ANNUAL REPORT
2016

MEGATREND: PREMIUM SUPPLIER

PWO

COVER PHOTO: PWO'S BACKREST STRUT IS PART OF THE FRONT SEAT. COMBINED WITH THE OTHER SUPPORT STRUCTURES, IT MAKES A MAJOR CONTRIBUTION TO THE PASSENGER'S COMFORT AND SAFETY.

PWO GROUP
FIVE-YEAR OVERVIEW OF KEY FIGURES

	2016	2015	2014	2013	2012 [1]
INCOME STATEMENT (EURK)					
Revenue	409,612	404,597	381,134	377,447	358,072
Total output	423,534	413,294	390,674	384,244	366,624
EBITDA	44,646	42,922	39,015	43,505	40,190
EBIT before currency effects [2]	21,598	17,055	14,887	--	--
EBIT including currency effects	19,725	18,090	16,665	22,313	21,255
Net income for the period	9,522	7,544	7,310	13,137	10,430
BALANCE SHEET (EURK)					
Total assets	359,419	352,430	341,460	299,384	279,303
Equity	106,536	103,111	96,100	102,461	95,148
Net debt [3]	124,458	132,837	125,045	99,655	90,453
Equity ratio in %	29.6	29.3	28.1	34.2	34.1
Dynamic leverage ratio in years [4]	2.8	3.1	3.2	2.3	2.3
CASH FLOW (EURK)					
Cash flow from operating activities	46,304	31,108	24,727	30,425	26,617
Cash flow from investing activities	-28,803	-28,244	-34,534	-24,694	-33,262
Free cash flow	13,049	-1,767	-14,666	1,569	-11,182
Net change in cash and cash equivalents	-4,452	-2,036	-1,230	-6,482	5,206

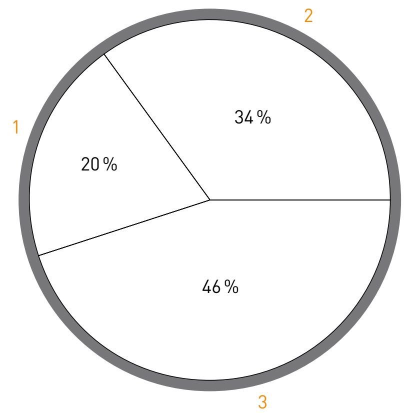
[1] Restated due to the effects of the application of IAS 19.
[2] Prior year amounts restated due to the reclassification of currency effects as of 2016.
[3] Total of non-current + current financial liabilities less cash and cash equivalents.
[4] EBITDA / net debt

	2016	2015	2014	2013	2012
ORDER SITUATION (EUR MILLION)					
Lifetime volume (new business)	730	600	280	456	375
of which series orders	680	560	260	425	350
of which tool orders	50	40	20	31	25
NUMBERS PER SHARE (EUR)					
Earnings per share (diluted = basic)	3.05	2.41	2.34	4.20	3.61
Dividend per share	1.60 [1]	1.55	1.45	1.80	1.60
XETRA year-end closing price	39.99	36.45	34.99	43.90	28.20
EMPLOYEES (AS OF DEC. 31)					
PWO Group (incl. temporary employees and trainees)	3,229	3,049	3,125	3,103	2,916
thereof in Germany	1,538	1,492	1,549	1,584	1,510
thereof in international locations	1,691	1,557	1,576	1,519	1,406

[1] Proposal to the 94th Annual General Meeting

PWO'S REVENUE BY PRODUCT AREA IN FISCAL YEAR 2016

100 % = EUR 409.6 MILLION



1 MECHANICAL COMPONENTS FOR ELECTRICAL AND ELECTRONIC APPLICATIONS

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

2 SAFETY COMPONENTS FOR AIRBAG, SEATS, AND STEERING

We have been supplying components for air bags for over 20 years. Over the past 10 years, we have consistently strengthened our position in seat and steering systems. We design and manufacture not only the seat structures but also seat locks and adjusters – all components demanding the highest safety requirements. The same applies to the adjustment mechanisms for steering columns. In all these applications, we focus exclusively on our core expertise in metal forming.

3 STRUCTURAL COMPONENTS AND SUBSYSTEMS FOR VEHICLE BODIES AND CHASSIS

Our third product segment covers a wide range of components. One of our focal points is instrument panel carriers. These are manufactured and assembled at our locations around the world and together with cooperation partners who work for us. Components for air suspension systems are the secondary focus. These components are now becoming more common for mid-class vehicles. This will open up a new, large-volume market segment for us in the future.

WE ARE **INNOVATIVE, RELIABLE AND EFFICIENT** – FROM THE INITIAL CONCEPT AND THE DEVELOPMENT OF PRODUCTS AND PROCESSES TO DELIVERY ON THE LAST DAY OF SERIES PRODUCTION. THIS IS WHY WE ARE ONE OF A SMALL ELITE GROUP OF **PREMIUM SUPPLIERS** TO THE GLOBAL AUTOMOTIVE INDUSTRY. **NUMEROUS AWARDS** FOR ALL OF OUR LOCATIONS GIVE US INCENTIVE FOR THE FUTURE.

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61 CONSOLIDATED FINANCIAL STATEMENTS

INNOVATIVE SOLUTIONS DISTINGUISH US. WE DEVELOP **PIONEERING PRODUCTS** USING **MODERN STEEL SHEETS**. OUR **HIGH-PERFORMANCE PROCESSES** ENSURE WE PRODUCE THESE PRODUCTS ECONOMICALLY. FOR DECADES THIS IS HOW WE HAVE BUILT OUR STRONG REPUTATION.

5 TO OUR SHAREHOLDERS

BACKREST STRUT –
FOR THE VEHICLE'S
FRONT SEAT

The supporting structures of vehicle seats make a major contribution to the comfort and safety of passengers. This innovative PWO-component has a complex geometry, combining two components into one.

INNOVATIVE

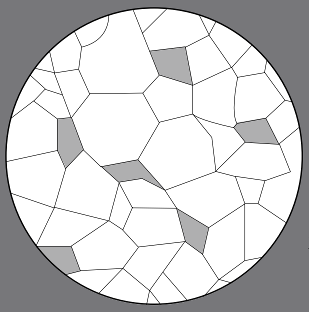
WE DEDICATE ALL OUR ENERGY TOWARDS DEVELOPING THE BEST AND MOST ECONOMICAL SOLUTION FOR OUR CUSTOMERS. PWO'S SALES, DEVELOPMENT AND PRODUCTION AREAS WORK HAND IN HAND TO ACHIEVE THIS.

01

MODERN STEEL SHEETS

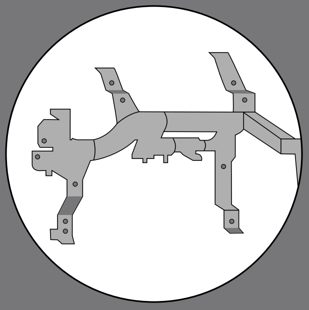
LOW WEIGHT FOR LOW EMISSIONS

IMPROVED GEOMETRY + DUAL-PHASE STEEL = WEIGHT < 5 KG FOR A MODERN STEEL LIGHT-WEIGHT CROSS-MEMBER



DUAL-PHASE-STEEL

+

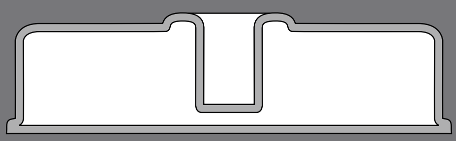


IMPROVED GEOMETRY

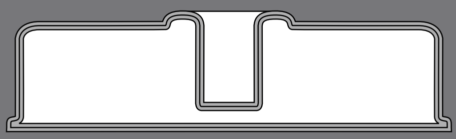
02

PIONEERING PRODUCTS

DOUBLE-SHEET ROTOR WITH HIGHLY FAVORABLE ACCOUSTICS



STANDARD PRODUCTION:
FORMATION OF A THICK
SINGLE SHEET



INNOVATIVE SOLUTION:
FORMATION OF TWO SINGLE
SHEETS HALF AS THICK

→ INNOVATIVE PRODUCTION METHOD THROUGH COMBINATION OF TWO PLATES

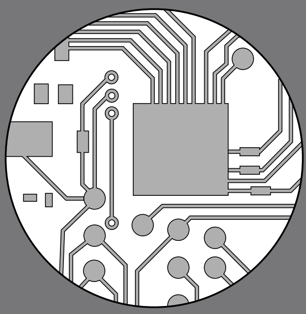
→ PRECISION MANUFACTURING COMPARABLE WITH A SINGLE SHEET

03

HIGH-PERFORMANCE PROCESSES

COMPLIANCE WITH THE HIGHEST STERILITY STANDARDS

→ WE PRODUCE COVERS FOR ELECTRIC CONTROL INSTRUMENTS



CONTACT DISTANCES ON PRINTED
CIRCUIT BOARDS ARE BECOMING
INCREASINGLY SMALLER.

→ EVEN THE SMALLEST PARTICLE ON ONE OF OUR COMPONENTS CAN CAUSE SHORT CIRCUITS RESULTING IN DOWN TIMES

LETTER FROM THE MANAGEMENT BOARD

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

DEAR SHAREHOLDERS,

Profitable growth – this is the central theme guiding all our activities at PWO and, more importantly, our new business. With a lifetime volume of around EUR 730 million, we achieved a new record in the Company's history for the second consecutive time this past fiscal year. As a result, we can expect a strong increase in revenues and higher profitability in the years ahead.

By the year 2020, revenues should rise to more than EUR 500 million and the EBIT margin before currency effects to around seven percent. This level of revenue corresponds to annual growth of approximately 6 percent on average. At roughly 12 percent per year, EBIT is expected to grow twice as fast during this period and reach more than EUR 33 million. Additionally, net income for the period will benefit from a noticeably lower tax rate.

Our business in China and Mexico will be driving this growth. The strong development of these locations in the past fiscal year underscores their ability to do this successfully. The future of the North American free trade agreement, or NAFTA, under newly elected President Trump is currently unclear. For us, however, it is crucial that we have won the orders from our customers and that they want to continue putting their vehicles on the road. We will supply them anywhere in the NAFTA region where their production is located.

We are particularly optimistic because we have prepared the Group in many other areas during the past fiscal year for the future growth phase. The outlook for revenue and earnings for the German location has improved significantly due to the very gratifying level of new business, the reinforcement of the location through a new supplemental agreement and the optimizing of our processes based on a new matrix organization.

In Canada, we have secured our future capacity utilization by winning important new orders. The outlook and performance of the Czech Republic location remain excellent. Here we are facing the question of how much we want to invest in the region's future expansion given the region's shortage of skilled workers. In order to increase our flexibility and thereby gain access to additional resources, we have closely linked the German and Czech locations during the reporting year and have more thoroughly coordinated their processes.

Another important building block for the PWO Group's future development was the first-time conclusion of a syndicated loan agreement for EUR 100 million in 2016. This agreement pools our existing bilateral financing and expands the Group's scope for future growth. Now we can implement new projects across the Group based on attractive borrowing costs.

In summary, the year 2016 was a year, above all, in which we succeeded in turning a profit at our two locations in Mexico and China. In doing so, we were able once again to more than offset the expected decline in EBIT before currency effects in Germany in the past year. We were even in a position to raise our EBIT forecast during the year, which demonstrates the stability and strength of the Group's control. A lower tax rate from the absence of foreign losses resulted in a substantial rise in net income for the period of 26.2 percent to EUR 9.5 million (p/y: EUR 7.5 million) raising earnings per share to EUR 3.05 (p/y: EUR 2.41).

The year 2017 is also expected to be a successful year. We expect revenue excluding material price effects to rise by almost 5 percent and EBIT before currency effects to increase by around 17 percent. Net income for the period and earnings per share are set to grow even faster. Almost all locations are expected to make a positive contribution to this performance. With our achievement of the above, we will reach another milestone on the road to achieving our medium-term forecast.

The diverse projects that are necessary for the Group's highly successful development are essentially carried out by the same team. Our employees not only keep up with the increasing requirements, but they themselves are the drivers or our development and always provide the inspiration necessary for the tasks at hand. We would like to take this opportunity to thank them sincerely. We would also like to thank our shareholders for their continued confidence in us and invite them to join us in the PWO Group's new growth phase.

Dr. Volker Simon (Speaker) | Bernd Bartmann | Johannes Obrecht

REPORT OF THE SUPERVISORY BOARD

In the 2016 fiscal year, the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft (the "Company" or "PWO") carried out its duties as defined by law, the Company's Articles of Association and Rules of Procedure. The Supervisory Board and Management Board continuously cooperated and maintained close dialog on all major issues concerning the Company's and the Group's development. The Supervisory Board and Management Board closely collaborated on the Group's strategic development, and the Supervisory Board regularly advised the Management Board and monitored the Company's management in terms of its legality, practicality and efficiency.

The Supervisory Board was always directly involved in Management Board decisions that were of fundamental importance to the Company and the Group. The Supervisory Board was also promptly and fully informed through the Management Board's verbal and written reports on all significant issues relating to the Company's and Group's relevant markets, current state of business and situation. Detailed reports on current development projects and investments, short- and long-term corporate planning, and the strategic progression of the Group were also thoroughly discussed by the Supervisory Board. In addition, the Management Board reported on the liquidity and risk situation, the Group-wide risk and compliance management systems and IT security and data protection issues. 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 2016 fiscal year, the Supervisory Board chairman was in regular and close personal contact with the Management Board in the periods outside of the Supervisory Board meetings, particularly with its speaker. The chairman also advised the Management Board on questions of 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 2016 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 2016 reporting year, the plenum met on seven occasions: January 26, March 29, April 19, May 31, July 28, September 27 and December 16. The resolutions made on the dates in January and April were made by telephone and dealt with Management Board issues. Except for one occasion, all Supervisory Board meetings took place at the Company's headquarters. In keeping with a longstanding tradition, one of the meetings in 2016 took place at one of the Group's international locations, which gave the Supervisory Board an opportunity to take a closer look at this location. On September 27, 2016, the Supervisory Board meeting took place at the Chinese subsidiary in Suzhou. All members of the Supervisory Board with one exception were present at all meetings.

The Supervisory Board regularly and thoroughly concerned itself with corporate strategy, current market conditions, ongoing development projects and the status of investments. The Supervisory Board routinely discussed the Management Board's situation and earnings reports concerning the business performance and business environment. The following items were also on the meeting agendas:

At the meeting on March 29, 2016, the Supervisory Board dealt in detail with the fiscal year 2015 financial statements, the Management Board's dependency report, the report of the Supervisory Board, the 2015 Annual Report – particularly the Corporate Governance Report – the independence of the financial expert on the Supervisory Board and the agenda of the 93rd Annual General Meeting on May 31, 2016. In relation to the planned new election to the Supervisory Board, a resolution was passed by the Supervisory Board to nominate Mr. Karl M. Schmidhuber as Mr. Dieter Maier's successor. Questions concerning risk management, particularly that of the subsidiaries, as well as accounting and financing issues were also discussed.

The focus of the meeting on May 31, 2016 was the 2016 Annual General Meeting held on that same day. The Supervisory Board meeting also dealt with the usual agenda items, the first forecast for the 2016 fiscal year, the related risk situation and addressed compliance questions.

Following the Annual General Meeting, the Supervisory Board unanimously elected its longstanding spokesman and chairman of the Management Board, Mr. Karl M. Schmidhuber, who was newly elected to the Supervisory Board, as its new chairman. The Supervisory Board thanked Mr. Dieter Maier – who as of the end of the Annual General Meeting retired from the Supervisory Board – for his tireless commitment to the Company. Mr. Maier has proven himself throughout his many years as PWO's Supervisory Board chairman. Above all, he actively and consistently guided the Group on its journey to becoming a global supplier for the international automotive industry. The Supervisory Board appointed him as its honorary chairman to express the Board's gratitude and recognition.

At the meeting on July 28, 2016, the Supervisory Board discussed the usual agenda items, the Management Board's reports on the implementation of the updated comprehensive, Group-wide process organization ("Future PWO") and financing issues, particularly in light of the plan to utilize a syndicated loan for the first time. The Management Board's report on data protection was also discussed in detail.

Beyond the usual agenda items, the focus of the meeting on September 27, 2016, which included a tour of the operations of PWO's Chinese subsidiary in Suzhou, was the second forecast for the 2016 fiscal year.

At the meeting on December 16, 2016, the focus of discussion was the Group's performance in the second half of the fiscal year and the third forecast for the fiscal year. One item discussed in detail was currency effects and their impact on the Company's development and results. The Supervisory Board also addressed the medium-term plan for the years 2017 – 2021, including the investment and personnel plans and the medium-term risk outlook. The Supervisory Board also discussed corporate governance issues, the effectiveness of its activities, addressed and resolved the Declaration of Conformity pursuant to Section 161 AktG on the recommendations of the "Government Commission German Corporate Governance Code" in its version of May 5, 2015 and discussed any deviations from these recommendations on the agenda. Further information on corporate governance can be found in the Company's Corporate Governance Report and the Statement on Corporate Governance pursuant to Sections 289 a and 315 (5) of the German Commercial Code. Both of these documents are available on the Company's website at www.progress-werk.de/en/investor-relations/corporate-governance/.

In the meeting on March 29, 2017, the Supervisory Board dealt extensively with the 2016 financial statements and consolidated financial statements, including the combined management report for the Company and the Group, the Management Board's proposal for the appropriation of unappropriated earnings and the Management Board's dependency report under Section 312 of the Stock Corporation Act. The consolidated financial statements were prepared by the Management Board in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with the supplementary applicable regulations pursuant to Section 315 a (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 29, 2017. The Audit Committee reviewed these documents at its meeting on March 14, 2017.

The auditor was present at the meeting of the Audit Committee on March 14, 2017. At the Supervisory Board meeting on March 29, 2017, the auditor gave a report of the material results of the audit.

The Supervisory Board examined the financial statements, the consolidated financial statements, the combined management report for the Company and the Group and the Management Board's proposal for the appropriation of unappropriated earnings. At the recommendation of the Audit Committee, the Supervisory Board agreed with the auditor's results at the meeting on March 29, 2017. No objections were raised following the conclusive results of the Supervisory Board's examination. The Supervisory Board approved and adopted the financial statements and approved the consolidated financial statements.

At the meeting on March 29, 2017, the Supervisory Board also examined and approved the dependency report and confirmed the results of the auditor's examination. There were no objections to the Management Board's statement at the end of the dependency report following the conclusive results of the Supervisory Board's examination.

The Supervisory Board also agreed with the Management Board's proposal for the appropriation of the 2016 unappropriated earnings. The management will propose a dividend of EUR 1.60 per share to the Annual General Meeting on May 23, 2017.

THE WORK OF THE COMMITTEES

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

The chairman of the Supervisory Board heads the Personnel Committee. The 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 and Supervisory Board members. The Personnel Committee met on four occasions in the 2016 fiscal year: January 25, April 1, April 18 and November 23. All members were present at all meetings. The main subjects of the meetings were the cooperation within the Management Board, appointing a successor to replace Dr. Winfried Blümel after his departure and the extension of expiring Management Board contracts.

Dr. Georg Hengstberger is the chairman of the Audit Committee. He possesses special knowledge and experience in the area of accounting. The Audit Committee rather than the Supervisory Board assumes the tasks of previewing the financial statements and consolidated financial statements, the management report, the Group management report and audit report furnished by the auditor. The Audit Committee also prepares the report to be submitted by the Supervisory Board in accordance with Section 171 AktG. The Audit Committee also concerns itself with monitoring the accounting process, the effectiveness of internal control and audit systems, the risk management system, the audit, compliance and the compliance management system. The Audit Committee appoints the auditor and agrees on the auditor's fee. The Audit Committee obtains the auditor's statement of independence according to No. 7.2.1 of the German Corporate Governance Code. No issues arose during the reporting year that would cast doubt on the auditor's independence.

The Audit Committee met on six occasions during the 2016 fiscal year: February 16, March 16, April 26, July 28, October 26 and December 14. All Audit Committee members were present at all meetings. The main topics discussed were the 2015 fiscal year financial statements, the 2016 fiscal year interim financial report and quarterly statements and the recommendation for the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor for fiscal year 2016. The Committee also dealt with internal audit issues and the approval of non audit-related services provided by the auditor.

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

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

PERSONNEL COMMITTEE

- Karl M. Schmidhuber (Chairman; as of May 31, 2016)
- Dieter Maier (Chairman until May 31, 2016)
- Ulrich Ruetz
- Dr. Gerhard Wirth

AUDIT COMMITTEE

- Dr. Georg Hengstberger (Chairman)
- Herbert König
- Ulrich Ruetz (independent financial expert as defined by Section 100 (5) AktG in the version applicable until June 16, 2016; as of May 31, 2016)
- Karl M. Schmidhuber (as of May 31, 2016)
- Dieter Maier (independent financial expert as defined by Section 100 (5) AktG in the version applicable until June 16, 2016; until May 31, 2016)

CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

On May 31, 2016, the Annual General Meeting elected Mr. Karl M. Schmidhuber to the Supervisory Board. He succeeds Mr. Dieter Maier who after serving over 27 years on the Company's Supervisory Board declared his resignation as of the end of the Annual General Meeting.

Dr. Winfried Blümel, who has been a member of the Company's Management Board and Chief Operating Officer since April 2004, resigned from the Board with effect from June 30, 2016. The Supervisory Board thanked Dr. Blümel for his tremendous commitment and his valuable contribution and wished him all the best in the future. As his successor, the Supervisory Board has appointed Johannes Obrecht to the position of Deputy Member of the Company's Management Board and Chief Operating Officer effective July 1, 2016. John Obrecht has already enjoyed a successful career at the Company for more than 30 years. In his last position, he led the Deep-Drawing Parts business unit and the Development department.

A WORD OF THANKS

In the 2016 reporting year, the PWO Group achieved a record level of new business for the second consecutive year. This performance emphatically highlights that the Group has been successful in establishing itself as a global strategic partner for quality manufacturers in the international automotive industry. This achievement also confirms our medium-term growth plans and secures our capacity utilization in the years to come.

In the 2017 fiscal year, we will already be able to tap some of the additional earnings potential created from the implementation of the PWO Group's new business processes ("Future PWO") in the 2016 fiscal year. A significant role in realizing this potential will be played by the new administrative building at our headquarters in Oberkirch, which was completed in December 2016. This building not only signifies our strong commitment to the location and the region but with the merging of essential functions such as purchasing, development, sales and administration also creates shorter distances and significantly improves efficiency.

The Supervisory Board would like to thank its employees worldwide for another year in which they have proven their tremendous commitment and motivation. It is through their efforts that PWO is able to master the ever-growing challenges presented by the global automotive market and ensure that we have an innovative product range in lightweight construction and the highest quality that allows us to be the leader in sophisticated metal components and systems using lightweight construction for safety and comfort in the automobile. The Supervisory Board remains confident that PWO's Management Board and our employees will continue to uphold PWO's leadership in the future. The Supervisory Board would also like to thank the Management Board and all employees for their performance and their tremendous commitment in fiscal year 2016.

This report was discussed thoroughly and approved by the Supervisory Board at its meeting on March 29, 2017.

Oberkirch, March 29, 2017

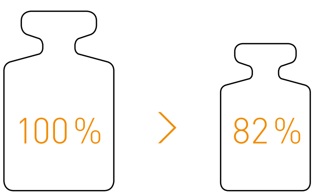
Karl M. Schmidhuber
(Chairman)

WITH THIS ANNUAL REPORT, WE CONTINUE OUR SERIES BASED ON THE MEGATRENDS IN THE AUTOMOTIVE INDUSTRY: **LIGHTWEIGHT CONSTRUCTION** YIELDING LOWER CONSUMPTION, **GLOBAL REACH** AND THE STRATEGIC CHALLENGE OF BEING A **PREMIUM SUPPLIER** PLAYING A LEADING ROLE IN THE VALUE-ADDED CHAIN. PWO DELIVERS OPTIMUM PERFORMANCE IN ALL CATEGORIES.

2014 – LIGHTWEIGHT CONSTRUCTION

With our extensive expertise in metal formation for the automotive industry, we are a world leader when it comes to combining functionality, safety, comfort and lightweight construction.

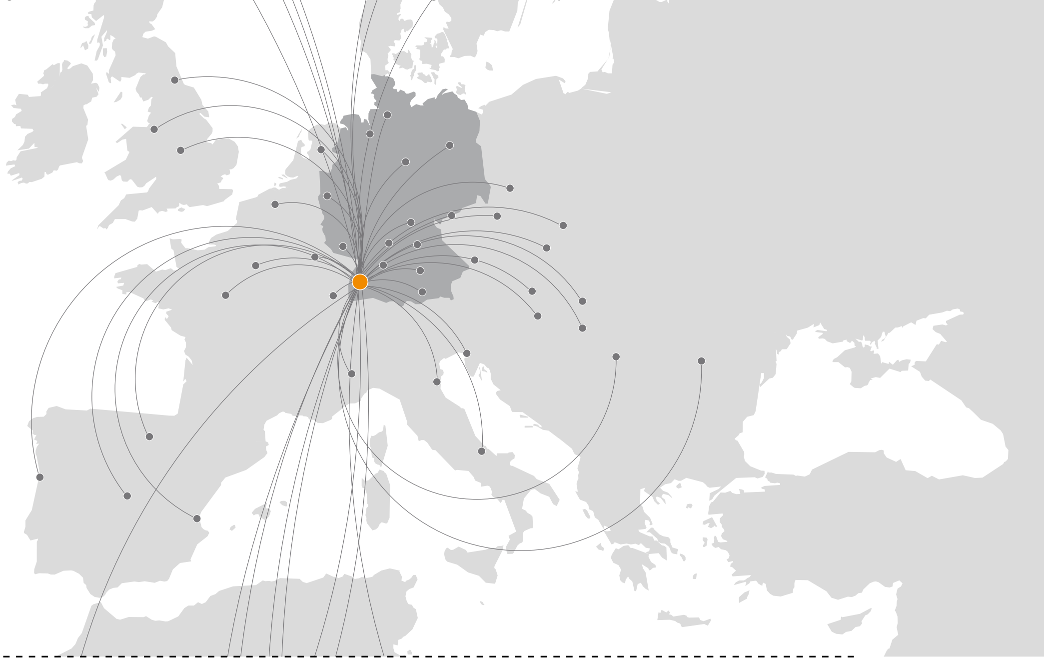
LIGHTWEIGHT CONSTRUCTION THROUGH OPTIMIZATION OF DESIGN AND SHEET THICKNESS



18% LESS WEIGHT

2015 – GLOBAL REACH

We belong to a small group of automotive suppliers in our segment with global delivery capabilities. We manufacture at five locations on three continents. We increase the proximity to our customers on a project-by-project basis by using additional assembly locations and working with select partners.



2016 – PREMIUM SUPPLIER

We are innovative, reliable and efficient – from the initial concept and the development of products and processes to delivery on the last day of series production. This is why we are one of a small elite group of premium suppliers to the global automotive industry.

01
INNOVATIVE

03
EFFICIENT

02
RELIABLE

WE ARE **RELIABLE**. WITH THEIR ONGOING **STRONG DEDICATION**, OUR EMPLOYEES GAIN THE TRUST OF OUR CUSTOMERS. THEY ENSURE THE **ON-TIME DELIVERY** OF OUR PRODUCTS IN **ZERO-DEFECT QUALITY** EVEN WHEN AT FIRST THIS APPEARS ALMOST IMPOSSIBLE.

19 COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

GUIDE TUBES AND CASINGS
ARE PART OF THE STEERING SYSTEM

These components are used for the longitudinal adjustment of the steering wheel and load handling in the event of an accident. Maximum precision welding processes and a strict inspection plan in production ensure a reliable manufacturing process.

RELIABLE

CUSTOMER SYSTEMS ARE VERY COMPLEX AND VERY DIFFERENT. WE SPEAK THE INDIVIDUAL LANGUAGE OF OUR CUSTOMERS AND CAN MAKE COMMITMENTS THAT LAST THROUGHOUT AN ENTIRE DEVELOPMENT AND PRODUCTION CYCLE.

01

THE UTMOST COMMITMENT

OF OUR EMPLOYEES REPRESENTS MAXIMUM RELIABILITY

→ THE HIGHER THE CPK VALUE, THE LOWER THE NUMBER OF DEFECTIVE PARTS EXPECTED PER MILLION

PWO ACHIEVES THE REQUIRED CPK VALUE OF 1.67. THIS IS EQUIVALENT TO **1 DEFECTIVE PART PER 1,754,386.**

PROCESS CAPABILITY INDEX

$C_{pK} = 1.67$

$1 / 1.75$ MIO.

02

ON-TIME DELIVERY

PRECISELY TAILORED PROCESSES

OUTGOING TRUCK SHIPMENTS DAILY: MORE THAN

100

TONS OF STEEL PER YEAR: APPROXIMATELY

140,000

CROSS-MEMBERS DELIVERED IN 2016: APPROXIMATELY

1.8 M

UNITS

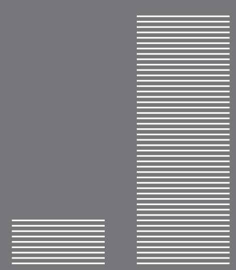
03

ZERO-DEFECT QUALITY

INCREASING REQUIREMENTS FROM ONE GENERATION OF COMPONENTS TO THE NEXT

→ NUMBER OF DRAWING FEATURES TO DATE APPROX. 120 / NOW MORE THAN 300

→ AT THE SAME TIME, 43 MEASURING POINTS FOR MEASURING FLATNESS TO DATE / NOW 86 MEASURING POINTS



MEASUREMENT REPORT FOR THIS COMPONENT: 9 PAGES TO DATE / NOW 47 PAGES

On the following pages, we present the combined management report for Progress-Werk Oberkirch Aktiengesellschaft and the Group for the 2016 fiscal year ending December 31, 2016.

COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The consolidated financial statement of Progress-Werk Oberkirch AG and its subsidiaries were 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 pursuant to the supplementary provisions under Section 315a (1) of the German Commercial Code (HGB). Progress-Werk Oberkirch AG conducts its accounting according to the provisions of the HGB as amended by the German Accounting Directives Implementation Act (BilRUG) and the supplementary provisions of the Stock Corporation Act (AktG).

The composition of the scope of consolidation is described in detail in the notes to the consolidated financial statements. There have been no changes to the scope of consolidation in the reporting year.

GROUP PRINCIPLES

BUSINESS MODEL

ORGANIZATIONAL STRUCTURE OF THE GROUP
All our business activities are geared toward maximum efficiency, which is why the Group maintains a simple and transparent structure. The five production locations and one assembly location form the Group's main units.

The Group's headquarters are in Oberkirch, Germany, and the Group's management is carried out by Progress-Werk Oberkirch AG from this office. Most of the Company's international locations are direct subsidiaries, except in China where PWO has established an intermediate holding company based in Hong Kong. This company currently has no operational functions.

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

SALES MARKETS, LOCATIONS, AND SEGMENTS
We have positioned ourselves as one of a small group of premium suppliers to our customers that has global delivery capabilities.

We deliver to these customers worldwide using a combination of production and assembly locations. Our production locations require a high level of capital investment, which is the reason why we have centralized our forming capacities and pool the extensive expertise of our employees necessary for continued process innovation at these locations. Our employees' high level of expertise is the only way to ensure that the forming plants operate profitably over the long-term.

We build assembly plants near customers who are located at greater distances from our production locations to ensure that these customers receive efficient and reliable delivery. At these assembly plants, individual components are integrated into complex subsystems that are too large to transport over long distances. This largely entails semi-skilled work that goes hand in hand with a high degree of automation. The payback period of an assembly plants is always based on the lifetime of individual orders. When these orders expire or call orders fall short of expectations for a longer period of time, the relevant capacity can be transferred relatively easy within the Group.

Because production locations are very capital intensive, deciding where to build and develop a production site is a basic element of the Group's management. The local market should offer enough potential to maintain long-term capacity utilization with high unit numbers.

This is the reason we have set up production capacity in markets where a high volume of premium vehicles are already manufactured. These are the only markets that offer sustainable outsourcing volumes from automotive manufacturers and Tier 1 suppliers that are high enough and ensure that our investments provide adequate returns. When a market does not meet our criteria, we then opt to work on specific projects with local partners.

The Group's locations include two locations in Europe: one in Oberkirch, Germany, and one in Valašské Meziříčí, Czechia. We also have two locations in the NAFTA Area: one in Kitchener, Canada, and one in Puebla, Mexico. In Asia, we have one production location in Suzhou, China. We have one assembly location in Shenyang, China, which is a separate branch facility of the location in Suzhou.

The combination of production locations in the large international automotive markets and project-oriented assembly locations in the vicinity of the customer secures the locations' capacity utilization and offers us the greatest possible flexibility when reacting to changes in customer demand or the regulatory and political environment. For this reason, we do not see a general need to change our portfolio of locations at this time, even in the aftermath of US presidential elections and in the face of government programs that are significantly different from those of the previous administration.

Innovation and process efficiency in our business are largely driven by tool design. Most of the Group's capacity and expertise in tool design is based in Germany and Czechia. We also have extensive expertise at our Canadian location, but limited capacity. We are making solid progress in developing China as an additional platform for low-priced purchases of less sophisticated tool categories, and in Mexico we are currently concentrating on tool maintenance.

All five of the Group's production locations are generally responsible for acquiring their own orders and managing their operations. Decisions about a location's long-term growth potential and need for financial resources are made by Progress-Werk Oberkirch AG's Management Board and depend on the technological capabilities of the individual location, its profitability, long-term local order potential and an available pool of qualified workers.

The four business segments – Germany, Rest of Europe, NAFTA Area and Asia – are defined along the lines of the prevailing internal organizational structure and correlate to the regions where we have operating locations.

PRODUCT AND SOLUTION EXPERTISE AND OPERATING PROCESSES

PRODUCTS

PWO is one of the world's leading developers and manufacturers of advanced metal components and subsystems used in lightweight construction for automotive safety and comfort. Though a majority of our components and modules are produced for the premium automotive segment, we also supply a number of volume models.

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

In the course of our nearly 100-year company history, we have gathered the best expertise available when it comes to the behavior of steel during the cold forming process and the use of sophisticated joining technologies. Today, we produce components and subsystems made of steel – including high-strength, lightweight steel – as well those made of stainless steel and aluminum.

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

In this process, we apply "Industry 4.0" concepts, which maximize the use of modern information and communication technology in production. The integration of customers and business partners in the overall business and production processes along the value chain and their intelligent networking allows us to achieve considerable efficiency gains.

In the past fiscal year, revenues were broken down according to the three strategic product areas as follows:

Mechanical components for electrical/electronic applications and safety components for airbags, seats and steering that are supplied predominantly to international Tier 1 suppliers, which in turn supply them to various automotive manufacturers as part of their own systems for numerous vehicle models. These two product areas respectively accounted for 20 and 34 percent of revenue in the reporting year.

Structural components and subsystems for vehicle bodies and chassis are usually manufactured directly on behalf of the vehicle manufacturer, depending on the model. However, the range of applications is also continually increasing as a result of the increasing use of platform concepts, which form the basis for the manufacturer's different vehicle models. In fiscal year 2016, we generated 46 percent of our revenue in this product area.

COMPREHENSIVE SOLUTIONS
Our competitive advantage is based on a large pool of expertise in several areas, which combined, allow us to provide first class service, which includes meeting the highest quality requirements, profitably realizing complex product functionality and reliably delivering to customers – not only promptly and in the correct quantities, but also at the quality requested.

Designing and producing high-performance, low-cost tools is another advantage which gives us the ability to ensure reliable processes even at high production speeds. We also have a thorough technological understanding of the customer's systems and processes giving us the know-how to develop, explain and communicate the ideal process to the customer.

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

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

COST-EFFICIENT LIGHTWEIGHT CONSTRUCTION
A crucial criterion for winning orders next to a product's functionality and quality is weight.

We positioned the Company in the market for lightweight solutions early on and today enjoy an outstanding reputation in this area. Lightweight solutions and their cost effectiveness are inextricably linked, which is why we devised the principle of cost-efficient lightweight solutions.

Weight reduction can be achieved by either substituting traditional deep-drawn steel with other high-strength steels or using load-optimized designs for components with traditional deep-drawn steel. Our proven ability to design lightweight solutions with minimal material costs and stable production costs while still offering the required functionality is one of the key factors that differentiate PWO from the competition.

RESEARCH AND DEVELOPMENT
We design and manufacture our components and subsystems exclusively according to the customer's specifications. Consequently, the majority of our product development costs are tied to customer projects. Research and product development activities for the Group's own purposes are of secondary importance. The use of third-party services for these activities is also immaterial.

EXTERNAL FACTORS INFLUENCING OUR 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 chapters "Macroeconomic Environment" and "The International Automotive Industry Environment."

Other external influential factors, such as the industry's ongoing price pressure, fluctuations in customer call orders, changes in material prices and exchange rates and long-term demand due to regulatory changes – particularly the global tightening of emission standards – as well as their impact, are presented in the risk report. This report also describes the possible impact on our business from changes in the political environment.

MANAGEMENT SYSTEM

We are committed to the Group's sustainable growth, financial strength, increasing its profitability and limiting order-related and cyclical risks. As a premium supplier, i.e., as a preferred partner of our customers, we are in an optimal position to achieve these goals in an everglobalizing industry and to continue to achieve them on a sustainable basis in the future. Over the past several years, we have built a worldwide network of locations to secure this position. Meanwhile, we have completed the phase of heavy investment in our locations, and our focus has now turned to promptly providing the resources necessary for the next period of strong growth.

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

Our aim is to steadily increase revenues while continually improving the EBIT margin. Positive free cash flow should also be generated so that the combined effect of these various indicators reduces the dynamic leverage ratio and improves the financial position. Our aim, however, is not necessarily to improve all of these parameters every year. Instead, we are looking for a balance between improving our financial ratios and taking advantage of unique market opportunities, which usually entail a temporary period of higher investment.

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

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

REPORT ON BUSINESS DEVELOPMENT

MACROECONOMIC ENVIRONMENT

Real global economic growth declined slightly overall in 2016 versus the prior year. The International Monetary Fund (IMF) is expecting the trend in the global economy to have remained nearly steady with growth of 3.1 percent in 2016 (p/y: 3.2 percent).

Since the second half of 2016, some industrialized countries have seen certain signs of recovery, while economic conditions in a few of the emerging markets in South America and especially Turkey have deteriorated. At the same time, the upturn in the US accelerated sharply. After a slow start in the first half of the year, the US economy picked up and grew 1.6 percent in 2016 (p/y: 2.6 percent).

The development in Europe improved in the second half of 2016, particularly in Spain, Italy and the United Kingdom. The same was true for Japan and especially China, whose economy was supported by strong government stimulus. The Chinese economy rose by 6.7 percent (6.9 percent) in 2016. The slightly higher oil price recently helped the Russian economy, but the country remained in a recession in 2016 with a minus of 0.6 percent.

Economic growth also picked up considerably in Germany, especially in the fourth quarter. Both internal and external economic factors contributed to this improvement. Exports, for example, have recently picked up again and, together with the high volume of new orders, led to a marked increase in industrial production.

Sentiment indicators were at record highs, even among consumers. Overall growth in Germany in the 2016 fiscal year was stimulated primarily by strong domestic demand. Private consumption benefited from the continued favorable labor market situation and the high growth of real disposable incomes due to the low inflation. Construction investment also rose as a result of favorable financing conditions, and government spending expanded significantly as a result of the refugee crisis.

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

Region	Full year 2016	Change vs. 2015 (%)
Germany	3,351,700	+4.5
Western Europe (EU15 + EFTA)	13,971,500	+5.8
New EU Countries (EU13)	1,160,300	+15.9
Europe (EU28 + EFTA) [1]	15,131,700	+6.5
Russia [2]	1,425,800	-11.0
USA [2]	17,465,000	+0.4
China	23,693,400	+17.8

1 Excluding Malta.
2 Light Vehicles.

The increase in exports and investment in equipment, however, was still held back by weak global trade. The weakness in exports was particularly evident in exports to countries outside the European Economic and Monetary Union. According to preliminary calculations by the Federal Statistical Office, Germany's real gross domestic product (GDP) grew by 1.9 percent in 2016, which was just slightly more than in the previous year (+ 1.7 percent). In the eurozone as whole, the IMF expects real growth of 1.7 percent in 2016 (p/y: 2.0 percent). This expectation, however, still does not take the higher growth rate of the German economy into account.

THE ENVIRONMENT IN THE INTERNATIONAL AUTOMOTIVE INDUSTRY

The year 2016 was another good year for auto manufacturers, continuing the positive trend of recent years. Auto sales in the US and China once again reached record highs, and sales in Europe also reached new peaks.

With a total of 14.0 million new passenger vehicle registrations, the Western European market achieved growth of 5.8 percent in the full year 2016 compared to 9.0 percent in the previous year. The growth of new registrations in the new EU countries even picked up: after an increase of 12.1 percent in 2015, new registrations rose by 15.9 percent in 2016. A total of 15.1 million units (p/y: 14.2 million) were sold in the whole of Europe in the reporting year, corresponding to growth of 6.5 percent (p/y: 9.2 percent).

The US market for light vehicles (passenger cars and light trucks) grew by 0.4 percent in 2016 to a new record level of 17.5 million units. At just under 10.6 million units, almost 7 percent more light trucks were sold, while the passenger vehicle segment recorded a decline of around 9 percent. The shift in the trend toward light trucks continued allowing the share of the light truck segment to exceed the 60 percent threshold in 2016.

The Russian market continued to decline as a result of the general economic slowdown that continued in 2016. Light vehicle sales fell to 1.4 million units for a further year-on-year drop of 11 percent following a slump of 36 percent in the previous year.

The Chinese passenger car market continued to grow strongly in 2016 with an increase of almost 18 percent to 23.7 million units and even exceeded the growth rate of the previous year (+9.1 percent). This strong positive performance, however, could also be due to early purchases ahead of the reverse in the reduction at the start of 2017 in value-added taxes on small-engine vehicles, which has been in place since October 2015.

The sales of German manufacturers in the US market fell by a total of four percent to 1.33 million new vehicles, mainly as a result of the VW affair, but also due to model changes. The German manufacturers were still particularly strong in premium passenger vehicles and premium SUVs, where they hold a market share of more than 40 percent. Sales in the important light truck segment were up 13 percent growing almost twice as fast as the segment as a whole (+7 percent). Today, four out of ten new cars sold in the US by German manufacturers are light trucks. In the passenger vehicle segment, in contrast, German manufacturers were unable to maintain their market share registering a decline to 11.8 percent (p/y: 12.3 percent).

The share of new vehicles manufactured sold by German manufacturers in the US also rose in 2016 (41 percent versus 40 percent). Nearly one-quarter of these vehicles were exported to Europe and Asia. Exports from Germany to the US, on the other hand, fell sharply by 12 percent to 545.000 units in 2016.

According to the German Federal Motor Transport Authority, a total of 3.35 million new passenger vehicles were registered in Germany in 2016 representing an increase of 4.5 percent (p/y: 5.6 percent). At 5.7 million, Germany's production of passenger vehicles grew one percent over the prior year. Domestic passenger vehicle production benefited from rising domestic and foreign demand. At 4.4 million units (p/y: 4.4 million), more than 77 percent of the cars built in Germany were exported.

BUSINESS DEVELOPMENT

ORDER SITUATION

The year 2015 was already a record year for the Company in terms of new business volume. In 2016, we were able to significantly surpass that record by generating roughly EUR 730 million in lifetime volume, EUR 50 million of which is attributed to tools. This compares to the previous year in which the volume of new business reached approximately EUR 600 million with around EUR 40 million of that volume attributed to tools. Most of the new series productions are scheduled to begin in the 2017 and 2018 fiscal years. One of the major contracts for the German location will not begin until 2020. Most of our series productions have terms of five to eight years.

Once again, large volume orders for instrument panel carriers made up a majority of the new business volume. These orders were from different customers for a variety of global platforms and dispersed across nearly all locations. Two of these new orders were from European automotive manufacturers who are setting up new plants in Mexico to optimize their production operations for the global market. While the plans of these manufacturers have not been affected by the presidential elections in the United States, a major American manufacturer has since terminated its plans for a new plant in Mexico. As a result, one of the orders planned for this plant in Mexico will now be produced in Canada. The other contract will be delivered to the customer's existing plant in Hermosillo, Mexico. We will now set up a location in Hermosillo instead of building the assembly plant we had planned for San Luis Potosí.

Having a strong reputation in the customer market proved particularly important in receiving the new orders for designing and producing instrument panel carriers. These orders give us a unique opportunity to demonstrate our capabilities as a premium supplier: Providing customers with an optimum design requires significant innovative strength when it comes to developing the entire component group and the related production processes. A high number of different tools are necessary for production and need to be ready when production starts. A wide range of production and assembly processes must be coordinated and run efficiently over many years to provide customers around the world with the called number of instrument panel carriers in the quality demanded while still achieving the planned margin.

This past year, we enjoyed success across our entire product spectrum both with large single orders as well as a variety of small- and medium-sized orders. These orders ensure that our diversified product range continues to be maintained going forward.

In terms of the regional distribution of new business, we are particularly excited about the strong level of new business in Oberkirch, signifying another improvement in this location's growth outlook. The recent measures taken to improve the German location's competitive position have enabled us to retrieve a large order that was initially placed at our location in Czechia. This order will ensure the utilization of the German location's capacity and will also help to tame the further growth in Czechia. This was our aim for Czechia this reporting year and the reason we curtailed our sales activities for this location.

In Canada, Mexico and China, in contrast, we acquired a substantial amount of new business given the current size of our locations. New business volume exceeded the current annual revenue of these locations several times over. We can now expect rapid expansion in these locations for the next several years.

COMPARISON OF FORECAST TO ACTUAL BUSINESS PERFORMANCE

	Actual results 2016	Forecast 2016 revised during the year	Forecast 2016 published in 2015 Annual Report	Actual results 2015
Revenue	EUR 409.6 million	--	approx. EUR 410 million	EUR 404.6 million
EBIT	EUR 21.6 million (before currency effects)	EUR 21 to 22 million (before currency effects)	EUR 20 million (before currency effects)	EUR 18.1 million (including currency effects)
Free cash flow	EUR 13.0 million	--	Positive	EUR -1.8 million
Equity ratio	29.6 percent	--	Slightly higher	29.3 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	2.8 years	--	Slight decline	3.1 years
Investment according to segment report	EUR 29.7 million	EUR 35 to 37 million	approx. EUR 35 million	EUR 28.8 million
Lifetime volume of new business (series and tool orders)	approx. EUR 730 million	approx. EUR 700 million	similar level as in 2015	EUR 600 million

FINANCIAL SITUATION

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE AND GROUP'S POSITION

Fiscal year 2016 was another very satisfactory business year. By achieving record new business, we have also built the basis for the Group's accelerated growth going forward.

The start-ups in large series productions that await us in the years ahead pose a new and different type of challenge for us. We will ensure these start-ups are managed with particular care. We have already started preparing for this challenge in 2016 by sharply improving the Group's performance in several areas, such as development, production and administration, both at home and abroad. We also significantly improved our balance sheet ratios.

The robust development in the previous fiscal year allowed us to raise our forecasts during the year for EBIT before currency effects and new business. Our revised expectations were fully confirmed by the Company's actual business performance. We are particularly pleased that we were able to achieve the higher adjusted EBIT forecast with revenue that met our original forecast.

We also met or exceeded our forecasts for balance sheet ratios and free cash flow. The positive free cash flow development was partly due to our ability to postpone investments to 2017 in the course of fine-tuning of our start-up plans. This trend cannot be extrapolated to future years.

The record new business achieved again in 2016 and our ability to exceed our upward revised forecasts underscore the strength of our market position and the performance capabilities of our sales staff.

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2016	in % of total output	2015	in % of total output
Revenue	409,612	96.7	404,597	97.9
Total output	423,534	100.0	413,294	100.0
Cost of materials	225,588	53.3	223,836	54.2
Staff costs	114,179	27.0	113,758	27.5
Other operating expenses	46,460	11.0	45,585	11.0
EBITDA	44,646	10.5	42,922	10.4
EBIT before currency effects	21,598	5.1	17,055	4.1
Currency effects according to the P&L	-1,873	-0.4	1,035	0.3
EBIT including currency effects	19,725	4.7	18,090	4.4
Net income for the period	9,522	2.2	7,544	1.8

RESULTS OF OPERATIONS

The PWO Group's sales and total output increased only moderately in the 2016 fiscal year to EUR 409.6 million (p/y: EUR 404.6 million) and EUR 423.5 million (p/y: EUR 413.3 million) as a result of declining material prices. Price reductions on raw materials are usually passed on to our customers. EBIT, however, was only marginally affected by the price reductions.

The development of the EBIT figure contains currency effects. We had already considered currency effects from hedge transactions included under hedge accounting in our planning. For this reason, these currency effects have not been adjusted in the line item "EBIT before currency effects". The previous year's figures have been adjusted accordingly.

Currency effects are presented in other operating income and expenses and reported as a separate line item in the notes to this annual report. Currency effects usually result primarily from translation-related write-offs of Group loans to finance our Chinese activities. We hedge only a portion of our intercompany loans because these translation effects are not accompanied by any economic risks. The weakness in the Mexican peso following the US elections also had a negative effect in the reporting year. The comments that follow refer to EBIT before currency effects because this item reflects the Company's operating development.

In 2016, the EBIT in Germany declined as expected whereas the profitability of our international activities increased sharply, particularly in Mexico and China. Based on the stability of the processes we have been able to achieve, we have completed all of the fine-tuning at these locations and no longer incur the related costs.

The above affects all of the positions of the income statement, particularly the cost of materials ratio which fell to 53.3 percent (p/y: 54.2 percent). Staff productivity also rose, as a result, bringing down the staff costs ratio. There was a slight increase, on the other hand, in the ratio of other operating expenses to revenues, excluding the effect of currency changes.

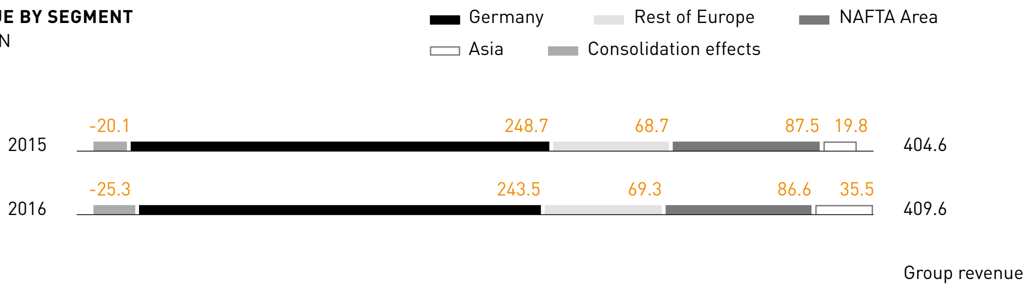
A slightly better financial result and a lower tax rate of 33.5 percent (p/y: 38.9 percent) due to the non-recurrence of losses abroad, led to a sharp rise of 26.2 percent in net income for the period to EUR 9.5 million (p/y: EUR 7.5 million) and earnings per share of EUR 3.05 (p/y: EUR 2.41).

SELECTED INFORMATION

EURk

	2016	in % of total output	2015	in % of total output
SEGMENT GERMANY				
Total revenue	243,472	96.6	248,728	98.8
External revenue	228,992	90.8	234,086	93.0
Total output	252,078	100.0	251,695	100.0
EBITDA	22,357	8.9	26,635	10.6
EBIT before currency effects	10,154	4.0	13,462	5.3
EBIT including currency effects	9,869	3.9	13,395	5.3
Net income for the period	14,526	5.8	14,854	5.9
Investment	18,905	--	11,914	--
SEGMENT REST OF EUROPE				
Total revenue	69,319	100.1	68,692	103.4
External revenue	65,430	94.5	65,699	98.9
Total output	69,253	100.0	66,409	100.0
EBITDA	10,332	14.9	9,675	14.6
EBIT before currency effects	6,295	9.1	6,463	9.7
EBIT including currency effects	6,298	9.1	6,375	9.6
Net income for the period	4,818	7.0	5,452	8.2
Investment	7,011	--	10,906	--
SEGMENT NAFTA AREA				
Total revenue	86,601	92.1	87,465	93.9
External revenue	86,474	92.0	87,273	93.7
Total output	94,015	100.0	93,162	100.0
EBITDA	9,404	10.0	7,652	8.2
EBIT before currency effects	4,612	4.9	778	0.8
EBIT including currency effects	3,521	3.7	1,276	1.4
Net income for the period	842	0.9	-1,345	-1.4
Investment	3,219	--	2,672	--
SEGMENT ASIA				
Total revenue	35,525	104.7	19,779	88.8
External revenue	28,716	84.6	17,539	78.7
Total output	33,942	100.0	22,284	100.0
EBITDA	2,964	8.7	-788	-3.5
EBIT before currency effects	944	2.8	-3,514	-15.8
EBIT including currency effects	408	1.2	-2,758	-12.4
Net income for the period	-1,162	-3.4	-4,258	-19.1
Investment	556	--	3,300	--

TOTAL REVENUE BY SEGMENT
IN EUR MILLION



SEGMENTS

The individual production locations are aligned with the Group's internal management and form the basis for the regional segment reporting. The segments are defined according to the regional location of the Group's assets. Revenues are also allocated in this manner. The two plants in Mexico and Canada are included in the reportable NAFTA segment.

Internal revenue between the individual locations is derived mainly from deliveries of series parts and tools between locations. Germany, Czechia and China are the main locations providing tools for other locations.

The total revenue and total output of our home location of Oberkirch that comprises the Germany segment were lower than in the previous year. This development reflects the material price effects already described and the lower market growth in Germany relative to the international automotive markets.

The medium-term aim at this location is to secure its current size and generate growth, particularly through gains in market share. To achieve this we rely on a program to steadily optimize costs and increase productivity and, in the reporting year, continued to successfully implement important measures, especially through a new organizational structure and revised supplemental agreement.

However, implementing the new structure and preparing extensively for the Group's future growth entail additional costs. These costs were the cause for the expected visible decline in EBIT in the 2016 fiscal year.

The financial result in the reporting year amounted to EUR 8.4 million (p/y: EUR 5.6 million) and includes financial expenses, interest income from loans issued to subsidiaries and dividend distributions from subsidiaries to the German parent company totaling EUR 9.3 million (p/y: EUR 7.0 million). The slightly lower tax rate of 20.6 percent (p/y: 21.9 percent) resulted in net income for the period of EUR 14.5 million (p/y: EUR 14.9 million).

Our Czech Republic location, which forms the Rest of Europe segment, has increased its total revenue by roughly 50 percent in the three-year period from 2013 to 2015. As expected, 2016 was a year in which we consolidated at the level we had already achieved. In times of persistently high call orders, we worked on limiting the bottlenecks in capacity and securing our processes. The continued high level of utilization and the inefficiencies that resulted led to a slight decline in EBIT. Still, we were able to generate a pleasing EBIT margin of 9.1 percent (p/y: 9.7 percent), which was sharply above the Group's average.

Net income for the period amounted to EUR 4.8 million (p/y: EUR 5.5 million) following slightly higher financial expenses of EUR 1.3 million (p/y: EUR 1.1 million) and negligible income taxes of EUR 0.2 million (p/y: net tax benefits of EUR 0.2 million).

The NAFTA Area segment comprises our locations in Canada and Mexico. From these two locations, we can serve the entire North American market. Depending on where our customers' production is located, we create the necessary capacities for the production of our products in the northern or southern NAFTA area, thus optimizing the logistics concepts for supplying our customers.

The negative comments made by the new American president regarding free trade in the NAFTA region did not yet impact our business development in the reporting year. However, as already mentioned, there were influences from the weakness of the Mexican currency. The reduction in expenses incurred in local currency, in particular wages and salaries, was offset by the measurement of balance sheet items, particularly loans and trade receivables.

While total revenues in this segment stagnated in the year under review, our EBIT was significantly higher than in the prior year. At our established and highly efficient

Canadian location, we achieved an absolute rise in EBIT through our particularly stringent control and successful process management despite a decline in revenue. In Mexico, we were able to offset low call orders from one customer with the start-up and ramp-up of new series orders and, in the end, substantially increase our sales. Now that our processes in Mexico have been sustainably stabilized, we turned the business around and delivered a clearly positive EBIT for the full year.

The NAFTA Area segment recorded a sharp improvement in net income for the period in the reporting year reaching EUR 0.8 million (p/y: EUR -1.3 million). This figure includes financial expenses of EUR 1.9 million (p/y: EUR 1.8 million) and unchanged income taxes of EUR 0.8 million.

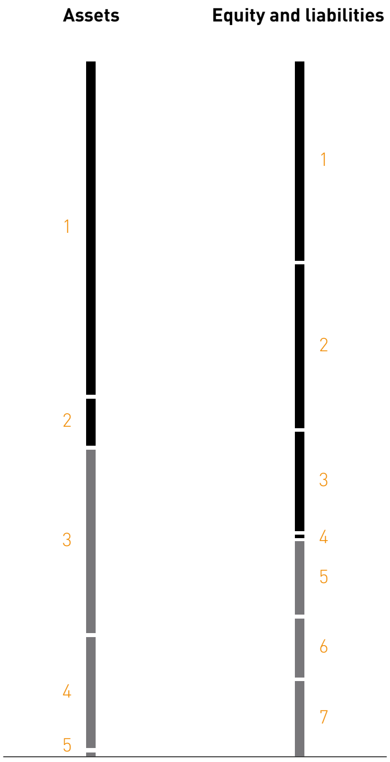
The Asia segment in the fiscal year 2016 grew significantly faster than initially expected. This segment consists of the production location in Suzhou and the assembly location in Shenyang (both in China) that commenced operations in fall 2015.

Total revenue for the segment grew eighty percent, and total output increased a solid fifty percent. This allowed us not only to reach the expected break-even level in this segment but also enables us to record a clearly positive EBIT. Financial expenses remained almost unchanged at EUR 1.4 million and net income for the period improved to EUR -1.2 million (p/y: EUR -4.3 million).

The segment's very positive development was supported by higher-than-expected customer call orders, and thereby better capacity utilization, as well as the efficient ramp-up of production in Shenyang. We have also successfully established our China operations as the global tool supplier to the PWO Group. With these achievements, our Chinese activities have reached an important milestone in the reporting year.

At the same time, we have just started to set up the needed capacity for further growth in our production while rapidly expanding our resources dedicated to tools. In this respect, China will play a key role for the Group in providing the necessary comprehensive tools for the forthcoming major new contracts for instrument panel carriers.

BALANCE SHEET STRUCTURE AS OF DECEMBER 31, 2016
TOTAL ASSETS: EUR 359.4 MILLION
IN EUR MILLION



1 Property, plant and equipment **176.6**
2 Other non-current assets **24.9**

3 Inventories **97.1**
4 Receivables and other current assets **58.8**
5 Cash and cash equivalents **2.0**

1 Equity **106.5**
2 Non-current financial liabilities **87.4**
3 Non-current provisions for pensions **52.9**
4 Other non-current liabilities **1.7**

5 Current financial liabilities **39.1**
6 Trade payables **31.4**
7 Other current liabilities **40.3**

NET ASSETS

In the 2016 fiscal year, we continued to fine tune the management of our balance sheet. This entailed closely monitoring our investments. Our investment versus annual depreciation and amortization is becoming more in balance resulting in a leveling off in the growth of non-current assets. The main investments in 2016 were again made in our German and Czech locations. Our focal points of investment are described in the section "Financial Position."

We have made significant progress in managing our receivables with our absolute level of trade receivables even falling to a level of EUR 49.2 million (p/y: EUR 60.9 million) in the reporting year. The development of work in progress, however, is not yet satisfactory, particularly with respect to tools designed and produced for the series productions. This item increased to EUR 47.8 million (p/y: EUR 36.1 million) in the reporting year and was the main reason our current assets increased versus the prior year. Total assets rose overall in the 2016 fiscal year to EUR 359.4 million (p/y: EUR 352.4 million).

The balance sheet's financing structure improved considerably in 2016. Along with an essentially unchanged equity ratio of 29.6 percent (p/y: 29.3 percent) the leverage ratio declined visibly to 2.8 years (p/y: 3.1 years). This decline was a result of the higher EBITDA and the simultaneous decline in net debt.

The lower level of net debt was offset by higher trade payables, which are our third large source of refinancing. The rise in trade payables, which are used to partially finance work in progress, was lower compared to the growth of work in progress. Pension provisions were also higher than in the previous year for valuation reasons, and other liabilities recorded a reporting date-related increase.

DEVELOPMENT OF EQUITY RATIO AND DYNAMIC LEVERAGE RATIO

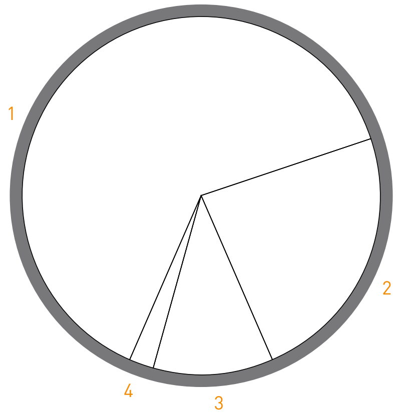
EURk	2016	2015
Equity	106,536	103,111
Total assets	359,419	352,430
EQUITY RATIO = EQUITY IN % OF TOTAL ASSETS	**29.6**	**29.3**
Non-current financial liabilities	87,395	90,683
Current financial liabilities	39,077	46,396
Cash and cash equivalents	-2,014	-4,242
NET DEBT	**124,458**	**132,837**
EBITDA	**44,646**	**42,922**
DYNAMIC LEVERAGE RATIO IN YEARS = NET DEBT /EBITDA	**2.8**	**3.1**

During the past fiscal year, we entered for the first time into a syndicated loan of EUR 100 million with existing bank partners and a new bank. As a result, existing bilateral financing agreements were combined and the Group's financial flexibility was increased. The volume mentioned can also be used to finance acquisitions. The new variable financing has a term of five years and gives PWO an option to renew. Aside from the syndicated loan, several of the bilateral credit agreements with limited amounts are continuing unchanged.

The financial liabilities, which bear interest rates between 0.80 and 7.75 percent, consist essentially of a syndicated loan and a promissory note. There are also still a few high-interest bilateral loans whose fixed interest rates will only expire over the next few years. The higher interest rates of the range mentioned above are primarily on subordinated, local financing arrangements for individual subsidiaries.

We are adequately positioned on the refinancing side and are not planning any exceptionally high investments in the future that would make it necessary to carry out financing activities such as high-volume capital increases or bond issues. In addition, existing agreements that contain extension options are regularly reviewed. We believe the Group's mid-term financing is well-secured given the new syndicated loan agreement.

INVESTMENTS IN 2016 BY SEGMENT
100 % = EUR 29.7 MILLION



1 Germany **64 %**
2 Rest of Europe **24 %**
3 NAFTA Area **11 %**
4 Asia **2 %**

FINANCIAL POSITION
The favorable outcome from better managing our balance sheet is also evident in the significant rise in our cash flow from operating activities. In 2016, this item reached EUR 46.3 million (p/y: EUR 31.1 million). In comparison to the cash flow in 2014 of EUR 24.7 million, this represents an increase of almost ninety percent in two years.

The higher cash flow in 2016 resulted primarily from the reporting year's higher net profit for the period and a positive effect from the change in non-current liabilities (excluding financial liabilities) – especially pension provisions – whereas this position still had a significantly negative effect on cash flows in the previous year. In addition, the current liabilities (excluding financial liabilities) were significantly above the previous year's figure, as explained above and thus had a more positive effect on cash flows than in the prior year, mainly due to the development of trade payables. Further minor changes were attributable to various items.

Last year, cash outflows for investing activities amounted to EUR 28.8 million (p/y: EUR 28.2 million). After interest paid and received of EUR -4.5 million (previous year EUR -4.6 million), free cash flow amounted to EUR 13.0 million (p/y: EUR -1.8 million).

Including dividend payments of EUR 4.8 million (p/y: EUR 4.5 million) as well as repayment of borrowings totaling a net EUR 12.7 million (p/y: net assumption of borrowings of EUR 4.3 million), the change in cash and cash equivalents amounted to EUR -4.5 million (p/y: EUR -2.0 million).

In 2016, there were no significant financing measures other than the aforementioned syndicated loan. Securing sufficient liquidity for the PWO Group is always the focus of our financial management. Our liquidity is managed efficiently.

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

Purchase commitments from investments in property, plant and equipment amounted to EUR 8.7 million as of the reporting date (p/y: EUR 13.1 million). The commitments are due within the year 2017 and are to be financed from current operating cash flow and existing credit facilities.

As shown in the segment report, in 2016 we invested a total of EUR 29.7 million (p/y: EUR 28.8 million). The difference to the cash flow from investing activities described above stems from lease financing. Aside from continuing to expand the international locations, we also focused in the reporting year on the construction of a new administrative building at our Oberkirch location.

We invested a total of EUR 18.9 million (p/y: EUR 11.9 million) in Germany in the reporting year. The new administrative building was opened on schedule in the fall of 2016. Departments that had been spread across the entire site, such as the purchasing, development, sales and administration were all relocated to the new building.

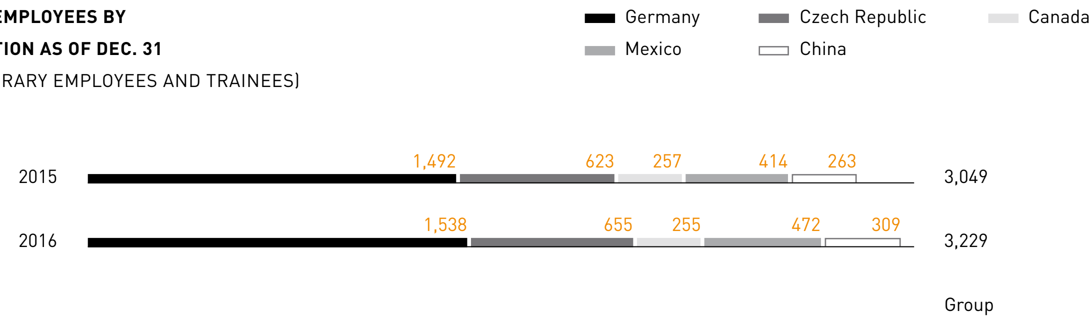
Bringing these activities under one roof shortens the paths of communication and improves processes. We also invested in the modernization and optimization of this location's presses, assembly cells and test equipment.

In 2016, we invested EUR 7.0 million (p/y: EUR 10.9 million) in the expansion of our location in Czechia. Due to the continued high utilization at this site, we accelerated our pace of investment and continued to purchase additional forming presses and a milling machine and increased the space available. We are also looking at relocating the assembly activities to create other options for expanding the press area.

The majority of the investment of EUR 3.2 million (p/y: EUR 2.7 million) made in the NAFTA Area was allocated to Mexico. The Canadian location is already established, and a substantial budget to support the location's above-average growth outlook in the future is currently not necessary. Mexico, on the other hand, is about to start-up some major new series productions, for which we are now setting up the necessary capacity. We have continued our investment in process optimization to increase the performance of the Mexican production location.

We invested only a small sum of EUR 0.6 million (p/y: EUR 3.3 million) in our locations in China in 2016. The construction of the assembly location in Shenyang has been completed, and the expansion of the Suzhou production location will continue as of 2017.

NUMBER OF EMPLOYEES BY GROUP LOCATION AS OF DEC. 31
(INCL. TEMPORARY EMPLOYEES AND TRAINEES)



EMPLOYEES

In the past fiscal year, we were able to increase productivity in the personnel area as expected, especially at our more established locations in Germany and Canada. As a result, the increase in employees took place mainly in our foreign locations that have higher growth expectations. As of December 31, 2016, the PWO Group had a total of 3,229 employees (p/y: 3,049), including 153 trainees (p/y: 147).

The Oberkirch location benefited from adjustments in indirect areas and process optimizations initiated in prior years. Therefore there was a production-related rise in the number of part-time employees.

In August 2016, we agreed to a new supplemental agreement for the German location with representatives of the Oberkirch employees and the IG Metall. The agreement begins on January 1, 2017 and thereby makes a seamless transition from the previous agreement. The agreement is part of the ongoing efforts to ensure the competitiveness of the Group's home base. It is linked to the safeguarding of jobs until the end of 2020.

In contrast, we have significantly increased our level of personnel at the Czech location. This enabled us to mitigate the current high capacity utilization and, at the same time, prepare us for future growth. In view of the shortage of skilled workers in this country, we are also currently filling vacancies as early as possible to create a reserve, when economically feasible.

The increase in the number of employees in the NAFTA area resulted from a continuous and noticeable increase in the number of employees at the Mexican location during the year, mainly in preparation for the planned series start-ups. In Canada, in contrast, the number of employees was unchanged.

The number of employees in Asia increased at our production location in Suzhou and our assembly plant in Shenyang in preparation for our current and future expansion.

We also continue to be strongly committed to training young people and helping them get a good start in their careers. Training also enables the Group to secure skilled personnel in the future. We typically offer apprenticeships at our headquarters in Germany and our international locations.

To promote the internationality of our workforce, we give particularly young, talented and motivated employees the opportunity to spend time abroad during their training to expand their perspective. The expense for our employees' further training and education in the reporting year amounted to EUR 3.3 million (p/y: EUR 3.2 million) and showed that 2016 was another year of strong investment in this very important area.

The staff turnover ratio at the PWO Group in the past year was higher at 2.5 percent (p/y: 1.6 percent). With the implementation of our new matrix organization, which was first introduced at our Oberkirch location, we initiated several changes and filled a variety of positions with new employees in order to ensure that PWO has the right employee in the right position in the Group for PWO's continued growth.

REPORT ON FORECASTS, OPPORTUNITIES AND RISKS

RISK REPORT

RISK PHILOSOPHY AND RISK POLICY

The basic principle of our risk philosophy continues to be to avoid risk that could jeopardize the Company's existence and to limit and handle strategic and operational risk. Risk and especially financial risk that is not inherent in our operating business is avoided.

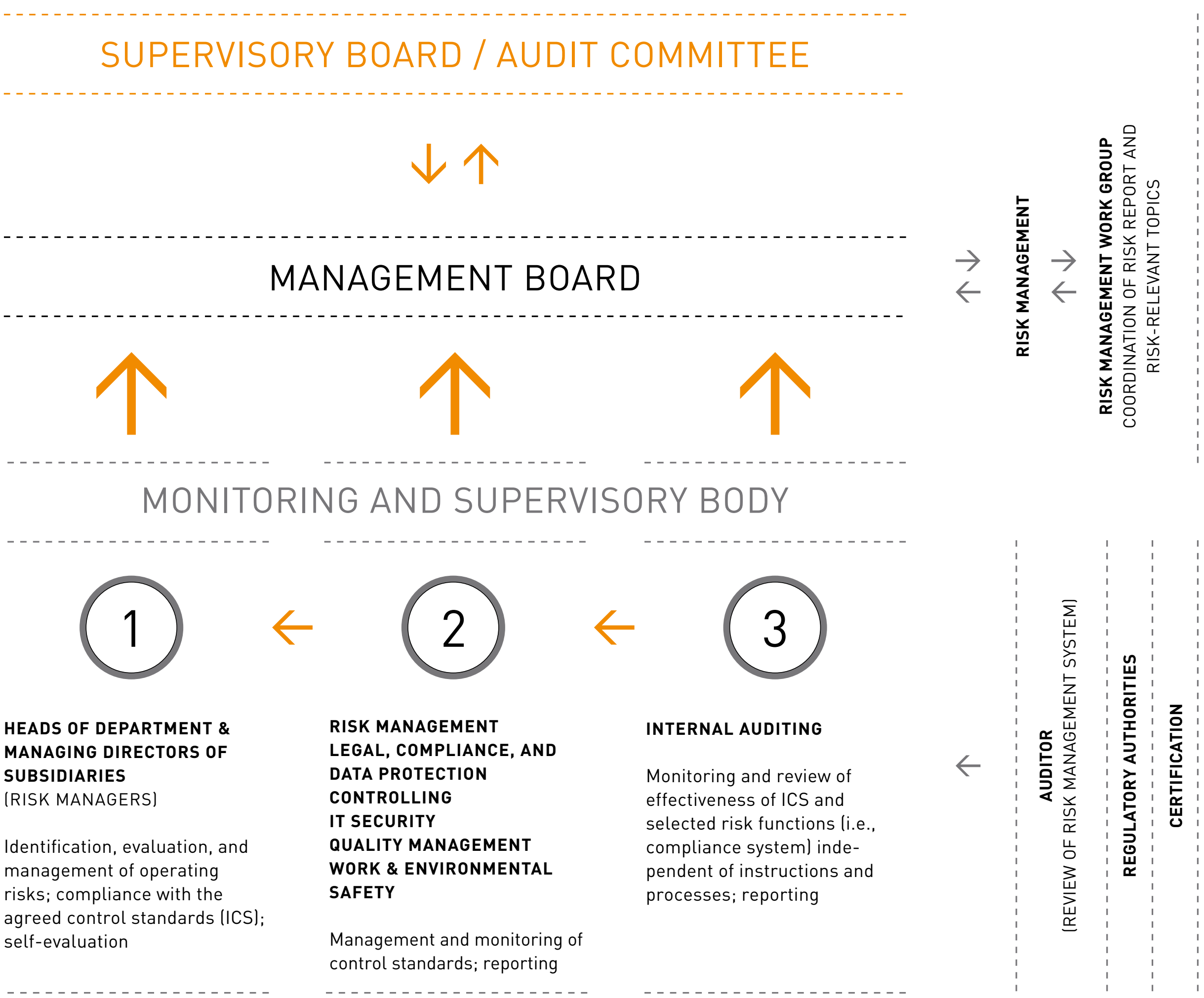
We are generally not in the practice of using interest rate and currency forecasts as part of planning or management because we determine our actions based on the forecasts of banks and our own projections and use the necessary hedging instruments. The aim of risk management is to optimize the Group's opportunity and risk profile and reduce or optimize the cost associated with risk. A key aspect of PWO's risk philosophy is recognizing market opportunities.

PWO'S RISK MANAGEMENT SYSTEM

ORGANIZATION OF THE PWO GROUP'S RISK MANAGEMENT SYSTEM

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

ORGANIZATION OF THE RISK MANAGEMENT SYSTEM WITHIN THE PWO GROUP



STATUS AND DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

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

In fiscal year 2016, we proceeded with our multi-year plan to steadily expand the risk management system. For the first time, risk management was integrated into the established processes and medium-term planning on a Group-wide basis.

Group-wide risk seminars and risk coordination were expanded, and we are now also conducting risk workshops, some of which are project-based and span across various hierarchy levels. This is how we hope to identify potential weaknesses and opportunities at an early stage and ensure the measures initiated are effective. The aim is to transform the risk management system into a strategic instrument and make it possible for the Management Board to steer the Group with the help of risk indicators.

COMPLIANCE MANAGEMENT AND INTERNAL AUDITING

At PWO, the compliant behavior of the Group and all its employees is one of the basic principles of good corporate governance and builds the basis for the Group's sustainable success. PWO has therefore established a Group-wide compliance management system (CMS) that is closely linked to the risk management system.

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

Compliance issues are handled openly at PWO and effectively communicated. Compliance with the published and binding Code of Conduct of all those responsible is regularly monitored and documented. Maintaining employee awareness increases a sense of how important compliance issues are and helps to prevent new risks.

In fiscal year 2016, the Business Partner Code of Conduct, initially developed for PWO AG at the end of 2015, was implemented or introduction was prepared at the Company's foreign subsidiaries. Meanwhile, basic training courses on compliance have now been established for all new employees as part of introductory events. Compliance is a very high priority at PWO. As a result, concrete projects for the further expansion of the CMS in the coming years were defined again in the reporting year.

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. It is based on specific policies, procedures, regulations, and measures that aim at the following objectives:

- securing the effectiveness and efficiency of business activities, including the protection of assets;

- ensuring the accuracy and reliability of internal and external accounting;

- complying with applicable legal regulations, in particular, the compliance of the consolidated financial statements and the group management report with the respective standards.

To achieve these objectives, all operating units are integrated according to a precisely defined management and reporting organization. The principles, procedures, processes, schedules and systems are documented in writing, and their compliance and proper implementation is reviewed by Internal Auditing in the context of its risk-oriented audit plan. The entire organization is reviewed periodically for effectiveness and adapted to external and internal developments.

There is a clear segregation of duties among all units involved, which is implemented just as consistently as the four-eye principle. Employees involved in the financial reporting process meet the qualitative requirements and are trained on a routine basis.

The consolidated financial statements are prepared in a multi-step process with automated or manual controls embedded at all levels. The individual subsidiaries prepare their financial statements, which are audited by the respective auditors and then combined with the consolidated financial statements of Progress-Werk Oberkirch AG.

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

New laws, accounting standards, and other official announcements are continually analyzed for their relevance and impact on the consolidated financial statements and the combined management report, and integrated into the accounting process when necessary.

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

– identification and analysis of the essential areas of risk and control,

– monitoring and plausibility checks to oversee the processes and their results at the level of the Management Board and the operating business units, which includes regular visits to foreign locations throughout the year by the Management Board and parent company management staff,

– preventive control measures in finance and accounting, as well as the essential operational business processes for accounting,

– measures to ensure the proper, complete, and timely IT-based processing of accounting-related matters and data,

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

– documentation of the control process.

DEVELOPMENT OF THE OVERALL RISK POSITION

The PWO Group's overall risk position was virtually unchanged in fiscal year 2016, and no significant new risks have emerged. The planning for 2017 also assumes an unchanged risk position. In the course of the fiscal year, there was increased discussion about an accelerated change to electric vehicles. The registration numbers for these vehicles remain very low. An enormous amount of investment, for example, in infrastructure such as charging stations, will be necessary to allow electric vehicles to rapidly expand their market share. Nevertheless, the automotive industry is increasingly shifting to the coming change. This shift does not negatively affect us because our solutions have essentially nothing to do with applications for a vehicle's powertrain. The following report contains our statements concerning individual medium-term risks and opportunities.

Compared to last year's report, some risks have been eliminated. In addition, in the course of further developing our reporting, we have adjusted the allocation of individual risks to the risk categories. Above all, however, the weighting of the three most important risk categories has changed. In the area of performance risk, we currently see the greatest risks for possible pressure on earnings. This is due to today's strong order situation and the corresponding increase in the Group's capacity utilization. This applies to all three individual risks presented. The risks in the market category have also gained in importance. This is due, in particular, to the development of the material prices for our raw materials. Last year, the financial risk category was still the most heavily weighted risk category. This year, however financial risk drops down to third place because we believe the risk of impairments has declined.

The Group's overall risk position continues to be in a range common in our line of business. The Management Board strongly believes that the risks described below are manageable and do not pose a threat to the Group's continued existence.

DEFINITION OF RISK ASSESSMENT

	Amount of damage	Probability of occurrence	Risk significance (Net expected value)
Very low	Below EUR 1 million	Below 5%	Below EUR 0.25 million
Low	EUR 1 - 2 million	5 to 25%	Above EUR 0.25 - 0.5 million
Moderate	EUR 2 - 10 million	25 to 50%	Above EUR 0.5 - 2 million
High	Above EUR 10 million	Above 50%	Above EUR 2 million

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

The following presents the major risks and opportunities for our 2017 operating planning and takes into account any risk mitigating internal measures. We continue to classify risk in the following risk categories: performance, financial, market, regulatory and other risk. The order of the risk categories and the individual risks within each category presented below reflects our current assessment of the relative level of risk in descending order.

In our business, we typically have a high degree of predictability within a manageable margin of fluctuation. This is partly a result of our orders' multi-year lead times and the five- to eight-year series lifetimes. It also shows that the Group's strategic management is aimed at ensuring business runs as steady as possible.

Although the long-term nature of our business helps us limit risk, it also limits our short-term opportunities. This is the reason the risks outweigh the opportunities in the following presentation of our 2017 operating plan.

The risk assessments above always show the worst-case scenario after taking risk mitigation into consideration.

The following table provides the respective amount of damage, probability of occurrence and risk relevance within our categories for the largest single risk of the highest rated subcategory. The sum of all the individual risks of a category determines their importance in our risk management system. This is how the diverse performance risks of a production company such as PWO are easily controlled. Therefore, the individual net expected value is very small. Nevertheless, the number of risks in this category is larger in aggregate than, for example, the number of financial risks in which the largest single risk is to be classified as having a mean net expected value.

OVERVIEW

Risk	Amount of damage	Probability of occurrence	Risk significance (Net expected value)
Performance risk			
including quality risk/product liability and recall risk	Very low	Moderate	Very low
Market risk			
including raw materials	Low	Moderate	Moderate
Financial risk			
including impairments	High	Very low	Moderate
Regulatory risk			
including risks from tax and political conditions	Moderate	Moderate	Moderate
Other risk			
including availability of skilled personnel	Very low	Moderate	Very low

PERFORMANCE RISK

Quality Risk / Product Liability and Recall Risk

Providing series production to the international automotive industry implies being able to meet the requirements of maximum process reliability, product quality and delivery reliability – even in times of fluctuating call orders – on an ongoing and reliable basis over a period of many years. Performance failures and quality fluctuations not only lead to short-term costs but also to significant damage to one's reputation. Therefore, for providers like PWO who have positioned themselves at the forefront of the market, performance failures and inconsistent quality must be avoided at all cost.

Customers' quality requirements are particularly increasing at the moment. While the number of defective parts tolerated per million components has ever declined in recent years, defective parts today are being measured in absolute terms, i.e., independent of the delivered quantity. The goal of zero-defect deliveries is therefore even more challenging. At the same time, for example, residues of the oil film, which is necessary for the deep-drawing of steel, are increasingly regarded as contamination and, thereby, as defects.

This is the reason we are continually expanding the scope of testing for our components and documenting their impeccable quality before they leave our Company. The management task thereby is to limit the additional internal effort necessary.

Product liability and product recall risks in the automotive industry have also continued to increase in recent years. So far, we have not been affected by this trend. We have effectively secured our processes with our comprehensive quality and risk management systems. Naturally, the PWO Group is insured against these types of risks. The sums insured by the contracts are regularly reviewed and adjusted if necessary. We also hold ongoing training on the procedures to follow in case we do experience a product recall.

Business Interruption in Production

Business interruption risk results mainly from damage to a manufacturing line or tool or their failure. Depending on the extent of damage and the duration of the failure, this can prevent timely delivery to our customers and in the worst case lead to an interruption of the customer's operations.

The PWO Group usually limits this risk through comprehensive business continuity management. However, the higher the location's temporary capacity utilization, the higher the risk.

The capacity constraints experienced to date at our Czech location were only somewhat minimized in the reporting year, despite the addition of a new forming press, because customer call orders continue to surpass expectations. The Chinese location is also experiencing significant production bottlenecks in the course the current ramp-up in production. We are responding to these risks using a variety of tools and making adjustments at all levels of the production process.

In the Company's opinion, the risk of a complete location failure, representing a risk to the Company's viability, could only emerge from external, uncontrollable factors, especially a natural catastrophe or a force majeure. With safeguards applied throughout the Group that are checked regularly and extensively by recognized external consultants, we can effectively limit the potential damage caused by natural events. Therefore, we firmly believe that a complete location failure can be ruled out almost entirely.

Start-Up and Ramp-Up Risk
The start-up and ramp-up of new series productions involve a number of risks. For one, we are required to do upfront investments such as providing suitable capacity. This results in capacity utilization risk, which tends to rise as customers increasingly extend the period between the provision of the required production facilities and the start of series production so that they may hedge their own production starting dates.

In addition, the start-up and ramp-up of production go through a "learning curve" where efficiency is relatively low at the start of production and then continuously increases. At the same time, the timely delivery of components to our customers in the agreed quality is always a top priority. If the start-up of new series production is not optimal, this not only can cause our profit margin to temporarily fall short of expectations but also result in considerable costs to the Group as a result of waste, touch-ups, additional work shifts or special freight charges, among others.

We do, however, have many years of extensive experience in this field so that we can also successfully manage these risks. Based on our currently strong order acquisitions, we will have a number of new major series productions in the coming years, some with very high degrees of complexity.

We not only have this situation at our established locations in Europe and Canada but also at our technologically less mature locations in China and Mexico. As a result, we are faced with significantly higher risks. To minimize this risk, we can generally shift some of the suitable individual serial orders to other locations. However, this would involve additional expenses.

Apart from the usual extensive support of our employees from Oberkirch, we will also increase the fine-tuning of our project management. In the future, effective risk management will be integrated into existing project management and controlling for selected major projects. The first of such projects is the establishment of the new assembly plant in Mexico including the series productions planned at this site. The enhanced project management may also lead to visible profit opportunities in the medium term, which are explained in the relevant section below.

MARKET RISK

Raw Materials
The raw materials required for our production processes include steel, in particular, and aluminum to a much lesser extent. We buy these metals on the world market from long-term suppliers. The availability of the raw materials is generally high, so we have not experienced any supply bottlenecks in the past. In the future, we expect to be able to secure the necessary supply through appropriate arrangements, even though requirements in this area have recently risen.

Until now, we have been able to pass on raw material price increases to our customers that exceed the fluctuations stipulated in our customer agreements. We have done so either directly through escalation clauses or by negotiating acceptable solutions with our customers.

Recently, however, the volatility of commodity prices has risen sharply. It is currently difficult to hedge long-term framework contracts at economically acceptable prices, which is the reason our risks are significantly higher.

Fluctuations in Customer Call Orders (Fluctuations in Sales Volume)
An essential prerequisite for achieving the margins necessary in a capital-intensive business such as ours is ensuring the sufficient utilization of our production locations. For existing contracts, utilization risk includes specifically the fluctuation of sales during series production due to the fluctuations in demand from the end customer. The risk with new orders is that starting dates for new projects may be delayed.

As a result of our broadly diversified product range and strategic limiting of large orders, we a have become virtually independent of the success of any one vehicle model or individual contract. Nevertheless, lower-than-expected volumes across a larger number of start-ups or for single large volume production start-ups may still result in added pressure. At the same time, slowdowns in the automotive industry or a region's economic growth can lead to lower call orders across our entire order range.

Because of the long-term nature of our business, we can only compensate for short-term fluctuations in capacity utilization by adjusting our costs. This is the reason we are constantly improving the flexibility of our business processes. We have set up our machine park as flexibly as possible and also implement uniform production processes worldwide. This means we can replace expiring serial orders with follow-on orders from different product areas. In addition, we also have the general option of relocating machinery and assembly plants within our location portfolio.

Risk of Price Declines
The unwavering increase in competition and price pressure is one of the inherent risks of the automotive supply industry. This risk fundamentally affects the profitability of the PWO Group. Through our innovative strength, we can generate quantifiable added value for our customers. Our global delivery capability is another aspect that sets us apart. These qualities are a good starting point for regular negotiations with our customers. Nevertheless, it is still necessary to constantly increase the efficiency of all operational processes at all locations and, in addition, generate a visible increase in revenue every year to secure our profitability.

Loss of a Strategic Supplier due to Insolvency
In some areas, we limit our purchases of intermediary products to just a few selected suppliers. When we lose one of these strategic suppliers unexpectedly, for example, because of insolvency, there is a risk that we may not find a quick alternative sources of supply. This can also lead to problems with customer deliveries and have a corresponding impact on the PWO Group's earnings situation. We address this risk by systematically selecting our strategic suppliers and continually monitoring their creditworthiness, and through the ongoing development of our supply chain management.

Loss of a Major Customer
The PWO Group operates in a very competitive environment and is always exposed to the risk of being displaced by existing or new competitors.

At the Group level, our broadly based position keeps us independent of any one major customer. In the reporting year, only two customers accounted for more than 10 percent of our total revenue across all segments. In addition, our customer revenues usually stem from different independent projects secured by contracts. The simultaneous loss of all projects from a single customer can be excluded almost entirely.

A substantial share of some of our location's revenues can be attributed to individual customers, particularly at our Czechia location and the two locations in the NAFTA Area.

In this case, meeting requirements for quality and timely delivery are especially important because the loss of a customer could have a tremendously negative effect on the location and, consequently, the Group. We also have our request management staff keep a particularly close eye on tenders for new and follow-on contracts.

FINANCIAL RISKS
Impairments
The risk of an impairment of non-current assets exists particularly when plans have not been achieved, or the earnings outlook deteriorates. An increase in the discount rate used for future expected cash flows also increases risk.

Our subsidiaries in Mexico and China made a positive contribution to Group EBIT before currency effects in the past fiscal year. We want to secure and continue this encouraging development in 2017. The current start-ups and ramp-ups of series productions, as well as the high volume of new orders scheduled for the years thereafter, underpin this positive outlook.

Rapid growth is also associated with risk, particularly with respect to the management of start-ups and ramp-ups and potential capacity bottlenecks. Still, we assume that we can steadily manage these risks on a long-term basis and that any burdens will only be of a temporary nature. Our plans, therefore, affirm the carrying amounts of our assets.

Currency Risks
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, Mexican peso, Chinese renminbi and the Czech koruna.

We use hedging to avoid currency risk by securing the currency parities and thereby the expected contribution margins when entering into contracts. The hedging instruments used are chosen based on a detailed analysis of the underlying transaction. For additional information about the risks of using financial instruments, please refer to the notes of this annual report.

Most of our currency risk is hedged in stages leaving very little remaining unhedged risk. We only partially hedge the translation risk of the loans given by the parent company to foreign locations to finance their business because the loans' associated currency fluctuation does not represent an actual economic risk.

Financing and Interest Rate Risk
We do not face any risk in terms of financing our current business and planned investments. We have long-standing and solid relationships with our banking partners and also use capital market-related refinancing instruments.

In the year under review, we successfully concluded a syndicated loan in the amount of EUR 100 million with existing bank partners and a new bank for the first time. The syndicated loan has a five-year maturity. This loan combined existing bilateral financing and the Group was able to expand its financial leeway. In concluding this loan, we have secured enough financing to give us a sufficient level of planning certainty for the next several years. Within the scope of the syndicated loan and the promissory note issued in 2014, we have agreed to financial covenants that are customary in the market and currently expect to be able to fulfill these covenants.

The Group is generally exposed to interest rate risks. A significant increase in capital market interest rates would lead to a higher interest rate on the variable portion of our refinancing instruments. It would also mean that, at the time the fixed interest rate expires, the bank loans would need to be refinanced at a higher rate. These risks are limited by a balanced structure of the maturities of our financial liabilities and their related interest rate hedges.

Financing risk may also arise from a financial institution's inability to meet its obligations related to investments in liquid funds or as a counterparty to derivative financial assets. Because we emphasize caution and diversity when choosing our partners, we do not see any need to alter our risk management.

A further decline in the current level of interest rates, on the other hand, would lead to additional pressure on the equity ratio and, in turn, the quality of the Group's financial position due to the discounting of pension provisions. We do not expect interest rates to drop sharply again in the future. A future rise in interest rates would have a positive effect on the valuation of our pension provisions and our equity ratio.

Finally, the fraud risks arising from CEO fraud and other forms of cybercrime have clearly increased. This type of fraud involves criminals operating with falsified documents or fictitious identities to order fraudulent payments or put pressure on employees to order these payments. The goal being to transfer substantial amounts of money from companies to foreign accounts.

We provide regular training to our employees on this and other fraudulent activities. We also secure any larger payment transactions via multi-stage approval processes. And finally, we have clear instructions and reporting channels that ensure that top managers cannot circumvent the internal rules of conduct.

REGULATORY RISK
Risks from Tax and Political Conditions
German tax law is indeed one of the most complex areas of the law, which is all the more true the more a company is internationally intertwined. For this reason, the Group's tax risks – including the risk of additional tax payments as a result of routine tax audits – are generally increasing. We ensure that we use tax consultants to a sufficient extent, both those who are well acquainted with the relevant local regulations, as well as those with expertise in international tax law.

With Mexico and China, two of our sites are located in countries with less stable political, social and legal conditions than, for example, in Europe. We have invested high volumes in these locations in the past few years so that the PWO Group can profit from the opportunities in these growth markets of the international automotive industry.

We limit our risks in these countries 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 future developments.

With respect to the political environment, we expect some pressure to come from the United States and the United Kingdom. Given that the international automotive industry is extremely flexible, we believe it would take only a short amount of time for it to adapt to any changes in the environment. That said, we cannot rule out any temporary negatives.

The new US president is a keen critic of free trade in the NAFTA region, especially between Mexico and the United States. Mexico is one of the major automotive centers, as well as one of the world's most important vehicle exporters. In order to reduce risks, we are currently expanding our Mexican location, primarily on a project-related basis and reducing general, non-project specific investments.

In Great Britain, the local government is promoting what is called a "hard Brexit," which represents a wide-ranging break from the European Union. This does not affect the PWO Group directly, since we have only a limited number of direct customer relationships in Great Britain. For the German automotive industry, however, Great Britain represents the largest export market. Every fifth car sold by German manufacturers abroad, is sold in the UK.

Compliance Risk
Violations of national and international laws and internal and external regulations may lead to substantial fines, claims for damages or the imprisonment of the employees involved.

We address general compliance risk by using our compliance management system discussed at the beginning of the risk report. Individual components of this system are continually updated so that there is a continued reduction of risk in this area.

We also closely control the special compliance risk of patents. The development of new products entails the risk that industrial property rights of third parties – in our industry these are patents or utility models – are infringed. The problem is with patent rights that are already registered but not yet published since there is a lack of full transparency when it comes to whether the patent rights of another market participant are infringed. The risk is that unplanned license payments may occur, whereby a ban on production in the automobile sector is unlikely.

We limit the risk of patent infringement by cooperating with an external patent attorney, as well as through the long-term product and industry expertise of our employees. There are currently no disputes.

OTHER RISK
Availability of Skilled Personnel
Generally, all locations are faced with the risk of the lack of availability of skilled personnel for a variety of reasons; for example, due to the lack of a qualified local workforce, an existing or foreseeable shortage of skilled workers or due to expected demographic developments in one country. In view of the scheduled large-scale new orders in the coming years, the timely availability of a sufficient number of skilled personnel with very diverse qualifications is a specific risk.

We limit this risk through sophisticated personnel recruitment, training and retention. This includes, among other things, continuing to train employees from the German location in preparation for assignments at our international locations. At present, this risk is well-managed throughout the Group. However, we assume that the Group's continued growth will result in ever-increasing requirements at our locations, which we intend to meet by closely monitoring and addressing them as early as possible.

In addition, we meet a portion of our personnel requirements using temporary staff. There is a risk the legislator will limit their use more in the future, which would reduce our flexibility when scheduling staff. The best manner to react to this development will depend on the relevant regulatory framework.

IT Risk
Open IT structures, which make processes available worldwide and at the same time ensure the confidentiality of information and data security, are now one of the basic prerequisites for lasting corporate success. For years, we have been committed to the consolidation of all IT services in a PWO Private Cloud.

The certified information security management system (IMS) at the Oberkirch site is in constant evolution. The basic principles of the IMS are applied at all PWO locations. The elements of IMS are gradually applied after being adapted to the development and operational requirements of the respective international locations.

PRESENTATION OF RISKS AND OPPORTUNITIES HAVING A PREDOMINANTLY MEDIUM- OR LONG-TERM EFFECT
The following provides an overview of the Group's medium-term strategic risks and opportunities, which are defined as those predominantly impacting a period of at least three years. In this chapter, we also list the risks and opportunities in the order of their relative importance to PWO based on our current assessment.

IMPROVING COMPETITIVENESS BY ADAPTING INTERNAL PROCESSES
We are currently adapting our internal processes by categorizing our products under business units. This has been implemented and is increasingly being practiced at our Oberkirch location. Our international locations are being gradually integrated into the new structures. The new processes will lead to a significant increase in efficiency and improvement in our competitiveness through the bundling of product expertise and the even greater standardization of all processes. Furthermore, the new matrix organization is designed to make knowledge more accessible across all departments and locations throughout the entire Group.

In the course of the implementing this organization, we have also revised and further improved the processes for transitioning projects from the development and conceptual phase to series production. We are thus confident that we will not only be able to further reduce risks by fine-tuning our management of start-ups and ramp-ups, but also improve our earnings.

DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGIES

Ongoing product and process innovation are the key to succeeding in securing and strengthening our competitive position in the industry. These factors not only ensure that we meet our customers increasing demands but also increase our production efficiency to safeguard our profitability. They are also necessary for finding technical and efficient solutions to meet the growing regulatory requirements for environmentally friendly vehicles. Customers' product specifications are also increasingly contradictory. Customers, for example, have higher safety criteria but demand lighter weight at the same.

Especially, in such cases, we have repeatedly emerged as the supplier with the "better" solution and have won the contract. Our deep understanding of the customer's demands along with our decades of experience in metal processing is the reason customers choose PWO.

DEVELOPMENT OF LONG-TERM DEMAND

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

Energy-Saving, Emission-Reducing Mobility

One of the essential criteria is reducing the weight of the vehicle's components to lower fuel consumption. We will continue to exploit the opportunities in this area that arise as a result of our leading expertise in lightweight construction. We are very successful with our concept of cost-optimized lightweight construction. We expect the share of weight-reduced parts and components will continue to grow significantly in the next few years, which presents us with opportunities to grow our market share.

We also do not see any risk to our business from the change from combustion engines to electric motors, which is currently a topic of increasing discussion, because essentially none of our solutions are positioned along the vehicle's powertrain.

More Automotive Safety and Comfort

The trend in the international automotive industry will continue to go in the direction of more safety and comfort in vehicles. For years, PWO has enjoyed a leading position in the area of comfort-enhancing solutions, for example, through vibration reduction in instrument panel carriers, multi-optional seat adjusters, components for added electrically powered functionality, and safety-related features such as higher impact absorption upon collision. We expect the trend toward driverless cars to continue to drive the demand of passengers for comfort. This represents yet another opportunity for PWO.

An opposite effect would occur if, in the course of this trend, new vehicle manufacturers developed significantly simpler vehicle concepts than today that would appeal to customers. The first such deliberations of a large American company have already been deferred. In our estimation, the success of such concepts would represent such a fundamental change in customer preferences that it could only occur gradually over a very long period of time.

Development of the Customer and Competitive Environment

The high capital intensity of the automotive industry, increasing competition in global markets and CO_2 reduction requirements are forcing global automakers to increasingly use outside expertise and obtain substantial portions of their value chain from suppliers. We are confident that we will be able to benefit tremendously from this trend through our innovation, proven delivery quality and reliability and our global delivery capabilities.

Extending PWO's Global Reach

With our five production sites, we are well positioned in all of the relevant markets; namely, the markets where premium vehicles are predominantly manufactured locally in large numbers. In future, we will increase our global reach by adding assembly locations based on our orders. The first of these locations is already operating successfully in China. This structure enables us to benefit even more from the trend in the automakers' shift to suppliers who can deliver globally.

Tool Sourcing from China

Our tool sourcing strategy for sourcing tools from China has been well-received. In the course of preparing for the start-up of new major orders for instrument panel carriers, we will source a substantial amount of tools from the less sophisticated categories in China and profit from the lower price level.

The development thus far makes us confident that we can exceed our medium-term expectations. It is conceivable that we may also start to source technologically more sophisticated tools for the Group from China. We, therefore, see greater opportunities than risks for our earnings development in this area over the next few years.

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

REPORT ON FORECASTS AND OUTLOOK

EXPECTED GENERAL ECONOMIC AND INDUSTRY DEVELOPMENT

The global economy is currently experiencing a cautious upturn. According to the IMF, the global economy should accelerate slightly and grow 3.4 percent in 2017. The German Federal Government expects global growth of almost 3.3 percent. The overall momentum in the OECD countries, however, is expected to increase only marginally, while the economic outlook for the commodity-exporting countries, and thus of the emerging economies, is expected to improve in 2017 due to higher commodity prices.

The further development in the US represents the greatest factor of uncertainty in economic forecasts. It is still unclear what direction the new US administration's economic policy will take under President Donald Trump. The IMF assumes stronger fiscal policy stimulus and has increased its forecast accordingly. The IMF now expects US growth of 2.3 percent in 2017. Expectations for Germany, Japan, Spain and the United Kingdom were also revised slightly upwards in January of 2017. The overall growth rate for advanced economies in 2017 is expected at 1.9 percent compared to 1.6 percent in the previous year.

The global economic recovery in the current year is expected to be supported primarily by renewed momentum the emerging markets, with particular momentum being achieved by those countries that have been in a recession in recent years. Growth in the emerging market countries is expected to reach 4.5 percent in 2017, after 4.1 percent in 2016. The recession in Russia is expected to dissipate, and the country is expected to grow 1.1 percent in 2017. Performance in the other CIS countries is also expected to be better this year. In Latin America, Brazil is expected to grow 0.2 percent in 2017 after years of recession. Growth in China is expected to normalize at 6.5 percent after 6.7 percent in the previous year.

The IMF expects economic development in the eurozone to remain very modest. Growth in all of the major euro countries is anticipated to decline slightly. The IMF expects the same development in Great Britain.

The Federal Government's expectations for Germany are somewhat more optimistic, projecting that the good economic situation will continue throughout 2017. The Federal Government expects a slightly lower growth of 1.4 percent in the price-adjusted gross domestic product for the current year, which is mainly due to the fewer number of working days versus the previous year.

The rising incomes accompanying the positive labor market development coupled with only a moderate rise in consumer prices will continue to provide favorable conditions for private households. The strong financial situation in the public sector will allow for a growing level of public spending on consumption and investment. Capital investment is also expected to increase as a result of rising demand from abroad and slightly above-average capacity utilization. However, there are still considerable external risk factors amid the modest development of global trade and the risk of protectionist tendencies weighing on exports.

The German Association of the Automotive Industry (VDA) expects the worldwide automotive market to continue to grow in the 2017 fiscal year by two percent to 83.6 million units sold. This expectation is also based on what appears to be the end of a long downward journey for the recession-plagued countries of Brazil and Russia. Russia is expected to grow by 5 percent to 1.5 million new vehicles. The Brazilian market is not expected to fall any further and in the year 2017 should stabilize at last year's low level.

As a result of Brexit, the VDA expects a drop in sales of eight percent in Great Britain but indicates that this projection has a high level of uncertainty due to the risks surrounding the process for Great Britain's exit from the European Union going forward. The VDA is, therefore, assuming steady development in Western Europe as a whole with a total of 14 million new passenger vehicles registered. China is projected to grow 5 percent to 24.2 million units, and the US market is expected to hold steady in 2017 at its record level of 17.5 million light vehicles achieved in 2016 (passenger cars and light trucks).

BUSINESS DEVELOPMENT AND FUTURE DIRECTION

DEVELOPMENT OF THE PWO GROUP

Our 2017 planning assumes that the Group's scope of consolidation will remain unchanged. Our planning is also based on detailed individual assessments of the volumes of current series productions and the upcoming and start-ups, ramp-ups and phase-outs.

For 2017, we expect the Group to develop very favorably and achieve a substantial increase in profitability. Revenues are expected to rise to around EUR 450 million. However, this growth will also be influenced by higher material prices, which we can generally pass on to our customers via higher unit prices for our components. Excluding this effect, i.e., on a purely operating basis, we expect revenue of around EUR 430 million for an increase of just under 5 percent.

Based on the exchange rates hedged at the end of 2016, EBIT before currency effects is expected to grow strongly to EUR 23 million to EUR 24 million. This represents an increase of around 17 percent compared to the value of EUR 19.7 million reported for fiscal year 2016, which includes the current currency effects. With regard to exchange rates, we are not assuming any effect on EBIT due to our high hedging ratio.

The burden of the financial result and the tax rate are expected to fall to allow for a disproportionate rise in net income for the period. This expectation is based on the regional composition of the results presented below and the significant improvements at almost all our locations.

As in previous years, the Group's revenue growth will be predominantly supported by our foreign subsidiaries. Real growth, that is, growth adjusted for material prices, is expected to come primarily from Czechia and Mexico and the series business in China.

In Oberkirch, we expect the various efforts at that location to increase efficiency and productivity to have a positive impact in 2017. We, therefore, expect a significant improvement in EBIT despite the fact that revenues in real terms are expected to remain essentially unchanged. The Czech site is set to continue its positive development in the current fiscal year. Large jumps in revenue should not be expected because the location is already operating at high capacity utilization. Nevertheless, EBIT is expected to continue to grow, and the margin should remain just under 10 percent.

In the NAFTA region, we expect the Canadian location to develop steadily. In Mexico, we cannot rule out that there may be a temporary slowdown in growth due to the changes in the political environment. Nevertheless, due to the high volume of new start-ups and ramp-ups in series orders, we still expect to see an appreciable level of growth. The location in Mexico is also expected to make a visible contribution to the improvement of Group EBIT.

The revenue of the China segment is not expected to grow significantly in 2017. Lower tool revenue is expected to be offset by a roughly 20 percent increase in revenue from series parts. Based on this expectation, we continue the high speed of start-ups and ramp-ups of new series productions. EBIT is also expected to improve rapidly.

NET ASSETS AND FINANCIAL POSITION
The PWO Group's net assets and financial position sharply improved in the past fiscal year with some indicators performing better than expected. In 2017, we aim to essentially maintain our equity and dynamic leverage ratios accompanied by an EBIT growing slightly faster than EBITDA and a positive free cash. Achieving these targets will largely depend on the fine tuning of investments.

INVESTMENT
The investment plans for the current 2017 fiscal year call for a volume of roughly EUR 40 million. This volume will be used not only for replacement and order-based investments for the production of instrument panel carriers at all locations but also investments in new presses at the Czechia, Mexico and China locations. Some of the investments that could be postponed in the past fiscal year will be carried out in 2017. In return, we expect to be able to realize even more savings in the current fiscal year through our ongoing disciplined investment management.

Over the next three years, a solid EUR 100 million will be invested. This level of investment does not exceed the average long-term investment volume over a three-year time frame despite the high growth we have planned.

ORDER SITUATION
Our customers have already awarded their new major series production orders, and we were successful in acquiring new orders. Our focus in 2017 will be on preparing for the new start-ups over the next few years and to fill specific gaps in capacity. Our planning foresees new business of around EUR 250 million in 2017.

DIVIDEND POLICY
We plan to continue our shareholder-friendly dividend policy. Our general intention is to propose dividend increases only when it is probable that the scale of the distribution is expected to be maintained in the years that follow.

OVERALL STATEMENT ON FUTURE DEVELOPMENT
The PWO Group is very well positioned today. Our key performance indicators are all pointing in the right direction. We have achieved a sustained turnaround in both our Mexican and Chinese activities. The high level of new business in the past two years has given us the means to create the basis for the Group's future expansion. The profitability increase achieved shows that we are in a position to finance this growth from free cash flow.

Now it is a matter of mastering the challenges presented by future start-ups and carrying them out profitably. We have aligned our management and risk management to accomplish this. At the end of the 2016 fiscal year, we remain confident that we will be able to significantly increase the Group's revenue, profitability and balance sheet strength in the coming years.

DEPENDENCY REPORT

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

TAKEOVER-RELATED DISCLOSURES PURSUANT TO SECTION 289 (4) AND SECTION 315 (4) HGB

The information required under Sections 289 (4) and 315 (4) HGB is detailed and explained below.

The share capital of Progress-Werk Oberkirch AG (the "Company") is EUR 9,375,000,00 and is divided into 3,125,000 no-par value bearer shares. All shares are bearer shares. They carry identical rights and convey one vote each at the Annual General Meeting. Reference is made to the provisions of the German Stock Corporation Act regarding the rights and obligations related to the holding of shares.

There are no restrictions on the voting rights or the transfer of shares, and the Management Board is not aware of any such arrangements agreed between shareholders. There is no participation of employees who do not exercise their control rights directly.

Consult Invest Beteiligungsberatungs-GmbH, Böblingen, Germany, has notified us of its interest exceeding 10 percent of the voting rights in Progress-Werk Oberkirch AG: The holding in the Company currently amounts to 46.62 percent.

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

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

Subject to the consent of the Supervisory Board, the Management Board is authorized to increase the Company's share capital once or several times by up to a total of EUR 4,687,500,00 (Authorized Capital 2015) by issuing new non-par bearer shares against contribution in cash and/or in kind until and including the date of May 18, 2020. Generally, subscription rights must be granted to shareholders. Further details of the authorization are contained in the resolution of the Annual General Meeting of May 19, 2015.

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

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289A AND 315 (5) HGB

The Corporate Governance Statement of Progress-Werk Oberkirch AG is part of the corporate governance report, which is published on the Company's website under www.progress-werk.de/en/investor-relations/corporate-governance/.

MANAGEMENT BOARD REMUNERATION ACCORDING TO DRS 17

EURk

	Fixed remuneration						Performance-related remuneration				Total remuneration	
	Basic annual salary		Non-cash benefits		Other benefits		One-year variable remuneration		Multi-year variable remuneration			
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Dr. Volker Simon, Speaker [1]	300	300	14	29	0	0	127	104	140	134	581	567
Bernd Bartmann	198	198	35	29	0	0	99	81	97	113	429	421
Johannes Obrecht (since July 1, 2016) [1]	154	--	6	--	0	--	0	--	0	--	160	--
Dr. Winfried Blümel (until June 30, 2016)	108	216	17	27	0	0	49	81	49	113	223	437
TOTAL	**760**	**714**	**72**	**85**	**0**	**0**	**275**	**266**	**286**	**360**	**1,393**	**1,425**

[1] Dr. Simon's 2016 basic annual salary includes EURk 50 (p/y: EURk 50) to establish a private retirement program.
Mr. Obrecht's 2016 basic annual salary includes EURk 70 of variable remuneration, which was agreed as a fixed amount.

REMUNERATION REPORT

The remuneration report presents the Management Board's and Supervisory Board's remuneration pursuant to the applicable accounting principles of the German Commercial Code (HGB) and German Accounting Standards (DRS 17) and the recommendations of the German Corporate Government Code (GCGC) in the valid version dated May 5, 2015.

REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

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

Total remuneration consists of fixed and performance-related components. The fixed components include the basic annual salary paid in twelve equal monthly payments, non-cash benefits and pension benefits. The bonus represents the performance-based element of remuneration and is divided into one-year and multiple-year variable components. The one-year variable component is measured according to the net income of the Group for the previous fiscal year. The multiple-year variable component is measured according to the Group's average net income over a period of three years. The absolute level of performance-based remuneration is limited in its amount and structured so that multi-year components outweigh one-year components and ensures that both positive and negative corporate developments are taken into account.

The existing employment contracts also provide for a discretionary bonus, whereby the Supervisory Board may consider extraordinary positive and negative developments at its discretion up to a limited annual maximum amount. The maximum amount for the Speaker of the Management Board is different than for the other Management Board members.

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

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

MANAGEMENT BOARD REMUNERATION ACCORDING TO DRS 17: PENSION COST

EURk

	Annual entitlement [1]		Present value of benefit obligations		Allocation to pension provisions	
	2016	2015	2016	2015	2016	2015
Dr. Volker Simon, Speaker	0	0	0	0	0	0
Bernd Bartmann	72	72	1,292	1,090	98	122
Johannes Obrecht (since July 1, 2016)	0	0	0	0	0	0
Dr. Winfried Blümel (until June 30, 2016)	43	72	874	957	41	99
TOTAL	**115**	**144**	**2,166**	**2,047**	**139**	**221**

[1] At the start of pension at the age of 65 years based on the entitlements earned until December 31, 2016.

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.

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 retirement. The allowance for Mr. Obrecht is paid by the Company directly into a pension trust.

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

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

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

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE DRS 17 ACCOUNTING STANDARD

The total Management Board remuneration for the 2016 fiscal year amounted to EURk 1,393 (p/y: EURk 1,425). This includes performance-based remuneration of EURk 561 (p/y: EURk 626). Management Board members were granted non-cash benefits of EURk 72 (p/y: EURk 85), which mainly consist of company cars, phone bills, insurance premiums and non-cash benefits. The table on the previous page shows the individual remuneration of the Management Board members.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GERMAN CORPORATE GOVERNANCE CODEX (GCGC): BENEFITS GRANTED DURING THE REPORTING YEAR

EURk

	Dr. Volker Simon (Speaker) Market and Technology Entry: 01/07/2014				Bernd Bartmann Administration and Finance Entry: 01/01/2005				Johannes Obrecht Production and Materials Entry: 01/07/2016				Dr. Winfried Blümel Production and Materials Resignation 30/06/2016			
	2015	2016	2016	2016	2015	2016	2016	2016	2015	2016	2016	2016	2015	2016	2016	2016
			Min.	Max.			Min.	Max.			Min.	Max.			Min.	Max.
Fixed remuneration [1]	300	300	--	--	198	198	--	--	--	154	--	--	216	108	--	--
Non-cash benefits	29	14	--	--	29	35	--	--	--	6	--	--	27	17	--	--
TOTAL	**329**	**314**	**--**	**--**	**227**	**233**	**--**	**--**	**--**	**160**	**--**	**--**	**243**	**125**	**--**	**--**
Discretion bonus [2]	0	0	--	100	0	0	--	80	--	0	--	80	0	0	--	80
One-year variable remuneration [3]	130	147	--	225	101	114	--	187	--	0	--	--	101	57	--	187
Multi-year variable remuneration (2015-2016 plan)	0	169	--	275	0	0	--	--	--	0	--	--	0	0	--	--
Multi-year variable remuneration (2014-2016 plan)	0	0	--	--	0	141	--	213	--	0	--	--	0	71	--	213
Multi-year variable remuneration (2013-2015 plan)	207	0	--	--	150	0	--	--	--	0	--	--	150	0	--	--
TOTAL	**337**	**316**	**--**	**--**	**251**	**255**	**--**	**--**	**--**	**0**	**--**	**--**	**251**	**128**	**--**	**--**
Pension expenses [4]	0	0	--	--	142	118	--	--	--	20	--	--	119	51	--	--
TOTAL REMUNERATION	**666**	**630**	**--**	**--**	**620**	**606**	**--**	**--**	**--**	**180**	**--**	**--**	**613**	**304**	**--**	**--**

[1] Dr. Simon's 2016 basic annual salary includes EURk 50 to establish a private retirement program.
Mr. Obrecht's 2016 basic annual salary includes EURk 70 of variable remuneration, which was agreed as a fixed amount.
[2] At its own discretion, the Supervisory Board may decide to grant a special remuneration in cases of extraordinary performance or success in the amounts shown above.
In turn, in cases of extraordinary developments, the entitlements to one-year and multi-year variable remuneration may be reduced in the amounts shown above.
[3] Mr. Obrecht's one-year variable remuneration for 2016 was agreed as a fixed amount and reported under his fixed remuneration for 2016.
[4] In 2016, pensions expenses for Mr. Bartmann and Obrecht include a payment of EURk 20 each paid by the Company into a pension trust.
The 2016 pensions expense for Dr. Blümel includes a payment of EURk 10 paid by the Company into a pension trust.

The Company has recognized pension provisions for the future pension entitlement of Management Board member Bernd Bartmann. The allocation to pension provisions in the reporting year amounted to a total of EURk 139 (p/y: EURk 221) of which EURk 41 was the pension entitlement for Dr. Winfried Blümel, who left the Company in the 2016 fiscal year. The allocation amount included what is known as service costs excluding interest costs. The table on the previous page shows the individual expense for pensions.

Management Board members Dr. Volker Simon and Johannes Obrecht are not entitled to pension benefits, but instead Dr. Simon receives an annual gross fixed payment of EURk 50 and Mr. Obrecht receives an annual gross fixed payment of EURk 40 for retirement. In addition to the pension entitlement, an agreement was made for Management Board member Bernd Bartmann for a fixed annual payment of EURk 20 to be paid by the Company into a pension trust.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GERMAN CORPORATE GOVERNANCE CODEX (GCGC): BENEFITS PAID DURING THE REPORTING YEAR

EURk

	Dr. Volker Simon (Speaker) Market and Technology Entry: 01/07/2014		Bernd Bartmann Administration and Finance Entry: 01/01/2005		Johannes Obrecht Production and Materials Entry: 01/07/2016		Dr. Winfried Blümel Production and Materials Resignation 30/06/2016	
	2015	2016	2015	2016	2015	2016	2015	2016
Fixed remuneration [1]	300	300	198	198	--	154	216	108
Non-cash benefits	29	14	29	35	--	6	27	17
TOTAL	**329**	**314**	**227**	**233**	**--**	**160**	**243**	**125**
Discretion bonus [2]	0	0	0	0	--	0	0	0
One-year variable remuneration [3]	104	127	81	99	--	0	81	49
Multi-year variable remuneration (2015-2016 plan)	0	140	0	0	--	0	0	0
Multi-year variable remuneration (2014-2016 plan)	0	0	0	97	--	0	0	49
Multi-year variable remuneration (2013-2015 plan)	134	0	113	0	--	0	113	0
TOTAL	**238**	**267**	**194**	**196**	**--**	**0**	**194**	**98**
Pension expenses [4]	0	0	142	118	--	20	119	51
TOTAL REMUNERATION	**567**	**581**	**563**	**547**	**--**	**180**	**556**	**274**

[1] Dr. Simon's 2016 basic annual salary includes EURk 50 to establish a private retirement program.
Mr. Obrecht's 2016 basic annual salary includes EURk 70 of variable remuneration, which was agreed as a fixed amount.
[2] At its own discretion, the Supervisory Board may decide to grant a special remuneration in cases of extraordinary performance or success in the amounts shown above.
In turn, in cases of extraordinary developments, the entitlements to one-year and multi-year variable remuneration may be reduced in the amounts shown above.
[3] Mr. Obrecht's one-year variable remuneration for 2016 was agreed as a fixed amount and reported under his fixed remuneration for 2016.
[4] In 2016, pensions expenses for Mr. Bartmann and Obrecht include a payment of EURk 20 each paid by the Company into a pension trust.
The 2016 pensions expense for Dr. Blümel includes a payment of EURk 10 paid by the Company into a pension trust.

Former members of the Company's Management Board and their surviving dependents have received pension payments amounting to EURk 223 (p/y: EURk 222) during the reporting year. The corresponding pension provisions amounted to EURk 4,308 (p/y: EURk 3,358) on December 31, 2016.

In the event of termination of employment, no other benefits were promised to any member of the Management Board. In fiscal year 2016, no members of the Management Board had received any payments or promises from a third party in connection with their work as Management Board member.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to the recommendations of the German Corporate Governance Code as amended on May 5, 2015, 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 DRS 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 addition to pension provisions, is also included in the total remuneration.

EURk

	Fixed remuneration		Attendance fees		Total remuneration	
	2016	2015	2016	2015	2016	2015
Karl M. Schmidhuber, Chairman (since May 31, 2016)	46	0	2	0	48	0
Dieter Maier, Chairman (until May 31, 2016)	29	70	6	5	35	75
Dr. Gerhard Wirth, Deputy Chairman	44	44	6	3	50	47
Dr. Georg Hengstberger	38	38	7	5	45	43
Herbert König	32	32	5	4	37	36
Ulrich Ruetz	35	32	7	3	42	35
Gerhard Schrempp (since May 31, 2016)	17	0	1	0	18	0
Franz Schmidt (until May 31, 2016)	10	26	2	3	12	29
TOTAL	**251**	**242**	**35**	**23**	**286**	**265**

The total remuneration granted to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,720 (p/y: EURk 1,899) for fiscal year 2016.

The total remuneration paid to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,582 (p/y: EURk 1,686) for fiscal year 2016.

REMUNERATION OF THE SUPERVISORY BOARD

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

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

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

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

The compensation is payable at the end of the fiscal year.

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

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

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

BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG

Progress-Werk Oberkirch Aktiengesellschaft (the "Company" or "AG") is located in Oberkirch, Baden-Württemberg. This location forms the Group's headquarters and is its largest production location. To limit risk, the Company also closely monitors the international locations, particularly in the areas of legal, finance and controlling. The international locations are generally responsible for acquiring their own orders and for their operational management. The Company's financial statements are prepared in accordance with the German Commercial Code (HGB).

The general statements of the combined management report also apply to Progress-Werk Oberkirch 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. Impairment charges for investments recognized in the reporting year are described below.

As of the reporting date, the number of employees of the Company, including temporary workers, increased to 1,538 (p/y: 1,492). This number includes 125 (p/y: 128) young people who are currently completing training.

The Company's revenue and total output were essentially at the prior year's levels, amounting to EUR 247.0 million (p/y: EUR 248.7 million) and EUR 255.6 million (p/y: EUR 251.7 million). The previous year's figures for revenue and total output are not comparable due to the first time application of the BilRUG.

The cost of materials ratio remained almost unchanged compared to the previous year. We benefited from the recent far-reaching efficiency improvements in the personnel area, which resulted in a significant decline in the staff costs ratio.

The reduction in other operating income resulted mainly from lower currency gains. At the same time, currency losses, which are included in other operating expenses, also declined. The rise in other operating expenses and the expense ratio, despite lower currency losses, resulted primarily from higher expenses for temporary workers.

The financial result improved sharply to EUR 1.2 million (p/y: EUR -2.6 million). The AG is increasingly assuming the financing role for the subsidiaries causing a renewed rise in income from loans of financial assets as well as in other interest and similar income.

At the same time, income from investments, i.e., dividend payments from subsidiaries, was higher than in the previous year. Write-downs of financial assets were lower than in 2015 and included an impairment loss on the carrying amount of PWO de México and loans from the AG to PWO Holding Co., Ltd., Hong Kong in the reporting year. Interest and similar expenses remained almost unchanged.

The result from ordinary activities increased overall to EUR 12.5 million (p/y: EUR 10.2 million). The tax rate improved to 32.7 percent (p/y: 37.9 percent). Net income rose by 32.3 percent to EUR 8.4 million (p/y: EUR 6.3 million).

The Company's total assets in the reporting year remained at the previous year's level. Property, plant and equipment continued to rise as a result of continued investment in the location. In 2016, these investments were mainly for the

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2016	in % of total output	2015	in % of total output
Revenue	247,015	96.6	248,728	98.8
Total output	255,621	100.0	251,695	100.0
Cost of materials	128,310	50.2	126,183	50.1
Staff costs	76,779	30.0	82,620	32.8
Depreciation and amortization	11,816	4.6	11,563	4.6
Other operating expenses	31,506	12.3	30,043	11.9
Financial result	1,169	0.5	-2,578	-1.0
Result from ordinary activities	12,468	4.9	10,221	4.1
Net income	8,393	3.3	6,344	2.5
Unappropriated retained earnings	5,001	2.0	4,852	1.9

new administrative building. Current assets, in contrast, declined as the increase in inventories mainly resulting for tools not yet invoiced was offset by lower receivables from associated companies, and similar to the development in the Group, lower trade receivables.

The increase in inventories was partially refinanced by an increase in trade payables. Other liabilities also increased as of the reporting date. At the same time, bank borrowings were visibly reduced. There were only minor changes in the provisions and the other liabilities. Equity rose to EUR 118.9 million (p/y: EUR 115.3 million) and the equity ratio rose to 41.2 percent (p/y: 41.1 percent).

With respect to future business development, the statements concerning the Group's opportunities and risks also generally apply to the AG. Our extensive effort to strengthen the AG's competitiveness should come to fruition in 2017 and make a significant contribution to increasing the result before interest and taxes. The development of the result from ordinary activities will be largely driven by dividend payments from the subsidiaries, which are not incurred on a regular basis.

RESPONSIBILITY STATEMENT

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

Oberkirch, March 15, 2017

The Management Board

Dr. Volker Simon (Speaker)	Bernd Bartmann	Johannes Obrecht

WE ARE DRIVEN BY THE DESIRE TO ACHIEVE EVER HIGHER **EFFICIENCY** BECAUSE THE ENVIRONMENT IS PROTECTED WHEN WE USE **RESOURCES SPARINGLY**, **FASTER THROUGHPUT** STRENGTHENS OUR COMPETITIVENESS AND **TARGETED INVESTMENT MANAGEMENT** GIVES US ROOM TO MANEUVER TO GENERATE FUTURE GROWTH.

61 CONSOLIDATED FINANCIAL STATEMENTS

A COVER FOR AN ELECTRICAL CONTROL UNIT AS PROTECTION FROM OUTSIDE INFLUENCES

Today's vehicles have a host of electronic control units. These units are used, for example, to control internal combustion and electric motors, steering, ABS and modern systems for driver assistance.

EFFICIENT

DELIVERING THE HIGHEST QUALITY AND SERVICE WITH THE LEAST POSSIBLE EFFORT. THIS IS WHAT ENSURES WE REMAIN OUR CUSTOMER'S PREFERRED PARTNER – NOT JUST TODAY BUT ALSO TOMORROW.

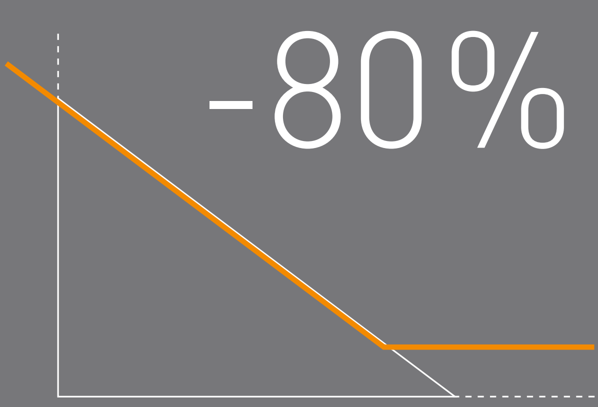
01

CONSCIENTIOUS USE OF RESOURCES

EFFICIENT LED LIGHTING USED IN MOST PARTS OF PRODUCTION

→ INCREASE IN THE AVERAGE ILLUMINANCE = BETTER WORKING CONDITIONS

EUR 125,000 SAVINGS
IN ENERGY COSTS EVERY YEAR



ENERGY SAVINGS FOR LIGHTING

02

FASTER THROUGHPUT

AUTOMATED QUALITY INSPECTION OF CYLINDRICAL COMPONENTS

10 SEC → 1.5 SEC

→ VARIABLE INSPECTION TIMES ARE POSSIBLE FOR EACH TEST STATION

→ ONE TEST SYSTEM FOR THE ENTIRE PROCESS

TIME REQUIRED **REDUCED TO 1.5 SECONDS** THROUGH AUTOMATION

03

TARGETED INVESTMENT MANAGEMENT

ONGOING OPTIMIZATION OF MACHINERY INCREASES OUTPUT

ADJUSTMENT IN THE STROKE HEIGHT OF THE PART = **INCREASE IN THE SPEED OF FORMATION AND CAPACITY**

45 NUMBER OF STROKES PER MINUTE

70 NUMBER OF STROKES PER MINUTE

CONSOLIDATED INCOME STATEMENT

EURk

Note no.		2016	2015
7	Revenue	409,612	404,597
	Change in finished goods and work-in-progress	13,202	8,294
8	Other own work capitalized	720	403
	TOTAL OUTPUT	**423,534**	**413,294**
9	Other operating income	7,339	12,807
	Cost of raw materials and supplies and merchandise purchased	-188,001	-191,869
	Cost of purchased services	-37,587	-31,967
	Cost of materials	**-225,588**	**-223,836**
	Wages and salaries	-94,478	-93,656
	Social security and post-employment costs	-19,701	-20,102
10	**Staff costs**	**-114,179**	**-113,758**
	Amortization of intangible non-current assets and depreciation of property, plant and equipment	-24,921	-24,832
11	Other operating expenses	-46,460	-45,585
	EARNINGS BEFORE INTEREST AND TAXES (EBIT)	**19,725**	**18,090**
	Financial income	399	121
12	Financial expenses	-5,812	-5,869
	Financial result	**-5,413**	**-5,748**
	EARNINGS BEFORE TAXES (EBT)	**14,312**	**12,342**
13	Income taxes	-4,790	-4,798
	NET INCOME FOR THE PERIOD [1]	**9,522**	**7,544**
14	Earnings per share in EUR (diluted = basic) based on net income attributable to the shareholders of PWO AG	3.05	2.41

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EURk

	2016	2015
NET INCOME FOR THE PERIOD	**9,522**	**7,544**
Net gains (p/y: losses) from cash flow hedges	1,460	-1,962
Tax effect	-359	549
Items that may be reclassified to profit and loss in future periods	**1,101**	**-1,413**
Currency translation differences	**257**	**897**
Actuarial losses (p/y: gains) from defined benefit pension plans	-3,646	6,157
Tax effect	1,035	-1,643
Items that will not be reclassified to profit and loss	**-2,611**	**4,514**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-1,253**	**3,998**
TOTAL COMPREHENSIVE INCOME AFTER TAX	**8,269**	**11,542**

CONSOLIDATED BALANCE SHEET

ASSETS

EURk

Note no.		2016	2015
	Land and buildings	84,876	74,731
	Technical equipment and machinery	69,625	74,006
	Other equipment, operating and office equipment	12,176	13,949
	Prepayments and assets under construction	9,960	9,904
15	**Property, plant, and equipment**	**176,637**	**172,590**
	Contract and customer-related development services	3,329	3,577
	Industrial property rights and similar rights	2,723	1,819
	Goodwill	5,398	5,332
	Prepayments	2	452
16	**Intangible assets**	**11,452**	**11,180**
	Non-current portion of income tax receivables	**0**	**115**
	Deferred tax assets	**13,400**	**12,257**
	NON-CURRENT ASSETS	**201,489**	**196,142**
	Raw materials and supplies	25,549	22,581
	Work-in-progress	47,803	36,127
	Finished goods and merchandise	22,765	22,618
	Prepayments	987	717
17	**Inventories**	**97,104**	**82,043**
	Trade receivables and other receivables	49,208	60,927
	Other assets	9,283	8,689
	Other financial assets	192	259
	Income tax receivables	129	128
18	**Receivables and other assets**	**58,812**	**70,003**
19	**Cash and cash equivalents**	**2,014**	**4,242**
	CURRENT ASSETS	**157,930**	**156,288**
	TOTAL ASSETS	**359,419**	**352,430**

EQUITY AND LIABILITIES

EURk

Note no.		2016	2015
	Subscribed capital	9,375	9,375
	Capital reserves	37,494	37,494
	Retained earnings	56,028	52,860
	Currency translation differences	3,639	3,382
20	**TOTAL EQUITY**	**106,536**	**103,111**
	Non-current financial liabilities	87,395	90,683
	Provisions for pensions	52,927	48,413
	Other provisions	1,732	2,121
	Non-current liabilities	**142,054**	**141,217**
	Trade payables	31,438	26,045
	Advance payments received on account of orders	4,246	4,440
	Current financial liabilities	39,077	46,396
	Other liabilities	16,953	13,979
	Other financial liabilities	14,878	13,850
	Income tax liabilities	1,466	462
	Current portion of provisions for pensions	1,540	1,595
	Current portion of other provisions	1,231	1,335
	Current liabilities	**110,829**	**108,102**
21	**TOTAL LIABILITIES**	**252,883**	**249,319**
	TOTAL EQUITY AND LIABILITIES	**359,419**	**352,430**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EURk

	Equity attributable to PWO AG shareholders						
					Other components of equity Items that may be reclassified to profit and loss in future periods		
	Subscribed capital	**Capital reserves**	**Retained earnings**	**Defined benefit pension plans**	**Currency translation differences**	**Cash flow hedges**	**Total**
JANUARY 1, 2015	**9,375**	**37,494**	**65,900**	**-16,517**	**2,485**	**-2,637**	**96,100**
Net income for the period			7,544				7,544
Other comprehensive income				4,514	897	-1,413	3,998
TOTAL COMPREHENSIVE INCOME			**7,544**	**4,514**	**897**	**-1,413**	**11,542**
Dividend payment			-4,531				-4,531
DECEMBER 31, 2015	**9,375**	**37,494**	**68,913**	**-12,003**	**3,382**	**-4,050**	**103,111**
JANUARY 1, 2016	**9,375**	**37,494**	**68,913**	**-12,003**	**3,382**	**-4,050**	**103,111**
Net income for the period			9,522				9,522
Other comprehensive income				-2,611	257	1,101	-1,253
TOTAL COMPREHENSIVE INCOME			**9,522**	**-2,611**	**257**	**1,101**	**8,269**
Dividend payment			-4,844				-4,844
DECEMBER 31, 2016	**9,375**	**37,494**	**73,591**	**-14,614**	**3,639**	**-2,949**	**106,536**

CONSOLIDATED STATEMENT OF CASH FLOWS

EURk

Note no.		2016	2015
	Net income for the period	9,522	7,544
	Amortization of intangible non-current assets and depreciation of property, plant, and equipment, net of write-ups	24,921	24,833
13	Income tax expense/refund	4,790	4,798
12	Interest income and expenses	5,413	5,748
	Change in current assets	-8,230	-4,114
	Change in non-current assets	115	16
	Change in current liabilities (excluding interest-bearing borrowings)	14,575	4,678
	Change in non-current liabilities (excluding interest-bearing borrowings)	2,795	-6,800
13	Income taxes paid	-4,127	-4,836
	Other non-cash expenses/income	-3,483	-1,245
	Gain/loss on disposal of property, plant and equipment	13	486
	CASH FLOW FROM OPERATING ACTIVITIES	**46,304**	**31,108**
	Proceeds from disposal of property, plant, and equipment	634	393
	Payments for investments in property, plant, and equipment	-27,471	-27,286
	Payments for investments in intangible assets	-1,966	-1,351
	CASH FLOW FROM INVESTING ACTIVITIES	**-28,803**	**-28,244**
20	Dividends paid	-4,844	-4,531
	Interest paid	-4,546	-4,752
	Interest received	94	121
	Proceeds from borrowings	24,398	23,349
	Repayment of borrowings	-37,055	-19,087
	CASH FLOW FROM FINANCING ACTIVITIES	**-21,953**	**-4,900**
	Net change in cash and cash equivalents	-4,452	-2,036
	Effect of exchange rates on cash and cash equivalents	-22	-114
	Cash and cash equivalents as at January 1	-7,308	-5,158
	CASH AND CASH EQUIVALENTS AS AT DECEMBER 31	**-11,782**	**-7,308**
19	of which cash and cash equivalents	2,014	4,242
21	of which bank borrowings due on demand	-13,796	-11,550

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, 2016 to December 31, 2016 fiscal year were authorized by the Management Board on the basis of a resolution passed on March 15, 2017 and were subsequently submitted to the Supervisory Board for examination. The main business activities of the PWO Group are described in detail in the group management report in the chapter titled "Group principles."

The consolidated financial statements are included in the consolidated financial statements of Consult Invest Beteiligungsberatungs GmbH, Böblingen, as the group parent company and can be obtained from the Bundesanzeiger (Federal Gazette).

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 315a (1) HGB. The distribution of profits is governed by the Articles of Association.

The consolidated financial statements are prepared using the historical cost principle, except in the case of derivative financial instruments and foreign currency receivables/payables. Derivative financial instruments are carried at fair value, and foreign currency receivables/payables are carried at amortized acquisition costs using the closing exchange rates prevailing on the balance sheet date. The income statement has been prepared on the basis of the nature of cost method.

The consolidated financial statements are presented in thousands of euros. Unless otherwise indicated, all values are rounded up or down to the nearest euro thousands (EURk) according to the commercial method.

2 CHANGES IN ACCOUNTING POLICIES

NEW AND AMENDED STANDARDS AND INTERPRETATIONS
The accounting methods applied remained unchanged compared to the prior year with the exception of the following list of amendments to the standards that require mandatory application as of January 1, 2016. Early application is not intended.

New and amended standards and interpretations mandatory in the EU

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	ANTICIPATED AMENDMENTS	ANTICIPATED IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
Amendments to IAS 1	Presentation of Financial Statements (Initiative to Improve Disclosures in Notes)	Jan. 1, 2016	The changes allow the option to focus on just the essential disclosures in the notes and a company-specific presentation of the financial statements.	No effect.
Amendments to IAS 19	Employee Contributions	Feb. 1, 2015 with retroactive effect	The amendment enables a simplified recognition of contributions from employees or third parties to a pension plan as a reduction of service costs, provided that the contributions are independent of the number of years of service.	No effect because no contributions to pension plans were made by employees or third parties.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	Jan. 1, 2016	The amendments clarify that revenue-based depreciation on property, plant and equipment is not permitted, while in the case of intangible assets this is presumed to be refutable.	No effect as no revenue-based depreciation/amortization method had been applied.
Annual improvement project to IFRS	Annual improvements to IFRS 2010-2012	Jan. 1, 2015 with retroactive effect	The amendments relevant to the Group relate to IFRS 8 (information in the notes regarding the aggregation of operating segments and the reconciliation of segment assets to consolidated assets) and IFRS 13 (clarification that current receivables and liabilities can be recognized at their nominal amounts when the discounting effect is negligible).	No material effect.
Annual improvement project to IFRS	Annual improvements to IFRS 2012-2014	Jan. 1, 2016	The amendments relevant to the Group relate to IAS 19 (clarification that the discount rate is to be determined based on the currency and not only the country) and IAS 34 (substantiating that disclosures are to be made either in the interim financial statements or elsewhere in the interim report and to be pointed out using an appropriate cross-reference in the interim financial statements).	No effect.

Standards and interpretations adopted by the EU but not yet mandatory

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	ANTICIPATED AMENDMENTS	ANTICIPATED IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IFRS 9	Financial Instruments	Jan. 1, 2018	The final version of IFRS 9 as a complete standard includes all previously published regulations and has merged these with the new regulations for the recognition of impairments and limited changes to the classification and measurement of financial assets. Except for the topic "Macro Hedging," this concludes the project of revising financial instruments accounting and the complete replacement of IAS 39 "Financial Instruments: Recognition and Measurement."	In fiscal year 2016, the Group carried out a comprehensive assessment of the effects of all three aspects of IFRS 9. Overall, the Group does not expect any material impact on the balance sheet and equity, except for the effect of applying the impairment provisions in IFRS 9. Detailed information on the effects of the application of IFRS 9 are described in the section below the table.
IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	The new standard includes a single, comprehensive model and extensive guidance on how entities shall recognize revenue from contracts with customers. The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue and the related interpretations.	In fiscal year 2016, the Group carried out a preliminary assessment of IFRS 15, which may change in the course of further detailed analyzes. In carrying out this assessment, the Group took into account the clarifications of IFRS 15 published by the IASB in April 2016. The future disclosure and presentation requirements will be significantly more extensive. The Group is already setting up the processes necessary to meet these requirements. Detailed information on the effects of the application of IFRS 15 are described in the section below the table.

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

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

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

Hedge accounting: The Group assumes that all hedging relationships presented in an effective hedging relationship continue to qualify for hedge accounting under IFRS 9. Since IFRS 9 does not alter the previous general principles for the accounting of effective hedge relationships, the Group does not expect any significant effect on earnings from the application of IFRS 9. The Group will make a more detailed evaluation of potential changes in the recognition of the fair value of options, futures and cross-currency basis spreads.

EFFECTS OF THE APPLICATION OF IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

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

In the fourth quarter of 2016, the PWO Group launched a detailed analysis of the effects and implementation aspects of IFRS 15. The project consists of three phases: the first project phase was used to analyze the existing contracts. In the first step, series and tool contracts of PWO AG with automotive manufacturers were analyzed. A global analysis is planned in a further step in the first half of 2017. The preliminary results of the impact analysis carried out so far were subsequently discussed with regard to the potential effects at the Group level with different specialist departments. On the basis of the contract analysis carried out thus far, a concept for the adaptation of the revenue recognition to the new regulations of IFRS 15 will be developed in the first half year 2017, which should also include the adjustment requirements with regard to the existing internal systems. In the subsequent third phase, the identified adaptation requirements will be implemented.

Based on the results of the impact analysis for IFRS 15 carried out thus far, the following significant effects are possible: The separation of performance obligations required by IFRS 15 under certain conditions and the resulting allocation of the transaction price may influence the timing of revenue recognition and profit realization.

The PWO Group currently does not expect to make use of the option for early application of IFRS 15 before the beginning of the 2018 fiscal year. The transitional provisions of IFRS 15 permit not only a completely retrospective but also a modified retrospective first-time application. The PWO Group is likely to decide in the course of the 2017 fiscal year on the concrete implementation of the alternatives provided for a retrospective first-time application against the backdrop of the not yet completed analysis of the effects of IFRS 15 on the internal systems. The impact on the balance sheet at the time of first-time application will also be quantified.

IASB published standards and interpretations not yet adopted into EU law

ANNOUNCEMENT	TITLE	APPLICABLE TIME FRAME	ANTICIPATED AMENDMENTS	ANTICIPATED IMPACT ON THE GROUP'S NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS
IFRS 16	Leases	Jan. 1, 2019	New regulation for the accounting of leases. In accordance with IFRS 16, the lessee must now also account for all leases (exceptions are current leases or low-value lease items). The accounting of leases by the lessor remains virtually unchanged.	For the Group as lessee, the new regulation will result in an extension the balance sheet due to the future recognition of operating leases, which previously had no effect on the balance sheet. The precise extent, however, must still be determined. Detailed information on the effects of the application of IFRS 16 are described in the section below the table.
Amendments to IAS 7	Disclosure Initiative: Changes in liabilities arising from financing activities	Jan. 1, 2017	The amended standard supplements IAS 7 with additional disclosure requirements in connection with liabilities from financing activities.	The addition of a reconciliation statement as of the beginning of the period to the final reporting date with a distinction made between cash and non-cash changes. Disclosures for the comparable period are not required upon first-time application. Otherwise, the changes have no effect.
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	Jan. 1, 2017	The amendments remove primarily uncertainties related to the recognition of deferred tax assets on debt instruments carried at fair value.	This amendment will not have any effect on the Group since the amendment corresponds to the current accounting practice.
Clarifications to IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	These clarifications address three issues (identification of performance obligations, principal-agent relationships and intellectual property licenses) and aim to facilitate transitional arrangements for modified and completed contracts.	The effects of the amendments are examined together with the implementation of IFRS 15.
Annual improvement project to IFRS	Annual improvements to IFRS 2014-2016	Jan. 1, 2017	The amendments relevant to the Group relate to IFRS 12. According to IFRS 12.5, disclosures are also required if investments are classified as held for sale or disposal. An exception exists only for information explicitly excluded under IFRS 12.B10-B16.	No effect.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 1, 2018	Regulates the point in time of the determination of the foreign currency exchange rate for transactions with advance payments in foreign currencies.	No material effect.

EFFECTS OF THE APPLICATION OF IFRS 16: LEASES

In January 2016, the IASB published the new standard IFRS 16 "Leases", which is intended to replace the current leasing standard IAS 17. The basic idea of the new standard is that all leases and the related contractual rights and obligations are to be recognized in the lessee's balance sheet. The previous distinction between finance lease and operating lease agreements under IAS 17 therefore will no longer apply to the lessee in the future. In accordance with IFRS 16, the lessee recognizes a lease liabilities in the balance sheet for all leases in the amount of the present value of future lease payments plus directly attributable costs, and at the same time capitalizes a corresponding right of use for the underlying asset. During the term of the lease contract, the lease liability is deferred in a similar manner as under the previous IAS 17 for finance leases, while the right to use is amortized as scheduled.

There are some simplifications for the accounting of short-term leases and leased items with a low value. Leases where substantially all risks and rewards of the asset are transferred are classified as finance leases and all other leases are classified as operating leases. The new standard is mandatory for fiscal years beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15 is also applied. The adoption of the standard by the EU is still pending. The PWO Group is currently unable to conclusively assess the impact of the first-time application of the standard were the standard to be adopted by the EU in its current version.

The PWO Group plans to carry out an internal impact analysis in the 2017 fiscal year.

3 PRINCIPLES OF CONSOLIDATION

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

Business combinations are accounted for by applying the purchase method (IFRS 3). The acquisition costs of the business combination are allocated to the acquired identifiable assets, liabilities and contingent liabilities, at their fair values applicable on the acquisition date. Insofar as the remaining difference is positive, it is then reported as goodwill; insofar as it is negative, it is recognized in profit or loss following a further reassessment. Revenues, expenses and income, as well as receivables and payables between consolidated entities, are offset against one another (IAS 27). Deferred taxes are recognized for consolidation measures affecting income taxes.

4 SCOPE OF CONSOLIDATION

The consolidated financial statements include 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%	9,390	2,404
PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic	100%	25,131	4,818
PWO Holding Co., Ltd., Hong Kong, China	100%	-968	-41
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100%	12,868	-884
PWO de México S.A. de C.V., Puebla, Mexico [2]	100%	1,169	-1,562

[1] indirect holding through PWO Holding Co., Ltd., for a total of 100%
[2] indirect holding through PWO Canada Inc. for a total of 0.14%

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

5 SUMMARY OF KEY ACCOUNTING POLICIES

CURRENCY TRANSLATION

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

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

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

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

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

		Year-end exchange rate		Average exchange rate	
		31/12/2016	31/12/2015	2016	2015
China	CNY	7.32	7.06	7.35	6.97
Canada	CAD	1.42	1.51	1.47	1.42
Mexico	USD	1.05	1.09	1.11	1.11

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

REVENUE AND EXPENSE RECOGNITION

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

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

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

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

INCOME TAXES AND DEFERRED TAXES

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

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

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

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

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

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

LEASES

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

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

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

BORROWING COSTS

Borrowing costs are recognized as part of the acquisition or production costs of an asset if they can be allocated directly to the acquisition or production of the asset and if a considerable period is required to render the asset in its intended usable or saleable condition. All other borrowing costs are recognized as an expense in the period they are incurred. Borrowing costs consist of interest costs and other costs incurred by a company in connection with the borrowing of funds.

CONTINGENT ASSETS AND LIABILITIES

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

PROPERTY, PLANT AND EQUIPMENT´

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

INTANGIBLE ASSETS

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

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

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

Long-term corporate planning approved by the Management Board and acknowledged by the Supervisory Board extends until the end of the 2021 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 Inc.		**PWO Czech Republic a.s.**	
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
Phase 1: Weighted average cost of capital (WACC)	10.71%	13.56%	9.17%	9.77%
Phase 2: Growth rate (in perpetuity)	1.60%	1.60%	1.51%	1.51%

The revenue growth rates of the relevant automotive markets were 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 11,664 (p/y: EURk 6,114) and PWO Czech Republic by EURk 19,072 (p/y: EURk 8,323), respectively.

Under the assumption that the capitalization rate remains unchanged, an impairment would be required if PWO Czech Republic's free cash flows were to be sustainably reduced by more than 25.05%. Conversely, under the assumption that the planned free cash flow remains unchanged, an impairment would be required if the capitalization rate were to increased to more than 11.02%.

Under the assumption that the capitalization rate remains unchanged, an impairment would be required if PWO Canada's free cash flows were to be sustainably reduced by more than 54.75%. 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 16.81%.

FINANCIAL INSTRUMENTS
Financial instruments are contracts that create a financial asset for one entity and a financial liability or equity instrument for another entity (IAS 39). In the case of financial assets where the trade and the settlement can occur on different dates, the settlement date is used for the purpose of initial recognition. Financial instruments are measured at cost on initial recognition; transaction costs are generally included in the initial measurement. The subsequent measurement of financial instruments is dependent on how these instruments are allocated to the categories in accordance with IAS 39. They are either measured at fair value or amortized cost. IAS 39 differentiates between primary and derivative financial instruments.

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

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

In the reporting year, a syndicated loan agreement maturing in 2021 was concluded that contains an interest rate floor of 0.00%. This embedded interest rate derivative was recognized at fair value at the time of purchase and subsequent measurements. Gains or losses from changes in fair value were immediately recognized in profit and loss.

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

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

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

In the case of financial liabilities, the Group has not yet made use of the option to designate these as financial liabilities at fair value through profit or loss at the time of their initial recognition.

MEASUREMENT OF FAIR VALUE

Derivative financial instruments are valued at their fair value as of each reporting date. The fair values of financial instruments carried at amortized cost are described in Note 24.

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

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

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

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

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

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

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

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

INVENTORIES

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

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

CASH AND CASH EQUIVALENTS

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

PROVISIONS

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

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

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

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

6 KEY JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

DEVELOPMENT COSTS
Development costs are capitalized in accordance with the accounting policy described. The initial capitalization of costs is based on the Group's assessment that technical and economic feasibility has been established. To determine the amounts to be capitalized, the Group makes assumptions as to the project's future cash flows, the applicable discount rates and the period over which the expected future benefit will accrue. The carrying amount of capitalized development costs on December 31, 2016 was EURk 3,329 (p/y: EURk 3,577). These development costs mainly consisted of investments in the development of cross-members and steering and 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 three continents: Europe, with the German location and the Company's headquarters in Oberkirch and in the Czech Republic in Valašské Meziříčí, America with the Canadian location in Kitchener and the location in Puebla, Mexico and Asia with the locations in Suzhou and Shenyang in China. With the exception of Shenyang, which is a pure assembly plant, all other units are production sites. These locations result in the breakdown of the operating business and the business segments into Germany, Rest of Europe, the NAFTA Area and Asia. The locations of Canada and Mexico were combined into the reporting segment "NAFTA Area." Further details are described in Note 30.

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

ALLOWANCES FOR TRADE RECEIVABLES
Allowances for doubtful receivables involve a significant degree of judgment and an assessment of the individual receivables based on the creditworthiness of the relevant customers, current economic trends and an analysis of historical receivables. If the Company derives the allowance from historical default rates, a decline in the volume of receivables reduces the amount of allowances and vice versa. Allowances for trade receivables and other receivables in the reporting year amounted to EURk 310 (p/y: EURk 399).

IMPAIRMENT OF GOODWILL
The Group performs impairments tests for goodwill at least once a year. This requires making estimates with regard to the value in use of cash-generating units to which goodwill is allocated. Cash-generating units are defined as the production locations in accordance with the segments report. For the purpose of estimating value in use, the Group is required to estimate the projected

future cash flows associated with the relevant cash-generating unit, as well as to select an appropriate discount rate in order to determine the present value of the aforementioned cash flows. The carrying amount of goodwill on December 31, 2016 was EURk 5,398 (p/y: EURk 5,332). For information on sensitivity, please refer to Note 4 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, 2016, deferred tax assets of EURk 191 (p/y: EURk 519) relating to unutilized tax loss carryforwards and EURk 6,684 (p/y: EURk 6,852) relating to tax credits were recognized. Tax loss carryforwards concern PWO de México and the tax credits concern PWO Czech Republic.

Had the Group been able to capitalize all unrecognized deferred tax assets, the net income and equity would be EURk 8,567 (p/y: EURk 9,773) higher.

It is assumed that the deferred tax assets will retain their value due to the planned business development for the subsequent years. Determining the amount of deferred tax assets requires a significant amount of estimation with regard to the timing and the amount of future taxable profit and the future tax planning strategies. On December 31, 2016, the recognized value of tax loss carryforwards translated into euros at the closing date was EURk 637 (p/y: EURk 1,731), and the unrecognized tax loss carryforwards, which may be utilized for a limited period, amounted to EURk 30,530 (p/y: EURk 32,576). Further details are described in Note 13.

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

EURk

	31/12/2016	31/12/2015
Within a period of 1 year	3,842	3,334
Within a period of 2 years	3,566	3,983
Within a period of 3 years	2,528	2,761
Within a period of 4 years	5,607	2,717
Within a period of 5 years	1,880	5,540
Subsequent years	13,107	14,241
TOTAL	**30,530**	**32,576**

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 un-certainty. Further details are described in Note 21 in the section titled "Pension Provisions."

In the reporting year, the previous method to determine interest rates was optimized in such a way that the yield curve is derived using what is known as the single-bond method instead of the sub-index method. In the case of the single-bond method, the yield curve for returns on high-grade corporate bonds is no longer determined on the basis of bundled index values, but on the basis of the yields on the individual bonds. Future cash flows from PWO are used to derive the interest rate instead of future cash flows from sample bond holdings. If the previous method of determining in-terest rates had been retained, the interest rate as of December 31, 2016 would have been 1.7 percent instead of 2.0 percent.

FINANCIAL DERIVATIVES
In the reporting year, a syndicated loan agreement maturing in 2021 was concluded that contains an interest rate floor of 0.00%. The nominal volume for this embedded interest rate derivative is based on a proper estimate based on financial planning.

NOTES TO THE INCOME STATEMENT

7 REVENUE

The breakdown of Group revenue by location and product area from the sale of goods is shown in the segment report (see Note 30).

8 OTHER OWN WORK CAPITALIZED

Own work capitalized consists of EURk 668 (p/y: EURk 370) of development costs subject to mandatory capitalization according to IAS 38. These development costs mainly relate to investments in the development of cross-members and steering and air suspension components. Series orders are on hand for these projects.

9 OTHER OPERATING INCOME

Other operating income is divided as follows:

EURk

	2016	2015
Currency gains	4,920	9,922
Income from derecognition of accruals	32	51
Other income	2,387	2,834
TOTAL	**7,339**	**12,807**

Non-periodic income amounted to EURk 565 (p/y: EURk 1,062).

10 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk

	2016	2015
Wages and salaries	94,478	93,656
Social security and post-employment costs	19,701	20,102
TOTAL	**114,179**	**113,758**

YEAR'S AVERAGE NUMBER OF EMPLOYEES BY DIVISION

	2016	2015
Development and sales	186	155
Production and materials	1,756	1,676
Tool center	454	521
Administration	130	140
PERMANENT EMPLOYEES	**2,526**	**2,492**
Temporary employees	382	359
Trainees	128	144
Inactive employees in phased retirement	99	106
TOTAL EMPLOYEES	**3,135**	**3,101**

11 OTHER OPERATING EXPENSES

Other operating expenses are divided as follows:

EURk

	2016	2015
Costs for temporary employees	13,190	10,345
Currency losses	6,787	8,901
Maintenance costs	6,331	6,339
Outgoing freight	3,348	3,794
Legal, audit and consultancy costs	1,557	1,939
Travel costs	1,743	1,734
Minimum lease payments under operating leases	1,605	1,456
Insurance premiums	1,197	1,227
Rental costs	1,234	1,192
Other	9,468	8,658
TOTAL	**46,460**	**45,585**

Non-periodic expenses amounted to EURk 94 (p/y: EURk 340).

12 FINANCIAL EXPENSES

EURk

	2016	2015
Interest expenses paid to financial institutions	4,126	4,250
Interest expenses for interest-rate swaps	65	63
Interest expenses for interest accrued on pension provisions	1,237	1,093
Interest expenses under finance lease contracts	374	453
Interest expenses for interest accrued on other provisions	10	10
TOTAL	**5,812**	**5,869**

13 INCOME TAXES

Income taxes are divided as follows:

EURk

	2016	2015
Actual taxes	5,220	5,530
Deferred taxes	-430	-732
TOTAL	**4,790**	**4,798**

Actual taxes in the reporting year included non-periodic tax benefits of EURk 36 (p/y: EURk 63). Deferred taxes resulted entirely from temporary differences.

Deferred taxes were not recognized for temporary differences in retained profits from subsidiaries totaling EURk 17,367 (p/y: EURk 17,091) because these profits will be used to fund the further business expansion of the individual locations.

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

EURk

	2016	2015
EARNINGS BEFORE INCOME TAXES	**14,312**	**12,342**
Theoretical tax expense at 28,43 % (p/y: 28,08 %)	4,069	3,466
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-571	-509
Tax increase due to non-deductible expenses	1,048	847
Tax increase (+) / -reduction (-) previous years	-36	63
Taxes on foreign dividends	347	98
Tax effects from tax credits	-832	-1,214
Tax effects from future changes in tax rates	0	-14
Effects from non-capitalized tax loss carryforwards	723	2,073
Other effects	42	-12
INCOME TAXES	**4,790**	**4,798**

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: 12.25%). The trade tax rate is derived from the average trade tax rate multiplier of 360% (p/y: 350%).

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	
	2016	2015	2016	2015
Intangible assets and property, plant and equipment	33	44	4,734	5,034
Other assets	946	973	118	99
Tax loss carryforwards and tax credits	6,875	7,371	6	5
Provisions	9,286	7,407	453	0
Liabilities	1,571	1,600	0	0
SUBTOTAL	**18,711**	**17,395**	**5,311**	**5,138**
Netted amount	-5,311	-5,138	-5,311	-5,138
TOTAL RECORDED ON THE GROUP BALANCE SHEET	**13,400**	**12,257**	**0**	**0**

For further details, please refer to Note 6.

The Group is not currently subject to audits by domestic or foreign tax authorities.

14 EARNINGS PER SHARE

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

	2016	2015
Net income for the period in EURk	9,522	7,544
Average number of no-par value shares	3,125,000	3,125,000
Earnings per share in EUR	3.05	2.41

NOTES TO THE BALANCE SHEET

15 PROPERTY, PLANT AND EQUIPMENT

EURk

	Land and buildings	**Technical equipment and machinery**	**Other equipment, operating and office equipment**	**Prepayments and assets under construction**	**Total**
ACQUISITION AND PRODUCTION COSTS					
As of Jan. 1, 2015	93,227	246,443	39,924	12,561	392,155
Additions	7,025	9,279	2,312	8,814	27,430
Disposals	-28	-6,514	-634	-1,576	-8,752
Reclassifications	6,696	2,576	892	-10,164	0
Currency effects	875	2,467	919	269	4,530
AS OF DEC. 31, 2015	**107,795**	**254,251**	**43,413**	**9,904**	**415,363**
Additions	9,759	6,215	2,315	9,436	27,725
Disposals	-719	-12,526	-3,107	0	-16,352
Reclassifications	4,209	4,935	350	-9,508	-14
Currency effects	371	1,393	480	51	2,295
AS AT DEC. 31, 2016	**121,415**	**254,268**	**43,451**	**9,883**	**429,017**
DEPRECIATION					
As of Jan. 1, 2015	30,129	172,502	25,315	0	227,946
Additions	3,020	15,150	4,357	0	22,527
Disposals	-107	-7,250	-613	0	-7,970
Currency effects	22	-157	405	0	270
AS OF DEC. 31, 2015	**33,064**	**180,245**	**29,464**	**0**	**242,773**
Additions	3,380	15,352	4,424	0	23,155
Disposals	-132	-12,493	-3,002	-77	-15,704
Currency effects	227	1,539	389	0	2,156
AS OF DEC. 31, 2016	**36,539**	**184,643**	**31,275**	**-77**	**252,380**
CARRYING AMOUNTS					
As of Dec. 31, 2015	74,731	74,006	13,949	9,904	172,590
As of Dec. 31, 2016	84,876	69,625	12,176	9,960	176,637

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.

Impairment losses of EURk 0 (p/y: EURk 38) were recognized within property, plant and equipment.

The historical acquisition and production costs of property, plant and equipment that are fully depreciated but still in use, amount to EURk 158,332 (p/y: EURk 152,008).

16 INTANGIBLE ASSETS

EURk

	Contract and customer-related development services	Industrial property rights and similar rights	Goodwill	Other intangible assets	Prepayments	Total
ACQUISITION AND PRODUCTION COSTS						
As of Jan. 1, 2015	8,247	15,093	6,727	1,020	349	31,436
Additions	370	884	0	0	108	1,362
Disposals	0	-27	0	0	-5	-32
Currency effects	-9	6	17	117	0	131
AS OF DEC. 31, 2015	**8,608**	**15,956**	**6,744**	**1,137**	**452**	**32,897**
Additions	668	1,298	0	0	0	1,966
Disposals	0	-1,674	0	0	0	-1,674
Reclassifications	0	465	0	0	-451	14
Currency effects	8	5	95	37	1	146
AS OF DEC. 31, 2016	**9,284**	**16,050**	**6,839**	**1,174**	**2**	**33,349**
AMORTIZATION						
As of Jan. 1, 2015	3,582	13,326	1,320	1,020	0	19,248
Additions	1,457	850	0	0	0	2,307
Disposals	0	-26	0	0	0	-26
Currency effects	-8	-13	92	117	0	188
AS OF DEC. 31, 2015	**5,031**	**14,137**	**1,412**	**1,137**	**0**	**21,717**
Additions	916	850	0	0	0	1,766
Disposals	0	-1,674	0	0	0	-1,674
Currency effects	8	14	29	37	0	88
AS OF DEC. 31, 2016	**5,955**	**13,327**	**1,441**	**1,174**	**0**	**21,897**
CARRYING AMOUNTS						
As of Dec. 31, 2015	3,577	1,819	5,332	0	452	11,180
As of Dec 31, 2016	3,329	2,723	5,398	0	2	11,452

The useful life for software is 3 to 5 years.

Development costs of EURk 3,329 (p/y: EURk 3,577) that required capitalization under IAS 38 are amortized using the units of production method as soon as development is complete, and production of series parts commences.

The historical acquisition and production costs of intangible assets that are fully amortized but still in use, amount to EURk 16,508 (p/y: EURk 15,022).

As of December 31, 2016, the goodwill of PWO Canada amounted to EURk 1,067 (p/y: EURk 1,002), and the goodwill of PWO Czech Republic amounted to EURk 4,331 (p/y: EURk 4,331). The increase at PWO Canada resulted from a change in the currency exchange rates.

17 INVENTORIES

On the reporting date, the total amount of inventories of EURk 97,104 (p/y: EURk 82,043) included spare parts for tools in an amount of EURk 7,676 (p/y: EURk 6,597) accounted for at acquisition and production costs. In the reporting year, an impairment of EURk 1,180 (p/y: EURk 1,212) was recognized in profit or loss as was a reversal of an impairment loss of EURk 250 (p/y: EURk 250) due to the renewed use of tool spare parts that had previously been impaired.

18 RECEIVABLES AND OTHER ASSETS

Under the factoring agreement concluded in the previous year, PWO AG received payments from customers amounting to EURk 5,626 in 2015, which represented a liability owed to the factor. In the previous year's consolidated financial statements, this liability was incorrectly offset against trade receivables.

Both trade receivables and other financial liabilities owed to the factor were adjusted in the amount of EURk 5,626 as of the December 31, 2015 reporting date in accordance with the provisions of IAS 8.

EURk

	2016	**2015**	**2015 before adjustment**
Trade receivables	49,208	60,927	55,301

As of December 31, 2016, the total allowances for trade receivables and other receivables amounted to EURk 310 (p/y: EURk 399). The carrying amount of trade receivables and other receivables before valuation allowances was EURk 49,518 (p/y: EURk 61,326). The following table shows the development of the valuation allowance account:

EURk

	2016	**2015**
Valuation allowance as at Jan. 1	399	959
Additions	24	15
Utilization	-47	-569
Releases	-66	-6
VALUATION ALLOWANCE AS AT DEC. 31	**310**	**399**

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

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

19 CASH AND CASH EQUIVALENTS

Deposits at banks bear interest at variable interest rates for short-term call deposits. On December 31, 2016, the Group had undrawn credit lines for which all necessary conditions for use are already met.

On December 31, 2016, for purposes of the consolidated statement of cash flows, the balance of cash and cash equivalents of EURk 2,014 (p/y: EURk 4,242) consisted of cash on hand and bank deposits net of bank borrowings due on demand. The carrying amount of these assets is equivalent to their fair value.

20 SUBSCRIBED CAPITAL AND RESERVES

SUBSCRIBED CAPITAL
As of December 31, 2016, fully paid-in subscribed capital amounted to EURk 9,375 (p/y: EURk 9,375) divided into 3,125,000 no-par value shares (p/y: 3,125,000 shares).

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

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

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

Differences resulting from the earnings-neutral currency translation of the financial statements of foreign subsidiaries in the amount of EURk 3,639 (p/y: EURk 3,382) 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, 2016, PWO AG reported unappropriated retained earnings of EURk 5,001. The calculation of distributable profits is based on the provisions of the German commercial law.

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

	EURk
Payment of a dividend of EUR 1.60 per dividend-bearing share	5,000
Carried forward to new account	1

In fiscal year 2016, a total dividend of EURk 4,844 (EUR 1.55 per dividend-bearing share) was paid for the 2015 fiscal year. The dividend payment in the 2015 fiscal year for the 2014 fiscal year amounted to EURk 4,531 (EUR 1.45 per dividend-bearing share).

NOTIFICATIONS PURSUANT TO SECTION 21 (1) WPHG

As of the balance sheet date December 31, 2016, the Company has received the following notifications concerning shareholdings in Progress-Werk Oberkirch AG. When shareholdings repeatedly exceeded or fell below reporting thresholds, only the most recent release of the person required to notify is listed. Changes in the voting rights not required to be reported to the Company may have occurred after the dates indicated.

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

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

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

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

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

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

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

21 LIABILITIES

PENSION PROVISIONS

DEFINED CONTRIBUTION PLANS

The Group has defined contribution plans. These resulted in recognized staff costs at PWO Canada Inc. in the amount of EURk 157 (p/y: EURk 143) and PWO Czech Republic in the amount of EURk 198 (p/y: EURk 175).

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 8,437 (p/y: EURk 8,081), which were also included in staff costs. The statutory pension system also constitutes a defined contribution plan.

DEFINED BENEFIT PLANS

The Group maintains defined benefit plans, whereby the majority of obligations for defined benefit plans concern PWO AG. Total provisions of EURk 66 (p/y: EURk 124) 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

	2016	2015
Current service cost	1,174	1,530
Past service cost	0	16
Interest expenses for defined benefit obligations	1,231	1,093
TOTAL	**2,405**	**2,639**

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

EURk

	2016	2015
Adjustments due to changes in demographic assumptions	0	-1,003
Adjustments due to changes in financial assumptions	-4,839	-4,965
Experiential adjustments	1,193	-189
TOTAL	**-3,646**	**-6,157**

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

EURk

	2016	2015
Present value of defined benefit obligations as of Jan. 1	50,008	55,038
Service cost	1,174	1,530
Past service cost	0	16
Interest expenses	1,231	1,093
Pension payments rendered	-1,529	-1,528
Adjustments due to changes in assumptions	4,839	-5,968
Experiential adjustments	-1,193	-189
Other adjustments	-54	0
Foreign currency differences	-9	16
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AS OF DEC. 31	**54,467**	**50,008**

Of the recognized pension provisions, EURk 52,927 (p/y: EURk 48,413) are non-current and EURk 1,540 (p/y: EURk 1,595) are current.

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

	2016	2015
Interest rate	2.00%	2.50%
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%

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

The following table shows a sensitivity analysis with the key assumptions as of December 31, 2016:

EURk

				Scenario
Assumption		Increase of		Decline of
Discount rate	1.00%	-9,026	1.00%	12,131
Staff turnover rate	0.50%	-129	0.50%	136
Future salary increases (income trend)	0.25%	122	0.25%	-119
Future salary increases (career trend)	0.50%	91	0.50%	-87
Future pension increases	0.25%	1,717	0.25%	-1,638
Average life expectancy	1 year	1,977	--	--

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

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

EURk

	2016	2015
Within the next 12 months	1,546	1,595
Within 2 to 5 years	6,609	6,792
Within 5 to 10 years	9,660	9,593
TOTAL EXPECTED PAYMENTS	**17,815**	**17,980**

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	
	2016	**2015**	**2016**	**2015**
As of Jan. 1	3,254	3,876	203	263
Utilization	-1,142	-1,373	-25	-18
Releases	0	0	0	-48
Additions	657	751	16	6
of which accrued interest	10	10	0	0
AS OF DEC. 31	**2,769**	**3,254**	**194**	**203**
of which non-current	1,686	2,053	47	68
of which current	1,083	1,201	147	135

FINANCIAL LIABILITIES

EURk

	Current		Non-current				Total financial liabilities	
	‹ 1 year		1 to 5 years		› 5 years			
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Bank borrowings	37,083	44,144	20,759	22,060	2,539	2,763	**60,381**	**68,967**
Liabilities from promissory notes	0	0	59,877	29,919	0	29,918	**59,877**	**59,837**
Liabilities to leasing companies	1,994	2,252	2,584	4,192	1,636	1,831	**6,214**	**8,275**
TOTAL	**39,077**	**46,396**	**83,220**	**56,171**	**4,175**	**34,512**	**126,472**	**137,079**

The PWO Group is funded primarily through a syndicated loan and promissory loans with market-based interest rates. The financial management was adjusted accordingly. The existing, customary covenants were met as of December 31, 2016.

Financial liabilities generally have interest rates between 0.80% and 7.75% (p/y: 0.92% and 7.72%). The higher interest rates are mainly on subordinated, local financing of individual subsidiaries.

Bank borrowings repayable on demand amounted to EURk 13,796 (p/y: EURk 11,550).

Of the bank borrowings, EURk 12,036 (p/y: EURk 16,108) are secured by mortgages and EURk 9,011 (p/y: EURk 11,619) by assignment as security. In addition, the usual retention of proprietary rights exists for the supply of raw materials, supplies and merchandise.

OTHER FINANCIAL LIABILITIES

Due to an offsetting error in the prior year's consolidated financial statements, a correction was made to the items other financial liabilities and trade receivables under the provisions of IAS 8 as of the December 31, 2015 reporting date (see Note 18, paragraph 1).

EURk

	2016	2015	2015 before adjustment
Other financial liabilities	14,878	13,850	8,224

FINANCE LEASES AND HIRE-PURCHASE AGREEMENTS

Finance leases are used for various technical equipment and machinery. In some cases, these leases contain a purchase option for the lessee. As of December 31, 2016, the assets had a carrying amount of EURk 3,814 (p/y: EURk 4,672). Due to the structure of the leases, the assets are depreciated over their expected useful life, pursuant to IAS 17.28, rather than according to the term of the lease agreement.

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

EURk

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
Residual term up to 1 year	2,280	2,613	1,994	2,252
Residual term 1 to 5 years	3,142	4,898	2,584	4,192
Residual term › 5 years	1,993	2,295	1,636	1,831
TOTAL MINIMUM LEASE PAYMENTS	**7,415**	**9,806**	**6,214**	**8,275**
Less interest cost	-1,201	-1,531	0	0
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**6,214**	**8,275**	**6,214**	**8,275**

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

A guarantee to secure phased retirement credits amounted to EURk 1,400 (p/y: EURk 1,900).

As of December 31, 2016, other financial obligations, including purchase commitments, totaled EURk 14,013 (p/y: EURk 19,758). The following amounts apply to subsequent fiscal years according to maturity:

EURk

	Obligations from non-cancellable operating lease and rental agreements		Order commitments from investments in property, plant and equipment		Order commitments from investments in intangible assets		Other financial obligations	
	2017 ff.	2016 ff.	2017 ff.	2016 ff.	2017 ff.	2016 ff.	2017 ff.	2016 ff.
Residual term up to 1 year	1,640	1,673	8,652	13,089	0	0	175	190
Residual term 1 to 5 years	1,737	2,542	0	0	0	0	684	688
Residual term › 5 years	0	280	0	0	0	0	1,125	1,296
TOTAL	**3,377**	**4,495**	**8,652**	**13,089**	**0**	**0**	**1,984**	**2,174**

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

22 OFF-BALANCE SHEET TRANSACTIONS

The Group continuously sells trade receivables to generate the liquid assets required to finance the operating business and facilitate better liquidity planning. All material risks have been transferred to the factor, and only the costs for late payment risk remain with PWO AG. As of December 31, 2016, receivables with a nominal value of EURk 17,275 (p/y: EURk 9,898) were sold, whereby EURk 93 (p/y: EURk 72) was set aside for late payment risk. The associated liability has a carrying amount of EURk 94 (p/y: EURk 87). This liability represents the maximum remaining late payment risk. The transferred receivables are current receivables where the carrying amount corresponds to the fair value of the assets transferred.

23 FINANCIAL RISK MANAGEMENT

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

The key risks are described in the following:

CREDIT RISK

The credit risk from trade receivables and other receivables is controlled by PWO AG and its subsidiaries based on uniform standards, procedures and controls. The creditworthiness of the customer is regularly checked using credit reports and historical data. The customer's individual credit limits are set on the basis of these findings. Outstanding trade receivables and other receivables are regularly monitored by diligently managing receivables. Furthermore, commercial credit insurance was concluded for additional securing of a significant portion of the receivables. The need for valuation allowances is analyzed at each reporting date, and appropriate allowances are made.

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

As of December 31, 2016, 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

	2016	2015
Trade receivables and other receivables [1]	49,208	60,927
Protection from commercial credit insurance	-26,498	-40,054
MAXIMUM DEFAULT RISK	**22,710**	**20,873**
Derivative financial assets	192	259
Cash and cash equivalents	2,014	4,242

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).

On December 31, 2016, the analysis of overdue but not impaired trade receivables and other receivables breaks down as follows:

EURk

	2016	2015
TRADE RECEIVABLES AND OTHER RECEIVABLES [1]	**49,208**	**60,927**
of which neither overdue nor impaired [1]	43,776	48,248
of which ‹ 30 days overdue (but not impaired)	4,405	8,488
of which › 30-90 days overdue (but not impaired)	401	1,605
of which › 90-180 days overdue (but not impaired)	78	462
of which › 180-360 days overdue (but not impaired)	13	1,773
of which › 360 days overdue (but not impaired)	535	351

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).

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

LIQUIDITY RISK

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

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

EURk

	‹ 1 year		1 to 5 years		› 5 years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Bank borrowings	38,298	45,375	21,894	23,427	2,609	2,817	62,801	71,619
of which repayment of principal	37,083	44,144	20,759	22,060	2,539	2,763	60,381	68,967
of which interest payment	1,215	1,231	1,135	1,367	70	54	2,420	2,652
Liabilities from promissory notes	1,474	1,543	64,333	35,241	0	30,681	65,807	67,465
of which repayment of principal	0	0	59,877	29,919	0	29,918	59,877	59,837
of which interest payment	1,474	1,543	4,456	5,322	0	763	5,930	7,628
Liabilities to leasing companies	2,281	2,613	3,142	4,898	1,993	2,295	7,416	9,806
of which repayment of principal	1,994	2,252	2,584	4,192	1,636	1,831	6,214	8,275
of which interest payment	287	361	558	706	357	464	1,202	1,531
Trade payables	31,438	26,045	0	0	0	0	31,438	26,045
Derivative financial instruments with hedging relationship	3,004	3,471	1,798	1,646	0	0	4,802	5,117
Derivative financial instruments without hedging relationship	3,337	1,003	807	1,868	0	0	4,144	2,871
Other remaining financial liabilities [1]	6,623	5,626	0	0	0	0	6,623	5,626

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).

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	
	2016	2015	2016	2015	2016	2015	2016	2015
Cash inflow	46,178	30,359	39,263	27,384	0	0	85,441	57,743
Cash outflow	-49,182	-33,830	-41,061	-29,030	0	0	-90,243	-62,860
NET BALANCE	**-3,004**	**-3,471**	**-1,798**	**-1,646**	**0**	**0**	**-4,802**	**-5,117**
	Foreign currency derivatives without hedging relationship							
	2016	2015	2016	2015	2016	2015	2016	2015
Cash inflow	35,350	27,842	2,687	10,738	0	0	38,037	38,580
Cash outflow	-38,522	-28,774	-3,065	-12,499	0	0	-41,587	-41,273
NET BALANCE	**-3,172**	**-932**	**-378**	**-1,761**	**0**	**0**	**-3,550**	**-2,693**

INTEREST RATE RISK

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

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

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

PWO is subject to interest rate risk at all locations. If the market interest rates at December 31, 2016 had been 100 basis points higher, earnings before taxes would have been EURk 37 higher (p/y: EURk 366 lower). If market interest rates as of December 31, 2016 had been 100 basis points lower, earnings before taxes would have been EURk 719 lower (p/y: EURk 362 higher).

CURRENCY RISK

Currency risk is the risk of foreign exchange rate-induced fluctuations in the value of balance sheet items. A sensitivity analysis is conducted for each currency that constitutes a significant risk for the Company. This analysis is based on the following assumptions:

For the sensitivity analysis, the Group takes into account all monetary financial instruments that are not denominated in the functional currency of the respective separate entities. Thus, exchange rate differences arising from the translation of financial statements into the Group's reporting currency (translation risk) are not considered.

According to IFRS, an exchange risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency. Therefore, in the case of derivative financial instruments, only the currency derivatives are included in the sensitivity analysis, since not all interest rate derivatives are exposed to currency risk. The hypothetical effect on profit or loss and equity for each separate primary item included in the sensitivity analysis is determined by comparing the carrying amount (calculated on the basis of the closing rate) with the translation amount, which in turn is determined by applying a hypothetical exchange rate.

If the euro had appreciated by 10% against the Czech krona as of December 31, 2016, earnings before taxes would have been EURk 194 higher (p/y: EURk 177), and the net gains (losses) from cash flow hedges recognized in equity would have been EURk 3,329 lower (p/y: EURk 1,316). If the euro had depreciated by 10% against the Czech krona as of December 31, 2016, earnings before taxes would have been EURk 237 lower (p/y: EURk 216) and net gains (losses) from cash flow hedges recognized in equity would have been EURk 4,069 higher (p/y: EURk 1,607).

If the euro had appreciated by 10% against the US dollar as of December 31, 2016, earnings before taxes would have been EURk 2,932 higher (p/y: EURk 2,376), and the net gains (losses) from cash flow hedges recognized in equity would have been EURk 2,284 higher (p/y: EURk 1,354). If the euro had depreciated by 10% against the US dollar as of December 31, 2016, earnings before taxes would have been EURk 3,583 lower (p/y: EURk 2,902) and net gains (losses) from cash flow hedges recognized in equity would have been EURk 2,576 lower (p/y: EURk 3,419).

If the euro had appreciated by 10% against the Canadian dollar as of December 31, 2016, earnings before taxes would have been EURk 173 higher (p/y: EURk 666), and the net gains (losses) from cash flow hedges recognized in equity would have been EURk 186 higher (p/y: EURk 155). If the euro had depreciated by 10% against the Canadian dollar as of December 31, 2016, earnings before taxes would have been EURk 211 lower (p/y: EURk 814) and net gains (losses) from cash flow hedges recognized in equity would have been EURk 228 lower (p/y: EURk 191).

RAW MATERIAL PRICE RISK

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

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

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

CAPITAL MANAGEMENT

The primary goal of the Group's capital management is to secure a high credit rating, favorable equity ratio and a solid and appropriate leverage ratio. To maintain or fine-tune the capital structure, adjustments in dividend payments to shareholders can be made and new shares can be issued.

Capital monitoring is based on the dynamic leverage ratio (financial liabilities less cash in relation to EBITDA). The Group's internal objectives specify a target of less than three years for the dynamic leverage ratio.

EURk

	2016	2015
Financial liabilities	126,472	137,079
Less cash and cash equivalents	-2,014	-4,242
NET FINANCIAL LIABILITIES	**124,458**	**132,837**
EBITDA [1]	**44,646**	**42,922**
DYNAMIC LEVERAGE RATIO (IN YEARS)	**2.8**	**3.1**

[1] Earnings before interests, taxes, depreciation and amortization

24 FINANCIAL INSTRUMENTS

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

EURk

	Nominal value	Redemption 2016	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	4,837	417	3,795	1.55% to 2.19%	2018 to 2020	-70
Syndicated loan with interest rate floor	51,800	5,700	46,100	0.00%	to 2021	-476
Currency hedging instruments without hedge accounting	41,587	0	41,587	--	2017 to 2019	-3,112
Currency hedging instruments with hedge accounting	87,499	0	87,499	--	2017 to 2020	-4,404

PWO AG's syndicated loan agreement concluded in the 2016 fiscal year and maturing in 2021 contains a EURIBOR interest rate floor of 0.0%. As of December 31, 2016, this embedded interest rate derivative has a nominal volume of EURk 46,100 and a negative market value of EURk 476.

As of December 31, 2015, the following derivative financial instruments were still unsettled:

EURk

	Nominal value	Redemption 2016	Residual value	Fixed rate p.a.	Term	Market value
Interest-rate swaps	8,771	1,409	4,658	1.19% to 2.19%	2016 to 2020	-105
Currency hedging instruments without hedge accounting	38,581	0	38,581	--	2016 to 2019	-2,286
Currency hedging instruments with hedge accounting	61,145	0	61,145	--	2016 to 2018	-5,574

The market value changes of derivative financial instruments used to hedge future cash flows were recognized directly in equity and amounted to EURk –1,436 (p/y: EURk –4,050), including related tax effects.

As part of hedge accounting, EURk 2,537 (p/y: EURk 2,844) was derecognized from equity and recognized in profit or loss.

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

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

EURk

	Valuation category pursuant to IAS 39	Carrying amount		Fair Value	
		2016	2015	2016	2015
ASSETS					
Trade receivables and other receivables [1]	LaR	49,208	60,927	49,208	60,927
Other financial assets		192	259	192	259
of which derivatives with hedging relationship	n. a.	115	159	115	159
of which derivatives without hedging relationship	FAHfT	77	100	77	100
of which deposits › 3 months	LaR	0	0	0	0
Cash and cash equivalents	LaR	2,014	4,242	2,014	4,242
LIABILITIES					
Financial liabilities		126,472	137,079	134,864	145,927
Bank borrowings	FLAC	60,381	68,967	62,990	70,824
of which variable interest rate		24,257	20,758	24,257	20,758
of which fixed interest rate		36,124	48,209	38,733	50,066
Liabilities from promissory notes	FLAC	59,877	59,837	64,538	65,058
of which variable interest rate		24,949	24,932	24,949	24,932
of which fixed interest rate		34,928	34,905	39,589	40,126
Liabilities to leasing companies	n. a.	6,214	8,275	7,336	10,045
of which variable interest rate		0	0	0	0
of which fixed interest rate		6,214	8,275	7,336	10,045
Trade payables	FLAC	31,438	26,045	31,438	26,045
Other financial liabilities [1]		14,878	13,850	14,878	13,850
of which derivatives with hedging relationship	n. a.	4,519	5,733	4,519	5,733
of which derivatives without hedging relationship	FLHfT	3,736	2,491	3,736	2,491
of which others	FLAC	6,623	5,626	6,623	5,626
OF WHICH AGGREGATED ACCORDING TO IAS 39 MEASUREMENT CATEGORIES:					
Loans and Receivables (LaR)		51,222	65,169	51,222	65,169
Financial Assets Held for Trading (FAHfT)		77	100	77	100
Financial Liabilities Measured at Amortised Cost (FLAC)		158,319	160,475	165,589	167,553
Financial Liabilities Held for Trading (FLHfT)		3,736	2,491	3,736	2,491

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).

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

EURk

	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS CARRIED AT FAIR VALUE								
Other financial assets	0	0	192	259	0	0	192	259
of which derivatives with hedge relationship	0	0	115	159	0	0	115	159
of which derivatives without hedge relationship	0	0	77	100	0	0	77	100
ASSETS FOR WHICH A FAIR VALUE IS DISCLOSED								
Trade receivables and other receivables [1]	0	0	49,208	60,927	0	0	49,208	60,927
Cash and cash equivalents	0	0	2,014	4,242	0	0	2,014	4,242
LIABILITIES CARRIED AT FAIR VALUE								
Other financial liabilities [1]	0	0	14,402	13,850	476	0	14,878	13,850
of which derivatives with hedge relationship	0	0	4,519	5,733	0	0	4,519	5,733
of which derivatives without hedge relationship	0	0	3,260	2,491	476	0	3,736	2,491
of which other	0	0	6,623	5,626	0	0	6,623	5,626
LIABILITIES FOR WHICH A FAIR VALUE IS DISCLOSED								
Fixed-interest rate banks borrowings	0	0	38,733	50,066	0	0	38,733	50,066
Variable-interest rate bank borrowings	0	0	24,257	20,758	0	0	24,257	20,758
Fixed-interest rate liabilities from promissory notes	0	0	39,589	40,126	0	0	39,589	40,126
Variable-interest rate liabilities from promissory notes	0	0	24,949	24,932	0	0	24,949	24,932
Fixed-interest rate borrowings from leasing companies	0	0	7,336	10,045	0	0	7,336	10,045
Variable-interest rate borrowings from leasing companies	0	0	0	0	0	0	0	0
Trade payables	0	0	31,438	26,045	0	0	31,438	26,045

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).
In the reporting period, an interest income of EURk 275 was recognized in profit and loss from changes in the fair value of the embedded interest rate floor from the syndicated loan concluded in the reporting year (classified as level 3).

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

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

EURk

	Assets		Liabilities	
	2016	2015	2016	2015
Recognized in the income statement:				
DERIVATIVES WITHOUT HEDGE RELATIONSHIP	**0**	**0**	**-3,137**	**-2,393**
Recognized in equity:				
DERIVATIVES WITH HEDGE RELATIONSHIP	**0**	**0**	**-1,436**	**-4,155**

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

	2016	2015
LOANS AND RECEIVABLES (LAR)	**-408**	**1,227**
of which due to disposal	156	58
of which due to impairment/impairment reversal	53	-8
of which due to currency effects	-617	1,177
FINANCIAL ASSETS HELD FOR TRADING (FAHFT)	**-23**	**100**
of which due to disposal	-100	0
of which due to remeasurement	77	100
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (FLAC)	**-196**	**671**
of which due to disposal	225	227
of which due to currency effects	-421	444
FINANCIAL LIABILITIES HELD FOR TRADING (FLHFT)	**-5,626**	**-3,928**
of which due to disposal	-2,489	-1,535
of which due to remeasurement	-3,137	-2,393

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

	2016	2015
FINANCIAL ASSETS		
Gross amount of financial assets recognized	49,873	61,773
Gross amounts of financial liabilities offset	-473	-587
REPORTED NET AMOUNTS OF FINANCIAL ASSETS	**49,400**	**61,186**
of which derivatives	192	259
of which trade receivables [1]	49,208	60,927
Offsettable due to framework agreements	-192	-259
TOTAL NET AMOUNT OF FINANCIAL ASSETS	**49,208**	**60,927**
FINANCIAL LIABILITIES		
Gross amount of financial liabilities recognized	-50,647	-44,431
Gross amounts of financial assets offset	84	96
REPORTED NET AMOUNTS OF FINANCIAL LIABILITIES	**-50,563**	**-44,335**
of which derivatives	-8,255	-8,224
of which trade payables and prepayments received	-35,685	-30,485
of which other financial liabilities [1]	-6,623	-5,626
Offsettable due to framework agreements	192	259
TOTAL NET AMOUNT OF FINANCIAL LIABILITIES	**-50,371**	**-44,076**

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).

Liabilities of EURk 473 (p/y: EURk 587) were offset against financial assets and include outstanding credits to customers as of the balance sheet date. The assets offsetting financial liabilities are receivables in the form of credits to suppliers in the amount of EURk 84 (p/y: EURk 96).

ADDITIONAL INFORMATION

25 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 8,739 (p/y: EURk 8,627) in contract- and customer-related development costs, EURk 668 (p/y: EURk 370) were capitalized as intangible assets.

26 AUDITOR'S FEE

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

EURk

	2016	2015
Audit	168	171
Other assurance services	13	0
Tax consultancy services	62	97
Other services	0	13
TOTAL	**243**	**281**

The auditor's fee included non-periodic expenses of EURk 8 (p/y: EURk 11).

27 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The total remuneration of the Management Board consists of the following:

EURk

	2016	2015
Short-term fixed remuneration	760	714
Non-cash benefits	72	85
Short-term variable remuneration	275	266
Long-term variable remuneration	286	360
Service costs for pension plans	189	261
TOTAL	**1,582**	**1,686**

The total remuneration of the Supervisory Board (short-term remuneration) in fiscal year 2016 amounted to EURk 286 (p/y: EURk 265). Loans and advances were not granted to members of governing bodies.

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

Pension payments to former members of the Management Board of PWO AG and their surviving dependents amounted to EURk 223 (p/y: EURk 222). The corresponding pension provisions amounted to EURk 4,308 (p/y: EURk 3,358) as of the reporting date.

28 RELATED PARTY DISCLOSURES

Related parties include the Group's ultimate parent company as well as the members of the Management Board and Supervisory Board. In the course of the fiscal year, there were no transactions between the Group and the ultimate parent company. There were no relationships with related parties with regard to the supply of goods or the rendering of services. Please refer to the final declaration in the dependency report, which is included in the combined group management report.

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

29 ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

In the statement of cash flows, cash flows are presented on the basis of IAS 7. Cash funds reported in the cash flow statement comprise cash and cash equivalents as well as bank borrowings due on demand. Bank borrowings payable on demand amounting to EURk 13,796 (p/y: EURk 11,550) have been included under the balance sheet item "current financial liabilities."

30 SEGMENT REPORTING

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

Earnings, assets, liabilities, depreciation and amortization among the individual segments are eliminated in the column titled "consolidation effects." This column also contains items that cannot be allocated to individual segments. The segment data is calculated in accordance with the accounting policies applied in the consolidated financial statements.

The segment assets and segment liabilities correspond to the values in the financial statements of the individual Group companies. The Germany segment contains significant non-cash items in an amount of EURk 1,382 (p/y: EURk 1,820).

Of the reported revenue as of December 31, 2016, two customers accounted for more than 10% of revenue (EURk 96,904) across almost all segments. As of December 31, 2015, one customer was identified with whom the Group had achieved slightly more than 10% (EURk 52,700) of its revenue.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2016

EURk

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

[1] The prior year was adjusted due to an error correction in accordance with IAS 8 (see Notes 18 and 21).
[2] Non-current assets do not include deferred taxes.

SEGMENT INFORMATION BY REGION FOR FISCAL YEAR 2015

EURk

	Germany	Rest of Europe	NAFTA Area	Asia	Consoli-dation effects	Group
Total revenue	248,728	68,692	87,465	19,779	0	424,664
Inter-segment revenue	-14,642	-2,993	-192	-2,240	0	-20,067
EXTERNAL REVENUE	**234,086**	**65,699**	**87,273**	**17,539**	**0**	**404,597**
TOTAL OUTPUT	**251,695**	**66,409**	**93,162**	**22,284**	**-20,256**	**413,294**
Aggregated other income	10,581	482	3,023	3,215	-4,494	12,807
Aggregated other expenses	235,641	57,216	88,533	26,287	-24,498	383,179
Depreciation and amortization [1]	13,240	3,300	6,376	1,970	-54	24,832
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	**13,395**	**6,375**	**1,276**	**-2,758**	**-198**	**18,090**
Interest income	2,902	92	0	1	-2,874	121
Dividend distributions from affiliated companies	7,000	0	0	0	-7,000	0
Interest expenses	4,275	1,183	1,784	1,501	-2,874	5,869
EARNINGS BEFORE TAXES (EBT)	**19,022**	**5,284**	**-508**	**-4,258**	**-7,198**	**12,342**
Income taxes	4,168	-168	837	0	-39	4,798
NET INCOME FOR THE PERIOD	**14,854**	**5,452**	**-1,345**	**-4,258**	**-7,159**	**7,544**
Assets [2]	190,591	82,842	76,200	52,749	-49,952	352,430
of which non-current assets [3]	69,852	42,528	38,639	32,908	-157	183,770
Liabilities [2]	28,683	45,560	56,859	50,424	67,793	249,319
Investments	11,914	10,906	2,672	3,300	0	28,792

[1] Depreciation and amortization for the Germany segment includes an impairment of EURk 38.
[2] Restated as a result of the correction of an error under IAS 8 (see Notes 18 and 21).
[3] 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

	2016	2015
Mechanical components for electrical and electronic applications	82,246	80,307
Safety components for airbags, seats and steering	140,271	142,293
Structural components and subsystems for vehicle bodies and chassis	187,095	181,997
TOTAL	**409,612**	**404,597**

31 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG issued by the Management Board and Supervisory Board in December 2016 is permanently available to shareholders via the Company's website.

32 SUBSEQUENT EVENTS

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

33 COMPOSITION AND MANDATES OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Karl M. Schmidhuber, Alzenau | Chairman of the Supervisory Board (since May 31, 2016)
Former Chief Executive Officer of Progress-Werk Oberkirch AG

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

Dieter Maier, Stuttgart | Chairman of the Supervisory Board (until May 31, 2016)
Former Member of the Executive Board of the Baden-Württembergische Bank AG, Stuttgart
(Honorary Chairman of the Supervisory Board of Progress-Werk Oberkirch AG since May 31, 2016)

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

Other mandates
- Düker GmbH, Karlstadt, Member of the Supervisory Board and Advisory Board
- Wolff & Müller Holding GmbH & Co. KG, Stuttgart, Member of the Advisory Board

Dr. Georg Hengstberger, Tübingen
Master's degree in mathematics, Managing Director of Consult Invest Beteiligungsberatungs-GmbH, Böblingen and risk controller at the Landesbank Baden-Württemberg, Stuttgart

Other mandates
- Düker GmbH, Karlstadt, Chairman of the Supervisory Board

Herbert König, Renchen | Employee Representative
Industrial Clerk and Chairman of the Works Council of PWO AG

Ulrich Ruetz, Ludwigsburg
Former Chairman of the Management Board of BERU AG, Ludwigsburg

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

Franz Schmidt, Renchen | Employee Representative (until May 31, 2016)
Manufacturing Supervisor and Member of the Works Council of PWO AG

Gerhard Schrempp, Renchen | Employee Representative (since May 31, 2016)
Buying agent for stamping and forming tools and Member of the Works Council of PWO AG

MANAGEMENT BOARD

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

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

Bernd Bartmann, Schutterwald
Responsible for administration and finance

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

Dr.-Ing. Winfried Blümel, Oberkirch (until June 30, 2016)
Responsible for production and materials

Johannes Obrecht, Oberkirch (since July 1, 2016)
Responsible for production and materials

Other mandates
- No other mandates

34 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that PWO AG's unappropriated retained earnings of EURk 5,001 as of December 31, 2016 be used as follows:

Payment of a dividend of EUR 1.60 for each dividend-bearing share	EURk 5,000
Carried forward to new account	EURk 1

The number of dividend-entitled shares may change before the resolution for the appropriation of retained earnings through the purchase of the Company's own shares (cf. Section 71b AktG). In this event, the Management Board and Board of Directors would make an amended resolution proposal to the Annual General Meeting on the appropriation of retained earnings, which would provide for an unchanged distribution of EUR 1.60 for each dividend-entitled share.

Oberkirch, March 15, 2017

The Management Board

Dr. Volker Simon
(Speaker)

Bernd Bartmann

Johannes Obrecht

AUDIT OPINION

We issued the following audit opinion for the consolidated financial statements and group management report, which was combined with the Company's management report:

"We have audited the consolidated financial statements prepared by Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the group management report combined with the Company's management report for the fiscal year from January 1 to December 31, 2016. It is the responsibility of the legal representatives of the Company to prepare the consolidated financial statements and group management report in accordance with International Financial Reporting Standards as applicable in the EU and with the supplementary provisions of German commercial law applicable pursuant to section 315a, (1) of the German Commercial Code (HGB). Our task is to deliver a judgment on the consolidated financial statements and group management report on the basis of the audit we have undertaken.

We have conducted our audit of the consolidated financial statements in accordance with section 317 HGB in consideration of the German generally accepted standards for the audit of financial statements defined by the Institute of German Certified Public Accountants (IDW –Institut der Wirtschaftsprüfer). These require the audit to be planned and conducted in such a manner as to detect, with adequate certainty any inaccuracies or infringements which may have a significant impact on the impression of the net assets, financial position, and results of operations as conveyed by the consolidated financial statements and the group management report in consideration of the applicable accounting standards. In determining the actions to be taken as part of the auditing procedure, consideration was given to the knowledge of the business activities of the Group and its economic and legal environment, as well as to the possible errors likely to be encountered. In the course of the audit, the effectiveness of the accounting-based internal control system and proof of the information contained in the consolidated financial statements and group management report, were assessed on the basis of random samples. The audit encompasses an appraisal of the annual financial statements of the companies included in the consolidated financial statements, the demarcation of the scope of consolidated, the accounting and consolidation principles applied, and the principal assessments made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and group management report. We are of the opinion that our audit forms an adequately secure foundation on which to base our judgment.

Our audit has caused us to raise no objections.

In our judgment based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards as applicable in the EU and the supplementary provisions of German commercial law applicable pursuant to section 315a, (1) HGB and, in consideration of these standards, convey an image of the net assets, financial position, and results of operations of the Group which concurs with the true circumstances. The group management report is consistent with the consolidated financial statements, complies with the principles of the law and overall presents an accurate image of the position of the Group and the opportunities and risks of future development."

Stuttgart, March 28, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner Auditor	Scheppank Auditor

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

PAPER:
400 g/m², Heaven 42 (Outer cover)
250 g/m², Heaven 42 (Inner cover)
150 g/m², Heaven 42 (Inner section)

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. The masculine form is used in this annual report for improved readability but expressly refers to men and women equally.

FINANCIAL CALENDAR

May 4, 2017	Quarterly Statement 1st Quarter 2017
May 23, 2017	Annual General Meeting 2017
August 3, 2017	Interim Financial Report 2nd Quarter and Half-Year 2017
November 2, 2017	Quarterly Statement 3rd Quarter and 9 Months 2017
November 2017	German Equity Forum, Frankfurt/Main
May 3, 2018	Quarterly Statement 1st Quarter 2018
May 23, 2018	Annual General Meeting 2018

CONTENT

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

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