHONE: +49 7802 84-0
TELEFAX: +49 7802 84-356
INFO@PROGRESS-WERK.DE
WWW.PROGRESS-WERK.DE