THE HUMAN TOUCH OF AUTOMOTIVE TECHNOLOGY

STRUCTURES
ANNUAL REPORT
2011

PWO

PWO GROUP
FIVE-YEAR OVERVIEW OF KEY FIGURES (IFRS)

Income Statement (EURk)	2007	2008	2009	2010	2011
Revenue	259,566	260,356	206,371	264,195	**331,080**
Total output	262,600	264,810	206,752	270,714	**328,832**
Cost of materials	141,332	149,306	112,067	140,828	**179,707**
Staff costs	68,765	70,652	67,065	77,023	**87,962**
EBITDA	32,908	24,184	12,179	33,050	**35,828**
EBIT	16,719	7,715	-4,949	16,007	**19,161**
EBT	12,914	2,616	-10,450	9,803	**12,880**
Net income for the period	7,673	1,351	-8,949	6,459	**9,016**
Balance Sheet (EURk)					
Total assets	191,790	205,123	204,664	223,459	**240,735**
Non-current assets	97,220	112,346	110,215	116,422	**129,438**
Current assets	94,570	92,777	94,449	107,037	**111,297**
thereof cash and cash equivalents	1,953	2,265	7,704	7,290	**4,580**
Equity	76,789	67,980	61,465	68,971	**74,784**
Interest-bearing borrowings	51,815	69,451	86,792	87,147	**94,830**
Other liabilities	63,186	67,692	56,407	67,341	**71,121**
Return on Equity in % (based on EBT)	16.8	3.8	negative	14.2	**17.2**
Return on Equity in % (based on net income for the period)	10.0	2.0	negative	9.4	**12.1**
Net debt as % of equity	65	99	129	116	**121**
Equity ratio in %	40.0	33.1	30.0	30.9	**31.1**
Cash Flow (EURk)					
Cash flow from operating activities	17,902	25,031	6,008	24,840	**25,547**
Cash flow from investing activities	-26,007	-33,937	-12,658	-16,849	**-26,412**
Interest paid and received	-2,366	-3,092	-3,748	-4,594	**-4,716**
Free cash flow	-10,471	-11,998	-10,398	3,397	**-5,581**
Dividends paid	-3,000	-3,250	-1,375	0	**-2,500**
Other cash flow from financing activities	4,408	19,839	15,981	-2,461	**1,429**
Net change in cash and cash equivalents in the period	-9,063	4,591	4,208	936	**-6,652**
Numbers per share (EUR)					
Average number of shares (in million)	2.50	2.50	2.50	2.50	**2.50**
Earnings per share (diluted = basic)	3.10	0.58	-3.58	2.58	**3.61**
Dividend per share	1.30	0.55	0.00	1.00	**1.40***
XETRA share price, year-end	35.00	16.48	20.00	35.50	**31.34**
Employees (as of December 31)					
PWO Group (incl. part-timers)	1,854	2,086	2,046	2,288	**2,664**
thereof in Germany	1,042	1,127	1,116	1,209	**1,340**
thereof in international locations	721	834	781	954	**1,174**
thereof trainees	91	125	149	125	**150**

* Proposal to the 89th Annual General Meeting

MOBILITY.
STRUCTURE.
GROWTH.

The mobility of the future is characterised by increasing diversity and complexity. The growing demand for safety, comfort, improved performance, and lower emissions, increase the demands made on modern automotive designs.

In response to these trends, we at PWO are creating innovative solutions in products and processes - from the use of materials and product design to large series production.

Our components and subsystems within the automobile remain largely unseen, but you can feel their contribution every day through more comfort and safety.

We are a leading global designer and manufacturer of sophisticated components and subsystems which are built from steel, stainless steel, and aluminium. We use our extensive expertise in sheet metal forming, joining techniques, and tool development, in successful cooperation with global customers.

Together, we create innovative product solutions of the highest quality and precision, and use our leeway in modern automotive design to set trends.

With our local presence in key growth markets and by covering the full value chain, we strengthen our technological and cost leadership, and hence our profitability.

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BOARD OF MANAGEMENT

Karl M. Schmidhuber – Chairman of the Management Board, Market and Technology:
„We are always one idea ahead. Our passion and ambition in providing every customer with the best solution drives us to maximum performance. Innovation, a thorough understanding of quality, a global presence, and worldwide delivery capabilities, are the basis of our leading position in technology and in cost.“

Bernd Bartmann – Member of the Management Board Administration and Finance:
„The analysis of the data from our operations is the foundation of every business decision undertaken. For this reason, we at PWO use modern tools in knowledge management that are supported by IT and which enable us to link our knowledge worldwide. This is how we have created an optimal information structure which allows operative management to efficiently control every production location.“

Dr. Winfried Blümel – Member of the Management Board Production and Materials:
„We view ourselves as a leading producer of highly-sophisticated metal components. Not only have we developed our process know-how through the continuously increasing demands present when producing these products, but in many cases, our know-how has been considered at the leading edge.“

LETTER OF THE BOARD OF MANAGEMENT

Dear Shareholders,

In fiscal year 2011, the PWO Group continued with its consistent long-term strategy of sustainable and profitable growth through international expansion. At the same time, our German site in Oberkirch continued to set industry standards with regard to innovation, process efficiency, and profitability.

This has also reflected positively on the entire Group. In the past year, we had announced significant earnings increases at our international locations, and today we can confirm that the peak in start-up costs is now behind us. Meanwhile, our location in the Czech Republic is contributing a substantial and positive amount to the Group EBIT. Canada has become profitable again, and the earnings situation in Mexico also saw a noticeable improvement. China is still in the development phase, as planned.

Altogether, we had an increase in Group revenue of 25.3 percent to EUR 331.1 million. Approximately EUR 20 million of this amount is attributable to the passing-on of material price increases, which was again possible in 2011 by coming to amicable solutions with our customers. Adjusted for this effect, revenue grew 18 percent. The total output increased by 21.5 percent to EUR 328.8 million. As a result, we had exceeded our growth targets for fiscal year 2011.

Group EBIT rose by 20.0 percent to EUR 19.2 million despite being weighed down by an unusually large number of series production starts-ups and ramp-ups. Once more, this underlines our earnings strength. Currency effects positively contributed a sum of EUR 1.0 million (p/y: EUR 0.6 million).

The tax rate evolved as expected and fell to 30.0 percent (p/y: 34.1 percent). Accordingly, net income grew by 39.6 percent to EUR 9.0 million (p/y: EUR 6.5 million). Earnings per share rose 40 percent to EUR 3.61 (p/y: EUR 2.58).

Behind these numbers are the daily efforts of our employees who ensure that the components and subsystems required by our customers are manufactured with the highest efficiency and delivered on schedule, at any time, with zero-defect quality.

In fiscal year 2011, we had addressed the Group's series production start-ups in a dimension that was previously unknown. That this was so well achieved and is just one of the special merits of our workforce. This takes on even more meaning since a substantial part of our recent new product launches had stemmed from our international sites where the processes are not at the level of those known at our German location.

In this respect, substantial start-up assistance was required. In Mexico, by the end of 2012, we will have largely replaced the existing production programme with new series orders.

Beyond the daily demands of business operations, we were again very successful in acquiring new business in fiscal year 2011. Overall, we recorded a lifetime volume of more than EUR 300 million over the full range of our product offering. All of our sites will benefit from the new series productions so that utilisation and growth is already secured for the foreseeable future.

Particularly pleasing is that our customers entrust us with delivering a product from several of our locations to their various local production facilities.

On the one hand, these orders demonstrate our international delivery capabilities. On the other hand, they have a positive impact on our home location because the solely local suppliers without international coverage are not even invited to bid for such orders.

Our high level of innovation in product development and process design are the basis of our sales success. Not only do we adapt new developments at an early stage, but we often initiate new developments ourselves. Currently, we are seeing a particular benefit from the trend towards lightweight construction which is part of the requirements for a reduction in vehicle weight and thus a reduction in fuel consumption.

In view of the rapidly growing demand for the deployment of high-strength steels and highly sophisticated joining and bonding technologies, we can today already draw on many years of experience. Our reputation in the market is excellent when it comes to the substitution of conventional technologies, materials, and construction methods with lighter and more efficient solutions in sheet metal forming.

For these reasons, PWO Group is well positioned to grow over the next few years and strengthen its profitability. In fiscal year 2011, the goals we have been pursuing with our internationalisation strategy, had been positively reflected in our figures for the first time. In the coming years, we will continue to see increasing benefits from our past efforts.

We thank our employees for their constant high commitment and their willingness to accept new challenges and be successful. This is the foundation of our success.

We thank you, our shareholders, for your trust and your loyalty over the past year. We invite you to accompany PWO in the future and to continue to participate in our success.

Karl M. Schmidhuber
(Chairman)

Bernd Bartmann

Dr. Winfried Blümel

MARKET STRUCTURE
A NEW ROLE FOR SUPPLIERS IN AUTOMOTIVE MANUFACTURING.

In the face of the increasingly wide variety of models and the individual requirements of the different markets, automotive manufacturers are forced to focus on their core competencies in brand management. This has resulted in a growing shift of the value-added components in the vehicle towards the suppliers. Therefore, the suppliers must exhibit extensive expertise in developing, manufacturing, and logistics.

Here, we have met all of the necessary prerequisites. Where for decades PWO was a classic parts supplier to the automotive industry, today we see ourselves as a competent partner offering product solutions which are ready for installation to solve the complex problems in modern automotive engineering and where the development of the structural, safety, and comfort components are produced at our global sites.

PWO stands for high expertise along the entire value chain.

COMFORT.
Where in 1998 there were just a handful of electric motors providing comfort to the mid-size car segment, in 2011 the electrical/electronic content comprised more than 30 percent of the total value of materials for that vehicle class. Today there are many small electrical aids in use everywhere to ensure ease of operation and more joy and pleasure in driving.

INNOVATIVE STRUCTURES
AUTOMOTIVE MANUFACTURING NEEDS NEW IDEAS.

In the interest of making mobility more convenient, faster, safer, cheaper and more environmentally friendly in the future, one thing is needed above all: a vision and bold ideas. In order to successfully compete globally, it is not enough to just be good – but to always be better.

Among the key challenges in automotive development is the use of lightweight technologies to improve energy efficiency.

We at PWO use our extensive experience in forming and in joining technologies of metallic materials in order to develop innovative lightweight solutions for our products.

Our innovations do not emerge at random. They result from our constant quest for improvement in all areas. The passion to provide our customers with the best solution is what drives us to excel.

With such a variety of products, PWO is the only provider worldwide that covers such a wide range of metal components along the entire value chain - from product and process development to tool development for mass production on a global scale.

PWO stands for ideas which are always a step ahead.

EFFICIENCY.
PWO's structure components for steering columns are increasingly replacing expensive cast aluminium components. This significant cost advantage that results for our customers is possible due to our precision forming and welding technology. The required crash performance for these safety components is fully retained.

REPORT OF THE SUPERVISORY BOARD

Dieter Maier
(Chairman)

In the following report, the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft („the Company") describes its activities in financial year 2011. The report focuses on the collaboration of the Supervisory Board with the Management Board and the key issues addressed in the Supervisory Board meetings. These include, in particular, the audit of the financial statements and consolidated financial statements. Furthermore, the Supervisory Board reports on the work of its committees.

In fiscal 2011, the Supervisory Board had carried out its duties and responsibilities as defined by the law and the Articles of Association of the Company and its Rules of Procedure. The Board also oversaw the internal control systems for accounting, compliance, and operational risks, as well as the internal auditing system and the group-wide risk management system.

To this end, the Supervisory Board and the Management Board had continually cooperated and had maintained close dialogue. The exchanges with the Management Board had also included all other major issues concerning the development of the Company and the Group. The Supervisory Board advised the Management Board on a regular basis and monitored the Company's management in the aspects of legality, expediency, and efficiency. The Management Board had directly involved the Supervisory Board in decisions of fundamental importance for the Company or the Group. Above all, both Boards had coordinated closely in matters relating to the strategic direction of the Group.

The Supervisory Board was kept fully informed by the Management Board in a timely and comprehensive manner on the basis of detailed verbal and written reports. This communication addressed, in depth, all significant issues with regards to market trends of relevance to the Company and the Group, the current state of the business, as well as the position of the Company and the Group. The short-term and long-term corporate planning, on-going development projects, investments, and the strategic development of the Group, were all discussed in detail. Moreover, the liquidity and risk situation as well as the Group's risk management system, were topics brought up by information supplied by the Management Board. Deviations from forecasts and targets as well as the appropriate measures to address these deviations, were discussed in detail by the Management Board and reviewed by the Supervisory Board.

The Management Board's reports were critically reviewed by the Supervisory Board with regard to their plausibility. The Supervisory Board has noted that the subject and scope of the reporting requirements of the Supervisory Board were fully met by the Management Board. After a thorough examination and discussion, the Supervisory Board has approved the reports and proposals of the Management Board, to the extent required by the legal and statutory provisions. Matters requiring the Supervisory Board's approval were submitted in a timely manner for resolution by the Management Board.

In the periods between the meetings, the Supervisory Board was immediately and thoroughly informed through the verbal and written reports of the Management Board on specific business transactions which were deemed vital to the assessment of the Company's or Group's situation, development, and management. In the reporting year, no incidents have occurred which could be classified as unusual or problematic.

The Chairman of the Supervisory Board was also personally in regular and intensive contact with the Management Board and kept himself regularly informed of the current state of business and key business events. The Chairman had also briefed the other Supervisory Board members outside of the regularly scheduled meetings, and had discussed developments with them.

Conflicts of interest involving members of the Management Board and the members of the Supervisory Board, which would require immediate disclosure to the Supervisory Board as well as noti-

fication to the Annual General Meeting, did not occur in this fiscal year. It was approved by the Supervisory Board that the management award a mandate to the law firm Gleiss Lutz, in which the Supervisory Board member Dr. Wirth is a partner.

THE WORK OF THE PLENARY

Since fiscal year 2009, the Supervisory Board has stepped up its activities: firstly, due to the then-critical development of the automotive and supplier industries, and secondly, due to the strong economic recovery in the industry. Both of these events were assessed as having above average risk. During the 2011 reporting year, the plenary also met six times; namely January 31, March 14, May 25, July 26, September 28, and December 13, 2011. In addition, in April 2011 resolutions and adoptions were performed by the Board by telephone. There were no meetings of the Supervisory Board where members were absent without excuse. Additionally, there were no members of the Supervisory Board who had attended fewer than half of the meetings. All members were always present almost without exception.

The Supervisory Board regularly and closely concerns itself with the corporate strategy, the current market conditions, on-going project development, and the status of investments. In all of the Supervisory Board meetings, with the exception of the first meeting of the year, the respective reports on the business and operational situation of the Management Board were discussed. In addition, the topics discussed had included the Annual General Meeting, the expansion of the main plant in Oberkirch, questions on financing and currency management, the development of the subsidiaries, and the updated projections for the year. Other topics were also included in the subsequent meeting agendas:

At the meeting of January 31, 2011, the Supervisory Board dealt with questions on corporate governance issues, including the efficiency audit of the Supervisory Board's activities and the details of the planned investment.

At the meeting of March 14, 2011, the financial statements and the consolidated financial statements of fiscal year 2010 were thoroughly examined and approved. The auditor was present and reported the key results of the audit.

At the meeting of May 25, 2011, the Supervisory Board extended the terms of office and the employment contract of Management Board member Dr. Winfried Blümel for another five years until April 18, 2017. Additionally, the contract of board member Karl M. Schmidhuber was also extended until the conclusion of the Annual General Meeting in 2014, that is, until his transition into retirement. Here, the remuneration of all board members was adapted according to the provisions of the Act on the Appropriateness of Executive Remuneration (VorstAG).

The key topics of the meeting which had taken place on December 13, 2011 were the presentation, discussion, and adoption of the medium-term plan through 2014 in terms of earnings development, the balance sheet, and financing, as well as the personnel and investment requirements. Furthermore, the Supervisory Board dealt with various topics of corporate governance, particularly, the efficiency review of the Supervisory Board's work and their duty of examination of the completeness and regularity of questions put to the Management Board by the Supervisory Board. At this meeting, the Supervisory Board, together with the Management Board, had also discussed and passed a resolution concerning the declaration of compliance of Progress-Werk Oberkirch AG pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the recommendations of the „Government Commissioned German Corporate Governance Code" in its version of May 26, 2010 and the deviations from these recommendations.

The Corporate Governance Report, which is reproduced in the 2011 annual report of Progress-

Werk Oberkirch AG, and the Annual Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (HGB), contains further remarks about corporate governance. These are accessible on the website of Progress-Werk Oberkirch AG (www.progress-werk.de).

At the meeting on March 26, 2012 the Supervisory Board dealt in depth with the financial statements and consolidated financial statements of fiscal year 2011, including the amalgamated management report for the Company and the Group, the Management Board's proposal for appropriation of unappropriated retained earnings, and the dependence report of the Management Board pursuant to Section 312 of the German Stock Corporation Act (AktG). In accordance with Section 315a of the German Commercial Code (HGB), no consolidated financial statements according to HGB were prepared.

The accounting, financial statements, consolidated financial statements, amalgamated management report for the Company and the Group, and the dependency report, were audited and furnished with an unqualified audit opinion by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart. The audit opinion furnished by Ernst & Young GmbH with regard to related parties disclosure was as follows: „In accordance with our duty, and based on our audit and assessment, we hereby confirm that the details specified within the disclosure report are accurate."

The financial statements, the amalgamated management report for the Company and the Group, the Management Board's proposal for appropriation of unappropriated retained earnings, the dependency report, and the audit reports prepared by the auditor, were provided to the Supervisory Board members in advance of the meeting on March 26, 2012. The Audit Committee had previewed these documents in advance of its meeting on March 12, 2012.

The auditor was present at the meeting of the Audit Committee on March 12, 2012 and at the Supervisory Board meeting on March 26, 2012 and had reported on the material results of the audit.

The Supervisory Board has examined the financial statements, the consolidated financial statements, the amalgamated Management Report for the Company and the Group, and the Management Board's proposal for the appropriation of unappropriated retained earnings. Upon the recommendation of the Audit Committee, the Supervisory Board has agreed with the auditor's results of the audit at the meeting on March 26, 2012.

No objections were raised following the conclusive results of the Supervisory Board's examination. The Supervisory Board approved the consolidated financial statements and the parent company financial statements, which were thereby adopted.

At the meeting on March 26, 2012, the Supervisory Board had also examined and verified the dependency report as well as the results of the auditor's examination. No objections to the Management Board's statement at the end of the dependency report were raised following the final result of the Supervisory Board's examination.

The Supervisory Board also agreed on the Management Board's proposal as to the appropriation of the 2011 unappropriated retained earnings. Therefore, the company administration will propose a dividend distribution of EUR 1.40 per share at the Annual General Meeting on May 24, 2012.

THE WORK OF THE COMMITTEES

In order to efficiently perform its duties, the Supervisory Board has established a Personnel Committee and Audit Committee in accordance with its rules of procedure. It has conferred upon them certain rights to the extent permissible under law. The committees prepare the relevant issues and resolutions for their consideration in the plenary.

The Chairman of the Supervisory Board heads the Personnel Committee and regularly reports to the plenary on the work of the committee. The Personnel Committee prepares the personnel decisions of the Supervisory Board. Subject to the approval of the plenary, the Committee decides on the employment contracts and the retirement benefit agreements entered into with members of the Management Board, the representation of the Company in dealings with Management Board members, the consent to any outside or competing offices held by members of the Management Board, as well as the granting of loans to Management and Supervisory Board members. The approvals of contracts with Supervisory Board members which fall outside of their activities as Board members also fall under the Committee's jurisdiction.

The Personnel Committee met once during the reporting year on April 4, 2011 and all members were present. The Committee dealt with the adaptation of the remuneration of the Management Board according to the requirements of the Act on the Appropriateness of Executive Compensation (VorstAG), and in particular with the introduction of a long-term variable remuneration component to be based on sustainable business development. The remuneration report, as part of the Corporate Governance report, shows the revised compensation structure in detail.

In the reporting year, the Audit Committee convened on February 14, March 14, April 26, July 26, September 28, and October 25, 2011. Each of the six meetings was attended by all members of the Committee. The main topics of discussion were the 2010 financial statements, the interim financial reports of fiscal year 2011, the recommendation for the Supervisory Board's proposal for the election of the auditor, and the agreement of the auditor's fee for fiscal year 2011.

According to the guidelines of the Supervisory Board as a whole, the Audit Committee carried out the mandating of the auditor. Similarly, the Audit Committee obtained the auditor's Declaration of Impartiality pursuant to Section 7.2.1 of the German Corporate Governance Code. During the year under review, the Audit Committee found no evidence that cast doubt on the auditor's impartiality.

In addition, the Audit Committee intensely concerned itself with the economic development. To this end it accepted the reports of the Management Board giving special attention to the Company's and Group's current profitability. Moreover, the Committee discussed questions regarding the evaluation of equity investments, corporate management, accounting practices, and internal auditing. The Audit Committee regularly reviewed the Company's and the Group's development and compared it with the current plan in order to determine a need for action.

In the financial year under review, the committees continued to comprise the following members:

Personnel Committee
Dieter Maier (Chairman)
Dr. jur. Klaus-Georg Hengstberger
Ulrich Ruetz

Audit Committee
Dr. jur. Klaus-Georg Hengstberger (Chairman)
Herbert König
Dieter Maier

CHANGES IN THE COMPOSITION OF THE COMMITTEES

The composition of the Board of Management and the Supervisory Board was unchanged in 2011.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The greatest advance in the Company's development in recent years was the systematic improvement in the international competitiveness of the PWO Group and thus becoming the technology and market leader in its respective market segments. These efforts showed positive results in fiscal year 2011. The start-up and ramp-up of new series production reached record levels. Through the remarkable success of sales efforts, new contracts were acquired which will help to secure employment in the coming years. At the same time, we had continued our international expansion through internal growth and all overseas locations had developed favourably.

The future perspectives of the Company have continued to improve. The Supervisory Board recognises these achievements and expressly acknowledges all of those involved, namely, the Management Board and the employees, who have contributed to this special performance.

The Supervisory Board wishes to thank the employees at all locations of the Group and the Management Board members for their great commitment.

This report was prepared and discussed in detail by the Supervisory Board at its meeting on March 26, 2012.

Oberkirch, March 26, 2012

Dieter Maier
(Chairman)

CORPORATE GOVERNANCE REPORT

Responsible behaviour throughout the organisation is part of our identity. Long-term sustainable value creation is our duty. These are also the basic elements of good corporate governance at Progress-Werk Oberkirch AG. In order to maintain and increase the confidence in our management of shareholders and employees, customers and suppliers, and the general public, all of the Company's officers have committed themselves to complying with these principles. In their implementation, Progress-Werk Oberkirch AG relies on the standards of good corporate governance commonly used by German businesses. The Company's Articles of Association do not contain any provisions deviating from those mentioned. The Management Board and the Supervisory Board work together closely, efficiently, and faithfully. Finally, we want to build trust through transparent and timely communication, both internally and externally.

I. STATEMENT OF CORPORATE GOVERNANCE PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

(Part of the Management Report – non-audited pursuant to Section 317 (2) no. 3 HGB)

This Statement of the Corporate Governance (Section 289a HGB) of Progress-Werk Oberkirch AG, contains the declaration of conformity by the Management Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG). It also included information on the corporate governance practices applied above and beyond the legal requirements, and a description of the procedures of the Management Board and the Supervisory Board along with the composition and procedures of the committees established by the Supervisory Board.

1. Declaration of conformity pursuant to Section 161 AktG

In December 2011, the Management Board and the Supervisory Board had issued the following declaration of conformity according to Section 161 AktG:

The Management Board and Supervisory Board of Progress-Werk Oberkirch AG declare that the Company will comply with the recommendations of the government commission on the German Corporate Governance Code as published on May 26, 2010 with the following exceptions:

Code Item 3.8 | D&O Insurance
For the Supervisory Board, the Articles of Association stipulate a deductible equal to half of the fixed remuneration of the Supervisory Board member. In the opinion of the Company, this provides an adequate arrangement.

Code Item 4.2.3 | Management Contracts
With the extension of management contracts that were concluded before this code item was entered into force, for the protection of established rights, Code Item 4.2.3, paragraph 4 and 5, will not be complied with.

Code Item 5.3.3 | Nomination Committee
The Supervisory Board sees no reason for the formation of a Nomination Committee. Since the Supervisory Board consists of only six members, it is considered appropriate that the entire Supervisory Board deals with the nomination of Supervisory Board candidates.

Code Item 5.4.1 | Composition of the Supervisory Board
The Supervisory Board welcomes the Code's intention to regulate the appointment and composition of the Supervisory Board, and is committed to this aim. Since the election of shareholder representatives to the Supervisory Board is not scheduled until the Annual Shareholder's Meeting in 2013, it does not seem appropriate to mention specific targets at this time. Currently, no age limit has been established for Supervisory Board members. The Company will continue to refrain from setting an age limit for Supervisory Board members, as this would limit the selection of qualified candidates.

Code Item 5.4.6 | Remuneration of Supervisory Board Members
According to the Articles of Association, Supervisory Board members are to receive a fixed salary. In the opinion of the Management Board and the Supervisory Board, this best reflects the monitoring role of the Supervisory Board. For committee membership, the Board members receive the amount set out in the Articles of Association and no additional fees.

Since the last declaration under Section 161 AktG in December 2010, the recommendations of the Government Commission German Corporate Governance Code as published on May 26, 2010 were met, except for the above mentioned.

Oberkirch, December 2011

Progress-Werk Oberkirch AG

The Supervisory Board The Management Board

The current declaration under Section 161 AktG can be found on the Company's website in the Investor Relations section under Corporate Governance.

2. Relevant information on corporate governance practices

Our corporate policy is based on defined principles and values as well as good corporate governance as a matter of course.

Corporate Values
With our three key corporate principles "customer orientation, employee orientation, and the pursuit of success," we strive to set the highest standards. These imply the corporate values that form the cornerstone of PWO's management culture and serve as a model of corporate governance for the daily activities:

CUSTOMERS, PRODUCTS, AND GLOBAL PRESENCE
A continuously satisfied customer stands at the centre of our activities. We develop and produce products for the comfort and safety of cars for our customers worldwide at the highest level. In meeting the customer's requirements we also set new standards. We bring satisfaction through quality, reliability, flexibility, speed, and competitive pricing. The PWO Production System provides lean processes and a steady creation of value along the entire supply chain.

EMPLOYEES
Our employees are the key to our success. Therefore, we make continuous investments in our long term „human capital". We offer performance-based compensation and allow our employees to participate in the success. By providing the optimal working conditions, we create the environment necessary to enable our employees to be enthusiastic, enjoy their work, and deliver maximum performance.

SHAREHOLDERS, SUPPLIERS AND THE PUBLIC
We aim at sustainably increasing the value of our corporation and focus on the interests of our shareholders and the public. Through our strategic long-term vision, we are strengthening our market position. We take part in shaping the future worldwide and are already working on a successful reaction to the demands of tomorrow. Our business objectives are clearly focused on success and advancement. We make progress through our creative efforts and have the necessary momentum to be able to respond to new opportunities quickly and flexibly. Our economic efficiency safeguards our earnings. We are fair to our suppliers, because our products require flawless materials from our suppliers. Our Company is a part of society, therefore we take an active

role in issues of societal importance, and take our social, economic and ecological responsibility seriously at all times.

Governance Principles

Our management culture is based on the personal responsibility and initiative of our managers. These characteristics are reflected in our governance principles. These principles are an expression of our attitude and at the same time give our managers a policy framework for their daily interaction with employees. We are convinced that a cooperative attitude, the ability to coordinate, and an informative and delegating management style are the key requirements necessary for a trusting collaboration between managers and employees.

Transparency

In addition to the statutory requirements and listing standards for timely reporting and, with regard to transparency, the equal treatment of all shareholders, the Management Board feels committed to comprehensive communication with the public (annual and quarterly reports, ad-hoc notifications, directors' dealings and reportable changes of voting rights, of which the Company becomes aware).

In recent years, the Management Board has expanded its communication with the capital market. The management presents itself at capital market conferences and takes part in discussions with analysts, investors and media representatives. Information that is relevant in judging the Group's perspectives is made public as promptly as possible. All of our reports and announcements are available on our website www.progress-werk.de. Here you will also find other information such as all of the necessary information related to the Annual General Meeting, the Articles of Association, as well as the professional activities and other mandates of the Supervisory Board members.

Risk Management

Good corporate governance includes the reasonable limitation of all risks associated with business decisions. The Company has introduced a modern and efficient risk management system. This system is regularly subjected to a review of its effectiveness and is continuously developed further according to the constant changes in national and – in those areas where the Company is represented abroad - international statutory requirements.

3. The procedures of the Management Board and the Supervisory Board

As a stock corporation under German law, Progress-Werk Oberkirch AG is subject to the relevant statutory provisions with regards to management and supervision. Its management and control structure is divided into two parts consisting of a Management Board and a Supervisory Board.

The Management Board is solely responsible for the Company's operational management and strategic development. The Supervisory Board monitors and advises the Management Board in these matters. The Management Board and the Supervisory Board based management and monitoring of the Company in accord with the German Corporate Governance Code in its relevant current version.

Management Board

The Management Board of Progress-Werk Oberkirch AG currently consists of three members. The principles of the Board's cooperation are summarised in the Rules of Procedure of the Management Board. The distribution of tasks within the Board is laid out in the organisational plan.

The Management Board conducts the business of the Company and bears the overall responsibility for the common goals, plans, and policies. Irrespective of the overall responsibility of the Management Board, each member acts on his own responsibility in his own field, is however advised

to keep the departmental-related interests subordinate to the overall interests of the Company. Where activities and transactions of one board member's responsibility coincide with that of one or more of the other board members, the responsible board member must attain the agreement in advance from the other board members involved. If an agreement is not reached, each participating board member is obliged to bring a resolution to the entire board. Each Board member is also obliged to bring a resolution to the board when the activities under another board members responsibility cause reason for concern when these concerns cannot be resolved by discussion with the responsible board member. Irrespective of these principles, the consent of the entire board is required for measures and transaction which are conducted by the Company or the Group which are either of particular importance or which are pose an extraordinary economic risk.

The Chairman of the Board coordinates the management of the Company via the entire board. The board members are obliged to regularly inform the Chairman of the Board of any major transactions and the progress of business in their respective departments. Board meetings should take place at regular intervals, and if possible, take place at least every two weeks and on dates established long in advance.

The Management Board can take decisions with a simple majority of votes cast, as long as unanimity in meeting is not required by the mandatory statutory provisions, and outside of the regularly scheduled meetings by a simple majority of its members. An abstention shall not be deemed a vote. In a tied vote, the vote of the Chairman of the Board shall be decisive. The Board will take its decisions unanimously when possible.

The Management Board regularly informs the Supervisory Board in accordance with statutory requirements, timely and comprehensively on all key issues regarding business activity and the business trends of the Company and the Group, and in particular, the intended business policy and other fundamental issues of corporate planning, significant transactions that could be important for the liquidity and profitability of the Company or the Group, as well as the current profitability and earnings situation including the risk situation and risk management. In addition, the Management Board reports on investments, on-going development projects, and the strategic development of the Company and the Group.

In the Management Board's Rules of Procedure, a list of transactions and activities is defined that may require the prior approval of the Supervisory Board.

Supervisory Board

The Supervisory Board of Progress-Werk Oberkirch AG consists of six members. It is composed of two-thirds shareholder representatives, and one third employee representatives. The Supervisory Board monitors and advises the Management Board. Tasks and responsibilities arise from the statutory provisions of the Articles of Association and the Rules of Procedure of the Supervisory Board. The decisions of the Supervisory Board are passed by a simple majority vote, unless the law required otherwise. In the event of a tied vote, the vote of the chairman decides.

Generally, the members of the Management Board participate at the meetings of the Supervisory Board, unless in individual cases the Supervisory Board makes an alternative arrangement.

The Rules of Procedure provide for the formation of committees, amongst other things. Currently there are two committees: the Personnel Committee and the Audit Committee. Their capabilities are detailed in the Rules of Procedure of the Supervisory Board.

The Personnel Committee prepares the personnel and compensation decisions of the Supervisory Board. During the preparation of compensation decisions, the Committee consults, if necessary, with outside consultants. Its members include the Chairman of the Supervisory Board, his dep-

uty, as well as a further member of the Supervisory Board who is proposed for election by the Supervisory Board's shareholder representatives. It is chaired by the Chairman of the Supervisory Board. In fiscal year 2011, the composition of the Personnel Committee was unchanged as follows:

Dieter Maier (Chairman)
Dr. jur. Klaus-Georg Hengstberger
Ulrich Ruetz

The Audit Committee conducts, in the place of the Supervisory Board, the preliminary examination of the financial statements, the management report, and the audit report of the auditor. The Committee consists of the Chairman of the Supervisory Board and his deputy. The Supervisory Board may also appoint other Supervisory Board members to the Audit Committee. The chair of the Committee should not be led by the Chairman of the Supervisory Board. In fiscal year 2011, the composition of the Audit Committee continued as follows:

Dr. jur. Klaus-Georg Hengstberger (Chairman)
Herbert König
Dieter Maier

Mr. Dieter Maier is an independent financial expert as defined in Section 100 (5) AktG.

The Committee chairmen report to the Supervisory Board on the deliberations and decisions of the various committees.

Further details on the procedures of the Supervisory Board and its committees, and in particular the number and topics of the meetings in fiscal year 2011, can be found in the report of the Supervisory Board.

II. ADDITIONAL DISCLOSURES ON CORPORATE GOVERNANCE

Shareholders and the Annual General Meeting

The Management Board feels a special obligation towards the shareholders. We respect the interests of our shareholders and note their rights in full. All shareholders are treated equally. As owners of the Company, they provide the capital for maintaining and expanding the international market position of Progress-Werk Oberkirch AG and act entrepreneurial. It is the aim of the Management Board to durably strengthen the competitive position of Progress-Werk Oberkirch AG and its subsidiaries, and, simultaneously, to achieve a sustainable and long term attractive return on the capital provided.

The shareholders of Progress-Werk Oberkirch AG exercise their rights at the Annual General Meeting which is held at least once a year. Every shareholder who registers in time is allowed to attend the Annual General Meeting. Shareholders who cannot attend the Annual General Meeting in person have the opportunity to exercise their voting rights through a credit institution, a shareholders' association, a proxy set up by the Company, or another nominee of their choice. All documents and information regarding the Annual General Meeting are made available on our website.

Diversity in the Management Board and Supervisory Board

The Supervisory Board is committed to continue to paying attention to diversity in its future appointments of Management Board members. The Supervisory Board also welcomes the intention of the German Corporate Governance Code, to define rules governing the appointment and composition of the Supervisory Board and is committed to this aim. Since the pending election of

shareholder representatives to the Supervisory Board does not take place until the AGM in 2013, a mention of specific targets at this time is not yet appropriate.

Mandates of the Management Board

Outside of the PWO Group, Bernd Bartmann has assumed the function of a member of the Advisory Board of the Sparkasse Offenburg/Ortenau. Karl M. Schmidhuber and Dr. Winfried Blümel have no mandates outside of the Group at this time. In the fiscal year under review, there were no conflicts of interest of the Management Board members.

Shareholdings of the executive bodies

At the end of fiscal year 2011, the Deputy Chairman of the Supervisory Board, Dr. jur. Klaus-Georg Hengstberger held 55.282 percent of the outstanding shares of Progress-Werk Oberkirch AG. The shares are held through Consult Invest Beteiligungsberatungs-GmbH, Boeblingen of which he is the majority shareholder and managing director. In the past fiscal year, the Company was not made aware of any transactions which were subject to statutory disclosure pursuant to section 15a of the German Securities Trading Act (WpHG).

Stock Option Programmes

There were no stock-option programmes or similar stock-based incentive systems in existence in fiscal year 2011, nor are there any currently in existence.

Accounting and Auditing

The consolidated financial statements and the consolidated interim reports of the Progress-Werk Oberkirch AG are prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU. The financial statements of Progress-Werk Oberkirch AG are prepared in accordance with the provisions of the Commercial Code.

The consolidated financial statements and the financial statements were audited by the 2011 Annual General Meeting elected auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in Stuttgart. The Supervisory Board has agreed with the auditor that the Chairman of the Audit Committee be informed immediately of any issues during the audit for disqualification or bias issues, where these issues cannot be resolved without delay. The auditor should also report to the Supervisory Board immediately on important facts and events that arise during the course of the audit.

III. REMUNERATION REPORT

Remuneration of the Management Board

The Supervisory Board of Progress-Werk Oberkirch AG believes that a balance between the wages and salaries of the workforce and the remuneration of the Management Board should be maintained. The Board shares this view in its entirety and by their own convictions.

The criteria for defining the compensation of the Management Board include the duties of each Board member, their personal performance, the financial situation, the success and the future prospects of the Company, as well as the prevailing level of compensation at peer companies and the remuneration structure in the Company.

The total remuneration of the Management Board members includes monetary components, non-cash compensation, and pension plans and is composed of fixed and performance-related components.

The fixed remuneration consists of a basic annual salary, non-cash benefits, and pension benefits.

The performance-related element of remuneration is a bonus that is comprised of two components. The first component is measured on the basis of the Group's net income for the past fiscal year. The second component is calculated according to the Group's average net income over a period of three years. This helps to more evenly distribute the bonus payments over time. However, for the years 2011 and 2012, the basis will only include the prior two years.

The bonus is designed so that the multi-year component is predominant. The bonus is also limited in absolute terms in order to exclude unreasonable increases due to extraordinary developments in individual years. The variable compensation also ensures that both positive and negative corporate developments are taken into account.

Effective January 1, 2011, the newly introduced one-year and multi-year basis of assessment for the bonus were incorporated into the existing employment contracts of the Management Board. A discretionary bonus was also added to the existing employment contracts, whereby the Supervisory Board may consider extraordinary positive and negative developments up to a limited amount at its discretion.

For fiscal year 2011, the total remuneration of the Management Board amounted to EURk 1,407 (p/y: EURk 1,313). This included performance-based compensation in the amount of EURk 665 thousand (p/y: EURk 625). The non-cash benefits, especially in the form of insurance premium payments and the provision of company cars, amounted to EURk 69 (p/y: EURk 69).

The individual remuneration of the Management Board members is shown in the table below.

REMUNERATION OF THE MANAGEMENT BOARD

EURk		Fixed remuneration	Performance-related remuneration		Total remuneration	Pension expenses		
		Basic annual salary including non-cash benefits	Bonus	Other benefits		Yearly remuneration upon retirement (age 65) as at Dec. 31	Present value of benefit obligations	Allocation to pension provisions
Karl M. Schmidhuber, Chairman	**2011**	317	265	0	**582**	96	1,557	0
	2010	280	195	54	529	96	1,387	84
Bernd Bartmann	**2011**	204	200	0	**404**	72	422	72
	2010	196	146	42	384	72	331	67
Dr. Winfried Blümel	**2011**	221	200	0	**421**	72	350	53
	2010	212	146	42	400	72	277	50
Total	**2011**	**742**	**665**	**0**	**1,407**	**240**	**2,329**	**125**
	2010	688	487	138	1,313	240	1,995	201

The members of the Management Board are also insured under one of the Company's financial loss liability insurance policies for directors and certain managers (D&O insurance). The D&O policy provides for a deductible of 10 percent of the loss up to the amount of one and a half times the Management Board members fixed remuneration.

In addition, Management Board members are entitled to retirement, disability, and widow's pensions as of their second term. The individual expenses for pensions are also listed in the table „Remuneration of the Management Board".

Pensions for retirement are paid to Management Board members who have either reached the pension age of currently 65 years, or following their departure from the Company from the age of 60, provided they are receiving social security benefits as a full pension simultaneously.

In granting pensions for retirement, Management Board members must have been in the service of the Company for at least 3 consecutive years (waiting period) at the time of the commencement of retirement, unless prior to the insured event the pension rights were already vested.

The amount of the Management Board member's monthly pension is set out in the pension agreement. The amount of an early retirement pension is calculated from the retirement pension amount, whereby during the drawing of the pension, this amount is reduced by 0.25 percent per month of the period from the beginning of early retirement until the end of the members 65th year. The future pension benefits of the current Management Board members are adjusted with the changes in the cost of living for a 4-person household of hourly and salaried workers pursuant to the Federal Statistics Office in Wiesbaden.

The Company has made provisions for pensions in accordance with IFRS for the future entitlements of the Management Board members for payment of the retirement pensions. In the year under review, the allocation to the pension provisions for active Executive Board members amounted to EURk 125 (p/y: EURk 201). This amount takes into account the so-called service cost excluding interest cost.

Former members of the Management Board and their surviving dependants have received pension payments amounting to EURk 227 in the year under review (p/y: EURk 222). At December 31, 2011, the corresponding provision for pensions amounted to EURk 1,989 (p/y: EURk 1,966).

In the event of termination of employment no other benefits were promised to any member of the Management Board. In fiscal year 2011, no members of the Management Board had received any payments or promises from a third party in connection to their work as Management Board member.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members is specified in Section 11 of the Articles of Association, and is essentially governed as follows:

For the fiscal year, each Supervisory Board member shall receive a fixed annual remuneration of EUR 20,000. The Chairman of the Supervisory Board receives twice that amount, and the deputy receives one and a half times this amount. In addition, the members of the Supervisory Board receive an attendance fee of EUR 500 for every meeting of the Supervisory Board or its Committees in which they personally take part. For several sessions in the course of one day, this fee is paid only once.

Supervisory Board members who have been members for only part of the financial year, receive one twelfth of the yearly compensation for the commencement of each month they were present. The compensation is payable at the end of the fiscal year. 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 members of the Supervisory Board are also insured under one of the Company's financial loss liability insurance policies for directors and certain managers (D&O insurance). The premiums for this are assumed by the Company. Here, a deductible is agreed in the amount of half of the fixed annual remuneration of the Supervisory Board member.

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

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

REMUNERATION OF THE SUPERVISORY BOARD

EURk		Fixed remuneration	Attendance fee*	Total remuneration
Dieter Maier, Chairman	**2011**	40	6	**46**
	2010	40	7	47
Dr. jur. Klaus-Georg Hengstberger, Deputy Chairman	**2011**	30	6	**36**
	2010	30	7	37
Katja Ullrich (née Hertwig)	**2011**	20	4	**24**
	2010	20	3	23
Herbert König	**2011**	20	5	**25**
	2010	20	5	25
Ulrich Ruetz	**2011**	20	4	**24**
	2010	20	4	24
Dr. Gerhard Wirth	**2011**	20	4	**24**
	2010	20	4	24
Total	**2011**	**150**	**26**	**176**
	2010	150	28	178

*Each individual figure is rounded, so that minor discrepancies may occur through the addition of these amounts.

PWO SHARES

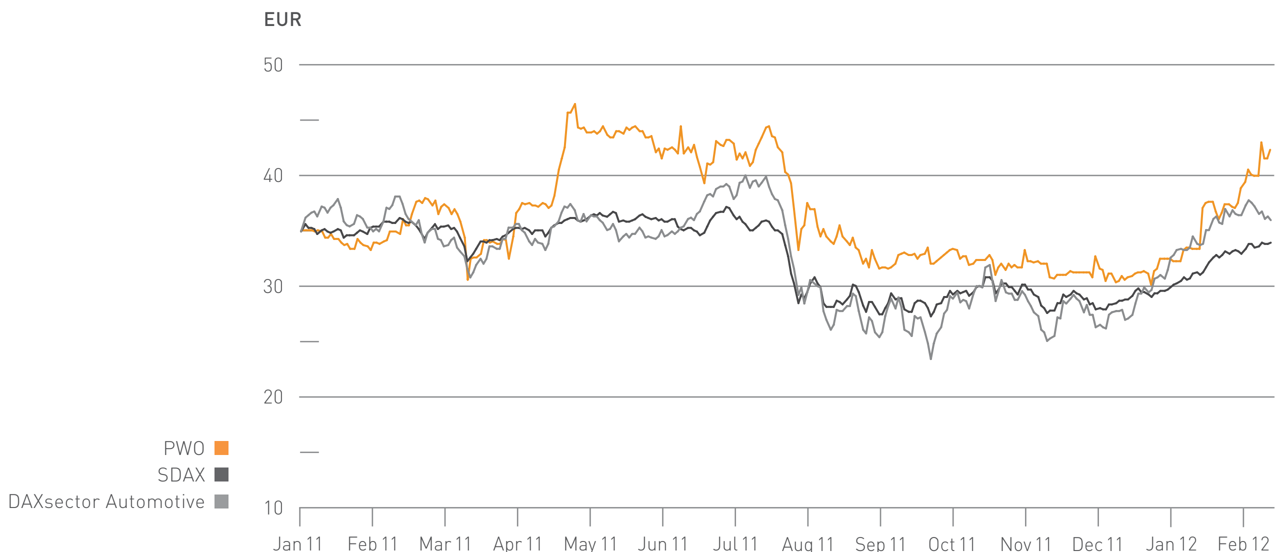
SHARE PRICE DEVELOPMENT

The fiscal year 2011 brought great fluctuations in the PWO share. With a starting price of EUR 35.50 on XETRA at the outset of the year, the PWO share proceeded to closely mirror the sideward development of its benchmark price indices the SDAX and the DAX Automotive sector. The share could not avoid the general market pullback in March. Not only was the trigger for this pullback the aggravated European debt problems, namely Portugal's inclusion in the EU's rescue package and the cut in Greece's credit rating by Standard & Poor's to „junk" level, but also the reactor accident in Fukushima.

After the share price decline, a low of EUR 31.00 was reached on March 15. Thereafter began a sharp upward movement of more than 51 percent, which concluded on May 3 with the year's high of EUR 46.95. This increase significantly exceeded the general market recovery and was mainly sparked by the numerous buy recommendations of various research houses.

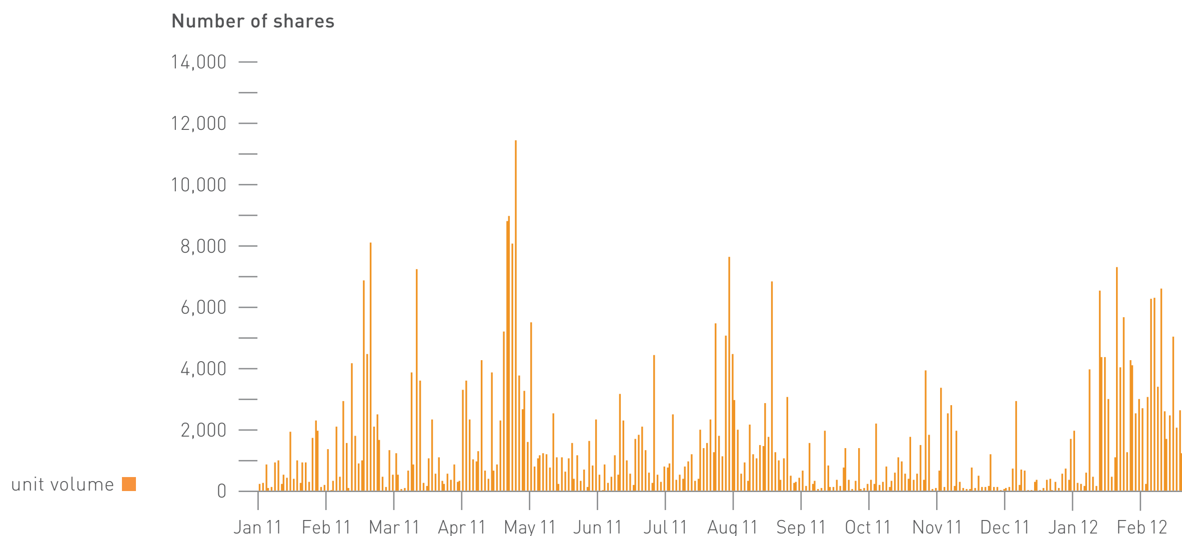
SHARE PRICE DEVELOPMENT

(Indices are rebased on the PWO share price of the first day of trading in 2011)



TRADING VOLUME

(Number of traded shares - XETRA and regional stock exchanges)



Thereafter, the share price tended to move sideways until the second market decline of the year occurred. Here again, the serious turmoil in the market had resulted from an escalation in the European debt crisis, as well as a downgrade in the ratings of the United States. During the course of the decline, which started in the last week of July, the SDAX Price Index fell by 20 percent, the DAX Automotive sector index dropped 26 percent, and PWO's shares had lost 25 percent, all within ten trading days.

During the remainder of the year, both the market and the PWO shares were not able to show a noticeably recovery from these reduced levels. General insecurity in the face of unresolved debt and budget problems, as well as the growing fears of recession in the EU, had overshadowed company-specific factors and forced these factors into the background. The PWO share continued to be unanimously recommended as a Buy throughout 2011, not y only analysts but also by numerous capital market publications. This was mainly due to the reported strength in new orders.

With a year-end closing price of EUR 31.34 on XETRA, the price of the PWO share fell on balance by 11.7 percent in 2011. In comparison, the SDAX Price Index fell by 17.1 percent and the DAX Automotive Sector Price Index dropped by some 21.9 percent. The average daily turnover of the PWO share for 2011 was 1,711 shares following an average of 862 shares in the previous year.

INVESTOR RELATIONS ACTIVITIES

In recent years, the Management Board of Progress-Werk Oberkirch AG has continuously expanded its capital markets presence and public relations in order to effectively market the PWO investment case: "the new global player". In fiscal year 2011, the Company's strategy and development were presented and new contacts were established with investors at a total of 10 conferences and road shows which took place in Germany, Great Britain, and Switzerland.

A special highlight that has now become somewhat of a bi-annual tradition is our Capital Markets Day. This year, it took place on September 19 at our corporate site in Oberkirch. Many investors and analysts took the opportunity for an extensive exchange of ideas with the Management Board and toured the state-of-the-art production facility. The focal point of interest was the material flow of the facility where in 2010 we had again received the prestigious Automotive Lean Production Award. The value chain of production was, in addition to the international expansion, a central theme of the Management Board's commentary.

In addition to these activities, the daily and numerous contacts with analysts, investors, and the financial and investor publications, were also given attention in 2011. Overall, PWO had attended around 50 one-on-one meetings in 2011 and had presented at various meetings with analysts, investors, and the press. Particularly the discussions at the German Equity Forum in November 2011 had proven once again to be very successful.

COVERAGE AND CURRENT ANALYST RECOMMENDATIONS

Bank / Research house	Recommendation
First Berlin Equity Research GmbH	Buy
Montega AG	Buy
LBBW	Buy
Silvia Quandt Research GmbH	Buy
SRH AlsterResearch AG	Buy

Status: as at December 31, 2011

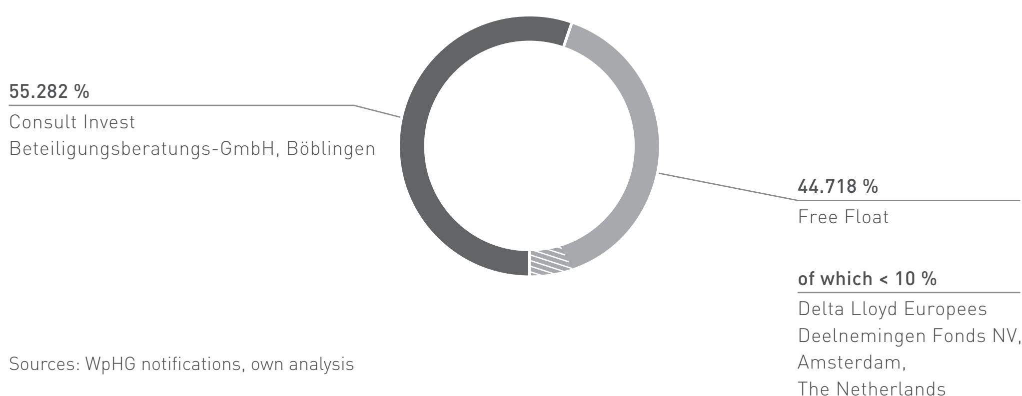
COMPOSITION AND DEVELOPMENT OF EQUITY

The information on the composition of equity and authorised capital are explained in the Management Report. The development of equity is presented in detail in the consolidated statement of changes in equity, which forms part of the annual financial statements. In fiscal year 2011, the amount and allocation of the subscribed capital had not changed.

Stock options are still not a part of the remuneration of neither the PWO Management Board members nor the employees. From the Company's standpoint, there is little correlation between individual employee performance and the share price development, meaning that stock options are not the correct instrument for providing additional performance incentive.

SHAREHOLDER STRUCTURE

The shareholder structure had not changed in fiscal 2011.



Sources: WpHG notifications, own analysis

DIRECTORS' DEALINGS

In the reporting year, notifications pursuant to Section 15a of the German Securities Trading Act (WpHG) were not received by the Company. In February 2012, PWO AG was notified of the sales of PWO shares. This notification is published on the Company's website under www.progress-werk.de in the section Investor Relations/PWO shares/Directors' Dealings.

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KEY FIGURES OF THE PWO SHARE

Corporate Key Figures		**2007**	**2008**	**2009**	**2010**	**2011**
Revenue	EUR million	259.57	260.36	206.37	264.20	**331.08**
EBIT	EUR million	16.72	7.72	-4.95	16.01	**19.16**
Revenue per share	EUR	103.83	104.14	82.55	105.68	**132.43**
Earnings per share	EUR	3.10	0.58	-3.58	2.58	**3.61**
Dividend per share	EUR	1.30	0.55	--	1.00	**1.40***
Book value per share	EUR	30.72	27.19	24.59	27.59	**29.91**
Valuation Ratios (based on year-end share price on XETRA)						
XETRA share price, year-high	EUR	39.30	35.55	20.00	37.00	**46.95**
XETRA share price, year-low	EUR	32.50	16.05	14.77	20.40	**30.88**
XETRA share price, year-end	EUR	35.00	16.48	20.00	35.50	**31.34**
Market capitalisation	EUR million	87.50	41.20	50.00	88.75	**78.35**
Net debt	EUR million	49.86	67.19	79.09	79.86	**90.25**
Enterprise Value (EV)	EUR million	137.36	108.39	129.09	168.61	**168.60**
Price/Sales		0.34	0.16	0.24	0.34	**0.24**
PER		11.29	28.41	negative	13.76	**8.68**
Price/Book		1.14	0.61	0.81	1.29	**1.05**
Dividend yield	percent	3.71	3.34	--	2.82	**4.47**
EV/Sales		0.53	0.42	0.63	0.64	**0.51**
EV/EBIT		8.22	14.04	negative	10.53	**8.80**

* Proposal to the 89th Annual General Meeting.

HELPING TO SHAPE THE FUTURE OF THE AUTOMOBILE

There has hardly been a time in the history of automotive mobility as exciting as ours. Like so much else today, the now 125 year old automobile is being fundamentally questioned. In the face of climate change, which concerns us all, are concrete questions which are taking the spotlight and which pertain to emission reduction and alternative fuel („e-mobility"). Additionally, the social role of the automobile is redefining itself: away from that of a status symbol, towards that of a reliable companion in all situations of daily life. Therefore, practicality and fun are no less mutually exclusive than are safety and comfort. And because people are different, they also attach importance to the car's individuality. This is the reason for the increasing complexity of automobiles which has led to many more models than ever before.

However, when viewed in more detail, surprisingly few mega-trends are dominating the automobile's development. If we brought this thought to its logical conclusion then fewer emissions would mean greater efficiency, and convenience and safety would mean suitability for daily use - in other words, quality. Variety is also only economically viable when combined with maximum quality down to the last detail. Efficiency and quality: We call this a zero-defect philosophy. The relevance increases with the increase in complexity. Since these are global mega trends, the challenges can only be met on a global scale.

We at PWO have identified the major drivers of automotive development at an early stage. Our strategic objective, which is to position the Company as a leading global supplier of components and subsystems for safety and comfort in cars with the highest efficiency and the best quality, were based on these drivers from the start. The positive consequence of this is that we are largely independent of the development of the drive system. Finally, people want to ride in safe and comfortable cars, no matter what engine is taking them.

Since safety and comfort are the all-encompassing requirements demanded of an automobile, our products are used in numerous vehicle functions. However, they are rarely directly visible. Therefore, at first glance it is not easy to find a PWO component in an automobile and, at the same time, it is very difficult to find a car that does not contain PWO components. Through our innovation we create new and better product solutions and as a consequence, we are awarded contracts. We are actively shaping automotive manufacturing worldwide.

Despite so many changes, some things never change. Now as in the past, everything in the automotive industry still begins with choosing the right material. Currently, there is much discussion surrounding the alternatives. These discussions usually stem from the perception that the old technologies are outdated, even when this is not the case. One example is when, in the discussions of weight reduction, the term "carbon" comes into play. It is true that modern carbon fibre materials are much lighter than conventional steel, however, it is also true that they are very expensive and do not go far enough in satisfying the numerous requirements. This explains why, in many areas, it is not possible to use them. Therefore, steel will remain the material of choice in the future for many of the applications in the PWO product areas. This works out well for us since we possess the extensive know-how necessary when it comes to making the right things from steel!

Lightweight production does not just mean carbon anymore. The highest potential in terms of abundance in lightweight production is namely, steel, and more precisely, high-strength steel! Recent studies, such as a study by McKinsey, expect that the use of lighter materials in the global automotive industry will rise by 40 percent by 2030. Here, high-strength steel is expected to grow to almost three and a half times its current level: from 15 million to 50 million tonnes. This is followed by aluminium, which is expected to see its use increase by three times its current amount of about 5 million tonnes. Of the carbon-fibre composite materials, about 0.4 million tonnes are expected to be processed by 2030.

In view of these perspectives, PWO is well prepared. We control the use of advanced materials such as high-strength steels and aluminium. In sheet metal forming, our key domain, high-strength steel, poses itself as quite a challenging material. With our know-how which has been accumulated over decades, we are able to produce complex shapes with a minimal use of materials and with such demanding grades of steel. In fact, for many years, we have been working closely together with major steel producers when it comes to developing demand-optimised steel grades.

Keyword: Sheet metal forming. Not only materials but also technologies can denote lightweight construction. Many components, which formerly came from the casting house or the forge, were complete components only after several processing steps. These are produced today, as in the case of the sheet deep-drawing process, without additional processing steps. Another example is the suspension strut fork. Here the PWO solution saves 50 percent of the cost and is 30 percent lighter.

Sheet metal forming is clearly one of the future technologies when speaking of automotive production. Since it also ideally satisfies the requirements for high unit volume production, it is the technology of choice for mass production. This also applies to components that have large variations in height and diameter. This enables us to limit the number of individual elements of a component and significantly reduce the necessary steps in production. One example is in the case of the air suspension component where in a previously elaborate process two separate parts were welded together and then the tightness of the weld seam was checked under a helium atmosphere. The PWO solution no longer requires weld seams and now consists of only one part. The benefits are: greater security and a significant reduction in the cost of materials, in manufacturing, and in tooling. Furthermore, our high quality joining techniques allow for targeted lightweight steel construction with multiple load-optimised components.

PWO is a leader in sheet metal forming and covers the entire value chain. We are a leading innovator in coming up with alternatives to elaborate processes such as extrusion, casting, and forging, which usually require additional processing steps. We are very confident that the replacement of these elaborate practices by sheet metal forming, which in most cases is substantially more efficient, will bring us considerably more contracts in the future. This should outweigh any migration seen from sheet metal forming to other manufacturing technologies.

If fewer emissions mean more efficiency, and if producing a large variety of models is only economically feasible when a high level of quality down to the last detail can be assured, then the manufacturing process will become a significant success factor. In automotive production, bringing the horse power to the road is a deciding factor, especially in manufacturing. This applies to both the automobile manufacturers as well as to their suppliers. An efficient car is not solely defined by its low consumption during use. Equally important is the efficiency of its production and the highest quality possible!

Our integrated teams develop product and process innovations for maximum precision and speed in the production of millions of units. Here, our manufacturing efficiency is setting new standards in the industry. We dominate the world's highest number of strokes in the deep drawing process, while at the same time maintaining low material consumption and zero-defect quality. This provides us with a significant competitive advantage.

From the beginning, we have emphasised tool development as one of our core competencies. Only with the best tools can you obtain the best product quality and the lowest downtime and failure ratios. Our zero-defect philosophy begins in production with the tool. For there is one basic rule: the higher the demands on the product, the lower the tolerance of the tool. This is true for every single piece even numbering into the millions. From this perspective, we practice a very concrete understanding of sustainability when developing tools.

With our tools, we offer more than just the best possible quality of work. With these tools, we achieve innovation and also effectively reduce the production costs. More than 400 of our employees in development and tooling create ever-new and superior product solutions based on long-established and reliable technology. Thereby they sink the unit costs through constantly increasing production speeds. This is how our expertise in tool development provides drivers for effective growth beyond the general market development.

With high innovation and by constantly expanding our know-how, we continue to redefine industry standards. This puts us in a position to always offer the market new and better solutions for increasingly diverse and increasingly complex requirements. This is how we define progress!

Superior solutions, first-rate flexibility, and quality across the Group, require an optimised organisational and operating structure. Globally, PWO is working according to the value stream principle. The self-developed, comprehensive PWO Production System defines our commitment to high standards of efficiency, quality, and delivery reliability. It describes our lean management and lean production processes based on our zero-defect philosophy, which is being continuously developed, consistently throughout the Group. This is how we live out progress.

The ability to continuously evolve through the creative application of our core competencies has given us a unique broad presence. This greatly strengthens the independence and the market position of the PWO Group.

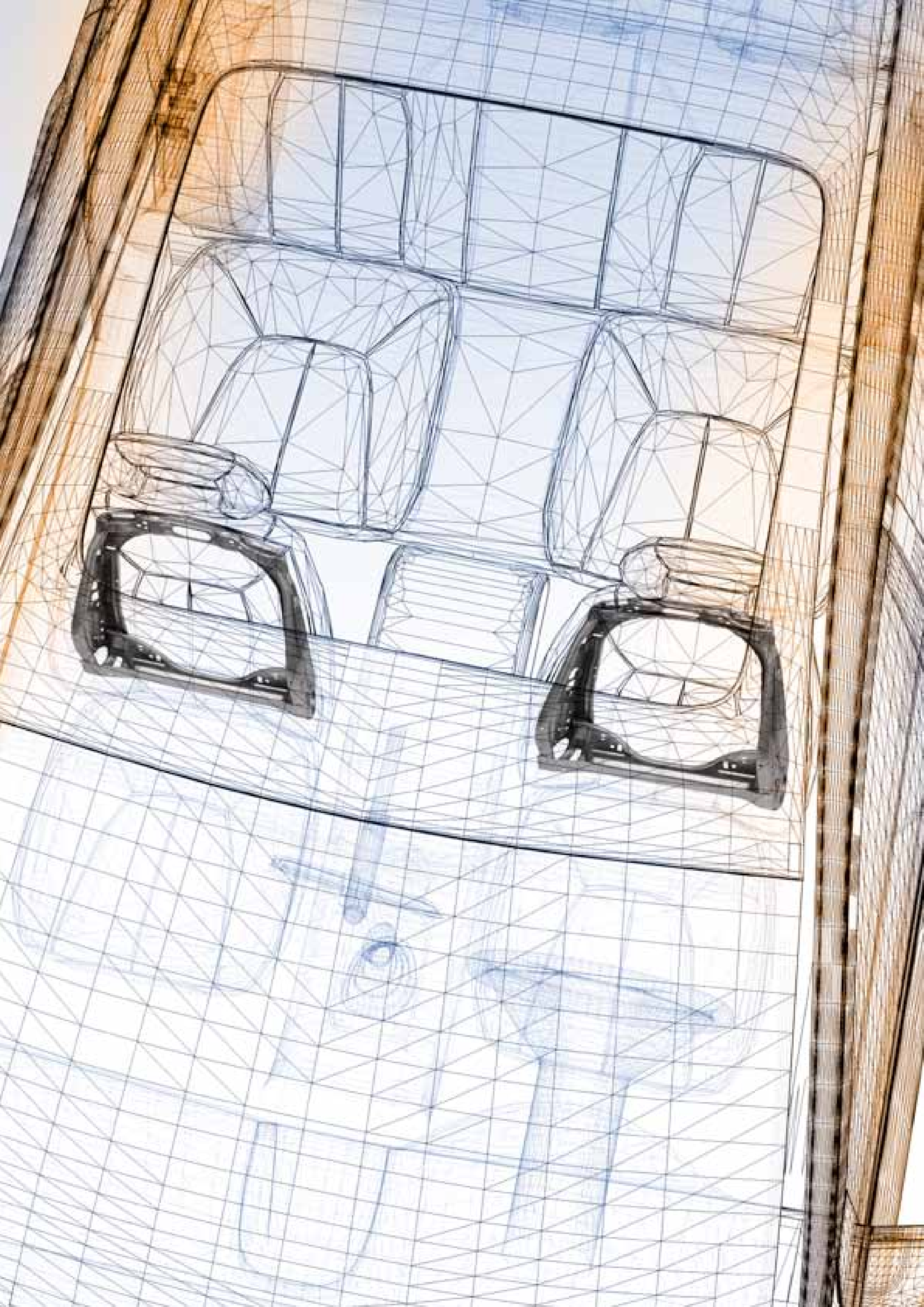
We are consistently able to offer solutions that go beyond the requirements of our customers. In addition, we offer them creative freedom for diversity in product design. These are key competitive advantages when it comes to individuality in a market with countless models and specification options. This is our contribution to progress.

When dealing with our customers, we rely on traditional and conservative values: providing the best solution, maximum flexibility, maximum closeness, and the best value for money at all times!

More specifically this means that the ever increasing complexity of customer requirements has transformed us from a pure component supplier into a full service supplier for many modules and subsystems – and all this with a permanent and seamless cooperation with our customers. This includes the initial concept stage, development, design, qualification, implementation, and change management. This is how we maintain a long-term and trustful relationship with our customers and accompany them throughout the life cycle of their product.

The central element of our marketing is the understanding of the needs of our customers. This is the only way we can consistently deliver one more slice of quality and functionality and thus offer our customers additional value.

This is all done on a global scale. Our main target group, the international automotive manufacturers and their suppliers, award contracts not just for one model but an entire platform. These products are then sold in different models around the world. This requires on-site presence. Therefore, over the last several years, we have consistently implemented our internationalisation strategy and will continue to do so in the future.



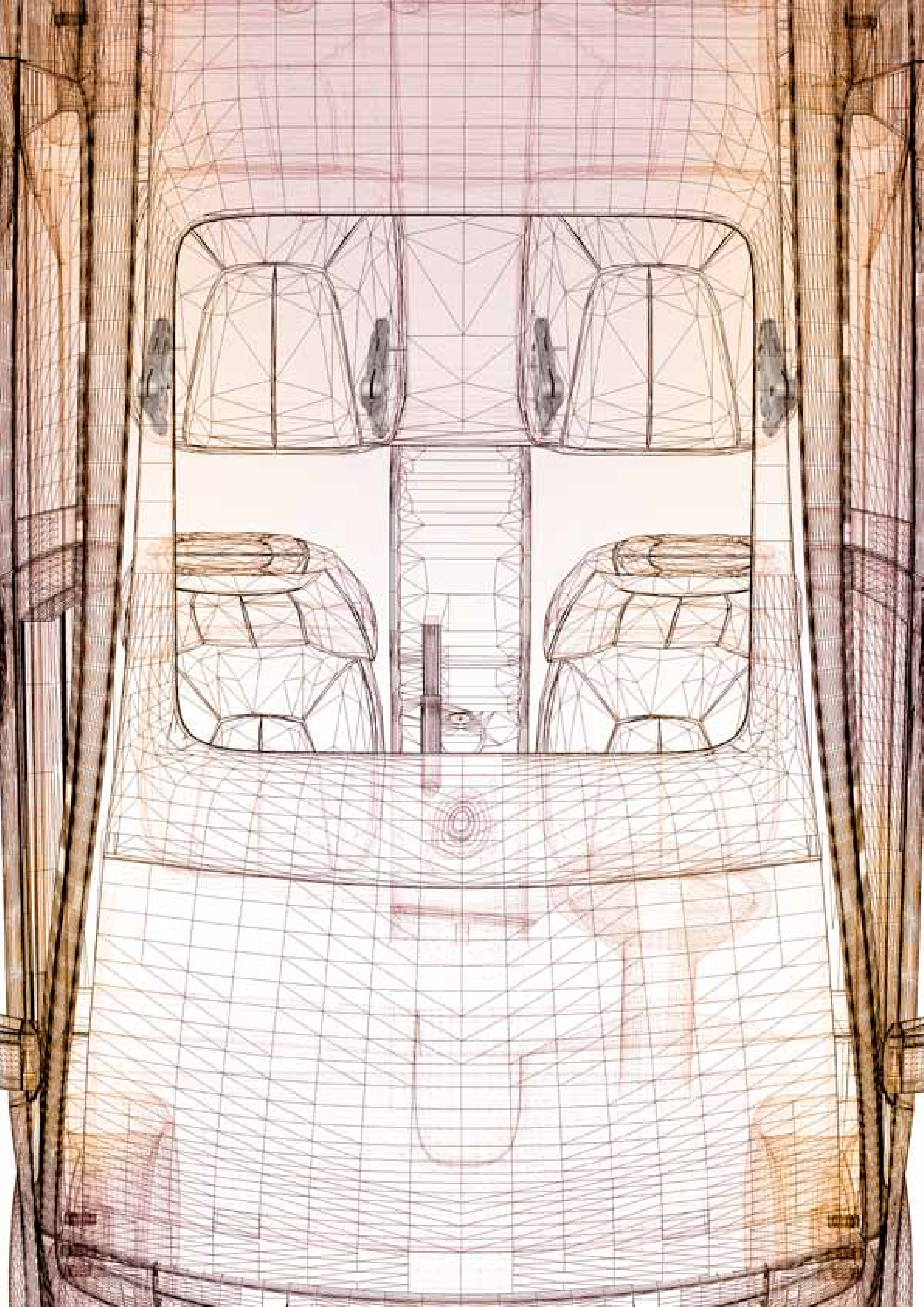
KNOWLEDGE STRUCTURE
MARKET LEADERSHIP THANKS TO KNOW-HOW.

Only continuous innovation in technology, products, processes and in cost minimisation, secures our market leadership. Our expertise across the entire value chain and our leading expertise in tool development and mass production of components and modules give rise to PWO's premier position.

Automotive manufacturers must make the best use of materials. We see an opportunity to develop exactly the right solution through our leading know-how in the sheet metal forming and joining technologies. This is how we are able to provide a variety of special functions while still reducing the weight and lowering the costs.

PWO stands for innovative ideas and intelligent solutions.

SAFETY.
In the year 2000, 7,500 people had to give up their lives on the German roads due to traffic accidents. Within a decade, the number of fatal traffic accidents has halved despite the higher volume of traffic. We at PWO have also played a part in this development.



QUALITY (MANAGEMENT) STRUCTURES
THE PERFECTION OF A GLOBAL MARKET LEADER.

The highest precision already found at the stage of tool development, is an essential factor in uncompromised product quality: A product can only be as good as the tools from which it is made.

The ever increasing demands for performance, materials, safety and weight for the ever smaller spaces within modern vehicle construction can only be effectively answered with: precision without excuse.

We at PWO are committed to the art of reduction. We call it, „Reduce to Perfection". Continuous process improvements allow higher production speeds as well as the exclusion of subsequent processing stages in series production.

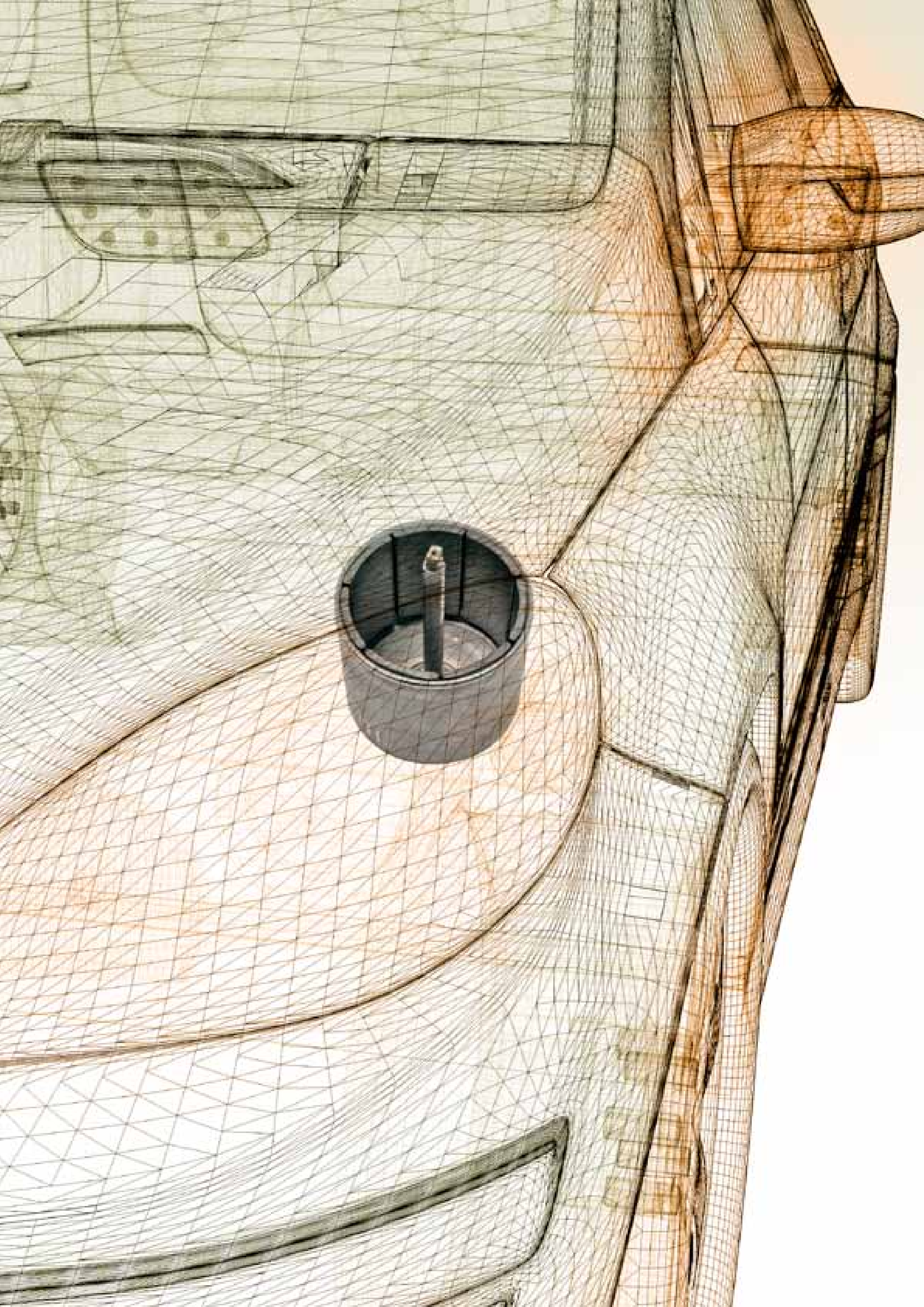
In line with „best practice" PWO ensures a standardised high-quality company-wide process globally. This is done using the proprietary „PWO Production System". Here, work processes are standardised throughout the entire value chain, and uniformly defined, monitored, and maintained in terms of planning and performance standards for all locations.

Continuous quality improvement along with cost optimisation is our goal. PWO follows an uncompromising zero-defect philosophy. This goes hand in hand with on-demand delivery to the customer's specifications, even in cases of high volumes.

PWO stands for continuous process improvements.

COMFORT IS A QUESTION OF POSITION.

The seat has a crucial effect on the personal well-being and sense of security found in the vehicle. A feature necessary for an optimum seating position is a wide range of adjustment and locking systems that meet the highest safety requirements. Seat components require the use of high-strength steels that offer crash-optimised performance combined with lightweight design and sophisticated adjustment mechanisms.



PRODUCTION STRUCTURES
LEAN PROCESSES GUARANTEE COMPETITIVE ADVANTAGES.

A consistent focus on lean production has led to very lean processes - not only at the headquarters in Oberkirch, but also at our international production facilities in the Czech Republic, Canada, Mexico, and China. The extremely short reaction times to the customer's changing requirements that resulted are a key competitive advantage.

At the same time, order-related production requires maximum flexibility, precision, and detailed planning – areas where we also set the standards. Due to the consistent implementation of lean management principles in all relevant areas of our value chain, we have already twice received the prestigious Automotive Lean Production Award.

PWO developers often succeed in creating ground-breaking solutions that go far beyond the customer's requirements and allow additional leeway in product design.

To us, "near-to-the-customer" means always solving development tasks with the customer in mind. The customer and PWO work together to achieve the best solution, so that together, we can learn from each other's experience.

Therefore, our engineering and tooling development know-how is offered globally to all locations. Final adjustments for the series-production tools are always carried out jointly by the development, production, planning, and construction areas of the respective plant.

PWO stands for short distances and high efficiency.

WE PROTECT THE ELECTRONICS IN AUTOMOBILES.

Electrics and electronics applications control an ever increasing number of vehicle functions and does not stop at steering. Steering motors require rotors, which can, if needed, strengthen the steering power by up to 4,000 revolutions per minute. We have developed a forming process for this which guarantees an exact position of the central axis in the housing so that the concentric rotation and imbalance of the components are minimised. This is how a longer lifespan and a minimum of noise are achieved.

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MANAGEMENT REPORT FOR THE PWO GROUP AND PWO AG

On the following pages, we present the amalgamated Management Report for Progress-Werk Oberkirch Aktiengesellschaft and the PWO Group for the financial year ending December 31, 2011. The Group continues to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. Progress-Werk Oberkirch AG prepares its accounts in accordance with the provisions of the German Commercial Code.

The composition of the consolidated Group is described in detail in the Notes to the Annual Financial Statements. There have been no changes to the Group of consolidated companies that have materially affected the net assets, financial position, or earnings situation.

COMPANY PROFILE

PWO is a leading international supplier to the auto industry. We serve our clients globally from five production facilities spread over three continents. At the end of the reporting period, the Group had employed a workforce of 2,664 employees including part-timers. Other regions are served on a contract-by-contract basis by means of cooperative arrangements with our partners. Our positioning as a strategic global partner to our customers is one of our key unique selling points in the competitive environment.

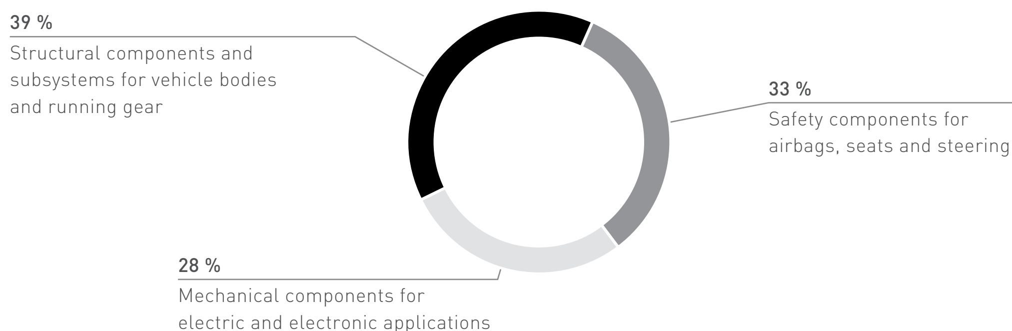
We are focused on sheet metal forming, in particular on sheet metal cold forming, and the use of highly sophisticated bonding technologies. We mass-produce components and subsystems in steel, including high-strength lightweight steels, stainless steel and aluminium and in some cases have unit numbers running into the millions.

We meet individual customer needs for a broad range of products. We currently produce over 1,000 different components and subsystems in the context of series production orders with lifespans of typically five to eight years.

All of our products aim at achieving maximum comfort and safety in the vehicle. When viewed across a span of market cycles, these areas exhibit a level of sustainable growth that lies above the average trend: Demand among car buyers for greater comfort and greater safety in all vehicle categories and in all sales regions is rising inexorably. Our revenue is spread over the three strategic product areas as shown in the graph below.

PWO HAS ESTABLISHED THREE STRATEGIC PRODUCT AREAS

2011 revenue (100 % = EUR 331.1 million)



Mechanical components and safety components comprise over 60 percent of our total revenue, and are sold predominantly to international Tier 1 parts suppliers. These part suppliers, in turn, resell these components to various manufacturers who use them as an integral part of their own systems for numerous models.

Structural components and subsystems for vehicle bodies and running gear are generally supplied model-specific and directly to the automobile manufacturers. Here too however, the breadth of applications is increased by the rising trend towards using international platforms as a basis on which to build a variety of vehicle models. The bulk of our components and subsystems are delivered to the premium segment of the auto industry.

With this product range, we are the world's only supplier with the ability to cover such a broad spectrum of products and embrace the entire value chain from customer-specific development via tool-making to series production. In addition, we are largely independent of the success or failure of individual models. Last but not least, we are able to focus on attractive growth opportunities and avoid low-margin orders.

We continuously expand our competitive strength and profitability by utilising our innovative capabilities in product solutions and production processes. Customer requirements, particularly when it comes to function, precision, weight, costs and deadlines, are not only met but often exceeded. We regularly introduce pioneering innovations in state-of-the-art mass production for the global automobile industry.

We have developed the fastest deep-drawing process worldwide in complex metal forming and have established ourselves as the world's leading manufacturer of deep-drawn electric motor housings with an annual output of more than 100 million units. We are particularly successful in developing new solutions for sheet metal forming, which replace significantly heavier and more expensive cast or forged parts. Thereby, we experience a higher-than-average benefit from the trend towards light-weight construction, which is increasingly gaining momentum in the automotive industry.

Innovation in tool-making is the deciding factor in determining component quality, production speed, and the integration of downstream processing stages in the forming process. Therefore, our in-house tool-making facilities are yet another one of our key unique features.

We have also earned a long-standing reputation as an ultra-reliable supplier noted for zero-defect quality. These factors collectively underpin enduring customer relations and open the door to rising order volumes.

STRATEGY AND CONTROL

Corporate Strategy

PWO is a growth company. Our goal is to develop the Company independent of the cyclicality found in the automobile industry. Since the mid 1990s, we have successfully achieved this with the exception of the years 2008 and 2009 which were characterised by the global financial market crisis.

We focus on market-leading innovation in a broad spectrum of products. This allows us to remain independent of individual contracts as well as of the success of individual vehicle models. In addition, we maintain a balanced revenue structure through a multitude of smaller individual orders and bulk orders. Thus we can ensure high capacity utilisation while at the same time limiting the risk of follow-on orders.

Already in 1996, we had begun to establish ourselves globally. In 2005, we had stepped up these efforts which had then led to an acceleration in our growth. Not only were we able to penetrate new markets, but we were exclusively awarded international manufacturing contracts. The latter, in particular, included large quantities of components for vehicle platforms running over many years. Such contracts are very attractive mainly due to their positive effect on the utilisation of our facilities in Germany, Canada, and the Czech Republic.

In the meantime, we have demonstrated that we are able to build up production abroad in the shortest time possible. Worldwide, the name PWO stands for high quality and reliability.

Thus, the basis has been laid for the Group's quick and continued development in the years to come. The main growth drivers are our international locations, and in some cases, the high growth rates of their local markets, such as in Mexico and China. In addition, our superior product solutions and our global delivery capabilities give us an advantage over pure local competitors. Our main focus for growth is first and foremost our current customers, all of which operate globally. Furthermore, we continue to steadily win new customers in the vicinity of our facilities.

We are also confident that we can continue to grow even in mature markets. Our high level of innovation allows us to succeed in regularly providing solutions that exceed customer expectations. This leads to increasing demand for our components from our broad range on offer.

Over the next few years, we plan to rapidly expand all of our locations. The technological expertise in sheet metal forming is expected to remain concentrated in today's five locations. To expand our regional reach, we are planning to build additional assembly facilities. Compared to stamping facilities, these facilities will require lower investments in both the infrastructure as well as in the employee structure. Furthermore, we will continue to expand our network of cooperation partners.

Thus, PWO is at the outset of a period of further momentous growth while at the same time reducing its start-up costs. This should also contribute to an improvement in profitability.

Corporate Management

The global management and leadership of PWO take place at the location in Oberkirch. Here resides the technology and innovation centre of the Group. It is at this location that group-wide processes are developed and refined. The Company's operations are steered primarily with consideration to the earnings before interest and taxes (EBIT) and the cash flow from operating activities.

We have implemented an all-encompassing PWO Production System in which all operational processes are documented in detail. This provides the transparency necessary to precisely manage business processes and to continuously and systematically improve them according to the principles of lean management.

All sites are managed consistently throughout the Group taking the technological requirements and production levels into consideration. This facilitates the group-wide supervision of production and business processes. Additionally, our facilities take part in an on-going best-practice competition internally in all areas of business processes. As part of the PWO Production System, our zero-defect philosophy is documented and monitored worldwide and without exception.

Internally, PWO is organised along the lines of a continuous value chain. Customer-oriented development, tool design, and series production work together in integrated teams from the product request to the start of series production. Even during a running production, the respective team regularly monitors the processes and continuously works on developing improvements in productivity and quality.

THE ECONOMIC ENVIRONMENT

The Economic Environment in 2011

The world economy did not grow as vigorously in 2011 as in the year before. According to the calculation of the International Monetary Fund (IMF), real global growth was 3.8 percent, following 5.2 percent in the previous year. Growth rates weakened everywhere. In the industrialised countries (1.6 percent after 3.2 percent), and in the emerging Asian countries (4.2 percent after 8.4 percent) growth rates had halved. In the USA, the 1.8 percent growth recorded was sharply below that of the previous year (3.0 percent). Japan even went in to a recession due to the natural disaster. Growth in China remained robust with an increase of 9.2 percent after increasing 10.4 percent in the previous year, despite strong efforts to contain inflation. Due to the continued growth in Germany and a slight upturn in France and Spain, economic growth in the eurozone slowed less than feared to 1.6 percent in 2011 from 1.9 percent in 2010.

According to preliminary calculations by the German Federal Statistics Office, German gross domestic product (GDP) in 2011 rose by a price-adjusted 3.0 percent (p/y: +3.6 percent). Thus, the economic catching-up of the German economy continued and only weakened slightly in the second year following the economic crisis. In 2011, the pre-crisis level of GDP had again been exceeded. However, the growth took place primarily in the first half of the year whereas the second half of the year witnessed a fall in growth similar to that seen in the rest of Europe.

The impetus came mainly from the domestic market. In particular, private consumption proved to be a brace for the German economy. The increase of 1.5 percent in real-terms, was the strongest rise seen in over five years. In addition, 2011 was again characterised by strong investment: Investment in capital equipment – including that for vehicles – grew 8.3 percent in real terms. With growth of 8.2 percent in real terms, foreign trade also continued with its dynamic growth.

The International Automotive Market in 2011

In 2011, the automotive markets worldwide were in good shape. According to the German Automobile Industry Association (VDA), the global market for new vehicles rose 6 percent to 65.4 million units. The USA, China, India and Russia even experienced double-digit growth rates.

Thus, sales of light vehicles (cars and light trucks) in the USA rose 10.2 percent as compared with last year, and amounted to 12.7 million units despite the continued weakness seen in domestic consumption. Following the strong growth of the Chinese market in prior years, this market saw a return to a normalised rate in 2011. Sales reached 12.2 million units, an increase of 8.4 percent over the previous year. In the Indian passenger car market, new registrations rose 6.0 percent to 2.5 million vehicles despite a more restrictive monetary policy and higher diesel and gasoline prices. But above all, the Russian market showed the strongest momentum in light vehicles and grew 38.7 percent to 2.7 million units. In Brazil, 3.4 million, or 3 percent more light vehicles were sold in 2011.

In contrast, the Japanese car market declined for the year as a whole due to massive losses in production resulting from the natural catastrophe. This resulted in a marked decline of 16.3 percent to 3.5 million units. Fortunately, the market recovered strongly as the year progressed and in the last quarter registrations saw double-digit growth in each month. December alone had grown 21 percent.

The Western European passenger car market was also down overall in 2011. However, in terms of units, there was only a slight decrease of 1.3 percent to 12.8 million units. The development was similar throughout Europe (EU 27 plus EFTA countries) which showed a decline of 1.4 percent to

13.6 million units. This development was supported primarily by Germany. Here, 2011 saw 3.2 million new passenger car registrations. This amounts to around 257,000 or 8.8 percent more than in the previous year. The domestic market share of German manufacturers rose to over 70 percent.

In December, Western European sales fell a noticeable 4 percent to 927,000 passenger cars. This reflects the impact of the European debt crisis and the resulting general slowdown in economic momentum. Here there was considerable variation in the development of the individual countries. While the German market continued to grow and reported a further 6 percent increase to 244,500 units, the unit sales of the other large Western European markets showed, in some cases, a clear decline below the respective levels of the previous year. France recorded a decline of nearly 18 percent, Italy declined 15 percent, and both Britain and Spain by 4 percent. In December, some of the smaller EU member states including Belgium, the Netherlands, and Greece, also reached double-digit growth rates. However, for the full year 2011, the Greek market dropped by 31 percent. While passenger car sales during the year in the new EU countries remained only slightly below the previous year, in December, the region had also suffered a significant decline of 23 percent.

For the full year 2011, the German manufacturers increased their export volume by 7 percent to more than 4.5 million passenger cars. This means that within two years, they were able to recover from the dramatic decline of 2009 and reach a new record. Despite the sometimes sharp sales decline in many European countries, exports of passenger cars amounted to 325,900 units in December, a decline of just 1 percent as against last year's very strong level. Incoming orders from abroad continued their positive trend and grew 10 percent over the previous year's December level.

In 2011, German manufacturers were able to increase their market share in nearly all important markets, thus securing production at the German sites. Accordingly, the production of passenger cars in Germany reached nearly 5.9 million units for the entire 2011 year, which was a new record.

In Russia, the German brands were able to increase their market share from 16 to 18 percent and thus managed to sell around a half of a million German vehicles. For the first time in the USA, German manufacturers were able to sell more than one million light vehicles. Here, they increased their market share for the seventh year in a row, reaching 8.2 percent in 2011. In the passenger car segment, the German manufacturers were also able to increase their unit sales by 13 percent to nearly 754,000 units, while the overall market grew only 8 percent. This means that every eighth new vehicle registration was of a German brand. In the premium segment, German brands enjoy a dominant position with a 44 percent share of the market. The premium segment – known in the USA as "luxury cars" – is not comparable with the segmentation in Germany. In the USA, this definition includes models such as the BMW 1 Series, 3 Series, and 5 Series, the Audi A3, A4, A6 and the C- and E- class Mercedes Benz. According to this definition, six out of ten passenger cars, or around 437,000 units, which the German manufacturers have sold in the USA, are included in the luxury car segment.

The two-pillar strategy that the German manufacturers are pursuing in the U.S. market is paying off, namely both to export out of Germany as well as to manufacture locally. In the USA, the unit sales of vehicles manufactured in the NAFTA region (USA, Canada, and Mexico), grew strongly. However, at the same time, imports from Europe to the USA increased as well. Overall, the German manufacturers produced around one million light vehicles in the NAFTA region in 2011, which was an increase of 40 percent compared with 2010. In 2011, in the USA alone, they were able to increase their production of light vehicles by nearly two-thirds to 466,000 units. Thus, every seventh new vehicle produced by a German manufacturer abroad was produced in the NAFTA region. A large portion of this was exported and one third was sold in the USA.

In 2011, in the growth market India, German brands grew faster than the overall market and saw nearly a doubling of their market share to 5 percent. While the overall market grew 8 percent to

2.5 million units, the German brands could raise their unit sales by 80 percent to over 120.000 passenger cars. The German manufacturers proved to be the leaders, particularly in the premium segment. Here, their market share is over 85 percent.

According to the VDA, suppliers also experienced a good year in 2011. During the year, capacity utilisation in the sector proceeded to rise to over 88 percent and, as a result, was five percentage points over the prior year's level and almost at the pre-crisis level of 90 percent. The sector's sales increased 12 percent to EUR 69.0 billion. In the course of the year, incoming orders grew around one-tenth. However, towards the end of the year, domestic orders experienced a slight decline. In contrast, incoming orders from abroad remained on a robust trend.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Results of Operations

INCOME STATEMENT

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
Revenue	**331,080**	**100.7 %**	264,195	97.6 %
Total output	**328,832**	**100.0 %**	270,714	100.0 %
Cost of materials	**179,707**	**54.7 %**	140,828	52.0 %
Staff costs	**87,962**	**26.7 %**	77,023	28.5 %
Other operating expenses	**32,248**	**9.8 %**	24,761	9.1 %
EBITDA	**35,828**	**10.9 %**	33,050	12.2 %
EBIT	**19,161**	**5.8 %**	16,007	5.9 %
Net income for the period	**9,016**	**2.7 %**	6,459	2.4 %

In 2011, the PWO Group had been able to carry on with the strong growth witnessed in the previous year. Revenue increased 25.3 percent to EUR 331.1 million and total output increased 21.5 percent to EUR 328.8 million. When compared with the sector, these growth rates were significantly above average: The German Automotive Industry Association (VDA) reported revenue growth for automotive suppliers of 12 percent in 2011. The global trend of the success of German manufacturers continued in 2011. This followed a strong and early stage recovery for premium automobiles in 2010, which had been primarily driven by export markets. Our intense focus on this demanding segment has proven itself once again as a growth driver. Furthermore, we were able to achieve mutually acceptable solutions with our customers with regard to the significant material price increases which reached around EUR 20 million.

Revenues developed evenly over the year with all four fiscal quarters showing growth rates of about 25 percent. This was in contrast to last year where the fourth quarter had the strongest growth.

Tool sales increased significantly during the year growing 63.5 percent to EUR 34.1 million (p/y: EUR 20.9 million). These revenues were directly attributable to series productions with a certain time-misalignment. Therefore, they were comparatively low in the previous year after a high volume had been produced in advance in 2009 for the 2010 new production series. Revenues from tool sales in 2011 were also precursors to the onset of the current fiscal year series productions.

The earnings strength of the Group, which had become evident already in the prior year, was consolidated in the reporting year. This shows the very positive development achieved against the

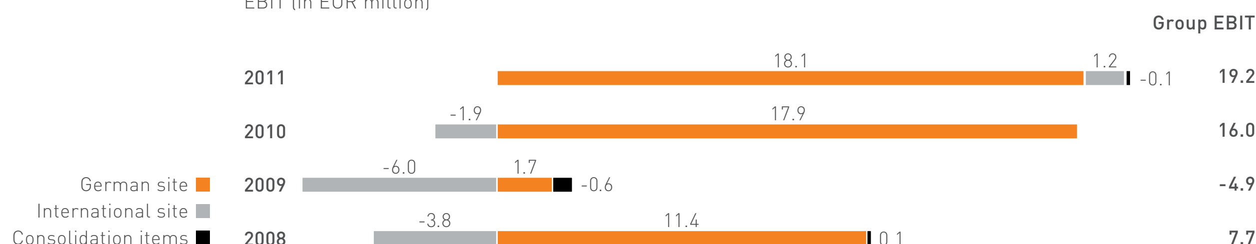
backdrop of the substantial share of rather low-margin tool sale revenues, as well as the passing through of material price increases which typically bear no margin. Both factors were the key reasons for the increase of 2.7 percentage points in the cost of materials ratio.

The disproportional increase in other operating expenses was due to the growth-related, higher use of temporary employees, which rose by 31 percent on average over the course of the year. This mainly pertains to the Oberkirch site, where temporary work had been almost entirely eliminated during the economic crisis. In contrast, the rise in staff costs could be limited to 14.2 percent and consequently the staff costs ratio fell by almost two percentage points. This occurred despite the fact that in 2011, the specific provisions in the supplementary wage agreement from 2009 were no longer in effect due to the positive business development. The supplementary wage agreement was put in place to secure employment at the Oberkirch site. Therefore, all special payments which were part of the collective agreement were paid in full for the first time following the crisis. Depreciation and amortisation was only slightly above the previous year's level due to the relatively low volume of investment in 2010.

In total, EBIT amounted to EUR 19.2 million (p/y: EUR 16.0 million). Currency effects in the Group had a positive impact of EUR 1.0 million (p/y: EUR 0.6 million).

INTERNATIONAL LOCATIONS HAVE ACHIEVED THE TURNAROUND

EBIT (in EUR million)



In the past, non-hedged intra-group loans have led to a high level of volatility in the reported EBIT, especially on a quarterly basis. In the fourth quarter of 2011, loans denominated in foreign currencies have been partially hedged.

The financial result remained almost unchanged at EUR -6.3 million (p/y: EUR -6.2 million). The tax rate declined further to a favourable level of 30.0 percent (p/y: 34.1 percent). The considerable decline was due to the application of tax credits at our site in the Czech Republic. We had already mentioned last year that this application would have a favourable impact on our tax rate in the years to come.

Segment Reporting

According to the Group's management, our production facilities provide the basis for our segment reporting, broken down by regions. The segments are determined according to location of the Group's assets. Accordingly, segment revenues are also allocated according to the location of the assets.

Supplies and services exchanged between the various locations include mainly the tools produced at the Valašské Meziříčí facility in the Czech Republic for other facilities. These are consolidated at the Group level.

SEGMENT GERMANY

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
External revenue	**228,861**	**96.9 %**	196,518	95.6 %
Total output	**236,217**	**100.0 %**	205,552	100.0 %
EBITDA	**28,471**	**12.1 %**	28,921	14.1 %
EBIT	**18,095**	**7.7 %**	17,921	8.7 %
Net income for the period	**10,681**	**4.5 %**	10,319	5.0 %

The PWO Group headquarters are allocated to the segment Germany. This is where the parent company Progress-Werk Oberkirch AG is located. The parent company conducts the operations of the Oberkirch site and provides the Group's management structures.

The revenue increase was still above average when compared to that of the industry. However, Germany's growth rate lagged behind that of the Group. This was solely due to the fact that the announced surge in growth from our foreign locations began in the reporting year.

The Germany segment continues to achieve the main earnings contribution to the Group. The decline in the EBIT margin in 2011 is explained by the above-mentioned impact of the cost of materials and the use of temporary employees. Both had disproportionately weighed down on our year-on-year comparisons. In addition, extraordinary costs related to the large number of new series productions were also to blame. Currency effects of EUR 0.3 million had a positive effect on EBIT for the reporting year.

The interest expense declined slightly once again and amounted to EUR 3.1 million (p/y: EUR 3.2 million). After taxes, net income for the period amounted to EUR 10.7 million (p/y: EUR 10.3 million).

SEGMENT REST OF EUROPE

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
External revenue	**39,997**	**102.4 %**	25,631	83.6 %
Total output	**39,066**	**100.0 %**	30,646	100.0 %
EBITDA	**4,262**	**10.9 %**	3,483	11.4 %
EBIT	**1,912**	**4.9 %**	1,390	4.5 %
Net profit for the period	**1,162**	**3.0 %**	798	2.6 %

In the reporting year, our location in the Czech Republic, which is allocated to the segment Rest of Europe, profited from not only increasing market demand but also again from the new start-up and accelerated series productions. External revenue grew by 56 percent and thus, was again significantly stronger than the Group as a whole. The strong increase in tool sales of nearly 59 percent to EUR 11.0 million (p/y: EUR 6.9 million) shows a recovery exceeding pre-crisis levels following the crisis-induced sharp declines of previous years. The invoicing of the tools is mirrored in the decrease seen in inventories of finished and unfinished goods, which led to a lower increase in total output when compared with revenues.

Due to the strong increase in revenues of lower-margin tool sales, the EBITDA margin had a slight decline. However, the EBIT margin, measured in terms of total output, showed a further improvement, even after the considerable rise in the prior year. Reflected again is the fact that since last year, the site in the Czech Republic is very well utilised following the high start-up costs in the pre-

vious years. EBIT increased by 37.6 percent in 2011 to EUR 1.9 million (p/y: EUR 1.4 million). Due to an income tax benefit which resulted from the application of tax credits, a net profit for the period was achieved in the amount of EUR 1.2 million (p/y: EUR 0.8 million).

As expected, the location achieved a significantly higher EBIT in 2011 than in the previous year. The currency effects were insignificant for the year. In future years, we expect a further significant contribution to the improvement in Group results.

SEGMENT NAFTA AREA

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
External revenue	**57,259**	**97.2 %**	37,403	92.1 %
Total output	**58,925**	**100.0 %**	40,592	100.0 %
EBITDA	**3,808**	**6.5 %**	1,275	3.1 %
EBIT	**543**	**0.9 %**	-1,990	-4.9 %
Net profit for the period	**-773**	**-1.3 %**	-2,817	-6.9 %

In the NAFTA area segment, our two locations, Canada and Mexico, are combined. In those locations a number of new series have started or were ramped-up in the reporting period. In Mexico, the existing production programme is being largely replaced by new series production orders.

In the previous year, both sites had already profited from the North American automobile industry's renewed increase in sales and reported strong growth. In the year under review, these sites have not only continued this trend, but generated an even accelerated combined growth rate of 53.1 percent. The decisive factors here were the new production start-ups at both sites.

In the reporting year, Mexico has not yet reached break-even. However, the development was still considered satisfactory since the net loss for the year had halved and also since the site had made significant progress in the direction of attaining profitability – particularly in the second half of the year. In comparison, in 2011, the Canadian site had again surpassed the break-even level. As a result, the operating performance of the two sites combined was positive in 2011. With a result of EUR 0.5 million (p/y: EUR -2.0 million), the EBIT of the NAFTA segment made a positive contribution to Group EBIT. The currency effects for this segment were also immaterial and the net profit for the period amounted to EUR -0.8 million (p/y: EUR -2.8 million).

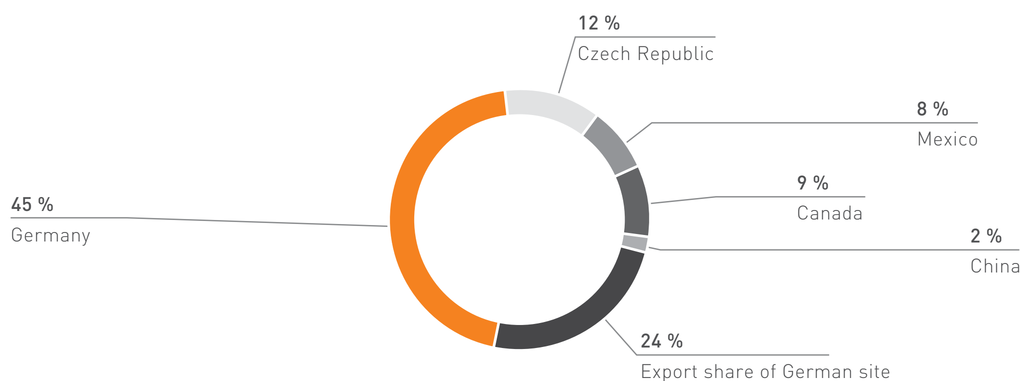
SEGMENT ASIA

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
External revenue	**4,963**	**82.3 %**	4,643	96.5 %
Total output	**6,033**	**100.0 %**	4,813	100.0 %
EBITDA	**-532**	**-8.8 %**	-668	-13.9 %
EBIT	**-1,252**	**-20.8 %**	-1,339	-27.8 %
Net profit for the period	**-1,973**	**-32.7 %**	-1,884	-39.1 %

The segment Asia represents the development of our location in China. As is well known, it is currently in the development phase and is loss making as expected. Revenue and total output increased further in the reporting year. As part of its development, there is a gradual start-up and ramp-up of new series productions. This will make a positive contribution to results in the coming years. The development of EBIT in 2011 was effected by positive currency effects in the amount of EUR 0.7 million (p/y: EUR 0.5 million). It is expected to take another two years until sales volumes and profitability reaches our medium-term targets.

INTERNATIONAL BUSINESS ALREADY CONTRIBUTES 55 % TO TOTAL REVENUE

2011 revenue (100 % = EUR 331.1 million)



Financial Position, Net Assets and Investments

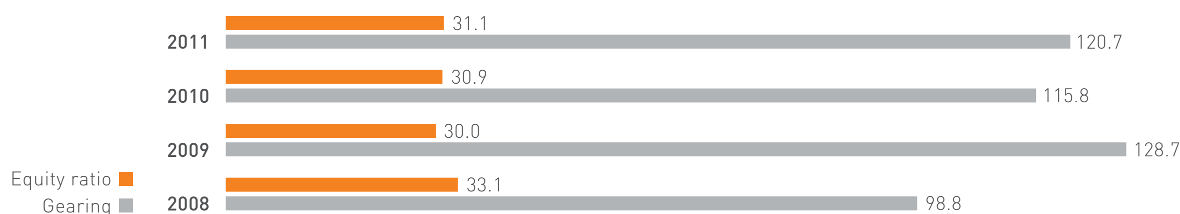
BALANCE SHEET AND STATEMENT OF CASH FLOWS

Selected data (in EURk)	2011	in % of total assets	2010	in % of total assets
Non-current assets	**129,438**	**53.8 %**	116,422	52.1 %
Current assets	**111,297**	**46.2 %**	107,037	47.9 %
Total equity	**74,784**	**31.1 %**	68,971	30.9 %
Non-current liabilities	**67,405**	**28.0 %**	88,559	39.6 %
Current liabilities	**98,546**	**40.9 %**	65,929	29.5 %
Total assets	**240,735**	**100.0 %**	223,459	100.0 %
Cash flow from operating activities	**25,547**		24,840	
Cash flow from investing activities	**-26,412**		-16,849	
Cash flow from financing activities	**-5,787**		-7,055	
Net change in cash and cash equivalents	**-6,652**		936	

Total assets increased 7.7 percent during the reporting year to EUR 240.7 million (p/y: EUR 223.5 million). Property, plant, and equipment rose 11.8 percent due to the significant increase in investments in growth compared to the previous year. Despite the considerable business expansion, the capital tied-up in current assets had a comparably small increase. It rose only 4.0 percent. Our improved inventory management led to a noticeably lower stock of unfinished goods and services at the balance sheet date as compared to last year.

On the equity and liabilities side of the balance sheet, equity saw primarily an earnings-related increase of 8.4 percent to EUR 74.8 million (p/y: EUR 69.0 million). The equity ratio improved accordingly to 31.1 percent (p/y: 30.9 percent). Gearing (net debt as a percentage of equity) had increased over the previous year to 121 percent (p/y: 116 percent) due to a much higher level of investment which was in part financed through borrowings.

SOLID EQUITY RATIO, BUT RELATIVELY HIGH GEARING (in %)



Non-current liabilities decreased substantially from EUR 88.6 million to EUR 67.4 million due to a smaller portion of non-current interest-bearing liabilities. This correlates with the increase in the current portion of interest-bearing liabilities (EUR 57.7 million after EUR 28.3 million), and with that current liabilities in total. This is mainly due to the planned reclassification of borrowings at the balance sheet data which have various due dates in 2012. Negotiations are near completion for new borrowings which are long-term and in comparable amounts. Bank borrowings increased by 8.8 percent to EUR 94.8 million (p/y: EUR 87.1 million). In contrast, there has been very little change in trade payables.

Cash flow from operating activities increased slightly to EUR 25.5 million (p/y: 24.8 million) despite the nearly 40 percent increase in net income in 2011. This was mainly due to higher tax payments which had tripled to EUR 5.8 million (EUR 1.9 million). In total, the build-up of working capital also had a negative impact on cash flow.

The investment made to finance our growth used significantly more resources in 2011 than in the previous year. With investment of EUR 18.3 million in the German site, the amount had more than doubled. Among other things, the investment was targeted at construction and manufacturing facilities which were needed for an extensive cross-member delivery program for a German premium customer.

At EUR 3.3 million (p/y: EUR 0.5 million), there was also considerably more investment in China in 2011 in advance of the start of another cross-member order from the same customer. In contrast, investment in the rest of Europe and the NAFTA region had declined. Overall, payments for investment in property, plant and equipment amounted to EUR 24.9 million (p/y: EUR 15.3 million) and was 62.9 percent higher than in the previous year. Cash flow from investing activities totalled EUR -26.4 million (p/y: EUR -16.8 million). After interest paid and received of EUR 4.7 million (p/y: EUR 4.6 million), free cash flow equalled EUR -5.6 million in 2011. Last year, it had amounted to a positive EUR 3.4 million.

Cash flow from financing activities excluding interest paid, totalled EUR –1.1 million in 2011 (p/y: EUR -2.4 million). On balance, proceeds from borrowing amounted to EUR 1.4 million after EUR 2.5 million were repaid in 2010. Dividend payments amounting to EUR 2.5 million for the 2010 fiscal year were also recorded in 2011. In the previous year, no dividend had been paid since in 2009 a decision was made to omit the dividend due to the global economic crisis.

Overall, this resulted in a net change in cash and cash equivalents of EUR -6.7 million in the reporting year (p/y: EUR 0.9 million).

ORDER SITUATION

In order to minimise risk, our fundamental principle is to ensure a broad diversification of our orders. This allows us to remain independent of the commercial success of single vehicle models and largely independent of bulk orders for individual products. Additionally, we strive to optimise our capacity utilisation and stagger the start-up and run-down times of the various series productions.

With the lifespan of orders averaging five to eight years, every year we replenish about 15 percent of our Group sales with new contracts. The typical lifetime volumes range from the low single-digits to the three-digit millions. Given the long lead times in our business, we are currently winning contracts where production is scheduled to begin in 2013/2014.

In fiscal 2011, we were again very successful in acquiring new orders across the entire spectrum of our product range. In some cases, following the very large individual orders of the past few years, we again succeeded in winning a diverse range of mid-sized orders.

What is particularly pleasing for us is that our customers entrust us more and more with the supply of a product from several of our locations. Our internationalisation strategy is demonstrating its full success. For this reason, we will continually expand the production ranges of our newer sites in China and Mexico.

All of our locations will benefit from the new orders received in fiscal year 2011. A below-average proportion of the volume is planned for Canada since it has almost already reached its full capacity based on currently planned series productions.

Even our currently smallest site in China will see strong growth in the coming years. Currently, most of China's sales volume still stems from electric motor housings. However, seat locking mechanisms as well as components for airbags, chassis, and gear boxes are also produced there. Future contracts will strengthen these product lines. In addition, cross-member production will be added in 2012.

We are often contracted by our customers to deliver the components according to all of the local requirements. This represents a high level of confidence in our delivery capabilities and underscores the reputation our Company has developed in the meantime.

GENERAL STATEMENT ON THE ECONOMIC SITUATION OF THE GROUP

Currently, the PWO Group is very well positioned as a global automotive supplier. With Oberkirch in Germany, we have a high-performance site that sets industry standards. Globally, we are of the highest quality and are able to deliver on schedule through five of our own production sites as well as by using the total of our seven cooperation partners. This has put us in a position to acquire large orders in an international scope, which will continue to contribute to high growth in the future.

Therefore, over the next few years, we expect a disproportionate increase in earnings since our international sites have passed the peak of their start-up costs and will increasingly contribute positively to the Group's result.

The efforts to internationalise, and the aftermath of the 2008/2009 financial market crisis, have led to a relatively high level of gearing (net debt in percentage of equity). This should gradually decline with the help of increasing earnings among other things. Apart from this, the Company

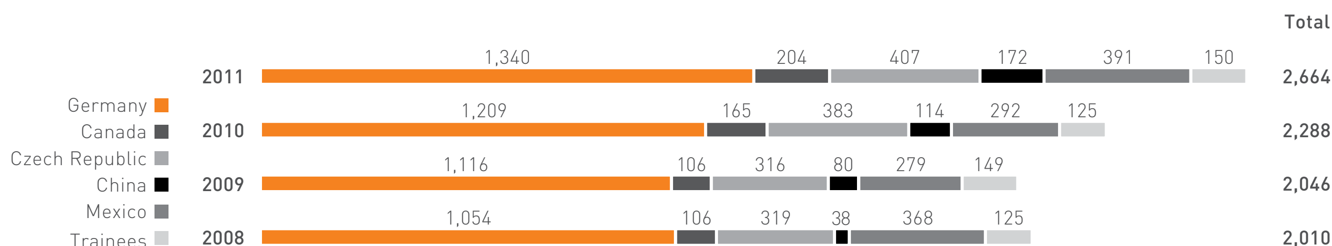
maintains good and stable relationships with banks. These relationships allow us to take full advantage of future growth opportunities by exclusively focusing on the Group's long-term strategic interests and by financing the related investments.

In the next few years, the Group will reach a new dimension. Both profitability and balance sheet ratios will noticeably improve. As a result, we will further strengthen our competitive position.

EMPLOYEES

ALMOST 400 NEW JOBS WERE CREATED

Number of employees in the Group by location as of December 31 (including part-timers)



The development of our workforce can be considered a leading indicator of our future growth. New employees are hired and trained in advance of extensive series launches. This in turn, ensures that the launches are both time efficient and cost efficient.

In fiscal year 2011, we expanded the number of employees, particularly in the NAFTA region. The workforce at the Canadian site increased significantly in the course of the year. In principle, this location has a very lean structure and had undergone significant workforce reductions following the last recession.

In Mexico, we have expanded our workforce in order to secure the 2012 series ramp-ups and to support further growth. Our Chinese site is currently in the development phase and will be expanded analogous to the trend in new orders.

In 2011, after the addition of a large number of new employees in the Czech Republic, we have now reached a level of employment that will be able to support the currently planned development in that location. Consequently, only a small increase is expected in the future.

At our highly efficient and largely automated German site, the expansion in workforce is generally lower than at our international sites. Furthermore, as was planned, the growth in revenue, excluding the effect of passing on higher material prices, was lower than that seen at our swiftly expanding international sites.

In the future, in Germany, we will continue to focus our hiring on selected key functions. In addition to our PWO Production System, we have started a Lean-Office-Programme in the administration area in order to increase efficiency. In the context of further international growth and the increasing demands on the management in Germany, the current team should be sufficient enough to handle the task.

Traditionally, we have been strongly committed to the training of young people in order to give them a chance to enter the workforce and to ensure that the Group has the skilled workers it needs to secure further growth. Along with our home base in Germany, we offer training programmes at our international locations. China is a particular focus of ours when it comes to training. This is due to the lack of skilled workers available for recruitment who possess the necessary

knowledge of our production processes. In Mexico, we are collaborating with an automobile manufacturer's training institute. In the Czech Republic, we supplement the existing training program with our own courses.

Additionally in 2011, we have invested extensively in continuing education. In the reporting period, our budget for training and continuing education amounted to a total of EUR 2.8 million (p/y: EUR 2.3 million).

ADDITIONAL INFORMATION

Product and Process Innovation

Product and process innovations are crucial success factors in securing and expanding our competitive position as a supplier to the international automotive industry. Beyond the obvious fulfilment of a component's or module's functional requirements, is the presentation of intelligent and creative solutions in the tender offer. This is how we can add value above and beyond traditional avenues and how we can promote ourselves as a development partner for future conceptual formulations, even before a series contract goes to tender.

Thereby, we benefit from the extensive expertise we have gained though offering diversified applications as part of our broad product range and which validate our unique market position.

Additionally, we have positioned ourselves early enough to benefit from the trend towards lightweight construction. We certainly expect increased competition in the future from other technologies such as hot forming of steel sheets, plastic injection moulding, or in the use of other materials such as carbon-fibre-reinforced-polymers (CFRPs). However, this will only happen to a small extent.

We will benefit much more from the shifting of trends in favour of our portfolio. For example, we see a strong trend towards replacement of forged and cast components to those made of steel sheets. We have already earned a reputation in the market for such solutions. This also applies to the use of high-strength steels and high-quality joining and bonding technologies for load-optimised components and subsystems.

Our own tool-making facility represents a vital part of the practicability of innovative manufacturing processes in modern mass production. It is the tool that determines both the precision of the product as well as the production process speed that is achievable without forfeiting quality.

In order to produce components where the essential feature is the adherence to tolerances of a few hundredths of a millimetre, it is necessary to have tools which are built to be even much more precise. Only very few companies are able to meet these requirements. It is for this reason that tool-making has traditionally been a core competence of PWO and the rationale for it being instrumental in contributing to the competitiveness of the Group.

Quality Management

Our zero-defect philosophy depicts a core aspect of our self-image. It is practiced group-wide and along the entire value chain. In production we attach importance to the permanent reduction of errors. In delivering to our customers, we provide zero-defect quality through stable processes as well as an integrated and automated quality control, to the greatest extent possible.

This underpins our reputation as a leading provider offering the utmost in dependability and delivery reliability. As a manufacturer of safety components, we feel particularly committed to high quality standards, independent of the individual customer requirements.

Through a reduction in error-related costs, we can strengthen our earnings power. By means of visible documentation which is available at any time to all employees and describes the quality of every single step in the production process, we create healthy competition within the Group and achieve the best performance possible.

In 2011, in the context of continuously improving our internal processes, we initiated a comprehensive Lean-Office-Project to not only prevent errors, but to also continue the improvements in the quality and efficiency of the administration activities.

Sales and Marketing

Currently, we maintain relationships with customers who are the main OEMs or tier 1 and tier 2 suppliers in the automotive industry. Therefore, the main focus of our marketing and sales efforts is directed toward the expansion of sales to these customers, all of which operate globally. We position ourselves very early on in order to win subsequent orders for current series productions.

In addition, we generate our growth from two sources in particular. First, we specifically market solutions from product areas not yet purchased from us by the customer. Second, we also deliver to the non-European production facilities of our customers whom we can now reach thanks to the international structure we have managed to achieve. Since new series orders are usually awarded when there is a model change, the main impetus for growth from the international expansion program of recent years is yet to be seen.

Our new plants in China and Mexico enjoy the added potential of qualifying for more series contracts, which they cannot accept currently, after a further expansion of their technological capabilities. We are working intensively and in accordance with the respective local market opportunities to achieve this.

We also use our opportunities to acquire new customers, and we do so with persistence. Usually, growth is generated only in the medium-term to long-term due to the long lead times involved.

Research and Development

PWO produces exclusively to customer orders. Accordingly, the vast volume of development costs arises in the context of customer projects. These costs are either partially reimbursed at the conclusion of a defined developmental phase or paid for directly through the prices for parts in the course of the series production.

Logistics and Procurement

We work with steel, stainless steel, and aluminium. We source our raw materials from various suppliers on the global market. Apart from standard grades, we procure special alloys for a large proportion of our products. These are delivered by our long-standing partners in the European steel industry to our international locations as well since it is usually impossible to attain them locally. We do not enter into commitments requiring purchase minimums. Short-term scheduling is based on the call order volume forecasts given to us by our customers.

Corporate Responsibility

We consider ourselves corporate citizens and as such are committed to acting responsibly, even beyond compliance with the law. This applies to our international sites as well as to our German domestic site. Our goal is to shape the interactions between employees, customers, business partners, and the social environment, in such a way as to avoid or restrict any impairments result-

ing from our business activities. All this, while taking into account social issues and the protection of the environmental as well as the conservation of natural resources.

Our efforts also extend to ensuring comprehensive occupational health and safety levels. We also maintain a corporate culture centred on employee appreciation, and we support their voluntary commitments to society. The Group is also engaged in a variety of ways, including protecting the environment whenever possible and contributing to a permanent reduction in the natural resources consumed per product unit.

RISK REPORT

Description of the Risk Management Strategy

The goal of our risk management strategy is to avoid existential risks, as well as limit strategic and operational risks as far as it is possible and economically feasible to do so. Financial risks are avoided that do not arise from our business operations. For example, we do not take open positions in derivatives if these do not facilitate the securing of our operational business. Consequently, the financial department is not treated as a profit centre.

As a matter of principal, our business model and our operating processes are structured so as to limit risk, and we continue to strengthen this position. This includes our position as a leader in quality and innovation and our role as our customers' strategic partner. Our broadly diversified product portfolio serves just as much to limit risks as does the use of standardised machines and equipment and our organisation along the value chain.

With our traditionally high commitment to employee training and further education, we aim to develop a substantial portion of our experts internally – both in developed markets, where demand-related constraints may be possible, as well as abroad, where in some cases there is a lack of skilled workers with the necessary qualifications. Our suppliers are seen as cooperation partners with whom we maintain long-term relationships and stabile processes.

Key Aspects of Risk Management at PWO

PWO's risk management system has proven itself in both, phases of strong growth as well as recessive phases, and has demonstrated its exceptional capabilities. Therefore, fundamental changes were not required in the 2011 financial year. The principles formulated by the Management Board were refined as required and documented accordingly in our risk management handbook. This handbook systematically identifies, describes, and assesses risks and the manner in which they should be addressed. „Risk owners" report to the Management Board regularly each month or immediately if new material risks become apparent.

The functionality of the risk management system is subject to a regularly scheduled internal review. The efficiency of the early risk detection system was audited along with the annual financial statements and confirmed by the auditor.

The risk management system is applied uniformly throughout the Group, and is subject to the stage of development of each individual location. However the scope of application varies: the system is implemented on a full-scale in Germany, Canada and the Czech Republic. At our Mexican plant we have implemented various central elements which have been adapted to the individual local situation. The plant in China is at the development stage and is still recording a low level of revenue. Accordingly, its day to day business processes are less complex and can be supervised using selected risk management system modules.

Key Aspects of the Internal Controlling and Risk Management System

We consider an internal control system to be a system comprising the principles, processes, and measures introduced internally and whose implementation on an organisational level is at management's discretion

- to safeguard the effectiveness and economic efficiency of business operations (including the protection of assets and the prevention and detection of asset impairments),
- to ensure the correctness and reliability of internal and external accounting processes, and
- to comply with the provisions of the applicable laws.

The risk management system comprises the complete organisational rules and measures designed to recognise risk and deal with the risks inherent in the conduction of business. With regard to accounting procedures, the following structures and processes have been implemented at PWO:

The Management Board bears the overall responsibility for the accounting-related internal control and risk management system within the Group. All strategic units are integrated into a clearly defined management and reporting structure. The principles, structural and procedural organisation, and processes entailed in the internal system for the management and control of accounting risks, are defined in a handbook which is updated at regular intervals.

PWO Group's accounting regulations ensure that uniform recognition and measurement standards are applied by the consolidated domestic and foreign companies. Underlying these rules is a uniform group-wide system of accounts. Transactions are recorded by the operating units in a uniform bookkeeping system based on SAP, which, for example, facilitates plausibility checks on accounting processes at strategic business units.

Concerning the accounting process, we consider those features of the internal risk management and control system to be significant when they can materially influence the accounting and overall information provided in the financial statements, including the management report. This applies especially to the following elements:

- Identification of the essential risk and control areas,
- Monitoring controls in order to oversee the process and its results at the level of the Management Board and the strategic business unit. This includes regular visits to foreign plants throughout the year by the CFO and parent company management staff,
- Preventive control measures within the finance and accounting system and within the operational business processes, that are material for the accounting, including the separation of functions and predefined approval processes in the relevant areas,
- Measures to ensure the proper IT-based processing of accounting matters and data,
- Measures to monitor the accounting-related internal risk management and control system, including intensive personal communication between management staff at the parent company and its foreign plants.

Changes in the Risk Situation in 2011

The company and industry-related risks of the PWO Group remained unchanged during the year and significant new risks did not arise. The production volume of the Group was periodically at capacity at some sites in 2011. At the same time, an unusually large volume of new launches were undertaken. Although this resulted in earnings risks, it was possible to successfully control and limit these risks.

The macroeconomic risks rose significantly in 2011. Less than three years following the beginning of the financial market crisis, Europe and the USA are experiencing a severe sovereign debt crisis, the end is not in sight. The current high unemployment and recession risk experienced in some countries will tend to increase through the adoption or continuation of the necessary austerity measures. Economic forecasts are being revised in ever shorter intervals and, as a result, the fluctuations in the capital and commodity markets have increased significantly.

Therefore, we have started to observe the important macroeconomic and capital market-related risk factors even more intensely. This assists us in evaluating the likely developments and recognising and managing any risk at an early stage.

Risk Related to the Market and Capacity Utilisation

Market risks include the need to safeguard the adequate utilisation of the production capacity of our sites by securing orders suited to our available equipment at the margins required for our capital-intensive business.

In the case of existing orders, the market and capacity utilisation risks in normal cycles extend primarily to delays in new project start-ups and to sales fluctuation in series production resulting from a fluctuation in end-customer demand. Thanks to our broad product range, which comprises over 1,000 different components and systems manufactured to meet individual customer needs, we are able to effectively refute these market risks. In order to respond properly to fluctuations in demand, we work continuously on improving the flexibility of all of our operating processes. This allows us to economically manufacture even small unit volumes.

The recent upturn in the premium model segment was accompanied by a marked shift in the demand structure towards developing countries such as China: a shift which in the view of many experts is likely to be sustained. Currently, we are profiting substantially from this trend, since the rapid increase in demand from our European customers is largely driven by exports outside of Europe. This in turn leads to a corresponding increase in call orders placed on local production facilities.

For the future, we expect automobile manufacturers to place even more of an emphasis on the development of local production in foreign markets. With our recently developed international plants, we are well positioned to seize the ensuing opportunities for growth.

However, we do not see any long-term structural capacity risks for our established plants in Germany and Canada. Both of these facilities serve automotive markets of such size that we expect to continue to maintain adequate capacity utilisation in the future, and achieve growth by adding market share. This perspective is underpinned further by the fact that these locations possess competence over a broad spectrum of products and are well equipped in terms of plant and machinery. Consequently, they are not dependent on follow-up orders from single segments of the market.

Our broad-based positioning also means that we are not dependent on individual major customers, since our sales to automotive industry groups are always spread across diverse contractually independent projects, each of which concern separate products with differing contract terms and volumes. The probability of all projects for any one customer failing simultaneously is extremely low.

The following agreements were made for contracts with defined services to be provided by us: In the case of our services including an amortisation agreement for the entire life of the contract, certain obligations will be incumbent on the customer in the case of a contract cancellation. Project-specific market risks related to investments and pre-financing of services are contractually

hedged in line with usual market practices. No significant risks from development services exist which would be amortised via the unit price in the course of a series production.

Additionally, the permanent increase in competitive pressure is one of the typical market risks for the automotive components industry. As a leader in innovation we provide our customers with quantifiable added value. Furthermore, we are constantly improving the efficiency of all operational processes. Our positive development, which has been sustained over many years, proves that we are capable of successfully overcoming these risks.

Performance and Quality-related Risks

Performance and quality-related risks are among the major risks facing the PWO Group. Today, series production for the international auto industry means meeting the demands of maximum process security, product quality, and delivery reliability in mass production, in a successful way over many years.

Performance failures not only lead to short-term financial losses but also to considerable damage to reputation which can also substantially weaken the supplier's position in annual price negotiations - both during the lifetime of an order and when new orders are placed.

Therefore, managing the performance risks and quality risks is integral to all of our business processes. Documenting the conduct and stability of our processes as part of the PWO Production System, renders these processes to permanent systematic improvement. We not only document for our own internal use but also increasingly for the use of our customers. Here we document the details which not only pertain to the quality of the final product, but also the single steps within the production process. In doing so we are once again positively differentiating ourselves from the competition and further underlining our market-leading position.

In order to limit production failures and downtime we carry out preventive maintenance to our production systems. We also strive to be able to manufacture any given product on at least two machines.

The described levels of performance reliability and product quality will not only be refined at our established plants in Germany, Canada, and the Czech Republic, but will also be transferred on a step-by-step basis to our newer locations in China and Mexico. Generally however, the markets in these countries do yet necessitate the highly-complex, fully-automated production processes which are employed at our other locations. Accordingly, greater leeway is allowed in the production process which in turn helps in limiting risk.

Risks Arising from our International Presence

The Group is globally structured and we would like to pursue further globalisation in the future. In order to shorten development phases and limit structural capacity utilisation risk, our sites are positioned in regions where our existing customer's production facilities are located and where we can more easily foresee the growth opportunities arising from upcoming model changes.

On the other hand, we only develop new production plants in locations where there are already a sustained high demand for our products and services. In the next few years, and depending on our ability to acquire contracts, the further expansion of the international presence will be pursued by means of additional assembly plants which are less capital intensive than the manufacturing sites.

Above-average investment risk is found mainly in China, where we have developed an entirely new location with the correspondent and necessary infrastructure investment. Here, investment in

production equipment is also determined by the order situation. Risks related to performance and quality at the international locations are limited using group-wide unified business and production processes that are part of our PWO Production System and are documented and monitored.

In order to limit management risk and to support the development of technological capabilities at our plants in China and Mexico, we have placed experienced employees in important positions at our international plants that are either from our German plant or trained there. Moreover, we are continuing to successively develop our Group management functions.

Our ability to expand our international locations with success was firmly underlined in fiscal year 2011. For the first time since the beginning of our international expansion, all foreign locations showed a positive development at the same time. The peak of the start-up and expansion costs has thus passed in the international markets.

Risks to Accounts Receivable

We do business with international automobile manufacturers and their suppliers; companies that have been successfully established in the marketplace for decades. This fundamentally limits the risks arising from receivables. At the same time we keep in close touch with market developments and customer behaviour patterns in order to detect potential warning signs at an early stage, and where possible react accordingly. For additional security, we have arranged for commercial credit insurance.

Also at our international sites, we collaborate mainly with existing customers of the Group in order to deter greater risk. In view of our zero-defect quality, risks arising from receivables are insignificant.

Financial Risks

Financial risks are comprised mainly of financing, interest, and currency risks. These risks had increased considerably during the 2008/2009 crisis. Following a somewhat milder period, the current sovereign debt crisis has again caused these risks to rise significantly. We expect the very high volatility of the financial markets to continue to remain at a much higher level than in the past. Therefore, we have greatly increased our monitoring of the capital markets in order to be able to recognise and react to these emerging risks.

Until now, we have not deemed it necessary to increase our funding instruments from that of the traditional bank loan. In some cases, the very long-term relationships with our banking partners have proven themselves again in recent years. There has never been a doubt as to our access to sufficient funding – neither for the financing of working capital, nor for that of investment in growth.

Other financial risks may arise in cases where a financial institution does not fulfil its obligations in connection with the investment of liquid funds, or as counterparty of derivative financial assets. We rely on the careful selection and diversification of our partners and therefore see no need for adjustments with regard to risk management.

Interest rate risks are limited using an appropriate combination of short-term and long-term borrowing. In principle, investments associated with long-term customer orders are also financed over the long-term. In the case of variable-interest loans, interest rate swaps are also employed. Hereby, we strive for a balanced maturity profile of our loans and of our interest rate hedges. We consider this an integral part of our risk management.

In recent years, and also intra-year in the period under review, there has generally been a markedly higher volatility in the area of currency risks. In order to limit currency risks in our business

operations, we enter into hedging transactions based on comparable principles throughout the Group. We also hedge in order to protect ourselves from currency translation risks with intercompany loans.

Variations in the euro/Canadian dollar exchange rate, as well as in the Canadian/US dollar exchange rate are of significance for the Group since the plant in Canada supplies the entire North American region.

Beyond this, in the field of procurement, currency risks are structurally limited by the fact that all raw materials and supplies for the plants in Oberkirch and the Czech Republic are purchased in Europe - insofar as particular steel grades and alloys are not available locally for the plants in North America and Asia. Our long-term supply contracts are accordingly denominated in euro. Therefore, the principal currency risks are derived from wages payable in local currencies.

Procurement Risks

The raw materials and supplies required for our production processes mainly include steel, and to a far lesser extent aluminium. We purchase these metals on the world market. With selected suppliers we have long-term delivery relationships. Long-term framework agreements are currently no longer offered on the market.

In the past, we have not experienced any shortages in the supply of our input materials. Any price increases in excess of the fluctuation span that was contractually agreed on with the customer could be passed on through either escalation clauses or by successfully arriving at a solution through a negotiation with the customer. In turn, we also pass on price reductions.

Going forward, we expect further price volatility and price increases. Additionally, we cannot rule out an occasional shortage of supply. Particularly the following developments are likely to influence this situation:

- Rising costs in Germany imposed by renewable energies legislation,
- Escalating demand for metals from developing countries – especially China and India – coupled with long-term increases in ore and energy prices which will drive up the cost of steel production,
- Increasing speculation by financial investors and banks in the raw material markets. This phenomenon has recently spread as a result of stricter regulation of the financial sector,
- An increase in natural disasters and catastrophic events.

Claims Risks

In order to protect ourselves against the risk of claims made against us we have arranged for the appropriate insurance. The sums insured are continuously reviewed on a Group-wide basis and adjusted as necessary. Adequate security is thereby guaranteed at all times. In addition, we have a business continuity management system at our disposal: a company-specific emergency and crisis management system through which we are systematically prepared to overcome business-critical emergency situations. From our location in Oberkirch the system is being steadily rolled out in order to control the risks on a Group-wide basis.

IT Risks

PWO maintains a comprehensive and modern IT infrastructure extending to all areas of the Group. This makes a meaningful contribution to the on-going improvements in Group efficiency.

In order to limit risks, we use established standard software, which we in turn continuously refine to meet our individual needs. In addition, our Group IT processes are permanently and comprehensively monitored by specialist staff in order to safeguard the system's functionality.

Summary Risk Statement for the PWO Group

The PWO Group is not currently exposed to any risks other than those typically associated with its business activities. Moreover, these typical risks are not high at the present time, nor are any substantial exposures identifiable in individual cases.

The Group's future capacity utilisation risks are limited due to the very high volume of new orders to be launched successively in the coming years. With the stabilisation of business processes and the earnings turnaround of the more recent international locations, the risks to the Group's profitability have been largely mitigated.

PWO has a healthy balance sheet and the Group continues to have a solid equity ratio. On the one hand, net debt is relatively high, particularly in view of the still pending investments for future growth. On the other hand, when viewed against the background of the earnings prospects of the next few years, it is well justified.

REMUNERATION REPORT

The Corporate Governance Report of this annual report includes the remuneration report of the Management Board and Supervisory Board on an individual basis. The remuneration report is a part of this management report.

CHANGES IN THE GOVERNING BODIES

There were no changes in the composition of the Management Board or in the Supervisory Board in financial year 2011.

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE

The statement on the corporate governance of the Progress-Werk Oberkirch AG is part of the reproduced Corporate Governance Report in the Annual Report 2011.

DISCLOSURES REQUIRED PURSUANT TO SECTION 289 (4) AND SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE

The information required under Sections 289 (4) and 315 (4) of the German Commercial Code is detailed and explained hereinafter.

The share capital of the Progress-Werk Oberkirch AG („Company") is EUR 7,500,000.00. It is divided into 2,500,000 bearer shares each representing EUR 3.00 in capital. All shares are made out to bearer, carry identical rights and convey one vote each at the general meeting.

There are no restrictions on the voting rights or the transfer of shares. In addition, the Board is not aware of such arrangements which have been agreed between shareholders.

Consult Invest Beteiligungsberatungs-GmbH, Boeblingen, has given notification of a of 55.282 percent stake in the Company.

Preferences or other rights conveying powers of control do not exist. The provisions of the German Stock Corporation Act regarding the rights and obligations are referenced.

There is no participation of employees, who do not exercise their control rights directly.

In accordance with the Articles of Association, the Management Board may be comprised of two or more members who are appointed for a maximum of five years. A reappointment or extension of term of office is permissible in each case up to a maximum of five years.

The Supervisory Board determines the number of Management Board members, their appointment and the revocation of their appointment as well as the conclusion, amendment, and termination of employment contracts concluded with them. The Supervisory Board may appoint one member of the Management Board as Chairman or Spokesman of the Management Board. The nomination as well as the appointment of board members can be revoked before the expiration of the term, if there is good cause.

Pursuant to Section 179 (1) and Section 119 (1), No. 5 of the German Stock Corporation Act, each amendment in the Articles of Association requires a shareholder resolution of the Annual General Meeting. In a deviation to Section 179 (2), No. 1 of the said Act, Article 15 of the Articles of Association provides for resolutions on amendments to the Articles to be adopted by the general meeting by a simple majority of voting capital to the extent that legally a larger majority is not required. In addition, the Board is authorised to adopt amendments to the statutes which relate only to the wording.

There is no authorisation to repurchase own shares.

By a resolution adopted by the general meeting on May 26, 2010, the Management Board is authorised, with the consent of the Supervisory Board, on one or more occasions on or before May 25, 2015 to increase the Company's subscribed capital by up to a total of EUR 3,000,000.00 through the issue of new bearer shares in return for contributions in cash. Shareholders must be afforded the right to subscribe. The Management Board is however authorised, with the consent of the Supervisory Board, to exclude the right of shareholders to subscribe in order to redress fractional shares or issue shares to employees of the Company or employees of the Group member companies.

By a resolution adopted by the Annual General Meeting on May 26, 2010, the Management Board is authorised, with the consent of the Supervisory Board, on one or more occasions on or before May 25, 2015 to increase the Company's subscribed capital by up to a total of EUR 750,000.00 through the issue of new bearer shares in return for contributions in cash. Shareholders must be afforded the right to subscribe. The Management Board is however authorised, with the consent of the Supervisory Board, to exclude the right of shareholders to subscribe, in order to redress fractional shares.

By a resolution adopted by the general meeting on May 26, 2010, the Management Board is authorised on one or more occasions on or before May 25, 2015 to issue warrant-linked bonds or convertible bonds made out to bearer (hereinafter collectively called „bonds") with a total nominal value of up to a total of EUR 65,000,000.00. In addition, the Management Board is authorised with the consent of the Supervisory Board to grant option rights to the holders of warrant-linked bonds and/or conversion rights to the holders of convertible bonds; said rights being to receive bearer shares in the Company representing a proportion of share capital totalling up to EUR 3,000,000.00, pursuant to the terms of the warrant-linked and/or convertible bonds.

The share capital shall therefore be conditionally increased by up to EUR 3,000,000.00 through the issue of bearer shares insofar as the holders of bonds shall exercise their option or conversion rights or meet any incumbent conversion obligations.

When bonds are issued, shareholders must be afforded the right to subscribe. The Management Board is however authorised, with the consent of the Supervisory Board, to exclude the right of shareholders to subscribe, insofar as the Management Board upon due investigation is of the opinion that the issue price for the bonds is not materially below their market price as calculated in accordance by recognised, and in particular, actuarial methods.

This authority to exclude the right of subscription applies to bonds carrying an option or conversion right or incumbent conversion obligation in respect of shares in the Company representing a proportion of share capital that shall not exceed 10 percent in total, either at the time this authority takes effect or – if lower – at the time it is exercised.

Until now, no use has been made of any of the above three authorisations.

Other than the usual extraordinary rights of termination contained in loan agreements and contracts with customers, no further agreements have been entered into for the event of a change in control resulting from a takeover. Nor are there any compensation agreements which favour the Management Board or employees.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No events of significant importance have been recorded since the end of the financial year.

DEPENDENCY REPORT

A dependency report in accordance with Section 312 of the German Stock Corporation has been prepared regarding the relationship with Consult Invest Beteiligungsberatungs-GmbH, Boeblingen. As in previous years the report concludes with the following statement: "No reportable transactions have been brought forward in the financial year".

OUTLOOK

The Economic Environment in 2012

At the beginning of 2012, further gloom was feared for the global economy. According to the IMF, after global economic growth of 3.8 percent in the previous year, 2012 is expected to achieve real growth of only 3.3 percent. The IMF is expecting declining growth rates in almost all regions. The main cause of the on-going global economic downturn is occurring in Europe. Accordingly, the weakness of the European economy has had an impact on growth in other countries due to its reduced contribution to world trade.

The eurozone is expected to record a noticeable slowdown in 2012, with a reduction in economic output of 0.5 percent for the region. The main causes are expected to be the rise in funding costs in many countries, the growth-inhibiting effects of restricted lending by banks, and the general need to consolidate the public budgets. Specifically Italy and Spain are expected to report declines in GDP of 2.2 and 1.7 percent, respectively. The IMF also projects GDP growth in Germany and France of only 0.3 or 0.2 percent, or an almost stagnation. The German federal government is not

much higher with its own German growth forecast of 0.7 percent. In Britain, the IMF expects economic growth in 2012 of only 0.6 percent after 0.9 percent last year. After the setback caused by last year's natural disaster, the Japanese economy is expected to have GDP growth of 1.7 percentage points and therefore it is not expected to experience a full recovery. In the USA, the below-average growth of 1.8 percent experienced last year is expected to continue in 2012.

At least the economic indicators for Germany are pointing in a favourable direction. The higher employment and the growth in income, which is more favourable compared to previous years, are starting to align themselves with the propensity of consumers to spend. In addition, the domestic economy is being supported mainly by the continued good sentiment in the corporate sector, which continues its investment in capital goods at a high level. The Ifo business climate index in January 2012 rose for the third consecutive month. The positive expectations of corporations were notably higher.

The International Automobile Industry in 2012

The VDA sees a positive outlook for the automotive world in 2012. Global car sales are expected to increase 4 percent to 68 million units. However, according to the VDA, this will depend on the development in Western Europe. Here, the association believes that the market will hold at the level of 2011, or 12.8 million units. A stable situation in the financial markets is a prerequisite for this, otherwise a decline in those markets has not been ruled out. The German manufacturers should be flexible enough to compensate for a possibly weaker Western European market with their international business.

According to the VDA, Asia continues on its growth path. In 2012, the Chinese car market is expected grow by 8 percent to just over 13.2 million units. India is expected to rise 10 percent to just 2.9 million new vehicles. Both countries together would amount to almost one quarter of the world passenger car market.

In 2012, the U.S. market for light vehicles is expected to show an increase of 5 percent to 13.4 million units. Thus, the demand for automobiles would remain nearly untouched from the continued high unemployment and difficult real estate market in the current fiscal year. Brazil is expected to calm slightly in 2012 after the high growth experienced in recent years in its local light vehicles market. However, with an increase of 3 percent to 3.6 million units, the positive trend is expected to continue. Currently, the German manufacturers have a market share of more than twenty percent. The medium- and long-term outlook for this market and the German manufacturers remains solid. For every 1,000 inhabitants, there are only 165 cars. In addition, the average income is increasing.

The German automotive industry has a worldwide presence. This allows the potential decline in demand in one region to be offset by growth in other regions. The high share of the premium market segment enjoyed by the German manufacturers makes them less vulnerable to possible fluctuations in the volume markets. These are good prerequisites for a notable level of exports in 2012. The VDA expects an export volume of at least 4.55 million units.

According to VDA, in 2012 the domestic passenger car market will show stable development and a volume of over 3.1 million passenger cars, or equal to the sales of 2011. Given the outlook for the export and domestic markets, the current year should also see stable domestic production with a volume of at least 5.9 million new vehicles. Following the new plant and capacity expansion, the foreign production of German manufacturers will continue to increase. Outside of Germany, China now is the most important production site for German manufacturers with more than a quarter of all foreign-made vehicles produced there. In China alone, the German suppliers are represented with 180 manufacturing and assembly plants.

Opportunities and Risks

The risks described in the Risk Report for the year under review are also valid for the fiscal year 2012 and subsequent years. Significant additional risks have not been identified for either the Group or for the segments.

In the fiscal year under review, new large-scale series productions have been successfully begun in various locations of the PWO Group. This involved, among others, the location in Mexico, where the existing production program had been largely replaced. Therefore, the risks associated with start-ups are, to a large extent, behind us.

For the future, substantial new orders are already in the books. Based on the recently achieved stabilisation of the processes, especially in our international locations, we estimate that the corresponding risks in the future will be lower than those in the reporting year.

Therefore, the principal opportunities and risks will stem from the further development of the global economy and the demand occurring in the premium segment of the automotive industry. Presently, we do not expect another significant downturn. Rather, we expect the fluctuations to remain within the usual range and thus within a bandwidth which is typically possible to control.

This in turn means that we do expect additional short-term and higher-than-expected growth surge in sales resulting from the market's development. Such growth surges are also not expected from new orders in the short term, because in our highly-predictable, long-term business planning, new series productions have a lead time of one to three years between order placement and production start-up.

Therefore, in the current fiscal year, the main opportunities of the Group lie on the income side, where we are very confident of achieving significant improvements in all locations.

In principle, we do not expect these income opportunities to be threatened by material price increases. On the one hand, commodity prices have a current tendency to fall. On the other hand, we expect to continue to be able to achieve mutually satisfactory solutions with our customers regarding material price changes in the future.

The previous risks related to the recording of results on the valuation date of un-hedged loans within the Group, have been considerably reduced in the reporting year through various means, and will continue to be reduced in 2012. The aim is to lower these risks to a minimum.

The Outlook for the PWO Group

Our detailed planning period currently extends into fiscal year 2014. The projected growth through 2013 is based on concrete orders at all sites. However, it is dependent upon the global economic conditions at the time. Given the long lead times in our business, we are fully concentrating on already acquiring jobs that go far beyond the planning period.

By 2014, we expect revenue to grow to more than EUR 400 million. The distribution among the individual years will be influenced by both the development of material prices as well as by possible delays in production starts with customers. For fiscal year 2012, we currently expect revenue of around EUR 360 million. Last year we had achieved revenue of EUR 331.1 million. This had included the passing-on of material price increases of around EUR 20 million, which will be far less in 2012. We are not yet making any assumptions regarding the development of material prices in 2013 and 2014.

Revenue growth will mainly come from our overseas locations, as we expect Oberkirch's growth curve to be relatively flat. In China, by 2014, we expect a gradual increase in revenue to EUR 20 million and further superior growth in the subsequent years.

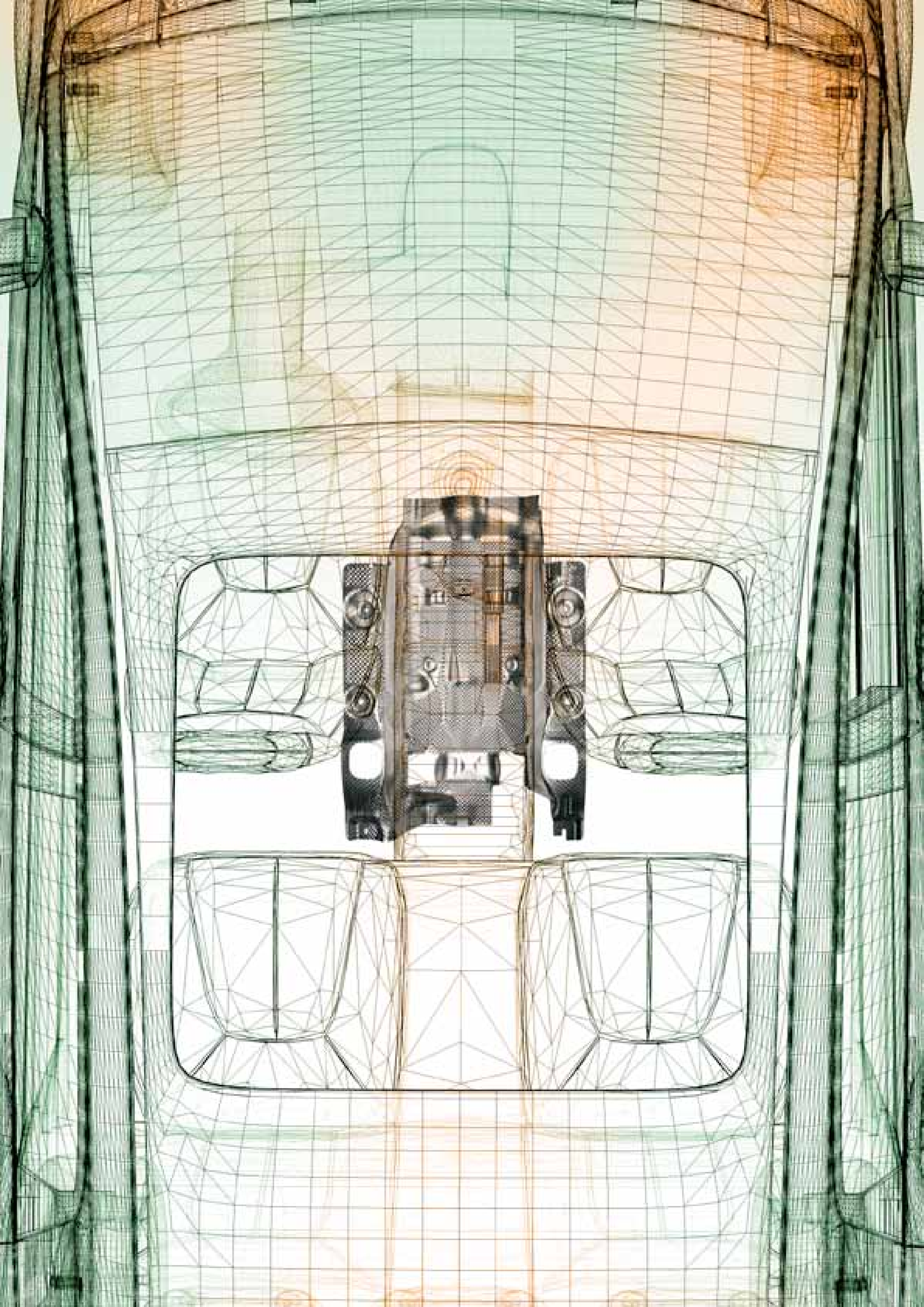
With regard to earnings development, we expect the Oberkirch site to continue to have stable profitability in the coming years. The international locations will continue to clearly improve their results, after having had a positive EBIT contribution for the first time in 2011. In the Group, we currently strive for an EBIT in the range of EUR 25 million for fiscal year 2012, and we want to achieve disproportional improvements in the years to come.

Especially the net income for the period should also see an improvement in the years to come. Here, there will also be a persistently positive effect stemming from the use of tax credits from our Czech site. Second, we will be able use our local tax-loss carryforwards at our Mexican site with the sustainable positive numbers we expect there. Overall, we expect a gradual decline in the tax rate to below 30 percent, and accordingly, a disproportionate increase in net income.

This gives us room to continue with our shareholder-friendly dividend policy. The goal is to pay a dividend on a regular basis amounting to between 30 and 40 percent of the consolidated net income for the period and as a result, steadily and sustainably increase it.

At the same time, the expected positive earnings trend should give us the scope to solidly finance the necessary investments for the future growth. In fiscal year 2012, we expect an increase in investment to around EUR 35 million. Based on our current planning, investments in the following years would fall again to below EUR 30 million per year. Then the gearing of the Group would also see a visible decline and again reach the target range of 50 to 80 percent. In the course of the investment financing in 2012, we would like to replace the loans maturing in the current year by new long-term bank borrowings in a comparable amount. Here, we will focus on a balanced structure of maturities.

This projection does not include the above-average growth opportunities from new orders from 2014 and beyond, nor the possibility of the additional establishment of our own assembly plants. We are working hard to open up new perspectives for the Group which exceed their present scale. If we succeed, we will give healthy and profitable growth priority over the achievement of certain financial ratios.

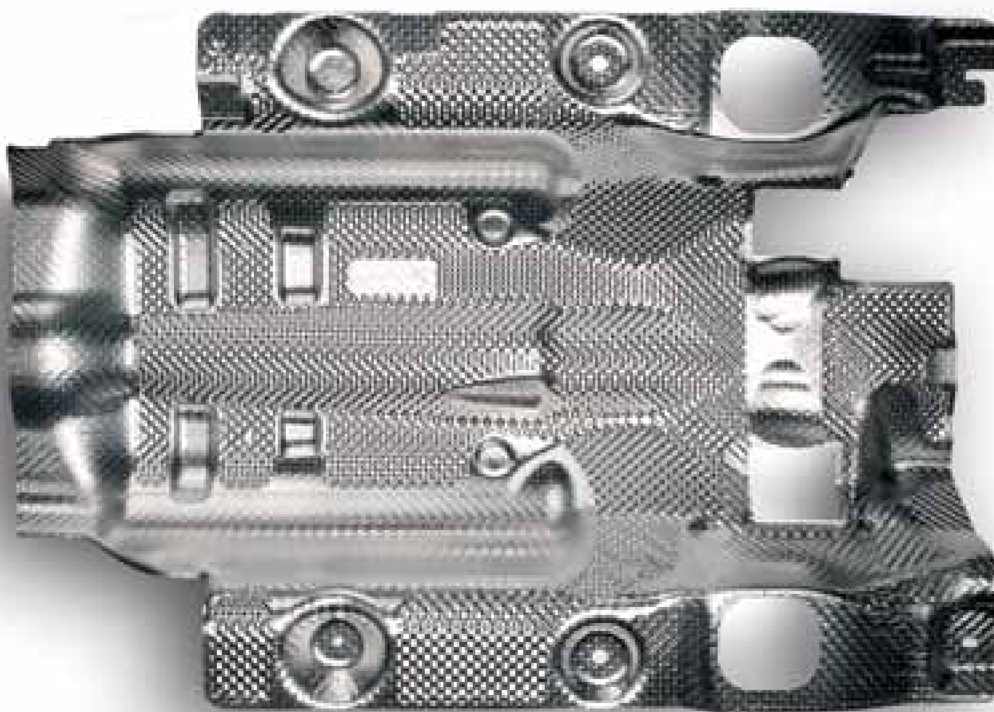


KNOWLEDGE (MANAGEMENT) STRUCTURES
KNOWLEDGE IS THE ONLY MATERIAL THAT MULTIPLIES WITH USE.

Knowledge is precious - and it requires a high commitment and numerous intelligent systems to collect the company's knowledge and to proliferate and maintain it. To ensure the transfer of in-house know-how and to prevent the loss of experience-based and work-process oriented knowledge, PWO has installed a Corporate Wiki. This allows the supply and demand of expertise to be identified early so that appropriate potential actions and options can be presented.

PWO stands for intelligent knowledge management.

WE MAKE SURE YOU DON'T GET TOO HOT.
Aerodynamic requirements and increased installation space density lead to smaller distances between the heat radiating vehicle systems and the vehicle floor. Specially textured, three-dimensional aluminium liners protect against the heat and contribute to sound insulation.



MANAGEMENT REPORT FOR THE PWO AG

Progress-Werk Oberkirch AG (the „PWO AG") is located in Oberkirch, Baden-Wuerttemberg. This location forms the headquarters of the Group. It is the largest production site and at the same the centre of competence for product development and manufacturing technology as well as for the PWO Production System. Central Group functions such as sales and marketing, finance, controlling, legal, IT, and human resources are also coordinated in Oberkirch.

In order to limit risk, the international offices of the Group are closely managed by the Oberkirch site, particularly in the areas of finance, controlling, and legal affairs. However, each office is responsible for carrying out their daily business operations.

The financial statements for the PWO AG are prepared in accordance with the provisions of the German Commercial Code, whereas the consolidated financial statements are prepared in accordance with IFRS.

The basic statements of the combined management report for the PWO Group and the PWO AG, also apply to the PWO AG alone, particularly in the areas of market, strategy, management, and the opportunities and risks inherent in business activities. The development of the workforce is described in a separate chapter.

INCOME STATEMENT

Selected data (in EURk)	2011	in % of total output	2010	in % of total output
Revenue	**237,652**	**100.9 %**	203,131	99.3 %
Total output	**235,540**	**100.0 %**	204,614	100.0 %
Cost of materials	**122,396**	**52.0 %**	103,315	50.5 %
Staff costs	**68,384**	**29.0 %**	61,161	29.9 %
Depreciation and amortisation	**9,199**	**3.9 %**	10,219	5.0 %
Other operating expenses	**21,223**	**9.0 %**	16,132	7.9 %
Financial result	**–3,089**	**-1.3 %**	-3,040	-1.5 %
Result from ordinary activities	**15,029**	**6.4 %**	14,632	7.2 %
Net income	**10,351**	**4.4 %**	9,770	4.8 %
Unappropriated retained earnings	**5,240**	**2.2 %**	4,939	2.4 %

Similar to the development of the Group, the PWO AG had also shown encouraging growth in fiscal year 2011. In addition to the figures showing the continued high demand for current series productions, the Company also benefited from the ramp-up of contracts which had begun in the previous year. The reported increase in revenues reflected not only the development of the series production and the tool business, but a substantial portion of what was realised through the Group's passing-on of higher material prices was accounted for by the PWO AG.

In terms of profitability, the PWO AG is still by far, the most profitable location within the Group. The slight decline in the EBIT margin to 7.7 percent from 8.7 percent in the previous year was primarily due to the effect of material price increases, as the additional revenue did not generate additional earnings.

In 2011, staff costs as a percentage of sales developed positively and remained below the level of last year. This is partly due to the success of our on-going efforts to increase productivity. It is also due, however, to a significant increase in the use of temporary employees in order to ensure both the Company's flexibility and profitability.

Depreciation and amortisation in the reporting year was below the level of the previous year in absolute terms. This resulted from the tightly budgeted investments of the past years. In 2011, we invested significantly more; however, these investments did not yet result in considerable depreciation. This is due to the investments being made in prepayments and assets under construction, and particularly technical equipment and machinery, in preparation for new series productions. The financial result remained at last year's level despite an increase in bank borrowings.

Overall, the result from ordinary activities of the PWO AG slightly increased to EUR 15.0 million (p/y: EUR 14.6 million). Net of an extraordinary result of EUR –0.3 million (p/y: EUR –0.5 million) and a tax rate of 29.6 percent (p/y: 30.8 percent) and excluding the deferred taxes included in the extraordinary result, the PWO AG achieved a net income of EUR 10.4 million in the reporting year (p/y: EUR 9.8 million).

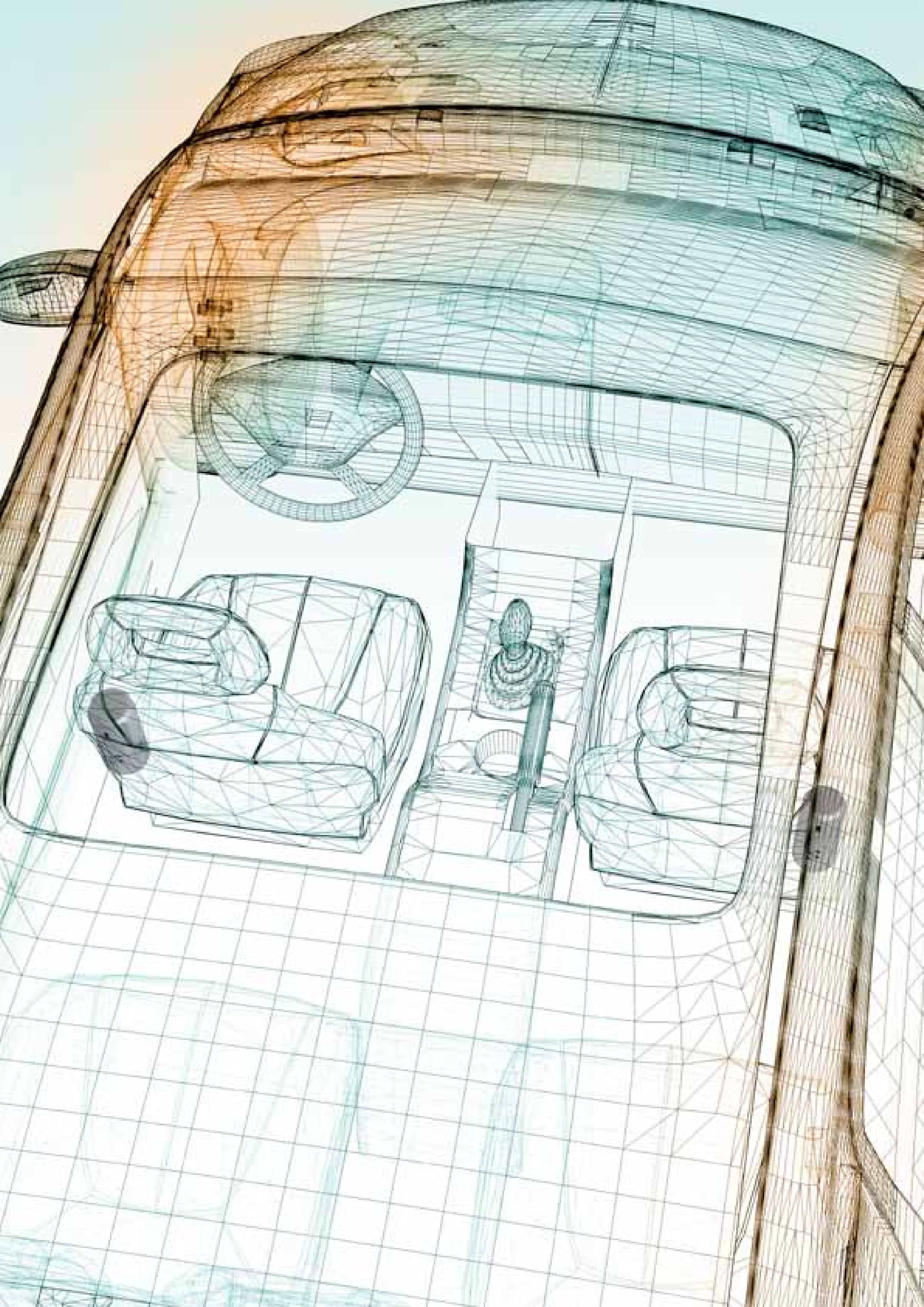
PWO AG's total assets increased during the year to EUR 186.7 million (p/y: EUR 169.6 million). As already mentioned, this resulted from an increase in property, plant and equipment to EUR 47.3 million (p/y: EUR 38.9 million). Investments in affiliated companies also increased again significantly due to capital increases in subsidiaries and loans to affiliated companies. Both changes resulted from the increase in funds made available by the PWO AG to its subsidiaries for their future growth.

Inventories could be held below last year's level despite the continued growth of the PWO AG and thanks to strict inventory management. The increase in receivables and other assets was below the rise in total assets.

On the equity and liability side, we recorded further growth in equity during the year due to the net income generated by the PWO AG. Accordingly, the equity ratio had been maintained at the previous year's level of 45.8 percent, in spite of resuming dividend payments to shareholders. To finance the expansion of business and investments, bank borrowings rose to EUR 47.3 million (p/y: EUR 42.1 million). The changes in the remaining positions on the equity and liability side of the balance sheet were within the usual range.

With regard to future business development, the comments on opportunities and risks contained in the Group outlook also apply to the PWO AG in principle. Nevertheless, we expect the PWO AG to have lower revenue growth as compared to that of the Group in fiscal years 2012 and 2013.

This expectation is mainly due to two factors: on the one hand, as mentioned, the basis effect of offsetting the material prices. The resulting revenues of those material price changes are subject to fluctuations in global commodity markets and therefore cannot be extrapolated into the future. On the other hand, beyond the ramp-up of current major projects, further new series productions will exceed the scheduled series run-downs by a smaller margin. The earnings power of the PWO AG should not be affected. We continue to assume that the PWO AG will generate a large portion of the Group's income, and in both 2012 and 2013 achieve a margin higher than the Group average.



HUMAN STRUCTURES
THE HUMAN IS AT THE CENTRE OF FOCUS.

Machines, manufacturing processes, technologies, and process automation are key planning factors. But behind it there are people - and they are unique: They are the prerequisite for an efficient synthesis of man and machine.

Our employees are the key to success. Tasks at our Company are always solved through teamwork. With a culture having a high regard for esteem, we create an environment in which our employees feel at ease, where they contribute their ideas, and make a large commitment to excellence.

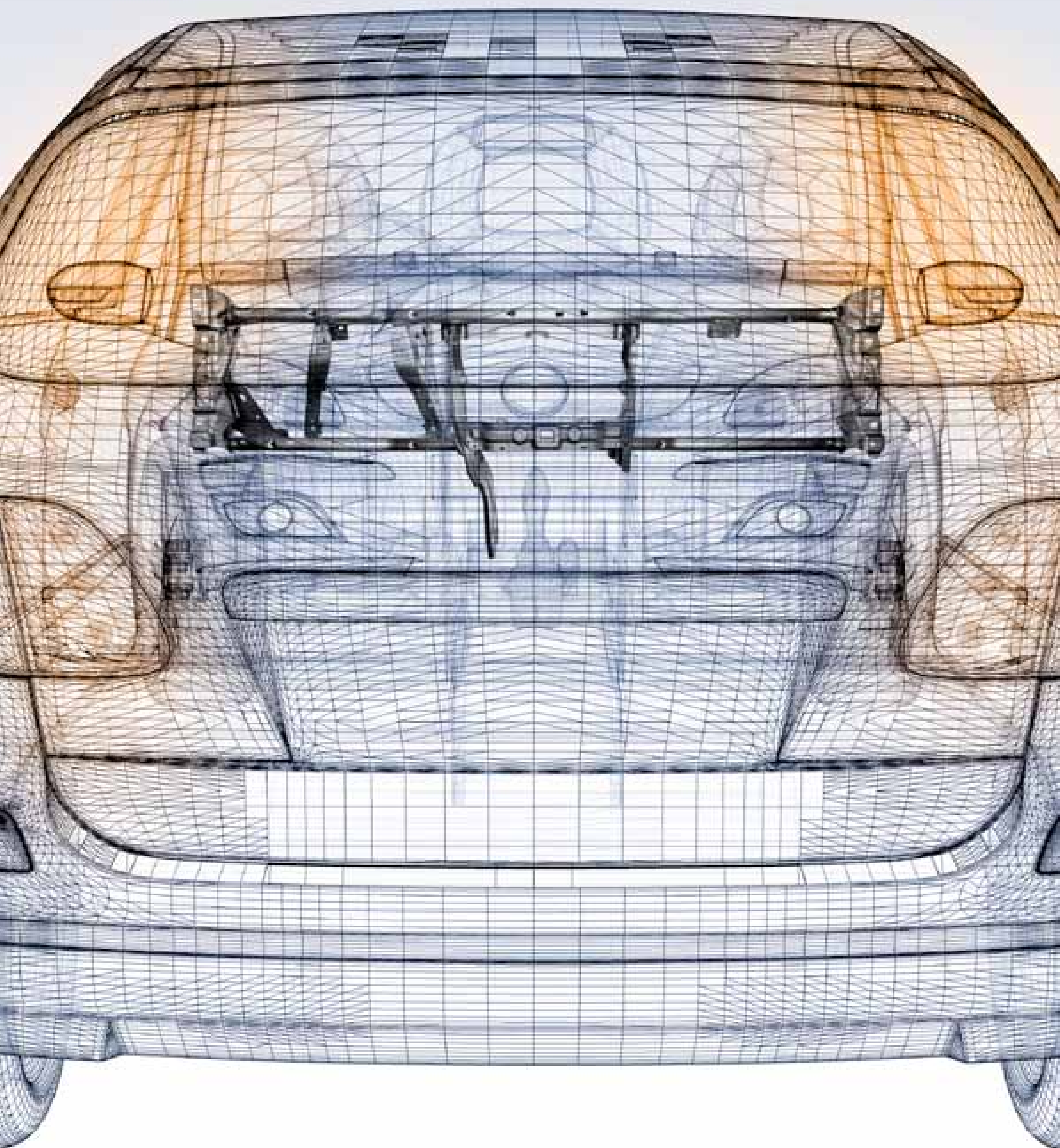
To a large extent, we feel committed to the regions in which we operate. Beyond the immediate economic interests of our Company, we are committed to both social and human cooperation for the benefit of the site in which we operate as a company.

Skills, flexibility, reliability and a strong desire to continuously improve - these are values which are manifested in the PWO general principles and are consistently demonstrated by all of our employees. This is the best prerequisite for a higher commitment, more satisfaction and success at work.

As an employer and training company, we also understand our responsibility to young people in launching their careers. With training at PWO it is possible to gain a foothold in a variety of fields. In addition, through internships, we offer students and undergraduate students solid expertise and diverse development opportunities in a modern international company that operates successfully in all areas using the principles of lean management.

PWO stands for a company culture defined by human values.

100 PERCENT RELIABILITY – EVEN UNDER PRESSURE.
In the event of an accident, the airbag makes a vital contribution to the protection of the vehicle's occupants. In order for the airbag to deploy reliably and at lightning-fast speed, the required pressures must be controlled and channelled. These components are subjected to extreme demands.



COST STRUCTURES
FOCUS ON THE ESSENTIAL.

Cost innovation is a central goal of the automotive industry, and is as important as the differentiating functional characteristics.

„Smart Solutions" is the formula that makes our products the best in the world and guarantees their economic efficiency. This formula provides our customers the assurance that they are always receiving the best product at the best possible price.

In the face of rising commodity prices and the many services required by the customer, automotive suppliers must be able to produce cost efficiently and possess the ability to individually respond to customer needs. This can only be achieved through flexible and transparent processes in close cooperation within the entire value chain.

PWO stands for the principle of value in all processes and business areas.

WE ASSUME RESPONSIBILITY.
A cockpit module combines the highest functionality with safety and comfort. The cockpit module carrier provides the necessary stability. It is comprised of the instrument panel, steering column, heating and ventilation modules, airbags, glove box, center console and other equipment elements and attaches them securely to the vehicle body. In addition, creative solutions are required in order to optimise the vibration behaviour of the system so that the steering wheel holds steady in your hands.

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CONSOLIDATED INCOME STATEMENT

Note no.		2011 EURk	2010 EURk
6	Revenue	331,080	264,195
	Change in finished goods and work-in-progress	-3,777	4,288
7	Other own work capitalised	1,529	2,231
	Total output	**328,832**	**270,714**
8	Other operating income	6,913	4,948
	Cost of raw materials and supplies and merchandise purchased	-162,549	-127,388
	Cost of purchased services	-17,158	-13,440
	Cost of materials	**-179,707**	**-140,828**
	Wages and salaries	-73,468	-64,158
	Social security and post-employment costs	-14,494	-12,865
9	**Staff costs**	**-87,962**	**-77,023**
	Amortisation of intangible non-current assets and depreciation of property, plant and equipment	-16,667	-17,043
10	Other operating expenses	-32,248	-24,761
	Earnings before interest and taxes (EBIT)	**19,161**	**16,007**
	Financial income	11	115
11	Financial expenses	-6,292	-6,319
	Financial result	**-6,281**	**-6,204**
	Earnings before taxes (EBT)	**12,880**	**9,803**
12	Income taxes	-3,864	-3,344
	Net income for the period*	**9,016**	**6,459**
13	Earnings per share in EUR (diluted = basic) based on net income attributable to the shareholders of PWO AG	3.61	2.58

* Net income for the period is entirely attributable to the shareholders of PWO AG

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011 EURk	2010 EURk
Net income for the period	**9,016**	**6,459**
Other comprehensive income		
Derivative financial instruments		
Net losses from cash flow hedges	-1,352	-487
Tax effect	379	211
Unrealised losses from derivative financial instruments	**-973**	**-276**
Currency translation	270	1,323
Other comprehensive income after tax	**-703**	**1,047**
Total comprehensive income after tax	**8,313**	**7,506**

CONSOLIDATED BALANCE SHEET

ASSETS

Note no.		2011 EURk	2010 EURk
	Land and buildings	42,962	41,296
	Technical equipment and machinery	47,969	43,200
	Other equipment, operating and office equipment	7,512	6,699
	Prepayments and assets under construction	16,013	11,211
14	**Property, plant, and equipment**	**114,456**	**102,406**
	Contract and customer-related development services	3,350	2,657
	Industrial property rights and similar rights	3,139	3,693
	Goodwill	5,478	5,471
	Other intangible assets	0	4
	Prepayments	4	0
15	**Intangible assets**	**11,971**	**11,825**
	Deferred tax assets	**3,011**	**2,191**
	Non-current assets	**129,438**	**116,422**
	Raw materials and supplies	14,864	13,694
	Work-in-progress	16,729	19,713
	Finished goods and merchandise	16,151	16,726
16	**Inventories**	**47,744**	**50,133**
	Trade receivables	50,972	41,959
	Other assets	6,808	5,400
	Other financial assets	555	1,493
	Income tax receivables	638	762
17	**Receivables and other assets**	**58,973**	**49,614**
18	**Cash and cash equivalents**	**4,580**	**7,290**
	Current assets	**111,297**	**107,037**
	Total assets	**240,735**	**223,459**

EQUITY AND LIABILITIES

Note no.		2011 EURk	2010 EURk
	Subscribed capital	7,500	7,500
	Capital reserves	17,155	17,155
	Retained earnings	48,390	42,847
	Currency translation differences	1,739	1,469
19	**Total Equity**	**74,784**	**68,971**
	Interest-bearing borrowings	37,088	58,821
	Provisions for pensions	26,373	25,488
	Other provisions	3,509	3,691
	Deferred tax liabilities	435	559
	Non-current liabilities	**67,405**	**88,559**
	Trade payables	20,957	20,265
	Advance payments received on account of orders	1,757	1,265
	Interest-bearing borrowings	57,742	28,326
	Other liabilities	12,522	9,699
	Other financial liabilities	2,492	1,996
	Income tax liabilities	227	1,707
	Current portion of provisions for pensions	1,410	1,360
	Current portion of other provisions	1,439	1,311
	Current liabilities	**98,546**	**65,929**
20	**Total liabilities**	**165,951**	**154,488**
	Total equity and liabilities	**240,735**	**223,459**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to PWO AG shareholders					
				Cumulative income and expenses recognised directly in equity		
EURK	Subscribed capital	Capital reserves	Retained earnings	Currency translation differences	Cash flow hedges	**Total equity**
As at January 1, 2011	**7,500**	**17,155**	**42,753**	**1,469**	**94**	**68,971**
Net income for the period			9,016			9,016
Other comprehensive income				270	-973	-703
Total comprehensive income	**7,500**	**17,155**	**51,769**	**1,739**	**-879**	**77,284**
Dividend payment			-2,500			-2,500
As at December 31, 2011	**7,500**	**17,155**	**49,269**	**1,739**	**-879**	**74,784**
As at January 1, 2010	**6,391**	**17,155**	**37,403**	**146**	**370**	**61,465**
Net income for the period			6,459			6,459
Other comprehensive income				1,323	-276	1,047
Total comprehensive income	**6,391**	**17,155**	**43,862**	**1,469**	**94**	**68,971**
Dividend payment						0
Capital increase from company funds	1,109		-1,109			0
As at December 31, 2010	**7,500**	**17,155**	**42,753**	**1,469**	**94**	**68,971**

CONSOLIDATED STATEMENT OF CASH FLOWS

Notes no.		**2011 EURk**	**2010 EURk**
	Net income for the period	9,016	6,459
	Amortisation of intangible non-current assets and depreciation of property, plant, and equipment, net of write-ups	16,667	17,043
12	Income tax expense/refund	3,864	3,344
11	Interest income and expenses	6,281	6,204
	Change in current assets	-7,086	-13,688
	Change in non-current liabilities (excluding interest-bearing borrowings)	-1,060	-558
	Change in current liabilities (excluding interest-bearing borrowings)	5,023	8,752
12	Income taxes paid	-5,764	-1,936
	Other non-cash expenses/income	-1,373	-660
	Gain/loss on disposal of property, plant and equipment	-21	-120
	Cash flow from operating activities	**25,547**	**24,840**
	Proceeds from disposal of property, plant, and equipment	349	163
	Payments for investments in property, plant, and equipment	-24,919	-15,301
	Payments for investments in intangible assets	-1,842	-1,711
	Cash flow from investing activities	**-26,412**	**-16,849**
19	Dividends paid	-2,500	0
	Interest paid	-4,727	-4,655
	Interest received	11	61
	Proceeds from borrowings	15,178	10,589
	Repayment of borrowings	-13,749	-13,050
	Cash flow from financing activities	**-5,787**	**-7,055**
	Net change in cash and cash equivalents	-6,652	936
	Effect of exchange rates on cash and cash equivalents	-213	-122
	Cash and cash equivalents as at January 1	4,305	3,491
	Cash and cash equivalents as at December 31	**-2,560**	**4,305**
18	of which cash and cash equivalents	4,580	7,290
20	of which bank borrowings due on demand	-7,140	-2,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY INFORMATION

The consolidated financial statements of Progress-Werk Oberkirch AG (PWO) for the financial year January 1, 2011 to December 31, 2011 were authorised by the Management Board on the basis of a resolution passed on March 9, 2012 and were subsequently submitted to the Supervisory Board for examination. PWO is an exchange-listed stock corporation headquartered in Oberkirch, Germany. The Company's shares are traded on XETRA, within the regulated market in Frankfurt and Stuttgart, as well as within the Regulated Unofficial Market in Berlin, Duesseldorf, Hamburg-Hanover and Munich.

The main business activities of the Company and its subsidiaries are described in detail in the Group Management Report (chapter "Company profile").

ACCOUNTING POLICIES

1 | Basis of Presentation

The consolidated financial statements of Progress-Werk Oberkirch AG and its subsidiaries are prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and applicable in the European Union, as well as with the commercial regulations applicable in addition under Section 315a (1) HGB (German Commercial Code).

The consolidated financial statements are prepared using the historical cost principle, with the exception of derivative financial instruments and foreign currency receivables and payables which are carried at fair value. The income statement has been presented 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 thousand (EURk) according to the commercial method.

2 | Principles of Consolidation

The consolidated financial statements include the financial statement of Progress-Werk Oberkirch AG and its subsidiaries for each financial year ending December 31. Subsidiaries are fully consolidated effective from the acquisition date. 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 same reporting periods as the financial statements of the parent company.

Business combinations are accounted for by applying the purchase method (IFRS 3). According to the purchase method, the acquirer allocates the cost of a business combination by recognising the acquirer's identifiable assets, liabilities, and contingent liabilities at their fair values applicable at the acquisition date. Insofar as it is positive, the remaining difference is reported as goodwill; insofar as it is negative, the remaining difference is recognised in profit or loss. Sales, expenses, and income as well as receivables and payables between consolidated entities are set off against each other (IAS 27). Deferred taxes are recognised for consolidation procedures with income tax effects.

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

EURk	Ownership	Net income	Equity
PWO Canada Inc., Kitchener, Ontario, Canada	100 %	467	12,108
PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic	100 %	1,161	9,800
PWO Holding Co., Ltd., Hong Kong, China	100 %	277	11
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100 %	-2,349	3,209
PWO High-Tech Tool Trading (Suzhou) Co., Ltd., Suzhou, China [1]	100 %	82	195
PWO de México S.A. de C.V., Puebla, Mexico [2]	100 %	-1,241	8,628

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

3 | Summary of Significant Accounting Policies

Currency Translation

The consolidated financial statements are presented in euros, the functional currency of the parent company. The financial reports of the companies within the consolidated Group are prepared using foreign currencies which 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 companies are measured using this functional currency. All balance sheet items of the foreign consolidated entity were translated to euros by applying the relevant mean rate of exchange at the balance sheet date. Expenses and income in the Group income statement were translated using the year-average exchange rate. The net income for the year from the translated income statement was transferred to the balance sheet. Differences are recognised directly in equity as a currency translation difference.

Foreign currency transactions are translated initially between 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 loss for the period. Non-monetary items that are measured at historical purchase or production cost in a foreign currency are translated at the foreign exchange rate prevailing on the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated at the rate that was prevailing at the time the fair value was determined.

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

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

		Year-end exchange rate		Average exchange rate	
		31/12/2011	31/12/2010	**2011**	2010
China	CNY	**8.15**	8.77	**9.00**	8.98
Hong Kong	HKD	**10.05**	10.34	**10.83**	10.31
Canada	CAD	**1.32**	1.33	**1.38**	1.37
Mexico	USD	**1.29**	1.33	**1.39**	1.33
Czech Republic	CZK	**25.81**	25.18	**24.59**	25.29

Profit Recognition

Income is recognised when it is likely that the economic benefits of the transaction will accrue to the Group, and 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, in accordance with contractually stipulated payment terms, net of taxes or other duties. The Group acts as the principal in all sales transactions.

Revenue is recognised 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 goods are delivered.

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

Government Grants

Government grants are recognised if there is reasonable assurance that the grants will be received and the entity will comply with the conditions attached to it. Grants related to assets are presented in the balance sheet by deducting the grant in order to arrive at the carrying amount of the asset. Cost-related grants are reported as income.

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 at the balance sheet date in the countries in which the Group operates and generates taxable income.

Deferred taxes are recognised using the balance sheet liability method for all temporary differences existing at the balance sheet date between the recognition of an asset or liability in the balance sheet and the tax valuation rates. Deferred tax liabilities are recognised 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 nor the taxable results. Deferred taxes are recognised on the carryforwards of losses to the extent that it is probable that these can be used. Deferred taxes are measured at the tax rates that apply or are expected to apply to the period when the asset is realised or the liability is settled, based on the current legal situation in the individual countries.

Deferred taxes attributable to items accounted for directly in equity are recognised 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 set off current tax assets and current tax liabilities, and if these relate to the income taxes of the same taxable entity, and imposed by the same taxation authority.

Property, Plant, and Equipment

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 in the reporting year, and calculated in terms of the total number of items specified or planned in the order.

Leases

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

Upon initial recognition, finance lease arrangements, in other words, leases which transfer all the risks and opportunities associated with the ownership of the assets to the Group, are recognised at amounts equal to the fair value of the leased property 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, such that the remaining residual carrying value of the lease liability bears interest at a fixed and variable interest rate. Leased property is depreciated over the useful life of the property. If, however, the transfer of property to the Group is not guaranteed at the end of the lease period, the leased property is completely depreciated over the shorter of the two periods, either the expected useful life or the lease term.

Lease payments for operating leases are recorded as expenditure linearly over the term of the lease.

Borrowing Costs

Borrowing costs are recognised 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 of time is necessary in order to assign the asset in its intended usable or sellable condition. All other borrowing costs are recognised as an expense in the period in which they occurred. Borrowing costs consist of interest costs and other costs that a company incurs in connection with the borrowing of funds.

Intangible Assets

Individually acquired intangible assets are valued at acquisition cost minus cumulative amortisation and impairment losses. Intangible assets include goodwill, patents, customer-oriented development services, software, customer relations, competition prohibitions, licences and similar rights. The Group applies the straight-line method to amortise intangible assets with finite useful lives over the expected useful life to the estimated residual value. Excluded from this are customer-oriented development services, which are amortised based on their volume. Goodwill is not amortised on a scheduled basis. Instead it is subject to an annual impairment test. With the exception of goodwill, the Group has identified no intangible assets with indefinite useful lives.

Development costs are capitalised if the recognition criteria of IAS 38 are fulfilled. After initial capitalisation, the asset is carried at cost less accumulated amortisation and impairment losses. Capitalised development costs include all directly attributable individual costs as well as proportional overheads, and are amortised over the planned product life span (5 to 7 years). The amortisation of capitalised development costs forms part of production costs and is allocated to the components through which they have been incurred.

An impairment test relating to goodwill is performed annually. For other intangible assets with a finite useful life, including property, plant, and equipment, an impairment test is performed if there are specific indications that an asset may be impaired. An impairment loss is expensed if the recoverable amount of the asset is less than its carrying amount. The recoverable amount must be determined for each individual 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 realisable value and its value in use. The net realisable value is the amount that can be realised 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 estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life. The cash flows are derived from long-term corporate planning; historical developments and macroeconomic trends. The value in use of the relevant cash generating unit is normally considered in order to calculate the intrinsic value of the goodwill.

The long-term corporate planning strategy, approved by the Supervisory Board, runs until the end of the detailed planning period in 2014. Management expects significant sales growth for all units, which will be generated especially from new orders as well as the building up of customer relationships already existing within the Group. Furthermore, due to increases in productivity and efficiency as well as quality improvements, the materials input will decline. As a consequence, proportionate staff costs will also decline. This will feed through to an increase in EBIT overall. The key assumptions, to which long-term corporate planning reacts sensitively, are development from sales figures in the automotive industry, commodity prices, and the increase in productivity. These developments were assessed and determined based on past experience, using publicly available data and existing project agreements, as well as on internally decided measures.

Cash flows are discounted to the balance sheet date by applying risk equivalent capitalisation rates (pre-tax). In the case of impairment testing of goodwill associated with PWO UNITOOLS CZ a.s. and PWO Canada Inc., a capitalisation rate (Weighted Average Cost of Capital – WACC) of 10.28 percent (p/y: 10.79 percent) and 13.09 percent (p/y: 15.26 percent) was applied respectively with regard to the first phase. The second phase (growth rate in perpetuity) was calculated with a growth rate of 1.01 percent (p/y: 1.0 percent) and 1.27 percent (p/y: 1.0 percent), respectively. The growth rates of the relevant automotive markets were used as a basis for determining the cash flows.

Assumptions that have been made are subject to a certain level of sensitivity. While a change to one of the assumptions made to determine the value in use for PWO UNITOOLS CZ a.s. and PWO Canada Inc. is fundamentally possible based on reasonable judgment, we believe it is unlikely that the carrying amounts of goodwill for these company units would exceed their recoverable amounts to a significant extent, since the actual recoverable amounts of the company units PWO UNITOOLS CZ a.s and PWO Canada Inc. exceed their carrying amounts by EURk 4,274 (p/y: EURk 10,591) and EURk 4,722 (p/y: EURk 4,410), respectively. However, under the assumption of an unchanged capitalisation rate, an impairment would be required if the free cash flows were sustainably reduced by more than 12 percent for PWO UNITOOLS and by more than 22 percent for PWO Canada. In turn, under the assumption of unchanged free cash flows, an impairment would be required if the capitalisation rate increased to 9.5 percent for PWO UNITOOLS and to 12.8 percent for PWO Canada.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (IAS 39). In the case of financial assets, where the trade and the settlement could occur on different dates, the settlement date is applied for the purpose of initial recognition. Financial instruments are measured at cost on initial recognition; transaction costs are generally included in the initial measurement. Subsequent measurement of financial instruments is dependent on how these instruments are allocated to the categories as per IAS 39. They are either measured at fair value or at amortised cost. IAS 39 differentiates between primary and derivative financial instruments.

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

PWO employs currency-related derivatives in the form of interest-rate swaps, foreign exchange swaps, options, and foreign exchange forward contracts to hedge interest-rate and exchange-rate risks. They are carried at fair value both at the time of purchase and as part of subsequent measurement. In the case of derivative financial instruments which do not fulfil the criteria of a hedging transaction, gains or losses from changes in the fair value are reported immediately in profit or loss. Market value changes of derivative financial instruments used to hedge future cash flows (cash flow hedges) are recognised directly in equity in the amount of the effective share of equity, while the ineffective share is immediately recognised in profit or loss. When the hedged transaction takes place, the derivative is transferred from equity to profit and 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 recognised actuarial valuation models, e.g. discounted cash flow model or option price model.

In the case of short-term financial assets and financial liabilities, the carrying amount is a reasonable approximation of the fair value. At each balance sheet date, the Group determines whether there is objective evidence of an impairment of a financial asset or group of financial assets.

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

Inventories

Inventories of raw materials and supplies are recognised at the lower of average purchase price or realisable values. Unsalable or obsolete materials are written off accordingly. Work-in-progress and finished goods are measured at the lower of cost or net realisable value on the basis of item-by-item calculations based on current operational accounting. In addition to direct costs, production costs include 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 capitalised.

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

Revenue is recognised when the Group has transferred the significant risks and opportunities relating to ownership of the goods to the buyer.

Cash and Cash Equivalents

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

Provisions

Pension provisions are measured on an annual basis for the consolidated financial statements by independent appraisers using the internationally accepted projected unit credit method in accordance with IAS 19. As a part of this process, in addition to pensions and acquired vested rights to future pension payments known at the reporting date, expected future increases in salaries and pensions are taken into account. Pension commitments are calculated on the basis of actuarial methods. Actuarial gains and losses are recognised through profit and loss if the actuarial gains and losses not recognised at the beginning of the financial year exceed ten per cent of the present value of the obligation at that date (corridor method).

Past service cost is expensed on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is expensed immediately.

Other provisions are recognised when the Group has a present obligation with respect to third parties, either legal or constructive, 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 material, provisions are discounted.

If the Group expects at least a partial reimbursement for a provision carried as a liability, the reimbursement is recognised as a separate asset, provided inflow of the reimbursement is likely.

4 | Changes in Accounting Policies

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting methods applied are basically the same as those used in the previous year, apart from the following new and revised standards and interpretations effective January 1, 2011:

- **IAS 24 | Related Party Disclosures (amended)**
  The IASB published an amendment that clarifies the definition of related parties. The new interpretation strengthens the symmetric approach of determining the relations to related parties and explains the circumstances, under which individuals in key positions have a significant influence on the relations to related parties of a company. Furthermore, the amended standard introduces a partial exemption from the disclosure obligations according to IAS 24 for transaction with public authorities and with entities, which are controlled, jointly controlled, or significantly influenced by the same public authority as the reporting entity. The application of the amendment will not have any effect on the Group's net assets, financial position, and results of operations.

- **IAS 32 | Financial Instruments: Presentation – Classification of Rights Issues (amended)**
  The IASB published an amendment, which has changed the definition of a financial liability according to IAS 32 inasmuch as subscription rights and options or warrants can be classified as equity instruments. The amendment shall be applied, if these rights authorise acquisition of a fixed number of equity instruments of the company at a fixed amount in any currency, and the company offers them pro rata to all current owners of the same class of its non-derivative equity instruments. The change will not have any effect on the consolidated financial statements since the Group has not issued any such instruments.

- **IFRIC 14 | Prepayments of a Minimum Funding Requirement (amended)**
  The amendment should abolish unintended effects where a company is subject to minimum funding requirements and makes a prepayment of contributions that meet these requirements. The change in the interpretation allows plan assets to be classified as prepayments by the company for future service costs. This change will not have any effect on the consolidated financial statements.

IMPROVEMENTS TO IFRS

In May 2010, the IASB issued its third collective standards on the modification of various IFRS with the primary objective of eliminating inconsistencies and clarifying formulations. The collective standards specify an interim arrangement for each amended IFRS. The new regulations listed below had an impact on the Group's accounting methods. However, they had no impact on the Group's net assets, financial position and results of operations:

- **IFRS 3 | Business Combinations**
  The available measurement options for non-controlling interests have been changed. Only components of non-controlling interest, that have current ownership rights and, in the event of liquidation, give the holder a proportionate claim on the net assets of the company, may either be measured at fair value or at the proportionate share of the current ownership of the identifiable net assets of the acquired company. All other components are to be valued at their fair value at the acquisition date. The amendments to IFRS 3 are to be applied to fiscal years beginning on or after July 1, 2011. This change has no impact on the consolidated financial statements.

- **IFRS 7 | Disclosure: Transfer of Financial Assets**
  The aim of the amendment is to simplify the data by reducing the volume of information on the collateral held and to improve the data through additional qualitative information, which is intended to supplement the quantitative information. This change has no impact on the consolidated financial statements.

- **IAS 1 | Presentation of Financial Statements**
  The amendment clarifies that an entity may present the analysis of each component of other comprehensive income either in the statement of changes in equity, or in the notes. The Group presents this analysis in the statement of comprehensive income.

The following new regulations concerning improvements to IFRS 2010 had no effect on the Group's accounting methods or on the presentation of its net assets, financial position, or results of operations:

- IFRS 3 | Business Combinations (Contingent consideration from a business combination prior to the application of IFRS 3 (revised 2008)),
- IFRS 3 | Business Combinations (Accounting for unreplaced and voluntarily replaced share-based awards),
- IAS 27 | Consolidated and Separate Financial Statements,
- IAS 34 | Interim Financial Reporting,
- IFRIC 13 | Customer Loyalty Programmes (Determining the fair value of award credits),
- IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments.

STANDARDS ISSUED BUT NOT YET MANDATORY

The following standards and interpretations were published by the IASB and have already been incorporated into EU law through the comitology procedure but were not yet mandatory in fiscal 2011. The Group does not make use of the early application of these standards and interpretations.

- **IFRS 7 | Disclosure of the Transfers of Financial Assets (amended)**
  The amendment of IFRS 7 was issued in October 2010 and is to be applied for the first time in financial years beginning on or after July 1, 2011. The amendment requires extensive new qualitative and quantitative disclosure on transferred financial assets that have not been derecognised, and on the on-going commitment existing on the reporting date in the case of transferred financial assets. The amendment is expected to lead to additional disclosures on financial instruments. However, the Group does not expect this to have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements nor on its future operating results.

The following standards and interpretations, issued by the IASB, were not yet mandatory in fiscal 2011 and have not yet been transposed into EU legislation. These standards and interpretations have not been applied by the Group.

- **IFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (amended)**
  The amendment of IFRS 1 was issued in December 2010 and is to be applied for the first time in financial years beginning on or after July 1, 2011. The amendment removes the fixed date of application of the derecognition of financial assets and liabilities and also removes the fixed dates of application regarding the recognition of gains and losses in the initial fair value measurement and replaces it with the date of transition to IFRS. The amendment further gives guidance as to how an entity should resume presenting financial statements in accordance with IFRS after a period of severe hyperinflation in its functional currency during which it had been unable to comply with IFRS. The adoption of this amendment will have no impact on the Group's net assets, financial position, or results of operations.

- **IFRS 9 | Financial Instruments: Classification and Measurement**
  In November 2009, the first part of phase I of the preparation of IFRS 9 Financial Instruments was published. The standard includes new regulations for the classification and measurement of financial assets. Debt instruments are to be recognised either at amortised costs of purchase or at fair value through profit or loss depending on their respective characteristics and dependent upon the business model. Equity instruments are always accounted for at fair value. However, fluctuations in the value of equity instruments may be recorded in other comprehensive income due to an instrument-specific option exercisable upon the acquisition of the financial instrument. In this case, only specific dividend income would be recognised in income for equity instruments unless these financial assets are held for trading, in which case they must be measured at fair value through profit or loss. In October 2010, the IASB has completed the second part of phase I of the project. The standard comprises amendments regarding financial liabilities and proposes to retain the existing classification and measurement requirements for financial liabilities with the following exceptions: The effects of changes in the own credit risk on financial liabilities, which were designated at fair value through profit or loss, must be recognised directly in equity without affecting profit or loss. Derivate liabilities on unquoted equity instruments may also no longer be measured at amortised cost. IFRS 9 is to be applied for the first time in fiscal years starting on or after January 1, 2015. The completion of this project is expected in 2012. The application of the first part of Phase I will have no material impact on the classification and measurement of the financial assets of the Group. The application of the second part of this project phase is not expected to have a significant effect on the Group's net assets, financial position, or results of operations. In order to give a comprehensive picture of the potential impact, the Group will first quantify the impact in conjunction with the other phases and as soon as they have been published.

- **IFRS 10 | Consolidated Financial Statements**
  IFRS 10 was published in May 2011 and should be applied for the first time in fiscal years beginning on or after January 1, 2013. The new standard replaces the existing provisions of IAS 27 | Consolidated and Separate Financial Statements for the accounting, and the interpretations of SIC-12 | Consolidation - Special Purpose Entities. IFRS 10 established a unified command concept, which applies to all entities, including special purpose entities. From the changes introduced by IFRS 10, no impact is expected since control is exercised throughout all entities in the Group and therefore, all entities are included at full in the consolidated financial statements.

- **IFRS 11 | Joint Arrangements**
  IFRS 11 was published in May 2011 and should be applied for the first time in fiscal years beginning on or after January 1, 2013. This standard replaces IAS 31 | Investments in Joint Ventures and the interpretations of SIC-13 | Jointly Controlled Entities – Non-Monetary Contributions by Partner Companies. With IFRS 11, the previous option on the application of proportionate consolidation for joint ventures will be cancelled. With the adoption of the new standards no impact is expected since control is exercised throughout all entities in the Group and therefore, all entities are included in their entirety in the consolidated financial statements.

> **IFRS 12 | Disclosure of Interests in Other Entities**
IFRS 12 was published in May 2011 and should apply for the first time in fiscal years beginning on or after January 1, 2013. This standard sets uniform disclosure requirements for the area of consolidated financial reporting and consolidates the disclosures on subsidiaries, which was previously covered by IAS 27, the disclosures for jointly controlled and associated companies, which was thus far included in IAS 31 and IAS 28, as well as for structured companies. Since the new standards include additional disclosure requirements, the Group's disclosures within the consolidated companies will be more comprehensive in the future.

> **IFRS 13 | Measurement of Fair Value**
IFRS 13 was published in May 2011, and should apply for the first time in fiscal years beginning on or after January 1, 2013. This standard establishes guidelines for the determination of fair value and imposes extensive quantitative and qualitative disclosures regarding the measurement at fair value. However, the standard does not cover the question of when assets and liabilities must or can be measures at fair value. IFRS 13 defines fair value as the price that would be received by a party in a regular transaction between market participants at the measurement date for the sale of an asset or what the price paid would be to transfer a liability. The Group is currently assessing the impact that the new standard will have on its future net assets, financial position, and results of operations. Material effects are not expected.

> **IAS 1 | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (amended)**
The amendment to IAS 1 was published in June 2011 and applies for the first time in fiscal years beginning on or after July 1, 2012. The amendment to IAS 1 affects the presentation of the components included in other comprehensive income. These components, for which a future reclassification through profit or loss is expected (known as recycling), will be presented separately from the components that will remain in equity. From this change, no impact is expected since there are currently no amounts present that are to remain in equity.

> **IAS 12 | Deferred Taxes: Recovery of Underlying Assets (amended)**
The amendment to IAS 12 was published in December 2010 and applies for the first time in fiscal years beginning on or after January 1, 2012. With the amendment to IAS 12, a simplified scheme will be introduced. Accordingly, it is presumed (refutable), that for the calculation of deferred taxes on real estate, which are measured at fair value, recognition of the carrying amount through sale is generally to be assumed. A sale of the asset should always be assumed for fixed assets which are not subject to depreciation and that are measured using the revaluation model. The adoption of this amendment is not expected to affect the Group's net assets, financial position, or results of operations.

> **IAS 19 | Employee Benefits (amended)**
The revised IAS 19 was published in June 2011 and will apply for the first time in fiscal years beginning on or after January 1, 2013. The adjustments range from fundamental changes, such as those concerning the determination of expected returns on plan assets, the abolition of the corridor method which distributed or smoothed the volatility from pension obligations over time, to mere clarifications and reformulations. The Group expects that the amended IAS 19 will apply for the first time for the consolidated financial statements of the financial year beginning on January 1, 2013. In the future, the amount of the provision will fully reflect the obligation. The actuarial gains and losses will no longer be recognised on a pro-rata basis, but fully recognised in the period incurred within other comprehensive income. Other effects on the Group's net assets, financial position, and results of operations are currently being assessed.

- **IAS 27 | Separate Financial Statements (revised 2011)**
  The revised IAS 27 was published in May 2011 and will apply for the first time in fiscal years beginning on or after January 1, 2013. With the adoption of IFRS 10 and IFRS 12 the scope of IAS 27 is limited to only the accounting for subsidiaries, jointly controlled companies, and associated companies in the separate financial statements of a company.

- **IAS 28 | Investments in Associates and Joint Ventures**
  The revised IAS 28 was published in May 2011 and will apply for the first time in fiscal years beginning on or after January 1, 2013. With the adoption of IFRS 11 and IFRS 12, the scope of IAS 28 has expanded to include the application of the equity method for joint ventures in addition to associated companies. In terms of impact, we refer to our comments on IFRS 11.

- **IAS 32 and IFRS 7 | Offsetting Financial Assets and Financial Liabilities (amended)**
  The amendment to IAS 32 and IFRS 7 were published in December 2011 and will apply for the first time in fiscal years beginning on or after January 1, 2013. This amendment should eliminate the existing inconsistencies through an addition to the application guidelines. The existing basic provisions for the netting of financial instruments have been maintained. The amendment also defines supplemental information. The change will have no impact on the Group's accounting policies, however, more disclosure will be required.

- **IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine**
  In October 2011, the IASB has published the IFRIC 20. The interpretation clarifies the capitalisation of a non-current asset for incidental expenses related to waste disposal during a mining operation where the benefits lie in improved access to future degradable ores and where other mandatory requirements are met. The interpretation is effective for fiscal years beginning on or after December 31, 2012. The adoption of this change has no impact on the Group's net assets, financial position, or results of operations.

5 | Key Judgments, Estimates, and Assumptions

In compiling the consolidated financial statements, the Management Board makes discretionary judgments, estimates, and assumptions which affect the level of reported income, expenses, assets, and liabilities shown at the end of the reporting period. The actual figures may differ from these estimates.

Note 29 explains the most important discretionary judgments, forward-looking assumptions and other key sources of estimating uncertainties existing on the reporting date, where there is a significant risk that a key adjustment of the carrying amounts of assets and liabilities will be required within the next financial year.

NOTES TO THE INCOME STATEMENT

6 | Revenue

The breakdown of Group revenue by location and product areas is shown in the segment reporting (see Note 28).

7 | Other own work capitalised

Own work capitalised comprises an amount of EURk 1,128 (p/y: EURk 1,076) of development costs subject to mandatory capitalisation according to IAS 38. These development costs are related, in particular, to the development of a module carrier. A series order for this project was received in 2008.

8 | Other operating income

Other operating income is as follows:

EURk	2011	2010
Currency gains	4,386	2,708
Income from derecognition of accruals	300	387
License income	209	139
Other operating income	2,018	1,714
Total	**6,913**	**4,948**

This item includes non-periodic income in the amount of EURk 718 (p/y: EURk 594).

Government grants of EURk 183 (p/y: EURk 175) were provided for the creation of new jobs as well as for training, restructuring, and environmental protection measures. These grants were recognised through profit and loss.

Staff costs and employees

STAFF COSTS

EURk	2011	2010
Wages and salaries	73,468	64,158
Social security and post-employment costs	14,494	12,865
Total	**87,962**	**77,023**

NUMBER OF EMPLOYEES BY DIVISION (YEAR-AVERAGE)

	2011	2010
Development and sales	140	132
Production and materials	1,374	1,176
Tool centre	463	442
Administration	137	125
Sub-total	**2,114**	**1,875**
Part-timers	275	161
Trainees	132	125
Total	**2,521**	**2,161**

10 | Other operating expenses

Other operating expenses are as follows:

EURk	2011	2010
Costs for part-timers	7,641	4,280
Maintenance costs	4,643	4,914
Currency losses	3,420	2,191
Outgoing freight	3,279	2,869
Travel costs	1,569	1,147
Rental costs	1,450	1,001
Legal, audit, and consultancy costs	1,407	1,096
Insurance premiums	1,078	1,036
Minimum lease payments for operating leases	688	538
Other operating expenses	7,073	5,689
Total	**32,248**	**24,761**

This item includes non-periodic expenses in the amount of EURk 136 (p/y: EURk 260).

11 | Financial expenses

Financial expenses consisted of interest payable to banks amounting to EURk 4,553 (p/y: EURk 4,621), interest expense for pension provisions of EURk 1,498 (p/y: EURk 1,471), interest expense under finance leases in the amount of EURk 121 (p/y: EURk 71) and interest cost on other provisions of EURk 120 (p/y: EURk 156). Of the interest payable to banks, financial liabilities which were not recognised at fair value through profit or loss, have caused interest expenses of EURk 4,178 (p/y: EURk 4,046).

12 | Income taxes

Income taxes are as follows:

EURk	2011	2010
Actual taxes	4,409	3,723
Deferred taxes	-545	-379
Total	**3,864**	**3,344**

No deferred taxes were recognised for temporary differences related to retained profits from subsidiaries totalling EURk 3,623 (p/y: EURk 3,117), since these profits are to be used to fund the further expansion of business at 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	2011	2010
Earnings before income taxes	**12,880**	**9,803**
Theoretical tax expense at 28,08 % (p/y: 27,38 %)	3,617	2,684
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-29	-51
Tax increase due to non-deductable expenses	269	178
Tax increase (+) / -reduction (-) previous years	-61	134
Tax effects from future tax rate changes	2	20
Tax effects from tax credits	-692	-821
Effects from non-capitalised tax-loss carryforwards	870	1,205
Other effects	-112	-5
Income taxes	**3,864**	**3,344**

The deferred tax assets and liabilities associated with the individual balance sheet items are presented below:

	Deferred tax assets		Deferred tax liabilities	
EURk	2011	2010	2011	2010
Intangible assets, tangible assets, and financial assets	76	69	3,647	3,626
Other assets	451	442	200	398
Tax-loss carryforwards and tax credits	3,685	3,325	0	0
Provisions	1,545	1,575	0	0
Liabilities	676	256	10	10
Sub-total	**6,433**	**5,666**	**3,857**	**4,034**
Offset	-3,422	-3,475	-3,422	-3,475
Amount in the consolidated balance sheet	**3,011**	**2,191**	**435**	**559**

See Note 29 for further details.

13 | Earnings per share

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

	2011	2010
Net income for the period in EURk	9,016	6,459
Average number of bearer shares	2,500,000	2,500,000
Earnings per share in EUR	3.61	2.58

NOTES TO THE BALANCE SHEET

14 | 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 at Jan. 1, 2010	60,995	162,348	23,052	6,084	252,479
Additions	240	5,518	1,603	9,742	17,103
Reclassifications	-169	4,156	708	-4,695	0
Disposals	-343	-1,099	-903	0	-2,345
Currency effects	2,074	2,990	467	80	5,611
As at Dec. 31, 2010	**62,797**	**173,913**	**24,927**	**11,211**	**272,848**
Additions	2,294	8,113	1,842	13,545	25,794
Reclassifications	499	7,279	1,086	-8,864	0
Disposals	-1	-1,305	-1,159	0	-2,465
Currency effects	865	633	117	121	1,736
As at Dec. 31, 2011	**66,454**	**188,633**	**26,813**	**16,013**	**297,913**
Depreciation and amortisation					
As at Jan. 1, 2010	19,732	118,902	16,684	0	155,318
Additions	1,816	11,279	2,153	0	15,248
Reclassifications	0	0	0	0	0
Disposals	-343	-1,089	-870	0	-2,302
Currency effects	296	1,621	261	0	2,178
As at Dec. 31, 2010	**21,501**	**130,713**	**18,228**	**0**	**170,442**
Additions	1,895	10,638	2,073	0	14,606
Reclassifications	0	0	0	0	0
Disposals	0	-1,029	-1,108	0	-2,137
Currency effects	96	342	108	0	546
As at Dec. 31, 2011	**23,492**	**140,664**	**19,301**	**0**	**183,457**
Net carrying amounts					
As at Dec. 31, 2011	42,962	47,969	7,512	16,013	**114,456**
As at Dec. 31, 2010	41,296	43,200	6,699	11,211	**102,406**

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

15 | 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 at Jan. 1, 2010	1,808	10,671	6,536	865	0	19,880
Additions	1,076	1,088	0	0	0	2,164
Reclassifications	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Currency effects	0	53	185	67	0	305
As at Dec. 31, 2010	**2,884**	**11,812**	**6,721**	**932**	**0**	**22,349**
Additions	1,128	1,048	0	0	4	2,180
Reclassifications	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Currency effects	0	29	26	25	0	80
As at Dec. 31, 2011	**4,012**	**12,889**	**6,747**	**957**	**4**	**24,609**
Depreciation and amortisation						
As at Jan. 1, 2010	30	6,626	1,198	737	0	8,591
Additions	197	1,464	0	134	0	1,795
Reclassifications	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Currency effects	0	29	52	57	0	138
As at Dec. 31, 2010	**227**	**8,119**	**1,250**	**928**	**0**	**10,524**
Additions	435	1,622	0	4	0	2,061
Reclassifications	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Currency effects	0	9	19	25	0	53
As at Dec. 31, 2011	**662**	**9,750**	**1,269**	**957**	**0**	**12,638**
Net carrying amounts						
As at Dec. 31, 2011	3,350	3,139	5,478	0	4	**11,971**
As at Dec. 31, 2010	2,657	3,693	5,471	4	0	**11,825**

The useful life for software is 3 to 5 years.

Development costs of EURk 3,350 (p/y: EURk 2,657) that required capitalisation under IAS 38 are amortised using the units of production method as soon as development is complete and production of series parts commences.

The residual carrying amount of SAP software amounts to EURk 1,245 (p/y: EURk 2,010). The remaining amortisation period is 2 to 4 years.

As at December 31, 2011 the goodwill of PWO UNITOOLS CZ amounted to EURk 4,331 (p/y: EURk 4,331) and the goodwill of PWO Canada Inc. amounted to EURk 1,147 (p/y: EURk 1,140). The increase at PWO Canada resulted from fluctuations in the exchange rate.

Accumulated amortisation included EURk 698 from the amortisation of goodwill at PWO de México S.A. de C.V. in fiscal year 2009.

16 | Inventories

At the balance sheet date, the total amount of inventories was EURk 47,744 (p/y: EURk 50,133). Of this amount, tool spare parts comprised EURk 4,179 (p/y: EURk 3,527) and were stated at their net realisable value. In the fiscal year under review, an impairment of EURk 693 (p/y: EURk 268) was recognised through profit or loss.

17 | Receivables and other assets

At December 31, 2011, the allowances for trade receivables and other receivables amounted to EURk 1,309 (p/y: EURk 1,328). The carrying amount of trade receivables and other receivables before valuation allowances was EURk 52,281 (p/y: EURk 43,287). The development of the valuation allowance account is as follows:

EURk	2011	2010
Valuation allowance as at Jan. 1	1,328	2,096
Additions	21	344
Utilisation	-25	-913
Releases	-15	-202
Currency translation effects	0	3
Valuation allowance as at Dec. 31	**1,309**	**1,328**

For receivables, which have a material amount, allowances are provided for according to uniform standards and at the level of the incurred loss. A 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 recorded regularly on separate impairment accounts and lead to an impairment loss through profit and loss. The allocation to, and therefore, the increase in the valuation allowance during the year, referred to only a few isolated cases. Definite failures result in the derecognition of the receivable.

The non-current portion of the other assets amounts to EURk 268 (p/y: EURk 138) and the non-current portion of the income tax receivables amounts to EURk 521 (p/y: EURk 637).

18 | Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term bank deposits. Deposits at banks bear interest at a variable interest rate for short-term call deposits. At December 31, 2011 the Group had undrawn credit lines for which all necessary conditions for use were already met. At December 31, 2011, for purposes of the consolidated statement of cash flows, the balance of cash and cash equivalents of EURk 4,580 (p/y: EURk 7,290) consisted of cash on hand and bank deposits.

19 | Subscribed capital and reserves

Subscribed capital
At December 31, 2011, the fully subscribed and paid-up capital amounted to EURk 7,500 (p/y: EURk 7,500), and was divided into 2,500,000 bearer shares.

Authorised Capital

By resolution of the Annual General Meeting of May 26, 2010 and subject to the consent of the Supervisory Board, the Management Board is authorised, until May 25, 2015, to increase the Company's share capital once or several times by up to EUR 3,000,000.00 against payment in cash (Authorised Capital I/2010).

By resolution of the Annual General Meeting of May 26, 2010 and subject to the consent of the Supervisory Board, the Management Board is authorised, until May 25, 2015, to increase the Company's share capital once or several times by up to EUR 750,000.00 against a cash payment (Authorised Capital II/2010).

The Annual General Meeting of May 26, 2010 has approved a conditional increase in share capital by up to EUR 3,000,000.00 (Contingent Capital 2010).

Capital reserves

The capital reserve includes the premium from the issuance of shares.

Retained earnings and other equity

Retained earnings include current and previous years' earnings by the PWO AG and the consolidated subsidiaries, but not yet distributed.

Currency translation differences of financial statements of foreign subsidiaries in the amount of EURk 1,739 (p/y: EURk 1,469) are reported separately.

In addition, the portion of the profit or loss is recognised that results from a cash flow hedging instrument, which is determined as an effective hedge.

Proposed and distributed dividends

At December 31, 2011, PWO AG reported unappropriated retained earnings of EUR 5,240,433.65. The distributable amounts are based on the unappropriated retained earnings of PWO AG in accordance with the commercial law.

It is proposed to the Annual General Meeting that the unappropriated retained earnings of PWO AG be appropriated as follows:

	EUR
Payment of a dividend of EUR 1.40 per dividend-bearing share	3,500,000.00
Allocation to other retained earnings	1,700,000.00
Carried forward to new account	40,433.65

In financial year 2011, a total dividend of EUR 2,500,000.00 (EUR 1.00 per dividend-bearing share) was paid for the financial year 2010.

Notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG)

In a release on February 15, 2008, Consult Invest Consulting GmbH, Boeblingen, gave notification that it held an interest of 55.282 percent.

In a release on July 21, 2008, Delta Lloyd Europees Deelnemingen Fund NV, Amsterdam, The Netherlands, gave notification that it held an interest of 3.05 percent.

In a release on October 15, 2008, Delta Lloyd Europees Deelnemingen Fund NV, Amsterdam, The Netherlands, gave notification that it held an interest of 5.12 percent.

20 | Liabilities

Pension provisions
Provisions for pensions and similar obligations are formed on the basis of pension plan entitlements for retirement, invalidity, and survivor dependant's benefits. The retirement benefits are based on salary and length of service. The direct and indirect obligations include those arising from current pensions as well as benefits for pensions and retirement allowances payable in the future.

The vast majority of provisions for defined benefit plans concern the PWO AG. PWO de México S.A. de C.V. accounted for a pension provision amounting to EURk 140 (p/y: EURk 136).

The provisions for defined benefit plans are calculated in accordance with IAS 19 using the projected unit credit method. The pension obligations are recognised at the present value of the defined benefit obligations at the measurement date, and take into account likely future increases in pensions and salaries.

PWO Canada Inc. has defined contribution plans. These resulted in a recognised expense in the amount of EURk 60 (p/y: EURk 55).

Employer contributions to the statutory state pension scheme were made in the amount of EURk 6,630 (p/y: EURk 5,947).

Defined benefit obligations have been measured on the basis of the following actuarial assumptions:

	2011	2010
Interest rate	4.5 %	5.0 %
Employee turnover rate	2.5 %	2.5 %
Future salary trend < 40 years	3.5 %	3.5 %
Future salary trend > 40 years	2.5 %	2.5 %
Future pension adjustments	2.0 %	2.0 %

The ten percent corridor rule is applied when measuring pension provisions and determining pension costs. Actuarial gains and losses are not recognised unless they exceed ten percent of the total amount of the obligation.

The following net obligations arise:

EURk	2011	2010
Present value of defined benefit obligations	34,270	30,779
Actuarial losses	-6,320	-3,795
Unrecognised past service cost	-168	-136
Balance sheet value as at Dec. 31	**27,783**	**26,848**

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

EURk	2011	2010
Present value of defined benefit obligation as at Jan. 1	30,779	28,809
Interest cost	1,498	1,471
Service cost	640	681
Pension payments rendered	-1,369	-1,350
Actuarial losses	2,591	1,105
of which experiential adjustments	177	38
Past service cost	127	55
Foreign currency differences	4	8
Present value of defined benefit obligation as at Dec. 31	**34,270**	**30,779**

The value of pension provisions and similar obligations reported in the balance sheet changed as follows compared to the previous year:

EURk	2011	2010
Balance sheet value as at Jan, 1	26,848	25,930
Expenses from pension obligations	2,300	2,260
Pension payments rendered	-1,369	-1,350
Foreign currency differences	4	8
Balance sheet valus as at Dec, 31	**27,783**	**26,848**

Of the pension provisions reported in the balance sheet, EURk 26,373 (p/y: EURk 25,488) are non-current and EURk 1,410 (p/y: EURk 1,360) are current.

The amounts included in the income statement are composed as follows:

EURk	2011	2010
Service cost	640	681
Interest cost	1,498	1,471
Actuarial losses	66	18
Past service cost	96	90
Expenses from pension obligations	**2,300**	**2,260**

The service cost and realised actuarial losses are reported under staff costs, while interest expense is reported under financial expenses.

The following table presents the defined benefit obligations for the current and prior reporting periods:

EURk	2011	2010	2009	2008	2007
Present value of defined benefit obligation	34,270	30,779	28,809	26,300	25,654
Experiential adjustments	177	38	177	-638	-104

Plan assets to meet pension obligations do not exist.

Other provisions

Other provisions consist of necessary amounts for employee-related expenses and other identifiable obligations and risks. The provisions reported in the balance sheet include provisions for employees (obligations for age-related part-time working and anniversary bonuses) and provisions for contingent losses. It is expected that the total amount of obligations for age-related part-time working will accrue within 5 years after the reporting date. Provisions for contingent losses are reported as of fiscal year 2011 under other provisions. The prior-year figures have been reclassified accordingly.

Other provisions have changed as follows:

	Personnel-related provisions		Provisions for contingent losses	
EURk	**2011**	**2010**	**2011**	**2010**
As at Jan. 1	4,714	4,565	288	116
Utilisation	-1,291	-1,025	-41	-2
Releases	-20	-67	-148	-66
Additions	1,302	1,241	144	240
of which accrued interest	110	156	10	0
As at Dec. 31	**4,705**	**4,714**	**243**	**288**
of which non-current	3,385	3,564	124	127
of which current	1,320	1,150	119	161

Grants from the Federal Employment Agency (Bundesagentur für Arbeit) as part of the retirement agreements of departing employees are reported as other assets in the amount of EURk 660 (p/y: EURk 566) and have not been offset against provisions.

Interest-bearing borrowings

Of the interest-bearing borrowings, EURk 57,742 (p/y: EURk 28,326) have a maturity of less than one year and EURk 4,305 (p/y: EURk 5,910) have a maturity of more than five years. Bank borrowings amount to EURk 92,095 (p/y: EURk 85,100).

The loans were granted at interest rates between 1.87 percent and 9.84 percent. Bank borrowings repayable on demand amounted to EURk 7,140 (p/y: EURk 2,985).

Of the bank borrowings, EURk 18,572 (p/y: EURk 19,476) are secured by mortgages and EURk 22,134 (p/y: EURk 17,141) by assignment as security. In addition, the usual retention of proprietary rights exists for the supply of raw materials and supplies and merchandise.

Other liabilities

Other liabilities include a non-current portion in an amount of EURk 460 (p/y: EURk 488).

Finance leases and hire-purchase agreements

For various technical equipment and machinery finance leases are used that in some cases contain purchase options for the lessor. As at December 31, 2011, the assets had a carrying amount of EURk 2,773 (p/y: EURk 2,081). Due to the structure of the leases, the assets are depreciated over their expected useful life rather than according to the term of the lease agreement, pursuant to IAS 17.28.

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

	Minimum lease payments		Present value of minimum lease payments	
EURk	**2011**	**2010**	**2011**	**2010**
Residual duration up to 1 year	823	486	695	387
Residual duration 1 to 5 years	2,060	1,481	1,839	1,261
Residual duration > 5 years	208	424	201	399
Total minimum lease payments	**3,091**	**2,391**	**2,735**	**2,047**
Less interest cost	-356	-344	0	0
Present value of minimum interest payments	**2,735**	**2,047**	**2,735**	**2,047**

Contingent liabilities and other financial obligations

A counter guarantee to secure age-related part-time working credits amounted to EURk 2,345 (p/y: EURk 2,344) as of the reporting date.

As at December 31, 2011 other financial obligations existed, including purchase commitments of EURk 28,642 (p/y: EURk 13,387). These amounts apply to subsequent financial years according to maturity as follows:

	Obligations from non-cancellable operating lease and rental agreements		Order commitments arising from investment orders*		Other financial obligations	
EURk	**2012 et**	**2011 et**	**2012 et**	**2011 et**	**2012 et**	**2011 et**
Residual duration up to 1 year	1,282	1,157	20,180	10,948	85	0
Residual duration 1 to 5 years	1,463	1,136	3,124	141	684	0
Residual duration > 5 years	30	5	0	0	1,794	0
Total	**2,775**	**2,298**	**23,304**	**11,089**	**2,563**	**0**

* Property, plant and equipment, and intangbile assets

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

21 | Financial risk management

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

The key risks are described below:

Credit Risk

The credit risk from trade receivables and other receivables is controlled by Progress-Werk Oberkirch AG and its subsidiaries based on uniform standards, procedures, and controls. The creditworthiness of the customer is regularly checked using credit reports and historical data. Based on these findings, the individual credit limits are set for the customer. Outstanding trade

receivables and other receivables are monitored regularly by a diligent management of receivables. Furthermore, commercial credit insurance has been concluded for additional protection and protects a large portion of the receivables. The need for valuation allowances is analysed at each balance sheet 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 fulfil 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 at December 31, 2011, the maximum credit risk of financial assets in the event of counterparty default was equivalent to the carrying amount of those instruments. For trade receivables and other receivables, an additional commercial credit insurance will be deducted.

EURk	2011	2010
Trade receivables and other receivables	50,972	41,959
Protection from commercial credit insurance	-38,026	-29,388
Maximum default risk	**12,946**	**12,571**
Derivative financial assets with hedging relationships	555	1,493
Cash and cash equivalents	4,580	7,290

At December 31, 2011, the analysis of overdue but not impaired trade receivables and other receivables is as follows:

EURk	2011	2010
Trade receivables and other receivables	50,972	41,959
of which neither overdue nor impaired	43,457	31,768
of which < 30 days overdue (but not impaired)	4,915	5,835
of which > 30-90 days overdue (but not impaired)	1,281	3,205
of which > 90-180 days overdue (but not impaired)	955	1,005
of which > 180-360 days overdue (but not impaired)	164	146
of which > 360 days overdue (but not impaired)	200	0

For non-impaired trade receivables and other receivables at the balance sheet date there are no indications that an allowance was necessary.

Liquidity risk

For the current business, there are sufficient credit lines from a number of banks. Financing risks are limited by an appropriate combination of short-term and long-term loans. Long-term customer contracts and their related investments and pre-financing of services are generally financed on a long-term, project-specific basis. The Group has secured nearly half of its financing needs with long-term financing at fixed interest rates. Where necessary, additional derivative interest-rate hedges have been concluded.

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

	< 1 year		1 to 5 years		> 5 years		Total	
EURk	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Bank borrowings	59,192	30,010	34,183	54,512	4,264	5,800	**97,639**	**90,322**
of which repayment of principal	57,047	27,939	30,944	51,650	4,104	5,511	92,095	85,100
of which interest payment	2,145	2,071	3,239	2,862	160	289	5,544	5,222
Liabilities to leasing companies	823	486	2,060	1,481	208	424	**3,091**	**2,391**
of which repayment of principal	695	387	1,839	1,261	201	399	2,735	2,047
of which interest payment	128	99	221	220	7	25	356	344
Trade payables	20,957	20,265	0	0	0	0	**20,957**	**20,265**
Derivative financial instruments with hedging relationships	972	141	1,674	1,098	0	147	**2,646**	**1,386**
Derivative financial instruments without hedging relationships	291	417	345	278	0	0	**636**	**695**

The amounts of derivative financial instruments with hedging relationships presented in the above table correspond to the undiscounted cash flows on a gross basis.

The following table shows the maturity of the undiscounted cash inflows and outflows of the derivative financial instruments having a hedging relationship:

	< 1 year		1 to 5 years		> 5 years		Total	
EURk	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Cash inflow	15,800	1,505	23,190	15,297	0	1,802	38,990	18,604
Cash outflow	-16,772	-1,646	-24,864	-16,395	0	-1,949	-41,636	-19,990
Net balance	**-972**	**-141**	**-1,674**	**-1,098**	**0**	**-147**	**-2,646**	**-1,386**

Interest-rate risk

In order to assess risks arising from changes in interest rates, as a matter of principle, financial instruments have to be categorised, into those with fixed and those with variable interest rates, in accordance with IAS 32. Risks arising from changes in interest rates exist in the case of variable interest rate loans. These risks are addressed using interest-rate swaps. Interest rate risks are determined by means of a sensitivity analysis. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components, and where applicable, 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 amortised 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, 2011 had been 100 basis points higher, earnings before taxes would have been EURk 162 (p/y:

EURk 89) lower. If market interest rates had been 100 basis points lower at December 31, 2011, earnings before taxes would have been EURk 156 (p/y: EURk 79) 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, as all interest-rate derivatives are not 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 EUR had appreciated by 10 percent against the CZK at December 31, 2011, earnings before taxes would have been EURk 300 higher (p/y: EURk 539). The net gains (losses) from cash flow hedges recorded in equity would have been EURk 845 lower (p/y: EURk 756). If the EUR had depreciated by 10 percent against the CZK at December 31, 2011, earnings before taxes would have been EURk 366 lower (p/y: EURk 658) and net gains (losses) from cash flow hedges recorded in equity would have been EURk 844 higher (p/y: EURk 755).

If the EUR had appreciated by 10 percent against the USD at December 31, 2011, earnings before taxes would have been EURk 147 higher (p/y: EURk 249 lower). The net gains (losses) from cash flow hedges recorded in equity would have been EURk 1,178 lower (p/y: EURk 288). If the EUR had depreciated by 10 percent against the USD at December 31, 2011, earnings before taxes would have been EURk 213 lower (p/y: EURk 305 higher) and net gains (losses) from cash flow hedges recorded in equity would have been EURk 1,333 higher (p/y: EURk 146).

If the EUR had appreciated by 10 percent against the CAD at December 31, 2011, earnings before taxes would have been EURk 1 lower (p/y: EURk 3). The net gains (losses) from cash flow hedges recorded in equity would have been EURk 1,552 higher (p/y: EURk 1,729). If the EUR had depreciated by 10 percent against the CAD at December 31, 2011, earnings before taxes would have been EURk 1 higher (p/y: EURk 3) and net gains (losses) from cash flow hedges recorded in equity would have been EURk 1,883 lower (p/y: EURk 2,076).

Capital Management

The primary objective of the Group's capital management is to maintain a high credit rating and a good equity ratio. In order to maintain the capital structure, adjustments to the dividend payments to shareholders can be made and new shares can be issued. The monitoring of capital is performed via the gearing ratio, which is the ratio of net financial liabilities to equity. According to internal guidelines, the target gearing is in the range of between 60 percent and 80 percent. At December 31, 2011 and December 31, 2010 there were no changes made to the objectives and guidelines. Net financial liabilities are defined as interest-bearing borrowings less cash and cash equivalents.

EURk	2011	2010
Interest-bearing loans	94,830	87,147
Less cash and cash equivalents	-4,580	-7,290
Net financial liabilities	**90,250**	**79,857**
Total equity	74,784	68,971
Gearing ratio	**121 %**	**116 %**

22 | Financial instruments

As at December 31, 2011 the following derivative financial instruments were open:

EURk	Nominal value	Redemp-tion 2011	Residual value	Fixed rate p.a.	Variable rate	Term	Market value
Interest-rate swap	1,800	180	450	3.98 %	6-Month-EURIBOR	2004 to 2014	-18
Interest-rate swap	1,000	0	1,000	3.15 %	3-Month-EURIBOR	2009 to 2014	-47
Interest-rate swap	1,000	0	1,000	3.15 %	3-Month-EURIBOR	2010 to 2014	-56
Interest-rate swap	1,000	0	1,000	3.15 %	1-Month-EURIBOR	2009 to 2014	-51
Interest-rate swap	1,000	0	1,000	1.97 %	3-Month-EURIBOR	2010 to 2013	-11
Interest-rate swap	1,000	0	1,000	2.19 %	3-Month-EURIBOR	2010 to 2015	-34
Interest-rate swap	1,000	200	800	2.06 %	3-Month-EURIBOR	2010 to 2015	-15
Interest-rate swap	1,000	0	1,000	2.37 %	3-Month-EURIBOR	2011 to 2016	-44
Interest-rate swap	3,500	500	1,500	4.19 %	6-Month-EURIBOR	2008 to 2014	-75
Interest-rate swap	1,000	0	1,000	3.15 %	3-Month-EURIBOR	2009 to 2014	-47
Interest-rate swap	1,743	271	623	3.85 %	6-Month-CZK-PRIBOR	2007 to 2014	-23
Interest-rate swap	500	0	500	2.57 %	3-Month-EURIBOR	2011 to 2013	-11
Interest-rate swap	500	0	500	2.33 %	EONIA	2011 to 2013	-15
Interest-rate swap	1,000	0	1,000	2.77 %	3-Month-EURIBOR	2011 to 2014	-42
Interest-rate swap	1,778	0	1,778	4.19 %	3-Month-USD-LIBOR	2008 to 2013	-88
Currency hedging instruments without hedge accounting	7,303	0	7,303	-	-	2012 to 2013	-119
Currency hedging instruments with hedge accounting	61,184	0	61,184	-	-	2012 to 2016	-1,241

The market value changes of derivative financial instruments used to hedge future cash flows were recognised directly in equity, and have taken into account tax effects of EURk -879 (p/y: EURk 94).

As part of hedge accounting, EURk 674 (p/y: EURk 22) was derecognised from equity and recognised as revenue in the income statement. Of the amount derecognised, EURk 0 (p/y: EURk 0) was due to hedge ineffectiveness.

At the balance sheet date it was assumed that all planned transactions will occur. Furthermore, it is expected that the hedged cash flows will occur and will affect profits and losses within the period specified in the table above.

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

	Valuation category	Carrying amount		Fair Value	
EURk	(IAS 39)	**2011**	**2010**	**2011**	**2010**
ASSETS Trade receivables and other receivables	LaR	**50,972**	**41,959**	**50,972**	**41,959**
Other financial assets		**555**	**1,493**	**555**	**1,493**
of which derivatives with hedging relationship	n.a.	555	1,493	555	1,493
of which derivatives without hedging relationship	FAHfT	0	0	0	0
of which deposits > 3 months	LaR	0	0	0	0
Cash and cash equivalents	LaR	**4,580**	**7,290**	**4,580**	**7,290**
LIABILITIES Interest-bearing loans		**94,830**	**87,147**	**98,885**	**90,901**
Bank borrowings	FLAC	92,095	85,100	95,926	88,671
of which variable interest rate		42,908	42,098	42,908	42,098
of which fixed interest rate		49,187	43,002	53,018	46,573
Liabilities to leasing companies	n.a.	2,735	2,047	2,959	2,230
of which variable interest rate		86	107	86	107
of which fixed interest rate		2,649	1,940	2,873	2,123
Trade payables	FLAC	**20,957**	**20,265**	**20,957**	**20,265**
Other financial liabilities		**2,492**	**1,996**	**2,492**	**1,996**
of which derivatives with hedging relationship	n.a.	1,796	1,265	1,796	1,265
of which derivatives without hedging relationship	FLHfT	696	731	696	731
of which aggregated according to IAS 39 measurement categories: Loans and Receivables (LaR)		55,552	49,249	55,552	49,249
Financial Assets Held for Trading (FAHfT)		0	0	0	0
Financial Liabilities Measured at Amortised Cost (FLAC)		113,052	105,365	116,883	108,936
Financial Liabilities Held for Trading (FLHfT)		696	731	696	731

The Group applies the following hierarchy in determining and disclosing the fair value of financial instruments according to valuation procedures:

Level 1 | Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2 | Procedures in which all input parameters, that materially affect the recognised fair value, are either directly or indirectly observable.

Level 3 | Procedures using input parameters, that materially affect the recognised fair value, and are not based on observable market data.

Financial instruments carried at fair value:

	Level 1		Level 2		Level 3		Total	
EURk	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
ASSETS Other financial assets	0	0	555	1,493	0	0	**555**	**1,493**
of which derivatives with hedge relationship	0	0	555	1,493	0	0	555	1,493
of which derivatives without hedge relationship	0	0	0	0	0	0	0	0
LIABILITIES Other financial liabilities	0	0	2,492	1,996	0	0	**2,492**	**1,996**
of which derivatives with hedge relationship	0	0	1,796	1,265	0	0	1,796	1,265
of which derivatives without hedge relationship	0	0	696	731	0	0	696	731

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 comprehensive income and expenses arose with respect to the position of financial instruments in the portfolio measured at fair value:

	Assets		Liabilities	
EURk	**2011**	**2010**	**2011**	**2010**
Recognised in the income statement: **Derivatives without hedge relationship**	**0**	**0**	**-189**	**-55**
Recognised in equity: **Derivatives with hedge relationship**	**-61**	**658**	**-238**	**-912**

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

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

EURk	2011	2010
Loans and Receivables (LaR)	**9**	**-125**
of which due to disposal	100	86
of which due to remeasurement	0	0
of which due to impairment/impairment reversal	-116	-165
of which due to currency effects	25	-46
Financial Assets Held for Trading (FAHfT)	**0**	**0**
of which due to disposal	0	0
of which due to remeasurement	0	0
Financial Liabilities Measured at Amortised Cost (FLAC)	**1,331**	**585**
of which due to disposal	275	217
of which due to remeasurement	0	0
of which due to impairment/impairment reversal	0	0
of which due to currency effects	1,056	368
Financial Liabilities Held for Trading (FLHfT)	**35**	**-55**
of which due to disposal	224	17
of which due to remeasurement	-189	-72

ADDITIONAL INFORMATION

23 | Research and development costs

Research costs were not incurred. Of the customer-related development costs amounting to EURk 8,120 (p/y: EURk 7,175), EURk 1,128 (p/y: EURk 1,076) were capitalised as intangible assets.

24 | Total remuneration of the Management Board and the Supervisory Board

In the 2011 financial year, the total remuneration (due in the short term) of the Management Board amounted to EURk 1,407 (p/y: EURk 1,313). This had included a performance-related component of EURk 665 (p/y: EURk 625). In fiscal year 2011, for the members of the Management Board, service costs for pension benefits in the amount of EURk 125 (p/y: EURk 201) were incurred.

The total remuneration for the Supervisory Board for fiscal year 2011 amounted to EURk 176 (p/y: EURk 178).

The Corporate Governance report contains the compensation report along with the individual compensation details of the Management Board and Supervisory Board. The compensation report is part of the management report.

Pension payments to former members of the Management Board of PWO AG and their surviving dependents amounted to EURk 227 (p/y: EURk 222). As of the reporting date, the correspondent pension provisions amounted to EURk 1,989 (p/y: EURk 1,966).

25 | Auditor's fee

The auditor's fee for the financial year under review which was recorded as an expense according to Section 314 (1) no. 9 of German Commercial Code (HGB), comprises the following:

EURk	2011	2010
Audit	154	157
Tax consultancy services	39	65
Other services	54	0
Total	**247**	**222**

The auditor's fee that was expensed in the year under review included non-periodic charges of EURk 12 (p/y: EURk 16).

Further certification and valuation services were not utilised.

26 | Related party disclosures

Related parties include the Group's ultimate parent company as well as the members of the Management and Supervisory Boards. In the financial year under review, 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 Group management report.

According to IAS 24, reportable compensation of related parties of the Group include the remuneration of the Management Board and the Supervisory Board. The Corporate Governance Report includes the remuneration report of the Management Board and the Supervisory Board on an individual basis. The compensation report is part of the Group management report.

27 | Additional information on the statement of cash flows

In the statement of cash flows, cash flows are presented on the basis of IAS 7. The amounts taken into consideration in the cash flow statement include cash and cash equivalents and bank borrowings due on demand. The bank borrowings payable on demand, amounting to EURk 7,140 (p/y: EURk 2,985) have been included in the balance sheet as "current interest-bearing borrowings".

28 | Segment reporting

In line with the Group's internal management system, the individual production sites 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 determined on the basis of the location of the Group's assets. Accordingly, the revenues of these segments are also allocated according to the location of assets. The regions are categorised as Germany, Rest of Europe, NAFTA Area and Asia. The NAFTA Area is comprised of the locations in Canada and Mexico.

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

As at December 31, 2011 and December 31, 2010 no customers were identified with whom the Group had achieved 10 percent or more of the total revenues.

Segment information by locations

FINANCIAL YEAR 2011

EURk	Germany	Rest of Europe	NAFTA Area	Asia	Consolidation effects	Group
Total revenue	237,652	41,724	58,294	4,986	0	**342,656**
Inter-segment revenue	-8,791	-1,727	-1,035	-23	0	**-11,576**
External revenue	**228,861**	**39,997**	**57,259**	**4,963**	**0**	**331,080**
Total output	**236,217**	**39,066**	**58,925**	**6,033**	**-11,409**	**328,832**
Other income	3,780	1,207	2,909	1,746	-2,729	**6,913**
Other expenses (aggregated)	211,526	36,011	58,026	8,311	-13,957	**299,917**
Depreciation and amortisation	10,376	2,350	3,265	720	-44	**16,667**
Earnings before interest and taxes (EBIT)	**18,095**	**1,912**	**543**	**-1,252**	**-137**	**19,161**
Financial income	754	1	0	3	-747	**11**
Financial expenses	3,807	1,274	1,261	721	-771	**6,292**
Earnings before taxes (EBT)	**15,042**	**639**	**-718**	**-1,970**	**-113**	**12,880**
Income taxes	4,361	-523	55	3	-32	**3,864**
Net income for the period	**10,681**	**1,162**	**-773**	**-1,973**	**-81**	**9,016**
Assets	124,998	40,655	57,192	23,950	-6,060	**240,735**
of which non-current assets	56,457	23,376	29,757	17,108	-271	126,427
Liabilities	24,614	6,518	17,187	22,479	95,153	**165,951**
Investments	18,278	1,356	5,163	3,331	-154	**27,974**

Segment information by locations

FINANCIAL YEAR 2010

EURk	Germany	Rest of Europe	NAFTA Area	Asia	Consolidation effects	Group
Total revenue	203,131	28,158	39,958	4,643	0	**275,890**
Inter-segment revenue	-6,613	-2,527	-2,555	0	0	**-11,695**
External revenue	**196,518**	**25,631**	**37,403**	**4,643**	**0**	**264,195**
Total output	**205,552**	**30,646**	**40,592**	**4,813**	**-10,889**	**270,714**
Other income	3,775	261	1,862	827	-1,777	**4,948**
Other expenses (aggregated)	180,406	27,424	41,179	6,308	-12,705	**242,612**
Depreciation and amortisation	11,000	2,093	3,265	671	14	**17,043**
Earnings before interest and taxes (EBIT)	**17,921**	**1,390**	**-1,990**	**-1,339**	**25**	**16,007**
Financial income	673	1	1	2	-562	**115**
Financial expenses	3,875	1,367	1,092	547	-562	**6,319**
Earnings before taxes (EBT)	**14,719**	**24**	**-3,081**	**-1,884**	**25**	**9,803**
Income taxes	4,400	-774	-264	0	-18	**3,344**
Net income for the period	**10,319**	**798**	**-2,817**	**-1,884**	**43**	**6,459**
Assets	120,101	44,644	45,416	19,916	-6,618	**223,459**
of which non-current assets	48,606	24,644	27,641	13,540	-200	114,231
Liabilities	21,217	8,159	12,966	16,570	95,576	**154,488**
Investments	9,068	2,522	7,385	450	-158	**19,267**

The segment assets and segment liabilities correspond to the values from the balance sheets of the single Group companies. Significant non-cash items reported concern an allocation to other provisions of EURk 1,264 (p/y: EURk 1,191) and to pension provisions of EURk 931 (EURk 887) in the Germany segment.

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 and can be found in the „Company Profile" section.

Segment information by product area

REVENUE

EURk	2011	2010
Mechanical components for electric and electronic applications	92,219	93,299
Safety components for airbags, seats and steering	108,179	90,496
Structural components and subsystems for vehicle bodies and running gear	130,682	80,400
Total	**331,080**	**264,195**

29 | Discretionary Judgement, Estimates and Assumptions

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. For the purpose of estimating value in use, the Group is required to determine, on the basis of estimates, 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. At December 31, 2011, the carrying amount of goodwill was EURk 5,478 (p/y: EURk 5,471). The sensitivity analysis will be referenced in Note 3 of the section on „intangible assets".

Deferred tax assets are recognised for all unutilised 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 utilised. As at December 31, 2011, deferred tax assets relating to as yet unutilised tax loss carryforwards in an amount of EURk 2,158 (p/y: EURk 2,504) and deferred tax assets relating to tax credits in an amount of EURk 1,527 (p/y: EURk 821) had been formed. Of the tax-loss carryforwards, EURk 422 was attributable to PWO Canada Inc. (p/y: EURk 513), EURk 1,092 to PWO UNITOOLS CZ a.s. (p/y: EURk 1,053), and EURk 644 to PWO de México S.A. de C.V. (p/y: EURk 938). Tax credits mainly concern PWO UNITOOLS CZ a.s.

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 significant judgment with regard to timing and amount of future taxable profit as well as the future tax planning strategies. As at December 31, 2011, the recognised value of tax-loss carryforwards was EURk 8,769 (p/y: EURk 10,176), translated into euro at the exchange rate on the balance sheet date. The unrecognised tax-loss carryforwards which may be utilised for a limited period of time was EURk 14,273 (p/y: EURk 3,761). Further details are provided in Note 12.

The expiry of the unrecognised tax-loss carryforwards which may be utilised for a limited period of time is presented below:

EURk	31/12/2011	31/12/2010
Within a period of 1 year	0	0
Within a period of 2 years	0	0
Within a period of 3 years	3,013	0
Within a period of 4 years	2,696	0
Within a period of 5 years	2,971	0
Subsequent years	5,593	3,761
Total	**14,273**	**3,761**

For the first time, this table contains time-limited tax-loss carryforwards of PWO High-Tech Metal Components (Suzhou) Co., Ltd., China in the amount of EURk 8,680. In fiscal year 2011, the tax losses amounted to EURk 2,971. In previous years, tax losses that were not reported due the uncertainty of the information provided by the Chinese tax authorities. Following official confirmation, they are now reported in the fiscal year under review and amounted to EURk 5,709.

Expense relating to defined-benefit pension plans is determined on the basis of actuarial methods. Actuarial valuation is conducted on the basis of assumptions in respect of discount rates, the expected rate of return on plan assets, future rates of salary increase, mortality, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Development costs are capitalised in accordance with the accounting policy described. The initial capitalisation of costs is based on the Group's assessment that the technical and economic feasibility has been established. For the purposes of determining the amounts to be capitalised, 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 capitalised development costs as at December 31, 2011 was EURk 3,350 (p/y: EURk 2,657). This amount mainly consists of investments in the development of a module carrier. For this project, a series order was placed in 2008.

30 | Group Relationships

The consolidated financial statements are included in the consolidated financial statements of Consult Invest Beteiligungsberatungs-GmbH, Boeblingen, as the premier group parent company, which are published in the Bundesanzeiger (Federal Gazette) in electronic form.

31 | Corporate Governance

The Declaration of Conformity issued by the Management and Supervisory Boards in December 2011 in connection with the German Corporate Governance Code, is permanently available to shareholders via the Company's website.

32 | Events subsequent to the end of the financial year

No events of significant importance have been recorded since the end of the financial year.

Oberkirch, March 9, 2012

The Management Board

Karl M. Schmidhuber
(Vorsitzender)

Bernd Bartmann

Dr. Winfried Blümel

AUDIT OPINION

The following audit certificate was awarded by Ernst & Young GmbH for the consolidated financial statements and consolidated management report which was amalgamated with the company 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 consolidated management report amalgamated with the company management report for the financial year from January 1 to December 31, 2011. It is the responsibility of the legal representatives of the Company to prepare the consolidated financial statements and consolidated 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 consolidated 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 of the German Commercial Code (HGB) in consideration of the German auditing standards defined by the Institut der Wirtschaftsprüfer (IDW). 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 assets, financial and earnings situation, as conveyed by the consolidated financial statements in consideration of the applicable accounting standards, and by the consolidated management report. 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 internal accounting control system and proof of the information contained in the consolidated financial statements and consolidated management report, were assessed on the basis of random samples. The audit encompasses an appraisal of the annual financial statements of the companies integrated into the consolidated accounts, the demarcation of the group of consolidated companies, the accounting and consolidation principles applied, and the principal assessments made by the officers legally entitled to represent the Company, as well as an evaluation of the overall presentation of the consolidated financial statements and consolidated 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 with the supplementary provisions of German commercial law applicable pursuant to Section 315a, (1) of the German Commercial Code (HGB) and in consideration of these standards convey an image of the assets, financial and earnings position of the Group which concurs with the true circumstances. The consolidated management report is consistent with the consolidated financial statements and overall presents an accurate image of the position of the Group and the opportunities and risks of future development."

Freiburg i. Br., March 12, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nietzer
Auditor

Ruby
Auditor

RESPONSIBILITY STATEMENT

„We hereby confirm 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 assets, liabilities, financial position and results of operations of the Group, and furthermore that the consolidated 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."

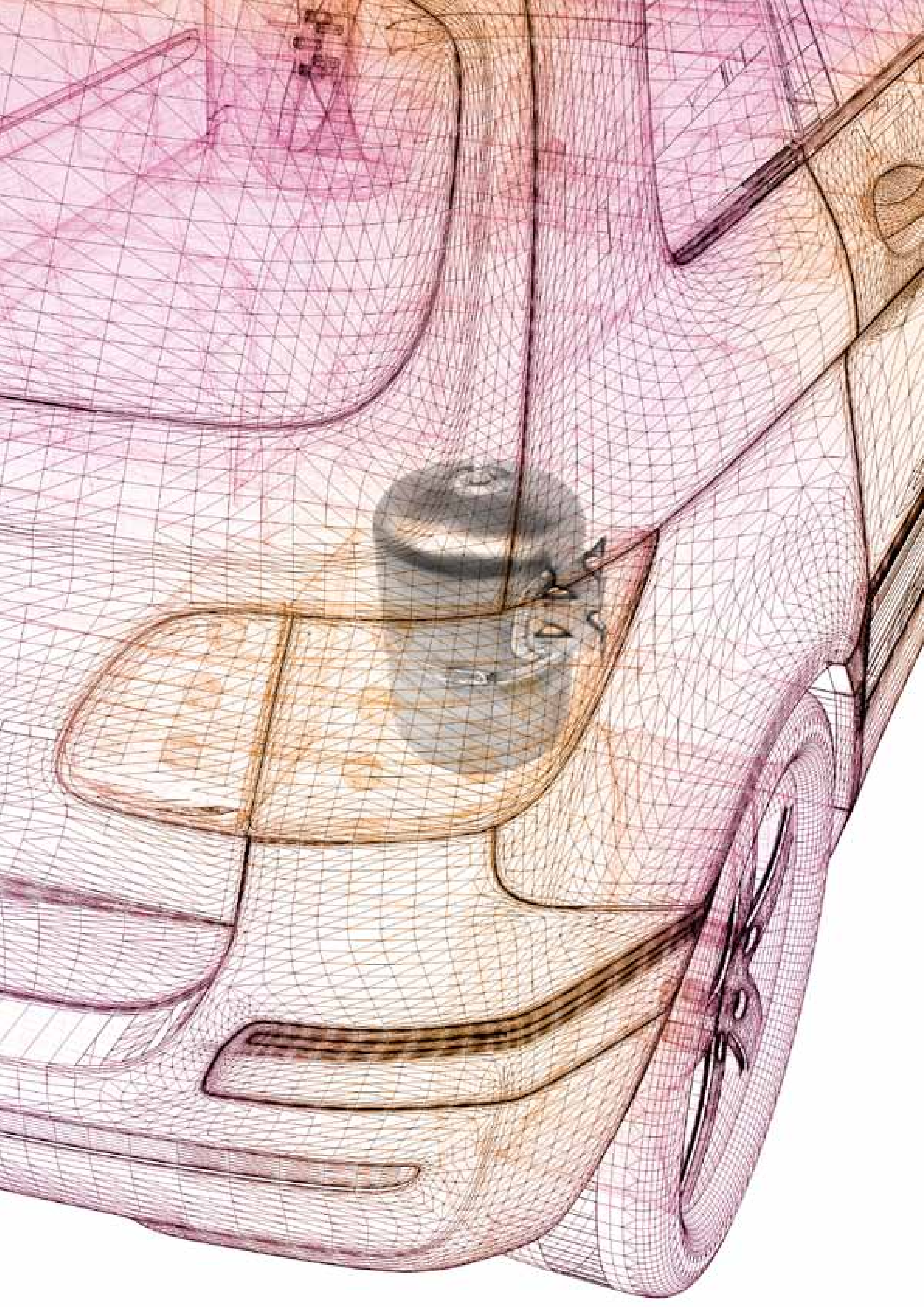
Oberkirch, March 9, 2012

The Management Board

Karl M. Schmidhuber
(Chairman)

Bernd Bartmann

Dr. Winfried Blümel



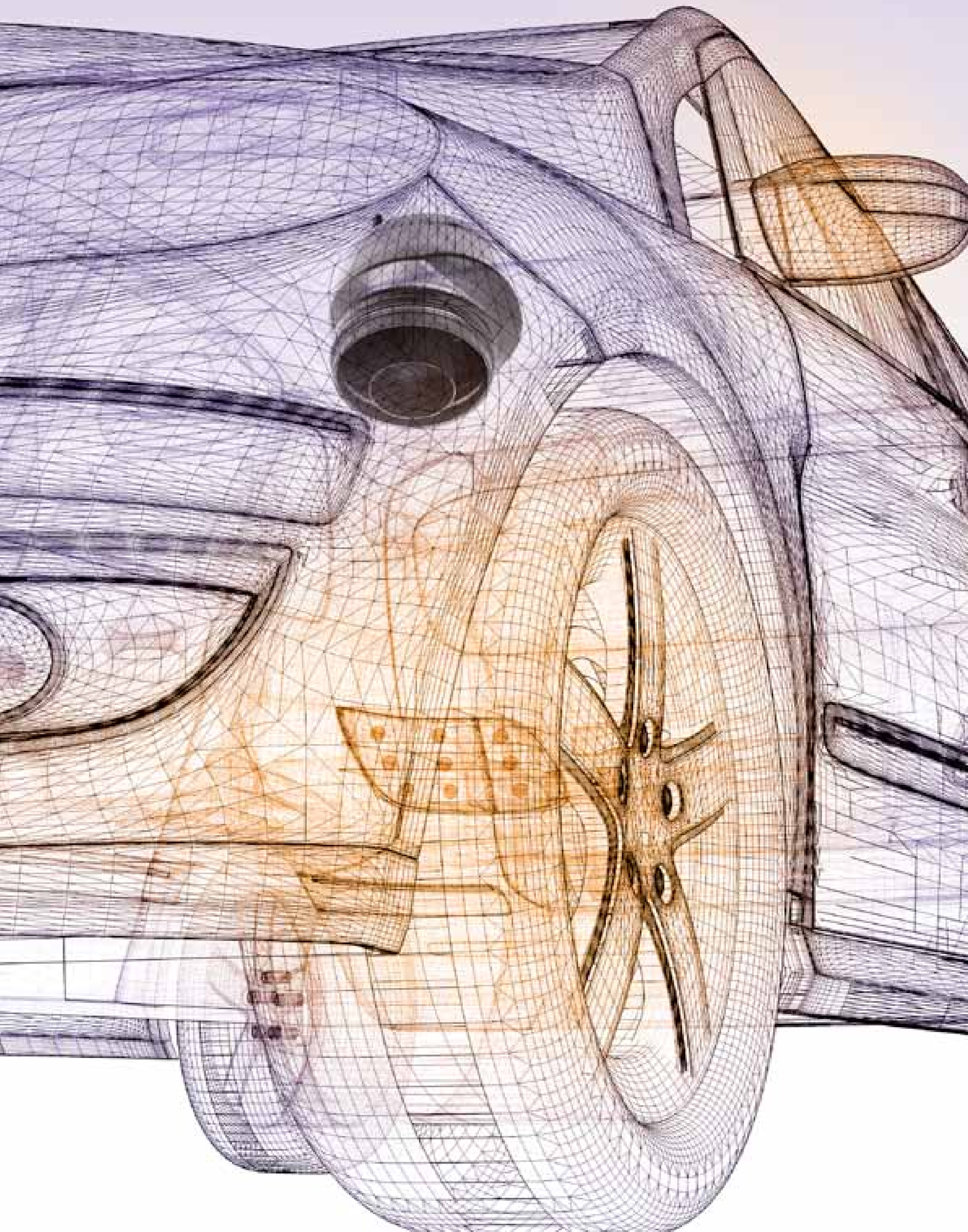
INFORMATION STRUCTURES
WE LIVE IN AN INFORMATION AGE.

In order to provide the necessary information and meet the needs of a network of different cultures, we have standardised the IT infrastructure of all of our sites, extensively. The sharing of resources and systems using modern IT-based knowledge management tools provides the highest efficiency and ensures the company-wide communication of our employees around the globe and around the clock.

Even in external dialogue, the smooth flow of information is a prerequisite for the often cited short distances. At PWO this principle is lived out through our extensive communication with customers and suppliers.

PWO stands for the principle of communication.

HIGH TECHNOLOGY AT THE TOPMOST LEVEL.
Modern chassis are increasingly equipped with air suspension systems in order to improve riding comfort and safety. Accumulators are essential for their comfort and reliable performance. PWO's aluminium accumulators can withstand many years of alternating stresses and through the minimal wall thickness, they offer significant weight savings over the standard accumulators.



NETWORK STRUCTURES
WE CONNECT DEVELOPMENT, PROCUREMENT, PRODUCTION, AND LOGISTICS - GLOBALLY.

We are located where our customers are located. Not only because it makes economic sense and is expected by our customers, but we are set up internationally because it also saves resources, connects people and cultures, and protects the environment.

We support our customers globally with our international production facilities and network of development, procurement, and production. The integration into the customer's manufacturing processes is a part of our value chain that we continually optimise.

This is how we guarantee our global customers high deliverability, even in cases involving high volumes. Since cost reduction is becoming increasingly more important, we systematically select our suppliers accordingly. This allows us to reduce both manufacturing and delivery costs. At the same time we ensure an efficient use of raw materials and energy - in production as well as disposal. In the context of growing international competition, this is how we can always ensure the best solutions.

PWO stands for global responsibility.

IN A CLASS BY ITSELF: THE COMPONENTS OF THE LUXURY CLASS.
To improve riding comfort and safety, today's vehicles are increasingly fitted with air suspension systems. Dynamic high-performance structures made of steel or aluminium are essential for their robust features.

131 FURTHER INFORMATION

132 Governing Bodies
134 Proposal for the Appropriation of Profits

GOVERNING BODIES

SUPERVISORY BOARD

Dieter Maier, Stuttgart
Chairman of the Supervisory Board
Former member of the Executive Board of Baden-Württembergische Bank AG, Stuttgart

FURTHER MANDATES

- Düker GmbH & Co. KGaA, Karlstadt | Member of the Supervisory Board
- Leitz GmbH & Co. KG, Oberkochen | Chairman of the Advisory Board

Dr. jur. Klaus-Georg Hengstberger, Böblingen
Deputy Chairman of the Supervisory Board
Managing Director of Consult Invest Beteiligungsberatungs-GmbH, Böblingen

FURTHER MANDATES

- Düker GmbH & Co. KGaA, Karlstadt | Chairman of the Supervisory Board

Herbert König, Renchen-Erlach*
Industrial clerk and Chairman of the Works Council of PWO AG

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

FURTHER MANDATES

- Düker GmbH & Co. KGaA, Karlstadt | Deputy Chairman of the Supervisory Board
- Sumida Corporation, Tokyo, Japan | Member of the Board
- Wüstenrot Holding AG, Ludwigsburg | Member of the Supervisory Board
- Wüstenrot & Württembergische AG, Stuttgart | Member of the Supervisory Board

Katja Ullrich (née Hertwig), Durbach*
Commercial training officer and Member of the Works Council of PWO AG

Dr. Gerhard Wirth, Stuttgart
Attorney-at-law, partner in the law firm Gleiss Lutz

FURTHER MANDATES

- Karl Danzer GmbH & Co. KG, Reutlingen | Chairman of the Advisory Board
- Düker GmbH & Co. KGaA, Karlstadt | Member of the Supervisory Board
- Wolff & Müller Holding GmbH & Co. KG, Stuttgart | Member of the Advisory Board

* Employee representatives

MANAGEMENT BOARD

Dipl.-Ing. Karl M. Schmidhuber, Alzenau
Chairman
Market and Technology

FURTHER MANDATES

- PWO Canada Inc., Kitchener, Ontario, Canada | Director
- 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 High-Tech Tool Trading (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, Offenburg
Administration and Finance

FURTHER MANDATES

- PWO Holding Co., Ltd., Hong Kong, China | Director
- PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China | Director
- PWO High-Tech Tool Trading (Suzhou) Co., Ltd., Suzhou, China | Director
- PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic | Member of the Supervisory Board
- Sparkasse Offenburg/Ortenau, Offenburg | Member of the Advisory Board

Dr.-Ing. Winfried Blümel, Oberkirch
Production and Materials

FURTHER MANDATES

- PWO de México S.A. de C.V., Puebla, Mexico | Member of the Board of Directors
- PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic | Chairman of the Supervisory Board

PROPOSAL FOR THE APPROPRIATION OF PROFITS

It is proposed to the Annual General Meeting that the unappropriated retained earnings of PWO AG to December 31, 2011 in the amount of EUR 5,240,433.65 be appropriated as follows:

Payment of a dividend of EUR 1.40 per dividend-bearing share	EUR 3,500,000.00
Allocation to other retained earnings	EUR 1,700,000.00
Carried forward to new account	EUR 40,433.65

The proposal for the appropriation of the unappropriated retained earnings does not take treasury shares into account. Should the Company hold shares in treasury at the time a resolution on the appropriation of the unappropriated retained earnings is adopted by the Annual General Meeting, the sum to be distributed shall be reduced by the proportion of the dividend accruing to the treasury shares. The sum carried forward to new account shall increase by the same amount.

Oberkirch, March 9, 2012

The Management Board

Karl M. Schmidhuber
(Chairman)

Bernd Bartmann

Dr. Winfried Blümel

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www.progress-werk.de

FINANCIAL CALENDAR

May 3, 2012	Interim Financial Report 1st Quarter 2012
MAY 24, 2012	Annual General Meeting 2012
AUGUST 2, 2012	Interim Financial Report 2nd Quarter and Half-Year 2012
OCTOBER 31, 2012	Interim Financial Report 3rd Quarter and 9 Months 2012
MARCH 14, 2013	Analysts' Conference
APRIL 10, 2013	Annual Report 2012
MAY 6, 2013	Interim Financial Report 1st Quarter 2013
MAY 22, 2013	Annual General Meeting 2013

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